Global Market an Illusion in a Semi-Globalized World, Expert Says

Economist Pankaj Ghemawat believes that for businesses to be successful in what he calls the "semi-globalized" world, they need to pay attention more to the differences between cultures than to the similarities.

Currently professor at IESE Business School in Barcelona, Spain and on leave from the Harvard Business School, economist Pankaj Ghemawat's new book, "Redefining Global Strategy: Crossing Borders is a World Where Differences Still Matter," explains why he views the world as -- at best -- only "semi-globalized."

Deutsche Welle: Professor Ghemawat, you recently published a book with the title "Redefining Global Strategy." From what I gathered, your main point seems to be that globalization of the economy is an illusion and that the economy is only semi-globalized. How did you come to this conclusion?

Pankaj Ghemawat: I came to this conclusion by looking at the data, which is something that rarely tends to be done. Think for instance of all the rhetoric that we hear about capital knowing no boundaries, flowing seamlessly around the world, etc. Compare that stereotype with the actual data on what fraction of the total world investment is accounted for by foreign direct investment. The answer is about 10 percent, which is much, much lower than what one would expect if borders did not matter at all.

There are several firms, such as McDonald's, Siemens, General Electric and others, that have been very successful offering the same services or products worldwide. Does this not contradict your thesis?

I think that to call the products the same worldwide is a huge exaggeration. I was at GE a couple of weeks ago talking to Jeff Immelt [CEO] and his leadership team. While there are one or two products within GE -- like jet engines -- that are in fact standardized worldwide, they actually regard their healthcare division and the kind of instrument that they make as very, very different in different parts of the world.

But with McDonald's it works.

Not quite. Try walking into a McDonald's in India. India presents a bit of a problem for McDonald's because eating beef is taboo to 80 percent of the country's population. Given that, you will find somewhere between half to two-thirds of the items on the menu are not the sort of things that you are going to be familiar with coming from Europe or the United States.
Export is an essential factor in Germany's national economy. What advice do you have for German companies that operate globally?

There is a question about to what extent borders are going to remain open to be served simply through trade without engaging in foreign direct investment. I think that there are some significant issues for some of the small German companies that are very successful in world markets: will they be able to protect their position around the world with a purely export-focused model?

I think the second issue that comes up is that there is an emphasis on technological uniqueness. This is great, but accompanying that is the assumption that if I have a product, no matter how much it costs, I can put a reasonable margin on top of it and still sell it.

I think it is important for German companies to start to think not just about outsourcing to eastern Europe but outsourcing farther away. Because while the products are very distinctive and do command a price premium, one of the things we know from strategy is that there is a point past which you cannot push that price premium.

Prices for food are dramatically increasing worldwide. Do you think that there will be an uprising due to hunger in Africa or Asia?

I think food is one of these categories of products, like water and electricity, which are politically very sensitive. That is one of the reasons why historically these have been somewhat protected sectors.

Yes I do think that there is potential for significant unrest to spread in result of the recent food price increases.

So what should we do?

First we need to remember that there is a hierarchy of needs and while everybody is talking about the Doha round [of international trade talks], it is indefensible and frankly politically unrealistic to assume that in this world we can have lots of images of people starving on our TV screens and still go about our daily business.

So I think that there is an immediate priority. The $200 million that US President George W. Bush announced is literally in this context just a rice grain in a dish. Clearly the needs are significantly greater than that.

There has to be more of a commitment to trying to make sure that in the 21st century we do not have an episode of mass starvation on our hands.

In 10 years what is the world economy going to look like?

The one thing I can say in confidence is that if the world economy is not perfectly integrated today, it's not going to be perfectly integrated in 10 years. And there are two reasons for that. One is that, of course, some things have actually gone in reverse.
For instance, to take a somewhat surprising example, the Internet is actually more localized and more regionalized with each year that passes if you look at the flow of information on the Internet.

The second thing is that if you look at things that are increasing, for instance the trade to GDP ratio -- trade accounts for a much larger share of world income than ever before -- is increasing at such a rate that 10 to 20 years from now we are still going to be in a situation where in some sense the barriers are much larger than the bridges between countries. Also globalization levels of most indicators that I can think of may be higher than 10 percent but certainly are not going to be up at the 50 percent level.