

The retreat from globalisation

Tariffs and other barriers are going up between the USA and China, the USA and the EU, around Iran, between Japan and South Korea and between India and Pakistan over Kashmir. There is a new economic nationalism abroad.

It is also pronounced in some businesses and industries. The vehicle industry in particular is retreating to home factories under the weight of falling demand for diesel and petrol cars.

The Japanese car makers are moving more production from the EU to Japan, partly owing to a rare move to zero tariffs in their new Agreement with the EU. Ford is pulling out of European factories. If the Fiat/Chrysler/Peugeot merger goes ahead they may wish to concentrate EU production in the two home bases of Italy and France.

Globalisation is not always the right answer. Complex supply chains come about often because companies find cheaper components and raw materials from afar which they reckon they can weld into their production to cut costs. Sometimes this turns out to be a false economy. Long distance travel for components both increases travel costs and in some cases adds an additional risk of delay to supply. Too many competing suppliers may not breed good long term relationships between assembler and component maker.

There is a rival school of thought to globalisation which says working closely with a limited number of suppliers that are nearer to the main factory may produce better results. Today suppliers often have to operate full transparency with large corporate buyers, who will expect to know their costs, margin and investment rate. For certain finished products to qualify as coming from a given country for Free Trade Agreement purposes there is often a minimum total value requirement which affects how many components can be foreign sourced.

President Trump's America first policy is designed to onshore jobs that have gone abroad. It is finding that in the current climate of industrial recession worldwide, with a particular problem in the vehicle industry, it is difficult to increase manufacturing jobs by these means. As the UK comes out of the EU we need to rebuild UK capacity to make more components for industry at home and produce more of our own food.

One of the reasons we need to get on with our exit from the EU is the opportunity it will give us to have our own trade policy, to lower our average tariff and to do a better job at promoting home produced food and goods . It has been damaging to be caught in the US/EU crossfire in the recent tariff disputes.