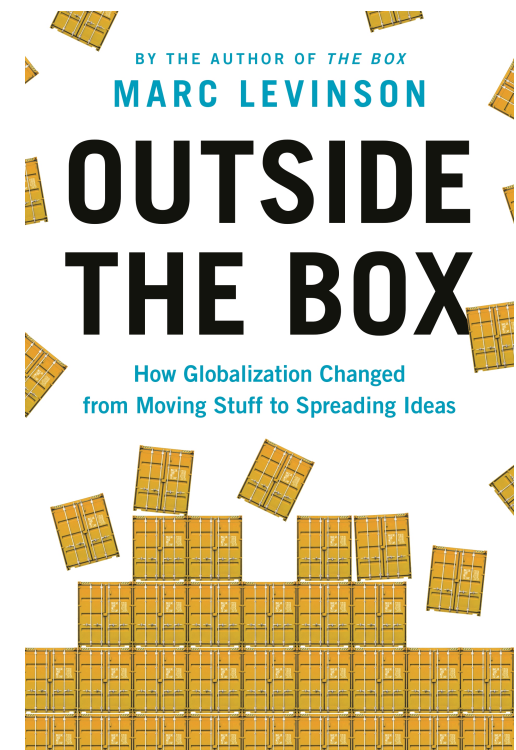


Outside the Box

How Globalization Changed from Moving Stuff to Spreading Ideas

Marc Levinson
AT020 Committee
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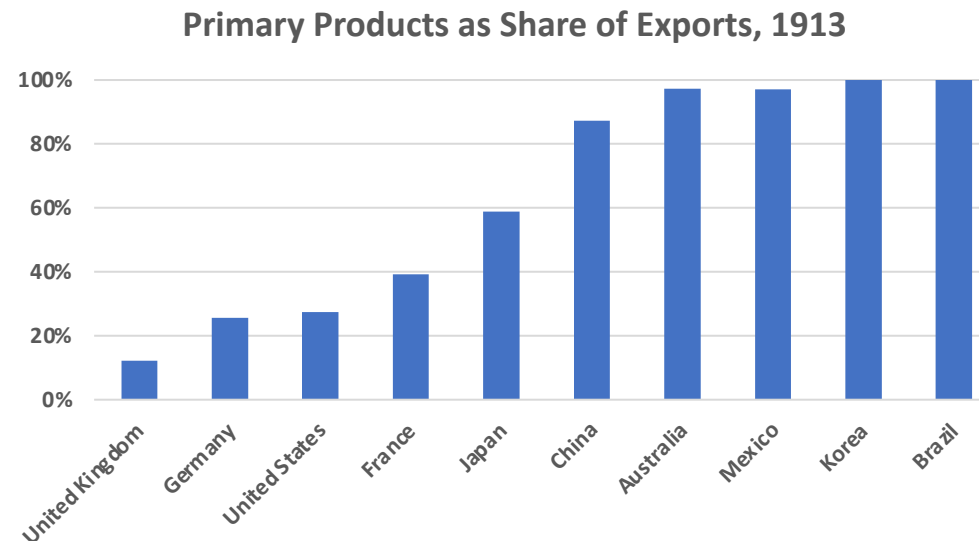
Contact information:

marclevinson1@gmail.com

A Brief History

Globalization began with rise of industrial capitalism around 1830

- By 1913, the value of international trade was 42 times as high as in 1800
- More than three-quarters of trade involved Europe, most trade was in primary products
- Trade and foreign investment collapsed with onset of World War One in 1914

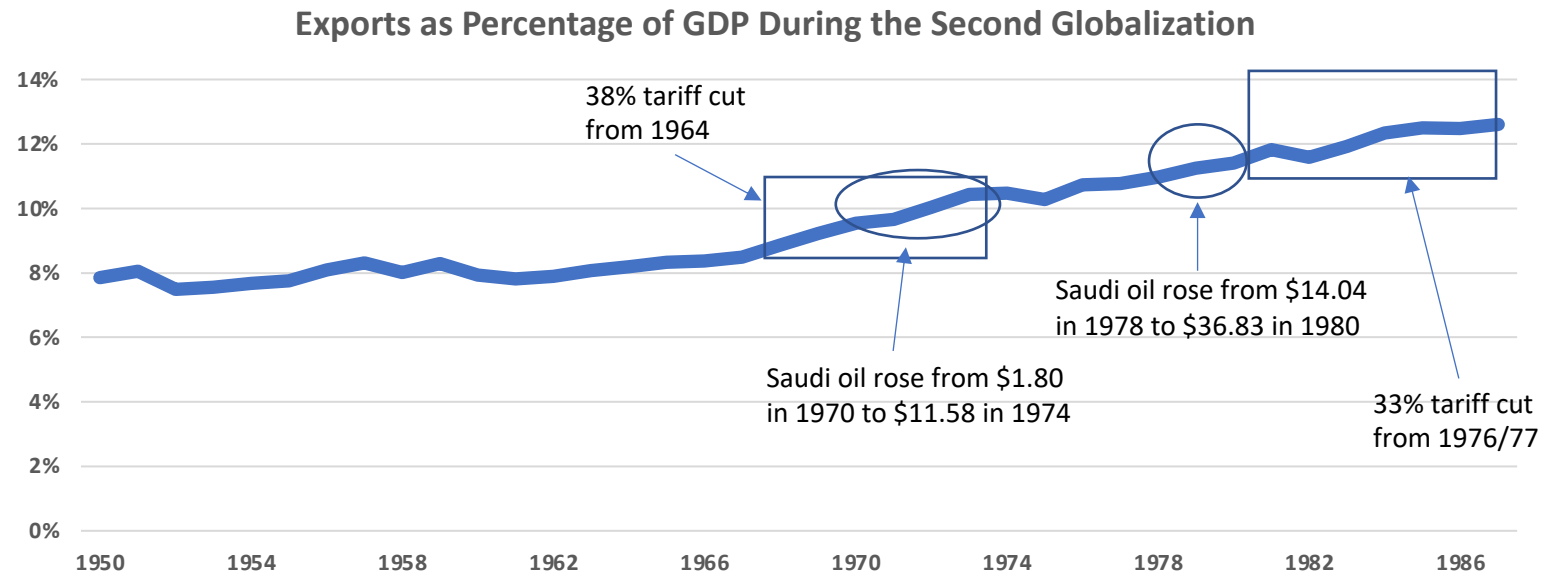


Source: Federico -Tena World Trade Historical Database.

Post-War Rebound

A second phase of globalization emerged in late 1940s

- Trade grew slowly as share of GDP, driven by lower tariffs and oil exports
- “South” exported commodities, $\frac{3}{4}$ of world’s manufactured exports came from US, EU, Japan
- Rapid growth of international lending led to LDC debt crisis starting 1982



Sources: Federico-Tena World Trade Historical Database (data for 51 countries); World Trade Organization; BP *Statistical Review*.

The Third Globalization

Since late 1980s, intermodal shipping, falling communications costs, and improved computing have supported long-distance value chains

- Manufacturing shifted to a few low-wage countries, most left aside
- Trade grew twice as fast as world economy, with intermediate goods in the fore
- Subsidies and misjudgment of risk led to excessive trade and investment

Examples of Ocean Freight and Insurance Costs, 2016

Exporter	Importer	Product	Sea Transport Cost
China	Germany	Wood screws	\$0.079 per kg
Korea	Germany	Auto engine pumps	\$1.215 per pump
Indonesia	Italy	Sports footwear	\$0.095 per pair
Vietnam	United States	Ceramic tableware	\$0.073 per kg
Australia	Canada	Wine	\$0.046 per liter
India	Saudi Arabia	Footwear, leather uppers	\$0.200 per pair

Source: UNCTAD. Some costs estimated based on UNCTAD estimates.

A Different Future

The Third Globalization peaked amid 2007-09 financial crisis

- Megaships were built for trade boom, but after 2008 trade grew more slowly than world economy, leading to deep crisis in container shipping
- Flow of foreign direct investment peaked in 2007, foreign bank lending has fallen as well
- Businesses interruptions have led to focus on supply chain risk, not just production and transport costs
- Aging populations, factory automation, simpler production, and transformation of goods into services all point towards slow growth in goods trade and likely decline
- COVID-19 has accelerated these trends that were already underway
- The Fourth Globalization will have more to do with trading services and ideas and less to do with moving goods