

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 "incorporate" 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 "incorporated" 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 competitive. 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 relationship 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 disposition 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 competition 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 evolution 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 configuration 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 communities, 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 conceptualizations 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 Eurocentric system both absolutely and relative to the Sinocentric system. Wallerstein's theory of the rise in Europe of an inherently 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 perspective. I shall then return to the issues raised here to propose a reconceptualization of historical capitalism that accommodates 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 corporations 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; Barnett 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 exception, 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 statehood. 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. Nevertheless, 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 commercial-industrial entrepot functions exercised by Singapore making it resemble Venice, and the commercial-financial entrepot functions 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 destination 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 -- organizations 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 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)

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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 interpenetration 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 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)

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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 modernization. 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 accounts, 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 problems, 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 tomorrow'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 capitalistically 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 contemporary 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 beneficiaries 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. Nevertheless, 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 "industrialization" of war, transport, and communication led to an unprece -

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dent 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 ta iriku--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 transport 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; industries 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 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 expanded, its substance contracted like never before (Arrighi 1994a: 66-9).

In part, this was the direct outcome of the institutionalization 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 constituted 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 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" (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 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 three times as many (Arrighi 1994a: 73, 304).

This explosive growth in the number of transnational corporations was accompanied by a drastic decrease in the importance of the United States 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. 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 organizations that resembled their pre- and early-modern predecessors. What's more, as the Eurocentric capitalist system came to encompass 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 governmental 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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