



Book A Splendid Exchange

How Trade Shaped the World

William J. Bernstein
Atlantic Books, 2008
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Recommendation

The appeal of this comprehensive history of world trade is rooted in its valuable information, thoughtful insights and brilliant writing. But, you’ll also be delighted with the fascinating, little-known details that financial theorist William J. Bernstein throws in along the way. For example, did you know that the Boston Tea Party, the legendary event that helped launch the American Revolution, was not a selfless act of patriotism, but a venal stunt by greedy smugglers and merchants that actually cost the colonists a lot of money? How about the fact that an Ethiopian herder may have discovered coffee in A.D. 700 when he noticed that his goats and camels bounced merrily around all night after chewing on the red berries of an unknown shrub? Or that the early Chinese sometimes adulterated their precious tea exports with sawdust? Bernstein fills his book with such beguiling minutiae, but primarily he presents a knowing, comprehensive, discerning report on world trade from its prehistoric beginnings to the present. *BooksInShort* predicts that Bernstein’s saga will engage you from the first page to the last, and from sea to shining sea.

Take-Aways

- Foreign trade has taken place for millennia and has had a profound impact on human development.
- Throughout history, trade has been most nations’ primary source of prosperity.
- The earliest long-distance trade goods were the most precious, hard-to-get items: silk, incense, jewels and gold.
- Spices replaced these valuables as the world’s most desirable commodities.
- The hardy camel was indispensable for moving goods over lengthy desert caravan routes.
- Ancient land and sea trade was hard, hazardous and crime-ridden, but very lucrative.
- Nations long fought to control trade routes and to dominate world commerce.
- They succeeded in turns, from Islam’s merchants to the sea-going Portuguese and Dutch.
- The discovery of the New World dramatically altered world commerce, bringing a host of new products to Europe and Asia, including corn, tobacco and sugar.
- Globalization is an unstoppable trading force with clear winners and losers.

Summary

Global Trade: A Venerable and Storied History

In today’s global economy, everyone is accustomed to buying goods from other countries – electronics from Taiwan, vegetables from Mexico, clothing from China, cars from Korea and skirts from India. Most modern shoppers take the “Made in (some other country)” stickers on their products for granted. Long-distance commerce was not always this common, although foreign trade – the movement of goods from one geographic region to another – has been a vital factor in human

affairs since prehistoric times. Thousands of years ago, merchants transported items – silk, gold and silver, spices, jewels, porcelains and medicines – via ancient, extended land and sea trade routes, including the fabled Silk Road through central Asia. Moving goods great distances was simply too hard and costly to waste the effort on ordinary products, although people often carted grain and other foods over shorter distances from farms to market towns.

“Man has an intrinsic ‘propensity to truck, barter and exchange one thing for another’.” [– Adam Smith]

Numerous signs provide clues about ancient, long-distance trade, a fundamental human activity for millennia. In Mesopotamia, where copper is not indigenous, archaeologists uncovered copper headgear worn by Sumerian warriors in 3000 B.C. The Sumerians obtained the metal from traders who traveled from mines hundreds of miles away. People began using boats in Northern Europe some 15,000 years ago, and that is probably how the earliest traders moved their wares. The earliest trade by water was between farmers who bartered food items and hunters-gatherers who bartered animal pelts. Obsidian, ideal for making cutting tools and weapons, was one of the first trade items. Greece does not naturally produce obsidian, but archeologists found 12,000-year-old obsidian flakes on its mainland. The stone must have come by sea from Melos, 100 miles away. Shipping goods by water was easier and cheaper than land transport. Greek historian Herodotus describes early round boats made of animal hides stretched over wooden frames. The “largest...carried about 14 tons,” but only downstream. At the journey’s end, the hides were folded, packed on donkeys and taken back upstream.

“On some unrecorded occasion deep in prehistory, a man, or several men, initiated early long-distance trade by setting out on the water in boats.”

In olden times, transporting trade goods was a deadly enterprise. Bandits roamed land routes, eager to kill merchants and steal their wares. The sea trade was daunting: ships were flimsy, navigation was rudimentary, pirates abounded and dangerous weather sank many ships. Yet, goods continued to move, driven by the immense profits to be made by bartering.

Camels, Incense and Pax Islamica

During the late Pleistocene era, ending 10,000 years ago, a land bridge called Beringia (now the area of the Bering Strait), existed temporarily between the eastern and western hemispheres. As a result, plant and animal species moved between the Old and the New Worlds. Humans moved west to the New World, and camels and horses moved east into the Old World.

“One of the earliest commodities traded by boat must have been obsidian, a black volcanic rock (actually a glass), that is a favorite of landscapers and gardeners around the world.”

Because camels can store water efficiently throughout their bodies, they can go days or even weeks without drinking. Plus, camels sweat less – that is, lose less of their stored water – than other animals, making them ideally suited for life in arid regions. These hardy creatures quickly became the primary beasts of burden for transporting goods throughout Asia, including the Arabian deserts. Merchants also used donkeys, but the indefatigable camel did most of the work. One camel driver with three to six dromedaries could move two tons of cargo some 20 to 60 miles daily. Initially, traders transported only the most valuable goods: incense, perfumes and body oils – precious items during an era when people wore the same clothes repeatedly and seldom bathed, a time when public sewerage was either nonexistent or exceedingly rank and rudimentary. Along with silk, frankincense and myrrh were the most treasured goods.

“How did goods get from China to Rome? Very slowly and very perilously, one laborious step at a time.”

Muhammad, the prophet of Islam, was born into a desert tribe of traders. His successor as Muslim ruler, Abu Bakr, was a cloth merchant. With its early roots in trading, Islam has always respected the movement and sale of merchandise. The *Quran* teaches “Do not devour your property among yourselves falsely, except that it be trading by your mutual consent.” Early Muslims were not permitted to steal from their co-religionists, but stealing from infidels was a different matter. Thus, many Muslims became fearsome desert raiders.

“The advent of the written word around 3300 B.C. lifted history’s curtain and revealed an already well-established pattern of long-distance trade.”

Islam quickly became dominant throughout much of the known world. Muslims controlled the vital caravan routes, which meant they commanded most long-range commerce. Muslim navies dominated the seas as Muslim raiders ruled the land. After Muhammad’s death in 632, Islam became the main economic and social force. A Pax Islamica prevailed until the 11th century, when Christians regained territories in Spain and other southern European lands. This also was when the First Crusade took place. Still, Muslim traders remained the primary force in long-distance trade until the 16th century and, in many places, well into the modern era.

“For most of recorded history, the primary manufactured trade commodity was cloth.”

In ancient times, steady trade took place between China and lands to the west, including Arabia and Europe. Indeed, Islam reached deep into China before the seventh century. Muslim merchants, especially Persians, actively traded with the Chinese. They traversed the ancient Silk Road, as did European traders. The Chinese organized vast seagoing fleets for treasure expeditions to India, Java and Sumatra, and later to the East African coast.

Sea-Lanes and “Choke Points”

Waterborne commerce was so crucial in the ancient world that the early Greek powers viciously fought each other for control of the sea-lanes, and the Hellespont and Bosphorus, two “maritime choke points.” Because of their soils’ limited fertility, Greek city-states had to trade olive oil and wine for imported wheat and barley to survive. Athens strove to become the dominant Greek city-state so it could control vital grain shipments. Athens and Sparta fought to control the two narrow waterways and, thus, all shipments between the Black Sea and the Aegean. The Athenians eventually became a great sea power, the mighty Athenian Empire. But Sparta rose again to conquer Athens and impose embarrassing peace terms. Years later, Athens once again became strong. When Alexander the Great came to power, he gave Greek ships the freedom to move goods over the navigable waters he controlled.

“Although the primary objective of the crusades was not commercial (unless one was Venetian or Genoese), Christians clearly recognized the Muslim command of the spice trade for the money machine it was.”

During the 14th to the 17th centuries, cinnamon, cloves, nutmeg, pepper and other spices replaced incense and perfumes as the most precious long-range trade commodities. Spices moved via the Silk Road, and over the Persian Gulf and the Red Sea. By the 16th century, the Portuguese dominated sea trade with Asia, followed by the Genoese and Venetians, and then the Dutch. Distant trade brought numerous benefits to most of those involved in it, from wealthy people who dressed in gorgeous Chinese silks and perfumed the air around them with sweet-smelling incense, to nations, such as the Greeks, who depended entirely on imported grains for food. However, ancient trade routes also transported deadly diseases such as the gruesome Black Death, a plague accidentally carried from the Asian steppes to Europe and the East, where it may have killed as many as a hundred million people in the 1300s.

Discovery of the New World

In the late 1400s, Genoese mariner Christopher Columbus asked the Spanish monarchy to fund his voyage west to reach the fabled markets in China and India. By this time, most educated people believed, as did Columbus, that the world was round. But King Ferdinand and Queen Isabella considered his proposed expedition so difficult and treacherous that they turned him down at first. However, they eventually commissioned his enterprise. The rest, of course, is history. In 1492, Columbus and his three ships reached the New World. During the same period, Portuguese explorer Vasco da Gama sailed a small fleet 28,000 miles completely around the world. His ships were away from land for 95 days. At the time, these were unimaginable feats, and after them, global trade and commerce would never be the same.

“By the early 17th century, all roads led to the Netherlands [which] assembled the first truly global trading system.”

As mariners and merchant adventurers made remarkable, exciting voyages of discovery, opening the New World for their own profit and to fill the coffers of their wealthy sponsors, global commerce quickly took on entirely new dimensions. The exchange of plant species between the Old and New Worlds, notably corn and coffee, dramatically altered global agriculture.

“The great national trade organizations, particularly the English and Dutch East India companies, spearheaded Europe’s commercial dominance and made world trade the nearly exclusive province of large corporate entities.”

The oceans also continued to carry disease. Conquistador Hernán Cortés imported smallpox to the New World in the 1500s. His Spanish sailors were immune to it, but it quickly wiped out millions of Aztecs. Other infectious diseases also travelled the trade routes, often with horrific results, but the most frequent outcome of ocean-going trade and discovery was profit. For that reason, traffic in slaves burgeoned. From the early 1500s to the end of U.S. slavery in the 1860s, 9.5 million African slaves were taken to the New World. The slave trade changed society forever and reshaped global trade.

“Although free trade benefits mankind in the aggregate, it also produces losers who cannot be expected to passively accept the new order.”

By the early 1600s, Dutch and Spanish maritime experts had thoroughly mapped out Earth’s wind currents, making sea voyages far easier and more predictable. Immense silver deposits in Mexico and Peru spurred the development of a global monetary system. The Spanish eight-real coin became the primary currency. Huge corporations emerged and quickly took over global commerce. With new, cheaper production and labor, many service workers, farmers and textile manufacturers found that their work was no longer commercially viable.

A Small World, After All

As the world grew more accessible and thus “smaller,” global commerce radically changed. After 1700, farmers in many locations could produce valuable New World crops such as cotton, sugar and coffee, as well as tea, once a Chinese specialty. By the 1700s, cotton became more desirable than Chinese silk. These changes altered global trade practices. The 1800s brought major transportation and communication advances, including railroads, steamships and refrigeration techniques, as well as improvements in steel manufacturing. Producers had their choice of new ways to transport goods farther and faster, and more easily and cheaply. Plus, thanks to the telegraph, buyers and sellers now could communicate almost instantaneously. These advances greatly spurred world commerce.

Free Trade

From the 1400s on, England enacted various laws setting tariffs on corn. These “Corn Laws” became obscure over time and few people heeded them until 1756, when the Seven Years’ War started and grain supplies fell. Then, the nation’s agricultural trade policy suddenly became a hot issue when people rioted to protest grain shortages. This national concern soon moved to other products, particularly cotton fabric, but arguments about how to tax imports and build exports continue internationally even today.

“When goods are not allowed to cross borders, soldiers will.” [– Frédéric Bastiat]

The U.S., a vast land with giant domestic markets, practiced protectionism by setting high import taxes. Classically, Republicans favor protectionism. Democrats are generally far less enamored of it. The 1930 Smoot-Hawley Tariff, “one of the most notorious pieces of legislation ever passed by Congress,” raised already high U.S. tariffs on imports, provoking other nations to increase their tariffs radically. As a result, international commerce almost came to a halt in the early 1930s. Cordell Hull, secretary of state under President Franklin Roosevelt, used his formidable powers of persuasion to push for free trade. Thanks to him, Congress passed the Reciprocal Trade Agreements Act in 1934, opening the U.S. market. International trade exploded, growing at the remarkable average annual rate of 6.4% for the next 50 years.

“Globalization, it turns out, was not one event or even a sequence of events; it is a process that has been slowly evolving for a very, very long time.”

Free trade immensely benefits many people around the globe. A 2006 study showed that in nations with open trade policies, the average GDP was \$17,521, while nations with “always closed” trade policies achieved only a \$2,362 average GDP. Free trade is like any zero-sum game: some win, some lose. Your fate depends on whether your product can be made more cheaply somewhere else. If so, people worldwide will buy it and improve their lives, but you will soon be out of work. Trying to reverse this effect is like trying to sweep back the tide with a broom. In the final analysis, this is globalization: a mix of bitter and sweet, where the score is kept in miles and money.

About the Author

William J. Bernstein is an author, financial theorist and historian. His other books include *The Birth of Plenty* and *The Four Pillars of Investing*.
