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New Ways of Going Global

By Matthew Rees

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Free trade was an early casualty of Covid-19. Many countries promptly limited the export of medical supplies, food and even toilet paper. The restrictions contributed to a sharp decline in international commerce. By year's end, trade is projected to be down 18% compared with 2019 and foreign direct investment down by as much as 40%. This drop comes at the end of a 10-year period in which both trade and foreign investment have been stagnant or falling as a share of global gross domestic product—a pace and pattern known as "slowbalization."

In "Outside the Box," Marc Levinson, a former editor at the Economist, provides a timely perspective on such trends by tracking the evolution of cross-border trade over time—roughly from Marco Polo in the 13th century to the modern age and, not least, the current moment. Mr. Levinson says that globalization—a phenomenon celebrated for its broad economic benefits and, of late, lamented for its effects on domestic industries—is "far from dead." It is, he writes, "entering a new phase . . . in which the world economy will still be bound closely together, but in ways different from what the experience of recent decades has taught us to expect."

Much of “Outside the Box” is devoted to describing the major developments in trade that have made modern globalization possible. The first began in the early 1800s, fostered by the rise of what Mr. Levinson calls “industrial capitalism” and the spread of the idea, advanced by David Ricardo and other 19th-century economists, that unfettered trade would benefit both parties. The higher living standards that followed meant more consumer purchasing power and a search for new trading partners. Meanwhile, the commercialization of the oceanic steamship brought much-needed predictability to far-flung trade, and the telegraph cable sped up communication. The shipping industry became more efficient because of new engines and cheaper steel, which drove down costs.

Pegging currencies to the price of gold, Mr. Levinson notes, eliminated the exchange-rate risk associated with imports and exports. By 1913 the annual volume of goods moving across borders was 30 times greater than it had been a century earlier, and leading thinkers, like Norman Angell, a British journalist and future Nobel Peace Prize winner, predicted that economic interdependence would end transnational combat.

The start of World War I in 1914 crushed such optimism. The war, followed by the Depression and yet another global conflict, caused a dramatic reduction in trade. A turning point came with the end of World War II, when stability returned to international relations and postwar reconstruction began. At the Bretton Woods conference of 1944, more than 40 countries agreed to new rules for a global system, including a commitment to free trade.

Thus marked the start of a new era of globalization. In 1951, six European countries created a common market in coal and steel, eliminating tariffs and other trade obstacles. Mr. Levinson notes that, in this period, there was, for the first time, more trade in manufactured goods than in commodities (like coffee).

Another milestone was the global agreement in 1965 to standardize the size of the containers used to transport goods around the world. This move, which brought greater efficiency and lower costs to shipping, helped unleash an explosion of trade. (Mr. Levinson's "The Box," whose first edition appeared in 2006, told the story of the standardization of container sizes and described the commercial vitality it brought about.) By 1972 the United States was importing more manufactured goods than it exported, which it had not done since the 19th century.

As Mr. Levinson shows, these changes were complemented by reduced tariffs, ever more reliable transportation and lower telecom costs—all of which set the stage for the era of globalization that spanned the late 1980s to the early 2010s. The volume of the goods trade swelled—more than doubling in 2001-08. A hallmark of this era, according to Mr. Levinson, was that "manufacturers and retailers spread their supply chains far and wide." (As of last year, for example, Apple had suppliers in 49 countries.) And supply chains emerged into "value chains," which involved firms integrating with one another through joint ventures.

The newest era, only just under way, focuses less on factory production and foreign investment, Mr. Levinson argues, and more on the transmission of services—banking, engineering, information technology, auditing and what could be called idea production. Companies distribute their freshest knowledge and ideas across technical centers positioned throughout the world, and rely on licensing arrangements and contracts with global suppliers. This exploration of trade's future is particularly thought-provoking, so it's regrettable that Mr. Levinson doesn't give it more space.

Mr. Levinson acknowledges the concerns of globalization's critics, but he doesn't shy away from observing that the number of people lifted out of extreme poverty—the World Bank estimates more than one billion people in the past three decades—greatly exceeds the number of people who may have been harmed by the loss of local jobs or the lowering of wages. He also notes what's often absent from globalization discussions: For all the hype about the "global" economy, it is less integrated than most people believe. The foreign affiliates of the world's multinational companies account for only about 9% of global output, according to NYU Prof. Pankaj Ghemawat. A great deal of economic activity still happens within national borders or regional zones.

One lesson of Mr. Levinson's absorbing, centuries-long survey is that evolving global systems are always vulnerable to unexpected events. Wars, sudden technological shifts, financial crises, ideological passions and, yes, pandemics can interrupt or diminish cross-border integration. It's too soon to tell whether Covid-19 will reorient the global economy, but if it doesn't, something else probably will.

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