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The Stuck Container Ship on the Suez Canal Was a Metaphor

Long-distance supply chains hide costly risks — and those risks may help usher in a new stage of global commerce.

By Marc Levinson

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The March 23 grounding of the giant vessel Ever Given (which was freed on Monday) in the Suez Canal may have been bad news for the world economy. Still, corks have been popping in the headquarters of the world's container shipping lines. Carriers are having their best year since at least 2008: Ships are full, rates are sky-high, and profits, slim in recent years, are rolling in.

The Ever Given fiasco will work out well for the container-shipping industry, by driving freight rates even higher as delays and detours reduce the number of voyages the vessels can complete between Asia and Europe.

But the good news for ship lines may be fleeting: After the pandemic-driven boom in Chinese exports subsides, trade in the sorts of goods that fill container ships is likely to be anemic in the years ahead. Many of the companies that traffic in those goods increasingly recognize that they've done their sums wrong: The long-distance supply chains that have defined globalization since the 1980s hide risks, of which the transport delays caused by the blockage of the Suez Canal are just the latest example.

It used to be that manufacturing was a rich-country activity; poorer countries supplied raw materials to rich-country factories and then purchased their exports. Rich-country politicians were prone to preach the virtues of open markets; their poor-country counterparts were suspicious of trade and foreign investment.

But starting in the late 1980s, the combination of cheaper container shipping, vanishing communications costs and improved computing flipped the script. Manufacturers and retailers adopted new strategies — arranging, for example, to buy chemicals in Country A, transform them into plastics in Country B, mold the plastics into components in Country C and deliver them to an assembly plant in Country D.

Container ships made it possible to move parts and components from one country to another at low cost, while technology, soon accelerated by the internet, allowed managers to oversee their supply chains from a headquarters far away.

Two factors drove this redistribution of industry. One was wages: The gap between the pay of factory workers in China or Mexico and those in Western Europe, Japan or North America yawned so wide that even if the low-wage workers accomplished far less in an hour of work, producing in Shanghai rather than in St. Louis made financial sense. The other was economies of scale. Factories serving the entire world could specialize, making a small array of products in enormous volume and lowering the cost of each unit.

Foreign investment was once intimately related to exporting and importing. But with outsourcing, there was no need for the company at the top of the chain — often, the brand name on the final product — to undertake large investments in the countries where it wanted its components or its finished goods produced. Firms could build supply chains on the cheap, contracting with other companies to do the manufacturing work rather than tying up their shareholders' capital in plants and equipment.

Globalization, which arguably dates to the rise of industrial capitalism around 1830, never looked like this before. Executives of multinational corporations were transfixed by the promised savings from shifting production abroad. Factories in Europe, Japan, Canada and the United States closed their doors as companies chased lower costs. Starting in the second half of the 1980s and for two decades after, trade in manufactured goods grew twice as fast as the global economy.

Hardly any attention was paid to the risks arising from the number of firms that might be involved in making and delivering any given product. The potential loss of revenue if the supply chain failed to deliver goods on time was simply ignored.

The company at the top of a supply chain often has little insight into its suppliers' suppliers or into the transportation system that connects them. Incident after incident — from the shutdown of the U.S.-Canada border after 9/11 to the earthquake that crippled hundreds of Japanese auto parts plants in 2011 to pandemic-related factory closures in 2020 — has shown long supply chains to be more fragile than imagined. For many firms, the consequences can be painful, even fatal.

And the business risks are not limited to disruption. Famous firms have seen their names tarnished by scandals involving working conditions or environmental practices at obscure companies far down their supply chains. When consumers in Europe and North America, concerned about repression of the Uyghur minority in China, demanded that apparel companies disclose whether their clothing contained cotton grown in Xinjiang province, many companies, well removed from the production process, did not know.

Meanwhile, the ultralarge container ships like Ever Given that have entered the world's fleet over the past few years have made long value chains even more problematic. These vessels, some carrying as much cargo as 12,000 trucks, steam more slowly than their predecessors. The complexity of loading and unloading often puts them behind schedule, and the sheer number of boxes moved on and off a single ship tangles ports and delays deliveries.

So long-distance trade is slower and less reliable than it was two decades ago. That helps explain why exports of manufactured goods account for a smaller share of the world's economic output than they did in 2008. Once the risks are accounted for properly, manufacturing in distant places with low wages isn't always a bargain.

Yet pronouncements about the death of globalization are not well founded. Rather, the stage of globalization we have known since the 1980s, in which highly trained employees in the advanced economies create physical products to be manufactured where wages are lower, is past its peak. In its place, a new stage of globalization, in which factory production and foreign investment matter less than the flow of services and ideas, is advancing quickly.

The Bollywood movies and Japanese television shows available on your favorite streaming service are part of that flow, but so are the research, engineering and design tasks that companies increasingly distribute across multiple countries in order to take advantage of local talent and shape products to local tastes.

Cross-border trade in other commercial services — a category that excludes transportation, travel and goods-related services — increased roughly 8 percent a year in the first two decades of the 21st century, a third again as fast as trade in manufactured goods. That figure doesn't include growth in the largely uncountable cross-border flow of data within corporate networks.

In globalization's next stage, ships carrying metal boxes full of stuff will no longer be at the center of the story.

Marc Levinson, an economist and a historian, is the author of "The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger" and, most recently, "Outside the Box: How Globalization Changed From Moving Stuff to Spreading Ideas."

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