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Re-imagining Globalisation

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ABOUT US

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Global Supply Chain. Source: Quality Assurance
All pharma roads lead back to supply chain management. Source: Corden Pharma

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by

Sanjay Pulipaka and Rakshit Mohan

Over the past two decades, the world has seen an uptick in the globalisation process involving a significant increase in the movement of goods, services, finance and people. The COVID-19 pandemic is now threatening to change the way we integrate our world. Even before the recent COVID-19 crisis, there were concerns in the West that the globalisation process had resulted in loss of jobs for local communities. On the other hand, proponents of globalisation pointed to efficiency gains due to the emergence of global supply chains, which expanded consumer choice and enhanced consumption of quality products worldwide.

COVID-19 has tilted the argument in favour of the sceptics of globalisation by demonstrating that the efficiency gains come with significant costs, such as disruption of global supply chains which are disproportionately routed through China. Not surprisingly, President Donald Trump, addressing a press briefing, stated "We [the USA] should never be reliant on a foreign country for the means of our own survival" and called for "economic independence". It is a matter of speculation if such economic independence is possible but the discussion raises an important question: is a significant shift away from China in trade relations possible?

History tells us that there have been significant shifts in global economic interactions within a short span. While the shift of economic power from Europe to the US started well before the Second World War, the latter consolidated the gains within a decade after the War. The rise of the US was not contested by European powers such as Britain and France; they were allies in the Second World War. So, the shift in economic power happened without contestation between the rising and the established powers.

The former USSR disintegrated because of inherent economic challenges, and there was a significant shift in global trade relations. Subsequently, many East European countries, as well as others such as India, engaged with the West with greater intensity and purpose. There may be a temptation to draw parallels between the Soviet experience and the current challenges that the Chinese economy is encountering. Apart from difficulties in getting accurate information on the impact of COVID-19 on an already slowing Chinese

economy, arguments drawing analogies with the collapse of the Soviet Union have limitations.

Unlike the former Soviet Union, the flow of goods and services between China and the world is enormous. China is the world's largest trader and its trade in goods totalled $4.6 trillion in 2018. China's total trade with the US and Europe amounted to $737.1 billion and €682 billion (appx. $740 billion) respectively. China is deeply integrated into the global economy and in the short term, dependence on existing supply chains may further increase as western economies have taken a significant hit since the spread of COVID-19. However, in the medium to long-term, we may see three trends taking shape.

Global Supply Chain. Source: Quality Assurance

First, apprehension in the global business community about excessive dependence on supply chains associated with China will get exacerbated. Several multinational corporations have already made massive investments in China; these corporations will now have to invest more resources to map and monitor their supply chains in China post-COVID-19. All this implies additional expenditures without the promise of reduced risks through more transparency and more open information flows. Therefore, companies will now be looking to diversify their supply chains and distribute risks and may make new investments in destinations from Southeast Asia to India.

Second, over the past few years, there have been voices in various countries, such as in the US, that called for reduced economic interactions with China. However, given their democratic systems, many have found it difficult to nudge private companies to adhere to national strategic requirements. Now, because of the COVID-19 crisis, there are growing political constituencies demanding a shift in trading relations away from China and there may be a similar shift in consumer behaviour as well. For the trend to sustain, governments will have to create necessary policy frameworks. For instance, the Indian Pharma industry imports 60 to 70 per cent of intermediaries and active pharma ingredients (APIs) from China. To reduce this dependence, the government will have to come up with a comprehensive plan, which incentivises domestic production in the case of critical drugs. Japan has already set aside ¥243.5 billion ($2.2 bn.) to encourage companies to move production back to Japan and/or diversify supply chains.

All pharma roads lead back to supply chain management. Source: Corden Pharma

Third, there will be continued discussion on the nature of globalisation. Political parties that oppose the globalisation process may grab the headlines for an election cycle. However, given the benefits of interconnectedness, there could also be discussions on building supply chains with countries that have a transparent decision-making process and facilitate free information flows. US Secretary of State Mike Pompeo has already stressed the importance of meshing the supply chains of India and the US.

Surprisingly, Europe may be a weak link in such re-imagination of globalisation. Eastern European nations' romance with China may further derail such initiatives. The European Union (EU) did not demonstrate a cohesive response to the pandemic. The EU's 27 member countries have diverse trading interests tied with China and, therefore, may continue with the existing status quo. However, the sudden shock to the EU's economy due to the pandemic may nudge at least the major economies in Europe towards a more cautious policy towards China.

If a coherent and risk-mitigated policy regime takes shape in the EU and the US towards China, the world can expect to see a shift in the distribution of supply chains. The motivation for such a trade policy should not arise from the urge to de-globalise but from distributing supply chains among nations that value transparent decision-making. This would make supply chains more resilient, durable and less prone to sudden shocks. Covid-19 is an unprecedented test for a globalised world, but it remains to be seen if the commitment of political and business leaders in democracies to their liberal values can overcome mercantilist attitudes defined by short-term gains.

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