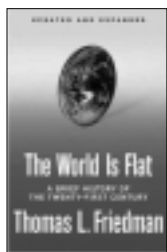


## *The World is Flat: A Brief History of The Twenty-First Century*

By Thomas L. Friedman. 2005. New York, NY: Farrar, Straus and Giroux. Pp.488, \$27.50, hardcover, \$59.95 (15) compact discs, narrated by Oliver Wyman.



Friedman, who regularly writes op-ed columns for *The New York Times*, has written an extraordinarily interesting book. It is available in book form and also on 15 compact discs. The discs, which are read in a pleasant voice by Oliver Wyman, permit listening while driving or relaxing and are a real boon to anyone who, like your reviewer, is visually impaired.

Friedman's central thesis is that advances in science and technology have flattened the playing field so that, regardless of national boundaries, work will flow to where it can be done most efficiently at the least expense. Some of his illustrative examples are novel and surprising.

- Japanese companies are outsourcing major manufacturing activities to China, where special university graduates have been trained in Japanese language and customs as well as Japanese manufacturing processes.
- Jet Blue Airlines in the United States has outsourced its ticket reservation services to Mormon grandmothers in Utah, because their friendly service, efficiency, and company loyalty make them far superior employees to any that could be hired elsewhere.
- A fast-food chain transmits an

order and a customer's picture to an off-premise site, where the order is instantly sent to the kitchen. When the customer picks up the order, his food, the bill and his picture are combined to provide the fastest, most efficient service.

- Friedman describes placing an order for a Dell computer constructed to his specific needs. He then traces the supply chain that provides the parts for the computer from factories in China, India, Taiwan, Malaysia, Ireland, Costa Rica, Korea, Germany, and the Philippines to the flow of these parts to a plant in Penang, where the computer is assembled. Then this computer with twenty-five thousand other assembled computers are airlifted in a Dell-chartered 747, which six days a week flies from Penang to Nashville, Tennessee for packaging and shipment to the customer. A total of 400 companies (of which 30 were key players) in North America, Europe, and—primarily—Asia were involved in the construction of his computer. The entire process would have been accomplished in eight days, but for a parts delay in Malaysia that added an additional nine days to the delivery time.

I am grateful to my friend, Gerry Musgrave, for reminding me of the similarity between Friedman's story of the supply chain, and the well-known essay by Leonard Read, "I, Pencil," published by The Library of Economics and Liberty in 1958, which described the supply chain and processes that go into the making of an ordinary lead pencil. Both pieces are a tribute to the unseen hand of competition that drives efficient and

profitable production.

Friedman offers many challenging ideas for businessmen, economists, politicians, voters, and parents. The vaunted superiority in productivity enjoyed by the United States is imperiled by the surge in educational opportunities offered in India, China, Russia, and other emerging nations. The number of engineers, mathematicians, and scientists is increasing faster in these countries than in the United States; and patent applications and the output of scientific papers are also greater in other countries. Moreover, restrictive U.S. immigration policies have constrained the flow of students and skilled workers into the United States.

One idea that Friedman stresses is the increasing worldwide shortage of energy as rapidly expanding nations such as India and China place increasing demands on the world energy supply, in addition to rising demands of other industrial countries. The author suggests that just as the launching of Sputnik presented an opportunity for President Kennedy to spur the country to put a man on the moon, so too, could the impending energy crisis spark President Bush to a campaign for developing U.S. energy independence in the next decade.

Some of Friedman's other messages include: stimulating the teaching of science and engineering in high school and colleges (a development that has been undertaken in many states); a review of immigration policies to encourage well trained and highly educated scientists to feel welcomed in the United States; the obligation of companies not to promise lifetime employment, but to train employees to be employable in worthwhile lifetime occupations.

Friedman makes the point that terrorism and terrorists blossom in an environment where opportunities for education and improvement in living conditions are limited, while the Internet provides views of better conditions elsewhere as well as messages attracting frustrated, angry, and envious recruits to terrorist groups. The implications are obvious for U.S. immigration policies, encouragement for overseas investment, and the need for international cooperation.

Friedman's ideas are provocative. His understanding of the transformation and flattening of the world is critical to the understanding of trade relations, as well as relationships among contending national and ethnic groups. If you want to read just one challenging, interesting, and useful book this year, Friedman's book should be your selection.

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## ***US National Security and Foreign Direct Investment***

*By Edward M. Graham and David M. Marchick. 2006. Washington, DC: Institute for International Economics. Pp. 190, \$23.95*



It seems a lot longer than just a decade has passed since I studied, or more accurately sweated over, Edward (Monty) Graham's and Paul Krugman's book *Foreign Direct Investment in the United States*. From that base, I gained an excellent understanding of the trends and impact of foreign direct investment (FDI) in America. Graham's latest vol-

ume, co-authored with David M. Marchick, is an extension of his quality research.

The uproar over the Dubai Ports World P&O acquisition earlier this year demonstrated the intensity of American sentiment toward, or indeed against, FDI into the United States. Heightened consciousness post 9/11 and a growing awareness of the increasing strength of Asia, particularly China, have created a need for improved understanding of the link between national security and FDI.

The authors of this book trace America's concern over the kind, nature, and source of FDI in the United States back to the early 20th century when most FDI into the United States was greenfield<sup>1</sup> in nature and the main concern "was that foreign-controlled operations might dominate U.S. markets for strategic products and services.... This was a relevant concern at a time when, in many sectors (e.g., chemicals in 1917), foreign firms held technologies that were not available to their U.S.-owned competitors."

Apathy describes America's feeling toward foreign investment "during the 1970s because, despite the fast growth of FDI into the United States, the percentage of U.S. business activity under foreign control remained quite low. Also, many large foreign investors had come to be recognized by Americans, and even accepted as household names. Many Americans likely did not recognize such names as Shell, Lever Brothers, and Philips Norelco as those of foreign-owned firms."

During the 1980s, as foreign investment increased worldwide, Americans became wary of FDI, especially Japanese investment in the United States, fearing it could dimin-

<sup>1</sup>Editor's note: "Greenfield" investment refers to investment in new productive capacity, as opposed to purchase of assets.

ish U.S. technological capabilities. "By the late 1980s, the extent of foreign ownership of U.S. business activity had grown to the point that it was much more visible than it had been in previous years. ...Japanese economic growth considerably outpaced that of the United States, which stoked U.S. anxieties that it might soon overtake the United States as the world's largest economy."

America's anxiety with foreign investment "waned during the early 1990s, as the rate of growth of FDI into the United States slowed and the economic growth of Japan came to a virtual halt."

Today, China's rapid economic growth and increasing military power is a catalyst for U.S. security concerns. "This fear persists even though Chinese direct investment in the United States has been to date quite limited." The authors provide a brief history of China's position in international trade, describe how the national security concerns surrounding FDI from China are more complex than from most other nations, and discuss how the United States should deal with the unique national security issues surrounding Chinese investments.

Graham and Marchick believe that FDI, and especially FDI into the United States, is a good thing. The authors substantiate this position with an in-depth examination of industrial sector statistics, examples, and case study analysis.

But what I come away with after digesting this book is that, although security-related concerns over FDI in the United States have quite a long history in America, it is the perception of the competitive threat of foreign nations that really drives the pushback against FDI. According to the authors, "national security issues do not rise from increased levels of FDI generally, but rather when it comes from specific countries or

companies that already raise concerns for the U.S. government.”

The authors distinguish today's national security concerns from those that existed a century ago. The regulatory tools that have been enacted to restrict FDI and thereby protect America are detailed, including the 1988 Exon-Florio Amendment, which gives the U.S. president the authority to block a foreign acquisition of a U.S. entity if it is perceived to be a threat to U.S. national security upon review by the Committee on Foreign Investments in the United States (CFIUS). Graham and Marchick review current public policy and regulatory tools and suggest that amendments are required to: (1) ensure adequate foreign investment going forward especially pertinent given that the data suggest the United States will require even more foreign investment to service its burgeoning trade deficit; and (2) keep America safe. More specifically, the authors “believe that, proceeding on a transaction-by-transaction basis, CFIUS should focus solely on the incremental risk associated with particular investments.”

Although I found some repetition and unnecessary cross referencing in this book, it is refreshingly devoid of politics and finger pointing. It is a thought-provoking and comprehensive discussion of foreign investment in the United States and the national security concerns that have been and are at the forefront of American politics.

*US National Security and Foreign Direct Investment* is timely, important and coherent. The language used is both coolly analytic and disconcertingly ardent when the authors discuss America's anxiety and uncertainty about foreign control of U.S. assets. “Active debate continues,” they write, “over the role of foreign investment in the United States and its effect on U.S. national securi-

ty, despite the relatively low level of foreign investment in the United States and notwithstanding strong empirical and anecdotal evidence that foreign investment benefits the U.S. economy, even in industries considered sensitive to national security.” Hovering, like an eagle, over all their arguments is America's fear of a loss of power and control.

Lorna Wallace  
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