

A HARVARD BUSINESS REVIEW BOOK

# THE EVOLVING GLOBAL ECONOMY

Making Sense  
of the  
New  
World  
Order

Edited with a Preface by

**KENICHI OHMAE**



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**A Harvard Business Review Book**

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Today's borderless economy requires that managers see and think globally. Kenichi Ohmae believes, however, that too often managerial reflexes in this borderless world do not maintain an equidistant view of all customers. Managers need to learn that a borderless world does not necessarily lead to global products that are uniform. They should look past their own entrenched systems and behaviors to clearly evaluate the distinctive needs of each of their national markets. Only then can they manage—and compete—in a borderless world.

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# Preface

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## Kenichi Ohmae

It used to be much simpler. A manager could know, with confidence, where the borders ran between one nation state and the next, between one industry and the next, between one company and the next, between one market segment and the next, between one product and the next, and between one technology and the next. It was a straightforward matter to add up flows of economic activity at any of these levels into a meaningful—and actionable—aggregation. At base, it was easy to answer the question posed by the titles of Robert Reich's articles in this collection—"Who Is Us?" and "Who Is Them?"—and to know how to act on the answers.

It is simple no longer. Information and capital now migrate around the globe in the blink of an eye. The collapse of the Mexican peso, for instance, has immediate effects on currencies and capital markets around the world. Once-separate industries—those that now comprise multimedia being only the most dramatic example—now blend and overlap in countless new permutations. Individual companies now rarely provide all the services or produce all the components that ultimately deliver value to their customers. The convergence—what I have elsewhere called the "California-ization"—of consumer taste now blurs the familiar boundaries between markets and products. And perhaps most unsettling, traditional nation states, those artifacts of the eighteenth and nineteenth centuries, are now either coming apart at the seams (for example, the former Soviet Union or Czechoslovakia) or showing themselves to be relatively meaningless as units in which to think about economic activity.

In a sense, this fluidity of economic environment is nothing new.

Industrial economies have never been static. Their history has always been marked by great, unsettling changes: in the nineteenth century, the migration of previously unimaginable numbers of people from Europe to America; in the early and mid-twentieth century, the migration of corporations toward a multinational presence from their original domestic base in a home country; in the years leading up to the twenty-first century, the migration of disaggregated business activities—through the digital network—to various points around the globe.

As private sector managers and government policymakers are discovering, it makes no practical sense in so borderless a world to think, say, of countries like “Italy” or “China” as discrete economic entities. Their internal variations are too great and their external linkages too extensive for such slipshod generalizations to be useful as guides to action. Equally important, the sheer speed of business-related migration through the digital network now vastly outpaces the ability of governments—both leaders and institutions—to adapt and respond. Left to their own devices, governments simply cannot move quickly enough to build prosperity for their people. Instead, they must find ways to tap into—to forge linkages with—the global economy. Only by inviting that economy in can they harness twenty-first-century-speed migrations to improve their people’s quality of life.

Indeed, the global economy in which both managers and policymakers must now operate is not the neat, easily divisible sum of separate national economies. It has its own reality, its own rules, and its own logic. The leaders of most nation states have a difficult time accepting that reality, following those rules, or accommodating that logic. This is perfectly understandable: the demands imposed on them by the entrenched constituencies to which they are responsible and beholden cannot help but push them in a different direction. But the situation does not change the facts. All it does is render their nation states even less relevant and less effective as ports of entry to the global economy. It also leaves them less equipped to harness its resources to improve the quality of life of their people. And it makes them less able to cope with the rapid “hollowing out” not just of their traditional manufacturing, but also of their newer service, industries. In their earlier, mercantilist phase, nation states may have been powerful engines of wealth creation. Today, they have all too often become equally powerful engines of wealth destruction.

The secret is out. In both the developed and the developing worlds, citizens and consumers have noticed and, quite naturally, are far from

pleased. These days, few government leaders and even fewer administrative bureaucracies enjoy broad popular confidence or support. The reason is clear. Unlike their leaders, most people do accept the new facts of global economic life. They do want the information needed to make their own choices. They do want the improved quality of life to which such choices can lead, unimpeded access to the best and cheapest products (wherever they may come from), and the entrepreneurial freedom to participate in wealth-creating activities. In a word, they want to be able to vote with their energies and talents and pocketbooks. And the evidence shows that, when they have the chance, they do.

This rush to the polls is most visible in the activities not of nation states, but of what I have elsewhere called "region states," those geographic areas—such as Hong Kong and the adjacent coastline of China, Dalian in the northeast of China, Bangalore in India, San Diego/Tijuana, or even greater Tokyo—that represent discrete, coherent participants in the global economy. Unlike nation states, with their inevitably protectionist impulses, these region states have given entrée to economy and have tried to harness its information and choice and access and freedom to improve the lot of their citizenry.

In nation states, by contrast, most people fear the implications of such things, if poorly managed, for established industries, jobs, and networks of social support. Unhappily, they have little reason to believe that these things will be intelligently managed. Worse, as history shows, such fear and disbelief, if cleverly manipulated, can provide excellent tinder for the powerful who would protect their own turf by igniting a wall of flame as a defense against any change that might threaten it. As daily headlines attest, it is already being so manipulated. To be sure, these angry, reactionary flailings will eventually die away. They always do. In the interim, however, they can do—and are doing—significant damage.

Historical periods of transition are, inevitably, stressful. The bigger the transition, the greater the stress. And by any reasonable standard, the development of a genuinely global economy is a "big" transition. It is rapidly making obsolete not only a complex web of long-standing institutional arrangements, but also the whole universe of assumptions—the commonsense knowledge of what is unarguably "true"—on which those arrangements are based. Vested interests aside, people rarely give up comfortable certainties without a fight. Indeed, that is precisely why fear of the unknown, especially when coupled with a lack of confidence in leaders, makes such excellent tinder for the flames of reaction.

Against such fear of the economic future, there can be no guaranteed remedy. But there is a fairly effective over-the-counter medicine: timely, accurate, and insightful commentary about the scope, shape, and likely consequences of the emerging new economic order. Providing such commentary is exactly what this four-part collection of articles from *Harvard Business Review* attempts to do. Part I challenges the notion that, with the defeat of communism as a viable ideology, there remains only one legitimate, workable model for economic activity in a borderless world: democratic capitalism as practiced in the United States. Part II sketches the contours of this borderless world and finds, in its rapidly expanding interdependencies, none of the signs that some claim to observe of an inescapable zero-sum game. Part III examines how these interdependencies affect the core—and extremely sensitive—issues of trade and trade policy. Finally, Part IV assesses their implications for the responsibilities, tasks, and practices of professional managers.

During more than 20 years of consulting to leading international companies, I have consistently tried to help senior managers wrap their minds—and arms—around the practical challenges of steering their companies through the unfamiliar landscape of an increasingly global economy. For many, the foremost question about dealing with this borderless world was how to choose among possible organizational, as well as strategic, emphases on product, function, and geography. That is, these managers saw themselves as having access to three major levers or axes of response and, therefore, as needing to strike the right balance among them. Should they focus primarily on global products, on local geographies, or on functional expertise? Which of these considerations should be uppermost in the way they designed their organizations and prioritized their strategic aims?

In a global economy, the fundamental questions may not change, but the answers do—and, more than that, so do the metrics against which such answers need to be judged. In the past, for example, if a company opted for a geographical focus, it would dedicate its energies to building country-specific operations in each national environment—the United Kingdom, say, and France and Germany—in which it participated. It would then typically aggregate these operations under the umbrella of a regional headquarters—in this case, of course, a European headquarters—to encourage and facilitate cross-border synergies, where possible, as well as shorten top management's span of control.

But does this United Nations-style, country-based aggregation make

sense when it involves bundling under the same umbrella the advanced economies of Germany and France with those of the former Eastern Bloc? Does it make sense when it involves bundling China with its US\$ 300 per capita GNP, and Japan, with a per capita GNP of US\$ 30,000? In fact, does it make sense to treat China itself or India or Indonesia as a coherent economic entity, subject to a single, consistent level of so-called country risk, given the enormous differences between their various internal regions? Moreover, what about the tightly linked overseas Chinese community, which is so influential throughout the whole of Southeast Asia? Is it really best divided up by country—Thailand, Indonesia, Singapore, and so on? On paper, of course, the exercise is appealing in its neatness: Europe here, Asia there, China there. But in managerial terms, such aggregations simply cannot provide the materials management needs to build concrete, actionable understanding of the real clusters of economic activity in a borderless world.

For top managers, relying instead on the functional axis to assert control and filter information does not help. True, the functions—finance, R&D, personnel—once belonged largely to headquarters and, thus, provided the means by which those at the center could monitor as well as influence decisions of those at the periphery. In a borderless world, however, it is increasingly difficult to manage functional activities across so wide a spectrum of operating environments from a single, central point. Moreover, advances in digital networks and information technology allow those activities to be disaggregated on a global basis and outsourced, creating, in effect, a virtual functional network spanning the globe. Seen in this light, companies are no longer standalone institutions but, rather, oddly and often asymmetrically shaped parts of transnational “webs” of functional activity. And in a world defined by such webs, traditional notions of centralized control rapidly lose their meaning.

Much the same holds true along the product axis as well. Companies once built, in each of their geographic markets, more or less complete, end-to-end business systems to develop, make, market, and distribute each of their separate products. Throughout today’s global economy, however, long-established channel structures are breaking down. (Even in Japan, for example, direct marketers and discounters are rudely shaking up the traditional, multi-tiered distribution system.) So, too, are the lines separating competitors, customers, and suppliers, as well as between product categories—fax machines, cameras, and personal computers, for example.

In so complex an environment, what it means to organize around product is neither simple nor obvious. Old road maps do not help; old rules of thumb mislead more than direct; good students make poor teachers. What used to be “knowledge” has to be unlearned, and the confidence that mastery of such knowledge once brought must inevitably give way to the uncertainty that comes with first-cut empirical observation. Managers need to learn how to “see” all over again.

This, perhaps, is the most important lesson of the articles collected here. A genuinely global economy really *is* something new under the sun. It observes laws and follows a logic all its own. Moreover, both its logic and its laws are still evolving, still in process. Analogies can help increase awareness—but only to a point. Beyond that, the only sure guide is the experience built up along the way. There are no safe or certain solutions. Searching for them is useless. Much better to make a judgment about general direction, to experiment, to build on what works, and to abandon what does not. In a global economy, both managers and policymakers will have to construct the roads they travel as they go.