WORLD 3.0

PANKAJ GHEMAWAT

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The Great Crisis of 2008 has forced many of us to reexamine our beliefs about markets and globalization. Do propositions about the gains from market integration survive the reality of market failures? Or might we be better off—as people are particularly prone to suggest in turbulent times—pulling back from rather than pushing forward with integration in order to deal with our problems on a smaller, more manageable scale?

Unfortunately, discussion of these and related questions seems to have broken down. Well-researched policy positions that inspire confidence among economists but stoke fear in large segments of the public aren't good enough. We need to reframe the debate in a way that addresses real concerns and builds broader, deeper, and more robust support for opening up further. This book aims to bring analysis to bear on those fundamental questions—in a way that advances the discussion among people who are interested in building a better world rather than tearing down the present one.

How do I propose to accomplish this? First, by exposing intuitions and fears to hard data. Do you know the extent to which goods and services, capital resources, information streams, and people actually cross national borders in the world we live in? Otherwise, it is hard to take a

position on whether to expand or reduce integration that can be described as informed. Do you know how much GDP is estimated to grow if we open up more? How does the impact of globalization on labor markets compare to that of technological change? When you connect up volatile national markets, does that increase risk through contagion or reduce it via diversification? Does trade cause more or less environmental pollution? Sometimes the answers aren't black and white, but we *should* look at the best available data and analysis, which I have sought to compile here.

Second, by looking beyond economics to incorporate lessons from history, philosophy, and other disciplines, we can better understand the deeply held convictions of others—and perhaps even our own. Consider the calls for protectionism triggered by the crisis. For virtually all of human history, the best possible response to a threatening environment was to gather together those closest to us and build up barriers to keep the chaos at bay. And even today, trust and sympathy decline dramatically with distance. So, while economics teaches us that protectionism does more harm than good, people don't intuitively see it that way, especially when they're scared.

Third, I seek to improve policy and discourse by expanding the policy space itself. The crossfire over globalization is bound up with even more polarized wrangling over regulation. More globalization is widely believed to go hand-in-hand with deregulation, and vice versa. And, worse, globalization and regulation are both framed as take-it-or-leave-it propositions. Thus, the entire policy space collapses down to a single binary choice, which I will refer to in this book as the tug of war between World 1.0 and World 2.0. We have nowhere to aim but directly at each other's faces.

World 3.0's remapping of the terrain suggests a better path forward. Specifically, a more realistic appraisal of both globalization and regulation suggests a path to greater prosperity that involves more market integration as well as limited and targeted market regulation. While greater integration goes against the grain of the tendency to close ranks with neighbors in times of trouble, it does tap into and reinforce the

trend through the millennia of increasing prosperity and safety by broadening circles of cooperation. It also has some specific implications for what it means to be cosmopolitan in such a context.

Disentangling integration and regulation as two separate, nonbinary domains of choices opens up countless potential paths toward greater prosperity and security. This is exciting, mainly because it hands us many more tools than most of us realize to improve the world. It also means that we don't have to aim all our arguments at people who believe the exact opposite of what we do. However, it does leave us with the challenge of choosing among a greatly expanded set of options. So, in addition to describing the range of possibilities, I articulate a set of propositions for managing the nexus of integration and regulation.

All of this draws heavily on the work of researchers in many areas, as opposed to being entirely my own creation. But there are disciplines and subdisciplines on which I lean particularly heavily. From economics, on which my doctoral studies were focused, I draw on industrial organization economics' analysis of market failures and their regulation and international economics' empirical studies of how differences and distances affect trade and other kinds of flows. A focus on business, which I have taught, researched, and written about for thirty years, adds realism in the sense that business firms, not markets, mediate most international exchanges. In addition, it underscores the importance of pragmatism and a focus on value. Looking at how businesses think about the gains from cross-border operation extends and enriches the discussion of social gains from opening up.

Ultimately, this book invites you to reexamine your own views about globalization. While you may not end up in the same place that I do, a willingness to revise your view of the world where it doesn't conform to the evidence *should* get you somewhere interesting. Smart policies can push us in the right direction, but if we change our mind-sets we can get farther. And a crisis can be the best time to get out of the groove of traditional thinking.

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TO SAY THAT these are challenging times is perhaps akin to starting a novel with "It was a dark and stormy night." But the challenges we face are real. Finance is in tumult, and while worries about a banking crisis may have ebbed, fears of a crisis in public finances are running high. Even without additional financial reversals, overall economic prospects look bleaker than just a few years ago. The global order also seems more uncertain. Prosperity and power are shifting to new places and peoples. Old political doctrines and divisions no longer seem viable. Technology and media are changing before our eyes. So, apparently, is the natural environment itself.

That's not all. The problem isn't just with our current situation, but with our responses to it. Simply repeating the mantra of free markets seems inadequate, yet some have clung to that dictum, with its insistence that markets are magical and government interventions in them inevitably mistaken. Others have lurched to the opposite extreme, proclaiming that markets are bad and governments good. Still others wish a pox on both houses and place their faith in mutualism or even anarchy. The trouble with all these "remedies" is that they hark back to the past, and to past ways of viewing the world. To quote Yogi Berra, we're left with déjà vu all over again. Not that this is a joking matter. We risk

reverting to unhelpful and even dangerous views that, in the worst-case scenario, could lead to a catastrophic closing off of borders and global impoverishment rather than prosperity.

Today's challenges call for a new way of looking at the world. This book offers such a worldview—what I call World 3.0. As we'll see, World 3.0 has clear implications for governments, businesses, and individuals. It requires governments to treat market integration and market regulation as two different dimensions of choice that have to be coordinated, not a dichotomous, either-or choice. For businesses, it suggests a range of opportunities for adapting to, overcoming, and exploiting the differences between countries that I have described elsewhere as the "AAA strategies."[1] And for individuals, embracing World 3.0 involves developing a *rooted* cosmopolitanism that is distinct from notions of national or global citizenship.

Before describing World 3.0 in detail, we should first consider how we got to where we are today. Let's take a quick tour through the worldviews that preceded World 3.0 in historical time—what I call Worlds 0.0, 1.0, and 2.0. This review will help bring coherence to the huge mass of writings about globalization as well as suggest a new way forward.

In speaking of the three worldviews prior to World 3.0, I should acknowledge prior histories of the world that have organized human experience into three broad periods. For example, historian Wolf Schäfer has divided human history into a preglobal phase before AD 1500, a protoglobal phase spanning 1500 to 1950, and a global phase that extends to the present day.[2] And the Nobel Prize–winning economist Douglass North and colleagues distinguish between foraging, the natural state, and "open access orders . . . [in which] citizens interact over wide areas of social behavior with no need to be cognizant of the individual identity of their partners."[3]

With due respect to these earlier treatments, I prefer to give myself a bit more leeway by thinking of the three worlds preceding World 3.0 not as sharply defined time periods, but as more abstract archetypes or models of social organization that have become embedded in our

present mind-sets and cultures, thanks to particular experiences in human history. Thus I am less concerned with offering a precise account of the past than with depicting Worlds 0.0 to 2.0 as distinct worldviews that underpin divergent positions about the way forward. And by introducing the notion of World 3.0, I try to expand and improve the set of possible intellectual positions rather than simply arguing for a choice among preexisting possibilities.

World 0.0

Think back as far as you can into human history. Back before all the dates and wars you learned about in school. If you see dinosaurs, you've gone much too far. Our general understanding is that modern humans came on the scene some two hundred thousand years ago[4] and lived in nomadic hunter-gatherer bands or tribes until the Neolithic revolution, five thousand to eleven thousand years ago.[5] During this time, humanity gradually adopted fixed settlements, basic agriculture, and more complex social arrangements. It's hard to imagine the thoughts of people so long ago, and it's especially hard to ascribe a worldview to them since they knew little beyond their immediate surroundings. But in hindsight, we can say that our ancestors did bequeath us a certain mind-set, one rooted in the long human experience of banding together in small groups to survive hostile conditions.

People lived at subsistence levels back then—and would continue to do so for millennia. As a result, economic inequality was minimal, but so, too, was growth.[6] Food was an obvious focus: the major occupational categories were foraging, hunting, and rudimentary farming. Security was critical as well. Among the hunter-gatherers of that era, the chances that one male would be killed by another are estimated to have ranged from 15 to 60 percent.[7] And when a murder or theft occurred, our ancestors didn't call the police and await prosecution in a court of law; those institutions didn't exist. They took matters into their own hands, with the help of whomever they could trust.

This was World 0.0, or Thomas Hobbes's "state of nature" in which life was "nasty, brutish, and short" in the absence of any government. It was a war zone, not a utopia of the sort conjured up by Jean-Jacques Rousseau's notion of the "noble savage" or Henry David Thoreau's romanticization of Walden. This was the wild world in which our species lived for nearly all of its existence.

In such an unforgiving environment, the question of whom to trust was always paramount. You couldn't survive alone—there was trade even back in World 0.0—but betrayal could mean losing your possessions, your freedom, or your life. People first trusted family—specifically, blood relatives with shared genes. Then they trusted relatives by marriage, or the clan. Then perhaps people in their band or tribe. But the circle of trust that defined the boundary between "us" and "them" did not extend far in such societies. Bands of hunter-gatherers usually numbered only twenty-five or thirty people, and agglomerations like tribes and chiefdoms seldom exceeded a thousand.[8] This is why one estimate holds that nearly a million independent political entities existed in 3000 BC, averaging only a few dozen people each.[9] Some argue these polities stayed so small because available technologies couldn't control violence in larger groups.[10]

Many scholars see low, personalized levels of trust as a key constraint holding back such societies and contributing to both security and economic problems. We do indeed find some validation for this idea in present-day societies with some of the same characteristics. Failed or failing states such as the Congo and Somalia are prone to high levels of political instability, civil wars, and declines in health, education, and welfare. Violent death rates in parts of the Congo even appear to have reached some of the levels reported for hunter-gatherers millennia ago.[11]

The point is not that all tribal societies fail, but that even stable ones seem to exhibit lower levels of generalized trust than modern, market-based societies. An ambitious economic experiment conducted across fifteen communities found that farmers and wageworkers in rural Missouri in the United States and wageworkers in Accra, Ghana, were significantly fairer to strangers than nomadic Hadza hunter-gatherers in

the Serengeti savanna or Tsimane Indians in the Amazon.[12] Even more notable, the strongest correlate of fairness was market integration, measured by how much of its diet a community bought from outside.

Such cooperation with "them"—everybody outside a narrow, localized circle of personal relationships—was unheard of millennia ago. And although the distances over which cooperation takes place have expanded, the tribal loyalties of World 0.0 and associated fears of outsiders are still very much with us today. How much farther would *you* go to protect your family than your neighbor? How about your neighbor versus someone across town or across the country? Whom would *you* trust if your life depended on it?

World 1.0

Fast-forward several thousand years. You'll find that humanity—or at least most of it—did eventually emerge from the cycle of violence and economic stagnation of the wild world. Between 3000 BC and AD 2000, world population increased more than a hundredfold and gross world product more than a thousandfold in real terms. But by far the biggest change took place in the realm of social organization: the world consolidated into fewer than two hundred independent political entities, implying a several hundred thousandfold increase in their average size, measured in terms of number of people.[13] World 0.0's bands of several dozen people and its larger tribes and chiefdoms were largely succeeded by nation-states with millions of inhabitants, sovereignty over defined territories, and extensive state apparatus including armies, police forces, and bureaucrats.

We know of three waves of increases in polity size over time, taking place around 3000 BC, 600 BC, and AD 1600.[14] Even where large polities were quick to emerge, however, only limited strands of society (e.g., merchants and the military) engaged in interactions over any significant distance: the vast majority of people remained isolated at the local level in World 0.0.

Most political scientists focus on the period after AD 1600 as marking the real shift to a world defined primarily in terms of sovereign nation-states—as I call it, World 1.0.[15] The Treaty of Westphalia in 1648, although confined to European powers and frequently breached, is often treated as a key moment in the rise of the modern system of international relations. This system features sovereign nation-states that monopolize the use of force within their defined borders, but that are sworn not to interfere in the internal affairs of other states. In other words, *national borders became key in World 1.0, strictly separating the domestic and international realms.* The fuzzy "trust boundaries" of World 0.0 became national walls in World 1.0, enshrined in treaties that were enforced when necessary (but also sometimes violated) by military forces, usually fighting under national flags.

While nations did have some military interactions back then, they were otherwise largely self-contained; culture, society, and economics had a strongly national (as well as local) cast. Thus, international trade is estimated to have accounted for only one-tenth of one percent of world GDP in the sixteenth century—and even that was tightly controlled by national governments. The key shift embedded in the progression from World 0.0 to World 1.0 was, therefore, the scaling up of cooperative efforts from the local level to the national level.

In World 1.0, impersonal exchange and other forms of interdependence with strangers became more common. And in human terms, World 1.0 displaced some of the tribal loyalties of World 0.0, substituting broader loyalties to nation-states past, present, or prospective. Citizenship in a particular country became and to a large extent still is fundamental to most people's identity. Our hearts swell with pride when we hear "our" national anthem played in Olympic medal ceremonies. Even if we disagree with our government's foreign policies, we almost uniformly support our home country's troops in wars. And we must admit that we find it easier to be passive about misery in distant lands than within our own country's borders. For many purposes, "us" now