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# T20 Policy Brief

Task Force 04

**TRADE AND INVESTMENT FOR SUSTAINABLE AND INCLUSIVE GROWTH**

## Supply Chains for the Global South

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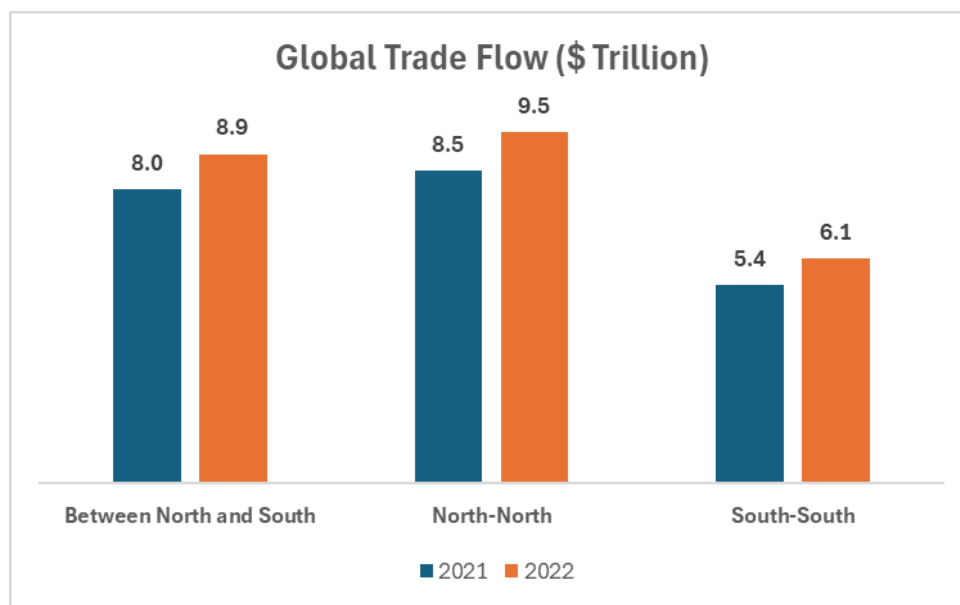
## Abstract

As the world increasingly became integrated through the forces of globalization, the supply chains have also become more global in nature. While it helped in massive efficiency gains on the cost side, it also implied that every shock to this supply chain caused global repercussions. These shocks often arose from accidental or natural disasters; however, some of these were also a creation of geopolitics. Due to this constant turmoil, many firms and nations seek a more diversified supply chain strategy, including China plus one, renewable energy resources, and more localized or diversified suppliers, even if it means trade restrictions on distant suppliers. While the developed global North has found it easier to diversify or develop alternatives, the emerging global south has found it more difficult to reinvent the economic wheel each time a crisis has struck. Therefore, there is a need to identify simple, scalable, and sustainable solutions to transform economies in the global south to become resilient to shocks and challenges that come from pandemics, wars, and other black-swan events. Strategies like multi-sourcing, nearshoring, and network diversification can be adopted, which is a win-win situation for firms and countries.


**Keywords:** Global supply chain, South-South trade, Resilience, nearshoring

## Diagnosis of the Issue

From 2005 to 2015, there was a significant increase of over 50% in international trade. This growth can be attributed to the rise in exports from developing countries, commonly referred to as the Global South. However, during the same time frame, South-South trade experienced even greater growth, increasing by more than three times. In 2014, this trade accounted for 57% of all exports from developing countries, totaling \$ 9.3 trillion. The South-South trade expansion can be attributed to the fragmentation of global supply chains. Events like the Financial crisis of 2008, disruptions like Covid-19, and the Ukraine war highlighted the need for diversified trade. International efforts and rising Southern powerhouses like China and India create new trading opportunities. South-South cooperation is paving the way for stronger regional supply chains and economic resilience. These developments suggest that the trajectory of South-South trade is expected to sustain robust growth in the foreseeable future.



Source: UNCTAD HBS2023/HBS2022



Fragile supply chains in the developing world threaten global economic stability, which is a core concern for the G20. This vulnerability disproportionately impacts developing economies compared to developed economies. As global supply chains have become increasingly complex and prone to disruptions from pandemics, wars, and natural disasters, the G20 should recognize the need for collective and broad-based action. Such disruptions have a widespread impact, with developing economies in the Global South experiencing an excessive impact. The South gets low profits despite the risks, hindering global growth. A stronger, more balanced system where the South can thrive unlocks new potential and promotes fairer trade. With its influence, the G20 has a responsibility to address these issues.

Southern economies often specialize in exporting raw materials, natural resources, or low-value-added goods. This dependence on primary commodities locks them into a cycle of high price sensitivity and vulnerability to crisis, resulting in low profit margins and limited control over the value chain. Northern economies, on the other hand, control the processing, branding, and distribution of these goods and resources through direct investment or indirect control of ownership or intellectual property rights. This lack of control over diverse parts of the supply chain makes Southern economies highly susceptible to fluctuations in the global markets.

Foreign Direct Investment (FDI) can be a source of capital and technology transfer for Southern economies. Multinational corporations may prioritize short-term profits over long-term development, focusing on extracting resources without fostering local technological advancements or backward linkages within the domestic economy. This leaves the host country dependent on foreign expertise and technology, hindering its own capacity to build a resilient supply chain.

The complex design of global supply chains exposes a deep vulnerability in the Global South. Limited bargaining power traps them in unequal partnerships. Dominant Northern economies dictate prices and sourcing, leaving Southern nations reliant on volatile commodity exports with low profit margins. High debt burdens further restrict their ability to invest in diversification and infrastructure, perpetuating this cycle of dependence.

The continuous chase for efficiency leads to overspecialization, making Southern economies reliant on a narrow range of production and specific infrastructure controlled by the North. Disruptions become costly as switching suppliers or methods proves difficult. Limited access to essential technologies and intellectual property further restricts their ability to build domestic production capabilities and diversify their role within the global supply chain.

The combined effect of poverty and insufficient investment creates a dual challenge, hindering the progress of a skilled labor force, robust infrastructure, and technological innovations - which are the fundamental pillars of a resilient supply chain.

While the list of issues facing the Global South may be too long, the focus should be on promoting trade and investment in the South, which aims to build resilience within these vulnerable supply chains. This fosters growth by unlocking economic potential in the developing world and contributing to a more balanced and sustainable global economy. Essentially, the G20 should address a global issue with a solution that also strengthens developing economies - that is, by strengthening the South's supply chains.



## Recommendations

Global South represents a diverse group of countries with unique economic and developmental characteristics, which makes the job of boosting supply chain activities a more intricate problem to deal with. The recommendations that could address and potentially solve the problems of supply chains in global south are as follows:

- **Enhancing South-South Cooperation**

Designing and promoting Regional Trade Agreements (RTAs) among countries in the South can help cater to the specific needs of the developing countries. This can include longer transition periods for tariff reductions, measures to prevent import surges among concerned countries, and government assistance for the development of homegrown sectors. Initiatives can be developed that allow countries to exchange practices in areas in which they have comparative advantages, such as digitization, quality assurance, and logistic management. This could require setting up regional training centers or online platforms. Co-ownership of logistics infrastructure can be explored, like warehouses or container terminals, to leverage resources and bargaining power for bulk discounts.

- **Technological Acceptance and Adoption**

Ease of technological adoption through tie-ups with the private sector can reduce the costs of supply chain integration and providing subsidies and tax benefits to intermediaries can further help encourage indigenous reliance for components of the supply chain. Training programmes can be provided to citizens that can help in their skills development when it comes to running online enterprises, among other skills required to engage in the digital economy. Moreover, open-source software solutions should be



encouraged for logistics management and e-commerce platforms so that costs can be reduced and wider adoption can be promoted.

- **Emphasizing value addition**

Providing training to local workers in areas such as marketing, quality control, product design, etc., can assist in the creation of higher value. Special Economic Zones (SEZs) can be created to draw international investment in knowledge and advanced manufacturing technologies. This will enable emerging countries to use that knowledge and innovative technologies for their own manufacturing. Financial aid and technical support should be extended to SMEs engaged in value-added production to address this issue at a deeper level.

- **Enhancing Resilience**

One potential application of the G20 Generic Framework for Mapping Global Value Chains can be determining the pressure points of congestion and interdependencies throughout the worldwide supply chain, evaluate the consequences of possible disturbances such as natural calamities or geopolitical conflicts and consequently planning for diversification and redundancy in sourcing and production.

- **Automation**

Investments in semi-automated production lines will help in supply chain resilience in the emerging economies. Semi-automated production lines will provide more technical and cost-effective solutions, thus will help in increasing productivity and competitive drive among companies to mitigate the risks associated with rapid technological advancements.



According to the International Labour Organization (ILO), semi-automated production systems can reduce the productivity gap between manual and fully automated processes, which will bring industries in the Global South to increase their positions in supply chains. Moreover, investments in semi-automated production lines incorporate companies to adapt gradually to changing market dynamics and technological advancements, reducing the risk of supply chains. By initiating semi-automation, businesses can achieve a balance between efficiency and resilience, ensuring their continued relevance in global supply chains while safeguarding against disruptions and market uncertainties.

- **Capacity building**

Strengthening the capacity of domestic industries and workforce is essential for the effective integration of developing nations into global value chains. A skilled workforce can optimize processes, enhance productivity, and adapt to technological advancements, leading to improved supply chain performance. Training initiatives on digital tools, automation, and data analytics empower businesses in the Global South to leverage technology to streamline operations, enhance visibility, and make data-driven decisions. Also, training programs on quality management systems, sustainability, and compliance ensure that products meet international standards, enhancing market access and competitiveness for businesses in the Global South.

Capacity-building initiatives like fostering collaboration and networking among supply chain stakeholders through training, workshops, seminars, and industry forums will provide opportunities for knowledge sharing, best practice exchange, and partnership development. This enables businesses in the Global South to build strong relationships with suppliers, customers, and service providers, enhancing supply chain coordination and resilience. Capacity building will also help in market access and integration. Training



initiatives on market research, export procedures, and trade regulations provide businesses with the knowledge and skills needed to expand their market reach and participate in international trade, fostering economic growth and development in the Global South.

- **Integration of industrial policy**

In the case of emerging economies and low-income countries, supply chains frequently encounter difficulties such as sensitivity to interruptions and a lack of technical progress. We can create a comprehensive environment for the growth of supply chains by combining industrial policy with trade, macroeconomic, financial, and competition policies. This comprehensive approach can utilize strategic trade agreements to ensure access to vital resources and technology while maintaining stable macroeconomic conditions and implementing specific fiscal measures to establish a reliable environment for long-term investment. In addition, promoting loan accessibility and encouraging competition in home industries can enhance domestic production capacities and stimulate innovation, respectively.

- **Investment in infrastructure**

Investing in infrastructure has great potential to enhance the supply chain in developing countries, resulting in multiple advantages across different aspects. Enhanced transportation networks, ports, and logistics infrastructure improve connections, resulting in shorter transit times and lower transportation costs, ultimately enhancing the efficiency of supply chains. The increased connections facilitate higher levels of commerce, economic expansion, and market consolidation, which in turn attracts foreign capital and improves the competitiveness of enterprises in the area. Moreover, modern infrastructure

fosters job prospects, thereby aiding in the alleviation of poverty and the advancement of socio-economic growth. Also, a strong and reliable infrastructure improves the ability of the supply chain to withstand and triumph over risks caused by disruptions and unexpected events. To fully utilize the potential of their supply chains and promote sustainable growth and prosperity, governments in the Global South should prioritize investment in infrastructure projects.

## Scenario of Outcomes

Supply chains in developing countries face several problems and opportunities, creating a complicated environment that necessitates specific solutions to fully realize their potential. Positive results such as economic growth, job creation, enhanced competitiveness, and improved market access highlight the significance of supply chain development in driving socio-economic success in the region. Nevertheless, obstacles such as limitations in infrastructure, difficulties in logistics, shortages in skills, and reliance on the informal economy present substantial hindrances to the effectiveness and adaptability of the supply chain. To tackle these difficulties, governments and businesses in the Global South need to implement a comprehensive strategy that integrates infrastructure investment, capacity enhancement, regulatory reforms, and technology adoption.

South-South cooperation strengthens the developing countries' supply chains. Collaboration reduces dependence on established routes, fosters innovation, and improves bargaining power. Joint ventures and infrastructure projects within the Global South diversify economies and streamline goods flow. While South-South cooperation offers success, challenges still block the path. Therefore, Strong political will, clear communication, and streamlined bureaucracies are crucial for success. Thus, bridging development gaps requires targeted programs and technical assistance. Financing limitations and potential environmental damage necessitate innovative solutions and possible external support.

Investing in infrastructure is a vital approach to addressing supply chain difficulties in developing countries. Insufficient infrastructure, marked by poor road networks, obsolete ports, and restricted technology access, hampers the efficient movement of commodities



and raises logistical expenses. To tackle this problem, it is crucial for governments and partners in the private sector to prioritize investing in infrastructure projects that specifically target transportation bottlenecks, enhance logistical networks, and improve connectivity. The Global South, which often doesn't have well-functioning governments capable of constructing reliable infrastructure, suffers the repercussions. PwC projected that Brazil is seeing a 12% loss of its poor infrastructure, causing a decline in GDP. Business leaders in developing countries must advocate for immediate reforms and invest in the development of infrastructure.

Public-private partnerships (PPPs) and international funding structures can effectively pool resources to support the development of infrastructure, which in turn promotes economic growth and enhances the resilience of supply chains. Furthermore, it is imperative to implement legislative reforms that will simplify customs procedures, lower trade barriers, and enhance regulatory frameworks for the management of supply chains. Transparent and predictable legislation, along with efficient border management technologies, can decrease transaction costs and facilitate commerce in the Global South.

Capacity building is a crucial approach to addressing supply chain difficulties in developing countries. The lack of a qualified workforce, worsened by the restricted availability of educational and training initiatives, hampers the efficiency and productivity of the supply chain. In order to tackle this problem, it is imperative for governments and industry stakeholders to allocate resources towards educational and training programs that focus on providing personnel with the necessary expertise to efficiently handle and oversee contemporary supply chains. Implementing technical and vocational training, apprenticeship programs, and lifelong learning initiatives can effectively address the skills gap and significantly improve workforce productivity in the region. Furthermore, encouraging technology adoption has the potential to improve

supply chain efficiency and transparency in developing regions. Mobile applications, cloud-based platforms, and blockchain technology have the potential to enhance the monitoring, tracing, and transparency of supply chains.

Moreover, the incorporation of the informal economy into formal supply chains has the potential to unleash development opportunities and enhance economic efficiency in the Global South. Many supply chains in the region rely heavily on informal businesses, which face challenges accessing finance, technology, and formal markets. The government can assist informal firms in transitioning to the formal sector by offering support for formalization and integration efforts. This assistance can enhance the competitiveness of these businesses and their contribution to economic growth.

Overall, addressing supply chain difficulties in the Global South requires implementing specific measures such as investing in infrastructure, enhancing capacity, reforming policies, jobs, and improving competitiveness. Effective implementation of solutions and the development of robust supply chains in the region necessitate interaction between governments, private sector stakeholders, and international organizations. To overcome such challenges directly, the countries in the Global South can utilize the potential of supply chains to promote socio-economic advancement and enhance the well-being of millions of people.



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