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If you think this pandemic shows the limits of globalisation, think again

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There is no conventional wisdom more conventional than the idea the pandemic proves the limitations of globalisation.

In Westminster, as in Washington, politicians say this crisis proves we are dangerously dependent on unreliable foreigners, not least from China, for everything from medicine inputs through to personal protective equipment. The UK government has instituted Project Defend to assess “vulnerabilities” in supply chains and identify areas where Britain should be self-reliant.

Having faced PPE and ventilator shortages, it’s natural for governments to reassess stockpiles, and, as part of Project Defend, for trade policy to seek to unlock a more diverse range of suppliers. Private businesses, facing disruption and emergency government measures abroad, are similarly questioning their location and supplier decisions, given updated perceptions of risks.

Some resultant change will amount to fighting the last war or prove an overreaction. But markets adjust quickly to new realities.

Yet underneath all this rhetoric about supply chain repatriation lays a pernicious idea: that government-engineered self-sufficiency can improve our “resilience” Ministers think the crisis shows a trade-off between efficiency and reliable supplies. They itch to devise mandates and industrial policies to “repatriate” manufacturing capacity in “outsourced” products, such as paracetamol and surgical gloves. Greater domestic production capabilities, they think, would make our economy more robust to pandemic-like shocks.

This “resilience” argument is seductive, but wrong. Just as an autarkic agricultural sector would make a country more vulnerable to shocks such as bad harvests, not less, so self-reliance on critical PPE and medicines would make us more susceptible to downsides from disruption of our factories. The flipside of becoming less reliant on foreign inputs is, of course, becoming more reliant on domestic ones.

In this crisis, for example, we faced lockdowns, business closures, and sick workers just like everybody else. Four food factories here had big Covid-19 outbreaks, requiring closures and reduced capacity. You probably didn’t notice, because our food supply is so incredibly diverse. But that strength in diversity holds for other industries too. Economists have found, broadly, that trade diversification reduces GDP volatility, because “it reduces exposure to domestic shocks and allows countries to diversify the sources of demand and supply across countries”.

Government-mandated self-sufficiency would harm resilience by making us poorer too. Even if the Government just mandated that certain inputs for the NHS had to be made domestically, actively encouraging industries which we are relatively inefficient in would make the economy

less productive overall. Insulating that capacity from foreign competition would create high-cost, lazy, bloated sectors. A weaker economy means fewer public funds to deal with future shocks.

The pandemic, as a global crisis, did throw up an unprecedented demand surge for medical resources. But it's fashionable to claim that markets made this worse by embracing "just in time" efficiency, rather than "just in case" capacity. Yet businesses have powerful profit incentives to ensure the integrity of their supply in new realities. It's difficult to see why government officials are better placed to ensure "resilience" than markets adapting to new wants and needs.

Take PPE. Government data shows 2.47bn individual items have been distributed by the Department of Health and Social Care since Feb 25 – more than for the whole of 2019. Face mask, shields, gloves, swabs, and gown use are up massively. Media reports suggest 28bn items have been ordered from domestic and foreign suppliers for the coming months. Would self-reliance for emergencies on PPE be wise? Maintaining emergency capacity levels during normal times would be extremely expensive. This year's PPE budget, announced in the Summer Statement, is £15bn. If, on the other hand, governments somehow ensured production continued at emergency levels, there would be an absolute glut of the stuff – raising international questions about overproduction and dumping.

Thankfully, the Government is not aiming for full PPE self-sufficiency. But the same logic applies to individual markets. Nor is it even clear that politicians are well placed to know what capacity we would need for future pandemics.

Indeed, if they did, why not just buy it up cheaply from the most efficient producers and stockpile it? They cannot do this because crises are unpredictable.

The UK had a relatively small stockpile of medical gowns, for example, because they were thought less necessary for the influenza pandemic politicians had prepared for. It should be obvious that it would be daft economically to set aside domestic manufacturing capacity to meet all possible threats.

True, this pandemic has seen especially regrettable export protectionism, which has no doubt driven the Government's self-reliance push. India restricted exports of paracetamol. Romania banned the export of a critical input to ventilator production. A French requisition order prevented a company fulfilling a face mask contract with the NHS.

But most countries have since realised that, given nobody can be fully self-sufficient in medical products, these "sicken-thy-neighbour" policies are self-harming to all. A global agreement to restrict such activity in future, or clauses to that effect becoming a staple of free trade deals, would be a better targeted way to prevent these destructive acts than doubling-down on "every country for itself."

As a Make UK spokesman made clear on Project Defend, "we need ready access to raw materials and components, many of which are not found in the UK, and also preferential access to key export markets to make production at scale viable."

So, yes, by all means let the Government revisit our stockpiles, review regulations that stop manufacturers adapting their facilities, and remove trade barriers that restrict supply diversity.

But let's not delude ourselves into thinking that active government reshoring of supply chains will shield us from global interdiction or, indeed, make us more prosperous.

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