

GLOBALIZATION: COVID-19 IS SLOWING THE PACE

By Mehul Dave, Linkage Chairman

If you've read my previous columns, Globalization was in trouble even before the pandemic. The decades long open system of trade that dominated the world economy has been damaged by the financial crisis and more recently the Sino-American trade war. Now, COVID-19 is adding a third body blow to Globalization.

Quote of the week

"It has been said that arguing against globalization is like arguing against the laws of gravity."

Kofi Anan
(1938 – 2018)

Photo of the week

Our Linkage Mysore India office has become an important part of our future global strategy. In that office, we now have strong Finance, IT and Front-End Engineering functions that provide 24/7 support to the rest of our team.

L to R: Sachin AG (Accounting),
Murali Mohan (Financial Director),
Mukunda M (Accounting)



The number of passengers at major airports dropped by 97% year-on-year. Lockdowns have sealed borders and created havoc to commerce. Over 20% of transpacific container ships have been canceled in May. As some economies reopen, global movement and free trade will be far from normal. Travel is already being politicized – witness the opening of Europe to the exclusion of Americans. This will create even more bias and entrenchment towards self-reliance. The global wave of looking inward by major governments well before the pandemic will only be reinforced by COVID-19.

Consider what's happening to flow of people from one region to another. The Trump administration has suspended immigration arguing that jobs should go to Americans instead. Many of the people coming from abroad were serving a critical need for tech companies where they simply couldn't find Americans to fill those positions. Other countries are likely to follow America's lead. On May 12th Narendra Modi, India's prime minister, announced to the nation that a new era of self-reliance has begun. The recent border skirmish between China and India which led to the death 20 India soldiers and unknown Chinese casualties will clearly hamper any trade between the two nations. Already India has banned numerous items coming from China and it's reinforcing the notion of self-reliance.

COVID-19 is spurring all kinds of self-reliant actions across the globe:

- China hawks in the USA would like to see sensitive products like medicines, microchips made in America again.
- The Japanese government has earmarked billions in COVID-19 subsidies to help firms move high-value production back home from China.
- The EU wants to create a fund to buy stakes in firms with the goal of "strategic autonomy".
- On May 12th a Chinese spokesman announced a ban of many beef imports from Australia citing reasons of food-safety, while condemning their "words and deeds" that call for a COVID probe.

The flow of capital is also suffering.

- Multinational firms will likely cut their cross-border investment by a third this year.
- Chinese venture-capital investment in the US has dropped to by 60% below its level two years ago.
- America has instructed its main federal pension fund to stop buying Chinese shares.
- Countries representing close to 60% of world GDP have tightened their rules on foreign investment.

Trade will suffer as countries abandon the idea that firms and goods are treated equally regardless of where they come from. And the push to bring supply chains back home in the name of resilience is accelerating. But there is still hope for globalization as the aging populations of most developed countries realize the need to rely on a global community to continue the lifestyle they have become used to.

Japan's coffin industry is an interesting case in point for continued globalization in spite of COVID-19. Here we find an intensely localized variety of globalization China-style, where a single region dominates a focused sector.

- Roughly 50% of Japan's coffins are made in China and coffin sales to their aging population are brisk.
- Coffin-makers in Zhuangzhai, a small city of 100,000 in the eastern province of Shandong exports 740,000 coffins annually, almost all of them to Japan.
- Yunlong, the largest Zhuangzhai coffin maker, began making coffins for export in 2000, as labor costs in an aging Japan rose to 10-20x versus China costs.
- Yunlong continues to be unfazed by talk of the rich world decoupling from China.
- Some Japanese clients tried sourcing coffins from Vietnam and Indonesia, but they found workers there "lacked discipline", so they returned to Zhuangzhai.
- China's hyper-local approach allows its dominance to continue in this market. Globalization continues.

The latest round of body-blows to globalization have wounded the open system of trade. National controls won't be more humane or safer. Developed countries will find life to be more expensive and less free while the developing world will find it harder to catch up. The way to make supply chains more resilient is to diversify them and not to domesticate them, which concentrates risk and forfeits economies of scale. Just like a human fighting a virus, the more diverse germs you're exposed to the more robust your immunity to fight off threats. Diversification is critical to sustained security against all sorts of threats. It's the same reason a savvy investor diversifies their stock portfolio.

For our part we've been working hard on diversifying our supply chain to ensure we provide a robust and reliable global sourcing solution to our customers. Given the current state of the PCB industry and today's economic and political climate, I suspect this particular supply chain isn't going to be domesticated anytime soon. We must find ways to make the existing supply chain more resilient while being smart about diversification. A fractured world living in homogenous silos will make solving global problems much harder, let alone finding a vaccine and engineering a global economic recovery.