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The Lexus & the Olive Tree

The New System

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What was it that Forrest Gump's mama liked to say? Life is like a box of chocolates: you never know what you're going to get inside. For me, an inveterate traveler and foreign correspondent, life is like room service—you never know what you're going to find outside your door.

Take for instance the evening of December 31, 1994, when I began my assignment as the foreign affairs columnist for *The New York Times*. I started the column by writing from Tokyo, and when I arrived at the Okura Hotel after a long transpacific flight, I called room service with one simple request: "Could you please send me up four oranges." I am addicted to citrus and I needed a fix. It seemed to me a simple enough order when I telephoned it in, and the person on the other end seemed to understand. About twenty minutes later there was a knock at my door. A room service waiter was standing there in his perfectly creased uniform. In front of him was a cart covered by a starched white tablecloth. On the tablecloth were four tall glasses of fresh-squeezed orange juice, each glass set regally in a small silver bowl of ice.

"No, no," I said to the waiter, "I want oranges, oranges—not orange juice." I then pretended to bite into something like an orange.

"Ahhh," the waiter said, nodding his head. "O-ranges, o-ranges." I retreated into my room and went back to work. Twenty minutes later there was another knock at my door. Same waiter. Same linen-covered room service trolley. But this time, on it were four plates and on each plate was an orange that had been peeled and diced into perfect little

sections that were fanned out on a plate like sushi, as only the Japanese can do.

"No, no," I said, shaking my head again. "I want the whole orange." I made a ball shape with my hands. "I want to keep them in my room and eat them for snacks. I can't eat four oranges all cut up like that. I can't store them in my mini-bar. I want the whole orange."

Again, I did my best exaggerated imitation of someone eating an orange.

"Abhhh," the waiter said, nodding his head. "O-range, o-range. You want whole o-range."

Another twenty minutes went by. Again there was a knock on my door. Same waiter. Same trolley, only this time he had four bright oranges, each one on its own dinner plate, with a fork, knife and linen napkin next to it. That was progress.

"That's right," I said, signing the bill. "That's just what I wanted."

As he left the room, I looked down at the room service bill. The four oranges were \$22. How am I going to explain that to my publisher?

But my citrus adventures were not over. Two weeks later I was in Hanoi, having dinner by myself in the dining room of the Metropole Hotel. It was the tangerine season in Vietnam, and vendors were selling pyramids of the most delicious, bright orange tangerines on every street corner. Each morning I had a few tangerines for breakfast. When the waiter came to get my dessert order I told him all I wanted was a tangerine.

He went away and came back a few minutes later.

"Sorry," he said, "no tangerines."

"But how can that be?" I asked in exasperation. "You have a table full of them at breakfast every morning! Surely there must be a tangerine somewhere back in the kitchen?"

"Sorry." He shook his head. "Maybe you like watermelon?"

"O.K.," I said, "bring me some watermelon."

Five minutes later the waiter returned with a plate bearing three peeled tangerines on it.

"I found the tangerines," he said. "No watermelon."

Had I known then what I know now I would have taken it all as a har-binger. For I too would find a lot of things on my plate and outside my door that I wasn't planning to find as I traveled the globe for the *Times*.

Being the foreign affairs columnist for *The New York Times* is actually the best job in the world. I mean, someone has to have the best job, right? Well, I've got it. The reason it is such a great job is that I get to be a tourist with an attitude. I get to go anywhere, anytime, and have attitudes about what I see and hear. But the question for me as I embarked on this odyssey was: Which attitudes? What would be the lens, the perspective, the organizing system—the superstory—through which I would look at the world, make sense of events, prioritize them, opine upon them and help readers understand them?

In some ways my predecessors had it a little easier. They each had a very obvious superstory and international system in place when they were writing. I am the fifth foreign affairs columnist in the history of the *Times*. "Foreign Affairs" is actually the paper's oldest column. It was begun in 1937 by a remarkable woman, Anne O'Hare McCormick, and was originally called "In Europe," because in those days, "In Europe" was foreign affairs for most Americans, and it seemed perfectly natural that the paper's one overseas columnist would be located on the European continent. Mrs. McCormick's 1954 obituary in the *Times* said she got her start in foreign reporting "as the wife of Mr. McCormick, a Dayton engineer whom she accompanied on frequent buying trips to Europe." (*New York Times* obits have become considerably more politically correct since then.) The international system which she covered was the disintegration of balance-of-power Versailles Europe and the beginnings of World War II.

As America emerged from World War II, standing astride the world as the preeminent superpower, with global responsibilities and engaged in a global power struggle with the Soviet Union, the title of the column changed in 1954 to "Foreign Affairs." Suddenly the whole world was America's playing field and the whole world mattered, because every corner was being contested with the Soviet Union. The Cold War international system, with its competition for influence and supremacy between the capitalist West and the communist East, between Washington, Moscow and Beijing, became the superstory within which the next three foreign affairs columnists organized their opinions.

By the time I started the column at the beginning of 1995, though, the Cold War was over. The Berlin Wall had crumbled and the Soviet Union was history. I had the good fortune to witness, in the Kremlin, one of the

last gasps of the Soviet Union. The day was December 16, 1991. Secretary of State James A. Baker III was visiting Moscow, just as Boris Yeltsin was easing Mikhail Gorbachev out of power. Whenever Baker had met Gorbachev previously, they had held their talks in the Kremlin's gold-gilded St. Catherine Hall. There was always a very orchestrated entry scene for the press. Mr. Baker and his entourage would wait behind two huge wooden double doors on one end of the long Kremlin hall, with Gorbachev and his team behind the doors on the other end. And then, by some signal, the doors would simultaneously open and each man would stride out and they would shake hands in front of the cameras in the middle of the room. Well, on this day Baker arrived for his meeting at the appointed hour, the doors swung open and Boris Yeltsin walked out, instead of Gorbachev. Guess who's coming to dinner! "Welcome to Russian soil and this Russian building," Yeltsin said to Baker. Baker did meet Gorbachev later in the day, but it was clear that power had shifted. We State Department reporters who were there to chronicle the event ended up spending that whole day in the Kremlin. It snowed heavily while we were inside, and when we finally walked out after sunset we found the Kremlin grounds covered in a white snow blanket. As we trudged to the Kremlin's Spassky Gate, our shoes crunching fresh tracks in the snow, I noticed that the red Soviet hammer and sickle was still flying atop the Kremlin flagpole, illuminated by a spotlight as it had been for some seventy years. I said to myself, "That is probably the last time I'll ever see that flag flying there." In a few weeks it was indeed gone, and with it went the Cold War system and supertory.

But what wasn't clear to me as I embarked upon my column assignment a few years later was what had replaced the Cold War system as the dominant organizing framework for international affairs. So I actually began my column as a tourist without an attitude—just an open mind. For several years, I, like everyone else, just referred to "the post-Cold War world." We knew some new system was aborning that constituted a different framework for international relations, but we couldn't define what it was, so we defined it by what it wasn't. It wasn't the Cold War. So we called it the post-Cold War world.

The more I traveled, though, the more it became apparent to me that we were not just in some messy, incoherent, indefinable post-Cold War world. Rather, we were in a new international system. This new system

had its own unique logic, rules, pressures and incentives and it deserved its own name: "globalization." Globalization is not just some economic fad, and it is not just a passing trend. It is an international system—the dominant international system that replaced the Cold War system after the fall of the Berlin Wall. We need to understand it as such. If there can be a statute of limitations on crimes, then surely there must be a statute of limitations on foreign policy clichés. With that in mind, the "post-Cold War world" should be declared over. We are now in the new international system of globalization.

When I say that globalization has replaced the Cold War as the defining international system, what exactly do I mean?

I mean that, as an international system, the Cold War had its own structure of power: the balance between the United States and the U.S.S.R. The Cold War had its own rules: in foreign affairs, neither superpower would encroach on the other's sphere of influence; in economics, less developed countries would focus on nurturing their own national industries, developing countries on export-led growth, communist countries on autarky and Western economies on regulated trade. The Cold War had its own dominant ideas: the clash between communism and capitalism, as well as détente, nonalignment and perestroika. The Cold War had its own demographic trends: the movement of people from east to west was largely frozen by the Iron Curtain, but the movement from south to north was a more steady flow. The Cold War had its own perspective on the globe: the world was a space divided into the communist camp, the Western camp, and the neutral camp, and everyone's country was in one of them. The Cold War had its own defining technologies: nuclear weapons and the second Industrial Revolution were dominant, but for many people in developing countries the hammer and sickle were still relevant tools. The Cold War had its own defining measurement: the throw weight of nuclear missiles. And lastly, the Cold War had its own defining anxiety: nuclear annihilation. When taken all together the elements of this Cold War system influenced the domestic politics, commerce and foreign relations of virtually every country in the world. The Cold War system didn't shape everything, but it shaped many things.

Today's era of globalization is a similar international system, with

its own unique attributes, which contrast sharply with those of the Cold War. To begin with the Cold War system was characterized by one overarching feature—division. The world was a divided-up, chopped-up place and both your threats and opportunities in the Cold War system tended to grow out of who you were divided from. Appropriately, this Cold War system was symbolized by a single word: the wall—the Berlin Wall. One of my favorite descriptions of that world was provided by Jack Nicholson in the movie *A Few Good Men*. Nicholson plays a Marine colonel who is the commander of the U.S. base in Cuba, at Guantanamo Bay. In the climactic scene of the movie, Nicholson is pressed by Tom Cruise to explain how a certain weak soldier under Nicholson's command, Santiago, was beaten to death by his own fellow Marines: "You want answers?" shouts Nicholson. "You want answers?" I want the truth, retorts Cruise. "You can't handle the truth," says Nicholson. "Son, we live in a world that has walls and those walls have to be guarded by men with guns. Who's gonna do it? You? You, Lieutenant Weinberg? I have a greater responsibility than you can possibly fathom. You weep for Santiago and you curse the Marines. You have that luxury. You have the luxury of not knowing what I know—that Santiago's death, while tragic, probably saved lives. And my existence, while grotesque and incomprehensible to you, saves lives. You don't want the truth because deep down in places you don't talk about at parties, you want me on that wall. You need me on that wall."

The globalization system is a bit different. It also has one overarching feature—integration. The world has become an increasingly interwoven place, and today, whether you are a company or a country, your threats and opportunities increasingly derive from who you are connected to. This globalization system is also characterized by a single word: the Web. So in the broadest sense we have gone from a system built around division and walls to a system increasingly built around integration and webs. In the Cold War we reached for the "hotline," which was a symbol that we were all divided but at least two people were in charge—the United States and the Soviet Union—and in the globalization system we reach for the Internet, which is a symbol that we are all increasingly connected and nobody is quite in charge.

This leads to many other differences between the globalization system and the Cold War system. The globalization system, unlike the Cold

War system, is not frozen, but a dynamic ongoing process. That's why I define globalization this way: it is the inexorable integration of markets, nation-states and technologies to a degree never witnessed before—in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before, and in a way that is enabling the world to reach into individuals, corporations and nation-states farther, faster, deeper, cheaper than ever before. This process of globalization is also producing a powerful backlash from those brutalized or left behind by this new system.

The driving idea behind globalization is free-market capitalism—the more you let market forces rule and the more you open your economy to free trade and competition, the more efficient and flourishing your economy will be. Globalization means the spread of free-market capitalism to virtually every country in the world. Therefore, globalization also has its own set of economic rules—rules that revolve around opening, deregulating and privatizing your economy, in order to make it more competitive and attractive to foreign investment. In 1975, at the height of the Cold War, only 8 percent of countries worldwide had liberal, free-market capital regimes, and foreign direct investment at the time totaled only \$23 billion, according to the World Bank. By 1997, the number of countries with liberal economic regimes constituted 28 percent, and foreign investment totaled \$644 billion.

Unlike the Cold War system, globalization has its own dominant culture, which is why it tends to be homogenizing to a certain degree. In previous eras this sort of cultural homogenization happened on a regional scale—the Romanization of Western Europe and the Mediterranean world, the Islamification of Central Asia, North Africa, Europe and the Middle East by the Arabs and later the Ottomans, or the Russification of Eastern and Central Europe and parts of Eurasia under the Soviets. Culturally speaking, globalization has tended to involve the spread (for better and for worse) of Americanization—from Big Macs to Mickey Mouse.

Globalization has its own defining technologies: computerization, miniaturization, digitization, satellite communications, fiber optics and the Internet, which reinforce its defining perspective of integration. Once a country makes the leap into the system of globalization, its elites begin to internalize this perspective of integration, and always try to locate

themselves in a global context. I was visiting Amman, Jordan, in the summer of 1998 and having coffee at the Inter-Continental Hotel with my friend Rami Khouri, the leading political columnist in Jordan. We sat down and I asked him what was new. The first thing he said to me was: "Jordan was just added to CNN's worldwide weather highlights." What Rami was saying was that it is important for Jordan to know that those institutions which think globally believe it is now worth knowing what the weather is like in Amman. It makes Jordanians feel more important and holds out the hope that they will be enriched by having more tourists or global investors visiting. The day after seeing Rami I happened to go to Israel and meet with Jacob Frenkel, governor of Israel's Central Bank and a University of Chicago-trained economist. Frenkel remarked that he too was going through a perspective change: "Before, when we talked about macroeconomics, we started by looking at the local markets, local financial systems and the interrelationship between them, and then, as an afterthought, we looked at the international economy. There was a feeling that what we do is primarily our own business and then there are some outlets where we will sell abroad. Now we reverse the perspective. Let's not ask what markets we should export to, after having decided what to produce; rather let's first study the global framework within which we operate and then decide what to produce. It changes your whole perspective."

While the defining measurement of the Cold War was weight—particularly the throw weight of missiles—the defining measurement of the globalization system is speed—speed of commerce, travel, communication and innovation. The Cold War was about Einstein's mass-energy equation, $E = mc^2$. Globalization tends to revolve around Moore's Law, which states that the computing power of silicon chips will double every eighteen to twenty-four months, while the price will halve. In the Cold War, the most frequently asked question was: "Whose side are you on?" In globalization, the most frequently asked question is: "To what extent are you connected to everyone?" In the Cold War, the second most frequently asked question was: "How big is your missile?" In globalization, the second most frequently asked question is: "How fast is your modem?" The defining document of the Cold War system was "The Treaty." The defining document of globalization is "The Deal." The Cold War system even had its own style. In 1961, according to *Foreign Policy*

magazine, Cuban President Fidel Castro, wearing his usual olive drab military uniform, made his famous declaration "I shall be a Marxist-Leninist for the rest of my life." In January 1999, Castro put on a business suit for a conference on globalization in Havana, to which financier George Soros and free-market economist Milton Friedman were both invited.

If the defining economists of the Cold War system were Karl Marx and John Maynard Keynes, who each in his own way wanted to tame capitalism, the defining economists of the globalization system are Joseph Schumpeter and Intel chairman Andy Grove, who prefer to unleash capitalism. Schumpeter, a former Austrian Minister of Finance and Harvard Business School professor, expressed the view in his classic work *Capitalism, Socialism and Democracy* that the essence of capitalism is the process of "creative destruction"—the perpetual cycle of destroying the old and less efficient product or service and replacing it with new, more efficient ones. Andy Grove took Schumpeter's insight that "only the paranoid survive" for the title of his book on life in Silicon Valley, and made it in many ways the business model of globalization capitalism. Grove helped to popularize the view that dramatic, industry-transforming innovations are taking place today faster and faster. Thanks to these technological breakthroughs, the speed by which your latest invention can be made obsolete or turned into a commodity is now lightning quick. Therefore, only the paranoid, only those who are constantly looking over their shoulders to see who is creating something new that will destroy them and then staying just one step ahead of them, will survive. Those countries that are most willing to let capitalism quickly destroy inefficient companies, so that money can be freed up and directed to more innovative ones, will thrive in the era of globalization. Those which rely on their governments to protect them from such creative destruction will fall behind in this era.

James Surowiecki, the business columnist for *Slate* magazine, reviewing Grove's book, neatly summarized what Schumpeter and Grove have in common, which is the essence of globalization economics. It is the notion that: "Innovation replaces tradition. The present—or perhaps the future—replaces the past. Nothing matters so much as what will come next, and what will come next can only arrive if what is here now gets overturned. While this makes the system a terrific place for

innovation, it makes it a difficult place to live, since most people prefer some measure of security about the future to a life lived in almost constant uncertainty . . . We are not forced to re-create our relationships with those closest to us on a regular basis. And yet that's precisely what Schumpeter, and Grove after him, suggest is necessary to prosper [today]."

Indeed, if the Cold War were a sport, it would be sumo wrestling. Says Johns Hopkins University foreign affairs professor Michael Mandelbaum, "It would be two big fat guys in a ring, with all sorts of posturing and rituals and stomping of feet, but actually very little contact, until the end of the match, when there is a brief moment of shoving and the loser gets pushed out of the ring, but nobody gets killed."

By contrast, if globalization were a sport, it would be the 100-meter dash, over and over and over. And no matter how many times you win, you have to race again the next day. And if you lose by just one hundredth of a second it can be as if you lost by an hour. (Just ask French multinationals. In 1999, French labor laws were changed, requiring—requiring—every employer to implement a four-hour reduction in the legal workweek, from 39 hours to 35 hours, with no cut in pay. Many French firms were fighting the move because of the impact it would have on their productivity in a global market. Henri Thierry, human resources director for Thomson-CSF Communications, a high-tech firm in the suburbs of Paris, told *The Washington Post*: "We are in a worldwide competition. If we lose one point of productivity, we lose orders. If we're obliged to go to 35 hours it would be like requiring French athletes to run the 100 meters wearing flip-flops. They wouldn't have much of a chance winning a medal.")

To paraphrase German political theorist Carl Schmitt, the Cold War was a world of "friends" and "enemies." The globalization world, by contrast, tends to turn all friends and enemies into "competitors."

If the defining anxiety of the Cold War was fear of annihilation from an enemy you knew all too well in a world struggle that was fixed and stable, the defining anxiety in globalization is fear of rapid change from an enemy you can't see, touch or feel—a sense that your job, community or workplace can be changed at any moment by anonymous economic and technological forces that are anything but stable. The defining defense system of the Cold War was radar—to expose the threats coming

from the other side of the wall. The defining defense system of the globalization era is the X-ray machine—to expose the threats coming from within.

Globalization also has its own demographic pattern—a rapid acceleration of the movement of people from rural areas and agricultural lifestyles to urban areas and urban lifestyles more intimately linked with global fashion, food, markets and entertainment trends.

Last, and most important, globalization has its own defining structure of power, which is much more complex than the Cold War structure. The Cold War system was built exclusively around nation-states. You acted on the world in that system through your state. The Cold War was primarily a drama of states confronting states, balancing states and aligning with states. And, as a system, the Cold War was balanced at the center by two superstates: the United States and the Soviet Union.

The globalization system, by contrast, is built around three balances, which overlap and affect one another. The first is the traditional balance between nation-states. In the globalization system, the United States is now the sole and dominant superpower and all other nations are subordinate to it to one degree or another. The balance of power between the United States and the other states, though, still matters for the stability of this system. And it can still explain a lot of the news you read on the front page of the papers, whether it is the containment of Iraq in the Middle East or the expansion of NATO against Russia in Central Europe.

The second balance, in the globalization system is between nation-states and global markets. These global markets are made up of millions of investors moving money around the world with the click of a mouse. I call them "the Electronic Herd," and this herd gathers in key global financial centers, such as Wall Street, Hong Kong, London and Frankfurt, which I call "the Supermarkets." The attitudes and actions of the Electronic Herd and the Supermarkets can have a huge impact on nation-states today, even to the point of triggering the downfall of governments. Who ousted Suharto in Indonesia in 1998? It wasn't another state, it was the Supermarkets, by withdrawing their support for, and confidence in, the Indonesian economy. You will not understand the front page of newspapers today unless you bring the Supermarkets into your analysis. Because the United States can destroy you by dropping bombs and the Supermarkets can destroy you by downgrading your bonds. In other

words, the United States is the dominant player in maintaining the globalization gameboard, but it is not alone in influencing the moves on that gameboard. This globalization gameboard today is a lot like a Ouija board—sometimes pieces are moved around by the obvious hand of the superpower, and sometimes they are moved around by hidden hands of the Supermarkets.

The third balance that you have to pay attention to in the globalization system—the one that is really the newest of all—is the balance between individuals and nation-states. Because globalization has brought down many of the walls that limited the movement and reach of people, and because it has simultaneously wired the world into networks, it gives more power to individuals to influence both markets and nation-states than at any time in history. Individuals can increasingly act on the world stage directly—unmediated by a state. So you have today not only a superpower, not only Supermarkets, but, as will be demonstrated later in the book, you now have Super-empowered individuals. Some of these Super-empowered individuals are quite angry, some of them quite wonderful—but all of them are now able to act directly on the world stage.

Without the knowledge of the U.S. government, Long-Term Capital Management—a few guys with a hedge fund in Greenwich, Connecticut—amassed more financial bets around the world than all the foreign reserves of China. Osama bin Laden, a Saudi millionaire with his own global network, declared war on the United States in the late 1990s, and the U.S. Air Force retaliated with a cruise missile attack on him (where he resided in Afghanistan) as though he were another nation-state. Think about that. The United States fired 75 cruise missiles, at \$1 million apiece, at a person! That was a superpower against a Super-empowered apiece, at a person! That was a superpower against a Super-empowered angry man. Jody Williams won the Nobel Peace Prize in 1997 for her contribution to the international ban on landmines. She achieved that ban not only without much government help, but in the face of opposition from all the major powers. And what did she say was her secret weapon for organizing 1,000 different human rights and arms control groups on six continents? "E-mail."

Nation-states, and the American superpower in particular, are still hugely important today, but so too now are Supermarkets and Super-empowered individuals. You will never understand the globalization system, or the front page of the morning paper, unless you see it as a com-

plex interaction between all three of these actors: states bumping up against states, states bumping up against Supermarkets, and Supermarkets and states bumping up against Super-empowered individuals.

Unfortunately, for reasons I will explain later, the system of globalization has come upon us far faster than our ability to restrain ourselves to see and comprehend it. Think about just this one fact: Most people had never even heard of the Internet in 1990, and very few people had an E-mail address then. That was just ten years ago! But today the Internet, cell phones and E-mail have become essential tools that many people, and not only in developed countries, cannot imagine living without. It was no different, I am sure, at the start of the Cold War, with the first appearance of nuclear arsenals and deterrence theories. It took a long time for leaders and analysts of that era to fully grasp the real nature and dimensions of the Cold War system. They emerged from World War II thinking that this great war had produced a certain kind of world, but they soon discovered it had laid the foundations for a world very different from the one they anticipated. Much of what came to be seen as great Cold War architecture and strategizing were responses on the fly to changing events and evolving threats. Bit by bit, these Cold War strategists built the institutions, the perceptions and the reflexes that came to be known as the Cold War system.

It will be no different with the globalization system, except that it may take us even longer to get our minds around it, because it requires so much restraining just to see this new system and because it is built not just around superpowers but also around Supermarkets and Super-empowered individuals. I would say that in 2000 we understand as much about how today's system of globalization is going to work as we understood about how the Cold War system was going to work in 1946—the year Winston Churchill gave his speech warning that an "Iron Curtain" was coming down, cutting off the Soviet zone of influence from Western Europe. We barely understood how the Cold War system was going to play out thirty years after Churchill's speech! That was when Routledge published a collection of essays by some of the top Sovietologists, entitled *Soviet Economy Towards the Year 2000*. It was a good seller when it came out. It never occurred at that time to any of the authors that there wouldn't be a Soviet economy in the year 2000.

If you want to appreciate how few people understand exactly how

this system works, think about one amusing fact. The two key economists who were advising Long-Term Capital Management, Robert C. Merton and Myron S. Scholes, shared the Nobel Prize for economics in 1997, roughly one year before LTCM so misunderstood the nature of risk in today's highly integrated global marketplace that it racked up the biggest losses in hedge fund history. And what did LTCM's two economists win their Nobel Prize for? For their studies on how complex financial instruments, known as derivatives, can be used by global investors to offset risk! In 1997 they won the Nobel Prize for managing risk. In 1998 they won the booby prize for creating risk. Same guys, same market—new world.

Information Arbitrage

At the wonderful science museum in Barcelona, I saw an exhibit that beautifully illustrated "chaos." A nonlinear version of a pendulum was set up so that the visitor could hold the bob and start out in a chosen position and with a chosen velocity. One could then watch the subsequent motion, which was also recorded with a pen on a sheet of paper. The visitor was then invited to seize the bob again and try to imitate exactly the previous initial position and velocity. No matter how carefully that was done, the subsequent motion was quite different from what it was the first time . . . I asked the museum director what the two men were doing who were standing in a corner watching us. He replied, "Oh, those are two Dutchmen waiting to take away the 'chaos.'" Apparently, the exhibit was about to be dismantled and taken to Amsterdam. But I have wondered ever since whether the services of those two Dutchmen would not be in great demand across the globe, by organizations that wanted their chaos taken away.

—Murray Gell-Mann, author of *The Quark and the Jaguar*

Like everyone else trying to adjust to this new globalization system and bring it into focus, I had to retrain myself and develop new lenses to see it. In order to explain how, let me start with a confession that I have wanted to unburden myself of for a long, long time. Are you ready? Here it is: I used to make up the weather reports from Beirut.

Well, actually, I didn't make them up. That would be wrong. I "estimated" them. It was 1979 and I was working as a cub reporter in Beirut for United Press International. I often had to work the late-night shift, and one of the responsibilities of the late person was to file the weather report from Beirut, which would be included in UPI's worldwide weather roundup that went out to newspapers each day, with the highs

When we attempt to tackle such difficult problems, we naturally tend to break them up into more manageable pieces. That is a useful practice, but it has serious limitations. When dealing with any non-linear system, especially a complex one, you can't just think in terms of parts or aspects and just add things up and say that the behavior of this and the behavior of that, added together, makes the whole thing. With a complex non-linear system you have to break it up into pieces and then study each aspect, and then study the very strong interaction between them all. Only this way can you describe the whole system."

That to me is the essence of what I consider the globalist school in international relations. But to have a globalist school, we need more students, professors, diplomats, journalists, spies and social scientists trained as globalists.

"We need a corpus of people who consider that it is important to take a serious and professional crude look at the whole system," says Gell-Mann. "It has to be a crude look, because you will never master every part or every interconnection. You would think most journalists would do this. But they don't. Unfortunately, in a great many places in our society, including academia and most bureaucracies, prestige accrues principally to those who study carefully some [narrow] aspect of a problem, a trade, a technology, or a culture, while discussion of the big picture is relegated to cocktail party conversation. That is crazy. We have to learn not only to have specialists but also people whose specialty is to spot the strong interactions and the entanglements of the different dimensions, and then take a crude look at the whole. What we once considered the cocktail party stuff—that's a crucial part of the real story."

So, on to my cocktail party.

The Lexus and the Olive Tree



Jerusalem, December 29, 1998: Shimon Bizon places his cellular phone up to the Western Wall so a relative in France can say a prayer at the holy site (*Photograph by Menahem Kahana, Agence France-Press*)

Once you recognize that globalization is the international system that has replaced the Cold War system, is this all you need to know to explain world affairs today? Not quite. Globalization is what is new. And if the world were made of just microchips and markets, you could probably rely on globalization to explain almost everything. But, alas, the world is made of microchips and markets and men and women, with all their peculiar habits, traditions, longings and unpredictable aspirations. So world affairs today can only be explained as the interaction between what is as new as an Internet Web site and what is as

old as a gnarled olive tree on the banks of the river Jordan. I first started thinking about this while riding on a train in Japan in May 1992, eating a sushi box dinner and traveling at 180 miles per hour.

I was in Tokyo on a reporting assignment and had arranged to visit the Lexus luxury car factory outside Toyota City, south of Tokyo. It was one of the most memorable tours I've ever taken. At that time, the factory was producing 300 Lexus sedans each day, made by 66 human beings and 310 robots. From what I could tell, the human beings were there mostly for quality control. Only a few of them were actually screwing in bolts or soldering parts together. The robots were doing all the work. There were even robotic trucks that hauled materials around the floor and could sense when a human was in their path and would "beep, beep, beep" at them to move. I was fascinated watching the robot that applied the rubber seal that held in place the front windshield of each Lexus. The robot arm would neatly paint the hot molten rubber in a perfect rectangle around the window. But what I liked most was that when it finished its application there was always a tiny drop of rubber left hanging from the tip of the robot's finger—like the drop of toothpaste that might be left at the top of the tube after you've squeezed it onto your toothbrush. At the Lexus factory, though, this robot arm would swing around in a wide loop until the tip met a tiny, almost invisible metal wire that would perfectly slice off that last small drop of hot black rubber—leaving nothing left over. I kept staring at this process, thinking to myself how much planning, design and technology it must have taken to get that robot arm to do its job and then swing around each time, at the precise angle, so that this little thumbnail-size wire could snip off the last drop of hot rubber for the robot to start clean on the next window. I was impressed.

After touring the factory, I went back to Toyota City and boarded the bullet train for the ride back to Tokyo. The bullet train is aptly named, for it has both the look and feel of a speeding bullet. As I nibbled away on one of those sushi dinner boxes you can buy in any Japanese train station, I was reading that day's *International Herald Tribune*, and a story caught my eye on the top right corner of page 3. It was about the daily State Department briefing. State Department spokeswoman Margaret D. Tutwiler had given a controversial interpretation of a 1948 United Nations resolution, relating to the right of return for Palestinian refugees

to Israel. I don't remember all the details, but whatever her interpretation was, it had clearly agitated both the Arabs and the Israelis and sparked a furor in the Middle East, which this story was reporting.

So there I was speeding along at 180 miles an hour on the most modern train in the world, reading this story about the oldest corner of the world. And the thought occurred to me that these Japanese, whose Lexus factory I had just visited and whose train I was riding, were building the greatest luxury car in the world with robots. And over here, on the top of page 3 of the *Herald Tribune*, the people with whom I had lived for so many years in Beirut and Jerusalem, whom I knew so well, were still fighting over who owned which olive tree. It struck me then that the Lexus and the olive tree were actually pretty good symbols of this post-Cold War era: half the world seemed to be emerging from the Cold War intent on building a better Lexus, dedicated to modernizing, streamlining and privatizing their economies in order to thrive in the system of globalization. And half of the world—sometimes half the same country, sometimes half the same person—was still caught up in the fight over who owns which olive tree.

Olive trees are important. They represent everything that roots us, anchors us, identifies us and locates us in this world—whether it be belonging to a family, a community, a tribe, a nation, a religion or, most of all, a place called home. Olive trees are what give us the warmth of family, the joy of individuality, the intimacy of personal rituals, the depth of private relationships, as well as the confidence and security to reach out and encounter others. We fight so intensely at times over our olive trees because, at their best, they provide the feelings of self-esteem and belonging that are as essential for human survival as food in the belly. Indeed, one reason that the nation-state will never disappear, even if it does weaken, is because it is the ultimate olive tree—the ultimate expression of whom we belong to—linguistically, geographically and historically. You cannot be a complete person alone. You can be a rich person alone. You can be a smart person alone. But you cannot be a complete person alone. For that you must be part of, and rooted in, an olive grove.

This truth was once beautifully conveyed by Rabbi Harold S. Kushner in his interpretation of a scene from Gabriel García Márquez's classic novel *One Hundred Years of Solitude*:

Marquez tells of a village where people were afflicted with a strange plague of forgetfulness, a kind of contagious amnesia. Starting with the oldest inhabitants and working its way through the population, the plague causes people to forget the names of even the most common everyday objects. One young man, still unaffected, tries to limit the damage by putting labels on everything. "This is a table," "This is a window," "This is a cow; it has to be milked every morning." And at the entrance to the town, on the main road, he puts up two large signs. One reads "The name of our village is Macondo," and the larger one reads "God exists." The message I get from that story is that we can, and probably will, forget most of what we have learned in life—the math, the history, the chemical formulas, the address and phone number of the first house we lived in when we got married—and all that forgetting will do us no harm. But if we forget whom we belong to, and if we forget that there is a God, something profoundly human in us will be lost.

But while olive trees are essential to our very being, an attachment to one's olive trees, when taken to excess, can lead us into forging identities, bonds and communities based on the exclusion of others. And when these obsessions really run amok, as with the Nazis in Germany, or the murderous Aum Shinrikyo cult in Japan or the Serbs in Yugoslavia, they lead to the extermination of others.

Conflicts between Serbs and Muslims, Jews and Palestinians, Armenians and Azeris over who owns which olive tree are so venomous precisely because they are about who will be at home and anchored in a local world and who will not be. Their underlying logic is: I must control this olive tree, because if the other controls it, not only will I be economically and politically under his thumb, but my whole sense of home will be lost. I'll never be able to take my shoes off and relax. Few things are more enraging to people than to have their identity or their sense of home stripped away. They will die for it, kill for it, sing for it, write poetry for it and novelize about it. Because without a sense of home and belonging, life becomes barren and rootless. And life as a tumbleweed is no life at all.

So then what does the Lexus represent? It represents an equally fundamental, age-old human drive—the drive for sustenance,

improvement, prosperity and modernization—as it is played out in today's globalization system. The Lexus represents all the burgeoning global markets, financial institutions and computer technologies with which we pursue higher living standards today.

Of course, for millions of people in developing countries, the quest for material improvement still involves walking to a well, subsisting on a dollar a day, plowing a field barefoot behind an ox or gathering wood and carrying it on their heads for five miles. These people still upload for a living, not download. But for millions of others in developed countries, this quest for material betterment and modernization is increasingly conducted in Nike shoes, shopping in integrated markets and using the new network technologies. The point is that while different people have different access to the new markets and technologies that characterize the globalization system, and derive highly unequal benefits from them, this doesn't change the fact that these markets and technologies are the defining economic tools of the day and everyone is either directly or indirectly affected by them.

The Lexus versus the olive tree, though, is just a modern version of a very old story—indeed one of the oldest stories in recorded history—the story of why Cain slew Abel. The Hebrew Bible says in Genesis: "Cain said to his brother Abel: And when they were in the field, Cain rose up against his brother Abel and killed him. Then the Lord said to Cain, 'Where is your brother Abel?' And he said, 'I do not know. Am I my brother's keeper?' And the Lord said, 'What have you done? The voice of your brother's blood is crying to me from the ground.'"

If you read this paragraph closely you notice that the Hebrew Bible never tells us what Cain actually said to Abel. The sentence reads that "Cain said to his brother Abel," and then it just stops. We are not privy to the conversation. What happened in the conversation between them that got Cain so angry that he would actually kill his brother Abel? My theology teacher, Rabbi Tzvi Marx, taught me that the rabbinic sages in Genesis Rabbah, one of the fundamental rabbinic commentaries on the Bible, give three basic explanations of what was said. One is that the two brothers were arguing about a woman—Eve. After all, there was only one woman on earth at the time, their mother, and they were arguing over which brother would get to marry her. They were arguing over sexual fulfillment and procreation. Another interpretation posits that Cain and

Abel had basically divided up the world between them. Cain had all the real estate—or as the Bible says, "Cain became a tiller of the soil"—and Abel had all the movables and livestock—"Abel became a keeper of sheep." And according to this interpretation, Cain told Abel to get his sheep off Cain's property and this triggered a fight over territory that eventually ended with Cain slaying Abel in the heat of the argument. They were fighting over economic development and material fulfillment. The third interpretation is that the two brothers had already neatly divided everything in the world between them, except one critical thing that was still up for grabs: Where would the Temple be built that would reflect their particular religious and cultural identity? Each wanted to control that Temple and have it reflect his identity. Each wanted that Temple in his olive grove. They were fighting over the issue of identity, and which of them would be the keeper of their family's source of legitimacy. So, the rabbis noted, all the basic elements of human motivation are potentially there in one story: the need for sexual intimacy, the need for sustenance and the need for a sense of identity and community. I will leave matters of sex for somebody else. This book is about the other two.

That's why I like to say that information arbitrage provides the lenses we need to look into today's world, but lenses alone are not enough. We also need to know what we are looking at and for. And what we are looking at and for is how the age-old quests for material betterment and for individual and communal identity—which go all the way back to Genesis—play themselves out in today's dominant international system of globalization. This is the drama of the Lexus and the olive tree.

In the Cold War system, the most likely threat to your olive tree was from another olive tree. It was from your neighbor coming over, violently digging up your olive tree and planting his in its place. That threat has not been eliminated today, but, for the moment, it has been diminished in many parts of the world. The biggest threat today to your olive tree is likely to come from the Lexus—from all the anonymous, transnational, homogenizing, standardizing market forces and technologies that make up today's globalizing economic system. There are some things about this system that can make the Lexus so overpowering it can overrun and overwhelm every olive tree in sight—breaking down communi-

ties, steamrolling environments and crowding out traditions—and this can produce a real olive tree backlash. But there are other things about this system that empower even the smallest, weakest political community to actually use the new technologies and markets to preserve their olive trees, their culture and identity. Traveling the world in recent years, again and again I have come on this simultaneous wrestling match, tug-of-war, balancing act between the Lexus and the olive tree.

The Lexus and olive tree wrestling with each other in the new system of globalization was reflected in Norway's 1994 referendum about whether or not to join the European Union. That should have been a slam dunk for Norwegians. After all, Norway is in Europe. It is a rich, developed country and it has a significant amount of intra-European trade. Joining the EU made all the economic sense in the world for Norway in a world of increasing globalization. But the referendum failed, because too many Norwegians felt joining the EU would mean uprooting too much of their own Norwegian identity and way of life, which, thanks to Norwegian North Sea oil (sold into a global economy), the Norwegians could still afford to preserve—without EU membership. Many Norwegians looked at the EU and said to themselves, "Now let me get this straight. I am supposed to take my Norwegian identity and deposit it into a Euro-Cuisinart, where it will be turned into Euro-mush by Eurobureaucrats paid in Eurodollars at the Euro-Parliament in the Eurocapital covered by Eurojournalists? Hey, no, thanks. I'd rather be Sten from Norway. I'd rather cling to my own unique olive tree identity and be a little less efficient economically."

The olive tree backlashing against the Lexus is the August 1999 story from France, by *The Washington Post's* Anne Swardson, about Philippe Folliot, the mayor of the southwestern French village of St. Pierre-de-Trivisy—population 610. Folliot and the St. Pierre-de-Trivisy town council slapped a 100-percent tax on bottles of Coca-Cola sold at the town's camp ground, in retaliation for a tariff that the United States had slapped on Roquefort cheese, which is produced only in the southwestern French region around St. Pierre-de-Trivisy. As he applied some Roquefort to a piece of crusty bread, Folliot told Swardson, "Roquefort is made from the milk of only one breed of sheep, it is made in only one place in France, and it is made in only one special way. It is the opposite of globalization. Coca-Cola you can buy anywhere in the world and it is

exactly the same. [Coke] is a symbol of the American multinational that wants to uniformize taste all over the planet. That's what we are against."

The Lexus and the olive tree in a healthy balance was the story related to me by Glenn Prickett, a senior vice president at the environmental group Conservation International, about when he visited the Kayapo Indian village of Aukre, which is located in a remote corner of the Brazilian Amazon rain forest reached only by small-engine plane. "Touching down on the grass landing strip we were met by the entire village in traditional dress—and undress—and painted faces, with a smattering of American baseball caps bearing random logos," recalled Prickett. "I was there with Conservation International to inspect the progress of a biological research station we were running upriver with the Kayapo. The Kayapo have defended a large chunk of intact Amazon for centuries through sheer force. Now they are learning to protect it through alliances with international scientists, conservationists and socially conscious businesspeople. Their village has a little main street with a Conservation International store and a branch of the Body Shop, the ecoconscious soap makers. So after a two-day stay at the biological research station, we came back to the village to do a final bit of business. We had arranged for an open-air market of Kayapo culture, artifacts, baskets, war clubs, spears and bows and arrows to be set up. Then our group proceeded to buy all of it for very steep prices in U.S. dollars. We then went and sat in the men's hut in the center of this Kayapo village, which could have come out of prehistory. While sitting in this hut with the leading men of the village, I noticed that they were all watching a single TV, connected to a large satellite dish. The men were flipping the channels back and forth between a Brazilian soccer match and a business channel that carried the running price of gold on world markets. The Kayapo men wanted to be sure that they were charging the small miners, whom they let dig on the edges of their rain-forest property, the going international rate for whatever gold they found. They then used these profits earned on the world gold market to protect their own unique lifestyle in the middle of the Amazon rain forest."

The Lexus struggling with the olive tree was a scene I witnessed at NATO headquarters in Brussels. I was sitting on a couch in the lobby, waiting for an appointment. Nearby was a lady Russian journalist, speaking Russian into her cell phone. But what struck me most was the

fact that she was walking in circles next to the Coke machine, underneath a television tuned to CNN that was broadcasting the surprise entry of Russian troops into Pristina, Kosovo—ahead of NATO forces. A Russian journalist, circling the Coke machine, under the CNN screen, speaking Russian into a cell phone, in NATO headquarters, while Kosovo burned—my mind couldn't contain all the contradictions.

The Lexus being exploited by the olive tree was the report in *The Economist* of August 14, 1999, entitled "Cyberthugs." It stated that "The National Criminal Intelligence Service blamed the increasingly sophisticated nature of football hooligans for the organized violence last weekend between fans of Millwall and Cardiff City. Rival bands of thugs are apparently prepared to cooperate by fixing venues for fights via the Internet. Information is exchanged in closed or open Websites. Some even report the violence as it happens: 'It's kicking off right now as I speak,' wrote Paul Dodd, a particularly dopey hooligan known to cyber nerds and police alike. The police now say they surf for such Websites, hoping to discover other planned attacks."

West Side Story meets the World Wide Web.

The olive tree exploiting the Lexus is the story that came to light in the summer of 1999 about Adolf Hitler's racist manifesto *Mein Kampf*, which is banned in Germany by the German government. You cannot sell it in any German bookstore, or publish it in Germany. But Germans found that they could order the book over the Internet from Amazon.com and it would come in the mail in a way that the German government was powerless to stop. Indeed, so many Germans ordered *Mein Kampf* from Amazon.com that in the summer of 1999 Hitler made Amazon.com's top-ten bestseller list for Germany. Amazon.com at first refused to stop shipping *Mein Kampf* to Germany, insisting that the English translation was not covered by censorship, and that it was not going to get in the business of deciding what its customers were allowed to read. However, after this was publicized, Amazon.com was so bombarded with angry E-mails from all over the world that it stopped selling Hitler's works.

The olive tree trumping the Lexus, and then the Lexus then coming right back to trump the olive tree, was the nuclear-testing saga that unfolded in India in the late 1990s. In the spring of 1998 India's newly elected nationalist Bharatiya Janata Party (BJP) decided to defy the world and resume testing its nuclear weapons. Asserting India's right to

test had been a key plank in the BJP's election campaign. I visited India shortly after the tests, where I talked to rich and poor, government and nongovernment types, villagers and city slickers. I kept waiting to meet the Indian who would say to me, "You know, these nuclear tests were really stupid. We didn't get any additional security out of them and they've really cost us with sanctions." I am sure that sentiment was there—but I couldn't find anyone to express it. Even those Indian politicians who denounced their nuclear tests as a cheap, jingoistic maneuver by India's new Hindu nationalist government would tell you that these tests were the only way for India to get what it wants most from the United States and China: R-E-S-P-E-C-T. I finally realized the depth of this sentiment when I went to see a saffron-robed Indian human rights campaigner, Swami Agnivesh. As the two of us sat cross-legged on the floor of his living room in his simple Delhi home, I thought, "Surely he will disavow this test." But no sooner did we start talking than he declared to me: "We are India, the second-largest country in the world! You can't just take us for granted. India doesn't feel threatened by Pakistan, but in the whole international game India is being marginalized by the China-U.S. axis." The next day I went out to Dasna, a village north of New Delhi, where I randomly stopped shopkeepers to talk. Dasna is one of the poorest places I have ever seen. Nobody seemed to have shoes. Everyone seemed to be skin and bones. There were more water buffalo and bicycles than cars on the road. The air was heavy with the smell of cow dung used for energy. But they loved their government's nuclear sound-and-light show. "We are nine hundred million people. We will not die from these sanctions," pronounced Pramod Batra, the forty-two-year-old village doctor in Dasna. "This nuclear test was about self-respect and self-respect is more important than roads, electricity and water. Anyway, what did we do? We exploded our bomb. It was like shooting a gun off into the air. We didn't hurt anybody."

But while India's olive tree impulse seemed to have prevailed over its needs for a Lexus, when this happens in today's globalization system there is always a hidden long-term price. While in New Delhi, I stayed at the Oberoi Hotel, where I swam laps in the pool at the end of each day to recover from the sweltering 100-degree heat. My first day there, while I was doing my breaststrokes, there was an Indian woman also swimming laps in the lane next to me. During a rest stop we started talking and she

told me she ran the India office of Salomon Brothers—Smith Barney, the major American investment bank. I told her I was a columnist who had come over to write about the fallout from the Indian nuclear tests.

"Have you heard who's in town?" she asked me as we each trod water. "No," I said, shaking my head. "Who's in town?"

"Moody's," she said. Moody's Investors Service is the international credit-rating agency which rates economies, with grades of A, B and C, so that global investors know who is pursuing sound economics and who is not, and if your economy gets a lower rating it means you will have to pay higher interest rates for international loans. "Moody's has sent a team over to re-rate the Indian economy," she said.

"Have you heard anything about what they decided?"

No, I hadn't, I replied.

"You might want to check," she said, and swam away.

I did check. It turned out that the Moody's team had moved around New Delhi almost as quietly and secretly as India's nuclear scientists had prepared their bomb. I couldn't find out anything about their decisions, but the night I left India, I was listening to the evening news when the fourth item caught my ear. It said that in reaction to the Indian government's new bloated, directionless budget, and in the wake of the Indian nuclear tests and the U.S. sanctions imposed on India for blowing off some nukes, Moody's had downgraded India's economy from "investment grade," which meant it was safe for global investors, to "speculative grade," which meant it was risky. The Standard & Poor's rating agency also changed its outlook on the Indian economy from "stable" to "negative." This meant that any Indian company trying to borrow money from international markets would have to pay higher interest. And because India has a low savings rate, those foreign funds are crucial for a country that needs \$500 billion in new infrastructure over the next decade in order to be competitive.

So yes, the olive tree had had its day in India. But when it pushes out like that in the system of globalization, there is always a price to pay. You can't escape the system. Sooner or later the Lexus always catches up with you. A year and a half after India's nuclear test, I picked up *The Wall Street Journal* (Oct. 7, 1999) to read the following headline: "India's BJP Is Shifting Priority to the Economy." The story noted that the BJP came to power some two years earlier "calling for India to assert its nuclear

capability—a pledge it fulfilled two months later with a series of weapons tests that sparked global sanctions and stalled investment." Upon its reelection, though, Prime Minister Ayal Bibari Vajpayee wasn't even waiting for the votes to be counted before signaling his new priority: economic reform. "The priority is to build a national consensus on the acceptance of global capital, market norms and whatever goes with it. You have to go out and compete for investments," Vajpayee told the *Indian Express* newspaper.

An example of the Lexus and olive tree forces in balance was the Gulf Air flight I took from Bahrain to London, on which the television monitor on my Business Class seat included a channel which, using a global positioning satellite (GPS) linked into the airplane's antenna, showed passengers exactly where the plane was in relation to the Muslim holy city of Mecca at all times. The screen displayed a diagram of the aircraft with a white dot that moved around the diagram as the plane changed directions. This enabled Muslim passengers, who are enjoined to pray five times a day facing toward Mecca, to always know which way to face inside the plane when they unrolled their prayer rugs. During the flight, I saw several passengers near me wedge into the galley to perform their prayer rituals, and thanks to the GPS system, they knew just which way to aim.

The Lexus ignoring the olive tree in the era of globalization was a computer part that a friend of mine sent me. On the back was written: "This part was made in Malaysia, Singapore, the Philippines, China, Mexico, Germany, the U.S., Thailand, Canada and Japan. It was made in so many different places that we cannot specify a country of origin."

The Lexus trumping the olive tree in the era of globalization was the small item that appeared in the August 11, 1997, edition of *Sports Illustrated*. It said: "The 38-year-old Welsh soccer club Llansantffraid has changed its name to 'Total Network Solutions' in exchange for \$400,000 from a cellular phone company."

The Lexus and olive tree working together in the era of globalization was on display in a rather unusual *Washington Times* story of September 21, 1997, which reported that Russian counterintelligence officers were complaining about having to pay twice as much to recruit a CIA spy as a double agent than the other way around. An official of Russia's Federal

Security Service (the successor to the KGB), speaking on condition of anonymity, told the *Iar-Tass* news agency that a Russian spy could be bought for a mere \$1 million, while CIA operatives held out for \$2 million to work for the other side.

At roughly the same time that this report appeared, Israel's *Yediot Aharonot* newspaper published what seemed to me to be the first-ever totally free-market intelligence scoop. *Yediot* editors went to Moscow and bought some Russian spy satellite photographs of new Scud missile bases in Syria. Then *Yediot* hired a private U.S. expert on satellite photos to analyze the pictures. Then *Yediot* published the whole package as a scoop about Syria's new missile threat, without ever having once quoted a government official. Who needs Deep Throat when you have deep pockets?

Finally, my favorite "Lexus trumps olive tree in the era of globalization" story is about Abu Jihad's son. I was attending the Middle East Economic Summit in Amman, Jordan, in 1995, and was having lunch by myself on the balcony of the Amman Marriott. Out of the blue, a young Arab man approached my table and asked, "Are you Tom Friedman?" I said yes.

"Mr. Friedman," the young man continued politely, "you knew my father."

"Who was your father?" I asked.

"My father was Abu Jihad."

Abu Jihad, whose real name was Khalil al-Wazir, was one of the Palestinians who, with Yasser Arafat, founded el-Fatah and later took over the Palestine Liberation Organization. Abu Jihad, meaning "father of struggle," was his nom de guerre, and he was the overall commander of Palestinian military operations in Lebanon and the West Bank in the days when I was the *New York Times* correspondent in Beirut. I got to know him in Beirut. Palestinians considered him a military hero; Israelis considered him one of the most dangerous Palestinian terrorists. An Israeli hit team assassinated Abu Jihad in his living room in Tunis on April 16, 1988, pumping a hundred bullets into his body.

"Yes, I knew your father very well—I once visited your home in Damascus," I told the young man. "What do you do?"

He handed me his business card. It read: "Jihad al-Wazir, Managing Director, World Trade Center, Gaza, Palestine."

I read that card and thought to myself, "That's amazing. From Jesse James to Michael Milken in one generation."

The challenge in this era of globalization—for countries and individuals—is to find a healthy balance between preserving a sense of identity, home and community and doing what it takes to survive within the globalization system. Any society that wants to thrive economically today must constantly be trying to build a better Lexus and driving it out into the world. But no one should have any illusions that merely participating in this global economy will make a society healthy. If that participation comes at the price of a country's identity, if individuals feel their olive tree roots crushed, or washed out, by this global system, those olive tree roots will rebel. They will rise up and strangle the process. Therefore the survival of globalization as a system will depend, in part, on how well all of us strike this balance. A country without healthy olive trees will never feel rooted or secure enough to open up fully to the world and reach out into it. But a country that is only olive trees, that is only roots, has no Lexus, will never go, or grow, very far. Keeping the two in balance is a constant struggle.

Maybe that's why of the many stories you will read in this book my favorite comes from my old college friend Victor Friedman, who teaches business management at the Ruppin Institute in Israel. I telephoned him one day to say hello and he told me he was glad that I called because he no longer had my phone numbers. When I asked why, he explained that he no longer had his handheld computer, in which he kept everything—his friends' addresses, E-mail addresses, phone numbers and his schedule for the next two years. He then told me what happened to it.

"We had a [desktop] computer at home that broke down. I took it to be repaired at a computer shop in Hadera [a town in central Israel]. A couple weeks later the shop called and said my PC was repaired. So I tossed my palm computer into my leather briefcase and drove over to Hadera to pick up my repaired PC. I left the shop carrying the big PC computer and my briefcase, which had my palm computer inside. When I got to the car, I put my briefcase down on the sidewalk, opened the trunk of my car and very carefully placed my repaired PC in the trunk to make sure that it was secure. Then I got in the car and drove off, leaving

my briefcase on the sidewalk. Well, as soon as I got to my office and looked for my briefcase I realized what had happened—and what was going to happen next—and I immediately called the Hadera police to tell them 'Don't blow up my briefcase.' [It is standard Israeli police practice to blow apart any package, briefcase or suspicious object left on a sidewalk, because this is how many Palestinian bombs against Israeli civilians have been set off. Israelis are so well trained to protect against this that if you leave a package for a minute, the police will already have been called.] I knew no one would steal the briefcase. In Israel, a thief wouldn't touch such an object left on the sidewalk. But I was too late. The police dispatcher told me that the bomb squad was already on the scene and had 'dealt with it.' When I got to the police station they handed me back my beautiful leather briefcase with a nice neat bullet hole right through the middle. The only thing it hurt was my handheld computer. My Genius OP9300 took a direct hit. My whole life was in that thing and I had never made a backup. I told the police I felt terrible for causing such a problem, and they said, 'Don't feel bad, it happens to everyone.' For weeks I walked around campus with my briefcase with the bullet hole in it to remind myself to stop and think more often. Most of my management students are in the Israeli Army and as soon as they saw the briefcase and that bullet hole they would immediately crack up laughing, because they knew just what had happened."

After Victor finished telling me this story, he said, "By the way, send me your E-mail address. I need to start a new address book."

worth more as a company—has the market recognized the efficiency gains we have made from our ability to execute an Internet strategy?"

In other words, has the market recognized that your company has developed a strategy for surviving the fall of the Berlin Wall?

In its own crude way, trying to survive the fall of the wall was what the Chinese government was trying to do by encouraging village elections, even if half of them were bogus. They were trying to push the buck, and decision-making, down to the local level, because Beijing concluded that the only way it could deal with the economic problems of the countryside was by allowing villagers to hold their own elections for chief and make more of their own decisions. China's authoritarian leaders hoped that these elections would produce better local leaders who would understand the needs and circumstances in the countryside better, be able to hustle more and, ideally, build up the local economies on their own. It was their way of deconcentrating power and decision-making—not in the political sphere, but in the economic sphere.

Holding such local elections will not be sufficient to keep the Chinese economy growing at the rate it needs to grow. It will require a lot more deconcentration of power. But I am sure that it was a necessary beginning, and the Chinese villagers I met were just as sure.

By the way, I never did tell you who won the election for chief in the village of Gujialingzi. We sat around there for hours while they tallied the votes on the blackboard of a schoolroom. I will never forget the scene of all those Chinese villagers, crammed into the doorway and pressed up against the windows, watching as each vote was recorded with a white chalk mark. Despite his appeal to the women's vote, Liu Fu, the challenger, was beaten by the incumbent. Several of us chatted with Liu afterward. He said he was sorry to lose, but he'd seen worse. A lot worse. During the Cultural Revolution he'd been banished and now, twenty years later, he was running for village chief (in an election monitored by a team from the United States).

Asked if he had ever lost hope during the Cultural Revolution, he answered with a Chinese proverb: "No hand can block out the sun."

The Golden Straitjacket

"We're still very much in a straitjacket for the next year or two. The new government will have to be quite careful."

—Umar Juoro, economic adviser to former Indonesian Prime Minister B. J. Habibie, describing to The New York Times how little room to maneuver the Indonesian government has on the economic front, because if it does anything rash it will get hammered by the IMF and the global markets. October 23, 1999.

While I was on that trip monitoring elections in Chinese villages and my interpreter and I were wandering through the village of Heng Dao, we dropped in on a farmer-turned-mechanic who had geese and pigs in the front yard, but a stereo and color television inside his brick hut. My interpreter, a Chinese student who was studying in America, noticed something I never would have—that there didn't seem to be any loudspeaker around. During Mao's day the Communist Party installed loudspeakers in the "brigades," as small villages were known, and used them to blare out propaganda and other messages exhorting the workers. We asked our host what happened to it.

"We took it down last year," the villager said of the loudspeaker. "No one wanted to listen to it anymore. We have stereo and TV now." What the villager didn't say was that he didn't need to hear the message from Beijing and the Communist Party anymore, because he knew what it was and it wasn't the teachings of Chairman Mao. The only message coming from them was much simpler: "You're on your own. Get a job. Send money."

A few months earlier I had been in Thailand, watching Thailand's crony capitalist economy going into a tailspin. I had arranged to interview Sirivat Voraveyvitthikan, a Thai real estate developer who had gone bankrupt in the Thai economic crash. He and his wife had become the

poster children for the Thai crash, because they had decided to go into the sandwich-selling business to make ends meet. This once-wealthy couple rented out some vacant space in downtown Bangkok, set up a sandwich-making operation with many of their former employees and started delivering fresh ham-and-cheese around the streets of Bangkok. Sirivat arrived at our interview carrying a yellow picnic box strapped around his neck like a sandwich vendor at an American baseball game. What I remembered most about our conversation, though, was the absence of bitterness in his voice, and the much more pungent air of resignation. His message was that Thailand had messed up. People knew it. They would now have to tighten their belts and get with the program and there wasn't much else to say. Wasn't he mad? I asked. Didn't he want to burn down some government building in anger at being wiped out?

No, Sirivat explained to me: "Communism fails, socialism fails, so now there is only capitalism. We don't want to go back to the jungle, we all want a better standard of living, so you have to make capitalism work, because you don't have a choice. We have to improve ourselves and follow the world rules . . . Only the competitive survive. It will probably require a national unity government, because the burden is so big."

A few months after this I attended a lecture in Washington by Anatoly Chubais, the architect of Russia's failed economic reforms and privatization. Chubais had come to Washington to make a last-ditch appeal to the IMF for more aid to Russia, but at the time the still-communist-dominated Russian Duma, or parliament, was resisting the IMF's conditions. The Duma was also regularly denouncing Chubais as a traitor and foreign agent for submitting to IMF demands that Russia radically reform its economy along real free-market lines. I asked Chubais how he answered his critics, and he told me: "'O.K.,' I tell them, 'Chubais is a spy for the CIA and IMF. But what is your substitute? Do you have [any alternative] workable ideas?'" Chubais said he never gets any coherent answer, because the communists have no alternative.

I was in Brazil a few months later, where I interviewed Fabio Feldmann, the former environmental secretary of São Paulo and a federal deputy in the Brazilian parliament, who was campaigning for reelection in São Paulo. His office was a beehive of campaign workers, awash in posters and other campaign paraphernalia. Feldmann is a liberal, and I

asked him about the nature of the political debate in Brazil today. He responded: "The [ideological] left in Brazil have lost their flag. The challenge of the federal government is jobs and employment. You have to generate *and* distribute income. And what is the program of the left? They don't have proposals to generate income, only to distribute it."

What are these stories telling us? Once the three democratizations came together in the late 1980s and blew away all the walls, they also blew away all the major ideological alternatives to free-market capitalism. People can talk about alternatives to the free market and global integration, they can demand alternatives, they can insist on a "Third Way," but for now none is apparent. This is very different from the first era of globalization. During the nineteenth and early twentieth centuries, when the Industrial Revolution and global finance capitalism roared through Europe and America, many people were shocked by their Darwinian brutality and "dark Satanic mills." They destroyed old orders and hierarchies, produced huge income gaps and put everyone under pressure, but they also produced sharply rising standards of living for those who could make a go of it. This experience triggered a great deal of debate and revolutionary theorizing, as people tried to find ways to cushion workers from the cruelest aspects of free-market capitalism in that day. As Karl Marx and Friedrich Engels described this era in *The Communist Manifesto*: "Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses, his real conditions of life, and his relations with his kind."

Eventually, people came along who declared that they could take these destabilizing, brutalizing swings out of the free market, and create a world that would never be dependent on unfettered bourgeois capitalists. They would have the government centrally plan and fund everything, and distribute to each worker according to his needs and expect from each worker a contribution according to his abilities. The names of these revolutionary thinkers were Engels, Marx, Lenin and Mussolini,

among others. The centrally planned, nondemocratic alternatives they offered—communism, socialism and fascism—helped to abort the first era of globalization as they were tested out on the world stage from 1917 to 1989.

There is only one thing to say about those alternatives: *They didn't work*. And the people who rendered that judgment were the people who lived under them. So with the collapse of communism in Europe, in the Soviet Union and in China—and all the walls that protected these systems—those people who are unhappy with the Darwinian brutality of free-market capitalism don't have any ready ideological alternative now. When it comes to the question of which system today is the most effective at generating rising standards of living, the historical debate is over. The answer is free-market capitalism. Other systems may be able to distribute and divide income more efficiently and equitably, but none can generate income to distribute as efficiently as free-market capitalism. And more and more people now know that. So, ideologically speaking, there is no more mint chocolate chip, there is no more strawberry swirl and there is no more lemon-lime. Today there is only free-market vanilla and North Korea. There can be different brands of free-market vanilla and you can adjust your society to it by going faster or slower. But, in the end, if you want higher standards of living in a world without walls, the free market is the only ideological alternative left. One road. Different speeds. But one road.

When your country recognizes this fact, when it recognizes the rules of the free market in today's global economy, and decides to abide by them, it puts on what I call the Golden Straitjacket. The Golden Straitjacket is the defining political-economic garment of this globalization era. The Cold War had the Mao suit, the Nehru jacket, the Russian fur. Globalization has only the Golden Straitjacket. If your country has not been fitted for one, it will be soon.

The Golden Straitjacket first began to be stitched together and popularized in 1979 by British Prime Minister Margaret Thatcher—who, as the original seamstress of the Golden Straitjacket, will go down in history as one of the great revolutionaries of the second half of the twentieth century. That Thatcherite coat was soon reinforced by Ronald Reagan

in the United States in the 1980s, giving the straitjacket, and its rules, some real critical mass. It became a global fashion with the end of the Cold War, once the three democratizations blew away all the alternative fashions and all the walls that protected them. The Thatcherite-Reaganite revolutions came about because popular majorities in these two major Western economies concluded that the old government-directed economic approaches simply were not providing sufficient levels of growth. Thatcher and Reagan combined to strip huge chunks of economic decision-making power from the state, from the advocates of the Great Society and from traditional Keynesian economics, and hand them over to the free market.

To fit into the Golden Straitjacket a country must either adopt, or be seen as moving toward, the following golden rules: making the private sector the primary engine of its economic growth, maintaining a low rate of inflation and price stability, shrinking the size of its state bureaucracy, maintaining as close to a balanced budget as possible, if not a surplus, eliminating and lowering tariffs on imported goods, removing restrictions on foreign investment, getting rid of quotas and domestic monopolies, increasing exports, privatizing state-owned industries and utilities, deregulating capital markets, making its currency convertible, opening its industries, stock and bond markets to direct foreign ownership and investment, deregulating its economy to promote as much domestic competition as possible, eliminating government corruption, subsidies and kickbacks as much as possible, opening its banking and telecommunications systems to private ownership and competition and allowing its citizens to choose from an array of competing pension options and foreign-run pension and mutual funds. When you stitch all of these pieces together you have the Golden Straitjacket.

Unfortunately, this Golden Straitjacket is pretty much "one size fits all." So it pinches certain groups, squeezes others and keeps a society under pressure to constantly streamline its economic institutions and upgrade its performance. It leaves people behind quicker than ever if they shuck it off, and it helps them catch up quicker than ever if they wear it right. It is not always pretty or gentle or comfortable. But it's here and it's the only model on the rack this historical season.

As your country puts on the Golden Straitjacket, two things tend to happen: your economy grows and your politics shrinks. That is, on the

economic front the Golden Straitjacket usually fosters more growth and higher average incomes—through more trade, foreign investment, privatization and more efficient use of resources under the pressure of global competition. But on the political front, the Golden Straitjacket narrows the political and economic policy choices of those in power to relatively tight parameters. That is why it is increasingly difficult these days to find any real differences between ruling and opposition parties in those countries that have put on the Golden Straitjacket. Once your country puts it on, its political choices get reduced to Pepsi or Coke—to slight nuances of taste, slight nuances of policy, slight alterations in design to account for local traditions, some loosening here or there, but never any major deviation from the core golden rules. Governments—be they led by Democrats or Republicans; Conservatives or Labourites; Gaullists or Socialists; Christian Democrats or Social Democrats—that deviate too far from the core rules will see their investors stampede away, interest rates rise and stock market valuations fall. The only way to get more room to maneuver in the Golden Straitjacket is by enlarging it, and the only way to enlarge it is by keeping it on tight. That's its one virtue: the tighter you wear it, the more gold it produces and the more padding you can then put into it for your society.

No wonder so much of the political debate in developed countries today has been reduced to arguments over minor tailoring changes in the Golden Straitjacket, not radical alterations. When it came to economics, how much of a difference was there really between Bill Clinton and Bob Dole in the 1996 American presidential election? On broad economic issues, very little. Clinton essentially said, "We're in this Golden Straitjacket, but I have a way we can put a little more padding in the elbows and enlarge the middle a bit." And Dole said in effect, "No, no, you can't loosen the middle at all. Keep it on tight and we'll put a little less padding in the elbows." But they were really discussing the buttonholes on a jacket neither of them intended to alter very much—and they were hardly alone. In the 1997 British election campaign Tony Blair vowed in essence that if he won, "We'll keep the Golden Straitjacket on as tight as the Tories, but we'll add some padding to the shoulders and the chest," while his opponent, Conservative John Major, seemed to retort, "Don't you dare touch a thread on that jacket. Margaret Thatcher designed it to be snug and by God that's the way it should stay." No wonder Paddy

Ashdown, the leader of Britain's Liberal Party, looked at Tony Blair and John Major during the 1997 British election, listened to their respective platforms and then declared that there was not a whit of difference between them. Ashdown sneered that Blair and Major were engaged in "synchronized swimming."

With the fall of the Cold War walls, and the rise of the Golden Straitjacket, I see a lot of synchronized swimming when I travel the world these days. Before the 1998 German elections, in which Social Democrat Gerhard Schröder defeated Christian Democrat Helmut Kohl, the Associated Press quoted Karl-Josef Meiers of the German Society for Foreign Affairs as saying of the two German candidates: "You can forget the labels right and left. They're all sitting in the same boat." Korea's Lee Hong Koo learned firsthand about life in the Golden Straitjacket when he served as his country's Prime Minister in the mid-1990s. "In the old days we used to say, 'History dictated this or that,'" Lee remarked to me one day. "Now we say that 'market forces' dictate this and you have to live within [those forces]. It took us time to understand what had happened. We didn't realize that the victory of the Cold War was a victory for market forces above politics. The big decisions today are whether you have a democracy or not and whether you have an open economy or not. Those are the big choices. But once you've made those big choices, politics becomes just political engineering to implement decisions in the narrow space allowed you within this system." Lee was raised in Korea's long-dominant Grand National Party. But after Korea's economic meltdown in 1997-98, when the country found it had to put on the Golden Straitjacket much more snugly if it was to continue to thrive and attract foreign investment, the Korean public spurned the veteran, old-style Korean politicians and elected longtime liberal human rights advocate Kim Dae Jung as President, from the opposition National Congress for New Politics. But Kim asked Lee to go to Washington to be his ambassador anyway. As Lee told me: "It would have been unthinkable in the past that someone like myself, who was a presidential candidate from my party and former Prime Minister and party chairman, would go to Washington as an ambassador from another party, like President Kim's. But now, with what Korea has to do to get out of this economic crisis, the differences between me and Mr. Kim are insignificant. We don't have a lot of choices." How do you say "same boat" or "synchronized swimming" in Korean?

Mamohan Singh was India's Finance Minister when his country decided in 1991 to abandon decades of statist, quasi-socialist economics and don the Golden Strajacket. Sitting in his office in the Indian Parliament in the summer of 1998, he spoke to me of the loss of control he felt once India embarked on this route.

"We learned that there were advantages to having access to international capital markets, [but] the government's ability to deliver and control shrank the more it opened to the world. If you are operating in a globalized economy, perceptions of other participants matter much more—whether they are right or wrong. Then you have to take those perceptions and make them an important input into your decision-making . . . We have a world where our fates are linked, but [India's specific] concerns and aspirations don't get taken into account. It brings a lot more anxiety. If you are operating an exchange-rate policy, or monetary policy, your policies become an adjunct of what Alan Greenspan does. It reduces your degree of freedom, even in fiscal policies. In a world in which capital is internationally mobile, you cannot adopt rates of taxation that are far from the rates that prevail in other countries and when labor is mobile you also can't be out of line with others' wages. It has reduced the amount of maneuverability . . . I have a friend from a neighboring country who also became a finance minister. The day he got his job I called to congratulate him. He said, 'Don't congratulate me. I am only half a minister. The other half is in Washington.'"

Not every country puts on the Golden Strajacket all the way—some just go partway or a little at a time (India, Egypt). Some put it on and take it off (Malaysia, Russia). Some try to tailor it to their specific culture and wear a few of the buttons unfastened (Germany, Japan and France). Some think they can resist its pinch altogether because they have a natural resource such as oil (Iran, Saudi Arabia). And some are so poor and isolated, with a government able to force people to accept being poor, that they can get away with dressing their people not in a Golden Strajacket, but in a plain old strajacket (North Korea, Cuba, Sudan, Afghanistan). But over time, this Golden Strajacket is becoming harder and harder for countries to avoid.

Often, when I make this point to non-Americans, I get some version of the following reaction: "Don't tell us we have to put on a strajacket

and plug into the global markets. We have our own culture, our own values, and we will do it our own way at our own pace. Your thesis is way too deterministic. Why can't we all just get together and agree on a different, less restrictive model?"

To which I answer the following: "I am not saying that you have to put on the strajacket. And if your culture and social traditions are opposed to the values embodied in that jacket, I certainly sympathize with that. But I am saying this: Today's global market system, the Fast World and the Golden Strajacket were produced by large historical forces that have fundamentally reshaped how we communicate, how we invest and how we see the world. If you want to resist these changes, that is your business. And it should be your business. But if you think that you can resist these changes without paying an increasingly steep price, without building an increasingly high wall and without falling behind increasingly fast, then you are deluding yourself."

Here's why: The democratizations of finance, technology and information didn't just blow away all the walls protecting alternative systems—from Mao's little red book to *The Communist Manifesto* to the welfare states of Western Europe to the crony capitalism of Southeast Asia. These three democratizations also gave birth to a new power source in the world—what I call the Electronic Herd.

The Electronic Herd is made up of all the faceless stock, bond and currency traders sitting behind computer screens all over the globe, moving their money around from mutual funds to pension funds to emerging market funds, or trading on the Internet from their basements. And it also consists of the big multinational corporations who now spread their factories around the world, constantly shifting them to the most efficient, low-cost producers. This herd has grown exponentially thanks to the democratizations of finance, technology and information—so much so that today it is beginning to replace governments as the primary source of capital for both companies and countries to grow. Indeed, as countries increasingly have to run balanced budgets to fit into the Golden Strajacket, their economies become ever more dependant on the Electronic Herd for growth capital. So to thrive in today's globalization system a country not only has to put on the Golden Strajacket, it has to join this Electronic Herd. The Electronic Herd loves the Golden Strajacket,

but what countries are they from mostly?

because it embodies all the liberal, free-market rules the herd wants to see in a country. Those countries that put on the Golden Straitjacket and keep it on are rewarded by the herd with investment capital. Those that don't put it on are disciplined by the herd—either by the herd avoiding or withdrawing its money from that country.

Moody's Investors Service, Duff & Phelps Credit Rating Co. and Standard & Poor's are the bloodhounds for the Electronic Herd. These credit-rating agencies prowls the world, constantly sniffing over countries. They are supposed to bark loudly when they see a country slipping out of the Golden Straitjacket (although sometimes Moody's and S&P also lose the scent or get caught up in euphorias, as in Southeast Asia, and don't bark until it's too late).

This interaction among the Electronic Herd, nation-states and the Golden Straitjacket is at the center of today's globalization system. I first realized this in February 1995, on the eve of President Clinton's first visit to Canada. I was covering the White House at the time, and in preparation for the President's trip I was keeping an eye out for articles in the *Financial Times* and other papers to see what the Canadians might be talking about in advance of their first visit from the "Man from Hope." I was intrigued to find that they weren't talking about the U.S. President at all. Instead, they were talking about the visit that had just been made to Canada by the "Man from Moody's." Canada's Parliament at the time was debating the country's budget. A team from Moody's had just come to Ottawa and read the riot act to the Canadian Finance Ministry and legislators. The Moody's team told them that if they did not get their deficit-to-GDP ratio more in line with international norms and expectations, Moody's would downgrade their triple-A credit rating, and therefore Canada and every Canadian company would have to pay higher interest rates to borrow abroad. To underscore that point Canada's Finance Ministry issued a statement declaring: "The sheer magnitude of Canada's foreign debt in relation to the size of the economy means that Canada has become excessively vulnerable to the volatile sentiments of global financial markets. We have suffered a tangible loss of economic sovereignty." For those Canadians who might not have gotten the point, Finance Minister Paul Martin put it more bluntly: "We are in hock up to our eyeballs." No, the Canadians were not the least bit interested in the Man from

Hope. It was the Man from Moody's, and the Electronic Herd, who had their undivided attention.

Where did this herd come from and how did it become a force so formidable that it could intimidate and enrich nation-states every bit as much as a superpower could?