



# *Rodney's Take*

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## **The Cost of Going It Alone**

Living on the Gulf Coast, we're accustomed to hurricanes and, more frequently, hurricane preparedness. It's not about those images of empty grocery store shelves on the day that a hurricane is barreling toward the coast. That sort of last-minute buying is for rookies. Real preparation starts in the spring, before the hurricane season kicks off in June.

We buy water, batteries (although fewer now because so many things are rechargeable), bleach, and canned goods. We verify that our generator is in working order and has fresh gas. It's interesting that we go through this process, because generally we have no intention of staying through a major storm. However, if we're caught and unable to leave, we'll have supplies. Thankfully, we've only used the generator a few times and even then not for very long, and we've never had a sustained period without access to food, water, and fuel. But this means that every year we're left with excess supplies, throwing away unused items that expire or using them up at a later date. Either way, preparation costs money. It's cash well spent, but it's still more expensive than no preparation, as long as we never sit through a storm.

In the midst of a pandemic and with rising global tensions, nations are preparing for economic storms. They're planning to increase self-sufficiency in their supply chains, which will duplicate capabilities both at home and abroad. It's globalism in reverse. One possible outcome is less reliance on

other nations in times of stress, but one assured outcome is higher cost, which eventually will make its way to the consumer.

The Chinese are leading the charge. Citing security, the National Development and Reform Commission (NDRC) pledged to secure stockpiles of grains, energy, and raw materials and to develop the processes necessary to produce and distribute industrial parts and commodities. The ministry overseeing agriculture announced plans to set aside arable land to grow soybeans, something the Chinese haven't done in large quantities for two decades. The government hasn't linked the new initiatives to its previous "Made in China 2025" plan, which called for consumers to buy more things from domestic producers by 2025, but the idea is the same. The Chinese want to distance themselves a bit from the rest of the world.

Implicit in this is that the Chinese are willing to accept a lower quality or higher price for the goods they will produce internally that they previously sourced from other nations. Otherwise, why were they importing such things?

The U.S. is about to go down the same road.

Last year, Congress passed the \$250 billion U.S. Innovation and Competition Act, meant to counter China's technology gains. The bill calls for spending \$52 billion on semiconductor research, design, and manufacturing, which the government expects will bring private investment that will lead to seven or more new semiconductor fabrication plants on U.S. soil.

There's a reason we don't have more such plants today. It's more expensive to build the plants and manufacture the products in the U.S. than to make them in Taiwan or elsewhere.

Like the Chinese, we're willing to eat the higher cost to promote domestic supply. While the government is picking up part of the tab, it's likely that some of the increased cost of producing computer chips in the U.S. will be

passed on to companies who buy the chips, who will then pass it on to consumers.

It might start with semiconductors, but it's unlikely to stop there. The more we domestically source items that we currently purchase abroad, the higher the price we're likely to pay, which means inflation.

Don't get me wrong. It might be worth it. By sourcing goods from abroad, we're nodding to specialized labor, which clearly lowers costs and leads to an increased standard of living, at least for people who didn't lose their jobs. But we're also opening ourselves to the dangers of disrupted supply chains either through acts of nature or foreign government manipulation.

International trade can increase standards of living in both exporting and importing countries, and it can create bonds that make armed conflict less likely (see the European Union), but it requires mutual trust that each side will not hold trade hostage for unrelated purposes, like Russia cutting off gas supplies for political gain. Today, global trade is in retreat. The questions are, how far will it recede and how much will that cost?

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*Got a question or comment? You can contact us at [info@hsdent.com](mailto:info@hsdent.com).*