Opinion **Globalisation**

Coronavirus is a global crisis, not a crisis of globalisation

The distinction matters as leaders will otherwise draw the wrong lessons

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Robert Armstrong YESTERDAY

There is no longer any doubting the seriousness of the coronavirus crisis. But we need to be clear about what kind of crisis this is. It has the potential to do worldwide economic and human harm. But it is not the result of a flaw in the organisation of the world economy, in the way people, goods and money flow across the globe. It is a global crisis, not a crisis of globalisation.

The distinction is important, because if politicians and business leaders take the wrong lessons from this crisis, the world will be less prepared for the next.

It is not surprising that, when Covid-19 still looked like a Chinese rather than a global problem, US commerce secretary Wilbur Ross said that the virus, regrettable though it was, would "help accelerate" the return of jobs to North America. If you see the world economy as a zero-sum game, one country's loss must be another's gain.

For US president Donald Trump's trade adviser, Peter Navarro, the virus shows "we cannot necessarily depend on other countries, even close allies, to supply us with needed items". The best response to any threat, on his view, is to pull up the economic drawbridge.

What is more surprising is that the Trump administration is not alone. The virus has revealed the hidden costs and fragility of global supply chains, triggering a “backlash” to globalisation.

Happily, the backlash so far is only among politicians and pundits. Yes, some supply chains were shortening long before the virus hit, and this crisis will lead to changes in others. But companies still see the advantages of global trade, consumers still benefit from it, and it still makes the world a safer place.

Economically, coronavirus sits alongside the Fukushima earthquake and nuclear accident, US-China trade conflicts, and other recent global disruptions. What they have in common is that they demonstrate the dangers of highly concentrated, just-in-time supply chains — not international ones.

For too long, companies arranged their operations with only cost in mind, says Per Hong, a supply chain consultant at Kearney. Yet crises “underline the need for companies to design their supply chains around risk competitiveness” rather than cost alone. The companies he works with are not localising supply, but mitigating risk with regional diversification. “It is the exact opposite of unwinding the global nature of our supply chains,” he says.

Fukushima demonstrated how much of the global microchip supply chain passed through Japan, with many lower-tier suppliers clustered near the earthquake. But afterwards, as Willy Shih of Harvard Business School points out, big customers saw the risks and shifted some of their sourcing to Taiwan.

What they did not do was turn to domestic chip production. That would have been a mistake. Microchips are the perfect example of how local specialisation, spread across the world, creates better products than is possible in any one place. The best chip manufacturing equipment comes from Holland; the strongest chip designs from the US; the best foundries are in Taiwan; and so on.

Nor can companies, with profits at stake, indulge in Mr Navarro’s fallacy that all threats originate abroad. The UK’s domestic coal supplies did not protect it during the 1980s miners’ strikes. America’s vulnerability to hurricanes and floods is demonstrated repeatedly. The next crisis might start anywhere.

This is not to deny the value of bringing production closer to demand. In the garment industry, responding quickly to changing tastes and advances in technology make a strong case for "nearshoring" production. Levi's is deploying fully automated technology for finishing or "distressing" its jeans with lasers. This 90-second process, completed near the final market, used to take a worker in a low-cost country half an hour.

But companies such as Levi's are nearshoring to give customers what they want, not to reduce the risks of international trade. Nor are they practising good global citizenship by "bringing jobs home". What is home? Big, modern companies have customers, employees, and shareholders all over the world.

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That global companies are not creatures of any one country is a point of attack for globalisation's critics. But if we believe that companies have responsibilities to all their stakeholders, do we really want those responsibilities to vary depending on where those stakeholders happen to have been born?

That would be immoral. It is a virtue, not a vice, of global companies that they build relationships of mutual advantage that do not respect borders. Globalisation binds our fortunes together.

That these bonds makes us collectively richer is clear, given that the countries which have embraced global trade, along with education and investment, are the most prosperous. The rise of globalisation since 1990 coincides with more than a billion people rising out of extreme poverty. Neither governments nor companies should turn their back on that legacy because of coronavirus.

Even in the current crisis, globalisation can make the world safer. That national economies are fused by the connective tissue of global companies means each country has a selfish interest in helping others. That is a source of stability that anti-globalist rhetoric can only serve to dilute.

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