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Small and Smaller

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BANGALORE, India

Jerry Rao wants to do your taxes.

Ah, you say, you've never heard of Jerry Rao, but the name sounds vaguely Indian. Anyway, you already have an accountant. Well, Jerry is Indian. He lives in Bangalore. And, you may not know it, but he may already be your accountant.

"We have tied up with several small and medium-size C.P.A. firms in America," explained Mr. Rao, whose company, MphasiS, has a team of Indian accountants able to do outsourced accounting work from across the U.S. All the necessary tax data is scanned by U.S. firms into a database that can be viewed from India. Then an Indian accountant, trained in U.S. tax practices, fills in all the basics.

"This is happening as we speak — we are doing several thousand returns," said Mr. Rao. American C.P.A.'s don't even need to be in their offices. They can be on a beach, said Mr. Rao, "and say, `Jerry, you are particularly good at doing New York returns, so you do Tom's returns.'" He adds, "We have taken the grunt work" so U.S. accountants can focus on customer service and thinking creatively about client needs.

Mr. Rao's ability to service U.S. accounts this way is at the core of a business revolution that has happened over the past few years. I confess: I missed this revolution. I was totally focused on 9/11 and Iraq. But having now spent 10 days in Bangalore, India's Silicon Valley, I realize that while I was sleeping, the world entered the third great era of globalization.

The first era, from the late 1800's to World War I, was driven by falling transportation costs, thanks to the steamship and the railroad. That was Globalization 1.0, and it shrank the world from a size large to a size medium. The second big era, Globalization 2.0, lasted from the 1980's to 2000, was based on falling telecom costs and the PC, and shrank the world from a size medium to a size small. Now we've entered Globalization 3.0, and it is shrinking the world from size small to a size tiny. That's what this outsourcing of white-collar jobs is telling us — and it is going to require some wrenching adjustments for workers and political systems.

Globalization 3.0 was produced by three forces: First is the massive installation of undersea fiber-optic cable and bandwidth (thanks to the dot-com bubble) that have made it possible to globally transmit and store huge amounts of data for almost nothing. Second is the diffusion of PC's around the world. And third (what I missed most) is the convergence of a variety of software applications — from e-mail, to Google, to Microsoft Office, to specially designed outsourcing programs — that, when combined with all those PC's and bandwidth, made it possible to create global "work-flow platforms."

These work-flow platforms can chop up any service job — accounting, radiology, consulting, software engineering — into different functions and then, thanks to scanning and digitization, outsource each function to teams of skilled knowledge workers around the globe, based on which team can do each function with the highest skill at the lowest price. Then the project is reassembled back at headquarters into a finished product.

Thanks to this new work-flow network, knowledge workers anywhere in the world can contribute their talents more than ever before, spurring innovation and productivity. But these same knowledge workers will be under more pressure than ever to constantly upgrade their skills in this Darwinian environment.

"We created a worldwide network which connected all the resource pools on the planet, and suddenly we changed the rules of the game," said Nandan Nilekani, C.E.O. of the Indian software giant Infosys — which last year received nearly one million applications from Indian techies for 9,000 software jobs. You cannot wish away this new era of

globalization, he added. "It will not go away."

So now I wonder: when they write the history of the world 20 years from now, and they come to this chapter — Sept. 11, 2001, to March 2004 — what will they say was most important? The attack on the World Trade Center and the Iraq war? Or, as Mr. Rao suggests, the convergence of PC's, telecom and work-flow software into a tipping point that allowed India to become part of the global supply chain for services the way China had become for manufacturing — creating an explosion of wealth in the middle classes of the world's two biggest nations, India and China, and giving both nations a huge new stake in the success of globalization. I wonder?

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