**Headline:** There’s a Hidden Economic Trendline That Is Shattering the Global Trade System

**Teaser:** Why economic nationalism is suddenly a fashionable excuse for countries to decrease their reliance on the existing global supply chains.

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**[Article Body:]**

Former U.S. Treasury Secretary Lawrence Summers [has recently conceded](https://www.the-american-interest.com/2020/05/22/how-to-fix-globalization-for-detroit-not-davos/): “In general, economic thinking has privileged efficiency over resilience, and it has been insufficiently concerned with the big downsides of efficiency.” Policy across the globe is therefore moving in a more overtly nationalistic direction to rectify this shortcoming.

COVID-19 has accelerated a process that was well underway before it, spreading beyond U.S.-China-EU trade negotiations and into the world’s 50 largest economies. As much as many defenders of the old order [lament this trend](https://www.ft.com/content/e27b0c0c-1893-479b-9ea3-27a81c2506c9), it is as significant a shift as the dawn of the World Trade Organization (WTO) global trade era.

Economists, politicians, and leading pundits are often tempted to see new economic patterns through the prisms of the past; we are therefore likely to hear that we’re back in an era of 19th-century mercantilism, or [1970s-style stagflation](https://www.ft.com/content/5f4ef4f6-8ad6-11ea-a109-483c62d17528). But that misses the moment—the motives are different, and so are the outcomes.

What we are experiencing is the realization by state planners of developed countries that [new technologies enable](https://asiatimes.com/2020/04/pandemic-opens-curtains-on-next-economic-model/) a rapid ability to expand or initiate new and profitable production capacity closer to or inside their own markets. The cost savings in transport, packaging and security and benefits to regional neighbors and these countries’ domestic workforces will increasingly compete with the price of goods produced through the current internationalized trade system. U.S. national politicians from President Trump to Senator Elizabeth Warren will be joined by a growing chorus who see the long-term domestic political benefit of supporting this transition.

The combination of high-speed communication, advances in automated manufacturing and computing combined with widespread access to the blueprints and information necessary to kick-start new production capacity increasingly makes the current international network of supply chains resemble a Rube Goldberg contraption, and it lightens the currency outflow challenge that many economies have had to deal with for the past seven decades.

Growing political will to restore manufacturing capacity in the national interest will have a shattering effect on countries that built up their economies through a labor price advantage over the past 40 years. No amount of currency depreciation or product dumping can overcome the reality of a country’s foreign customer base suddenly opting to produce and buy their own goods at competitive prices.

Taken in sum, the transformation underway isn’t just Donald Trump demanding less dependency on China’s production capacity—it’s a global process. [It’s also India](https://asiatimes.com/2020/06/tech-sector-the-real-epicenter-of-china-india-clash/) signaling it’s going to try to strike its own technological path away from China.

**New Patterns of Production**

There’s a lot of froth in moments like these, where old patterns continue at the same time new ones emerge. Factories are still closing in the United States on the NAFTA continuum—no punishment for leaving and good incentives to leave; in many respects, it’s because the corporations are part of the same old regime.

But look at sectors of the more advanced economy, and the green shoots and stalks of a new era are quite visible.

There is a cascade of new production in the United States—not the familiar announcements of new data centers, warehousing and logistics centers, but rather the production of high-tech goods and essential restoration of hard infrastructure that one might expect of a more self-reliant economy.

The news website [Area Development](https://www.areadevelopment.com/newsItems/6-16-2020/diversified-cpc-international-iron-horse-terminals-beaumont-texas.shtml) is as good a radar screen for this process as any. There one can find a running spigot of news items like a new “[500,000-square-foot](https://www.areadevelopment.com/newsItems/6-17-2020/linear-labs-production-center-fort-worth-texas.shtml) research, development and production center [in Texas] to create electric motors for industries as diverse as electric vehicles, robotics, HVAC, and last-mile micromobility,” or a restoration and upgrade of [Newport News, Virginia’s dockyards](https://www.areadevelopment.com/newsItems/6-17-2020/s23-holdings-east-coast-repair-and-fabrication-newport-news-virginia.shtml).

The rationales provided by governments to escape the strictures of the existing trade arrangements and into the new era are fairly easy: a mix of opportunism and need tied to the exigencies of the moment, such as the current pandemic, and long-term national security, which of course can ultimately amount to any economic activity of scope. Senator Elizabeth Warren’s introduction in July of her sweeping [Pharmaceutical Supply Chain Defense and Enhancement Act](https://www.warren.senate.gov/newsroom/press-releases/warren-smith-introduce-legislation-to-boost-us-pharmaceutical-manufacturing-capacity-and-end-over-reliance-on-foreign-countries-for-critical-drugs) demonstrates that the U.S. power establishment is beginning to reach a consensus on this issue—no longer the sole province of Trump-era nationalism. “To defeat the current COVID-19 crisis and better equip the United States against future pandemics, we must boost our country’s manufacturing capacity,” [Warren said](https://www.warren.senate.gov/newsroom/press-releases/warren-smith-introduce-legislation-to-boost-us-pharmaceutical-manufacturing-capacity-and-end-over-reliance-on-foreign-countries-for-critical-drugs), recasting the consequences of decades of policy to offshore our economic production as an “overreliance on foreign countries.” Likewise, Senator Tom Cotton has introduced a new bill focusing on domestic production of semiconductors, titled the “[American Foundries Act of 2020](https://www.forbes.com/sites/willyshih/2020/06/25/the-american-foundries-act-of-2020-is-about-much-more-than-just-building-semiconductor-foundries/#6a0eef6358ed),” which aims to rebuild the country’s semiconductor capacity. This bill too has significant bipartisan backing.

The government of Japan’s newly defined restrictions on foreign investment as reported by the [Financial Times](https://www.ft.com/content/2aa29fdc-946d-11ea-abcd-371e24b679ed) of around a dozen sectors including “power generation, military equipment, [computer] software [and technology]” in effect prioritize the claims of domestic manufacturers on national security grounds.

Of course, the Japanese authorities have crafted these restrictions on the vague grounds of [“national security,”](https://www.ft.com/content/2aa29fdc-946d-11ea-abcd-371e24b679ed) which is likely to take on a substantially different meaning in the wake of the coronavirus pandemic. Hence, the country is unlikely to face any serious challenge from other WTO members. And it is through that rather simple justification that we can expect a general reshaping of international trade relations and the array of supply chains.

The government of Australia has likewise [outlined new powers](https://www.news.com.au/finance/economy/australian-economy/australia-to-introduce-new-rules-on-foreign-takeovers-that-inflame-relations-with-china/news-story/018514b585ecb16d19b4dc3ae8f667ee#.caudn) to scrutinize new overseas investment, as well as forcing foreign companies to sell their assets if they pose a national security threat. The proposals come in the wake of an intensifying trade war between the governments of Beijing and Canberra, alongside “a dramatic increase in the number of foreign investment bids probed by Australia’s spy agency ASIO, over fears that China was spying on sensitive health data,” [according to news.com.au](https://www.news.com.au/finance/economy/australian-economy/australia-to-introduce-new-rules-on-foreign-takeovers-that-inflame-relations-with-china/news-story/018514b585ecb16d19b4dc3ae8f667ee#.caudn). This is happening at the same time that there has been an [overhaul](https://www.aumanufacturing.com.au/a-new-deal-pllan-for-manufacturing-countdown-to-launch) of thought with regard to manufacturing, something Australia hasn’t typically done much of. The headlines from Australia are beginning to look a lot like the [Area Development](https://www.google.com/search?q=australian+manufacturing&rlz=1C9BKJA_enUS832US832&hl=en-US&prmd=nmiv&source=lnms&tbm=nws&sa=X&ved=2ahUKEwjXg7KuvJDqAhXCSt8KHfScAOIQ_AUoAXoECA0QAQ&biw=1366&bih=905&dpr=2) stories in the United States.

The Canadian government has also announced plans to enhance foreign investment scrutiny “related to public health or critical supply chains during the pandemic, as well as any investment by state-owned companies or by investors with close ties to foreign governments,” [according to the Globe and Mail](https://www.theglobeandmail.com/canada/article-canada-tightens-foreign-investment-scrutiny-citing-economic-impact-of/). This attempt to disaggregate beneficial foreign investment flows from those deemed contrary to the national interest used to be a common feature of government policy in the post-World War II period. Canada established the Foreign Investment Review Agency in 1973 as a result of mounting concerns about rising overseas investment, notably the domination of U.S. multinationals, in the Canadian economy. Its provisions were repeatedly downgraded as globalization pressures intensified, but its value is now being reassessed for compatibility with national health policy and resiliency in manufacturing chains. Predictably, [pharmaceutical independence](https://generics.pharmaintelligence.informa.com/GB150002/Canadian-Body-Calls-For-Investment-In-Domestic-Production) is high on the list.

Taiwan, “a net importer of surgical masks before the pandemic, [has] created an onshore mask-manufacturing industry in just a month after registering its first infections in January,” [reports the Financial Times](https://www.ft.com/content/6a08ad65-e2c9-405f-a5a0-cbca1d9cb250). “Taiwan’s President Tsai Ing-wen… said Taipei would repeat that approach to foster other new industries.” And world economists have noted that Taiwan and Vietnam lead the world in [growth of global market share](https://carnegieendowment.org/2020/06/18/is-vietnam-eating-into-china-s-share-of-manufacturing-pub-82094) in exports, at the expense of larger economies like China.

In Europe, the [EU leadership](https://www.ft.com/content/e14f24c7-e47a-4c22-8cf3-f629da62b0a7) is publicly indicating a policy of subsidy and state investment in companies to prevent Chinese buyouts or “undercutting… prices.” This was supposed to represent a cross-European effort, but the coronavirus policy response is increasingly driven at the national level. Consequently, it is starting to fracture the EU’s single market, which has long been constructed on an intricate network of cross-border supply chains and strict rules preventing state subsidies to national champions.

The French government under President Emmanuel Macron has increasingly invoked the spirit of Charles De Gaulle in lieu of French industrialist Jean Monnet, considered as one of the founding fathers of today’s European Union. Corporate France has taken heed: In response to French Finance Minister Bruno Le Maire’s [rallying cry to the nation’s supermarkets](https://www.france24.com/en/20200328-france-issues-call-to-buy-french-as-coronavirus-erodes-single-market) this past March to “Stock French products,” according to France 24, “French supermarket chain Carrefour has already moved to source 95 percent of its fruits and vegetables from within” the country, which by the way is a fundamental logic of any serious environmental agenda. [According to Coalition for a Prosperous America](https://www.prosperousamerica.org/international_view_japan_france_preparing_to_move_supply_chains_out_of_china), “Le Maire [also] cited pharmaceuticals, the automotive sector, and aerospace as three economic sectors where France needs to reassert sovereignty, i.e., make more products in France.”

Going further in a national TV interview, [the finance minister said](https://www.prosperousamerica.org/international_view_japan_france_preparing_to_move_supply_chains_out_of_china) “that it was unacceptable for France to rely on China and South Korea for 80 percent of its electric battery supply, praising a new France-based battery-making facility that would come onstream in 2022. He praised French drugmaker Sanofi for saying recently that it intends to ‘re-localize’ some of its production back to France.” President Macron himself has likewise reaffirmed a goal for France to ensure the nation’s “[health sovereignty](https://www.leparisien.fr/economie/sante-macron-propose-un-plan-de-relocalisation-et-salue-les-investissements-de-sanofi-16-06-2020-8336550.php#xtor=AD-1481423553)” after the coronavirus exposed the reliance of his country on imported medical supplies. [According to a recent Reuters report](https://www.reuters.com/article/france-food-conference/france-wants-autumn-conference-on-european-food-sovereignty-idUSL8N2DV1FL), France’s “Agriculture Minister, Didier Guillaume, told political news channel [Public Senat](https://www.publicsenat.fr/) that while France could not be self-sufficient in all food products, it would look at being more autonomous in areas such as plant protein.”

Even Germany, with a vibrant export sector that has long made it a beneficiary of globalization, has also signaled a move toward greater economic nationalism. In [a recent interview with Der Spiegel](https://www.reuters.com/article/us-health-coronavirus-germany-pharmaceut/germany-would-like-to-localize-supply-chains-nationalization-possible-minister-says-idUSKBN2101BH) (cited in Reuters), the country’s economy minister, Peter Altmaier, “said he wanted to support pharmaceuticals companies that are dependent for key reagents on imports from Asia to rebuild their production sites in Europe.” In broader terms, part of the government’s overall response to the COVID-19 pandemic has featured €400 billion in state guarantees to underwrite the debts of companies affected by the turmoil. A goal of this package is to prevent a “bargain sale of German economic and industrial interests,” [Altmaier was quoted in MarketWatch](https://www.marketwatch.com/story/germany-may-raise-up-to-350bn-in-new-borrowing-to-fight-coronavirus-2020-03-21).

Economic nationalist considerations are also driving a shift in Britain’s negotiating stance in the current Brexit trade negotiations with the EU, with the UK clearly prioritizing national sovereignty over frictionless free trade with its former single-market partners, even if that means a so-called “[Hard Brexit](https://ukandeu.ac.uk/fact-figures/what-is-hard-brexit/).” The EU’s single-market rules specifically preclude state aid to specific industries if it undermines the operation of the single market. But the UK’s chief negotiating officer, David Frost, [has made it clear](https://www.theguardian.com/politics/2020/may/19/brexit-talks-eu-wants-us-to-obey-the-rules-of-their-club-says-gove) that the ability to break free from the EU’s rulebook was essential to the purpose of Brexit, even if that meant reverting to the less favorable WTO trade relationship that exists for other non-EU countries. In the [words of columnist James Forsyth of the Spectator](https://www.spectator.co.uk/article/brexit-is-back-and-covid-has-transformed-negotiations), EU laws on the single market “[deny] to member states what one cabinet minister refers to as the ‘geostrategic premium’ of encouraging domestic production of personal protective equipment. In the single market, the NHS cannot buy solely from British suppliers to try to build up a domestic manufacturing base; it has to accept bids from any company based in the EU.”

**Economic Nationalism and the New Geopolitics**

Over the past 40 years, this kind of overt economic nationalism, especially as it has pertained to domestic manufacturing capabilities, has generally been eschewed by the United States, at least until the ascension of Donald Trump to the White House. In part, this is a product of the fact that as global hegemon, the United States used to be able to dominate global institutions (such as the International Monetary Fund and the WTO) and shape them toward U.S. national interests. But when necessary, national security considerations have intervened.

[Sematech](https://www.technologyreview.com/2011/07/25/192832/lessons-from-sematech/), a government-industry consortium, was created in the 1980s to successfully revitalize the American semiconductor industry, after the Pentagon deemed this to be a strategically key industry that should not leave the United States exposed to the vagaries of foreign manufacturers. The Sematech consortium has represented a great success in national industrial planning, as it enabled the United States to re-establish its global dominance in high-end semiconductor production and design.

More recently, national security considerations in the semiconductor industry have again revived in the wake of the Trump administration’s growing dispute with Chinese 5G telecommunications equipment maker Huawei. The U.S. Commerce Department [has now mandated](https://www.paulhastings.com/publications-items/details/?id=58885b6f-2334-6428-811c-ff00004cbded) that all semiconductor chip manufacturers using U.S. equipment, IP, or design software will require a license before shipping to Huawei. This decision has forced the world’s biggest chipmaker—Taiwan Semiconductor Manufacturing Company (TSMC)—[to stop taking fresh orders from Huawei](https://www.nytimes.com/2020/05/19/business/economy/china-taiwan-huawei-tsmc.html), as it uses U.S. equipment in its own manufacturing processes. Paradoxically, then, the Trump administration has exploited pre-existing global supply linkages in the furtherance of a more robust form of economic nationalism. The same policy attitude is now visible [with regard to pharmaceuticals](https://accessiblemeds.org/resources/press-releases/aam-statement-ustr-lighthizers-house-testimony-usmca) (as it is in other parts of the world, to the likely detriment of China and India).

A shift like this will have a knock-on effect that will reverberate to the other parts of the world that for centuries have been forcibly limited—by arms and finance—to being sources of raw material export, refined if they were lucky. They will watch closely what happens with Australia, which for the majority of the past 150 years has been an exporter of food and minerals, but is now jumping on the project to [establish a national manufacturing](https://dynamicbusiness.com.au/topics/news/a-new-plan-for-australian-manufacturing-sector.html) base.

As dozens of countries build their own manufacturing base—something only a handful of countries controlled for most of modern history—big questions will emerge about geopolitical stabilization and the classical tools of foreign influence. The world today in some respects resembles the 19th century’s balance-of-power politics, even as the majority of countries understand that some minimal level of state collaboration is essential to combat shared challenges. China is party to a growing number of global disputes, as emerging great powers typically experience: the U.S. vs. China, [China vs. India](https://www.theguardian.com/commentisfree/2020/jun/23/india-china-border-modi-clash), [Japan vs. China](https://www.cnn.com/2020/06/21/asia/china-japan-island-dispute-intl-hnk-scli/index.html), [China vs. Australia](https://www.abc.net.au/news/2020-06-07/australia-china-racism-coronavirus-how-did-relationship-get-here/12330250), and the [EU vs. China](https://www.wsj.com/articles/eu-leaders-warn-china-of-risk-to-ties-if-economy-isnt-opened-up-11592850117). But hot wars are unlikely to feature as prominently as they did two centuries ago.

Expect to see Cold War-style conflict intensify, however, albeit in new forms. Instead of the old geopolitical arenas including access to vital commodities or stable petroleum markets, the new forms of the competition will put greater weight on access to advanced research and technologies, such as the collection, transfer and storage of data and the quantum computing power to process it.

The speed at which global supply chains can potentially shift to accommodate the rise in economic nationalism is considerable. The success with which we manage the transition will largely settle the debate as to whether it is in fact the better path to greater prosperity and global stability.