TAPMI
(A constituent unit of MAHE, Manipal)

VOL. 9 ISSUE 2

TAPMI JOURNAL OF ECONOMICS AND FINANCE

WWW.TAPMI.FINANCE

IN THIS EDITION

CONTENTS

From The Editiorial Board

As the editorial board of the TAPMI Journal of Economics and Finance, we are excited to present the theme for this issue: "**Geopolitical Tensions and Their Impact on Global Trade**." We chose this theme because of its relevance to today's world, where shifting alliances, trade wars, and economic sanctions are reshaping global trade. Our goal is to help readers understand the intricate relationship between political events and economic outcomes.

During the review process, we were impressed by the depth and originality of the submissions. Each article brought a unique perspective, making the selection process both exciting and challenging. The contributions highlighted the significant impact of geopolitical influences on trade and showcased the exceptional analytical skills of our authors. The editorial board faced a tough decision in selecting the top articles from the outstanding submissions. Here are the standout pieces:

1. **Vietnam's Ascent to Becoming a Global Manufacturing Powerhouse:** This article compares Vietnam's competitive edge with India's in attracting businesses looking to diversify beyond China.
2. **Global Trade Battlefield:** An in-depth analysis of various geopolitical conflicts and their effects on global trade.
3. **How Geopolitics Is Causing the End of Globalization:** An exploration of how geopolitical situations are affecting the automotive sector.
4. **Geopolitical Tensions and Their Impact on Global Trade:** Insights on creating resilient supply chains.
5. **Navigating Firms through Geopolitical Tensions:** Guidance on how firms are managing geopolitical risks.

We believe these articles will offer meaningful perspectives on the current global economic challenges and opportunities.

Best regards,

The Editorial Board
TAPMI Journal of Economics and Finance (TJEF)
T.A. Pai Management Institute (TAPMI)

Meet the Team

Ankita Kumari
Editor

Arjun S Nair
Marketeer

Chourasia Anshul
Editor

Fayaz Sajan
Designer

Mugilganesh RM
Editor

Sadrush Mallar
Marketeer

Sagar Fotedar
Marketeer

Sai Janani
Editor

Sohoam Chakrabarty
Editor

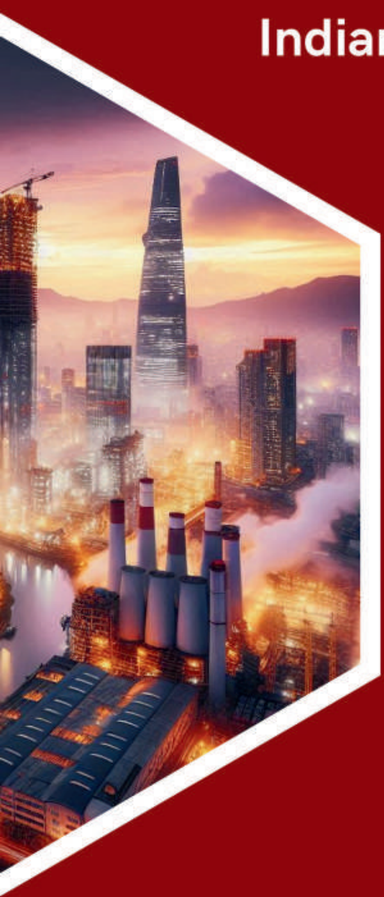
Sowmika Konduru
Editor

Sree Lakshmi
Marketeer

Swetha TM
Editor

VIETNAM'S ASCENT TO BECOMING A GLOBAL MANUFACTURING POWERHOUSE

Yuvraj Srivastava,
Indian Institute of Management (IIM), Jammu



Abstract:

In the race for being the world's next export capital, Vietnam has emerged out as a formidable contender. The stable economic growth in past two decades, smart geopolitical manoeuvring through diplomacy, maintain substantial FDI has helped Vietnam become a key player in global supply network. This research article aims to explore Vietnam's growth and potential in the exports' landscape through economic metrics, geopolitical standings, its structural reforms and comparisons with other export rivals, notably India.

Introduction:

In past few decades, with help of new and improved government policies, Vietnam has become one of the fastest growing economies in Asia. The gifted strategic location, economic reforms, proactive and diplomatic foreign policy has resulted in it being a prime destination for foreign investments and a major force in global trade. This article examines the geopolitical, economic, labour market and other factors that can support or hinder the country's claim to becoming the next global export leader.

This article evaluates Vietnam's economic growth and export performance over the past decades to understand its trajectory and potential in the race for global exports leadership. It aims to compare Vietnam's economic and geopolitical positioning with other emerging nations, particularly India, to identify the competitive advantages and challenges.

Furthermore, it will look at the Vietnam's foreign policies and development that may affect its exports and analyse the impact of these by these developments.

Lastly, it will examine major opportunities and setbacks in Vietnam's journey to establish itself as one of world's leading export nation, offering insights into the factors that can help achieve this feat.

<u>Economic Growth and Export Performance</u>:

Historical Economic Growth:

Vietnam's economy has seen average annual GDP growth rate of 6.2% in last two decades; one of the highest in the world. It has also managed to reduce the poverty rate by pushing it down from 58% in 1993 to 3.9% in 2024.

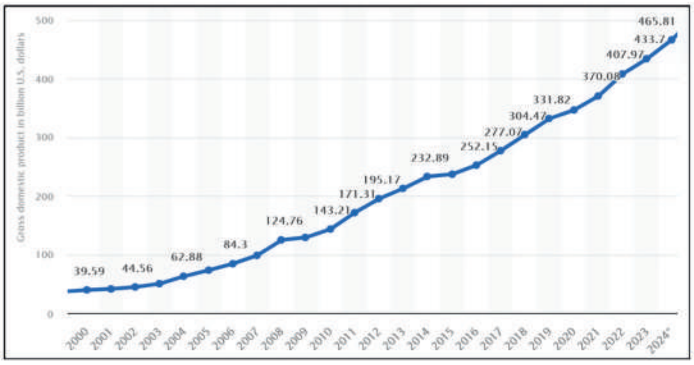


Fig 1: Vietnam's GDP over the years (in billions USD)

Vietnam's GDP per capita has surged from $300 in 1986 to above of $4,200 now largely due to the Doi Moi policies that liberalized the economy through a series of economic and institutional reforms that sought to transform Vietnam from a centrally planned economy to a market economy with private sector development and individual land rights.

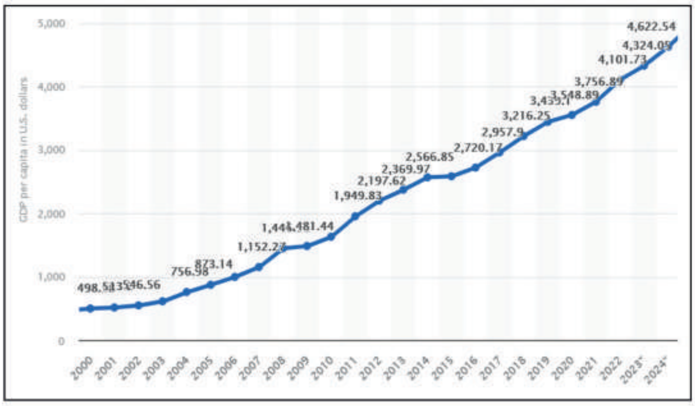


Fig 2: Vietnam's per capita GDP over the years (in USD)

Export Performance:

It's the Vietnamese exports that have gained the most attention in the world of Global supply network. In 2023, the annual export turnover was around $355.5 billion, up from $132 billion in 2013, representing a 169% rise in the past decade alone. Electronics contributed the most by contributing 40% in the total exports of 2022, a rise from 14% in 2010. Global electronic manufacturing leaders like Apple, Samsung and Foxconn have established their manufacturing plants providing a huge boost to the country's electronics exports. Following the US-China trade tensions, Vietnam produced around half of the $31 billion worth US imports that shifted away from China to other low-cost Asia alternatives in 2019.

Special Contributions:

The country has seen a drastic change in its economic structure moving away from dependency on agriculture (including forestry and fishing) to advancing in manufacturing and services industries. In 1990, 73% of the population was involved in agriculture and in 1986, 35% of national output came from agriculture. The development of manufacturing and service industries led to this dependence diminishing, with agriculture contributing only 11.88% of national output in 2022. This shift was necessary for the country as farming productivity decreases with time; only alternative solution was to turn to sustainable sectors like management and technology.

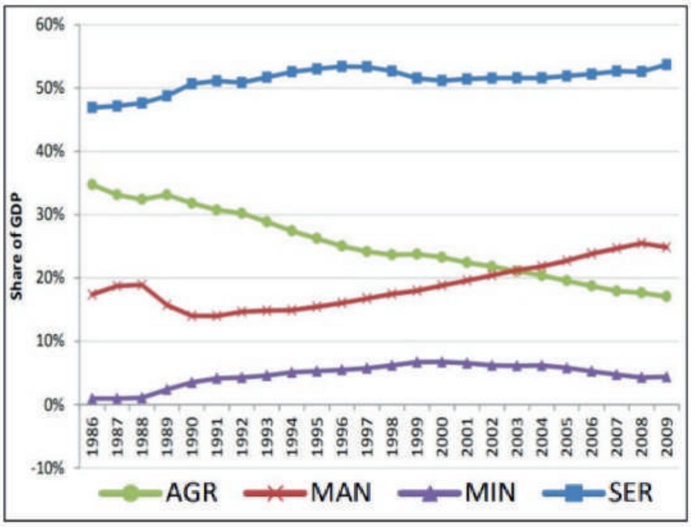


Fig 3: Vietnam sector wise contribution to GDP yearly

Geopolitical Positioning

Vietnams carefully played-out diplomacy is one of the key factors behind its economic success. The country had delicately balanced the interplay of major powers to attract investments while also maintaining sovereignty. It regularly hosts leaders of the U.S., China and Russia. Even amid the Russia-Ukraine war, Russian president visited the capital city, Hanoi in June,2024 to discuss. Vietnam had chosen to abstain on the various resolutions at the United Nations condemning Russia's actions, yet maintained good relations with Ukraine and even sent some aid to Kyiv. Vietnam continues its long-held foreign policy principles of being friends with everyone but avoiding all formal alliances – a policy of the communist party leadership commonly nicknamed the 'bamboo diplomacy', bending with the buffeting winds of great power rivalry without being forced to take sides.

Comparative Analysis with India:

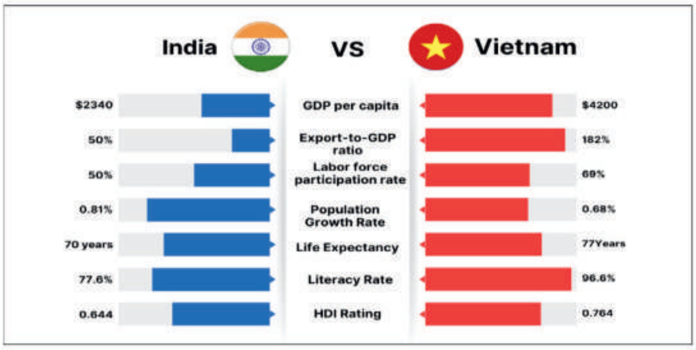


Fig 4: Vietnam vs India: Economic Metrics Comparison

Labour Market:

Many experts believed that Vietnam is more apt to being an export-oriented economy due to the high labour force participation rate of 70% and the transformation from being an agrarian economy to a manufacturing and services powerhouse. Meanwhile, Indian labour force productivity is still lower with 40% workforce still indulged in agriculture, adding only 15% to the annual national GDP. Another significant factor is the under-utilised female labour force in India, which is nearly half of the blah of Vietnam, taking India a step back in labour efficiency, dynamism and inclusivity

Foreign Direct Investment:

Vietnam consistently attracts significant FDI, 4.3 % of its GDP annually, which is more than twice the global average. This investment influx has been pivotal in driving the country's export growth.

On the other hand, India's FDI policies and slower integration into global supply chains have resulted in relatively lower than expectation investment inflows when considering the huge difference in GDP size.

Trade Agreements:

Vietnam's integration into the global trade through RCEP and CPTPP contracts are in contrast with India's protectionist policies. India has a high trade-weighted average duties and many bilateral investment treaties have been discontinued due to disagreement which has led to the discouragement of new foreign investment and has also made its trade relations challenging in the recent years. Meanwhile, Vietnam has been able to effectively leverage its trade agreements and thus improve its export capacity.

Geopolitical Advantages:

Strategic Foreign Policy:

Vietnam has been strategically balancing its relations with China, Russia and US with diplomatic and economic ties, mitigating tensions, ensuring national security and avoiding falling into crossfire during global conflicts by maintaining neutrality.

Vietnam illustrates its pragmatic foreign policy by becoming a member of the CPTPP to increase trade with the US while at the same time engaging in China's BRI for infrastructure financing and continuing to have defence relations with Russia, such as buying weapons and conducting joint-military drills.

Divergence In Geopolitical Strategy:

India's geopolitical approach is much more complex and has several challenges that Vietnam doesn't. India has good relations with Russia and has improved relations with the U. S. but has a tense relationship with China which presents strategic challenges. The border skirmishes in 2020 have created a new paradigm for the Sino-Indian relations and make it difficult to restore the stability of the relations. Also, India's restrained engagement in multilateral platforms such as the Shanghai Cooperation Organisation (SCO) suggests a calibrated disengagement from China. For instance, India did not participate in the SCO's counter-terrorism drills in 2021, which is quite a reserved move. Furthermore, India's increased participation in the Quad formation with the U. S., Japan, and Australia shows its shift towards containing China in the Indo-Pacific region.

Strategic Rivalry and Cooperation:

The India-U.S. relationship has strengthened over the past three decades, with both countries deepening cooperation in strategic areas. However, recent strains, such as the fallout from abstaining on Russian-Ukraine war in the UN, buying Russian crude at prices below the price cap imposed by the western powers and US, the alleged assassination plots, etc have highlighted strains in the diplomatic relationship of India with the west which also threaten economic ties with these countries. On the contrary, Vietnam's is able to maintain good relationships with both the U.S. and China highlighting its geopolitical acumen. This strategic balancing act makes Vietnam more appealing to investors as a dependable long-term partner in international trade.

Structural Challenges and Reforms:

Challenges:

Labour Productivity:

Vietnam's per-hour labour productivity is among the lowest in Asia. In 2021, labour productivity in the country hit just US$10.22 per hour trailing its regional peers like mainland China at US$13.53, Thailand at US$15.06, and Indonesia at US$12.96, according to the International Labour Organization.

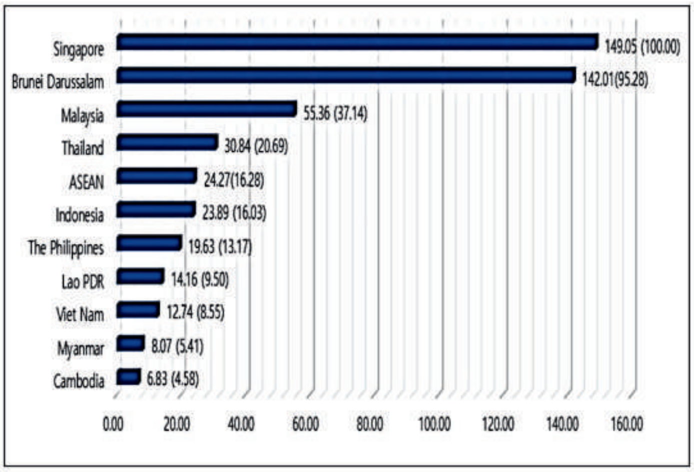


Fig 5: Labour Productivity in ASEAN countries in %

However, the Vietnamese government, specifically through the Ministry of Planning and Investment launched the National Program for Increasing labour Productivity in Vietnam. It targets a 6.5% annual growth rate in labour productivity, sector-specific focus, and a top three ASEAN productivity ranking, R&D enterprise growth, higher educated workforce, and reduced agricultural labour.

Environmental and Human Rights Issues:

There are many concerns like corruption, censorship, and poor human rights in Vietnam that can hinder investments due to less investor confidence and present threats to the stability of long-term business partnerships.

The country ranked 83rd out of 180 countries in the Corruption Perceptions Index of Transparency International in 2023, pointing to ongoing issues with bureaucracy in the government. Also, Vietnam's record on labour rights is troubling: there are limitations on freedom of association, specifically on labour unions, and cases of forced labour also contribute to the country's unfavourable image in the international market that might repel responsible brands and on collaborating with Vietnam, as they may perceive it as risky.

Overreliance on FDI:

Vietnam has a problem of overdependence on FDI which form 4.3% of the country's annual GDP. This dependence makes the economy vulnerable to global economic changes and investor fluctuations.

Moreover, the manufacturing sector which is still in its expansionary phase relies on imported technology and capital. The World Bank stated that domestic enterprises were comparatively less active in the expansion or introduction of products and services than their FIE (foreign investment enterprises) counterparts. Vietnam's economy has to be more diversified, and some efforts have to be made towards boosting local industries for a sustainable and less vulnerable growth trajectory.

Opportunities:

Strategic Location:

Vietnam's location in the South China Sea and other shipping routes in Southeast Asia makes it an important hub in the global trade network. The country's largest port is the Cai Mep Port in Ho Chi Minh City has emerged as a vital link in the global dealing with a massive amount of international cargo.

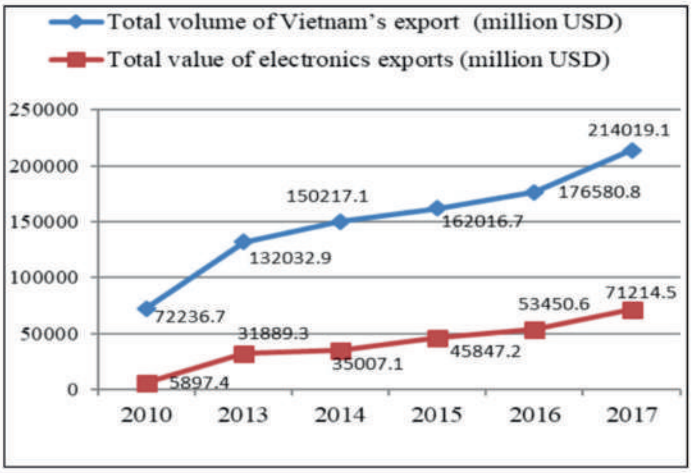


Fig 6: Total volume of exports and total volume of electronics exports in 2010-2017

In 2023, Cai Mep Port was one of the most rapidly developing ports in the region showcasing the logistic advances of Vietnam.

Enhancing Labour Productivity:

Education and vocational training are important for enhancing labour productivity through investment. One such example is the government's action plan to transform vocational training institutions. In 2023, the Ministry of Education and Training introduced a $100 million program to upgrade vocational schools and integrate curricula with the market demand. This endeavour is intended to improve the readiness of workers for high value electronics. This sector has been growing due to the entry of big players like Samsung, Intel, Apple among others. For example, Samsung's investment in Vietnam currently stands at a staggering $22.4 billion. The company's revenue and exports from Vietnam reached $65 billion and $55.7 billion respectively in 2023. Vietnam accounts for over half of Samsung's global mobile phone production. Such investments greatly increase the export volumes and the level of production technology in the country.

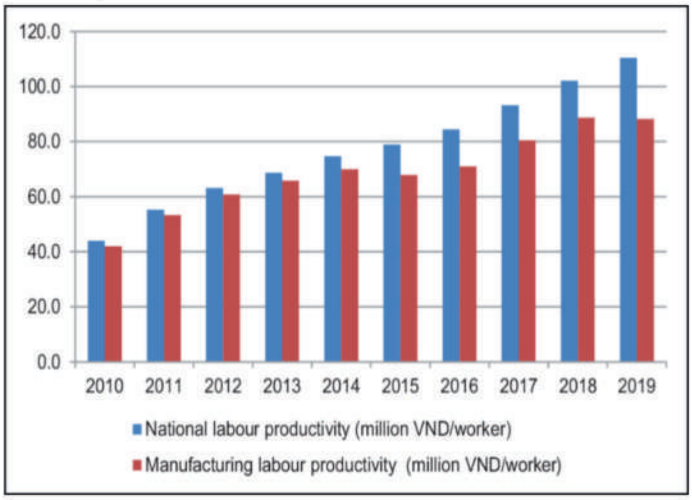


Fig 7: Vietnam's raising labour productivity over the years

Multilateral Trade Agreements:

Vietnam has joined the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to unlock new markets. For instance, after Vietnam joined CPTPP in 2019, the country experienced a boost in exports to the member countries, especially in textiles and garments. This access has helped in enhancing the trade of Vietnam and the attraction of foreign investments, thus strengthening its economy.

Conclusion:

Vietnam has witnessed high economic growth rates, benefits from a favourable geopolitical location, and actively leverages trade agreements, which provide it all the prerequisites for a country to become the next export capital of the world. Vietnam has the potential to maintain the heavy influx of FDI and improve its position in global supply chains by overcoming structural obstacles and optimizing its domestic logistics and operation. Comparing with India, the differences in economic and geopolitical approaches are visible: Vietnam's strategy relies on multilateral membership and robust manufacturing industry, while India gives paramount importance to conditional strategic partnerships and a rather more careful approach towards China thus reflecting its different geopolitical and economic interests.

Finally, considering the active position of Vietnam holding a number of favourable conditions for investment in the international market, the country can strive to become one of the major leading exporters of manufactured goods in the coming years.

References

1. https://en.vneconomy.vn/samsung-to-boost-vietnam-investment-by-1-billion-annually.htm#:~:text=Samsung's%20investment%20in%20Vietnam%20currently,and%20Ho%20Chi%20Minh%20City
2. https://www.transparency.org/en/countries/vietnam
3. https://e.vnexpress.net/news/data-speaks/vietnam-lags-behind-philippines-indonesia-in-labor-productivity-4712146.html#:~:text=Vietnam's%20per%2Dhour%20labor%20productivity,years%2C%20a%20report%20has%20found
4. https://tradingeconomics.com/vietnam/labor-force-female-percent-of-total-labor-force-wb-data.html#:~:text=Labor%20force%2C%20female%20(%25%20of,compiled%20from%20officially%20recognized%20sources
5. https://www.bbc.com/news/articles/cw44z3k997do
6. https://genderdata.worldbank.org/en/data-stories/flfp-data-story
7. https://wits.worldbank.org/CountryProfile/en/Country/VNM/Year/LTST/TradeFlow/Export/Partner/by-country/Product/Total
8. https://documents1.worldbank.org/curated/en/198081468124465987/pdf/wps3879.pdf
9. https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=VN
10. https://vccinews.com/prode/33820/.html
11. https://www.researchgate.net/figure/Manufacturing-Labor-Productivity-compared-to-the-Economy-Source-Calculated-from-Data-of_fig2_354669200
12. https://www.researchgate.net/figure/Region-wise-financial-trend-for-the-time-span-1980-2016-Source-WDI-2016-available-at_fig1_334241894
13. https://www.statista.com/statistics/444611/vietnam-gdp-distribution-across-economic-sectors/#:~:text=In%202022%2C%20Vietnam's%20service%20sector,to%20businesses%20and%20final%20consumers.
14. https://asean.org/regional-study-on-labour-productivity-in-asean/

GLOBAL TRADE BATTLEFIELD: HOW ECONOMIES STRATEGIZE AMID GEOPOLITICAL CONFLICTS

Priyanka Anna Leslie
T. A. Pai Management Institute, Manipal

Abstract:

In an era marked by rising geopolitical rivalries, geoeconomic fragmentation is reshaping economic alliances and trade patterns. This article explores the intricate effects of such fragmentation through the lens of the Russia-Ukraine war, U.S.-China trade tensions, and maritime disruptions in the Middle East. It includes a variety of visualizations and charts, offering a clearer and more detailed perspective on the impacts and trends. We explore how these diverse tensions—ranging from military conflicts and trade wars to disruptions in crucial sea routes—are shaping global trade patterns and economic strategies. Discover how nations are navigating this turbulent landscape and whether these geopolitical shifts are creating a more fractured world or opening doors to new economic opportunities.

Geopolitical rivalries fragment global economies

'Geoeconomic fragmentation', as documented by major international organizations, refers to a policy-driven reversal of global economic integration caused by geopolitical rivalry. Most economists agree on the impact of geopolitical tensions, with nearly 70% expecting geoeconomic fragmentation to accelerate in 2024, according to the Chief Economists Outlook (January 2024) (Fig.1). Rising geopolitical tensions have led to increased protectionism and cross-border restrictions based on national security concerns, as well as more restrictions on foreign direct investment. Geopolitical alignment now plays a bigger role than economic factors in shaping investment and financial flows.

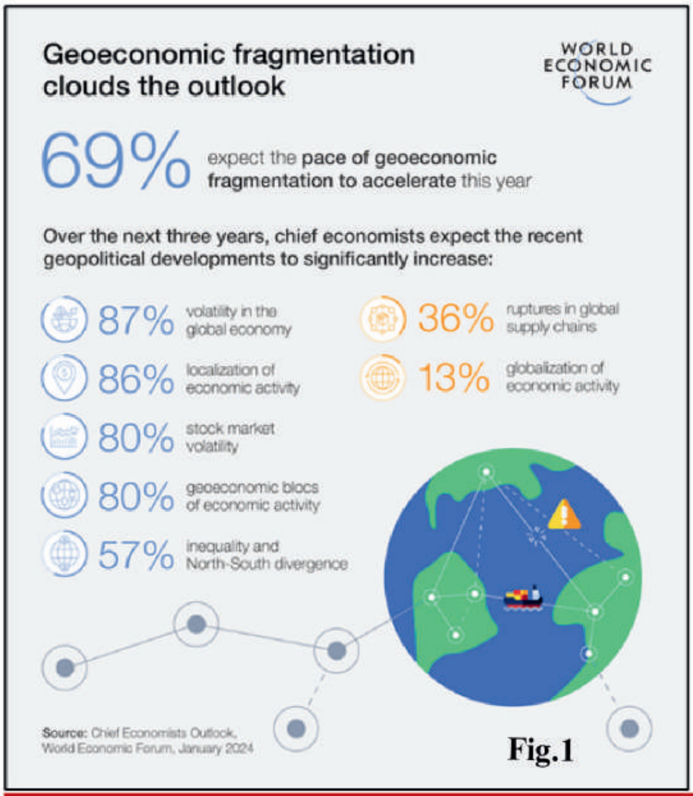


Fig.1

Nations are focusing more on their own economic security and industrial policies, leading to less international cohesion. Middle powers and developing countries are gaining more agency and control over their own economic and political decisions. The rise of middle powers is clear from their response to U.S sanctions during the Ukraine war. Emerging markets, unhappy with higher food and energy costs, bypassed the sanctions and kept trading with Russia. India, for instance, significantly increased its oil imports from Russia (Fig.2). These actions, which would have been impossible 15 years ago, show how middle powers now have greater control over their destinies.

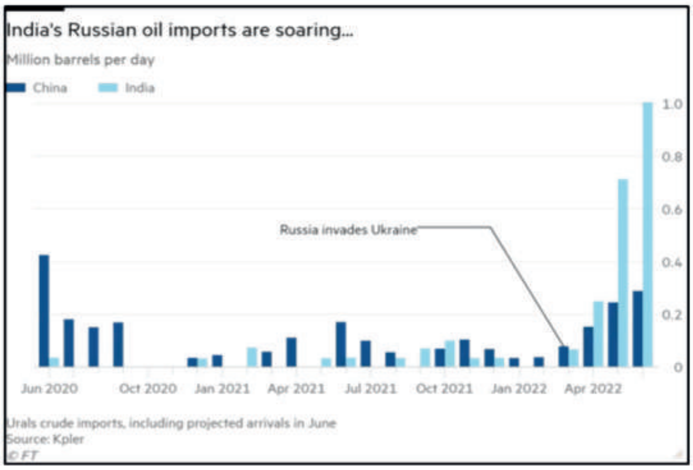


Fig.2

Gita Gopinath, First Deputy Managing Director of IMF stated, "The path forward will depend on policymakers. They may accept rerouting of trade and foreign direct investment to preserve some of the benefits of economic integration. Or they may continue to raise barriers for cross-border trade and investment, further breaking both direct and indirect links between politically distant countries. Trade fragmentation is much more costly now because, unlike at the start of the Cold War when goods trade was 16% of GDP, that ratio is now 45%."

Shifting Trade Patterns

Since 2020, global supply chains have been significantly disrupted by geopolitical conflicts, climate change, armed conflicts, and shifting demographics. In response, companies are strategically relocating their supply chains to mitigate risks and reduce long-term production costs, emphasizing resilience over short-term cost savings. The global economy shows signs of 'de-risking,' with countries reshoring supply chains and moving them to friendly nations, leading to increased trade between countries with close geopolitical ties and declining trade with distant nations.

This shift signals a trend towards regional economic integration (Fig.3). Nearshoring, friendshoring, and reshoring have become crucial strategies in this evolving landscape, with mentions of these approaches in multinational corporations' earnings calls increasing sharply since 2020 (Fig.4).

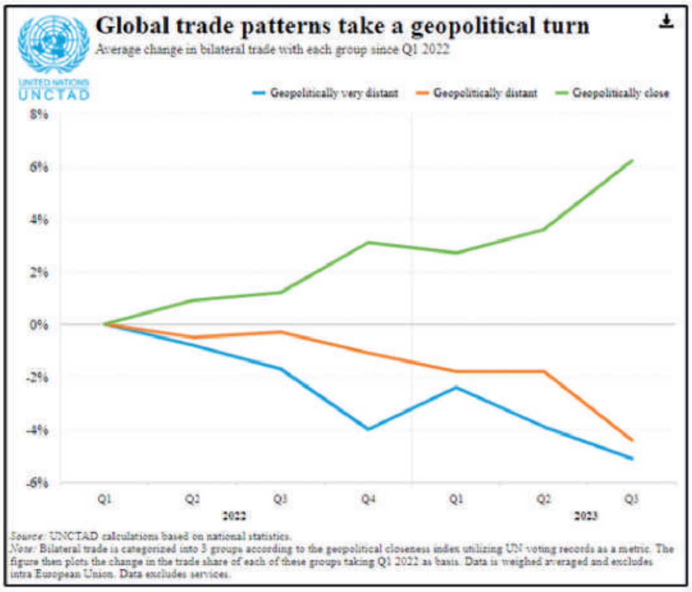


Fig.3

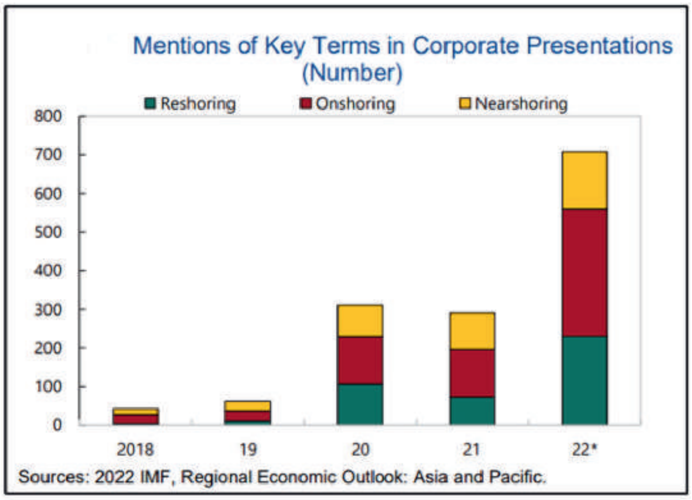


Fig.4

- Reshoring brings parts of the supply chain back to the home country. For instance, the Biden administration's Inflation Reduction Act promotes green technologies through subsidies and tax breaks for domestic production of electric vehicles and renewable energy components. The Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act offers similar incentives to semiconductor firms to establish manufacturing facilities in the U.S. while prohibiting outsourcing to countries like China.

- Nearshoring moves operations closer to consumer regions to cut costs and boost efficiency. A prime example of nearshoring is Shein, the Chinese fast-fashion company, investing $150 million in production facilities in Brazil to diversify its supply chain for the Latin American market to reduce reliance on Chinese products amid ongoing U.S. trade restrictions on Chinese imports.

- Friendshoring relocates business operations to allied nations for more secure and reliable supply chains. Apple Inc. exemplifies this approach by shifting its production from China to India as part of its "China Plus One" strategy, aimed at reducing reliance on China amid rising geopolitical tensions and enhancing local value from Indian suppliers.

This evolving landscape marks a significant shift in how global trade and economic relationships are structured, moving towards more localized and regionalized frameworks.

Economic Trade-Offs of Trade Strategies

A few years ago, IHS Technology estimated that making an iPhone 5 entirely in the U.S. would increase its cost from $800 to nearly $2,000 due to higher U.S. labour costs and less efficient production. U.S. labour costs are significantly higher, with skilled workers earning much more than the $100 per week made by their Chinese counterparts. Critical components such as OLED screens and camera sensors are predominantly manufactured in Asia. Replicating China's efficient industrial hubs like Shenzhen in the U.S. would lead to longer assembly times and higher costs. Additionally, only 6% of Apple's profits come from U.S. sales, with two-thirds of customers outside the U.S. This means that manufacturing iPhones in the U.S. would not even gain significant political goodwill from most of its customers. By trying to avoid global political risks, reshoring and friendshoring might create new political challenges at home.

The IMF has estimated that widespread reshoring and friendshoring would significantly hinder growth by reducing profit margins, impacting both the involved economies and the global economy (Fig.5). This is primarily due to companies having to pay higher wages and adhere to stricter regulations.

According to Raghuram Rajan, massive friend-shoring could have devastating effects as it often results in trade only between countries at similar development levels, thereby losing the benefits of comparative advantage with less developed nations. This exclusion can severely impact poorer countries that rely on global trade to boost their economic growth and democratic development.

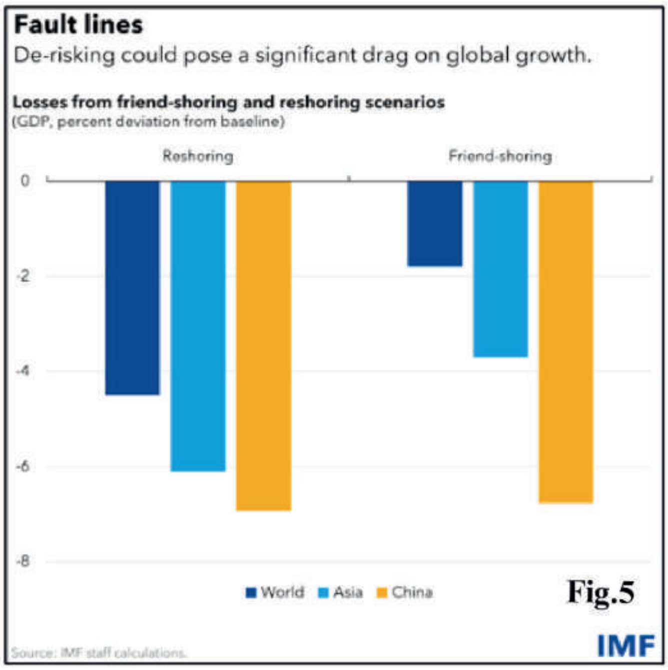


Fig.5

Impact of Ukraine War on Trade Routes, Food Security, and Energy Markets

Ukraine may face de facto division this year, with Russia likely retaining control of Crimea and parts of Donetsk, Luhansk, Zaporizhzhia, and Kherson, potentially gaining more territory in 2024. This year is crucial for Ukraine: if it does not solve its manpower issues, boost weapons production, and create an effective military strategy soon, it could lose the war as early as next year. The conflict's impact extends beyond the battlefield, disrupting global trade, making commodities scarcer, and prompting countries to reassess trade relationships.

I. Emergence of China as Russia's Top Trade Partner

Europe, historically a major importer of Russian commodities, has largely ceased buying Russian exports. Instead, Russia is forced to sell to China, India, and other nations at significantly lower prices. This reduces Russia's revenue and increases its dependence on China, which has become a key supplier of cars, clothing, raw materials, and other goods amid Western sanctions. Trade between China and Russia soared to a record $240 billion in 2023, marking a 64% surge from 2021 levels before Russia's invasion of Ukraine (Fig.6). Following the U.S's announcement of the quadrupling of tariffs to 100% on Chinese electric vehicles, Putin welcomed Chinese carmakers to Russia. As a result, Chinese car and parts exports to Russia surged to $23 billion in 2023, up from $6 billion the previous year. Russia became China's largest crude oil supplier in 2023, overtaking Saudi Arabia, by exporting 107 million tonnes, which is a 24% increase from the previous year. Despite the $60 per barrel price cap on Russian oil set by the G7, EU, and Australia, China continues to purchase it at prices above the limit. Meanwhile, India has continued to be a significant buyer of Russia's discounted oil since the invasion, maintaining its long-standing ties.

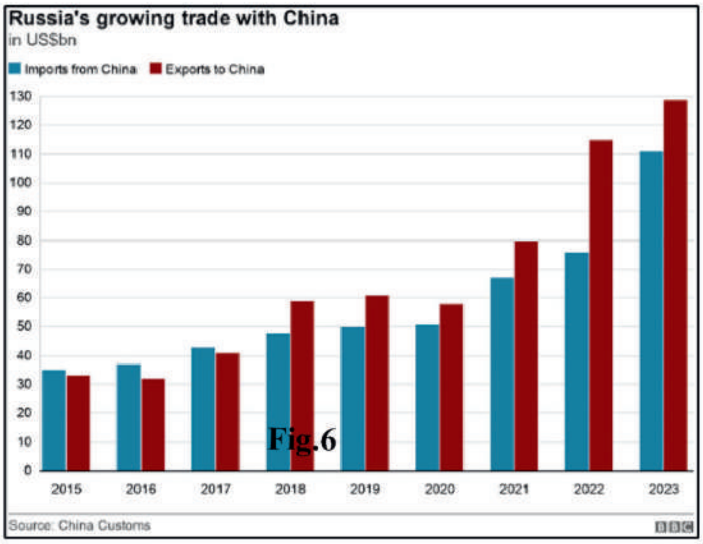


Fig.6

II. Aggravation of the Global Food Crisis

As major food producers and exporters, Ukraine and Russia are key players in the global food supply. Ukraine is the largest exporter of sunflower oil, supplying over 40% of seed oil, more than 13% of global corn, and over 5% of wheat. Russia provides 18% of global wheat and 14% of fertilizers (Fig.7). What happens when these supplies are disrupted? Severe food shortages occur, putting many on the brink of famine. Before the conflict, Somalia sourced over 90% of its grain from Ukraine and Russia. Many Middle Eastern and North African (MENA) countries, such as Egypt, Turkey, and Lebanon, are disproportionately vulnerable as they heavily depend on these grain imports.

The Black Sea Grain Initiative (BSGI), brokered by the UN and Turkey in July 2022, enabled Ukraine to resume grain and fertilizer exports via Black Sea routes that had been blocked since Russia's invasion in February 2022 (Fig.8). The World Food Programme bought around 750,000 tonnes of Ukrainian grain for countries like Afghanistan, Somalia and Ethiopia, stabilizing grain prices from $1,360 to $800 per bushel. But in July 2023, Russia withdrew from the agreementciting unmet promises about its own food and fertilizer shipments. The deal's collapse raised fears of rising food prices and food insecurity. However, Ukraine's military victories led to a new "humanitarian corridor" through Romanian and Bulgarian waters, enabling export volumes to recover by late 2023 (Fig.9).

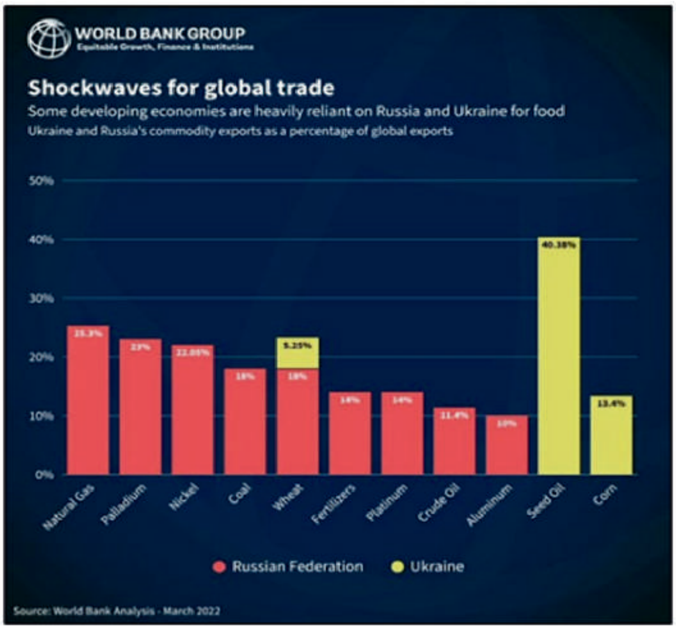


Fig.7

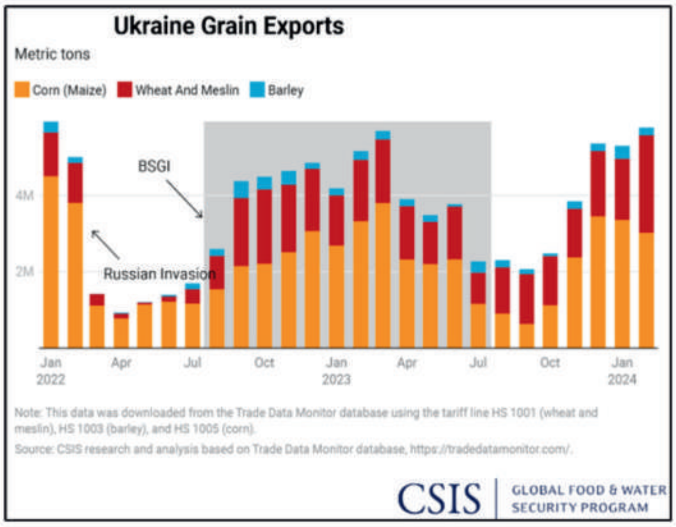


Fig.8

Fig.9

III. Europe's Energy Crisis

After food prices, energy prices have been the most directly affected. Russia, one of the world's largest energy suppliers, provided 14% of global crude oil and 9% of natural gas. Europe's most severe energy disruption since the 1970s oil crises has been caused by Russia's invasion of Ukraine, highlighting a major strategic blunder in Europe's energy strategy—its deep dependence on Russian supplies. In May 2022, the EU launched the REPowerEU plan to reduce dependence on Russian gas and enhance energy resilience. As a result, Russian pipeline gas imports to Europe fell from 40% in 2021 to around 8% in 2023. This shift has been costly and disruptive, contributing to inflation and slowing economic growth across the continent.

Ending the Russia-Ukraine war requires a multifaceted approach combining diplomatic, economic, and humanitarian strategies. Effective negotiations, facilitated by neutral international bodies, are crucial to address territorial disputes. Sustained military support for Ukraine is essential to bolster its defences, while diplomatic efforts should focus on achieving a lasting peace agreement. Maintaining economic sanctions on Russia is also crucial to pressure it into negotiations.

Impact of the U.S - China Trade War on Global Trade Flows

Tariffs are taxes imposed on imported goods to protect domestic industries, regulate trade, or generate government revenue. Section 301 of the U.S. Trade Act of 1974 allows the U.S. to investigate and respond to unfair trade practices by other countries. In 2018, former President Trump imposed Section 301 tariffs on Chinese goods, leading to retaliatory tariffs from China and a prolonged trade war.

Currently, these tariffs cover over $300 billion in imports. In May 2024, the Biden administration announced it would increase tariffs on an additional $18 billion worth of Chinese goods, including electric vehicles, batteries, semiconductors, and critical minerals (Fig.10). This action sought to address China's unfair trade practices, including technology transfer issues, intellectual property concerns, and low-priced exports. While China might retaliate with tariffs on U.S. exports, these measures are expected to be limited due to its fragile economy. Ongoing domestic challenges like low demand, a real estate crisis, and high debt will likely shift China's focus to economic stability over escalating trade tensions.

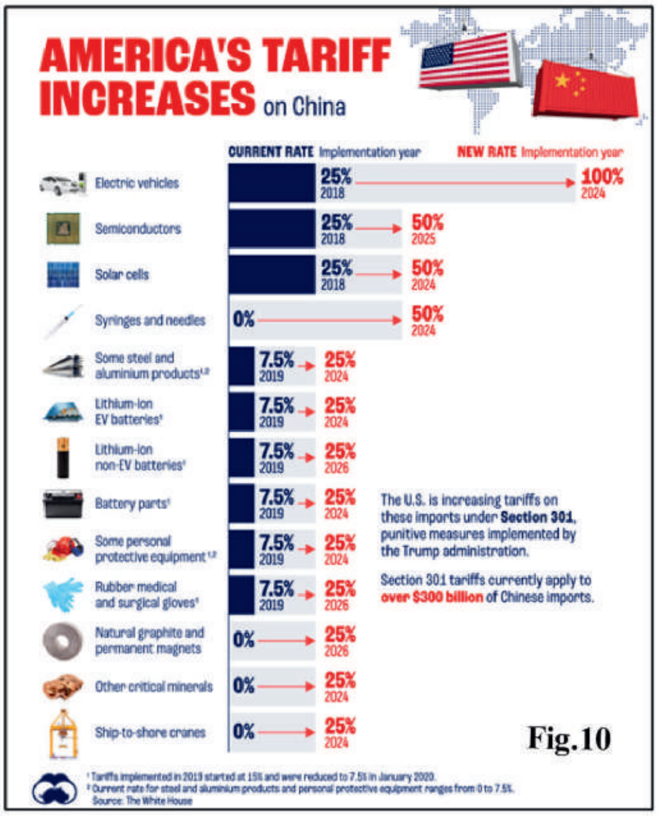


Fig.10

The U.S-China trade war opened doors for other countries to boost their exports, a phenomenon called the "bystander effect." For example, Vietnam's exports to the U.S surged by 508% since the trade war began, boosting GDP growth by 7.9% and establishing the country as a major tech manufacturing hub for cost-effective alternatives to Chinese production. The imposition of tariffs between the U.S and China led to a redirection of trade flows, benefiting other countries (Fig.11).

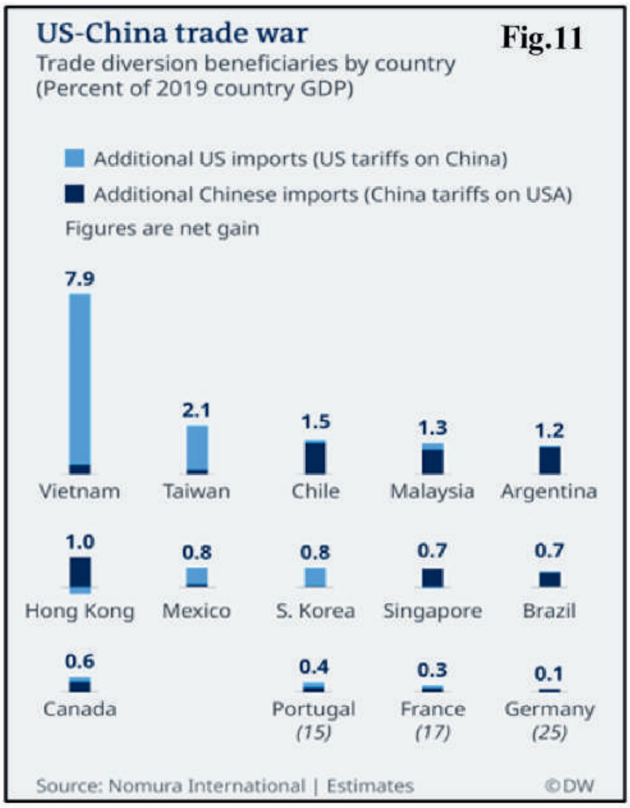


Fig.11

This U.S.-initiated trade war has no real winners. Numerous studies have highlighted the negative impact of trade war tariffs on the US economy, including adverse effects on manufacturing output, employment, and exports. Policymakers should be very cautious about reducing economic ties with China. Any decisions made now could have serious effects on both economies, and neither will come out completely unscathed. The tariffs have led to increased costs and economic losses for both the U.S and China, significantly reshaping global trade, investment, and supply chains. The long-term consequences of the trade war continue to unfold, with enduring implications for global economic dynamics.

Impact of Middle East Tensions on Maritime Trade

In early 2024, significant disruptions in global trade stemmed from escalating tensions and conflicts in the Middle East. The situation began with heightened hostilities between Gaza and Israel, which led to a series of attacks on vessels in the Red Sea. Yemen-based Houthis further intensified the situation with drone and missile strikes against ships passing through this crucial waterway. These attacks were aimed at pressuring Israel to halt its bombardment of Gaza and resulted in sustained trade delays and rising shipping costs.

The immediate consequence of these attacks was a sharp decline in maritime traffic through the Suez Canal, a key route connecting Asia and Europe and handling about 15% of global trade. By the first two months of 2024, traffic through the Suez Canal dropped by 50% (Fig.12). Shipping companies were forced to reroute their vessels around the Cape of Good Hope, adding an average of 10 days to delivery times. This rerouting has significantly impacted companies with limited inventories. Rising global shipping costs and freight rates could drive up consumer prices if these higher costs are reflected in final goods prices.

The broader impact of these disruptions is significant. Countries along the Red Sea—Egypt, Jordan, Saudi Arabia, Sudan, and Yemen— could experience reduced exports and a negative impact on their GDP if disruptions continue through the year (Fig.13). Overall, the heightened instability and prolonged disruptions have underscored the fragility of key global trade routes and their economic consequences.

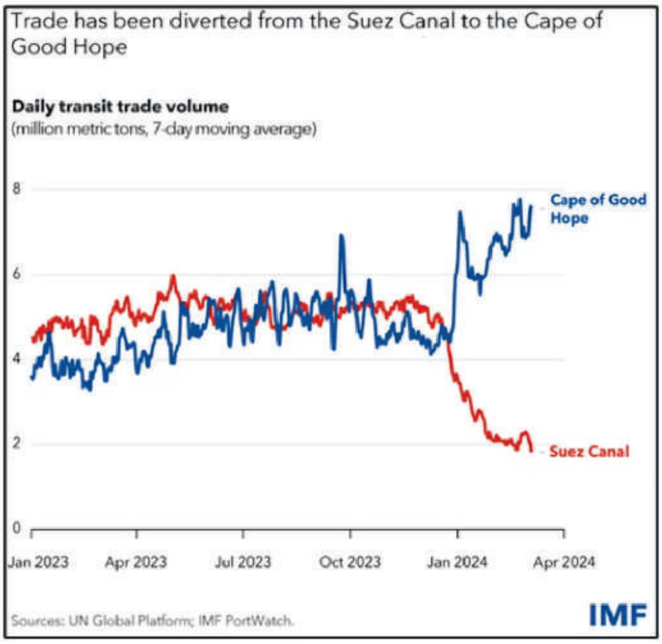


Fig.12

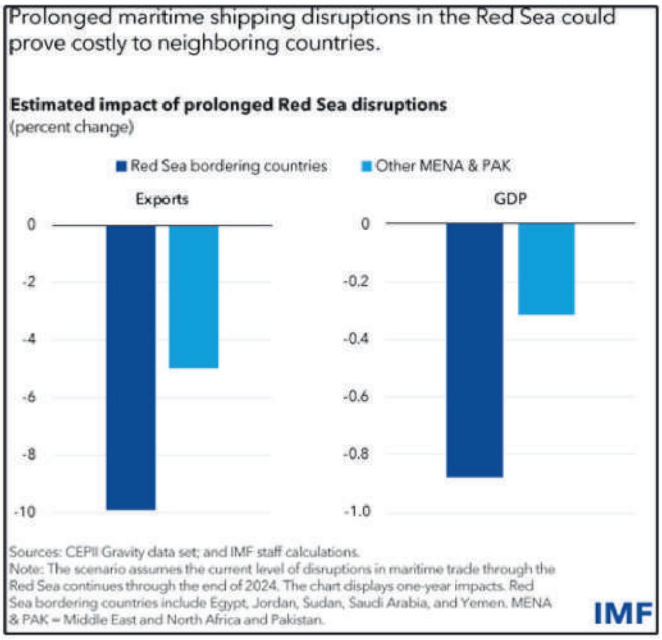


Fig.13

Middle Eastern and North African countries can reduce shipping disruptions by improving supply chain management, finding new suppliers, using alternative shipping routes, and evaluating air freight options. Diversifying trade partners, products, and routes will help the region better handle disruptions and redefine its role in the global economy.

Conclusion

While the global economy faces heightened geopolitical risks and protectionism, major economies have shown resilience. To strengthen international stability, we need pragmatic reforms. Key steps include restoring a fully functioning WTO dispute settlement mechanism, advancing negotiations on subsidies and trade restrictions, and establishing international norms for industrial policies. Keeping open lines of communication such as the ongoing dialogue between the U.S. and China, can help avoid severe disruptions. Non-aligned countries should leverage their influence to maintain global integration. Additionally, addressing unilateral policies and adhering to legal frameworks will be crucial. Though rebuilding trust is challenging, these measures are vital for preserving the benefits of economic integration and navigating a rapidly fragmenting world.

References:

1.https://www.imf.org/en/News/Articles/2024/05/07/sp-geopolitics-impact-global-trade-and-dollar-gita-gopinath
2. https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2023/01/11/Geo-Economic-Fragmentation-and-the-Future-of-Multilateralism-527266
3.https://www.weforum.org/publications/chief-economists-outlook-january-2024/
4. https://unctad.org/news/global-trade-expected-shrink-nearly-5-2023-amid-geopolitical-strains-and-shifting-trade
5.https://www.imf.org/en/Blogs/Articles/2023/10/17/harm-from-de-risking-strategies-would-reverberate-beyond-china
6.https://www.project-syndicate.org/commentary/friend-shoring-higher-costs-and-more-conflict-without-resilience-by-raghuram-rajan-2022-06
7.https://bbc.com/news/60571253
8. https://www.csis.org/analysis/setting-record-straight-ukraines-grain-exports
9.https://www.weforum.org/agenda/2022/04/world-bank-ukraine-food-energy-crisis/
10.https://www.dw.com/en/war-in-ukraine-why-is-the-eu-still-buying-russian-gas/a-68925869#:~:text=How%20LNG%20imports%20from%20Russia,to%20about%208%25%20in%202023.
11. https://cepr.org/voxeu/columns/bystander-effect-us-china-trade-war
12. https://www.visualcapitalist.com/comparing-new-and-current-u-s-tariffs-on-chinese-imports/
13. https://www.nomuraconnects.com/focused-thinking-posts/us-china-trade-diversion-who-benefits/
14. https://www.dw.com/en/vietnam-taiwan-winning-the-us-china-trade-war/a-49068586
15.https://www.imf.org/en/Blogs/Articles/2024/03/07/Red-Sea-Attacks-Disrupt-Global-Trade
16.https://www.imf.org/en/Blogs/Articles/2024/05/13/more-diversified-trade-can-make-middle-east-and-central-asia-more-resilient

HOW GEOPOLITICS IS CAUSING THE END OF GLOBALISATION

Ritwik Bhuwalka
NMIMS Mumbai

Introduction:

An escalating conflict between Israel and Hamas in Gaza threatens to engulf the entire Middle East, with the United States and Iran poised for confrontation. Meanwhile, the war in Ukraine, Europe's largest since 1945, shows no signs of stopping. Chinese jets and warships are increasingly menacing Taiwan, heightening tensions. All this while the next big war, Isarel Vs Hizbullah is brewing in Lebonon.

The World Economic Forum identifies armed conflicts and geopolitical disruptions as some of the most pressing threats facing the world in the next two years, reflecting their growing frequency and severity. For instance, the India Uncertainty Index (Figure 1) highlights the significant fluctuations in geopolitical risk impacting the country over recent years. These geopolitical events can have far-reaching consequences for companies and even entire industries for that matter.

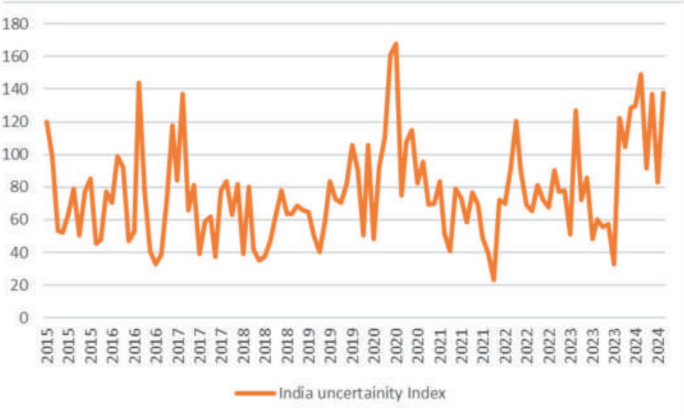


Fig-1

As an example, let's look at how the Russia-Ukraine war affected Russia's automobile industry. Western car manufacturers with plants in Russia had to halt operations or exit the market altogether. Renault sold its Russian operations, including a 68% stake in Avtovaz, Russia's largest carmaker. Volkswagen ceased production following the invasion, resulting in a Russian court freezing its assets. Toyota was forced to shut down its Russian factory. Consequently, Chinese car companies rapidly increased their market share in Russia. This shows how geopolitics can transform an entire industry overnight.

Geopolitical tensions extend far beyond armed conflicts. For example, the deteriorating relations between America and China. The trade wars and economic differences between US and China have heightened geopolitical tensions, leading to far-reaching consequences. These include the introduction of new trade barriers, subsidy race, shifting supply chains, and tighter restrictions on access to Western technology and data-sharing.

How are countries reacting?

Because geopolitical tensions have far-reaching consequences for countries and their economic stability, the increased frequency of these conflicts has prompted nations worldwide to take various measures. As a result, several major trends are emerging in the global landscape. These trends reflect how countries are adapting to the evolving geopolitical environment, aiming to mitigate risks and ensure economic resilience.

One major trend developing across various countries is the shift to localised supply chain strategies. To mitigate international geopolitical risks, countries are increasingly anchoring supply chains and manufacturing within their own borders. This has led to a global race to subsidize industries, attract manufacturing away from both allies and adversaries, and restrict the flow of goods and capital. The focus is shifting from mutual benefit to national gain, marking a significant transformation in global trade dynamics. Many experts view it as an era of de-globalisation or negative globalisation.

Going back to the automobile industry as an example, Automakers around the world are reconfiguring their supply chains to mitigate geopolitical risks. In 2021, China, a major car parts exporter, shipped over $45 billion worth of car parts, with a quarter going to the U.S., according to a Sheffield Hallam University study. However, this dynamic is changing. The U.S. is now incentivizing carmakers to manufacture goods domestically, reducing reliance on foreign parts. These incentives are already impacting the industry. Ford is building a new battery factory in Michigan, GM is investing in a lithium mine in Nevada, and VW is considering relocating a battery factory from Europe, expecting $10 billion in subsidies over its lifespan. Figure 2 highlights the expansion of production capacity by two major automakers in the U.S., driven by the incentives provided through these subsidies.

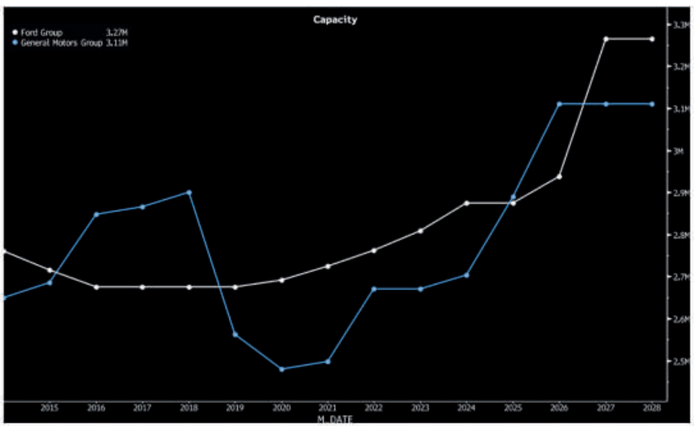


Fig-2

To truly understand how this trend of local manufacturing is evolving, we need to examine USA's Inflation Reduction Act (IRA) introduced by President Biden's administration. On the surface, the act focuses on subsidizing green energy and boosting domestic employment. However, the IRA encompasses $370 billion in tax credits, grants, and loans aimed at incentivizing local manufacturing. The primary goal of the act is to reduce the USA's dependence on certain countries for goods and materials.

This bill is crucial because it signifies a shift in developed Western economies from relying on emerging markets for their supply chain needs to developing localized manufacturing units. The amount of spending in factory construction has skyrocketed in the US according to numbers from the Census Bureau (Figure 3). This captures the trend of the western superpower trying to increase local manufacturing.

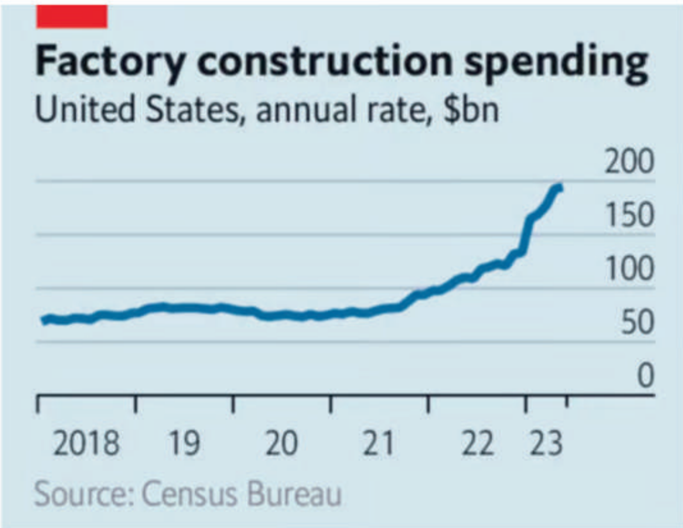


Fig-3

The implications of the act extend beyond supply chain diversification, impacting global trade dynamics. This trend reflects a broader movement among countries to prioritize national gain over mutual benefit, transforming the landscape of global trade.

The United States is not alone in following the trend of localizing supply chains. The Make in India initiative by the Modi government is a more direct approach to achieving this goal. Aimed at attracting higher levels of investment and improving the ease of doing business in the country, the initiative has significant implications for India and its trading partners.

A recent development under this initiative requires Micro, Small, and Medium Enterprises (MSMEs) that want to participate in government tenders to be Make in India compliant. For instance, a Class One supplier to the government is defined as an entity that procures 50% of its raw materials from local vendors.

As a result, MSMEs dealing with the government must cease procuring raw materials from abroad and instead find new local suppliers. This policy not only fosters local manufacturing but also reshapes supply chain dynamics within the country. By mandating local procurement, the initiative aims to accelerate domestic industries, create jobs, and reduce reliance on foreign suppliers. America has similar clauses in its inflation reduction act - Wind, solar and geothermal projects will all receive heftier subsidies if they use American steel and iron. Almost half of their components must also be made in America.

How does this impact us?

For free trade to exist, subsidies are bad in their own right: as they artificially lower the cost of products from one country, thereby reducing economic efficiency. Emerging markets, in particular, stand to be at a significant disadvantage. For example, Chile, a leader in green hydrogen and renewable resources, cannot compete with the level of subsidies provided by the US government. As a result of that, their competitive advantage in renewable energy has been completely wiped out by subsidies.

This Global protectionism trend will likely drive up prices for consumers while also resulting in inferior products.

Let us take a look at the semiconductor industry to better understand how protectionism is going to hurt consumers. The semiconductor industry is a highly specialized field demanding advanced manufacturing capabilities and skilled labour. Currently, five countries—Taiwan, China, Japan, South Korea, and the United States—dominate the semiconductor supply chain, with Taiwan alone accounting for 50% of global production. Remarkably, Taiwan produces over 90% of the world's most advanced semiconductors using the three-nanometre process. This dominance is critical to Taiwan's economy, contributing 13% of its GDP.

Decades of expertise and economies of scale have positioned Taiwan as the leader in semiconductor manufacturing, ensuring consumers receive the best products at the most reasonable prices. Experts agree that replicating Taiwan's supply chain elsewhere would be inefficient. Taiwan Semiconductor Manufacturing Company (TSMC), based on efficiency and high-skilled, long-hour labour, could make chips faster and more accurately than any rival. Figure 4 illustrates the largest semiconductor manufacturers by market cap and revenue, highlighting that TSMC's revenue exceeds that of the next three largest competitors combined. This highlights the substantial economies of scale that TSMC has achieved.

Fig-4

Countries like the United States and India are now heavily subsidizing the semiconductor industry to promote local production. However, Morris Chang, founder of Taiwanese chipmaker TSMC, estimates that manufacturing costs elsewhere are 55% higher than in Taiwan. This results in a duplication of efforts rather than a simple redistribution of work. Chipmaking giants are concerned about disrupting their advanced manufacturing centres' networks of expertise, potentially losing their technological edge. According to Boston Consulting Group, establishing multiple self-sufficient semiconductor supply chains worldwide would require an investment of $900 billion to $1.2 trillion, with annual operational costs increasing by $45 billion to $125 billion. For consumers, this shift will lead to higher prices for electronic devices and vehicles, as the increased costs of production are likely to be passed on.

The bottom line

As nations navigate this complex landscape, finding a balance between economic security and global trade efficiency will be critical. The current reliance on subsidies cannot persist indefinitely; ultimately, companies benefiting from these incentives will need to compete on their own merits. This transition will be challenging for many firms that have relied on government support and subsidies, as they will now face competition from traditionally profitable players who have thrived without such assistance.

This evolving situation highlights the need for a nuanced strategy that balances both national resilience and international cooperation. The future of global trade will depend on countries' ability to adapt to geopolitical shifts while minimizing negative impacts on consumers and the broader economy.

Sources for figures

Figure-1:

https://www.policyuncertainty.com/india_monthly.html

Figure 2: Bloomberg Terminal

Figure 3: US census bureau

Figure 4: Bloomberg terminal

GEOPOLITICAL TENSIONS AND THEIR IMPACT ON GLOBAL TRADE

Anubhav Dutt
T. A. Pai Management Institute, Manipal

HONORARY MENTION

Abstract:

This article talks about the impact of geopolitical tensions especially on the two ongoing wars – Russo-Ukrainian war and Israel-Hamas war. There are specific areas analysed such as the inflationary impact, trade impact, assessment of the geopolitical scale, issues faced by supply chains around the world, the cyber security issues and the remedies for the same.

Introduction:

On 24th February 2022, when Russian president Vladmir Putin green lighted a "special military operation" as a major escalation of the Russo-Ukrainian war, it not only led to missiles being exchanged between the two namesake countries but also led to revival of phrases such as "Geopolitical Tensions", "Cusp of WWIII", "Slow War" and the list continues. There was further global chaos added when the Israel-Hamas war got a revival.

For a typical bystander, it may seem like a political disagreement-turned-violent between two nations. As per that, the impacts would ideally be centred to the involved nations. But in the post UN era, every slight political disagreement sends jitters down the spine of nations and economies throughout the world. This takes a toll on the various stock exchanges to the supply chain to the employment of labour force around the world.

Inflationary Impact

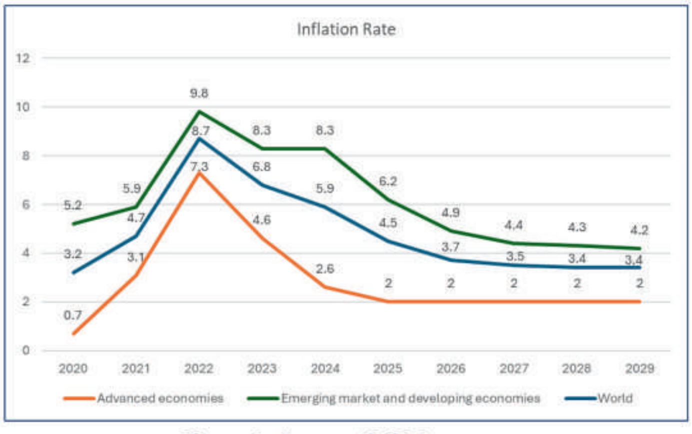


Figure 1: Source -IMF data

From the above graph, the inflation rate of the world, the advanced economies and the emerging economies can be seen. There's a sharp spike in 2022, which can be explained because of the two main wars: Russo-Ukrainian war and the Israel-Hamas war. The inflation rate of advanced economies shot up to 7.3%, that of emerging economies was at 9.7% and the world inflation rate was at 8.7%.

As a result of which, it is taking at least 2 – 3 years to come back to normalcy. While people feared a similar case such as "The Great Depression" would likely occur after a period of high inflation, central banks around the world took strong monetary measures to control inflation within targets and not allow it to go below a certain threshold.

Impact of Geopolitics on Trade

Now let's say you're a company ABC who is trying to expand into other countries. Apart from the regular market research which includes researching about general population of the target country, their likes and dislikes, the average consumer spend and so on and so forth, companies are now accounting for not just geographic distance but geopolitical distance. To put it in context, India and Pakistan are next door neighbours in geographic sense, but geopolitically they fall in the opposite spectrums of agreements. With due credit to the rough history, it can be concluded that the geopolitical distance is "really high" between the two countries.

A popular framework which companies follow is the **CAGE framework** developed **by Pankaj Ghemawat**. The following is the breakup of the framework:
C: Cultural distance - It considers how two countries are culturally different.
A: Administrative distance - This is often taken as a measure of government policies and how friendly are two countries to each other.
G: Geographical distance – This is with regards to the geographical distance between two countries.
E: Economic distance – This considers the difference in economic prowess between the two countries.

The administrative distance is where companies struggle to analyse the situation. Let's take India and China as an example. On paper, there are several agreements signed and China is India's number one trading partner (despite the China plus one strategy). Yet the everyday news and the actions of the respective governments are otherwise. Despite the Indian government's fervent efforts to restrict imports and even banning a few products from China, China is still the foremost trading partner with India. In such cases, companies are stumped on their decision-making.

As a workaround there are a couple of ways through which companies measure geopolitical distance between countries.

A popular measure of geopolitical distance is by using the UN General Assembly voting history. By using the data of the past voting occasions, the number of favourable decisions is taken as a percentage of total occasions. By using that, companies can then consider the geopolitical proximity of countries. But the fallacy of such a measure is in cases wherein two countries take different stances on different issues yet the two can be best of friends but the worst of rivals despite same stances on same issues.

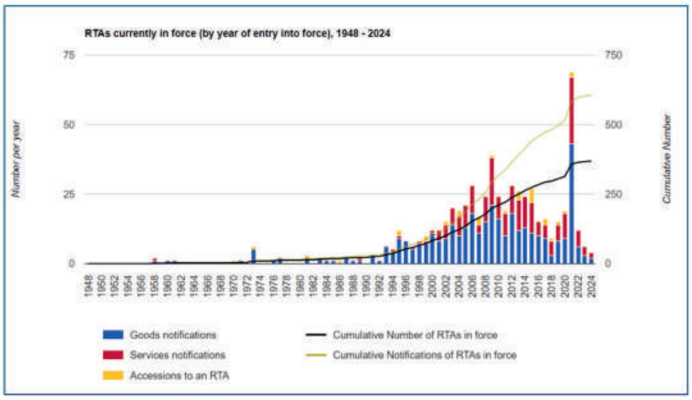


Figure 2: Source-WTO data

Another popular measure is by using the number of Regional Trade Agreements (RTAs) between two countries and likewise other agreements which facilitate trade. But just by going that route, it will seem that the world is an extremely friendly place than it has ever been post the UN era. The number of RTAs notified in the last 4 years is 100. That's 25 RTAs per year and an increment of 20 % from 2020 onwards. **But the ground reality** is that **cohesion among countries have increased** the most since World War 2 with the outbreak of the Russo-Ukraine war and the Israel-Hamas war.

Due to such a lack of geopolitical metrics, companies are in genuine confusion regarding expansionary decisions. This has made companies rethink their entire supply chain which pans across geographic and geopolitical distances.

How are countries currently faring in trade as per the geopolitical scale?

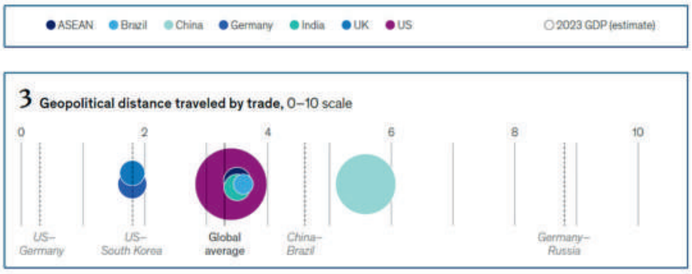


Figure 3: Source- McKinsey Global Institute Report 2024

The above scalar graph was compiled by McKinsey Global Institute in its report titled "Geopolitics and Geometry of Trade".

The chart suggests that large economies such as the US and China trade over wider geopolitical distances. The meaning of it is that the US can be seen considerably in the lower end of the geopolitical spectrum while China is considerably higher than the global average. The reason for such polarising positions in the geopolitical trade spectrum can be attributed to the obvious political viewpoints but also the fact that these nations have strong economic foundations which hold firm, thus ensuring their economic prowess even in cases of "dire times".

Meanwhile, India and the likes of Brazil are more or less lying towards the global average. The reasons are apparent. These nations took a neutral stand i.e. didn't side with either of the polarising views.

But the positioning of nations such as India and Brazil and even Germany, whose trade with Russia remain high due to oil imports, can prove to be troublesome in the near future. These are categorised as one of the economic vulnerabilities of a nation.

The next question arising from this inference would be regarding the steps to securing the exports and imports of your nation. This would lead to securing your supply chain channels or developing resilient supply chains.

How to develop a resilient supply chain?

Before delving into developing a resilient supply chain, let's take a look at the issues surrounding supply chain management (SCM) as result of geopolitical tensions:

1. Higher Costs and Complexity
2. Uncertain certain access to important materials
3. Difficulty in Transportation

Let's understand it through a hypothetical example.

India is one of the largest producers of zinc metal. But zinc being one of the major inputs to infrastructure is held of high importance to a nation's development. As a result, the Indian government has restricted the exports of zinc metal. This highlights the point of "Uncertain access to important materials" from an external nation's point of view looking to import zinc from India. But even after such restrictions, let's assume that the United Kingdom (UK) is importing zinc from India. A map of shipping routes from India to the UK has been shown.

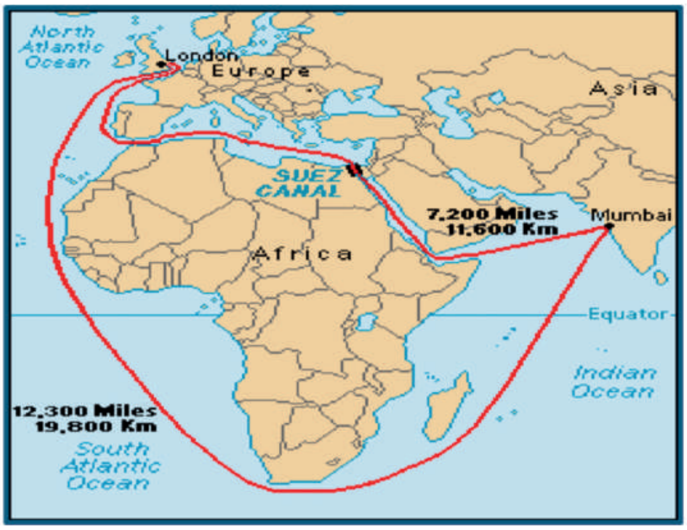


Figure 4: Source- http://geography.howstuffworks.com/africa/the-suez-canal.htm/printable

As per the map, there are two shipping routes wherein one is 11,600 km (7,200 miles) long and the other is 19,800 km (12,300 miles) long. Logically the former is economically, distance-wise and time-wise feasible for shipping companies. But due to the recent **"Suez Canal and the Red Sea crisis"** ships are forced to take the longer route thus increasing costs and complexity. To put it in numbers, a normal freight rate is $2000 but now it is over $8000 as per a recent Economic Times report [1]. This addresses the points of **"Higher Costs and Complexity"** and **"Difficulty in Transportation".**

To address these issues, following are the ways:

1. Multimodal modes of transportation

Countries will have to use not just shipping routes but also flight and land routes to transport their goods to secure their shipment of goods.

2. Nearshoring (Friend shoring)

This concept revolves around trading between friendly nations who are geopolitically and geographically nearby. While this seems like a novel idea made popular due to the **China plus One strategy**, data shows otherwise. Countries are still relying on the same set of countries for trade.

3. Diversifying suppliers

Companies should mirror their supply chain with alternative suppliers to tackle disruptions in their primary supply chain. This follows "Don't put all your eggs in one basket" line of strategy. This includes multisourcing and manufacturing network diversification.

4. Data sharing with suppliers

While this can raise data security concerns, there should be agreements and protocols as part of their contracts to ensure security. This allows suppliers to be updated with real time demand and supply information from end to end.

The last point gives rise to a new set of issues in the global trade which is the issue of cyber security.

How is cyber security impacting global trade?

With rising geopolitical tensions, countries have now resorted to more sophisticated means of attacking nations. In the 21st century of digitalisation, cyber warfare is the buzzword amongst top leaders of nations.

Nations at war are now using cyber warfare to paralyse each other's systems, thus not only disrupting military actions but economic and global trade. Governments have now invested in such services and have helped in creating hacktivism as a profession (hackers with a strong purpose; often referred to as activist) wherein hackers are employed by state governments to disrupt opposing party's systems. One would have often come across headlines such as "Russian hackers have committed a data breach of XYZ nation (often the US for obvious reasons)". To put this in context, let's understand it with the example of 2022 Toyota supply chain data breach.

Toyota accounts for 10% of the global passenger car market in the world ($1.5 trillion as per Precedence Research) which is roughly $150 billion. Kojima Industries is a major supplier of parts to Toyota situated in Japan. This accounts for a third of Toyota's global output - $50 billion. In 2022, Kojima Industries faced a massive cyber attack which led to shutting down of all systems. This bought to a stand still of 28 lines at 14 manufacturing units throughout Japan for at least 24 hours leading to at least a loss of $7 million in a single day. As a result, it put a lot of strain on an already strained global supply chain for automobiles. Reports say that Russians might have been responsible for the attack in response to Japan's promise of a $100 million aid to Ukraine. Such revenge hacking is getting prevalent off late. [2]

To prevent such scenarios from happening following are the ways to ensure cyber security:

1. Implement Honeytokens

Honeytokens are fake resources of an organization which acts as decoys during a cyber-attack. These create alerts for organisation in case of cyber breaches. This helps in systematic implementation of necessary security controls to prevent breaches of actual sensitive data.

2. Secure Privileged Access Management

A few accounts of an organization belonging to important personnel will have access to sensitive data of the organisation. These accounts are said to have “Privileged Access”. When a hacker breaches a system, it laterally traverses to these Privileged Accounts for gaining access to sensitive information. Companies are supposed to secure such accounts with strong cyber security measures. Educating employees about such attacks is often the best way to tackle such scenarios.

Zero Trust as the name suggests “Trust no one”. This even means not trusting your employees let alone outsiders. This is the latest trend in the cyber space as this has proven to be a measure of securing systems and data stored in them. A popular method of implementing ZTA is the Multifactor Authentication (MFA) wherein users will have input a One-time-Password (OTP) sent to them through email or SMS post logging in with their usual usernames and password. [3]

Conclusion

Though the above measures can ensure considerable resilience, a “Black Swan” event can occur anytime-anywhere in the world which can disrupt the operations of a supply chain. However, such cases enable us to further enhance the resiliency of supply chain management by identifying previously unknown vulnerable areas and strengthening them.

References:

[1] S. Khan, “Economic Times,” 30 June 2024. [Online]. Available: https://economictimes.indiatimes.com/small-biz/trade/exports/insights/trade-routes-in-turmoil-why-indian-exports-are-piling-up-in-colombo-and-singapore/articleshow/111275759.cms?giftid=yv83zt9c4bkwhwihn2py50rqnt2g1veo&utm_medium=social&utm_campaign=social.

[2] A. Hope, “CPO Magazine,” 9 March 2022. [Online]. Available: https://www.cpomagazine.com/cyber-security/toyotas-supply-chain-cyber-attack-stopped-production-cutting-down-a-third-of-its-global-output/.

[3] E. Kost and K. Sen, “Upguard,” 22 January 2024. [Online]. Available: https://www.upguard.com/blog/how-to-prevent-supply-chain-attacks.

[4] https://cepr.org/voxeu/columns/how-geopolitics-changing-trade.

[5] https://www.gartner.com/smarterwithgartner/6-strategies-for-a-more-resilient-supply-chain.

[6] https://www.mckinsey.com/capabilities/operations/our-insights/supply-chains-to-build-resilience-manage-proactively.

[7] http://geography.howstuffworks.com/africa/the-suez-canal.htm/printable.

[8] “McKinsey,” January 2024. https://www.mckinsey.com/mgi/our-research/geopolitics-and-the-geometry-of-global-trade.

[9] “World Trade Organization,” 2024. https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx.

[10] “GoComet,” 4 April 2024. https://www.gocomet.com/blog/navigating-supply-chain-chaos/.

NAVIGATING FIRMS THROUGH GEOPOLITICAL TENSIONS

Anusmita Kar
MSIT Kolkata

HONORARY MENTION

Introduction:

It is surprisingly beautiful and strategic- the way the World operates.
Businesses operate smoothly, and firms collaborate and work together without any rivalry. After all, cooperation is the key to a sustainable world, isn't it?

As rose-tinted as my viewpoint as a 20-year- old can be, the World does not necessarily work that way. With several geopolitical dynamics under the wing, the World operates in an unseemingly dangerous way where firms happen to walk on tightropes. The World is as fickle as it can be with little to no safety for firms. This article is about safeguarding firms amid geopolitical rivalries.

Looking Into the Past

History, our timeless teacher, offers us insights into the consequences of geopolitical miscalculations and the rewards of astute tricks.
One sterling example is the Cold War era, where the bipolar world order had firms navigating the treacherous waters between the U.S. and the Soviet Union. The era was marked by embargoes, trade restrictions, and a race for technological supremacy.
Take, for instance, the Swedish telecommunications giant Ericsson.
To remain operating during the Cold War era required a savvy balancing act.
The firm operated in an environment where every decision carried the weight of global politics.
"The Cold War," a standoff between the 'capitalist' West and the 'communist' East, presented a high-stakes scenario for businesses that spanned both spheres. Regardless of the pressure created during the war, Ericsson pulled up "THE NEUTRAL STANCE."
In an era where choosing sides could mean survival or demise, Ericsson's refusal to align directly with either ideological pole was nothing short of audacious. Ericsson became a testament to the power of navigating geopolitical storms with finesse.

Fast-forward to the Present

Now, fast-forwarding to the present,the challenges have only become more complicated. It is tragic, I know!
In the 21st century, firms operate in a world marked by shifting alliances, economic rivalries, and geopolitical uncertainties.
Consider the U.S.-China trade war, where tariffs and trade barriers disrupted the flow of goods, causing ripples across industries from electronics to agriculture.

Fig 1: Cold War era: Soviet Union and U.S.

Navigating this intricate relationship requires firms to tread on eggshells, considering the implications of political decisions on their operations. US-China strategic competition.

The volatile mix of historical conflicts, religious tensions, and geopolitical rivalries complicates the strategic landscape for businesses.
Safeguarding interests in this region necessitates a deep understanding of the local dynamics and the ability to pivot swiftly in response to unforeseen events.
Unresolved conflicts and politics between the two countries set the geopolitical situation into a time loop. With their never-ending political banter, firmsexpect the US-China conflict with its ripple effects to be one of the "Top Geopolitical Risks of 2024."

Partnership for the Win

The intricacies of global geopolitics affecting supply chains do not stop here; firms must master the art of strategic partnerships, like unions and alliances. Unions act as shields against the storm, providing a united front against external pressures. Firms draw out inspiration from the European Union, a formidable alliance born out of the ashes of World War II. This alliance promotes economic cooperation and serves as a bulwark against cliche adversaries. Firms, too, can forge alliances that transcend rivalry, share resources, mitigate risks, and enhance collective bargaining power.

Fig 2: Boeing& Airbus merger

Going into the 21st century, we can consider the Boeing-Airbus merger to represent a significant advancement for the aircraft industry with its research and development initiatives: Boeing and Airbus collaborating for the GEESE and CICONIA projects come with the promise of improving fuel use. Despite being fierce competitors in the aerospace scene, they recognized the mutual benefit of pooling resources to tackle shared challenges such as environmental sustainability and cutting-edge technology development. Such strategic collaborations bolster firms' capabilities and serve as a diplomatic dance amidst geopolitical tensions.

This unexpected alliance is not just about addressing shared challenges; it's a strategic move to navigate the stormy waters of geopolitical tensions.

Risk Management for Customer Satisfaction

Risk management is not a mere subplot but a critical element of the global supply chain scene.
Firms must embrace the art of scenario planning, envisioning multiple futures, and preparing for each eventuality.
Let's see a fresh scenario where proper risk management is required. Take the Red Sea Crisis, for instance. The sudden attack on cargo by Houthis was very uncalled for. With escalating tensions in the Red Sea, the ripple effects reverberate far beyond the immediate confines of the region, shifting the global supply chain dynamics.

As a method of protecting raw materials and goods; shipping firms preferred rerouting through the Cape of Good Hope at the southern tip of Africa. This detour added up to two weeks to journey times, further complicating logistics and exacerbating delays for goods in transit. The shift highlights the lengths shipping companies must go to avoid the hazards of high-risk areas, even if it means enduring longer voyages and increased operational costs.

The shipping firms themselves have varied thoughts. As of 26 December 2023, Danish shipping firm Maersk declared it would resume its Red Sea operations after U.S. led efforts to prevent attacks although it claimed that "the overall risk in the area is not eliminated at this stage", while German shipping firm Hapag-Lloyd preferred testing the waters before using the Red Sea route again as it still found the route "too dangerous." The once nominal insurance risk premiums, comprising a mere 0.07% of a ship's value at the start of December, have surged to between 0.5% and 0.7%. This sharp escalation reflects the growing recognition of the inherent perils associated with navigating through regions embroiled in geopolitical instability. Also, the supply chain and sustainability dynamics are going downhill; with oil prices, freight, and shipping charges on fire, there is no way 'CUSTOMER IS SATISFIED.'

Fig 3: Red Sea Crisis.

Scenario Planning to Save Global Supply Chain

We know that a compass is used in ships, right? Well, scenario planning happens to be the compass in the wake of geopolitical turbulence.

As tensions escalate in the Red Sea, shipping companies face a dilemma. Numerous concerns need to be addressed. Do they risk sailing through troubled waters, facing potential disruptions and soaring insurance premiums? Or do they chart alternate routes, braving longer voyages and increased operational costs? Scenario planning anticipates these moves and counter-moves with foresight and finesse.

For starters, diversification needs to become their best friend. They can explore alternative routes, from the Suez Canal to the Panama Canal, ensuring they have multiple paths to navigate around trouble spots. Next, they can try to level up their defenses with enhanced security measures, from onboard surveillance to armed escorts for high-value cargo. Collaboration becomes the key when forging alliances with other shipping companies and sharing intelligence to stay one step ahead of the game.

In the end, strategic planning isn't just about guerilla tactics; it's also about proactive initiatives to capitalize on emerging trends.

Conclusion

Now that we have come to the end of this article, we can easily say that things we see at the surface level are not what they are. The planet is in a topsy-turvy. That is surely affecting everything from the environment to daily life and businesses.

Achieving global supply chain goals and sustainability for firms is hard in the face of geopolitical bifurcations. Each war has its ripple effects that impact the future to come. Protecting firms in this era of topsy-turvy has become equivalent to playing 6D Chess, and there are no cut-out rules as no one is aware of the uncalled events the future holds for the firms.

References

- Boeing Company; April 12,2023; https://www.boeing.com/features/2023/04/boeing-partners-on- projects-to-make-europes-airspace-smarter-and-more-sustainable
- The Telegraph Online; 08.02.24; Show sensitivity to exporters in view of Red Sea crisis: Finance Ministry to public sector banks; https://www.telegraphindia.com/business/show-sensitivity-to-exporters-in-view-of-red-sea-crisis-finance-ministry-to-public-sector-banks/cid/1999155
- Top Geopolitical Risks of 2024, S&P Global; https://www.spglobal.com/en/enterprise/geopolitical-risk/
- Strategy in a Hyperpolitical World, Roger L. Martin and Martin Reeves, 2022; https://hbr.org/2022/11/strategy-in-a-hyperpolitical-world
- Pic reference 1:https://cdn.britannica.com/39/61239-050-2ECF086D/troops-Czechs-Soviet-Prague-forces- Czechoslovakia-reform-August-21-1968.jpg (src: Brittanica)
- Pic reference 2: https://www.boeing.com/content/theboeingcompany/us/en/features/2023/04/boeing-partners-on-projects-to-make-europes-airspace-smarter-and-more-
- sustainable/_jcr_content/root/container_455971095/container/image.coreimg.85.1600.jpeg/169662505 5941/future-mobility-630x504.jpeg (src: Boeing Company)
- Pic reference 3: https://www.eurasiareview.com/wp-content/uploads/2024/01/b-66-800x445.jpeg (src: Eurasia Review)

Born of a visionary spark in 2016, TAPMI Journal of Economics and Finance ignited student minds. Through platforms like the "Breakfast Mailer" and the "TJEF Research Journal," it fanned the flames of curiosity and scholarship, empowering voices to shape the future of finance, one brilliant idea at a time.

2024

Exploration never stops!

Contact Us

TJEF

Write to us at: tjef@tapmi.edu.in
Or login to: www.tapmi.finance

T.A. Pai Management Institute
Manipal-576104
Karnataka, India

Ankita Kumari | Arjun S Nair | Chourasia Anshul | Fayaz Sajan | Mugilganesh RM
Sadrush Mallar | Sagar Fotedar | Sai Janani | Sohoam Chakraboty | Sowmika Reddy
Sree Lakshmi M | Swetha TM