EDITORIAL

Friendshoring, Nearshoring, Greenshoring and Resshoring: Changing Faces of Global Supply Chains and its Impact on International Economic Law - Introduction to the Special Issue

1 Introduction

In an era where businesses are increasingly interconnected, one would expect that globalization would ensure greater integration and coordination across sectors and countries of the global economy. Globalization is mostly about living and working together in an interdependent world, where goods, services, technology and capital can cross borders with seamless ease and support economic activities in distant locations and variegated sectors. In such a world, open trade, harmonized processes, and regulatory standards would ensure that gains from open trade and transnational networks would work to the benefit of all. In such a world, a country does not have to be self-sufficient to meet its own needs. In an open world, there is no need to engage in protective measures to ensure steady supply of goods because every country has the unfettered right to seek open flow of commonly traded goods and essential supplies. The very objective of establishing the World Trade Organization (WTO) was to allow for the optimal use of the world's resources to create an integrated and durable economic order.[1]

The developments in the world economy in recent times have cast certain doubts on the merits of interdependence. Interdependence in normal and peaceful times is nothing extraordinary. However, in turbulent times, in the midst of growing economic tensions, rising transportation and logistics costs, and the race to secure essential resources, interdependence is a fanciful or risky proposition. In simple terms, interdependence will not work, if nations act in self-interest or for pure strategic interests. In this context, it is necessary to understand how global businesses and firms must adapt to address the external challenges and geopolitical considerations.

Initially, the focus was on reshoring. The objective was to claim back some of the industries that had left shores of their territory to more competitive markets. The focus was to encourage these industries and firms to relocate to their primary markets and home locations in the wake of continued supply chain pressures. It is reported that reshoring has seen moderate success in recent times.[2]

Friendshoring or allyshoring, in its literal sense, is a strategy that is intended to create a robust and more resilient supply chain to encourage trade and commerce within a group of friendly or trusted nations. The concept gained currency when the United States (US) Treasury Secretary Jannet Yellen coined the term in her Atlantic Council speech.[3] In Yellen's words, '[f]avoring friendshoring of supply chains to a large number of trusted countries so we can continue to securely extend market access, will lower the risks to our economy as well as to our trusted trade partners'.[4] While the Treasury Secretary acknowledged the economic benefits of sourcing based on the world's network of supply chains, she highlighted the associated risk of reliance on adversaries.

2 International trade and global interconnectedness

The concept of friendshoring or nearshoring emerged from the fault lines of the ongoing political and trade tensions. The Sino-US political tensions – which aggravated during the Trump Presidency – led to measures on both sides to impose import curbs on each other's products and technologies. There was a strong push in the US to reduce dependency on Chinese supplies and imports and preempt transfer of certain cutting edge technologies. While some of the US domestic concerns were linked to

Notes

1 Preamble, Marrakesh Agreement Establishing the World Trade Organization (1995).

2 Albachiaras Boffeli, Luciano Fratocchi, Matteo Kalchsmidt & Susana Silva, *Doing the Right Thing or Doing Things Right: What is Better for a Successful Manufacturing Reshoring?*, 14 Operations Mgmt. Res. 1, at 1–16 (2021), doi: 10.1007/s12063-021-00183-2.

3 US Department of Treasury, *Remarks by Secretary of the Treasury Janet L. Yellen on Way Forward for the Global Economy* (13 Apr. 2022), https://home.treasury.gov/news/press-releases/jy0714 (accessed 12 Jan. 2024).

4 *Ibid.*

Global Trade and Customs Journal, Volume 19, Issue 3

the US losing competitive advantage vis-à-vis China in a range of manufacturing sectors, China's rising prowess in key technologies and new-age industries led to a genuine fear and concern in several Western powers about living in a China dominated world. In addition, China's hegemonic aspirations, its unique socialist system driven by capitalist considerations, the spread of its economic hegemony built on the planks of the Belt and Road Initiative (BRI), and such other factors, led to a strong feeling that businesses should decouple from China. The call for friendshoring or sourcing from trusted partners accentuated in the context of the supply chain disruptions that happened during the COVID-19 pandemic and recent geopolitical crises, especially the war in Ukraine. The global market prices for food and essential agricultural products such as rice, wheat and edible oils soared during this period. So did the price for agricultural inputs such as fertilizers. In addition, the energy prices were badly affected. In other words, businesses were concerned about focusing their production or supply only from a particular country or region. Businesses wanted to lessen their dependence on selected sources or, more importantly, reconsider and reassess various geo-security considerations in light of the new global developments. The governments too encouraged their businesses to look at alternative locations.

Friendshoring entails that countries trade or make investments in countries that share similar values or institutions. What these values are, or what type of institutions that they must share, are not clearly understood. But at a broad level, it could be inferred that some of these values are rooted in promoting and protecting human rights, ensuring worker protection, achieving environmental sustainability, and ensuring a corruption-free society. In other words, friendshoring signifies the desire to transact with business in countries that share common values and do not pose threat to the other partners in terms of ideological or geopolitical differences.

Some of the recent initiatives especially the various pillars of the Indo-Pacific Economic Framework for prosperity (IPEF), the Quadrilateral Security Dialogue (QUAD) and I2U2 (India, Israel, United Arab Emirates and US), seek to bolster resilience against various types of evolving challenges, including geopolitical instability. The purpose of the above initiatives is not necessarily to promote free trade. Importantly, initiatives including the so-called trade Pillar of IPEF (Pillar 1) do not seek to enhance market access in goods or services and instead seek to cooperate on new age issues. The objective is to ensure that investment and cooperative initiatives around green and sustainable policies are promoted within the IPEF region. In other words, friendshoring will also acquire other connotations depending on the particular interests or values it would like to advance. For example, the IPEF Pillar III on clean economy is encouraging 'greenshoring' in the sense that it seeks to promote climate-smart technologies and processes keeping in mind the goals and objectives of the Paris Agreement and the United Nations Framework Convention on Climate Change (UNFCC). In addition, such clubs can be used by countries that are considering the adoption of mechanisms such as carbon tax or carbon border adjustment mechanisms not to apply such measures to members or partners of such clubs. To take another example, as explained by Devon Whittle in this Journal, cross-border data flows can be facilitated in such clubs which are operated on the basis of trust. In other words, clubs based on friendshoring can seek regulatory harmonization in a more effective manner.

3 Friendshoring or future proofing?

In today's world, more than 80% of the globally traded goods and services are fragmented and dispersed across jurisdictions. The economic case for fragmentation is built on the availability of skilled work force, time-zone differences, macro-economic stability, and the access to raw materials and inputs. In many ways, the pre-pandemic period highlighted the advantages of focusing on value chains irrespective of their geographical locations. In that period, the global value chains were dominated by China and certain other countries which posed its own risk. In that context, friendshoring, nearshoring or reshoring is mostly also about future proofing their supply chains from potential risks, especially political and national security related risks. For example, several countries including Japan, Netherlands and the United States have imposed sanctions on exports of high-tech chipmaking equipment to Chinese groups.[5] On the other hand, some Chinese companies are keen to source products without foreign-made components in order to future-proof themselves against possible retaliatory measures. These examples illustrate how friendshoring can potentially create a wedge within the global supply chains and ultimately affect the patterns of trade.

4 Friendshoring, and access to critical minerals and raw materials

These new patterns in global value chains gained prominence in the context of securing access to critical minerals and key goods. Critical minerals and key goods are expected to fuel the transition to green economy. However, not all countries are equally endowed in the presence and processing of these minerals and inputs. In

Notes

[5] Demetri Sevastopulo & Sam Fleming, *Netherlands and Japan Join US in Restricting Chip Exports to China* Financial Times (28 Jan. 2023), https://www.ft.com/content/baa27f42-0557-4377-839b-a4f4524cfa20 (accessed 12 Jan. 2024).

addition, critical minerals have highly complex supply chains. Finally, the recent geo-political conflicts and tensions have prompted countries to form clubs to expand trade and investment activities. Clubs including the climate club, sustainability club, or critical minerals club may have the effect of fragmenting the multilateral trade or economic order by ensuring that only a few countries have either the technologies, raw materials or the mass production facilities to meet the demands of the future.

As of writing this piece, countries are using a slew of measures to enable access the critical minerals and raw materials of the future. Some countries use economic frameworks such as the IPEF, or mineral security partnership agreements, and a host of countries are including *Energy and Raw Materials* chapters in their free trade agreements.

At the same time, there are challenges to the long-term sustainability of friendshoring, nearshoring or reshoring. These concepts go against the grain of free trade advocated by the WTO. Free trade, in its undiluted form, encourages sourcing from the most efficient or competitive producers. Free trade principles also reject preferential or special treatment for allies. Moreover, it is acknowledged that in order to effectively implement friendshoring, it should be built on the strengths of certain economic or trade agreement that is big or large enough to avoid amplifying inflation. It is also worth considering that most of the friendshoring concepts currently in vogue are not based on reciprocal tariff concessions or market access opportunities. Some US legislations such as the Inflation Reduction Act and the CHIPS and Science Act provide financial incentives, which in themselves can be contrary to the principles of free and fair trade. It is reported that the CHIPS and Science Act alone provides a financial support of USD 52 billion to the semiconductor industry.[6] However, these incentives cannot last for long or will not get extension. If these incentives disappear or become difficult to claim, the economic case for friendshoring or nearshoring could be affected.

However, in the current geopolitical environment, the push for friendshoring, nearshoring or reshoring appears rational and logical. At least in the short run, these concepts have the potential or the effect of redrawing the landscape of globalization or in other words, reglobalization. The notions of reglobalization is based on the elements of de-risking and decoupling, which have been necessitated by some of the developments in the recent past. Unless carefully managed, reglobalization can lead to marginalization of certain economies and deepen economic exclusion and poverty within the excluded regions or countries. These policies can also impair the ground rules of international trading system, if they seek to be exclusionary.

5 Synoptic view of the articles

The articles selected in the Special Issue address a range of topics relating to friendshoring, nearshoring or reshoring. Krishna Bhattacharya and Advaith Rao in their article explore how Indo-Pacific countries, particularly India, UAE, Japan, Australia, and the United States can use friendshoring to restructure global supply chains and collaborate on new and emerging areas of trade.

Jamshed Siddiqui in his article examines the legal and policy measures adopted by the US, EU and India to promote friendshoring and onshoring and notes that a one-size-fits-all approach need not be a sound strategy for countries exploring diversification of supply chains. Based on this analysis, Siddiqui recommends how India should diverge from these approaches to better align with its specific needs.

Sparsha Janardhan and Aparna Bhattacharya in their article recommend the policy approaches that should be taken by India to protect its interest in critical minerals in the context of ensuring security to its supply, international trade rules and other commercial considerations.

Devon Whittle's article sets out the connections between the idea of friendshoring and data flow restrictions. The article highlights the uncertainty of the application of current rules to data flow restrictions as well as the spillover effects of such policies for other policy interests including in relation to internet governance and the strength of the rules-based trading system.

Some of the recent US legislations including the Inflation Reduction Act and the CHIPS and Science Act have raised significant interest among the international trade law community. Manya Gupta and Arnav Sharma in their article examine the complexities of onshoring and friendshoring semiconductor supply chains in the context of the US CHIPS and Science Act and how these legislations can potentially create the necessary ecosystem for reshoring. Gupta and Sharma also examine the impact of this legislation and its conformity with international trade rules, especially the WTO rules. Rishabha Meena and Apoorva Vishnoi have provided a similar analysis with respect to the Inflation Reduction Act and its friendshoring perspective.

There have been significant discussions around the IPEF as a mechanism for implementing the Biden Administrations' friend shoring agenda. Three Pillars of the IPEF (Pillar II, III & IV) have already been concluded. Pushkar Reddy and Ridhish Rajvanshi in their article examine the geopolitical significance of IPEF in advancing friendshoring in the Indo-Pacific and the unique characteristics of the initiative in heralding a new area of rulemaking in international trade, particularly through standard

Notes

[6] Emily Benson, Japhet Quitzon & William Reinsch, *Securing semiconductor supply chains in the Indo-Pacific Economic Framework for Prosperity* (30 May 2023), https://www.csis.org/analysis/securing-semiconductor-supply-chains-indo-pacific-economic-framework-prosperity (accessed 12 Jan. 2024).

setting. Ashutosh Kashyap in his article analyses Pillar II of IPEF (Supply Chain) in the context of labour rights and supply chain resilience, and predicts a possible shift in the soucing of inputs and raw materials from the Asia-Pacific to the Indo-Pacific with a possible consolidation of the regional supply chain among trusted trade partners (friend-shoring), and its potential benefits for India.

6 Friendshoring, nearshoring and the special GTCJ issue

In conclusion, as we reflect on some of the important developments in a special issue of Global Trade and Customs Journal, I am grateful to Mr Jeff Snyder, General Editor, Global Trade and Customs Journal for accepting the proposal to offer a special issue on this emerging theme. I would also like to thank the professional staff at the Centre for Trade and Investment Law (CTIL) for their enthusiasm for contributing to this special issue. I hope the readers would find these discussions contemporary, stimulating and insightful.

James J. Nedumpara
Professor and Head, Centre for Trade and Investment Law, India Chair, WTO Chairs Programme
Member, Editorial Board, Global Trade and Customs Journal.
The views expressed in this article are personal.
Email: headctil@iift.edu.