

THE FOURTH GLOBALIZATION

INTERNATIONAL TRADE AND THE RESHAPING OF VALUE CHAINS

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TPM24, LONG BEACH

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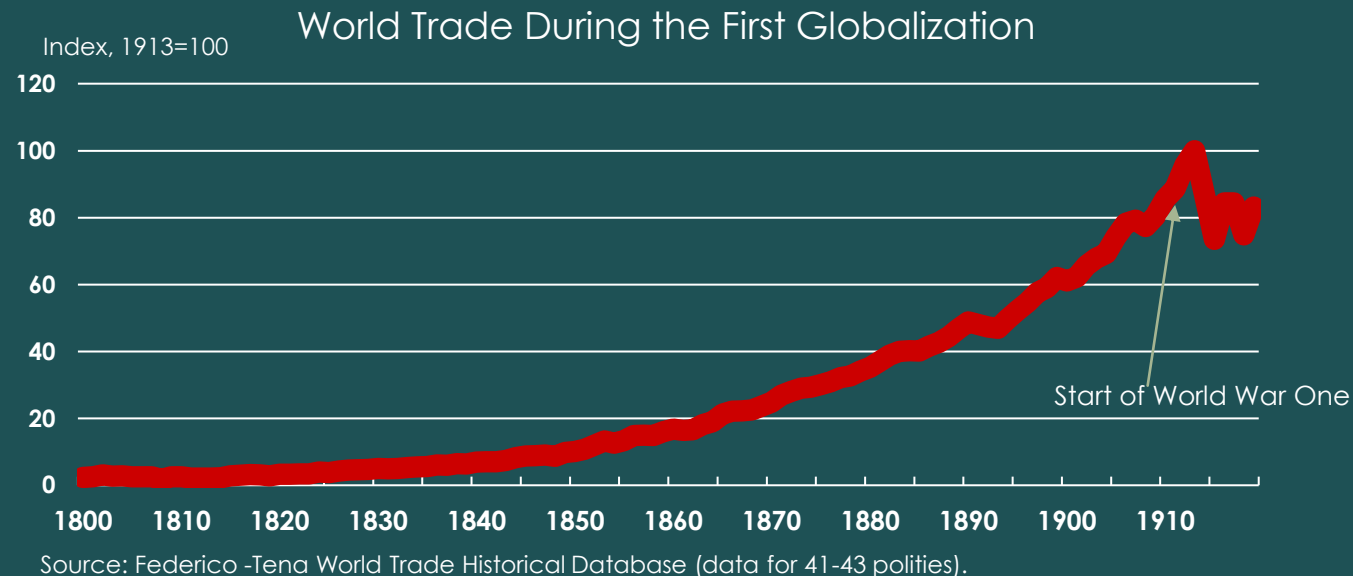
TRADE ≠ GLOBALIZATION

- LONG-DISTANCE TRADE HAS OCCURRED SINCE ANCIENT TIMES, BUT HIGH TRANSPORT COSTS KEPT VOLUME SMALL
- TRADE LARGELY INVOLVED LUXURY GOODS
- MOST PEOPLE WERE REMOTE FROM THE GLOBAL ECONOMY



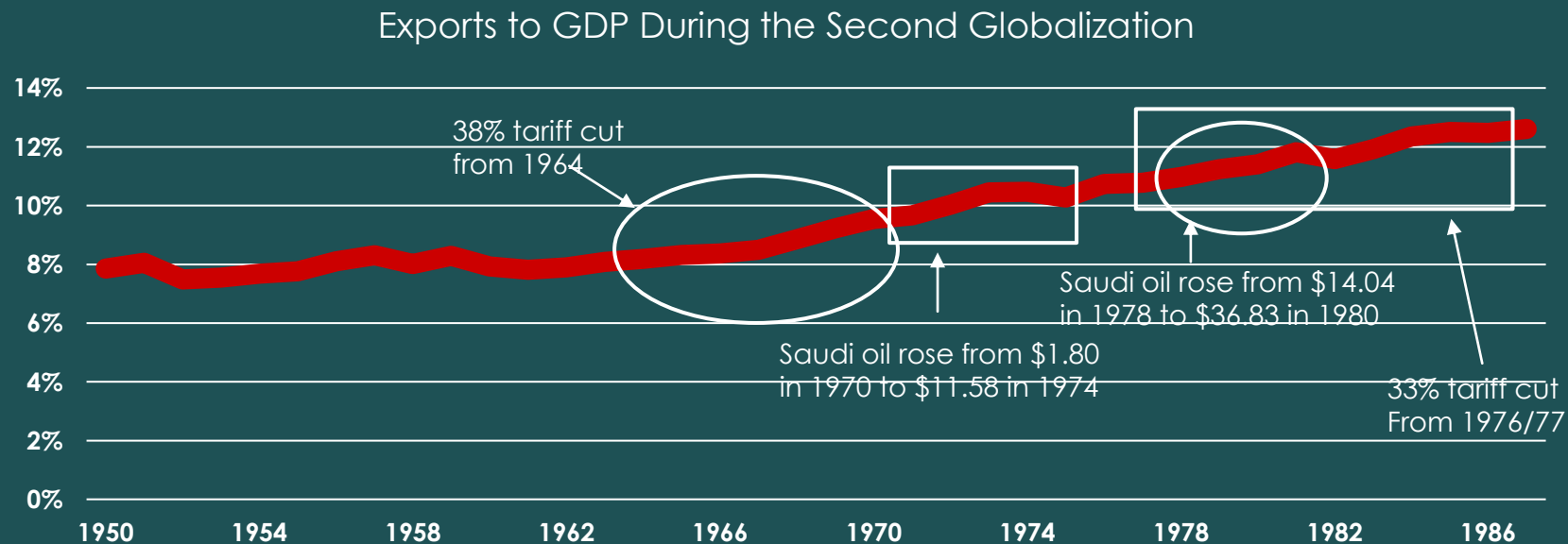
THE FIRST GLOBALIZATION

- TRADE BEGAN TO GROW RAPIDLY AROUND 1830 WITH ONSET OF INDUSTRIAL CAPITALISM
- BY 1913, THE VALUE OF INTERNATIONAL TRADE WAS 42 TIMES AS HIGH AS IN 1800
- THREE-FOURTHS OF TRADE AND ALMOST ALL FOREIGN INVESTMENT INVOLVED EUROPE



THE SECOND GLOBALIZATION

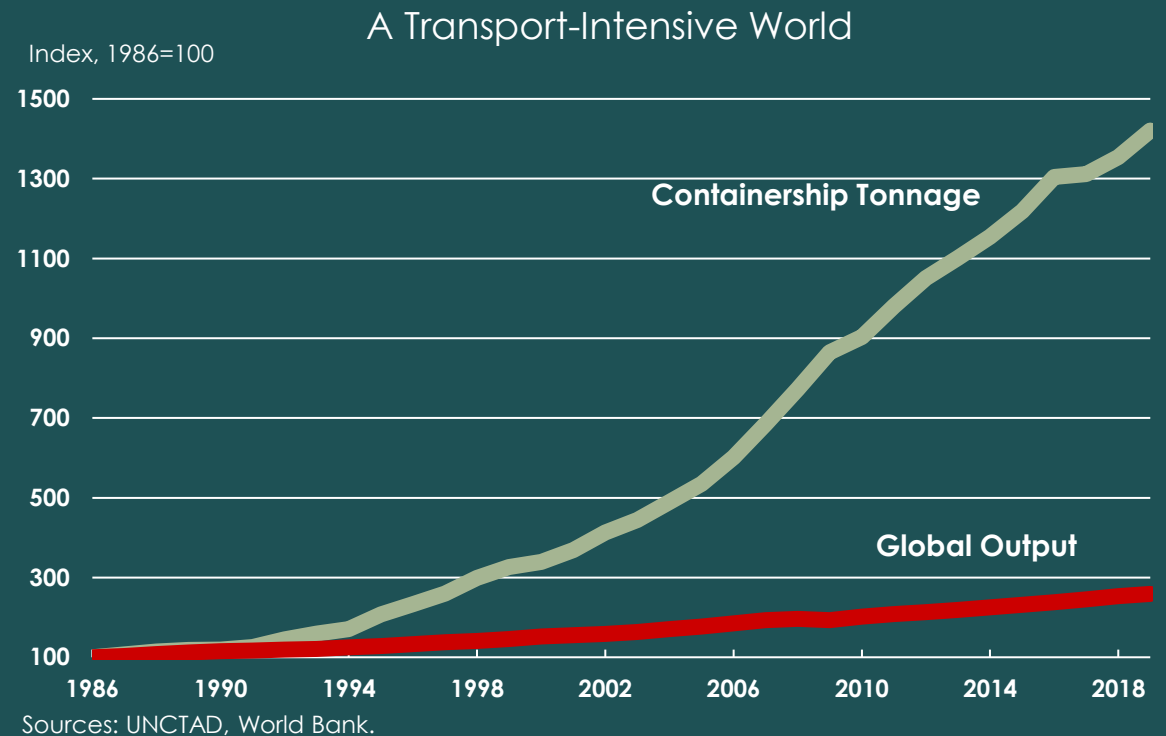
- TARIFF CUTS AND OIL EXPORTS DROVE INCREASED TRADE FROM LATE 1940s, WITH MANUFACTURED GOODS BECOMING MAJORITY OF TRADE IN LATE 1950s
- POORER “SOUTH” MAINLY EXPORTED COMMODITIES, RICHER “NORTH” FACTORY GOODS
- DEBT CRISIS OF 1980s HELPED BRING SECOND GLOBALIZATION TO AN END



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

THE THIRD GLOBALIZATION ARRIVED IN THE LATE 1980S

- CONTAINER CUT COST, IMPROVED RELIABILITY OF OCEAN TRANSPORT
- PRICE OF TELECOMMUNICATIONS BEGAN PLUNGE TO NEAR ZERO
- CHEAPER COMPUTING MADE IT EASIER TO MONITOR SUPPLIERS
- CHANGING COST STRUCTURES AND TECHNOLOGY OPENED WAY TO MORE COMPLEX VALUE CHAINS



MANUFACTURING MATTERED MOST

- EXPORTS OF MANUFACTURES, 9% OF WORLD OUTPUT IN MID-1980s, EXCEEDED 16.4% IN 2008
- TRADE IN ELECTRONICS GREW 20-FOLD BETWEEN 1980 AND 2012
- CHINA'S EXPORTS, 9% OF GDP IN 1989, REACHED 36% IN 2006
- BOOM IN FOREIGN DIRECT INVESTMENT HELPED DRIVE GOODS TRADE

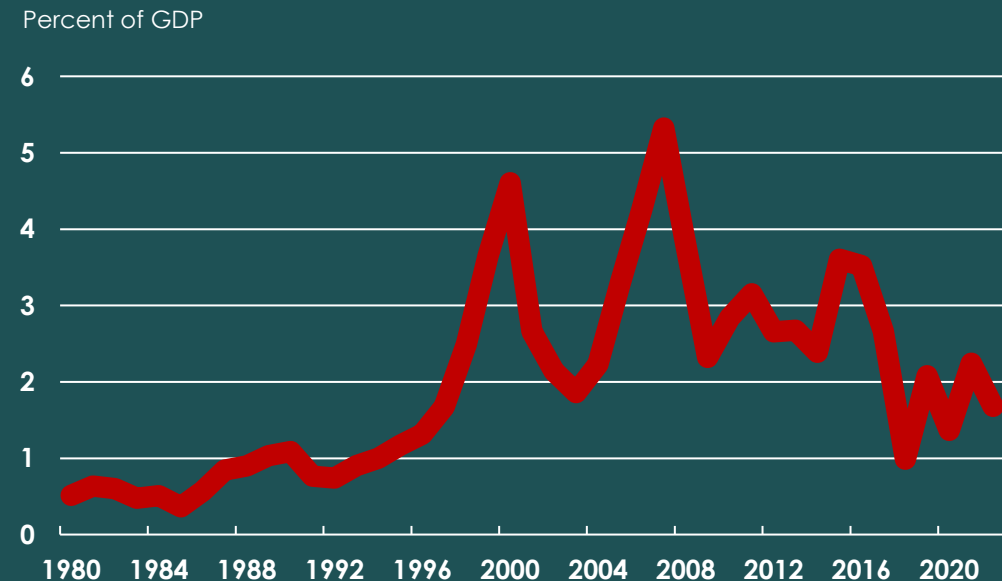


Source: World Trade Organization.

THE THIRD GLOBALIZATION RECEDES

- TRADE IN MANUFACTURED GOODS FALLS AS SHARE OF OUTPUT AND TRADE
- FOREIGN INVESTMENT AND LENDING LOSE IMPORTANCE
- SERVICES TRADE EXPLODES—BUT MUCH OF IT IS UNMEASURED
- MEGASHIPS MADE TRADE SLOWER AND LESS RELIABLE, FOCUSING ATTENTION ON RISK IN VALUE CHAINS

Global Foreign Direct Investment



Source: World Bank.

THE FOURTH GLOBALIZATION IS DIFFERENT

- AGING, SLOW-GROWING POPULATIONS AND EMPHASIS ON INTANGIBLES IN BUSINESS INVESTMENT WILL HOLD DOWN SPENDING ON GOODS
- SERVICES INCREASINGLY SUBSTITUTE FOR GOODS, LIMITING DEMAND FOR PHYSICAL PRODUCTS INCLUDING INDUSTRIAL COMPONENTS
- GOVERNMENT POLICY WILL MATTER MORE IN BUSINESS LOCATION CHOICES AND WAGE DIFFERENTIALS WILL MATTER LESS, AFFECTING TRADE PATTERNS
- QUEST FOR RESILIENCE WILL LEAD SOME VALUE CHAINS TO BECOME MORE REGIONAL, REDUCING AVERAGE DISTANCE OF FOREIGN TRADE

WHAT LIES AHEAD?

- GREATER POLITICAL RISK AS SUPPORT FOR TRADE AND FOREIGN INVESTMENT WEAKENS, ENCOURAGING PROTECTIONISM
- GREATER GEOPOLITICAL RISK AMID GLOBAL RISE IN MILITARY SPENDING AND WIDER ACCESS TO ADVANCED TECHNOLOGIES THAT CAN DISRUPT TRADE
- GREATER MACROECONOMIC RISK AS DOMESTIC CONTENT RULES, SUBSIDIES, AND BARRIERS TO DATA FLOWS DAMP PRODUCTIVITY, SLOW GROWTH, AND FEED INFLATION
- GREATER ENVIRONMENTAL RISK AS SUSTAINABILITY MEASURES MAKE FREIGHT TRANSPORTATION MORE EXPENSIVE, WEIGHING ON TRADE IN LOW-VALUE PRODUCTS
- GREATER OPPORTUNITY FOR COMPANIES THAT CAN HELP BUSINESSES UNDERSTAND AND MANAGE RISK IN VALUE CHAINS

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