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## “Global Value Chains in a Brave New World of Geopolitics”

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### Abstract

This article advances that global value chains (GVCs) have tightened economic interdependence in recent decades and contributed to economic development in both industrialized and industrializing states. Yet we have entered an era when GVCs are primarily perceived as underpinning a country’s economic prowess and its ability to leverage those technologies into military hardware and software, thus embodying hard and soft power. While providing a framework for understanding the domestic sources of this protectionist shift, the article analyzes the evolving GVC landscape since the onset of the trade and technology war between the US and China. It finds that GVCs remained rather resilient to geopolitical and pandemic shocks until Russia’s 2022 assault on Ukraine. The latter dealt the deepest blow thus far to prospects of maintaining the ante-bellum GVC structure. China’s policy marathons and sprints towards maximizing GVC self-reliance—especially under Xi Jinping—triggered reactions by the US and allies. The battle over GVCs is far from over, its scope remains undefined, and its effects are even harder to estimate. Whether or not this battle enhances hard power, it may also unleash potential tradeoffs between hard and soft power. 188 words

**Keywords:** global value chains, global supply chains, geopolitics, protectionism, relative gains, decoupling, reshoring, technology

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## I. INTRODUCTION: Global Value Chains, Power and Interdependence

This article advances that global value chains (GVCs) have tightened economic interdependence in recent decades and contributed to economic development in both industrialized and industrializing states. Yet we have entered an era when GVCs are primarily perceived as underpinning a country's economic prowess and its ability to leverage those technologies into military hardware and software, thus embodying hard and soft power. While providing a framework for understanding the domestic sources of this protectionist shift (section II) the article analyzes the evolving GVC topography since the onset of the trade and technology war between the US and China (section III). It finds that GVCs remained rather resilient to geopolitical and pandemic shocks until Russia's 2022 assault on Ukraine. The latter dealt the deepest blow thus far to prospects of maintaining the ante-bellum GVC structure. China's policy marathons and sprints towards maximizing GVC self-reliance—especially under Xi Jinping—triggered reactions by the US and allies. The battle over GVCs is far from over, its scope remains undefined, and its effects are even harder to estimate. Whether or not this battle enhances hard power, it may also unleash potential tradeoffs between hard and soft power.

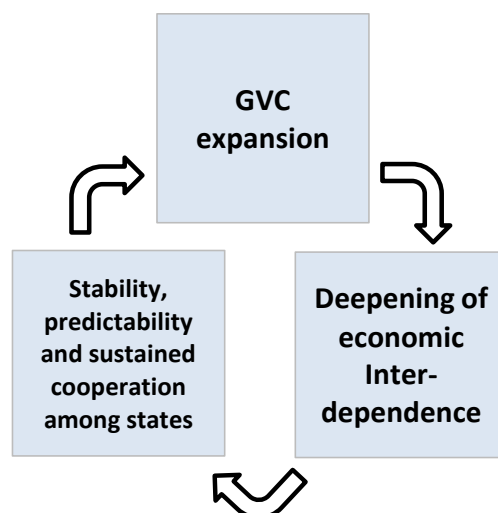
Global value chains (GVCs) are networks that spread the full range of tasks related to research and development (R&D), production, and marketing of products and services over several countries, from design to end use and beyond. Each stage or task contributes some “value-added” to the final product, leading to so-called “Made in the World” goods that can have hundreds of inputs from different countries. These intermediate goods crisscross borders several times over to be assembled into a final product. GVCs capture a complex network structure of flows of goods, services, capital, and technology across borders (Solingen 2023). Although these are private networks connecting multinational corporations with their global suppliers, theorists of international relations can also conceive of them as forms of hard and soft power. GVCs, especially in high technologies such as semiconductors, quantum computing, or optics, underpin a country's economic prowess as well as the ability to leverage those technologies into military hardware and software embodying hard power. Some, including China's Xi Jinping, consider even less complex GVCs, in food production for example, as form of hard power and self-reliance. The dominance of GVCs in

many other domains, from social media like TikTok to popular culture and entertainment, may also be seen as soft power or a deployment of GVCs to cultivate cooperation and induce alignment (Gallarotti 2022).

This interpretation of the role of GVCs in international relations is gaining currency due to recent developments in real world politics and in the analysis thereof. For many years GVCs were primarily the subject of study in economics and management; over the last decade or so they attracted more interest in international political economy but were less a focus of dedicated attention in international security. Undoubtedly, GVCs have tightened economic interdependence among states and contributed to economic development in both industrialized and industrializing states, especially over the last thirty years (*GVC Development Reports* 2017, 2019, 2021, 2023). According to a prominent theory in international relations, such interdependence lubricates wider inter-state cooperation, spilling over into other issue-areas--such as security--by inducing caution, nurturing stable relations, and strengthening collective incentives to minimize militarized conflict (Solingen 2021; Solingen, Meng and Xu 2021). Theoretically, such effects should apply even to complex GVCs binding states in ways that transcend classical trade or financial interdependence.<sup>1</sup>

Reciprocally, geopolitical stability, predictability and cooperation among states arguably enable the further expansion of GVCs. It would be hard to imagine the dramatic growth of GVCs across the Asia-Pacific and East Asia, especially between 1990 and 2008, against the scenario of violent wars that has characterized other world regions or, indeed, East Asia itself in earlier times. Notwithstanding lingering historical tensions and rivalries, East Asia's relative peaceful evolution in recent decades has facilitated the broadening and deepening of GVCs and economic interdependence since the 1990s (Figure 1). In this virtuous circle, GVCs expand economic interdependence, reinforcing sustained cooperation, stability, and predictability. The latter, in turn, enables further GVC expansion. Global regions with much lower GVC density than East Asia, such as the Middle East, Latin America, and Africa have experiences higher levels of internal and interstate conflict (Solingen 2007).

Figure 1: "Virtuous circle:" GVCs, economic interdependence, and geopolitical stability



## II. Sources of GVC as Instruments of Hard and Soft Power:

Whatever underpins the dynamics of the virtuous circle above, i.e. the interaction between deepening economic interdependence and the avoidance of armed conflict, resides largely in the *outward-oriented political-economy strategies* that Japan and other East Asian states adopted over decades, with notable exceptions.<sup>2</sup> Those strategies emphasized access to global markets, capital, and technology; regional cooperation and predictability; and domestic macroeconomic stability that reduces uncertainty, encourages savings, enhances foreign investment, and fosters insertion in GVCs. Historically, prior to the 1980s, armed conflict in the industrializing world had compromised those synergies in East Asia, fueling unproductive and inflationary military expenditures, protectionism, and the under-development of private entrepreneurship under a mantle of “national security.” The persistence of outward-oriented strategies across East Asia has thus been considered the foundation for securing investments to revitalize GVC growth; for improving business climate and connectivity; for reducing trade and investment barriers; enhancing growth; generating better jobs; reducing poverty; and securing the political survival of leaders presiding over these strategies. Analyses from various international economic institutions conclude that GVCs contribute to such outcomes provided industrialized countries maintain open economies and industrializing countries implement deeper reforms that promote GVC participation while advancing multilateral cooperation (*GVC Development Reports 2019, 2021, 2023*).

By contrast, “inward-oriented” strategies emphasizing hyper-nationalism, self-sufficiency, and protectionism have been inimical to GVCs and typically constitute the deeper political sources associated with armed conflict in various world regions. Inward-oriented strategies have fueled trade wars, geopolitical and geo-economic concerns, mounting protectionism, and boycotts. Export restrictions have increased the challenges and risks to the unimpeded operation of GVCs, threatening to disrupt the benefits they had helped generate in the past. These contentious trends include escalating efforts to maximize relative rather than absolute gains from participation in GVCs. The pursuit of relative gain—and relative power—is especially associated with competition among states geoeconomically and geopolitically. Whereas distributional considerations—among industrialized and industrializing states, among world powers, and even among allies—are inherent to the study of international relations and international political-economy, not all theories privilege relative gains or relative power. The latter, however, are a staple of neorealist theories that belittle the virtuous circle depicted in Fig.1. Concerns with relative gains are not a novel occurrence but one with deep historical roots and worth revisiting in this critical era for GVCs. Clearly, the “virtuous circle” may easily turn into a vicious one if the spiral is reversed, as some fear may be the case in contemporary world order.

It should be clear by now that GVCs are not the product of proverbial invisible hands; states control the regulatory, scientific, technological, educational and other policies that affect the development or atrophy of GVCs. “Outward-oriented” and “inward-oriented” strategies can be thought of, respectively, as the causal mechanisms underpinning both the expansion and potential retraction of GVCs. Yet the political competition between these ideal-typical strategies—outward versus inward-oriented—takes place *within* states as well. Weberian (1949) ideal types are not true realities but abstract analytical constructs against which real empirical cases can be compared. Hence, driven by internal political competition between the two strategies, states fall closer to one end of the spectrum or another at different points in time. The deeper origins of the varying proclivities of states to embrace or discourage interdependence via GVCs thus stem from the disparate political incentives underlying two contrasting domestic political-economy strategies, each yielding different domestic distributional consequences. Operating as transmission belts between the global and domestic economies, competing domestic political coalitions aggregate state and private actors, defining the kinds of links to the global economy that best serves their political survival

(Solingen 2014). Internationalizing coalitions thrive with increased engagement in the global economy, inward-oriented ones with decreased engagement and self-reliance. Coalitional balances of power within and across states thus have implications for states' tolerance to high interdependence via GVCs and the risk of war respectively.

East Asian states leaning towards outward oriented strategies have achieved higher levels of growth, employment, income, technological development, export diversification, global access, and tax revenues, endowing their governments with derivative political benefits. Foreign technology--via the unbundling of capital, technology, and management--- enabled remarkable growth in R&D and human capital (Baldwin 2016; Inomata and Taglioni 2019). Theories of international power could not ignore the fact that outward-oriented strategies endowed these states with abundant additional power. As technology and innovation became ever more central to growth, the opportunity costs of substituting a budding GVC infrastructure arguably rose or at least became far higher than was the substitution of trade in final goods and portfolio investments in earlier eras, such as prior to both world wars in the 20<sup>th</sup> century and in many other regions around the world til today. GVCs connected East Asian economies in more intricate patterns that enabled them to transcend erstwhile armed hostilities and residual animosities.<sup>3</sup>

Despite a secular persistence of a modicum of "techno-nationalism" (Cheung 2022) an otherwise perennial fixture of inter-state relations, the search for technological supremacy was relatively subordinated to the modalities and objectives of political survival described above for "outward-oriented" ruling coalitions. Hence, not all states exploit asymmetries from economic exchange to enhance their relative power (Hirschman 1945, 1980). Furthermore, outward-oriented strategies typically rely more on multilateral mechanisms to redress grievances and ensure reciprocity than on unilateralist coercive statecraft. Asymmetries were always recognized but they were typically superseded by incentives to converge on maximizing absolute gains. Asymmetries could be offset by an explicit or implicit consensus that, while peace and stability fostered GVCs, militarized conflict would wreak disruption, economic decline, vast unemployment, and political upheaval, thus threatening the political survival of outward-oriented strategies. Conversely, more recently, techno-nationalism has become, in many cases, the singular most critical vector underlying the quest for higher value- added (VA) within GVCs. The rise of inward-oriented strategies has brought asymmetries in trade balances, barriers to market access, tariffs, subsidies, and industrial policy back to

the fore along with concerns over relative gains (who gains most), raw distributional considerations, and real or presumed risks to national security. Inward-oriented, hypernationalist strategies benefit politically from rejecting, restricting, or disrupting GVC interdependence, considered anathema to self-reliance. Techno-nationalist, protectionist, and populist policies aim at substituting foreign sourcing and offshore production with domestic production and seek to retract GVCs from perceived adversarial suppliers of intermediate goods and services, a trend that has intensified in recent years.

Turns to inward-oriented strategies are thus the deeper sources underlying contemporary trade and technology tensions. Nowhere is the concern with relative gains more prominent than in technology, where competition has been a staple of geopolitics since time immemorial. Contemporary GVCs, however, are particularly associated with technology diffusion by lead firms and knowledge spillovers via forward and backward linkages (Piermartini and Rubinova 2020). Hence inward-oriented strategies emphasize risks *from*—rather than risks *to*—GVCs, especially risks associated with diffusion of strategic technologies, leading to efforts to prevent such diffusion via export controls, foreign investment screening and other mechanisms. After all, technological diffusion can erode the commercial leads—and hence the perceived overall power—of technology suppliers (Vernon 1970; Gilpin 1975). The reversal of the virtuous circle creates a strategic dynamic whereby the expectation of conflict diffuses across states, feeding the well-known security dilemmas that make conflict only more likely.

The contemporary rise in geopolitical tensions, trade wars, sanctions, and other instances of counterproductive economic statecraft had already introduced higher than normal risks to the operation of GVCs, well before Covid-19.<sup>4</sup> This process started nearly a decade prior to Covid-19, when China wielded the threat of discontinuing supplies of rare earths to Japan in 2010 in the context of their dispute over the Senkaku/Diaoyu islands. It accelerated under Xi Jinping's creeping "inward-oriented" policies since 2012, especially his Made in China 2025 project, launched in 2015, seeking to reduce China's dependence on foreign technology and enhance its self-reliance, all the while creating more dependence on China—as the leading powerhouse—by the rest of the world. Other related initiatives followed, including the Belt and Road Initiative designed to export China's excess capacity while turning countries more dependent on its exports. China's policies of self-reliance triggered—in classical diffusionary fashion, responses by other countries, including the US. Yet it wasn't until the Trump administration that the US imposed the



2018 tariffs, which in turn, led to China's doubling down on self reliance by invoking a "dual circulation" strategy geared to minimize dependence on foreign markets while turning itself into an indispensable source for as many industrial products as feasible. The Biden administration responded with an array of export controls and policies designed to minimize GVC reliance on China, especially in strategic sectors. The next section describes in greater detail the evolution of the GVC topography in light of these geopolitical shocks and their relative resilience to successive shocks.

### **III. An Evolving GVC Topography Under Geoeconomic War and Covid-19**

The rapid progress in transportation, information and communication technologies allowed GVCs to carve out production stages so that each stage takes place in localities and countries best positioned to accomplish the particular task at highest levels of efficiency. This division of labor, with firms specializing in particular segments of production that optimize their resource allocation, is anathema to the kind of international relations envisaged by Waltzian neorealism. Until quite recently, under the interdependent virtuous circle, just-in-time production largely discounted risk from pandemics, natural disasters, border closings, and other external shocks. Lead firms, mostly from advanced economies, pursued their vested interest in promoting collaboration and coordination among their transnational business partners, a strategy that enhanced the value of their own productive assets (e.g. intellectual property rights).<sup>5</sup> These features generated much tighter levels of interdependence than those envisaged in traditional arguments in international relations hinging on Ricardian international trade in final products ("Portuguese wine for English cloth").

More recently, as section II outlined, geopolitical tensions, trade and technology wars, and economic statecraft introduced unprecedented levels of risk into what used to be the standard operation of GVCs. The Covid-19 shock exacerbated those risks, making it harder to apportion the relative effects of geopolitical tensions, the pandemic itself, and the higher incidence of extreme weather respectively on the political topography of GVCs in recent years. The process of GVC reorganization is a moving target, non-linear, and not fully measurable; where statistical data on GVC trade may be available it is also contested. Some trends are becoming evident, however.

With relative gains as the animating principle underlying economic exchange, inward-oriented strategies generate geopolitical risks that affect GVCs through supply, demand, or both through the following mechanisms: magnified generalized uncertainty; reduced trust in GVC integrity; diluted expected benefits from GVC participation relative to political or economic costs; potential for retaliation; spillover upstream and downstream across GVC nodes; and decreased movement of people and expertise throughout GVC networks (Solingen, Meng and Xu 2021).

We have observed some GVC resilience to geopolitical shocks in recent years. On the one hand, Schultz (2015) surmised that the 2012-2013 tensions surrounding the Senkaku-Diaoyu dispute between Japan and China, and the subsequent reduction in Japanese FDI and boycotts were short-lived, and that economic interdependence between Japan and China was restored (Katada 2020). Japan redeployed some GVCs to Southeast Asia in the aftermath of those events but, as Katada et. al. (2023) report, both Japan and South Korea had only limited success in motivating businesses to reshore since 2010. More recently, routine confrontations triggered by China's adversarial forays into disputed waters in the South China Sea and East China Sea have recrudesced, significantly amplifying the risks to GVC interdependence relative to the past. China's response to South Korea's introduction of the THAAD missile system in 2016, renewed historical tensions between South Korea and Japan and disruptions of GVCs connecting South Korea with Japan in the smartphone and consumer electronics sector led South Korea to identify items targeted for localization to reduce supplies from both China and Japan (Moon 2021).

The evolution of lead firms' responses to rising geopolitical risks since 2018 does reflect signs of GVC resilience and adaptation. A survey of large US companies in China found that most firms had mitigated the effects of the US-China trade dispute by adopting "in China for China" strategies (AmCham 2019) and over 70 percent had no plans to relocate production or supply chain operations outside of China (AmCham 2020). Only about 20 percent planned relocating manufacturing or sourcing outside China in 2019 (fewer than in 2018), although an additional 19 percent considered it. Rising labor costs in China underlined a trend by Japanese, South Korean, Taiwanese, and Chinese firms to shift some production and final assembly to Southeast Asia, especially Vietnam, and to Mexico and India, even before the pandemic shock.

Covid 19 affected GVCs through declining production due to reduced labor-force, spillovers upstream and downstream especially among economies with high GVC trade; and other contagion and reverse-supply-chain-

contagion waves (Solingen, Meng and Xu 2021). Lockdowns and border closings reduced GVC operations, efficiency, and productivity. There was rising demand for information and communications technology and online services due to the acceleration of remote working; rising demand for medical equipment and pharmaceuticals; and contracting demand for air travel, tourism, and restaurants. This period led to significant investments by firms in increasing resilience by adopting automation and digitalization, diversifying suppliers, expanding inventories, capacity buffers, encouraging redundancies and “just in case” (rather than “just in time”) operations, regionalization, nearshoring, increasing transparency and accurate mapping to facilitate timely substitution, and efforts to reduce dependency on any single country for production or sourcing. More firms adopted plans to relocate production or sourcing outside China in late 2020 than in 2018 (AmCham 2021). Developing Asia captured about 60% of favored destinations in 2019, declining to about 40% in 2020 (AmCham 2021).

Geopolitical tensions, including those surrounding the origins of Covid-19, compounded firms’ incentives to minimize risks. US-China tensions were the most important reason for considering relocation for 66% of firms in 2020, followed by an uncertain policy environment and risk management (AmCham 2021). Focusing more directly on the geopolitical dimension, 66 percent deemed US-China decoupling to be “impossible” in 2019 but only 44 percent found decoupling impossible by March 2020. In late 2020, for the first time, rising US-China tensions became the number one challenge for 78% of firms across all industrial categories and services, with about 50% expressing pessimism regarding US-China relations and 92% of US companies projecting a quite likely or very likely escalation in US-China trade disputes over the next 3 years (AmCham China 2021; AmCham South China 2021). While about 96 per cent of US-based companies and 100 per cent of Europe-based companies listed China as one of their top three sourcing countries in a 2019 survey, only 77 and 80 percent respectively did so by March 2021.<sup>6</sup>

Nonetheless, there was nothing resembling a GVC bifurcation into competing geopolitical camps at that point. China’s domestic market remained a powerful source of attraction. Including additional intermediary countries into the GVC network appeared to soften extreme *direct* dependence on China during this period, though not necessarily indirect, via third parties. While GVCs amplified the impact of geopolitical shocks upstream and downstream, which was part of the problem with these networks, GVCs also helped mitigate them, turning them also into part of the solution. Hence, firms’ investment in resilience continued and reshoring was hardly the standard GVC

response at that point. Surveys suggested a marginal decline in China's status as factory of the world relative to the 2010s, but hardly its demise. However, as noted, turning GVCs into weapons for maximizing relative gains and power via coercive statecraft had contagious effects. Despite relative continuity and resilience in GVC trade between 2018 and 2021, Solingen (2021) projected a nontrivial likelihood that geopolitics, technology competition, and the legacy of Covid-19 *might* unleash more sizable disruptions in the global geography of production. That scenario did not take long to arrive.

#### IV. GVCs Under the Fog of the Ukraine War

Nothing multiplied existing risks to GVCs as Russia's invasion of Ukraine, with significant potential for unleashing faster and furious contagion effects and casting uncertainty regarding longer time-horizons. Russia's 2022 assault on the Ukraine dealt the deepest blow to prospects of maintaining the ante-bellum GVC structure. China's "no limits" embrace of Putin further heightened the sense of risk worldwide, acting as a transmission belt of risk from Europe to Asia and elsewhere, an externality of the Ukraine war. Global firms began drawing equivalences between autocracies in Russia and China, forcing them to adjust their conceptions of risk. There was an uptick in discussions of offshoring, reshoring, and nearshoring in US corporate boards in the immediate aftermath of Russia's onslaught, higher than at any time. Putin's threats to neighboring states and NATO allies revived even the ultimate risk: nuclear weapons' use.

The Taiwan conundrum played a special role in heightened uncertainty and operational risk (Kastner, Pearson and Rector 2022). Other geopolitical challenges throughout the region became more pronounced than at any time in the preceding decades. A European Union chamber's survey revealed that just 11% of firms considered moving out of China in February 2022, prior to Russia's invasion, doubling to 23% by April 2022, the highest in a decade.<sup>7</sup> By mid-2022 only 17% of US firms saw China as their top priority market, an all-time low, down from 27% in 2021.<sup>8</sup> About 40% planned to move investments out of China in 2022, a record high, and 60% cited US-China tensions as a key challenge and reason for moving GVCs elsewhere.<sup>9</sup> As a result, firms' uncertainty peaked, bringing the risk of GVC and FDI fragmentation worldwide to critical levels according to Georgieva et al. (2022) and the [2023 IMF World Economic Outlook](#). [Goldberg et al 2023](#) defined Russia's invasion as *the* catalyst for a new phase in

globalization/de-globalization. [According to the WTO](#), the proportion of surveyed firms who reported purchasing political risk insurance nearly trebled from 25% in 2019 to 68% in 2023.

The proportion of firms predicting that decoupling from China would increase trebled from 12% in 2022 to 42% in 2023. The March 2023 AmCham China business climate survey found that, for the first time, China was no longer a top three investment destination for more than half of its members, mostly blaming China's business climate. Respondents identified the top three barriers to innovation to be technology decoupling, restrictive cybersecurity policy, and insufficient IP protection.<sup>10</sup> A growing number—now about 25%-- considered relocating manufacturing or sourcing out of China, citing "risk management" as their most important reason. China's data localization and other cybersecurity requirements further increased uncertainty—and costs, along with China's raids on due diligence firms, rigid capital controls, and strict new laws for data and anti-espionage—all of which makes almost every activity subject to arbitrary punishment. A WTO (2023) study predicted severe declines in real GDP with both partial and more extreme fragmentation, with least developed and developing economies most affected, all relative to a scenario of re-globalization, where everybody would gain. The opportunity costs of foregoing re-globalization were estimated at about 8.7 % of real GDP at the global level.

A survey conducted in late 2023 reveals that 57 percent of firms were "uncertain" or lacked confidence that the Chinese government would open China's market to foreign investment over the next three years.<sup>11</sup> About half of all firms now ranked China among the top three investment priorities in the near term, again. However, about half planned either no expansion of investments in China or a decrease in such investments. The primary concern of firms polled remained rising tensions in US-China relations, yet only 77 percent were considering relocating manufacturing or sourcing out of China in 2023, ahead of declining performance by China's economy and ahead of Donald Trump's election as next president. For the 23 percent considering relocation out of China, about 41 percent had developing Asia in mind as a destination (India, Vietnam, Thailand, Indonesia, Malasia, and others) and 16 favored reshoring to the US.

## **V. Implications for Hard and Soft Power**

The battle over GVCs and control of 21<sup>st</sup> century standards have implications for hard power, especially as technologies such as quantum computing, artificial intelligence and others bear progressively more on military-strategic dominance. The battle has also been reflected in a competition for soft power, namely the respective merits of the liberal-democratic model—which engendered the bulk of lead GVC firms—versus China’s autocratic and statist model. China has sought to promote its own blueprint via its Belt and Road Initiative even prior to the onset of the trade and technology war (Shih 2021; Kastner and Pearson 2021). This battle over soft power is deployed worldwide in the GVC realm no less than in the hallways of international institutions. GVCs entail both tangible goods (e.g., physical parts and components) and intangible ones (e.g. R&D, branding, services), transcending the hard power-soft power continuum (Gallarotti 2022).

The upshot of the competition for models and standards embedded in GVCs cannot be gauged easily, as it entails continuous and non-linear diffusion, emulation, contestation of different political-economy models around the world and the futility of erecting firewalls against diffusion in some cases (Solingen 2012). One gauge of how the ongoing battle over GVC reordering between the US and China may have affected their standing around the world can be gleaned from Pew Research Center probes. The July 2023 survey showed levels of unfavourability of China’s *policies* in 24 countries to be especially high throughout Europe (in the 80% range), East Asian democracies and India but less so among BRICS and other industrializing states. Very few in that sample favor China most (over the US), largely in the single digits even across Africa or Latin America. [Median confidence in President Biden](#) in those countries was 54 percent to 19 percent for Xi Jinping. Negative views of China in Japan were already highest by 2021, with 90.9 percent stating that their impression of China was “not good.”<sup>12</sup>

What these surveys actually reflect can be elusive, ranging from full endorsement of one political economy model over another, crude assessments of which model is deemed more successful, estimations of relative power backing the success of one model or the other, or opinions more related to Xi Jinping’s policies than China as a whole (Gallarotti 2022). Josep Borrell, the EU’s high representative of foreign affairs, spelled out clearly that Beijing’s “ambivalent position” on Russia’s invasion of Ukraine had hurt its image in Europe. The EU also accelerated policies related to due diligence standards on human rights affecting GVCs, an issue that relates to the Chinese government’s treatment of its Uighur population. According to UNCTAD data, of the \$1.2 trillion in greenfield global

FDI invested in 2022, nearly 180 billion shifted from countries that refrained from condemning Russia in the United Nations General Assembly to those who did.<sup>13</sup>

China's conspiratorial wolf-warrior diplomacy deployed to counter the effort by democracies to restrict technology transfer via GVCs is an example of the "dark side" of reliance on presumed soft power (Marlin-Bennett 2022). Kim et al. (2023) argue that the rise in China's reliance on food import restrictions can be traced both to China's effort to punish countries for policies it dislikes as well as to Xi-Jinping's policies of increasing domestic substitution of food inputs. From Norwegian salmon in 2010, bananas from the Philippines in 2012 and 2016, Mongolian beef and mutton in 2016, South Korean food imports in 2017, Australian barley and wine since 2020, and other boycotts of Taiwanese and Lithuanian exports, China punished especially smaller countries for pushing back on China's maritime and territorial expansion, for calling for greater transparency on the origins of Covid 19, or for invitations to the Dalai Lama. Following Putin's invasion of Ukraine, China's wolf-warrior diplomacy intensified, aggravating its promotion of disinformation to undermine democracies, massive cyber-attacks and industrial cybertheft; its efforts to block critical inputs upon which GVCs depend; violations of intellectual property rights; and increased gray zone and outright military activities.

As a result, despite significant uneasiness from rising protectionism under the first Trump administration, more European and East Asian allies gravitated towards increased support for the Biden administration's export controls, technology denial, and investment screening mechanisms. Even those resisting decoupling from China embraced a policy of "de-risking," somewhere between containment and engagement, a "congagement" that still required mutual transparency and compliance with WTO commitments and market access. As for how the US could reach such a balance, Bown and Irwin (2021) argued that "an industrial policy that is entirely domestic may actually backfire. Instead, to succeed, it will take ...a hybrid industrial policy," one that integrates good aspects of globalization, preserved competition and coordinated policy with like-minded countries while pursuing more geographic diversification, avoiding bidding wars and massive subsidies that yield excess capacity and trade disputes.

In sum, despite intermittently sliding into internal disagreements, and despite intense efforts by China's diplomacy to widen the gap among them, like-minded allies have achieved significant levels of convergence vis-à-vis

China and the restructuring of GVCs. China's soft power within the context of industrialized democracies has declined significantly. At the same time, some industrialized and various industrializing countries reject any imposed choice to side with one side or another. Some prefer to play both sides for advantages, as Mexico, Turkey, Vietnam, and Indonesia, among others, have done. Others are strongly aligned with China and under the shadow of its hard power and soft power, via GVCs, natural resources, or weapons. Most US allies would prefer that the US joins the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), encourage new trade agreements, and restore its overall commitment to freer trade. It is yet unclear where US policies under Trump will lead in 2025 and where China's efforts to maximize self-reliance are headed, regardless of Trump's initiatives. As Malkin (2020) suggests, the Made in China 2025 and related industrial policy—preceding the first Trump administration-- aimed at actualizing China's structural power potential (in Susan Strange's sense). In so doing, however, those plans may have planted the seeds of their own demise.

The overall analysis in this article suggests that the battle over GVCs seemed far from over, its scope undefined, and its effects hard to estimate even before the 2024 US elections. GVCs are bound to enter a new phase in the brave new world of geopolitics, where the battle over GVCs as hard power may continue to extract tradeoffs between hard and soft power, for all sides.

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## ENDNOTES

<sup>1</sup> For an important critique of simplistic assumptions that trade invariably promotes peace, see Barbieri (2005).

<sup>2</sup> On the economic strategies and their implications for regional and international politics, see Solingen (2001).

<sup>3</sup> On political incentives of outward-oriented political leaders to tame conflict, see also Kastner (2007) and Katada (2020).

<sup>4</sup> David Baldwin (1985/2020) defines economic statecraft as the use of economic means to pursue foreign policy objectives--whether noble or nefarious--and distinguishes it from other forms of statecraft, including diplomacy, military statecraft, and propaganda. On the diverse shocks to GVCs over the last decade, see Solingen, Meng and Xu 2021 and Solingen 2023)

<sup>5</sup> The US dollar underpinned four fifths of this global GVC trade.

<sup>6</sup> Cissi Zhou, "Global supply chain continues to shift away from China, but it remains the top sourcing location," *South China Morning Post* 30 April 2021.

<sup>7</sup> [Business Confidence Survey 2022](#), European Union Chamber of Commerce in China; [European Business in China Position Paper 2021/2022](#), European Union Chamber of Commerce in China.

<sup>8</sup> [China Business Report](#), The American Chamber of Commerce in Shanghai 2023.

<sup>9</sup> US-China Business Council survey August 2022.

<sup>10</sup> [China Business Climate Survey Report 2023](#). American Chamber of Commerce in China. March 2023.

<sup>11</sup> AmCham China's [2024 China Business Climate Survey Report](#).

<sup>12</sup> Laura Zhou, [In Japan, the view of China is gloomier as perceptions of threat grow](#). *South China Morning Post* 21 October 2021.

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<sup>13</sup> Shawn Donnan and Enda Curran, [“The Global Economy Enters an Era of Upheaval.”](#) Bloomberg 18 September 2023.