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'The World Is Flat': The Wealth of Yet More Nations

By FAREED ZAKARIA

THE WORLD IS FLAT

OVER the past few years, the United States has been obsessed with the Middle East.

The administration, the news media and the American people have all been focused almost exclusively on the region, and it has seemed that dealing with its problems would define the early decades of the 21st century. "The war on terror is a struggle that will last for generations," Donald Rumsfeld is reported to have said to his associates after 9/11.

By Thomas L. Friedman.

488 pp. Farrar, Straus & Giroux. \$27.50.

But could it be that we're focused on the wrong problem? The challenge of Islamic terrorism is real enough, but could it prove to be less durable than it once appeared? There are some signs to suggest this. The combined power of most governments of the world is proving to be a match for any terror group. In addition, several of the governments in the Middle East are inching toward modernizing and opening up their societies. This will be a long process but it is already draining some of the rage that undergirded Islamic extremism.

This doesn't mean that the Middle East will disappear off the map. Far from it. Terrorism remains a threat, and we will all continue to be fascinated by upheavals in Lebanon, events in Iran and reforms in Egypt. But ultimately these trends are unlikely to shape the world's future. The countries of the Middle East have been losers in the age of globalization, out of step in an age of free markets, free trade and democratic politics. The world's future -- the big picture -- is more likely to be shaped by the winners of this era. And if the United States thought it was difficult to deal with the losers, the winners present an even thornier set of challenges. This is the implication of the New York Times columnist Thomas L. Friedman's excellent new book, "The World Is Flat: A Brief History of the Twenty-First Century."

The metaphor of a flat world, used by Friedman to describe the next phase of globalization, is ingenious. It came to him after hearing an Indian software executive explain how the world's economic playing field was being leveled. For a variety of reasons, what economists call "barriers to entry" are being destroyed; today an individual or company anywhere can collaborate or compete globally. Bill Gates explains the meaning of this transformation best. Thirty years ago, he tells Friedman, if you had to choose between being born a genius in Mumbai or Shanghai and an average person in Poughkeepsie, you would have chosen Poughkeepsie because your chances of living a prosperous and fulfilled life were much greater there. "Now," Gates says, "I would rather be a genius born in China than an average guy born in Poughkeepsie."

The book is done in Friedman's trademark style. You travel with him, meet his wife and kids,

learn about his friends and sit in on his interviews. Some find this irritating. I think it works in making complicated ideas accessible. Another Indian entrepreneur, Jerry Rao, explained to Friedman why his accounting firm in Bangalore was able to prepare tax returns for Americans. (In 2005, an estimated 400,000 American I.R.S. returns were prepared in India.) "Any activity where we can digitize and decompose the value chain, and move the work around, will get moved around. Some people will say, 'Yes, but you can't serve me a steak.' True, but I can take the reservation for your table sitting anywhere in the world," Rao says. He ended the interview by describing his next plan, which is to link up with an Israeli company that can transmit CAT scans via the Internet so that Americans can get a second opinion from an Indian or Israeli doctor, quickly and cheaply.

What created the flat world? Friedman stresses technological forces. Paradoxically, the dot-com bubble played a crucial role. Telecommunications companies like Global Crossing had hundreds of millions of dollars of cash -- given to them by gullible investors -- and they used it to pursue incredibly ambitious plans to "wire the world," laying fiber-optic cable across the ocean floors, connecting Bangalore, Bangkok and Beijing to the advanced industrial countries. This excess supply of connectivity meant that the costs of phone calls, Internet connections and data transmission declined dramatically -- so dramatically that many of the companies that laid these cables went bankrupt. But the deed was done, the world was wired. Today it costs about as much to connect to Guangdong as it does New Jersey.

The next blow in this one-two punch was the dot-com bust. The stock market crash made companies everywhere cut spending. That meant they needed to look for ways to do what they were doing for less money. The solution: outsourcing. General Electric had led the way a decade earlier and by the late 1990's many large American companies were recognizing that Indian engineers could handle most technical jobs they needed done, at a tenth the cost. The preparations for Y2K, the millennium bug, gave a huge impetus to this shift since most Western companies needed armies of cheap software workers to recode their computers. Welcome to Bangalore.

A good bit of the book is taken up with a discussion of these technological forces and the way in which business has reacted and adapted to them. Friedman explains the importance of the development of "work flow platforms," software that made it possible for all kinds of computer applications to connect and work together, which is what allowed seamless cooperation by people working anywhere. "It is the creation of this platform, with these unique attributes, that is the truly important sustainable breakthrough that has made what you call the flattening of the world possible," Microsoft's chief technology officer, Craig J. Mundie, told Friedman.

Friedman has a flair for business reporting and finds amusing stories about Wal-Mart, UPS, Dell and JetBlue, among others, that relate to his basic theme. Did you know that when you order a burger at the drive-through McDonald's on Interstate 55 near Cape Girardeau, Mo., the person taking your order is at a call center 900 miles away in Colorado Springs? (He or she then zaps it back to that McDonald's and the order is ready a few minutes later as you drive around to the pickup window.) Or that when you call JetBlue for a reservation, you're talking to a housewife in Utah, who does the job part time? Or that when you ship your Toshiba laptop for repairs via UPS, it's actually UPS's guys in the "funny brown shorts" who do the fixing?

China and India loom large in Friedman's story because they are the two big countries benefiting

most from the flat world. To take just one example, Wal-Mart alone last year imported \$18 billion worth of goods from its 5,000 Chinese suppliers. (Friedman doesn't do the math, but this would mean that of Wal-Mart's 6,000 suppliers, 80 percent are in one country -- China.) The Indian case is less staggering and still mostly in services, though the trend is dramatically upward. But Friedman understands that China and India represent not just threats to the developed world, but also great opportunities. After all, the changes he is describing have the net effect of adding hundreds of millions of people -- consumers -- to the world economy. That is an unparalleled opportunity for every company and individual in the world.

Friedman quotes a Morgan Stanley study estimating that since the mid-1990's cheap imports from China have saved American consumers over \$600 billion and probably saved American companies even more than that since they use Chinese-sourced parts in their production. And this is not all about cheap labor. Between 1995 and 2002, China's private sector has increased productivity at 17 percent annually -- a truly breathtaking pace.

Friedman describes his honest reaction to this new world while he's at one of India's great outsourcing companies, Infosys. He was standing, he says, "at the gate observing this river of educated young people flowing in and out. . . . They all looked as if they had scored 1600 on their SAT's. . . . My mind just kept telling me, 'Ricardo is right, Ricardo is right.' . . . These Indian techies were doing what was their comparative advantage and then turning around and using their income to buy all the products from America that are our comparative advantage. . . . Both our countries would benefit. . . . But my eye kept . . . telling me something else: 'Oh, my God, there are just so many of them, and they all look so serious, so eager for work. And they just keep coming, wave after wave. How in the world can it possibly be good for my daughters and millions of other young Americans that these Indians can do the same jobs as they can for a fraction of the wages?' "

He ends up, wisely, understanding that there's no way to stop the wave. You cannot switch off these forces except at great cost to your own economic well-being. Over the last century, those countries that tried to preserve their systems, jobs, culture or traditions by keeping the rest of the world out all stagnated. Those that opened themselves up to the world prospered. But that doesn't mean you can't do anything to prepare for this new competition and new world. Friedman spends a good chunk of the book outlining ways that America and Americans can place themselves in a position to do better.

People in advanced countries have to find ways to move up the value chain, to have special skills that create superior products for which they can charge extra. The UPS story is a classic example of this. Delivering goods doesn't have high margins, but repairing computers (and in effect managing a supply chain) does. In one of Friedman's classic anecdote-as-explanation shticks, he recounts that one of his best friends is an illustrator. The friend saw his business beginning to dry up as computers made routine illustrations easy to do, and he moved on to something new. He became an illustration consultant, helping clients conceive of what they want rather than simply executing a drawing. Friedman explains this in Friedman metaphors: the friend's work began as a chocolate sauce, was turned into a vanilla commodity, through upgraded skills became a special chocolate sauce again, and then had a cherry put on top. All clear?

Of course it won't be as easy as that, as Friedman knows. He points to the dramatic erosion of

America's science and technology base, which has been masked in recent decades by another aspect of globalization. America now imports foreigners to do the scientific work that its citizens no longer want to do or even know how to do. Nearly one in five scientists and engineers in the United States is an immigrant, and 51 percent of doctorates in engineering go to foreigners. America's soaring health care costs are increasingly a burden in a global race, particularly since American industry is especially disadvantaged on this issue. An American carmaker pays about \$6,000 per worker for health care. If it moves its factory up to Canada, where the government runs and pays for medical coverage, the company pays only \$800. Most of Friedman's solutions to these kinds of problems are intelligent, neoliberal ways of using government in a market-friendly way to further the country's ability to compete in a flat world.

There are difficulties with the book. Once Friedman gets through explicating his main point, he throws in too many extras -- perhaps trying to make that chocolate sundae -- making the book seem slightly padded. The process of flattening that he is describing is in its infancy. India is still a poor third-world country, but if you read this book you would assume it is on the verge of becoming a global superstar. (Though as an Indian-American, I read Friedman and whisper the old Jewish saying, "From your lips to God's ears.") And while this book is not as powerful as Friedman's earlier ones -- it is, as the publisher notes, an "update" of ["The Lexus and the Olive Tree"](#) -- its fundamental insight is true and deeply important.

In explaining this insight and this new world, Friedman can sometimes sound like a technological determinist. And while he does acknowledge political factors, they get little space in the book, which gives it a lopsided feel. I would argue that one of the primary forces driving the flat world is actually the shifting attitudes and policies of governments around the world. From Brazil to South Africa to India, governments are becoming more market-friendly, accepting that the best way to cure poverty is to aim for high-growth policies. This change, more than any other, has unleashed the energy of the private sector. After all, India had hundreds of thousands of trained engineers in the 1970's, but they didn't produce growth. In the United States and Europe, deregulation policies spurred the competition that led to radical innovation. There is a chicken-and-egg problem, to be sure. Did government policies create the technological boom or vice versa? At least one can say that each furthered the other.

The largest political factor is, of course, the structure of global politics. The flat economic world has been created by an extremely unflat political world. The United States dominates the globe like no country since ancient Rome. It has been at the forefront, pushing for open markets, open trade and open politics. But the consequence of these policies will be to create a more nearly equal world, economically and politically. If China grows economically, at some point it will also gain political ambitions. If Brazil continues to surge, it will want to have a larger voice on the international stage. If India gains economic muscle, history suggests that it will also want the security of a stronger military. Friedman tells us that the economic relations between states will be a powerful deterrent to war, which is true if nations act sensibly. But as we have seen over the last three years, pride, honor and rage play a large part in global politics.

The ultimate challenge for America -- and for Americans -- is whether we are prepared for this flat world, economic and political. While hierarchies are being eroded and playing fields leveled as other countries and people rise in importance and ambition, are we conducting ourselves in a way that will succeed in this new atmosphere? Or will it turn out that, having globalized the world, the United States had forgotten to globalize itself?

Fareed Zakaria, the editor of Newsweek International and author of "The Future of Freedom," is the host of a new current affairs program on public television, Foreign Exchange.

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