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We've entered into a new era of globalization — no matter what Joe Biden does

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By Marc Levinson

Supporters of an open international economy see new hope in Joe Biden's election that perhaps globalization is not on its death bed after all. But the assumption that Biden will restore robust growth in international trade and investment is misplaced. All but unnoticed, globalization has been taking on a new shape, as international supply chains have lost importance and foreign investment has waned for reasons that predate Brexit, Donald Trump's presidency and the coronavirus. Things won't go back to the way they were, regardless of what the Biden administration has in store.

"Globalization" is a term with no fixed meaning. It erupted with the birth of industrial capitalism around 1830. For the next 80 years, colonial powers spun commercial webs across Africa and Asia, foreign capital financed railroads in Argentina and steel mills in Pennsylvania, and more than 100 million migrants crossed international borders.

Before the outbreak of World War I in 1914 brought global euphoria to an abrupt end, exports accounted for about 12 percent of the world's output — a level that would not be regained until the 1970s. But this first globalization was not really global. More than three-quarters of the world's trade involved Europe, and most of it comprised basic commodities such as coal and coffee beans. Trade in manufactured goods was small.

After World War II, globalization reemerged in a different form. This time, government was the driver, as tariff reductions made imports cheaper. Supertankers opened the way to a vast international trade in petroleum, and the profits from that trade fueled a boom in foreign lending. Still, most trade and investment took place among a handful of "industrialized" countries. Poorer ones participated mainly by borrowing from rich-country investors and exporting raw commodities: In 1959, Latin America, Africa and Asia combined accounted for less than a 10th of the world's manufacturing. The harshest critique of globalization was it allowed the rich "North" to exploit the poor "South."

This pattern of trade began to change in the late 1980s, as cheaper, more reliable freight transportation, telecommunications and computing made it practical to have components designed in one country, produced

in another and combined into finished goods elsewhere still. In this third globalization, manufacturing for customers in wealthy countries could be done in places where labor was cheap. These long manufacturing supply chains had no precedent. Engines, food processors and anti-depressants ceased to be identifiably American, British or Japanese as they came to incorporate inputs from many countries, made by companies that were highly international. Exports grew twice as fast as the world economy for two decades.

One trend above all drove the global trade boom: a rapidly improving material standard of living. As incomes rose in many countries while prices of manufactured goods fell, people spent more money on stuff. In 1987, China's auto plants turned out 17,840 cars; 30 years later, more vehicles by far were sold in China than any other country. The average person in Britain purchased five times as many garments in 2017 as three decades earlier. The median home built in the United States in 2017 was 38 percent larger than in 1987; there was a 1-in-3 chance that it had more than one refrigerator.

The age of global supply chains, however, began to wane amid the financial crisis in 2008. As a share of the world's GDP, foreign investment in businesses peaked in 2007, goods trade in 2008. In part, this reversal is an artifact of goods prices falling relative to prices of services, but it also highlights a change in how households and businesses are spending their money.

Data from many countries suggest households increasingly favor services and experiences over goods. Meanwhile, as technology advances, businesses are putting more of their investment dollars into research, software and intellectual property and less into machines. As a result, trade in manufactured goods is growing more slowly than the world economy (although the pandemic-related collapse of global economic growth may temporarily interrupt that trend).

There are several reasons this pattern will probably persist. One is that the world is aging. The median age of the global population, 23.3 years in 1985, is now 31 years and climbing. Half the people in Japan and Germany are over 47, and in Russia, China and the United States, the median age approaches 40. Older households have had years to accumulate home furnishings and wardrobes full of clothing, and they are often disinclined to acquire more; vacation trips, restaurant meals and medical bills will probably figure larger in their spending than furniture and fixtures.

Another factor that will suppress demand for physical products is the transformation of goods into services. In the 2010s, digital downloads and streaming services have made it possible to enjoy films, novels and music without possessing stereo equipment, books and records, while car-sharing and bike-sharing promise to reduce the number of personal vehicles.

Businesses are moving in the same direction; as one example, the storage of data in "cloud" computer banks accessible over the Internet has held down corporate spending on computer equipment, one of the most globalized of products. These emerging trends are just getting started: Consider the restaurants that are trying to survive the pandemic by sharing kitchen space — a development that, over time, will squeeze demand for

commercial ovens and cooktops.

A third force reshaping the market for stuff is the way manufacturing increasingly requires fewer people. Electric vehicles do not have engines, transmissions and emissions-control equipment, and their spread means less need for workers to produce gears and piston rings. By squeezing out labor, technology is eliminating one of the main rationales for far-flung value chains — the savings from manufacturing in low-wage countries. It is also making it economical to produce customized goods on a small scale close to the end users, affecting the flow of merchandise trade.

Global supply chains also flourished, in part, because firms could avoid the environmental cost of their activities, and that, too, may change in coming years. Already, mandates on shipowners to reduce greenhouse gas emissions are forcing expensive choices upon them, which will be reflected in higher ocean shipping costs. Airlines may well be pushed in a similar direction. As consumer-facing companies feel pressure from customers and investors to disclose and minimize the environmental impacts of their supply chains, manufacturing in countries with lax standards may lose appeal.

These trends don't mean globalization is over. Rather, it is simply entering a fourth stage. While globalization has peaked with respect to factory production, it is advancing when it comes to the flow of services and ideas. KFC, formerly Kentucky Fried Chicken, is far and away the largest restaurant chain in China. The leading soccer teams in England's Premier League, few of them either starring or owned by Englishmen, are widely watched across Africa. More and more of the largest multinational enterprises are companies whose products are intangible — software, accommodation, real estate, computer services.

Even in manufacturing, instead of engineers in high-wage countries designing products to be made in low-wage places, the research, engineering and design work themselves are increasingly being globalized. Despite concerns that countries such as China and Russia may be trying to wall themselves off from the global Internet, firms continue to seek talent wherever they can find it, and in many jobs distance is no longer an obstacle.

Business and consumers, not governments or international agreements, are driving these changes. That means they won't be reversed if Biden removes Trump's tariffs on steel, signs a trans-Pacific trade agreement or strengthens the World Trade Organization. A country's success in this next phase of globalization will depend not on whether the statisticians compute a trade surplus or a trade deficit, but on whether its education system helps citizens acquire the skills they need to compete in a global labor market — and on whether its government ensures that the benefits of a globalized world are shared widely.

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Marc Levinson's most recent book is "Outside the Box: How Globalization Changed from Moving Stuff to Spreading Ideas."