OPINION

The decline of stuff: Why manufactured goods are becoming less important to the global economy

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Iran's seizure of an Israeli-linked container ship near the Strait of Hormuz on April 13 is just another ill wind buffeting the world economy. Houthi attacks on vessels navigating the Red Sea, drought-related reductions in the number of vessels that pass daily through the Panama Canal, and renewed piracy in the Indian Ocean also highlight the vulnerabilities of the long-distance supply chains on which the world economy depends. But those supply chains are slowly becoming less important. Trade in manufactured goods is likely to grow more slowly than the global economy in the years ahead, and consumers will feel the consequences.

One cause of the slowdown in trade is demography. Almost everywhere except sub-Saharan Africa, populations are aging quickly as birth rates fall below the replacement level. Fewer new families – the prime purchasers of consumer durables – are being formed in almost every middle-income and upper-income country. Older households, put simply, buy less stuff: they have had years to accumulate possessions, and they are more inclined to spend on vacations, restaurant meals, and medical bills than on dresses and dining room furniture, the sorts of manufactured goods that are shipped across borders.

Technological change is also dampening the goods trade. An electric vehicle has several thousand fewer parts than a similar internal combustion vehicle, so the worldwide shift to EVs is affecting exports of components such as pistons and mufflers. Manufacturers' investment in equipment has been weak, in part because they can keep industrial machinery up to date by downloading software rather than replacing hardware. Traditional light bulbs are being supplanted by much smaller and cheaper light-emitting diodes.

And then there is the uncomfortable fact that long supply chains are becoming less reliable and much slower. Two decades ago, nine out of 10 container ships arrived in port at or near the scheduled time; these days, the percentage is closer to half. While events like the recent bridge collapse in Baltimore obviously cause delays, the main reason is the industry's obsession with building ever-larger vessels that clog container terminals with large volumes of freight during a single port call. Removing a container from a ship takes longer than it used to because there are more containers stacked in the hold and atop the deck, and more trucks and trains are needed to get the boxes into and out of the port.

Once, ships could speed up to recover time lost in port. That's no longer so easy: Ship lines have slowed their vessels to save fuel, and newer ships generally cannot go as fast as their predecessors. If they've fallen behind schedule, they often cannot make up lost time. Complicating things further, it has become common for ship lines to cancel sailings in order to get their vessels back on schedule. A shipper may plan on its cargo leaving China for Vancouver on a particular date, only to discover belatedly that the next opportunity will be three weeks hence.

Decoder: Global shipping rates spike on Red Sea attacks

These transport delays and uncertainties raise the costs of manufacturers and retailers that are shipping their goods by sea. They are forced to own their cargo for longer before they can sell it, which entails additional financing costs, and they face greater risk that their goods won't be on hand when needed. Many companies are dealing with the risk of delayed shipments by keeping larger inventories in their warehouses, a trend that began during the COVID-19 pandemic and has persisted since then. Others are seeking multiple sources of key parts and finished products. Either way, controlling supply chain risk will bring higher prices at the store

store.

A large share of our consumer goods come from China and Southeast Asia, where manufacturers shifted production decades ago. That cut the cost of many items: In the United States, baby clothes, window shades and kitchenware all cost less today than they did at the start of the century. But with the dearth of young people driving up compensation in many places that once lured foreign companies with low wages, manufacturing in many Asian countries is no bargain. Unlike in the early years of the 21st century, falling import prices no longer help central banks control inflation with little pain for the public. Rising trade barriers and export and import restrictions due to geopolitical tensions are also pushing up costs.

This isn't the end of globalization. Rather, globalization is taking on an unfamiliar form. The container ships laden with thousands of colourful metal boxes, filled mainly with goods churned out by factories in low-wage countries using inputs from other low-wage countries, are gradually mattering less to the world economy. More and more, globalization has to do with the exchange of services, mainly in the form of digits. Banks underwrite loans in one country, approve the paperwork in another and collect payments in a third. A British book publisher calls on a copy editor in Pakistan, and a movie for streaming in Canada can be made anywhere, with the dialogue rendered into multiple languages by artificial intelligence. In the business sector, a large share of investment goes toward research, software and other non-physical expenditures that can be undertaken wherever the expertise is available, with the intangible product moving across borders with the click of a mouse.

This sort of trade is impossible to measure accurately: When an engineering firm in Toronto transmits technical drawings to its branch in Paris, no money changes hands and, officially, no international trade has occurred. But as the globalization of manufacturing counts for less in the world economy, the movement of non-physical products across borders is more important than ever. Out of public view, businesses' worldwide search for talent is driving globalization away from stuff and toward an ever greater exchange of things we can't see or touch.