Globalization and the Rise of East Asia

Lessons from the Past, Prospects for the Future

Giovanni Arrighi
State University of New York

abstract: Discussions of the impact of globalization on the powers of nation-states generally assume, first, that globalization is so novel a process that its dynamics and likely outcome(s) are hard or impossible to predict and, second, that nation-states have been the basic governmental units of world capitalism since its inception, which some date from the 19th century and others from the 17th century or even earlier. The article questions both assumptions. It argues that much of what goes under the catch-word ‘globalization’ has in fact been a recurrent feature of world capitalism since early modern times. Only by recognizing what is recurrent in ongoing transformations of world capitalism, can we hope to isolate what is truly new and anomalous in these transformations. It then goes on to argue that the leading organizing centers of world capitalism have never been ‘nation-states’ proper. Rather, they have been something less or something more than that and, in their succession, they describe an evolutionary pattern which is now at an impasse. The article concludes by speculating on possible ways out of this impasse with special reference to the implications of the rise of East Asia to the most dynamic center of world-scale processes of capital accumulation.

keywords: East Asia ♦ globalization ♦ hegemony ♦ nation-states ♦ world capitalism

I

As critics of the notion of globalization have pointed out, many of the tendencies that go under that name are not new at all. The newness of the so-called ‘information revolution’ is impressive, ‘but the newness of the

SAGE (London, Thousand Oaks, CA and New Delhi)
[0268-5809(199803)13:1;59–77;003869]
railroad and the telegraph, the automobile, the radio, and the telephone in their day impressed equally’ (Harvey, 1995: 9). Even the so-called ‘virtualization of economic activity’ is not as new as it may appear at first sight.

Submarine telegraph cables from the 1860s onwards connected inter-continental markets. They made possible day-to-day trading and price-making across thousands of miles, a far greater innovation than the advent of electronic trading today. Chicago and London, Melbourne and Manchester were linked in close to real time. Bond markets also became closely interconnected, and large-scale international lending – both portfolio and direct investment – grew rapidly during this period. (Hirst, 1996: 3)

Indeed, foreign direct investment (FDI) grew so rapidly that in 1913 it amounted to over 9 percent of world output – a proportion still unsurpassed in the early 1990s (Bairoch and Kozul-Wright, 1996: 10). Similarly, the openness to foreign trade – as measured by imports and exports combined as a proportion of GDP – was not markedly greater in 1993 than in 1913 for all major capitalist countries except the USA (Hirst, 1996: 3–4).

To be sure, the most spectacular expansion of the last two decades, and the strongest piece of evidence in the armory of advocates of the globalization thesis, has not been in FDI or world trade but in world financial markets. ‘Since 1980’, notes Saskia Sassen, ‘the total value of financial assets has increased two and a half times faster than aggregate GDP of all rich industrial economies. And the volume of trading in currencies, bonds and equities has increased five times faster.’ The first to ‘globalize’ and today ‘the biggest and in many ways the only true global market’ is the foreign exchange market. ‘Foreign exchange transactions were ten times larger than world trade in 1983; only ten years later, in 1992, they were sixty times larger’ (Sassen, 1996: 40).

In the absence of this explosive growth in world financial markets, we would probably not be speaking of globalization at all, and certainly not as a departure from the ongoing process of world market reconstruction launched under US hegemony in the wake of the Second World War. After all,

Bretton Woods was a global system, so what really happened here was a shift from one global system (hierarchically organized and largely controlled politically by the United States) to another global system that was more decentralized and coordinated through the market, making the financial conditions of capitalism far more volatile and far more unstable. The rhetoric that accompanied this shift was deeply implicated in the promotion of the term ‘globalization’ as a virtue. In my more cynical moments I find myself thinking that it was the financial press that conned us all (myself included) into believing in ‘globalization’ as something new when it was nothing more than a promotional gimmick to make the best of a necessary adjustment in the system of international finance. (Harvey, 1995: 8)
Gimmick or not, in academic debates no less than in politics and in the media, the idea of globalization was from the start intertwined with the idea of intense interstate competition for increasingly volatile capital, and a consequent tighter subordination of most states to the dictates of capitalist agencies. Nevertheless, it is precisely in this respect that present tendencies are most reminiscent of the belle epoque of world capitalism of the late 19th and early 20th centuries. As Sassen herself acknowledges,

In many ways the international financial market from the late 1800s to World War I was as massive as today’s... The extent of the internationalization can be seen in the fact that in 1920, for example, Moody’s rated bonds issued by about fifty governments to raise money in the US capital markets. The Depression brought on a radical decline in this internationalization, and it was only very recently that Moody’s once again rated the bonds of as many governments. (Sassen, 1996: 42–3)

In short, careful advocates of the globalization thesis concur with critics in seeing present transformations as not novel except for their scale, scope and complexity. As I have argued and documented elsewhere (Arrighi, 1994), however, the specificities of present transformations can be fully appreciated only by lengthening the time horizon of our investigations to encompass the entire lifetime of world capitalism. In this longer perspective, ‘financialization’, heightened interstate competition for mobile capital, rapid technological and organizational change, state breakdowns and an unusual instability of the economic conditions under which states operate – taken individually or jointly as components of a particular temporal configuration, these are all recurrent aspects of what I have called ‘systemic cycles of accumulation’.

In each of the four systemic cycles of accumulation that we can identify in the history of world capitalism from its earliest beginnings in late medieval Europe to the present, periods characterized by a rapid and stable expansion of world trade and production invariably ended in a crisis of overaccumulation that ushered in a period of heightened competition, financial expansion and eventual breakdown of the organizational structures on which the preceding expansion of trade and production had been based. To borrow an expression from Fernand Braudel (1984: 246) – the inspirer of the idea of systemic cycles of accumulation – these periods of intensifying competition, financial expansion and structural instability are nothing but the ‘autumn’ of a major capitalist development. It is the time when the leader of the preceding expansion of world trade reaps the fruits of its leadership by virtue of its commanding position over world-scale processes of capital accumulation. But it is also the time when that same leader is gradually displaced at the commanding heights of world capitalism by an emerging new leadership. This has been the experience
of Britain in the late 19th and early 20th centuries, of Holland in the 18th century and of the Genoese capitalist diaspora in the second half of the 16th century. Could it also be the experience of the USA today?

At the moment the most prominent tendency is for the USA to reap the fruits of its leadership of world capitalism in the Cold War era. Indeed, various aspects of the seeming global triumph of Americanism that ensued from the demise of the USSR are themselves widely held to be signs of globalization. The most widely recognized signs are the global hegemony of US popular culture and the growing importance of agencies of world governance that are influenced disproportionately by the USA and its closest allies, as the UN Security Council, NATO, the Group of Seven, the IMF, the IBRD and the WTO to different extents all are. Less widely recognized, but also significant, is the ascendance of a new legal regime in international business transactions dominated by US law firms and Anglo-American conceptions of business law (Sassen, 1996: 12–21).

The importance of these signs of a further Americanization of the world should not be belittled. But it should not be exaggerated either, particularly for what concerns US capabilities to continue to shape and manipulate to its own advantage the organizational structures of the world capitalist system. In retrospect, the chances are that the victory of the USA in what Fred Halliday (1986) has called the Second Cold War and the further Americanization of the world will appear as closing moments of US world hegemony, just as Britain’s victory in the First World War and the further expansion of its overseas empire were preludes to the final demise of British world hegemony in the 1930s and 1940s. As discussed in the next section, there are good reasons for expecting the demise of US hegemony to follow a different trajectory from the demise of British hegemony. But before we turn to the reasons for expecting differences, let me briefly deal with the main reason for expecting similarities.

This has to do with the massive, system-wide redistributions of income and wealth from all kinds of communities to capitalist agencies on which the present financial expansion, like all previous financial expansions of world capitalism, is based. In the past, no less than in the present, these redistributions were driven by interstate competition for mobile capital – a competition which tends to intensify as a result of the same over-accumulation crises that induce capitalist agencies to keep in liquid form a growing proportion of their incoming cash flows. This hypothesis, which I derived from Max Weber (1961: 247–9, 1978: 353–4), works very well in explaining the recurrent belle époques of financial capitalism that have invariably followed all major expansions of world trade and production – from Renaissance Florence to the Reagan era, through the age of the Genoese, the periwig period of Dutch history and Britain’s Edwardian era (Arrighi, 1994: 16, 105, 172–4, 231, 314–17).
As a rule, except for Renaissance Florence, the leading organizing centers and main beneficiaries of the financial expansions were the organizing centers of the preceding expansion of world trade and production. And yet, the unprecedented financial power of the old organizing centers was in all instances misleading. The political, economic and social turbulence engendered by the massive redistributions of income and wealth that sustained the financial expansions gradually undermined the power of the old organizing centers, while creating the conditions for the emergence of new organizing centers endowed with the capacity to promote and sustain a new major expansion of world trade and production.

Whether any such new organizing centers are today emerging under the glitter of the US-led financial expansion remains unclear, as we discuss below. But the effects of the turbulence engendered by the present financial expansion have begun to worry even the promoters and boosters of economic globalization. David Harvey (1995: 8, 12) quotes several of them remarking that globalization is turning into ‘a brakeless train wreaking havoc’, and worrying about a ‘mounting backlash’ against the effects of such a destructive force, first and foremost ‘the rise of a new brand of populist politicians’ fostered by the ‘mood . . . of helplessness and anxiety’ that is taking hold even of wealthy countries. More recently, the Hungarian-born cosmopolitan financier George Soros has joined the chorus by arguing that the global spread of laissez-faire capitalism has replaced communism as the main threat to open democratic society.

Although I have made a fortune in the financial markets, I now fear that untrammeled intensification of laissez-faire capitalism and the spread of market values to all areas of life is endangering our open and democratic society. The main enemy of the open society, I believe, is no longer the communist but the capitalist threat. . . . Too much competition and too little cooperation can cause intolerable inequities and instability. . . . The doctrine of laissez-faire capitalism holds that the common good is best served by the uninhibited pursuit of self-interest. Unless it is tempered by the recognition of a common interest that ought to take precedence over particular interests, our present system . . . is liable to break down. (Soros, 1997: 45, 48)

In reporting the proliferation of writings along Soros’s lines, Thomas Friedman – the early booster of the idea of globalization as virtue who later invented the ‘brakeless train’ metaphor – reiterates the view that ‘the integration of trade, finance and information that is creating a single global market and culture’ is inevitable and unstoppable. But while globalization cannot be stopped – he hastens to add – ‘there are two things that can be done to it,’ presumably for its own good: ‘We can go faster or slower. . . . And we can do more or less to cushion [its] negative effects’ (Friedman, 1997: 15).
There is much deja vu in these diagnoses of the self-destructiveness of unregulated processes of world market formation and related prognoses of what ought to be done to remedy such self-destructiveness. Soros himself compares the present age of triumphant laissez-faire capitalism with the similar age of a century ago. In his view the earlier age was, if anything, more stable than the present, because of the sway of the gold standard and the presence of an imperial power, Britain, prepared to dispatch gunboats to faraway places to maintain the system. And yet the system broke down under the impact of the two world wars and the intervening rise of ‘totalitarian ideologies’. Today, in contrast, the USA is reluctant to be the police officer of the world ‘and the main currencies float and crush against each other like continental plates’, making the breakdown of the present regime much more likely ‘unless we learn from experience’ (Soros, 1997: 48).

Our global open society lacks the institutions and mechanisms necessary for its preservation, but there is no political will to bring them into existence. I blame the prevailing attitude, which holds that the unhampered pursuit of self-interest will bring about an eventual international equilibrium. . . . As things stand, it does not take very much imagination to realize that the global open society that prevails at present is likely to prove a temporary phenomenon. (Soros, 1997: 53–4)

Soros makes no reference to his fellow countryman Karl Polanyi’s now classic account of the rise and demise of 19th-century laissez-faire capitalism. Nevertheless, anyone familiar with that account cannot help but be struck by its anticipation of present arguments about the contradictions of globalization (on the continuing significance of Polanyi’s analysis for an understanding of the present wave of globalization, see among others Mittelman, 1996). Like Friedman, Polanyi saw a slowdown in the rate of change as the best way of keeping change going in a given direction without causing social disruptions that would result in chaos rather than change, while underscoring that only a cushioning of the disruptive effects of market regulation can prevent society from revolting in self-defense against the market system (Polanyi, 1957: 3–4, 36–8, 140–50). And like Soros, Polanyi dismissed the idea of a self-adjusting (global) market as ‘a stark utopia’; he argued that no such institution can exist for any length of time ‘without annihilating the human and natural substance of [world] society’; and he maintained that the only alternative to the disintegration of the world market system in the interwar years ‘was the establishment of an international order endowed with an organized power which would transcend national sovereignty’ – a course, however, that ‘was entirely beyond the horizons of the time’ (Polanyi, 1957: 3–4, 20–2).

Neither Soros nor Polanyi provide an explanation of why the still
dominant world power of their respective times – the USA today, Britain in the late 19th and early 20th centuries – stubbornly stuck to and propagated the belief in a self-adjusting global market in spite of accumulating evidence that unregulated markets (unregulated financial markets in particular) do not produce ‘equilibria’ but disorder and instability. Underlying such stubbornness we can nonetheless detect the predicament of a declining hegemonic agency that has become overly dependent, for profits as much as for power, on a process of widening and deepening integration of world trade and finance that the hegemonic agency at the height of its power promoted and organized, but the orderly development of which it can no longer ensure. It is as if the declining hegemonic power can neither afford to jump off the ‘brakeless train’ of unregulated financial speculation, nor reroute the train into a less self-destructive groove.

Worse still for the power of the declining hegemonic agency, though not for the future of world society, in the present as in past financial expansions, the overall contraction in the rate of growth of world trade and production has been accompanied by the emergence of new centers of capital accumulation experiencing very rapid growth, not just financially, but commercially and industrially as well. It was this kind of center that in the past eventually acquired the capacity to lead world capitalism toward a new phase of material expansion comparable to the so-called Golden Age of the 1950s and 1960s. In the British-led financial expansion of a century ago, centers of this kind were disproportionately concentrated in North America, and it was in North America that the new world order of the Cold War era was organized and the foundations of a new material expansion of the global economy were laid. In the present US-led financial expansion, in contrast, the most dynamic centers of capital accumulation are disproportionately concentrated in East Asia. It is on East Asia, therefore, that we must focus in order to assess the chances that a new world order will emerge out of the ongoing phase of financial expansion and associated self-reinforcing world disorder.

II

The formation of a capitalist world system, and its subsequent transformation from being a world among many worlds to becoming the historical social system of the entire world, have been based upon the construction of territorial organizations capable of regulating social and economic life and of monopolizing means of coercion and violence according to a sovereign will. These territorial organizations are generally conceived of as ‘nation-states’ and innumerable theories have been produced to account for their origins, structure and function. Unfortunately, many of these theories have engaged, to paraphrase Harvey (1995: 7), ‘in an
unhealthy degree of abstraction from history and geography'. What is the use of a concept that classifies Gabon and Liberia with the USA or Germany, and that fails to recognize that most state boundaries were drawn between 1870 and 1925 and more than half of these were drawn up arbitrarily by Britain and France alone?

Most states became independent only after 1945 and many of them have been in search of a nation ever since (but then this was historically true of France and Mexico as it has recently been of Nigeria or Rwanda). So while it is true that the treaty of Westphalia established for the first time the principle that independent sovereign states, each recognizing the others' autonomy and territorial integrity, should coexist in a capitalist world, the process of globalizing the territorial organization of the world according to that principle took several centuries to complete (accompanied by a good deal of violence). And the process that gave rise to that system can just as easily dissolve it. (Harvey, 1995: 7)

In fact, most members of the interstate system as instituted at any given time never had the powers that states are said to be losing under the impact of the present phase of financial expansion; and even the states that had those powers in the early stages of formation of the system lost them long before the present crisis. As Robert Wade (1996) has noted, much of recent talk about globalization and the crisis of nation-states simply recycles arguments that were fashionable a hundred years ago (see also Lie, 1996: 587). As we shall see, there are important differences between the present crisis of states and the crisis of states that was being talked about in the late 19th and early 20th centuries. But the point remains that the crisis of the states that undergird the formation and expansion of world capitalism is not a novelty of the late 20th century but a process that has important historical precedents.

Here lies the main significance of systemic cycles of accumulation. For these cycles are not mere cycles. They are also stages in the formation and gradual expansion to its present global dimensions of the world capitalist system. This process of globalization has occurred through the emergence at each stage of organizing centers of greater scale, scope and complexity than the organizing centers of the preceding stage. In this sequence, city-states like Venice and stateless business diasporas like the Genoese were replaced at the commanding heights of the world capitalist system by a proto-nation-state like Holland and its chartered companies, which were then replaced by the British nation-state, formal empire and world-encompassing informal business networks, which were in their turn replaced by the continent-sized USA, its panoply of transnational corporations and its far-flung networks of quasi-permanent overseas military bases (Arrighi, 1994: 13–16, 74–84, 235–8, 330–1).

Each replacement was marked by a crisis of the territorial and non-territorial organizations that had led expansion in the preceding stage.
But it was marked also by the emergence of new organizations with even greater capabilities to lead world capitalism into renewed expansion than the displaced organizations. It follows that there has been a crisis of states in each financial expansion, but the successive crises concerned different kinds of states. Thus, the ‘nation-states’ that were in crisis in the financial expansion of the late 19th and early 20th centuries are a very different kind of state than the ones that are in crisis in the present financial expansion.

A hundred years ago the reality, and to a large extent the perception, of the crisis of ‘nation-states’ concerned the states of the old European core relative to the continent-sized states that were forming on the outer perimeter of the Eurocentric system, the USA in particular. The irresistible rise of US power and wealth, and of Soviet power, though not wealth, in the course of the two world wars and their aftermath, confirmed the validity of the widely held expectation that the states of the old European core were bound to live in the shadow of their two flanking giants, unless they could themselves attain continental dimension. The reality, and to a lesser extent the perception, of the present crisis of ‘nation-states’, in contrast, is that the giant states themselves are in trouble.

The sudden collapse of the USSR has both clarified and obscured this new dimension of the crisis. It has clarified the new dimension by showing how vulnerable even the largest, most self-sufficient, and second greatest military power had become to the forces of global economic integration. But it has obscured the true nature of the crisis by provoking a general amnesia about the fact that the crisis of US world power preceded the breakdown of the USSR and, with ups and downs, has outlasted the end of the Cold War.

The second difference between the crisis of the states today and a hundred years ago is that the strategies and structures of US hegemony in the Cold War era have deepened and widened the crisis by transforming small and medium-sized states into quasi-states, and by creating the conditions for a new time–space compression that has undermined the power of even the larger states. To be sure, under US hegemony the nation-state form of political organization became universal. But as the form of national sovereignty spread, its substance evaporated like never before (Arrighi, 1994: 66–9).

In part, this evaporation was the direct outcome of the institutionalization of the idea of world government and of the actual exercise of world governmental functions by the USA. The institutionalization of the idea of world government materialized through the creation of the UN and Bretton Woods organizations, which imposed restrictions of various kinds on the sovereignty of most of their member nation-states. But the greatest restrictions were imposed by the series of US-centric regional military
alliances and by the US-centric world monetary system through which the USA at the height of its power actually governed the world.

In part, however, the evaporation of the substance of national sovereignty was the indirect result of the new forms of regional and world economic integration that grew under the carapace of US military and financial power. Unlike the 19th-century world economic integration instituted by and centered on Britain, the system of regional and world economic integration instituted by and centered on the USA in the Cold War era did not rest on the unilateral free trade of the hegemonic power and on the extraction of tribute from an overseas territorial empire. Rather, it rested on a process of bilateral and multilateral trade liberalization closely monitored and administered by the USA, acting in concert with its most important political allies, and on a global transplant of the vertically integrated organizational structures of US corporations (Arrighi, 1994: 69–72).

Administered trade liberalization and the global transplant of US corporations were meant to serve a double purpose: to maintain and expand US world power and to reorganize interstate relations so as to ‘contain’, not just the forces of communist revolution, but also the forces of nationalism that had torn apart and eventually destroyed the 19th-century British system of global economic integration. In the attainment of these two objectives, the overseas transplant of US corporations had priority over trade liberalization. Thus, as Robert Gilpin (1975: 108) has underscored with reference to US policy in Europe, the fundamental motivation of US support for Western European economic unification was the consolidation of US and Western power vis-a-vis the USSR. In this pursuit, the US government was willing to tolerate some discrimination against the import of US goods in the newly created Common Market. But it was not willing to tolerate discrimination against the transplant of US corporations within the walls of that market.

In Gilpin’s view, the relationship of these corporations to US world power was not unlike that of joint-stock chartered companies to British power in the 17th and 18th centuries: ‘The American multinational corporation, like its mercantile ancestor, has performed an important role in the maintenance and expansion of the power of the United States’ (Gilpin, 1975: 141–2). This has been undoubtedly true but only up to a point. The global transplant of US corporations did maintain and expand the world power of the USA by establishing claims on the incomes, and controls over the resources, of foreign countries. The importance of these claims and controls should not be underestimated. In the last resort, they constituted the single most important difference between the world power of the USA and that of the USSR and, by implication, the single most important reason why the decline of US world power, unlike that of the USSR, has
proceeded gradually rather than catastrophically (for an early statement of this difference, see Arrighi, 1982: 95–7).

Nevertheless, the relationship between the transnational expansion of US corporations and the maintenance and expansion of the power of the US state has been just as much one of contradiction as of complementarity. For one thing, the claims on foreign incomes established by the subsidiaries of US corporations did not translate into a proportionate increase in the incomes of US residents and in the revenues of the US government. On the contrary, precisely when the fiscal crisis of the US ‘warfare–welfare state’ became acute under the impact of the Vietnam War, a growing proportion of the incomes and liquidity of US corporations, instead of being repatriated, flew to offshore money markets. In the words of Eugene Birnbaum of Chase Manhattan Bank, the result was ‘the amassing of an immense volume of liquid funds and markets – the world of Eurodollar finance – outside the regulatory authority of any country or agency’ (cited in Frieden, 1987: 85; emphasis in the original).

Interestingly enough, the organization of this world of Eurodollar finance – like the organizations of the 16th-century Genoese business diaspora and of the Chinese business diaspora from premodern to our own times – occupies places but it is not defined by the places it occupies. The so-called Eurodollar or Eurocurrency market – as Roy Harrod (1969: 319) characterized it well before the arrival of the information superhighway – ‘has no headquarters or buildings of its own. . . . Physically it consists merely of a network of telephones and telex machines around the world, telephones which may be used for purposes other than Eurodollar deals.’ This space-of-flows falls under no state jurisdiction. And although the US state still has some privileged access to its services and resources, the main tendency of the last 30 years has been for most states, including the US, to become the servant rather than the master of extraterritorial high finance.

Equally important, the transnational expansion of US corporations has called forth competitive responses in old and new centers of capital accumulation that have weakened, and eventually reversed, US claims on foreign incomes and resources. As Alfred Chandler (1990: 615–16) has pointed out, by the time Servan-Schreiber called upon his fellow Europeans to stand up to the ‘American Challenge’ – a challenge that in his view was neither financial nor technological but ‘the extension to Europe of an organization that is still a mystery to us’ – a growing number of European enterprises had found effective ways and means of meeting the challenge and of themselves becoming challengers of the long-established US corporations even in the US market. In the 1970s, the accumulated value of non-US (mostly Western European) foreign direct investment grew one-and-half times faster than that of US foreign direct investment. By 1980, it was estimated that there were over 10,000 transnational corporations of all
national origins, and by the early 1990s more than three times as many (Stopford and Dunning, 1983: 3; Ikeda, 1996: 48).

This explosive growth in the number of transnational corporations was accompanied by a drastic decrease in the importance of the USA as a source, and an increase in its importance as a recipient, of foreign direct investment. The transnational forms of business organization pioneered by US capital, in other words, had rapidly ceased to be a ‘mystery’ for a large and growing number of foreign competitors. By the 1970s, Western European capital had discovered all its secrets and had begun outcompeting US corporations at home and abroad. By the 1980s, it was the turn of East Asian capital to outcompete both US and Western European capital through the formation of a new kind of transnational business organization – an organization that was deeply rooted in the region’s gifts of history and geography, and that combined the advantages of vertical integration with the flexibility of informal business networks (Arrighi et al., 1993). But no matter which particular fraction of capital won, the outcome of each round of the competitive struggle was a further increase in the volume and density of the web of exchanges that linked people and territory across political jurisdictions both regionally and globally.

This tendency has involved a fundamental contradiction for the global power of the USA – a contradiction which has been aggravated rather than mitigated by the collapse of Soviet power and the consequent end of the Cold War. On the one hand, the US government has become prisoner of its unprecedented and, with the collapse of the USSR, unparalleled global military capabilities. These capabilities remain essential, not just as a source of ‘protection’ for US business abroad, but also as the main source of the lead of US business in high technology both at home and abroad. On the other hand, the disappearance of the communist ‘threat’ has made it even more difficult than it already was for the US government to mobilize the human and financial resources needed to put to effective use or just maintain its military capabilities. Hence the divergent assessments of the actual extent of US global power in the post-Cold War era.

‘Now is the unipolar moment,’ a triumphalist commentator crows. ‘There is but one first-rate power and no prospect in the immediate future of any power to rival it.’ But a senior U.S. foreign policy official demurs: ‘We simply do not have the leverage, we don’t have the influence, the inclination to use military force. We don’t have the money to bring the kind of pressure that will produce positive results any time soon.’ (Ruggie, 1994: 553)

III

The true peculiarity of the present phase of financial expansion of world capitalism lies in the difficulty of projecting past evolutionary patterns
into the future. In all past financial expansions, the declining power of the old organizing centers of world capitalism was matched by the rising power of new organizing centers capable of surpassing the power of their predecessors not just financially but militarily as well. This has been the case of the Dutch in relation to the Genoese, of the British in relation to the Dutch and of the USA in relation to the British.

In the present financial expansion, in contrast, the declining power of the old organizing centers has been associated not with a fusion of a higher order but with a fission of military and financial power. While military power has become concentrated in the hands of the USA and its closest Western allies, financial power has become concentrated in the hands of a motley ensemble of territorial and non-territorial organizations – a semi-sovereign nation-state (Japan), two quasi-states (South Korea and Taiwan), two city-states (one sovereign, Singapore, and one semi-sovereign, Hong Kong), and a transnational business community (the Overseas Chinese) – none of which can even remotely aspire to match the global military capabilities of the USA.

This anomaly signals a fundamental break with the evolutionary pattern that has characterized the expansion of world capitalism over the last 500 years. Expansion along the established path is at an impasse – an impasse which is reflected in the widespread feeling that modernity or even history is coming to an end, that we have entered a phase of turbulence and systemic chaos with no precedent in the modern era (Rosenau, 1990: 10; Wallerstein, 1995: 1, 268), or that a 'global fog' has descended upon us as we blindly tap our way into the third millennium (Hobsbawm, 1994: 558–9). While the impasse, the turbulence and the fog are all real, a closer look at the extraordinary economic expansion of the East Asian region can give some insights into the truly new kind of world order that may be emerging at the edges of the impending systemic chaos.

The proximate origins of this expansion can be traced to the peculiar difficulties encountered by the USA in enforcing the Cold War world order in East Asia. The defeat of Japan in the Second World War and the subsequent victory of the Chinese Communist Party (CCP) over the Guomindang (GMD) in Mainland China left the USA and the People’s Republic of China (PRC) facing one another in a struggle for centrality in the region. At least initially, there was very little that the PRC could do to prevent the USA from gaining the upper hand. The unilateral military occupation of Japan in 1945 and the division of the region in the aftermath of the Korean War into two antagonistic blocs created, in Bruce Cumings’s words, a US ‘vertical regime solidified through bilateral defense treaties (with Japan, South Korea, Taiwan and the Philippines) and conducted by a State Department that towered over the foreign ministries of these four countries’ (Cumings, 1994: 23).
All became semi-sovereign states, deeply penetrated by American military structures (operational control of the South Korean armed forces, Seventh Fleet patrolling of the Taiwan strait, defense dependencies for all four countries, bases on all their territories) and incapable of independent foreign policy or defense initiatives. All were in a sense contemporary ‘Hermit Kingdoms’ vis-a-vis each other, if not in relation to the U.S. . . . There were minor demarches through the military curtain beginning in the mid-1950s, like low levels of trade between Japan and China, or Japan and North Korea. But the dominant tendency was a unilateral American regime heavily biased toward military forms of communication. (Cumings, 1994: 23–4)

Within this ‘unilateral American regime’ the USA specialized in the provision of protection and in the pursuit of power regionally and globally, while its East Asian vassal states specialized in trade and in the pursuit of profit. This kind of division of labor has been particularly important in shaping US-Japanese relations throughout the Cold War era right up to the present.

Freed from the burden of defense spending, Japanese governments have funneled all their resources and energies into an economic expansionism that has brought affluence to Japan and taken its business to the farthest reaches of the globe. War has been an issue only in that the people and the conservative government have resisted involvement in foreign wars like Korea and Vietnam. Making what concessions were necessary under the Security Treaty with the Americans, the government has sought only involvement that would bring economic profit to Japanese enterprise. (Schurmann, 1974: 143)

Its militaristic structure notwithstanding, it was precisely in the military sphere that the US regime in East Asia began to crack. For the Vietnam War destroyed what the Korean War had created. The Korean War had instituted the US-centric East Asian regime by excluding Mainland China from normal commercial and diplomatic intercourse with the non-communist part of the region, through blockade and war threats backed by ‘an archipelago of American military installations’ (Cumings, 1994: 23). Defeat in the Vietnam War, in contrast, forced the USA to readmit Mainland China to normal commercial and diplomatic intercourse with the rest of East Asia, while initiating a reversal of the economic fortunes of the USA and Japan (Arrighi, 1996).

This outcome transformed without eliminating the previous imbalance of the distribution of power resources in the region. The rise of Japan to industrial and financial powerhouse of global significance transformed the previous relationship of Japanese political and economic vassalage vis-a-vis the USA into a relationship of mutual vassalage. Japan continued to depend on the USA for military protection; but the USA came to depend ever more critically on Japanese finance and industry for the reproduction of its protection-producing apparatus. At the same time,
the reincorporation of Mainland China in regional and global markets brought back into play a state whose demographic size, abundance of labor resources, and growth potential surpassed by a good margin that of all other states operating in the region, the USA included. Within fewer than 20 years after Richard Nixon’s mission to Beijing, and fewer than 15 after the formal reestablishment of diplomatic relations between the USA and the PRC, this giant ‘container’ of labor power already seemed poised to become again the powerful attractor of means of payments it had been before its subordinate incorporation in the European world-system.

If the main attraction of the PRC for foreign capital has been its huge and highly competitive reserves of labor, the ‘matchmaker’ that has facilitated the encounter of foreign capital and Chinese labor is the Overseas Chinese capitalist diaspora.

Drawn by China’s capable pool of low-cost labor and its growing potential as a market that contains one-fifth of the world’s population, foreign investors continue to pour money into the PRC. Some 80% of that capital comes from the Overseas Chinese, refugees from poverty, disorder, and communism, who in one of the era’s most piquant ironies are now Beijing’s favorite financiers and models for modernization. Even the Japanese often rely on the Overseas Chinese to grease their way into China. (Kraar, 1994: 40)

In fact, there is nothing ironic in Beijing’s reliance on the Overseas Chinese to ease Mainland China’s reincorporation in regional and world markets. As Alvin So and Stephen Chiu (1995: Ch. 11) have shown, the close political alliance that was established in the 1980s between the CCP and Overseas Chinese capitalists made perfect sense in terms of their respective pursuits. For the alliance provided the Overseas Chinese with extraordinary opportunities to profit from commercial and financial intermediation, while providing the CCP with a highly effective means of killing two birds with one stone: to upgrade the domestic economy of Mainland China and at the same time to promote national unification in accordance to the ‘One Nation, Two Systems’ model.

The true irony of the situation is that one of the most conspicuous legacies of 19th-century Western encroachments on Chinese sovereignty is now emerging as a powerful instrument of Chinese and East Asian emancipation from Western dominance. As argued elsewhere (Arrighi et al., 1996a, 1996b), an Overseas Chinese diaspora had long been an integral component of the indigenous East Asian tribute–trade system centered on Imperial China. But the greatest opportunities for its expansion came with the subordinate incorporation of that system within the structures of the modern world-system centered on Europe. Although the diaspora tried to translate its growing economic power into political control over Mainland China by supporting the 1911 Revolution and the KMT in the Warlord era
from 1916 to 1927, the attempt failed in the face of escalating political chaos, the takeover of China's coastal regions by Japan, and the eventual defeat of the GMD by the CCP.

Under the US Cold War regime, the diaspora's traditional role of commercial intermediation between Mainland China and the surrounding maritime regions was stifled as much by the US embargo on trade with the PRC as by the PRC's own restrictions on domestic and foreign trade. Nevertheless, the expansion of US power networks and Japanese business networks in the maritime regions of East Asia provided the diaspora with plenty of opportunities to exercise new forms of commercial intermediation between these networks and the local networks it controlled. And as restrictions on trade with and within China were relaxed, the diaspora quickly emerged as the single most powerful agency of the economic reunification and integration of the East Asian regional economy (Hui, 1995).

It is too early to tell what kind of political-economic formation will eventually emerge out of this reunification and how far the rapid economic expansion of the East Asian region can go. For what we know, the present rise of East Asia to most dynamic center of processes of capital accumulation on a world scale may well be the preamble to a recentering of the regional and world economies on China as they were in premodern times. But whether or not that will actually happen, the main features of the ongoing East Asian economic renaissance are sufficiently clear to provide us with some insights into its likely future trajectory and outcome.

First, the renaissance is as much the product of the contradictions of US world hegemony as of East Asia's geohistorical heritage. The contradictions of US world hegemony concern primarily the dependence of US power and wealth on a path of development characterized by high protection and reproduction costs - that is, on the formation of a world-encompassing, capital-intensive military apparatus on the one side, and on the diffusion of wasteful and unsustainable patterns of consumption on the other. Nowhere have these contradictions been more evident than in East Asia. Not only did the Korean and Vietnam Wars reveal the limits of the actual power wielded by the US warfare-welfare state. Equally important, as those limits tightened and expansion along the path of high protection and reproduction costs began to yield decreasing returns and to destabilize US world power, East Asia's geohistorical heritage of comparatively low reproduction and protection costs gave the region's governmental and business agencies a decisive competitive advantage in a global economy more closely integrated than ever before. Whether this heritage will be preserved remains unclear. But for the time being the East Asian expansion has proceeded along a developmental path far more economical and sustainable than the US path.
Second, the renaissance has been associated with a structural differentiation of power in the region that has left the USA in control of most of the guns, Japan and the Overseas Chinese in control of most of the money, and the PRC in control of most of the labor. This structural differentiation—which has no precedent in previous hegemonic transitions—makes it extremely unlikely that any single state operating in the region, the USA included, will acquire the capabilities needed to become hegemonic regionally and globally. Only a plurality of states acting in concert with one another has any chance of bringing into existence an East Asian-based new world order. This plurality may well include the USA, and, in any event, US policies toward the region will remain as important a factor as any other in determining whether, when and how such a regionally based new world order will actually emerge.

Third, the process of economic expansion and integration of the East Asian region is a process structurally open to the rest of the global economy. In part, this openness is a heritage of the interstitial nature of the process vis-a-vis the networks of power of the USA. In part, it is due to the important role played by informal business networks with ramifications throughout the global economy in promoting the integration of the region. And, in part, it is due to the continuing dependence of East Asia on other regions of the global economy for raw materials, high technology and cultural products. The strong ‘forward’ and ‘backward’ linkages that connect the East Asian regional economy to the rest of the world augur well for the future of the global economy, assuming that the economic expansion of East Asia is not brought to a premature end by internal conflicts, mismanagement or US resistance to the loss of power and prestige, though not necessarily of wealth and welfare, that the recentering of the global economy on East Asia entails.

Finally, the rooting of the East Asian economic expansion and integration in the region’s geohistorical heritage means that the process cannot be replicated elsewhere with equally favorable results. Adaptation to the emergent East Asian economic leadership on the basis of each region’s own geohistorical heritage, rather than misguided attempts at replicating the East Asian experience out of context, is the most promising course of action for governments and movements elsewhere in the world. Whether this is a realistic expectation is, of course, an altogether different matter.

References


**Biographical Note:** Giovanni Arrighi is Professor of Sociology at the State University of New York, Binghamton. His latest book is *The Long Twentieth Century: Money, Power and the Origins of Our Time* (London and New York: Verso, 1994).

**Address:** Department of Sociology, State University of New York, Binghamton, NY 13902-6000, USA. [email: arrighi@binghamton.edu]