Issues Note

Friendshoring: Be Careful What You Wish For

The term "friendshoring" was shaped by US Treasury Secretary Janet Yellen in a speech at the Atlantic Council in April 2022 when she talked about "moving supply chains to a large number of trusted countries". "Friendshoring" puts a name to a trend well underway in both the US and Europe: The COVID-19-pandemic that led to a disruption of supply chains and Russia's aggression against Ukraine flanked by the attempted blackmail of Western trade partners put existing trade and investment patterns into question. Against this background, "friendshoring" may serve as an instrument to decrease risks by relying on like-minded countries that are perceived as politically and economically safe.

However, the concept is itself not risk-free and raises several questions. These relate to the definition of "friends", the compatibility with WTO rules, the treatment of digital flows and the options states and international institutions have to influence businesses' supply chains. As regards the latter, the European Commission put forward a proposal on Corporate Sustainability Due Diligence on 23 February 2022. It aims to strengthen companies' responsibility for the respect of human rights and labour standards along supply chains.

"Friendshoring" also raises concerns of new bloc-building in international trade and investment. According to the IMF, FDI fragmentation and the rise in cross-bloc barriers could curb global GDP by 2 % in the long run. Looking at the trade side, the WTO warns that de-coupling could shrink global output by 5 %. Ahead of a visit to China in April, Commission President Ursula von der Leyen stressed that the European way forward is rather "de-risking" than "de-coupling". An instrument for de-risking is the Raw Materials Act that the European Commission tabled on 16 March 2023. It sets out that by 2030 not more than 65 % of the Union's annual consumption of each strategic raw material should originate from one single country. In that way, the EU wants to reduce existing dependencies and improve the refining, processing and recycling of critical raw materials in Europe with a view to achieving the green transition. In order to further diversify the supply of critical raw materials, the EU is keen to make new friends by advancing its network of trade agreements all over the world.

Questions for discussion

1. *Will "friendshoring" be able to provide a boost to the EU's drive to maintain its position as a leader in net-zero technologies? To what extent can businesses be pushed to „friendshore"?*

2. *What risks do we need to mitigate when pursuing the concept of "friendshoring"?*

3. *Can resilience and free trade co-exist? Or in other words: Is „friendshoring" a threat to multilateralism?*

Source: European Commission (2023)