

THE GLOBAL VALUE CHAIN ADJUSTMENT OF THE U.S. GOVERNMENT PROCUREMENT CONTRACTORS AMID GEOPOLITICAL CONFLICTS

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ABSTRACT

Amid global geopolitical fragmentation, global supply chain (GSC) adjustments have become a key feature. The private sector is typically slow or reluctant to embark on GVC reconfiguration. First, GSC readjustment involves considerable search costs, learning costs, fixed costs, etc. Second, firms often underestimate the GVC disruption risk and the urgency to make readjustments.

As a public policy to forge GVC resilience, governments typically require public procurement contractors to assess GSC risk and restructure GSC. For example, U.S. Presidents Obama, Trump and Biden asked the public procurement agencies to increase GVC resilience by reducing reliance on foreign suppliers. The European and Japanese governments gave priority to upholding GVC resilience in the wake of COVID-19.

We explore whether governments can utilize public procurement contracting to induce government contractors and subcontractors to actively engage in GSC readjustment. Our analysis focuses on the sample of U.S. listed companies and examine whether those public-contractor U.S. firms with recent experience of government contracting exhibit a more salient pattern of GVC restructuring than their non-public-contractor counterparts.

In this study, first, at the firm level, we employ a Local Projection with IV approach. We detect a pattern of an increasing reliance of U.S. public-contractor firms on U.S. domestic suppliers and a decreasing dependence on Chinese suppliers. Second, at the contract level, we apply a Regression Discontinuity Design (RDD) strategy. For contracts whose prices exceed the stipulated micro-purchase threshold, their winning firms have more domestic suppliers but fewer Chinese suppliers, and undergo notable dynamic adjustments.

Keywords: Government contractor firms; GSC adjustment; Public procurement requirement; Local projection;

1. INTRODUCTION

Since the 1980s, global value chain (GVC) or global supply chain (GSC) adjustments have become a key feature and a normal of the world economy amid geopolitical conflicts. The private sector is typically slow or reluctant to embark on GVC reconfiguration for various reasons. On the one hand, GSC readjustment involves considerable search costs, learning costs, fixed costs, etc. Although some governments subsidize GSC restructuring to some extent, firms still face mounting pressure and tremendous costs in relocating suppliers. On the other hand, firms often underestimate the GVC disruption risk and the