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THE END *of the* NATION STATE

The Rise of Regional Economies

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Epilogue

A SWING OF THE PENDULUM

In the broad sweep of history, nation states have been a transitional form of organization for managing economic affairs. Their right—their prerogative—to manage them grew, in part, out of the control of military strength, but such strength is now an uncomfortably great burden to maintain. (It has also largely been exposed as a means to preserve the positions of those in power, not to advance the quality-of-life interests of their people.) Their right grew out of the control of natural resources and colonies, but the first is relatively unimportant as a source of value in a knowledge-intensive economy, and the second is less a source of low-cost resources than a bottomless drain on the home government's treasury. It grew out of the control of land, but prosperous economies can spread their influence through neighboring territories without any need for adjustment in formal divisions of sovereignty. And it grew out of the control of political independence, but such independence is of diminishing importance in a global economy that has less and less respect for national borders.

Moreover, as it grew, the nation state's organizational right to manage economic affairs fell victim to an inescapable cycle of decay. This should occasion no surprise. It comes as close to being a natural law as the messy universe of political economy allows. Whatever the form of government in power and whatever the political ideology that

shapes it, demands for the civil minimum, for the support of special interests, and for the subsidization and protection of those left behind inexorably rise. In different circumstances, under different regimes, and during different eras, the speed of escalation varies. Good policy can slow the pace, bad policy can accelerate it. But no policy can stop it altogether. Nation states are political organisms, and in their economic bloodstreams cholesterol steadily builds up. Over time, arteries harden and the organism's vitality decays.

History, of course, also records the kinds of catastrophic, equilibrium-busting events that can stop or even reverse this aging process. Wars can do it, as can natural disasters like plagues, earthquakes, and volcanic eruptions. They have certainly done so in the past. But even for the most cold-blooded practitioners of *realpolitik*, these are hardly credible as purposeful instruments of economic policy.

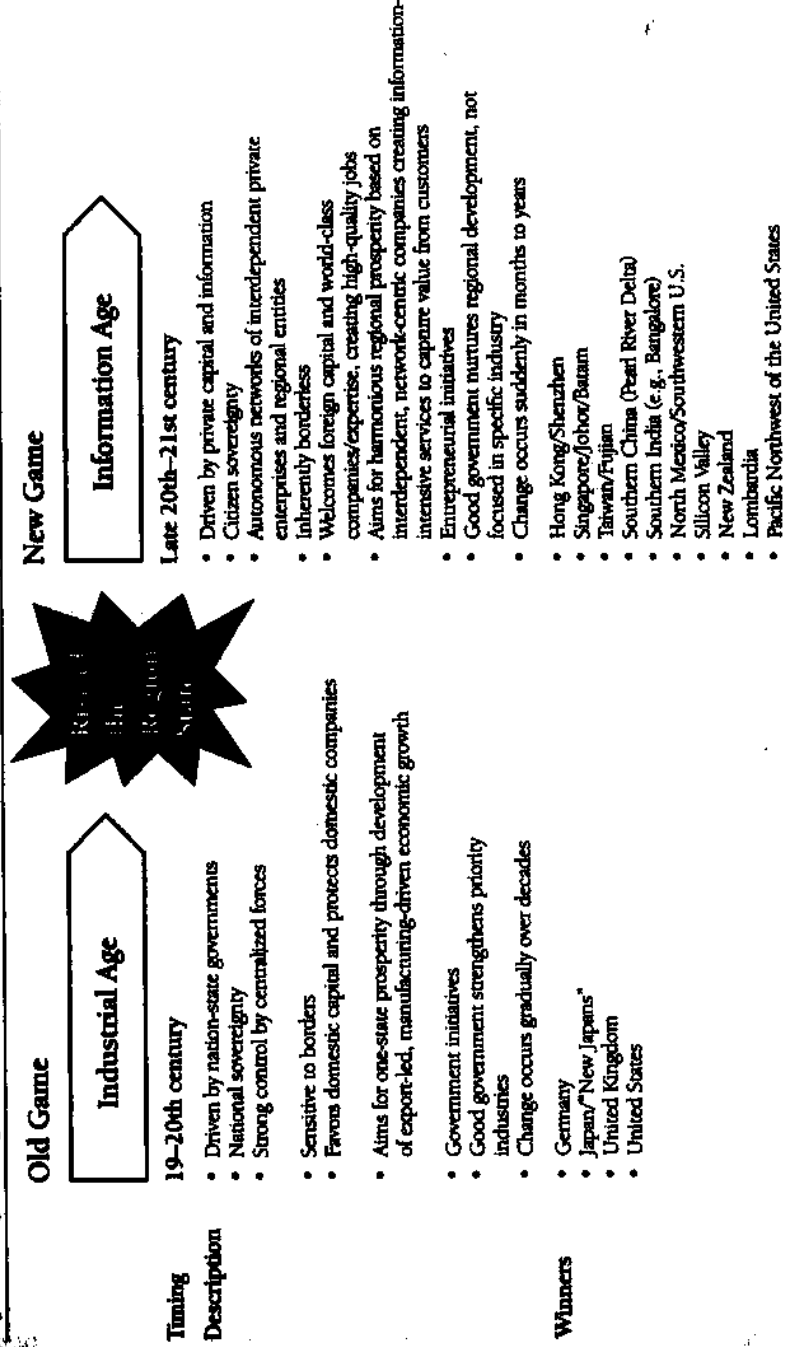
Thus, in today's borderless economy, with its rapid cross-border migration of the four I's, there is really only one strategic degree of freedom that central governments have to counteract this remorseless buildup of economic cholesterol, only one legitimate instrument of policy to restore sustainable and self-reinforcing vitality, only one practical as well as morally acceptable way to meet their people's near-term needs without mortgaging the long-term prospects of their children and grandchildren. And that is to cede meaningful operational autonomy to the wealth-generating region states that lie within or across their borders, to catalyze the efforts of those region states to seek out global solutions, and to harness their distinctive ability to put global logic first and to function as ports of entry to the global economy. The only hope is to reverse the postfeudal, centralizing tendencies of the modern era and allow—or better, encourage—the economic pendulum to swing away from nations and back toward regions.

~~THE COMING TEST~~

~~Many will find this swing of the pendulum uncomfortable and unwelcome. It challenges the established networks of power and influence within nation states. It challenges the established questions about which the citizens of those states are asked to vote. It challenges the usual way in which the leaders of those states try to manage cross-border~~

EXHIBIT E-1

Optimal Operating Unit Changes as We Move from the Industrial to the Information Age



*Region-state is defined as an area (often cross-border) developed around a regional economic center with a population of a few million to 10-20 million.