

The Big Idea

Our Not-So-Flat World

Editor's note: In our last issue, we launched "The Big Idea," a forum for thought leadership from USCIB members and others in the business and policy communities, with a column by Dow Chemical CEO **Andrew Liveris** on rejuvenating American manufacturing. In this issue we look at another thought-provoking perspective on international business and public policy. Views expressed by authors and those interviewed are their own, and no endorsement by USCIB is implied. To submit a column or suggest a topic, please contact **Jonathan Huneke** (jhuneke@uscib.org).

The world is flat, right? Well, consider the following facts:

- Only 20 percent of the world's equity shares are held by investors outside a company's home market.
- Just three percent of people live outside their country of birth.
- Less than one percent of all American companies have any foreign operations – and most of them operate in just one country, primarily Canada.
- Worldwide public opinion surveys indicate that people care about their fellow citizens from 100 to 10,000 times more than they do about foreigners.

Pankaj Ghemawat, professor of global strategy at IESE Business School in Barcelona and author of the well received book "World 3.0: Global Prosperity and How to Achieve It," has thought a lot about this. Ghemawat takes issue with common assumptions about globalization.

The world, he says, is far from flat, and in fact is still largely defined by national borders.

Ghemawat sat down with USCIB to discuss his ideas. *World 3.0* encourages companies and policy makers to look at globalization differently. He explains how, for too long, governments, business, and the general public have been stuck in a tug of war between two opposing worldviews, World 1.0 (a protectionist, regulated world) and World 2.0 (in which the world is seen as flat and corporations as stateless entities).

He argues that both these views are flawed: they don't fit the facts, and they don't provide practical direction toward a better future. He proposes a more accurate and useful worldview, based on evidence that we are in a state of semi-globalization.

Pointing to data on flows of trade, capital, information and people, Ghemawat shows that actual levels of globalization are far lower than many of us think, and that there is tremendous

potential to expand prosperity by increasing integration.

What's more, with protectionism on the rise, Ghemawat points out how exploding some of the myths about globalization's scope can defuse anxiety about its purported side-effects.

We're not as globalized as we think, according to Pankaj Ghemawat, author of "World 3.0."

For example:

- Recognizing that goods made in China account for just 1-2% of U.S. personal consumption expenditures undercuts those seeking to blame the trade deficit for America's problems – shifting the focus on jobs away from protectionism and toward domestic policies.

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Pankaj Ghemawat

- Recognizing that international air transportation accounts for 1-2% of greenhouse gas emissions – one-tenth as much as ground transportation – would help prevent an overemphasis on localizing production that sacrifices important production efficiencies.
- Recognizing that foreign aid accounts for just 1% of the U.S. federal budget – instead of the 30% or so that Americans tend to guess – can help build support for more cross-border aid.

World 3.0 recounts the track records of numerous companies in adapting – or failing to adapt – to this semi-globalized world, where attention to national differences can still spell the difference between success and failure.

Perhaps most intriguing for USCIB members are Ghemawat's policy prescriptions. Here he places the emphasis on the importance of more or less unilateral decisions by national governments.

Interestingly, he contends that trade liberalization by itself offers limited prospects for growth. Success in the Doha Round, he says, would lift global GDP by a mere 0.1 percent, and even the complete elimination of trade barriers would raise growth by only 0.5 percent.

In contrast, Ghemawat contends that very rapid increases in integration undertaken unilaterally or by small groups of governments could spur far greater growth. One example, says Ghemawat, is Mexico under NAFTA, where the single biggest benefit of integration with the U.S. and Canada

has been to drastically reduce the price-setting power of oligopolies.

Ghemawat says governments can foster integration at both the national and global levels through policies such as improved infrastructure and education. Poor road and port infrastructure in his native India, for example, is a huge constraint on growth,

because it limits access to global markets.

Ghemawat criticizes the view that deregulation is the best way to achieve growth. "A hands-off approach to regulation is untenable," he says. Minimum wage laws, for example, help reduce inequality.

And while popular perceptions of globalization's impact on unemployment are vastly out of line with reality, Ghemawat stresses the importance of improving the social-safety net for people who are negatively affected. He's skeptical about trade adjustment assistance laws, and says improved unemployment benefits, access to health care, and education are a better approach.

World 3.0 makes for fascinating reading, and while you may not agree with everything Ghemawat prescribes, he presents a very convincing case that there is still a long, long way to go before the world is truly flat. ■

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