THE EVOLVING WORLD ECONOMY:

Some Alternative Security Questions for Australia

Richard A. Higgott

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SOME ALTERNATIVE SECURITY QUESTIONS FOR AUSTRALIA

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ABSTRACT

Australia's position in the global economic order has undergone a process of dramatic transition over the last decade or so. This transition has implications with both economic and politico-strategic dimensions. Yet the linkage between these two dimensions has not been as well understood by scholars or practitioners as it should have been. Rectification of this situation is required and this monograph attempts to provide an introductory guide for students of Australian foreign policy qua security to the concerns of students of Australian foreign policy qua international political economy as a partial correction to this inadequacy.

Three key conceptual-cum-theoretical issues in contemporary international economic relations: (i) the nature of structural as opposed to relational power; (ii) the 'New' Mercantilism; (iii) the growth of Strategic Trade Policy - are detailed and their policy implications for Australia as an actor in the international political economy in the late 1980s and early 1990s are considered.

The monograph concludes that the 'golden years' of economic stability from the end of World War II to the early 1970s need to be seen as an historical deviant rather than the norm and that Australian foreign policymakers need to plan for a system which, whilst not devoid of multilateral trading instruments, will continue to evolve towards the more aggressively mercantilist end of a liberal mercantilist spectrum and in which the saliency of the economic dimension of Australia's foreign relations will continue to rise.
Dr Richard Higgott: A graduate of the University of Birmingham and the London School of Economics, Richard Higgott is currently Visiting Fellow-on-Secondment to the Department of International Relations at the Australian National University, from Murdoch University where he is Associate Professor of Politics. He also holds appointment as the National Director of the Australian Institute of International Affairs (AIIA), prior to which he was for four years editor of the AIIA’s journal Australian Outlook: The Australian Journal of International Affairs. Dr Higgott has held teaching and research appointments at numerous institutions including the Universities of Western Australia, Tasmania and Harvard University, where he was Post-Doctoral Research Fellow in Public Policy in the John F Kennedy School of Government. He has been an Australian Fulbright Fellow and is currently Vice President of the Australasian Political Studies Association, Vice President elect of the United States International Studies Association and a member of the Federal Government’s Trade Negotiation Advisory Group.

Dr Higgott has published in the areas of political theory, comparative political development and international relations. Among his works are Political Development Theory (1983); Southeast Asia: The Political Economy of Structural Change (1985, co-editor); Southeast Asia in the 1980s: The Politics of Economic Crisis (1987, co-editor); The World Economic Order and the Trade Crisis: Implications for Australia (1987); and New Directions in International Relations: Australian Essays (1988, editor).
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<tr>
<td>CAP</td>
<td>Common Agricultural Policy</td>
</tr>
<tr>
<td>CER</td>
<td>Closer Economic Relationship</td>
</tr>
<tr>
<td>EC</td>
<td>European Community</td>
</tr>
<tr>
<td>FTA</td>
<td>Free Trade Area</td>
</tr>
<tr>
<td>FTFR</td>
<td>Free Trade Free Rider</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<tr>
<td>GDA</td>
<td>Geographically Discriminatory Arrangement</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>HST</td>
<td>Hegemonic Stability Theory</td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<tr>
<td>IEO</td>
<td>International Economic Order</td>
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<tr>
<td>IPE</td>
<td>International Political Economy</td>
</tr>
<tr>
<td>LIEO</td>
<td>Liberal International Economic Order</td>
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<tr>
<td>MFN</td>
<td>Most Favoured Nation</td>
</tr>
<tr>
<td>MTN</td>
<td>Multilateral Trade Negotiations</td>
</tr>
<tr>
<td>NIDL</td>
<td>New International Division of Labour</td>
</tr>
<tr>
<td>NIEs</td>
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<td>Non Tariff Barriers</td>
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<td>OMAS</td>
<td>Orderly Marketing Arrangements</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>PIER</td>
<td>Politics of International Economic Relations</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SIM</td>
<td>Single Integrated Market</td>
</tr>
<tr>
<td>STP</td>
<td>Strategic Trade Policy</td>
</tr>
<tr>
<td>TRIPS</td>
<td>Trade in Intellectual Property and Services</td>
</tr>
<tr>
<td>VER</td>
<td>Voluntary Export Restraint</td>
</tr>
</tbody>
</table>
This monograph was initially presented as a paper to the 1988 Bicentennial Conference on *Australia and the World: Prologue and Prospects* hosted by the Strategic and Defence Studies Centre.

The participants and audience at the conference consisted of many of the senior scholars and practitioners of Australia's foreign and defence policymaking community. This monograph was, however, written by an informed but non-specialist observer of Australian security studies who had, from his own perspective as a student of international political economy, always been bemused by the relative lack of interest of the security specialist in the economic dimensions of international relations and in some of the wider theoretical debates of the international relations discipline. It is, of course, understood that there are practical difficulties for all busy people in trying to keep abreast of events outside the purview of their immediate professional concerns. It is argued in this monograph, however, that the nature of the global economic order in the 1980s should bring the economic dimensions of the international arena full square onto the agenda of the security specialist. Indeed, several other papers at the conference, notably those of Professor David Calleo* and of Dr Ross Babbage** operated with similar assumptions. Further, throughout the conference, a consensus on the need for such bridgebuilding seemed to emerge. This monograph, notwithstanding the fact that many of the arguments are offered by the author in rudimentary form for the first time, is offered as a contribution to greater interaction between what have very often been seen as fairly discrete areas of the international relations discipline.

As presented at the conference, this paper was subject to numerous positive responses but also to two major criticisms. I have since considered them and decided that the monograph does not need major revision in response to them. It would, however, be useful to address them by way of Preface for the intending reader.

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* 'Geostrategic Trends and the World Economy'.

** 'Australia's Security and the North Pacific'.

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The first criticism was that parts of the paper were excessively ‘academic’, overly theoretical and relied too much on ‘in house’ jargon. The second criticism was that it is an error to attempt to conflate ‘security’ with ‘economic well-being’. Let me deal briefly with each in turn.

In the usual division of labour between scholars, politicians and bureaucrats, scholars reflect and theorise about policy whilst the politicians and bureaucrats make it. Abstraction, a luxury that scholars can afford, is often difficult for the policymaker to treat seriously. This is generally an appropriate relationship. Academics are not wrong, the anti-intellectualism and instrumentalism prevalent in some quarters of contemporary Australian society notwithstanding, to prefer reflection overtime to immediacy. What both groups should never lose sight of, however, is the manner in which their two worlds are inextricably intertwined. One of the chief aims of this monograph is to demonstrate the importance of the relationship between the work of the theorist and the practitioner in the contemporary international political economy. Two brief examples must suffice here.

Firstly, a principal element in the formulation of most states’ foreign policies in the 1980s is how they perceive the decline in US hegemony - or not, as the case may be - over the global economy. Whilst this is both a popular and populist issue, it is also an extremely complex one. Without an understanding of contemporary economic and political theory - especially the nature of structural power and public goods theory - it cannot be put into a more measured context. For better or worse hegemonic stability theory (HST) - initially an almost purely academic concern - has captured the attention of policymakers in both its country of origin, the USA, and in those states which must formulate policy in part based on a judgement of the utility or otherwise of HST as a means of explaining US foreign policy. Academic and jargon laden the debate may be, but it is, in my judgement, important that practitioners of Australian foreign and defence policy should be able to find their way around such theoretical and conceptual literature - hence the relevance of chapter two of the monograph.

Secondly and similarly, the nature of contemporary foreign economic policy in general, and trade relations in particular, makes little sense without an understanding of the changes that are taking
place in economic theorising about international trade, especially the redefinition of comparative advantage, the growth of Strategic Trade Policy and the increasingly popular recourse to 'Economic Statecraft'. Again, as it will be argued in chapter three, academic theory is having a significant impact on policy and needs to be understood.

It was also suggested by a commentator at the conference that in my discussion of Economic Statecraft I was, in effect, 're-inventing the wheel'. This criticism totally missed the point. As I note in the text, economic statecraft has been around for centuries in one form or another and is still important today. The golden years of multilateralism of the post World War II-Bretton Woods era had, however, diverted attention from its use in all but the most outrageous of forms. My major point was that we had not been well served in our understanding of economic statecraft by those who, for most of the post World War II era, treated states and markets (the ingredients of economic statecraft) as largely separate entities for the purposes of observation and analysis.

In this context, it is not my desire to be complex and jargon-laden simply for the sake of it. Rather it is necessary to break the mould - simple, robust, parsimonious and attractive as it may be - that sees international relations as the study of states on the one hand and markets on the other operating in fairly discrete domains. Not only must we abjure such a demarcation we must add a third ingredient - ideas. Understanding of Australia's position in the global order needs to integrate all three ingredients: states, markets and ideas.

As such it cannot be stressed too much that this monograph is a conceptual exercise aimed at outlining some of the emerging trends of the last decade and the kinds of policy implications they might have for Australia in the 1990s. Further, the monograph is neither a detailed discussion of the specific structure of Australia's economic integration in the international economy nor a history of Australian foreign economic policy in the post World War II era. Yet, I am, of course, sensitive to the manner in which economic security has been an important component of the Australian policy process in this period, especially when Sir John McEwen and Mr Doug Anthony were leaders of the Country Party and Ministers for Trade in Liberal-Country Party administrations. I am also aware of the significant contributions to an understanding of Australia's international economic relations made in
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the works of authors such as D.B. Copland and C.V. Janes on *Australian Trade Policy* in the inter-war years and Sir John Crawford in *Australia's Trade Policy: 1942-1966* in the post World War II period up to 1966. The quest for economic security has, in short, always been an important component of Australia's external relations in both bilateral and multilateral terms. The thrust of this monograph is predicated on different assumptions; namely that foreign economic relations have rarely, and only of late, been integrated in any meaningful sense into the wider context of Australian foreign policy. Its purpose is, therefore, to raise some of the conceptual questions of integration of these two issue areas generally as a context for looking at Australian foreign policy in the 1980s and 1990s.

The second criticism levelled at the paper - that it was an attempt to conflate security and national economic wellbeing - has more substance but is still overstated. The intentions of the work are much more modest. It aims merely to demonstrate the manner by which they are inextricably interlinked and, by extension, to provide some small correction to the erstwhile predominant tendency to privilege 'security' at the expense of the economic dimensions of international relations. The monograph is the first effort by this author to attempt to conceptualise the relationship between the two areas. If not all the arguments are watertight, or if some overstate the case then so be it. The economics-security nexus is still the most underconceptualised relationship in the literature of international relations in Australia. As such this monograph is offered as a first attempt - not the last word - to mitigate this deficiency.

Several people provided me with helpful comments on the manuscript; notably Professor Stuart Harris and Dr Ross Babbage of the ANU; Dr Richard Little of the University of Lancaster, Professor Paul Evans of York University and Mr Tony Kevin of the Department of Foreign Affairs and Trade. In thanking them I am, of course, imputing no responsibility for the final product. Lynne Payne produced the initial manuscript under considerable constraints of time for which I owe her my thanks.
INTRODUCTION

The purpose of this monograph is to be constructively subversive. It aims to widen the definition of security away from its more traditional focus and to suggest that ‘security’, like other principal concerns of scholars of international relations such as ‘power’, ‘national interest’ and ‘the state’, is what philosophers call an ‘essentially contested concept’. The aim is not to deny the legitimacy of the traditional, territorially defined, concerns of Australian security studies rather than to suggest the need for such work to be located in a wider context than has primarily been the case in the past. It is, in short, an exercise in intellectual cross-fertilisation. It sets out to provide a guide to some of the less familiar dimensions of the global order that both scholars and practitioners should be considering when they attempt to identify ‘threats’, ‘challenges’ or ‘risks’ (pick your metaphor) to Australia emanating from that order.

The late 1980s is a period in which both scholars and practitioners have recognised the degree to which the ‘economic dimension’ is of increasing salience in the study of Australia’s international relations. But we have not as yet, as a community of scholars, begun to think in any systematic way about the broader epistemological and theoretical questions posed by an acknowledgment of this salience. It is not sufficient, for example, simply to say we need to give more consideration to economic matters because they are more important nowadays. Nor, to take it one stage further, is it sufficient to say we should begin to synthesise the central concerns of international relations (states) and international economics (markets). They are, by their nature, not amenable to synthesis at an advanced stage. Instead we need to go back to first principles and, in many ways, start again. We need a different framework; a single framework rather than two separate ones that allow states and markets to be analysed in isolation from one another. The search for political-strategic security in an international system of states and the search for national economic well-being in an international economic order are not two separate and hermetically sealed activities. Instead we must identify the broader structural characteristics of the global order which Australia must confront in the closing years of the 20th century.
To assist in this process, the monograph is divided into four chapters. In the first, I raise some epistemological issues that should concern all students of international relations in Australia but which have, for the vast majority of us unfortunately, remained in the ‘not wanted’ or ‘too hard basket’. Particularly, I raise the question of how students of security studies on the one hand, and students of the international political economy on the other, should relate to each other. This is both a general question about the nature of ‘knowledge’ in international relations, which is only touched on here, and the more specific question of how the concept of security is dealt with, or might be dealt with, in the last quarter of the 20th century. A broadening of the definition of security, it will be argued, has considerable implication for the study of Australia in the global order in the period under review. In the second chapter, this argument is pursued further by considering the nature of power in international relations. This is done in a specific fashion by looking at what Susan Strange, amongst others, refers to as structural power - of which security (narrowly defined) is but one of four component parts. Traditional realist analyses of power, it is argued, adopt a primarily relational approach towards national security - an approach deemed to be insufficient for ‘locating’ Australia in the contemporary global order. Structural power, it is argued, provides a much more complex, 

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but more adequate approach to understanding the current Australian dilemma.

From this definitional starting point I then move to review - to provide an Australian security analyst’s consumers guide if you like - some of the principal dimensions of contemporary international political economy that need to be understood if we are to better ‘locate’ and analyse Australia in the global economic order in the 1980s. Following a brief description and critique of the ‘declining hegemony’ thesis - or hegemonic stability theory (HST) as it is known - I move on in chapter three to look at the central components of what I call the ‘New Mercantilism’, particularly the shift from ‘free trade’ to ‘fair trade’, the instruments of the new protectionism and the rise of strategic trade policy.

In chapter four of the monograph I pose some questions about the implications for Australia of some of the recent trends that have emerged in the global economic order. Here the concentration is on the prospects for the current Multilateral Trade Negotiations (MTN) Round, the difficulties of macroeconomic coordination of the global economy, and the growth of geographically discriminate trading arrangements (GDAs) or what are loosely, and inaccurately, called regional trading blocs.

The monograph, as can be seen from this outline, is therefore essentially conceptual. Its aim is, to repeat, to ‘locate’ Australia in an evolving world economic order and outline some of the pitfalls that face it. The specific details of Australia’s malaise are nowadays, well known, well documented and need only to noted here:

- A process of decline in Australia’s position on the ‘league table’ of the world’s wealthiest states on the basis of GDP per capita. From a position at the top of this table at the turn of the century, Australia has dropped to between fifteenth and twentieth position (depending on sources cited).
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- A deterioration in Australia’s export performance measured, in part, by the decline in Australia’s share of world trade from about 2.5 per cent to 1.2 per cent of total over the post-World War II period.

- A fairly static ratio of exports to GDP (between 12-14 per cent) while the ratio for the world as a whole has grown quite dramatically (from 9-16 per cent between 1962 and the mid-1980s).

- Lack of major change in the sectoral/structural mix in Australia’s export profile and a continued dependence on primary produce and raw materials when growth through trade in non-primary products such as manufactures and services has been the order of the day globally.

- Problems of debt servicing and high capital inflow into activity of a largely non-productivity nature. This has contributed to Australia’s poor competitiveness by preserving for so long an overvalued $A.2

We should, of course, also note that Australia’s declining competitive position in the global economic order has been a long time in the making. Potential exposure from a lack of diversification of exports (Table 1) and an earning structure subject to the fortunes of agricultural products on world markets has existed throughout the 20th century. But it has been the dramatic growth in manufactures as a share of world trade, especially emanating from the Asia-Pacific region, that has brought home with such clarity the nature of Australia’s structural problems in the last quarter of this century.

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### Table 1

**EXPORTS OF PRIMARY PRODUCE AND RAW MATERIALS AS A PERCENTAGE OF TOTAL EXPORTS**

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<td>86</td>
<td>75</td>
<td>77</td>
<td>80</td>
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<tr>
<td>Industrial Market Economies</td>
<td>34</td>
<td>30</td>
<td>27</td>
<td>26</td>
<td>24</td>
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</tbody>
</table>

### Table 2

**IMPORTS OF MANUFACTURES AS A PERCENTAGE OF TOTAL IMPORTS**

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<tbody>
<tr>
<td>Australia</td>
<td>68</td>
<td>78</td>
<td>77</td>
<td>79</td>
<td>84</td>
</tr>
<tr>
<td>Industrial Market Economies</td>
<td>43</td>
<td>50</td>
<td>54</td>
<td>58</td>
<td>62</td>
</tr>
</tbody>
</table>

**Sources:**


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Indeed, of all OECD countries Australia has the highest proportion of manufactures as a percentage of total imports (Table 2). It also has, along with states as diverse as Brazil, Mexico, Japan, France, Italy and the USA, a low (less than 20 per cent) share of exports as a percentage of GDP. To this extent Australian vulnerability to the global economy is due to both its 'openness' (the preponderance of primary products in its exports and manufactures in its imports) and also its 'closedness' that has seen it fail to participate in growth in the regional manufactures trade in the last twenty-five or so years. Combating these structural problems - especially improving Australia's international competitive position - is, and will be, the principal preoccupation of Australian governments for the foreseeable future. The aim of the rest of this monograph, painting on a broad canvas, is to outline the context in which this task has to be pursued.
International political economy as a subject for study is clearly more fashionable these days, and the economic dimensions of international relations are deemed of greater salience by some students of security studies. This should not, however, lead us to conclude international political economy can simply become a handmaiden of security studies - that is, as a way of enhancing traditional approaches to security studies. Both the economic and the security dimensions of international relations need to be located within the wider context of the global structures of power. The danger, in both a general sense and specifically in the study of international relations in Australia, is that students of (Australia's) foreign and defence policy will attempt to make up for lost time by simply adding an 'economic dimension' to their work. Worse still would be the simple equating of 'increase economic salience' with issues of costing and funding of defence policy and nothing else.


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The problem we face is not one simply of widening our horizons in the study of Australian foreign policy to take in an extra dimension that we had previously assumed to be discrete, but secondary. Although this is what I suspect will happen - a chapter here, a conference session there - as the search for national economic well-being in the international economic order is recognised by students of security studies as gaining in salience vis-à-vis the search for politico-strategic security in the system of states. This, of course, misses the point - the two issue areas are not, and never have been, distinct. It is only the way we have studied them that has made them so. I have discussed at length, elsewhere, the unfortunate distinction that has, with a few exceptions, prevailed for so long between the 'high politics' of diplomacy and security and the 'low politics' of economics and trade. This is not, of course, a unique phenomenon, many disciplines and sub-disciplines work within their own research traditions and consult only their own bodies of literature. We have, in short, a communication problem between security studies and international political economy, as indeed we have between international relations and international economics and political science and economics.

Economists are, if anything, worse than other disciplines. As two international economists noted recently of their profession:

International economists are careful to avoid explicit consideration of the political process in their analysis of

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3 This is not a gross caricature of the way the majority of students and practitioners of international relations in Australia have pursued their craft in the past. I have discussed the issue in The Dilemmas of Interdependence: Australia and the International Division of Labour in the Asia Pacific Region' in J. Caporaso (ed.), The New International Division of Labour, Boulder, Westview Press, 1987:148-9. On the general point, see Strange, States and Markets, op.cit., 14ff. A couple of notable Australian exceptions have been the treatments of the nexus by Stuart Harris and Bruce Miller. See respectively ‘The Separation of Politics and Economics: A Luxury we can no longer afford’, Australian Outlook, 40(1), 1986:106 and ‘The Politics Economics Nexus’ in Coral Bell (ed.), Academic Studies and International Politics, Canberra, Canberra Studies in World Affairs, No.6, 1982.
international commercial policy. This behaviour is understandable since ... [they] ... do not have a comparative advantage in politics.4

Failure of communication and knowledge accumulation tend to be self-reinforcing. There is no comparative advantage for scholars to move out of the community in which they feel comfortable and within which they have gained a comprehension of the literature, technology and concepts, for an area in which they have little or no expertise. We need to communicate. It is not simply a scholarly problem, it has policy implications too, as I shall later suggest.

[Meanwhile] ... what participants in a communication breakdown can do is recognise each other as members of different language communities and then become translators. Taking the difference ... as itself a subject for study, they can first attempt to discover the terms and locations that, used unproblematically within each community, are nevertheless foci of trouble for inter-group discussions.5

This monograph is offered as an attempt to be a translator; to provide an introduction for the student of Australian foreign policy, qua security studies, to the concerns of the student of Australian foreign policy, qua international political economy. To do this adequately requires a willingness to ‘retool’, rather than simply ‘tag on an economic dimension’, in a manner that may prove too much of a disincentive to those comfortable within their own community.

The major problem is that those issues encompassed under the rubric of international political economy have tended to be seen by the majority of analysts and practitioners of the international relations community as in the ‘theoretical domain’, whilst their own work is in the domain of the objectively empirical ‘non-theorist’-cum-problem

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solver. Such a dichotomy is clearly untenable, but is a widely held view within the discipline. In such a context, knowledge in international relations is frequently seen as the outcome of a specific type of research:

... research is talking to the highest placed individual practically involved in the issue of concern; 'good research' is talking (usually to him) about something that no-one else has yet talked about; and the 'best research' is doing all this as recently as possible, preferably yesterday.6

Tooze's description is a caricature I know, but not an unfair reflection about how we (and I include myself) often conduct research into various aspects of Australia's role as an actor in world affairs. Yet it is time for those approaches to be modified. Australian scholarship needs a more reflectively based and theoretically grounded international relations. Particularly, we do not need a derivative international political economy to be added on to derivative foreign policy analyses and security studies.

It is, of course, much easier to 'talk theory' to one's theoretically inclined colleagues (few as they are) and then talk 'the world as it is' to other colleagues and members of the foreign policymaking community. The real test, however, is to communicate with those members of the community who would, at best not be interested in theoretical concerns or, at worst, consider it an academic irrelevance. In essence we need to 'open up' international political economy, before narrowing it down to more specifically focussed research.

Its great strength is not that it is a uniform, or non-contested body of thought, but rather, as I shall try to show, the questions it opens up for us.7 Particularly for this monograph, it allows us to have a broader

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7 Whilst there are at least three major approaches to International Political Economy - liberal, mercantilist, Marxist - a reading of some of the literature in fn.3 trebles the number of sub-categories. For the purpose of this monograph what unites them is more important than the distinctions - namely a belief in the futility of studying politics and markets in isolation from one another.
definition of security than that which has tended to prevail to date in
the strategic studies literature.

**Security: An Economic Dimension**

'Security', Buzan argues, is an underdeveloped concept. This is
not to say that strategic studies does not have a voluminous body of
empirical literature, but rather that:

... the concept of security is seldom addressed in other than
the policy interests of particular actors or groups ... the
discussion has heavy military emphasis ... is set within very
limited temporal and conceptual frameworks and general
notions like 'dominance' and 'stability' mark the limits of
attempts to give enduring meaning to the idea of security ...
But when we search for a matching conceptual literature on
security relatively little comes to hand.⁸

The central notion of 'national security' in much of the academic
literature, a powerful concept which keeps many people in Canberra
employed, has to date often been a narrow, reductionist, invariably
militarily dominated and ethnocentric concept based on state as
'political rational actor' premises. Such an approach is, at worst, inadequate
and, at best, 'contested'⁹ and the need for wider definitions of security
to include other than military dimensions and linkages is now more
frequently argued.¹⁰

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⁹ There is, of course, a vast body of literature on the utility or
otherwise of rational actor models in international relations; but
see, for example, the qualifications to be found even within that
body of scholarship well disposed to the concept: Kenneth Oye
(ed.), *Cooperation under Anarchy*, Princeton, Princeton
University Press, 1986 and Robert Jervis, 'Realism, Game Theory

¹⁰ Richard K. Ashley, *The Political Economy of War and Peace*,
London, Frances Pinter, 1980.
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It will be my purpose to argue the case for a broader approach to analysing Australia as an actor in the international order in an era when declining global management by an erstwhile hegemon - benign or otherwise - has not been superseded by a process of multipolar/plural coordination.

The principal way in which the definition of security can be broadened is to include the search for national economic well-being as an integral part of any state’s overall international relations rather than, as has traditionally been the case, ‘privileging’ security in the physical sense of the protection of territorial sovereignty. ‘National security’ defined in the narrower of the two senses is, like ‘power’, ‘justice’, ‘freedom’, ‘equality’ and other notions central to the understanding of society, an essentially contested concept.11 Rather than talk about the concept in an unproblematic manner we should recognise the impossibility of achieving consensual definition and instead look for a relational and contextual one. The largely unproblematic treatment to date of security as a concept is further enhanced by its invariably subordinate position as a policy contingent of a realist, power politics model of international relations. To see security as but an outcome of relational power reduces security to the power of one state vis-à-vis others.

Calls for a widening, or redefinition, of security does not automatically put one on the ‘idealist’ end of a realist-idealist dichotomy - it needs to be added. Indeed, the major inroad into the realist political orthodoxy in the USA, for example, has not been made by the ‘idealist’ interdependence school of the 1970s12, who argued for more cooperative approaches to keeping an increasingly complex system ‘open’ but rather by what we might call the emergence of a combatative ‘economic realism’ with mercantilist tendencies epitomised recently in the USA in the work of Stephen Krasner and Robert Gilpin.13 Theories of interdependence, as a response to the

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13 Gilpin, op.cit., and Stephen Krasner, Structural Conflict: The Third World Against Global Liberalism, Los Angeles,
economic woes of the 1970s, did not have the impact that the more economically realist responses to a perceived declining US hegemony have had in the 1980s. (The implications for Australia of the emergence of 'economic realism' are discussed in chapter four.)

Such tendencies, it will be argued, have been ignored in the study of Australia's foreign relations until recently. One reason, fairly obviously, is that students of Australian security have found it much easier to perceive a 'conventional threat' rather than one emanating from the international economic order (IEO). The IEO, it is assumed, is underwritten by market urges - competition, uncertainty, winners, losers and so on. Delineating the degree to which these factors might undermine a state's 'sovereignty', 'identity', 'security' or whatever is much more difficult than identifying a military backed, territorial challenge to that sovereignty. Further, it is insufficient from a perspective emphasising the economic nature of relations to focus solely on the activities of states. Other actors such as multinational corporations and intergovernmental organisations add a dimension to the equation missing in the more restrictive definitions of security:

... economic threats tend to be neither swift nor precise in their effect, and at lower levels may easily become indistinguishable from the normal rough and tumble of economic practice.14

It is only in the last few years that Australian politicians and policymakers have become dramatically sensitised to the manner in which this 'normal rough and tumble' has, over a sustained period, brought about a change in the country's economic fortune. This is not to suggest that Australia has become a poor country but that it is now recognised that changes in the international economic order constitute a 'threat' or 'challenge' to the continuance of Australian national economic well-being in the way it has been traditionally understood.

Economic performance, measured comparatively more often than absolutely, is the yardstick by which all states identify their status

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14 Buzan, op.cit., 79.
within the international order. Australia, always a minor actor - in relative terms - in the global order, has not fared well out of the process of increasing interdependence and the globalisation of the production process that has taken place over the last quarter of a century. Changing structures of production - especially the declining need for raw materials in that process vis-à-vis the knowledge components of production - have not benefitted Australia. Further, the evolution of the regional division of labour has had a mixed impact on Australia’s fortunes.

Australia’s post-World War II prosperity was built upon its trade in primary produce and raw materials. Its social structures have evolved on assumptions of that continued prosperity. What was once Australia’s strength - substantial earnings from one highly developed, globally needed sector of its economy - is now its principal structural weakness. I have discussed at length elsewhere the central characteristics of an evolving international division of labour and Australia’s ‘marginalisation’ within it.15

More important here is the question of whether these structural changes can be considered in a ‘security’ context. To the extent that they are a product of the ‘normal’ workings of the market the answer must be ‘not so much’. But, to the extent that they are compounded by the ‘conscious external actions’16 of other states, the answer is less clear. Australia is not simply a ‘victim’ of global structural change; it is also affected detrimentally by policies pursued by other actors within the wider structural context. The ‘golden years’ of the post-World War II Liberal International Economic Order (LIEO) underwritten by US hegemony and the institutions of the Bretton Woods system (IMF, IBRD) and the GATT, it will be argued, are historically the deviant rather than the norm.

The globalisation of the production process and the mobility of capital and technology make the world more economically interdependent but not necessarily in a less conflictual manner. The current global order more readily identifies winners and losers, or the

15 I outline what I mean by the regional ‘marginalisation’ of Australia in ‘Australia and the New International Division of Labour ...’, op.cit.
16 Buzan, op.cit., 81.
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asymmetries of interdependence in a much starker fashion than previously. The formulation of foreign economic policy becomes every bit as important in 'security' terms - seen as protecting a broadly defined sovereignty - as the formulation of foreign policy in a more traditional politico-strategic sense. To elevate the economic dimension of state policymaking does not, however, make one a Marxist. In the words of Professor Harry Gelber, perhaps one of Australia's leading realist scholars:

New questions are arising about the very role of the nation-state and the extent to which the state continues to be a useful unit of economic - as distinct from political - account. Markets are increasingly breaking national boundaries and the need to adjust to them changes the modalities of central government controls, at least in their accustomed forms. Economies are increasingly open, floating on a sea of world pressures and multinational industrial and financial activities which cannot be precisely controlled by any national government. 'National economies' are decreasingly autonomous and the public politics of economic autonomy are decreasingly relevant to real policies - for which the first priority must be the internationally competitive standing of resident economic activities.17

Indeed, the whole notion of adjustment as the key issue in the economic policy of most nations, from the USA through Japan and the rest of Asia to Australia18, revolves around one key question: how do states manage and transform their domestic economic policies in order to best protect themselves from, on the one hand, and integrate themselves into, on the other, the international economic order?

Structural adjustment is the key economic (and, for many governments, political) issue of the 1980s and indeed the last quarter of the 20th century and it sits at the interstices of the domestic and international arenas. As a discussion of adjustment in the Australian context would show, the demands for structural adjustment render the notions of discrete international and domestic policy environments somewhat superfluous. The pursuit of national economic well-being thus becomes a central element of any meaningful definition of security.

Such a definition is, of course, also problematic in its own right. It is not, however, merely a semantic definition. Whilst well-being and security could, in theory, be used interchangeably (we do, after all, talk about social security) they are not. The notion of security invariably delineates our discussion to the military dimension, but the notion of national economic well-being opens up our range of interests and concerns.

To understand Australia’s international relations in the 1980s we need to operate with this broader definition. But national economic well-being and the well-being of individuals or groups in a given society are not necessarily synonymous. There is hardly an action a government can take that will not be perceived by some interest group to be injurious to its health. Governments are, therefore, at the interface of the pressures of the international economic environment on the one hand, and the demands of domestic interest groups on the other. In pursuing national economic well-being, governments select policy on the basis of what they see to be in the interests of the overall health of the national economy. This is not to suggest that governments are not concerned with such things as rising living standards for their populations but when the choice has to be made between ‘national’ economic security and the well-being of its citizenry then the option is invariably for what is defined as economic security. The Hawke government’s policies of structural adjustment to revivify the national Australian economy, for example, have been predicated on philosophies of ‘belt-tightening’ and a decline in real incomes of the workforce (estimated at around 9 per cent over the period of the Labor administration since 1983) yet in the wider context of a growing national economy.
In this sense, therefore, a definition of security extended to an economic domain is as state-centric as a military-strategic driven definition - it is predicated on the notion of an observable 'national interest'.

There is, as Edmund Dell has noted, in most states 'an instinct for national economic security'.\(^\text{19}\) It can be clearly seen by the mixing of security metaphors with foreign economic policy. A brief example of the use of language can serve to illustrate my point. In traditional security analysis 'armament' and 'disarmament' can be seen as two ends of a continuum of policy response that reflects the climate of trust and the level of potential for conflict in the international order. In the international economic arena 'free trade' and 'protectionism' can be seen as the two ends of a similar spectrum that measures the degree of trust and openness in the international trading system.

We could, if we were to transpose our concepts, see the post-war period up to the 1980s as a period of military protectionism and economic disarmament. Since that time, however, the economic order has undergone a process of increasing rearment, although, to continue the analogy, the weaponry is changing. The principal historical weapon of economic armament - the tariff - was a blunt, unsophisticated and easily targetable weapon that can be used less and less nowadays with success. It has fallen into intellectual and practical redundancy. GATT, as an international body over the post-World War II era, has been able to identify and largely curtail its use. In its stead, however, countries have turned to the newer 'stealth' weapons in the international trading system. They consist of that panoply of administrative arrangements and 'voluntary' agreements that exist under the collective title of the Non-Tariff Barrier (NTBs). These are extremely difficult to control and have proliferated accordingly over the last couple of decades.

The 1980s is, I will argue and to push our analogy to its limits, in a period of economic 'cold war'. The talks continue and the current GATT Round is full of calls for 'freeze', and 'standstill' and 'roll back' of government sponsored market-distorting initiatives but at the same time, the major powers in the system (the USA, Japan and the EC)

have at their disposal an arsenal of destructive economic weapons with which to fight any would-be economic war. The USA, as I will try to suggest in chapter three, is in the process of rearming for purposes of combating what it considers to be the weapons that the other actors - particularly the emerging economic powers - have armed themselves with to close the gap with the USA.

That the analogies may be far fetched is not contested. Their purpose, however, is to fulfill the 'translation' role for this monograph which I earlier proposed: namely to suggest to scholars and practitioners not familiar with the international political economy, but probably familiar with the politico-strategic domain, the kind of 'mood' that prevails in the international economic environment at the moment. Tension in military strategic 'theatres' has a descriptive language that is commonly shared. The very idea of 'economic theatres' may be new. The weapons may be different, the destruction of an economic war different, but the principles and processes very similar.

In the context of such mixed 'discourse' it becomes apparent why nations take the right to arm or disarm for their own economic defence, in times of heightened tension, much more seriously than many economists would expect them to do. Such behaviour, in the context of free trade theory, economists would argue, is not rational. But what economists all too often ignore is the degree to which nations are engaged in statecraft just as much as the efficient production and rational allocation of resources. Nations demand the right, no matter how misguided it might be, to 'defend' themselves economically just as much as militarily. Protection, I will suggest, is not simply an aberration that occurs when politics interferes in the market place. As Susan Strange recently noted, 'Efficiency never has been, and never can be, the sole consideration in the choice of state politics'. Protectionism reflects deeper structural relationships between political and economic power both within and among states.

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If, for too long, students of international politics have been guilty of ignoring the nature and impact of 'low politics' or the economic factor in international affairs, then their ignorance is surpassed only by the political illiteracy of those professional economists who ignore the 'realist' persuasion in international relations and its identification of the enlightened self-interest of the state and the manner in which it will utilise instruments of an economic nature, just as much as those of a politico-strategic kind, in the pursuit of that perceived self-interest. This has been the case since the mercantilist period of the 16th and 17th centuries through to what we might call the more sophisticated, but no less evident, 'economic realism' of the latter parts of the 20th century. Economic realism posits a relationship between security and wealth in a manner similar to that which prevailed in the mercantilist era.

When understood 'historically' the myth of free trade is revealed. By myth, I imply that the notion of 'free trade' is an ideological construct that legitimises the particular rules of a given system. 'Free trade' is established as '... the standard by which the political wisdom of a given policy is usually measured'.

These historical and analytical points have important relevance for the policymaker trying to build a picture of the contemporary economic order and respond accordingly. In the contemporary period the 'rhetoric of free trade' is important 'as an organising principle of foreign economic policy' but 'In the last analysis, the international trade system operates as a self-help system and, in this respect, it is not much different from the international security system' so dear to the hearts of the political realist. This is a situation that 'economic realists' in government in the USA are coming more and more to use as a justification in international economic policymaking. In a manner similar to that of their realist counterparts in international politics the economic realists operate from a state-centric perspective and the

assumption that the international (economic) order is anarchic, turbulent and uncertain.

Some nations, as in the military domain, are clearly going to have more success in the pursuit of 'national interest' than others. Some nations are going to make wrong judgements. Economic security can be prejudiced by a failure to appreciate the power of the market place in a manner similar to the way in which states may misjudge the military capability of an opponent. Further, markets, like military opponents, have a habit of being unpredictable and offering the opportunity for retaliation. It is this unpredictableness that makes economic statecraft crucial.

For example, the USA has over the last few years been engaged in arms reduction negotiations with its major rival (the USSR) - this has been accompanied by tension reducing discourse. In the economic domain, however, it has been sounding much more bellicose, threatening and in part practising (Omnibus Trade Bill) economic rearment and threatening and in part practising economic 'retaliation' against its major rivals-cum-partners (the EC and Japan). At the same time, however, economic 'arms' reduction talks are also continuing in multilateral form - especially the current Uruguay Round of Multilateral Trade Negotiations. There is, to students of strategic studies, nothing unusual about this dual.

The purpose of this first chapter has been to suggest a need to broaden our definition of security. The next chapter looks at the structural nature of power in the global order that necessitates this broadening of our intellectual horizons. Particularly, it looks at the implications for the global order of the changing nature of structural power in the post-World War II era. It does this by way of an analysis of the current debate over the issue of 'hegemonic stability' and supposed US decline. Only by putting this debate into context, it will be argued, can we gain some assessment of the prospects for the future global economic order and its implications for Australia.
The strength of contemporary international political economy as an intellectual pursuit (whatever the variant) is in the way it recognises two kinds of power in international relations - relational power and structural power. Relational power - between states - is the essence of the 'realist' discourse in international relations. This is, however, merely a 'one-dimensional' view of power. Structural power is two dimensional. In addition, it organises the environment (provides the structure) in which relational power - activity between states - takes place. For Susan Strange, structural power operates in four domains: security, production, credit and knowledge. These are the central components of contemporary international political economy (IPE); factors such as trade, aid, transport, energy - those things that, I suspect, scholars of security usually associate with what they might think of as international political economy - are in fact secondary variables. They should be considered as the elements of the Politics of International Economic Relations (PIER).

The difference between IPE and PIER should not be thought of as semantic. PIER is concerned with an International Economy in which power is relational and the linkages - between national economies - are state-centric. It is an exchange model. It is a model that we might call the 'ideal type' for the post-World War II economic order of the Bretton Woods/GATT instigated system that existed virtually intact between 1946 and the mid-1970s and that we commonly think of as the Liberal International Economic Order (LIEO) underwritten by American hegemony.

In this period for both intellectual and practical purposes, politics and markets were thought to be fairly discrete entities. The essence of

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LIEO was a broadish commitment to two basic principles of international economic interaction. Underwritten by the USA, the first of these was a commitment to a liberal open approach to trade. This was not only ideologically attractive but was also seen to serve the national interest. Secondly, there was a commitment to multilateralism as a way of reducing trade restrictions. Its position as hegemon in this period gave the US sufficient clout to enforce, more or less, these opinions in the face of often considerable opposition from its European partners. Perhaps a third principle of US policy in this period should also be noted. The US, again in contrast to its European allies, favoured a legal-codified approach to regulating the international trading system whilst the Europeans favoured a negotiating approach which preserved their sovereign administrative discretion. Whilst the initial GATT was a compromise of the competing positions, the broad US principles were uppermost. The politics of international economic relations in this period were about the improvement of economic relations between states and the freeing up of trade by whittling away at the tariff as an instrument of protection.

The notion of an exchange model as the ‘ideal type’ for the international economy is, however, no longer appropriate. The international economy has undergone a process of transformation, the central element of which is the globalisation/transnationalisation of production for a world market with a new international division of labour driven by increasingly mobile capital and technology. It is a production model. In this ideal type, power is principally structural and global not just relational and state-centric. If ‘... arms length inter-country exchanges are characteristic of the international economy ... then ... [i]nter-corporate exchanges become more important in the

4 Winham, op.cit., 31.
world economy'. The corollary of the internationalisation of production has been what Cox call's the 'internationalizing of the state'

... the global process whereby national policies and practices have been adjusted to the exigencies of the world economy.

State structures are reshaped and adjusted in response to external pressures and internal power relations to correspond to the location of a particular state in the global division of labour. This is a process that affects major actors, such as the USA and Japan, and smaller actors such as Australia, alike.

Whilst ideal types are never discrete entities, they are important classificatory and heuristic devices with implications for policymakers willing to learn. The change from an exchange model of the international economy to a production model of the global economy has considerable implications for how states will make their foreign economic policies in the foreseeable future. Further, the way the principal actors formulate their policies will be an extra 'relational' factor in the 'structural' equation of power for smaller players. Smaller players, I will suggest in chapter four, suffer a 'double jeopardy' within the changing global structural balance.

An analysis based on the structural rather than the relational dimensions of power does not suggest that the spatial nature of state power is crumbling but rather that the other dimensions - production, credit, knowledge - transcend, or cut across, the territorial barriers in a hitherto unprecedented manner. Credit for example, has become more important in the last couple of decades than would have been previously imagined. It is as Peter Drucker notes '... the driving force of the world economy'. Its availability, or lack thereof, determines outcomes in the three other spheres of structural power - security, production and knowledge (R&D). It is, however, not only the fuel on

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7 Cox, *op.cit.*, 253.
which the world economy runs, it is also destabilising. Credit can be created, says Strange, "... it does not have to be accumulated". Much recent growth, especially in Australia prior to October 1987, had been based on credit and ‘paper entrepreneurialism’, not accumulated profits arising out of increased productivity. There are, of course, historical precedents - for example, the ‘South Sea Bubble’ - but there is no precedent for the volume of trade in capital (25 times the value of all other merchandise trade in 1985-86 according to Drucker) in the 1980s.

Knowledge plays a similar role to credit. Its control, especially in high technology industries, gives power. But it is a difficult dimension of structural power to control. The United States, as the principal producer of high technology knowledge in the world, is becoming acutely aware of this. An agreement on the protection of intellectual property rights - especially from what it sees as Third World ‘pirates’ - is a central element of its negotiating position in the current MTN round. Many states - the knowledge poor states - would, however, argue for knowledge to be a public good. Australia is in an ambiguous position on the issue given its declining role as a knowledge producer and its increasing role as a knowledge importer.

What is quite clear is that the four dimensions of structural power are not separate, but interlinked. Their respective weights are, of course, disputed and in all probability impossible to assess. Strange seems to privilege credit in her work, Cox and the Marxists would emphasise production, scholars such as Daniel Bell clearly privilege knowledge, whilst the contemporary economic realists privilege security with the other components providing a supporting role. However

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8 Strange, op.cit., 30.
9 Drucker, op.cit.
10 See also her Casino Capitalism, London, Basil Blackwell, 1986.
12 See Gilpin, op.cit.
[what] is common to all four kinds of structural power is that the possessor is able to change the range of choices open to others, without apparently putting pressure directly upon them to take one decision or to make one choice rather than others. Such power is less visible.13

The point here is that students of international relations in general, and Australia as an actor in the international arena in particular, have for too long preoccupied themselves with relational power - characteristic of state-centric analysis14 - at the expense of structural power. Yet it is only within the context of the constraints and opportunities provided by structural power that the relational power relationships of a state such as Australia in the last decades of the 20th century can be understood. Structural power sets the range of relational choices open to smaller states - especially in their bargaining relationships with larger powers in the secondary structures of power such as the modern day trading system. Chapter three of this monograph will illustrate this assertion in some detail. Prior to that, however, consideration needs to be given to the changing nature of global structural power in the closing stages of the 20th century. The principal issue of concern here is the contemporary nature of hegemony and order in the global economic system.

Hegemonic Stability Theory (HST): A Consumer’s Guide

Contemporary international relations theory, across its ideological-cum-philosophical spectrum, is driven by a concern - indeed almost a fetish - for hegemonic stability theory. Those in the American and European intellectual communities not concerned to uphold the theory are concerned to challenge it.15 Whatever one’s

position on the debate, it also has implications for policy and policymakers - in smaller states especially. The essence of the debate needs to be understood.

At its simplest hegemonic stability theory asserts that the functioning of an orderly international economic order is possible thanks to the presence of a hegemonic state that establishes and underwrites the principle of order as a 'public good'. As the commonly acknowledged founder of HST, Charles Kindleberger would have it:

... for the world economy to be stabilized there needs to be a stabilizer - one stabilizer.16

The 'stabilizer' is a hegemonic state the characteristics of which are '... an unrivalled position of economic and military superiority among core states'17 that allows it to organise and lead the operation of the international system. The corollary of the thesis is that the absence of a hegemon provides for a vacuum in the management of the existing international economic order with ensuing '... sub-optimal outcomes for all actors'.18

There are at least two normative views of HST; one benign, in which the hegemon underwrites the international order as a 'public good'19 thus providing an open economic system for the benefit of all20; one negative, in which the hegemonic state's role is that of an


exploiter of weaker states in the system. The principal exponents of
HST as exploitation are the world systems theorists operating in a
Wallersteinian mould, Marxists drawing on the innovations of Antonio
Gramsci, and post-war critics of US foreign policy as imperialism from
both the left\(^\text{21}\) or from a more conservative statist position epitomised
by the Gaullist responses to US power in the 1960s and 1970s.\(^\text{22}\)

One point is worth making here. The methodological, ideological
and epistemological differences of the range of interpretations are less
important than what they have in common. Both interpretations see
hegemonic periods as characterised by freer, more open, trading
systems and loose centre-periphery relations whilst periods of
decaying hegemony are characterised by tighter centre-periphery
relations (blocs?), protectionism and bilateral trade (mercantilism).\(^\text{23}\)

In practical terms HST in the 1980s is a debate over the role of the
United States as a declining hegemon - or not, as the case may be - in
the international system. The debate has been grossly, and to my mind
needlessly, polarised. Picked up by the media, quite carefully
measured, analytical, scholarly texts have been used to portray the US
as a jaded, passé superpower. This is distortion of the works of
Kennedy, Calleo, Gilpin et al.\(^\text{24}\) They are not saying the USA is no
longer the world’s major economic power, nor that it is inevitably
destined to be eclipsed by the USSR as a military power. Nor is it
destined to go the same way as the 19th-century hegemon - Great
Britain. The USA is not - unlike Britain - an island whose hegemony
depended on the formal control of a vast empire, but a continent with
a concomitant industrial and technological base.

\(^{21}\) See, for example, Harry Magdoff, *The Age of Imperialism*, New

\(^{22}\) See, for example, Jean-Jacques Servan-Schreiber, *The American

\(^{23}\) Goldstein, *op.cit.*, 123-47.

\(^{24}\) See, for example, P. Schmeisser, ‘Taking Stock: Is America in
Decline?’, *New York Times Magazine*, 17 April 1988; David
P. Calleo, *Beyond American Hegemony, the Future of the
Western Alliance*, New York, Basic Books, 1987; Paul Kennedy,*
*The Rise and Fall of the Great Powers*, New York, Random
Further, despite having lost its lead in some industrial sectors, the USA still remains strong in many and predominant in most of those sectors of technology characteristic of post-industrial societies and which form part of what Strange calls structural power. Despite its declining share of nationally circumscribed indicators such as industrial production and exports as respective shares of world production and world trade, the USA still has an informal, non-territorial empire based on the components of structural power and intellectual hegemony. Knowledge and capital are arguably as important nowadays as manufacturing production.

The real issues in the debate are therefore the relativity of structural power and the role of a would-be hegemon in the 1990s. The USA should be seen not so much as having undergone a process of hegemonic decline as having misused, or been irresponsible with, its hegemonic power. This, it should be noted, is a point made not just on the left of the spectrum but from such leading exponents of the realist traditions in American international relations as Robert Gilpin:

Critical problems of the world economy in the areas of trade, money and debt were left unresolved ... Beginning with Vietnam and continuing into the Reagan Administration the United States has become more of a predatory hegemon ... less willing to subordinate its own interests to that of its allies. Instead it tended to exploit its hegemonic status for its own narrowly defined purposes.

This brief excursion into 'international relations theory' is, or should be, of more than passing interest for foreign economic policymakers in general and for Australians in particular. Whether one adopts a realist interpretation of hegemonic stability theory pace Gilpin, a liberal interpretation pace Keohane, a mix pace Calleo,

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26 Gilpin, op.cit, 345.
collective action explanation *pace* Olson\textsuperscript{28}, a more apocalyptic interpretation *pace* Kennedy or rejects it but points to its misuse *pace* Strange and Russett, it is axiomatic that the post-World War II global environment towards which a state such as Australia has to formulate policy has changed and is continuing to change. Specifically the role played by Australia’s principal ally is in the process of transformation. For whatever reasons - either an inability or unwillingness to provide ‘leadership’ - policymakers need to consider a non-US hegemonic international economic order as the arena of operation.

Rhetorical calls for macroeconomic coordination and cooperation notwithstanding, US policy can be expected to be driven by an increasingly nationalistic economic realism. As I shall attempt to demonstrate, there is no longer much of a belief in US policymaking circles that the principles that served it well during its period of hegemonic control - especially those of liberality and multilateralism - still serve the national interest in the way they might once have done. As such, the policy prescription of hegemonic stability theory - supporting the policies of the hegemon in the provision of the international public good of order - may well be futile.

The next chapter will deal with one of the practical manifestations of the principal theoretical problem with HST: the manner in which the search for hegemonic stability inhibits more egalitarian, non-superpower driven, approaches to problem solving, coordination and cooperation in the international economic order. HST expresses a US world view and legitimises the structural privileges that have accrued to the United States in the post-World War II era by dint of its ‘leadership’ role.

As scholars become increasingly aware of the way we perceive the world through language, so too should policymakers. One does not need to be a ‘discourse analyst’ to recognise the degree to which terminology becomes obsolete - who remembers the ‘Third World Movement’ and the ‘New International Economic Order’? Fewer people nowadays, save for die-hard ideologues, find much utility in the notions of ‘east’ and ‘west’. Similarly, we need to treat notions of

leadership' in the international order with circumspection. HST did not emerge from the 'pure world of ideas' but from a combination of the 'political', 'mythical' and 'philosophical'. It can be, and is, an ideological construct relying on, and emanating from the religious and individualistic concept of charisma. To hang on to the concept as a key element in the management of the global economy is, to say the least, unfortunate. For smaller states, such as Australia, to await, or even work for, the return of US 'leadership' of the global economy may well be not dissimilar to 'waiting for Godot'. As the next section will show, we live in a world in which the rules of multi-polar management of the post-hegemonic system are yet to be established. The system is 'up for grabs'.

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In the first two chapters I have called for a wider definition of security and suggested the need also to broaden our traditional notion of power in international relations to take account of its structural dimensions as well as its relational dimensions. Both changes, I have implied, are essential for understanding the problems of a small state such as Australia in the global order in the latter part of the 20th century. Why are these concerns, traditionally the preserve of academics, so important? Because, I have implied, we are, in many ways, in a new era in global politics. This is not meant to sound grandiose. I am not trying to overthrow established wisdom rather than modify it. In order that I be clear, however, let me caricature the changes I wish to highlight. This is more easily done using journalistic licence. In a recent article, Martin Walker outlined the elements of this new era in bold style:

Western Europe and Japan are too rich to be protected, the US is too indebted to maintain the protection and the Soviets are too poor to mount a credible threat.

Put it another way. The arms race is over because the Soviet economy has cracked, the US economy has sagged and the cunning Japanese and Europeans have emerged winners of the Cold War by spending least on it. On your marks for the next race: the new peace, better known as trade wars.1

In more restrained fashion, however, the central elements of Walker’s new era are pinpointed in Stuart Harris’ recent reconsideration of his 1986 Review of Australia’s Overseas Representation where he points to a variety of key changes in the international environment that are crucial for Australian foreign policymakers to note. These include the decline in global superpower tensions, greater difficulties in the ‘international economic system’ -

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especially the deteriorating position of the USA, the increased economic prominence of Japan and the Asia-Pacific NIEs and concerns that the international trading regime will become less multilateral and more bilateral and regionalist. After the more general analysis of the first two chapters of this monograph I proceed to deal in some detail with the specific manifestations of this 'new era' and their implications for Australia.

Towards a New Mercantilism?

Two general points should be made at the outset. Firstly, protectionist systems are not new. Secondly, the role of the United States in preserving an open trading system in the 20th century should not be overestimated. Just as all major states at times over the last few hundred years have pursued free trade when it has suited them, so too have they pursued avowedly protectionist policies at others. This was the case with Great Britain in the 17th and 18th centuries, the United States in the 18th and 19th centuries, France and Germany in the 19th and 20th centuries and Japan in the 20th century. Of the USA in the recent period particularly, Conybeare has noted:

Its reputation for leading the world back to freer trade since the 1930s is largely undeserved ... The brief flirtation with free trade after World War II was more a function of linkage to other goals (e.g. rebuilding Western Europe) and the possibility of coordinated retaliation on the part of certain trade partners (again, Western Europe), than of any misplaced belief that free trade maximises the economic welfare of a hegemonic power.

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2 Stuart Harris, The 1986 Review of Australia's Overseas Representation Revisited, Canberra, Department of Foreign Affairs and Trade, October, 1988:3.


Indeed, since the time of Alexander Hamilton, the USA has seen protectionism as one of the principal themes of its foreign economic policy.5

Politicians in all major states have at various times articulated the case for free trade or protection as bona-fide instruments of government policy in the pursuit of 'national interest'. Trends towards free trade or protection tend to be both cyclical and contagious - and, at a rhetorical level, not necessarily mutually exclusive. Nowadays it is ideologically very difficult to espouse protectionism, but not inconsistent to utilise protectionist instruments provided they can be couched in appropriate terms. Protectionist measures such as 'specific reciprocity' are permitted if they are used in the name of 'opening up' the restricted markets of recalcitrant foreign partners.6 These points are made not in order to suggest the inevitability of a slide into greater protectionism at the present time rather than to suggest that there are historical precedents and politically compelling arguments for the prospect of continued and increased use of protectionist policy.

Similarly, the 'psychological' significance of foreign economic relations, particularly trade surpluses or deficits as a yardstick of governmental success or failure, is all too often overlooked.7 Trade deficits, for all governments, are political problems to be rectified. As Dell notes, and as is only too well understood by all governments '...a strong current account is, for most countries, the key index of national economic security'.8 Keynes, writing in the wake of World War II pinpointed the importance of a healthy current account for a state’s national psyche. As he noted

8 Dell, op.cit., 29.
...we, the faculty of economists, have been guilty of presumptuous error in treating as a puerile obsession what for centuries has been a prime objective of practical statecraft.9

Indeed, one of the major analytical problems we face, and which many economists steadfastly refuse to acknowledge, is the degree to which 'statecraft' is not amenable to 'modelling' or testing. (It is probably why 'statecraft' has been left to political scientists!!) The current account deficit and the balance of payments, is central to a government's day-to-day feeling of economic security. Weakness in the current account is, after all, what takes countries down the road towards 'banana republicanism' and IMF intervention - points not lost on Australian policymakers and scholars in the mid-1980s.10 Governments, of course, wish to be able to correct imbalances without recourse to severely conditional borrowing. This is not simply an Australian phenomenon. For historical, and psychological, reasons of exposure in the global political and economic environment, Japan and West Germany, for example, show a marked preference for a balance, at minimum, on their current accounts. France, historically, has gone one stage further, making a current account surplus an article of faith of governments across the spectrum of French political life.11

And presently, Australia and its major ally, the USA, both run large current account deficits. Both wish, for a variety of reasons, to remove them. Both countries' governments feel, within the guidelines of their own perceived interests, entitled to take what initiatives they feel will best ameliorate their problems. Invariably, such adjustments are made with primary regard for the imperatives of the domestic polity and only a secondary regard for 'public order' in the international domain. But increased interdependence has made the costs and benefits of autonomous state action that might run contrary

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10 Note Paul Keating's now famous 'Banana Republic' remark and Professor Fred Gruen's suggestion that Australia was not automatically above IMF scrutiny in 1986.
11 Dell, op.cit., 183 for a discussion.
to the principles and rules of the international economic order - such as they are - more difficult to calculate.

The policy options, and implications for other actors, of autonomous state action do, of course, vary depending on the size and power of the state. Australian policymakers, for example, should not seem surprised when a major actor - such as the USA or Japan - acts in what seems to be an 'irrational' manner. We have become so seduced by the 'ethos of rationality' that we tend to forget that 'economic statecraft' is by no means dead\(^\text{12}\) - and, indeed, is most prevalent for those willing to look for it. Australian governments, themselves, are not devoid of recourse to seemingly 'irrational' policy behaviour driven by emotion, sentiment or 'captured' by special interest. Just as states made the 'rules' of the post-World War II LIEO, so too will they err from them if they choose.

Indeed, in the current climate of the late 1980s a country's trade relations are measured not so much by the adherence, or not, of itself and other parties to the 'rules' of the trading regime as by 'results'. A negative balance is accompanied, in many instances by an assumption of 'unfair' play on the part of one's principal trading partners. This is especially the case with the United States' current attitude towards its deficits with Japan and the NIEs of the Asia Pacific Region and its policy toward the EC, notwithstanding the fact that no more than 10 per cent of the current US trade deficit is thought to be accounted for by 'unfair' trade. We are, thus, in the current environment dogged by what the noted economist Jagdish Bhagwati calls a 'bilateral quantity oriented bias' in international trade.\(^\text{13}\)

The old order, or more specifically the historically shortlived Liberal International Economic Order of the post-war period, is undergoing a process of change in which international trade, in both theory and practice, is being transformed. No longer is 'free trade' the only catch cry. 'Fair trade' has joined it as the yardstick by which trading relations will be measured. In addition, governments are now less inhibited than before in recourse to interventionist policy to promote competitiveness. This is especially so, and notwithstanding the rhetoric of deregulation, in the United States as the growth of

\(^{12}\) See Baldwin, op.cit.

40 The Evolving World Economy

economic realism, outlined earlier, nurtures what is now commonly called 'Strategic Trade Policy'.

Strategic Trade Policy and Reciprocity

The literature, and debate, about the nature of Strategic Trade Theory (or Policy) - theory and policy are inextricably linked here - now abounds and only a brief review is provided. In essence strategic trade theory argues that the classical case for 'free trade' may be more appropriate to 1888 than 1988. Trade does not, and indeed has never conformed to the '... stringent and unrealistic assumptions on which comparative advantage is based'.

Recognising that comparative advantage is no longer sufficiently explained by traditional differences of climate, skill, culture or resources, the New Trade theorists look to other factors. Particularly important is the manner in which changes in the international division of labour, outlined earlier, allow and encourage governments to help manufacture a comparative advantage based on such factors as capital's ability and willingness to relocate on the basis of state sponsored inducements or marginal leads in narrow technological races. Indeed, technological innovation now seems more important than location, economies of scale, 'national characteristics' or almost anything else in international trade.

A further factor is the process of oligopolisation that has been increasingly evident for the last couple of decades. This contrasts sharply with traditional assumptions that markets were more or less 'perfectly competitive'; that is, that the number of producers was such

14 Perhaps the exemplar text is Paul Krugman (ed.), Strategic Trade Policy and the New International Economics, Cambridge, Mass., MIT Press, 1986; but see also Higgott, The World Economic Order, op.cit., 23-30 from which this brief review is extracted.


that none was large enough to control unduly the nature of prices or the actions of their competitors. Such a view is no longer a tenable assumption of trade policy. We live in an era of ‘imperfectly competitive markets’.17

At the theoretical level, these factors mean it is necessary to rethink trade theory with resultant changing policy implications. In short there would appear to be an increasing likelihood that trade policy in an era of oligopolisation and imperfect markets will be pursued by major states in a manner similar to the way they pursue their national security policies. If firms have sufficient power, which it would appear many manufacturing industries in the US, Japan and some European countries have, they can engage in strategic planning in a manner designed to affect a rivals action.

Each agent takes into account some counterresponse from rivals in calculating its best course of action. Actions include threats and promises, bluffs and commitments, all aimed at influencing the outcome of a conflict in one’s own favour. These are familiar features of games and war.18

On the basis of these new innovations in economic theorising, and especially game theoretic analysis - and the prospect of identifying beneficial rent seeking industries with substantial external economies and strategic sectors - policymakers in the USA are beginning to articulate the case for ‘an activist’ trade policy. There is a clear fusion of trade policy and foreign policy. In times of increasing economic stringency it becomes a legitimate weapon in the search for national economic welfare in the international political economy in a manner similar to the role of defence policy in pursuit of national security in the international political system. Strategic trade policy is theoretically, and increasingly politically, justified in the USA - given its position as a declining economic power in an increasingly competitive, uncertain, and ‘imperfect’ international economic order.

When agents take actions of their rivals to be immutable, strategic behaviour plays no role ... Such need not be the case.

in strategic environments ... where trade policy can alter the entire set of preconditions on which large firms and governments ... [my italics] ... base their decisions.19

Strategic trade policy then becomes a major weapon in the economic realist perspective of the contemporary international economic order. As such it represents a basic rejection of the idealised theoretical model of free trade. It may be one thing to recognise the theoretical beauty of a perfect market and to espouse it rhetorically. It is quite clearly another thing for policymakers to sit back and wait for it to operate in its pure form.

Policymakers in Japan have recognised the reality rather than the rhetoric throughout the post-World War II era. Exhorted to undergo a process of reconstruction and development Japan pursued an industrial policy in which the institutional control of the economy was dismissed by much economic theory as 'the exception'. Yet some, such as Chalmers Johnson for example, believe that Japan may well help overturn received theory in economics to the extent that its demonstration effect will lead to the adoption of industrial policy in the USA. For the purpose of this monograph, the impact of industrial policy is less important than the fact that industrial policy is quite clearly a major issue in the international political economy of the 1980s.20 It is not something American policymakers like to talk about. Indeed the very notion of industrial policy is anathema in many quarters of the professional analytic and policymaking communities. In many ways, therefore, the notion of New Trade Theory, or strategic trade policy, is seen as more palatable than industrial policy. Despite the fact that their rationales are virtually identical, strategic trade policy does not carry the all-embracing implication connoted by industrial policy. Rather, it implies a selectivity in its targeting of specific industries, not all industry. Its vocabulary offends less the sensibilities of policymakers in the USA in contrast to the vocabulary of industrial policy. Such semantics have never been, of course, a problem in Japan, Taiwan or Korea.

19 ibid.
At this point Australian readers should note that strategic trade policy is not geared to putting a lifebelt around a declining industry. Rather, it is geared to promoting dynamic and innovative industries capable of generating a return in excess of subsidy. Such an industry would have to be one that was subject to major competitors, but in an imperfect market, and where subsidy or production would cause the foreign competitor to cut back on capacity. In effect, the subsidy would be pre-emptive of a potential foreign competitor by being introduced at an early stage in the product life cycle. As such, the number of participants in an industry would be small and the profit opportunities above the norm. The oligopolistic nature of the market is thus important since an increasing number of players will disperse the profits. Such a trade policy is also predicated on a large domestic market which allows an industry to gain experience to face international competition in a manner similar to the process undergone in Japan after World War II. It is also predicated upon a large R&D component to make the barriers to entry extremely high for latecomers.

The implications for this monograph of such new theorising should by now be apparent. The language of the New Trade Theory (strategy, preemption, etc.) is borrowed very much from, or is to be found in, contemporary international and strategic studies. The central actors in these domains are not only companies but states, and large and powerful states at that. It is for such reasons that I talk of the tendency for a growing 'realist' perspective, in the tradition of international politics, on the part of the major actors in the international political economy. This has considerable implications for the nature of cooperation and conflict in the international economy in general, cooperation between the USA, Japan and the EC at a specific level and implications for second rank actors such as Australia in any emerging configuration of conflict.

There are, of course, those in the USA who are critical of New Trade Theory and doubt its utility over either the short or the longterm. The essence of their theoretical criticism is that there is no guarantee that political action in the market place will correct the

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imperfection it seeks to overcome. To the contrary, they claim that such intervention to promote certain export industries may well fall victim to pressure from vested interest groups and thus 'serve only the interests of those fortunate enough to gain favour'. But any analysis of Japan and Korea over the last twenty or so years demonstrates quite clearly the ability to 'pick winners' and the significance of judicious state intervention.

One point is quite clear. Successfully targeted industries do not need to be resource based. More often than not they are goods and service industries with high R&D and skill components at the cutting edge of technology. As such, they pose difficult questions for Australia in the future. Its traditional rural sectors of export strength are not conducive to the kind of support provided by STP and the economies of scale, given its small internal market and the start-up costs of the newer industries, are always going to limit Australia's prospects of being a major actor in one of these very profitable, but oligopolistic, market places.

The other major concern expressed about STP is that it may lead trading partners to respond in kind to initiatives taken by governments to secure advantage for their own industries. Whilst retaliation may not make sense under 'free trade' - cutting off the nose to spite the face - under strategic trade there is a prospect that appropriate strategic support may succeed in appropriating surplus from the citizenry of another country.

These criticisms, theoretically extremely telling, miss precisely the point that the New Trade theorists are making. In defense of national economic welfare in the international political economy such 'economically realist' policy will prove attractive - possibly irresistible - to government. If a departure from both the rhetoric and reality of 'free trade' and the pursuit of a more interventionist policy is necessary then so be it. As one of the leading analysts of strategic

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23 'Protectionism Gets Clever', The Economist, 12 November 1988:75.
trade policy argues: ‘... it is normal to assume that promotion of national welfare (as opposed to world welfare) is the objective’. In the immediate post-war era, US national welfare was contingent on an improving global economic welfare. As such the USA had no choice but to use its own resources to support it. In the 1980s it has neither the economic capability nor, perhaps more importantly, the political will to underwrite an LIEO. Indeed, it is argued in some quarters both scholarly and political that the 'national interest' may be better upheld by unilateral approaches to the international system rather than by upholding multilateral institutions and regimes.

More generally, STP offers an intellectual/theoretical justification for policy based on a recognition that 'free trade' may not be the most appropriate way of ensuring the best economic outcomes for a major actor such as the USA - for which there may indeed be an 'optimal tariff'. Whether there is or not, is less important than what politicians are coming to believe and the manner in which such beliefs are having an extremely complicating influence on today's trade policy debates. To ignore the political nature of this process of increasing complexity would be a grave mistake. As Dell notes:

While the disciples of Adam Smith have claimed intellectual and moral victory over the errors of mercantilism the real power has remained in the hands of practical men who play the mercantilist game of reciprocity.

Reciprocity is the driving force of fair trade for the major actors in the International Economic Order and especially for the USA, which has the current perception that it has somehow been 'duped' or had its good nature taken advantage of by the Europeans, Japanese and Asia-Pacific NIEs. Whilst the US is singled out here, it is not the only culprit. The USA is, however, still the world's major economic power and US policy is still, if no longer the sole determinant, the main determinant of the degree of openness of the international trading system. Its position on reciprocity is, therefore, crucial.

26 Dell, op.cit., 232.
Current US trade policy clearly reflects a perception that other governments - with Japan and the EC preeminent - have, by thinking and acting strategically in the international political economy, taken advantage of the greater American commitment to a freer, more liberal international trading regime. Support for this view is drawn from the past behaviour of trading partners, especially Japan when pushed to reciprocate. Concessions are felt, by the US Congress especially, always to be minimal, made at the eleventh hour and frequently not subsequently implemented. Given then that passive trade policies are thought by many in the USA to have evoked predatory behaviour, the US has embarked on a series of policy options aimed at deterring such behaviour.

It is in this context, for example, that we have seen the recent drift towards VIEs (voluntary import expansions!!) to join VERs (voluntary export restraints) and OMAs (orderly marketing arrangements) as principal instruments of reciprocity and part of that growing armoury of non-tariff barriers (NTBs) that shape trade negotiating processes. VIEs are a form of 'export protection' rather than import protection. As such they are as much a negation of 'free trade' as are VERs. They are also, unfortunately, one of the rapidly growing yardsticks of how the USA's major partners are judged with regard to the 'opening up' of their domestic markets.

The growing use of VIEs is particularly disturbing for third parties to the USA’s relationships with other states. Both Japan and Korea are engaging in ‘trade diversion’ policies away from other countries as a means of cutting their surpluses on their trade balances with the USA. The long-term implications of this for a state such as Australia are disturbing to say the least. Fix-quantity, trade diverting solutions are certainly not free trade; nor are they ‘fair trade’. The USA has used its strength to assign to itself the role of arbiter of what constitutes fair trade. As Bhagwati notes:

In the bilateral confrontations already undertaken by the US, it is essentially the US that decides if the foreign markets are unfairly closed. Where the weak are confronted they will concede but be resentful. Where the strong are confronted, retaliation and trade skirmishes are a distinct possibility.28

The currently fashionable ‘holier than thou’ attitude of the US government, towards the GATT round especially, is not only hypocritical it is extremely damaging to the philosophical support for retaining a fairly open system.

In a world of sovereign states, however, the right of governments to pursue policy as they see fit is not in question. It is unfortunate that US policy would appear, especially when viewed from the perspective of a small power, to be driven by the belief that the creation of ‘restraints’ to trade is the way to secure an open system in the longer run. The introduction of such constraints, to be later bartered away in return for other concessions, is, of course, neither restricted just to trade politics nor of recent origin. But, reciprocity in the 1980s, unlike during the previous GATT rounds is less about seeking adherence from recalcitrant parties to general trade inducing initiatives and principles and more about negotiating levels of protection on a bilateral basis on a variety of specific goods.29 Reciprocity, as an instrument of US policy, has moved from the broad balancing of principles to the achievement of equivalent market treatment. Such unilateral approaches to specific reciprocity on the part of a major actor is invariably of less damage to it, notwithstanding any retaliation, than to affected third parties. It is they, not the protagonist, who are invariably the victims of any trade diversion that ensues.

Despite its relative decline the US is still the most important individual actor in the global economic order, consequently its bilateral initiatives place greater strain on an open trading system than those of other states. But again in Edward Dell’s most perceptive words:

28 Bhagwati, op.cit., 124.
... there is no value in complaining that the techniques of aggressive reciprocity are illegitimate because they involve risks to the open trading system. Willingness to take the risks inherent in their use is part of the game play of trade negotiations and just one more piece of evidence that governments, and particularly American governments, place only a relative value on the economic benefits of free trade.30

Such policies are but part of the daily play of discretionary power in the hands of government. Indeed, at the heart of all trade conflict is the perennial question concerning the role of government in the control of a state’s economy. Further, governments in their negotiations - either bilateral, or multilateral within GATT - are not simply negotiating rules by which market forces will be allowed to operate. They are also negotiating, always tacitly and often explicitly, about trade outcomes.

Let me draw together the themes of this chapter. Its title is suggesting a drift towards a new mercantilism. The mercantilism of the late 20th century has a ‘calculating’ rather than a ‘committed’ attitude towards international trade as free trade. There is a growing recognition by the major actors that international exchange is not, in the title of Susan Strange’s book about States and Markets. Rather, it is a question of the degree to which (some) governments shape the behaviour of markets - states in markets - on the one hand and the manner in which they choose to, or must respond to market signals on the other. Modern mercantilism has no problem with allowing an important role for domestic variables influencing policy responses to the international environment.

In the world’s major economic player, the United States, at the moment there is a growing awareness that some major domestic adjustment in the economy, no matter how painful, is inevitable. The pain of adjustment can no longer be exported in its entirety to others. Yet, there is a conviction in a whole range of quarters that adjustment can be dispersed (by aggressive reciprocity and other non-tariff barrier initiatives) and cushioned (by strategic trade policy) thus keeping some of the pain beyond state boundaries. Strategic Trade Policy is seen by some as positive domestic adjustment to a changing

30 Dell, op. cit., 248.
international division of labour\textsuperscript{31}, in contrast to the negative response of more old fashioned forms of protectionism. Protectionism, in the words of \textit{The Economist} has become 'clever'.\textsuperscript{32} The new forms of protectionism are, in short, intricate processes of expanded governmental discretionary powers that influence trade patterns and the global location of economic activity. They are very difficult to curtail by traditional processes of liberalisation given that they are, in essence, a move from firm universal rules to sovereign administrative discretion.

The impact of the new protectionism is only just becoming apparent and the key questions it raises are still only answered in impressionistic terms. As I have tried to suggest, however, some of the initially undesirable tendencies - such as growing mercantilist competition, sectoral protection of leading industries, the prospect of the growth of GDAs - whilst having implications for all states, are likely to have more deleterious effects on smaller players such as Australia. Some of these implications are given further treatment in the next chapter.


\textsuperscript{32} \textit{The Economist}, op.cit.
The previous chapter attempted to lay out a range of conceptual and theoretical innovations that could lay the groundwork for what I have suggested is the prospect of a drift towards a new mercantilism. In this chapter we need to consider what the political manifestations of this new mercantilism might look like. To do this several specific issue areas need to be considered: firstly, US-Japan relationships and macroeconomic coordination; secondly, the future of the international trading system, particularly the current GATT round and the prospect of a 'mixed' system with the growth of GDAs and, finally, Australia's position vis-à-vis the first two factors.

The USA-Japan Relationship and the Problem of Macroeconomic Coordination

Perhaps the only thing growing faster than the Japanese trade surplus over recent years has been the study of US-Japan relations. A review cannot be given here, my purpose is simply to raise the principal question of the implications of that relationship for global economic management in a 'post-hegemonic' era. Several points can be made in fairly blunt terms at the outset. Firstly, we are not about to see a Pax Americana replaced by a Pax Nipponica. By any yardstick of HST, Japan is not well placed to provide order as a public good in the international economic order as an alternative to the USA. As Richard Leaver noted recently in a penetrating critique of such a proposal:

Even where allowance is made for the high probability that future Japanese economic growth will continue to outpace the OECD average ... the increment of power which Tokyo

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1 Of the voluminous literature see, as an example of one of the more sensitive treatments of the relationship, Ellen Frost, *For Richer, for Poorer: The New US-Japan Relationship*, New York, Council on Foreign Relations, 1987.
accrues because of positive balances on trade and long-term financial balances - two of the widely agreed indices of hegemonic power - must be severely discounted because of its continued dependence on the 'public goods' of the trade, financial and security systems provided by the US.2

One might wish to disagree with Leaver concerning the continuing willingness or ability of the USA to provide the 'public goods' but the point he makes about Japan's inability to underwrite the international economic order, the very existence of which paved the way for Japanese growth, is telling. For this, and a variety of other reasons beyond the purview of this essay3, Japan is not an alternative hegemon to the USA.

That is not, however, the same as saying that future global economic order is not contingent on a major Japanese role. Japan already shares considerable structural power with the USA in the sphere of production and capital. Further, Japan is now transforming its productive strength into financial strength, in a manner similar to Britain in the 19th century. It has become the major creditor nation in a direct correlation to the manner in which the USA has become the world's major debtor nation. In addition, Japan does, of course, lay claim to over half of the US deficit. US financial markets remain, however, more liquid, more accessible and are still thought to be safer than Japan's. Japanese investment in the USA, whilst shifting the balance of power between the two nations, does in fact weave a fabric of great strength that will, one would expect, mitigate the potential for conflict in that arena.

The growth of an intricately woven financial interdependence does not make successful macroeconomic coordination axiomatic or the prospects of conflict, especially in secondary structures of power such as the trading system, unlikely. One need not subscribe in toto to Hegemonic Stability Theory to recognise that macroeconomic management, as currently conceived, in a pluralist system is going to be more difficult to achieve than under hegemony. Advantages to the

2 Leaver, op.cit., 20.
3 See the discussions in Takashi Inoguchi and Daniel I. Okimoto (eds), The Political Economy of Japan: The International Context, Stanford, California, Stanford University Press, 1988.
would-be parties to the management of the system have to be of sufficient magnitude to warrant the extra troubles inherent in negotiation and enforcement of, for example, a stable and predictable monetary system in the post-Bretton Woods era. We are a long way from the kind of macroeconomic coordination called for recently by Fred Bergsten and thirty or so of the world’s leading economists.4

Indeed to take just one example, some such as Professor Susan Strange, see as naive the prospect of securing ‘managed’ exchange rates. To expect it is to ignore the degree to which parties to the management process, in this instance the USA, Japan and to a lesser extent, West Germany, need to have well ordered domestic policy coordination - the achievement of which is itself fraught with difficulties. Despite the Louvre agreements of February 1987 the major actors have not stopped working against each other in a variety of ways.

For example, in its complaints about the reluctance of Japan and West Germany to be more cooperative in macroeconomic coordination in the wake of the Louvre accord, the USA failed to grasp the degree to which the other parties to the deal were sceptical about the US’s willingness, or ability, to keep its side of the bargain. The Japanese and the West Germans considered that the US lacked the economic discipline to curtail its twin deficits domestically rather than continue to ‘externalise’ its problems - be it by blaming the Japanese and West Germans for not undergoing processes of domestic expansion, unfair competition from heavily subsidised European agricultural produce, or the USA bearing the costs of defending its allies in the absence of an equitable ‘burden sharing’ on their part.

The virtue of one position over the other is less important than the fact that there are differing views between the major actors over the purpose of, and how to, coordinate macroeconomic policy. All parties are effectively attempting to ‘externalise’ policy adjustment as a preferred first choice rather than making adjustment at home.

Calls for macroeconomic coordination, by economists assuming a 'rational' interest of all parties to agree, ignores a competing tendency at work in the system: namely the immense desire on the part of the major actors for policy autonomy not policy coordination - or what we might call the 'statist dynamic' in the system. The paradox of increased economic interdependence is the accompanying impetus it has given to the desire of states for autonomy over their policy responses to it. Particularly for the major actors, compliance with the wishes of others, is often not the preferred policy response. But the desire to 'externalise' responses where possible, 'blaming others' as Robert Reich puts it, has unfortunate consequences. It makes others angry and resentful, and thus less inclined to cooperate over the longer term. And it makes us ... [the USA] ... less inclined to take responsibility for what needs to be remedied in ourselves.5

In short, the current global order exhibits the contradictory nature of what Buzan calls the '... antagonism between a global economic system and an anarchic political one'.6 The working out of this antagonism is not inevitably a liberal system on the one hand or a closed mercantilist system on the other. Rather we may be heading towards a mixed system in which a series of emerging GDAs coexist within a limited multilateral system. Buzan, for example, does not see the incompatibility of 'benign mercantilism' and 'protected liberalism'. We should, therefore, perhaps consider the constituent elements of each system in turn.

GATT, GDAs and a 'Mixed' Trading System

Contrary to much media hype, the global economy is not on the verge of collapse or trade wars, nor is it about to divide up into close-knit, tightly integrated and exclusionary trading blocs. Things in the post LIEO era have, however, changed and are continuing to change. The impetus for this change has been outlined in chapters two and three of this monograph. It allows us to put current events such as the Uruguay Round, the prospect of a US-Canada FTA, and an emerging Single Integrated Market for Europe in 1992 into a more measured perspective.

6 Buzan, op.cit., 148.
If we look at GATT, for example, we can see at the mid-term review of the eighth (Uruguay) Round of negotiations, the organisation is not the power, not even at the rhetorical level, that it was. In many ways it has been a victim of its own success. It has succeeded in whittling away at the traditional instrument of protection - the tariff - to such a degree that the tariff is no longer a major issue in world trade. In its stead, however, have emerged a range of legislative instruments and discretionary arrangements (OMAs, VERs, VIEs, etc.) that are more difficult both to measure and control. In addition, the structure of world trade has changed, both by regional distribution and sectoral proportion, such that now close to 60 per cent of all world trade is not covered by GATT instruments. The current Round, therefore, has on its agenda issue areas relatively new to the organisation; especially trade in intellectual property and services (TRIPS) and, for the first time in any central sense, that most thorny of issues in global trade - agriculture.

The details of these various issue areas and the respective negotiating stances of the major parties cannot be discussed here. What is important, however, is the degree to which success or failure in bringing home some meaningful agreement from this Round of talks is more important than ever. The nature of agreement in this Round for major actors will be less important than the perception of success or failure. Along with efforts to achieve coordination of the global financial system a successful GATT Round would be an affirmation of commitment to the continued openness and liberality of the global trading system.

To argue the symbolic importance of the Round is not to suggest that the specifics of any agreement - on agriculture and TRIPs particularly - will not be significant. Rather, especially for the erstwhile hegemon - the USA - the key issue is a willingness of the other principal actors to be seen to grant concessions to the USA.

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8 The USA is also keen to get agreements from the LDCs too on Intellectual Property Rights. The US identifies several LDCs,
addition, however, the USA is participating in the Round as something of a ‘demandeur’ seeking specific returns rather than simply as a benefactor able to grant concessions in return for commitment to wider principle.

The preceding statement is not contradictory. Concrete agreement at the Round is, and will be, important. But more important is some kind of reaffirmation of commitment to the principles of a liberal open trading system. This, however, is less likely in the face of that gradual process of atrophy that is undermining support for GATT’s central principle - Most Favoured Nation (MFN) status. As one recent study noted:

The danger sign for GATT in the 1980s lies in the diminishing number of important trading nations who accept its principles as applying to their own trade policies.9

The EC, in principle if not in legal terms, contravenes MFN status. Despite being notionally GATT consistent, the EC’s external trade policy took up discrimination from the outset. The CER with New Zealand, lest we appear too self-righteous in Australia, is a GDA and the US-Canada FTA agreement, now likely to come to fruition in the wake of Conservative Party success in the Canadian election - however it may be dressed up - means that the world’s largest bilateral trading relationship will be underwritten on a non-MFN basis. The disclaimer that other states may join such a preferential agreement is naive at best, deliberately misleading at worst, in the way it ignores the degree to which trade lobbies would almost certainly thwart the efforts of others to join.10 The major point for this essay about such arrangements is the manner in which they undermine GATT’s ability to provide moral disincentives towards defection from liberal trading principles.

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10 Bhagwati, op.cit., 86 for a discussion.
GDAs are not, of course, new. No state, or group of states, sees it as axiomatic that it must treat all other states equally. The rhetoric of liberalism and free trade notwithstanding, there have for centuries been incentives for groups of states to establish discriminatory trading arrangements. This does not mean that ‘blocs’, to give them their popular name, are inevitable. Those that do emerge, with the exception of Europe’s single integrated market and a US-Canada FTA, are more likely to be de facto rather than de jure. Whilst Asia-Pacific regional trade is flourishing, a regional or even two (North and Southeast Asia) regional blocs would appear unlikely in the foreseeable future. Although again, the ‘parcelling up’ of the global economy by the USA, Europe and Japan is not beyond the realms of possibility for some observers.\(^{11}\)

The evidence at this stage is incomplete and that which we have is mixed. For example, one can only speculate about the implications of a Single Integrated Market in Europe for Australia. Media reports talk of the opportunities available to those companies that can establish themselves within the market prior to its finalisation and it is undoubtedly true that some companies from outside Europe will be strategically located by 1992 (almost certainly including Westpac). However, the overall implications are much more problematic. Or, more importantly, are perceived by other major actors to be problematic. Both the United States and Japan fear that the ‘Bricks of Fortress Europe are being laid’\(^{12}\). Whilst such hyperbole is clearly unhelpful, protectionism, as I have suggested, has historically deep roots in European culture and indications to date are that one of the principal characteristics of SIM1992 will be its ‘customs union’ structure acting as an exclusionary device rather than a giant market ‘sucking in’ exports from outside.

The basic point is that, at this stage, it could be either, depending on the prevailing climate of opinion towards the international financial and trading system. In an ‘open’ system, SIM could be a major stimulus, or pump primer, to global economic growth. In a hostile, polarised system SIM could give the Europeans sufficient strength and

\(^{11}\) See for example, Ezra Vogel, ‘Pax Nipponica?’, Foreign Affairs, 64(4), 1986:766.

power to tackle head on the other principal actors. US policymakers should mark well the degree to which tit-for-tat strategies pursued towards the EC may not be destined for success. Indeed, the gradually increasing volume and intensity of trade conflicts between Europe and the USA over the last decade has not produced a decisive winner and, in fact, despite US pressure Europe seems to be coming out of it on top so far. The evidence of this is to be found not only in agriculture, where its opponents constantly continue to underestimate the political power of and support for the Common Agricultural Policy (CAP), but also in the high technology areas where the success of the European Airbus in competition with its US rivals is the most singular example of the potential of Strategic Trade Policy to date.

To elaborate just a little, CAP is not going to go away in the near future. CAP may be inefficient, profligate and costing Europeans both money and jobs - as the United State’s and Australia’s agricultural economists and politicians continually and correctly tell us and the Europeans. It is also, however, the cornerstone around which the post World War II political reconciliation of France and Germany has been built. When pointing to the absurdities of CAP from the perspective of ‘free market’ economics, outsiders would do well to remember it is one of the prices paid for Franco-German rivalry not being one of the potential conflict points of the global environment in the post World War II era in a way that it was between 1860 and the end of the war. Most Europeans are aware that CAP is an economic absurdity, a fact that some of the more simple minded Australian advocates of ‘free trade’ do not realise. Ironically, this is especially the case with the Australian rural industry who, always sensitive to their own clout as a rural lobby, tend to be deliberately myopic about the

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influence of the European (French and German especially) farm lobbies.

The evidence from the current Uruguay Round on agricultural reform so far is that, despite the good endeavours and not inconsiderable success of the Cairns group in agenda building\textsuperscript{14} and the growing American impatience with the Europeans, the EC is not likely to come at a \textit{major} adjustment to its current subsidy policies. US threats to step up its own Export Enhancement Programmes and implement a new harsher Trade Bill in 1990 in response to no agreement by the EC on a timetable for the long-term elimination of subsidies\textsuperscript{15}, would also seem fraught with the danger of escalation into a more severe trade confrontation between these two major actors. Whilst there has been an increased interlocking of financial investment by Europeans in the USA and vice-versa\textsuperscript{16} which must, of course, modify the nature of conflict this does not necessarily imply, as with the US-Japan relationship discussed early, that the level of protectionist activity in the trading arena will not continue to rise. Although this monograph was written prior to the Mid-Term Review of the MTN in Montreal in December, the subsequent deadlock at that meeting reinforces the arguments set out in these pages.

**Some Questions for Australia**

The implications for Australia of, for example, increased economic tension between the USA and the EC in general and a subsidy war in third markets especially, are well understood in economic terms.\textsuperscript{17} We are, however, as analysts, only beginning to

\textsuperscript{14} See the discussion in Peter Gallagher 'Setting the Agenda for Trade Negotiations: Australia and the Cairns Group', \textit{Australian Outlook}, 42(1), 1988.

\textsuperscript{15} \textit{Australian Financial Review}, 20 October, 1988:56.

\textsuperscript{16} Forty per cent of US overseas investment is in the EC, and Britain and West Germany are the second largest investors in the USA after Japan.

\textsuperscript{17} Government statements and reports from relevant departments and senior officers are extensive. See for example, John Dawkins, 'Foreign Trade Subsidies, the Case for Agricultural Reform' and Philip Flood, 'Foreign Policy and Agricultural Trade Policies', \textit{Recent Trends in World Trade: Implications for Australia},
address the manner in which economic conflicts can have significant politico-strategic manifestations. Whilst Australia’s economic fortunes are dependent on as smooth a transition as possible from a system of hegemonic management to a more pluralist process of global economic management, so too are some of its principal politico-strategic considerations at issue. An aspect of this transition is, I have suggested, the growth of, at this stage loosely articulated, GDAs. The key issue is the degree to which these can evolve, within a mixed economic system, without giving rise to antagonistic protectionism, subsequent recession even, and dramatically deteriorating global political relations. Nowhere would this seem more important for Australia than in its own Asia-Pacific regional context.

Some of the concerns that have accompanied what I have called the growth of economic realism in US foreign economic relations in the trans-Atlantic context are even more acutely felt in Japan and the NIEs of the Asia-Pacific region where the distinctions between the ‘economic’ and the ‘political’ have never been as clearly marked as they are in the Atlantic context. As has been noted by Bernard Gordon, in a recent penetrating analysis of US foreign economic policy in the Asia-Pacific region:

The issues involved are no longer simply commercial; they are political and ultimately strategic as well. This is because East Asian nations with whom the US is most upset for trade reasons are also among its closer political friends, and they include its most important allies.

Gordon’s paper, focusing on Japan, South Korea and Taiwan demonstrates how the continued growth of protectionist sentiment, especially in the world’s biggest market economy, could pose increased security questions (in the traditional sense of the word) if it led to recession and, for example, growing domestic political

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18 This was the subject of treatment in some of the other papers at the 1988 SDSC Conference.

instability in the exporting states of the region. He also highlights the prospects for political disaffection in the states for their relations with the USA.

Gordon's analysis has important parallels for Australian policymakers to consider. Whilst the structure of Australia's economy is different to that of its regional neighbours, it would be, nevertheless, similarly adversely affected by an increase in protectionism which in turn could have political implications, especially with its major politico-strategic ally, the USA. This issue has been canvassed widely, and polemically, in a variety of political and academic arenas. To date, notwithstanding the occasionally critical comments about US foreign economic policy - from the Australian rural lobby and various government ministers over the last few years - the relationship, at a government to government level at least, has not been damaged. The longterm impact on the political relationship of a sustained period of 'maltreatment' of Australia, albeit as an unintended secondary consequence of wider US foreign economic policy, can as yet only but be speculated about. By way of conclusion to this chapter, I would, therefore like to consider the relationship in what is, to the best of my knowledge, a previously unconceptualised manner that might offer us a few clues to the nature of future relations.

If we assume the US to be a weakening hegemon, moving in the direction of pursuing increasingly nationalistic economic relations of the kind outlined in earlier chapters, then clearly some of its partners will be affected by its policies in a detrimental fashion. Australia, as a state with a relatively small market and relatively low productivity in those contemporary industries with increasing returns from their value added component, has had little option but to be what David Lake calls a 'Free Trade Free Rider' (FTFR), whose interests coincide with those of a successful hegemon that underwrites an open international trading system as a public good. Free Rider is not used here in a perjorative sense. Australia does 'pay its dues' in keeping the system 'open', but as a small state it is more dependent on an open system than its major ally. It is not, however, in a position to maintain

20 For a review see Higgott, 'The Ascendancy of the Economic Dimension in Australian-American Relations', op.cit.
21 Lake, op.cit., 48.
an open trading system of its own volition - it is in this sense that we can talk of Australia as an FTFR.

FTF Riding is the 'best' strategy for a state such as Australia, within the context of the constraints of the existing economic structures. In simple game theoretic terms, it is assumed that the best strategy for a smaller player to pursue in an asymmetrical relationship is a cooperative strategy in all cases.22 But it is not and may not always be in the best interests of larger actors, in the international economic system in their dealings with each other or smaller players, to cooperate. Problems for a state such as Australia emerge when it, like many others, is a third party to a conflictual game between large actors with which it is in an asymmetrical relationship. It is, in this context, unfortunate to say the least, that Australia's principal economic partners are those states, or group of states (USA, Japan, EC) between which the greatest economic tensions currently exist.

Whilst the economic strength of the USA, the growing strength of Japan and the collective strength of the EC may lead to mutual restraint that would minimise the prospect of all out trade war it does not preclude, as recent history tells us, these actors from engaging in bouts of supposedly cooperation inducing, tit-for-tat retaliatory trade strategies. Such strategies are not, of course, necessarily destined to succeed. Misperception on the part of the target country poses immense danger. In Japan at the current time, for example, the distinction between US policies of specific reciprocity to secure greater 'openness' in Japanese markets and simple protectionism per se is often lost. Target country perceptions may be, not surprisingly, equally as self-serving as those of the aggressor. More importantly,

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22 'Cooperation' is equated with free trade in this context, defection with protectionism. In a two person game there are four choices for the smaller players. In order of preference these are: (i) both parties cooperate; (ii) defect whilst the major partner cooperates; (iii) cooperate whilst the major partner defects; (iv) defect at the same time as the major actor defects. A detailed discussion of theories of games in international relations cannot be given here. For fuller discussions see Conybeare, op.cit., esp. Chs.2 and 8. See also Robert Axelrod, The Evolution of Cooperation, New York, Basic Books, 1984.
however, such delicate distinctions are of little comfort to small players 'sideswiped' in a wider tit-for-tat exercise. Nor, given the asymmetries, are there any 'rational' economic reasons for major actors to grant concessions to, or consider the consequences of their actions for, smaller players. Conybeare shows quite conclusively that 'free trade' is not, 'from an economically rationalist position', always a public good and hegemons may '... maximise their incomes by optimal tariffs, not by free trade ... large powers will maximise their national incomes by imposing trade taxes on smaller countries'.

The important question that follows, therefore, is why would a hegemon underwrite a liberal trading system as a public good if it is not in its interest so to do? Further, what implications do the answers to such a question have for small players such as Australia?

To answer the first question we have to move from microeconomic theory to politics. In so doing, we come up with two other important variables. Firstly, the cost to the hegemon of providing the public good is deemed to be worth it for ideological and foreign policy reasons in specific historical periods. Fred Block has shown how US economic hegemony allowed it to pursue its most ambitious of foreign policy goals in the post World War II era; especially containing communism on all fronts. Secondly, the 'rent seeking' activity of domestic interest groups within the hegemon, drove and still continues to drive national policy to take on an hegemonic role - or at least nowadays an economically nationalist role - for sectoral or class based benefit.

Neither of these two qualifications to microeconomic theory should seem very surprising and both are supportable in the terms of our analysis of the changing global order in which US hegemony is also undergoing a process of transformation. Rent seeking groups in the USA, especially the agricultural sector in search of subsidy and the advanced sectors of industrial manufacturing in search of the kind of support envisaged by Strategic Trade Theory, feel their interests are

24 Conybeare, *op.cit.*, 72.
The answer to the second question, concerning implications for a state such as Australia in particular, but the global economy in general, thus becomes clearer. As Conybeare notes, rent seeking '... is clearly a factor that pushes most state actors towards less cooperative [my emphasis] stances in trade games'.26 Thus we have, borrowing not only from microeconomic theory but also good deductive political reasoning, an explanation for the continued adherence to economically 'irrational' subsidy wars at a national level in international agricultural trade.27 Producer groups, given their homogeneity, invariably hold sway over the interests of consumers - notwithstanding that rent seeking activities may be detrimental to the maximisation of national income at the aggregate level. In such a context the interests of third parties count for very little.

Following from my earlier general assertions about the drift towards mercantilism and the immediately preceding discussion of agriculture, there is a specific question it would be tempting, but dishonest of me, to duck. The obvious final question to consider is the degree to which the prospect for escalation in the current agricultural contest is likely.

Without too much elaboration it can be said that in its current policy towards the EC, the USA is playing what game theorists call 'Mutual Prisoner's Dilemma' in which it anticipates that its punishment of European defection from the principles of free trade will over time lead it back to cooperation. Unfortunately it would appear that the Europeans have a different view of things. They are

instead, if you like, playing a game of 'chicken' by working on the assumption that the United States bluff can be called.

What are the prospects? If the precedents of the 'Chicken War' of the 1960s and the 'first' subsidy war of the early 1980s are to be followed then the omens for a return to cooperation - and thus a less conflictual predatory environment for third parties, who must watch whilst the major actors fight a subsidy war in third markets - are not good. Further, the CAPs 'fighting fund', despite the best endeavours of Mrs Thatcher, is well topped up at the moment (1989) and the United States would certainly find the necessary funds for increased Export Enhancement Programmes in the wake of a failure to secure concessions from the Europeans in the current GATT round. On the positive side, we can count on only the adverse domestic political reaction to the escalating costs of agricultural subsidy. Yet whilst this reaction is growing neither side is, contrary to what we might have thought during the trough of commodity prices in the mid-1980s, close to exhaustion.

Game theoretical conceptualisations do, of course, have their limitations. Their importance here, however, is the manner in which they demonstrate that it is not axiomatic that large countries will enhance their national income by the pursuit of free trade policies. In the United States policymakers, rhetoric notwithstanding, have been historically aware of the optimal position of keeping its own tariffs high whilst systematically securing lower access costs in other countries. In a time when the political advantages of hegemony are neither readily apparent, nor so easily secured by providing the public good of an open international economic system, the temptations to pursue a more self-consciously economically nationalist foreign policy will be difficult to resist.

28 For a discussion of these earlier skirmishes see Conybeare, op.cit., Ch.7.
29 As I have tried to suggest in earlier chapters of this monograph, one does not need to accept all the tenets and implications of a declining hegemony thesis to appreciate the force of the arguments put forward by those such as Kennedy and Calleo, op.cit., about the diminishing returns of imperial 'overstretch'.
For Australia, what I have termed a Free Trade Free Rider for whom free trade does maximise income potential, this tendency is not one to be welcomed. It limits Australia’s range of options. As a small country reliant on the export of primary produce and raw materials it has little or no control over its terms of trade. In addition it is not in a position to take any unilateral retaliatory action of its own - in the economic domain - that might generate more sympathetic treatment from the principal players in the global economy. Coordinated policy approaches are being attempted via, for example, the activities of the Cairns group in the current GATT Round. But the likely success of these approaches, in the absence of more general agreement from the major actors, would appear limited.

As yet, no Australian government, of any political persuasion, is prepared to extend or widen its foreign economic policy to include the linkage of security concerns. Even were, for example, a future government to attempt to use the Joint Facilities as ‘negotiating coin’ to secure more favourable treatment from the USA as one of our principal economic partners, the prospects of success, for a variety of reasons, would appear limited. The history of the relationship with the US works against the prospect of such a course of action being taken. Australian policy lacks a credibility that it would hurt itself, or even credibly threaten to hurt itself, in order to secure a preferred policy outcome from the major partner. Further, the question of ‘preferred’ policy or the ‘return’ from such a course of action is unclear. If, for example, it were to be financial - rent on the facilities in return for income lost as a result of US subsidies policies - how would it be measured? A figure would certainly be disputed, despite the growing sophistication of economic theory in measuring rates of protection and subsequent income lost or gained.

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30 Australia learned this fact the hard way in its relationship with the USA in 1936 when it introduced the ill-fated Trade Diversion Act. For a discussion see Raymond A. Esthus, From Enmity to Alliance: US-Australian Relations 1931-1941, Seattle, University of Washington Press, 1964.

31 See Higgott, ‘Trans-Regional Coalitions...’, op.cit.

As Conybeare notes in his work, the nature and success of 'linkage' of the political and economic domains of foreign policy in this manner is problematic even for large actors. For smaller players its utility as an instrument of statecraft is fraught with complexity. This is not, however, to say that policymakers will, and indeed should not, explore the linkage issue more over the coming years. Especially if public opinion towards the bilateral relationship with the US were to trend downwards in a deteriorating economic climate and the pressures on future governments increase. At this point in time, however, 'linkage' as an instrument of Australian policy is grossly underconceptualised - as the recent conflicting views of members of the current Hawke ministry testify33 - and of no real utility as a way of improving Australia's international economic position.

The preceding discussion has canvassed some of the implications and some of the foreign economic policy options, or non-options as the case may be, for Australia. We should perhaps conclude this chapter by putting this discussion in the context of the broader parameters of adjustment to a changing international order that face Australia. Processes of adjustment to factors in the international economic order that affect the national economic welfare of a state are basically fourfold. They can be, on one level, either domestic or international and, at a second level, either offensive or defensive.34 Defensive strategies at the international level would attempt to maintain or protect an existing regime - in this case what is left of the Liberal International Economic Order - whilst offensive adjustment would

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33 Note the recent comments of Brian Howe on the limited future of the alliance - not to mention continued opposition to the relationship on the left of the ALP. It will be interesting to see if recent changes initiated by the Hawke government to remove the Facilities from the domestic political agenda by extending the length of the lease and the termination periods for Pine Gap and Nurrungar will succeed. Such ploys in other policy areas in the past have not always worked. The success of this one will still remain tied to the fortunes of the wider political and economic climate in Australia and especially the health of the wider non-strategic aspects of the bilateral relationship.

attempt to create a new one. The thrust of this monograph has been to suggest that both tasks are extremely difficult and, despite having a keen interest in these processes, Australia’s ability to influence either of them is structurally limited.

This is not to imply that Australia should not be interested, or do what it can as in its support for the current MTN Round. Adjustment is both an international and a domestic problem. Rather, it is to suggest, faut de mieux, that domestic adjustment - over which it should have greater control - has to be the major way in which Australia must respond to the crises in the current international economic order. Defensive domestic adjustment, or the protection of the existing institutional structures of Australia’s interaction with the international economic order, is non-tenable as we enter the last decade of the second millennium. Offensive domestic adjustment of a kind even more drastic than is currently contemplated is required. The nature of this domestic adjustment is problematic and contested at both the scholarly and the political level across the ideological spectrum in Australia. It cannot be pursued here. My purpose has been simply to provide a portrait of the wider international context in which discussion of the process of adjustment needs to be located.
CONCLUSION

The focus of this monograph has not been on the day-to-day nuts and bolts management issues in Australian foreign economic relations. Such problems - export competitiveness, balance of payment problems, currency volatility, for example, and as important as they are - are what I would call second order manifestations, the symptoms rather than the causes, of a weakening Australian position in a global economic order undergoing a process of structural change unprecedented in the 20th century. It is these deeper structural changes that have been the subject of scrutiny in this essay.

At another level it has also been my aim, given the usual audience for monographs of the Strategic and Defence Studies Centre, to suggest that the concerns of the student of international political economy should no longer remain beyond the purview of the more traditional student of Australian security. ‘Security’, I have argued - with the intention of provoking rather than offending - is too important to be left to the security specialist alone. Specifically, its definitional base needs to be widened. The search for national economic well-being is a factor as salient, in the closing decades of the 20th century for students and practitioners of Australian foreign policy, as the more conventional politico-strategic notion of security limited to threats to territorial integrity and sovereignty. Whilst there has been some institutional recognition of this change (the amalgamation of Foreign Affairs and Trade, for example), it would not be an exaggeration to say that there is still considerable intellectual resistance to the proposition in a variety of quarters.

Part of the problem, I have asserted, is to be found in the nature of what constitutes ‘knowledge’ in international relations, particularly with regards to our conceptions of ‘power’. It was for that reason that I proceeded to move beyond a ‘relational’ definition of power - the traditional stuff of security analysis - to what I termed ‘structural power’. Analysis grounded in structural power allows a deeper understanding of the issue of ‘hegemonic decline’ than one grounded in relational power, in which hegemony is taken simply to mean
dominance, the consequence of which has been a recent proliferation of superficial prophecies about the ‘USA in decline’.

From a structural perspective ‘hegemony’ is more akin to a form of world order (in which the role of relational power between states is, of course, important) but in which the dominance of one state, or states, is located within ‘universalist’ structures and practices (production, knowledge, capital and security) that have effectively ‘cut loose’ from many (though obviously not all) controls of the state. As such they are not simply ‘loose cannon’ on the deck of the international system, but flexible structures in a way, for example, that land or labour, never can be.

It is in this context that we can understand the US drift away from its hegemonic, be it benign or self-regarding, posture of the first thirty years of the post World War II era. What we are witnessing is not an aberration, a malaise in the USA’s historic role from which it will recover once again to take on a ‘leadership role’, but rather a major adjustment to the changing accumulation process of global economic organisation, of both a geographical and sectoral nature.

The specific implications that have been drawn from this broader conceptual sweep are basically twofold. Firstly, it implies that we may have made too much of the ‘golden years’ of economic stability between the end of World War II and the early 1970s; a period that historically may come to be seen as a deviant rather than the norm. Further, even during the ‘golden years’, beneath the rhetoric of the Liberal International Economic Order, there existed a form of trading system underpinned by a notion of reciprocity that owed its intellectual strength as much to mercantilism (admittedly of the benign variant) as to any notions of ‘free trade’.

Secondly, the period following the mid-1970s has seen the demise of much of the philosophical, intellectual and moral support for a liberal open system that has led some recent analysts to see the international trading regime, epitomised in GATT, as ‘moribund’ or the 1980s as an appropriate time ‘to dismantle the world economy’.  

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1 See respectively, Martin Wolf, ‘Fiddling While GATT Burns: An End to the Free Trade Regime’, The World Economy, 9 (March 1986):1, and Lester Thurow, ‘America, Europe and Japan: A Time
True, the record and prospects of multilateral trade diplomacy are chequered and the current GATT Round offers the prospect of continued economic disappointment and political conflict but it remains, as Australia’s principal negotiator to the current Round noted in a recent paper:

... despite its shortcomings ... the only rule of law applying to world trade which ... warts and all ... represents the best available political commitment ... in an imperfect world.2

Yet the future of the global economic order is only partly about diplomacy, the other side of the coin is the degree of political commitment that may, or may not, exist to keep the system open.

Whilst a state such as Australia (a Free Trade Free Rider) may have that commitment some of the major actors in general, and the USA as the strongest of these actors in particular, may not. The evolution of blocs are not, it was argued, inevitable but the three major actors do face problems and conflicting interests that make the prospect of fragmentation possible, if not yet inevitable. At this stage what is strongly evident is the growth of aggressively competitive, defensive economic policies amongst the majors which sees them unwilling to sacrifice short term gain to the prospect of longer term benefits. As domestic political pressures have become more compelling, especially in the USA, the attractiveness of protectionist measures in the absence of policy coordination has grown apace. The key question, in this context, for the incoming Bush Administration will be the degree to which it is more willing and able to control the rent seeking activities of domestic interest groups than was its predecessor. The desire and willingness of the major actors to ‘externalise’ their adjustment programmes to the maximum extent possible is still, and will remain, strong.

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In Australia, whilst a similar desire would certainly exist, the ability to ‘externalise’ adjustment is, I have suggested, much more circumscribed. Smaller players in the global economy are, I have demonstrated, more exposed to external influences. This has implications, in turn, not only for economic well-being but for the domestic political process. We can expect the domestic policy process in Australia, over the next few years to become more, rather than less, susceptible to external exigency.

As a Free Trade Free Rider (which, as I noted, does not imply Australia does not ‘pay its dues’ to keeping the global order open rather than that it cannot, of its own accord, make a decisive contribution to keeping the system open), Australia will be one of those states, along with many LDCs, hardest hit by a major breakdown in the multilateral trading system and a drift towards stronger, more antagonistic GDAs. Should the system evolve into a ‘mixed’ one, closer towards the aggressively mercantilist end of a liberal-mercantilist spectrum - the most likely outcome I suspect - then the saliency of the economic dimension in Australia’s foreign relations will continue to rise. This will mean a greater distribution of resources towards drastic domestic adjustment - given that the measure of Australia’s ‘security’ will be its ability to sustain national economic well-being in the face of a changing global and regional division of labour. Our ability to look to security in the more traditional definitional sense will be dependent on our ability to safeguard national economic well-being in the wider sense.

3 There are as yet no studies of Australia comparable to the comparative path breaking work on Europe by Peter Katzenstein - see his Small States in World Markets, Ithaca, Cornell University Press, 1985.


Bateman, W.S.G. (1984), Australia’s Overseas Trade: Strategic Considerations, Canberra, Strategic and Defence Studies Centre, Australian National University.


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Calleo, David P. (1987), Beyond American Hegemony, the Future of the Western Alliance, New York, Basic Books.


74 The Evolving World Economy


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____ (1988), 'Trans-Regional Coalitions and International Regimes: The Cairns Group, Agricultural Trade and the Uruguay Round', The Australian Quarterly, 60(4).

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Miller, Geoff (1986), The Political Economy of Agricultural Policy Reform, Canberra, Department of Primary Industry.


Wolf, Martin (1986), Tiddling While GATT Burns: An End to the Free Trade Regime', The World Economy, 9 (March).
The aim of the Strategic and Defence Studies Centre, which was set up in the Research School of Pacific Studies in The Australian National University, is to advance the study of strategic problems, particularly those relating to the general region of the Indian and Pacific Oceans and South-east Asia. Participation in the Centre's activities is not limited to members of the University, but includes other interested professional and Parliamentary groups. Research includes not only military, but political, economic, scientific and technological aspects. Strategy, for the purpose of the Centre, is defined in the broadest sense of embracing not only the control and application of military force, but also the peaceful settlement of disputes which could cause violence.

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The Centre contributes to the work of the Department of International Relations through its graduate studies programme; and the Department reciprocates by assisting the Centre in its research.
comprehensive collection of reference materials on strategic issues, particularly from the press, learned journals and government publications, is maintained by the Centre.

The Centre also conducts seminars and conferences which have led to several volumes of published proceedings.
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Australia's position in the global economic order has undergone a process of dramatic transition over the last decade or so. This transition has implications with both economic and politico-strategic dimensions. Yet the linkage between these two dimensions has not been as well understood by scholars or practitioners as it should have been. This monograph attempts to provide a partial correction to this inadequacy. It details three key issues in contemporary international economic relations: (i) the nature of structural as opposed to relational power; (ii) the 'New' Mercantilism; (iii) the growth of Strategic Trade Policy; and considers their policy implications for Australia in the late 1980s and early 1990s.

The monograph concludes that the 'golden years' of economic stability from the end of World War II to the early 1970s need to be seen as an historical deviant rather than the norm and that Australian foreign policy makers need to plan for a system which, whilst not devoid of multilateral trading instruments, will continue to evolve towards the more aggressively mercantilist end of a liberal mercantilist spectrum, and in which the saliency of the economic dimension of Australia's foreign relations will continue to rise.