World isn't Flat

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***** Note: Figures may be missing from this format of the document**

Article:

New York Times columnist Thomas Friedman's 2005 best-seller, "The World is Flat," has conquered public opinion. Ask a group of business leaders if they've read his book, and nearly every hand will be raised. Among the portion of the general public who read books, it is now widely accepted that the world is indeed "flat," i.e. that globalization has transformed the world economy by making distance unimportant and borders irrelevant. Friedman claims that "in a flat world, you can innovate without having to emigrate."

But while the book has persuaded the public, many academic experts are deeply skeptical. Some have pointed out that there's really nothing new in Friedman's book. Long before Friedman started interviewing Indian and Chinese entrepreneurs, technological advances such as the telephone and the automobile were altering the role of geography in the economy. Two of the most significant developments in 20th century America were commuting and suburban sprawl, and neither was caused by the Internet or the other new technologies named by Friedman.

One can't help but be sympathetic to the plight of popularizers like Friedman. They bring big ideas to the public, and for their efforts they get criticized by the experts. However, popularizers who rely on anecdotes and assertions rather than solid economic data make easy targets. One critic has noted that there isn't a single table or data footnote in Friedman's entire book.

The World is Spiky

One early Friedman critic was the economic geographer Richard Florida, well known for his concept of "the creative class." In a 2005 article in The Atlantic titled "The World is Spiky," Florida noted that when various measures of economic activity are mapped so the intensity in a given place is represented by the height of a spike, the world doesn't look so flat. It looks spiky. There may be spikes in new places, such as Bangalore and Shanghai, but the tallest spikes are still in New York, London, and Tokyo.

Some measures, such as patents and scientific citations, show little evidence of flattening. Florida argued that "globalization has increased the returns to innovation [and] strengthened the lure that innovation centers hold for our planet's best and brightest, reinforcing the spikiness of wealth and economic production." In other words, it still pays talented Indians to come to Silicon Valley to commercialize their ideas. You *can* innovate without emigrating, but you'll probably emigrate.

Florida's spikes show that within countries, the opposite of flattening is happening. Globalization appears to be increasing the divide between urban and rural areas. In China, one of Friedman's showcase countries, urban incomes are now triple those in rural areas. What we see in the U.S. is less extreme but no less vexing. The North Carolina Rural Economic Development Center has found that urban incomes in the state are about 32 percent higher than rural incomes. With the decline first of agriculture and then of manufacturing, what are rural counties in North Carolina to do?

Local Still Holds Sway

The latest contribution to the field of what we might call World-is-Flat Revisionism is Harvard business professor Pankaj Ghemawat's new book, "Redefining Global Strategy." Ghemawat's book is ultimately a set of prescriptions of how businesses must navigate cultural differences in order to succeed in the world economy. But for the first third of the book he delves into economics to make the case that it's the differences among countries that matter most.

Ghemawat argues that the extent of globalization is much less than Friedman and other writers would have us believe. Some of these writers see globalization as humanity's economic savior while others see it as an unmitigated disaster. Ghemawat argues that neither of these extreme views is accurate because globalization simply hasn't advanced to the point to allow it to be either savior or disaster. "Most types of economic activity that can be conducted either within or across borders,' he notes, "are still quite localized by country."

Ghemawat refers to the current situation as *semiglobalization*, claiming that "levels of cross-border integration are generally increasing and, in many instances, setting new records, but fall far short of complete integration and will continue to do so for decades." He claims that so much of what we think we know about globalization is based on anecdotes and analogies, whereas he prefers to see what the data can tell us.

When Ghemawat looks at economic data, he finds more evidence of local connectivity than of international linkage. For example, foreign direct investment (i.e. capital flows that cross national borders) accounts for less than 10 percent of all capital formation. National borders are crossed by similarly small percentages of total stock-market investment, patenting, merchandise trade, and even telephone calls.

One of the mistakes that Friedman and others make is to confuse the capacity for international integration with the reality that such integration is taking place. Friedman's anecdotes show that it's become possible for ideas and innovations to flow anywhere. But how representative are those examples? Not particularly, according to the data cited by both Florida and Ghemawat. Cultural differences and simple economics often combine to favor localized solutions.

Let's take direct capital investment as an example. The saying is that capital knows no borders, and the dramatic innovations in the technology of capital flows have led many to embrace this saying uncritically. But while capital *can* flow across borders, it prefers to stay close to home, as any funding-starved entrepreneur can tell you. Direct investing is a hands-on activity, and investors and lenders like to know a lot about the businesses to which they're providing capital. It's hard to do that when the business is halfway around the world.

Another example is provided by U.S.-Canada trade, the largest bilateral trading relationship in the world. In spite of strong similarities and affinity between the two countries, as well as the trade-promoting effects of NAFTA, trade between Canadian provinces is five times higher than with similarly sized and equally distant U.S. states. Even when cultures seem similar, economic data reveal that they're not so similar as to make borders and geography irrelevant.

Virtual Borders

What about the Internet? Its evolution is one of the reasons that Friedman believes the world is now flat. But according to Ghemawat, Web and email traffic within countries has increased much faster than traffic between countries. As someone who gets most of his emails from other people on the UNCG campus, this doesn't surprise me. In fact, a big chunk of my emails come from within my own building!

Jack Goldsmith and Tim Wu, the authors of "Who Controls the Internet?: Illusions of a Borderless World," make similar points. For example, many websites ask the visitor to select his/her country. But if the Internet is borderless, why would websites maintain *de facto* international borders? Is it because of clumsy government regulation? Goldmith and Wu show that virtual borders on the Internet actually arose from within. Even aside

from language issues, users in different cultures demand different types of Internet experiences. These borders may be reinforced by governments but they weren't created by them.

It's true that many economic trends are headed in the direction of increased globalization. But the data indicate that those trends are weaker than is claimed by Friedman and others. In the meantime, Ghemawat argues, in a semiglobalized world it's unwise for governments and businesses to accept uncritically the notion that the world is already flat. For now at least, cultural forces are stronger than the forces of globalization.