

# The Lexus and the Olive Tree

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## From Chapter 1: *Tourist with an Attitude*

When I speak of the "the Cold War system" and "the globalization system," what 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 peoples 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 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, which replaced the Cold War, is a similar international system, with its own unique attributes.

To begin with, the globalization system, unlike the Cold War system, is not static, but a dynamic ongoing process: globalization involves 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 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. Globalization also has its own set of economic rules - rules that revolve around opening, deregulating and privatizing your economy.

Unlike the Cold War system, globalization has its own dominant culture, which is why it tends to be homogenizing. In previous eras this sort of cultural homogenization happened on a regional scale - the Hellenization of the Near East and the Mediterranean world under the Greeks, the Turkification of Central Asia, North Africa, Europe and the Middle East by the Ottomans, or the Russification of Eastern and Central Europe and parts of Eurasia under the Soviets. Culturally speaking, globalization is largely, though not entirely, the spread of Americanization - from Big Macs to imacs to Mickey Mouse - on a global scale.

Globalization has its own defining technologies: computerization, miniaturization, digitization, satellite communications, fiber optics and the Internet. And these technologies helped to create the defining perspective of globalization. If the defining perspective of the Cold War world was "division," the defining perspective of globalization is "integration." The symbol of the Cold War system was a wall, which divided everyone. The symbol of the globalization system is a World Wide Web, which unites everyone. The defining document of the Cold War system was "The Treaty." The defining document of the globalization system is "The Deal."

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 happen to go to Israel and meet with Jacob Frenkel, then 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 one talked about macroeconomics, we started by looking at the local markets, local financial system 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 is about Moore's Law, which states that the computing power of silicon chips will double every eighteen to twenty-four months. In the Cold War, the most frequently asked question was: "How big is your missile?" In globalization, the most frequently asked question is: "How fast is your modem?"

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 former Intel CEO 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 flippers. 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.

In the Cold War we reached for the hot line between the White House and the Kremlin - a symbol that we were all divided but at least someone, the two superpowers, were in charge. In the era of globalization we reach for the Internet - a symbol that we are all connected but nobody is totally in charge. 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, and it was balanced at the center by two superpowers: 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 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. You will not understand the front page of newspapers today, whether it is the story of the toppling of Suharto in Indonesia, the internal collapse in Russia or the monetary policy of the United States unless you bring the Supermarkets into your analysis.

The United States can destroy you by dropping bombs and the Supermarkets can destroy you by downgrading your bonds. 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. So you have today not only a superpower, not only Supermarkets, but, as I will also demonstrate later in the book, you 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 traditional mediation of governments, corporations or any other public or private institutions.

Without the knowledge of the U.S. government, Long-Term Capital Management - a few guys 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 had to launch a cruise missile attack on him as though he were another nation-state. We fired cruise missiles at an individual! Jodie 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 the Big Five 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 complex 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.