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**A TRIPOLAR WORLD?
A FRAMEWORK FOR ANALYSIS**

By

Heidi J. Bachert-Burke
B.A., Political Science, York University, 1989

THESIS

Submitted to the Department of Political Science
in partial fulfilment of the requirements
for the Master of Arts Degree
Wilfrid Laurier University
1994

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ABSTRACT

The complex changes which are now under way have sparked a great deal of interest and speculation around possible world order futures and the U.S.' relationship to them. The predominant image of the New World Order is one which hinges on the development of a liberal, economic multipolar world order in which mutual responsibility and macro-policy coordination become effective means of global management. Indeed this perspective is prone to see the possibility for change through peaceful and harmonious means. In as much as advocates of Interdependency Theory try to anticipate, explore and systematize, they seem to override a very important factor; economic growth, where it occurs at all, is increasingly becoming a matter of political design rather than a matter of spontaneous market forces. The growing trend towards Tripolarity; the dis-integrating of the capitalist world economy into three regions on the one hand, and the trend towards centralization and concentration around the U.S., Germany and Japan on the other hand, reflects a withdrawal from the old hegemonic order and its institutions, and a hegemonic drive by the U.S., Germany and Japan to expand their state power and capital vis-a-vis each of the three respective regions.

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This thesis has been slow in coming. The majority of the research and writing of this thesis took place before the effects of German reunification, NAFTA, Maastricht, the Uruguay Round of GATT, etc., became obvious. Where appropriate I have edited, revised and even expanded, the various arguments to reflect the changes. Particular gratitude should be expressed to Thomas Hueglin who afforded me the opportunity to explore and debate many of the larger questions addressed in this work. I also wish to thank my thesis committee; Lev Gonick and John Redekop. Finally, and most important, for his love and support, my most profound debt to Dion Burke.

This thesis is dedicated to my father and mother
Otto and Christa Bachert
who taught me the value of education and encouraged
my studies.

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**A TRIPOLAR WORLD?
A FRAMEWORK FOR ANALYSIS**

Neither do men put new wines into old bottles: else the bottles break. (Matthew 9:17)

Introduction

It is becoming an accepted "fact" that a New World Order is emerging. The breakdown or unravelling of well established post-World War II international structures, institutions and political ideologies are readily observable. From a structural point of view, we can see a significant redistribution of power in the international system and changes in the relative power between states. Examples of institutional change are the erosion of the Bretton Woods system of trade liberalization and stable currency management and the ineffectiveness of the General Agreement on Tariffs and Trade (GATT). And finally, the spread of economic nationalism and increased protectionism amongst key industrialized economies and the erosion of communism as an established belief system in the international arena, represent two distinct examples of ideological change. What is happening to the international system?

Whereas previous post-war multilateral agreements specified global norms of behaviour and interests as outlined

and prescribed by American politico-economic hegemony¹ within the industrialized world, the changing realities of the 1970s and 1980s produced results which have placed constraints on the U.S.' ability to exercise its power and influence.

The factors which have undermined American hegemony and the homogenous orientation that it had imposed on the post-war capitalist order are: the relaxation of tensions between the Soviet Union and the United States, the oil shocks of the 1970s and the shift of corporate profits to OPEC countries, the growth of private consumption and the dismantling of the American welfare state, the internationalization of U.S. capital, and the growth of inter-dependency between the U.S., West Germany and Japan.

The significance of these developments has been extensive and far reaching. On the one hand, they have undermined economic and political stability within the United States itself. On the other hand, through a series of interrelated and rippling effects, they have had the effect of creating a/a crisis of authority of the hegemonic structure undermining the

¹In this analysis hegemony refers to a single power possessing superiority in both economic and politico-military capabilities which has the ability to implement a plan of international order based on its own interests and vision of the world order and how it should exist. A hegemon can, and often does, exploit its dominant position for its own national interests. Hegemony, however, is more than a single power asserting its will over the international system. Hegemony performs a political role which regulates and constrains national differentiations which are otherwise competitive and anarchical.

regulatory mechanisms that formed the basis of the post-war capitalist world system, and inevitably, b/a crisis of accumulation. The complex changes which are now under way have sparked a great deal of interest and speculation around possible world order futures and the U.S.' relationship to them.

Based on my research and reading of the material there are seven predominant perspectives or future scenarios. The models outlined below represent a brief summary of ideas and arguments made by different observers. The purpose of categorization as is proffered here is simply to make the reader aware of the various viewpoints that are currently being drawn out about the organization of the New World Order.

The first model is the Hegemonic Stability Theory (HST). Under its umbrella there exist a number of variations. In essence though, the theory's underpinnings are that hegemony, founded on economic and politico-military capabilities and reinforced by prestige and/or authority is directly correlated to the smooth functioning of an open, liberalized international order. This is, it is argued, because a hegemonic state has the ability to impose a sense of order over an otherwise anarchical international system. And as long as nation-state action is "governed" it is believed that economic affairs between states will develop into open, liberalized trade. The corollary to Hegemonic Stability

Theory is that a decline in hegemony leads to the politicization of economic affairs, protectionist bloc formation and increasing interstate conflict. In light of these theoretical presuppositions, and the relative decline of American hegemony in the latter half of the 20th Century, Hegemonic Stability Theorists see the New World Order as one that will be characterized by increasing competition and conflict as governments of states manipulate economic and international affairs in order to maximize their own national interests. The outcome, it is argued, will be the development of regional economic blocs engaging in intense economic competition.

A second model challenges the notion of declining American hegemony. In fact, this perspective is founded on the reassertion of American hegemony. In essence, advocates of this model assert the U.S. will engage in a winning competition with Japan and Europe.

A third model adheres to a multipolar, post-hegemonic world order. Those who fall into this category eventually see the United States and nation-states in general, assuming a decentralized and diffused position within an increasingly integrated and interdependent world capitalist economy. This perspective maintains that as long as global economic relations are politically neutral and are conducted according to liberal principles of laissez-faire, national economies

will grow and prosper, limiting conflicting national interests. Within this context hegemony as formerly undertaken by the state, is slowly weakened to reflect new multilateral forms of management. Collective action is assumed to take place where hegemonic power has left off.

A fourth and fifth world order future that has been predicted is one which also envisions a liberal world order albeit led and/or managed through policy coordination by the United States in conjunction with Japan, or Japan and Germany.

A sixth world order future envisions a liberal-orientated multilateral community managed and influenced by middlepower initiative in the absence of hegemonic structures. More specifically, theorists falling into this category see so-called middlepowers, i.e., Japan, Germany and other industrialized nations, playing a significant role in influencing the future of international organization.

As with the four preceding models the seventh model also envisions the development of a multipolar, post-hegemonic future world order. Those who fall into this category assert that multinational corporations and transnational institutions will begin to play a significant role in political and economic relations displacing national governments as the sole actor and managers of international organization.

By now it should be apparent to the reader that the models outlined so far -- with the exception of the first two

-- hinge on the development of a liberal, economic multipolar future world order in which mutual responsibility and macro-policy coordination become effective means of global management. Indeed this predominant image of international organization is prone to see the possibility for change through peaceful and harmonious means.

Notwithstanding the significant advances made by the liberal economic multipolar world order perspectives (the last five models listed) in terms of data collection, etc., and attempts to shift perceptions away from the literature which has a tendency to privilege Hegemonic Stability Theory, is a cooperative, multipolar world order at all realistic? Even the most cursory examination reveals that protectionist and dis-integrating trends are rising from within the three most industrialized countries in the world -- the U.S., Germany, Japan -- despite their rhetoric and advocacy of free, non-discriminatory trade. And in view of an increasingly competitive capitalist world, is it plausible to conceive of an international system influenced and circumscribed by so-called "liberal"² structural adjustments of multilateralism when, in fact, the measures sought to achieve change by advocates of economic liberalism are themselves conservative and predisposed towards a normative bias of self-preservation?

²One has to put this word in quotes -- it is too embarrassing to use otherwise.

There are no clear cut answers to these questions. To be sure, anything is possible in a contingent world. Nevertheless, my own assessment of current trends do not correspond to the development of a cooperative post-hegemonic New World Order. Nor, for that matter, do they correspond to the reassertion of U.S. hegemony as the second model suggests. Rather, it is my thesis that the New World Order will come to resemble a Tripolar World of three similar, but distinct, modes of economic accumulation and political organization. This Tripolar hypothesis originates out of what I see as two trends occurring simultaneously. One is characterized by increasing rivalry between the three powers; the United States, Germany and Japan -- what I call the North-North dynamic -- in the aftermath of global economic crisis. And the other trend -- the North-South dynamic -- is characterized by increasing sectoral and regional protectionism and economic bloc formation around these same countries: i.e., the U.S. via North America, Germany via Europe and Japan via the Asia-Pacific rim, in their effort to regenerate the capitalist dynamic and in essence, acquire new forms of accumulation.

In its simplest form this hypothesis suggests a redrawing of the international regulative structures of political and economic activity along three vertical axes of power -- a world carved up and redivided into three hierarchically organized spheres of interest dominated and influenced by

U.S., German and Japanese politico-economic interests. On a much deeper level, however, this hypothesis suggests the possible disjuncture of relatively weaker and dependent nation-states within increasingly competitive, deregulated³ intra-regional market systems.

The two competing forces of international political disintegration and increasing global economic regionalization are unsettling indeed. On the one hand, they increase the potential for conflict between the U.S., Germany and Japan. On the other hand, they create a greater international division of labour, albeit along three vertical axes of power. The general prognosis for the immediate future -- the next ten years or so of capitalist history -- is indeed grim. For the reality is that as almost every nation is sucked further into this so-called liberal market paradise, the gap between the beneficiaries and losers of this trend will continue to grow.

³Deregulation in this analysis refers to the deliberate or at least implicit attempt to roll back the national control mechanisms of the state.

THESIS

As I have already stated, the main thesis of this analysis is that the New World Order will come to resemble a Tripolar World of three similar, but distinct, modes of economic accumulation and political organization. The substantive arguments of the thesis are as follows:

a/Interdependency Theory is the dominant way of looking at the New World Order. **b/**Interdependency Theory is, in essence, an overreaction to the earlier tradition of realism. **c/**Interdependency Theory overlooks the importance of hegemony which performs a regulating role in the capitalist world economy; a role which helps to generate and facilitate the movement of capital, and manage/synchronize capitalist relations which are otherwise anarchical, competitive and destructive. This is the case because a hegemon's insertion into the world capitalist system is hierarchical and asymmetrical. **d/**Hegemony acts as a complement, outlet, shock absorber to the growth systems of capitalist countries which express otherwise incompatible national structural preferences. **e/**The capitalist system is not in a state of equilibrium. It is one which is dependent on asymmetrical, hierarchical relations in order to expand. **f/**Hegemony is a crucial concept in capturing the mechanisms of growth that provided sustained momentum up to the post-World War II international system as well as the structural transformations

that undermined it, i.e., the crisis of monopoly capitalism as regulated by U.S. hegemony, the relative rise of (West) Germany and Japan, and the subsequent restructuring of the New World Order along three separate, vertical axes. Guided by this interpretation, further underlying arguments are: i/State autonomy and action in the international system is tied to the position of dominant states within the shifting international division of labour. ii/Increased competition between the three major capitalist states over new markets, and the increasing international division of labour between the capitalist states over the mass majority of subordinate less developed states. iii/The division of the the New World Order into three vertical axes provides a "natural" avenue of capitalist regeneration in the aftermath of global economic crisis. iv/The overall survival of the unregulated sphere of capitalist exchange depends upon the continuous application of "collective" action.

ANALYTICAL FRAMEWORK

The organization of this paper is as follows. I will begin Chapter One with an examination of the interdependency model and how interdependency theorists view the coming New World Order. My intent is not to simply outline its major theoretical presuppositions, but also to criticize its oversight of the role of hegemony which in the end leads it to a perverse and misguided interpretation. The explanation for this gap between theory and experience leads to their inability to see the restructuring of the world capitalist system into three asymmetrical and vertically integrated systems of capitalist accumulation in the aftermath of capitalist crisis. Chapter Two is divided into three sections. The first section explores the concept of hegemony. More specifically, it examines American hegemony from a historical perspective: the mechanisms of growth that provided sustained momentum to the international system. The second section examines the conditions which undermined U.S. hegemony. Section three explores a/capital accumulation in West Germany and Japan⁴ and the growth of inter-dependency

⁴Because of the shortage of space, I do not intend to explore capitalist accumulation in West Germany and Japan to the extent that I explored capitalist accumulation in the United States in the immediate post-World War II years. My purpose here will be to shed light on the closing of the gap between the U.S., West Germany and Japan, and the growth of inter-dependency between these three major capitalist countries, which has led to the inevitable disjuncture of post-World War II monopoly

between the U.S., Germany and Japan only, and b/the internationalization of capital to the south. Using both Chapter One and Chapter Two as a point of reference, Chapter Three examines the two interrelated but distinctly different trends that have been evolving out of the two major structural transformations: the dis-integration of relations between the U.S., Germany and Japan, and the restructuring of the world capitalist system into regional blocs, i.e., the U.S. via North America, Germany via Europe, and Japan via the Asia-Pacific rim in the aftermath of world capitalist crises. The outcome of these, I will argue, will lead to the development of a Tripolar New World Order. And finally, in the section entitled Summary And Conclusions, I will summarize my findings and look at the possible implications.

capitalism as regulated by U.S. hegemony.

CHAPTER ONE

INTERDEPENDENCY

For over 45 years the United States has been the top nation. And in the closing years of the twentieth century it has been liberated from what has seemingly been its only plausible foe. Yet ironically enough, although it has been freed from the constraints of the Cold War the United States is finding out that the fruits of victory do not include American politico-economic hegemony and/or dominance over the world order as a whole. Both Germany and Japan, two major capitalist-industrialist states, are no longer willing to succumb to American demands and wishes. In fact, the post-war capitalist system established under the aegis of the U.S. is now giving way to a fragmented, conflictual Tripolar World in which the U.S., Germany and Japan, through the use of their economic and political power, dominate and assume an active role over the lesser states in each of their respective spheres of influence.

These changes are the realities under which international politico-economic relations now operate and although highly visible, these changes have, to a large degree, not been incorporated into twentieth century American domestic politics and the study of international political economy. In fact, many of today's scholars see the New World Order in a completely different light. They see the New World Order

driven by notions of consensus-induced cooperation and post-hegemonic rules of interdependent, multipolar management. For them the debate does not centre on the decline of U.S. power and its regulative authority, or the potential for nation-state anarchy in the aftermath of capitalist world crisis. Rather, for them the debate centres on the internationalization of political and social society, the depoliticization of economic affairs, and the increasing utility of transnational actors in international relations. For it is their assertion that an increasingly interdependent world economy will lead to a liberal, open market (as opposed to a closed, protectionist market) and will foster economic growth throughout the international system. In North America exponents of this vision are commonly referred to as interdependency theorists and/or economic liberalists. In so-called "radical" circles, we commonly refer to these theorists as liberal-conservatives.

A) The Interdependency Thesis

In essence, the interdependency thesis argues that the New World Order will be characterized by an increasing interdependence in economics, transportation, communication, etc., which will inevitably lead to a disjuncture between domestic and international forces. The end result, it is argued, will put an end to the political forces of nationalism

and the ability of some nations to manipulate economic affairs at the expense of global economic efficiency and international stability. According to this modern construct of economic liberalism, the new more economically efficient interdependent world order will accelerate economic growth and generate wealth across national borders. This is because of the intermeshing of interests and mutually rewarding economic exchanges across national borders, and because individual nation-states will no longer be able to pursue self-serving goals related to security and power politics.

Keohane and Nye, two well known interdependency theorists, argue that interdependency should be defined and viewed in terms of a "mutual dependency" between capitalist advanced states which share common interests.⁵ Asymmetrical relationships will continue to exist (albeit to a lesser degree) in the New World Order, but because of the bargaining process of interdependency, power politics in terms of a zero-sum game, would become virtually non-existent.⁶

Many advocates of interdependency theory believe that dominant states will no longer be the dominant actors in the New World Order. Instead they believe that increased global

⁵Robert O. Keohane & Joseph S. Nye, "Realism And Complex Interdependence", International Relations Theory, ed. by Paul R. Viotti & Mark V. Kauppi, (New York, Macmillan Publishing Company, 1987), p.381

⁶Ibid.

interdependency will diffuse power away from the great power(s) so that middle-powers and non-state actors will increasingly have an impact on international affairs and world organization.

Robert Cox makes this argument:

...interdependence in the process of change opens up a new opportunity for middle-power initiative in the development of international organization... As normative goals for a post-hegemonic world, I suggest (1) greater social equity and (2) a greater diffusion of power. This would mean greater scope for self-determination by social groups as well as by small nations. These normative goals are inherent in the notion of middlepower initiative towards a new world order ... where the very form of the state is at issue in the movement of social forces. The state is no longer the only centre, the exclusive point of impetus. It is also the product of non-state forces... It is a condition for the diffusion of power among and within societies.⁷

According to many theorists associated with interdependency theory, nation-states will be forced to seek a relative state of peace and security for all involved because of the alliance membership that will eventually interconnect all nation-states. Any constraints which would be imposed on one country would, in their opinion, ultimately have a reciprocal effect on other members of the alliance and vice versa. States which would attempt to acquire a major share of the world market would face a greater difficulty

⁷Robert Cox, "Middlepowermanship, Japan, And Future World Order", International Organization, (Volume XLIV, Number 4, 1989), p.834-835

because the linkages that exist between states would act as catalysts forcing cooperative mutual adjustment, and also because of the decreasing viability of military power as a source of authority and strength.⁸

Interdependency theorists such as Keohane and Nye also make the argument that the existence of nongovernmental elites and supranational institutions, i.e., the European Community, multinational corporations, would further aide in coalition building and in the distribution of wealth along more symmetrical lines because they would be independent actors (hence the name supra and multi-national) and would transcend and/or depoliticize interstate relations.⁹ For both theorists the growth of a number of contact channels and "mutual dependency" would inevitably restrict political autonomy and the ability of one nation to gain at another's expense.¹⁰

The bottom line for interdependency theorists is that

⁸Military power would become less influential because of the risk of nuclear annihilation.

⁹Keohane and Nye, "Realism And Complex Interdependence", p.389-397. See also Robert O. Keohane and Stanley Hoffman, "Institutional Change In Europe In The 1980s", The New European Community, ed. by Robert O. Keohane and Stanley Hoffman, (Boulder, Westview Press, Inc., 1991), p.1-40, in which they discuss the "pooling of sovereignty" and the decision-making process in the "supranational" EC, as well as the linkages that exist between member states which, they believe, will constrain the German state from pursuing a hegemonic course.

¹⁰See Keohane and Nye, "Realism And Complex Interdependence" and Keohane and Hoffman, "Institutional Change In Europe In The 1980s"

there is at least moderate optimism that the New World Order will be conditioned by increasing interdependent linkages and it will no longer require a single dominant power and/or hegemon to ensure stability as it may have in the past.

B) Origins Of The Interdependency Thesis: Challenging Realism

What spurred much of the interdependency thesis was a desire to break away from state-centric traditions such as political realism and economic mercantilism which tended to privilege Hegemonic Stability Theory (HST) and the role of the hegemonic state in the maintenance of a stable political framework and an open, liberal world economy.

(Although there are differences between the political realist and mercantilist perspectives; realism's focus on the political realm and mercantilism's focus on the economic, I will limit this overview to their similarities i.e., the importance they ascribe to the role of the state and the interplay of national interests, and the importance of the hegemonic state in terms of constricting states from politicizing economic relations.)

To begin with, state-centric theorists, realists and mercantilists alike, ascribe a primacy to the state as the principal actor. The following excerpt taken from Robert Gilpin's War And Change In World Politics illustrates this:

Principally through its definition and enforcement

of property rights the state protects the welfare of its citizens against the actions of other individuals...

The primary external function of the state is to protect the property rights and personal security of its members vis-a-vis the citizens and actions of other states...

These internal and external functions of the state and the ultimate nature of its authority mean that it is the principal actor in the international system. The state is sovereign in that it must answer to no higher authority in the international system.¹¹

According to the state-centric perspective, state influence is believed to follow from the application of power defined as economic and politico-military capabilities, whether they be actual or potential. As well, each state is believed to be in a self-help position.¹² In their view, this is why states come to rely on power, they are trying to maintain or increase their power position relative to other states in the system.

In essence, it is an explanation which rests on the nature of the system where the emphasis lies on the anarchic structure of international politics as a whole and not on the internal nature of states.

¹¹Robert Gilpin, War And Change In World Politics, (New York, Cambridge University Press, 1981), p.16-17

¹²See Hans J. Morgenthau, "Another Great Debate", Perspectives On World Politics, ed. by Smith, Little, Schackleton, (London, The Open University Press, 1981) and Kenneth Waltz, Theory Of International Politics, (Reading, Mass., Addison-Wesley, 1979), p.91

In the international sphere where there is no such thing as world government, leadership is believed to be undertaken by the leading power: the hegemonic state. According to this school of thought, hegemony does not eliminate conflict between states and the various classes in international relations but it establishes a sense of order. It is believed hegemony provides the international system with an authority structure which, in turn, creates relative world stability in an otherwise anarchical system. This is because the authority structure of hegemony is believed to constrict otherwise anarchical, self-centred states from politicizing relations for their own gain. Hence, periods of relative international peace and stability in world affairs are seen as, and explained in terms of, the rise of a particular hegemon and the consequential redistribution of territory among states.

As both Gilpin and Kindleberger demonstrate, international cooperation and stability have only been possible in the presence of a single superordinate power, e.g., the Pax Britannica and the Pax Americana, because under a hegemon the rules are established and maintained over the inherent anarchical international system preventing any one from challenging the existing order. This, they argue, is what kept the relative peace and security during these two

periods.¹³

Basing his conclusion on the history of hegemonic cycles, Gilpin asserts that wars or changes in the inter-state system are primarily a result of an "uneven growth of power among states... over a period of time."¹⁴ In the international system hegemonic decline occurs because of the diffusion of military and economic technology to the less advanced states. As a result, dominant powers soon lose the advantages upon which their successes have been based. Ironically, the dominant state inevitably helps create its own rivals, and threatens the maintenance of order and stability in the international system.¹⁵ This, Gilpin argues, is what has occurred throughout the last two decades -- a shift in the international balance of power. If one traces the historical nature of international relations one will find that the "conclusion of one hegemonic war is the beginning of another cycle of growth, expansion, and eventual decline... It has always been thus and always will be, until men either destroy themselves or learn to develop an effective mechanism of

¹³See Gilpin, War And Change In World Politics, Chapter 4; Charles Kindleberger, The International Economic Order, (Great Britain, Harvester-Wheatsheaf, 1988), Chapter 9

¹⁴Gilpin, War And Change In World Politics, p.94

¹⁵Ibid., p.176

peaceful change."¹⁶

Furthermore, hegemony is seen as necessary to the development of a open market because without a higher authority, governments will attempt to use coercive methods to improve their own interests, increasing the potential for economic nationalism, mercantilist competition and protectionism. In fact, according to Gilpin, it is the relative diffusion of America's industrial capabilities to other states which threatens the stability of the international system today because it has led to the emergence of equal and competing economies trying to use protectionist measures to break potential advances made by their competitors.¹⁷ He asserts that it is this same "protectionism and economic nationalism [which is] once again threatening the liberal international economic order."¹⁸

Hegemony is also seen as a necessary shock absorber in a liberal international economy because it is believed a hegemon has the wherewithal to generate resources needed to preserve stability when an outside force threatens to unravel the existing order, i.e., the Arab attempt to embargo oil from the

¹⁶Ibid., p.210

¹⁷Robert Gilpin, The Political Economy Of International Relations, (New Jersey, Princeton University Press, 1987)

¹⁸Ibid., p.88

U.S. in 1967.¹⁹

To summarize, state-centric theorists see the inevitable but relative fall of the U.S. as a serious threat to international stability and an open, liberal economic world order because there is no higher authority preventing states from pursuing self-serving interests. In light of past experience and the current challenge to American hegemony, proponents of HST question the possibility of cooperation and international stability in the New World Order.

Interdependency theorists Keohane and Nye argue that a state-centric argument is too structurally deterministic.²⁰ International relations, they say, need not be conceptualized in terms of cycles as though there was a final and fixed condition. Rather, they argue, international relations should be conceptualized in terms of a process of positive development.²¹ For them the economic and political

¹⁹See Stephen D. Krasner, "The Tokyo Round: Particularistic Interests And Prospects For Stability In The Global Trading System," International Political Economy, ed. by Jeffrey A. Frieden and David A. Lake, (New York, St.Martin's Press, 1987)

²⁰Keohane and Nye, "International Interdependence And Integration", International Relations Theory, ed. by Paul R. Viotti and Mark V. Kauppi, (New York, Macmillan Publishing Company, 1987); Keohane and Nye, "Realism And Complex Interdependence". See also Duncan Snidal, "The Limits Of Hegemonic Stability Theory", International Organization, (Volume XLIV, Number 4, 1985), p.579-614

²¹Keohane and Nye, "International Interdependence And Integration", International Relations Theory, ed by Paul R. Viotti and Mark V. Kauppi, (New York, Macmillan Publishing

developments that have evolved over the past should not be looked upon as negative and leading to increased political instability. In fact, according to Keohane and Nye, in a world which is becoming increasingly economically interdependent, states will be forced to seek a relative state of peace and security because of the alliance membership that will interconnect states.²² In other words, as long as the system remains open, i.e., liberalized in terms of free trade, all will benefit from the effects of growth and economic integration. For they reason, as inequities become less divisive there will be less chance for some states to take advantage of other states. The result, argue Keohane and Nye, will be the depoliticization of international economic affairs, world stability and the inevitable development of a post-hegemonic, multipolar system.

Furthermore, interdependency theorists Keohane and Nye argue that state-centric theorists have placed too much emphasis on hegemonic organization and the concept of hegemony, i.e., the ability to influence and define the context in which other players have to make decisions. They argue that the development of HST as the dominant methodological approach to international political economy

Company, 1987); Keohane and Nye, "Realism And Complex Interdependence"

²²Ibid.

reflects the concerns of American policy makers throughout the era of the Pax Americana and, more importantly, the current challenge to their hegemonic position and their (in)ability to control and influence the New World Order.²³ More specifically, they believe much of the literature on New World Order futures reduces the diversity of viewpoints which may offer alternate interpretations about the New World Order.

Robert Cox argues there is a common theme in the study of the future shape of the world order and that is one which deals with hegemonic decline.²⁴ The concept of hegemony, he argues, is ill-conceived because of its common association with notions of power politics and Realpolitik. As a result, it has become too structured, too deterministic. He writes;

²³A number of theorists have criticized the use of mainstream methodological approaches in the study of international political economy. Murphy and Tooze are one example. They argue: "... IPE (International Political Economy) reflects the policy concerns of the government of the United States throughout the era of U.S. global supremacy and, especially, contemporary concerns about various challenges to that supremacy... Moreover, the interpretation of problems located within the universe of orthodox IPE tends to reflect U.S. values.... tak[ing] much of its form from the nature of post-1945 industrial society. As such it presents a Western, male, privileged, and largely materialist view... other values and perspectives are not even part of the universe within and against which orthodox analyses are located and evaluated." For more information see Craig N. Murphy and Roger Tooze, "Getting Beyond the 'Common Sense' of the IPE Orthodoxy", The New International Political Economy, ed. by Craig N. Murphy and Roger Tooze, (Lynne Rienner Publishers, Inc., 1991), p.24

²⁴Cox, "Middlepowermanship, Japan And Future World Order", p.829

"hegemony is more than dominance. A hegemonic order is inscribed in the mind. It is an intersubjective sharing of behavioural expectations."²⁵

For Cox hegemony negates a particular vision; a vision which is directly attributed and construed universally along a hegemon's perception of social reality. Hegemony, he argues, "is one in which a dominant class has made its conception of social order acceptable to subordinate classes."²⁶ For Cox, then, the current crisis of hegemony represents a breakdown of the "social contract" wherein the (U.S.) hegemon and dominant countries reside.²⁷ In other words, for Cox, hegemonic decline reflects more of a decline of the hegemonic order and the polarizing of nation-states rather than the absolute decline of the hegemon itself. In fact, it is believed that the growth of states and non-state actors will provide the international system with a greater potential for multipolar influence in the development of more stable contemporary international relations.²⁸

In a similar vein, Keohane argues that we must step beyond the traditional theories of nation-state anarchy and

²⁵Ibid.

²⁶Ibid., p.830

²⁷Ibid., p.831

²⁸Ibid., p.834

zero-sum competition and incorporate a concept of economic cooperation into the theory of world politics.²⁹ Only then, Keohane argues, can we begin to understand what is required in an era which requires both economic and political stability. For, he argues, pluralist management can work in the absence of hegemony. Of course, he agrees, this is not necessarily definitive since the nature of the capitalist system will always be anarchical, competitive, and based on self-help.

C) Critique

In my view the theoretical underpinnings of the interdependency model ignore important aspects of reality. "Complex Interdependency" as Keohane and Nye have called it, addresses the issue of economic cooperation and political stability in the absence of a superordinate power. For them cooperative patterns will develop because of increasing economic integration and the transnationalization of economic affairs (i.e., an open and liberalized world economy), there exist shared interests as well as a commonality between major (capitalist) states which limit or restrain states from trying to advance their own national interests, and finally, because of the existence and growing influence of international regimes which hold a bargaining advantage over the

²⁹Robert Keohane, After Hegemony, (Princeton, Princeton University Press, 1984)

interdependent world economy.

In reality all that interdependency theorists have done is deflect attention away from the accumulation of capital by one hegemon and redirected their focus to the accumulation of capital by major capitalist countries and multinational corporations. They, however, do not address how it is that major capitalist states acquired the ability to accumulate in the first place. That is, they do not address the global context in which states interact in the first place. Beyond a mere acknowledgement of asymmetry, interdependency theorists overlook the fact that the capitalist system benefits some states at the expense of others and that there are mechanisms of domination that exist to keep some states from developing at all.

Because interdependency theorists override these very important structural realities they do not see any difficulty with major capitalist states, supranationals or multinationals playing an influential role in the future management of the New World Order. It is assumed that major capitalist states and multinational corporations will act in everyone's interest. This interpretation not only assumes that less "developed" countries share similar interests and goals as do major capitalist states and multinationals, it also assumes that less "developed" countries will have enough clout to limit or restrain the actions of the major capitalist states

and multinationals if they disagree with the way international politico-economic affairs are being managed.

Furthermore, in their attempt to shift analysis away from state-centric models which place a great deal of importance on hegemony, advocates of interdependency fail to see that hegemony, as an entity in itself, performs a regulating role in the capitalist world economy; a role which helps to generate and facilitate the movement of capital, and manage/synchronize capitalist relations which are otherwise anarchical, competitive and self-destructive. This is the case because its insertion into the world capitalist system is asymmetrical. As such, it acts as a complement, outlet, and shock absorber for the other growth systems of capitalist countries which express otherwise incompatible national structural preferences. For, as I will demonstrate later in the analysis, the capitalist system is not in a state of equilibrium. Rather it is one which is dependent on asymmetrical, hierarchical relations in order to expand.

Theorists who advocate an interdependent, multipolar New World Order fail to see that the inter-dependency (as opposed to de-dependency) the world has experienced in the past three decades has only occurred between major capitalist economies which have developed strong and effective political structures and institutions, i.e., the U.S., Germany and Japan. This is the case because the development and extension of political

authority in these three countries has a/enabled them to manage and regulate their economies with efficiency ensuring a continuous flow of output within their national borders, and b/it has provided them with the means to work with, as well as beside, the international business community. As for the relationships that characterized the rest of the international system, they have been de-pendent, one-way processes of accumulation and accommodation which have favoured these same major capitalist countries.

Finally, interdependency theorists such as Keohane and Nye fail to see that the inter-dependency that eventually developed between the three capitalist states, i.e., what I refer to as the North-North dynamic, is slowly coming apart. So much so, that eventually what we will see -- or already are seeing -- is increased competition and rivalry between three equal, autonomous capitalist states in the aftermath of global economic crisis, and the subsequent division of the international system into a Tripolar superstructure aligned along three separate and distinct vertical axes via regional bloc formation created in order to regenerate the capitalist dynamic. In the aftermath of three equal and competing powers and global economic crisis, the division of the world order into three vertical axes provides a "natural" avenue of regeneration.

About Chapter Two

Whenever there is talk of a development or new phenomenon, it is helpful to compare its dimensions with historical trends. The following chapter examines American hegemony from a historical perspective: the mechanisms of growth that provided sustained momentum to the international system, as well as the structural transformations that soon undermined it.

CHAPTER TWO

HEGEMONY: ITS FACTORS AND CAUSES

There were specific international conditions which underpinned the regularities of capitalist growth in the 20th century. These specific conditions were directly linked to a precise form of authority and influence structurally correlated along an asymmetrical, vertically integrated international division of labour. This structure fostered capitalist accumulation and stabilized international relations for a relatively long period of time. This happened because such a framework, one based on unevenness and differentiation, allowed international complementarities (i.e., export and import, surplus and deficit, etc.) to develop between participant countries which had otherwise incompatible growth schemes.

A) AMERICAN HEGEMONY: A CASE STUDY

i) Economic Factors

Throughout the postwar years the management and leadership of the international system in political and economic spheres has been achieved by the United States. As the strongest power in the post-war world the U.S. was both willing and able to assume primary responsibility for establishing international order. Whereas all other former industrial centres were war-torn, the U.S.' economy after

World War II was undamaged and relatively self-sufficient.³⁰ It had accumulated³¹ a great market and productive capacity, financial capabilities and a strong currency. Its Gross National Product, for example, rose from \$88.6 billion in 1939 to \$135 billion in 1945. Industrial expansion in the country grew at a rate of over 15% a year between 1940 and 1944.³² Most of this expansion was a result of the war effort. However, the production of nonwar goods also grew. More than half of the world's manufacturing production took place within the U.S. which, in turn, accounted for a third of the world's goods which made the United States become the greatest exporter of goods in the immediate post-war years.³³

The gains that were made from the war transformed the U.S. economy into a financial and industrial powerhouse. These gains were, in turn, circulated among the American

³⁰Mike Davis, "From Fordism To Reaganism: The Crisis Of American Hegemony In The 1980s", The World Order: Socialist Perspectives, ed. by Ray Bush, Gordon Johnston and David Coates, (New York, Polity Press, 1987)

³¹Capitalist states depend on the accumulation process to increase capital for profit. According to Marxist doctrine, accumulation can be in any form which is of value, i.e., labour, commodities. For further discussion see Charles E. Lindblom, Politics And Markets, (New York, Basic Books, Inc., 1977) and Joseph A. Schumpeter, Capitalism, Socialism And Democracy, (London, Harper Torchbooks, 1976)

³²Paul Kennedy, The Rise And Fall Of The Great Powers, (London, Fontana Press, 1988), p.461

³³Ibid.

working class via collective agreements and the institutions of the welfare state.³⁴ This model of development was particularly important because it enhanced the conditions of the working class while simultaneously legitimizing and rationalizing the capitalist system of mass production, accumulation and exploitation.³⁵ The end result was the coexistence of capital and labour along Keynesian principles; a system of regulated accumulation which made for rapid gains, not only for profit-earning capitalists but also wage-earning labourers. In short, Keynesianism and the institutions of the welfare state served to regulate capitalist exchange relations and, in essence, foster economic growth.

A great deal has been written about the role of the welfare state in post-war accumulation in the United States. The writings of Claus Offe are particularly well known and support the argument made above. The following excerpt, taken from Contradictions Of The Welfare State, demonstrates the important co-ordinating role of the welfare state in the post-World War II period:

The welfare state has served as the major peace formula of advanced capitalist democracies for the period following the Second World War. This peace formula basically consists, first, in the explicit obligation of the state apparatus to provide

³⁴Mike Davis, "From Fordism To Reaganism: The Crisis Of American Hegemony In The 1980s", p.10-12

³⁵Ibid.

assistance and support (either in money or in kind) to those citizens who suffer from specific needs and risks which are characteristic of the market society... Second, the welfare state is based on the recognition of the formal role of labour unions both in collective bargaining and the formation of public policy. Both of these structural components of the welfare state are considered to limit and mitigate class conflict, to balance the asymmetrical power relation of labour and capital, and thus to overcome the condition of disruptive struggle and contradictions that was the most prominent of the pre-welfare state, or liberal, capitalism. In sum, the welfare state has been celebrated throughout the post-war period as the political solution to societal contradictions.³⁶

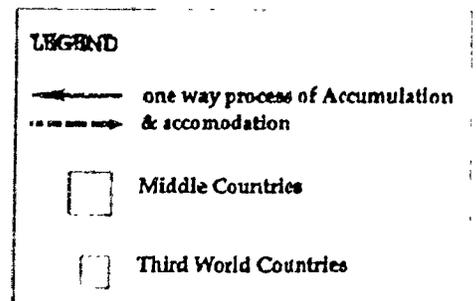
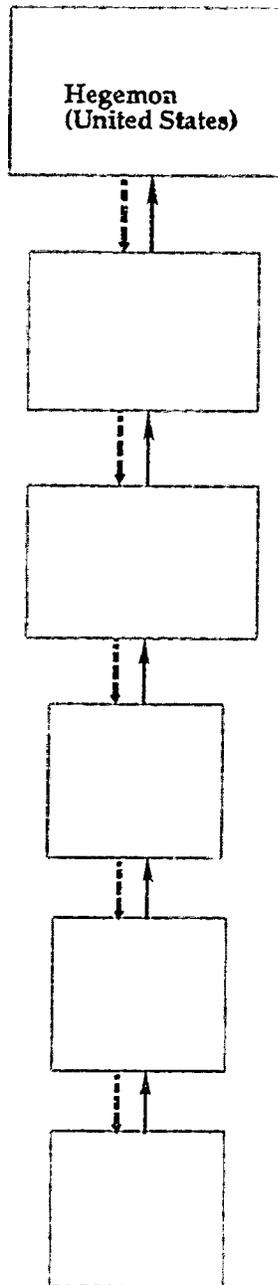
The Keynesian compromise, however, meant more than mass production and mass consumption within American borders. Keynesianism provided opportunities for stable long-term growth outside of the U.S. because it helped to regulate and, in essence, legitimize the productive forces of American capital which, in turn, was needed to prime the pump of the international economy.

The infusion of capital was most extensive in Europe and Japan and was directed at trying to override the authoritarian political cultures which could potentially rival attempts to liberalize economic exchange a la U.S.³⁷ The means upon

³⁶Claus Offe, Contradictions Of The Welfare State, (Cambridge, MIT Press, 1984), p.147

³⁷See John Harrison and D. Bavar, "Ups And Downs: The Fortunes Of The West European And Japanese Economies Since 1945", The World Order: Socialist Perspectives, ed. by Ray Bush, Gordon Johnston and David Coates, (Cambridge, Polity Press, 1987), p.43-48

**U.S HEGEMONY AND THE
ASYMMETRICAL, VERTICALLY-ENTRENCHED
CAPITALIST WORLD ORDER
POST 1945**



which this regenerating of the European and Japanese economies took place was through the American issuance of international liquidity, or what Michel Aglietta has called the "dollar circuit".³⁸ There was initially a major problem and that was a vast dollar shortage in the international system which could only be corrected with the U.S. reversing its large trade surplus. In order to generate the capitalist dynamic, the U.S. had to run a payments deficit so that it could be in a compatible position with the internal tendencies of other nations.³⁹ The U.S. did this successfully through American financial aid programs, the Marshall Plan, NATO, etc. In the end, the injection of U.S. capital into Western Europe and Japan solved the problem of incompatibility and provided the U.S. with an in. The U.S. dollar became the world's currency compelling all other nations to recognize it as the universal means of exchange. More importantly, it became an instrument with which the U.S. could manage and regulate exchange relations. For economic exchange in general, and the accumulation process more specifically, could only work, i.e., grow and expand, and in essence, benefit U.S. capitalist interests through asymmetrical relations or what I call an international regulatory system of vertical linkage.

³⁸Michel Aglietta, "World Capitalism In The Eighties", New Left Review, (Number 136, November-December, 1982), p.15

³⁹Ibid.

Vertical linkage is founded on a hierarchical framework and the breadth of hegemonic control over others is imposed and maintained by political, economic and ideological coercion through the linkage of a common environment, culture, activity, etc., that is established between participant countries. Vertical linkage is not a self-sufficient system, it presupposes reciprocal, or other chain reactions. But it necessitates a position of flexible accommodation by the hegemon who is at the apex of the vertical axis. The qualification of vertical as opposed to horizontal is an important one, for the hegemon has to be in a position to regulate national structure-preferences and offset surplus/deficit balances, imports/exports, etc. It is a system of exchange that can be likened to a bellow effect: capital originates within the borders of a dominant economy, once it is circulated and consumed within its borders, it is exported to another country, where it is circulated, consumed and then exported to another country, etc.

ii) Military-Political Factors

Whereas American capital and productive systems provided the basis for U.S. hegemony, and its asymmetrical insertion into the international system provided the sustained momentum, its reputation for power entrenched it. Its military strength not only triggered the productive forces of the war effort

within the U.S., it also initiated and led to the development of what was to become an interlocking political network tying the western capitalist system to the United States.

An account of its military-technological capabilities, the second base of American hegemony, dates only from World War II. The U.S., for example, controlled 12.5 million service personnel, including 7.5 million overseas during the second World War. It possessed a naval fleet of 1,200 major warships, many of which were aircraft carriers. Its air command consisted of more than 2,000 bombers and 1,000 B-29s which were later supplanted by jet propelled strategic B-36 bombers.⁴⁰ Together, with its possession of an atomic bomb, the United States had become the strongest military power.

It was American strength and the subsequent security doctrine established under the guise of "collective security" which ultimately allowed the American state to intervene on behalf of American capitalist interests. As a result, the U.S. was able to enjoy a considerable amount of flexibility and influence over the relatively weaker states of the international system.

The following excerpt is borrowed from the state-centric perspective and demonstrates the importance of power capabilities.

⁴⁰Paul Kennedy, The Rise And Fall Of The Great Powers, p.460-462

The distribution of power among states constitutes the principal form of control in every international system. The dominant states and empires in every international system organize and maintain the network of political, economic, and other relationships within the system and especially in their respective spheres of influence. Both individually and in interaction with one another, those states that historically have been called the great powers and are known today as the superpowers establish and enforce the basic rules and rights that influence their own behaviour and that of the lesser states in the system.⁴¹

The U.S. had the economic, political and military capability to assert its authority over the international system. But these capabilities were dependent upon a recognition of strength and authority, or what Gilpin has called prestige.⁴² Prestige, Gilpin argues, rests on military and economic components, which functions to ensure that the lesser states of the international system obey the rules established by the United States:

Prestige is the reputation for power... Whereas power refers to the economic, military, and related capabilities of a state, prestige refers primarily to the perceptions of other states with respect to a state's capacities and its ability and willingness to exercise its power... prestige involves the credibility of a state's power and its willingness to deter or compel other states in order to achieve its objectives... As E.H. Carr put it, prestige is 'enormously important,' because 'if your strength is recognized, you can generally achieve your aims without having to use it'.⁴³

⁴¹Gilpin, War And Change In World Politics, p.29-30

⁴²Ibid., p.31

⁴³Ibid.

Prestige and power are different in that the former represents a moral or legitimization factor while the latter represents a measurable variable which is relative to the other actors within the international system.

As Gurr demonstrates, amongst the most important political foundations of a state's power is the extent of its legitimacy, i.e., the extent to which others accept a ruler's right to make decisions.⁴⁴

It was therefore the legitimization factor (which has been drawn and reinforced from its capabilities) which allowed the U.S. to achieve and further its objectives of growth because there were no external challenges from either the Soviet Union, Europe or Japan given the fact that they were all war-torn, and because, after the second World War, the core industrial states and (to a lesser degree) weaker states benefitted from the political and economic infra-structure of the international system.⁴⁵ The intra-state relationships that evolved thus became valued as ends in themselves. And because they became deeply embedded, these structures tended to persist because they were both functionally useful and because they became valued in their own right.

⁴⁴Ted Robert Gurr, "War, Revolution, And The Growth Of The Coercive State", The Elusive State, ed. by James A. Caparaso, (London, Sage Publications, Inc., 1989), p.50

⁴⁵Ibid.

To summarize, American economic and military preeminence at the end of the Second World War was transformed into a durable form of U.S. hegemony because it had the economic and politico-military capabilities to assert itself within a autonomous national framework, and because it had the authority and prestige which enabled the American state to intervene on behalf of American capitalist interests. More importantly, it was these conditions which sustained the momentum of the capitalist system as a whole. And it was only able to do this because its position was asymmetrical, self-sufficient and based upon Keynesian principles.

B) The Conditions Which Undermined U.S. Hegemony

In order for the hegemon to assume an authoritative position internationally it must have the economic capability, as well as the political authority, to sustain itself through an internal economic growth pole. For the hegemon has to be able to sustain an internal capitalist dynamic within its own state boundaries so that it, in turn, can condition, regulate as well as support the international accumulation process upon which it and others are dependent. The U.S., I demonstrated, had these capabilities.

The conditions of the 1970s however, brought a series of profound structural changes that soon undermined American hegemony and the asymmetrical, vertically integrated post-

World War II capitalist world order.

To begin with, there was a relaxation of security tensions between the United States and the Soviet Union which seriously undermined American authority and the interlocking alliance structure which tied the Western Hemisphere to the U.S. Simply put, the U.S. no longer had its Communist bogey on which to justify its foreign policy decisions.

Secondly, the "oil shocks" led to a restructuring of the energy producing economy shifting U.S. corporate profits to OPEC countries (Petroleum Exporting Countries), thus challenging the availability and accessibility of cheap energy.

Thirdly, the phenomenal growth of private consumption that the U.S. experienced in the 1960s imposed constraints on U.S. fiscal resources necessary to sustain the American infrastructure, i.e., building roads, schools, etc., of that private consumption. The outcome of this capitalist boom in the private sector had the affect of dismantling the American welfare state which inevitably led to the diminution of the U.S. domestic economy, high unemployment, a greater division of labour between the "haves" and the "have-nots", and ultimately the U.S.' ability to regulate the international economic order and force macroeconomic adjustment.

And finally, the fourth challenge to U.S. hegemony and the asymmetrical order evolved out of two interrelated and

simultaneous trends: the growth of inter-dependency (as opposed to de-dependency) between the U.S., West Germany and Japan (only), and the internationalization of capital. Both of these trends, in conjunction with those listed above, interrupted the capitalist dynamic and macroeconomic articulation which was founded upon a hierarchical framework.

Because of the shortage of space I cannot possibly do justice to all of the challenges listed above. Instead, I will concentrate on the fourth; the growth of inter-dependency between the U.S., West Germany and Japan, and the internationalization of capital. I feel these two interrelated developments are particularly pertinent to the argument unfolding in this analysis.

C) Structural Transformation

During the late 1960s and the early 1970s, West Germany and Japan became more self-sufficient. That is to say, they developed their own systems of macroeconomic articulation within autonomous frameworks; a sort of autonomy within inter-dependency. This had the inevitable effect of constraining the U.S.' ability to regulate international economic growth along an asymmetrical, vertically integrated framework. Reflection will demonstrate why.

i) Capital Accumulation in West Germany and Japan

Both Europe and Japan recovered economically from the devastation of the war through the Marshall Plan of 1947, which provided American aid for economic reconstruction, and through the establishment of Bretton Woods; an international institution designed, managed and financed by American money, the aim of which was to generate "liberalized" trade and stability, albeit along American lines of conduct.

Of the Marshall Plan and its successes, Harrison and Bavar write:

...performance did not begin at once; the ravages of the last decade had hit capital hard and confidence was restored only slowly. But by the mid-1950s, a sustained boom was underway every where. It turned out to be by far and away the greatest boom in human history.

The quarter century between 1950 and 1975 saw more growth in manufacturing output in Western Europe and Japan than in the previous three-quarters of a century. Exports also grew rapidly, relative both to previous historical periods and to the performance of the major competitor, the USA.^{46 47}

⁴⁶See Harrison and Bavar, "Ups And Downs: The Fortunes Of The West European And Japanese Economies Since 1945", p.49

⁴⁷See Jeremy Leaman, The Political Economy Of West Germany, 1945-1985: An Introduction, (New York, St.Martin's Press, 1988), p.33-34. Leaman doesn't necessarily agree with the argument that the Marshall Plan -- as well as currency reform and introduction of the social market economy -- was the main source of West German recovery because, he argues, the German economy was already in an upturn. However, he does point out that the Marshall Plan was a significant aspect of the country's growth. Economically, it helped to provide foreign currency in order to import goods, it helped build the German infrastructure, and it helped to bring (West) Germany back into the world economy.

The injection of U.S. capital into Western Europe and Japan led to a number of developments: extensive capital formation in West Germany and Japan, the growth of the Deutsch mark and the Japanese yen relative to the declining influence of the American dollar in the aftermath of an overvalued and over produced dollar, the diffusion of technology across American borders and the subsequent gains in industrial productivity in West Germany and Japan. And finally, the development of favourable socio-political frameworks in both West Germany and Japan which, over time, allowed each country to organize and regulate their economic growth through. In a proverbial nutshell, the relative success of West Germany and Japan was based upon their ability to capture the rhythm of capitalist accumulation and their ability to entrench and regulate its dynamic within a stable environment.

Again, it is impossible in the space of this analysis to discuss in depth all of the points listed above. I will therefore content myself with the following examination.

Both West Germany and Japan experienced the greatest degree of growth between the years 1950 and 1975. Between 1960 and 1979, the average annual growth rate in West Germany

Politically, he argues, it "virtually ensured the maintenance of capitalism", because it provided the U.S. the wherewithal to influence the scope and direction of (West) German policy. As well, it restored German confidence in a capitalist economy.

was 3.9 per cent, in Japan it was 8.5 per cent as compared to 3.6 per cent in the United States.⁴⁸ The growth of exports between 1953-71 in Germany was 16.9 (1953-9) and 9.2 (1959-71), in Japan 19.0 (1953-9) and 15.9 (1959-71), as compared to 0.2 (1953-9) and 6.3 (1959-71) in the U.S.⁴⁹

As can be seen, Japan experienced the greatest boom. Its success was founded on profitability and the eradication of militant unionism.⁵⁰ A conservative network of state bureaucracy, technologically advanced industry and finance has been able to exploit the political exclusion of the left and organized labour, carry out policies of its own choosing, as well as bolster a foreign economic policy which has been able to resist international fluctuations and pressures. Of Japan T.J.Pempel writes:

The domestic political structures of the country ... have for most of the period since World War II permitted wide choice, strength, and consistency. A corporatist coalition of finance, major industry, trading companies, and the upper levels of the national bureaucracy, coupled with the consistent rule of the conservative Liberal Democratic Party, the systematic exclusion of organized labor from formal policy-making channels, and the lack of social overhead spending, has permitted the

⁴⁸Kenneth Oye, "Constrained Confidence And The Evolution Of Reagan Policy," Eagle Resurgent?, ed. by Kenneth A. Oye, Robert J. Lieber and Donald Rothchild, (Toronto, Little, Brown & Company, 1987), p.11

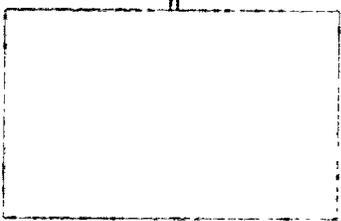
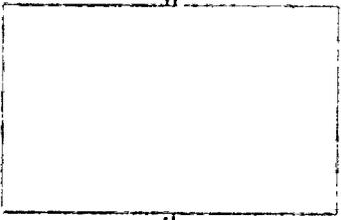
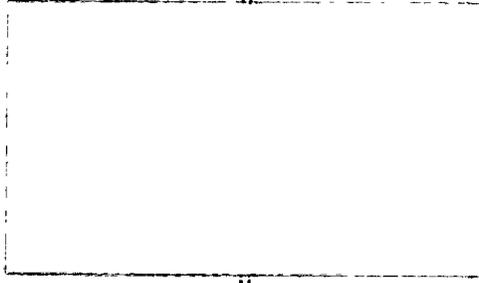
⁴⁹Harrison and Bavar, "Ups And Downs: The Fortunes Of The West European And Japanese Economies Since 1945", p.49

⁵⁰Ibid., p.52

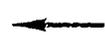
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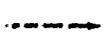
West
Germany



Interdependency



1 way process of accumulation & accommodation



= dependency



Middle countries



Third World

Japanese state to function as official doorman determining what, and under what conditions, capital, technology, and manufactured products enter and leave Japan.⁵¹

The success of West Germany, by comparison, was founded on welfare-state capitalism.⁵² But it was also based on other factors, such as the country's industrial structure, its strategy of export expansion, and a favourable international environment. As Michael Kreile illustrates, a deliberate policy of export-oriented growth produced full employment and created prosperity which, in turn, guaranteed popular support for both the market and its democratic institutions.⁵³ In fact, as a result of its dynamic export expansion, by 1975 one of out of every five jobs in Germany depended on exports.⁵⁴ Given its dependence on exports, it had an interest in

⁵¹T.J.Pempel, "Japanese Foreign Economic Policy: The Domestic Bases For International Behaviour", Between Power And Plenty, ed. by Peter J. Katzenstein, (Wisconsin, The University of Wisconsin Press, 1977), p.139

⁵²See Harrison and Bavar, p.50-53, in which they discuss "co-determination" between workers and management in West Germany. Ironically enough; both authors point out, despite workers' involvement in company decision-making, "co-determination" actually did little for working conditions. Nevertheless, they argue, it did create a sense that the system had changed and as such, it boosted capitalist confidence which inevitably contributed to the post-war boom in West Germany.

⁵³Michael Kreile, "West Germany: The Dynamics Of Expansion", Between Power And Plenty, ed. by Peter J. Katzenstein, (Wisconsin, The University of Wisconsin Press, 1977), p.192

⁵⁴Ibid.

maintaining an open and liberal world economy. Contradictory as it was to the liberal principles preached, the Ministry Of Economics became the driving force of trade liberalization.⁵⁵ And monetary policy, driven by the Deutsche Bank, helped to keep inflation rates low and provide the means for West Germany to remain competitive on the export market.⁵⁶ In the end, it was the dynamism of export expansionism, and the active intervention of government institutions, which transformed West Germany into a major advanced capitalist country.

Eventually, however, West German and Japanese expansion and growth -- which the U.S. was initially dependent upon to generate and sustain the capitalist dynamic -- undermined and imposed an unprecedented strain on the sources of U.S.' economic and political power and its ability to manage the international system under one set of rules as was outlined and established by the U.S. after WW II. Indeed, the closing of the gap between the North-North: the U.S., West Germany and Japan; the most developed and productive countries, eventually led to greater competition between the three poles. Why? Because it led to the coupling of the three major industrialized economies which disrupted the asymmetrical

⁵⁵Ibid., p.198

⁵⁶Ibid., p.208

growth schema of the post-World War II capitalist system; a schema which facilitated the accumulation process in the first place.

In order for the capitalist system to function, i.e., to generate as well as sustain capitalist expansion, it must be entrenched within an asymmetrical, vertically integrated North-South framework, not one which operates along a decentralized, horizontally-structured egalitarian framework. For capitalist societies are based on an unequal distribution of property and organized by means of exchange relationships which are historically inherited. The problem of maintaining the stability of the system, i.e., bringing individuals into harmony and minimizing the disruptive effects of exploitation between the "haves" and the "have nots", is temporarily solved with the presence of a hegemonic power and the normative structures which organize and regulate capitalist relations. As Michel Aglietta demonstrates:

... there is no long-term trend for international relations to be harmonized through the homogenization of national economies and the equalization of growth rates. Indeed, epochs of rapidly expanding world trade and relative monetary stability coincide with the persistence of national differentiations...

International capital flows will only favour the compatibility of national growth schemes if they are inserted into a model of the international division of labour... This, in fact, is the real linchpin of the world economy qua system. The unity of the capitalist world economy is not a state of equilibrium. It is a process whereby the

growth systems of the major capitalist countries which express national structure preferences (i.e., the pattern of social relations and the institutions regulating their conflict) deepen a single model of the international division of labour by developing strong complementarities. Historical experience showed that a hierarchical pattern has so far always emerged in those complementary relations among sovereign nations which are capable of reproducing themselves in a temporality beyond the economic horizon of investments.⁵⁷

Those who advocate an interdependent New World Order fail to recognize that the reconstructing and boosting of the German and Japanese economies eventually challenged the hierarchically organized political framework and the regulatory mechanisms which helped to facilitate capitalist growth and expansion in the first place and ensure relatively stable international relations in the second. More so, interdependency theorists fail to see that the world's preeminent political and financial capitals are today trying to politically "delink" themselves from each other. That is, they are using their political authority (reinforced by their economic clout) to protect and sustain their own centres of world industrial activity in the aftermath of world economic recession and declining capital markets.

In the aftermath of relative U.S. hegemonic decline and the subsequent challenge to the hierarchically regulated

⁵⁷Michel Aglietta, "World Capitalism In The Eighties", p.6, 11

growth system, the conditions of the late 1960s and early 1970s led to a deepening crisis of the system as a whole.

After 1973, all of the industrialized countries saw their Gross Domestic Product (GDP), employment rate and balance of payments as a percentage of GDP shrink.⁵⁸ The impact of the crises of the 1970s, though, had relatively less of an impact on West Germany and Japan because of the relative health of their productive sector.⁵⁹ As such, they were able better to cushion the crash of the U.S. economy and system as a whole in 1974-75. Furthermore, the Deutsch mark and the Japanese yen had become more influential because of the growing strength of their political authority, that is their ability to regulate capitalist exchange within an autonomous framework.

A development which also challenged the asymmetrical, vertically integrated structure, was the internationalization of capital into the periphery or what I prefer to call the South. Why? To the extent that there was a closing of the original gap between the U.S., Germany and Japan, and subsequent international rivalry and competition between these three in an effort to boost productivity within each of their respective borders, many industries and private investors reacted by deploying their productive equipment across their

⁵⁸"An Economy's Best Friend", The Economist, (November 16, 1991), p.87

⁵⁹Ibid.

borders into new markets, i.e., newly industrializing and third world countries, to restore productivity.

ii) The Internationalization Of Capital To The South

The internationalization of capital through trade to the South served to create new forms of growth, boost productivity and temporarily "solve" the problem of accumulation, i.e., a decline in profitability, in the major industrialized countries in the aftermath of the 1972-73 recession. Increased trade during this period, for example, accounted for the emergence of the "Newly Industrialized Countries" (NICs) such as South Korea, Taiwan, Hong Kong, Singapore, Brazil, Mexico, etc. In fact, their share of world manufactured exports grew 2 per cent a year between 1967 and 1977 as compared to 2.1 per cent per year for Japan and West Germany, and 2.9 per cent a year for the United States.⁶⁰

What is important to note is their "development" was based on the issuance of international credit. In the aftermath of exploding interest rates, as a result of the oil shocks of the 1970s and later as a result of the U.S. arms build-up, the third world and NICs would eventually find themselves servicing a phenomenal debt load; a debt which was sponsored through the issuance of international credit via the

⁶⁰Alain Lipietz, "Towards Global Fordism?", New Left Review, (Number 132, March-April, 1982), p.39

United States which, in turn, borrowed capital from West Germany and Japan.⁶¹

In fact, the amount of money that was owed by those in the South was pale in comparison to the debt incurred by the United States by 1986 -- which reached \$2 trillion; twice the amount of all third world countries put together.⁶² By 1987, the U.S.' trade deficit was \$160 billion. Japan, on the other hand, had a surplus of \$96 billion -- of that total the U.S. owed \$56 billion.⁶³ West Germany also had a surplus which amounted to \$65 billion. And by 1977 these same NICs represented as much as 15.5 per cent of the imports for the U.S. and 17.3 per cent for Japan. What is interesting to note from this, South Korea, Taiwan, Hong Kong and Singapore had a surplus of \$30 billion with the United States but a deficit of \$22 billion with Japan.⁶⁴

The U.S.' use of international credit (i.e., West German and Japanese capital) to restimulate the capitalist dynamic had three consequences: a/it led to the ultimate disjuncture

⁶¹Susan George looks at U.S. defence spending in the 1980s as it relates to increased Third World debt. See Susan George, A Fate Worse Than Debt, (London, Penguin Group, 1988)

⁶²Ibid., p.12

⁶³ Alain Lipietz, "The Debt Problem, European Integration And The New Phase Of World Crisis", New Left Review, (Number 178, November-December 1989), p.41

⁶⁴Ibid.

of the monopolist regulatory framework that American hegemony and its institutions once provided, b/the U.S.' borrowing of West German and Japanese capital changed the surplus/deficit relationship between the three major industrialized countries and, in essence, provided the wherewithal for West Germany and Japan to grow, develop and expand further into relatively self-sufficient and autonomous powers disrupting the asymmetrical complementarities that capitalist accumulation was dependent upon in the first place, c/the internationalization of capital increased the competitive drive between these major industrialized countries via North-South trade, and finally d/it led to the restructuring of the world capitalist economy into three distinct spaces of capitalist accumulation with three mutually exclusive divisions of labour.

In the end, even though the internationalization of capital helped to regenerate world economic growth and provide hefty returns for the already well-to-do financial and industrial investors of the industrialized core (because of cheap labour costs and cheap raw materials from the third world and NICs), the upturn in the economy would only prove to be brief. For as major industrialized countries tried to increase their competitiveness internationally, they did so at the risk of opening themselves up to international fluctuations. As one would expect, the U.S., Germany, Japan and other nations tied to them, would soon find themselves

confronted by rising unemployment and inflation and an increasing inability to manage their domestic economies.

R.J. Barry Jones summarizes the forces at work:

The paradox of government in advanced capitalist society is that it is constantly pushed into an attempt to resolve distributional issues in a way that is ultimately inflationary and into an effort to secure export-led growth that... inevitably induces 'zero-sum' competition with other advanced capitalist societies...

Paradox is also, however, inherent in the relations between advanced capitalist societies and the less developed countries. A basic asymmetry afflicts this pattern of relationships with the administered price goods of the North being exchanged with the South's goods, with their demand-determined prices. The cruel paradox from the South's point of view, here, is that when economic buoyancy in the North does stimulate an increase in the prices of basic commodities the North's 'reluctance' to share its gains with the South manifests itself in the form of higher prices for Northern exports. The South therefore, is rarely a beneficiary from world economic growth except in the short term, for not only does Northern inflation cancel out the gains from increased commodity prices but, ultimately, encourages Northern governments to adopt counter-inflationary, and recession inducing, policies which eventually dampen demand for, and hence the prices of, the South's primary commodity exports.⁶⁵

Inevitably, governments reacted by retreating from full employment. Markets grew more slowly as workers and factories began to idle in the industrialized heartlands. Competition among the world's manufacturers for new markets intensified and protectionist pressures began to surface in the major

⁶⁵R.J. Barry Jones, "The Political Economy Of International Relations", Perspectives On Political Economy, ed. by Barry Jones, (New York, St.Martin's Press, 1983), p.201

industrialized countries'. What ensued (and is becoming an ongoing characteristic of the New World Order) was a cat and mouse game where one country's policies would reverberate through the international system to affect other countries' economies. Attempts to correct the problems, i.e., through fiscal restraint, would aid one particular country but would reverberate through the international economy thus clashing with another nation's policies.

What is more, NICs and third world countries which were tied to the three economic linchpins, did not develop a system of accumulation autonomous of the industrialized world and independently regulated within a socio-economic and political framework which was responsive to the internal needs of NICs and third world countries. Whereas the industrialized world has had developed state apparatuses which evolved over time to help advance capitalists' interests, NICs and third world countries lacked the mechanisms needed to expand and regulate capitalist development.⁶⁶ This factor, together with the development of a dependency relationship, placed them at a comparative disadvantage to those countries of the North which were highly industrialized and developed.

Marx summed up best the dependency relationship that

⁶⁶ See Immanuel Wallerstein's, "Patterns and Perspectives of the Capitalist World-Economy", International Relations Theory, ed. by Paul R. Viotti and Mark V. Kauppi, (New York, Macmillan Publishing Company, 1987), p.507-518

develops between core and peripheral countries:

Under the conditions of accumulation... their [the dependent labourer] relation of dependence upon capital takes on a form endurable... Instead of becoming more intensive with the growth of capital, this relation of dependence only becomes more extensive, i.e., the sphere of capital's exploitation and rule merely extends with its own dimensions and the number of its subjects.⁶⁷

Why is this the case? The primary goal that states attempt to pursue is maximum national economic growth, individual autonomy, and self-determination within and between states.⁶⁸ However, because of the competitive and conflictual nature of the capitalist system which inherently breeds inequality, NICs and third world countries find these goals almost impossible to achieve. In a world political economy which adheres to liberal policies of free trade and open market competition, countries which do not have a high degree of specialization or productivity are at a comparative disadvantage to those that are highly industrialized and developed. The result is a hierarchical, exploitative and asymmetrical distribution of wealth and benefits in favour of the richer states of the North. More so, the continuous competition for new markets and profit accumulation in the wake of capitalist crisis, perpetuates a state of dependency

⁶⁷Karl Marx, The Communist Manifesto, ed. by Beer, (Illinois, Harlan Davidson, Inc., 1955), p.67

⁶⁸See Joseph A. Schumpeter, Capitalism, Socialism And Democracy, Part I and Part II

of poor NICs and third world countries on the industrial capitalists of the North.⁶⁹

In other words, the major obstacle that prevents states from achieving wealth and benefits is the capitalist nature of the international system and not the individual policies of states. Thus even if NICs and third world countries adhere to liberal economic policies, the nature of the asymmetrical relationships only perpetuates the "poverty, foreign penetration, and continued dependence upon rich states" because they are less developed, i.e., economically and politically, to establish the control needed to optimize the benefits of the free market.⁷⁰

Furthermore, as is illustrated by Lindblom, the exchange relation on which market mechanisms are built is one of deliberate control:

It is a relation between two (or sometimes more) persons [states] each of whom offers a benefit in order to induce a response. The offer is, therefore, contingent on achieving the response. A benefit is anything that the recipient perceives to be desirable, whether [he/it] perceives correctly or not...⁷¹

⁶⁹For one discussion of modernization and dependency the reader is referred to J. Samuel Valenzuela and Arturo Valenzuela, "Modernization And Dependency", International Relations Theory, ed. by Paul R. Viotti and Mark V. Kauppi, (New York, Macmillan Publishing Company, 1987), p.452-477

⁷⁰See Martin Carnoy, The State And Political Theory, (Princeton, Princeton University Press, 1984), p.8, 230

⁷¹Charles E. Lindblom, p.33-34

... one of the great virtues of the market [is] that it force[s] people to work. Naturally indolent, people have to be coerced to work either by the force of law or, through the market system, by the 'silent, unremitted pressure' of hunger.⁷²

The essential point to grasp here is the nature of the system itself compels a response whether or not it is "perceived to be desirable".⁷³ But although the market compels a response from all actors, the infra-structure of which Western states dominate has inherently allowed developed countries such as the U.S., Germany and Japan, more leverage over the subordinate states thus producing an unequal distribution of wealth.

So much for charting the rhythm of capitalist accumulation during the post-World War II years under its main transmitter: American hegemony. As has been pointed out in this chapter, the 1970s challenged U.S. hegemony and the hierarchical order which primed the capitalist pump. It also undermined the regulation of capital and domestic and international stability. The inevitable result was developments that produced a structure of "crisis' within

⁷²Ibid., p.47

⁷³The reference here is in regards to the alienation factor that Marxists often cite as being inherent in exchange relations. The concept essentially refers to the estrangement of human life i.e., the transcending of man's existence and man's mode of existence into material objects of money and wealth for the purpose of exchange. See Robert Tucker, The Marx-Engels Reader, (New York, W.W. Norton & Company, 1978)

crisis'"; the production of multiplier effects throughout the international system.⁷⁴

It is no surprise, then, that the U.S. would attempt to reassert its hegemony in the 1980s under the Reagan administration, i.e., through Reaganomics and accelerated defence spending,⁷⁵ and again in the 1990s under President Bush, i.e., the Gulf War. After all, the need of national governments to preserve their economic well-being and political stability is an extremely powerful motive for addressing the contemporary crisis of economic recession and governmental inadequacy. Whether we are speaking of the U.S. in particular, or dominant capitalist powers in general, national governments are very concerned with keeping the capitalist system afloat for, in essence, it is their *raison d'etre*.

On the basis of the above observations, one can draw the following conclusion. The development of a growth system structurally correlated along an international division of labour eventually results in a dual effect: one of which is political in nature; i.e., the growth and expansion of the

⁷⁴Mike Davis, p.13

⁷⁵ See Barry R. Posen and Stephen W. Van Evera, "Reagan Administration Defense Policy: Departure From Containment", Eagle Resurgent? The Reagan Era in American Foreign Policy, ed. by Kenneth Oye, Robert J. Lieber and Donald Rothchild, (Toronto, Little, Brown and Company, 1987), for further analysis.

economies of the major participant countries which inevitably produces a new distribution of political power which is hostile to the hegemon and thus the capitalist engine. The other effect is economic in nature; i.e., a decline in the rate of productivity growth and profits within the capitalist orbit as the major capitalist countries strive to remain competitive. The bottom line is that although the internationalization of capital eventually led to the formation of capital within West Germany and Japan, the interdependency that ensued eventually threatened American hegemony in the first place, and upset the overall capitalist rhythm in the second.

I will now turn to the transformations that have recently been taking place within the international community and thus make a prediction about what the New World Order will look like. Using the post-World War II era and U.S. hegemony as a key point of reference, my goal in Chapter Three will be to illustrate the existence of competition between the U.S., Germany and Japan; what I have been referring to as the North-North dynamic, by way of common associations (i.e., the need for capitalist accumulation and profit), and the existence of a North-South dynamic characterized by dissimilarity, a division of labour and hierarchy through the use of a horizontal and vertical framework. In fact, as the reader is probably aware, I have already used hints of this

model in earlier analysis to help the reader conceptualize the line of argument that is developing here.

CHAPTER THREE

A TRIPOLAR WORLD

The emerging New World Order will be one in which there is a growing attempt by the U.S., Germany and Japan to manipulate economic arrangements in order to protect their own financial and industrial interests in the aftermath of economic crisis. In essence, what we will see (or already are seeing) is the formation of three vertically aligned systems of accumulation dominated by the U.S., Germany and Japan respectively. The implications of this are disastrous for middle and third world countries. For if we examine what, in fact, has been occurring throughout this so-called era of "increasing interdependency", we will quickly realize that it has resembled a one-way movement and adaption process of accumulation and accommodation. The end result is sure to be one in which the U.S., Germany and Japan will continue to grow and expand at everyone else's expense.

Why Tripolarity? In the aftermath of global economic crisis a Tripolar framework provides the three major capitalist powers their own asymmetrical "solution". As I have tried to demonstrate throughout this analysis, the capitalist dynamic works best when it is entrenched within an asymmetrical, vertically integrated framework such as that provided by U.S. hegemony in the immediate post-World War II years. With the rise of two equal and competing powers,

however, this regulatory framework became undermined. The results were a crisis of authority, and a crisis of accumulation which rippled throughout the international system. Attempts to restimulate the capitalist dynamic within each country eventually fell through. One country's policies (i.e., government intervention through monetary and fiscal policy) inevitably had adverse effects on another country, which then had effects on another, only to have the repercussions come back to the originating country. Despite the challenges to all, the U.S., West Germany and Japan were in a relatively better position to cushion the blows. Each country, though, was increasingly forced to secure export-led growth in order to remain competitive. As each country became more competitive, tensions began to grow between the three economic linchpins of the world economy. So much that we can now see three distinct divisions between U.S., German and Japanese relations. The outcome of which has been a growing trend towards Tripolarity.

A) THE NORTH-NORTH DYNAMIC: DIS-INTEGRATION

i) Economic Dis-Integration Between The U.S., Germany And Japan

Across a horizontal plain a number of divisions or cracks have been surfacing between the U.S., Germany and Japan. The growing rift, what I refer to as the North-North dynamic,

among these three reflects a deliberate or at least implicit attempt by these powers to dis-integrate themselves from one another in the aftermath of international macro-economic disarticulation so that they can better manage and protect the economic bases of their sovereignty. These cracks are both political and economic in nature. I will begin with the realm of economic dis-integration.

The Group of Seven (G7) richest countries get-togethers are the most influential meetings in the world. The main question on the agenda in the last few years has been how to sustain non-inflationary growth in the aftermath of global economic crisis. The difficulty for the six has been trying to resist pressure from the seventh -- the U.S., who has been lobbying hard for economic stimulants and spending initiatives. "The rest of the world is completely unsympathetic to the need for economic stimulus in the United States," said Ravi Bulchandani, a senior international economist with Goldman & Co.⁷⁶ The situation is aggravated because each country is at cross-purposes. On the one hand, few countries can afford expansionary fiscal policies because of soaring government deficits. On the other hand, tough inflationary stances like that taken by Germany threatens to

⁷⁶See Jacquie McNish, "G7 Expects Upturn This Year", The Globe And Mail, (January 27, 1992), p.B1-2

slow down even further economic growth.⁷⁷ With their countries linked under the European Community, EC partners in particular, are forced to stagnate internally as Germany chooses "slow but sure" growth.⁷⁸

My point in all of this is not just one which aims to make the reader aware of a crisis of accumulation of the post-World War II system, but to shed light on the changing nature of international relations and the decision-making process. Years ago, the U.S. announced the meetings, scheduled the conferences, set the agenda, and ultimately had the final say. In recent years, however, the Europeans -- the Germans in particular -- and the Japanese have begun to take a more active role in international affairs, refusing to bow down to U.S. demands.⁷⁹

Another example which confirms the growing "nerve" of some major European countries was the January 1992 conference in Washington to discuss coordination of Western aid to the New Commonwealth of Independent States. The Europeans, more or less, rearranged and coordinated the agenda.

The Uruguay round of GATT (General Agreement on Tariffs

⁷⁷Ibid.

⁷⁸Alain Lipietz, "The Debt Problem, European Integration And The New Phase Of World Crisis", p.48

⁷⁹Case in point, the Bonn Summit of 1978 when Germany was pressured into lowering its interest rates in order to re-stimulate world economy.

and Trade), which has lasted for over six years without much success, is an example of an institution which has lost its ability to make decisions and coordinate the policies of the three economic linchpins of the capitalist economy, i.e., the U.S., Germany and Japan.⁸⁰

The major source of contention throughout the talks has involved the reform of world farm trade. The United States wants the European Community (E.C.) to reduce its export subsidies (by 90 per cent -- the E.C. offers 30 per cent), and its internal price supports, as well as cut its tariff barriers on imports. The Europeans want the U.S. to begin treating its deficiency payments to farmers as export subsidies since they have a major impact on exports coming

⁸⁰If there is a conclusion of the Uruguay round of trade talks -- I believe there will be -- one has to wonder what compromises will be made to bring the talks to an end. At this point in time, one can only venture a guess. On the issue of liberalizing farm trade, for example, there will probably be a shift from quantitative restrictions to the use of tariffs because the European Community -- especially the French -- will not want to give away too much. Protectionism, no less. The attempt to improve the rules on subsidies; to curb the abuse -- especially American -- of anti-dumping laws to protect uncompetitive industries, the push to get Japan to open their markets to rice and financial services, etc., are other contentious issues which will probably also lend itself to new forms of protectionism. In the end, a done deal will spur trade and industrial growth making the rich richer and the poor poorer. And "freer trade" will see the introduction of new forms of protectionism by the three major states and unleash a competitive scramble to consolidate and enlarge their spheres of influence so that the New World Order will come to resemble three parallel, mutually exclusive divisions of labour.

into the American market.⁸¹

The decision by the United States to impose punitive taxes of 100 per cent or more on \$350 million worth of luxury European imports (i.e., mainly French white wines, some Italian, etc.) was the result of an earlier unsolved soybean trade dispute. Following suit, the European Community counter threatened with a similar tax on American goods.⁸² The European Community's and the United States' clash over a sonar mapping system for the Antarctic in the spring of 1992 reflected another transatlantic dispute. According to the E.C., the U.S. violated GATT's 25-nation Government Procurement Code because it allowed only U.S. companies and not foreign companies to bid on the mapping system.

The ongoing trade disputes between the U.S., Japan and Europe have been a major source of tension for all three of the major industrialized countries. All three have been in disputes, in one form or another, ranging from the U.S.' condemnation of Japanese "unfair" trading practices, the

⁸¹According to one study, the ongoing trade war between the United States and the European Community has contributed to a significant decrease in the price of western grains and oilseeds. In addition to this, there was a 19 per cent drop in revenue from Canadian crops in the first quarter of 1992. See "EC, U.S. Clash On New Trade Front", The Globe And Mail, (Friday, May 14, 1992), p.B1

⁸²The New York Times, (November 5, 1992), p.C1, C2

Japanese' condemnation of the E.C. anti-dumping rules,⁸³ to the recent release of the Japanese government's Report on Unfair Trade Practices by Major Trading Partners which accuses the U.S. of having biased policies in nine out of ten areas. There have been many warnings about the implications of further delaying the Uruguay talks.⁸⁴ There is a sense that if the GATT does not come to a full agreement soon, the world will witness the increasing politicization of international economic affairs which will result in protectionism. Despite the impending threat, one which has gone on since 1986, the U.S., Germany and Japan have found new means of systematically reducing the free flow of goods and capital between them through non-tariff measures. Everything from health and safety standards, to subsidies, to "voluntary agreements" have come under the protectionist umbrella.⁸⁵ Whereas past

⁸³TDK, a prominent Japanese company, was asked to pay steep anti-dumping duties (22.3 per cent) and took issue with the E.C. maintaining that Japanese imports did not increase over the period in question. See "Japan Condemns EC Anti-Dumping Rules", The Financial Times, (Wednesday, November 4, 1992), p.17

⁸⁴Canadian Trade Minister Michael Wilson for example, has argued that success at the GATT negotiation table "would bring a tremendous and badly needed boost in international business confidence... Failure, on the other hand, would unleash protectionism... and result in a prolonged period of instability in the global economy." See "Trade Deal Imperative To Economy, Wilson Warns", The Globe And Mail, (Tuesday, May 26, 1992), p.B1

⁸⁵Protectionism occurs in many shapes and forms. On the agricultural front alone, subsidization in Western countries rose from 30 per cent of the value of production output in 1980 to 50 per cent in 1990. The "buy American" laws which restrict the

relations have been inconspicuous and stable, today's relations between the three have been visible and uncertain. The result has been a tit for tat relationship in international monetary relations and, in essence, a marked deterioration in political relations between the U.S., Germany and Japan.

ii) Military-Political Dis-integration

A number of dis-integrating military-political trends have created cleavages among the U.S., Germany and Japan. This is the case because security tensions between the two superpowers are now not only relaxed but the Cold War between the East and West is over. Simply put, East and West are all together in a whited-out, "make a buck" world. This has not only altered the international environment in which the U.S. develops its foreign policy but it has undermined the strategic relationships, i.e., NATO, and the authority structure which once maintained and guaranteed the U.S.' hold on the Western hemisphere, if not on the globe itself. Today, Germany and Japan have become less reliant on U.S. military protection. As a result, the U.S. has less leverage in its

American government to U.S. goods and services only, the use of "national security" as a disclosure, the selling of goods below cost while simultaneously imposing punitive taxes on Japanese imports are all mechanisms designed to protect American markets from foreign penetration.

ability to dictate the course of events. To put it bluntly, the question of maintaining an East-West balancing act no longer takes precedence over or can be used as an easy means toward solving issues of trade or economic policy between the United States and Europe and/or Japan.

The North American Treaty Organization (NATO)⁸⁶ was created as a military alliance under unquestioned U.S. leadership in an effort to tie other countries to it, to protect its hegemonic status and any infringements which might challenge the capitalist order. NATO provided the institutional framework for hierarchical, transnational capitalism. In fact, Friedmann has argued that the Atlantic bloc and "free market" capitalism was shaped not only by economic arrangements but also postwar military institutions:

Postwar military and economic arrangements were an unprecedented renunciation of sovereignty by former great (and lesser) powers in favour of the American 'superpower.' Through NATO the U.S. controlled the key military forces of Europe, and through the Bretton Woods monetary system Western Europe was forced to accept the economic power of the U.S. to finance military expenditures and foreign investments beyond the limits of its exchange balance...

Beginning in 1948, the rules which opened European and colonial economies to U.S. (and eventually all) foreign investment were entrenched in a complex web

⁸⁶NATO was not the only military alliance erected under the American security doctrine. Others included the Chapultepec Pact (1945), the Manila Pact (1954) which led to the creation of the South East Asian Treaty Organization (SEATO).

of regional military alliances centred on NATO.⁸⁷

Today, however, NATO is a Cold War orphan that lacks not only the money to finance its expenditures, it lacks its *raison d'etre*. What will become of this military-political institution? What will its shape and form be? To begin with, there have already been a number of cuts -- a 10 per cent cut is sought at NATO and a 25 per cent cut is being sought at the Supreme Headquarters Allied Powers of Europe (SHAPE) -- to the number of North American troops and weapons deployed to defend Western European countries since the thawing of the Cold War. Secondly, there will probably be a transformation in the makeup of NATO as can be witnessed already with the number of higher authoritative positions being assumed by Germans. Two recent examples include Secretary-General Manfred Woerner's recent three year extension and the probability that the next chief of staff at SHAPE will be assumed by a German. And there is already a change in the language most commonly spoken amongst the alliance's elite, it is no longer English but German.⁸⁸ Thirdly, there is already a new awareness of the

⁸⁷Harriet Freidmann, "New Wines, New Bottles: The Regulation Of Capital On A World Scale", Studies In Political Economy, (Number 36, Fall 1991), p.22-23

⁸⁸See "Germans Grabbing Top NATO Jobs", The Globe And Mail, (October 9, 1992), p.A12

fact that the security of the members can be threatened by events which may have a greater impact on one alliance member than on another. The impact of the Gulf War of 1991, for example, posed a greater threat to the U.S. than to Europe. Similarly, the crises and overall instability in Eastern Europe, as well as the current civil war in Yugoslavia, pose a greater threat to Western Europeans than to Americans.

And finally, factors that may -- and to some extent already have -- had an impact on the changing shape and form of NATO have to do with political culture. Most Europeans still see NATO as pre-dominantly U.S.-influenced. The crises that are erupting in eastern Europe could offer a new, more influential, role for Europeans in NATO. The Conference on Security and Cooperation (CSCE), for example, has already been seized upon as a step towards trying to foster a European initiative towards security in the region. Most Europeans, however, do not see CSCE as having a lot of clout. As a cumbersome 52-nation body, they see its decisional power lost to the U.S. In fact, the uneasiness over U.S. influence in European affairs has led to the formation of a 35,000 Franco-German army which has acted on the command of the European Community.

Plans for the integration of the Community and the

Western European Union (WEU)⁸⁹ have been a priority for both the French and the Germans who have been trying to make the WEU NATO's "European pillar".⁹⁰ The underlying objective is to create a stronger European defence alliance, an alliance in which decisions are made by European councils and not by Washington offices.

As one can see, there is a European tendency to reject U.S. influence in what is supposed to be an allied alliance. But there is also resistance and/or retrenchment from the transatlantic alliance emanating from the U.S.

The announcement of the Strategic Defence Initiative (SDI) in 1983, under the Reagan Administration, reflects one of the first major cracks in the long-term relationship. Although a number of disputes have characterized the transatlantic alliance over the years, this case is particularly noteworthy. For the Europeans the SDI initiative signalled a definite change in the shape and direction in

⁸⁹The Western European Union is a defence alliance comprised of EC members with the exception of Greece, Denmark and Ireland. Its members are committed by Article 5 of the 1954 treaty which was established to provide military assistance to each other in the event of an attack. What is important to note, is that there is a clause; Article 4: which holds that it has to rely on NATO on operational issues. See "What To Do With The WEU", The Economist, (February 2, 1991), p.48

⁹⁰The enhanced role of the WEU under the guidance of the European Council has had a predominantly Franco-German thrust with a greater drive coming from the French who are less Atlanticist than the Germans.

which American nuclear strategy was heading. It was a major step forward in American nuclear strategy and one that had been taken without European consultation.

More recently, many question the prospect of American isolationism in the aftermath of what it saw as a reluctant commitment by its allies in the Gulf War. As illustrated in one article in the Economist, Americans will remember those who did and did not pull their weight without hesitation:

Japan reacted to the invasion of Kuwait last August by putting its head in the sand rather than its hands in its pocket... Germany, another country notable for its lack of enthusiasm for the use of force in the Gulf... The fat cheques now coming in will certainly help to soothe feelings in Washington. They will not, however, eradicate American memories of who pulled his weight without hesitation and who joined in only reluctantly...⁹¹

In fact, since the Gulf War, tensions between the U.S. and Japan have been growing. There has been a reference by some, that the Gulf War provided the U.S. with a new proverbial rogue elephant, a new substitute for the Soviet Union:

To scapegoat: to cast blame for failure on an innocent or at most only partly responsible individual or group. Or country. Specifically -- in certain parts of the United States these days -- Japan...

Whether you call it scapegoating or Japan-bashing, to get to the origin of the current frenzy of it (the first was during the '81-'82 recession), you

⁹¹See "They'll Remember Their Friends", The Economist, (February 2, 1991), p. 11

have to go back to the gulf war. That's when Japan was seen by many Americans as a little too slow in ponying up its financial share of the military venture. The tensions began building from there...

The U.S. needs a substitute for the Soviet Union. They've hit on Japan -- despite the fact that it's an ally. [Argues David Wartz, manager of the Japan Automobile Manufacturers Association of Canada) Even the language used by the bashers is military. They talk about the 'looming invasion' or Japan's economic 'warplan.'⁹²

Despite U.S. attempts to "scapegoat" and cast some of its allies as enemies, the point to be made in all of this is that the Gulf War of 1991 was demonstrably a reflection of declining U.S. influence on its German and Japanese allies. In fact, without Germany's and Japan's financial contribution of about \$17 billion there would have been little the United States could have done.⁹³

The United States could barely have afforded the battle without plentiful free oil, yen and D-marks. To defeat a country with the national product of Portugal took 75% of America's tactical aircraft and 40% of its tanks. Some unipolar gunboat.⁹⁴

What is more, by the end of the 1991 fiscal year, the U.S.' federal deficit was estimated to be somewhere between

⁹² See "Japan Bashing", The Toronto Star, (February 8, 1992), p.D1

⁹³ See "The World Order Cometh", The Economist, (June 22, 1991), p.15

⁹⁴ See "On Top Of The World", The Economist, (March 9, 1991), p.15

\$250 billion and \$300 billion (U.S.).⁹⁵ And the cost to maintain its military muscle during the Gulf War was, at that time, estimated at about \$500 million. Its unemployment rate in 1991 was estimated at about 6.9 per cent.⁹⁶ Just over one year later, the unemployment rate hit an eight-year high of 7.8 per cent in June 1992.⁹⁷ Add to this a sluggish GNP; estimated at about only 2% per annum in 1991 compared to about 4% in Japan, and there is doubt that the U.S. has the wherewithal to support future battles.

I have examined some of the economic and political dis-integrating tendencies developing among the U.S., Germany and Japan. What should be noted is that the focus of dis-integration has been on these three only and not, for example, on other Group of Seven members such as France and Italy. The reason for this is fairly straight-forward. The U.S., Germany and Japan are, first and foremost, the three economic linchpins. What is more, they are the world's top traders in what is increasingly becoming a world capitalist economy.⁹⁸

⁹⁵"The Year Of The Slug", The Economist, (June 22, 1991), p.35

⁹⁶Ibid.

⁹⁷"The Economy", The Globe And Mail, (August 5, 1992), p.B3

⁹⁸In terms of exporters, for example, the U.S. was number one in 1979 and number one in 1989 ((%) share 11.8), Germany was ranked number two in 1979 and number two in 1989 ((%) share 11.0), Japan was ranked number three in 1979 and number 3 in 1989 ((%) share 8.9). In terms of importers, the U.S. was ranked

In fact, to a great extent, this factor has the potential to entrench further their clout in the New World Order. Why? As I have already argued elsewhere, the three major capitalist countries have the ability to control demand, supply and prices. Countries such as Canada which are heavily dependent on exports (i.e., it accounts for 30 cents in every dollar generated by Canada's economy) face the prospect of losing its manufacturing base as well as a loss of employment in the wake of increasing competition. Countries such as Mexico or South Korea, for example, are too small to retaliate effectively against the tactics of trade cheats.

In fact, it is just such tactics that are the issue in the GATT talks. Without a deal, countries will be forced to pay more for imported goods if more trade barriers are erected. Although all countries may be subjected to the same cost for imported goods, less developed countries will be less able to afford additional costs for the simple reason they are poorer countries. Paradox is, even if there was an end to the Uruguay Round, chances are that we still would see protectionist walls going up, albeit in different forms. This is the case because, as I have already argued, major

number one in 1979 and number in 1989 ((%) share 15.4), Germany ranked number two in 1979 and number two in 1989 ((%) share 8.4), and Japan ranked number three in 1979 in number three in 1989 ((%) 6.5). See "U.S. Congress Holds Key To Break Trade Deadlock", Toronto Star, (February 12, 1991), p.B1-2

capitalist countries have the wherewithal to do so. One need not look any further than the GATT to see who the main negotiators are and are not, what the disputes are and what issues have been passed over, to realize that an end to the Uruguay Round of GATT would, in the end, be nothing more than a smokescreen.

To summarize, because of their power, decisions they make, policies they push through, the U.S., Germany and Japan have the potential to influence and shape the path of international macroeconomic articulation. The difficulty, however, as I argued earlier, is they are three, near-equal and competing powers and, as a result, they not only have the ability to affect the world economy, they also have the ability to accept or reject measures imposed by each other. Hence, the "tit for tat" exchange that has characterized GATT relations, the creation of barriers or "moats" to terminate or reduce the free flow of goods among the U.S., Germany and Japan, and the changing shape of alliances as is the case with NATO.

These dis-integrating tendencies together with the creation of regional institutions and mechanisms constructed to increase integration and industrial expansion within each respective region must be seen as parallel efforts aimed at generating and centralizing new systems of capitalist

accumulation within the U.S., Germany and Japan, and creating regional trade agreements which would not only guarantee a return on investment, but would lock that return in a formal binding treaty. The centralizing process of economic restructuring will be the focus of the next section.

B) THE NORTH-SOUTH DYNAMIC: REGIONAL BLOC FORMATION

The world is already being reorganized along three vertical axes; the U.S. via North America, Germany via Europe, and Japan via Asia-Pacific. How has this been possible? In a proverbial nutshell, the answer is all a matter of politics.

i) U.S. Hegemony: Via North America

A centralizing and concentrating process of economic restructuring began in the United States and Canada in 1988 when the Free Trade Agreement (FTA) was signed. Three years later the U.S., Canada and Mexico announced their intention to begin trilateral free trade negotiations to create a North American Free Trade Area (NAFTA). This agreement has had a great deal of negative reaction in all three countries. Despite the protests the deal is being pushed through. Why? And, how is this possible?

In answer to the first question, the determination to "free" up the continent's trade should be seen as a political

agenda deliberately or at least implicitly designed to increase the U.S' capacity to intervene and regulate on behalf of capitalist interests in the aftermath of global economic crisis. And the answer to the second question is the current dynamic comes about because of politics.

This assessment is founded on the belief that the political apparatus in each state is the stimulus or driving force behind each capitalist economy. As Heilbroner put it:

...nations have economic structures that rest on private property and economic systems that depend on market forces. All display similar tendencies of instability, inflation, business concentration, and the like. But from nation to nation the degree and manner of public correction of these problems varies, largely as a consequence of differing capacities to create and maintain strong effective political authorities willing to set themselves 'against' as well as side by side with the business community.⁹⁹

...governments, for all their ideological skirmishes with business, have always been the silent partners of business; indeed, as Adam Smith was explicit in declaring, private property would not exist a 'single night' without government.¹⁰⁰

Furthermore, the stronger a state's political framework, i.e., its government and its institutions, the greater its capital and capitalist potential and, vice versa, the greater its capital and capitalist potential, the greater its

⁹⁹Robert L. Heilbroner, Business Civilization In Decline, (New York, W.W. Norton And Company, Inc., 1976), p.31

¹⁰⁰ Ibid. p.93; Adam Smith, The Wealth Of Nations, (New York, Modern Library, 1937), p.670

political framework. More importantly, the stronger the political framework and capital relative to other states in the system, the more hegemonic it is.

Gilpin writes, albeit in reference to the international system:

Although the economic and technical substructure partially determines and interacts with the political superstructure... politics determines the framework of economic activity and channels it in directions which tend to serve the political objectives of dominant groups and organizations. Throughout history each successive hegemonic power has organized economic space in terms of its own interests and purposes.¹⁰¹

Accepting this explanation, the ability of the U.S. to compete internationally, then, both in trying to acquire new markets as well as protect old ones, will come to depend increasingly on the use of its political arm to enforce new limits of manoeuvre on the economic entities within and beyond its borders. The difficulty with this course of action, as I have already established earlier, is U.S. state power in general, and U.S. hegemony specifically, has declined over the years. As such, it now has to compete with German and Japanese state power. The U.S. does, however, have greater state power than all other states. It therefore has the

¹⁰¹ Robert Gilpin, "The Politics Of Transnational Economic Relations", Transnational Relations And World Politics, ed. by Robert O. Keohane and Joseph S. Nye Jr., (Cambridge, Harvard University Press, 1970), p.53

ability to align itself with other relatively weaker states so that it can increase its state power, which it can then, in turn, use to acquire new markets as well as protect old ones. The U.S. has done and continues to do just this.

In fact, we can see how the formation of the 1988 Free Trade Agreement between the U.S. and Canada has increased considerably U.S. state power while weakening Canadian state power. Under the constraints of free trade and open market competition, countries such as Canada, which do not have as high a degree of economic specialization or productivity, are at a comparative disadvantage. Again, this is the case because Canada does not have enough political clout to act on behalf of its own capital. As a result, the flow of wealth and benefits under "liberalized" trade has moved from Canada to the United States. What is more, under continuous competition (i.e., for new markets and profit accumulation) and transnational deregulation (i.e., the elimination of national state mechanisms which serve to regulate and stimulate capitalist growth in the first place), the Canadian state has become more dependent on the U.S. for its own survival.

American exports to Canada, for example, have been up by 42 per cent since 1987 to \$85.1 billion in 1991. In addition to this, the \$6 billion trade deficit that the U.S. had with Canada was in 1991 half of what it was four years ago. By

comparison, exports -- the lifeline of the Canadian economy -- went down \$3.5 billion between 1990 and 1991. In 1991 Canada sold \$1.3 billion more to the U.S. than it imported to them but at the same time. it suffered a deficit with its other trading partners.

Other examples illustrate a similar trend. For example, according to a report released by the Council of Canadians, 1990 saw as many as 656 trucking companies close down as a result of Canadian industry moving south of the border. On March 2nd, 1992, the U.S. imposed a 2.5 per cent retro-active duty on Honda Civics made in Canada. On June 19th, 1992, the U.S. ITC put in a request to study tariffs on Canadian beef. On June 25th, 1992, the U.S. slapped a 6.5 per cent tariff on Canadian softwood lumber. On June 30th, 1992, the U.S. sought to impose duties on steel imports from Canada (and twenty other countries). According to the Council of Canadians, net job losses in Canada's goods and services sector totalled more than 1.4 million since the trade deal between the U.S. and Canada took effect. In addition to this, 511,000 manufacturing jobs have been eliminated or moved to the U.S.¹⁰²

¹⁰²Another consequence of Free Trade relates directly to the role of multinational corporations. Branch plants were originally established to extend domestic markets across foreign borders and avoid tariff walls. However, as companies adjust to free trade, will production gravitate from Northern branch plants to places handier to U.S. headquarters? Trends already suggest that Canadian executive offices are increasingly losing control as plant managers, marketing people, etc., are beginning to deal

NAFTA should be seen as a similar drive to integrate the U.S., Canadian and Mexican economies under one "supra-nation" so as to circumvent the national political mechanisms of control that exist in Canada and Mexico and establish a free market. This argument has been made by others. Linda Diebel, for example, writes:

The genesis for what became NAFTA lay in the Latin American debt crisis in the early to mid-1980s. What began as a search for a way to use the crisis as a lever to pry open gains for U.S. financial and industrial interests evolved into support for what appeared to be a perfect solution -- a trade agreement which would not only guarantee on investment, but would lock in that return, and much more, in a formal treaty... It's part of a larger plan for U.S. hemispheric hegemony.¹⁰³

If the 1988 FTA is any indication, the overall effects of NAFTA will surely lead to the creation of an unequal, vertically integrated Atlantic bloc dominated by U.S. interests vis-a-vis Canada and Mexico; what I refer to as a

directly with their respective U.S. superiors. Since corporations are, in fact, governed by business people who behave in accordance with a set of institutional norms which are those of capitalism, state power does ultimately have the power to make decisions about the very existence of private power -- a decision that will, in all likelihood, be in line with the argument being made in this analysis. See The Globe And Mail, (December 17, 1994), p. A1, and Wallace Clement, Continental Corporate Power, (Toronto, McClelland and Stewart, 1977)

¹⁰³See Linda Diebel, "Kissinger's 'Truly New World Order'", Toronto Star, (Sunday, February 7, 1993), p.B1, B5. See also "The Winds Of Trade", Toronto Star, (Sunday, February 7, 1993), p.B1, B4

North-South alignment, as well as the creation of "Supra-United States" which not only acts on behalf of its own capital but also Canada's and Mexico's, against Germany and Japan.

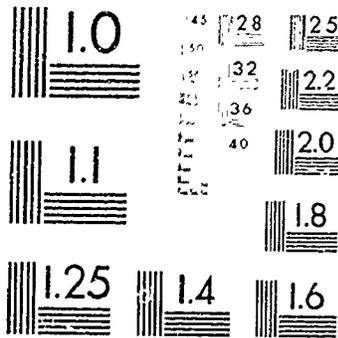
This is not very encouraging for interdependency theorists who advocate a decentralized, multipolar world. Nor is it encouraging for the "John Crispos", "Thomas D'Aquinos" and other pundits of economic liberalism who argue that a larger market will provide greater opportunity for economic growth in countries such as Canada and Mexico. It is somehow believed that relatively weaker countries can solve their economic problems by transferring what they see as costly and non-productive services to the private sector so as to free up the state's regulatory and steering capacity. They assume that the same process of capital concentration which strengthens the strong and weakens the weak will strengthen the U.S. and Canada.¹⁰⁴

Canadians are already being warned to reduce their wages and labour demands to a level-playing field; one which is competitive with Mexican wage levels. Mexican factories, or "maquiladoras", are filled with young women (many of which are under the working age of eighteen years) who are being paid as

¹⁰⁴See paper presented by Thomas Hueglin, "Free Trade And Europe 1992: A Critical Lesson For Canadians", (Victoria, May, 1990), p.3, 4-5

2 of /de 2

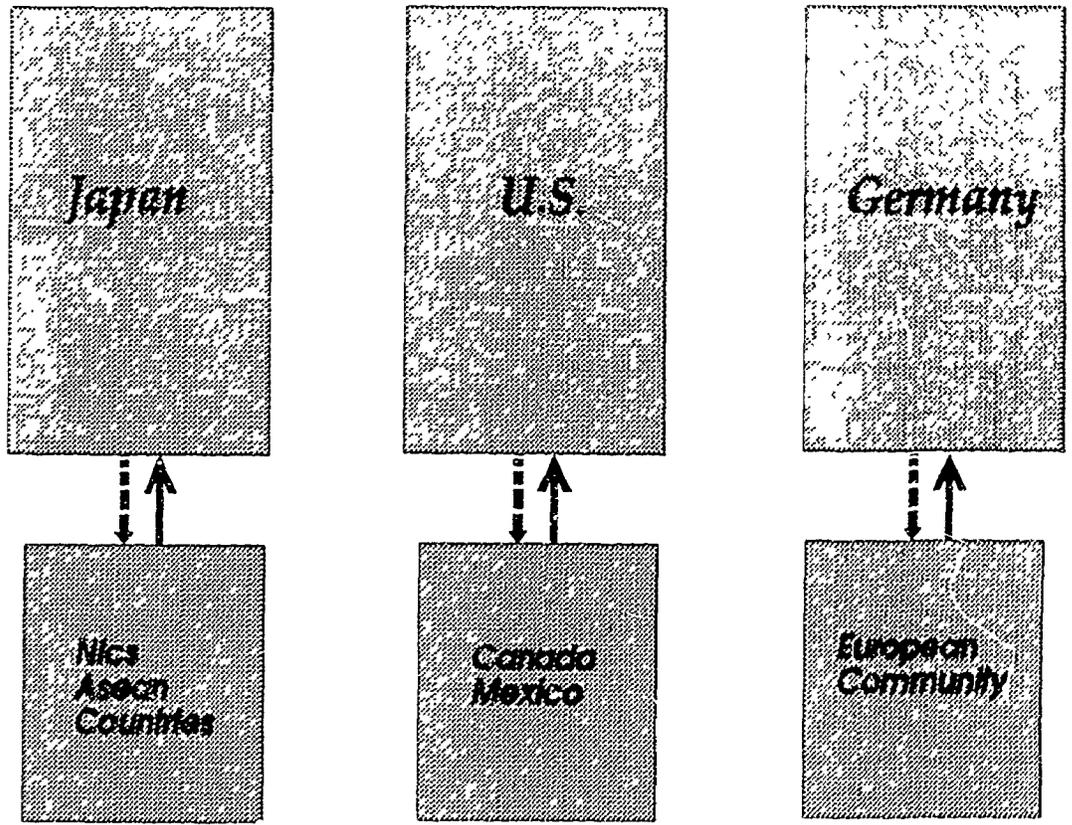
PM-1 3½"x4" PHOTOGRAPHIC MICROCOPY TARGET
NBS 1010a ANSI/ISO #2 EQUIVALENT



PRECISIONSM RESOLUTION TARGETS

Early
1980s/1990s

NORTH-SOUTH
DYNAMIC



Legend

 one way process of accomodation & accumulation

 = dependency

little as \$3.25 a day.

In addition to which, under the current Mexican proposals, it is feared that Asian auto operations existing in Canada will not have equal access to Mexican and U.S. markets. The implications of this are particularly troubling since Canada has used the 1988 Free Trade Agreement as a means by which it could lure and keep Japanese investors in Canada. However, under the content rules established in the Mexican proposal, vehicles and auto parts to Mexico from Canada would be completely blocked by duties and strict content regulations. Currently, Mexico holds a vast auto trade surplus with Canada. In 1991, for example, Mexico exported \$1.8 billion in autos and auto parts to Canada while Canadian exports to Mexico totalled less than \$100 million.¹⁰⁵

What is more, this interpretation receives legitimacy in Canada because it is presented to the Canadian electorate as a reason why it is unable to compete internationally.

Stripped of the considerable subtlety, sophistication, and not a little sophistry, that now surrounds the bare bones of the liberal perspective it asserts... that in a free, competitive market rational consumers will seek to maximize their satisfactions through their purchasing decisions... [The] response by rational producers will eventually ensure that a society's productive resources are used in the most efficient way: efficient in terms of the consumers' preferences as

¹⁰⁵"To Take Advantage Of A Desperate People", The Globe And Mail, (November 5, 1990), p.A13

expressed through the free market...¹⁰⁶

Writes former trade negotiator Gordon Ritchie:

Over-all Canadian competitive performances has been disastrous, with the combined effects of low or declining productivity, rising wages, high capital costs, and excessively tight monetary policy contributing to a massive deterioration of Canadian cost competitiveness -- with the cost gap relative to the U.S. widening by 25 per cent since the FTA was signed.¹⁰⁷

To summarize, the dynamic which moved the 1988 FTA forward and now moves NAFTA closer to solidification comes about because of politics. An alliance bound and formalized in a political treaty not only frees up the continent's trade from the constraints of national growth systems, it provides the U.S. with an opportunity to extend its state power so that it can be more competitive internationally. And because it is a great state power, a hegemon, it is able to regenerate a system of growth along an asymmetrical, vertically integrated framework which generates a new source of capital which flows nicely into the centre, or rather, the U.S.' pocket book.

The outcome is sure to be an asymmetrical, vertically integrated system with definite winners and losers; with the U.S. emerging -- or rather, entrenching itself -- as a

¹⁰⁶Barry Jones, "The Political Economy Of International Relations", Perspectives On Political Economy, (New York, St.Martin's Press, 1983), p.172

¹⁰⁷The Toronto Star, (January 21, 1992), p. A15

hegemonic power and economic giant vis-a-vis Canada and Mexico.

ii) German Hegemony Via Europe

A centralizing and concentrating process of economic restructuring began in Europe as early as 1958 with the formation of the European Economic Community (EEC). The Treaty of Rome was its founding document. The original six members were West Germany, France, Belgium, Italy, Luxembourg and the Netherlands. It grew to twelve with Denmark, Ireland and Britain joining in 1973, Greece in 1981, and Spain and Portugal in 1986. Countries that have since indicated their interest in joining the Community have been held back from joining until the Single European Market is complete.

The twelve member countries of the EC have established provisions and organizations never considered by NAFTA negotiators. The EC, for example, has a social charter that guarantees rights and freedoms of association and collective bargaining. The European Parliament often debates issues relating to competition, worker health and safety.¹⁰⁸

The Single European Act of 1986, which did not take effect until 1987, laid the statutory foundation for the Single Market. Upon its creation, European Community (EC)

¹⁰⁸See "Salvo Of Cheap Shots Fired Over Free Trade", The Toronto Star, (May 5, 1992), p.B7

members directed their efforts towards removing internal barriers. All internal tariffs and border controls were to be removed by January 1, 1993. In addition to this, taxation systems and technical standards were to be synchronized by this date.

Given the outside competitive pressures from Asia and North America, and the potential of Germany becoming an even greater influence in the aftermath of reunification, a number of measures were taken to strengthen economic and social cohesion throughout the Community, i.e., "state-building" policies,¹⁰⁹ and cast a proverbial safety net over the German economic and political giant. The European Social Fund (ESF), the European Regional Development Fund (ERDF), and the European Agricultural Guidance and Guarantee Fund (EAGFF) were the Single European Act's (1986) main vehicles for helping to prepare the poorer regions for the Single Market. The Funds, for example, were to concentrate their efforts towards the Objective One regions; regions whose GDP was less than 75 per cent of the Community average. In 1992 total assistance amounted to \$30 billion.¹¹⁰ The problem with this rosy view

¹⁰⁹The story of how Jacques Delors hoped to fill in the new "European Space" with European "state-building" policies once the single market had deregulated the twelve separate national markets of Europe is told well by George Ross, "Confronting The New Europe", New Left Review, (Number 175, May-June 1989), p.49-68

¹¹⁰ See "Salvo Of Cheap Shots Fired Over Free Trade", p.B7

of the EC is, despite its success in terms of overall growth and prosperity, the outcome today is an asymmetrical, vertically integrated system with definite winners and losers; with Germany emerging as a hegemonic power and economic giant vis-a-vis European Community members. Why has this occurred?

To begin with, European "state-building" was moving forward at a very quick pace by the 1990s, and important matters that needed quick answers were being decided at the Community level. This had the effect of shifting the decision-making process away from the member states towards the Community. Although the Single Act had increased the powers of the European Parliament, it was not enough to compensate for the losses in accountability that a bigger "Europe" was bringing.¹¹¹ Patrick Camiller argues:

Whatever elements of indicative planning it may originally have contained, the programme of European integration has been progressively stripped down to a core idea that the removal of national barriers to capital movement and economic activity will clear the path to dynamic renewal of the European economy. It would be fundamentally wrong to imagine that the dense networks of institutions and norms which, in the post-war Fordist boom years, regulated the national markets of Western Europe are about to be replaced by a similar EC structure organized from Brussels. The task of the EC institutions, once the final inter-governmental bargains have been struck, will be to ensure that nothing stands in the way of the consolidation of giant trans-European blocs of capital operating within the broad internal market -- and, above all, to ensure that the labour

¹¹¹Ibid., p.64

movement is not free to exert effective pressure on its national government or on EC institutions to block the multifarious corporate strategies for breaking down and flexibly circumventing positions of labour strength.¹¹²

The inevitable outcome has been the creation of a vacuum of power in which a few member states have jostled to advance their own interests. To be sure, the one member that stands to gain -- and already has -- is Germany. How is this/has this been possible? Again, it is a matter of politics.

Because Germany's growth system is firmly established within a highly organized and binding political framework -- one which has provided the necessary means to become the most competitive and most surplus-driven economy in the EC in the first place -- it not only has the ability to carry out specific strategies that are in line with its interests, it has the ability to anchor its political power within a broader European framework.¹¹³

What is more, whereas once only weaker European countries were confined to a passive role in European affairs, now countries such as France, which were otherwise considered relatively autonomous member states within the Community, are

¹¹²For further discussion on Europe's fragmented Left see Patrick Camiller, "Beyond 1992: The Left And Europe", New Left Review, (Number 175, May-June 1989), p.5-18

¹¹³ See paper presented by Hueglin, Thomas O. "Gross-Deutschland In Europe: Planned Or Unplanned Effects Of The German Anschluss On Hegemonic Leadership In The European Community" (Prague, June 10-14, 1991)

finding themselves in compromising positions in the wake of German reunification and the development of Eastern Europe.¹¹⁴

France specifically, and EC members in general, fear that if they do not give in to German demands, Germany may decide to go it alone or drift eastward away from its western partners. The difficulty is that Germany is the political engine of EC growth and, as such, EC members are dependent on it for their own survival. As Hueglin demonstrates, EC members are thus confined to "a position of de facto blackmail: either speed up integration the German way, or increasingly lose the main engine for European growth and prosperity to the economies and marketplaces of central Europe".¹¹⁵

In the end, the determination to "free up" the EC's trade should be seen as a political agenda deliberately or at least implicitly designed to increase Germany's capacity to intervene and regulate on behalf of capitalist interests in the aftermath of global economic crisis.

¹¹⁴The immediate effects of Germany's huge capital investments in eastern Germany are rising interest rates. This is particularly hurtful to the other European currencies which are closely linked to the mark because they are being "forced" into keeping their interest rates high at a time when they would rather be stimulating their economies by letting them fall.

¹¹⁵Ibid., p.1

In response to the unfavourable conditions in the world economy, and the increasing competition between itself, the U.S. and Japan the German state has been using the EC for its own financial and productive purposes; as an outlet at a time when the system is not functioning. As Lipietz demonstrates:

Western Europe's growth is strictly limited by the growth of its most competitive and hence most surplus-productive economy: the Federal Republic of Germany... West German governments of both left and right have opted for fiscal, budgetary and social 'orthodoxy' despite an unemployment rate of nearly ten per cent... by virtue of the way in which EMS and Common Market mechanisms operate, West Germany's hegemonic role allows it to act as economics minister for the whole of Europe. Refusing either to stimulate internal growth, or to increase faster the free time of its workers, or to accept its partners' competitive devaluations, it condemns the latter to oscillate between stagnation and a deficit vis-a-vis Germany.¹¹⁶

It is no accident, then, that Germany is pushing for a hard ECU and a central European bank, albeit aligned along the Deutsche Mark and the Deutsche Bank's monetary policy. For if a hard ECU was granted legal tender, it would mean that all EC countries, with the exception of Germany, would have to give up their national currencies, and in essence, their sovereignty. The preference and inertia behind this is far from being a passive phenomenon. It translates into a precise form of monetary constraint which in the end determines the European growth schema in an asymmetrical, but compatible,

¹¹⁶ Alain Lipietz, "The Debt Problem, European Integration And The New Phase Of World Crisis", p.48

vertically integrated framework.¹¹⁷

All of this considered, the push towards greater EC integration should be seen as a drive to integrate the economies of the EC under one "nation" so as to circumvent the national political mechanisms of control that exist in the relatively weaker countries and establish a free, open market in the aftermath of world economic crisis. The overall effects of EC integration will increasingly lead to the creation of an unequal, vertically integrated European bloc dominated by German interests vis-a-vis other EC countries; what I refer to as a North-South alignment, as well as the creation of "Supra-German State" which will act not on behalf of its own capital but also the EC's, against the U.S. and Japan.

The dynamic which has been moving the EC closer to solidification comes about because of politics. An alliance bound and formalized in a political treaty not only frees up the continent's trade and frees up relatively weaker EC countries from the constraints of their own national growth systems, it provides Germany with an opportunity to grow and expand its state power so that it can be more competitive internationally. And because it is a great state power, a hegemon, it is able to regenerate a system of growth along an

¹¹⁷ See Michel Aglietta, "World Capitalism In The Eighties", p.5-39

asymmetrical, vertically-entrenched framework which generates a new source of capital which flows nicely into the centre, or rather, the Deutsche Bank's purse.

iii) Japanese Hegemony Via Asia-Pacific Trade?

Is there much validity to Asian-Pacific regionalism? In a word, yes. Critics, of course, will disagree. They will point to Asia-Pacific tensions which have plagued the Korean peninsula. They will also point to nationalistic tensions that they say will unfold amongst the ASEAN (Association of South-East Asian Nations) countries with the relaxation of communism.¹¹⁸

The reality, however, is that the past decade has witnessed the delineation of a new political and economic bloc in the Asian-Pacific corridor; a regional alliance which is asymmetrical, and vertically entrenched. The consequence will be Japanese hegemony at the expense of ASEAN and NICs.

In fact, according to Kenneth Courtis, chief strategist for Deutsche Bank Capital Markets Asia in Tokyo, "By the mid-1990s, Japan will have taken strategic control of the 'mega-markets' of Asia. Those markets, with 600 million consumers, lie in an arc between Tokyo and Jakarta and have been the

¹¹⁸ASEAN was formed in 1967 to advance its members' security and eliminate the potential threat of communism. It comprises of Malaysia, Indonesia, the Philippines, Singapore, Thailand, Brunei.

focus for Japan's offshore investment".¹¹⁹

Again, we are faced with two fundamental questions: Why is this occurring, and how is this possible?

To answer to the first question, the determination to "free" up the region's trade should be seen as a political agenda deliberately or at least implicitly designed to increase Japan's capacity to intervene and regulate on behalf of capitalist interests in the aftermath of increasing competition from the U.S. and Germany, and global economic crisis. Simply put, Japan's ability to compete internationally, both in trying to acquire new markets as well as protect old ones, will come to depend increasingly on the use of its state power, i.e., its political power, so as to enforce new limits of manoeuvre on the economic entities within and beyond its borders.

In light of recent trends, i.e., the formation of regional blocs in Europe and North America around Germany and the U.S. respectively, the dis-integration and politicization of international relations among the U.S., Germany and Japan, Japan will increasingly be forced to replace its U.S. and European export/outlet markets with Asian export/outlet markets.

As well, the thawing of the Cold War and the lack of an

¹¹⁹ See "The Japan That Can't Say Much", The Globe And Mail, (February, 10, 1992), p.B2

impending Soviet threat; the glue of the U.S.-Japanese security alliance, and China's policy to open its economy to other countries,¹²⁰ add momentum in Japan toward broader Asian-Pacific relations.¹²¹

In fact, there is evidence to suggest intra-Asian trade and investment has been growing. Whereas in 1970 intra-Asian trade accounted for 12 per cent of world trade, in 1989 it accounted for 22 per cent.¹²² And, whereas Japanese companies invested \$5.9 billion in Asia in 1992, they invested \$6.4 billion in Asia in 1993.¹²³ What is interesting to note, of that total, investment in China almost doubled, from \$579 million to \$1.07 billion.¹²⁴ In the area of Japan-China

¹²⁰As Barnett points out, one cannot assume that China's new policies to involve the Chinese in the world economy will go the distance since it has a history of aborting programs (1860s, 1890s, 1920s, 1930s and 1950s). Yet, there are reasons, i.e., its need to earn foreign exchange, to believe that China's current policies could be lasting. For more information see A. Doak Barnett, China's Economy In Global Perspective, (Washington, The Brookings Institution, 1981), p.230-236

¹²¹As Funabashi demonstrates, for the first time in its modern history, Japan is relatively free of security threats. In response to this political reality, Japan may pursue closer relations with China particularly in the wake of mounting "Japan-bashing". This shift in "alliances" has, Funabashi argues, the potential to strain further relations between the U.S. and Japan. See Yoichi Funabashi, "Japan And The New World Order", Foreign Affairs, (Vol. 70, No.5, Winter 1991/92), p.58-74

¹²² See "Asian Trade, Bigger, Maybe Not Better", The Economist, March 9th, 1991, p.36

¹²³"Asian Promise", The Economist, (June 12, 1993), p.74

¹²⁴Ibid., p.74

trade for example, Chinese imports to Japan reached \$7.3 billion (up 20 per cent from 1983), leaving a balance of \$2 million in Japan's favour.¹²⁵ According to one survey, China is "the most favoured country for future investment, despite the political risk".¹²⁶ Besides the low cost of labour, the main driving force behind Japanese companies investing in China specifically, and Asia in general, is the growth of local consumer markets in the region. Japanese companies have found investments in Asia to be more profitable than those in the U.S. and Europe. The result is a shift away from the U.S. and Europe towards Asia. In fact, whereas Asia accounted for as much as 19% of Japan's foreign direct investment in 1993 (up from 12% in 1990), the U.S.' and Europe's share of investment has decreased from 46% to 40% and from 25% to 21% respectively over the same period of time.¹²⁷

The growing influence of the Japanese yen as a regional currency is also note worthy. In fact, holdings of yen by central Asian banks relative to their proportion of foreign exchange reserves increased from 13.9 per cent in 1980 to 17.5

¹²⁵"China's Take-Off Toward Internationalization", The Oriental Economist, (Volume 53, Number 900, September 1985), p.10-14

¹²⁶Ibid., p.77

¹²⁷Ibid., p.77

per cent in 1989.¹²⁸ And heavily indebted Asian countries have been changing from dollars to yen. In fact, between 1980 and 1988 yen debt as a proportion of the debt held by Indonesia, South Korea, Malaysia, the Philippines and Thailand almost doubled to 40 per cent.¹²⁹

The outcome of all of this is sure to be increasing regional bloc formation in the Asian-Pacific vis-a-vis Japan. How is this possible? Once again, it is because of politics.

Japan has greater state power than all other states in the Asia-Pacific corridor. As T. J. Pempel demonstrates, the strength of the Japanese state and its network of conservative support has shown a "consistent ability" to define the country's political agenda as well as set its political priorities, particularly in areas concerning foreign economic policy.¹³⁰ The general organization of the Japanese state is homogenous.¹³¹ And, there is also a close relationship between the state and its bureaucracy and big business wherein the Japanese government plays a "conspicuous and active" role in "moving the nation's industrialization forward".¹³² And

p.83 ¹²⁸"Unblocking The Yen", The Economist, (November 16, 1991),

¹²⁹Ibid.

¹³⁰See Pempel, "Japanese Foreign Economic Policy", p.145

¹³¹Ibid., p.146

¹³²Ibid., p.149

that it has done.

During the 1980s, for example, Japan ran a balance of payments surplus of about \$500 billion (U.S.) and is expected to run a surplus of about \$1 trillion (U.S.) in the 1990s. From 1986 to 1991, Japanese industry invested \$3 trillion in business at home and \$600 billion in research and development, and \$600 billion abroad.¹³³ The long-term implication of this, together with its governments ability to move the country's strategic objectives forward, will surely be Japanese hegemony in the Asian-Pacific region.

Some economic analysts will argue that the Japanese economy is idling, that its "bubble" has burst.¹³⁴ While it is true that Japan is in a depressed state, one must remember that this depression should be considered in relative terms. In fact, the current economic malaise has raised Japan's competitiveness in the Asian-Pacific region because marginal producers have been squeezed out.

The "miracle economies" such as South Korea, for example, have been losing major export markets in the current global economic crisis to the stronger states. This is the case because they, unlike their competitors, do not have the

¹³³See "Few Signs Japan Set For Role As Global Economic Leader", Toronto Star, (Tuesday, February 11, 1992), p.C2

¹³⁴For a discussion of Japan's economic woes see "Japan's Economy: Into Idle", The Economist, (February 9, 1991), p.36-37

ability or political wherewithal to stimulate and drive their domestic economies. During the 1980s boom, countries such as South Korea were able to prosper because they had a low labour cost structure and low production costs; all the ingredients to becoming successful competitors on the world export market. As such, they "developed", albeit outside of an organized political framework. The difficulty with this is that now, in the aftermath of world economic crisis and the overall decline in export markets, countries such as South Korea which are dependent on exports, are finding themselves harder hit than stronger, more autonomous countries such as Japan. The following excerpt from The Globe And Mail exemplifies this trend:

The reason that South Korea is losing or has lost most of the basic ingredients of its export success... It can no longer use low cost structure to boost exports. Production costs have soared, the Won has strengthened and technological development has seemingly stalled...

Exports of cars fell 40 per cent in 1989, while shipments of television sets, videocassette recorders and home appliances dropped 8 per cent... with autos and electronics accounting for nearly 30 per cent of South Korea's \$62.4 billion in exports last year, the drop has hit the economy hard. According to government calculations, the economy has lost 1.7 percentage points of growth last year as a result of an over-all export decline of 4 per cent... ¹³⁵

The point in all of this is that Japan has the ability to

¹³⁵"South Korean Economy Ebbs As Export Edge Disappears", The Globe And Mail, (May 22, 1990), p.B1, B2

align itself with other relatively weaker states so that it can increase its state power, which it can then, in turn, use to acquire new markets as well as protect old ones. And, as competition and tension between the three economic linchpins of the world capitalist system increases, Japan will, more than likely, consciously reduce its inter-dependency on the U.S. and Europe and redirect its foreign economic policy towards the Asian-Pacific.

The end result is sure to be a flow of wealth and benefits from the ASEAN and NICs to Japan under "liberalized" trade moves. In fact, the increase in intra-regional trade should be seen as nothing less than a drive to integrate the Asian-Pacific economies under one "nation" so as to circumvent the national political mechanisms of control that exist in the relatively weaker ASEAN and NICs and establish a free, open market. The overall effects will surely lead to the creation of an unequal, vertically integrated Asian-Pacific bloc dominated by Japanese interests vis-a-vis other Asian-Pacific countries, what I refer to as a North-South alignment, as well as the creation of a "Supra-Japanese State" which acts not on behalf of its own capital but also the members of the Asian-Pacific bloc, against the U.S. and Germany.

Summary

Political and economic linkage built around three powers,

the United States, Germany, Japan, developed to satisfy capitalist needs is looking far into the future and is indeed assumptive. But far-fetched and assumptive or not, this speculation I think is plausible. As I have tried to argue throughout this analysis, the capitalist dynamic works best when it is entrenched within a asymmetrical, vertically integrated framework such as that provided by U.S. hegemony in the immediate post-World War II years. The spread of industrialism and the rise of two new near-equal and competing states, however, undermined this regulatory framework and inevitably, the equilibrium of the post-World War II capitalist world economy. Today's trend towards Tripolarity reflects a withdrawal from the old hegemonic order and its institutions, and a hegemonic drive by the U.S., Germany and Japan to expand their capital markets and in essence, flex their political muscle vis-a-vis each of the three respective regions.

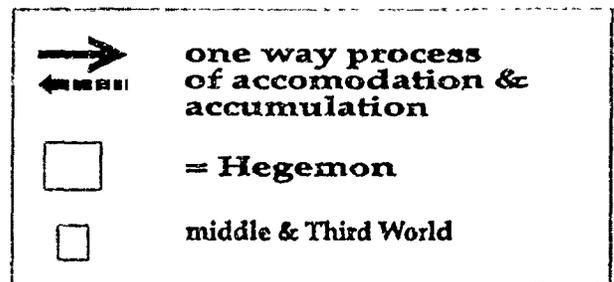
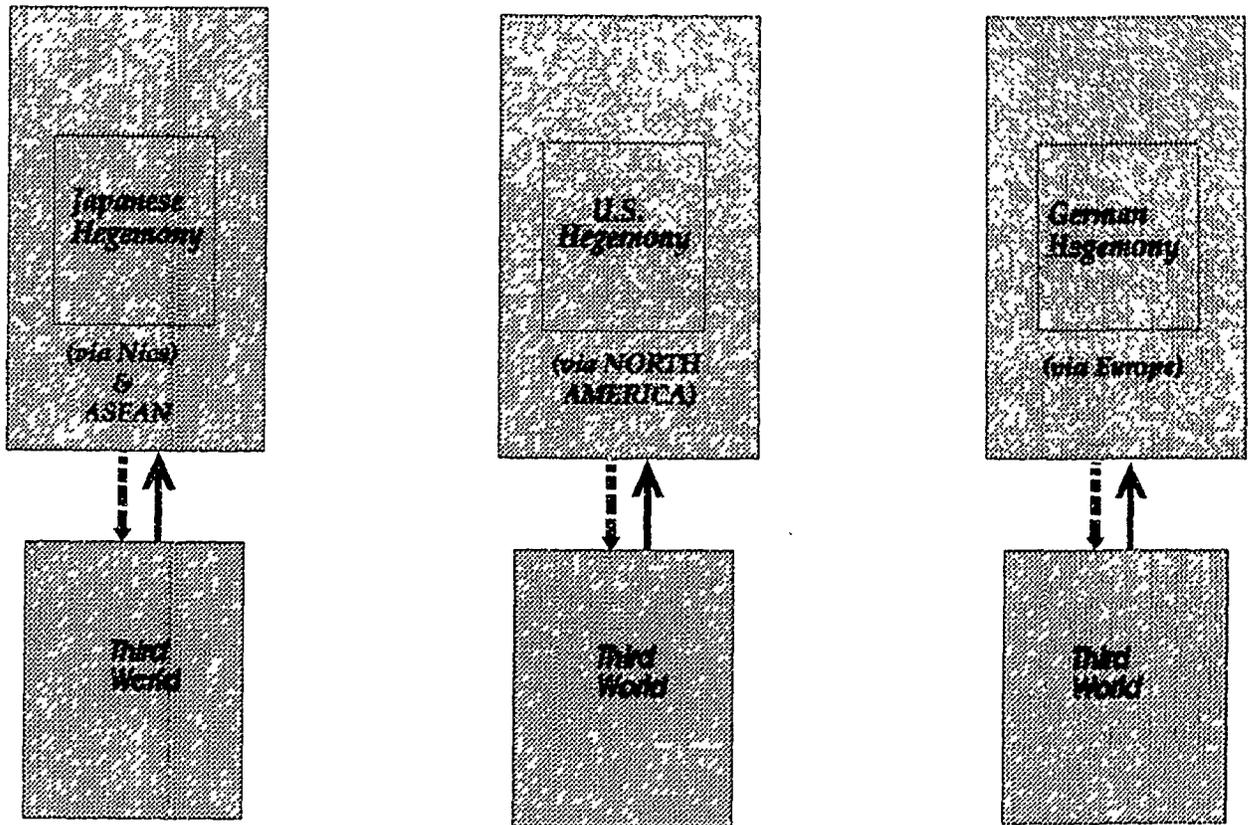
What has been developed here is a conceptual framework that best characterizes the evolution of the contemporary international political economy: across a horizontal plain we can see the dis-integration of the U.S., Germany and Japan; what I have been referring to as the North-North dynamic. And on a vertical plain we can see a centralizing and concentrating process of economic restructuring around these same three major capitalist states and the inevitable

formation of regional blocs aligned along three vertical axes; what I have been referring to as the North-South dynamic.

The overall picture that emerges is one in which two models exist. However, when taken together they offer us a more complete picture of all issue-areas and prospective developments which, in the end, enhances our ability to understand better the relationship that exists between economics and world politics. More importantly, it allows us to examine the composition of the ground beneath us and call attention to the structural properties of the system, particularly those involving the political superstructure. This is something advocates of economic interdependency specifically, and the pundits of economic liberalism in general, fail to do.

TRIPOLAR New World Order

(THREE ASYMMETRICAL, VERTICALLY-ENTRENCHED SYSTEMS OF CAPITALIST REGULATION)



CONCLUSION

As I have worked on this analysis, I've grown increasingly intrigued and troubled by the sheer illogic of interdependency theory and its advocates neo-liberal ways of thinking. I have often wondered why interdependency theorists rely on such models and strategies. In the end, I have come to believe that this dominant theory is a reflection of ethnocentricity (or Western bias); the convergence of world views, a shared vision of the desirable society, and a common perception of economic and political self-interest. Realizing that Interdependency Theory is contemptuous of the older realist traditions, it proposes to explain the New World Order. However, the success of its prediction is bound up with the fact that all concepts, values, etc., are described within the same boundaries, the same categorical grid of mainstream political science. I have tried to go beyond the boundaries of mainstream political science by introducing a dyadically based model which focuses on international relations from a horizontal plain, i.e., zero-sum competition between the three near-equal powers in the wake of capitalist crisis, as well as one which focuses on international relations from a vertical plain, i.e., the existence of disaggregate states aligned along three mutually exclusive, but parallel divisions of labour. Although this model is far from providing an objective model of the New World Order, it

provides the first step which is one that detracts attention away from an interdependency or multipolar approach. For as I have tried to point out, the problem of the current capitalist crisis is tied to the overall structure of capitalism -- that there exists a fundamental contradiction in terms of "liberal" economic policies.

This analysis has been an attempt to bring forward the weaknesses of the dominant theory of the New World Order. My aim was also to tie the discussion to state autonomy and action in the inter-state system to the position of dominant states within the shifting international division of labour. In essence, it has been an attempt to bring forward the political significance of global economic relations. This is something even theories of the left overlook.

If we are to come to any understanding of the nature of contemporary international relations, we must confront these weaknesses and broaden our theoretical framework to the newer conceptual foci that have arisen so as to account for the recent developments in world affairs.

To conclude, I would like to point out that the traditional approaches that have been implemented within the American-Western tradition should not be treated as useless or unworthy of discussion. Errors do have their advantage as long as they are sought out and understood. For there does not exist and will never exist, one sole solution that answers

and solves all the problems within the scope of human politics. Human behaviour cannot be accurately explained with any factual success; its simply too complex to effectively isolate the variables from one another. The important thing to remember is that if the assumption or perspective advanced knowledge it was beneficial.

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