

The New York Times's Thomas Friedman on Globalization

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A well-worn map of the world stretches the entire length of one wall in Thomas Friedman's Washington, D.C., office. Friedman, a foreign-affairs columnist for *The New York Times*, has marked the map with star-shaped stickers of red, gold and blue to indicate the myriad places he's traveled during his Pulitzer Prize-winning career, but, lately, he has fallen behind. "My daughter and I have to update that," he says.

Friedman's map needs updating because he has just spent the past ten months circling the globe anew, researching and writing his forthcoming book, *The World Is Flat: A Brief History of the Twenty-First Century* (Farrar, Straus and Giroux, April 2005). A follow-up to Friedman's best-selling *The Lexus and the Olive Tree* (his first attempt to understand globalization), *The World Is Flat* delves even deeper into the phenomenon he believes is reshaping the economic, cultural and political landscapes of the world.

Friedman views globalization as a positive trend, but he admits to a healthy degree of ambivalence. "A lot of this stuff is very worrying to me," he says, in between fielding calls from Pakistan and Lebanon. "But I'm also really excited about certain aspects of it." Friedman believes that globalization is greatly misunderstood in this country—that it's seen as something to be feared and legislated out of existence. "You've got Lou Dobbs out there really making people stupid," he says. "But I'm not trying to convert anybody. I'm just trying to explain globalization to the world. You ignore it at your peril." Editor-in-Chief Ellen Pearlman and Executive Editor Dan Briody caught up with Friedman in between trips to discuss his views on this flattening world and its consequences.

CIO Insight: Globalization is a highly charged political issue. Is it fundamentally misunderstood in this country?

Friedman: Writing this book was a bit like being in a Twilight Zone episode, because I would go around and interview all these CEOs and CIOs, and they would tell me what they're doing in terms of outsourcing. And they know just what's going on, and they're doing it like crazy. But nobody's told the kids. They're like pod people, they're off doing their thing, but nobody's told the kids.

And they haven't told the kids because of all the political and economic sensitivities. As a result, we're now entering what I think is a fundamental paradigm shift. A truly disruptive, Gutenberg-printing-press-like paradigm shift, and nobody's told the kids.

And we just went through a campaign where the Democrats were debating whether the North American Free Trade Agreement is a good idea. Eh, hello? And the Republicans put duct tape over [White House Chief Economist] Greg Mankiw's mouth when he suggested outsourcing might be a good thing, and they stashed him in Dick Cheney's basement. We just had an election that history will look back on and laugh, because we had an election at a time when the world basically went from vertical to horizontal, and nobody talked about it.

What I am trying to do is say that something important really is happening. The value-creation model is moving away from a vertical silo model to an increasingly collaborative horizontal model, from command and control to collaborate and connect, and that's going to change everything.

Another reason that nobody is talking about it is that there was this triple convergence, a kind of perfect storm, that obscured it all: Sept. 11, the dot-com bust and Enron.

Because of Enron—despite the slavish, pro-business attitude of the Bush Administration—you don't see the President spending a lot of time around CEOs. You don't see the President coming out and saying, "We need to have an increase in the National Science Foundation budget—not a \$100 million decrease—so corporate America will have more raw material for innovation." I think that's the Enron effect. I know it is, because CEOs have told me so.

And then, of course, the dot-com bust made everybody stupid, thinking, Oh, this globalization thing might be over. And Sept. 11 completely distracted us.

Not everyone is as optimistic about this flat world as you are. Why is that?

You can understand why businesses don't want to [be openly optimistic about it], because we have all these people out there. They don't want to be a Benedict Arnold executive. And you've got a major cable-television news show that has twisted itself into a platform for the anti-outsourcing movement and made all its viewers stupid. And so you create an environment where, if you defend this thing, you're Daddy Warbucks or some plutocrat.

It hasn't stopped me in the least, as you can see. I couldn't care less. I know what globalization is, I know its potential. I'm positive about the potential, and I'm also very clear about the price of the flat world and what we have to do about it.

CEOs are all worried about their brands. But companies that outsource, outsource to win. They're not outsourcing to shrink. Show me a company that's outsourcing just to save money, and that's a company whose stock I want to short. They're outsourcing to do their innovative turns faster, to grow their company larger, in order to hire more people everywhere, in Los Angeles and Bangalore. That's why they outsource.

There's the impression that you've got to outsource to save money in order to give it all to the CEO. I'm sure there are companies that do that. Just tell me who they are, because I'd like to sell their stock.

But if U.S. companies can't talk about it, and if politicians can't talk about it...

Then it's a real problem, and that's why this could all stop, and that's why I wrote this book, because I think the new world is one that we can benefit from. And part of this new world is taking advantage of the ability to source any kind of product or any kind of service from anywhere in the world.

What that means is we're connecting all the knowledge pools in the world together. That's really cool, but it has all kinds of other implications. And I wanted to write a book that simply said, let's debate about this world, let's debate what new cushions we need, what new fat we need, what new muscles we need to develop, but let's do it on the basis of the world as it really is, not some imagined or hyped-up version.

So I hope the book will contribute to an intelligent debate on the subject-about a big transition that is going to be really good for some people, wrenching for other people, maybe good for America as a whole but bad for certain parts of America. It's going to be all of those things.

Can we get more specific about who benefits and who loses?

Imagine if America were the only country in the world, and there were only 100 people in America. We would have 80 knowledge workers and 20 manual laborers. And our manual laborers would be paid partly in relationship to the number of knowledge workers; that is, they're a fairly small pool. So if you want a nurse or if you want a factory assembly-line worker, if you want a nanny or if you want someone to work at McDonald's, there's actually rather a scarcity of them. So the wages of those people aren't going to be what the CEO makes, but they're also not going to be doing what the CEO does. Still, their wages aren't going to be flat, either, because they're going to be paid relative to the number of knowledge workers in our 100-person economy.

Now this imaginary world expands and there are two countries-America and China. China has 1,000 people, and we have a free-trade agreement with them. So now we have two countries in the world, and they are totally integrated with free trade. We have 80 knowledge workers and 20 physical laborers. China, with its 1,000 people, also has 80 knowledge workers, but they have 920 physical laborers.

Now we're in a two-country world with a total of 160 knowledge workers and 940 physical laborers. If you're one of those knowledge workers, you're going to do fine in this world. Why? Because the market for knowledge products has just expanded from 100 to 1,100. And, remember, knowledge

people sell ideas and idea-based products, so they can be sold to everybody. When you make a copy of Microsoft Word, all 1,100 people can potentially buy it. If you're working on a factory line, there's only one factory that can buy your labor, and you're now competing for that one factory job, not with 20 anymore, but with 940 people.

So what does this mean? For knowledge workers, it means this is going to be a great world. You're going to do fine. You will have to move horizontally at most. Ideally, you're going to have a lot more companies that want to buy your product, and you won't have to move at all.

The people in the 940 pool-physical laborers-they have a real problem, and there's just no getting around it. They cannot move horizontally. They have to move vertically. They have to get into the pool of knowledge workers who sell their products to the 1,100, not just to the one. And that's why I have a whole chapter on "compassionate flatism," about how we need to think about bringing more people up because they can't just step sideways.

So I'm not worried, frankly, about you, and I'm hopefully not worried about my kids. They're going to do fine. They're going to have a career that's very different from anything I may have ever contemplated, but they're going to do fine. But I do worry about John and Sue who are working in the furniture factory in North Carolina. This is not a good transition for them. They have a problem.

What about the IT worker?

Oh, the IT worker, that's all a bunch of nonsense. Show me a qualified software engineer today anywhere in America who is looking for a job and can't find one. Some of them may have had to move a little horizontally. But show me one person who really has qualifications, is an IT knowledge worker, and just cannot find a job. I don't believe that.

We do get mail from people like that. What's going wrong for those people who are not finding jobs?

I have no idea. Maybe they're not upgrading their skills. I'm foreign-affairs columnist for The New York Times. Do you know how much work I had to do to figure out how to write this book? You know what I had to do to upgrade myself? I didn't have to write another book about globalization. I went to Bangalore and realized, holy mackerel, something's really changed, and I don't understand it. I called the publisher at The New York Times and said, "I need a leave. My paradigm's out of date."

It was as if I were an IT worker who only knew HTML. I didn't know anything. I'd never been to Bentonville, Arkansas, and Wal-Mart. UPS to me were funny guys in brown shirts who delivered stuff in brown trucks. I didn't know XML from the NBA. And I went and I killed myself to learn all this stuff in order to keep my skills relevant.

So if you think you can just know HTML and you're going to be fine in this world, well, that's good work if you can get it, but the world is flat, and I didn't flatten it. And if you're going to sit back and say, "Wait a minute, I'm an IT worker and I'm entitled to a job"-well, you're not. There is no such thing as an American job. There's no job that's got your name on it. And you're going to have to get over that. That's what I mean by telling the kids.

So basically people have to work harder.

Yeah. We all have to work harder, starting with me, because we're competing against a wider pool. But if you do work harder, there are going to be some incredible niches out there. Don't be surprised if your kid comes home from college and says, "Mom, Dad, I want to be a search-engine optimizer when I grow up." And the parents think, What the hell are you talking about?

Look at this whole new field that's opened up called search engine, all these firms that opened in Silicon Valley. Five years ago, no one had ever heard about how to get your company ranked higher on Google, Yahoo! or MSN Search. They're called search-engine optimizers and they combine math and marketing, because search engine is all about algorithms. So it's a whole new specialty created in the flat world.

A lot of people think, Geez, everything that's been created has been created, everything that's been invented has been invented. But all these new specialties are opening up, and no one's going to hand them to you. It may be Jao in China who becomes a better search-engine optimizer than you, but that job is opening up precisely because the world got flat, and Jao now has a chance to Google.

What will happen to all our entry-level jobs? How will people get started in this country?

It's a real problem. That's a real problem, and one of the things I worry about is that to be a high-end software engineer, you need to start as a low-end software engineer. But that's only if you think the pie is fixed. See, if you think that all the software jobs in the world have already been invented, and, therefore, there's only one way up, then you have a problem.

And by the way, have you seen what's happened to wage rates in Bangalore in the last year?

They're going up.

They're going through the roof. See, their wages are going to rise to ours because there's now a bigger market for all the knowledge people to play into. The wage rates of the physical-labor people are going to go down in this bigger market.

Did you know that [India-based] Tata Consultancy Services has just opened a new office in Montevideo, Uruguay, to take advantage of the engineering talent there to manage GE's supply chain in Latin America? They've seen what's happened to the wage rates in Mumbai. So that's what happens.

One of the hardest things about explaining all of this is that it takes a leap of faith. Look, if the critics were right, then why isn't our unemployment rate now 25 percent instead of 5.2 percent? I mean, if the world was the way they described it, then how is it that there are search-engine optimizers dying to hire people today in Silicon Valley? So something's wrong with their analysis.

So the nature of the entry-level positions changes.

Exactly. So if you sit there and say, "I can't be a software engineer"-well, yes, you can, but it may be that you're going to get into the field as a search-engine optimizer and not as a classic HTML developer.

Look at Intel, a really good example. Ten, 15 years ago, look at what happened. China and Taiwan started making chips. And then they started moving up the chip value chain, they didn't just sit there making commodity chips, and people thought Intel was finished. Intel's doing fine. Why? Because Google invented Google search, and the kind of chips you need for Google search are really specialized. So the Taiwanese semiconductor companies were specializing in one aspect of it, and Intel could specialize in another.

The market doesn't just expand, it becomes more complex. It produces more and more niches, and in those niches you're not competing against the whole world. You may be competing against one other company or yourself. And that's why Intel is dying to hire engineers today. But what are they dying to hire? Not HTML engineers. Optical engineers, very high-level engineers.

All of this assumes that the U.S. continues to innovate at a rate that exceeds the rest of the world. Are we set up to do that?

I worry about that. We have all the necessary ingredients-we have the best university system, the best financial market system, and a real free market. But we're not tending to the secrets of our sauce.

So what needs to change?

Oh, a lot of things need to change. First of all, we need leaders who will dare to describe the world to

us as it really is and make us smart, not make us stupid. Leaders who don't make us believe that any CIO or CEO who does this is a Benedict Arnold. Jobs are produced by thriving companies that are growing, and they may be produced all over the world, that's a good thing, but plenty will be produced here.

And look at companies that outsource and thrive. Let's look at their makeup. Who's here, which jobs stay here? The CEO, the CIO, the CTO, all the top sales people, usually all the top technology people, and all the people who've got to deal with the product in the market, because the first adopters are here. So the best jobs in the company are the ones that stay here, and the other jobs get sourced out around the world.

That means two things. One is that where the innovation happens matters. It matters that Google is in Mountain View, Calif. Look at all the jobs they've spun off, and then all the jobs to jobs, like the shopping centers and the gas stations and the restaurants and the housing market. So thank God Google's in Mountain View and not in Mumbai.

For now. But there are many companies in India and other countries that are innovating and enjoy an economy more geared to competing in a flat world.

Absolutely, and we'll have to work harder and faster to stay up with them. But again, it ain't a fixed pie. And it'll only benefit us if we're educating our people to take advantage of the bigger market and the niches it will be creating. And I argue that we are not doing that. We're in a quiet crisis where we are not producing the math and science and engineering talent we need, and we're no longer importing it at the level that we need because of Sept. 11. At the same time, the flat world means you can innovate without having to emigrate, and when you can innovate without having to emigrate, you don't have to come here.

But the first adopters are still here. Now maybe in ten years that's not going to be true, and they'll be in China, but right now the first adopters are here. So there's no product China can launch that's going to have a global scale to it.

Won't other countries move up the food chain? Don't they want to be where the U.S. is today?

That's right. They want to race us to the top, not the bottom.

So will the U.S. continue to have an advantage?

Potentially, yes. I still believe that we are so far ahead in so many areas. Let's just take capital markets. If we go through our Social Security reform, as the President has proposed, and you can invest your Social Security, how many people would like to be invested in the Shanghai stock market? I sure wouldn't want my mother to be investing her savings in the Shanghai stock market.

People will say, "Oh, come on, Friedman, I mean, we have Enron." But our capital markets are what they are not because we don't have Enrons and others do. What distinguishes our capital markets is that we have Elliot Spitzer and others don't. It's not that we don't have cowboy capitalists here who are criminals. But what distinguishes our markets is not Enron, it's Sarbanes-Oxley. It's that we actually address these kinds of problems. That's still a big deal for a lot of the rest of the world.

Some people view Spitzer and Sarbanes-Oxley as hindrances to America's global competitiveness.

I think that's about as dumb as the day is long. Anyone who believes that is an idiot. The rule of law is one of our competitive advantages, and that's not to say that at times regulation can't go too far. But I'd rather err that way, and reel it back, than not have it at all.

Ask people in Indonesia what they'd give for one day of Elliot Spitzer. Ask people in the Russian stock market what they'd give for one day of Janet Reno or the Securities and Exchange Commission.

What is guiding globalization? Is it the corporations?

The dynamic element of globalization is neither countries nor companies, but the individual. The unique thing about this era is going to be the ability of the individual to globalize.

Now I believe corporations have a huge responsibility. For example, when Hewlett-Packard is in negotiations with the government of Canton, China, about opening a factory, its leverage is enormous because the stakes are so high for the local government. So H-P could come in and say, "You know what, we'll open this factory here, but you know those laws you have about dumping water in the river, we can't live up to those. So you're going to have to turn a blind eye to that. And we believe people should work 12 hours a day, not eight hours a day."

So the fact that companies resist doing that, for the most part, is hugely important, because they can have just the opposite effect. They can be the ones who tell the government of Canton, "You know, knowledge workers like to live in places where the air is clean and where there are parks, and we're a knowledge company. So we'd love to come to Canton, but we're going to need a park here, and to attract Chinese knowledge workers, you have to clean up your water and clean up your air."

Companies should think about using supply chains to transmit values, not just value. We've seen two breakthroughs on this in the last six months: McDonald's partnership with Conservation International using its supply chain to promote species preservation, and the H-P-Dell-IBM alliance to use their supply chain to promote minimum standards on child labor, environment, worker standards, all those things.

A lot of people just want to pass a rule. "What we need is global government. If only there were a global government that would tell these companies you ought to do this." Well, guess what? If you don't have people at the local level to implement that global rule, it's not going to get implemented, and you can pass whatever rule you want.

I don't want to rely on any company to implement these values, but they can be enormously supportive in reinforcing a rule that's been made. And that's why I think they have to understand that, and I would argue the best companies do understand it. H-P's got a senior vice president for global governance now.

What role should government play in globalization?

Oh, yeah, a huge role for government. And I think the most important role for government is to strengthen its people to be untouchables. Untouchables are people whose jobs cannot be outsourced. So government needs to build the infrastructure, both human and physical, for people to take advantage of the flat world, and that means everything from the IT infrastructure to college education, which I think should be compulsory in the sense that government will make it possible for every American to have a college education. Our motto should be not a man on the moon, but a man and woman on every college campus.

These are wonderful goals...

Somebody's got to put them out there.

But are you optimistic that these can happen?

Or am I just naïve? It's my nature. Yeah, well, let's take corporate values, for example. You're going to get everything and its opposite. You're going to see companies doing outsourcing so the CEO can triple his wages and make off like a bandit. But I think that companies that want to survive are companies that will want to do well for their employees and their customers.

Look at Wal-Mart. One of the biggest companies in the world, grew by leaps and bounds, and just last night I saw this Wal-Mart ad about a guy going to the emergency ward, and only because of his Wal-Mart health plan could he do this. Forget the ad. Wal-Mart got the message that they were perceived by their customers as not being the best global citizen they could be, and in a flat world that really

matters. They've been in denial for a long time. Then they admit the problem. The good news is [Wal-Mart CEO] H. Lee Scott, in an interview for this book says, "You know, I've got to come clean on this, we have a problem. We were not as good as we should have been." He didn't come out and say, "You don't understand, Tom, locking people in Wal-Mart overnight is a good thing."

What about the small company in the U.S. that is used to a different way of doing business. Do they have to think about being global companies now?

Yeah, otherwise they're going to get hungry. And what's interesting about this era is that we're seeing the birth of what I call the micro multinational. In the old days, somebody starting a company would say, "We dream one day it'll be a multinational." Now, they're a multinational from day one.

And why? Because they're taking advantage of the flat world. And why are they doing that? Because their venture capitalists came to them and said, "In the old boom days, we could give you \$500 million because we knew that, if you did well, it was going to reap us \$1.2 billion. Now we can give you \$50 million, and you're going to have to complete that innovative turn much faster, because we want our money back. Because out of that \$50 million, we will only reap \$175 million if everything goes in the IPO, and you have to do it faster because the capital's not there." And so from day one, they will be a multinational. We're seeing the birth of the micro multinational.

And that means a lot of things for CIOs, because now one of the skills of their job is managing a global knowledge supply chain across 24 time zones and different nationalities. Suddenly there's a whole new job in companies-manager of the China supply chain. This is going to be a business school course: managing global supply chains. Another new business school course is going to be how to use Google, how to get the most out of search. And there's going to be a CIO Insight honorary professor of Googling at the Wharton School, and you may hold the first chair.

How does a CIO manage through a time of change like this?

The smartest things that I've seen companies do is trying to make their employees "versatilists," which is another word for untouchable. Versatilists are people who don't just know XML, they also know how to do distributed computing.

You take every employee, and you make this bargain with them: We cannot guarantee you a lifetime job, nobody can. But we can guarantee you that while you're here, we'll give you every opportunity to really become a versatilist. So if you stay here, you're more valuable to us because we can move you from here to here to here to here. And if, God forbid, we have to lay you off because we've found other ways to do this job cheaper or more efficiently, you'll be that much more marketable somewhere else.

And the thing about learning today-about making people versatilists-is that with online systems it's so cheap and so easy for people to really upgrade their skills. But you have to have your thinking cap on as a CIO and be constantly incentivizing people to take courses online, so you're producing a smarter and smarter workforce all the time that will be more versatile, more adaptable.

That sounds great, but it also sounds expensive. Is it realistic to think that many companies will invest the time and money in their employees?

What's expensive is not doing it, and having one employee that can only do this and another that only does that. And outsourcing, that's not an easy thing for a company to do. It's not simply, "Oh, we'll just go to India then." It's really complicated. I'd much rather be educating a versatilist. I don't think expense is the problem. I think imagination is the problem. But I think that's the bargain that's going to replace lifetime employment.

Do you think CIOs will even have an IT department to manage ten years from now?

One of the things that the best companies do is they get regular chest X-rays, and then sell the results to their customers. They're always looking inside themselves, seeing their core competencies, the things that really distinguish them. Then a company such as H-P can say, "What we really do well is

manage a horizontal supply chain in over 178 countries, and do the bookkeeping and the human resources. If we can do that for ourselves, we can do that for Procter & Gamble."

Productizing your own internal processes.

Exactly. Your own initiatives. Now Michael Dell's point is that he does not believe in outsourcing your IT. Of course, for Dell, IT is their core advantage. Because they're basically making a commodity product, laptops and desktops. And so the way that they beat their competition is the way they apply IT to their supply chain, beginning from the customer to delivery. Michael Dell says to outsource your cafeteria, but if you're outsourcing your IT, you're outsourcing your very leverage, and no one will be able to do it for you.

That's true for Dell, but not so much for other businesses.

Exactly. It does depend on your business, because for Dell, IT is the business. That is the thing that allows them to beat their competition. For others it isn't so core. But different people have really strong attitudes about this.

I think that's one of the questions every CIO has got to ask-how core is IT for me? Is it something that I can outsource, or is it so important that if I don't figure out how to use it in a way that will drive my business, am I really putting myself at a disadvantage?

We do an outsourcing survey every year, and generally 75 percent of our readers say they are not outsourcing...

They're lying.

Do you think they're lying or missing the boat?

Some of them are. I'd like to see you do the survey only you don't ask about "outsourcing," and use the word "sourcing." Because if you say outsourcing, they're thinking Bangalore. If you just said sourcing, then you mean Bangalore and Bangor, and I bet you'd get a very different answer. It is really not about outsourcing. I used that word simply because it was the buzzword of the day, and it was too difficult to start a new vocabulary. It's about sourcing, and there's a big difference between outsourcing and sourcing, because outsourcing implies Bangalore.

Sourcing is about North Dakota or Albuquerque or wherever, you know, Ontario. It's about taking advantage of the flat world to get the best, most efficient, effective producer of whatever it is that you need in your chain of development. And I'd like to know the names of the companies that aren't sourcing, because I'd like to sell their stock.

So what do you tell a career-minded ten-year-old today?

What I tell my own girls. When I was growing up, my parents used to say to me, "Tom, finish your dinner. People in China and India are starving." Today I tell my girls, "Finish your homework. People in China and India are starving for your jobs."

And that's the only thing to tell people. That's the fact. I always say, "When the world goes flat, reach for a shovel, not a wall." Dig inside yourself. Dig inside your company. Find the secret of the sauce inside. If you're reaching for a wall, it's a losing strategy because the technology is going to blow that wall down.