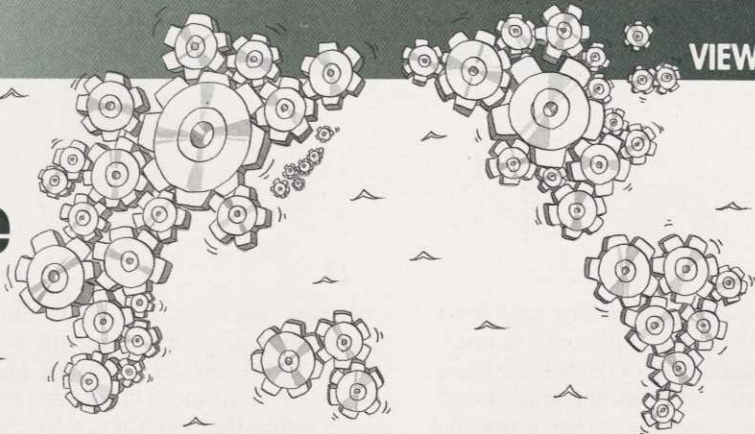


Forces for Change

By Robert Gilpin



The contemporary international economy is undergoing a significant transformation. Integration of national economies is taking place at an astonishing rate in the areas of trade, finance and production. Replacing a world economy composed of relatively isolated national markets, today in many economic sectors there is a world market serviced by international as well as by domestic corporations. Over the past decade and a half, deregulation and technological developments have integrated financial markets into a truly global system. The multinational corporation is becoming the principal mechanism for the allocation of investment capital and determining the location of production throughout much of the world. The process of economic globalization and internationalization of production is rapidly unifying national economies into a highly interdependent world economy.

Power and alliances

At the same time that this process of globalization is taking place, state power and economic alliances among states and corporations are being used to influence and, in some cases, to determine market relations and economic outcomes. As tariffs and formal trade barriers have come down as a result of successive rounds of trade liberalization carried out under the auspices of the General Agreement on Tariffs and Trade (GATT), non-tariff barriers and informal arrangements restricting free trade have proliferated, a development that the French euphemistically call "organized free trade."

In the area of international finance, resistance to the further integration of capital markets is surfacing and barriers to market entry have begun to rise, in particular against the Japanese. Although the multinational corporation is internationalizing production, alliances among individual states, among states and national corporations, and especially among cor-

porations themselves have become increasingly significant for the organization and functioning of the international political economy.

A dual process of increasing interdependence and intensifying mercantilism is transforming the contemporary world economy and, one might add, political system. These changes are a response to significant changes in both domestic and international economic and political affairs. Economic, technological and political forces, which have gathered force in the 1980s, are causing states and other economic actors to modify their policies and behavior. Nations and groups of nations are beginning to alter their economic policies and relations with one another in significant ways. As these forces gain importance in the United States and the world at large, they will have an increasing and profound influence on the global economic and political systems.

As former chancellor Helmut Schmidt of West Germany has characterized the implications of these developments, the nations of the world have become engaged in a "struggle for the global product." This stark and perhaps overly dramatic depiction of contemporary developments is based on a growing realization in Western Europe and elsewhere that the postwar era of economic and political relations is rapidly coming to an end. That era was characterized by a bipolar political fragmentation of the world, by unchallenged American economic, political and technological supremacy, and by the primacy of the Atlantic economies in the world economy. The potential reintegration of the Soviet bloc under the leadership of Mikhail Gorbachev into the world economic and political systems, the relative decline of American economic and political leadership, and the shifting locus of the center of the world economy to the Pacific Basin are rapidly transforming the structure and functioning of international relations.

At stake in this evolving economic

struggle is nothing less than global economic, technological and, by implication, political leadership. Indeed, for many nations the issue will be domestic social well-being and perhaps even economic survival as international competitiveness and the global locus of industry shift to rising powers. Which nation or nations will be the leading economic power/s and which ones risk falling by the wayside as the world moves into the 21st century? The resolution of this issue will have major political and security implications.

Involved and open

There are two prerequisites for a nation to participate in this global economic struggle. In the first place, it must become involved with and open to the world economy. The autarchic and command economies of the socialist bloc as well as the import-substitution strategies (ISS) of Latin American and other Third World economies have proved to be disastrous economic strategies. The lesson, which these nations have learned the hard way, is that participation in the larger world economy is vital for economic development. In addition, important changes in the nature of international trade, in the economic role of multinational corporations, and in the significance of scientific and technological developments for international competitiveness point out another lesson. As exemplified by the remarkable economic success of Japan and the newly industrializing economies (NIEs) of East Asia, the state can and in fact must intervene in the economy to improve its competitive position.

Recent developments in the theory of international trade and in national economic practices give intellectual and concrete support to the argument that nations should not and in fact will not leave trading patterns and the location of global industry up to the market. The traditional disposition to intervene in the market for political purposes has been reinforced

by theoretical considerations that limit the validity of accepted theories of international economics. These theoretical developments are encouraging novel practices by states and other economic actors. In short, the need both to participate in the world economy and to channel economic forces to one's national advantage account for the contradictory developments of the international political economy.

Those nations or regions best equipped or adapted to take advantage of the remarkable changes in the world economy will succeed economically and politically. If one is to achieve economies of scale in production to be competitive at home and abroad or to acquire foreign capital and technology, then it is necessary to participate in the world market. Yet these goals cannot be achieved in the contemporary world solely by the traditional philosophy of "leaving it up to the market." The nations or alliances of nations that will do well are the ones with institutions and policies enabling them not only to develop efficient domestic economies, but also to exercise economic power or leverage in the struggle for international markets. Nations and groups of nations, therefore, are changing their economic strategies and attempting to position themselves for success or at least to avoid failure in the process of economic globalization.

Changes and responses

The paradoxical necessity to participate in the world market as well as to intervene in the market through new policy instruments is transforming the international political economy. The most dramatic development is, of course, Soviet leader Mikhail Gorbachev's concerted efforts to bring about a restructuring (*perestroika*) of the Soviet economy and to prepare for the reentry of this socialist economy into the larger world capitalist economy. Actually, there are five restructurings of domestic and regional economies taking place in nations or regions where economic institutions are changing and new policies are being developed to take advantage of or to build

protection against the changes rapidly transforming the world economy. In the United States, Western Europe, Japan, and the more advanced developing countries as well as the Soviet bloc, a process of profound economic and political change is taking place.

The restructuring of the American economy is due in large part to the shift of the United States from the world's leading creditor to its leading debtor nation. This significant change in the international status of the United States can be attributed in part to the economic policies of the Reagan administration, in particular its huge budget and trade deficits. It also reflects, however, long-term or secular trends, e.g., the relative decline in American competitiveness, the low rate of capital accumulation, and the erosion of technological leadership.

The piecemeal responses of American politicians and corporations to the underlying weaknesses of the American economy are resulting in bringing about a fitful and thoughtless fashioning of new national policies and restructuring of the economy. The Omnibus Trade Act, which reverses the postwar American commitment to universal multilateralism and returns to its prewar policy of bilateral and conditional reciprocity, and the common market with Canada are potentially the most important developments. There are also major changes occurring in the organization and strategies of the American corporate economy; whatever its merits, the leveraged buyout is an important example.

Another very significant development is the increasing role of Japanese corporations, Japanese capital and Japanese technology in the American economy. The formation of corporate alliances between American and Japanese firms, the importation of Japanese capital to finance the federal budget deficit, and the fact that something like 40% of Japanese imports into the United States are component parts for "American" products illustrate this economic restructuring.

In contrast to other countries, American economic and political thinking are as yet inadequately appreciative of the changes taking place in the international

political economy and their implications for the United States. On the contrary, American foreign and economic policies continue to be influenced by an increasingly anachronistic interpretation of the world rooted in the early postwar era. This continuing American commitment to economic liberalism and subordination of American economic interests to alliance cohesion will be importantly modified as the United States during the Bush administration turns to the enormously difficult tasks of eliminating its national budget deficit, of repaying its huge international debt, and of reestablishing its overall international competitive position.

Bargaining power

Another major restructuring is taking place in Western Europe. The enactment in 1988 of the Single European Act with its program for completing the internal Common Market by 1992 is an economic and political initiative of historic significance, even though it is true that when one speaks of 1992 one is speaking in symbolic terms. The integration of the several European national markets into a single market of 320 million people will obviously be very difficult to achieve and will require many years to complete. It is also much too soon to speculate about the shape of the internal European market or about its policies toward the rest of the world. It is quite obvious, however, that the 1992 decision does mean a radical new stance on the part of Western Europe. At the least, greater unity will increase the bargaining leverage of Western Europe vis-à-vis the United States, Eastern Europe and, especially, Japan. All the available evidence suggests that the West Europeans will seek to improve their negotiating position in the world economy and, like the United States, will attempt to achieve greater reciprocity with other economies as well as to use their increased economic strength for political purposes.

The Japanese have also begun to restructure their domestic economy and to alter their position in the larger world economy. What is taking place with re-

spect to Japan is, to a considerable extent, a mirror image of the American situation. As Japan has become the world's foremost creditor nation with a high yen, its internal domestic and international policies have had to change. With the implementation of the recommendations of the Maekawa Report, Japan is attempting to reduce trade friction and increase its own economic stability through shifting to greater dependence on domestic economic growth. Of equal importance, however, is that the Japanese are attempting to use their newly gained financial and technological strength to create, through large exports of capital and overseas production by Japanese multinational firms, what can best be described as a new "co-prosperity sphere" in the Pacific Basin, in North America and, if the West Europeans will let them, in the European unified market.

Larger role

The fourth restructuring, if that is indeed the proper term, is occurring in what the postwar era has identified as the Third World. Mostly outside the two major blocs of First (the West) and Second (Soviet) worlds, these less developed countries (LDCs) have been passive actors on the international scene and have been regarded as an undifferentiated lot. This situation began to change significantly in the 1970s with the rapid industrialization of the East Asian NIEs and the larger LDCs in Asia and Latin America. Although the global debt crisis has set back temporarily the entry of certain LDCs such as Argentina and Brazil into the world economy, developing nations are equipping themselves to play a much larger role in the international political economy.

The fifth and most notable economic restructuring, of course, is that taking place in the Soviet Union and Eastern Europe. The dismantling of the rigid Stalinist legacy and the opening of these socialist economies to the capitalist West would eliminate the fragmentation of the international economy wrought by the Bolshevik Revolution and Stalin's concept of the two systems of capitalism

and socialism. The ultimate success of Gorbachev's economic, political and social reforms will of course be primarily determined by internal economic and political forces. The scope and direction of the reforms will also be affected, however, by the other restructurings and related developments that are simultaneously taking place in the larger world economy.

Three basic developments accompany the emergence of global mercantilism. The first is the increased importance of economic regionalism and intra-bloc relations. In the areas of trade, money and investment, negotiations among regional blocs or, perhaps a more appropriate term, trading regions have increased in significance. For example, the monetary system is decreasingly based on the dollar and instead is increasingly based on the dollar, the yen, and the European Currency Unit (ECU). The second development is the formation of corporate alliances. In order to be a major participant in every important national economy and in each of the emergent trading regions, an outside firm must have local allies. To acquire such allies it must have some chips to put in the game. These bargaining chips are primarily technology, capital, and control over market access.

Demanding favor

The third development is the changing interpretation of "reciprocity" in international economic relations. There is a shift from the unconditional reciprocity of the postwar system established at Bretton Woods (1944) to the prewar emphasis on conditional reciprocity. The rules governing trade are no longer a matter of simply adhering to the principle of most favored nation and national treatment. The United States and Western Europe are demanding of Japan and other countries not just equality of opportunity but that commercial intercourse have specific results favorable to their interests.

Today, international economic competition has become the pursuit of foreign policy by other means. This development is due in part to the constraints imposed on the superpowers and other nations by nuclear weapons. It is also, however, a

consequence of the increasing importance of Japan, Western Europe and certain other countries in the world system. Lacking the military power of the superpowers and constrained by World War II memories, Japan and West Germany in particular regard their increasing economic power as a means to achieve their political goals. This enhanced role of economic competition and economic power in world affairs was first noticed by the political geographer Halford MacKinder when he argued early in this century that the increasing costs of war were leading to a struggle among nations for national efficiency.

The transformation of the international political economy, which has increased the importance of economic factors in world affairs, leads to a number of questions. What will be the effects of these developments on individual countries? How will they influence East-West relations and the postwar alliance systems? How might a unified Western Europe and an economically strong Japan use their newly gained economic power? How will the United States ultimately come to terms with its relative economic and political decline? Where do the Soviet Union, China and the other socialist economies fit into a world economy characterized both by economic interdependence and economic alliances? What are the possible implications of these economic and political changes for the economic prospects of the LDCs? Perhaps of greatest importance is the issue of how the emergent trading regions will relate to one another. Will they cooperate or compete? Who will cooperate with whom? Who will compete against whom? In a more pluralist international political economy, these economic and political questions will become of increasing significance. ■

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