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THE RISE OF EAST ASIA AND THE WITHERING AWAY OF THE INTERSTATE SYSTEM

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 I

 History continually messes up the neat conceptual frameworks

and the more or less elegant theoretical speculations with which

we endeavor to understand the past and forecast the future of the

world we live in. In recent years, two events stand out as

eminently subversive of the intellectual landscape: the sudden

demise of the USSR as one of the two main loci of world power and

the gradual rise of East Asia to epicenter of world-scale processes

of capital accumulation. Although each event has received

more than its due of scholarly attention, it is their joint

occurrence that has the most significant conceptual and theoretical

implications.

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 World-systems studies are as likely to be revolutionized

by this joint occurrence as any other field of historical

inquiry. Thus, Andre Gunder Frank has claimed that

 the recent demise of the 'socialist system,' and the

 increasing wealth of many Asian countries provide a new

 perspective on the origins and development of a world

 economic system that spanned the globe. It is an

 appropriate moment to critically reexamine the work of

 Fernand Braudel and Immanuel Wallerstein, both of whom

 have advanced the view that a world-economy emerged in

 Western Europe by at least 1450, then spread outward

 from Europe to encompass the rest of the world.

 (1994: 259)

 In the new perspective that Frank proposes, the formation

of a world-economic system encompassing Eurasia and parts of

Africa antedates 1450 by several millennia. Within this ancient

world economic system, Europe in the modern era did not "incorpo-

rate" Asia. Rather, after 1500 it used American silver to buy

its way into an Asian-dominated trading system. Even then,

"Europe's incursions into Asia... succeeded only after about

three centuries, when Ottoman, Moghul, and Qing rule was weakened

for other reasons. In the global economy, these and other

economies competed with each other until Europe won" (Frank 1994:

273, 275).

 Frank does not spell out the dynamic of this "victory." He

nonetheless insists on two things. First, at the origins of the

victory there is "no dramatic, or even gradual, change to a

capitalist economy, and certainly none beginning in Europe in the

sixteenth century" (1994: 275). And second, the victory now

seems to have been very short-lived. "The contemporary economic

expansion in East Asia, beginning with Japan, then in the East

Asian NICs and now apparently also in coastal China, may spell

the beginnings of a return [to a world system] in which parts of

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Asia again play a leading role in the future as they did in the

not so distant past" (Gills and Frank 1994: 6-7).

 Starting from altogether different premises, a group of

Japanese historians, most notably, Takeshi Hamashita and Heita

Kawakatsu, have recently advanced a reinterpretation of "modern-

ization" in East Asia that converges in key respects with Frank's

critique of established views of the formation and expansion of

the modern world system. Unlike Frank, Hamashita and Kawakatsu

focus on East Asian rather than world history. But like Frank,

they deny that the expanding European world-economy ever "incor-

porated" what they call the Sinocentric tribute-trade system of

East Asia.

 In Hamashita's conceptualization, the several sea zones that

stretch from Northeast to Southeast Asia have constituted for at

least a millennium an integrated ensemble of regions, countries,

and cities held together by a tribute-trade system centered on

China. The regions, countries, and cities located along the

perimeter of each sea zone "are close enough to influence one

another, but are too far apart to assimilate or be assimilated."

The Sinocentric tribute-trade system provided them with a political-

economic framework of mutual integration that nonetheless was

loose enough to endow its peripheral components with considerable

autonomy vis-a-vis the Chinese center (Hamashita 1995: 5-8).

 Within this system, tribute missions performed an "imperial

title-awarding" function that was both hierarchical and competi-

tive. Thus, Korea, Japan, the Ryukyus, Vietnam and Laos, among

others, all sent tribute missions to China. But the Ryukyus and

Korea sent missions also to Japan; and Vietnam required tribute

missions from Laos. Japan and Vietnam, therefore, were both

peripheral members of the Sinocentric system and competitors with

China in the exercise of the imperial title-awarding function

(Hamashita 1994: 92).

 The system of tribute missions was intertwined and grew in

symbiosis with extensive trading networks. In fact, the rela-

tionship between trade and tribute was so close that "it is quite

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legitimate to view tribute exchange as a commercial transaction."

 Even the Chinese court... acted as a party to business

 transactions. The mode of payment was often Chinese currency,

 whether paper money or silver. Seen from an economic

 perspective, tribute was managed as an exchange between

 seller and buyer, with the 'price' of commodities fixed.

 Indeed, 'price' standards were determined, albeit loosely,

 by market prices in Peking. Given the nature of this trans-

 action, it can be shown that the foundation of the whole

 complex tribute-trade formation was determined by the price

 structure of China and that the tribute-trade zone formed an

 integrated 'silver zone' in which silver was used as the

 medium of trade settlement. The key to the functioning of

 the tribute trade as a system was the huge [foreign] 'demand'

 for [Chinese] commodities... and the difference between

 prices inside and outside China. (Hamashita 1994: 96-7)

 European expansion in Asia did not bring the Sinocentric

tribute-trade system to an end. It simply influenced its inner

dynamics, most notably, by strengthening the preexisting disposi-

tion of peripheral countries to seek better terms for their

exchanges with the center or even to replace China as the system's

center. But the formation of national identities among these

countries long preceded the European impact and was based on

their own understanding of Sinocentrism (Hamashita 1994: 94;

1995: 6, 8-9, 13). Thus, through its seclusion policy in the Edo

period (1603-1867) "Japan was trying to become a mini-China both

ideologically and materially." And Japanese industrialization

after the Meiji Restoration "was not so much a process of catching

up with the West, but more a result of centuries-long compe-

tition within Asia" (Kawakatsu 1995: 6-7; also 1986).

 To my knowledge, neither Hamashita nor Kawakatsu tell us

much about what was left of the Sinocentric tribute-trade system

at the end of the Second World War and what happened to it in the

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Cold War era. Their analyses are nonetheless presented as having

important implications for our understanding, not just of East

Asian history, but also of the present and likely future evolu-

tion of political and economic relations within the region and

between the region and the rest of the world (see, for example,

Hamashita 1995: 4-5). These implications are not spelled out

but, at least in so far as Hamashita is concerned, it seems to me

that they can be summed up in two propositions.

 First, the present political, economic, and cultural config-

uration of East Asia is a legacy of the tribute-trade system that

regulated relations among the various political jurisdictions of

the region for centuries before its incorporation into the modern

interstate system. This incorporation is a very recent phenomenon

and cannot be expected to have displaced, let alone erased,

shared understandings of interstate relations that have deep

roots in the geography and history of the region. These shared

understandings will continue to influence the way in which

interstate relations operate in East Asia and between East Asian

and non-East Asian states.

 Second, the legacy of the Sinocentric tribute-trade system

can be expected to weigh even more heavily on relations among

business enterprises in the region than on relations among

governments. For tribute was inseparable from a regional trading

system which, over time, became increasingly autonomous from the

actual dispatch of tribute missions. The main expression of this

autonomy was the growth of large interstitial business communi-

ties, most notably an Overseas Chinese business diaspora, that

connected the local economies of the region to one another in

complementarity and, increasingly, in competition with tribute

missions (Hamashita 1994: 97-103; 1995: 12, 15-16). When the

Sinocentric tribute system began to wither away under the combined

impact of endogenous nationalism and exogenous incorporation

in the Eurocentric interstate system, these interstitial

business communities did not vanish into thin air. On the

contrary, they continued to constitute an "invisible" but powerful

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connector of the East Asian regional economy.

 This conceptualization of East Asian history contains an

implicit critique of established world-systems theories that

present both analogies and differences with Frank's critique.

The two critiques are analogous in their emphasis on the pre-

modern ancestry of the contemporary world system and on the

superficiality of Western hegemony in Asia in general, and in

East Asia in particular. Since modernity and Western hegemony

have been associated in Braudel's and Wallerstein's conceptual-

izations of world history with the rise and expansion of a

Eurocentric \*capitalist\* world system, this emphasis is tantamount

to a rejection of capitalism as a useful notion for the analysis

of world historical social change. Frank rejects the notion

explicitly, as we have seen; but Hamashita does so implicitly by

omitting any reference to capitalism in his account of the

Sinocentric world system and of its transformation under Western

influence.

 For all their similarities, the two critiques diverge in one

important respect. The main thrust of Frank's critique is to

underscore the basic continuity \*in time\* of a single global world

system before and after the European discovery and conquest of

the Americas (Frank 1994: 273; see also Gills and Frank 1992 and

Frank and Gills 1993). The main thrust of Hamashita's implicit

critique, in contrast, is to underscore the basic \*dis\*continuity

\*in space\* of \*regional\* world systems that retain their geo-

historical identity even after they are incorporated in a single

global world system. To put it crudely, the main thrust of Frank's

critique is to erase modern (and capitalist) history from the map

of the contemporary global economy, while the main thrust of

Hamashita's critique is to put regional geopolitics at the center

of contemporary world history.

 The purpose of this paper is to show that, taken jointly or

separately, these critiques go both too far and not far enough.

They go too far, because their legitimate preoccupation with the

pre-modern ancestry of the modern world system translates into a

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negation of the undeniable specificity of the modern era, as

defined by the extraordinary expansionary thrust of the Euro-

centric system both absolutely and relative to the Sinocentric

system. Wallerstein's theory of the rise in Europe of an inher-

ently expansionary \*capitalist\* system is meant to highlight and

explain this phenomenon and, as such, it cannot be dismissed

unless we produce an alternative and more plausible explanation.

 Neither Frank nor Hamashita do, and that is the reason why

their critiques of established world-systems theories do not go

far enough. By dismissing (Frank) or neglecting (Hamashita) the

role of capitalism in shaping the contemporary world, they cannot

see the challenge that the great events of our days pose to our

understanding of capitalism as world historical social system.

In the next two sections of this paper, I shall sketch the nature

of this challenge as can be perceived from an East Asian perspec-

tive. I shall then return to the issues raised here to propose a

reconceptualization of historical capitalism that accomodates

Frank's and Hamashita's legitimate preoccupation with the pre-

modern ancestry of the contemporary world system.

 II

 As the title of this paper suggests, the rise of East Asia

and the present crisis of the system of nation-states are closely

related phenomena. By and large, this close relationship has

gone unnoticed. Each phenomenon has been debated as if it bore

no significant relationship to the other.

 Ever since Charles Kindleberger (1969: ch. 6) declared the

nation-state to be "just about through as an economic unit," the

crisis of the system of nation-states has been associated with,

and traced to, the emergence of a system of transnational corpo-

rations which, in Kindleberger's characterization, owe to no

country more loyalty than to any other, nor feel completely at

home in any country (see also, among others, Hymer and Rowthorn

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1970: 88-91; Barnet and Muller 1974: 15-16; Reich 1992: 3). In

recent years, other facets of the disempowerment of nation-states

have been brought into the picture. Thus, Peter Drucker (1993:

141-56) traces the disempowerment to the combined impact of three

forces: the "transnationalism" of multilateral treaties and

suprastatal organizations, including transnational corporations;

the "regionalism" of economic blocs like the European Union and

the North American Free Trade Agreement (NAFTA); and the "tribalism"

of increasing emphasis on diversity and identity. Either

way, the symptoms and the causes of the ongoing crisis of the

system of nation-states are sought and found in all regions of

the world without any special attention being paid to East Asia.

 Accounts of economic expansion in East Asia, for their part,

make almost no reference to the disempowerment of nation-states

as a significant aspect of the phenomenon (for a partial excep-

tion, see Bernard and Ravenhill 1995). Worse still, the neo-

liberal fantasy of a greater respect for, and reliance on, self-

regulating markets on the part of economically successful East

Asian governments, has channeled debates on the wrong track. In

dismantling authoritatively and effectively this fantasy, Chalmers

Johnson (1987, 1988), Alice Amsden (1989) and Robert Wade

(1990), among others, have conveyed the impression that the

crisis of nation-states, if at all real, does not concern East

Asia, where states are well and strong.

 Leaving aside the question of whether the states of East

Asia are well and strong--some of which are, while others are

not--let us begin by noticing how peculiar East Asian states

appear when compared with the ideal type of nation-state. Three

peculiarities stand out above all others: the "quasi-state"

nature of the economically most successful states of the region;

the importance of informal business networks in connecting the

economies of these quasi-states to one another and to the rest of

the region; and the extreme imbalance of the distribution of

military, financial and demographic resources among the states

operating in the region.

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 The expression "quasi-states" has been coined by Robert

Jackson (1990: 21) to designate states that have been granted

juridical statehood, and have thereby become members of the

interstate system, but lack the capabilities needed to carry out

the governmental functions associated historically with state-

hood. Jackson uses the expression with special reference to the

less successful among the Third World states that have emerged

from the post-Second World War wave of decolonization. Neverthe-

less, to varying degrees and in different ways the five most

successful capitalist states of East Asia--Japan and the so-

called Four Tigers--all qualify as quasi-states.

 For the internal and external aspects of national sovereignty

are essentially theories about the legitimacy of authority.

National polities organized into states are theorized as the

pinnacle of legitimate authority, "neither subordinate to the

world polity nor defied by local polities or organizations." The

theory, however, "is often violated by the facts" (Boli 1993: 10-

11). As we shall see, key facts of the history of the modern

world system violate the theory of nation-states as the pinnacle

of legitimate authority. But at no time since the sixteenth

century have the facts of an emerging center of world capitalism

violated the theory more conspicuously than today in East Asia.

 Among the region's most successful capitalist states, only

the largest, Japan, is a nation-state in the full sense of the

term. Regionally and globally, however, even Japan is still a US

military protectorate. Mutatis mutandi, it fully deserves the

designation of "semisovereign state" with which Peter Katzenstein

(1987) has characterized the Federal Republic of Germany. South

Korea and Taiwan, the two states of intermediate size, are also

US military protectorates. In addition, neither of them is a

nation-state in the full sense--South Korea living in constant

hope or fear of being reunited with its northern half, and Taiwan

in constant hope or fear of becoming the master or the servant of

Mainland China. Finally, the two smallest but by no means least

important states, the semisovereign Hong Kong and Singapore, are

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not nation-states at all but city-states, exercising in the East

Asian region functions not altogether different from those

performed by Genoa and Venice in early-modern Europe--the commer-

cial-industrial entrepot functions exercised by Singapore making

it resemble Venice, and the commercial-financial entrepot func-

tions exercised by Hong Kong making it resemble Genoa (Arrighi

1994a: 78).

 This peculiar configuration of East Asian capitalist states

is matched by an equally peculiar configuration of the region's

business organizations. Up to very recently, East Asia (North-

east Asia in particular) has been a secondary source and destina-

tion of foreign direct investment in comparison, not just with

North America and Western Europe, but also with Latin America,

Southern and Central Africa, North Africa and the Middle East.

As a result, the vertical integration of economic activities

across political jurisdictions typical of US corporate capitalism

never became as important in East Asia as it did in most regions

of the non-Communist world.

 Although in the 1970s and, above all, in the 1980s foreign

direct investment within East Asia and between East Asia and the

rest of the world grew rapidly (Petri 1993: 39-42), the cross-

border organization of business enterprise in the region relied

heavily on informal networks among juridically independent units

rather than vertical integration within a single multi-unit

enterprise. In the 1970s and early 1980s, the leading agency in

the formation of regional business networks of this kind were

Japanese trading and manufacturing companies, which transplanted

across the region their domestic multilayered subcontracting

system (Arrighi, Ikeda and Irwan 1993). From the mid-1980s

onwards, however, the leading role of Japanese companies in the

formation of regional business networks was supplemented, and in

key areas surpassed, by the activities of the Overseas

Chinese business diaspora (Arrighi 1994b; Irwan 1995). These two

agencies, in the words of a senior economist for Deutsche Bank

Capital Markets in Tokyo, "don't really mix, but complement each

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other well. The Overseas Chinese are the oil--the lubricant that

makes deals possible--and the Japanese are the vinegar--the

technology, capital, and management that really packs a punch"

(quoted in Kraar 1993: 40).

 Po-keung Hui (1995) has documented the derivation of the

Chinese capitalist diaspora that is emerging as a leading agency

of processes of capital accumulation in East Asia from the

business communities that grew in the interstices of the Sino-

centric tribute-trade system before and after the European

impact. His analysis lends support to Hamashita's contention of

the continuing relevance of the Sinocentric tribute-trade system

for an understanding of the present and future dynamic of the

East Asian region. But it also invites a comparison with similarly

structured business agencies that played a critical role in

the formation and initial expansion of the Eurocentric capitalist

world-economy.

 I am referring specifically to the Genoese capitalist

diaspora which, in association with the territorialist rulers of

Portugal and Spain, promoted and organized the transoceanic

expansion of the European world-economy in the late fifteenth and

early sixteenth centuries (Arrighi 1994a: ch. 2). We shall later

return to the significance of this Genoese-Iberian association

for an understanding of the origins of the Eurocentric capitalist

world system. For now, let us simply underscore two striking

similarities between the sixteenth-century Genoese and the late-

twentieth-century Chinese capitalist diasporas. First, like the

networks of commercial and financial intermediation controlled by

the sixteenth-century Genoese diaspora, the business networks

controlled by the Chinese diaspora occupy places (Hong Kong,

Taiwan, Singapore, as well as the most important commercial

centers of Southeast Asian countries and Mainland China) but are

not defined by the places they occupy. What defines the networks

is the space-of-flows (the commercial and financial transactions)

that connect the places where individual members or sub-groups of

the diaspora conduct their business (cf. Arrighi 1994a: 82-4).

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Second, like the business networks of the sixteenth-century

Genoese diaspora, the business networks of the Overseas Chinese

are an interstitial formation that thrives on the limits and

contradictions of very large territorial organizations--organiza-

tions whose networks of power are so extensive as to resemble

pre-modern world-empires rather than nation-states.

 This brings us to the third peculiarity of the political-

economy of the East Asian region: the extreme imbalance of the

distribution of power resources among political jurisdictions.

This extreme imbalance is the obverse side of the two peculiarities

 we have just discussed. Broadly speaking, the "semisovereignty"

of the most successful capitalist states of the region is

the obverse side of their incorporation within the networks of

power of the United States. And the growing importance of the

Overseas Chinese in promoting the economic expansion and integration

of the region is but one aspect of the reincorporation of

Mainland China in regional and world markets.

 The extreme imbalance of military power in the region is

primarily a legacy of Japan's defeat in the Second World War and

of the US policy of "containment" during the Cold War era. The

unilateral military occupation of Japan by the United States in

1945 and the division of the region five years later into two

antagonistic blocs created, in Bruce Cumings' 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" (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 betwen 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)

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 It is interesting to notice how this "unilateral American

regime" combined from the start features that made it resemble

the pre-modern Sinocentric tribute-trade system as well as the

early-modern Genoese-Iberian regime of rule and accumulation.

The main resemblance with the Sinocentric system was the interpe-

netration of tribute and trade relations between an imperial

center whose domestic economy was of incomparably greater size

than that of its vassal states. In this respect, we may well say

that the Pax Americana in East Asia transformed the periphery of

the former Sinocentric tribute-trade system into the periphery of

a US-centric tribute-trade system.

 The US-centric East Asian regime, however, fostered a

functional specialization between the imperial and the vassal

states. This functional specialization had no parallel in the

old Sinocentric regime. Rather, it reminds us of the sixteenth-

century Genoese-Iberian quasi-imperial regime. The main feature

of the latter regime was a relationship of political exchange

between an (Iberian) territorialist organization--which specialized

in the provision of protection and in the pursuit of power--

and of a (Genoese) capitalist organization, which specialized in

trade and in the pursuit of profit. A similar relationship can

be clearly recognized in US-Japanese relations throughout the

Cold War era. For "semisovereignty" enabled Japanese capital to

externalize protection costs and to specialize in the pursuit of

profit as successfully as Genoese capital had done four centuries

earlier (Arrighi 1994a: 120, 338).

 Freed from the burden of defense spending, Japanese govern-

 ments 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)

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 For all its similarities with pre- and early-modern modes of

rule and accumulation, the post-Second World War US-centric East

Asian regime differs radically from its predecessors in at least

one respect: the incomparably greater size and technological

sophistication of the US military-industrial apparatus. The

far-flung network of quasi-permanent overseas bases put or kept in

place by the United States after the Second World War "was

without historical precedent; no state had previously based its

own troops on the sovereign territory of other states in such

extensive numbers for so long a peacetime period" (Krasner 1988:

21). Not even in their wildest dreams could the rulers of

Imperial China or Imperial Spain imagine that such an extensive

and potentially destructive deployment of military muscle could

ever materialize.

 And yet, it was precisely in the military sphere that the

the US-centric East Asian regime 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). The Vietnam War, in contrast,

initiated a reversal of the economic fortunes of the United

States and Japan that, over time, made US world power dependent

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on Japanese finances. More importantly, it forced the United

States to readmit Mainland China to normal commercial and diplomatic

intercourse with the rest of East Asia (cf. Arrighi 1994b).

 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 United

States into a relationship of mutual vassalage. Japan continued

to depend on the United States for military protection; but the

United States came to depend ever more critically on Japanese

finance and industry for the reproduction of its protection-

producing apparatus. That is to say, power resources became more

evenly distributed between the United States and Japan but the

structural differentiation between the two states that was at the

basis of their relationship of political exchange, if anything,

increased further.

 At the same time, the reincorporation of Mainland China in

the regional and global market economies 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 United States included.

Within less than twenty years after Richard Nixon's mission to

Beijing, and less than fifteen after the formal re-establishment

of diplomatic relations between the United States and the PRC,

this giant "container" of labor power already seemed on the verge

of becoming once again the powerful attractor of means of payments

 it had been in pre-modern and early-modern times. To be

sure, the PRC has been reincorporated in regional and global

markets at the lowest levels of the value-added hierarchy of the

capitalist world-economy. And in spite of the extraordinary

expansion of its domestic production and foreign trade over the

last fifteen years, its GNP per capita at world market prices has

remained among the lowest in the world (Lu 1995). Nevertheless,

this failure of relative GNP per capita at world market prices to

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rise has further increased the attractiveness of the PRC's huge

reserves of labor for foreign capital and entrepreneurship, as

reflected in the explosive growth of capital flows to China since

the late 1980s (Arrighi 1994b).

 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 moderniza-

 tion. Even the Japanese often rely on the Overseas Chinese

 to grease their way into China. (Kraar 1993: 40)

 In fact, the era's most piquant irony is not Beijing's

reliance on the Overseas Chinese to ease Mainland China's re-

incorporation 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 Chinese

Communist Party 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 Chinese Communist Party 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 most piquant irony of the situation is rather how pre-

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modern "post-modernity" looks in what has become the most dynamic

region of the capitalist world system. According to most ac-

counts, one of the main features of post-modernity is the waning

of the usefulness and power of nation-states.

 The key autonomous actor in political and international

 affairs for the past few centuries appears not just to be

 losing its control and integrity, but to be the \*wrong sort\*

 of unit to handle the newer circumstances. For some prob-

 lems, it is too large to operate effectively; for others, it

 is too small. In consequence there are pressures for the

 "relocation of authority" both upward and downward, creating

 structures that might respond better to today's and to-

 morrow's forces of change. (Kennedy 1993: 131; emphasis

 in the original)

 If the problem with nation-states is that they are either

"too large" or "too small" to operate effectively, gifts of

history and geography seem to have provided East Asia with a

solution to the problem by endowing it with a variety of territorial

 and non-territorial organizations that are either something

less, or something more, or something different than nation-

states. There are city-states, and quasi-states; quasi-empires,

and "nations" that are not states, like the Overseas Chinese;

and above all, there is a structural differentiation among the

most powerful organizations in the region that has left the

United States 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. In this "messy" but capitalisti-

cally most successful political economic formation there are

plenty of nation-states. But either they are peripheral components

 of the regional formation--as Malaysia, Thailand, Indonesia,

 Vietnam, Laos, Cambodia and the Phillipines to different

extents and in different ways all are--or they do not fit the

image of nation-state with which we have been trying to under-

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stand the origins and present dynamics of the modern world.

 III

 The peculiar political economic configuration of contem-

porary East Asia poses two main challenges to established world-

systems theories. First, is it possible that some or all of its

peculiarities are in fact more ordinary features of historical

capitalism than we have been willing or able to acknowledge? And

second, if that's the case, what kind of theoretical construct

would best enable us to grasp the logic and implications of the

rise of East Asia and the concomitant demise of nation-states as

key actors in world politics? In this section I shall concentrate

 on the first challenge, leaving the second for brief

consideration in the concluding section.

 The foregoing description of the peculiarities of the

political economy of East Asia has already underscored how

difficult it is to disentangle within the East Asian "melting

pot" modern from pre-modern, and Eastern from Western forms of

organization. On the one hand, we have pointed out how the

strategies and structures of the leading governmental and business

institutions of late-twentieth-century East Asia resemble

those of their counterparts in sixteenth-century Europe. On the

other hand, we have noted some striking resemblances between the

US-centric East Asian regime of the Cold War era and the Sinocentric

tribute-trade regime of pre-modern times.

 To this we should now add that the political economic

configuration of the entire history of the Eurocentric capitalist

world system is as "messy," nay, "messier" than the present

configuration of East Asian capitalism. In particular, the

notion that nation-states have been the key agencies of the

process of formation and expansion of the Eurocentric capitalist

system obscures as much as it clarifies about that process.

City-states, diaspora capitalist classes, quasi-states and quasi-

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empires have all played as critical a role as nation-states.

 In the original formation of the system, city-states led the

way. As Mattingly (1988), Cox (1959), Lane (1966; 1979), Braudel

(1984: ch. 2), and McNeill (1984: ch.3) have emphasized in

different but complementary ways, the late-medieval system of

city-states centered on Venice, Florence, Genoa, and Milan

anticipated by two centuries or more many of the key features of

the European system of nation-states that was instituted by the

Peace of Westphalia of 1648. In fact, according to Mattingly

(1988: 178), the Peace of Westphalia was modeled after the Peace

of Lodi of 1454 which institutionalized the balance of power

among the Italian city-states.

 The two-hundred-year period that separates 1648 from 1454

corresponds almost exactly to Braudel's and Wallerstein's "long"

sixteenth century. At the beginning of the period, capitalism as

mode of rule and accumulation was still embedded primarily in the

Italian system of city-states and, as such, it remained an

interstitial formation of the European world-economy. At the end

of the period, it had become embedded in a European-wide system

of nation-states and, as such, it had become the dominant mode of

rule and accumulation of the entire European world-economy. The

obverse side of this transformation of the inner structure of the

European world-economy was an extraordinary expansion of its

outer boundaries through the conquest of the Americas, major

incursions in the Indian Ocean world-economy, and the establishment

of direct contacts with the Sinocentric tribute-trade system

(Arrighi 1994a: 32-47).

 From the vantage point of the present political economic

configuration of East Asia, the most interesting aspect of this

transformation-cum-expansion is that its agencies were either

something less, or something more, or something different than

nation-states. To be sure, nation-states were the main benefi-

ciaries of the process. But they were not its promoters and

organizers.

 Initially, its main agency was the previously mentioned

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Genoese-Iberian complex brought and held together by a mutually

beneficial relationship of political exchange between the Genoese

capitalist diaspora and the territorialist rulers of what very

quickly became Imperial Spain. As the European world-economy was

reorganized and expanded under Genoese-Iberian leadership,

various forms of proto-nationalism emerged in its midst in

opposition to the imperial pretensions of the territorialist

rulers of Spain and to the centralizing tendencies of the Genoese

capitalist diaspora in European high finance. Even then, however,

 the leading loci and agencies of this countervailing power

were not the more accomplished nation-states, like France,

England and Sweden. Rather, it was the quasi-state of Holland--a

semi-sovereign organization still struggling for juridical

statehood and having more features in common with the declining

city-states than with the rising nation-states (Arrighi 1994a:

109-158, 177-195).

 After the Peace of Westphalia, nation-states did become the

main agencies of change in the Eurocentric world system. Never-

theless, the nation-state that was most active and successful in

promoting the outward expansion of the system, Britain, relied

heavily on forms of governmental and business organization that

had been pioneered by city-states, business diasporas, quasi-

empires and quasi-states. This pre- and early-modern heritage

became particularly evident in the nineteenth century, when

Britain briefly, but almost literally, ruled the entire world

through a combination of techniques of power derived equally from

Venice and Holland on the one side, and from Genoa and Imperial

Spain on the other (Arrighi 1994a: 57-8, 167-71, 195-213).

 Britain's half-territorialist, half-capitalist world empire

eventually collapsed under the weight of its own contradictions.

Nevertheless, by the time of its collapse the world had been

transformed out of recognition and the ground had been prepared

for the subsequent universal expansion and simultaneous supersession

of the European system of nation-states. The "industrial-

ization" of war, transport, and communication led to an unprece-

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dented breakdown of temporal and spatial barriers both within and

between the previously discrete regions of the global economy.

In its turn, this "time-space compression"--as David Harvey

(1989: 240-1) has called the phenomenon--revolutionized the

conditions under which states formed and related to one another.

 On the one hand, state-making and national-economy-making

could now be pursued effectively on a much greater scale than

before. As a result, the typical nation-state of the European

core came to be perceived as being "too small" to be able to

compete militarily and commercially with the continent-sized

national economies that were forming in the Russian Empire on its

eastern flank and in the United States on its western flank.

Germany's obsession with Lebensraum--paralleled in the Sino-

centric system by Japan's obsession with tairiku--was but an

aspect of this perception, which soon became a self-fulfilling

prophesy by exacerbating the conflicts that led to the First and

then to the Second World Wars. Even before the Second World War

was over, notes Paul Kennedy (1987: 357), "The bipolar world,

forecast so often in the nineteenth and early twentieth centuries,

had at last arrived; the international order, in DePorte's

words, now moved 'from one system to another.' Only the United

States and the USSR counted... and of the two, the American

'superpower' was vastly superior."

 On the other hand, the low-volume, low-density web of

exchanges that had linked loosely the world-economies and world-

empires of Afroeurasia to one another since pre-modern times and,

in modern times, to the Americas and then Australasia, now grew

in volume and density at a speed that had no historical precedent.

 As a result, the global economy came to be perceived as so

highly interdependent as to make national economic independence

anachronistic. Ironically, the earliest prophets of global

economic interdependence were the founding fathers of that brand

of socialism that eventually became the staunchest advocate of

national economic seclusion. "All old-established national

industries"--proclaimed Marx and Engels (1967: 83-4) at a time

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when the great mid-nineteenth century revolution in world trans-

port and communication had hardly begun--"are dislodged by new

industries, whose introduction becomes a life and death question

for all civilized nations, that no longer work up indigenous raw

material, but raw material drawn from the remotest zones; indus-

tries whose products are consumed, not only at home, but in every

quarter of the globe.... In place of the old local and national

seclusion and self-sufficiency, we have intercourse in every

direction, universal interdependence of nations."

 As Robert Wade (forthcoming) has noted, much of recent talk

about globalization and the irrelevance of nation-states simply

recycles arguments that were fashionable hundred years ago.

There are nonetheless two important differences between the

realities, if not the perceptions, of the obsolescence of nation-

states today and in the late nineteenth and early twentieth

centuries. First of all, 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 United States 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 nation-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

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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 nation-state

today and a hundred years ago is that the strategies and struc-

tures 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 expanded, its substance contracted like

never before (Arrighi 1994a: 66-9).

 In part, this was the direct outcome of the institutionali-

zation of the idea of world government and of the actual exercise

of world-governmental functions by the United States. The

institutionalization of the idea of world government materialized

through the creation of the United Nations 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 United States 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 nineteenth-

century world economic integration instituted by and

centered on Britain, the system of regional and world economic

integration instituted by and centered on the United States 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

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administered by the United States, acting in concert with its

most important political allies, and on a global transplant of

the vertically integrated organizational structures of US corporations

(Arrighi 1994a: 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 nineteenth-century British

system of world 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 seventeenth and eighteenth

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"

(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 United States 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 consti-

tuted the single most important difference between the world

power of the United States and that of the USSR and, by implica-

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tion, 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 contradic-

tion 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 corpora-

tions, 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" (quoted in Frieden

1987: 85; emphasis in the original).

 Interestingly enough, the organization of this world of

Eurodollar finance--like the organizations of the sixteenth-

century Genoese business diaspora and of the Chinese business

diaspora from pre-modern 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 super-highway--

"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 may still have some

privileged access to its services and resources, the main tendency-

 of the last twenty-five years has been for all nation-states,

including the US, to become the servant rather than the master of

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extraterritorial high finance.

 Equally important, the transnational expansion of US corpo-

rations 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 corpora-

tions of all national origins, and by the early 1990s three times

as many (Arrighi 1994a: 73, 304).

 This explosive growth in the number of transnational corpo-

rations was accompanied by a drastic decrease in the importance

of the United States as a source, and an increase in its impor-

tance as a recipient, of foreign direct investment. The transna-

tional 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. But no matter which

particular fraction of capital won, the outcome of each round of

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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.

 IV

 We are thus back to the rise of East Asia and its "messy"

political economic configuration, which now appears to be a

special case of the even "messier" political economic configuration

of the capitalist world system throughout its history. In

both configurations, the leading agencies of the formation and

expansion of the capitalist world system appear to have been

organizations that are either something less (city-states and

quasi-states) or something more (quasi-empires) or something

different (business diasporas and other transterritorial capitalist

 organizations) than nation-states. At a decisive moment of

its evolution, the Eurocentric capitalist world system did become

embodied in a system of nation-states. But its further expansion

continued to depend on the formation in its midst of organiza-

tions that resembled their pre- and early-modern predecessors.

What's more, as the Eurocentric capitalist system came to encom-

pass the entire globe, nation-states gradually lost their centrality

as the main loci of world power. World power came

instead to be concentrated in structurally differentiated govern-

mental and non-governmental organizations that reproduce on a

much larger scale and in incomparably more complex forms many of

the traits of pre- and early-modern modes of rule and accumulation.

 This "messy" historical formation does not quite fit the

concept of "capitalist world-economy" that has become dominant in

world-system studies. In order to capture the rise and present

demise of the system of nation-states, that concept needs to be

revised in a way that complements Christopher Chase-Dunn's and

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Thomas Hall's revision of the concept of "world-empire." According

to Chase-Dunn and Hall, Wallerstein's claim that what makes

the modern world system unique is that it is the only world-

economy (competing polities within a single economic system) that

did not transform into a world-empire (a single polity encompassing

an entire economic system) does not quite stand up to empirical

 scrutiny. "The modern world-system \*apparently\* is the longest

lived world-economy, but there have been others that have lasted

for several centuries.... Among other things, this suggests that

the celebrated interstate system of the capitalist world-economy

is not as novel as is sometimes claimed." They accordingly

propose to replace the concept of "world-empire" with the concept

of "core-wide empire" to allow for the fact that pre-modern

state-based world systems oscillated back and forth between core-

wide empires and interstate systems (Chase-Dunn and Hall 1993b;

Chase-Dunn forthcoming; see also Chase-Dunn and Hall 1993a and

forthcoming).

 The reconceptualization proposed here, in contrast, concerns

the very idea of "capitalist world-economy." Just as Chase-Dunn

and Hall have found more "modern" features in pre-modern world

systems than Wallerstein's dichotomy "world-empire" versus

"world-economy" allows for, so we have found more "pre-modern"

features in the modern world system than allowed for by that same

dichotomy. The reason why the celebrated interstate system of

the capitalist world-economy is not as novel as Wallerstein

claimed, is not just that several of its features were already

present in pre-modern world systems. It is also that several

features of pre-modern core-wide empires have played a critical

role in the formation, expansion and present supersession of the

modern interstate system.

 As the study of early-modern Western Europe and of late-

modern East Asia both suggest, we need a concept of "capitalist

world-economy" that defines capitalism as an interstitial formation

of both pre-modern and modern times. Capitalism as mode of

rule and accumulation did become dominant, first in Europe and

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then globally. But it never completely lost its interstitial

character, which is as evident in today's emerging center of

world capitalism (East Asia) as in its original sixteenth-century

center (Western Europe). In between, there lies the era of the

modern interstate system. But as long as we remain infatuated

with the typical "containers" of power of this era, we shall be

as ill-equipped to predict the future of our world as we are to

understand its origins and evolution.

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