



Will the Coronavirus End Globalization as We Know It?

The Pandemic Is Exposing Market Vulnerabilities No One Knew Existed

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Workers on an assembly line at a factory in Shaanxi Province, China, February 2020

The new coronavirus is shaping up to be an enormous stress test for globalization. As critical supply chains break down, and nations hoard medical supplies and rush to limit travel, the crisis is forcing a major reevaluation of the interconnected global economy. Not only has globalization allowed for the rapid spread of contagious disease but it has fostered deep interdependence between firms and nations that makes them more vulnerable to unexpected shocks. Now, firms and nations alike are discovering just how vulnerable they are.

But the lesson of the new coronavirus is not that globalization failed. The lesson is that globalization is fragile, despite or even because of its benefits. For decades, individual firms' relentless efforts to eliminate redundancy generated unprecedented wealth. But these efforts also reduced the amount of unused resources—what economists refer to as “slack”—in the global economy as a whole. In normal times, firms often see slack as a measure of idle, or even squandered, productive capacity. But too little slack makes the broader system brittle in times of crisis, eliminating critical fail-safes.

Lack of fail-safe manufacturing alternatives can cause supply chains to break down, as they have in some medical and health-related sectors as a result of the new coronavirus. Producers of vital medical supplies have been overwhelmed by a surge in global demand, pitting countries against one another in a competition for resources. The outcome has been a shift in power dynamics among major world economies, with those that are well prepared to combat the new virus either hoarding resources for themselves or assisting those that are not—and expanding their influence on the global stage as a result.

FRAGILE EFFICIENCY

The conventional wisdom about globalization is that it created a thriving international marketplace, allowing manufacturers to build flexible supply chains by substituting one supplier or component for another as needed. Adam Smith's *The Wealth of Nations* became the wealth of the world as businesses took advantage of a globalized division of labor. Specialization produced greater efficiency, which in turn led to growth.

But globalization also created a complex system of interdependence. Companies embraced global supply chains, giving rise to a tangled web of production networks that wove the world economy together. The components of a given product could now be made in dozens of countries. This drive toward specialization sometimes made substitution difficult, especially for unusual skills or products. And as production went global, countries also became

more interdependent, because no country could possibly control all the goods and components its economy needed. National economies were subsumed into a vast global network of suppliers.

The pandemic is exposing the fragility of the globalized system.

The pandemic of the disease caused by the new coronavirus, COVID-19, is exposing the fragility of this globalized system. Some economic sectors—particularly those with a high degree of redundancy and in which production is spread across multiple countries—could weather the crisis relatively well. Others could be pushed close to collapse if the pandemic prevents a single supplier in a single country from producing a critical and widely used component. For example, car manufacturers across western Europe worry about shortages of small electronics because a single manufacturer, MTA Advanced Automotive

Solutions, has been forced to at one of its plants in Italy.

In an earlier age, manufacturers might have built up stockpiles of supplies to protect themselves in a moment like this. But in the age of globalization, many businesses subscribe to Apple CEO Tim Cook's famous dictum that inventory is "fundamentally evil." Instead of paying to warehouse the parts that they need to manufacture a given product, these companies rely on "just-in-time" supply chains that function as the name suggests. But in the midst of a global pandemic, just-in-time can easily become too late. Partly as a result of supply chain problems, global production of laptops fell by as much as 50 percent in February, and production of smartphones could fall by 12 percent this coming quarter. Both products are built with components produced by specialized Asian manufacturers.

CRITICAL SHORTAGES

Production bottlenecks like the ones in electronics manufacturing are also hampering the fight against the new coronavirus. Critical medical supplies such as reagents, a key component of the test kits that laboratories use to detect viral RNA, are either running low or out of stock in many countries. Two companies dominate the production of the necessary reagents: the Dutch company Qiagen (recently purchased by the U.S. giant Thermo Fisher Scientific) and Roche laboratories, which is based in Switzerland. Both have been with the extraordinary surge in demand for their products. The shortfall has delayed the production of test kits in the United States, which finds itself having to get in line behind other countries to buy the chemicals it needs.

As the new virus spreads, some governments are giving in to their worst instincts. Even before the COVID-19 outbreak began, Chinese manufacturers made half of the world's medical masks. These manufacturers ramped up production, but the Chinese government effectively bought up the country's entire supply of masks, while also importing large quantities of masks and respirators from abroad. China certainly needed them, but the result of its buying spree was a supply crunch that hobbled other countries' response to the disease.

European countries didn't behave much better. Russia and Turkey prohibited the export of medical masks and respirators. Germany did the same, even though it is a member of the European Union, which is supposed to have a "single market" with unrestricted free trade among its member states. The French government took the simpler step of seizing all available masks. EU officials that such actions undermined solidarity and prevented the EU from adopting a common approach to combating the new virus, but they were simply ignored.

These beggar-thy-neighbor dynamics threaten to escalate as the crisis deepens, choking off global supply chains for urgent medical supplies. The problem is dire for the United States, which has been late to adopt a coherent response to the pandemic and is short on many of the supplies it will need. The United States has a national stockpile of masks, but it hasn't been replenished since 2009 and contains only a fraction of the number that could be required. Unsurprisingly, President Donald Trump's trade adviser, Peter Navarro, has used this and other shortages to threaten allies and to justify a further withdrawal from global trade, that the United States needs to "bring home its manufacturing capabilities and supply chains for essential medicines." As a result, Germany is reportedly worried that the Trump administration will make the aggressive move of completely buying out a new vaccine under development by a German company in order to use it in the United States. Berlin is now considering whether to make a counterbid on the vaccine or

VIRAL INFLUENCE

Whereas the Trump administration has used the pandemic to pull back on global integration, China is using the crisis to showcase its willingness to lead. As the first country hit by the new coronavirus, China suffered grievously over the last three months. But now it is beginning to recover, just as the rest of the world is succumbing to the disease. That poses a problem for Chinese manufacturers, many of which are now up and running again but facing weak demand from countries in crisis. But it also gives China an enormous short-term opportunity to influence the behavior of other states. Despite early mistakes that likely cost the lives of thousands of people, Beijing has

learned how to fight the new virus, and it has stockpiles of equipment. These are valuable assets—and Beijing has deployed them with skill.

In early March, Italy called on other EU countries to provide emergency medical equipment as critical shortages forced its doctors to make heartbreaking decisions about which patients to try to save and which to let die. None of them responded. But China did, offering to sell ventilators, masks, protective suits, and swabs. As the China experts and have argued, Beijing seeks to portray itself as the leader of the global fight against the new coronavirus in order to promote goodwill and expand its influence. This is awkward for the Trump administration, which has been slow to respond to the new virus (and which thinks banning travelers from Europe is the best defense against a disease that is already spreading rapidly on its soil). Far from serving as a global provider of public goods, the United States has few resources that it can offer to other states. To add insult to injury, the United States may soon find itself receiving Chinese charity: the billionaire cofounder of Alibaba, Jack Ma, has 500,000 test kits and one million masks.

THE NEW GEOPOLITICS OF GLOBALIZATION

As policymakers around the world struggle to deal with the new coronavirus and its aftermath, they will have to confront the fact that the global economy doesn't work as they thought it did. Globalization calls for an ever-increasing specialization of labor across countries, a model that creates extraordinary efficiencies but also extraordinary vulnerabilities. Shocks such as the COVID-19 pandemic reveal these vulnerabilities. Single-source providers, or regions of the world that specialize in one particular product, can create unexpected fragility in moments of crisis, causing supply chains to break down. In the coming months, many more of these vulnerabilities will be exposed.

The result may be a shift in global politics. With the health and safety of their citizens at stake, countries may decide to block exports or seize critical supplies, even if doing so hurts their allies and neighbors. Such a retreat from globalization would make generosity an even more powerful tool of influence for states that can afford it. So far, the United States has not been a leader in the global response to the new coronavirus, and it has ceded at least some of that role to China. This pandemic is reshaping the geopolitics of globalization, but the United States isn't adapting. Instead, it's sick and hiding under the covers.

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