

## Chinese supply chains, sustainability, transparency, and fact-finding missions

Chinese supply chains have faced intense scrutiny for years and the need to understand the reality in which they operate is greater than ever. The increasing number of European transparency acts and due diligence legislation, as well as the U.S. Uyghur Forced Labour Prevention Act, along with a generally critical view of China provides further pressure on Chinese supply chains. More recently, China's relationship with Russia and the question marks surrounding the country's potential involvement in Russia's war of aggression in Ukraine sunk China relations to a new low.

At the same time, dependence on China has increased, not least in areas that so clearly affect the green transition being actively pursued in most European countries. Simply put, without access to Chinese suppliers, there will be no green transition in Europe — a situation that the EU itself has contributed to.



Picture by PSU

In recent years, discussions have centred more on how to distance ourselves from China rather on how to manage the resumption of a productive relationship; the rapprochement of terms that build on what we have learned over the past 20 years. While opportunities to work with and understand China have been plentiful over the years, we have learned very little and the country remains a challenging trading partner. The idea of “decoupling” should be a thing of the past. It's time to deeply engage and derisk based on factual evidence.



Businesses need to ensure that what they do is based on factual evidence and not emotions. Fear of having to explain and defend activities in China, especially from the media, is currently influencing decisions on investments, procurement, and purchasing, as well as long-term China strategies. Ill-informed decisions on issues such as sustainability and compliance are likely to harm us both in the short and long term and will also be counterproductive.

To ensure access to information, we must strengthen the strategies and functions that work with supplier compliance. There must be an increased focus, where the UN and ILO principles are a priority. Derisking is about distancing yourself from non-compliant environments based on evidence and avoiding doing so purely based on emotions.

Research should combine appropriate open-source data with physical audits. This combination is a must and should be done by independent actors with the right expertise and skillset. A process carried out by unbiased and experienced actors also creates an opportunity to use the reporting to improve transparency for all stakeholders in the value chain. This level of transparency also offers end customers an opportunity to gain insight into ongoing compliance efforts, which not only increases product confidence but creates distinct competitive advantages.

As important as it is to identify breaches of the regulations and processes that surround us, it is equally important to be able to identify when a supplier is wrongly regarded as a risk. Guilt by association will only drive negative development where we ourselves clearly take the greatest risk. If we, as business leaders, want to live up to the sustainability and compliance expectations, we need to increase independent compliance research and hold ourselves to higher impartiality standards.

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