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US

## Globalization and the myth of collapsing borders

*The number of companies that are truly global is surprisingly quite small.*

In the minds of many not only is globalization leading a rush into India and China, but also a collapse of national borders. Such concerns are made more popular by the likes of Pulitzer Prize author and journalist Thomas Friedman who claims that borders are disappearing as a result of a leveling of industrial and emerging market economies, which in turn is making "the world flat."

But there are sceptics.

The problem with Friedman's theory is that it is not carried over into real life and "is grossly mis-based," said Dr. Pankaj Ghemawat, a professor at IESE, a European business school. Ghemawat is the author of various books on globalization, as well as a recent article published in "Foreign Policy" and the "Wall Street Journal" titled "Why the World Isn't Flat."

Despite the assumption that borders are coming down, Ghemawat noted that in actuality under 10 percent of all money crosses borders. "This year it might make 12 percent given recent merger activity," Ghemawat said, but he quickly added that cross-border money flows have never reached 20 percent.

That is not to say that the Tiger and Dragon economies aren't growing, or that globalization isn't happening.

"We are in a new era," said Jan Muhlfelt, Chairman Europe for Microsoft in reference to the current global economic situation now that both the Chinese and Indian economies are on the rise.

Specifically, Muhlfelt said that Europe will have to learn how to manage its demographics in a scenario of lower birth rates. "As the (European) population declines, that must be met by an increase in productivity and economic competitiveness to protect our current quality of life," Muhlfelt argued, adding that this can only be done if there is a serious overhaul of Europe's education systems to meet the market's demands and ultimately the labor market. "This is the 21<sup>st</sup> Century and we are using allocation systems from the 18<sup>th</sup>," Muhlfelt said.

But just spending money on education isn't the answer either, said Esko Aho, former Prime Minister for Finland, and President of SITRA, the Finnish Innovation Fund.

“Despite all the money spent in Russia on Research and Development, that system collapsed. I think that this is an important lesson for Europe now,” Aho said. “Deciding strategies is relatively easy; it’s another thing implementing them.”

According to Aho, Research and Development is “the transfer of money to knowledge; however innovation is transforming knowledge into money.”

“Please watch out, we are coming,” said Ram Ramakrishnan, Chief Executive Officer for India’s Bajaj Electricals. “If you want hands and feet, go to China. But if you want hands and feet that have a brain, then come to India,” Ramakrishnan said in reference to his country’s high percentage of engineers and doctors.

Ramakrishnan argued that cost does have a factor for those companies wishing to operate in India. “To develop a drug can be as little as 100 million dollars in India, compared to 1 billion dollars in the rest of the world.”

But that exuberance needs to be cast upon the backdrop that the number of companies that are truly global is actually quite small.

As an example, Dr. Ghemawat suggested a yardstick for measuring if companies were actually global - that 20 percent of a company’s sales must be in at least three countries.

Using this measure, Ghemawat said that only 2 percent of all Fortune 500 companies are qualified to be labelled as truly global.

Indeed, Ghemawat said that the percentage only slight increases to 7 percent when looking at companies that have 20 percent of their sales in two countries.

In other words, almost 90 percent of all Fortune 500 companies are effectively home-based, which would suggest that these companies recognize that it is important to pick geographical targets and that in essence, borders do matter, claimed Ghemawat.

To further support his arguments, Ghemawat noted that Canadian provinces are five times more likely to trade with each other than with the United States.

“In other words, despite a lot of common traits, and for the most part language, and the largest bi-lateral trade agreement in the world, borders still matter,” Ghemawat said.

These comments were made by leading academics and businessmen attending Europe’s 500 “European Growth Summit: Growth is East and Green” hosted at the Barcelona campus of IESE, one of the world’s leading business schools.