# Introduction

A SIGNIFICANT transformation of the postwar international economic order has occurred. The Bretton Woods system of trade liberalization, stable currencies, and expanding global economic interdependence no longer exists, and the liberal conception of international economic relations has been undermined since the mid-1970s. The spread of protectionism, upheavals in monetary and financial markets, and the evolution of divergent national economic policies among the dominant economies have eroded the foundations of the international system. Yet inertia, that powerful force in human affairs, has carried the norms and institutions of a decreasingly relevant liberal order into the 1980s. What has happened to the system? What are the implications of the failure of the system for the future? This book formulates an explanation.

At a more general and theoretical level, this work is part of an expanding body of scholarship on the political economy of international relations; it assumes that an understanding of the issues of trade, monetary affairs, and economic development requires the integration of the theoretical insights of the disciplines of economics and political science. Too often policy issues are analyzed as if the realms of economics and politics can be isolated from one another. Events in the final years of the twentieth century are forcing students of international relations to focus their attention on the inevitable tensions and continuing interactions between economics and politics; this study is intended to help narrow the gap between the two.

There is a pressing need to integrate the study of *international* economics with the study of *international* politics to deepen our comprehension of the forces at work in the world. Many important issues and questions cross the intellectual division between the two disciplines. Transformations in the real world have made economics and politics more relevant to one another than in the past and have forced the recognition that our theoretical understanding of their interactions has always been inadequate, oversimplified, and arbitrarily limited by disciplinary boundaries.

Economic factors have played an important role in international relations throughout history. Economic objectives, resources, and instruments of foreign policy have always been significant elements in the struggles among political groups. It is unlikely that, in Homeric times, Helen's face—contributing factor though it may well have been—was the primary reason for launching a thousand ships and causing King Agamemnon to lay siege to Troy. More likely, the Greeks' crucial motive was their desire to seize control of the lucrative trade route that passed through the Dardanelles. Centuries later, the Persian Empire used its great hoard of gold to influence the foreign policies of lesser states. In the fifth century B.C. the Athenian closure of ports of the Delian League to an ally of its Spartan rival provides one of the earliest recorded cases of economic warfare. History is replete with similar examples of the role of economic factors in the affairs of nations; in this sense, the political economy of international relations has always existed.

Although economic and political factors have had a reciprocal influence on one another throughout history, in the modern world this interaction has been transformed in fundamental ways. Over the past several centuries, the interdependence of national economies has increased due to greatly enhanced flows of trade, finance, and technology. Public awareness of the economic content of political issues has also expanded, and people can (or at least think that they can) more easily trace the causes of economic discontent or bounty to the specific actions of specific groups at home and abroad (Hauser, 1937, pp. 10-12). And the spread of this economic consciousness and of political democracy has led to the nearly universal realization that the state can be used to effect economic outcomes and in particular to redistribute wealth in one's favor (Bonn, 1939, p. 33). Thus, the distribution of wealth, the scourge of unemployment, and rampant inflation are now viewed as the results of human actions rather than as the consequences of some immutable economic laws. This has meant the inevitable politicization of economic affairs.

Profound changes underlie these developments. Since the sixteenth century, the primacy of the nation-state has been the organizing principle of the international political order. The nation-state has largely displaced such premodern forms of political organization as city-states, tribes, and empires, while simultaneously the market has become the primary means for organizing economic relations, displacing other means of exchange: reciprocity, redistribution, and imperial command economies. These two opposed forms of social organization, the modern state and the market, have evolved together through recent centuries, and their mutual interactions have become increasingly crucial to the character and dynamics of international relations in our world.

These changes in social organization and human consciousness have elevated economic issues to the highest level of international relations. The economic well-being of peoples and the fate of nations have become intimately joined to the functioning and consequences of the market. The direction of financial flows, the inevitable shifts in comparative advantage, and the international distribution of productive activities are preoccupations of modern statecraft. As the distinguished political geographer, Halford Mackinder, prophesied early in this century, statesmen's growing awareness of these changes has concentrated their attention on "the struggle for relative efficiency" (Mackinder, 1962 [1904], p. 242).

Despite these changes, the disciplines of political science and economics continue to study contemporary developments in ways that keep separate and distinct the spheres of the state and the market. The reasons for this academic specialization are appropriate and understandable: social reality, like physical reality, must be broken down into manageable pieces if it is to be studied and theory is to progress. Yet efforts are also necessary to bring the individual pieces together into a larger and integrated theoretical framework of political economy in order to understand the totality of political and economic reality.

This study, then, proceeds on two levels. At one level, it is a practical inquiry into the reality of the contemporary international political economy and how the interaction of state and market is transforming international relations in the closing decades of the twentieth century. It asks what the consequences are likely to be as the locus of "relative efficiency" shifts from Western Europe and the United States to Japan and other rising economic powers in Asia and the developing world. At another level, this book is theoretical; it attempts to integrate the principal ways in which scholars have conceived of international political economy in general and in such specific areas as trade, monetary affairs, and foreign investment. This dual approach is premised on the assumption that the study of contemporary developments and of theoretical questions should be pursued together, and an attempt will be made, throughout the discussion that follows, to draw out implications for the emergent international economic and political order.

The evolution of the international political economy over the next several decades will be profoundly influenced by three major developments. The first is the relative decline of American economic leadership of the postwar liberal international economy; with decreased American power the forces of global economic interdependence have been thrown on the defensive.[1] The second is the ongoing shift in the locus

[1] Kenneth Waltz (1979) analyzes the role of the international political system as a significant factor in the development of economic interdependence.

of the core of the world economy from the Atlantic to the Pacific; in the 1970s the flow of commerce across the Pacific exceeded that of the Atlantic. The third is the increasing integration of the American and Japanese economies, which have become linked to a degree that is unprecedented for sovereign nations.

The increasing integration of the American and Japanese economies has become one of the dominant features of the contemporary world economy. In trade, production, and finance these two economies are increasingly interdependent. Driven by the economic policies of the Reagan Administration and the descent of the United States into debtor status, the creation of what can be called the *Nichibei* economy has proceeded with amazing rapidity.[2] Accounting for 30 percent of world output, this trans-Pacific relationship has eclipsed the former primacy in the world economy of the American–West European relationship.[3] The massive trade flows between the two economies, the evolving alliances among their multinational cooperations, and the pivotal role of Japanese capital in the American economy have transformed the relations of these two countries from one of superior and subordinate to a more equal partnership. The nature, dynamics, and stability of this key relationship will largely determine global economic relations.

The centrality of the American-Japanese relationship for international relations resides in the fact that the dollar is the keystone of the U.S. world position. Along with the extension of America's nuclear deterrent over its Japanese and European allies, the role of the dollar as the key currency in the international monetary system has cemented its system of global alliances and has been the foundation of American hegemony. With the dollar providing the base of the monetary system, the United States has been able to fight foreign wars, to maintain troops abroad, and to finance its hegemonic position without placing substan-

[2] According to *The Economist* (December 7, 1985, Survey Japan, p. 17), "this joint economy is called *Nichibei* in Japanese: a blend of the Japanese characters for Japan (*Nihon*) and America (*Beikoku*, or rice country)." I have not been able to verify that the Japanese do in fact use this term to refer to the increasing integration of the American and Japanese economies. Nevertheless, as it does appear to be quite appropriate, the expression will be used in this book.

[3] It is indicative of the profound change that has taken place in the 1970s and 1980s that Richard Cooper's influential book, *The Economics of Interdependence: Economic Policy in the Atlantic Community* (1968), published under the auspices of the Council on Foreign Relations, was devoted almost exclusively to trans-Atlantic relations. Cooper's argument regarding the clash between state autonomy and market interdependence has become relevant for American-Japanese relations. As I shall argue, the fundamental problem set forth by Cooper two decades ago is of increasing significance and a solution has yet to be found.

tial economic costs on the American taxpayer and thereby lowering the American standard of living. This crucial role of the dollar and the "extravagant privileges," to use the term of Charles de Gaulle, that it has conferred on the United States has required a foreign partner to help support the dollar. In the contemporary era, this task has fallen to the Japanese and their immense capital outflows to the United States. U.S. financial dependence on Japan and the growing interdependence of the Nichibei economy is a major theme of this book.

The organization below reflects these practical and theoretical purposes. The first three chapters set forth the intellectual perspective and theoretical issues to be explored. Chapter One defines the nature of international political economy as the interaction of state and market and analyzes the significance of this relationship. In Chapter Two, the three prevailing views (or ideologies) of the character of this interaction are evaluated. Chapter Three then analyzes the dynamics of the international political economy.

The next chapters turn to substantive issues of the contemporary international political economy. The international monetary system constitutes the necessary nexus of an efficiently functioning international economy, and it is the subject of Chapter Four. Chapters Five and Six discuss the increasingly interrelated topics of international trade and the multinational corporation. In Chapter Seven the controversy over the impact of the international economy on the economic development and well-being of the less developed countries is evaluated. Chapter Eight analyzes the crucial importance of the international financial system in linking together national economies, its central role in sustaining global economic development, and the threat that its increasing vulnerability poses to global economic stability. These chapters thus begin with money and end with finance. The former facilitates the functioning and integration of the world market; the latter underlies the dynamics of the world economy but also constitutes its weakest link.

The concluding chapters assess the issues and problems of the international political economy in the late 1980s. Chapter Nine analyzes the political, economic, and technological changes that have transformed the world economy over the past several decades. The significance of these changes for international economic relations is the subject of Chapter Ten, which evaluates the increasing importance of mercantilism, regionalism, and sectoral protectionism.