

KEN FIREMAN: I'm Ken Fireman, the managing editor for SAGE Business Researcher, and I'm speaking with Matt Mossman, who has written our report on trade barriers and global supply chains. Thanks for joining us, Matt.

MATT MOSSMAN: Thanks, Ken. Thanks for having me.

KEN FIREMAN: You write in your report about how the global economy today is characterized by supply chains that span countries and continents. Can you tell us how these far-flung supply chains developed and the connection between those chains and lower trade barriers?

MATT MOSSMAN: Yeah, sure. Things got started, I suppose, with the idea of free trade in the 1960s and '70s and the principle of competitive advantage -- we would all benefit if companies could manufacture where things are cheapest -- costs are cheapest. And perhaps every country could have a specialty in there. And overall, all consumers could benefit from that.

Based on that idea, free trade developed. Well, based on that idea and others. Free trade really got started and took off with the Uruguay round of talks under the General Agreement on Tariffs and Trade, which was the predecessor organization to the World Trade Organization. And once those Uruguay round of talks developed over several years and several rounds of talks, the World Trade Organization was created shortly afterward in 2001. China entered the group.

And with that, with a system for free trade, with more and more free trade agreements like NAFTA, with the WTO offering an arbitration mechanism for a dispute settlement, multinational corporations felt like it was time for them to really pursue that principle of competitive advantage, and look for the lowest cost place to manufacture their goods, or to provide services, or for any of their types of operations -- where they would best keep those operations.

KEN FIREMAN: So that led to supply chains that literally spanned the globe rather than being focused much more narrowly in a country or a region. Is that right?

MATT MOSSMAN: Exactly, yes.

KEN FIREMAN: Uh-huh. You also write that expansion of the supply chain has slowed in recent years. Why is that?

MATT MOSSMAN: Well, that's a current debate. There's a side that believes that multinationals' work is done.

They've built their global supply chains. They're mostly as efficient as they're going to be. And the global economic growth that we've had as a result of them doing so is no longer available to us because it's already baked in, so to speak. That's one side.

Another side says that we could pursue more globalization within supply chains. We could pursue more efficiencies and cost savings. The real obstacles are political now. Now that multinationals have gone around the world, governments are increasingly saying to them, well, if you want to sell it here, please make more of it.

KEN FIREMAN: Well, speaking of political barriers, the news this spring has been full of stories about new trade barriers being erected-- US tariffs on steel and aluminum imported from the EU, Canada, and Mexico, retaliatory moves by the targets of those tariffs, and of course, the possibility of a similar but very much more consequential confrontation between the US and China. So how are these moves likely to affect these global supply chains in the near-term?

MATT MOSSMAN: Well, in the near-term, I think we may see some marginal increases in prices in some areas. And in others, we may not. By and large, I think that what people expect is that multinationals are not about to redo their global supply chains as a result of what we've seen this spring. It might take years and years of consistent policies pushing them in that direction before they're ready to redo their operations. So that might mean though those variable costs are going to have to be accounted for.

And one of the things I found in my reporting is that tariffs and taxes are just one variable cost in the overall cost of a good. And there's been a fair number of studies in the past, mostly around exchange rates, which is another variable cost when you produce globally.

And the scholarship has shown that for the most part, consumers haven't been exposed to exchange rate fluctuation. Multinationals have succeeded in getting their suppliers to absorb those costs. If you produce in China, or in Thailand, or wherever, and the Thai baht increases in value versus the dollar, the multinational might say, well, if you want to stay in our supply chain, that's your risk to take on.

KEN FIREMAN: So it sounds like, in the near-term, multinationals have some room for maneuver. They have ways of working around these tariffs and absorbing them. But what about the longer range impacts?

MATT MOSSMAN: In the long-term -- that's an interesting question as to whether multinationals will feel the same. I think that there's a school of thought that, even independent of tariffs, a global supply chain means longer distances for goods to travel, more complex logistics, and corporations could look to balance out the cost savings with resilience in non-cost factors, like the ability to get goods into your markets quickly, or the ability to manufacture them in a few different places in case something happens in one and not the other.

So there's this group of supply chain experts that believe that regionalization might be a better characterization of the future rather than globalization. And then another factor might be if governments really are in it for the long haul in terms of providing a consistent policy that incentivizes corporations to bring home their operations.

KEN FIREMAN: It sort of circles back to a point you made earlier that some people believe that we've sort of reached the point of diminishing returns anyway with these globalized supply chains. And that the gains that have been realized are not repeatable or not extendable. So it, it sort of comes full circle in that sense. What's the most surprising thing you learned in your reporting?

MATT MOSSMAN: For me it was the idea that we may be at that frontier -- the idea that there's no more efficiencies to be pursued seems surprising to me. For myself, when we talk about infrastructure, for example, global infrastructure, American infrastructure, and the logistics challenge -- that seems like an area where I would have guessed that people would say, oh, there's the area where we can really make a difference again. So I was surprised that there are a number of people who study supply chains and believe that we're at that point of diminishing return.

KEN FIREMAN: Well, that's really interesting. And your whole report is very interesting. And thank you for doing it. And thank you for talking with us today. I've been speaking with Matt Mossman who has written the SAGE Business Researcher report on trade barriers and global supply chains. Thanks again, Matt.

MATT MOSSMAN: Thank you, Ken.