Opinion Supply chains

The problem with concentrated power

Chinese mercantilism and western corporate monopolies pose the same challenge

RANA FOROOHAR

© Matt Kenyon

Rana Foroohar 10 HOURS AGO

Last week, I quoted a recent speech by US national security adviser Jake Sullivan, in which he asked, "How does trade fit into our international economic policy, and what problems is it seeking to solve?" As I'll argue here, we should start by seeking to solve the problem of concentration and competition.

Leaving aside the question of whether Beijing invades Taiwan (an enormous question, of course, but stick with me), many of the current US and European concerns with China are about the way in which the country's state-run system encourages economic concentration, and the fact that this concentration is then deployed in mercantilist ways.

China has for years been able to flood global markets with everything from cheap steel to underpriced PPE to higher end goods, thanks to its ability to artificially depress wages as well as ignore environmental concerns and (all too often) WTO rules. Thanks to its singular economies of scale, China is on track to become the world's biggest EV exporter, which will inevitably lead to a spate of new trade disputes.

China also has monopoly power in many crucial supply chains including pharmaceutical inputs and rare earth minerals. According to a 2022 US-China Economic and Security Commission review, 41.6 per cent of US penicillin imports came from the country, which also has 76 per cent of global battery cell came from the country, which also has 76 per cent of global battery cell manufacturing capacity within its borders, 73.6 per cent of permanent magnets (a critical component of electric vehicles), and from 2017 to 2020, supplied 78 per cent of US imports of rare earth compounds. The US has its own supply of certain minerals but, thanks to Chinese subsidies, some domestic American businesses have ceased production.

This kind of monopoly power poses both a security threat and a competitiveness one. China has made numerous clear statements about wanting to ringfence some crucial global supply chains while reducing its dependence on foreign countries in others. No country wants to worry about having crucial drugs or commodities cut off.

Let's be clear — Beijing didn't reach over and "steal" production, investments and jobs from elsewhere. Instead Chinese central and local government simply deployed subsidies for decades, offered discounted land and gave major tax breaks to producers in order to entice localisation within China. Western companies naturally followed, given that shareholder capitalism requires business leaders to chase the highest share price and the lowest consumer costs (and, crucially, doesn't account for the resulting negative externalities in labour, climate or security).

But monopoly power is by no means just a China problem — or indeed solely an international one. Deregulation and weaker enforcement of antitrust laws in the US since the 1980s has led to extreme corporate concentration. Walmart sells more than half of all groceries in some areas of the country, Amazon dominates ecommerce, a handful of companies control food supply, a single railroad (BNSF) ships 47 per cent of all grain.

The existing giants grow ever bigger and more powerful. JPMorgan acquires yet another failed bank. Food inflation is rising, as insurance Allianz calculates that about 10 per cent of the jump in Europe reflects the search for higher profits. This is made possible by the fact that key parts of the food supply chain are dominated by a handful of players.

Chinese mercantilism, European and US corporate price gouging, American Big Tech and Too Big To Fail banks are really all disparate parts of one problem — too much concentration of power in one place. This leads to market fragility, less innovation (which tends to come from smaller companies and more, rather than less, competition), security concerns and defensiveness on the part of states that worry they could be cut off from crucial supplies.

China, of course, has been subject to US export bans and is understandably anxious about it. While it is legitimate for any country to limit the export of technology that could be used for defence purposes by an adversary, it's also true that teasing out dual-use technologies is a tricky business. Total decoupling between the west and China is not what anyone wants. So, how to square the circle?

I'm beginning to think that we should institute a new market principle that Barry Lynn, the head of the Open Markets Institute, an antimonopoly think-tank in Washington DC, calls "a rule of four". In crucial areas, from food to fuel to consumer electronics, critical minerals, pharmaceutical products and so on, no country or individual company should make up more than 25 per cent of the market. What's more, countries should apply this rule both locally and globally.

This would be a way for nations to support free trade, while also being able to build up resilient and redundant supply chains. It would buffer the global race to the bottom in which cheap capital is forever flowing to places with the cheapest labour and lowest environmental standards. It would, of course, require a total revamp of the WTO. But that wouldn't be a bad thing, since many countries feel it is not functional anyway.

This isn't a perfect solution. But it's a way to start shifting focus from trade wars, cold wars and class wars to the main culprit in all of those things — too much power in too few hands.

rana.foroohar@ft.com