

## The World is Flat

*Thomas L Friedman*  
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### Introduction

This fascinating book by Thomas Friedman, one of the most well known columnists in the world, is about globalization and how it is creating a level playing field across the world. In his inimitable style, Friedman makes his points in an outspoken way, leaving little room for ambiguity about where he stands. The book is especially relevant for companies and individuals in India, who are seeing exciting opportunities in the globalising economy.

### Historical perspective

There have been three great eras of globalization. The first lasted from 1492 when Columbus set sail, opening trade between the Old World and the New World-until around the 1800s. Globalization 1.0, which shrank the world from a large to a medium size, was about countries and raw power. The key agent of change, driving the process of global integration was how much brawn - how much muscle, how much horsepower, wind power, or, later, steam power a country had and how creatively it could deploy it. In this era, countries and governments (often inspired by religion or imperialism or a combination of both) led the way in breaking down walls and bringing the world together. In Globalization 1.0, the primary questions were: Where does my country fit into global competition and opportunities? How can I go global and collaborate with others through my country?

The second great era, Globalization 2.0, lasted roughly from 1800 to 2000, interrupted by the Great Depression and World Wars I and II. This era shrank the world from medium to small. In Globalization 2.0, the key agent of change, was multinational companies. These multinationals went global for markets and labor, spearheaded first by the expansion of the Dutch and English joint-stock companies and the Industrial Revolution. In the first half of this era, global integration was facilitated by falling transportation costs, thanks to the steam engine and the railroad. In the second half, the drivers were falling telecommunication costs-thanks to the diffusion of the telegraph, telephones, the PC, satellites, fiber-optic cable, and the early version of the World Wide Web. It was during this era that the global economy evolved and matured. There was enough movement of goods and information from continent to continent for there to be a global market. The dynamic forces behind this era of globalization were breakthroughs in hardware-from steamships and railroads in the beginning to telephones and mainframe computers toward the end. And the big questions in this era were: Where does my company fit into the global economy? How does it take advantage of the opportunities? How can I go global and collaborate with others through my company?

### **Globalisation 3.0**

Since the dawn of the new millennium, we are seeing a new version of globalization. Globalization 3.0 is shrinking the world from small to tiny size and flattening the playing field at the same time. In Globalization 1.0, countries globalized, in Globalization 2.0 companies globalized and in Globalization 3.0, individuals are finding exciting opportunities to collaborate and compete globally. Thanks to the excellent connectivity due to a global fiber-optic network, individuals and groups are able to go global so easily and so seamlessly. The world has really shrunk.

Globalization 1.0 and 2.0 were driven primarily by European and American individuals and businesses. Because it is flattening and shrinking the world, Globalization 3.0 is going to be more and more driven by a much more diverse non-Western, nonwhite-group of individuals. Individuals from every corner of the flat world are being empowered. Globalization 3.0 has made more broad based participation feasible. People have started to shape things, design things, create things, sell things, buy things, keep track of inventory, file tax returns and prepare X-ray reports from remote locations.

The flattening process has been facilitated by new software - that enables us really to get the maximum from our computers as we work with these digitized data, words, music, and pictures and shape them into products. The Internet today is not about just connecting people to people, and people to their own applications, but connecting different software programs so that people can really collaborate and solve problems.

### **The importance of Adaptability**

An outsourcing gains momentum, jobs are moving away from the large established companies. So job security has become a major concern. Friedman makes the point that the key to success in today's world is to become an untouchable. Untouchables, in Friedman's lexicon, are people whose jobs cannot be outsourced.

Adaptability will be a huge issue in the coming years. Adaptable means constantly acquiring new skills, knowledge, and expertise that enable people to be able to create genuine value. As parts of the work become commoditized, adaptable people will always learn how to move on to more value adding jobs. Being adaptable in a flat world, knowing how to "learn how to learn," will be one of the most important assets any worker can have, because job churn will come faster and innovation will happen faster.

Lifetime employment depends on preserving a lot of fat. Lifetime employability requires replacing fat with muscle. The social contract between government and workers, and companies and workers must focus not on employment but on lifetime employability. The whole mind-set of a flat world is one in which the individual worker is going to become more and more responsible for managing his or her own career, risks, and economic security. The job of government and business is to help workers build the necessary muscles to do that.

## **America's competitive advantage**

Friedman believes America is well placed in the current global context. There are so many things about the American system that are ideally suited for nurturing individuals who can compete and thrive in a flat world. America's research universities are good at working on innovations, and scientific breakthroughs—from mathematics to biology to physics to chemistry.

America also has the best-regulated and most efficient capital markets in the world for taking new ideas and turning them into products and services.

What makes capital provision work so well in America is the security and regulation of the capital markets. Minority shareholders are well protected. An Enron may happen but, it usually gets exposed, either by the Securities and Exchange Commission or by the business press, and get corrected. What makes America unique is not Enron but reformers like Eliot Spitzer, the attorney general of New York State.

Flexibility to quickly deploy labor and capital where the greatest opportunity exists, and the ability to quickly redeploy it if the earlier deployment is no longer profitable, is essential in a flattening world. The easier it is to fire someone in a sunset industry, the easier it is to hire someone in a sunrise industry that was difficult to visualise five years earlier. The United States also has among the most flexible labor laws in the world. This is a great asset, compared to inflexible, rigidly regulated labor markets like Germany's where there are several government restrictions on hiring and firing.

## **Reforms**

Friedman emphasizes that reforms must happen at the “retail level,” to make a real impact. Opening the country to foreign trade and investment and macroeconomic policy initiatives constitute reform wholesale. Reform retail involves looking at four key aspects of society—infrastructure, regulatory institutions, education, and culture (the general way your country and leaders relate to the world). The idea of reform retail is to enable people to have the best legal and institutional framework within which to innovate, start companies, and become attractive partners for those who want to collaborate with them from elsewhere in the world.

Reform calls for action on various fronts. The first is to simplify and deregulate wherever possible in competitive markets. Competition for consumers and workers is the best source of pressure for best practices. In contrast, overregulation just opens the door for corrupt bureaucrats to demand bribes. Next is to focus on enhancing property rights. A third action point is to expand the use of the Internet for regulation fulfillment. It makes it faster, more transparent, and far less open to bribery. Yet another measure is to reduce the involvement of the judiciary in business matters. And last but certainly not the least make reform a

continuous process. Countries that consistently perform well as good places to do business, do so because of continuous reform.

### **Culture matters**

As the world goes flat, and more and more of the tools of collaboration get distributed and commoditized, the gap between cultures that have the will, the way, and the focus to quickly adopt these new tools and apply them and those that do not will matter more. The differences between the two will become amplified.

Although climate, natural resources, and geography partly explain why some countries are able to make the leap to industrialization and others are not, the key factor is actually a country's cultural endowments, particularly the degree to which it has internalized the values of hard work, thrift, honesty, patience, and tenacity. Also important is the degree to which the society is open to change, new technology and equality for women.

Friedman believes a nation's culture is important in the flat world. To what degree is it open to foreign influences and ideas? How well does it "glocalize"? To what degree is there a sense of national solidarity and a focus on development? To what degree is there trust within the society for strangers to collaborate together? To what degree are the elites in the country concerned with the masses and ready to invest at home? Or are they indifferent to their own poor and more interested in investing abroad?

The more easily the culture absorbs foreign ideas and best practices and melds those with its own traditions-the greater advantage it will have in a flat world. The natural ability to glocalize has been one of the strengths of Indian culture, American culture, Japanese culture, and, lately, Chinese culture. Moguls may come and go, the British may come and go, but Indians still eat curry, their women still wear saris, and they still live in tightly bound extended family units.

But culture need not be taken as a given. Cultures are a product of the context-geography, education level, leadership, and historical experience-of any society. As those change, so too can culture. Japan and Germany have gone from highly militarized societies to highly pacifist and staunchly democratic societies in the last fifty years. During the Cultural Revolution China seemed like a nation in the grip of a culture of ideological madness. China today is a synonym for pragmatism. In the Gulf, Muslim Saudi Arabia may be intolerant, but neighbour Dubai, has used its petrodollars to build *the* trading, tourist, service, and computing center of the Arab Gulf. Dubai is one of the most tolerant, cosmopolitan places in the world. Bahrain, has been the first among the Gulf countries to hold an election for parliament with women's participation. So culture matters, but culture is nested in contexts, not genes, and as those contexts, change and adapt, so too can culture.

## **Why some countries succeed**

The basic formula for economic success is reform wholesale, followed by reform retail, along with good governance, education, infrastructure, and the ability to absorb global culture. But why does one country get its act together to do all these things in a sustained manner and why not others? Friedman attributes this to two qualities. The first is a society's ability and willingness to pull together and sacrifice for the sake of economic development. The second is the presence of leaders with the vision to see what needs to be done in terms of development and the willingness to use power to push for change rather than to use it to serve their own vested interests. Some countries (such as Korea and Taiwan) seem to be able to focus their energies on economic development while others (such as Egypt and Syria) get distracted by ideology or local feuds. Some countries have leaders who use their time in office to try to drive modernization rather than personally enrich themselves. But in others, elites use their time in office to line their pockets and siphon off wealth to Swiss bank accounts.

## **Globalisation & geopolitics**

Friedman is well known for his Golden Arches Theory. When a country reaches the level of economic development where it has a middle class big enough to support a network of McDonald's, it becomes a McDonald's country. People in McDonald's countries are more interested in economic well being than in fighting wars. As countries get woven into the fabric of global trade and rising living standards, which McDonald's symbolizes, the cost of war for both victor and vanquished has become prohibitively high.

The spread of just in time global supply chains in the flat world is an even greater restraint on geopolitical adventurism. When countries are enmeshed in global supply chains, governments will have to think hard about engaging in anything but a war of self-defense. And if they choose to go to war, the price they will pay will be ten times higher than it was a decade ago and probably ten times higher than whatever the leaders of that country think. If a war erupts between China and Taiwan, the consequences are unimaginable for the global PC industry.

Friedman also deals with the subject of terrorism. Advances in technology will help us to identify, expose and capture those who are trying to use the easily available tools of the flat world to destroy it. But in the end, technology alone cannot keep people safe. Ways have to be found to affect the imagination of those who would use the tools of collaboration to destroy the world that has invented those tools.

## **Shaping Society**

Analysts tend to measure a society's progress by classical economic and social statistics: its deficit-to-GDP ratio, or its unemployment rate, or the rate of literacy among its adult women. While such statistics are important, Friedman believes a basic question that is much

more important and revealing is: Is the society backward or forward looking?

In societies that have more memories than dreams, too many people are spending too much time looking backward. They see dignity, affirmation, and self-worth not by examining the present but by reflecting on the past. Often that is not a real past but an imagined and adorned past. Indeed, such societies focus all their imagination on making that imagined past even more beautiful than it ever was, and then they cling to it rather than imagining a better future and acting on that. It is in these countries that terrorism is more likely to flourish. This logic seems to be applicable even at a regional level. For example, in India, one of the reasons for Bengal's decline seems to be the obsession with the past. On the other hand, states like Andhra Pradesh which are looking ahead, seem to be making economic progress far more rapidly.

### **Conclusion**

Friedman is not an academic. His writing is based not on any grand theory but his personal experiences. Academics may find fault with the lack of intellectual rigour. But the book is full of practical insights and gives a graphic picture of the modern world, with a special focus on countries like India which have a real opportunity to catch up. The book is a must read for people who want to understand how the global economy is working today.