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II. CONSEQUENCES FOR INTERNATIONAL POLITICAL ECONOMY

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Asia, Europe, North America, and the "Asian Capitalist Miracle": Changing "Power Cycles" and Evolving Roles in Regional and International Structures

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ABSTRACT. Consolidated during the Cold War and reasserted during the 1997–8 crisis, US "primacy" in East Asia is the predominant interpretation associated with the "Making of the East Asian Miracle." A closer look at the 1950 and 1997 periods yields a different conclusion, supportive of the pluralistic interpretation of "dynamic equilibrium." At the outset of the Cold War, the US sought to restore the triangular pattern of international trade and finance between North America, Western Europe and Southeast Asia/Japan, necessitating a re-forging of links between Europe and Southeast Asia. What happened to this project? In the recent East Asian economic crisis, the EU-Europeans contributed more to the rescue packages than did the US. This study posits Europe as the third actor in the evolution of a sustainable "capitalist" economy at the international and regional levels. Rejecting a hegemonic economic interpretation for any of the actors, this analysis portrays an emergent commercial and trade linkage among Europe, Asia, and North America that is balanced and never more vital.

Keywords: • East Asian economy • European Union • Political economy • Power cycle • Trade

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Changing power and foreign policy roles in the second half of the 20th century, examined in part from the power cycle perspective, have been the subject of a number of conferences (Schmidt, 1993) and projects (Schmidt and Doran, 1996) involving both security matters and international political economy. Specifically, the options for Germany and Japan at the end of the century have been assessed in the context of the changing structural relations with the United States, Russia,

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and China as well as within the EU itself. This article lays bare the nature of the new dynamic equilibrium that is being forged among Europe, North America and Asia at the dawn of the 21st century.

I

How to explain a miracle? In 1993, the World Bank—with some little help from Japan—did just that with respect to the "East Asian Miracle." The World Bank shifted its interpretation of the dynamism of East Asian economies and depicted the East Asian trajectory as the miraculous outcome of the state providing "directed credit" to boost economic development. The view of the state's ability to promote collective actions efficiently is in conflict with the precepts of neo-classical economics advocated by American and British strategists throughout the Reagan–Thatcher era and the subsequent calls for deregulation, liberalization, and empowering "free markets" to provide incentives for domestic reforms.

It should be noted that the revised theory of European Integration (Haas, 1976) had already argued that governments were rediscovering their capabilities to solve problems in the "era of turbulence." Power cycle theory (Doran, 1991), stressing capabilities and role, reinforces the precepts of the revised integration theory. The outstanding feature of the new foreign policy role was that European governments could decide, based on differing situations and issue-areas, whether to coordinate their activities (and expectations) with partners within the region or with third actors overseas.

Two roles overlapped, the regional approaches and the global strategic partnerships. Thus we can better appreciate the ongoing importance of the US role for intra-European and intra-Asian economic (and military-strategic) developments as well as the continuing power of the US to exercise "remote control" (Cumings, 1993: 40) on what Japan and/or Germany do in their regional vicinity. But we also must be aware of role interaction between the high-performing Asian and stable European economies. We must recognize that in the post-Cold War world, the definitions of rules of international trade, finance, and investments are at the mercy of alternating coalitions that may offset or strengthen the changing capabilities of states on their power cycles. In this process, Europeans would raise their voice and sometimes counter American recommendations with their own prescriptions. But what was likely to emerge, according to the power cycle perspective, was a new dynamic equilibrium of power and role among America, Europe, and Japan.

Set against the overall backdrop of Japan's position and role, Japanese attempts to promote the Asian model during its struggle with bank reform were less pronounced than during the 1980s and early 1990s. On the other hand, both "united Germany in uniting Europe" and "Japan at the core of East Asian regionalism" (McCleery, 1996: 60) form the poles of the world economy which the Achesons and Kennans in 1947–50 captured in their grand design for containing and then out-distancing the Soviet Union (Schmidt and Doran, 1996; Cumings, 1993: 38–40).

Nevertheless, the unraveling of the Asian development model 4 years after the World Bank's Report "The East Asian Miracle," in the context of the Asian Crisis in 1997–8, induced many analysts to dismiss the Asian miracle as myth. A central question is whether international and regional "monetary reform" and regime-building will match the interlinkage of the economies, which are enhanced by the development of intra-industry trade (Lorenz, 1998: 45–47; Thiel, 1998: 61–63).

As power cycle theory emphasizes, role differentiation is dangerous when incomplete. Under Anglo-American pressures for financial and capital account liberalization, the Asian countries attracted international, especially European, capital flows. But since they did not import at the same time the accompanying roles involving regulation, reporting, and transparency of the "West," the fire spread from Thailand to the whole area (except Taiwan) and revealed the reverse side of the Asian style of steering the economy—what is called "crony capitalism." "Technical factors" such as rigid exchange rate systems (Thailand, Hong Kong, South Korea) contributed to the accelerated spillover of the financial crisis. The theme here is whether Asian governments will use the scope they have for stimulating domestic demand in order to advance the recovery process, and whether foreign equity investors will, in providing the capital Asian countries need, force them to restructure the banking system. The latter is a challenge to the Europeans to reaffirm their recently gained stakes in East Asia.

The Asian crisis now provides Washington with the opportunity to stress the flaws in Japan's/East Asia's state-centered development approach and to praise instead the relationship between pluralist democracy, good governance and market economy (Bullard, 1998; Berger, 1999: 250; Kreft, 2000: 11). The reliance of the crisis-country economies on strong exports to the US gives the US a lever to remind Asian governments of the need to continue their economic and political reforms. On the other hand, the "new regionalism," characterized by informal market integration and more specifically driven by Japanese investment patterns, makes East Asia less dependent on the US. Growth of the A-NIES and ASEAN countries continues to depend on importing Japanese capital goods (Pempel, 1997: 78). Japan's willingness both to stimulate domestic demand and to absorb more of the other Asians' manufactured goods (Doner, 1997: 212ff.; Ernst and Ravenhill, 1997: 16–18; Tanaka, 1999: 234) is likely to undermine the standard criticism of Japan's trade imbalances, namely, the fears of ASEAN and A-NIES leaders that "cooperation" was meant to serve Japan as a regional "hegemon." The power cycle interpretation of Asian international political economy rejects hegemony as cause or consequence of cooperation.

Japan realizes that the extraordinary weight of its economy in absolute terms (Selden, 1997: 315) is no guarantee of continued relative economic growth or of a larger leadership role in the region (Doran, 1996, 2000). Reacting to China's relative gains on its own power cycle since 1995, Japan has turned toward practicing multilateral cooperation, especially with South Korea and the US. The effect of the Chinese ascendancy on Japan's own relative growth (slowing it to a zenith on its "power cycle") has led Japan to improve its relationships with China and Russia. Japan has deepened its involvement in the ASEAN regional forum in response to the relaxation of distrust by the ASEAN member states (Yamakage, 1997: 291–297). As in the late 1960s and 1970s, Japan has also renewed its commitment to extend financial assistance to Indonesia and Thailand. Above all, it is learning to see its dense economic *Verflechtung* with most countries in the region. They in turn continue to depend on exports to America's markets, as an obligation to facilitate the implementation of "open regionalism," the watchword of APEC's Bogor and Osaka summit meetings (Pomfret, 1999: 224), and to supplement regional cooperation with the establishment of a system of pooled reserves that central banks could draw upon to buy time when their currencies come under attack by speculators (Crampton, 2000).

II

Notwithstanding the importance of the controversy between a state-centered approach and the neo-liberal framework, I think that analysis and interpretation should focus on a different matter. The East Asian miracle is after all only the latest in a series of post-World War II miracles in which acceleration occurs on the state power cycle, starting with the West German economic miracle in the early 1950s and encompassing the Japanese miracle of the 1960s, the rise of the "four Tigers" (Taiwan, South Korea, Singapore, and Hong Kong) since the 1970s, and the spread of the "miracle" towards Thailand, Malaysia and coastal mainland China since the mid-1980s (Selden, 1997: 311). Most of them had received substantial economic aid in the 1950s from the US and then, partly due to American pressure, developed export-led growth economies, which reduced their dependence on foreign capital inflows (Haggard, 1990: 196; Berger, 1999: 244). Germany, Japan, Taiwan, and South Korea earned favorable balances of trade. Accumulating foreign exchange reserves, they were urged by the US (and the partners in their region) to recycle the surpluses, place World Bank loans in their capital markets, engage in the development of Latin America and "the rest of Asia," and invest in the stability of strategically important US allies such as Turkey and Egypt.

With the possible exception of the widely unnoticed case of the French miracle, the noticeable trait of the sequence is that the "miracle" (or dynamism) expanded within East Asia (Chan, 1993; Clark, 1997: 32; Selden, 1997: 314). Some of the mechanisms and techniques, however, resemble the European regionalist model. Japan—as in its 1995 Partners for Progress program for APEC's Osaka summit (Morrison, 1998: 134; Tanaka, 1999: 238)—is conscious of borrowing a leaf from the EU's strategy of using regional, structural and "cohesion" funds for aiding the structural adjustment of the less-advanced economies to intra-regional trade and investment flows (Doner, 1997: 231).

What we then have to consider is a twofold process of "dynamic equilibrium" involving changed power and foreign policy roles: (1) the sustained high performance of individual countries on their power cycles even after the "miracle," and the evolving system of peaceful change that the subsequent restructuring of power necessitates; and (2) the reformulation of the rules and codes of conduct in the globalizing capitalist world.

The hinge (*Scharnier*) between (1) and (2) is the "Making of the American Age," the post-1947 US effort to open up possibilities for Germany and Japan in their respective regions "far greater than anything [they] knew before," as George F. Kennan stated regarding Japan in October 1949 (Cumings, 1993: 40), while in parallel firmly entrenching American (official and private) "influences" in Germany/Japan and in the polities and economies of "the others" in these regions, and to maintain the US role in world politics and the international economy (Schmidt, 1996: 30–44). In this, the US did after 1947 what had been expected of it after 1918–19, namely to be present as the leading participant in the center of the crisis-zones, creating a US-Japan and a US-"Germany in Free Europe"-zone, and to orchestrate the build-up of a multipolar but open "one-world" economy. The "Cold War" facilitated Washington's endeavors to prevent Bonn and Tokyo from creating controversial trading blocs which would include the Soviet Union and "Red China" but exclude the US as an alternative to "cooperative dependence" on the US market (Schmidt, 1996).

As each state moves up its power cycle, how economic growth is generated is important.

(*1*) Perhaps there is an overall East-Asian model of industrialization, or perhaps each country has its own model. Japan may be the model in terms of training of human capital, and the adoption of an export orientation, and of Asian values. Japan may also be the model regarding restrictive practices: limiting foreign direct investments; tight control of foreign trade; "self-reliance" on internal savings and a state-promoted supply of "cheap capital" during the first phase (1950s and 1960s), and liberalization of services and of the exchange-rate regime in the second phase, plus opening of the capital account and the easing of foreign direct investment since the mid-1980s.

(*2*) Perhaps Japan's "network power" (Katzenstein and Shiraishi, 1997) is responsible for regional spillovers in terms of acceleration on the state power cycles. At the start of the 1960s, US firms were the first to open factories in East Asia. But with the easing of nationalist fears of Japan, Japanese trading companies and corporations began to emerge as key distributors of certain sectors of Taiwan's and South Korea's international trade (Lall, 1996: 74) and as the providers of machinery and technology needed for the industrialization of East Asian countries (Haggard, 1990; Wade, 1990; Berger, 1999).

(*3*) Still another explanation for acceleration on the state power cycles may be America's strategy for facilitating the industrial rebirth of Japan (as the "Germany in Asia"), "part of its wider effort to turn (Western Europe and) North-East Asia into capitalist bulwarks against the Soviet Union and international communism" (Berger, 1999: 242). Irrespective of the controversy about whether the recovery of the Federal Republic of Germany (FRG) and Japan (LaFeber, 1997: 293) is due to the stimulating effect of US aid, it was surely to the advantage of the head-start of Germany in the early and Japan in the late 1950s that the US proffered military protection. In contrast to Britain, France, South Korea, and Taiwan, the FRG and Japan were not immediately burdened with increased military expenditures and directing resources and manpower to the build-up of armed forces. With the benefit of hindsight and some liking for sweeping judgments, it has been argued that Germany and Japan were the "real" winners of the Cold War. In this sense, the "capitalist miracle" serves as base for the argument about the "logic" of the Cold War and whether it made sense for the US to continue its role as "European" and/or "Asian" power.

III

While it would be folly to deny the importance of the history of the Cold War for understanding the making of the sequence of miracles, the fact remains that the founding acts of the post-World War II international political economy—the creation of the IMF and World Bank, the GATT, and the OEEC as the precursor of the "OECD world"—preceded the outbreak of the global contest between the United States and the Soviet Union. Thus, the power cycle contention is that these economic developments occurred quite independently of the Cold War. These founding processes were progressing with the "willing abstention" of the power center of international communism. Hence the principles, norms, rules and decision-making procedures were compromises (albeit "uneasy") between the US and the United Kingdom. Mindful that each was a type of "central banker" to an area comprising 40 percent of world trade (each), both were inclined to achieve a settlement of their disputes rather than splitting the western world into two opposing economic blocs. Washington and London also concurred in the view that tying West Germany firmly into the West was the inescapable reaction to Stalin's division of Europe.

In the Far East, London resolved to recognize the People's Republic of China. Washington embarked on a full-fledged implementation of the so-called reverse course. The reverse course was to establish the connection with Japan as its main supportive actor in Asia-Pacific by helping Japan to recover a foothold in the "area." South-East Asia was to be a substitute for the lost or prohibited markets in the now "Communist" parts of East Asia. Japan was to be obligated to observe the American goal of an open, global, and reciprocal market economy (Schmidt, 1996). The US urged the FRG to enhance its bilateral negotiations with Japan and thus, by creating an example of goodwill towards Japan, help to break the resistance of the other Western European "players" against an early admission of Japan into GATT (1955, 1961) and the OECD (1964). With the cooperation of Australia, Canada and India, Britain launched the Colombo-Plan as the southern ("free" Asian) counterpart to the North Atlantic Marshall Plan, based on technical assistance, and persuaded the US to merge its Point-Four initiative with the British Commonwealth's prescription for reintegrating South-East Asia, the third core-area of the world economy, into the emerging free world economy. The alignment of the Truman Administration's Point-Four program with Britain's project of stabilizing South and South-East Asia helped to defer Japan's "attachment" to the sterling-area and to attach Japan to the dollar standard. The impact of this American–British interaction was similar to the side-effect of the Marshall Plan and of American aid to the evolving European integration movement (Schuman-Plan/EGCS), which countered Britain's (ambivalent) hope for linking the "DM economy" to the sterling-area.

IV

Conventional wisdom emphasizes that the US recruited its two former and potentially future formidable military-strategic rivals and economic competitors as supportive actors in its global contest with the SU. Although I subscribe to this twofold bilateralist thesis (Shiraishi, 1997: 176–7), I would suggest a more complex interpretation, in keeping with the power cycle perspective. What is neglected is the dynamic of Germany and Japan on their respective power cycles as these interacted with that of the United States, undergirding the response to the Soviet Union. Ascendancy on the regional power cycles has been long in the making. Despite a weak linkage to Japan and Asia inside the evolving European foreign policy role, and despite a very active US role in Asia, increased European participation in Asia is undeniable.

In many respects, the landmarks of the 1960–80 period concern change involving the German and Japanese power cycles. It was, after all, the ascendency of its allies and partners, Europe and Japan, that led to the peaking of American power, not primarily the clash with the Soviet Union as is often implied. In order to sustain the region-wide dynamism with access to American markets, technologies, and funds for investment, the European and Asian countries in turn paid a political and commercial price to keep the United States in each region as a counterweight to the rise of any other great power (Soviet Union, China, Japan, Germany) to predominance. They also copied American precepts as a means of improving their productivity and competitiveness.

If we consider the factors that contributed to the accelerated rise of Japan and the nascent rise of Germany on their respective power cycles, we observe how this dynamic affected the landmarks of the evolving foreign policy roles of these and other states.

(*1*) A DM-zone came into existence despite the 1966/7 recession and a budget crisis in the FRG, yielding the only "strong" currency in the world (1968–71).

(*2*) After 1967, Japan became the third largest power in the world behind the United States and the Soviet Union, its foreign economic aid to South Asia having tripled (1965–69), and was projected to double by 1975 (LaFeber, 1997: 351).

(*3*) Japan and Germany adopted new foreign policy roles to match their increased economic prowess by responding to "arm-twisting" by the Johnson and Nixon administrations through a strengthening of economic ties within each region and with the Soviet Union and China directly (Doner, 1997: 225).

(*4*) Whether cause or effect regarding the turning point on the US power cycle, the financial decision of Britain, France, and the US to devalue within the short period 1967–71/73 was seminal, leading to consequences for the foreign policy role. The political consequences were announced and executed before the formal devaluation went into effect in London and Washington. Britain's retreat from "East of Suez" (1967) and Nixon's proclamation of the Guam-doctrine (1969) were a signal that the Anglo-American strategic duopoly expected the "local" partners of their defense and security communities to do more for their regional stability so that the US government could get the Congress to maintain the security links with NATO-Europe and with the treaty-partners in the Far East.

From the power cycle perspective, the change in roles is most instructive. With the peaking of the US on its power cycle, Germany and Japan were called upon to act as locomotives to pull the regional and the world economy out of recession. This appeal acknowledged, albeit indirectly, that the German and Japanese economies were predicated on "sound principles" and stable domestic polities, or else Bonn and Tokyo would not be able to deliver on agreements reached by the G -3, G -7 or G -10.

While the United States and the Soviet Union reaffirmed the supremacy of bipolarity, and the huge relative size of the two militaries would justify this status, change was occurring in the core issue of world politics, the meaning and salience of the East–West conflict. Although "systems transformation" would not occur for another 20 years with the collapse of the Soviet Union, the events of the late 1960s were crucial forerunners of this transformation. Foreign and security policy underwent alteration. The FRG and the EC as well as Japan tried to articulate the notion of "civil power" to solve the problems of the Mediterranean-Near East and as a post-Vietnam concept; it was also offered as an alternative to the superpowers" approach of providing military protection. Germany's *Ostpolitik* and Nixon's recognition of Beijing's strategic status marked in a sense the beginning of the end of the Cold War. Peace no longer looked so indivisible. Germany and Japan began to copy the British and French quest for extending détente and exploiting détente for their own interests (Berger, 1999: 242). Washington had from the late 1960s onwards to accommodate the efforts of Bonn and Tokyo regarding: (1) normalization of relations with the Soviet Union and China, (2) enlargement and deepening of regionalization in Europe and the Asia-Pacific, and (3) acknowledgment of German central bankers and finance officials as key players and contract partners regarding aid policy, monetary reform, and trade liberalization.

Taking these observations together, a turning point on the US power cycle was indeed evident (1967–73), marking the end of an interval that had begun in 1945 with the establishment of structures to prosecute the Cold War. This turning point also marked the beginning of the European effort to prevail on the superpowers to make Europe a "no-fighting-war-zone" whether through the CSCE or more likely as an extension of NATO–Warsaw Pact discussions. That one could not even think of launching a similar process in the Far East induced Japan to cooperate with ASEAN, both of them asking the US to prolong, and EC-Europe to renew, its engagement in East Asia.

This turning point was also reflected in the fundamental shift from international trade based on comparative advantage to international trade as intra-industry and intra-firm trade led by investment. A complete overhaul in the thinking about international economics was apparent. European and Asian companies began competing with US firms to re-tilt the international marketplace in their favor. They urged their governments (and the EU) to shape the regulatory framework to assist their own economic activities and in line with the MNCs' understanding of favorable conditions.

Hence we come to a major conclusion of this study. While a number of these developments provide a better understanding of interdependence and globalization, the key insight is that, from the perspective of power cycle analysis, the "systems transformation" of 1989–91 (the implosion of the Soviet Union), made no great difference to the economic outcome. Structural change was in the making 20 years earlier with its own themes and issues, notwithstanding the continuing huge disparity in position (level) of the United States relative to the allies. The international political economy role of the EC and the East Asian economies was already determined in terms of: (1) regulatory policies, (2) whether the US's "concerted unilateralism" or Japan's "networking power" would predominate in Asia, and (3) whether the EC/EU, Japan, and the Asian NIEs would liberalize their economies or would pursue restrictive practices. Role and power were coming into alignment with respect to international trade and commercial standards quite independent of the systems transformation that occurred in the early 1990s.

V

Given that the period around 1970 marked the end of an era in "power politics" and laid groundwork for the present constellation in the international political economy, we should focus on the early Cold War era and the post-Cold War decade to find the clues for understanding the "capitalist miracle."

At the beginning of the Cold War era, the US—in the famous words of Dean Acheson—aimed at preventing the breakdown of global capitalism. "Even if there were no Russia, even if there were no communism, we would have very grave problems in trying to exist and to strengthen those parts of the free world which have been so badly shaken by the war and its consequences" (LaFeber, 1997: 278). The US urged and sponsored the double-bind of Germany in European and NATO regional associations, and compensated Japan for subscribing to its asymmetrical relationship with the US by encouraging Japan to look at South-East Asia as a sort of "hinterland." It also discerned the need to help its older European allies to regain a foothold in their "colonies" (Leffler, 1988: 278).

Washington knew the project's contradictory postures, pitting indigenous anti-colonial nationalism against both Japan and the "Europeans," but also reviving trade rivalries between Japan and British, Dutch and French interests in the commodities and market opportunities in South-East and South Asia. To mobilize the area's resources and orchestrate the conflicting objectives of its old and new allies, the US invented a full-scale regional approach, based on the idea that willing multilateral cooperation (or integration of their economies) would smooth the passage toward political reform (consolidation of open-minded, pluralist democracy), make such reforms somewhat irreversible, and spur interpenetration of the economies by private firms. The US (and other governments) expected to reap long-run benefits of its advocacy of intra-regional trade, namely sustained economic growth and the ability of the "local" actors to carry an increasing share of regional self-defense. Facing resistance to portraying Japan's role as the Asian counterpart to the FRG's role in European integration, the US resolved to cooperate with the existing institutions (ECAFE; Colombo-Plan), urging members to practice a fair deal towards Japan.

Japan initially concentrated on overcoming war exhaustion. When it achieved within 3 years the goals of its 10-year development plan, launched in 1958, the "miracle" loomed on the horizon; in 1964, Japan was close to France, Britain and the FRG as the western world's fifth largest economy. From 1961 onwards, Japan's "aid" to Indonesia, South Korea (1965 reconciliation agreement), and Thailand reached sizeable proportions. [The dramatic rise of Japanese investment and, in parallel, of official aid to South-East Asia occurred, however, in the mid-1980s (Stubbs, 1994: 371ff; Shiraishi, 1997: 187–8; Berger, 1999: 248).] Whereas this fitted into the Kennedy and Johnson administrations' encouragement of its development of a regional sphere, Japan's trade with "Red China" and Vietnam infuriated Washington.

VI

In the beginning of the post-Cold War decade, the thinking behind US initiatives for free trade areas in the Americas and with willing partners in the Near and Far East again assumes that a "large regional market will provide new incentives for domestic reforms. By identifying trade and investment obstacles in the domestic system, the FTAA could help promote institutional reform . . ." (Preeg, 1998; Thiel, 1998: 66). Similarly, it was widely assumed amongst Japanese policy-makers "that the Japanese economic presence could be extended ever more deeply into the region, without challenging either the US–Japan alliance or liberal forms of economic regionalism" (Shiraishi, 1997: 191; Berger, 1999: 249).

In the first post-Cold War decade, both the "Asians" and the EU-Europeans embarked on efforts to strengthen the weak link in the triad; trade and investment figures indicate that "Europeans" matter in Asia's economies. Equally important, the regulatory framework which the EU and the East Asian countries devise for managing their respective regionalism and the regulatory dialogue between the EU and Japan since 1994 (Pelkmans and Balaoing, 1998: 205f), and the EU and members of ASEM have become as crucial as the transatlantic (US–EU) agendas and APEC for the redefinition of commercial codes needed for "orderly conduct" of transactions between the advanced-industrial nations and required to smooth the passage of "transformation societies" to some form of market economy.

The rules of law of the "capitalist world" are the outcome of competing (and sometimes rivaling) European-Asian, American-European and Asia-Pacific regulatory efforts and consultations. In 1993, the US found APEC "to be a useful tool for pressuring the EU" (Abe, 1996: 247; Tanaka, 1999: 229), which blocked the GATT talks by refusing compromises over its Common Agricultural Policy. In 1997, the Europeans and Asians proceeded with the WTO agenda to rescue an interim agreement on financial services. In both instances, and in others, of course, the abstaining "party" had to be persuaded to rejoin the international regime-building process.

Underlying the quest for workable arrangements is that the growth poles (EU-12/15; NAFTA; East Asia) are of roughly equal size (GNP), but more importantly that the Asia-Pacific marketplace has become the lifeline for both the US and Japanese economies (Nishijima, 1996: 176) and thus resembles the function performed by the North Atlantic trade and investment area for overcoming frictions between the NATO allies. The expectation is that despite possible trade disputes between the US and the East Asian surplus economies (Japan and China), both sides recognize that they benefit from the viability of their "common" marketplace: "in contrast to the pre-war period, the strengthening of intra-regional trade ties since the 1970s has simultaneously strengthened both regional and global ties" (Selden, 1997: 321). East Asia's sustained growth is preceded by increased foreign direct investment and enlarged overseas trade. "Their trade is highly concentrated in the US and Japanese markets" (Arif, 1996: 211; Pempel, 1997: 77ff; Selden, 1997: 321; Lee, 1999: 63). Asian countries enjoyed a trade surplus with Europe and the US, but a massive deficit with Japan, to some extent reflecting the purchases of Japanese-owned firms "located" in the A-NIE- and ASEAN-countries. Japan in this respect is replicating in East Asia the US's "production" relationships with Europe: "inter-company trade accounts for about four-fifths of total Japanese exports and half of Japanese imports" (Katzenstein and Shiraishi, 1997: 14).

The logic which helped mitigate the strains between the dollar- and the sterling-area during the 1940s through the 1960s and the dollar- and the DM-zone during the 1970s/80s (now applied to the dollar–euro relationship) seems also to impact the thinking of the authorities responsible for the dollar–yen relationship. But the latter "bigemony" is complicated by the conflicts between government and central bank in Japan and the presumption of US officials that someone (US) has to balance Japan's pervading economic influence in East Asia lest Japan overwhelm the region (Doner, 1997: 225f; Berger and Beeson, 1998: 496f).

The bricks for building some sort of "*Festung* East Asia" have been in place for some time. Japan, however, knows the difference between solidifying its production networks in East Asia in competition with US endeavors to maintain and improve the environment for its official and private sector interests, and throwing its weight into the balance in favor of Asian-style Gaullism (Asia for the Asians). Since the 1970s, Japan began "to surpass the US as Asia's most significant source of aid and investment" (Berger, 1999: 248), and US policy-makers reacted critically to what looked like an attempt to implant vertical *keiretsu* structures and distribution monopolies in Asian host countries (Morrison, 1998: 133).

Will the decline of the Japanese MNCs' flow of FDI to South-East Asia—compared to America's and the Asian NIEs' capital exports—diminish US political sensitivities (Bobrow and Kudrle, 1997: 18–19)? The fears expressed by US representatives overstate the case, since there is much evidence that a "regional bloc" at the expense of the US is hardly possible, nor is it intended by Japan. Japan's major MNCs engage in forming "strategic alliances" which invest in Europe, the Americas and East Asia; this is one avenue to reducing Japan's trade surplus. Secondly, Japan worries about the consequences of the fact that "the US surpassed Japan as a source of FDI funds and loans to China" (Selden, 1997: 320). US and European MNCs have a foothold in East Asia's changing division-of-labor thanks to their connection with Chinese-owned enterprises (Clark, 1997: 3f). "The existence of this alternative network of overseas Chinese has made it possible in the last 15 years for the US electronics industry to escape from a position of almost total dependence on Japanese firms for component technologies and manufacturing capabilities" (Katzenstein and Shiraishi, 1997: 40). Thirdly, it is doubtful that Japan will win shares where America loses them (Doran, 1991: 235) since the A-NIEs are closing in, too (Doner, 1997: 227).

In answer to the questions posed at the outset, power cycle analysis makes clear that regardless of whether the United States sought to use the vitality of Europe and East Asia as a bulwark against communism, the movement of each individual state on its power cycle, especially that of Japan, was a likely development in the post-1945 period regardless of the military-strategic dimension. Conventional wisdom that the Soviet–US strategic rivalry was the cause of the peaking of the US power cycle was as implausible as the view that a new international economic equilibrium in Asia among the United States, Japan, and the EU could ever have been avoided. The dynamism of state power and role was irresistible even as the actual level of US relative power in 1930 and 1990 was approximately the same. In Asia, Europe was becoming the new third force after the United States and Japan.

VII

In the post-Cold War world, Europe is attempting to come back to East Asia on a larger scale. Its bargaining power vis-a-vis the US, East Asia and APEC has expanded, mostly because investments in Europe and exports to Europe have gained importance for the East Asian countries. Fears that the US and the EU might negotiate the terms of regulatory international regimes, or facilitate extension of US or EU laws to Asian competitors, have induced Japan, the A-NIEs, and ASEAN to engage "proactively" in international and inter-regional talks with the EU (Lee, 1999: 53f, 72). The first task of the EU and the US was to renew their commitment to work for consolidating the GATT (GATT 94) and founding the WTO, and to settle the new regulatory regimes (GATS, TRIPS, the Trade Assessment Mechanism and other special agreements) under WTO custody. In their New Transatlantic Agenda, both sides defined how to deal with complaints and agreed to seek advice from Transatlantic Business Councils regarding mutual recognition of standards (e.g., accountancy) and procurement regulations.

The EU is immersed in regime-building. It is now faced with the task of making its legislation and enforcement regarding the MNCs and SMEs compatible with the rule-making and judicial findings of the WTO. The EC enacted a series of rules on investment and subsidies, government procurement, banking regulations, competition in service industries, and guidance on mergers and acquisitions. In this process, the European Commission investigates the worldwide activities and business connections of companies which are penetrating "Euroland" markets; exchanges information with the equivalent US agencies; and issues prescriptions concerning mergers and acquisitions, thereby influencing corporate strategies. Businessmen accuse the EU of making small-and-medium enterprises expansion outside Europe difficult; in turn, European firms are not much inclined to reimport "made in Asia" products to the European domestic markets (Hilpert, 1999: 89–90).

Having completed the Common Market as a truly Internal ("Euroland") Market and preferential area for all "indoor" firms, the EU sees enlargement as a chance to extend its regulatory regimes to the applicants' economy—not as a hegemon but as a partner; according to the power cycle perspective. "European law" will in due course determine the trade and investment codes of Eastern European and Mediterranean countries. The series of Free Trade agreements with Israel, Mexico, and MERCOSUR, for example, provides the EU with leverage to serve and hedge compromises negotiated within the EU and to bargain over the terms of rules of origin, local content, and investment codes. The purchasing-power of the EU market is an asset in these negotiations.

The sprawl of the EU via enlargement and Free Trade agreements and its unprecedented experience in negotiating settlements on almost any issue of relevance to "rule-based" market capitalism, burdens the EU in its dialogue with a "dynamic" East Asia. The EU must show also that it is willing to concede that its own market must abide by the rules and dispute settlements of the watchdog of economic globalization, the WTO.

Notwithstanding nascent decline on the US power cycle at the top of the central system, and accelerated rise from the bottom on the Japanese power cycle and a constructed rise on that of the EU, the stubborn reality at the end of the 20th century was that the level of US power remained much the same as it had been during the first half of the 20th century. But far from projecting an image for the US as "hegemonic," or for the EU or for Japan as that of a "new hegemon," the systemic structure remained pluralistic—competitive and highly unequal—in overall power terms. Positive reinforcing behaviors throughout this period created a "dynamic equilibrium" that involved reciprocal adjustments to structural change. James and Lusztig (this issue, this section) show, that nascent US decline notwithstanding, US leadership was viewed as necessary to "jump-start" trade negotiations in the western hemisphere. And as Inoguchi argues (this issue, final article), Japan and East Asia in particular were quite comfortable with a type of world order that was a blend of US leadership (at the core) mixed with crucial roles for the EU on the one wing and for Japan on the other.

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