

In his previous book, "The Lexus and the Olive Tree," New York Times foreign affairs columnist and author Thomas L. Friedman wrote about this shrinking world. Discussing his recent book, "The World Is Flat," with Nayan Chanda, editor of YaleGlobal Online, Friedman observes that not only has the world shrunk to a tiny size thanks to a communication revolution, it has even been flattened. A full transcript of their conversation follows.

'Wake Up and Face the Flat Earth' – Thomas L. Friedman

In an interview, columnist and author Thomas L. Friedman says globalization has outpaced its critics

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Nayan Chanda:

We have Tom Friedman with us this afternoon, to talk about his new book, *The World Is Flat*. This book is third in a series he has been writing about globalization. Your first book, which was a kind of landmark, was *Lexus and the Olive Tree*. Since the publication of that book, how has the world changed? What is the most important change you've seen?

Tom Friedman:

Well you know the way I would locate this book, Nayan, is that I would argue that there have been three great eras of globalization. One I would call, for shorthand, Globalization 1.0. That was from about 1492 till 1800 when we saw the beginning of global arbitrage... Columbus discovers America, so basically that era shrunk the world from a size large to a size medium. The dynamic element in globalization in that era, was countries globalizing, for imperial reasons, for resources.

The second great era was 1800 till the year 2000 - it just ended. And that era shrunk the world from a size medium to a size small. And that era was really spearheaded by companies globalizing, for markets and for labor. Now I would argue *Lexus and the Olive Tree* was really about the tail end of that era

"Olive Tree" was nation-states, and "Lexus" was technology, and the book was about the interaction between what was new, this form of globalization that was shrinking the world from size medium to size small, and at the same time these traditional, ethnic, national issues. Now, what I discovered by visiting India in 2004 was that we'd actually entered a whole new era of globalization. And Lexus was wonderful for what it was, but it was out of date! It couldn't tell the whole story anymore, it couldn't explain the world, because what I really found in going to India was that we'd entered Globalization 3.0. And it's shrinking the world from size small to size tiny, and flattening the global economic playing field at the same time. And so this book builds on the shoulders of Lexus, in that sense, but it's really about the next stage.

Nayan Chanda:

Reading the book, one gets the impression that you took a dive into the innards of globalization and came out with some amazing tales of how things are happening behind the scenes that we don't see. Could tell a little bit about what main things you saw, the main forces changing the globalized world today?

Tom Friedman:

You know, you've got it exactly right, Nayan, in that I'm doing this book, I didn't really read a bunch of other books, I really dove into the companies themselves who were spearheading this process. And the book, in that sense, is very inductive. You know, I looked at what companies were doing and then tried to tease out the general patterns.

To begin with, my primary tutors for this book, were two Indian entrepreneurs: the president of Wipro, Vivec Paul, and the CEO of Infosys, Nandan Nilekani. So, how did I happen to end up with two Indian entrepreneurs? (And these are the heads really of the two cutting-edge, high-tech/outsourcing companies.) It's because they're actually at the epicenter of it now. And they could see the whole playing field. So to begin with, the book is different in that the people I tapped into were very different from Lexus and the Olive Tree, which was really a lot about Silicon Valley, and that perspective (not that I didn't also draw on that for this book).

Secondly, I really dove into some key companies that are now globalizing and are really the source for understanding globalization. Wal-Mart, UPS – these are companies we don't traditionally think of as being goldmines of insights into globalization, but in fact if you understand what's going on inside these companies, you can get an amazing view of the flattening of the global playing field and the forces that are doing it.

Nayan Chanda:

Both these companies you mention, they do not produce anything. They agglomerate or repackage others' products. So in this agglomeration or repackaging, how are they tapping the resources from this flat world. How does it happen?

Tom Friedman:

Well, in the case of Wal-Mart, Wal-Mart's great innovation, as you say, is that Wal-Mart doesn't make anything. But what they do is draw products from all over the world and get them into stores at incredibly low prices. How do they do that? Through a global supply chain that has been designed down to the last atom of efficiency. So as you take an item off the shelf in New Haven, Connecticut, another of that item will immediately be made of that item in Xianjin, China. So there's perfect knowledge and transparency throughout that supply chain.

In the case of UPS, they've designed a global delivery system that allows them to deliver their products with that same efficiency; they are so efficient that they literally have a phenomena at UPS called "end-of-runway services." Think about that: "end of runway services." What do they do? Right before your product gets shipped, right at the end of the runway (almost literally – it's in the hangar, it's not literally at the end of the runway, but it could be at the end of the runway), they'll attach something; they'll attach a new lens to your camera, they'll add a special logo to your tennis shoes, they'll design it just for you, and they'll slap that on at the end of the runway. That's how efficient these systems have become. And of course, when you put them all together, you get a very flat global playing field.

Nayan Chanda:

Now of course, there have been a lot of criticisms of the business model of Wal-Mart, because it is driven by the single motive: maximizing profits for shareholders. And in the process, of course, they give products at a cheap price to the consumers. But people are complaining that this model leaves the workers out of the equation – workers not just in the United States, but perhaps also from China or anywhere else where they are procuring it from. So, is this a good model to promote?

Tom Friedman:

Well, Wal-Mart to me, Nayan, really demonstrates one of the phenomenas of a flat world. I would call it "multiple-identity disorder." Now let me explain. I have to tell you, the consumer in me loves Wal-Mart. Wow, you can go there and get really quality goods at really low prices. And not just me, someone who's maybe an upper-income person. Some lower-income people are stretching their dollars further because of Wal-Mart. That's a big deal. The shareholder in me, Nayan, loves Wal-Mart. Let's assume I have it in my 401k somewhere. Wow, that stock's been a monster, so the shareholder in me loves Wal-Mart. The citizen in me, Nayan, hates Wal-Mart, because they only cover some 40 percent of their employees with health care, while Costco, their main competitor, charges a little bit more, but covers over 90 percent of their employees with health care. And when a Wal-Mart employee that doesn't have health care gets sick, what do they do? They go to the emergency ward at general hospital, and you know what happens then. Then we tax-payers pay their health care. And the neighbor in me, Nayan, is very disturbed about Wal-Mart. Disturbed about stories about how they've discriminated against women, disturbed

about stories that they've locked employees into their stores overnight, disturbed about how they pay some of their employees. So when it comes to Wal-Mart, Nayan, I've got multiple identity disorder, because the shareholder and the consumer in me feels one thing, and the citizen and the neighbor in me feel something quite different.

Now the best way to understand Wal-Mart is to go to Bentonville, Arkansas. Because Bentonville, Arkansas – I mean, this is L'il Abner country, this is Beverly Hillbilly-land, this is the end of the world. Okay, now think about it. This little podunk town produces the biggest company in America and the most dynamic retailer in the world. Well, how did they do it? Well, there's no mother of invention like necessity. And there was Sam Walton, he wanted to get low prices. And so Sam Walton was an early adopter, this Beverly Hillbilly, this hick, L'il Abner down there in northwest Arkansas, was the first to computerize, the first to use wireless, the first to really deploy RFID [radio frequency identification tag], on which Wal-Mart is really pioneering from the retail end.

So Wal-Mart, basically, precisely because they were in the middle of nowhere, Wal-Mart beat their customers for two reasons: because they are one mean, tough company, number one, and because, number two, they adopted and adapted faster to new technology than any other retailer in the world. And you've got to give them credit for that. You've got to worry about and be troubled by some of the brutal side of their business practices. But at the end of the day, the Beverly Hillbillies out-innovated all their competitors.

Nayan Chanda:

How do you resolve the dissonance you have between the citizen in you and the consumer in you?

Tom Friedman:

I think we have to resolve that through social activism. I really support consumer activism that will say to Wal-Mart, that we as neighbors and consumers will say to Wal-Mart, "I love your low prices, but you know what? We're ready to spend five cents more, and we're ready to give you that five cents if you'll use two of those five cents to cover more of your employees with health care." That, to me, is where citizen activism really has to come into play.

Nayan Chanda:

Talking about citizen activism, one of the themes of your book is, because of this flattening of the world, it's harder to challenge from below, and the top-down structure is flattening into horizontal corporate positions. Now, these people who are being left behind, left out of this flattening process, how do they challenge the hierarchy? How do they join the flat world?

Tom Friedman:

Well, those are two really different questions. Because if you ask, how do they challenge them, we see in our business (the news business) that thanks to the flat world, everyone can be a publisher, and an editor, and a journalist, all into one, through blogging. So you and I both could go out and start Nayan.com, or Tom.com, or TomandNayan.com, and suddenly we'd be in business. And if we're clever and witty and interesting, we'll get a global following. And then one day, once we've got our global following, if we see Dan Rather make a mistake on CBS News, we don't have to write a letter to the editor. No, TomandNayan.com will publish their own expose of Dan Rather. And if we've got our facts right, we can help bring Dan Rather down.

The thing you wanted to understand about the flattening of the world is, it enables the big to act really small. Think about Wal-Mart. With RFID technology, they can tell you when Hispanics like to buy milk, as opposed to, you know, [when] other anglos prefer to buy milk as opposed to [when] African-Americans prefer to buy milk. Because they know their store is in predominantly Hispanic neighborhoods, black neighborhoods, or white neighborhoods. They know, they can actually trace, at a micro-level, they can act so small, Nayan, it's scary. The other side of it, though, is that the small can act really big in the flat world. TomandNayan.com, we can go out and be publishers, and if we get a following, man, we can act really big.

Nayan Chanda:

Now, I think you have a very nice story about JetBlue airlines and their agents, who are housewives in Salt Lake City. Now, these people could join the flat world because they have some skills and they have this infrastructure. So, the question is, to have the right skills and the right infrastructure. And what role do you think private companies, governments, or foreign aid has to play in creating this?

Tom Friedman: Well, let's start with, what is the mix of assets you need to thrive in a flat world? Money, jobs, and opportunity in the flat world will go to the countries with the best infrastructure, the best education system that produces the most educated work force, the most investor-friendly laws, and the best environment. You put those four things together: quality of environment that attracts knowledgeable people, investment laws that encourage entrepreneurship, education, and infrastructure. So that's really where, in a flat world, the money is going to go.

And I don't really believe much in foreign aid because I think, at the end of the day, that's not how countries grow and get rich. But to the extent that you are going to give foreign aid, it should be to inspire, encourage, and help develop one of those four pillars for whatever developing country you're dealing with. But I do believe in trade, not aid. I think that axiom still applies, even more so in a flat world.

Nayan Chanda:

One of the few views that have come out of your book, the criticisms seem to be that in your flat world, the poorest of the countries, like Africa, don't really figure. So why are you leaving Africa behind in your discussion of the flat world?

Tom Friedman:

I have a chapter in the book called "The Un-Flat World," in which I talk about the countries that are still the majority that still aren't flat. You know, the job of the analyst is really to identify a trend, just when it reaches the tipping point, but before anyone else sees it. And that's what I've aspired to do in this book. And the trend is this flattening process, which I think has reached this tipping point, as evidenced by the degree that China and India – we're talking about 1/3 of the planet, basically – have been able to use and exploit this platform.

But I fully recognize that although it's reached the tipping point, there are still a lot of people who are not part of it. Africa is not part of it because it hasn't learned to globalize. It doesn't have those four things: the quality infrastructure, the quality education, the quality environment, and the quality investment laws. That's why it's not participating. Our job, as citizens of the planet, let alone as citizens of the wealthiest country in the world, is to help create the tools and conditions for places like Africa to be part of it. But for anyone to say that just because they aren't apart of it, doesn't mean that a new trend isn't aborning – would be ludicrous to suggest.

Nayan Chanda:

I think of the period when the telegraph was invented. It was limited only to England and the United States...

Tom Friedman:

It's a turning point. And Africa not only has the telegraph, it skipped over into wireless! It skipped a whole generation. And even in Africa, because the world is flat, you will get pockets where you have the infrastructure, education, environment, and laws right, they're moving ahead. I have a friend of my wife's whose son worked there, who in the book is quoted, "Everyone in Mali uses Linux." (Linux is a free operating system competing with Microsoft.)

Now not everyone in Mali uses Linux. But just the fact that her son was working there, and using Linux, says something. The world may be flatter than people think. I actually want to go to Timbuktu to see just how flat the world is, as seen from Timbuktu.

Nayan Chanda:

Another point that becomes clear in your book is the role of the individual. And these individuals, who are either part of the flat world or outside of the flat world, are not geographically confined to one area. In the United States, you have a lot of people who

are not a part of the flat world. And at the same time, these people have political power, influence. How can these people's influence be not destructive?

Tom Friedman:

It's a problem actually. The flat world is a friend of Infosys and of Al-Qaeda. It's a friend of IBM and of Islamic jihad. Because these networks go both ways. And one thing we know about the bad guys: They're early adopters. Criminals, terrorists – very early adopters. The person who understands supply chains almost as well as Sam Walton, is Osama Bin Laden. We have an issue there with the most frustrated and dangerous elements of the world using this flat planet in order to advance their goals, to recruit over the internet, to inspire over the internet, and to transfer orders and raise money over the internet. So they're using the flat world as much as anybody else.

Our job is to try to soak up those tools, so that we can use these collaborative tools in a more constructive way. But I have no doubt the flat world is a friend of both Infosys and Al-Qaeda.

Nayan Chanda:

Another element which is interesting compared to "Lexus and the Olive Tree," is that olive trees have not disappeared; olive trees still have strong roots. So how do nationalism and a flat world intersect?

Tom Friedman:

That's a good question. I really tried to develop that idea beyond Lexus. You know in Lexus I wrote that no two countries would fight a war so long as they both had McDonald's. And I was really trying to give an example of how when a country gets a middle class big enough to sustain a McDonald's network, they generally want to focus on economic development. That is a sort of tipping point, rather than fighting wars.

In "Flat World," I take that theory one step further into what I call the "Dell Theory" – you know, Dell Computers. The Dell Theory says that no two countries that are part of the same global supply chain will ever fight a war as long as they're each still part of that supply chain. Now, the big test case is China and Taiwan. Both are suppliers of the main parts of computers. If they go to war, don't try to order a computer this month because you'll have a real problem.

Nayan Chanda:

Dell computers are built with parts from...

Tom Friedman:

From about 400 different parts, but there's probably 30-40 key parts. And what Dell actually did was trace all the key parts in my laptop that I wrote this book with. So, Dell basically traced the parts that went into the laptop that finished the book. And what you see when you look at the supply chain, it runs along coastal China, through Taiwan, on through Japan, up through Malaysia, parts of the Philippines, parts of Thailand. So, all these countries are part of this supply chain.

Do I think this guarantees that there won't be a war? No, I understand olive trees; people will do crazy things over their olive trees. But here's what I predict: If you do go to war and you're part of one these supply-chains, whatever price you think you're going to pay, you're going to pay ten times more. Once you lose your spot in the supply chain because you've gone to war, the supply chain doesn't come back real soon. They're not going to. Fool me once, shame on you; fool me twice, shame on me. That's why you really risk a lot. And that's why these supply chains now really mean a lot. They're the new restraints. They're not shackles; people will still do crazy things.

But what I'm trying to suggest is this: From an analytical point of view, the drama that's unfolding, in terms of the Lexus and the olive tree today, is the intersection of our traditional olive tree urges – nationalism, ethnicity, religion, identity – interacting now with a flat world, interacting with Dell Computer and its supply chain. Maybe the olive tree issues will win and completely smash that – or not. Maybe Dell Computers will win.

Nayan Chanda:

From the United States, it seems that the olive tree is simply turning away, is not wanting to confront the issue of the flat world. There is barely a discussion in political circles or in media circles. How do you explain that, and what can one do about it?

Tom Friedman:

I think there are four factors; it's a kind of "perfect storm" that's come together that people aren't really talking about the flattening of the world, and the impact that it's having on our country, the opportunity it's raising, and the challenges it's posing. First of all, there's 9/11, which completely distracted everyone – including myself – from this. Number two, there's the dot-com bust. A lot of very silly people equated globalization with the dot-com boom. And they thought it was all just about sizzle. And so when the bust came along, all these people said that globalization was over because the dot.com boom was over. Well, actually a flat world drove globalization to a whole new stratosphere. And the third factor is Enron. Enron made all CEOs guilty until proven innocent. As a result, people weren't interacting with them. Even this administration, slavishly conservative and pro-Republican, didn't want to be seen with too many CEOs.

Fourth is what's going on in the world of academia and basically the anti-globalization movement – which is basically dead today – because China and India have embraced this process and this project. I would argue that the anti-globalization movement and the people who have been its intellectual leaders, have been kind of dining out on the carcass

of Globalization 2.0. And they're kind of like jackals that have been eating and picking away at this carcass all these years. They're all still talking about the IMF and the World Bank and conditionality – as if globalization is all about what the IMF and World Bank impose and force on the developing world. Well when the world is flat, there's a lot more globalization that's about pull. This is people in the developing world – in China, Russia, India, Brazil – wanting to pull down these opportunities.

Look at what happened in your native country, Nayan, with intellectual property law. The story that we imposed all this on India from the WTO. Well there's no question that we did want India to have intellectual property protection to protect our products. No question about that. But what it turned out was that a lot of Indians wanted it as well because they become innovators themselves. They are now plug-and-playing in this world and they want the intellectual property protections for their innovations.

So the result of these four things, the academic community has not caught up with this debate. You really have to roll up your sleeves and do research and rethink the whole subject. That takes a lot of work. The press core is just lazy and, with the exception of things like YaleGlobal, really hasn't taken a look at what's going on. And the public has been distracted, confused, and in many ways made stupid by politicians who don't want to think about this either. So for all these reasons, right when we've reach this incredible inflection point – the world is getting flat, which I believe this is the equivalent of Gutenberg and the printing press – nobody is talking about it.

Nayan Chanda:

So do you think the politicians will wake up someday?

Tom Friedman:

Oh, they'll wake up someday. It'll take a crisis of some sort though. They'll wake up the way you or I wake up if someone hits us over the head with a two-by-four. There is a crisis. We're not producing in this country, in America, enough young people going into science and technology and engineering – the fields that are going to be essential for entrepreneurship and innovation in the 21st Century. So we're at a crisis – it's a quiet crisis, as Shirley Ann Jackson from the Rensselaer Polytechnical Institute says. If we don't do something about it, then in 10 to 15 years from now this quiet crisis will be a very big crisis. And that's why my friend Paul Romer at Stanford says – and I totally agree with him – is a crisis is a terrible thing to waste. And right now we're wasting this crisis.

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