

# Prospects for Economic Development and Growth in Northeast Asia: A View from Wall Street

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## INTRODUCTION

Let me first say a word about my work so you can better understand the lens through which I look at the issues we are discussing today. I work as director of international business development and special assistant to the president of Nomura Securities International (NSI). NSI is the U.S. subsidiary of Nomura Securities Co., Ltd., the world's largest brokerage and investment bank. NSI operates from six offices throughout North and South America. I am based in our headquarters in New York City and report to NSI's president, who is in charge of the day-to-day operations of our firm's six divisions—real estate finance, fixed income, equity, high yield, investment banking and asset management.

While its roots are Japanese, over the past five years NSI has implemented a strong localization strategy in the United States. Today we are an essentially American part of the Nomura Group; over 90% of our 1,000 employees are American. Our focus is helping clients capitalize on global opportunities by utilizing Nomura's vast financial resources and worldwide capabilities—\$22 billion in equity capital and the accumulated expertise of over 16,000 employees working in 26 countries throughout Europe, North and South America and Asia, including South Korea, China, Hong Kong, Taiwan and over 150 offices in Japan.

My responsibilities include strengthening business ties with Nomura's other overseas offices and expanding NSI's international business. This means working with American and Asian clients to provide their businesses with the capital, information and financial expertise that enable them to profit from falling investment barriers and accelerating financial market integration.

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\*The views reflected in this paper are those of the author alone and do not represent an official position of Nomura Securities Co., Ltd.

When I told some of my colleagues that I was asked to speak at this conference, they asked me what my perspective would be. My answer is I come from the world of business. That is how I look at these issues and how I approach my talk today. After reading last year's conference proceedings from Niigata I decided to add a different perspective to these discussions. I would like to suggest some fundamental changes in the world economy in the post-Cold War world from my vantage point on Wall Street, and then look at their implications for business and economic growth in Northeast Asia.

### **THE TOYOTA AND THE OLIVE TREE**

I call the first change the Lexus and the olive tree. I developed this perspective while on a recent business trip to Japan when I visited the Lexus factory in Toyota City. It is a remarkable place. They build a luxury sedan, the Lexus, with far more robots than people. I was taking the bullet train back to Tokyo reading an article in the *International Herald Tribune* about another border dispute in the Middle East. Looking at that story, I reflected on where I had been.

The Japanese, where I had just visited, are building one of the greatest luxury cars in the world with robots. Meanwhile, the Middle East is still fighting over who owns which olive tree. For me, the Lexus and the olive tree are symbols of the post-Cold War world. You can truly divide the world between those who are working to build a better Lexus and those who are fighting over who owns which olive tree. The key question is who is working to build a better Lexus, and who is fighting over olive trees?

### **ECONOMIC CONSOLIDATION AND POLITICAL FRAGMENTATION**

A second significant change is that the world is consolidating economically while it is fragmenting politically. In order to survive in this world, nations are asking their people to connect their fates with new forms of regional or global economic cooperation such as ASEAN, APEC, NAFTA and the WTO. For many individuals, however, these organizations represent a confusing mix of distant and sterile bodies, each advancing its own claims over the direction of our future. These regional organizations have no national anthem. They have no flag you can salute. But to survive and grow, nations are linking up with these organizations.

But the more you come to people and say "excuse me, we want you to deposit your national identity in an Asian-cuisinart, where we are going to turn it into Asian-mush, by Asian-bureaucrats, covered by Asian-journalists," people are going to come to the conclusion that they would rather be a Russian or a Korean or a Japanese or a Chinese. After all, it is not associations or organizations that trade with one another but people and companies.

## **THE RISE OF MARKETS, THE TECHNOLOGY REVOLUTION AND THE END OF THE COLD WAR**

There is a third series of fundamental changes that explains much of what is going on in the world today. This is the rise of markets, the technology and communications revolution, and the end of the Cold War.

- The end of the Cold War took the lid off the olive tree wars in places like Bosnia and the former Soviet Republics. It also deprived a whole set of regimes around the world of the economic support that they needed in order to deal with a world dominated by the rise of markets.
- The rise of great markets means that markets, in and of themselves, have become powerful political forces.
- The technology revolution means that huge sums of money today move across international borders with astounding speed.

Thus the key for governments to effectively raise money today is not by taxing their citizens in larger and larger amounts, but rather by tapping the international marketplace for investment and growth. Leaders who understand that this is the way the world is headed will base their legitimacy not on ethnicity, not on geopolitics, not on brute force, but on one simple question: are their citizens better off today than they were yesterday? It is a legitimacy based on economic growth and development. Out of the decision to tap international markets for investment and growth, flows a whole series of other priorities and policies for education, investment, taxes, law and order, and most importantly, openness to the world.

What are the implications of these changes for Northeast Asia? I believe there are five important ones to keep in mind:

- Tapping into the International Markets

Governments today lack money. The only way the countries of Northeast Asia can be sure of having the kind of significant new resources

that bring good jobs, new skills for their workers, and a greater standard of living for their citizens is by competing and winning in the global markets. This will create an increasingly important new role for government leaders in Northeast Asia—making their economies attractive to the international marketplace. The flag waving each country does today says "come here Mr. Global Investor." Why? "Because we need your capital." Some governments understand this better than others.

- **Great Markets**

As a result, we have a new global architecture. We have moved from a world dominated by super powers to a world dominated by great markets. There are no longer two super powers to play off each other. What now exist are great markets—the Tokyo market, the Hong Kong market, the Frankfurt market, the London market, the Wall Street market. Countries don't play these markets off each other; the markets play them. The markets play Mexico off Thailand; they play Japan off the United States.

If politicians cannot make the tough economic choices that today's global markets demand, the rating agencies will make them for them by downgrading a country's bonds. The giant sucking sound you hear will be international capital markets pulling money out of that country's economy. The global bond market thus becomes the ultimate voice that enforces decisions on democratic governments when they are too slow or unable to make tough decisions on their own. Simply put, whoever gets their economies in the best shape will be rewarded with investment capital from overseas investors. Whoever does not, will be increasingly isolated, and left as road kill on the global investment highway.

Today, if you want to know who's hot and who's not, you don't need to ask the economists. Just go to the microsofts of the world and ask them a simple question: where are they investing for the next century? Where are they doing business and where are they not? Those countries and regions that are not part of the world according to the Microsofts of the global economy are going to be in big trouble in the 21st century.

The point I am making is that the rise of markets, the technology revolution and the end of the Cold War have created an alternative power structure that will increasingly shape the economic development of the Northeast Asian countries.

- **Empowering New Players**

The third thing this new world of great markets and technology is doing is empowering new players. A whole new set of actors has been created. For example, the Internet holds profound implications for how people will

communicate and exchange information in the 21st century. When Toyota builds a factory in China, it brings good jobs, promises of economic advancement and a better standard of living for assembly line workers. But it does not bring power to these workers in the way that Microsoft Windows does. When Microsoft comes into a country and translates Windows '95 into that country's language, the implications are huge. Thus the technology and communications revolution is going to empower individuals in ways that they never thought possible.

- An Economic Bullet Train

The fourth implication of these changes for Northeast Asia is that the gap between those countries who benefit from international markets and those who don't, is going to get bigger.

A good way to think about it would be to compare the international economy to a train. The world economy we have come from used to be like the train between Bombay and Calcutta. It went slow and steady. It stopped at every station. If you could not afford to buy a ticket, you could ride on the roof. That was the old economy. The international economy today is like the bullet train from Toyota City to Tokyo. You miss it, you lose it. Good-bye. You can't catch-up and you can't sit on the roof.

The rise of great markets, coupled with the speed of technology and communication, means that the gap between those on the train and those who are left behind, is going to grow larger. The long-term implications of this are going to be enormous.

- Balancing Competing Interests

Finally, we live in a world where the only way we can survive economically is to participate in global markets and connect with regional and global structures. But at the same time, the citizens of many countries find these structures alienating and impersonal. One of the interesting questions for this forum is how do we design and build institutions that can accommodate these two realities? How do we give people a sense of neighborhood, a sense of belonging, a sense of place and structure in their lives, and at the same time, get them to connect their fate with the global market and regional groupings?

This inherent tension between economic integration on the one hand and political fragmentation on the other is one of the most powerful dramas in our world today. It will be those nations of Northeast Asia whose leaders connect global markets to local security who will thrive and prosper. It will be those leaders of Northeast Asia who can nurture the unique cultures, history, and values of their own countries, while also getting their

economies on board the rapidly moving train of economic liberalization who are going to successfully lead their countries into the 21st century.