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BOOK REVIEW

WORLD 3.0: GLOBAL PROSPERITY AND HOW TO ACHIEVE IT

Pankaj Ghemawat (2011), Boston (MA): Harvard Business Review Press, 386 p.

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The financial and economic crisis the World has faced from 2008 was the starting point for the thorough and systematic review of the World Pankaj Ghemawat offers us in the book *World 3.0*. The global crisis, with strong effects in several countries and industries, has shattered the convictions on the benefits of globalization. Ghemawat proposes analyzing and provide a factual answer of 2 fundamental questions: *1) are the alleged benefits of market integration greater than market failures it arises?* and *2) does it make sense to reduce – instead of increasing – the integration of markets to make the problems smaller and easier to address?* The answer to these questions offer the readers a data-driven perspective of globalization and a simple understanding of the leading market failures commonly associated to globalization. Ghemawat also puts forward an avenue for the future – the **World 3.0** – where there is no trade-off between further integration and greater regulation of markets.

Ghemawat presents – in nearly 400 pages – a substantial wealth of data which supports an inductive approach: the author analyzes specific cases (e.g. market failures) and puts forward his conclusions and suggestions. The conceptual framework used to analyze the international business environment is the CAGE framework (differences in Cultural, Administrative, Geographic and Economic dimensions) which Ghemawat had developed in previous works and is extensively used in the book. Two other thought-provoking concepts in the book are also noteworthy: “semi-globalization” and ADDING – a six-dimension scorecard which dissects the economic and social value of further integration.

The book has three distinct parts. In the first part the author presents and explains the key concepts of the book, starting with an historic perspective of the World from the Prehistory until the present. The first phase, termed World 0.0, was characterized by a large number of very small societies, where personal

confidence was paramount and confidence-building institutions were absent. The second phase, World 1.0, developed in the 17th century after the Westphalia Peace with the emergence of nation states which replaced personal confidence by national institutions. The third phase, World 2.0, is the perfectly globalized world we arguably live in from the mid-19th century. Finally, the World 3.0 is also presented: a mix of greater market integration and also further regulation in some specific features.

In the second chapter Ghemawat puts forward the concept of “semi-globalization”: using data on flows of information, people, products and investment, the author demonstrates the current globalization levels range from 10% to 25% and rather stable over time. Ghemawat’s perspective challenges the “Flat World” vision put forward by Thomas Friedman which predicts the end of distances, the homogeneity of preferences and the end of nation states. In fact, Ghemawat uses the data to support his criticism of “Flat World” and illustrates his argument with some examples of how distance (in all CAGE dimensions) still matters.

The third chapter explores the effect of distance, delving into the effect of borders (between countries and regions of the same country), differences in foreign exchange, in administrative procedures and in consumer’s preferences to conclude distance still matters, even geographic distance. It is, once again, noticeable the opposition to the “Flat World” concept where geographic differences are irrelevant and administrative distances and consumer preferences differences are negligible.

The last chapter of the first part puts forward the scorecard to understand the benefits of greater integration and openness, the ADDING acronym: **A**dding volume, **D**ecreasing costs, **D**ifferentiating goods and services, **I**ntensifying the competition in oligopolistic industries, **N**ormalizing risk (instead of ignoring it) and **G**enerating and diffusing knowledge faster. Each one of the six elements is explained and its economic, social and cultural value is put forward. The author argues the benefits of further integration are much greater than the current estimates which neglect the combined effects and synergies of the six dimensions.

The second part of the book dissects seven problems whose root (or intensification) is usually attributed to globalization. Throughout each of the seven chapters, Ghemawat demonstrates that the globalization of markets is not the origin of these problems. In fact, it is possible to mitigate some of these issues with greater integration whereas less integration (thus returning to World 1.0 or 0.0) is ineffective in addressing these problems. Chapter 5 discusses the implications of globalization on market power concentration – one of the market failures usually considered by Industrial Organization (IO) researchers. Ghemawat considers globalization has not increased concentration in most industries since

distance still matters in several products. As for commodities, concentration may be worrisome and it has been increasing; however increasing levels of globalization will lead to increasing rivalry in the industry (the ‘I’ in the ADDING acronym). Therefore globalization does not increase market power and may even contribute to address that failure. Chapters 6 and 7 delve into other market failures usually analyzed by IO, global externalities and global risks. In both cases a similar argument is advanced: globalization is not the cause and the problems may only be addressed (e.g. global warming) with further integration and cooperation between countries.

Chapter 8 addresses global imbalances arguably caused by globalization analyzing people and capital flows. Ghemawat concludes migratory flows are important to correct the effects of aging population and may augment the workforce quality in many cases. Since greater migratory flows occur between developing countries (not to developed countries), greater integration should lead to benefits instead of imbalances. As for capital flows, Ghemawat proposes the other facet of World 3.0: some regulation to limit the excessive capital movements. The author thoroughly analyzes the specific case of the USA-China relation (China is the USA main creditor whereas America is China’s biggest market, in a symbiotic relation termed “Chimerica”) as a specific case of imbalances which may have nefarious consequences in the future.

The last three chapters of the second part clarify preconceived ideas which are used as emblems by anti-globalization supporters. Chapter 9 focus on labor market and the common fear globalization leads to works exploration. Although recognizing globalization may cause unemployment in some industries, Ghemawat underlines there is no global labor market. He goes further to suggest the importance of protecting people (instead of jobs) through greater productivity and workers qualification. Chapter 10 addresses the supposed oppression exerted by countries and firms which endanger democracy. On one hand, firms do not seem to limit individual freedoms (the idea is developed in the following chapter). On the other hand, Ghemawat demonstrates the USA do not have military, economic and financial supremacy and emerging countries suggest the future will be multipolar, not hegemonic. It is also suggested globalization and democracy are mutually reinforced. Finally, chapter 11 focus on consumer preferences homogenization and the emergence of a dominant culture, with a special attention to multinational firms. Some cultural differences are acknowledged but the author highlights the role of education and contact between cultures to construct a more harmonic existence. A dominant culture is also posited not to exist: in fact local cultures are relevant event to multinational firms such as McDonald’s, Coca-Cola and KFC which adapt their products to meet local preferences.

The last part of the book presents the actions required to build World 3.0. Chapter 12 sums the arguments described in the book and advances six systematic proposals which combine further integration and greater regulation to overcome market failures and fears. Chapters 13 and 14 present a broad set of proposals for countries and firms which may lead them to World 3.0. Ghemawat uses examples (e.g. the cases of small countries without natural resources such as Andorra or countries rich in natural resources such as Nigeria) to illustrate the model validity. The book concludes with a chapter dedicated to people and the actions which may be taken to destroy myths and prejudices. Ghemawat underlines psychic distance still matters and demonstrates the effect using the example of media attention to tragedies (for USA media, one death in Europe “is worth” as much air time as 45 deaths in Africa). Therefore he proposes three stages to decrease psychic distance and improve the relation with others: **Awareness, Acquaintance and Altruism**.

The executives, managers and students – especially those with international orientation and interest – will find in this book an interesting base to better understand globalization, its facts, challenges and benefits. On one hand, the information presented allows for an in-depth knowledge of the international business environment, contributing to improve firms’ international performance. On the other hand, the proposals advanced are particularly useful in market selection decisions and managers’ selection and training for international operations.

Although useful, it is important to underline some issues which arise upon reading this book. On

one hand, the data presented may have a biased interpretation: for instance, the conclusion that domestic transportation is responsible for the majority of global pollution seems to neglect the effect of imported goods and global value chains on the upsurge of domestic transportation. On the other hand, criticism to completely globalized world enthusiasts is rather frequent, especially to Thomas Friedman and his “The World is flat” book. Even though the divergence of visions is understandable, sometimes the comparison seems to go beyond simple argumentation to reach an intellectual assault on the current vision of globalization. Finally the self-flattering tone of the book – especially when presenting the frameworks developed by Ghemawat, such as CAGE – may convey the readers a message of arrogance towards intellectual adversaries.

Overall, the book is written in a clear and accessible way even to non-specialists. It has an interesting wealth of data and demystifies rather common misconceptions of globalization, especially in the first part of the book. However, the second part has a set of overly descriptive chapters (e.g. chapters 7, 8 and 9) which render the reading monotonous and call for persistence not to give up. Nevertheless, the message of the book is important and useful: there is still much to gain in continuing the efforts of further integration. For firms, and especially for managers, is also worth noting that despite the substantial gains of international operations differences – cultural, administrative and in other institutions – still matter and have a profound impact in firms’ performance.