

The Lexus and the Olive Tree

by Thomas Friedman

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The Lexus and the Olive Tree is a very interesting book about the ongoing tension between globalization of international financial markets and local values and identity. Friedman uses the Lexus as a symbol of economic development and the wealth that comes with international capital investment in stock, business, and real estate. The olive tree stands for cultural, religious, and parochial roots that connect us to our past. This book is a must read for capitalists. Even though *The Lexus and the Olive Tree* is not about property, it has important connections to real estate.

Friedman's book is rich in metaphors and labels. For example, he calls the forces that drive access to the Lexus "the electronic herd," the horde of faceless bankers and stock analysts seeking market-rate, risk-adjusted returns on capital. The herd exists in a world of electronic pulsations and swarms in and out of investment opportunities all over the world. The electronic herd is not place based; it only lives in the bottom line. In contrast, the olive trees—the local customs, leaders, cultures, and religious forces that control local and national politics—are very place oriented. The olive trees are rooted in their locality by traditions that often exclude others. While local and national leaders want access to the wealth associated with outside capital investment, they are afraid of losing political and social control of their realms and are wary of cultural contamination. Many leaders are also loath to expose their governance practices to harsh examination by outsiders.

Even when the tenders of the olive trees want international capital investment, their nations may not have the political and economic infrastructures to facilitate it. Friedman terms the needed infrastructure "the golden straitjacket." It includes a management structure for international capital markets that Friedman calls the "DOScapital" operating system.

Although some leaders have felt a backlash against these pressures, all but the most draconian nations have begun attempts to enter the international capital markets because of "the groundswell," or those among their populations who desire a better, more capitalistic life.

The author's background as an international correspondent for *The New York Times* means he has accumulated a great address book. This book is punctuated with fascinating anecdotes from Friedman's extensive travels and interviews with world movers and shakers. These interludes are not only entertaining and informative, but also break up occasionally dense portions of the book. My favorite stories include descriptions of furious, desperate, and incompetent local leaders blaming international capitalists in prejudiced tirades, when the leaders simply have badly mismanaged their economies. I also enjoyed stories about the downside of capitalism, such as the shock the author felt when he saw the juxtaposition of a Taco Bell on the boardwalk of a Gulf emirate. The chapter on capitalism's binding forces, including the golden arches theory of dispute resolution (no nation with a McDonald's fast food restaurant has ever attacked another nation with the golden arches), was also quite illuminating.

The discussion in *The Lexus and the Olive Tree* is well organized. The first section of the book defines the Lexus and olive tree in the context of the end of the cold war. In the cold war world, camps of fear controlled our planet. The two major powers propped up vassal states and puppet governments with arms; economic efficiency was not that important if allies would toe the line. With collapse of the Soviet empire in the early 1990s, there was a sea change. Information and openness became key, in part because of the Internet. International capitalism became the only

game in town. Countries that wanted "in" had to conform to international financial accountability to make investors comfortable entering their markets. However, just because investors entered markets did not mean that they would stay; Friedman uses Indonesia and Thailand in the late 1990s as a case in point. There, information caused concern that the national investment systems did not have enough currency reserves and transparency; investors feared collapse, the electronic herd stampeded out of those markets, and the currencies plummeted.

Friedman also makes the point that the electronic herd is very decentralized. It is not only pension fund managers on Wall Street, it is you and I trading international stocks and mutual funds using computers in our basement home offices.

The second section of the book addresses the details behind the "DOScapital" national fiscal operating system. The main feature of this operating system is accountability for revenues, expenses, corruption, financial reserves, organized political succession, and other tools of economic management. DOScapital operating systems come in many versions, but only the latest versions have full access to international capital markets. New versions constantly are released and the electronic herd demands invest in system upgrades. Another key feature of the expected operating system is transparency, which investors require to maintain confidence in a nation's economy. This includes a free press, democracy or steps toward it, and access to the Internet. Transparency affects the speed at which the electronic herd (and the companies or countries in which they invest) can react to market opportunities; it also impacts the viability of the local labor force. Political will is a key issue, too. Will leaders allow inefficient, moribund industries to die off, as capitalism demands, or will the leaders protect them?

The third and final section of the book looks at the political process by which nations come kicking and screaming into the international economy and become (or do not become) one with the electronic herd. Friedman examines the backlash against the electronic herd, from both developed and third-world countries, using currency valuation as examples. He discusses the resentment countries feel when they encounter the considerable pinch of the golden straitjacket and its effect on short-term economic growth, restructuring, and political popularity. Friedman also describes the role of the groundswell, which is the local population demanding access to international capital markets and a better, freer life. He closes with a look at political realities and models for implementation of globalization in the United States and other nations.

The book was written before 9/11, but the basic premise of the book is robust enough to withstand the shock of that terrorist calamity to the international capital markets. In some ways, Friedman foresaw and characterized the possibility of a major terrorist event (backlash) and its implications.

The real estate connection of this book is to the international capital markets. Real estate as an object of investment must be able to withstand the scrutiny of the electronic herd. This applies to REITs and publicly held companies, as well as those planning to offer stock. The electronic herd eventually will change real estate investor demand for transparency in investment opportunities and the degree to which real estate firms have a presence on the World Wide Web. Real estate already is increasingly subject to international financial standards. Understanding these trends is a critical part in positioning real estate products in tomorrow's investment climate.

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