

# Are we about to enter the era of deglobalisation?

It could be a permanent shift or a temporary setback, even so, aviation will suffer, writes Adam Pilarski, senior vice-president at Avitas. *(With the assistance of Joshua Pilarski.)*

**F**or quite some time we have experienced an era of globalisation, which is the Holy Grail (Nirvana) for economists. Economics deals, by definition, with the optimal allocation of scarce resources, moving production to locations where they can be produced in the most efficient way. Moving resources (including people) to places where they are most efficient is, of course, a boon to aviation.

The tradeoffs between producing everything at home while providing work for locals and buying from abroad entails transportation costs but also provides cheaper products. This has been discussed for centuries among economists. The work by David Ricardo in 1817 postulated that free trade is beneficial to the whole world because of the principle of comparative advantage which lets countries specialise in what they know best.

Expansion of free trade brought continuous growth of the world economy and trade. These trends were also beneficial to aviation, both passenger and cargo. Interestingly, we also experienced much lower inflation because we imported cheap products from abroad, especially in the past couple of decades. But despite its benefits, free trade has been vilified by its detractors.

Producers were always in favour of open markets as long as it was beneficial to them by expanding their markets. What they were less happy with was the right of foreign firms to compete in their own markets, which could lead to job losses.

The realisation that, from a global point of view, this was an efficient arrangement and allowed the world to maximise the total (global) output from the limited resources of our planet did not sit well with people who for decades had been in an industry which now was disappearing.

Opposition to such a world order has been voiced for a long time, being advocated by various populist and nationalist leaders. For example, Ross Perot championed the cause during his 1992 US presidential campaign which garnered about one-fifth of all votes.

During a debate he proclaimed that if the USA were to adopt the North American Free Trade Agreement (Nafta) deal there



Our author at the *Airfinance Journal* Dublin 2020 conference.

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would be a giant sucking sound as many jobs would disappear to Mexico. Nafta did happen, the giant sucking sound did not. The populists in the USA had to wait another couple of decades to raise that issue again.

While the theoretical benefits of globalisation are clear (world's output will rise), the distribution of these gains between countries and within countries among the various groups is not clear and can easily lead to conflicts. In addition to the distribution of those gains, there is also the issue of control.

Aviation has the perfect illustration of this issue in the case of the Boeing 787 production. The aircraft was designed to be heavily outsourced, assuring the planners

of low cost but also necessitating giving up some control.

Things did not go as planned and the aircraft was delayed by three years and also experienced a grounding of the fleet for three months in 2013. In the end, this resulted in tremendous expense to Boeing, which was forced to bring big parts of the supply chain of production in-house. These kinds of developments have been experienced in other industries which tried to balance cost savings versus control.

The current coronavirus crisis adds complexity to the existing situation. Most world economies are in an induced coma, trade and international, or even domestic, travel are in a worse shape than most other segments of the economy. The pushback against globalisation has a number of sources.

Some are political, as exemplified by the rise in nationalism pitting the interest of one's own population against the rest of the world ("us" versus "them") or supporting some part of the population against another ("elites" versus "common folk").

This trend is further reinforced by attempts to gain more control over the manufacturing process and reduce the risk of supply chain disruptions. Ironically, part of this can be accomplished by a push towards more automation, which can thrive despite the pandemic.

All this can move us from the practice of JIT (Just In Time, getting parts at exactly the correct time from around the world) to a new concept – ie, JIC (Just In Case or overordering parts to be prepared for screw ups in the supply chain, thus reducing uncertainty). Of course, this can only be achieved at a higher cost, and society is now moving slowly in the direction of less risk but also less benefit of a diversified supply chain.

So where does it leave aviation in the long term? The move away from globalisation is accelerating for the time being. Current events make these trends more pronounced. Only time will tell us whether this will be a permanent shift or a temporary setback. Aviation, overall, will be negatively affected by these developments. **▲**