

REVIEW SYMPOSIUM ON ANDRE GUNDER FRANK'S *REORIENTING THE 19<sup>TH</sup> CENTURY: GLOBAL ECONOMY IN THE CONTINUING ASIAN AGE*

**World-System Theory After Andre Gunder Frank**

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“It is time at least to work on, if perhaps not yet to achieve, a grand theory to replace the inadequate received ones.”

-Andre Gunder Frank, *ReOrienting the 19<sup>th</sup> Century*

World-System Theory's (WST) basic assumptions have remained largely unchanged since their initial formulation in the mid-1970s (Wallerstein 1974). The world-economy is based upon the capitalist mode of production, whose operation yielded a division of labor between wealthier core countries and poorer peripheral ones, such that the advancement of the core is at the expense of the periphery. A middle zone is also added, the semi-periphery, theorized to be a blended mix of core and peripheral activities. The core-periphery relation is the key structural feature initially theorized to have emerged in the 16<sup>th</sup> century out of a crisis in feudal European agriculture, which then expanded over the centuries to incorporate the rest of the world into its three-tiered structure. By the mid-19<sup>th</sup> century, with the incorporation of East Asia, the system became truly global. This set of assumptions has in turn given rise to two research traditions: one seeking earlier historical origins of core-periphery inter-societal structures and the other utilizing multivariate statistical models to study dependency effects.

There have also been critiques of WST theory, including those by A.G. Frank, whom I would like to focus upon, not just because he identifies limits, contradictions, and shortcomings of the standard WST model, but because he also provides rudiments of an alternative model of how the world economy produces inequality in the wealth of nations. The focus here, therefore, will be upon theoretical implications derived from Frank's last manuscript, assembled after his death by Bob Denmark<sup>1</sup> as the book, *ReOrienting the 19<sup>th</sup> Century: Global Economy in the Continuing Asian Age* (2014).

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<sup>1</sup> Frank had left some 5,000 computer files with about 50 of them as iterations of draft chapters. Out of this, Bob Denmark performed the herculean task of reading, re-reading, sorting, cleaning, and finding references, to assemble the book length manuscript, *ReOrienting the 19<sup>th</sup> Century*. For that very hard and painstaking work Bob deserves the thanks of all concerned with understanding the world system within which we live and seek to better.

### **What Makes a World Economy World?**

It has been said that a scientific problem is never solved at the level at which it was initially formulated; that, in effect, a new theory also involves a new conception of the object for which the older theory was trying to account. To begin to rethink World-System/PEWS Theory, therefore, requires going back to the most fundamental properties of the object to be explained: the global, or world, economy. With this in mind, consider the geographical substrate of the earth upon which, in accord with, and existing intertwined with, our object of explanation exists: the global/world economy. It is 70 percent water and 30 percent land, with the world's population dispersed in varying concentrations across the land/continents, upon which arise population centers, societies, polities, cultures, and economies. For any such land-based economic system to be considered part of a distinctly world economic system, there has to be relations amongst these concentrations of population, societies, economies, and for that there has to be economic relations that span large bodies of water and connect people on different continents.

If relations spanning bodies of water are what make a world economy, this is not what makes the concept of the "modern world-system," for that is defined by a core-periphery division of labor which would include any inter-regional, inter-societal, or even inter-city division of labor with a dominant center and a dependent edge, e.g. with a core and periphery. When we are dealing with the "world-economy" in these terms we are dealing with, really, a core-periphery set of relations, whether these are international, trans-oceanic, or in any way closely approximating the idea of "world." The political economy of the modern world-system based on the capitalist mode of production, then, is, in reality, the political economy of core-periphery relations, however and wherever these are found.

The problem here is that the object to be explained is fused with its theoretical explanation, such that PEWS thinking doesn't start out with an independent definition of a world economy, and then proceed to formulate a separate model to explain its essential features; rather, it starts with a model—that of the the world-system/world-economy (with hyphens) of core-periphery relations as the very definition of the object it is to explain—the world economy (without hyphen). Here world-economy as theory and world economy as object, is the same, making world economic reality irrelevant as historical or empirical evidence of things that might not fit the theoretical logic of the world-economy. If historical evidence from a particular region doesn't fit the world-economy theory, it can be called an external or unincorporated area outside the world-economy. World economy versus world-economy has always seemed a very esoteric distinction, except when you think of it as the object to be explained (world economy) and the theory proposed to explain it (world-economy). The problem is that the two get confused such that the world economy's objective features are thought to be the theoretical constructs of world-economy theory. The result is that one begins with the core-periphery distinction as the factual starting point and proceeds to theorize from there, when one should begin with the world economy instead as economic relations that span large bodies of water, and then go on to see what kind of theoretical model fits best—it may be the PEWS model, it may not, but it's an empirical question to be answered by fit of data. That's the point. Research about the world economy from a WST perspective, then, is something like selecting on the dependent theoretical variable, for what is to be studied (world economy, reality, out there, etc.) is already selected as the very definition of the situation, the world economy as the core-periphery structured world-economy.

What has happened is that WST, fixed, theoretically, as the core-periphery hierarchy, has been by-passed by non-WST scholars inclined towards more flexible frameworks. One can already see the slowing interest in the PEWS model in competition with globalization theories and in the growing popularity of neo-geopolitical analysis. We should, then, consider a new starting point, beginning with an objective, non-theoretically constructed, facts-defined world, an existing global economy, to which can then be applied and evaluated the PEWS or any other model, such as the one suggested by A.G. Frank.

To do this, begin with a sense of the world economy as economic relations between continents, which means relations over large bodies of water, which have been, and are today, achieved by shipping: 90 percent of all international/world economic activity transpires through shipping today. And, if such intercontinental economic activity is what is meant by world economic activity, then there is no way to seriously consider oceanic transport of finished manufactures and raw materials without considering trade relations. And, if considering the geographical properties of the earth's surface leads us to a new understanding of the role of intercontinental trade as the essential relation of the world economy, what do we make of the hypothesis that we are dealing with a "500-year 'modern world-system' based on the capitalist mode of production" (Wallerstein 2006)? This brings us to the theoretical challenge of Frank: If the world economy has to be between continents, which by definition is more about trade than production, and if world trade relations historically preexist the emergence of the capitalist mode of production, does this suggest that the modern world-system is not, in fact, based upon the capitalist mode of production, but is part and parcel of a much larger and historically longer world economic system of multilateral trade relations? Since Marx the mantra has been first production, then trade/exchange. In effect, you have to produce it before you can exchange it. Frank challenges this: trade precedes and makes possible production. To say Frank turns Marx on his head is a little strong, agreed, but the suspicions he plants point in that direction.

### **Is the World-Economy Based on the Capitalist Mode of Production?**

Let's now seriously consider the proposition that the modern world-system, and with that the world-economy, is, in fact, "based on the capitalist mode of production." Minimally, this would mean that there is a set of deductive linkages between the defining property of a mode of production and that of the world-economy. There is a part/whole issue here. Essences at one level act as wholes, but when a larger surrounding structure is identified they become parts, and essence shifts a level upward. Individual essences are seen when arguing that individuals buying and selling make capitalism. Social essences are seen when arguing that capitalism makes individuals buy and sell. This was the sociological revolution: identifying context, structure, group, institution, class, and society as social forms that determine the actions of individuals within them. World-system theorists are, by and large, professional sociologists and they know context; the world-system was their new context. From Parson to Wallerstein, the essential unit of analysis shifted from society to the society of societies; the world-system of social systems. Yesterday's totality, society, was now but a part in the new essentialist whole, the modern world-system based on the capitalist mode of production. No longer did theory describe societal economies internally evolving on their own by Marxian class struggle or Weberian work ethic; instead, it centered systematic relations between societies, famously put by Frank as the development of underdevelopment, and then later by others as the core-periphery structure based on the capitalist mode of production.

But there is a misstep in this transition from societally-based sociology to world-system-based globology (Bergesen 1980)—capitalism, as mode of production, is not defined by international relations that follow from exchanges *between* high-wage manufactures produced in one part of the world with low-wage, low-technology raw materials from another part of the world, but rather by relations between social classes *within* these parts of the world. And the resultant unequal distribution of wealth within capitalist societies is not because of unequal exchanges of raw materials and manufactures, but because of one class owning the means of production. Mode of production and world-economy, then, are two different economic systems, and there is no way to move theoretically from relations between whole zones of the world to relations between classes within a zone. Further, capitalist economic relations have to be within a national formation, for it is the state that validates and enforces the ownership right to the means of production. Police, courts, judges, jails, prisons, laws and even Althusserian ISAs, enforce, and thereby make possible and reproduce, ownership and control of the means of production by one social class at the expense of another. And as we know from Weber, states are territorial, meaning their authority stops at their borders, such that politically enforced ownership of the means of production halts at the border of each state. Therefore, in the absence of a world state, there can be no world capitalism. “World capitalism” can be used as a vague descriptor of business done by capitalists from one country in another. But capitalism, as a mode of production, remains a societal/national entity.

This, though, has not kept theorists from trying to tie the dynamics of the national/societal to that of the global. Hobson and Lenin represent perhaps the best-known efforts at trying to somehow stretch the societal to the global. They acknowledged that, yes, the capitalist mode of production has its own internal logic, while also asserting that its very logic can generate overseas expansion, as when saturated domestic markets and the need for more raw materials lead the mode to expand beyond its natural bounds, thus ushering in an era of capitalist imperialism, which they saw in the later 19<sup>th</sup> century. A somewhat similar effort was made by Wallerstein but with another mode of production—feudal agriculture—and another time period—the 16<sup>th</sup> century. Crisis in feudal European agriculture prompts, and results in, the formation of the initial core-periphery structure between Eastern and Western Europe. Said crisis in one mode became linked up with the rise of another mode, smoothed together via the concept of “capitalist agriculture,” and this was hypothesized to be the birthplace of the modern world-system (MWS) based on the capitalist mode of production.

But there is a slip up here too. In the Hobson/Lenin formulation it is a mode’s internal crisis that leads to extra-mode relations for that initial mode (capitalism). Yet the origin of the MWS, according to WST, was an internal crisis in another mode (agriculture) that led to the succeeding mode (capitalism), which is assumed to be inherently expansionary in its operation. Why? It has been argued that the “capitalist world-economy... is governed by the drive for the endless accumulation of capital” (Wallerstein 1999). But accumulating and expanding overseas are two different dynamics. For Hobson/Lenin, it was only at a certain point that capitalism extends abroad. And perhaps an endless drive to accumulate would lead to this eventuality. If this is the case, it would imply that the “world” part of capitalism is confined to only certain times and places, as during the later 19<sup>th</sup> century for Hobson/Lenin. Yet WST has this world dimension as a regular feature of the MWS from its very inception.

### Bilateral or Multilateral World Trade System?

For the sake of argument, we will drop the “based on the capitalist mode of production” part, and focus instead upon the workings of the core-periphery division of labor. Here we observe other theoretical problems. Frank felt this bilateral relation of core and periphery was a simplification of the actually existing trade/exchange relations that comprise the world economy, arguing, “...calculations...that the ‘North’...did benefit...from their colonial, imperialist, or neocolonial...relations with...the ‘South’.... [are] about bilateral relations [that] are irrelevant for...determining the balance sheet of gains and losses. For these can be determined, if at all, only by examining the entire system of *multilateral* im/balances of trade and payments at any one time and also historically instead of simply examining bilateral or even trilateral relations” (2014: 64).

Putting the issue somewhat differently, multilateral trade and payment structures are facts of the world that cannot be adequately accounted for with the bilateral theory of core-periphery trade exchanges (Bergesen 2011). For example, the Britain-Africa-Americas triangular slave trade was in full swing by the 17<sup>th</sup> century, reaching its peak in the 18<sup>th</sup> century. It was a huge part of the Atlantic economy, thereby the world-economy, and therefore something that should be easily understood in core-periphery terms. Britain exports manufactures (textiles, trinkets, beads, guns, ammunition, rum) to western Africa in exchange for slaves, seemingly meeting the bilateral criteria: core manufactures exchanged for the periphery’s raw materials (here, cheap labor). British manufactures should be exchanged for African slaves. But as everyone knows, this doesn’t happen. Manufactures do go to Africa but slaves don’t come back; instead they are exchanged/traded to other peripheral locations, like the West Indies and North America. What should be a core-to-periphery and back-to-core exchange is, in fact, a core-to-periphery and then periphery-to-periphery relation. It is not a direct exchange of manufactures for raw materials. Formalizing it more clearly to grasp what world economy exchanges look like, we can consider a bilateral exchange as being between two hypothesized geo-economic entities, core (C) and periphery (P) where  $C \leftrightarrow P$  represents their bilateral trade relation. For Britain and Africa this would be represented as:  $C_{\text{British manufactures}} \leftrightarrow P_{\text{African slaves}}$ , but the actual trade looks like this:  $C_{\text{British manufactures}} \rightarrow P_{\text{African slaves}} \rightarrow P_{\text{West Indian/North America}}$ , or  $C \rightarrow P \rightarrow P$ . When we add the cotton and molasses sold to Britain from the Americas, which when manufactured into textiles is exchanged again for more African slaves, we have a  $C \rightarrow P \rightarrow P \rightarrow C$ . In a very real sense this isn’t an exchange at all, at least in the direct sense, of, say A’s manufactures for B’s raw materials, for B in turn exchanges them with C, who then exchanges with A. There is no A-B exchange of commodities at all.

This complexity, though, is not represented in our empirical models of core-periphery relations. World-system research models have been estimating “bilateral flows of capital...along one or another leg of some triangle...at the expense of estimating the effects of the other legs, because mapping the entire worldwide network of these linkages at any one time and calculating the corresponding gains and losses from trade, let alone their cumulative effects has never been attempted” (Frank 2014: 125,130). And it’s not that we are only getting part of the picture, but rather that the part that we do study is what it is because of the other legs of the triangle we haven’t included in our models. For example, in the 19<sup>th</sup> century what Britain extracted from India in a seemingly bilateral relationship came in good part from China, as Chinese silver and cash were exchanged for Indian-exported opium. Like the multilateral complexity of the slave trade, the trade circuit of capital here isn’t bilaterally India to Britain, but rather China to India to

Britain. And the complexity doesn't end here, for Britain also ran a trade deficit with China because it couldn't pay for Chinese tea and silk, and so money acquired from India (indirectly acquired from China) was then shipped to China to pay Chinese creditors. Modeling such world economic relations and trade circuits of capital/money is essential to grasping the working dynamics of the world economy. It is a task hopefully taken up by cross-national scholars doing world-system research.

### **External/Unincorporated Areas**

Consider again the China-India-Britain triangle, where India sold opium to China, which paid India for it with silver/cash, which was used to pay Britain for textile exports to India, which Britain then used to pay China for tea and silk imported from China. World-system theory doesn't have East Asia incorporated into the modern world-economy until the mid-19<sup>th</sup> century, however (Wallerstein 1999), even though as early as 1637 Britain had opened trade relations in Canton on behalf of the East India Company, and by 1672 the Company had a trading post in Taiwan that was engaged in trade relations with China, which, by the turn of the century, was transferred to Canton (British Library 2014). Here we see a state that is clearly part of the functioning world-economy, Britain, having systematic economic relations with an unincorporated area by the middle of the 17<sup>th</sup> century, some 200 years before it was supposed to even be a part of the world-economy. Not only that, but by the 18<sup>th</sup> century the British were trading Indian-grown opium to China, resulting in a full blown trade triangle—again, way before the ostensible incorporation of East Asia into the world-economy.

Obviously there is a problem here. If “the world-system came into existence in the course of the sixteenth century, and its original division of labor included in its bounds much of Europe... and parts of the Americas...” (Wallerstein 1999), what then are Britain's systematic, ongoing, trading relations with China? One reply could be, yes, there were trade relations involving Britain and China within the world economy, but world-system theory is only concerned with the core-periphery relations of the world-economy (with hyphen) and these relations are outside the parameters of the core-periphery relationship. Fine; this would mean that the world economy, as it exists out there, in reality, isn't the world-economy of the more limited core-periphery structure. But not only is there something systematic going on between a world-economy entity (Britain) and an unincorporated area (China) that needs accounting for; but more generally there is a whole lot of world economic activity that isn't included in this world-system model that purports to be a satisfactory representation of world economic activity. Upon a moment's reflection it soon becomes clear that we have signed on to a model of world economic life which excludes huge swaths of the world's actually existing trading and exchanging world economy in favor of a European-originated model of much more limited scope that, over time, is hypothesized to have grown, expanded, and incorporated the rest of the actual, international, world economy.

In sum, there are in fact a number of theoretical problems with standard world-system theory:

- The capitalist mode of production has little to do with the technical definition of a core-periphery structure, such that speaking of a world-system based upon the capitalist mode of production makes little sense.

- World-System theory seems more and more like the transposition of the Hobson/Lenin model back to the 16<sup>th</sup> century, with Lenin's 19<sup>th</sup> century capitalist imperialism re-labeled as the modern world-system.
- China, as an area purportedly external to the world-economy, is in fact involved in a robust trade with Britain way before it is supposed to even be in the world-economy.
- The bilateral core-periphery exchange relation is so narrow that it misses the great complexity of the world economy's multilateral trade.

### **Trade Triangles**

While such critiques of world-system theory are important, paradigm shifts occur less from critique per se than from the appearance of a new model that better accounts for the data than the established model. In this case, the heart of WST has been to provide the best possible account of the differential wealth of nations, and how some areas become advantaged at the expense of others. A paradigm shift from the present core-periphery to a multilateral model needs to show that it can provide a better way to explain such global inequality. And with that challenge in mind we can turn directly to the heart of Frank's theory of how multilateral trade/payment structures generate global inequities.

This multilateral (along the sides) or multi-angular (at the angles) structure of the global economy permits those at angular systemic locations of privilege to exact tribute or rent from the system as a whole and in particular from those in the underprivileged positions. For the role of the latter is to produce and transfer wealth and income to the privileged ones through the structure and operation of this multilateral/angular system. In the nineteenth century, Great Britain came to occupy this position of privilege; and that is what made it "great" much more so than any qualities or capacities of its own. Since then, the United States replaced Britain in this position of greatest privilege; and that, rather than its productive capacity, accounts for most of its wealth and income (Frank 2014: 89).

If this represents the model's general outlines, the specifics are contained in Frank's discussion of key elements of the China-India-Britain trade/payment triangle:

Britain imported merchandise from China but was unable or unwilling to pay for it. On the other hand, first also the same British EIC [East India Company], and then British subjects and interests in India in general, sought a way to transfer home to Britain their earnings and secondarily from elsewhere in Asia. The solution to both problems was one and the same: if China could be persuaded or forced to import opium from India (in excess of the value of British exports to India), then China would send bullion to India to settle the balance between Chinese "imports from" India over its "exports to" India. And the British (more than the Indians) could then use these Chinese funds both to remit their own profits from India to England and to pay the Chinese for Britain's own excess of "imports from" over their "exports to" China. And India could complement its domestically generated merchandise exports, primarily of raw cotton and "home

charges” that Britain exacted from India for its “administration,” with India’s own receipt of payments from abroad, principally from China (118).

Britain gains less from any bilateral leg of trade with “other producers and consumers” than from the “global network of world trade and its complicated system of im/balances, from which Britain drew its and the world’s greatest benefit” (Frank 2014: 166).

If “trade imbalances on one leg of each triangle were compensated by trade and payments or surpluses on the other two legs of the triangle” (Frank 2014: 125), how is it that Britain’s angle does better than the others? Hints can be found in another seemingly self-balancing exchange model—that of wages for labor. The distortion here is not that cash for work is an inherently unequal exchange, but rather that political power is introduced into the wage/labor exchange model in the form of ownership of the means of production. Politically legitimated and enforced ownership, not exchange, is what constrains the model to generate low wages and allow the appropriation of profit by the owning class. Ownership is supported with intra-state power (police, courts, laws, jails, prisons, and so forth), but these are not what operate on the inter-state level, where power takes the form of navies, expeditionary forces, colonial outposts and their administrators, and so on and so forth. These, and other, manifestations of the global-political, make possible the “multilateral system of...trade and related payments” which allowed wealth from some to be “derived at the expense of others” (10). These arrangements were clearly appreciated by contemporaries, as seen in a memorandum from the India Office in 1907:

The aggregate exports from India to Asiatic and African ports, including the Crown Colonies of Ceylon, the Straits Settlements, and Mauritius, exceed in value her export trade with the continent of Europe. The balance of trade in both cases is largely in India’s favor, and represents the sources from which she satisfies the heavy balance against her on her trading, debt, and administrative accounts with [the] United Kingdom (quoted in Frank 2014: 248).

And so, “between 1858 and 1898, almost half of India’s exports were used to settle its foreign debts: 20 percent went for the infamous Home Charges, 30 percent covered payments to the private sector as interest and profits as their investments and other services to India” (248). Britain, then, gained its wealth from its political/naval/colony-holding apex position within the world economy’s major triangle trading structures. India exported more than it imported, yet there was no rise in India’s foreign exchange reserves; there was no growing positive balance of payments. Why not? “The key to the puzzle lies in the invisible items in her balance of payments and the unilateral transfer of funds that she had to make to Britain as part of the political charges debited to her external account. Thus payment of political [and economic!] tribute was the genesis of the famous theory of a ‘drain of wealth’ from India” (Chaudhuri 1983 quoted in Frank 2014: 119). These “invisibles” constitute the global-political as deployed by Britain across its trade relations. Just as there isn’t any natural inequality in the exchange of wages for labor, so there is no natural inequality in the exchange of manufactures for raw materials. It is power plus exchange, then, which creates the inequity of wealth extraction, whether that be of wages and profit, or of terms of trade, taxes, insurances, shipping costs and other fees and appropriations extracted from world trade. Capital appropriation mechanisms differ at different levels of analysis; the capital/labor relation has its own dynamic and manner of appropriation, as do triangular trade relations.

### **Britain's Wealth: Capitalism or Triangle?**

If 19<sup>th</sup> century Britain was the centerpiece for theories of capitalist production, so it is now grounds for considering Frank's argument that Britain must be "seen in the context of the multilaterality of the world economy that allowed Britain to maintain herself as she did" (124). Put another way: Frank asks if Britain's wealth was due to her status as capitalist workshop of the world<sup>2</sup> or her apex position within a multilateral world trade structure?

We start with the implications of Britain's trade deficit for her role as capitalism's workshop of the world. "Britain ran a merchandise trade deficit, that is it imported more than it exported throughout the entire 19<sup>th</sup> century" (117), such that, "there seems to be no escape, therefore, from the conclusion that Britain's new industrial system did not create export surpluses" (Imlah 1958 quoted in Frank 2014: 117). In effect, "Britain did not so much cease to dominate through manufactures as that it never did so" (66). If, then, Britain's "accumulation of overseas credits" were not from the "time honored assumption that machine-made exports supplied the credits," then another source is required, and it has been suggested that "the earnings of the merchant marine, the commercial commissions, the savings of her experts and technicians and colonial officials abroad, and income from her foreign investments—made up the deficit on her visible trade and supplied whatever new capital was invested overseas" (Imlah 1958 quoted in Frank 2014: 117).<sup>3</sup> "Britain temporarily maintained her balance of payments by achieving an abnormal share of the world's shipping insurance, and other commercial services," which "developed so considerably that a large surplus was still left to finance a growing export of capital, the accumulated stores of which themselves provided Britain with an ever growing income from interest and dividends" (Lewis 1949 quoted in Frank 2014: 66). "There seems no escape, therefore, from the conclusions that Britain's new industrial system did not create export surpluses...it is un-mistakenly clear that, on balance, Britain was an importing country throughout this half century" (Imlah 1958 quoted in Frank 2014: 209). Indeed as Frank notes, "...if you import and consume 30 percent to 60 percent more than you produce, and export, as Britain did how can you save anything internally...let alone have enough to invest so much abroad?" This, in turn, raises the question, "so where and how then did Britain raise this investable capital, which for instance, built the railroads in the United States?" (210).

These facts suggest that it was Britain's position in the world, and not so much Britain's exports to the world, that generated her wealth and supplied capital for further export investments. In effect, British machine-made, factory-assembled, capitalistically organized, and industrially-produced commodities, were not selling well enough abroad to sustain a positive balance of payments. For all the workshop of the world hype, 19<sup>th</sup> century Britain imported more than it exported. Frank's point here is that the costs and benefits that multilateral trade generates derive less from the "intrinsic characteristics or qualities of any of the particular parts" and more from "the structural and functional location of the part within the whole" (174). In other words, British capital accumulation was less the function of the operation of said capitalist mode of production and more the result of capital appropriated through Britain's apex world trade position. Similarly, Frank notes that "Britain was a much wealthier country in 1900 in

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<sup>2</sup> British yarn and textiles constituted 62% of British exports in 1850 and still 55% in 1870, while iron, steel, and machinery vehicles went from 13% of exports in 1850 to only 17% in 1870.

<sup>3</sup> Frank also suggests Britain's famed "free trade" policy wasn't because of the competitive advantage of her exports but because it allowed Britain to settle her balance of payment problems in a multilateral fashion.

terms of income and wealth per capita [than the United States]. The reason must be sought beyond what people in Britain and the United States actually produced. A substantial portion of British income must have been derived from abroad through interest, profits, and rent, or in a word from its privileged LOCATION in the world economy from which Britain derived an important share of its income, and its ability to invest abroad and derive further income from that” (293).

That apex position had other effects as well. As Britain’s influence in exports waned after the 1880s, India was forced to “absorb Britain’s surplus of increasingly obsolete and non-competitive industrial exports” (241). Consequently, Britain didn’t have to restructure its domestic industry but could continue to invest in other countries. India was compelled to import and pay for non-competitive British goods, such that older, less capable industries were not forced out of business but maintained by the captured Indian market. Without knowing this and just looking at export figures alone, one could assume that British industry was still competitive on the eve of the 19<sup>th</sup> century. Again, understanding the trade context is essential to understanding intra-societal capitalist dynamics.

Britain’s apex trade triangle position, like that of capital in social formations, is politically underwritten. What is truly meant by the political in “the political economy of the world-system” is the global-political, and it takes many forms. For example, India’s financial flows to Britain were not just based on trading textiles for cotton as inherently “unequal” exchanges; they also consisted in the global-political, which for India “...consisted importantly of Indian payments for the British-commanded but Indian-manned army of occupation and the civil service administration of India as well as payment of pensions to and remittance of profits by the British in India” (123). And earnings in services “ran about 50 percent more than trade deficits...[and] interest and dividends earned were by themselves half of the trade deficits” (167). When these are added up, earnings from such “invisibles” were about “two times higher than the trade deficit” (168). Britain, the hegemonic capitalist power of the 19<sup>th</sup> century, the workshop of the world flooding the developing world with her manufactures, got more, much more in fact, from “services” on trading and other international economic activities than from the profits that her “industrial revolution” produced through its purportedly powerful, unique, historically new, and revolutionary mode of production called “capitalism.” Similarly, the export of capital wasn’t the Hobson/Lenin model of capitalism’s crisis, as it was often capital from peripheral areas themselves.

In this year (1913) the United Kingdom exported merchandises valued at £635 million and had imports totaling £769 million. In addition, it imported gold worth £24 million and thus had an import surplus of £158 million in the movement of merchandise and gold. To offset this deficit, the British had items totaling £129 million (from earnings of the merchant marine £94, earnings of traders’ commission £25, other earnings £10 million). The British thus would have had a deficit of £29 million except for interest and dividends from their investments abroad, which amounted to £210 million. Addition of this item to other “invisible” exports reversed the balance of payments in favor of the United Kingdom, giving it a net surplus of £181 million. Theoretically, the British could take this balance in increased imports of merchandise and still have the balance of payments in equilibrium. Actually they left the whole net balance abroad as new investment. In fact, in 1913 London advanced to colonial and foreign concerns long-term

loans for £198 million—almost exactly the amount of the current profits from former investments abroad (Woytinsky and Woytinsky 1955 quoted in Frank 2014: 227).

There are, then, two versions of “foreign investment.” There is foreign investment<sup>1</sup>, the traditional understanding of capital raised within the capitalist mode of production by the exploitation of domestic British workers that is then sent abroad as overseas capitalist investment. But there is also foreign investment<sup>2</sup>, capital raised overseas to start with that is either just left there as “foreign investment” by the foreigners in the peripheral area, or capital raised for “foreign” investment locally, which is then transferred out, such that it appears to be obtained from the external investing country. But again, like money from China to India to Britain, we see investment capital raised overseas, transferred to the metropole and then invested from there back to some, or the same, overseas location. This dynamic has also been noted about the Dutch in Java as well as the Chinese during the 19<sup>th</sup> century: “Chinese investments in Malaysia were not the result of any out-payment from China, but were derived from the Straits Settlements and the Malay Peninsula (Gordon 2004 quoted in Frank 2014: 235).

Certainly the colonial relation of Britain/India is an important instance of the global-political component of any political economy of the world-system, but British naval might backed its domination of global shipping as well. For when we speak of imports and exports, it involves, “mostly ocean transport of all this merchandise” and in the 19<sup>th</sup> century “the Europeans owned about two-thirds of the shipping and thereby earned that share of those transport charges, which the underdeveloping countries had to pay on top of the cost of the imported merchandise itself. Moreover, transport charges on goods exported [from the South] were about twice as high as those exported by the North to the South...The implication is...that transport charges were discriminatory against the South’s exports and in favor of the exports from the North, which owned the shipping and ‘earned’ the revenue from it” (Frank 2013: 227, 228). Shipping charges were a huge source of British income. They “ran at about 50 percent more than trade deficits on merchandise accounts. Interest and dividends...were by themselves about half of the trade deficit. Adding these interest and dividend earnings to those of services, we get a total of all earnings from invisibles, which is about two times higher than the total trade deficit” (168).

If it makes sense to think about something like the ownership of the means of trade through concentrated ownership of shipping, then the “ownership and registry of world shipping was highly concentrated in Britain throughout the 19<sup>th</sup> century...[and] transport charges accounted for about one-half of all ‘invisible’ earnings from services, which themselves were a most essential element in the British balance of payments” (228). The British merchant fleet accounted for between 32 percent and 45 percent of world shipping tonnage in the 19<sup>th</sup> century. By 1900 world shipping tonnage was 30 million tons; 13m British, 2.5m American, 2.5m German, 1.6m Norwegian, 1.3m French, and 3.7m other European, which left only about 8 million tons shared by the rest of the world. Again “invisible” service payments that the South was “obliged to make to the North” involved “transport charges [that] were about half, and port user fees, insurance, interest payments and remittance or reinvestment of profits, etc. were the other half” (228, 229). If one really wants to talk about a political economy of the world-system then one needs to talk about shipping and what Alfred T. Mahan (1980) called armed shipping, or naval power. From this perspective, control and power is liberated from only being theorized to constrain land-bound economic relations (as between classes) and can also be seen in sea-bound relations (trade) as well.

Shipping, oceans, trade; it all seems far from production, class, labor, factory, and “capitalism,” but it’s not as far as you might imagine. Think of the standard list of capitalist hegemonies of the modern world-system: Spain, Netherlands, Britain, and the United States. All of them are not only maritime states, but sea powers as well, and the hegemonic sea power of their time. If the world-system is truly based upon the capitalist mode of production then why haven’t any non-maritime, but clearly capitalist, states ever been hegemonic (Bergesen 2012, 2014)? Is it just an accident that no Germany, no Russian Federation, no France, or for that matter no capitalist state that is not at the same time a sea power, has ever led/dominated the capitalist world-economy? Perhaps. But perhaps the hegemonies of the seas and the hegemonies of world capitalism are intricately linked because what we are dealing with is, in fact, the political (sea power) economy (trade) of the world-system. Perhaps our world-system is based not on a mode of capitalist production but on a mode of multilateral trade.

### **Multilateral Trade Hierarchies**

Multilateral trade hierarchies appear to possess combinatorial properties, often of a quite simple manner seen in combining, or intersecting, triangles. “Britain was the one that was at an angle of each of the following ‘regional’ triangles: the infamous opium-based China-India-Britain triangle, the variously already interlinked Atlantic ‘triangular trade’ ones, the Britain-Continental Europe-Americas ones, the incipient US-China-Britain one, etc.” (Frank 2014: 62). They also appear to operate in a more complex fashion as discrete combinatorial systems (Abler 1989, 1997; Bergesen 2005, 2004, 2000), meaning they are comprised of a finite set of primitive elements with a set of rules that enable them to be combined in a virtually infinite number of combinations. While we don’t fully understand how all this operates, as a working model we can suggest that elemental constituents, like an A to B bilateral trade relation, can be combined in a rule bound way with other AB bilateral relations to construct another structure whose properties lie above and beyond their constituent bilateral A to B components. They are not just a set of three unordered A to B bilateral relations, but they are in a combinatorial form, such as the A to B to C and then back to A trade triangle. That entity is capable of combining with other triangles to constitute even more complex multilateral structures, and the totality of said structures represents the world trading system that Frank postulated constituted the unique world economic whole that should be the starting point for research on the world-system.

Second, these structures appear to be highly conserved historical forms, meaning that their basic structure and operational logic persists independent of the properties of the countries which occupy their role positions. That is, the trade triangle isn’t just a creation of Britain and the East India Company. The Dutch probably operated within it as well, as did the Spanish Empire of the 16<sup>th</sup> century, and for that matter ancient Rome and 5<sup>th</sup> century BCE Athens, and looking toward the future, there is no doubt that China and other parts of Asia will also be/are already participants, performing role duties and benefiting from role advantages, derived from these same highly conserved trade structures. In effect, if we find trade triangles throughout history, and if their operational logic seems identical, what we are looking at is a deeply conserved set of political/economic relations, whose properties are independent of the types of domestic economies they link. The essence of human hierarchy may not be the sequenced modes of production—hunter-gatherer, agriculture, slavery, capitalism, and so forth; for these, obviously, are historically contingent forms, and as such, there will always be a new mode of production, followed by another, and another, forever. If, as hinted by Frank, the context of a

world-system of multilateral trade relations minimally impact and maximally shape and even create such modes, then research needs to be turned towards the essential operational logic of the world-trade-economy and away from the historically contingent, and always changing, world-economy based upon the capitalist mode of production. For that too, even at the world level of analysis, is historically contingent; given the rise of China within the world-economy (Bergesen 2013) is it not appropriate now to argue that it is a “post-modern world-system based upon “authoritarian capitalism” or upon “Beijing Consensus Capitalism” or to claim that the 19<sup>th</sup> century was really the age of “Classic Capitalism,” or that it was based still earlier upon “Capitalist Agriculture,” and on, and on. Each turn of a dog chasing its tail is somewhat different from the previous one, and research effort can either be spent noting the unique properties of each turn, or identifying the finite properties of the dog and the tail that generate these endless turns. Researching historically conserved trade structures represents a radical departure from present efforts to map properties of the historical moment, or moments past, or speculate upon moments to come.

While the multilateral process may be capable of generating a virtually unlimited number of different trade structures, constraints from other domains (economics, geopolitics, sociology or psychology) seem to have yielded a particular trade structure sequence. There is an observable degree of complexity moving from bilateral to triangular to multilateral, and these seem ordered over time. Britain starts out with bilateral trade with China then adds on India to yield a trilateral system, and then in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries, this gives way to a full-blown multilateral trade system with linkages to a variety of other trade triangles. We also know that this was followed by the collapse of such fully flared multilateralism (the so-called first wave of globalization, 1870s-1913) with dramatic declines in world trade, rising tariff barriers, and a generalized balkanization of international economic affairs during the 1930s Great Depression. Some states existed in an almost non-trade autarkic condition, like Nazi Germany and Soviet Russia. Then, after 1945 we see the post-war expansion and a growing multilateralization of trade until the early 21<sup>st</sup> century, where we appear to be again regressing back to bilateral trade.

[Today] about half the exports of the top 30 exporters go to preferential trade partners. And between 1990 and 2010, the number of preferential trade arrangements rose from 70 to 300. But now the US is proposing “mega-regional” agreements: the transpacific and transatlantic partnerships. The logic is that this is a way to achieve deeper integration among like-minded countries. But these plans are also designed to exclude the rising trade superpower, China. This is risky: it could end up fragmenting the trading system (Wolf 2013).

How and why all this operates is not fully understood, but the discrete combinatorial nature of the multilateral system facilitates a fairly quick response to shifting conditions. The capacity to combine, re-combine, and de-combine appears to be an essential property of the world trade system, one that deserves research.

A final observation: The rapidity of change in both trade structure and position occupancy is quite striking. Frank argues it was “after 1870 that the world economic system of multilateral trade and payments im/balances took its final shape and became dominant. It was the ultimate placement of Asia, Africa, and Latin America in structural positions of disadvantage, nay of systematic exploitation and often oppression that generated the development of underdevelopment with a vengeance. It was from their absolute and relative favorable position in

the same system that the now developed West derived its income, finally applied science to promote technological (but not necessarily other) development, and was able to dissipate the entropy that was generated to what then became the third world” (2014: 73). But this “ultimate placement of Asia”—which obviously would include China—didn’t last long, as China is on course to pass the United States as the largest economy. Perhaps Pomeranz’s (2000) “Great Divergence” is actually describing a shifting of places within the historically conserved multilateral trade system in which China, Europe, and the United States have, and continue to, operate.

### Conclusion

The question lingering behind all of this is, how important for world-system theory is a trade focus? In some sense WST is already there, for when you think about it, core-periphery relations are in fact trade/exchange relations between different regions of the world. The next question becomes, what is the best way to understand them? It seems reasonable to conclude that the category of core, and capitalist core at that, is too general. There were capitalist states that never became hegemonies of the capitalist world-economy, but there never seems to have been a hegemonic sea power that in its time wasn’t also the hegemon of the capitalist world-system. Accident? Maybe, but maybe too we need a more openly explicit recognition of the trade foundation of the modern, and for that matter any, world-system. Similarly a reliance upon unequal exchange puts too much emphasis upon commodity content and composition (labor input) and too little upon the global-political structure which in fact distorts core-periphery exchange and facilitates the accumulation of capital in apex trade triangle positions. In effect, any model that wants to claim to be an accurate representation of the distinctly “political” economy of the world-system needs to have an explicit political/military component. And not just as a consequence of economic position but as facilitator, underwriter, and creator of said position in the first place. To more seriously consider all of this there is no better place to begin than reading Frank’s *ReOrienting the 19<sup>th</sup> Century*.

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