CONTENTS

Introduction

ON AUGUST 16, 2006, at five thirty in the afternoon, five tugboats dragged *Emma Maersk* from the Odense Steel Shipyard and towed her backward to the sea. Whether new or old, ships generally sail forward, not backward, but there was nothing typical about *Emma Maersk*. The length of four soccer fields, her keel nearly a hundred feet below her deck, the light blue vessel was so enormous she could barely escape the confines of the shallow Odense Fjord. As she passed through the Gabet, the narrow gap between the fjord and the deeper waters beyond, the thousands of Danes lining the beaches were treated to an extraordinary sight. On her launch day, because *Emma* carried neither cargo nor fuel, she rode high in the water, partially exposing her white underside and showing off the massive bronze propeller that would normally turn silently beneath the waves. It was, as everyone knew from news reports, by far the largest propeller ever cast.

Emma Maersk was a bet on globalization. Owned by Maersk Line, part of a venerable Danish conglomerate, she dwarfed every vessel that had preceded her in the fifty-year history of container shipping. Save for a handful of oil supertankers, there had never been a ship so large. *Emma* and the seven similar ships that were to follow cost $154 million apiece, much more than any containership had cost before, and the price seemed a bargain. If the new vessels were loaded to capacity, they would be able to transport the world's trade more cheaply than any other ships afloat. As the world economy expanded and long-distance trade increased with it, Maersk Line's leaders expected, that cost advantage would enable their company to capture a growing share.

Containerships are the workhorses of globalization, carrying steel boxes stuffed with everything from washing machines to waste paper vast distances on regular schedules, meshing with trucks, trains, and barges to serve cities miles inland. International cargo that is time sensitive or highly valuable—diamonds, disc drives—usually flies across the oceans, but almost everything else churned out by factories and much that comes from farms is packed into standard containers forty feet long and eight feet across. In the final decades of the twentieth century, containers all but erased transportation costs as a factor in decisions about where to make things, where to grow things, and how to move goods to customers. They helped reshape world trade, making it feasible to combine parts from a dozen countries into a finished car and delivering wine from Australia to California, a distance of seven thousand miles, for perhaps fifteen US cents a bottle. They lay behind the startling transformation of China into the world's largest manufacturing nation—and behind the desolation of long-standing manufacturing centers, from Detroit to Dortmund, as distinct national markets, protected by high transportation costs, merged into a nearly seamless global one.

Since the first containership steamed from Newark to Houston in 1956, each generation of vessels had been larger and more cost-effective than its predecessors. *Emma* and her sister ships were commissioned in the expectation that this trend would continue, making it even easier for families to enjoy fresh strawberries in wintertime and enabling manufacturers to weld longer, more complex supply chains linking factories and distribution centers thousands of miles apart. Dozens of even larger ships would soon follow in *Emma*'s wake, some able to carry more cargo than eleven thousand over-the-road trucks. But just as a race to build monumental skyscrapers often heralds an economy poised for a correction—the Empire State Building in New York, planned in the late 1920s to be the world's tallest building, sat largely empty through the Great Depression of the 1930s—so the construction of ships too big to call at most of the world's ports was an early indicator of excessive exuberance. Unremarked at the time of *Emma Maersk*'s launch, the era of ceaseless growth in goods trade was about to draw to a close. Those who assumed that globalization would stay on the course it had followed since the aftermath of World War Two would pay a steep price.

"Globalization" is not a recent concept. The word seems to have made its first appearance in Belgium in 1929: physician and educator J. O. Decroly used "globalization" to refer to a young child's developing attention to the broader world rather than itself alone. Over time, the term has had many other meanings: the idea that giant companies can sell the same product everywhere rather than different models in each country; the transmission of ideas from one country to another; the flag-waving enthusiasm of Americans and Kenyans and Chinese for English soccer teams led by non-British stars.[1] The worldwide diffusion of religions is a form of globalization, as are the spread of disease and the large-scale migration of people in search of personal safety, political or social freedom, or greater economic opportunity. So, of course, is the increasing intensity of economic exchange across international frontiers.

The world was in some ways highly globalized long ago; as the historians Jürgen Osterhammel and Niels P. Petersson put it, "In a certain sense, the 'Americanization' of Germany did not begin in 1945 but rather in the eighteenth century, with the introduction of the potato." But globalization, as that term is used today, erupted with the birth of industrial capitalism in the nineteenth century, as Europe's colonial powers spun commercial webs across Africa and Asia, protecting their interests with armies, navies, and professional corps of colonial civil servants. Erstwhile manufacturing centers, notably India, were unable to match the higher productivity of European factories, and as their textiles became uncompetitive with foreign products, they sank into the role of commodity exporters. During this First Globalization, international lending was routine, and in many countries exports and imports accounted for large shares of economic activity. Migrants crossed borders by the tens of millions, and motifs from China and Tahiti found their way into European art. The world seemed to have become so interconnected that war was impossible—until the eruption of World War One in August 1914 brought the First Globalization to an abrupt end.[2]

The process of globalization paused from 1914 until roughly 1947, through two world wars, numerous regional wars, and a great depression. While multinational corporations expanded during those years, many of the financial, commercial, and human links across borders eroded. In some quarters, this retreat was welcomed; in 1943, the US congresswoman Clare Boothe Luce criticized Vice President Henry Wallace, who prided himself on his global perspective, for spouting "globaloney." After much criticism, Luce abandoned the term in favor of "global nonsense." But in the wake of her coinage, words such as "globalistic," "globalitis," and "globalism" made their way into the American vocabulary, being employed to disparage immigration, foreign trade, and even proposals for international cooperation.[3]

Globalization began anew in the late 1940s, after the Allied victory in World War Two. This development was supported by a less rigid system of exchange rates and a concerted effort to lower barriers to trade in raw materials and manufactured goods. The result was a quarter-century of robust economic growth in all the world's rich economies and many of the poor ones. Despite the economic crises of the 1970s, trade in manufactured goods, measured by the volume of goods traded, was roughly fifteen times as high in 1986 as it had been in 1950. With prices soaring, the oil market became thoroughly global as supertankers, more properly known as ultra-large crude carriers, delivered millions of barrels of petroleum on a single voyage from the Persian Gulf to refineries in Europe, Japan, and North America. As oil-exporting countries deposited their surging receipts into banks in London, New York, and Tokyo, the financial markets lent generously to developing-country governments and helped multinational corporations plant their flags around the world.[4]

Yet this Second Globalization, like the First Globalization before it, was not truly global. Companies aggressively planted their flags abroad, but their identities were inextricably linked to their home countries, where almost all their top managers were born and bred. While foreign investment soared, most of it took place among a handful of wealthy nations, and so did most foreign trade. Less affluent countries, many of which fell deeply into debt, participated only tangentially, mainly by borrowing from rich-country investors and by exporting raw commodities like oil and coffee. Indeed, the harshest critiques of globalization during the four decades between 1947 and 1986 came largely from those who thought freer economic exchange enabled rich countries to exploit poor ones. Immigration was often deemed exploitative as well, as rich countries stood accused of causing a "brain drain" by enticing nurses and teachers to emigrate from poorer lands. Countries aspiring to overcome poverty and backwardness, critics claimed, would be better off doing more for themselves. Many large and populous countries, including China, India, and the Soviet Union, embraced autarky, tightly controlling trade, investment, migration, tourism, scientific exchange, religious ideas, and other sorts of international links their rulers thought dangerous.[5]

The ascent of free-market ideologies in the wealthier economies, emblemized by Margaret Thatcher's election to lead Great Britain in 1979 followed by Ronald Reagan's election as US president in 1980, opened the way to new economic relationships. When Honda Motor Company opened the first Japanese-owned auto assembly plant in the United States, in 1982, it shocked competitors with its ability to organize the timely delivery of engines and transmissions across thousands of miles of sea and land. By the late 1980s, such long-distance supply chains had become routine as a Third Globalization emerged. The nature of international trade changed dramatically, as it became practical for a retailer or manufacturer to have components designed in one country, made in another, and combined into finished products elsewhere still, moving the partially finished goods from place to place with little regard for national boundaries. The link between physical location and nationality was erased: when a Massachusetts-based manufacturer of industrial abrasives with plants in twenty-seven countries could be owned by a Paris-based corporation that counted Dutch pension funds, British investment trusts, and Middle Eastern governments among its major shareholders, who was to say whether the resulting entity was "French," "American," or just "international"? The fall of communism in 1989 seemed to signal the final victory of capitalism. As countries that had long been suspicious of market forces suddenly welcomed them, international trade grew nearly three times as fast as the world economy.

Once more, there were objections aplenty about exploitation—only now, instead of hurting workers in poor countries, globalization was said to devastate workers in rich countries. In 1994, Sir James Goldsmith, a wealthy British financier and scion of a thoroughly international family, criticized open borders in a best-seller called *The Trap*. Viviane Forrester, a French essayist, decried *L'horreur économique* in 1996. Three years later, as British sociologist Anthony Giddens warned of a *Runaway World*, tens of thousands of demonstrators, some anticapitalist, some environmentalist, some concerned about vanishing jobs, some prepared for a rumble, took to the streets of Seattle to protest a conclave of trade ministers from around the world. Economists' nearly unanimous argument that freer exchange would make the world more prosperous gained little traction, and the eagerness of poorer countries to open themselves to the world economy was largely ignored. When two British journalists published a book about globalization in 2000, their title, *A Future Perfect*, rang out of tune.[6]

World trade in manufactured goods rose 120 percent in the span of just seven years, from 2001 to 2008, as manufacturing surged in China—while during those same seven years, one in eight manufacturing jobs in Canada and the United States, and one in four in Great Britain, disappeared. It was hard not to draw a connection. The flight of factory jobs was followed by jobs in technology and service industries. As office buildings everywhere were cabled to the internet, a new industry called business-process outsourcing took hold: companies in Frankfurt and Paris moved their accounting work to lower-wage cities such as Warsaw and Prague, and agents in Manila answered customer-service calls for North American banks. By 2003, 285 of the 500 largest US companies were sending office work to India. "Thousands of white-collar jobs are going overseas," a US congressman warned in 2004, citing "incontrovertible evidence that the U.S. is on the verge of adopting the economics of third-world nations."[7]

The retreat of the Third Globalization began unrecognized, not long after *Emma Maersk* took to the seas. In the summer of 2008, amid a global financial crisis, the volume of international trade collapsed.

Cross-border investment in businesses, which had tripled over the previous five years, dried up just as suddenly. These trends were unhappy, but not surprising: in times past, trade and investment had ebbed during recessions only to rise afterward, and this pattern seemed likely to play out once again. But this time, as the world economy crept back from the depths in 2010, trade and investment did not rebound as they always had. The changes revealed by economic statistics and shipping data were gradually confirmed by the actions of international firms, which began retracting their supply chains and slimming down their foreign operations. Although angry opposition to globalization remained, now fueled mainly by anti-immigrant fervor in the United States and Europe, globalization itself was changing. By the time US presidential candidate Donald Trump inveighed against "radical globalization and the disenfranchisement of working people" in 2016 and the French politician Marine Le Pen criticized "the rampant globalization that is endangering our civilization" a few months later, these actions and reactions, this *sturm und drang*, pertained to an era that was already drawing to a close. When the viral disease labeled COVID-19 began to spread from Wuhan, China, in late 2019, leading to business shutdowns and household quarantines from Norway to New Zealand and disrupting commerce and travel on a global scale, the transformation of the Third Globalization into a very different set of international relationships was already well underway.[8]

Many trees have been felled in the effort to praise, condemn, or simply quantify globalization. This book does none of the above. It asserts that globalization, as it has developed over two centuries, is far from an inevitable consequence of capitalism. Globalization has transformed itself repeatedly over two centuries in response to technological change, demographic pressure, entrepreneurial ambition, and governmental action: someone speaking of globalization in 2020 was discussing an altogether different subject from globalization in 1980, much less in 1890. It treats the Third Globalization, the quarter-century or so between the late 1980s and the early 2010s, as a distinct stage in the world's economic history, a stage unlike what came before and what is likely to come after. It emphasizes the roles of transportation, communications, and information technology in enabling firms to organize their businesses around long-distance value chains, a fundamentally different type of economic relationship from any that existed before.

I have been writing about globalization as a journalist, economist, and historian for more years than I am eager to admit. My book *The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger* showed how a seemingly simple innovation was the key to the lengthy supply chains that became the hallmark of globalization in the late 1980s. In *An Extraordinary Time: The End of the Postwar Boom and the Return of the Ordinary Economy*, I examined how governments responded to the global economic slowdown that began around 1973 by deregulating entire sectors of their economies and welcoming market forces, making it easier for firms to organize their businesses across national boundaries. *Outside the Box* builds on that earlier work, but also draws on new archival research, interviews, and a robust academic literature to explain why, in the early twenty-first century, globalization developed in ways that were counterproductive for many of the countries and many of the firms that eagerly embraced it. This historical perspective explains why, notwithstanding intense chatter about the impending end of globalization, I think globalization is far from dead. Rather, as it has on several past occasions, globalization is entering a new phase—one in which the world economy will still be bound closely together, but in ways different from what the experience of recent decades has taught us to expect. Understanding globalization's past may shed light upon its future, a future that will almost certainly not involve a return to the days when countries sought to prosper by fencing themselves off from their neighbors.

By and large, globalization has been good for the world. It has brought hundreds of millions out of dire poverty, turning the days when Americans told their children to eat their vegetables because people were starving in China into a distant memory. Consumers have gained access to an unimagined selection of products at very low cost, and some of the most isolated places on earth were linked to the world economy thanks to technologies that once would have passed them by. By allowing firms to specialize in their most productive activities at a global scale while relying on outside suppliers to meet their other needs, globalization has generated massive productivity improvements that have created immense wealth. International conflicts have not gone away, but they have been tempered by the fact that almost every country's prosperity depends more on its neighbors than ever before. When, as the coronavirus spread, hospitals around the world urgently sought ventilators to help critically ill patients breathe, efforts to build more were slowed by the need to acquire parts from a dozen countries—but also aided by a vibrant global market in which valves, tubes, and motor parts were to be had.[9]

But globalization has not been an unalloyed blessing. The rapid industrialization of countries that were only recently quite poor, especially in Asia, was matched by the brutal deindustrialization of communities across Europe, North America, and Japan. While the distribution of income among countries has become more equitable, inequality within individual countries has increased; people with access to capital have reaped great rewards from new opportunities, but workers reliant on wages often have found themselves competing directly with low-paid labor in distant places, and small towns have atrophied as big cities capture a disproportionate share of the growth. In the process, governments have lost much of their control over their economies. Minimum-wage laws and social protections became harder to enforce once firms could easily circumvent them by moving, or threatening to move, a particular activity abroad. The constant possibility of corporate relocation created an international contest to lower taxes on business, starving governments of the revenues to fund education and social programs intended to help workers cope with a world in which employment had become less stable. Over time, a relatively small number of firms came to dominate entire industries, a development that threatens to raise prices, retard innovation, and make incomes even more unequal.

The economic strains of globalization undermined the structures erected over decades to promote international cooperation, creating new uncertainties as nationalist narratives supplanted global ones.[10]

Through two centuries of history, globalization has not proceeded in a straight line. Wars and recessions have interrupted the flow of trade, investment, and migration, and individual countries have chosen to sever themselves from the world economy for extended periods—Russia from its 1917 revolution to the late 1980s, China for three decades after the Communist Party took power in 1949. Against this background, claims that "peak globalization" is past or that a globalized world economy is dissolving into regional blocs seem rather premature. Globalization is not going away. But by the second decade of the twenty-first century, as giant containerships sailed half empty around the world, it was taking on a very different form. The flow of metal boxes was its past. In the next stage of economic development, it would be the flow of ideas and services that would bind the world's economies more tightly together.

INDEX