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CORONAVIRUS & GLOBALISATION

We hear more and more that the coronavirus crisis would demonstrate the limits of globalization, some even take the opportunity to denounce it as a whole. It is true that the virtual shutdown of the Chinese economy has caused disruption to many supply chains around the world and certain excessive dependencies (drugs, protective masks) have indeed proven to be harmful. Does this mean that free trade should be called into question?

Let's go back to the theoretical source that justifies international free trade. The theory of comparative advantage was formulated by the British economist David Ricardo in 1817 in his Principles of Political Economy and Taxation.

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When a country specialises in the production for which it is comparatively most advantaged, or least disadvantaged, rather than operating in a self-sufficient manner, it is guaranteed to be a winner in the game of international trade, and will increase its wealth. This division of labour principle which forms one of the pillars of capitalism, brings gain to all societies. In his work, Ricardo takes the example of two countries - Great Britain and Portugal - and of two products - cloth and wine. According to the figures he offers in this simplified example, he deduces that it is profitable and beneficial for Great Britain to produce only cloth, and for Portugal to produce only wine.

But are things as simple in reality? As Nassim Nicholas Taleb rightly points out in Antifragile: "Ricardo's analysis assumes that the market price of wine, like production costs, remains constant" (Les Belles lettres, 2013, page 542). The risk is excluded from the reasoning, as well as the Black Swan theory (the name of his previous work), which made him world famous. Black Swans are extreme, upsetting, unpredictable events which always occur more often than we think. Especially if we remain mentally dependent on a vision where chance is normally distributed around the average as indicated in the Gauss curve (or bell curve, normal distribution), which does not correspond to the economic reality and is quite simply human.

A theory that ignores price and production variations is problematic. Taleb cites the example of the poor potato harvest that caused the Great Famine in Ireland between 1845 and 1851 and resulted in the death of one million people and the immigration of another million. Ricardo could have remembered the continental blockade that Napoleon inflicted on the United Kingdom between 1806 and 1814, just before his work appeared and which could have turned into famine. Monoculture can be deadly and in any case it makes us fragile. In nature, Taleb warns that probabilities are unstable or unknown and although specialisation is not a bad thing in itself, there must be a broad understanding of the risk.

Taleb states: “I really believe that Ricardo is right in the last instance, but not if we refer to the models presented.” (his own, that of Paul Samuelson, who perfected it in the 1950s). In a way, the modeling killed the initial intuition. The Lebanese-American thinker and mathematician defends a small step strategy: Organically, systems without top-down control would slowly and gradually specialise over a long period of time, using the trial-and-error method and would acquire the right level of specialisation - not through some bureaucrat using a model. I repeat, systems make small mistakes, design big. “The forced application of Ricardo’s model by a central planner would cause an explosion and its application by managers - multinationals or state - with too short vision, causes the multiple incidents on the supply chains which we are witnessing with the coronavirus crisis.”

“Allowing the market to work, to operate slowly, would lead to profitability - true efficiency” recommends Taleb, who denounces the fascination for specialisation at all costs: “The concept of specialisation, which has obsessed economists since Ricardo, destroys countries when it is imposed by decision-makers, since it exposes economies to errors; but it works well when it is achieved progressively by progressive means, with an ability to absorb shocks and redundancy levels.”

It is not free trade that is at stake, not even the specialisation of economies but an overly frustrated conception of risk. The notions of redundancy and resilience must fully enter the management sciences because frenzied optimisation generates hidden weaknesses which can prove to be very costly and even put the company at risk.

And as for globalisation itself, it has certainly allowed the transmission of the virus. But remember that at the time when it hardly existed, only through a few tenuous threads, epidemics were much more frequent and deadly. The ravages of the plague date back to ancient times and span the entire Middle Ages and last until the 18th century; history tragically bears witness to this. Free trade has raised living standards in all regions of the planet (especially in China, which has been able to cope with the coronavirus with all modern medical technologies), agricultural production and hygiene have made decisive progress. Famines and great deadly epidemics are a thing of the past but still, beware, the Black Swan can always appear. On the contrary, what will be a pure product of globalisation, and of which we can be proud, is the vaccine which we already see as the result of intense collaboration between global research centres - an opportunity which our ancestors were not able to benefit.

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