

The World Is Flat

By *Thomas L. Friedman*

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(Summarized by Phil Hauck)

- **THE Message is the Implications of ... Convergence III** (p. 181)
 - Convergence I: Ubiquiteness of the Internet ... worldwide ability to collaborate online.
 - Convergence II: Figuring out how to use it. Fast, integrated processes. Southwest Air. Walmart. Jobless recovery. Productivity increases.
 - Convergence III: Adding China, India, Russia, Eastern Europe, Latin America, Central Asia.
- Cold War: Three major trading blocs ... North America, Western Europe, Japan+Asia.
 - Wages, Workforces, Educ. Levels about same size. Controlled competition. Walls where useful ... lots of them for labor and for trade.
- Triple Convergence!
 - 11/9/89: Berlin Wall came down, India turned from autocracy in 1983, China shifted to market capitalism, and population growth. All with rich educational heritages.
 - Before, global economic world had 2.5 billion people. Now, 6 billion!
 - Workers: From 1.5 billion ... TO 3.0 billion.
 - True, only 150 million of the new 3 billion has education and connectivity ... but 150 million (same as U.S.)!! All sprinting to computers, networking, internet, learning, sharing.
 - Today, China has more cell phones than US has people; South Korean internet penetration way past US.
 - In future, global trade/economics not driven by IMF, G-8, World Bank, WTO ... but by entrepreneurs, individuals who use the tools to create new, LEVERAGD opportunities.
 - Led by India's Zippies ... 54% of 1.2 billion population is under 25 ... not just pent-up demand, but want the good life. Very educated, willing to work any hours, service-oriented, adjust speech. Next: Eastern Europe. Then, China. Both getting very good educations WITHOUT the internal job opportunities that U.S. currently has.
 - Much more ambitious than Americans, because come from poverty. Looking for how to use the technology to better their lives. Aggressive. Striving. Driven.
 - In Beijing, Tsinghua University very advanced, striving to become one of world's premiere universities.
 - In India, in Chennai, health center striving to become health care destination for world ... heart operations for \$20,000, not \$200,000.
 - In Russia, Boeing uses engineers to do computer-aided designs for planes overnight. Video-conferencing to solve problems face-to-face. U.S. aeronautical engineer is \$120 per hour, in Russia, \$40.
 - Purpose isn't to make money, it's to survive ... to provide enough cash to keep innovating. Also use reverse auctions on Class C parts.

The Great Sorting Out

- Race to the Bottom! Get costs out. Eliminate people. Virtual companies.
- Framing (p. 205): “What I call collaboration can be seen by others as a nice name for hiring cheap labor in India. That’s an American perspective. From the Indian worker’s perspective, that same form of collaboration, outsourcing, is another name for empowering individuals in the developing world as never before, enabling them to nurture, exploit and profit from their God-given intellectual talents ... that before would have rotted on the docks of Bombay and Calcutta.

“From the American corner of the flat world, you can conclude that frictions, barriers and values restraining outsourcing should be maintained, even strengthened. From the Indian corner, fairness, justice and their own aspirations demand these same barriers be removed. In the flat world, one person’s economic liberation could be another’s unemployment.”

- India/Indiana story (p. 206): Who is the exploiter?

In 2003, Indiana puts out a bid to upgrade the state’s computer systems that process unemployment claims, the bureau that cushions Indiana citizens from the impact of outsourcing. *Winner, selected by the state’s Democratic governor and administration (pro labor?)*: Tata America, Intl., U.S.-based subsidiary of India’s Tata Consulting Services ... at \$15.2 million, well under next bid at \$23.3 million. Tata would send 65 employees into Indiana, plus hire some local subcontractors. But most work would be done in India.

Reaction, by Republicans (free trade?): Cancel the contract; pay off Tata; divide contract into smaller pieces that could be done by Indiana firms. Gain: Jobs for less efficient Indiana software firms, at \$8.1 million more. Loss of savings to be invested in hiring more valuable people elsewhere, or build new schools, or ...

Issue: How much “friction” to leave in the system so “humanity” can counteract “efficiency”?

Environmental degradation: Not in India’s software cos. and call centers?

There’s no clear answer. Depends on interpreting each situation in your evolving context of values.

- How much friction to take out?: Rahm Emanuel ... Administration needed to streamline FDA drug approval to get life-saving, life-enhancing drugs into the market faster. How much? One result: Approval of Vioxx, which later shows to have increased risk for heart attacks and strokes.
- “If Dell can build every component of its computers in coastal China and sell them in America, Dell stockholders benefit, Dell employees benefit, American consumers benefit. But additional potential employees don’t.” (p. 209) The interests of companies are rapidly going beyond those of the nation/state. Indeed, the regulations of the nation/state compel them to.
- Who owns what? Intellectual property: Protect the inventor to encourage invention, or limit the protection to get it into public domain?
- “The cold, hard truth is that mgmt., shareholders and investors are largely indifferent to where their profits come from or even where the employment is created. But they do want sustainable companies. Politicians, though, are compelled to stimulate the creation of jobs in a certain place. And residents -- whether they are Americans, Europeans or Indians -- want to know that the good jobs are going to stay close to home.” (p. 211)

“The only way to converge the interests of the two -- the employer and its country of origin -- is to have a really smart population that can not only claim its slice of the bigger global pie but invent its own new slices as well.” (p 211)

- Taking work out is hardly new. The ability to process more information faster has eliminated huge numbers of jobs in middle management for two decades. We've adjusted to it and become more productive, more innovative. We create more new ideas, more new patents, than ever before. (Colin Powell example, p. 212.)
- Reform of the political party alignments (p. 221):
 - WALL Party: Social conservatives who don't like globalization or closer integration with the world (restrict immigration). And union employees who want jobs protected. Much in common with farmers of rural China, and mullahs of central Saudi Arabia, who want walls.
 - WEB Party: Business people who want free trade, deregulation, integration, lower taxes. And social liberals from East and West Coast who benefit from flat world (entertainment, services, etc.) Much in common with people of Shanghai and Bangalore.
- **America and Free Trade** (p. 225):
 - "Free trade won't benefit every American, and our society will have to help those who are harmed by it." (p. 225) Will free trade benefit America as a whole when the world becomes so flat and so many more people can collaborate and compete with my kids? Wouldn't individual Americans be better off if our government erected some walls and banned some outsourcing and offshoring?

DISCUSSION!

Arguments *Against* Free Trade:

- They're imposing restrictions on us; we need to on them as leverage for negotiations.
- America and other developed countries are headed for ABSOLUTE DECLINE in their economic power and living standards unless we move to formally protect certain jobs from foreign competition.

Arguments *For* Free Trade:

- Ricardo on Comparative Advantage: If each nation specializes in the production of goods in which it has a comparative cost advantage and then trades with other nations for the goods in which they specialize, there will be an overall gain in trade, and overall income levels should rise in each trading country.
- *So many* of these people developing skills in other countries (150 million now, ready to burgeon).
- The pie will continue to grow, and if we act correctly, we'll still get our piece of it. (For last 30 years, supply of educated has grown dramatically, but wages grew even faster ... so best living standards ever. Why? The pie kept growing bigger because as people's incomes rise, so do their wants. Result: Increasing demand for more complex products/services.

The Challenge: Educated Elite (E/Es) who can compete, vs. Increasing Low-Skilled Majority (LSMs)

- Short-Term: America's E/E may get lower income because Foreign E/E is paid much less. That will lessen over time as the Foreign E/E's are more and more in demand, and wages rise. Longer-Term: A leavening, but still lower.
- Short-Term: LSMs in US are paid fairly well because so few of them (and union-protection laws). In Foreign countries, many, many of them, so paid poorly. Longer-Term: MUST improve education and flexibility!
- Products: Increasing efficiency means fewer people to produce a product. A person can produce something which serves only one person's needs ... diminishing value.
- Services, like software: A person can produce something which serves many, many people's needs at once ... greater value.

So, what is REALLY going on? Not a Race To The Bottom ... but a RACE TO THE TOP, led by huge quantities of young, very educated people in less developed countries who are driven by shortage to seek what they can get ... just as our young people have done since mid-1900s.

So, what becomes GOVERNMENT'S role? To insure that your geography of concern, your constituents ... know the truth, know what they have to do ... and that the way is open for them to do it.

- Becoming Untouchable (p. 236):

What do we need to tell our kids? Only one message: You have to constantly upgrade your skills. There will be plenty of good jobs out there in the flat world for people with the knowledge and ideas to seize them. (And there won't be for those who don't.)

“Finish your homework. People in China and India are starving for your jobs.”

Become Untouchable by ...

- Be specialized, so your work can't be outsourced.
- Be anchored ... necessary and has to be local, probably a service.
- BE REALLY ADAPTABLE, constantly acquiring new skills, etc., allowing you to create more value.

Do we do this in the U.S.?

- The Numbers Gap: Too much aging where we need youth. Example: At NASA, only 4% are under 30. Reducing numbers of graduates in science and engineering ... now 17th in world vs. 3rd 30 yrs. ago. Universities in Asian countries produce 8x more than in U.S. Engineering is the worst part.
 - The Ambition Gap: Outsourcing takes a job that might go to a low-paid, poorly motivated worker to one who is well-paid, very motivated ... so better quality and productivity. Professors feel U.S. students are unmotivated, minimally hireable ... compared to Indians, Chinese, Russians. They are racing us to the top, not wanting to work for us or be like us, but to beat us at what we do.
 - The Education Gap: Funding of research, and output of research, is falling consistently, especially relative to the rest of the world. (We're still the best at graduate education.)
 - Takes 15 years to create an advanced engineer or scientist, starting with creating excitement during elementary school. Where's our emphasis?
 - Global companies are investing more and more R&D dollars overseas (“Follow the Brains.”).
 - In U.S., doing okay at 4th grade levels by tests, middle of road by 8th grade, and near bottom by 12th grade compared to international tests in math.
 - We lobby to get more bright students into U.S. universities, but are restricted by INS levels. Number of visas for H3b level engineers has been cut by 2/3rds since 9/11.
- America's True Uniqueness (p. 244):
 1. Our university system, research labs, and retailers are the best .. for being innovation-generating machines.
 2. Best regulated, most efficient capital markets ... assigning risk capital to the best emerging ideas and growth opportunities.
 3. Sheer openness of American society.
 4. Quality of intellectual property protection, encouraging people to come up with new ideas.
 5. Most flexible labor laws.

6. Political stability.
 7. Great meeting point for the world, where people bond and learn to trust one another.
- Leadership: The job of the politician in America, whether at the local, state or national level, should be, in good part, to help educate and explain to people what world they are living in and what they need to do if they want to thrive in it. (p. 280-281)
 - One problem we have today, though, is that so many American politicians don't seem to have a clue about the flat world. They seem to go out of their way actually to make their constituents stupid ... encouraging them to believe that certain jobs are "American jobs" and can be protected from foreign competition.
 - Lifetime "employability," not lifetime "employment."
 - Requires portability of social protection (401k savings, health care) and lifetime learning possibilities .
 - Health Care: Use state employee purchasing pools (www.ppionline.org).
 - Make Tertiary education mandatory for two years ... all or partial govt. sponsored.
 - Wage insurance (p. 294).
 - Parenting: tough love (p. 303).

Developing Countries and the Flat World

- Reform Wholesale, resulting in radical reduction in Chinese poverty:
 - Privatize state-owned industries
 - Deregulate utilities.
 - Lower tariffs.
 - Encourage export industries.
- Need More: Reform Retail:
 - Make it easy for people to start businesses ... fast processing, low cost, few and flexible regulations.
 - Have capitalistic law protections in place ... ownership of tangibles and intangibles. (p. 318)
 - Culture of hard work, thrift, honesty, patience, tenacity, open to change, equality for women.
 - Negative examples: Takes 1500 days to enforce a contract in Guatemala; 203 days to start a business in Haiti and Congo; costs 5x income to start a business in Cambodia, 56x in Syria; no rights in bankruptcy of a creditor in Mexico, Congo, Colombia; 78 days to register a property in Mexico, vs. 12 days in US. In India, no infrastructure (power goes off frequently, so little foreign investment).
 - Think about countries/movements who are trying to become inward rather than open. Where are they economically, innovation-wise, open-ness, etc.? Implications? (Consider radical Islam where want to purge anything modern. Implications?)
 - Think about where government paternalism exists and how much innovation, striving, betterment occurs? (Egypt (everyone gets a "job"), Saudi Arabia, etc.)
- Chinese official: "Where there's hope, you will have a middle class." (p. 375)
 - With all their flaws, there has developed, through communications open-ness, a very hopeful group striving for middle class in India, China and former Soviet countries. Unfortunately, not so in rural India, Africa, rural Latin America, etc. (p. 376) Problem: Governments are not being supportive, often oppressive, of these trends (esp. in well known parts of

Arab/Muslim world). Real cognitive dissonance for young people, seeing a better way of life elsewhere, but hearing that it is bad .. sparks rage. Dilemma: Abandon their cherished religion, belief system and leaders ... or remain forever in rear of technical advance. How must these Islam leaders react? (e.g., Iran?)

-- Disruptive terrorists attacking the institutions we trust ... open-ness, travel, going-to-work, etc., to create distrust.

- Still To Fear:
 - Political systems/countries/oppressive regimes who won't allow this openness of communication: Cuba, Russia, Venezuela, Iran ...
 - Impact of Surging Oil Demand ... and no increases in Supply.
 - Impact of Surging Demand on environments in non-regulated nations.
- Dependence on Oil:
 - What happens as the mega-societies (Russia, China, India) come on-line into middle class and need oil? China's needs will double from 7 million barrels/day now to 14 million/day in 2012
 - Controlled by the "closed" or "closing" societies, not the opening ones.
 - Government leaders use oil revenues to provide all income for citizens, making them totally dependent on the leaders.
 - China's foreign policy: Prevent Taiwan from independence, and find oil. So, making oil supply deals with countries that won't complain if China invades Taiwan ... Sudan, Iran, Saudi Arabia.
 - Need reduction in oil demand appetites. How? Can't plea bargain. Have to set a model by changing own consumption patterns. How?
- The Curse of Oil:
 - These countries get rich by drilling their natural resources, not by drilling the natural talents of their people. No need to tax, so no need to consult or empower, or allow votes. Without taxation, no representation. (p. 460)
 - "Countries focused on tapping their people have to focus on developing real institutions, property rights, rule of law, independent courts, modern education, foreign trade, foreign investment, freedom of thought, and scientific enquiry to get the most out of their men and women." (p. 461)
 - 34 less-developed countries have oil and gas resources constituting 30%+ of exports. However, 12 of them have per capita income below \$1500. Two-thirds aren't democratic, and of the 12 that are, only three are in top half of all countries in political freedom.
 - Bahrain: First Gulf state to run out of oil. Now, first to develop labor reform to develop skills of workers, first to sign free trade agreement with U.S., first to hold a free election involving women. (p. 461)
 - High oil prices bolster these oppressive governments. Best: Build world supply to lower dependence and oil prices, and you'll start to destroy these governments. "Give me \$10 a barrel oil, and I'll give you political and economic freedom from Moscow to Riyadh to Iran."
- Dell Theory of Conflict Prevention
 - Nations whose supply systems are intertwined will ever fight a war against each other. Citizens know where their good life originates. (Example: Taiwan and China. Taiwan supplies many of China's computer components, has \$100 billion invested in China, and Taiwan managers run many Chinese enterprises.)

- Whose NOT part of a global supply chain? Iraq, Syria, Lebanon, North Korea, Pakistan, Afghanistan, Iran, etc. Why? Partially because no economy.
- Secular Democracies
 - We hear continually of anti-American fury from radical Islamists in virtually all Muslim countries ... except one, the second largest Muslim community in the world, although a religious minority. Why? Because they feel part of a larger community, not disenfranchised, able to have a voice in their own governance, future. Elections. Part of a larger COMMUNITY! What's that country? India. Also, Turkey. So, why is creating a democratic process in secular Iraq important? Revolutions come from the bottom up.
- FINALLY:
 - Two greatest dangers Americans face are (p. 469):
 - Excess of protectionism, excessive fears of another 9/11 that prompt us to wall ourselves in, in search of personal security, and ...
 - Excessive fears of competing in a world of 11/9 that prompt us to wall ourselves off, in search of economic security.

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Okay, so what are the TEN FLATTENERS:

- They are all in the past. They've already happened. Did you notice them all?
 1. 11/9/89: Berlin Wall comes down, creating an avalanche of freedom possibilities.
 2. 8/9/95: Netscape, which facilitated open protocols allowing network sharing, goes public, facilitating the internet boom, bubble and bust.
 3. Work Flow Software, making processes more efficient.
 4. Open-Sourcing, creating an atmosphere/culture of sharing of information widely. (Concern: Continuance of innovation if can't benefit personally.)
 5. Outsourcing, which allows well educated people in un-developed countries to use their brains as a resource, creating a huge additional middle class.
 6. Offshoring, which allows global competitiveness in export markets.
 7. Supply-Chaining, allowing incredibly efficient integration of suppliers-to-manufacturer-to-retailer-to-customer processes.
 8. Insourcing, developing competences to do more for your customers.
 9. In-Forming, the advent of Google, Yahoo, and MSN Search.
 10. The Steroids, gadgets that link everything wirelessly.
- Today's challenge: To be "not disconnected" from the Internet.
- www.howstuffworks.com.
- "The net result of this convergence was the creation of a globa., Web-enabled playing field that allows for multiple forms of collaboration -- the sharing of knowledge and work -- in real time, without regard to geography, distance, or, in the near future, even language. No, not everyone has access yet to this platform, this playing field, but it is open today to more people in more places on

more days in more ways than anything like it ever before in the history of the world. This is what I meant when I say the world has been flattened. It is the complementary convergence of the ten flattens, creating this new global playing field for multiple forms of collaboration.” (p. 176.)

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