

# Intelligence MEMOS



From: Dan Ciuriak  
To: Canadian Supply Chain Watchers  
Date: June 19, 2023  
Re: **SUPPLY CHAINS ARE NO PLACE FOR POLITICS**

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The geographical organization of global supply chains has been roiled by several unrelated shocks: the black swan event of a pandemic that sent a rolling shock wave through the global economy, arbitrarily disrupting supply chains in a sequence no contingency plan could have anticipated.

There is also an ongoing backlash against globalization, creating political pressures and incentives for moves to repatriate industrial activity.

And there is the emerging geopolitical contest to dominate new foundational technologies for both economic rent capture and for military dominance reasons, driven by the steady march of technology.

Supply chains were politicized and various terms entered the lexicon: reshoring, nearshoring, friendshoring, derisking, and decoupling.

My recent C.D. Howe Institute [Verbatim](#) tried to clarify the economics of supply chain politics and to describe how the doctrines adopted by the major economic powers line up against these conceptual distinctions and relate to standard supply risk-management strategies by firms and governments.

Several general comments may be made on this muddled nexus of issues:

**First**, the issue that triggered supply chain politics in the first instance – the pandemic-related shock to production – has moved into the background. While firms and governments will want to draw lessons for the resilience of their supply chains, in the end, the “made in the world” production system responded well to the shocks. Trade as a share of global GDP continues to rise, if much more gradually than in the late 20<sup>th</sup> century heyday of Richard Baldwin’s [second unbundling](#), when value chain formation was at its peak.

**Second**, the most significant current factor affecting supply chains is the geopolitical contest over foundational technologies. All major economies are on the same page: they all want to dominate or at least capture a significant share of the economic returns to artificial intelligence, biotech and green energy and related technologies. Those who control technologies that are part of the supply chain for the development of these foundational technologies – the United States and the EU – are seeking to withhold access to their rivals (i.e., China). Those seeking to catch up (i.e., China) are investing heavily to create parallel independent sources of supply.

**Third**, the water is being muddied by the introduction into the debate of a range of claims about globalization and/or China’s role in it that have entered the category of received wisdom through sheer repetition, despite a lack of professional consensus.

Overall, the “made in the world” system that evolved under the World Trade Organization remains alive and well and actually builds in the desired supply chain features of robustness, flexibility and resilience. For most countries, it is entirely impractical to pursue self-reliance and responses to shocks are necessarily a combination of emergency preparedness (including stockpiles of critical supplies such as energy, food and medical equipment) and international sourcing. But even larger economies that are much less reliant on trade overall performed better during the pandemic disruptions when relying on the trade system to meet critical needs than when pursuing “me first” policies and self-reliance schemes.

Industrial policies remain irresistible to governments when major new technologies are in competitive play, notwithstanding a questionable history. However, the same rationales do not extend to most goods and services and thus do not constitute a general argument for playing supply chain politics. Supply chain organization should remain mostly within the purview of businesses, allowing the myriad firms participating in myriad supply chains to adapt to changing economic and technological conditions to keep the system robust, flexible and resilient.

Finally, politically motivated supply chain restructuring implies potentially significant costs to the public purse, both in terms of subsidizing restructuring and offsetting ongoing efficiency costs. Even more importantly, the weaponization of supply chains under the [Sullivan Doctrine](#), the US trade policy framework outlined by White House National Security Advisor Jake Sullivan last fall, which aims to extend short-term, and ultimately likely transient, advantages over China in developing critical technologies, raises much larger risks in the longer term. China has proven it has the capabilities to reach the technological frontier. Moreover, and perhaps paradoxically given the restrictions on exporting technology to China, China remains the world’s largest market for semiconductor sales (mostly imports) and in 2021 moved into first place just ahead of the United States as the country making the largest international payments for intellectual property. Accordingly, far from being cut off from global technology, China has become the leading importer of technology.

Further, China’s progress up the learning curve on semiconductors continues. We are now some five years into the technology war. Initial estimates that it would take China up to 15 years to master computer chip production are being revised down. In the lifespan of nations, whether China arrives there in five years or 10 is likely of no material consequence. The tenor of relationships adopted during its approach to that frontier may, however, heavily influence the tenor when it arrives.

The word to the wise is that supply chain politics lead to poor economics and endanger the global economic framework that created the major new technologies that are now the bone of contention.

*Dan Ciuriak is Fellow-in-Residence with the C.D. Howe Institute and holds fellowships with the Centre for International Governance Innovation and the Asia Pacific Foundation of Canada. He is Director and Principal, Ciuriak Consulting Inc.*

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