

The New System

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.

"Ahhhh," 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

portions 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.

"Ahhhh," 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 harbinger. 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 superstory.

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 detente, 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 Guantánamo 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 iMacs 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 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. 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 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 retrain 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 retraining 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.