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Foreword

At the end of the 20th century the task of creating a viable new international order entails a new and unprecedented challenge. As Robert Gilpin, professor of international affairs at Princeton University, writes in this issue of the *NBR Analysis*, we are witnessing a continuing shift in the global balance of economic power away from the developed economies bordering on the North Atlantic to the rapidly industrializing economies of East and Southeast Asia. The magnitude and scope of this economic transformation are of awesome proportions, and Professor Gilpin here analyzes the many dimensions of this challenge.

One is political. In the past, when rising new powers captured a substantial portion of world trade in a relatively short time, the resulting shift in trading patterns gave rise to intense political tensions and conflicts. The rapid diffusion of industrial and economic power from the older industrial nations to the emerging economies of East Asia holds the potential for similar conflicts.

Another reason why the economic dynamism of East Asia is especially challenging is the fact that national economic interests are becoming more important in the affairs of states than they were during the Cold War. In a highly interdependent world economy, Gilpin writes, the economic relations among the great and even the small powers help provide the cohesiveness of the international community, but also the competitive friction that drives them apart.

Still another important challenge for the new international order is how to integrate the values and mores of the Asian region into the institutions and rules of the new order. For more than three centuries, the international system has been dominated by the Western powers and centered on the North Atlantic. These powers, their interests, and the values of Western civilization largely determined the nature of the international order and the rules that governed it.

Since the end of the Cold War, Asian leaders have begun to reject Western claims of universalism as dogmatic and legalistic and to assert alternative values, institutions, and rules of international order. Such views have frequently been aired in the Asia-Pacific Economic Cooperation forum. To be viable, a new international order must take into account the values and interests of these rising powers. In this broad ranging essay, Professor Gilpin questions whether APEC as presently constituted is adequate to the task of representing this emergent region in the creation of a new international order.

This paper was presented on August 28–29, 1995, at a workshop in Seoul cosponsored by the APEC Study Center at the University of Washington and The National Bureau of Asian Research, and organized by the Center for

International Studies at Seoul National University and the Korea Foundation. It was also presented at a follow-up conference on September 21–22, 1995, in Tokyo in collaboration with the Japanese Ministry of Education, Science, and Culture, and the Institute of Developing Economies.

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Kenneth B. Pyle
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The National Bureau of Asian Research

APEC in a New International Order

Robert Gilpin

For the third time in this troubled century, the global community is faced with the difficult challenge of creating a stable and prosperous international order. The destructive First World War (followed by the Great Depression of the 1930s), the even more destructive Second World War, and the extremely dangerous Cold War confrontation attest to the terrible failures of the 20th century. Many observers, at least in the West, look back with nostalgia to the century-long global peace and generally uninterrupted and diffusing prosperity of the 19th century. Today, many hope that with the defeat of fascism in World War II and the subsequent defeat of communism in the Cold War, the world will return to the peaceful and prosperous international order of the 19th century. However, while the past may hold useful lessons for creating a more secure international order, prior attempts to create a new world order are not especially reassuring. Certainly a stable and prosperous international order will require a greater contribution from the emerging economic powers of the Asia-Pacific Economic Cooperation (APEC) forum than is now taking place.

Ultimately, the stability of every international system rests on the political relations among the major powers. Political rivalry and conflicting political interests are the stuff of which great wars and international upheavals are made. However, today economic matters and interests have become increasingly important in the affairs of states. In a highly interdependent world economy, economic relations among the great and even the small powers help provide both the glue holding the international community together and the friction driving nations apart. Without a well-functioning international economy, the prospects for global peace and prosperity are slim indeed. The establishment of a stable global economy is thus the most important task in the larger effort to create a better international order than this century has yet experienced.

Following World War I, the United States and other great powers at the Paris Peace Conference in 1918–19 (the Versailles Conference) hoped to create an international order based on a new and revolutionary principle. As proposed by President Woodrow Wilson, the classic balance of power system was to be replaced by a "community of nations" based on the then-novel concept of collective security which was embodied in the Covenant of the League of Nations. This attempt to fashion a new world order failed for many reasons. But of particular importance, the failure of the victorious powers to reestablish a functioning world economy doomed any hope for a lasting and prosperous peace. As John Maynard Keynes pointed out in his prophetic *The Economic Consequences of the Peace*, Germany on the eve of World War I had become the core of a highly interdependent European economy. After the war, although a revival of the European and world economy would be impossible without full German participation,

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the victors (led by France) decided to punish and isolate defeated Germany rather than reintegrate it into the European economy. As Keynes predicted, this proved to be an important cause of the failure to revive the world economy and thus of its subsequent collapse in the Great Depression of the 1930s.[1] This economic catastrophe in turn was a crucial factor in the outbreak of the second great war of this century.

In 1945 the opportunity once again presented itself to establish a basis for a stable world order. Having learned the lessons of the past, the United States under the leadership of Presidents Franklin D. Roosevelt and Harry S Truman, in cooperation especially with Great Britain, sought to found a new world order based on the concept of collective security and an open world economy. This Rooseveltian vision foresaw a universal political order embodied in the principles of the United Nations and cooperation among the victorious powers. In contrast to the Treaty of Versailles, this vision also included the reestablishment of the open, liberal, and multilateral world economy that had disappeared with the outbreak of the First World War. Germany and the other defeated Axis powers were in due time to be welcomed back into the system, and this universal international economy was to be governed by several new international economic institutions whose foundations were laid at the Bretton Woods Conference in 1944; these institutions were the International Monetary Fund (IMF), the World Bank, and subsequently the General Agreement on Tariffs and Trade (GATT). Once again, however, the hopes for a better international order collapsed. The political, ideological, and economic struggle between what Joseph Stalin called the “two systems” of capitalism and socialism led to a fragmentation of the international economy into two antagonistic blocs. Economic warfare rather than the pursuit of mutual economic interests soon characterized the postwar international economy.

The end of the Cold War and the collapse of the Soviet Union poses for the third time in this century the challenge and opportunity to create a stable and prosperous international political and economic order. Close cooperation of the United States and its Cold War allies, the foundation of the post-World War II economic order, is rapidly eroding. New economic, political, and environmental challenges have made many of the rules and institutions of the Bretton Woods system no longer adequate to the task of managing a highly complex and interdependent global economy. Historic political rivalries have been renewed, and emergent economic powers are making demands which must be accommodated. One must again question whether or not the contemporary actors can succeed where others failed in the past. I believe that without a stable and prosperous economic order, a peaceful international political order is impossible. Moreover, several features of the present situation will make the task of creating a stable economic and political order very difficult indeed.

The Uniqueness of Contemporary International Affairs

One unique characteristic of the contemporary effort to fashion a new world order is its starting point. Historically, new international systems have been established at the end of a great, or what the French social theorist Raymond Aron characterized as a hegemonic, war. These devastating wars have erased the old order and created a tabula rasa upon which the victorious powers could write the rules of the new order. This situation obviously does not exist today; while the United States may have “won” the Cold War, that victory has not translated into the authority or power that one might associate with a “victor.” Nor does agreement exist either on whether we live in a unipolar, bipolar, or multipolar world or on which nations are to be counted as comprising the predominant powers today. Some analysts even discount

[1] John Maynard Keynes, *The Economic Consequences of the Peace*, London: Macmillan, 1919.

such attempts to discern the geometry of power in the contemporary world and argue instead that in a "borderless world" of intensifying economic and technological interdependence, one can no longer speak in terms of traditional distribution of economic and military power.

The second unique aspect of the contemporary situation is the sheer number of players who demand and can be expected to play a role in laying the foundations of a new international order. Certainly the interests of the great economic and military powers have weighed—and will continue to weigh—heavily in the rules and institutions established to govern international economic and diplomatic affairs in the post-Cold War era. While the smaller powers will likely chafe over the fact that their influence is not commensurate with their numbers, in contrast to the immediate past, international affairs (for better or worse) has become a "participatory democracy." This situation has made agreement on governing rules and institutions much more difficult. Contrast, for example, the founding of the Bretton Woods system and the recently completed Uruguay Round of trade negotiations. The Bretton Woods system, which laid the foundation for the successful postwar international economy, was essentially the achievement of two men, John Maynard Keynes and Harry Dexter White, representing Great Britain and the United States, respectively. Whereas they accomplished their task in a matter of months, the Uruguay Round negotiations took nearly a decade to complete and involved a dozen major players, over one hundred national governments, and numerous blocs representing different producer interests. Moreover, the "successful" completion of the Round left many crucial issues unresolved. Perhaps the most astonishing aspect of the whole affair is that the negotiations were as successful as they were.

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The third unique aspect of the contemporary situation is the profound shift that has begun to take place in the international distribution of economic and military power. For the past three centuries and more, the international system has been dominated by the West European powers and centered on the North Atlantic. The Cold War itself was largely a struggle between two extensions of European civilization. These Western powers and their interests largely determined the nature of the international order and the rules governing international affairs. Today, however, the center of economic power and international affairs has shifted considerably toward the Pacific and East Asia. There is evidence of shifts in military power also. What this means is that Asian powers will have, or at least should have, a greater say in the nature of the rules and institutions governing international economic and political affairs. Any viable new international order must take into account the values and interests of these rising powers. Precisely because Asia is now an increasingly important factor in the international equation, APEC, as the only international institution representing these rising Asian powers and their interests, is also of increasing importance. However, unless APEC is considerably strengthened, the Asian nations will not play a role in the fashioning of the new international order that is commensurate with their rapidly growing economic presence in the world.

Certainly the experience of the 20th century has proven just how difficult the task of fashioning a stable international order is. Moreover, the absence of a tabula rasa, the increase in the number of significant players, and the need for the first time to accommodate the rising powers of East Asia have made the situation still more challenging. In the rest of this paper, the dimensions of this task will be discussed. To fully understand the task, it is necessary to consider the nature of the fading postwar order and the forces that are transforming it, and to describe the foundation required for a stable international economic and political order.

The Foundations of the Postwar International Order

The exercise of strong political leadership is essential to the creation of a stable international economic and political order. At the conclusion of great or hegemonic wars, the victorious power or powers have redistributed territory, forged alliances, and taken other measures to ensure the stability of the international balance of power; invariably of course, the measures taken have been favorable to the interests of the great powers. Rules, institutions, and regimes to govern international economic, diplomatic, and other activities are also formulated. It is important that political leaders ensure that other nations, and most certainly the other major powers, regard these rules or regimes as fair and legitimate. In the words of Henry Kissinger, legitimacy "implies the acceptance of the framework of the international order by all major powers, at least to the extent that no state is so dissatisfied that, like Germany after the Treaty of Versailles, it expresses its dissatisfaction in a revolutionary foreign policy."[2]

A defining characteristic of the international economic order after World War II (at least outside the Soviet bloc and parts of the developing world) was that it was based on the liberal principles of neoclassical economics, including market openness, nondiscrimination, and a rule-based order. In theory, a liberal international economic order has several aspects that lead most Western economists and political leaders to confer upon it an economic and moral superiority:

(1) A liberal international economy is not zero-sum because every nation, regardless of its natural endowments, can benefit economically, although not every nation will gain equally;

(2) Economic competition in open and free markets leads to an efficient utilization of the world's scarce resources and hence to a maximization of global wealth;

(3) Every economic actor will be rewarded in accordance with that actor's marginal contribution to the overall global economic product.

Throughout the early years of the postwar era, the prerequisites of a liberal international economic order were well established among the United States and its allies. The United States was the dominant power in the system and had a strong commitment to an open, liberal world economy. The principles of a liberal world economy were embodied in the norms and institutions of the Bretton Woods system. Under American leadership and with the cooperation of the other capitalist powers, the IMF, GATT, and World Bank effectively managed the affairs of the international economy. While the Soviet Union and many developing nations challenged these rules and the legitimacy of the capitalist system itself, the predominant capitalist powers accepted American leadership and were in essential agreement on the legitimacy of a liberal world economy. For the first time in world history, the major economic powers cooperated with one another and shared a common view of the importance of maintaining an international economy based on liberal principles.

The major capitalist powers accepted the fairness and legitimacy of this liberal international order for several reasons. The first was the primacy of national security: the United States and its allies tended to downplay their economic differences and give priority to the necessity

[2] Henry Kissinger, *A World Restored: Metternich, Castlereah, and the Problems of Peace, 1812–22*, Boston: Houghton Mifflin, 1957, pp. 1–2.

for cooperation against the Soviet Union. The second reason was the recognition of the need for American leadership and the willingness of the United States to exercise this leadership in the overall interests of the Western alliance. The third reason was the general acceptance (or at least apparent acceptance) by all the capitalist powers of the basic policy prescriptions of neoclassical economics, especially the commitment to free trade and nonintervention in the economy by the state. The American economic model and Western ideas regarding what constituted proper economic behavior prevailed. Over the past several years, however, a number of important changes have begun to undermine the political foundation of the postwar international economic order and to bring into question its fundamental legitimacy.

The Transformation of the Postwar Economic Order

The most important of these has been the end of the Cold War and the breakup of the Soviet empire in Eastern Europe and, subsequently, of the Soviet Union itself. Another important development is what many writers identify as a technological revolution whose long-term implications for the world political and economic system will rival that of the 18th century Industrial Revolution; the essence of this transformation is the harnessing of the computer and the advent of the information economy. Yet another crucial development, and one that is closely tied to contemporary technological developments, is the continuing shift in the global balance of economic power away from the developed economies bordering on the North Atlantic to the rapidly industrializing economies of East and Southeast Asia.

Yet another significant development for the future of the international economic order is the growing tension between the globalization and the regionalization of the international economy. On one hand, a number of economic forces—the interdependence of national financial markets, the integration across national boundaries of services and production by multinational corporations, and the unification of product markets—are rapidly moving the world in the direction of a truly unified global economy. On the other hand, powerful economic and political forces of economic protectionism and especially regionalization are increasingly countering these unifying tendencies. While it is much too early to assess the outcome, the ultimate balance between these integrating and fragmenting processes will profoundly shape the nature of the international political economy in the years immediately ahead. Whether Asia will play an important role in the resolution of this issue also has yet to be determined. In the rest of this paper, each of these developments and the issues they raise for the future of the international economic order will be briefly discussed.

The End of the Cold War Confrontation

The end of the Cold War, accompanied by the collapse of the Soviet empire in Eastern Europe and the disintegration of the Soviet Union itself, is the most dramatic event transforming the international system. Although much disagreement exists on the nature of the post-Cold War world, considerable agreement does exist that, at least over the next decade or so, economic affairs will be a central feature of international affairs, replacing the ideological struggle and military competition at the heart of the Cold War era. However, a fundamental difference exists over whether economic factors will have a beneficial or a malevolent effect on international affairs.

For one group of writers, the increased importance of economic considerations represents the triumph of liberal capitalism and the American economic model; they point to the universal movement toward privatization, free markets, and deregulation. In the former socialist countries and the developing world, economic reform and openness are replacing command economies and state interventionism. A borderless world economy managed by nationality-less, global firms is believed to be displacing the fragmented Cold War international economy. Thus, David Hale, one of America's most perspicacious commentators on economic affairs, harking back to the 19th-century era of laissez-faire and a unified world economy under British leadership, foresees the reintegration of the world economy and the coming of the Second Golden Age of international capitalism.[3]

Other voices are less sanguine about the prospects for peace, free markets, and democracy. Lester Thurow and Edward Luttwak, for example, declare that the end of the clash between communism and capitalism will give rise to intense economic conflict among rival forms of capitalism and regional economic blocs. In provocative writings and speeches, the distinguished political scientist Samuel Huntington has argued that Japan has become a security threat to the United States and that intra-civilizational conflicts will dominate the future agenda of world politics. Some commentators, reflecting on the tragic events in the former Yugoslavia and the Soviet Union, argue that an age of intense ethnic and nationalistic conflict has been unloosed on the world by the collapse of the Cold War political structures. In a world still divided by rival national ambitions and in which economic factors determine the fate of nations, it is inevitable, they reason, that international economic affairs will become highly politicized.

Which, if either, of these two positions is correct must remain a matter of speculation and probably will not be resolved for many years to come. It is quite obvious that with the end of the Cold War national priorities are changing. The Western allies (including Japan) are increasingly giving a higher priority to what they regard as their national (and frequently parochial) economic interests. This shift in policy is particularly evident in the case of the United States. Especially with the advent of the Clinton Administration, an important change in American economic and foreign priorities can be observed. An economically diminished America with a decreased need for overseas allies is placing much greater emphasis on what the Administration perceives to be American national economic interests. This significant shift in American attitudes and priorities has been revealed in numerous ways, especially in the fractious national debate over the North American Free Trade Agreement (NAFTA). The NAFTA debate over jobs and wages was, I believe, really over different strategies toward the problem of American industrial decline. Similarly, the United States has shifted to a much more aggressive policy toward Japan; this shift to a results-oriented trade policy could not possibly have taken place during the height of the Cold War. Yet it must be noted that the Clinton Administration's intentions are unclear and contradictory. While it has increased its greater regional focus and has been more assertive in its policy toward Japan, the Administration also strongly supported the successful completion of the Uruguay Round of GATT negotiations. Thus the long-term implications of the Administration's reorientation of American foreign economic policy continue to be uncertain.

Similarly, the priorities of the other two major economic powers appear to be changing. Both Germany and Japan are less willing now to follow American leadership and are also placing much greater emphasis on national priorities. The political unification of Germany in particular has profoundly transformed German economic and political priorities. Many analysts argue that reunified Germany places a much greater importance on regional issues and building a strong European Union than on behaving as America's ever faithful ally. Similarly, Japan has put more emphasis on its own interests and has become much more resistant to American pressures. Japan has rediscovered its "Asianness" and has focused more attention

[3] David Hale, "The World Economy After the Cold War, or Why the 1990s Could Be the Second Great Age of Capitalism Since the Nineteenth Century," Kemper Securities Group, Inc., Special Report, October 25, 1991.

"The clash between the postwar emphasis on multilateralism and the post-Cold War movement toward regionalism has become a major issue in the contemporary international political economy."

on the creation of an integrated East Asian regional economy under Japanese leadership. The clash between the postwar emphasis on multilateralism and the post-Cold War movement toward regionalism has become a major issue in the contemporary international political economy.

The Global Redistribution of Economic Power

Today we are witnessing one of the most significant economic (and eventually political) transformations in modern history: the rapid and massive redistribution of world industry and economic power away from the rich, industrialized economies toward the newly industrializing economies (NIEs) of East and Southeast Asia. The significance of this economic and political upheaval may be best appreciated by considering a simple historical fact. The principal nations that fought in World War I, struggled again in World War II, and contended for predominance throughout the Cold War period were essentially the ones that industrialized and matured as industrial powers in the last decades of the 19th century: France, Germany, Great Britain, Italy, Japan, Russia, and, of course, the United States. Only within the last two or three decades have new industrial powers risen to challenge the Western and Japanese monopoly on advanced technologies. In the 1990s, the diffusion of even the most advanced technologies to the NIEs is taking place at an historically unprecedented rate and scale.

Among these rising industrial powers, the most important are in East and Southeast Asia. By the year 2020, these Asian nations (excluding Japan but including southern China) are expected to have a total gross product about 20 percent greater than that of Western Europe. China is by far the most important member of this group of rapidly expanding economies. In recent years China's rate of economic growth has been astounding. As it has grown, China's economic presence in the region and in the world economy has expanded greatly. As a result, the increasingly intertwined economies of the P.R.C., Hong Kong, and Taiwan (so-called Greater China) are becoming an important economic force in the region. Of still greater importance, Chinese military capabilities have continued to expand and, with the declining military importance of Russia and the United States in East Asia, China looms as a dominant and unpredictable regional economic and military power. Whether China can continue its rapid growth and how China ultimately chooses to exercise its expanding economic and military power are questions of crucial importance to the entire world, but especially to East Asia.

East Asia, including Northeast Asia, Southeast Asia, and southern China, has become the most dynamic economic region in the world. The growth rate of almost every East Asian economy exceeds that of the United States and the countries of the European Union. In recent years regional trade and investment flows have grown enormously. In fact, the economic importance of East Asia has increased so much that the global economic balance has shifted noticeably away from the North Atlantic economies toward the region; this trend will almost certainly continue. For example, the member countries of the Association of Southeast Asian Nations (ASEAN) have already become collectively the fourth-largest trading partner of the United States. Although many writers still argue about the geographical boundaries of the region, one can certainly conclude that a distinct and significant East Asian (and Pacific) economy is emerging.

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In a larger and long-term sense, the economic rise of China and Southeast Asia is a return to an earlier pattern of world history. Until the Industrial Revolution of the late 18th century and the rapid diffusion of its results throughout the northern hemisphere, the ancient civilizations of Asia and the Middle East were far more advanced than those in the West. The present-day economic superiority of the West is a very recent phenomenon and, if contemporary trends continue, is destined to be short-lived. Throughout most of recorded history, China (followed by India) has been the world's largest economy. At its current rate of economic growth, sometime early in the 21st century China will undoubtedly reoccupy that preeminent position.

The magnitude of the task for the world economy to absorb the emerging Asian and other developing economies may perhaps be best appreciated by considering the continuing and far from resolved challenges posed for the United States and Western Europe in adjusting to the extraordinarily rapidly growing economic power of Japan. If these other rich economies have found it difficult to come to terms with Japan's highly productive millions of workers, it will certainly be even more daunting to make room in the world economy for China's hundreds of millions! And not far behind China, India, Indonesia, and a number of other rising Asian industrial powers are beginning to flex their economic muscles. But for the immediate future, the foremost challenge to the international status quo comes from Japan and its astounding economic success.

Japan is the fourth (and China will probably be the fifth) modern national economy to capture a substantial portion of world trade in a relatively short time. As they industrialized, Great Britain, Germany, and the United States rapidly increased their share of world exports, largely at the expense of their trading partners. These substantial shifts in trading patterns gave rise to intense economic conflicts and greatly exacerbated political relations among the major economic powers. A similar response to Japan's commanding position in world trade, especially in automotive and high-tech exports, is taking place today in the United States and Western Europe. It does not require much imagination to envision these rich industrial nations having a very difficult time coming to terms with China's entry into world markets.

The rapid diffusion of industrial and economic power from the older industrial powers to the emerging economies and the historic reversal that is taking place hold a bitter irony for many Westerners. Throughout much of the postwar era, Western scholars and political leaders have been preaching to the leaders and intellectuals of the developing world the virtues of free markets and private enterprise. Despite the denunciations of Western neocolonialism by dependency theorists and their attribution of underdevelopment of the less-developed nations to economic dependence, the emerging economies are being swept by neoclassical doctrines of open markets, fiscal responsibility, and privatization. As the tables have been turned, more and more groups in the West have begun to fear the long-term consequences of the transformation in global economic relations that is taking place due to the adoption of their liberal economic ideas by the NIEs.

The end of the Cold War has coincided with, and in fact is partially responsible for, another historic development transforming the international order. The resurgence of Eastern civilization and the sudden entry of tens of millions (more likely hundreds of millions or even billions) of skilled, semi-skilled, and unskilled workers into the global labor force is a development of momentous significance. In the latter part of the 19th century, the world was divided into the poor, southern suppliers of food and other commodities and the rich, northern industrial powers. Today, this division between colony and colonizer is at long last breaking down as manufacturing technology diffuses to the former colonies at a formidable pace. Rapidly industrializing economies have become increasingly important markets for the more developed economies, but they have also become fierce competitors for world market shares and investment capital. While many Western analysts, especially professional economists, emphasize the great economic opportunities that these emerging markets present for Western exporters and investors, more and more Western politicians and commentators argue that the intensifying competition from these low-wage economies poses an unprecedented economic threat to the West. Needless to say, the political atmosphere engendered by these developments is not conducive to the creation of a stable and well-functioning new international economic order.

The Dual Challenge of Globalization and Regionalization of the World Economy

The other major development transforming the postwar economic order is the growing tension between the forces of economic globalization and those of economic regionalization. While these opposed tendencies have long existed, the conflicting processes and interactions between them have been much more pronounced since the middle of the 1980s. Market forces and government policies have increasingly integrated national economies into a highly interdependent international economy. In recent years, this process of economic integration has sufficiently advanced and has also changed its character so as to warrant the use of the term "the globalization of economic activities." At the same time, however, the regionalization of economic activities has become an increasingly significant factor in international economic affairs.

In the 1950s and 1960s, the increasing importance of the U.S. dollar as the basis of the international monetary system and the lowering of tariff barriers as a consequence of successive and successful GATT negotiations resulted in an integrated monetary and trading system, at least among the major capitalist economies. In the late 1970s and 1980s, this process of economic globalization accelerated in other areas. The deregulation of financial markets and new information technologies led to the integration of global financial markets and, by implication, the integration of national economies and macroeconomic policies. Another significant development was the globalization of services and manufacturing by multinational, or what some prefer to call global, corporations; while American multinationals expanded abroad in the 1950s and 1960s, the late 1980s witnessed the rapid expansion into foreign markets of West European and especially Japanese corporations. Yet another aspect of globalization has been the increasing concern of governments and attentive publics to the problems of the environment and the frequently accompanying belief that a global solution is urgently required for such problems as global warming and species extinction. And, lastly, the spread of privatization, market liberalization, and deregulation noted above, which have become dominant motifs of contemporary economic affairs, have greatly facilitated the opening of national economies and thus encouraged the forces of economic globalization.

At the same time that this process of economic globalization has been taking place, market forces and government policies are leading to the regionalization of the international economy. In Western Europe, North America, and East Asia, as well as in other parts of the world, economic forces are integrating national economies into regional trading arrangements. In addition, governments are encouraging the creation of regional blocs in order to cushion the effects of

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untoward international developments, to increase their bargaining position in international negotiations, and for other economic or political purposes. In brief, the regionalization of the world economy has been accompanying the trend toward economic globalization.

The most important manifestation of this development is the regionalization of services and industrial production. Contrary to the popular mythology about the globalization of business, foreign trade and investment statistics indicate that the dominant trend is regionalization of business activities in the three emerging regions of the world economy: North and probably South America, Western Europe, and East Asia. Corporations are beginning to concentrate their production facilities in the regional economies that are taking shape around the world. Among the reasons for this shift is the decreasing importance of labor in manufacturing as a consequence of "lean production" and flexible manufacturing. Another factor is the computerization of industry and services, which facilitates regional organization of business. And, thirdly, physical proximity to customers and suppliers has become an increasingly significant determinant of competitive success. Thus while the global organization of production is still an important feature of the international economy, an even more important development is the concentration of industrial production and services in the three regional cores of the international economic system.

Actually, economic globalization itself is one of the major causes of regionalization. At the time of the founding of the Bretton Woods system, it was assumed that the domestic and international economic realms were largely independent of one another. National economies were regarded essentially as black boxes connected by exchange rates; what took place inside the black box was not considered very important for the workings of the international economy. In the early postwar era (at least until the late 1960s), the level of interdependence among national economies was in fact relatively small. Economists could indeed model the world's national economies as a set of black boxes connected by exchange rates while trade negotiations focused on the removal of the formal barriers surrounding these boxes. The international financial system, if one can appropriately use this term, was really a separate set of domestic systems loosely connected to one another and, in most cases, separated from one another by capital controls. With the steady fall of external and formal trade barriers, domestic factors such as the role of the state in various national economies, government regulatory and other policies, and private business practices have become the principal impediments to international commerce and also the subject of international disputes and bitter negotiations. While this development applies to every major economy, the issue is particularly relevant to Japan and to other Asian economies, whose Western trading partners accuse them of having closed economies and playing by different, and indeed unfair, rules.

These alleged differences between Western and Asian economies raise, at least in the opinion of many Western analysts, a major obstacle to the creation of a new world economic order. As business guru Peter Drucker argues, Japan is an investment-driven rather than, like the United States, a consumption-driven society. According to Drucker and other Western observers, Japan and East Asia should be treated differently than Western nations treat one another. In Drucker's words, "reciprocity is the way, for better or worse, to integrate a modern but proudly nonwestern country such as Japan (and the smaller Asian 'tigers' that are now following it) into a Western-dominated international economy."[4] By reciprocity, Drucker means essentially a "tit for tat" Western economic strategy toward Japan and other Asian countries. According to this position, which is gaining political importance in the United States and Western Europe, Western nations should only make specific trade and other economic concessions in response to specific concessions from Japan and other Asian countries. This change in economic policy would mean a results-oriented or managed trade policy toward all of East Asia.

The apparently contradictory developments of economic globalization and economic regionalization can be given two quite different interpretations. The first interpretation argues that in the postwar era we have witnessed, and are continuing to observe, a linear movement toward global interdependence of national economies. Inexorable economic and technological forces are driving the economies of the world to ever higher levels of integration. While this process of economic globalization is obviously a very uneven one, some observers assert that the inherent logic of economic efficiency will ultimately prevail. As C. Fred Bergsten has stated, although "virtually all countries on occasion attempt to resist these external pressures . . . efforts to resist the forces of market globalization can succeed only partially and for limited periods of time."[5] Thus, try as they might, the nations cannot ultimately escape these inexorable forces of global unification.

"Lack of purpose, inefficient organization, and inadequate power will condemn APEC to a subordinate position to both the North American and the European regions in the construction and operation of the international economy."

The alternative interpretation is that what is taking place in the international political economy is a dialectical process. Both the globalization of world markets and economic regionalization to achieve political, security, and economic goals are taking place simultaneously, and there is no linear process in which the forces of economic integration will eventually triumph over economic nationalism and the nation-state. As has happened in the past, the state, in order to survive, is adapting to the changing global economic, technological, and political environment. Among the responses of the nation-states to these forces of economic integration is the formation of regional economic alliances championed by one or another of the major economic powers.

Impications for APEC and East Asia

Unless it makes fundamental changes, APEC will be a minor player in the new world international order. Lack of purpose, inefficient organization, and inadequate power will condemn APEC to a subordinate position to both the North American and the European regions in the construction and operation of the international economy. This argument can perhaps best be understood by contrasting two types of economic regionalism and the implications of each, followed by a consideration of APEC and the problems that it inevitably must face if its members want it to become something more than an informal consultative body. While this modest goal may be useful as a means toward a greater Asia-Pacific community or, as the Chinese prefer, "family" the price to be paid is an APEC that will not be able to play the international role intended by its founders.

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[4] Peter Drucker, *The Wall Street Journal*, January 9, 1990, p. A14.

[5] C. Fred Bergsten, *America in the World Economy: A Strategy for the 1990s*, Washington, DC: Institute for International Economics, 1988, p. 60.

Market-Induced versus Politically Driven Regional Integration

Today, two different types of regional integration are taking place. The first type is economic or market-induced integration; the second is politically-driven or policy-induced integration.[6] The dividing line between these two types is a thin one, and every example of regional integration in the contemporary world contains both economic and political factors. Nevertheless, the distinction is an important one and must be appreciated if one is to understand the dynamics of the integration process and the differences among the regional integration efforts taking place in Western Europe, North America, and East Asia. European integration is motivated primarily by political considerations, and North American integration also has important political aspects. East Asian integration, on the other hand, is taking place largely due to economic factors.

The primary purpose of the postwar movement toward West European unity has been political. In order to reduce the internal sources of conflict, to overcome its diminished status in world affairs, and to strengthen itself against the Soviet security threat, Western Europe (with the strong support of the United States) commenced in the early postwar years the long and arduous struggle of moving toward economic and political unity. The first and foremost challenge facing the Europeans at the end of World War II was the reconciliation of France and Germany, whose historic rivalry had plunged Europe into the devastating internecine wars that twice in this century laid Europe to waste. But farsighted European leaders realized that the longer-term task was to create a united European economy whose combined human and material resources would enable Western Europe to participate in world affairs as an equal of the other major players in the international system. More recently, West European leaders have come to appreciate the need for European political unity if Western Europe is to become once again a force in world affairs.

In retrospect the economic and political success of the European effort to achieve internal peace and greater unity has been truly remarkable. The political rapprochement of France and Germany, the establishment of common European institutions, and the success of the European welfare state are truly historic achievements. Western Europe is more peaceful, has more political and economic unity, and is more committed to the welfare of its citizens than at any time in its past. Despite these remarkable successes, however, the gap between the economic and political potential of Western Europe and the reality of the European situation continues to be great, and West European economic growth and technological innovation lag behind the two other major centers of economic power in North America and East Asia. As a consequence, international competitiveness in the economic field and political equality in the diplomatic sphere continue to be major objectives of Western Europe.[7]

The regionalization of North America has been primarily market-driven. The American-Canadian and the American-Mexican economies have become increasing integrated over recent decades; trade flows and, especially in the case of the United States and Canada, foreign direct investment, have intensified the economic interdependence of these neighboring economies. However, political factors have also played an important role in the decisions of the three countries to reduce trade, investment, and other barriers to economic integration. This interaction of economic and political motives sets the North American experience apart from the experience of East Asia.

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[6] Albert Fishlow and Stephan Haggard, *The United States and the Regional Economy*, Paris: Organization for Economic Cooperation and Development, Development Centre, 1992.

[7] Steven L. Goldman, "Competitiveness and American Society," *Research in Technology Studies*, Vol. 7, Bethlehem, PA: Lehigh University Press, 1993.

The first official move toward North American regionalism was the Canada-United States Free Trade Agreement (FTA) concluded in 1988. Behind this political initiative were powerful market forces that had transformed the U.S. and Canadian economies and their ties to one another over the course of the postwar era. These economic changes and their implications were especially important for the Canadian economy. Since the early years of this century, Canada has pursued a so-called National Policy, whose explicit purpose has been to build a Canadian industrial base independent of the United States and protected by tariff walls. The actual effect of the policy, however, was to create a branch plant economy in Canada as American firms invested in Canada to serve the smaller Canadian market and subsequently (as tariff walls fell) to serve particular sectors of the American market. (Over 80 percent of foreign direct investment (FDI) in Canada is American.) Beginning in the 1960s, with the U.S.-Canadian auto pact and the subsequent linkage in the 1980s of the U.S. and Canadian dollars, the economic integration of the two economies accelerated rapidly. (Another contributing factor was the rise in trade barriers against Canadian exports by the newly established European Common Market.)

As a consequence of these developments and geographical proximity, by 1985 the integration of these two markets had deepened substantially, with over 70 percent of Canada's exports going to and over 70 percent of its imports coming from the United States. Moreover, nearly 50 percent of these exports and imports are intra-firm transfers. The comparable figures for American exports to and imports from Canada are, of course, much less, but they are still substantial as the two countries have become one another's most important trading partner. Thus market forces had closely linked the American and Canadian economies and led naturally to the free trade agreement. In effect, the FTA ratified a significant reorientation of Canada's historic economic policy toward its large southern neighbor.

In addition to being a ratification of natural economic developments, the Canada-U.S. Free Trade Agreement involved a confluence of American and Canadian political interests. For the Reagan Administration, the FTA was a means to stem the surging tide of protectionist sentiment set off by America's burgeoning trade deficit. It also became a tool for increasing pressure on other countries, especially Western Europe, to launch the Uruguay Round of trade negotiations. FTA was a "strategic threat" warning the Europeans and other countries that the United States had other options if they failed to join the negotiations. Canada, for its part, agreed to the FTA because of its increasing fear of American protectionism and a desire to increase Canadian competitiveness by having secure access to the huge American market.

The next and far more controversial move toward North American economic regionalism was the North American Free Trade Agreement (NAFTA), which would further the integration of the U.S., Mexican, and, to a lesser extent, Canadian economies. Initiated by the United States in the spring of 1991 and facing intense opposition in both Mexico and the United States, the NAFTA negotiations were completed in 1993. Behind the agreement were important economic forces. Parts of the Mexican economy, like the Canadian, had become strongly integrated with the much larger American economy. Seventy percent of Mexico's trade is with the United States, and over sixty percent of the FDI in Mexico is by American firms. On the other hand, Mexican-Canadian economic ties are minuscule; Canada found itself reluctantly dragged into what was essentially an American-Mexican arrangement. Thus one could argue that the United States was positioning itself to become the core and leader of an integrated North American economy.

More than in the Canada-U.S. FTA, political motives in both the United States and Mexico played a crucial role in the NAFTA agreement. In crude terms, the United States was motivated by a very simple calculus: either the United States had to accept an ever-increasing flow of illegal Mexican immigrants or else the United States had to accept a greater flow of manufactured goods from Mexico and therefore to support an acceleration of the industrialization of the Mexican economy. This American political motive was substantially reinforced by American regional economic and political interests, notably those of Texas, and the growing interest of many American businesses in greater access to the traditionally closed Mexican market and, not least, access to Mexico's huge supply of inexpensive labor. Mexico's economic and political interests had also changed. Historically, the Mexicans, like the Canadians, had feared American domination and had pursued an import-substitution strategy. Under new political and economic leadership, the agreement became a means to secure Mexico's important turn toward economic liberalization. NAFTA would also give Mexican-based industries privileged access to the American market and would encourage foreign investment in Mexico by American and other foreign firms, which in turn would accelerate the growth and industrialization of the Mexican economy. Thus both the United States and Mexico were motivated by a combination of political and economic factors.

Implications for APEC and East Asia

The European and North American experiences of economic regionalism have important implications for APEC and East Asia. First, market forces over several decades have increasingly integrated both the West European and the North American economies. Secondly, powerful political motives have played an important role in overcoming historic sources of resistance to continental economic integration. Thirdly, the dominant powers in both Western Europe (France and Germany) and North America (the United States) now believe that greater regional integration is in their national interest and have taken the initiative in promoting it.

"However, I believe that this organization needs to be strengthened, and that the strong resistance of many Asian members of APEC to making it a more influential and institutionalized body in Asian-Pacific and world affairs cannot last into the indefinite future."

In these final years of the 20th century, although the Asia-Pacific region has developed with amazing rapidity, many of the conditions that have supported greater economic and political regionalization elsewhere do not yet exist here. Economic integration has not proceeded very far, at least when compared to both Western Europe and North America. Although the Asian economies have become major exporters, especially to the United States, these economies (including Japan) tend to be closed to one another's exports. Mutual political interests seem to be totally absent as a motivating force for greater regional cooperation; in fact, APEC is explicitly enjoined from having a political agenda. And the three dominant APEC powers (the United States, Japan, and China) are too divided among themselves politically to provide the necessary leadership to make APEC a powerful force in Asian-Pacific affairs. Unless and until these three obstacles to greater regional cooperation are removed, APEC as a regional organization will not achieve its great potential. Furthermore, uneven developments in military power within the region may provide one more obstacle to this process.

However, I believe that this organization needs to be strengthened, and that the strong resistance of many Asian members of APEC to making it a more influential and istitutionalized body in Asian-Pacific and world affairs cannot last into the indefinite future. The economic success of the East Asian economies has been based largely on the crucial role of the United states as an importer of their goods. Despite the region's ecomonic take-off, the American role as an engine of growth for the region will be necessary for some of growth for the region will be necessary for some time to come. This American role, however, is changing and will continue to change with accelerating speed as the United States reduces its federal budget deficit, since the reduction and possible elimination of the budget deficit will result in a continuing depreciation of the dollar (at least over the medium term) and a major reduction of America's trade deficit. As these developments occur, the Asian members of APEC will have to adjust their economic strategies; and, as a consequence, they should reappraise the utility of APEC. APEC could be an appropriate mechanism through which Asian members could reconsider their economic and political relations with one another, with the United States, and with the larger international economy. A strengthened and unified APEC should become a more significant actor in the determination of the rules of the global economy.

Conclusion

Despite the impressive shift in economic power toward East Asia, the United States and Western Europe continue largely to determine the nature of the new world economic order. The United States, for all its economic and other difficulties, is still the foremost economic power in the world. The creation of the North American Free Trade Area has not only enhanced America's bargaining power in trade negotiations, but has encouraged the economies of Latin America to turn more and more toward the United States for economic leadership. At the same time, three recent major developments have increased Western Europe's economic importance: (1) closer economic unity due to the single market; (2) creation of the European Economic Area (EEA), probably to be followed by entry of Austria and others into the European Union; and (3) moves toward closer integration with Central and Eastern Europe through a series of "Europe Agreements." In contrast, APEC still lacks the will and cohesion to play a substantial role in the creation of the new international economic order.

If the United States and especially Western Europe continue (at least for some time to come) to play a dominant role in determining the rules governing the international economic and political system, what kind of international economic order are these two major powers likely to create? Needless to say, these rules will be ones that attempt to meet their economic and security interests. These interests, I believe, will be nationalistic: they will represent the desires of Western Europe and the United States to reassert the positions they have lost over the past several decades in the international system. More specifically, the effort to reestablish their preeminent position in the international economy will entail a much greater emphasis on regional protectionism, specific reciprocity, and especially managed trade. In particular, the East Asian economies will be continually pressured to harmonize the "East Asian" model of economic development with the predominant neoclassical economic model of the West.

The most crucial issue, I believe, will be the determination of rules governing the role of the state in the economy and private business practices that will be acceptable and regarded as legitimate by both East Asian and Western economic powers. Although it would be naive to attribute the trade and other economic conflicts between Japan and the United States, for example, to different definitions of fair or appropriate economic behavior, the issue of fairness or legitimacy is at the heart of the conflict between these two economic powers. Western demands for greater openness of the Japanese economy and Japanese denunciation of Western efforts to impose on Japan a system of "results-oriented" or managed trade arise out of fundamental differences between the two national systems of political economy. The basic issue is not whether one side or the other is "in the right," but rather whether some compromise can be formulated and accepted between the Western and Asian positions regarding the definition of fair and legitimate economic behavior.