

The Politics of Transnational Economic Relations

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I

... International society, we are told, is increasingly rent between its economic and its political organization. On the one hand, powerful economic and technical forces are creating a highly integrated transnational economy, blurring the traditional significance of national boundaries. On the other hand, the nation-state continues to command men's loyalties and to be the basic unit of political decision.

... In specific terms the issue is whether the multinational corporation has become or will become an important actor in international affairs, supplanting, at least in part, the nation-state. If the multinational corporation is indeed an increasingly important and independent international actor, what are the factors that have enabled it to break the political monopoly of the nation-state? What is the relationship of these two sets of political actors, and what are the implications of the multinational corporation for international relations? Finally, what about the future? If the contemporary role of the multinational corporation is the result of a peculiar configuration of political and economic factors, can one foresee the continuation of its important role in the future?

Fundamental to these rather specific issues is a more general one raised by the growing contradiction between the economic and political organiza-

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tion of contemporary international society. This is the relationship between economic and political activities. While the advent of the multinational corporation puts it in a new guise, the issue is an old one. It was, for example, the issue which in the nineteenth century divided classical liberals like John Stuart Mill and the German Historical School represented by Georg Friedrich List. Whereas the former gave primacy to economics and the production of wealth, the latter emphasized the political determination of economic relations. As this issue is central to the contemporary debate on the implications of the multinational corporation for international relations, I would like to discuss it in brief outline.

The classical position was, of course, first set forth by Adam Smith in *The Wealth of Nations*. While Smith appreciated the importance of power, his purpose was to inquire into the nature and causes of wealth. Economic growth, Smith argued, is primarily a function of the extent of the division of labor which in turn is dependent upon the scale of the market. Much of his attack, therefore, was directed at the barriers erected by feudal principalities and mercantilist states against the free exchange of goods and the enlargement of markets. If men are to multiply their wealth, Smith argued, the contradiction between political organization and economic rationality had to be resolved in favor of the latter.

Marxism, the rebellious ideological child of classical liberalism, erected the concept of the contradiction between economic and political relations into a historical law. Whereas classical liberalism held that the requirements of economic rationality *ought* to determine political relations, the Marxist position was that the mode of production *does* determine the superstructure of political relations. History can be understood as the product of the dialectical process—the contradiction between evolving economic forces and the sociopolitical system.

Although Karl Marx and Friedrich Engels wrote amazingly little on the subject of international economies, Engels in his famous polemic, *Anti-Dühring*, dealt explicitly with the question of whether economics or politics was primary in determining the structure of international relations. Karl Dühring's anti-Marxist theory maintained that property relations resulted less from the economic logic of capitalism than from extraeconomic political factors. Engels, on the other hand, using the example of the unification of Germany in his attack on Dühring, argued that economic factors were primary.

Engels argued that when contradictions arise between economic and political structures, political power adapts itself to changes in the balance of economic forces and yields to the dictates of economic development. Thus, in the case of nineteenth-century Germany, the requirements of industrial production had become incompatible with feudal, politically fragmented Germany. Though political reaction was victorious in 1815 and again in 1848, it was unable to prevent the growth of large-scale industry in Germany and the growing participation of German commerce in the world market. In summary, Engels argued that "German unity had become an economic necessity."

In the view of both Smith and Engels the nation-state represented a progressive stage in human development because it enlarged the political realm of economic activity. In each successive economic epoch the advancing technology and scale of production necessitates an enlargement of political organization. Because the city-state and feudalism were below the optimum for the scale of production and the division of labor required by the Industrial Revolution, they prevented the efficient utilization of resources and were superseded by larger political units. Smith considered this to be a desirable objective; for Engels it was a historical necessity.

In contrast to the position of liberals and Marxists alike who stress the primacy of economic relations nationalists and the so-called realist school of political science have emphasized the primacy of politics. Whereas the liberal or Marxist emphasizes the production of wealth as the basic determinant of social and political organization, the realist stresses power, security, and national sentiment. . . .

Although himself a proponent of economic liberalism, the late Jacob Viner made one of the best analyses of the relationship of economic and political factors in determining the structure of international relations and concluded that political and security considerations are primary. In his classic study, *The Customs Union Issue*, Viner analyzed all known cases of economic and political unification from the perspective of whether the basic motivation was political or economic. Thus, whereas Engels interpreted the formation of the Zollverein as a response to the industrialization of Germany and the economic necessity of larger markets, Viner argued "that Prussia engineered the customs union primarily for political reasons, in order to gain hegemony or at least influence over the lesser German states. It was largely in order to make certain that the hegemony should be Prussian and not Austrian that Prussia continually opposed Austrian entry into the Union, either openly or by pressing for a customs union tariff lower than highly protectionist Austria could stomach." In pursuit of this strategic interest it was "Prussian might, rather than a common zeal for political unification arising out of economic partnership, [that] had played the major role."

Whereas liberalism and Marxism foresee economic factors leading to the decline of political boundaries and eventually to political unification, Viner argued that economic and political boundaries need not coincide and may actually be incompatible with one another. The tendency today, he pointed out, to take the identity of political and economic frontiers for granted is in fact a quite modern phenomenon and is even now not universal. With respect to tariffs, the concern of his study, the general rule until recently was that political unification was greater than the area of economic unification. Furthermore, any attempt to further economic unification might undermine political unification; this was the case with respect to the American Civil War and is the case today in Canada.

Viner concluded his argument that economic factors are of secondary importance to political unification with the following observation, which is highly relevant for the concerns of this essay:

The power of nationalist sentiment can override all other considerations; it can dominate the minds of a people, and dictate the policies of government, even when in every possible way and to every conceivable degree it is in sharp conflict with what seem to be and are in fact the basic economic interests of the people in question. To accept as obviously true the notion that the bonds of allegiance must necessarily be largely economic in character to be strong, or to accept unhesitatingly the notion that where economic entanglements are artificially or naturally strong the political affections will also necessarily become strong, is to reject whatever lessons past experience has for us in this field.

The contemporary argument that interstate relations will recede in face of contemporary technological developments and will be replaced by transnational relations between large multinational corporations was anticipated in the 1930s by Eugene Staley. In a fascinating book, *World Economy in Transition*, Staley posed the issue which is our main concern: "A conflict rages between technology and politics. Economics, so closely linked to both, has become the major battlefield. Stability and peace will reign in the world economy only when, somehow, the forces on the side of technology and the forces on the side of politics have once more been accommodated to each other."

While Staley believed, along with many present-day writers, that politics and technology must ultimately adjust to one another, he emphasized, in contrast to contemporary writers, that it was not inevitable that politics adjust to technology. Reflecting the intense economic nationalism of the 1930s, Staley pointed out that the adjustment may very well be the other way around. . . .

II

This . . . discussion of the relationship between economics and politics argues the point that, although the economic and technical substructure partially determines and interacts with the political superstructure, political values and security interests are crucial determinants of international economic relations. Politics determines the framework of economic activity and channels it in directions which tend to serve the political objectives of dominant political groups and organizations. Throughout history each successive hegemonic power has organized economic space in terms of its own interests and purposes.

Following in this vein, the thesis of this essay is that transnational actors and processes are dependent upon peculiar patterns of interstate relations. Whether one is talking about the merchant adventurers of the sixteenth century, nineteenth-century finance capitalists, or twentieth-century multinational corporations, transnational actors have been able to play an important role in world affairs because it has been in the interest of the predominant power(s) for them to do so. As political circumstances have changed due to the rise and decline of nation-states, transnational processes have also been altered or ceased altogether. Thus, . . . the world economy did not develop as

result of competition between equal partners but through the emergence and influence of great national economies that successively became dominant.

From this perspective the multinational corporation exists as a transnational actor today because it is consistent with the political interest of the world's dominant power, the United States. This argument does not deny the analyses of economists who argue that the multinational corporation is a response to contemporary technological and economic developments. The argument is rather that these economic and technological factors have been able to exercise their profound effects because the United States—sometimes with the cooperation of other states and sometimes over their opposition—has created the necessary political framework. By implication, a diminution of the Pax Americana and the rise of powers hostile to the global activities of the multinational corporations would bring their reign over international economic relations to an end.

Perhaps the most effective way to defend the thesis that the pattern of international economic relations is dependent upon the structure of the international political system is to review the origins of the Pax Britannica, its demise with the First World War, and the eventual rise of a Pax Americana after the Second World War. What this history clearly reveals is that transnational economic processes are not unique to our own age and that the pattern of international economic activity reflects the global balance of economic and military power.

Each successive international system that the world has known is the consequence of the territorial, diplomatic, and military realignments that have followed history's great wars. The origins of the Pax Britannica lie in the complicated series of negotiations that followed the great upheavals of the Napoleonic wars. The essential features of the system which were put into place at that time provided the general framework of international economic relations until the collapse of the system under the impact of the First World War.

The first essential feature of the Pax Britannica was the territorial settlement and the achievement of a balance of power among the five Great Powers. This territorial realignment can be divided into two parts. In the first place, on the continent of Europe the territorial realignments checked the ambitions of Russia in the east and France in the west. Second, the overseas conquests of the continental powers were reduced at the same time that Great Britain acquired a number of important strategic overseas bases. As a result the four major powers on the Continent were kept in check by their own rivalries and by offshore Britain which played a balancing and mediating role.

British naval power, the second essential feature of the Pax Britannica, was able to exercise a powerful and pervasive influence over global politics due to a fortunate juncture of circumstances. Great Britain's geographical position directly off the coast of continental Europe and its possession of several strategic naval bases enabled it to control Europe's access to the outside world and to deny overseas colonies to continental governments. As a

consequence, from 1825, when Great Britain warned France not to take advantage of the revolt of the Spanish colonies in America, to the latter part of the century, the greater part of the non-European world was either independent or under British rule. Moreover, the maintenance of this global military hegemony was remarkably inexpensive; it thus permitted Great Britain to utilize its wealth and energies in the task of economic development.

Third, using primarily the instruments of free trade and foreign investment in this political-strategic framework, Great Britain was able, in effect, to restructure the international economy and to exercise great influence over the course of international affairs. As the world's first industrial nation, Great Britain fashioned an international division of labor which favored its own industrial strengths at the same time that it brought great benefits to the world at large. Exchanging manufactured goods for the food and raw materials of other nations, Great Britain was the industrial and financial center of a highly interdependent international economy.

One may reasonably argue, I believe, that in certain respects the regime of the Pax Britannica was the Golden Age of transnationalism. The activities of private financiers and capitalists enmeshed the nations in a web of interdependencies which certainly influenced the course of international relations. In contrast to our own era, in which the role of the multinational corporation in international economic relations is unprecedented, the private institutions of the City of London under the gold standard and the regime of free trade had a strategic and central place in world affairs unmatched by any transnational organization today. Prior to 1914 the focus of much of international relations was the City of London and the private individuals who managed the world's gold, traded in commodities, and floated foreign loans. Though this interdependence differs radically in kind from the internationalization of production and the immense trade in manufactured goods which characterize our own more industrialized world economy, this earlier great age of transnationalism should not be overlooked. . . .

The foundations underlying the Pax Britannica and the transnational processes it fostered began to erode in the latter part of the nineteenth century. On the Continent the industrialization and unification of Germany profoundly altered the European balance of power. France, too, industrialized and began to challenge Great Britain's global supremacy. Overseas development of equal or potentially greater magnitude were taking place. The rapid industrialization of Japan and the United States and their subsequent creation of powerful navies ended British control of the seas. No longer could Great Britain use its naval power to deny rivals access to the globe. With the decline of British supremacy the imperial struggle for the division of Africa and Asia began, leading eventually to the outbreak of the First World War.

The war completed the destruction of the pre-1914 system. As a consequence of the duration and intensity of the conflict one sector after another of economic life was nationalized and brought into the service of the state. The role of the state in economic affairs became pervasive, and economic nationalism largely replaced the laissez-faire traditions upon which so much

of pre-war transnationalism had rested. Not until the Second World War would political relations favor the reemergence of extensive transnational activity.

The failure to revive the international economy after the First World War was due to many causes: the policies of economic revenge against Germany; the ill-conceived attempt to reestablish the gold standard; the nationalistic "beggar-thy-neighbor" policies pursued by most states, etc. In terms of our primary concern in this essay one factor in particular needs to be stressed, namely, the failure of the United States to assume leadership of the world economy, a role Great Britain could no longer perform. Whereas before the war the City of London provided order and coordinated international economic activities, now London was unable and New York was unwilling to restructure the international economy disrupted by the First World War. The result was a leadership vacuum which contributed in part to the onset of the Great Depression and eventually the Second World War.

For our purposes two developments during this interwar period hold significance. The first was the Ottawa Agreement of 1932 which created the sterling area of imperial preference and reversed Great Britain's traditional commitment to multinational free trade. The purpose of the agreement between Great Britain and the Commonwealth, an action whose intellectual roots went back to the nineteenth century, was to establish a regional trading bloc effectively isolated from the rest of the world economy. Germany in central Europe and Japan in Asia followed suit, organizing under their hegemonies the neighboring areas of strategic and economic importance. "This development of trading blocs led by great powers," one authority writes, "was the most significant economic development of the years immediately preceding the Second World War. As always the breakdown of international law and economic order gave opportunity to the ruthless rather than to the strong."¹ Such a system of law and order the international gold standard had provided. Under this system transnational actors could operate with little state interference. With its collapse nation-states struggled to create exclusive spheres of influence, and trade relations became instruments of economic warfare.

The second important development from the perspective of this essay was the passage of the Reciprocal Trade Agreements Act in June 1934. The purpose of this act was to enable the United States government to negotiate reductions in tariff barriers. Followed in 1936 by the Tripartite Monetary Agreement, the act not only reflected the transformation of the United States into a major industrial power but also represented the first step by the United States to assert its leadership of the world economy. Furthermore, it demonstrated the potential of bilateral negotiation as a method to achieve the expansion of multinational trade even though the immediate impact of the act was relatively minor. World trade continued to be dominated by preference systems, especially the sterling area, from which the United States was excluded. The importance of this prewar situation and the determination of the United States to overcome this discrimination cannot be too greatly emphasized. The

reorganization of the world economy was to be the keynote of American postwar planning.

III

American plans for the postwar world were based on several important assumptions. In the first place, American leadership tended to see the origins of the Second World War as largely economic. The failure to revive the international economy after the First World War and the subsequent rise of rival trading blocs were regarded as the underlying causes of the conflict. Second, it was assumed that peace would be best promoted by the establishment of a system of multinational trade relations which guaranteed to all states equal access to the world's resources and markets. Third, the main obstacles to the achievement of such a universal system, Americans believed, were the nationalistic and discriminatory measures adopted in the 1930s by various European countries—trade preferences, exchange controls, quantitative restrictions, competitive currency depreciations, etc.

The importance of economic considerations in American postwar planning has led in recent years to a spate of writings by revisionist historians who interpret these efforts as part of a large imperial design. While this literature does serve to correct the simple-minded orthodox position that the cold war originated as a Communist plot to achieve world domination, it goes much too far and distorts the picture in another direction.

There is no question that the creation of a system of multilateral trade relations was in the interests of the United States. Preference systems ran directly counter to American basic interests as the world's dominant economic power and a major trading nation. It does not follow from this fact, however, that American efforts to achieve such a system were solely self-serving and unmotivated by the sincere belief that economic nationalism and competition were at the root of the Second World War. Nor does it follow that what is good for the United States is contrary to the general welfare of other nations.

The American emphasis on postwar economic relations represented a long tradition in American thought on international relations. The American liberal ideal since the founding of the Republic has been the substitution of commercial for political relations between states. In the best free trade tradition, trade relations between nations are considered to be a force for peace. Furthermore, as a nation which felt it had been discriminated against by the more powerful European states, the United States wanted a world in which it would have equal access to markets. Universal equality of opportunity, not imperial domination, was the motif of American postwar foreign economic planning.

This naive American faith in the beneficial effects of economic intercourse was reflected in the almost complete absence of attention to strategic matters in American postwar plans. In contrast to the prodigious energies devoted to the restructuring of the international economy, little effort was given to the

strategic and territorial balance of the postwar world. This neglect is explainable in large part, however, by the prevailing American assumption that a universal system based on an integrated world economy and on the United Nations would replace the traditional emphasis on spheres of influence and the balance of power.

If one accepts the revisionist argument that imperial ambition underlay American postwar plans, then the cold war should have been between the United States and Western Europe, particularly the United Kingdom, rather than between the Union of Soviet Socialist Republics and the United States. The bete noir of American planners was European discrimination, and especially the imperial preference which encompassed a high percentage of world trade and exercised considerable discrimination against American goods. American plans for the postwar era were directed against the British in particular. Beginning with the framing of the Atlantic Charter in 1941 and continuing through the negotiation of the Lend-Lease Act (1941), the Bretton Woods Agreement (1944), and the British Loan (1945), the thrust of American policy was directed against Commonwealth discrimination.

In light of the intensity of these American efforts to force the United Kingdom and other European countries to accept a multilateral system it is important to appreciate that they were abandoned in response to growth of Soviet-American hostility. As American leadership came to accept the Soviet diplomatic-military challenge as the major postwar problem, the United States attitude toward international economic relations underwent a drastic reversal. In contrast to earlier emphases on multilateralism and nondiscrimination the United States accepted discrimination in the interest of rebuilding the shattered West European economy.

The retort of revisionists to this argument is that the American-Soviet struggle originated in the American desire to incorporate Eastern Europe, particularly Poland, into the American scheme for a global empire. This effort, it is claimed, clashed with the legitimate security concerns of the Soviet Union, and the cold war evolved as the Soviet defensive response to the American effort to expand economically into the Soviet sphere of influence. If the United States had not been driven by the greed of its corporations, American and Soviet interests could easily have been accommodated.

There are sufficient grounds for this interpretation to give it some plausibility. Certainly, American efforts to incorporate Eastern Europe and even the Soviet Union into the world capitalistic economy raised Soviet suspicions. Although the American view was that the withdrawal of the Soviet Union from the world economy following the Bolshevik Revolution had been a contributing factor to the outbreak of the Second World War and that a peaceful world required Soviet reintegration, the Russians could easily interpret these efforts as an attempt to undermine communism. No doubt in part they were. But it is a long jump from these American efforts to trade in an area of little historical interest to the United States to a conflict so intense and durable that it has on several occasions taken the world to the brink of thermonuclear holocaust.

A more realistic interpretation, I believe, is that the origins of the cold war lie in the unanticipated consequences of the Second World War. The collapse of German power in Europe and of Japanese power in Asia created a power vacuum which both the United States and the Soviet Union sought to fill to their own advantage. One need not even posit aggressive designs on either side to defend this interpretation, although my own position is that the Soviet Union desired (and still desires) to extend its sphere of influence far beyond the glaxis of Eastern Europe. To support this political interpretation of the cold war it is sufficient to argue that the power vacuums in Central Europe and the northwestern Pacific created a security dilemma for both powers. In terms of its own security neither power could afford to permit the other to fill this vacuum, and the efforts of each to prevent this only increased the insecurity of the other, causing it to redouble its own efforts. Each in response to the other organized its own bloc, freezing the lines of division established by the victorious armies and wartime conferences.

One cannot understand, however, the pattern of the cold war and its significance for international economic relations unless one appreciates the asymmetric situations of the United States and the Soviet Union. Whereas the Soviet Union is a massive land power directly abutting Western Europe and the northwestern Pacific (primarily Korea and Japan), the United States is principally a naval and air power separated from the zones of contention by two vast oceans. As a consequence, while the Soviet Union has been able with relative ease to bring its influence to bear on its periphery at relatively much less cost in terms of its balance of payments, the United States has had to organize a global system of bases and alliances involving an immense drain on its balance of payments. Moreover, while the Soviet system has been held together largely through the exercise of Soviet military power, economic relations have been an important cement holding the American bloc together.

These economic and strategic differences between the two blocs have been crucial determinants of the postwar international economy and the patterns of transnational relations which have emerged. For this reason some attention must be given to the interplay of economic and political factors in the evolution of relations between the three major components of the contemporary international economy: the United States, Western Europe, and Japan.

Contrary to the hopes of the postwar economic planners who met at Bretton Woods in 1944, the achievement of a system of multilateral trade was soon realized to be an impossibility. The United Kingdom's experience with currency convertibility, which had been forced upon it by the United States, had proven to be a disaster. The United Kingdom and the rest of Europe were simply too weak and short of dollars to engage in a free market. A further weakening of their economies threatened to drive them into the arms of the Soviet Union. In the interest of preventing this the United States, in cooperation with Western Europe, had to rebuild the world economy in a way not envisaged by the postwar planners.

The reconstruction of the West European economy involved the solution of three problems. In the first place, Europe was desperately short of the

dollars required to meet immediate needs and to replenish its capital stock. Second, the prewar European economies had been oriented toward colonial markets. Now the colonies were in revolt, and the United States strongly opposed the revival of a world economy based on a colonial preference system. Third, the practices of economic nationalism and closed preference systems between European states and their overseas colonies had completely fragmented the European economy.

The problem of rehabilitating the economy of the Federal Republic of Germany (West Germany) was particularly difficult. The major trading nation on the Continent, its division into Soviet and Western zones and the Soviet occupation of Eastern Europe had cut industrial West Germany off from its natural trading partners in the agricultural German Democratic Republic (East Germany) and the East. The task therefore was to integrate the industrial Western zones into a larger West European economy comprising agricultural France and Italy. The failure to reintegrate industrial Germany into the larger world economy was regarded to have been one of the tragic errors after World War I. A repetition of this error would force West Germany into the Soviet Camp.

The American response to this challenge is well known. Through the Marshall Plan, the Organization for European Economic Cooperation (OEEC), and the European Coal and Steel Community (ECSC) the European economy was revived and radically transformed. For our purposes one point is significant. In the interest of security the United States tolerated, and in fact promoted, the creation of a preference area in Western Europe which discriminated against American goods. At first the mechanism of discrimination was the nonconvertibility of European currencies; then, after the establishment of the European Economic Community (EEC) in 1958, discrimination took the form of one common external tariff.

The economic impact of economic regionalism in Western Europe was not, however, completely detrimental to United States-European trade. One can in fact argue that regionalism gave Europe the courage and security to depart from traditions of economic nationalism and colonialism. The establishment of a large trading area in Europe turned out to be more trade-creating than trade-diverting. As a consequence American and European economic ties increased and the United States continued to enjoy a favorable balance of trade with its European partners.

With respect to Japan the United States faced a situation similar to that presented by West Germany. Although Japan was not severely damaged by the war, it was a densely populated major trading nation exceptionally dependent upon foreign sources of raw materials, technology, and agricultural products. With the victory of the communists on the Chinese mainland Japan's major prewar trading partner came under the control of the Soviet bloc. Furthermore, Japan suffered from discrimination by other industrialized states both in their home markets and in their overseas colonial empires. The exclusion of the Japanese from South and Southeast Asia practiced by the Dutch, French, and British had been a major cause of Japan's

military aggression, and the continued existence of these preference systems threatened its economic well-being. Separated from the Soviet Union by a small body of water and economically isolated, Japan's situation was a highly precarious one.

As in the case of West Germany, the task of American foreign policy was to integrate Japan into the larger world economy and lessen the attraction of markets controlled by the Communist bloc. While this history of American efforts to restructure Japan's role in the world economy is less well known than is the history of its European counterpart, the basic aspects deserve to be emphasized. In the first place, the United States brought pressures to bear against Dutch, French, and British colonialism in South and Southeast Asia and encouraged the integration of these areas into a larger framework of multilateral trade. Second, over the strong opposition of Western Europe, the United States sponsored Japanese membership in the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT), and other international organizations. Third, and most significant, the United States in the negotiations leading to the Treaty of Peace with Japan granted Japan privileged access to the American home market.

At the same time that these developments in the economic realm were taking place, through the instrumentalities of the North Atlantic Treaty Organization (NATO) and the Treaty of Peace with Japan, Western Europe and Japan were brought under the protection of the American nuclear umbrella. In Europe, Japan, and around the periphery of the Soviet Union and the People's Republic of China (Communist China), the United States erected a base system by which to counter the Soviet advantage of geographical proximity. Thus, with their security guaranteed by this Pax Americana, Japan, Western Europe, and, to a lesser extent, the United States have been able to devote the better part of their energies to the achievement of high rates of economic growth within the framework of a highly interdependent transnational economy.

Just as the Pax Britannica provided the security and political framework for the expansion of transnational economic activity in the nineteenth century, so this Pax Americana has fulfilled a similar function in the mid-twentieth century. Under American leadership the various rounds of GATT negotiations have enabled trade to expand at an unprecedented rate, far faster than the growth of gross national product in the United States and Western Europe. The United States dollar has become the basis of the international monetary system, and, with the rise of the Eurodollar market, governments have lost almost all control over a large segment of the transnational economy. Finally, the multinational corporation has found the global political environment a highly congenial one and has been able to integrate production across national boundaries.

The corollary of this argument is, of course, that just as a particular array of political interests and relations permitted this system of transnational economic relations to come into being, so changes in these political factors can profoundly alter the system and even bring it to an end. If, as numerous

writers argue, there is a growing contradiction between the nation-state and transnational activities, the resolution may very well be in favor of the nation-state or, more likely, of regional arrangements centered on the dominant industrial powers: Japan, the United States, and Western Europe.

IV

This argument that contemporary transnational processes rest on a peculiar set of political relationships can be substantiated, I believe, if one analyzes the two most crucial relationships which underlie the contemporary international economy. The first is the relationship between the United States and West Germany, the second is that between the United States and Japan.

While the American–West German special relationship is based on a number of factors including that of mutual economic advantage, from the perspective of transnational activities one factor is of crucial importance. In simplest terms this is the exchange of American protection of West Germany against the Soviet Union for guaranteed access to EEC markets for American products and direct investment. . . . With respect to direct investment the subsidiaries of American corporations have been able to establish a very powerful position in Western Europe since the beginning of the EEC in 1958.

Without . . . West German willingness to hold dollars, the American balance-of-payments situation might, the West Germans fear, force the United States to reduce its troop strength in West Germany. As such a move could lessen the credibility of the American nuclear deterrent, the West Germans are very reluctant to make any moves which would weaken the American presence in Western Europe. Consequently, while the significance of American direct investment in Europe for the American balance of payments is unclear, the West Germans are unwilling to take any action regarding this investment which might alienate American opinion and lessen the American commitment to Western Europe.

Turning to the other pillar of the contemporary transnational economy the American–Japanese special relationship, mutual economic interest is an important bond, but the primary factor in this relationship has been the security issue. In contrast to the American–West German situation, however, this relationship involves American protection and a special position for the Japanese in the American market in exchange for United States bases in Japan and Okinawa. The asymmetry of this relationship compared with that between the United States and West Germany reflects the differences in the economic and military situations.

As mentioned earlier the basic problem for American foreign policy with respect to Japan was how to reintegrate this highly industrialized and heavily populated country into the world economy. Given communist control of mainland Asia and the opposition of European countries to opening their markets to the Japanese, this meant throwing open the American economy to Japanese

exports. As a consequence of this favored treatment, the Japanese have enjoyed an exceptionally favorable balance of trade with the United States. . . .

In contrast to the situation prevailing in Europe, the purpose of American military base structure in Japan is not merely to deter local aggression against the Japanese; rather, it is essential for the maintenance of American power and influence throughout the western Pacific and Southeast Asia. Without access to Japanese bases the United States could not have fought two wars in Asia . . . and could not continue its present role in the area. . . .

In the case of both the American–European and the American–Japanese relationships, new forces are now at work which threaten to undermine the foundations of contemporary transnational relations. In the case of United States–European relations, the most dramatic change is the decreased fear of the Soviet Union by both partners. As a consequence, both Americans and Europeans are less tolerant of the price they have to pay for their special relationship. The Europeans feel less dependent upon the United States for their security and are more concerned with the detrimental aspects of close economic, military, and diplomatic ties with the United States. The United States, for its part, is increasingly sensitive to European discrimination against American exports and feels threatened by EEC moves toward the creation of a preference system encompassing much of Western Europe, the Middle East, and Africa. . . .

With respect to the relationship of Japan to the United States, strategic and economic changes are undermining the foundations of transnationalism. At the same time that Communist China is receding as a security threat to the United States and Japan, economic strains are beginning to aggravate relations between the two countries. In the eyes of the United States Japan's economy is no longer weak and vulnerable, necessitating special consideration by the United States. As a consequence, the demands of American interests for import curb against Japanese goods and for the liberalization of Japanese policies on foreign direct investment are beginning to take precedence over foreign policy and strategic considerations. Nor does the United States continue to accept the fact that the defense burden should rest so heavily on it alone. Underlying the Nixon Doctrine of American retrenchment in Asia is the appreciation that a greater Japanese military effort would not only reduce American defense costs but would also cause the Japanese to divert resources from their export economy and relieve Japanese pressures in the American market.

The Japanese for their part resent the fact that they are almost totally dependent upon the United States for their security and economic well-being. While they of course want to maintain a strong position in the American market and feel particularly threatened by protectionist sentiment in the United States, they are growing increasingly concerned about the price they must pay for their close association with the United States. Moreover, they feel especially vulnerable to American economic pressures such as those that have been exerted to induce Japan to permit direct investment by American corporations. But the dominant new factor is the Japanese desire to play a

more independent role in the world and to enjoy the prestige that is commensurate with their powerful and expanding economy.

In the cases of both American-European and American-Japanese relations, new strains have appeared which threaten to undermine the political framework of transnational economic activity. Diplomatic and military bonds tying Europe and Japan to the United States have weakened at the same time that economic conflicts have intensified and have become less tolerable to all three major parties. As a result, the favorable political factors that have facilitated the rapid expansion of transnational processes over the past several decades are receding. In their stead, new political forces have come into play that are tending to isolate the United States and to favor a more regional organization of the international economy.

On the other hand, one must readily acknowledge that the multinational corporation and transnational processes have achieved tremendous momentum. It is not without good reason that numerous authorities have predicted the demise of the nation-state and the complete reordering of international life by 200 or 300 "megafirms." Perhaps, as these authorities argue, the multinational corporation as an institution has sufficiently taken root in the vested interests of all major parties that it can survive the vicissitudes of political change. History, however, does not provide much comfort for this train of thought. As Staley and Viner have suggested, the contradiction between the economic and political organization of society is not always resolved in favor of economic rationality. Moreover, whatever the outcome—the preservation of multilateral transnational processes, a reversion to economic nationalism, or the division of the globe by economic regionalism—the determining consideration will be the diplomatic and strategic interests of the dominant powers.

V

Prior to concluding this essay, one crucial question remains to be treated: What, after all, has been the impact of transnational economic activities, especially the multinational corporation, on international politics? In answer to this question both Marxists and what one might call the transnational ideologists see these transnational processes and actors as having had a profound impact on international relations. Some go much further. By breaking the monopoly of the nation-state over international economic relations, the multi-national corporation is claimed to have altered the very nature of international relations.

Under certain circumstances, and in relation to particular states, there can be little doubt that the multinational corporation has, and can, exercise considerable influence over domestic and international relations. One could mention in this connection the international petroleum companies, for example. But in general, there is little evidence to substantiate the argument that the multinational corporation as an independent actor has had a significant impact on international politics. As Staley has convincingly shown in his study of

foreign investment prior to World War II, where business corporations have exercised an influence over political developments they have tended to do so as instruments of their home governments rather than as independent actors.

Contemporary studies on the multinational corporation indicate that Staley's conclusion continues to hold true. While the evidence is indisputable that the multinational corporation is profoundly important in the realm of international economic relations, its political significance is largely confined to its impact on domestic politics where it is an irritant to nationalistic sentiments. In part the resentment has been due to the unwarranted interference by foreign-owned corporations in domestic affairs; this has especially been the case in less developed countries. More frequently, nationalistic feelings have been aroused by the predominant positions multinational corporations may hold in the overall economy or in particularly sensitive sectors.

Despite all the polemics against multinational corporations, there is little evidence to support the view that they have been very successful in replacing the nation-state as the primary actor in international politics. Where these business enterprises have influenced international political relations, they have done so, like any interest group, by influencing the policies of their home governments. Where they have tried to influence the foreign and economic policies of host governments, they have most frequently been acting in response to the laws of their home countries and as agents of their home governments. . . .

Contrary to the argument that the multinational corporation will somehow supplant the nation-state, I think it is closer to the truth to argue that the role of the nation-state in economic as well as in political life is increasing and that the multinational corporation is actually a stimulant to the further extension of state power in the economic realm. One should not forget that the multinational corporation is largely an American phenomenon and that in response to this American challenge other governments are increasingly intervening in their domestic economies in order to counterbalance the power of American corporations and to create domestic rivals of equal size and competence.

The paradox of the contemporary situation is that the increasing interdependence among national economies, for which the multinational corporation is partially responsible, is accompanied by increased governmental interference in economic affairs. What this neo-mercantilism constitutes, of course, is one response to the basic contradiction between the economic and political organization of contemporary international society. But in contrast to the opinion of a George Ball who sees this conflict resolved in favor of transnational processes, the internationalization of production, and actors like the multinational corporation, nationalists in Canada, Western Europe, and the less developed world favor upholding more powerful states to counterbalance large multinational corporations.

Similarly, the impetus today behind the EEC, Japan's effort to build an economic base less dependent on the United States, and other moves toward regionalism reflects in part a desire to lessen the weight of American economic power; in effect, these regional undertakings are essentially economic

alliances between sovereign governments. Although they are altering the political framework within which economic forces will increasingly have to operate, the basic unit is and will remain the nation-state. For better or for worse, it continues to be the most powerful object of man's loyalty and affection.

Notes

1. J. B. Condliffe, *The Commerce of Nations* (New York: W. W. Norton & Co. 1950), p. 502.