

Trade Conflicts across Country Lines

How Can Supply Chains Stay Strong?

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Tectonic Shifts in Trade: Trade, Security, and the Global Value Chain

Global trade – and the supply chains that support it – is in a state of flux. On the one hand, there’s massive structural change in the cross-border flow of goods, thanks to greater trade liberalization among emerging economies.

On the other hand, global superpowers like the U.S. and some countries in Latin America, Asia, and Europe are aggressively reshaping the global trade architecture with ambitious trade pacts such as the Transatlantic Trade and Investment Pact (TTIP), Trans-Pacific Partnership (TPP), and other regional regulations like the North American Free Trade Agreement (NAFTA). Even as these regional agreements claim to champion free-market economics, many regulations and clauses are marked by protectionism. As such, trade itself is becoming less of a driver of global growth.

Furthermore, recent issues of national security have also informed business negotiations and regional trade discussions. A key example of this is the Huawei 5G case – where, allegedly, smartphone hardware imported from China, such as cell towers, was leveraged as surveillance and spyware – and how that has been driving cross-border trade developments, data flow changes, and the development of new technologies. To illustrate the opposing forces that are currently at play, a recent article reports that while U.S. business interests favor ongoing trade talks with China, they are also keen on enforcing economic protection.¹ On the other hand, the Semiconductor Industry Association has also pressed the administration for more details around the Huawei case.²

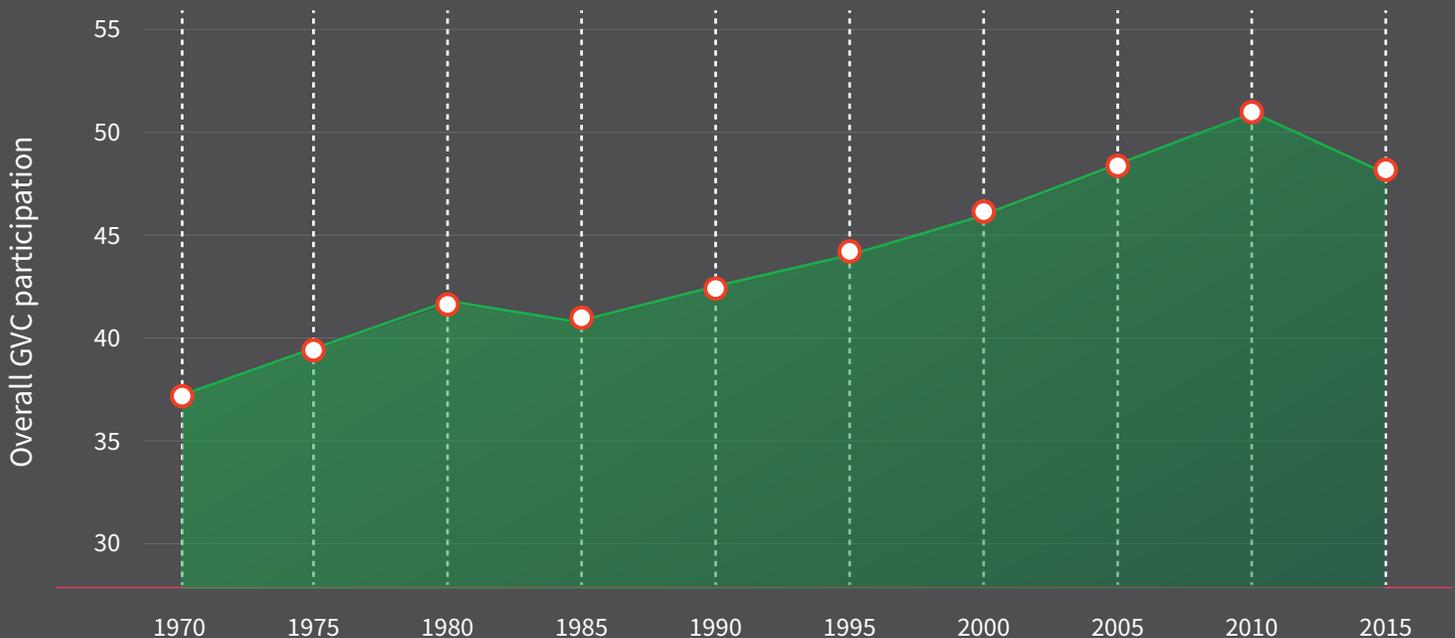


Figure 1: Global Value Chain Ebb and Flow from the 1990s to the Present³

02 Identifying the Fault Lines

A complex array of sourcing options and rapidly changing trade regulations has made decision-making more difficult for even the most experienced supply chain teams. The following undercurrents currently pose serious threats:

Trade Policies and Shipping

According to UNCTAD reports, global shipping volumes rose by 4% in 2017.⁴ Worldwide, goods totaling 10.7 billion tons were loaded for maritime trade. In fact, statistics on shipping lanes and container traffic closely represent this changing trend. For instance, 2017 also saw 4.4 billion tons of seaborne trade originate from Asia, most of it passing through Chinese ports, comprising 235 million, 20-foot containers.⁵

Port infrastructure itself is undergoing massive change. Ports like Pier 400 in Los Angeles⁶ is being updated with the infusion of new technologies like robotics. On the other hand, gantry cranes, a critical component of shipping infrastructure, features prominently on the Tranche 4 list of tariffs.

These contradictory developments are slated to have an adverse effect on maritime trade. “While the prospects for seaborne trade are positive, these are threatened by the outbreak of trade wars and increased inward-looking policies. Escalating protectionism and tit-for-tat tariff battles will potentially disrupt the global trading system which underpins demand for maritime transport,” says Mukhisa Kituyi, Secretary-General of UNCTAD.⁷

Different Trade Policies Introduce Discontinuity in Supply Chain Networks

Supply chain efficiency includes not only facilitation of parts and components at the border, but also investment in facilities, protection of intellectual property, and seamless functioning of partners and vendors. Regulatory requirements pertaining to employee health and safety, environmental protection, product safety, and security often add an additional layer of complexity in the customs clearance processes. A single compliance mistake – for instance, missing a local EHS classification and licensing requirement – can jeopardize supply chain operations and invite sanctions.



Inconsistent Trade Practices Result in Compliance Issues

As the global economy settles into the new normal of trade wars and tit-for-tat tariffs, businesses scrambling to reconfigure supply chains have also become par for the course. Retailers have shifted base from China to Vietnam: China earlier accounted for 59% of footwear sold in the US;⁸ that dial has been gradually moving in favor of Vietnam.⁹ Automotive manufacturers have to be content with creating new capabilities at home. Also, sourcing intermediate products in electronics manufacturing has become more disparate.

These are only some of the effects. Over and above all, businesses still have to contend with the labyrinthine regulations regarding products and manufacturing components that are traded and bought from China.

Furthermore, venturing into new markets or acquiring other businesses require decision-makers to walk a tight rope between implementing existing business practices and adhering to new regulations. In such cases, any additional business arm often requires a unique set of operating procedures (SOPS) pertaining to contractor and vendor management, supply chain compliance management, worker management, and so on. Without strict adherence to standard SOPs, companies can end up with decentralized and non-compliant trade practices.

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03 The New Lay of the Land

Clearly, the nodes and lines of the existing global value chains have been shifting. This has thrown certain key trends into sharp relief.

The effect of reconfiguring trade agreements: The reconfiguration of local and regional trade pacts, especially between existing economic superpowers, have caused the trade landscape to shift irrevocably. While ongoing trade wars and embargoes have slowed to a large extent, questions of national security and competitive advantage with respect to intellectual property continue to drive international engagement around trade. In fact, it was one of the determining factors that induced a hike in duties from 10% to 25% in the Tranche 4.¹⁰

Climate change and extreme weather have also taken a toll on supply chains. A glaring example is the drop in production of vanilla beans from Mali and Madagascar which have forced manufacturers to look for alternative sources.¹¹

Evolving patterns of demand and supply: Seen from an absolute perspective, globally, cross-border trade has steadily increased. However, the intensity of cross-border trade — the ratio between gross domestic output and traded goods — has seen a steady decline.¹² The primary reason can be attributed to shifting patterns of consumption in developing economies. Also, for industries like electronics and automotive manufacturing, goods-producing value chains are becoming more regionally concentrated. Companies have begun setting up production units closer to demand centers, which of late, has been concentrated in Europe and Asia.

Continued mobility of cross-border workforces: The Finnish construction industry serves as a stellar example of how to deal with cross border labor demands and forces in the new era of global value chains. Finland sees a lot of construction workers coming in from Estonia — while the average Estonian contractor is paid about 1,150 Euro, in Finland they get paid over 2,500 Euro.¹³ To guard against issues of social dumping — the unfair practice of using cheaper, often undocumented labor, than available in the market — and ensuring compensation among contractors remain fair, Finland has set up the Nordic Undeclared Work Project financed by the EU Commission.¹⁴ The program aims to conduct joint inspections, evaluate results fairly, and follow good communication practices.

In North and South Ireland, the scenario has played out a bit differently: while many Irish suppliers have a robust presence across the border in the U.K., they have to fight perceptions of how they are “‘parachuted in’ from Ireland”.¹⁵ While there are initiatives being put in place to make competitive advantage the norm, much still needs to be done to create the free and fair labor market that cross-border migrations theoretically promise.

04 Crafting Resilient Cross-Border Networks

With multitudinous and evolving trade pacts becoming central to public and economic administration and national security, it is important to recognize that policy level changes and amendments play a key role in creating strong supply chains. Cooperation between private businesses and the public sector is a crucial first step in building supply chain resilience. Policies and programs should be aimed at helping firms:

Draft and implement robust import/export procedures



Classify products and services under tariff schedules for tax and duties purposes



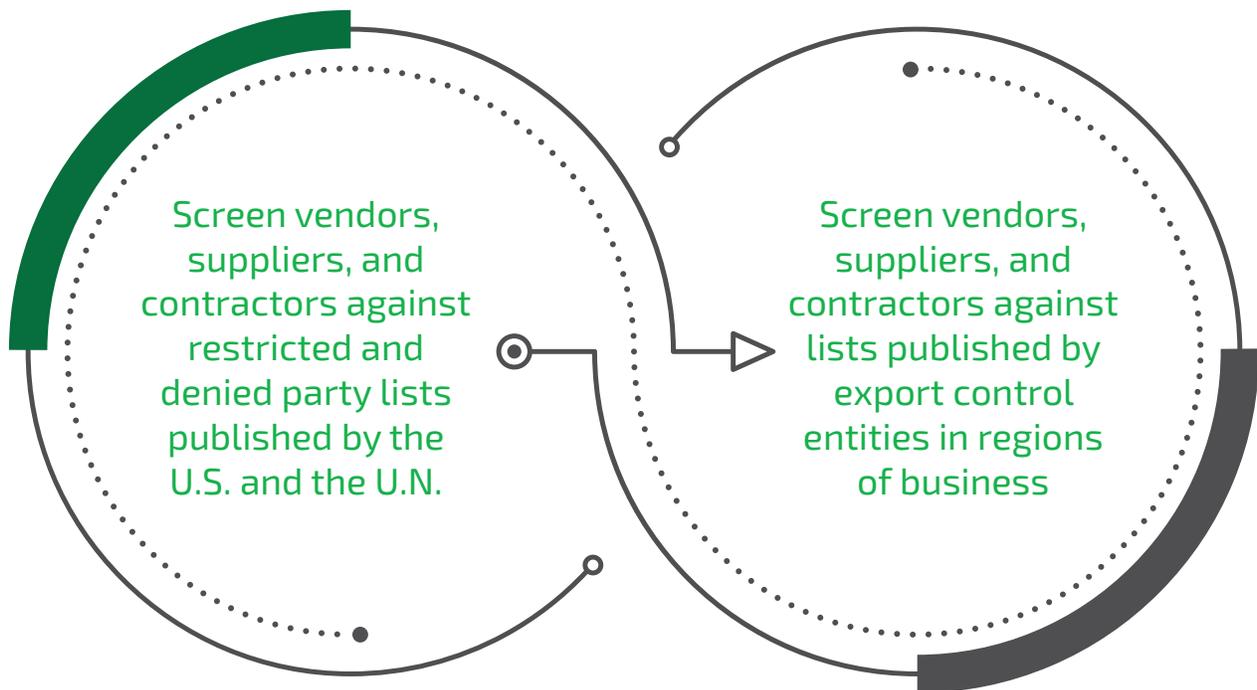
Despite the changing face of global trade, however, at a granular level, businesses still have to maintain their due diligence in hiring practices and adherence to fair and sustainable procurement standards. The Nordic Undeclared Work Project is just one example of how the public, private, and even regional bodies can manage shifting economic forces constructively.

It is also important to consider involving the support of third-party supply chain risk management firms. Given their expertise in reconciling business needs with public policies and standards, these organizations — such as Avetta — can make a significant difference. Some benefits include:

Prequalification of Contractors and Vendors before Initiating Business

The groundwork for minimizing the risk of malpractice and ensuring supply chain integrity is laid even before contractors enter a worksite. To accurately gauge a suppliers' standing within the industry, relevant performance metrics like TRIR, EMR, and DART are essential to decision makers. At Avetta, we ask potential suppliers to fill out a prequalification form which asks relevant questions about diversity hires, safety programs, and certifications. Avetta also provides a personalized view of supply chain risks by asking clients to answer specific questions.

In addition, such supply chain risk management strategies can help businesses:



Regular Supplier Audits and Compliance Management

Avetta also provides fair and objective supplier report cards that are updated on a regular basis. Our audits are designed to ensure that suppliers are compliant with international regulations and industry best practices.

Supply chain risk management does not end at the work site. We not only strive to ensure that suppliers and contractors can complete jobs to a high standard, but also that their hiring practices and requirements adhere to required local and global standards. We rate their overall performance so clients can build a supply chain that is resilient and sustainable.

Ensuring Safe Work Sites

Avetta ensures the individuals hired to work onsite are qualified and ready to do so. While we check to ensure they have the necessary certifications during prequalification, we also host online training sessions – and assessments – to ensure they gain and retain the necessary skills and knowledge. Use the Avetta platform to securely vet contractors and workers against terrorist watch lists to ensure the utmost safety of onshore and offshore worksites.

Our dashboard allows you to track whether contractors are adhering to compliance standards. Worker information can also be shared across sites in multiple languages. Avetta's cloud-based solution also has a built-in document management system to ensure licenses and certificates are easy to track.

Cross-border trade and regulations will surely change in the future, as it has done in the past – the forces of macro and micro economics have always been mutable. However, businesses can ensure they are ready to tackle challenges by putting in place a comprehensive change management and risk mitigation regime with the help of competent supply chain partners.



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About Avetta

Avetta connects leading global organizations with more than 85,000 qualified suppliers, contractors, and vendors across 100+ countries. We support the sustainable growth of supply chains through our trusted contractor prequalification, supplier audits, insurance monitoring, robust analytics and more. With real results in helping companies reduce TRIR, our highly configurable solutions elevate safety and sustainability in workplaces around the world—helping workers get home to their families each night.