OHMAE

Here, too, I hope to practice what I've preached.

For my friends and family, there is, of course, a special debt of gratitude. Without their affection and support, I would never have been able to sustain my enthusiasm for this new challenge. I'm sure they understand that what I am now trying to do is make it possible for them and, one day, their children to enjoy a high quality of life in the kind of country they deserve.

Introduction

WHERE THE BORDERS FALL IN A BORDERLESS WORLD

With the ending of the frigid Fifty Years' War between Soviet-style communism and the West's liberal democracy, some observers—Francis Fukuyama, in particular—announced that we had reached the "end of history." Nothing could be further from the truth. In fact, now that the bitter ideological confrontation sparked by this century's collision of "isms" has ended, larger numbers of people from more points on the globe than ever before have aggressively come forward to participate *in* history. They have left behind centuries, even millennia, of obscurity in forest and desert and rural isolation to request from the world community—and from the global economy that links it together—a decent life for themselves and a better life for their children. A generation ago, even a decade ago, most of them were as voiceless and invisible as they had always been. This is true no longer: they have entered history with a vengeance, and they have demands—economic demands—to make.

But to whom or to what should they make them? Their first impulse, of course, will likely be to turn to the heads of the governments of nation states. These, after all, are the leaders whose plans and schemes have long shaped the flow of public events. But, in today's more competitive world, nation states no longer possess the seemingly bottomless well of resources from which they used to draw with impunity to fund their ambitions. These days, even they have to look for assistance to the global economy and make the changes at home needed to invite it in. So these new claimants will turn to international bodies like the United Nations. But what is the UN if not a collection of nation states? So they will turn to multilateral agencies like the World Bank, but these too are the creatures of a nation state-defined and -funded universe. So they will turn to explicitly economic groupings like OPEC or G-7 or ASEAN or APEC or NAFTA or the EU (European Union). But once again, all they will find behind each new acronym is a grouping of nation states.

Then, if they are clever, they may interrupt their quest to ask a few simple questions. Are these nation states—notwithstanding the obvious and important role they play in world affairs—really the primary actors in today's global economy? Do they provide the best window on that economy? Do they provide the best port of access to it? In a world where economic borders are progressively disappearing, are their arbitrary, historically accidental boundaries genuinely meaningful in economic terms? And if not, what kinds of boundaries do make sense? In other words, exactly what, at bottom, are the natural business units—the sufficient, correctly-sized and scaled aggregations of people and activities—through which to tap into that economy?

One way to answer these questions is to observe the flows of what I call the 4 "I's" that define it. First, the capital markets in most developed countries are flush with excess cash for investment. Japan, for example, has the equivalent of US $10 trillion stored away. Even where a country itself hovers close to bankruptcy, there is often a huge accumulation of money in pension funds and life insurance programs. The problem is that suitable—and suitably large—investment opportunities are not often available in the same geographies where this money sits. As a result, the capital markets have developed a wide variety of mechanisms to transfer it across national borders.[1] Today, nearly 10 percent of U.S. pension funds is invested in Asia. Ten years ago, that degree of participation in Asian markets would have been unthinkable.

Thus, investment—the first "I"—is no longer geographically constrained. Now, wherever you sit in the world, if the opportunity is attractive, the money will come in. And it will be, for the most part, "private" money. Again, ten years ago, the flow of cross-border funds was primarily from government to government or from multilateral lending agency to government. There was a capital city and an army of public bureaucrats on at least one end of the transaction. That is no longer the case. Because most of the money now moving across borders is private, governments do not have to be involved at either end. All that matters is the quality of the investment opportunity. The money will go where the good opportunities are.[2]

The second "I"—industry—is also far more global in orientation today than it was a decade ago. In the past, with the interests of their home governments clearly in mind, companies would strike deals with host governments to bring in resources and skills in exchange for privileged access to local markets. This, too, has changed. The strategies of modern multinational corporations are no longer shaped and conditioned by reasons of state but, rather, by the desire—and the need—to serve attractive markets wherever they exist and to tap attractive pools of resources wherever they sit. Government-funded subsidies—old-fashioned tax breaks for investing in this or that location—are becoming irrelevant as a decision criterion. The Western firms now moving, say, into parts of China and India are there because that is where their future lies, not because the host government has suddenly dangled a carrot in front of their nose.

As corporations move, of course, they bring with them working capital. Perhaps more important, they transfer technology and managerial know-how. These are not concessions to host governments; they are the essential raw materials these companies need to do their work. But they also bring something else. Pension fund money in the United States, for example, might look for decent China-related opportunities by scouting out the possibilities on the Shanghai stock exchange. The prospects thus identified, however, will be largely unfamiliar. Money managers will do their best to provide adequate research, but everyone will admit that relevant knowledge is limited. But if it is a GE or an IBM or a Unilever or a P&G that is building a presence in China, the markets back home and elsewhere in the developed world will know how to evaluate that. They will be more comfortable with it. And that, in turn, expands the range of capital markets on which these companies can draw for resources to be used in China.

The movement of both investment and industry has been greatly facilitated by the third "I"—information technology—which now makes it possible for a company to operate in various parts of the world without having to build up an entire business system in each of the countries where it has a presence. Engineers at workstations in Osaka can easily control plant operations in newly exciting parts of China like Dalian. Product designers in Oregon can control the activities of a network of factories throughout Asia-Pacific. Thus, the hurdles for cross-border participation and strategic alliance[3] have come way down. Armies of experts do not have to be transferred; armies of workers do not have to be trained. Capability can reside in the network and be made available—virtually anywhere—as needed.

Finally, individual consumers—the fourth "I"—have also become more global in orientation. With better access to information about lifestyles around the globe, they are much less likely to want to buy—and much less conditioned by government injunctions to buy—American or French or Japanese products merely because of their national associations. Consumers increasingly want the best and cheapest products, no matter where they come from. And they have shown their willingness to vote these preferences with their pocketbooks.

Taken together, the mobility of these four I's makes it possible for viable economic units in any part of the world to pull in whatever is needed for development. They need not look for assistance only to pools of resources close to home. Nor need they rely on the formal efforts of governments to attract resources from elsewhere and funnel them to the ultimate users. This makes the traditional "middleman" function of nation states—and of their governments—largely unnecessary. Because the global markets for all the I's work just fine on their own, nation states no longer have to play a market-making role. In fact, given their own troubles, which are considerable, they most often just get in the way. If allowed, global solutions will flow to where they are needed without the intervention of nation states. On current evidence, moreover, they flow better precisely because such intervention is absent.

This fundamentally changes the economic equation. If the unfettered movement of these I's makes the middleman role of nation states obsolete, the qualifications needed to sit at the global table and pull in global solutions begin to correspond not to the artificial political borders of countries, but to the more focused geographical units—Hong Kong, for example, and the adjacent stretch of southern China, or the Kansai region around Osaka, or Catalonia—where real work gets done and real markets flourish. I call these units "region states." They may lie entirely within or across the borders of a nation state. This does not matter. It is the irrelevant result of historical accident. What defines them is not the location of their political borders but the fact that they are the right size and scale to be the true, natural business units in today's global economy.[4] Theirs are the borders—and the connections—that matter in a borderless world.[5]

In the chapters that follow, I will show why traditional nation states have become unnatural, even impossible, business units in a global economy. I will also show why region states are, in fact, so effective as ports of entry to it. And I will explore how these developments change, deeply and forever, the logic that defines how corporations operate and how the governments of nation states understand their proper role in economic affairs.

Chapter One

THE CARTOGRAPHIC ILLUSION

A funny—and, to many observers, a very troubling—thing has happened on the way to former U.S. President Bush's so-called "new world order": the old world has fallen apart. Most visibly, with the ending of the Cold War, the long-familiar pattern of alliances and oppositions among industrialized nations has fractured beyond repair. Less visibly, but arguably far more important, the modern nation state itself—that artifact of the 18th and 19th centuries—has begun to crumble.

For many observers, this erosion of the long-familiar building blocks of the political world has been a source of discomfort at least and, far more likely, of genuine distress. They used to be confident that they could tell with certainty where the boundary lines ran. These are our people; those are not. These are our interests; those are not. These are our industries; those are not. It did not matter that little economic activity remained truly domestic in any sense that an Adam Smith or a David Ricardo would understand. Nor did it matter that the people served or the interests protected represented a small and diminishing fraction of the complex social universe within each set of established political borders.

The point, after all, was that everyone knew—or could talk and act as if he or she knew—where the boundary lines ran. Everyone's deal-as Robert Reich has put it, of who was "us" and who was "them." The inconvenient fact that most of the guns pointed in anger during the past two decades were pointed by national governments at some segment of the people those governments would define as "us"—well, that really did not matter, either. Boundaries are boundaries.

Politics, runs the time-worn adage, is the art of the possible. Translated, that means it is also the art of ignoring or overlooking discordant facts: guns pointed the wrong way, democratic institutions clogged to the point of paralysis by minority interests defended in the name of the majority—and, perhaps most important, domestic economies in an increasingly borderless world of economic activity. So what if average GNP per capita in China is $317 but, in Shenzhen, whose economy is closely linked with that of Hong Kong, it is $5,695? Boundaries are boundaries, and political dividing lines mean far more than demonstrable communities of economic interest.

No, they don't. Public debate may still be hostage to the outdated vocabulary of political borders, but the daily realities facing most people in the developed and developing worlds—both as citizens and as consumers—speak a vastly different idiom. Theirs is the language of an increasingly borderless economy, a true global marketplace. But the references we have—the maps and guides—to this new terrain are still largely drawn in political terms. Moreover, as the primary features on this landscape—the traditional nation states—begin to come apart at the seams, the overwhelming temptation is to redraw obsolete, U.N.-style maps to reflect the shifting borders of those states. The temptation is understandable, but the result is pure illusion. No more than the work of early cartographers do these new efforts show the boundaries and linkages that matter in the world now emerging. They are the product of illusion, and they are faithful to their roots.

This, too, is understandable. Much of the current awareness of the decay of the modern nation state has been driven by the wrenching experiences of the former Soviet Union and Czechoslovakia, which have formally ceased to exist as single national entities. Perhaps even more frightening, of course, is the noxious brew of ancient hatred, more recent antagonism, and unbridled ambition in what used to be Yugoslavia. These are extremes, to be sure, but they are deeply representant share of public attention.

In a newly unified Germany, for example, unprecedented amounts of power have been ceded to the individual *Länder*.[1] In Canada, before the recent elections in Quebec and even before the failure of the Meech Lake accords, the French-speaking province had been moving to cut its constitutional ties with the other, English-speaking provinces.[2] In Spain, an explicit program of devolution is transferring much of the apparatus of independent statehood to the country's 17 "autonomous communities," especially those like Catalonia with a deeply entrenched historical identity of their own. In Italy, long-preoccupied with the problems of the Mezzagiorno in the south, recent elections have shown the Lombard League in the north to be a real and growing factor on the political scene.[3] Even in *dirigiste* France,[4] the prefects of Mitterrand's government can no longer unilaterally veto local decisions in the country's 22 provinces.

Developments as striking as these clearly merit the attention they have received in the media and in the regular comments of opinion makers and public officials. Nearly a half century of Cold War cannot end without dramatic—and eminently noteworthy—changes on both sides. Relaxation of the long-entrenched bipolar discipline imposed by the United States and the former USSR cannot help but allow even older fault lines to spread. Equally striking, however, is the way in which such attention has been framed and articulated. To the extent these developments have been treated as evidence of a systemic challenge to traditional nation states (and not just as a challenge to this or that current policy or set of leaders), they have been interpreted for the most part in political terms. Whatever their root, the centrifugal forces now at work have been seen to be meaningful, first and foremost, as statements about the inadequacies of established modes and processes of political order—that is, as evidence of troubling realignments within previously established borders.

Thus, as today's public debate would have it, the fission represented by local autonomy and by ethnic or racial or even tribal irredentism, no less than the proposed fusion represented by Maastricht, shows clearly that the postwar writ of central governments no longer holds with anything like the power it enjoyed even a generation ago.

ter is a legitimate cause for concern. When no one seems to know where we are—or should be—going, initiative stagnates, special interests reduce each other to paralysis, and the consensus necessary for effective policy moves still further out of reach. In tones of despair, the more literary pundits like to cite Yeats: "Things fall apart; The center cannot hold." But the truer message comes from Matthew Arnold: we are "wandering between two worlds,/ One dead, the other unable to be born."

These lamentations at least have the virtue of taking the erosion of nation states seriously. But they view it almost entirely as the result of long-repressed political aspirations bursting into the open once the various imposed restraints of the Cold War era have been relaxed. No matter how deeply rooted, however, these aspirations are not the only—or arguably, even the primary—forces now at work. Something else is going on. The battle and the battlefield have shifted.

A QUESTION OF CULTURE?

In a recent, highly influential article, "The Clash of Civilizations?"[5] Samuel Huntington offers an interpretation of what that "something else" is. According to Huntington, the fault lines in our new, post-Cold War world do not flow from politics or ideology, but from culture. From now on, when large masses of people join in common purpose, the primary link between them will increasingly be their shared heritage of language, history, tradition, and religion—that is, civilization. And when they stonily face each other across a divide, the unbridgeable gap between them will be the lack of just such a shared civilization. Groupings based on culture will become—in fact, have already become—the most powerful actors in world affairs.

For all the truth of these observations, Huntington's argument ignores the fact that, even within the same civilization, people have often fought against each other. From the outside, the differences between Catholics and Protestants in Northern Ireland do not seem like a good reason for intense hatred. But for political leaders and mass agitators, they are good enough. Again, from outside, it is awfully difficult to tell the Hutu from the Tutsi in Rwanda. But they have mutually world. People usually fight when their political and/or military leaders inflate minute differences so as to stir up latent hatred—not when "civilizations" clash. If leaders are enlightened, they can make their people believe in the power of working together. This is the case today with the multiple races and cultures linked peacefully by Lee Kwan Yew in Singapore and Dr. Mahathir in Malaysia (and was true in the Yugoslavia of Josip Broz Tito and the India of Mahatma Gandhi and Jawaharlal Nehru after World War II). It is not civilizations that promote clashes. They occur when old-fashioned leaders look for old-fashioned ways to solve problems by rousing their people to armed confrontation.

Such skirmishes confuse the ground of geopolitical interpretation. But they confuse the ground of economic interpretation as well. The glue holding together older constellations of nation-based political interests has visibly begun to wear thin. In economics as in politics, the older patterns of nation-to-nation linkage have begun to lose their dominance. What is emerging in their place, however, is not a set of new channels based on culture instead of nations. Nor is it a simple realignment of previous flows of nation-based trade or investment.

In my view, what is really at stake is not really which party or policy agenda dominates the apparatus of a nation state's central government. Nor is it the number of new, independent units into which that old center, which has held through the upheavals of industrialization and the agonies of two world wars, is likely to decompose. Nor is it the cultural fault lines along which it is likely to fragment.

Instead, what we are witnessing is the cumulative effect of fundamental changes in the currents of economic activity around the globe. So powerful have these currents become that they have carved out entirely new channels for themselves—channels that owe nothing to the lines of demarcation on traditional political maps. Put simply, in terms of real flows of economic activity, nation states have *already* lost their role as meaningful units of participation in the global economy of today's borderless world.

In the first place, these long-established, politically defined units have much less to contribute—and much less freedom to make contributions. The painful irony is that, driven by a concern to boost overnomic sovereignty over the peoples and regions lying within their borders are now having precisely the opposite effect. Reflexive twinges of sovereignty make the desired economic success impossible, because the global economy punishes twinging countries by diverting investment and information elsewhere.

The uncomfortable truth is that, in terms of the global economy, nation states have become little more than bit actors. They may originally have been, in their mercantilist phase, independent, powerfully efficient engines of wealth creation. More recently, however, as the downward-ratcheting logic of electoral politics has placed a death grip on their economies, they have become—first and foremost—remarkably inefficient engines of wealth distribution. Elected political leaders gain and keep power by giving voters what they want, and what they want rarely entails a substantial decrease in the benefits, services, or subsidies handed out by the state.

Moreover, as the workings of genuinely global capital markets dwarf their ability to control exchange rates or protect their currency, nation states have become inescapably vulnerable to the discipline imposed by economic choices made elsewhere by people and institutions over which they have no practical control. Witness, for example, the recent, Maastricht-related bout of speculation against the franc, the pound, and the kronor. Witness, also, the unsustainable but self-imposed burden of Europe's various social programs. Finally, witness the complete absence of any economic value creation, save for those around the world who stand to benefit from pork-barrel excesses, in such decisions as the Japanese Diet's commitment—copied from the New Deal policies of Franklin Roosevelt—to build unnecessary highways and bridges on the remote islands of Hokkaido and Okinawa.

Second, and more to the point, the nation state is increasingly a nostalgic fiction. It makes even less sense today, for example, than it did a few years ago to speak of Italy or Russia or China[6] as a single economic unit. Each is a motley combination of territories with vastly different needs and vastly different abilities to contribute. For a private sector manager or a public sector official to treat them as if they represented a single economic entity is to operate on the basis of demonstrably false, implausible, and nonexistent averages. This may still be a political necessity, but it is a bald-faced economic lie.

duced and traded around the world, as well as at the companies responsible for them, it is no easy matter to attach to them an accurate national label. Is an automobile sold under an American marque really a U.S. product when a large percentage of its components comes from abroad?[7] Is the performance of IBM's foreign subsidiaries or the performance of its R&D operations in Europe and Japan really a measure of U.S. excellence in technology?[8] For that matter, are the jobs created by Japanese plants and factories in the Mississippi Valley really a measure of the health of the Japanese, and not the U.S., economy?[9] The barbershop on the corner may indisputably be a part of the domestic American economy. But it is just not possible to make the same claim, with the same degree of confidence, about the firms active on the global stage.[10]

Finally, when economic activity aggressively wears a national label these days, that tag is usually present neither for the sake of accuracy nor out of concern for the economic well-being of individual consumers. It is there primarily as a mini-flag of cheap nationalism—that is, as a jingoistic celebration of nationhood that places far more value on emotion-grabbing symbols than on real, concrete improvements in quality of life.[11] By contrast, we don't hear much about feverish waves of Hong Kong nationalism, but the people in Hong Kong seem to live rather well.[12] With much fanfare, Ukraine and the Baltic states have now become independent, but do their people have more food to eat or more energy to keep them warm during the winter or more electricity for light to see by?

An arresting, if often overlooked, fact about today's borderless economy is that people often have better access to low-cost, high-quality products when they are not produced "at home." Singaporeans, for example, enjoy better and cheaper agricultural products than do the Japanese, although Singapore has no farmers—and no farms—of its own.[13] Much the same is true of construction materials, which are much less expensive in Singapore, which produces none of them, than in Japan, which does.

Now, given this decline in the relevance of nation states as units of economic activity, as well as the recent burst of economic growth in Asia, the burgeoning political self-consciousness of Islam, and the fragmentation, real or threatened, of such "official" political entities as Italy, Spain, Somalia, Rwanda, Canada, South Africa, and the former Yugoslavia, Czechoslovakia, and Soviet Union—given all this, it is easy to see why observers like Huntington should look to cultural, religious, ethnic, even tribal affiliations as the only plausible stopping point of the centrifugal forces unleashed by the end of the Cold War.

Once bipolar discipline begins to lose its force, once traditional nation states no longer "hold," or so the argument goes, visionless leaders will start to give in to the fear that older fault lines will again make themselves felt. And given the bloody violence with which many of these lines have already begun to reappear, these leaders will find it hard to see where this process of backsliding can come to rest short of traditional groupings based on some sort of cultural affinity. In other words, in the absence of vision and the presence of slowly rising panic, the only groupings that seem to matter are based on civilizations, not nations.

But are cultures or civilizations meaningful aggregates in terms of which to understand economic activity? Think, for a moment, of the ASEAN countries. In what sense is it useful to talk about them as a single, culturally defined economic area? As they affect local patterns of work, trade, and industry, the internal differences among their Buddhist, Islamic, Catholic (in the Philippines and the Sabah state of Malaysia), and Confucian traditions are every bit as large as, if not larger than, the differences separating any one of these traditions from the dominant business cultures of New York or London or Paris.

But in ASEAN, at least, differences of this sort do not provoke the same kinds of conflicts that often arise elsewhere. Most Western observers know, for example, that Spanish and Portuguese speakers can converse with each other, if with some minor degree of difficulty. Many fewer, however, know that the same is true of Indonesians and Malaysians. Or that, in border regions between Thailand and Malaysia, such as Phuket, there are peaceful, economically linked villages, some of which have mainly Buddhist and some mainly Islamic populations. These on-the-ground realities have made it possible for ASEAN leaders to accept and to reinforce, with little fear of internal friction, the development of cross-border economic ties like those stretching across the

Strait of Malacca which are represented by the Greater Growth Triangle of Phuket, Medan, and Penang.

Even more important than such cultural differences within a civilization, and what Huntington's line of thought leaves out, is the issue of historical context. The particular dissolution of bipolar, "great power" discipline that so greatly affects us today is not taking place in the 1790s or the 1890s, but the 1990s. And that means it is taking place in a world whose peoples, no matter how far-flung geographically or disparate culturally, are all linked to much the same sources of global information. The immediacy and completeness of their access may vary, of course, and governments may try to impose restrictions and control. Even if they do, however, the barriers will not last forever, and leakages will occur all along the way. Indeed, the basic fact of linkage to global flows of information is a—perhaps, *the*—central, distinguishing fact of our moment in history. Whatever the civilization to which a particular group of people belongs, they now get to hear about the way other groups of people live, the kinds of products they buy, the changing focus of their tastes and preferences as consumers, and the styles of life they aspire to lead.

But they also get something more. For more than a decade, some of us have been talking about the progressive globalization of markets for consumer goods like Levi's jeans, Nike athletic shoes, and Hermés scarves—a process, driven by global exposure to the same information, the same cultural icons, and the same advertisements, that I have elsewhere referred to as the "California-ization" of taste.[14] Today, however, the process of convergence goes faster and deeper. It reaches well beyond taste to much more fundamental dimensions of worldview, mind-set, and even thought process. There are now, for example, tens of millions of teenagers around the world who, having been raised in a multimedia-rich environment, have a lot more in common with each other than they do with members of older generations in their own cultures. For these budding consumers, technology-driven convergence does not take place at the sluggish rate dictated by yesterday's media. It is instantaneous—a nanosecond migration of ideas and innovations.

The speed and immediacy of such migrations take us over an invisible political threshold. In the post-Cold War world, the information flows underlying economic activity in virtually all corners of the globe simply cannot be maintained as the possession of private elites or public officials. They are shared, increasingly, by all citizens and consumers. This sharing does not, of course, imply any necessary similarity in how local economic choices finally get made. But it does imply that there is a powerful centripetal force at work, counteracting and counterbalancing all the centrifugal forces noted above.

The emotional nexus of culture, in other words, is not the only web of shared interest able to contain the processes of disintegration unleashed by the reappearance of older fault lines. Information-driven participation in the global economy can do so, too, ahead of the fervid but empty posturing of both cheap nationalism and cultural messianism. The well-informed citizens of a global marketplace will not wait passively until nation states or cultural prophets deliver tangible improvements in lifestyle. They no longer trust them to do so. Instead, they want to build their own future, now, for themselves and by themselves. They want their own means of direct access to what has become a genuinely global economy.

INCONVENIENT AVERAGES

What this combination of forces at last makes clear is that the nation state has become an unnatural—even a dysfunctional—organizational unit for thinking about economic activity. It combines things at the wrong level of aggregation.

What sense does it make, for example, to think of Italy as a coherent economic entity within the EU? There is no "average" Italy.[15] There is no large social or economic group precisely at the midpoint represented by such averages, no constituency specially advantaged by—and, therefore, eager to support—split-the-difference political compromises. There is, instead, an industrial north and a rural south, which are vastly different in their ability to contribute and their need to receive. In economic terms, there is simply no justification for treating Italy as a single-interest entity. Doing so forces you—as private sector manager or public sector official—to operate on the basis of false, implausible, and inconvenient averages. They are a fiction, and a destructive fiction at that.

But the root problem goes deeper. In a borderless economy, any statistical regime that takes the nation state as its primary unit of analysis is—and must be—badly out of date. For well over a decade now, I have been arguing just this point in the context of the perennial squabbles between Japan and the United States on questions of trade and trade balances.[16] On both sides, however, most officials and even most commentators remain perversely afflicted with trade blindness[17]—an inability to see, let alone understand, in the broad daylight of media attention, the core facts about cross-border economic activity.

Position papers and headlines notwithstanding, the trade problem between Japan and the United States is neither the American trade deficit nor the Japanese surplus. The reason is quite simple: the flows of activity measured by official trade statistics[18] represent a tiny and steadily diminishing share of the economic linkages between the two countries. These data, remember, do not count the revenues from services, licenses, or intellectual property, or from goods manufactured by U.S. firms in third countries but sold in Japan, or from goods both manufactured and sold in Japan by U.S. firms. All they count is that relatively small universe of things physically produced in the United States, crated, loaded onto ships or planes, passed through customs, and then uncrated and sold in Japan.[19]

When a U.S. software house sells its leading-edge program in Tokyo, the trade data capture little, if any, of the value added. When a U.S. chip manufacturer sells its products in Osaka, the sales may count toward the 20 percent of the market earmarked for U.S. firms, but—if the chips were, as is likely, actually produced in Malaysia—they will not show up in U.S. export statistics. When a U.S. sportswear company retails in Hokkaido garments sewn in Indonesia or Taiwan, the sales do not matter to those who count bilateral trade flows. When enough Japanese consumers see a U.S. movie to generate, say, US $200 million in box office revenues and, perhaps, US $40 million in royalties, these figures show up in Japan's current account, but not in its trade statistics. But if the moviemaker "sold" each copy of the film to be shown in Japan for US $1 million, those monies would count as trade revenue.[20]

As everyone should know by now, the official statistics that attract so much political attention are unreliable. I'm being polite: they are an out-and-out falsehood. They are not an accurate reflection of real flows of economic activity. They are not an accurate reflection of anything. Indeed, in the mid-1980s, if you included in these official numbers all the sales in Japan of "American" (as consumers perceive them) goods and services, you would find that the Japanese bought—per capita—four times as much "American" stuff as Americans bought "Japanese" stuff.[21] Since then, the ratio has only gotten larger.

Trade, however, is only the most visible of the areas in which official, nation state-based statistics prove their worthlessness. The list is long and varied. Some countries, for example, classify life insurance as savings; in others, it is an expense. Some treat government-funded pensions as part of individual income; others, as a public liability. Some view mortgage investment in a home as consumption; others, as a form of savings. Some categorize devices like microwave ovens as white goods; others, as consumer electronics or even furniture. At even the simplest level, therefore, meaningful comparisons are hard to come by. Apples and oranges are not the problem. It's fruit salad.

These differences matter. In the mid-1980s—in 1986, to take a particular example[22]—the official Japanese domestic savings rate was 16.6 percent; the U.S. rate was 4.3 percent. The result: loud and acrimonious debate between the two countries, with the United States calling on Japan to boost domestic consumption and Japan insisting that the United States get its own fiscal house in order by reducing wasteful, deficit-financed consumption. These charges and countercharges continue to fly. Neither then nor now, however, do they bear much relation to the underlying facts: the savings rate in both countries is pretty much the same.

Japanese data on savings, like those for most other countries, are based on a System of National Accounts (SNA) advocated by the United Nations. By contrast, the U.S. data are based on National Income and Product Accounts (NIPA), which are administered by the Department of Commerce. Converting from NIPA to SNA would boost the 1986 U.S. savings rate from 4.3 percent to 6.8 percent. This is a substantial jump, to be sure, but still far less than Japan's 16.6 percent. If you also removed the other structural inconsistencies between SNA and NIPA—the differing treatments of government social insurance, for example, which SNA views as personal savings a NIPA as government savings—the 6.8 percent figure would rise f ther to 10.9 percent. And much of the remaining 5.7 percentage pc gap (16.6 percent v. 10.9 percent) would disappear if you correc for essentially social differences between the two countries.

In the United States, for example, if you buy a house for $200,C and invest the same amount again in renovation, the governm counts the first number as savings and the second as consumpti When you sell the house, of course, you hope to get at least $400,C for it, which effectively equates overall resale value with savings. Japan, however, where renovations are usually not appreciated by la buyers and only land is treated as having real value, the equivalent $200,000 spent on fixing things up truly is consumption.

There are still other adjustments to be made. Americans tend to b on credit; the Japanese, given low resale values, "save to buy." Add savings to consumer credit in both countries gives roughly the sa number: 29 percent of disposable income. The only difference is timing of payment: the Japanese buy later, thus showing more money the bank at present; Americans buy now and pay later, thus borrow from the future. Moreover, for major purchases like homes, Japan banks require a much larger down payment than their U.S. count parts. If, in addition to the other adjustments noted above, Japa banks were to reduce their requirements to the low end of the U spectrum—say, 10 percent or so of the down payment—virtually all the statistical "savings gap" between the two countries would disapp The numbers everyone knows and everyone uses are simply untrue.

So, it is not culture that produces the huge statistical differences b tween the Americans and the Japanese. It is the differences in th systems—taxation, say, or banking on the statistical treatment things like pensions—that collectively make the two peoples beh very differently. Certainly, the Japanese are not by nature more ha working or more inclined to save than the Americans. The cruc point, of course, is that if these systems were changed, both would b have pretty much the same.

The evidence, then, is as exhaustive as it is uncomfortable: in a bo sense of economic activity are woefully misleading. We must, managers and policymakers alike, face up at last to the awkward and uncomfortable truth: the old cartography no longer works. It has become no more than an illusion.

Chapter Two

THE LADDER OF DEVELOPMENT

Even at the most literal level, as the previous chapter shows, there not much evidence to support the notion that economic activity today's borderless world follows either the political boundary lines traditional nation states or the cultural boundary lines of what Hun ington calls "civilizations." But there is plenty of evidence that it do follow information-driven efforts to participate in the global econom Such efforts, moreover, tend not to happen at random—that is, the is a fairly predictable trajectory along which priorities shift as econon ic areas move through successive phases of development. This move ment up the ladder of development has nothing to do with cultur and everything to do with a region's ability to put the right policie institutions, and infrastructure in place at the right time.

At around the equivalent of US $3,000 per capita of GNP, there is usually a strong but steady increase in the desire to achieve more active involvement with the global economy, both as a market and as a source of supply for basic consumer goods. (In Japan, for example, this took the form of rapidly expanding consumer demand for refrigerators, color TVs, and low-cost automobiles.)[1] Below this level—between, say, US $1,500 and $3,000 per capita—the emphasis is more on motorbikes (as it is today in Thailand); below US $1,500, it is more on bicycles (as in Shanghai and Vietnam). At the US $3,000

Chapter Three

THE NEW "MELTING POT"

Day to day, for more than twenty years, I have worked with senior managers in all parts of the Triad (Japan, Europe, and the United States), and in the newly industrialized economies of Asia, on the most important strategic issues facing their corporations. During that time, as I have described elsewhere in more detail (see, for example, *Triad Power,*[1] *Beyond National Borders,*[2] and *The Borderless World*),[3] there has been a fundamental change in the environment within which those managers work. At the heart of that discontinuity is a series of related developments in information technology.

Taken together, these developments have had three broad effects. First, at the macroeconomic level, they have made it possible for capital to be shifted instantaneously anywhere in the world. This means both that capital flows no longer need be tied to the physical movement of goods and that, by extension, the traditional forms of trade represent only a minute and decreasing fraction of cross-border economic activity. Second, at the company level, they have changed what managers can know in real time about their markets, products, and organizational processes. This means managers can be far more responsive to what their customers want and far more flexible in how they organize to make and provide it. Third, at the market level, these developments have changed what customers everywhere can know about the way other people live, about the products and services available to them, and about the relative value such offerings provide. This means that economic nationalism exerts an ever-smaller influence on purchase decisions.

Whichever the country, when customers walk into a store, they both demand and expect to get the best and the cheapest—that is, the highest-value—products and services available. Indeed, consumers around the world are beginning to develop similar cultural expectations about what they ought to be able to buy as well as about what it is they want to buy. From São Paulo to Singapore, this process of convergence, which I have described elsewhere as the "California-ization" of taste and preference,[4] is making today's "global" consumers more like each other in many respects than they are like either their nonglobally-oriented neighbors or their parents or grandparents.

A CROSS-BORDER CIVILIZATION

On old economic maps, the most important cartographic facts had to do with things like the location of raw material deposits, energy sources, navigable rivers, deep-water ports, railroad lines, paved roads—and national borders. On today's maps, by contrast, the most salient facts are the footprints cast by TV satellites, the areas covered by radio signals, and the geographic reach of newspapers and magazines. Information has replaced both propinquity and politics as the factor most likely to shape the flows of economic activity. Physical terrain and political boundaries still matter, of course, but neither—and especially not political boundaries—matters as much as what people know or want or value.

In a sense, the intangibles of local knowledge, taste, and preference have always played a critical shape-giving role. Long before nation states existed, long before the cities, towns, and villages out of which they grew took recognizable form, groups of people linked by social and cultural ties regularly exchanged what they could hunt, fish, grow, gather, extract, or make. The meaningful horizons of their lives were circumscribed not by the artifice of formal political institutions, but by the land on which they lived and the social webs that enclosed them. Even in the modern world, with its crazy quilt of political borders, hundreds of millions of people—rural peasants, for example, in remote areas of China—exist in much the same fashion. Political dividing lines got added late, indeed, to these venerable maps of local experience. The ink is barely dry.

Even so, it is fading. And it is fading ever more quickly. Better information, made possible by better technology, is the reason. As the quality, range, and availability of information improve, growing numbers of people—no matter what their geographical location—come to know in ever finer detail how other people in other places live. At the same time, they come to know what kinds of economic choices can be made and what levels of value attach to those choices. Such knowledge and awareness, in turn, inevitably work to undermine the tyranny of both physical distance and government edict. The larger the field of known possibilities, the harder it is for a central authority to limit that field arbitrarily—or to make those limitations stick.

Centuries ago, the first Western travelers to reach Asia returned with goods and spices and artworks that forever changed the universe of possibilities out of which tastes and preferences at home would later crystallize. On this road of discovery, there is no going back. Or going more slowly. Indeed, in recent years, when the Silk Road is no longer a dangerous route through uncharted terrain but merely a degree of access to global media, like Fox TV, the time required for exposure to new dimensions of choice has shrunk to virtually nothing. And the barriers to such exposure have either disappeared or proven endlessly porous.

Even given the irreducibly local portion in any mix of customs and preferences, a newly shared knowledge of what is possible cannot help but lead across geographies to at least a partial convergence of tastes and preferences. Global brands of blue jeans, colas, and stylish athletic shoes are as much on the mind of the taxi driver in Shanghai as they are in the kitchen or the closet of the schoolteacher in Stockholm or São Paulo.

For several decades now, this process of California-ization has provided much of the market-driven support for the development of a genuinely borderless global economy.[5] But this kind of convergence, important as it is, goes only so far. It overlays new tastes on an established, but largely unaffected, base of social norms and values. It adds new elements to the local mix of goods and services, but leaves the worldview of the people who purchase them unchanged. It expands the universe of what is desirable, but does nothing to shift the fundamental mind-set of those who experience those pangs of desire. The contents of kitchens and closets may change, but the core mechanisms by which cultures maintain their identity and socialize their young remain untouched. Political borders may offer little meaningful resistance to invasion by new constellations of consumer taste, but social borders limit their scope and effectively quarantine them within the superficial layers of culture.

But this, too, is now beginning to change. Even social borders are starting to give way to the information- and technology-driven processes of convergence that have already turned political borders into largely meaningless lines on economic maps. There are two reasons for this. First, as societies move up the economic ladder of development past the US $5,000 per capita threshold, there is a notable upward ratcheting in the speed with which the lifestyles of their people—what they see and hear, what they buy, how they spend their time—grow more and more alike. The effects of this flywheel-like acceleration reach, to some extent, into the underlying nexus of culture. Some rough threshold does exist beyond which changes in degree of shared lifestyle become changes in kind of attitude and orientation.

Second, and more important, this acceleration is taking place at a moment in history when the very nature of the media exposure driving it is itself undergoing radical change. The multimedia experiences increasingly made possible by new technology have consequences that go far beyond surface issues of taste (and their implications for culture) to fundamental issues of thought process and mind-set. In those societies open to the influence of multimedia, the critical balance is already beginning to shift: children and teenagers are, at deep levels of sensibility and worldview, becoming much more like their counterparts in other societies similarly influenced than they are like the older generations within their own cultures. The essential continuity between generations, on which every society necessarily depends for its integrity and survival, has begun to fray. This fraying—this tilting of the balance—can, perhaps, be most clearly seen in the context of the recent social history of Japan.[6]

LIKE FATHER, LIKE . . . ?

The central fact about Japanese citizens in their 60s is that they experi- enced World War II. Either they participated in it directly, or they suf fered from its indirect effects. Then they went out and, from the ashe: of defeat, built the institutions and industries of a remarkably success ful postwar Japan. To them, the quality of life they have been able t(create is like heaven. Endless, unquestioned toil and hard work do no matter. They accept both without complaint as the perfectly tolerabl(price of a safe and secure existence. The military pretensions of grea power status, however, they do not accept, for all things military rep resent a threat to everything they have so painstakingly built. The' are, with precious few exceptions, pacifist in word and deed.

When this generation now in its 60s began its work of reconstruc tion, its commitment to sustained hard work carried the explicit—an(entirely credible—promise of an attractive lifestyle in return. If the' held up their end, they could live in a reasonable (and reasonabl' priced) fashion, could legitimately aspire to own their own extende(family-sized homes, could reach their jobs in major urban areas with commute of no more than 30 or 40 minutes, and could look forwar(to a decent standard of living after retirement, with at least some c their children and grandchildren living nearby (or with them) to loo after their needs. For the generation now in its 50s and late 40s, how ever, none of this is true.

This middle-aged generation also knew the hunger and poverty c immediate postwar Japan, but was too young to take part in the re building process—or in the full range of the promise it held out fc improving personal lifestyles. They were brought up, in effect, b Douglas MacArthur: their formative years in school took place durin the occupation. This had its benefits. Compared with their parent and grandparents, these individuals were exposed, early on, to a re markably cosmopolitan view of the world. But it also had its cost: The message they heard, day after day, was that their country was completely defeated, third-rate power—a power, moreover, that ha done so much harm to its neighbors that the best thing it could no do was to disengage from the rest of the world and leave everyone els alone. In the world of the victors, their country was—as each of ther was—a mere child, the U.N. was a benevolent though demanding uncle, and the United States was the all-powerful parent from whom all good things came.

After the formal occupation by the U.S. troops ended, the Japan-U.S. Security Treaty took effect in April of 1952. The treaty granted the United States the right to maintain military bases, first to keep watch for possible rearmament and later, as a forward line of defense against the Soviet Union's expansionist impulses in Asia. For the now middle-aged generation, the debate leading up to the ratification of this treaty throughout the 1960s was every bit as divisive a political and cultural issue as Vietnam was for its counterpart in America. It nearly tore the country apart. At a minimum, it forced this generational cohort, the *zenkyoto,* to think long and hard about the world and about the future security of the country. It pushed many into the arms of strongly leftist, even communist ideologies. And as the Vietnam War itself heated up, the fear that the U.S. bases might make Japan itself a target for Soviet nuclear missiles only added fuel to the domestic firestorm of protest already raging.

Even those Americans who grew up with the nightly media coverage of bloodshed in Vietnam and protest at home have, as a rule, little sense of how troubled and violent those years were in Japan. During the late 1960s and early 1970s, there were endless public demonstrations, during which quite a few people got killed, including Michiko Kambara, the daughter of a well-known professor. At Tokyo University, Yasuda Auditorium was burned down. Think of what happened at Kent State University and then imagine it many times worse, more sustained, and more violent. Imagine it, as well, taking place not just at one or two universities, but all across the nation. Further imagine these forces of protest as legitimately having—and at the time as being seen to have—the power to topple the national government. Countless numbers of students put off their careers and opted to stay on or about campus to be part of the action. The battles with the authorities were real, the stakes were real, the bloodshed was real.

In the aftermath, these leftist groups pretty much turned in on themselves and spent most of the rest of the 1970s in internecine battles. Their protest became a minor event. During the late 1960s, however, it was a major public event, nationwide. But its long-term effects on the generation that is now middle-aged proved curiously limited. When, after a delay, they finally made their way as salarymen into the regular work force, they seemed to forget their urgent social and political concerns about the world and about their own country. Like many of their counterparts in the United States, they simply buckled down to work—in effect, as the bag carriers of the men now in their 60s.

But the implicit "deal" such work offered had grown substantially less attractive. Commuting to work now took longer, as salarymen had to move further and further away from downtown areas to find affordable housing. The houses themselves were smaller and could no longer accommodate three-generation families. Their post-retirement prospects were much less certain. With their families now physically separated, who would look after them in their old age? Because they had reached the station a little bit late, the reliable train to the good life had already left. Their children would not even have a chance to catch it.

One possible response, of course, given roughly two decades of patient labor, was to accept this diminution of fortune in quiet frustration and disillusion. Another, however, was to recall the more active days of their young adulthood and, after a long delay, to again make their voices heard on social and political matters. Increasingly, these people are making this latter choice. This is the generation now most solidly behind the call for domestic reform. To them, special-interest gridlock in the government is not acceptable. The extortionate demands of the farmers are not acceptable. The pacifist and defeatist policies on the international stage of the men in their 60s and 70s are not acceptable. Though they have come to the party late, the men and women of *zenkyoto* still believe they can—and, more and more, that they must—change the world in which they and their children live.

The generation just behind them, however, the people in their mid-30s to mid-40s, see things quite differently. They are, in effect, Japan's "lost" generation. Their lives have never been marred by abject want or poverty. They have never known anything other than the firm, paternal hand of the Liberal Democratic Party (LDP) at the tiller of government. Their university years were not a period of social protest, but a temporary lull before careers as housewives or salarymen. What they had was not bad, and they had no experience in challenging authority or finding fault with the status quo. True, their residences were now only large enough for a tiny nuclear family at best, and their commute to work now took an hour and a half or more. But their response has largely been to keep their heads down and make the best of it.

To the next generation, the "angry young men and women" in their mid-20s to mid-30s, this inward-looking passivity seems no more than small-minded selfishness. They do not respect their immediate elders, whom they view as cowardly message carriers and not as creative, future-minded leaders. Yet this latter group blocks their advancement into positions where they could take more active responsibility for things.

Waiting patiently for their turn, however, is not a particularly tolerable option, because the bubble economy of the late 1980s effectively put an attractive quality of life out of reach. The maximum these young people will be able to spend on a house is 35 million yen or so, and even that will lock them into a commute of two hours or more each way. If they want to live only an hour from work, the kind of space they can afford—roughly 50 square meters—will give them minimal personal privacy and virtually no room to raise children. No wonder they are angry.

At the same time, however, they are actively exploring novel ways to build a pleasant life for themselves. If they cannot manage decent housing at home, why not allocate discretionary income, denominated in a strong yen, to vacation trips—and buying trips—abroad? Indeed, fully 97 percent of newly married couples in this cohort now take their honeymoons outside the country, mostly in Hawaii, California, Australia's Gold Coast, or Europe. By contrast, only 3 percent of the middle-aged generation went overseas for their honeymoons. The Japan in which they have grown up is, on a statistical basis, extremely affluent. But their only real chance to participate meaningfully in that affluence is through one or another form of escapism.

Foreign travel, of course, is only the most obvious expression of this. More important in its effects, but less obvious to foreign observers, is the addiction of this age group to publications like *Shonen Jump,* a cartoon-like magazine with a weekly circulation of six million and an editorial content modeled on the Harlequin romances so popular in the United States. What the stories in *Shonen Jump* tell them over and over again in countless different ways is that friends matter more than family, that nothing comes to the individual who refuses to make the needed effort, and that such efforts—if successful—bring not glorious victories, but small moments of personal satisfaction: a date with the prettiest girl or the handsomest boy in the class, a happy day windsurfing at the beach, a good evening spent talking with friends over tasty food and drink. Dreams of happiness, such as they are, are small, transient, intensely personal, and have nothing to do with family, society, or country.

Between this generation and the one immediately preceding it the nexus of social continuity is stretched thinner and finer than between any pair of generations discussed so far. In the world of *Shonen Jump,* family, parents, school, community, and country are all unpleasant distractions from the small pleasures of life. They are all unwelcome—and avoidable—sources of intrusive authority. They destroy the little possibility for happiness that does still exist. Much better, therefore, to ignore them, to refuse to accept the value systems they represent, and to go one's own way with one's friends.

THE NINTENDO KIDS

But even this fraying of the bonds of social continuity plays out, for the most part, within a distinctively Japanese cultural environment. To be sure, the world of *Shonen Jump* quietly ignores a number of traditional Japanese values, but it respects many others as well: the aesthetic pleasures to be found in small things, for example, or the importance of thoughtful interpersonal courtesies. Between this generation and the cohort of 15- to 25-year-olds, however, the web of continuity is stretched thin enough to finally break.

The differences here are fundamental. The relevant changes are not just in degree but in kind, and they go beyond surface issues of value to the underlying realities of mind-set and thought process. This is because the younger group came of age in a heavily multimedia-influenced environment: in Japan's 67 million households, there are now more than 30 million Nintendo and Sega "famicom" game machines. The inevitable result: the first true generation of "Nintendo kids."

The profound cultural divide these kids represent stems directly from the sustained experience they have had playing interactive Dragon Quest-like games. What this exposure has given them is a direct sense, not readily available in Japanese culture through other means, of playing multiple roles in the same context, of asking the "what if" questions they could never comfortably ask before (because of the Shinto superstition that saying a thing would make it happen), of making different complex trade-off decisions and then having the chance to observe contingent sets of outcomes, and—perhaps most important—of revisiting basic "rules of the game" and, when necessary, even reprogramming them.

The implicit message in all this, which is completely alien to traditional Japanese culture and education, is that it is possible to actively take control of one's situation or circumstances and, thereby, to change one's fate. Nothing need be accepted as an unalterable *fait accompli*. No one need submit passively to the dictates of external authority. Everything can be explored, rearranged, reprogrammed. Nothing has to be fixed or final. Everything, finally, is open to considered choice, initiative, creativity—and daring.

Consider, for example, the students at Keio University's experimental Fujisawa campus. Because they are all on-line, they can offer real-time reactions and contributions to the curriculum, to the structure of their own programs of study, to the content of their courses, and to the quality of their instructors. If they need information to supplement a text they are reading or a report they are writing, they can track it down through Internet. If they want to consult an expert anywhere in the world, they can reach him or her the same way. What a professor says in class no longer has to be treated as unquestioned gospel. If they have doubts, they can use the network to raise them and to solicit alternative points of view. They have stopped being passive consumers of an educational experience defined, shaped, and evaluated by the Ministry of Education. The technology has allowed them, in a most non-Japanese fashion, to become definers and shapers and evaluators—and questioners—themselves.

For the Japanese, this is an entirely new way of thinking. As such, it represents a deep rupture between generations, not something shared between them. It cuts, at last, the already thinly stretched cord, severing both the vertical linkages across age groups and the relationships of authority that have long held Japanese society together. In their place, it weaves new connections—not, however, with older cohorts of Japanese, but with the tens of millions of kids everywhere else in the world who have learned to play the same sorts of games and have so been exposed to the same implicit lessons. The web of culture used to be spun out of the stories a child heard at a grandparent's knee. In today's increasingly subnuclear families, it derives from a child's experience with interactive multimedia.

The social glue of intimate familiarity and shared experience once came only from participation in and with family. Now it comes from watching how a kid from another culture whom you've never seen before reveals character and mind-set through programming style. But it goes further, too. The kids in Japan amd elsewhere who master a joystick-driven environment can move, with unbelievable speed, to comparable mastery of a PC's alphanumeric keyboard. This is especially important in Japan, where shared problems of writing and typing have long been a source of in-group social cohesion. Today, millions of Nintendo kids have ready access to multiple avenues of external communication. This is even truer for their younger siblings and will be truer still for their children. The link among generations has been broken; a new link with those sharing similar experiences has been forged.

THE "BRUTAL FILTER"

Reflecting on the huge waves of immigration from Europe that changed the demography of the United States during the 19th century, the historian Oscar Handlin described the upheaval triggered by such large-scale social movements as one of passing through a "brutal filter." Along the way, some—but not all—of the ties and allegiances snapped that had long kept the members of particular Old World societies bound together. Deeply entrenched connections between generations came unrooted. Inevitably, the elements and groupings so abruptly set free came together in the new country in countless new combinations and permutations—a true "melting pot" of possibilities. Some linkages entirely disappeared; some survived intact; some new ones were formed; all were changed.

Worldwide, the experience of today's Nintendo kids is leading evidence that the tastes, preferences, and even mind-sets of individuals around the world are beginning to move—if at different speeds and in different sequences—through an analogously brutal filter into the melting pot of the borderless economy. This late-20th-century wave of immigration and convergence is being driven, on the surface, by the development of global brands and popular culture and, at a much deeper level, by the infectious spread of new information-related technologies. It is a new kind of social process, something we have never seen before, and it is leading to a new kind of social reality: a genuinely cross-border civilization, nurtured by exposure to common technologies and sources of information, in which horizontal linkages within the same generation in different parts of the world are stronger than traditional, vertical linkages between generations in particular parts of it.

The journey is still at a fairly early stage. Even so, it is possible to see its broad contours and general direction. The countries from which these uprooted people are independently setting out are traditional, politically defined nation states. The country to which they are all migrating—helped along the way by shared exposure to the English language, to the Internet, to Fox TV, the BBC, CNN, and MTV, and by interactive communication tools—is the global economy of the borderless world.

Not surprisingly, national governments tend to resist, rather than encourage, such migration. For them, convergence is a problem, not a happy indication of positive forces at work. In resisting, their purpose is not so much to oppose California-ization itself or to frustrate their citizens' desire for the best and the cheapest products from around the world. Their concern, instead, is to protect the jobs of small, but politically powerful, special-interest groups. That is why they so often forbid or restrict imports (in the United States, steel and textiles), defend natural resources against foreign "exploiters" (Malaysia in the years before Prime Minister Mahathir's "Look East" program), or force their citizens to select from among either unduly expensive products (high-priced beef and rice in Japan) or high-priced and poor-quality products (automobiles in Australia, India, and Brazil). Over time, however, the explosive flow of information renders these tactics increasingly unworkable.

In the face of insistent, knowledgeable demand, nation states are less and less able to dictate individual economic choices. Should they try to do so in too restrictive a fashion, electronically based flows of capital will head elsewhere, penalizing their currencies and starving them of funds for investment. And individual transactions will migrate to channels that lie out of their sight as well as out of their reach.

Using a telephone, fax machine, or personal computer linked to the Internet, for example, a Japanese consumer in Sapporo can place an order for clothing with Lands' End in Wisconsin or L. L. Bean in Maine, have the merchandise delivered by UPS or Yamato, and charge the purchase to American Express, Visa, or MasterCard. That same consumer can also access software support or remote computer repair services provided, say, by a company based in Singapore or Kuala Lumpur but relying on Indian engineers based in Bombay and on database maintenance carried out in China. Moreover, even with Japan's tight control on banking activities, that same consumer can call or fax First Direct in Great Britain or any number of financial institutions in the United States 24 hours a day, transfer money from anywhere to anywhere, and so avoid the artificially low interest rates imposed by the government to protect domestic banks weakened by the collapse of the bubble economy.[7,8]

For Nintendo kids, this will be a normal part of everyday life. By end-running Japan's traditional business systems, they will save money, boost flexibility, and increase their range of choice. But they will also make an ever-larger share of their economic transactions effectively invisible to government. Where—in any of these business systems—can customs officers charge duties, local governments claim value-added taxes, or bureaucrats compile accurate trade statistics?

Thus, as more and more individuals pass through the brutal filter separating old-fashioned geographies from the global economy, power over economic activity will inevitably migrate from the central governments of nation states to the borderless network of countless individual, market-based decisions. In recent years, only where armed might has intervened, or threatened to intervene, in the name of "national interest" have governments been able to ignore with impunity—and then only at the cost of yet more harm to their people's quality of life—the corrosive effects on their political control of the natural flows of economic activity in a borderless economy.[9] And in the new melting pot of today's cross-border civilization, these flows will only gain in strength and depth.