Coronavirus is circling the planet and exposing the risks of the globalization model

By Eric Reguly
March 3, 2020 – *The Globe and Mail*

Globalization is nothing new. Two thousand years ago, the Silk Road allowed China to trade with Rome. In recent decades, we've reached hyper-globalization, where China has become the world's workshop, its supply lines encircling the planet.

Shareholders loved the margin-bumping efficiency of the globalization model and the just-in-time deliveries that grew out of it. American, Canadian and European investors could get rich without their countries actually making anything. Just import the parts and plug them into assembly lines. Or just import the whole finished product. Never mind that globalization suppressed wages and killed off millions of manufacturing jobs in the West.

Once in a while, the fragility of global supply chains was exposed, as when the 1999 earthquake in Taiwan shut down the country's vital semiconductor industry.

Now, there's the coronavirus outbreak, a global phenomenon that is shutting down towns, cities and schools, cancelling public events, emptying passenger planes and idling factories. The outbreak exposed the fragility of the whole globalization model in virtually an instant.

Before anyone even had heard of the COVID-19 virus, which erupted in China late last year, U.S. President Donald Trump's trade wars were inflicting some damage to global supply chains. The coronavirus could put globalization into reverse, and that may not be a bad thing, given the sometimes absurd and dangerous dimensions it took on. "This could be the tipping point for globalization," said Marshall Auerback, market strategist at the Levy Economics Institute.

Take medicines. Rosemary Gibson, co-author of China Rx: Exposing the Risks of America's Dependence on China for Medicines, has investigated the massive transfer of the generic pharmaceuticals industry to China. She learned that 80 per cent of the core components that go into the generics sold in the United States are made in China.

Writing in The American Conservative magazine in December, she said: "If the Chinese government turned off the spigot, pharmacy shelves would be empty within months. Hospitals would cease to function. Doctors couldn't perform surgery, treat cancers with recommended medicines, or provide dialysis treatment for people with kidney failure."

In the late 1980s, the U.S. was full of antibiotics manufacturing plants, she said. Thirty years later, globalization has ended their American presence. "When the federal government needed to buy 20 million doses of the antibiotic doxycycline after the 2001 anthrax attacks, it turned to a European company that obtained the chemical ingredient from a plant in China," she wrote.

Global supply chains are already breaking down because of the coronavirus outbreak. The quarantining of Chinese regions responsible for two-thirds of the country's gross domestic product means that lots of parts for just-in-time deliveries are reaching their destinations with long delays or not reaching them at all. Jaguar Land Rover, Britain's biggest car maker, last month resorted to packing suitcases full of parts and flying them to its British factories to keep them open. Supply chain disruptions were behind the slowdown in U.S. manufacturing activity in February.

Supply chains are bound to face more stress in the next few months, even though the Chinese rate of new COVID-19 infections is slowing and Chinese governments are trying to get workers out of their homes and back into the factories. That's because China is not the only player in the global value chain. Eleven towns in the industrial heartland of Italy, the European Union's third-largest economy and second-largest exporter, have been in quarantine for 10 days, their factories closed or largely closed. Some of them make car parts and their lack of shipments could mess up auto assembly lines across Europe.

A rethink of unfettered globalization is needed and is no doubt under way. To be sure, investors will resist the move to rely less on China and more on domestic suppliers. Shortening supply lines by building factories close to where products are sold, and employing relatively expensive local workers, will hurt profit margins. Remember, it was globalization combined with falling corporate tax rates and antitrust regulators turning a blind eye to mega-mergers that fuelled the longest bull market the world has seen.

Globalization will never be fully reversed, of course, but pulling back on the globalization level will come with benefits. Short supply lines are more resilient than long ones. Repatriation of manufacturing will create more jobs at home, and higher-paying ones. The environmental benefits may be huge. The European Commission estimates that shipping produces 2.5 per cent of greenhouse gases and that a business-as-usual scenario could see those emissions climb by between 50 per cent to 250 per cent by 2050. Fewer vessels making fewer long voyages from China and elsewhere in Asia translates into lower emissions.

The coronavirus is causing a lot of misery around the world. By Tuesday, more than 92,000 cases of COVID-19 had been confirmed, with 3,122 deaths, and the figures are sure to rise, perhaps dramatically so, as more countries are infected. The caseloads are still surging in Italy, Iran and South Korea, the three virus epicentres outside of China. But, in time, the outbreak could be remembered as the moment when some common sense was finally injected into the economic model – globalization – that has been exposed as brittle, environmentally destructive and unfair to millions of workers.