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Formation of a Global Strategic Supply Chain Alliance (GSSCA): A New Strategic Multilateralism*

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One of the impacts of the COVID-19 pandemic has been a heightened concern about supply chains and the sourcing of certain critical and strategic items, with a focus on overreliance on and the detrimental influence of China. These discussions have become a debate about the benefits and future of globalization versus the necessity of reshoring and primacy of national security, with a concern that a nationalistic, protectionist response could have a negative impact on the global economy, especially in respect of the cost of goods for the end-user. However, could a balance be struck between free market international trade theory and national/supply chain security? This article explores that very issue, advocating for a new strategic multilateralism in the form of a Global Strategic Supply Chain Alliance (GSSCA) for the production of strategic and vital goods and services within a coalition of aligned countries, noting the benefits, challenges, and considerations that would require further examination.

The COVID-19 pandemic has shut down major parts of the global economy in 2020. Life, as we know it in the first quarter of the 21st Century, has been turned upside down. The unprecedented crisis has forced many companies and countries to assess and rethink their exposure to global sourcing and supply chains. For companies, this examination is focused on supply chain risks. For countries, such as the United States, Australia, Japan, and many of those in Europe, this examination is focused on certain critical and strategic items, as well as on how some supply chains bring extra risks to their economic security. In both cases, particular concern has been directed towards China; however, it would be misplaced to conclude that COVID-19 alone has prompted this evaluation of Chinese country risk.[1] Concerns about China's dominance and aggressiveness in some supply chains have been aired and debated for some time in many countries. Nevertheless, the current situation provides the necessary impetus to diversify away from China and to secure and develop supply chains for strategic and vital goods and services within a coalition of aligned countries. Through a strategic multilateralism with the formation of

a Global Strategic Supply Chain Alliance, there could be improvements in human, economic, health, energy, and other security for those within the alliance.

As many countries and companies consider how the global economy will emerge and rebound from the pandemic, a new normal will arise, as a complete rethink of supply chains is needed. Simply put, the global economy will not return to a "business as usual" approach. For affected companies, greater diversification of supply chains will be a natural and required reaction, with diversification away from China and other sources of heightened risk (in whole or in part) one result.

Prior to the onset of the pandemic, a number of trends should have already been driving such analysis: the return of great power competition, to include the US-China trade war circa 2018-2019 and the US concern about Huawei's 5G network in US-allied countries; China's actions in the South China Sea; the impact of China's Belt and Road Initiative, particularly its debt-trap diplomacy; China's treatment of the Muslim Uighur population; its aggressive influence operations globally; its acquisition and appropriation of foreign technologies and expertise;^[2] and its handling of the Hong Kong protests circa 2019.

These concerns focus on whether or not China should be viewed as a partner, a rival, or a true adversary in the international space, with the foregoing examples moving the needle towards an adversarial conclusion, albeit with a variance, depending on the country making the analysis. Nevertheless, supply chains are driven by economic forces; consequently, a forcing function is needed to move the dialogue beyond state-to-state geopolitical assessments and toward an economically-oriented calculus that combines risk assessment at a supply chain level with a strategic overlay, ultimately translating at an industry level where businesses must deliver the desired end result. The pandemic has become this forcing function, as supply chain analyses move into questions about the stability of supply chains that are overly reliant on China, driven now by concerns about China's accountability and reliability, as further reinforced by rising anti-China sentiment among the general populace^[3] and further state-to-state tensions^[4] that create an environment of uncertainty and unpredictability.

These issues coalesce around a number of key industries and countries, where the supply of critical and strategic items and state-to-state relations overlap due to concerns about dependencies on China for such items, resulting in a sentiment that these items needed to be secured through national or regional production, as a significant number of countries and companies have found themselves exposed and damaged by the pandemic. Key industries include pharmaceuticals, medical supplies, certain minerals^[5] (e.g., rare earths), telecommunications, and components of weapons systems.^[6] Concerned countries include the United States,^[7] the European Union,^[8] the United Kingdom,^[9] Australia,^[10] and Japan.^[11] This national and human security motivation has extended to the protection of businesses in financial distress due to the pandemic, with particular concern about potential predatory Chinese investments^[12] by its supported state owned entities^[13] (i.e., a concern about adversarial capital and the potential for undue influence, recognizing the foreign direct investment plays already having been made by Chinese entities in areas such as energy, the electrical grid, telecommunications, ports, banking, and the military supply chain, as well as linkages to PLA-

controlled businesses). These countries[14] and industries/sectors[15] have found themselves in precarious positions, finally recognizing their dependence on China for many strategic and vital items, while also realizing that such a dependency becomes a human, economic, and national security risk, given the behaviors of the China's leadership.[16] While noting concerns with China, the larger inquiry into supply chain risk and the sourcing of key items is of more general applicability, though China is a prime example of these concerns, given the convergence of factors associated with China and further exacerbated by China's targeted intellectual property theft.[17] There are many other sources of supply chain risks (e.g., the absence of redundancy; "just in time" inventory), but they are beyond the focus of this article.

In response to these exposures, one area of country focus could likely be to return certain key industries (e.g., pharmaceuticals, personal protective equipment, sensitive technologies, energy technologies, telecommunications equipment, and more) back to within national borders. To be clear, such action does not mean the end of globalization nor the end of international trade, but it is a recognition that countries have an instinct for greater self-reliance and self-protection that has been brought to the forefront, driven by a combination of national security and human security considerations. These security considerations serve to offset, in whole or in part, the economic impact of departing from a globally sourced, lowest cost of production model. Ultimately, this combined strategic-commercial analysis hinges upon dependencies in certain sectors involving a country with questionable motivations and behaviors. Addressing such dependencies does not necessitate a complete disengagement with China on all fronts. What is needed is a strategically focused restructuring of the relationship to reduce, if not eliminate, the dependencies in areas that involve national and human security.

This reshoring of critical and strategic items might seem logical, but it does raise several concerns:

- First, if such industries had moved out of a country for economic efficiency, then a repatriation of such industries will require national support (e.g., financing, favorable tax treatment, subsidies, trade barriers, guaranteed domestic purchases, etc.) and run the risk of increased pricing to end-users.
- Second, if such protective measures are put in place, they will need to address their treatment under existing global trading regimes, such as the WTO.
- Third, the domestic market may or may not be sufficient (price, size, labor, means of production) to support these repatriated industries.
- Fourth, the country will need to have the requisite technology (including intellectual property), know-how, and skills to drive this domestic business strategy.
- Fifth, these countries will need to have well-researched and fully considered industrial policies to support this effort.
- Sixth, the education and training systems of a certain portion of these countries would need to be upgraded to make this happen.
- Finally, financing will need to be sourced in an environment where trillions of dollars in debt is piling up in and across many countries due to the massive economic effects of the COVID-19 pandemic.

Recognizing the differences in population, economic strength, human development, and financial capacity among countries, this repatriation will be more practical for some countries and less so for others, with the viability of the endeavor assessed on a case-by-case basis, both economically and strategically. While such machinations have a strategic and security rationale, they are also burdened by inherent economic inefficiencies.

So, what can be done as a new normal emerges in a post-pandemic world challenged by great power rivalries? Perhaps, lessons can be drawn from the last century, as Europe emerged from World War II. The most successful military alliance in history - the North Atlantic Treaty Organization (NATO) - was formed in 1949 to counter the Soviet threat to Western Europe. It brought together its members states under a mutual defense arrangement. Taking a page from NATO, could a collection of aligned countries come together to form an alliance - a Global Strategic Supply Chain Alliance (GSSCA) - to address the security need in respect of critical and strategic items? The same way that NATO was created to bring countries together and leverage their individual capacities into a unified defense structure, with the end result being greater than the sum of its component parts, the GSSCA would be formed to merge efforts and leverage the individual capacities and markets to benefit all member states in a more robust, economically efficient manner under a treaty-based structure. The development of the GSSCA would require countries that form a significant portion of the world economy to buy into it. They would need to create a large enough market to counterbalance, in whole or in part, the loss of the lowest cost provider.

The GSSCA would organize certain key industries for the benefit of its member states, thereby increasing the market for the products produced. Member states would agree to develop supply chains within the GSSCA to the exclusion of similar items from non-member states. Options could include an international coalition organized around a particular item, such as 5G networks.[18] Rules would need to be developed to determine where such supply chains and their associated industries would be located, how they would be supported (whether by the host country or by some mutual support mechanism backed by all member states), how to create some level of competition within the GSSCA and identify the most economically efficient result within the GSSCA for a particular item, and the minimum level of purchases that member states would undertake. These would be needed to support a more robust business case for the companies that help develop these supply chains. Outside of the GSSCA-designated items, the normal rules of international trade would prevail. The objective is not the creation of a multi-faceted trade war. Instead, it is to ensure that certain items of national and human security are readily available and not subject to manipulation or sequestration by the current providers. The leverage given to China, when it controls, for example, large percentages of certain minerals, such as rare earths, antibiotics and their ingredients, personal protective equipment, telecommunications equipment, and energy technologies, is powerful.

Once the members of the GSSCA identify an item for strategic development within the GSSCA, then the GSSCA members would agree not to purchase such item from non-GSSCA countries. Such a ban would apply to both government purchases and to corporate and consumer purchases. For example, if a pharmaceutical product or ingredient were produced in China, then such a product would no longer be available for import, once the GSSCA establishes an effective

date for GSSCA treatment. A rationalized effective date will be critical for success, as GSSCA members will need to be assured that production levels within the GSSCA are sufficient to meet demand within the GSSCA. One could envision a gradual, or phased, approach to ensure adequacy of supply before the import ban is fully in effect. The GSSCA would also need to plan in surge and mobilization capacity developments of certain products for time of extreme need and stress, such as during war or other protracted conflicts.

The essential goal is not to create an overload and duplication of "national champions" that are not economically efficient, but to create a series of "GSSCA champions" to attend to the collective needs on items of critical and strategic importance. Another aspect of the GSSCA could also be to establish a Joint Investment Company among the member states, which would serve to source certain raw materials of critical and strategic value that are found outside of the GSSCA countries or that could be developed within the GSSCA countries, with a view to categories such as rare earth elements, which serve as essential components for a number of fundamental items needed by the member states, their militaries, and their energy industries. Some minerals are crucial to the development and growth of renewable energy technologies and electric mobility, two particularly important trends of the future.

So, who would be the core members of the GSSCA? For the United States, natural partners would include Canada, the United Kingdom, other NATO countries (which will ultimately lead to other EU member states that are not members of NATO), and Asian partners that could include Japan, Taiwan, South Korea, Australia, and New Zealand. It would be a coalition of the willing, and the composition of the countries that participate will determine how the key items are sourced and structured. Careful consideration will need to be given to countries that do not automatically appear on the list, to include countries in Central and South America (most notably, Chile and Brazil), Africa, Asia, Oceania, and the Middle East. On the one hand, the exclusive nature of the group will have diplomatic and trade implications, which might push organizers to be more inclusive. On the other hand, too big a group has the risk of being unwieldy. The group needs to have a great deal of potential for industrial, economic, technology, policy, and education synergy.

Ultimately, for any sort of GSSCA to succeed, it will need leadership. Yet, in the immediate years prior to the onset of COVID-19, multilateral institutions were being questioned by those who felt that these institutions were not working to their benefit or were not properly balanced (e.g. the burden-sharing discussion within NATO) and, in some cases, starting to unravel, at least in part (e.g., Brexit; North-South concerns and East-West divergences within the EU). In such an environment, do the right elements exist for a GSSCA to succeed? It would be easy to dismiss the GSSCA concept as being a "bridge too far"; yet, as the COVID-19 pandemic has brought certain supply chain exposures into the spotlight, it does create a unique moment in time for like-minded countries to develop a new strategic multilateralism based on a combination of national and human security. If the intellectually conceived membership of such an organization appears to be an insurmountable task, given current conditions, an incremental approach could be a more achievable starting point to the GSSCA and to a new era of strategic multilateralism. If the "perfect being the enemy of the good" trap can be avoided, progress can be achieved by the initial participants. It needs to be recognized that the faster the alliance forms and the broader

its membership becomes, the greater the economic efficiency that can be achieved - the larger the dedicated market, the lower the cost impact to the consumer.

Such collaborative efforts with a geostrategic mindset have already been occurring in several areas, but not quite to the degree and structure suggested here for the GSSCA. Some efforts have used a standards-based approach, as a counterweight to BRI projects and targets, which predate the COVID-19 pandemic. These include:

- the Energy Resource Governance Initiative[19] (mining sector governance and resilient energy mineral supply chains; founded by Australia, Botswana, Canada, Peru, and the United States).
- the Blue Dot Network[20] (shared standards for global infrastructure development; founded by Australia, Japan, and the United States).
- Quad-Plus[21] (supply chain restructuring; involving Australia, India, Japan, New Zealand, South Korea, the United States, and Vietnam).
- the Economic Prosperity Network[22] (being promoted by the United States to create an alliance of "trusted partners" across a variety of areas, to include digital business, energy and infrastructure, research, trade, education, and commerce).
- the European Union's "Important Project of Common European Interest" initiative[23] (used for batteries, microelectronics, etc.).
- the European Union's considerations on curbing unfair competition from non-EU state owned entities.[24]

With a well thought out objective and structure, a GSSCA is a real possibility, seizing this opportunity as the world plans its emergence from the COVID-19 pandemic. However, the governance of such an organization needs to be organic and flexible to allow the ideas of all members to have impact to promote the success of the entire organization. It needs to consider the relative strengths of its participants, to include labor costs, site suitability, logistics, educational and technological base, available fiscal tools, existing regulations, and related costs of production. This should be a partnership of future-leaning countries that want to create a better economic and human development future within their purview and influence. The creation of a GSSCA should be an effort to secure and develop supply chains for strategic and vital goods and services within the GSSCA in order to improve human, economic, health, energy, and other security for those within the GSSCA, as those countries face inevitable future shocks and challenges.

The GSSCA would not be needed, and the industries and countries identified herein could entirely focus on economic and business efficiency and minimizing costs of production, if there were no significant strategic, economic, energy, and human security threats emanating from the present system. These threats are the externalities to the system that need correcting. Sometimes grasping onto pure economic theory does not work as well as in the textbooks in this dangerous and risky world. While there is still a place for globalism to combat universal issues like climate change, we live in a new normal that necessitates strategic multilateralism as well.

* The views expressed in this article are those of the authors and do not reflect the official policy or position of the National Defense University, the Department of Defense, or the US Government.

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- [15] By example: C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance), cybersecurity, artificial intelligence, finance, shipping, logistics (generally), education (university level), scientific research, agribusiness, quantum- and super-computing, raw materials completion (wheat, meats, rubber, oil, gas, etc.), batteries and battery systems, LEDs, electric vehicles, big data analysis.
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