Troy State University at Fort Bragg

International Economic Integration: Less Threat to the Relevance of the Nation-State Than Thought

by

Tennie L. Williams-Harris

Thesis submitted to the Troy State University in partial fulfillment of the requirements for the degree of Master of Science in International Relations

Fort Bragg, North Carolina
June 23, 1999

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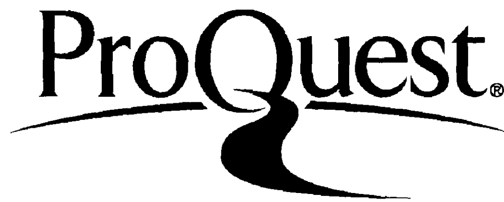

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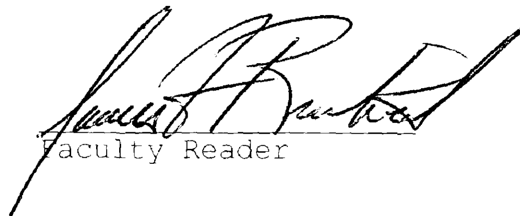
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Abstract

The volume of world trade currently exceeds $8 trillion per year. Some noted scholars have suggested that nation-states are losing their ability to operate autonomously due to the complexities of international economic integration. They believe the loss of autonomy will eventually render the nation-states irrelevant. If this is in fact true, we could be facing a transition that would change the world order as we know it. The nation-state would simply become a political figurehead in the international relations system.

In this study, I have reviewed some of the literature that exists regarding this issue and conducted an analysis that suggests that the nation-states may in fact be at less risk than thought by many. I, first, compared the powers of the nation-states to those of international economic institutions, and then, analyzed factors that slows economic integration.

I found that inherent powers, especially sovereignty, of nation-states ensures that they are at less risk of becoming irrelevant than thought. Nation-states remain in control even when they choose to exercise domestic policy only such as restricting the flow of goods through customs. Furthermore, there is no evidence that suggests that international economic institutions are becoming more

powerful as evidenced by their inability to settle disputes. And finally, international economic integration has many negative effects that slows integration when left unregulated by the nation-states. Some of those effects include increased illegal activity, debt, and environmental concerns.

My overall conclusion simply put is that nation-states are still held accountable for their economic decisions, that they still make the rules regarding these issues, and therefore, are at less risk than thought.

Acknowledgments

The successful completion of this thesis would not have been possible without a few very significant players in my life who inspired, encouraged, motivated, and mentored my thinking. They are: 1) the Troy State Faculty who exposed me to the international relations system, especially Professor David Hayes (my advisor); 2) my husband Mark who proofread countless drafts throughout the entire academic year; 3) my peers with whom I engaged in very thought provoking conversation; and 4) my parents Arthur and Charlotte Williams who have nurtured me all of my life.

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Chapter 1

Introduction

The phrase "internationalization of economic relations" is a fairly new term that was coined in the 1960s. Internationalization of economic relations is also referred to as "economic globalization", "economic integration", and "global integration". For the purpose of this thesis, I am specifically referring to the international exchange of goods and services.

In the 1960s, American multinational corporations began the globalization process by expanding into the markets of Western Europe and the European Economic Community (now the European Union). In order to avoid the tariffs of importing goods into a European country they established their factories there. The Europeans copied this practice in the United States and other countries. The Japanese and now the nonindustrialized countries emulated this practice in the United States (Spanier 1996, 385).

According to Krugman, author of *New Trade Theories,* international trade is the result of two forces: differences between countries, which give rise to comparative advantage, and economies of scale, which provide an additional incentive for specialization (Krugman 1993, 15).

Internationalization of economic relations includes but is not limited to the global exchange of goods and services, global management of funds and investments, and institutions designed as coordinating forums to establish agreements.

Some believe that the internationalization of economic relations advances political linkages, promotes the spirit of cooperation, economic growth, prosperity, and peace. Others believe that the internationalization of economic relations creates dependencies and interdependencies that will eventually undermine the nation-state and render it essentially irrelevant; in the sense that nation-states back down to economic pressures and lose their ability to make decisions and regulate their own respective economies. If this is the case, what will be the new world order? Let's now turn to and review some noted authors' positions regarding this issue.

Review of Literature.

The information contained in this review of literature is arranged alphabetically by author. The order in which it is presented has no bearing or significance regarding the issue at hand.

Adams, author of *The Institutional Economics of the International Economy,* suggests that it is unrealistic to expect that any responsible government will give any firm,

domestic or multinational enterprise (MNE), complete free rein to operate as it pleases. Adams also refers to Edward Safarian in his study who says that of ten European countries he considered, "France has had the most highly-developed policies toward foreign direct investment. Generally the French government has tried to retain a distinct French ownership presence in industry sectors like aerospace and telephone systems, "sometimes by easing out U.S.-owned firms as French capacities increased (Adams 1996, 114). In short, Adams believes that the nation-state will remain the primary actor in the international relations system.

In Chen's *Economic Effects of Globalization,* Kwan S. Kim states that "Global integration is among the main causes of rising inequality and poverty in many nation-states. Thus, growing disparities in income must be viewed as a market failure in an age of globalization. The state must become proactive rather than passively embracing the dictates of free trade. It has legitimacy for intervention—all in a political democracy—to alleviate the absolute and relative deprivations in society, which must be considered as an economic as well as a moral imperative.

Furthermore, in a global environment the conventional wisdom of comparative advantage must be understood in a

vigorous dynamic context. Sustainable international competitiveness for a national economy can best be assured by improving or developing their own technologies, management skills, and competitive, high valued-added export industries. In this context, redefining the role of the state in a global age will be critical to the very survival and prosperity of the South. The state must be actively involved, for example, in facilitating R&D efforts, developing cluster industries for technology innovations, promoting joint ventures for technology transfer, and accumulating human capital stock (Chen 1998, 133). In summary, Chen asserts that it is still the responsibility of the state to get a handle on its economy by keeping a firm hand in regulating its activities--regardless of change. The nation-states have the legitimacy for intervention.

According to El-Agraa, author of *Economic Integration Worldwide,* positive integration is mainly about non-tariff trade barriers and here harmonization is of paramount importance. Harmonization is a positive act. It requires not only concerted action, but also a certain degree of political commitment with implications for the sensitive issue of sovereignty as, for example, is the case in fiscal harmonization, monetary integration and the coordination of employment policies (El-Agraa 1997, 385). El-Agraa alludes

to the fact that the relationship between politics and economics are not mutually exclusive. Certain coordinations and concessions must be made to settle or resolve disputes. Therefore, the nation-state may not be the sole actor in the international relations system.

Georgakopoulos, author of *Economic Integration between Unequal Partners,* adds the following: economic unions are from the start not necessarily composed of countries of equal strength, size, or of similar motivations for joining; they will differ in financial structure, productivity, production activity and so forth. The births of the European Community and NAFTA and the emergence of a Pacific Rim alliance are all examples of unions resulting from both internal and external economic pressures. Once the process of economic integration reaches a global scale, economic blocs will have to strengthen their positions even more.

In a dynamic configuration of an economic union in gestation, made up of countries of different economic strengths and different financial structures, many questions arise. First of all, in this context what do 'economic globalization', 'economic integration', 'political union' and 'social welfare' mean? Can economic union be achieved without political union? How can the welfare of individual member states be taken into consideration?

To sustain consolidation in an ever competitive world, firms not only attempt to conquer international markets but to make sure that their presence is felt physically beyond their domestic borders through branch plants or more importantly through mergers. As international economic integration is forming, the old national political institutions are slowly yielding their power to economic force, while new trans-border institutions are being created (Georgakopoulos 1994, 188).

The main point of Georgakopoulos' argument appears to be that economic institutions will play a greater role in the international relations system in the future that will in fact reduce some of the nation-states autonomy.

According to Greider's *One World, Ready or Not*, national governments are losing ground, declining real wages, disappointing economic growth, perennial and growing deficits, under siege over the welfare state being obsolete. Multinational corporations' (MNCs) successes leads to weakened labor and degraded government control (Greider 1997, 16). He believes the essence of what is forming now is an economic system of interdependence designed to ignore the exclusive rights or privileges of nations, even the most powerful ones. The obsession with nations in competition misses the point of what is happening: the global economy

divides every society into new camps of conflicting economic interests. It undermines every nation's ability to maintain social cohesion. It mocks the assumption of shared political values that supposedly unite people in the nation-state (Greider 1997, 20).

Greider goes on to assert that the interdependence of the nation-state and the MNC could make the nation-state vulnerable to MNCs. In the event the nation-state does not act in a manner suitable to the MNC, they may pull up stakes and go elsewhere. Multinational corporations are loyal to their corporations, not the nation-states.

Greider obviously sees a direct conflict between economic institutions and the nation-state. He believes that economic institutions are out of control and has the potential to render the nation-state irrelevant.

Haggard and Kaufman, authors of *The Political Economy of Democratic Transitions,* argue that the course of both regime change and economic policymaking is ultimately determined by the strategic choices of key actors—the supporters and opponents of the incumbent government—as constrained by economic circumstances and existing institutions (Haggard and Kaufman 1995, 5). In short, they allude to the fact that economic institutions exert a

tremendous amount of pressure on the nation-state and have a profound impact its performance.

Hettne, author of *International Political Economy: Understanding Global Disorder,* states that without both state and market there would be no political economy. In the absence of the state, the price mechanism and market forces would determine the outcome of economic activities; this would be the pure world of the economist. In the absence of the market, the state or its equivalent would allocate economic resources; this would be the pure world of the political scientist (Hettne 1995, 3).

He further states that, state and market serves two incompatible functions. The logic of the market is to locate economic activities where they are most productive and profitable; the logic of the state is to capture and control the process of economic growth and capital accumulation (Hettne 1995, 3). The basis of Hettne's argument suggests that the nation-state and the market, regardless of the degree of internationalization, cannot exist without each other.

Leamer, author of *Static Heckscher-Ohlin Models of Partial Economic Integration,* examines the question "should governments intervene in international commerce"? 'Definitely not', has been the traditional answer offered by

economists, who have maintained that the substantial economic benefits coming from international commerce can only be reduced by government interference. According to this view, tariff and non-tariff barriers are devices primarily for redistributing income from one group to another (Krugman 1993, 33). This position holds that nation-states serves no legitimate function in the internationalization of economies. Thus, the nation-state is irrelevant.

According to Solomon, author of *Partners in Prosperity*, (a compilation of papers) offers three positions regarding the future of the nation-state. First, William McChesney Martin, former chairman of the Federal Reserve Board, recognized that "the national interest can no longer be pursued in isolation but is dependent on cooperative action in deference to the common good. It has become more and more clear that this involves no loss of sovereignty but rather a pooling of sovereignty.

Second, Richard Cooper makes the following point. Although policymakers continue to wield their policy instruments, central banks in individual countries have as much power as ever to alter the reserves of domestic banks and to change their discount rates. He, in making this point, prefers to say that "sovereignty" is intact since

policy instruments can be operated, but "autonomy" has been weakened (Solomon 1991, 95). Cooper concludes by saying that policymakers of each country are still in control of their own policy instruments, even if the fact of growing interdependence reduces their latitude to employ these instruments freely (Solomon 1991, 96).

Third and finally, Martin Feldstein states: "Because foreign governments will inevitably pursue the policies that they believe are in their own best interests, it was inevitable that international coordination would eventually collapse" (Solomon 1991, 96). This position suggests that the nation-state will prevail as the primary actor in the international relations system in the future.

Susan Strange, author of *The Retreat of the State: The Diffusion of Power in the World Economy*, presents three propositions: 1) there is growing asymmetry among allegedly sovereign states in the authority they exercise in society and economy; 2) the authority of the governments of all states has been weakened as a result of technological and financial change as well as the accelerated integration of national economies into one single global market economy; and 3) the fundamental responsibilities of the state in a market economy are now not being adequately discharged by anyone (Strange 1996, 14).

The last and most general work I will mention is that of Viotti and Kauppi, authors of *International Relations Theory: Realism, Pluralism, Globalism.* They define and discuss three theoretical schools of international relations which may dominate the post-cold war world political environment.

First, realists focus on the state as unitary and rational actor and on the actions and interactions of the state. Multinational corporations, terrorist groups, and other transnational and international organizations are frequently acknowledged by realists, but the position of these nonstate actors is always one of lesser importance. States are the dominant actors (Viotti and Kauppi 1993, 6).

Second, pluralists assume that nonstate actors are important entities in international relations. The state is not necessarily a rational and unitary actor but is composed of a multitude of competing bureaucracies, individuals, and groups. The agenda of world politics is extensive and goes well beyond security concerns (Viotti and Kauppi 1993, 7).

Third and finally, globalists focus on the importance of economy, especially capitalist relations of dominance or exploitation (Viotti and Kauppi 1993, 8).

Overall, all of these authors discuss cases that involves either the effectiveness of economic

internationalization, the speed of integration, or regional disputes. Although each work presents valid points and facts, I believe that Chen's and the Realists' point of views where the nation-states remain in control of their economies are more compelling and probable than the others. The following section describes how I will analyze the future of the nation-state.

Methodology and Organization.

Throughout the remainder of this thesis I intend to show that the internationalization of economic relations will not render the nation-state essentially irrelevant. I will do this by: 1) defining the inherent powers of the nation-state that makes it difficult to undermine and make irrelevant; 2) analyzing the speed of integration in terms of the percentage of trade in goods and services that account for the gross domestic product to determine whether or not it is a significant amount or if the amount is growing, and for negative trends that may slow the integration process.

The measure for success of the aforementioned points of analysis will be determined as follows. First, if the legal scope, function, and powers of the nation-state are clearly distinguishable than those of economic institutions and there are little or no indicators that international

institutions are becoming more powerful, then the nation-state is not at risk. Second, the nation-state is not at risk if negative trends slows its process. Third, the nation-state is not threatened if economic internationalization indicators suggests that the amount gross domestic products accounted for by imports and exports are decreasing, remaining the same, or slowly growing proportionately. I will show that nation-states for a number of reasons will not simply sit idly by and allow themselves to become absorbed into their economies and rendered irrelevant.

The main point to my analysis is to determine whether or not the nation-states are still making their own rules and decisions. I will draw final conclusions based on the compiled results of the entire analysis.

Chapter 2

Powers of the Nation-States Prevails

In this chapter I will show that powers inherent to the nation-state will guarantee its continued existence. I will accomplish this by (1) defining a few key terms and (2) comparing powers of the nation-state to those of international economic institutions.

Definitions.

The following definitions are key to understanding the arguments I will present throughout the remainder of this chapter. I will refer to these concepts as powers, with the exception of "irrelevant", from hence forward.

Authority. A legitimate right to direct or command and to make, decide, and enforce rules. The term authority has a moral or legal quality and, as such, can be distinguished from control by brute force or coercion (Viotti and Kauppi 1993, 574). This definition suggests that goals, conditions for interaction, and exchange between actors are defined by the entity that is declared as lawfully responsible.

Autonomy. Occurs in isolation, or independent of what is going on outside of a given country (Viotti and Kauppi 1993, 579). Autonomy is a matter of having the ability to make decisions at home without interfering with obligations to other countries.

Independence. Politically autonomous; self governing; free from influence, guidance, or control of others; self-reliant (American Heritage Dictionary 1983, 353). An actor is independent when it controls its investments, trade, currency, production, and is recognized as an equal authority.

Sovereignty. The supreme, independent, and final authority. The attribute of a state that refers to its right to exercise complete jurisdiction over its own territory. In international relations, states as sovereign units have a right to be independent or autonomous with respect to other states (Viotti and Kauppi 1993, 593).

For the sake of clarity, understand that: 1) an entity can possess one, any combination, or none of the following powers (authority, autonomy, or independence); 2) sovereignty implies all three; 3) the fewer powers possessed, the greater the risk of being undermined; and, 4) there are no absolutes in international relations. These points are important because nation-states are the only entities that are legally recognized as sovereign. Nation-states possess supreme and final decision making authority and therefore cannot be rendered irrelevant in the sense that they have do in fact directly relate to economic matters. They decide with whom they want to establish

relations and exchange, under what terms, and to what degree (illustrated in examples in the next section).

Nation-State Analysis.

In order to better understand the argument I am about to present, consider the following realist views of the world. These views allude to the power of history, culture, and tradition in the following sense. People of the world have struggled with conflict and change since the beginning of time. Most of these conflicts and changes arise from differences in ideology, territory, *economics*, religion, and ethnicity. Many sacrifices have been made throughout history to defend and preserve that which is thought of as sacred among peoples--the most serious being the loss of life and human suffering. For example, European political and *economic* domination began to collapsed under the strain of World Wars I and II (Spero 1990, 6) and new powers slowly began to emerge. As a result states became more selective with whom they interacted with, especially when the actor interfered with its domestic system. States assumed responsibility for the economic well-being of its citizens. People of the world today are the products of our ancestors' actions. That product includes the current ways we relate to one another and rule ourselves--meaning the nation-state. The sovereign nation-state's government is recognized by

peoples of the world as the legitimate authority to make decisions on behalf of its people. This includes the degree of economic integration. Simply put, economic institutions do not have this degree of authority; therefore, I am rejecting the globalist and pluralist arguments on the grounds that other entities do not possess the same leverage as the nation-states.

The globalist and pluralist suggest that change such as economic integration poses a threat to the relevance of the nation-state. I argue that (1) the economy is simply one element of a political system--each serving specific functions; (2) economic integration is nothing more than a concern for government policy making--national pride in many cases seems to outweigh economic challenges; and (3) it would take the actual loss of sovereignty to render the nation-state irrelevant. I will now discuss these arguments.

First, the people of the nation-states have charged and empowered their governments to attend to such matters, and to maintain order and social welfare. In the United States, the constitution is the framework that defines roles and responsibilities of the government and its key players. This includes not only economic issues, but human rights and cultural conflicts just to name a couple. "The state, not

the international system, bore the main responsibility for national stability and growth" (Spero 1990, 23). Governments achieve these objectives by establishing and enforcing rules, and exercising control over its *economy*, geography, military, natural resources, and population. This delegation of power indicates that the economy is a part of a greater political system in which the nation-state is responsible. In the case of the United States that would be democracy and capitalism. Economic growth when managed effectively can enhance conditions that may be elsewhere lacking in the political system regarding geography, military, natural resources, and population. For example, the potential exists to improve communications, transportation, and employment. The economy has a specific function. Whereas, nation-state governments are responsible for the system as a whole. In short, the nation-state cannot be irrelevant in the sense that it is directly responsible for the economic well-being of its citizens. To be irrelevant is "to have no relation to the subject or situation" (American Heritage Dictionary 1983, 369), and to be unable to make decisions.

Second, some nation-states will not compromise their sense of sovereignty and values for economic gain as evidenced by Libya, Sudan, Iran, Iraq, and Saudi Arabia.

Ideology (mostly Islamic Fundamentalism), modernization, and economic growth (integration) are in direct conflict in these states. They would rather live in harsh conditions than compromise their principles of life.

Nation-states can protect themselves from becoming irrelevant or vulnerable to economic institutions by exercising their authority to implement trade and monetary policies such as import and export control, protectionism, quotas, and taxation. For example, not all countries have followed open door policies regarding foreign direct investment. Japan, India, Korea, and Taiwan are very restrictive and have been highly selective in where they have allowed foreign direct investment and under what terms (Chen 1998, 88). We can conclude that economic growth is a concern for policy makers in these instances, however, nation-states still may opt to make decisions that perhaps slow growth to maintain the values of their political system.

Third, the following cases support both arguments two and three previously mentioned. European banks have plenty of reasons to consolidate. But national pride, regulation and tradition all get in the way. Apart from the euro, the root causes of bank's urge to merge are easy to see. Their traditional business is in long-term decline: on the asset

side, they face increasing competition from the capital markets. Although bankers in America and Britain have long been able to trim staff and branches through mergers, this has always been harder in continental Europe. Such cost-cutting is hampered by restrictive labor laws, combative unions and politicians who see mass lay-offs as a threat to the social fabric (Economist, 3/13/99, 83).

It is clear, in this case, that what the nation-state does domestically has international effects. This indicates that although some autonomy may be lost, sovereign powers prevail in the international relations system.

Furthermore, in spite of economic integration, nation-states experience social turmoil, civil unrest, and dissension among people especially as they relate to quality of life and standard of living issues (relative deprivation). To soften conflict and compensate for low industrial wages, the Japanese government constructed elaborate social-subsidy systems, public housing, and income supports that both ameliorated and controlled (Greider 1997, 87).

In this case, sovereignty was not compromised. The Japanese government did not concede to international competition and inequality. They made their own domestic

policy which in effect placed constraints on international integration.

Finally, let's take a look at multinational corporations. "Multinational corporations (MNCs) are those businesses that have a home base in one country and carry on operations through subsidiaries in other countries" (Ziring, Plano, and Olton 1995, 135). Multinational corporations (sometimes referred to as transnational actors) are somewhat dependent on nation-states. For instance, it is the nation-state that provides financial capital and raw materials, allows the MNCs to operate in its territory, and often controls the conditions that its population will work under. Also, when there is failure, it is the nation-state that bail the MNC out to continue providing income for their population as evidenced by the economic collapse of Iraq (Spanier and Wendzel 1996, 395). Again, nation-states create constraints on international integration merely by exercising its sovereign authority and domestic policy, thus, maintaining their relevance.

The bottom line to all of this is that the nation-state has and exercises the legitimate power (sovereignty) to make decisions regarding economic integration as evidenced by phrases such as "national pride, regulation, and tradition". Simply put, some nation-states accept further integration

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and others refuse as evidence by strained economic relations between the United States and the Middle East (Islamic Fundamentalism) region. There seems to be a sense of loyalty to the boundaries of the nation-states that drive its policy making such that, in many cases, compromise or concessions are not probable. Each country has its own set of rules and values to comply with which may account for some of the tremendous variance in overall economic performance between nation-states (see Table 2 page 36).

International Economic Institution Analysis.

Let's now assess the authority of international agencies such as the International Finance Corporation (IFC), International Monetary Fund (IMF), World Trade Organization (WTO), Association of South-East Asian Nations (ASEAN), European Free Trade Association (EFTA), Latin America Free Trade Association (LAFTA), and the North America Free Trade Agreement (NAFTA). Keep the following in mind during the analysis: 1) these institutions are comprised of sovereign nation-states from which they get their authority; 2) they are not superpowers; and, 3) they were created to promote economic development by providing forums to promote exchange stability, establish a worldwide payment system, stabilize currencies, and settle disputes.

They do not make decisions in the sense that they are not recognized as an international government (Spero 1990, 9).

Ziring offers the following thoughts regarding international institutions:

> "International organizations of great variety and institutions of varying degrees of integration exist in the contemporary world. It is difficult to assess the degree to which such institutions contribute to peace, international understanding, and well-being. Critics tend to polarize their views: one group prefers a unilateral approach to security and greater national flexibility in economic and social affairs, and the other views international organization as ineffectual and calls for a stronger union in the form of one or several federal arrangements. Supporters of international organization assert that it offers means by which states can achieve many objectives; in each case, however, the extent of cooperation necessary to produce useful results depends on the degree of common interest among the members" (Ziring, Plano, and Olton 1995, 327).

Cooperation and consensus are very difficult to achieve between diverse nationalities.

Let's now turn to and review a few current cases that illustrate the limitations of international economic institutions. First, the trade war between America and Europe over bananas, and a looming clash over hormone-treated beef, expose big weaknesses in world trade rules. America's patience with the European Union (EU) at last snapped on March 3rd. The EU failed to amend its banana-import rules to America's satisfaction. America's response: a knockout blow to imports of 14 European products. This move signals a crisis of confidence in the World Trade Organization (WTO), the supposed arbiter of world trade disputes. The immediate worry is that hostilities will break out on other fronts too. For example, America is fuming about the EU's ban on hormone-treated beef. It is unhappy with Europe's reluctance to embrace genetically modified food. A worse fear is that the WTO seems incapable of enforcing its rules. After all, the WTO has twice told the EU that its banana regime is illegal. But, it has not been able to bring the EU into line because its rules on compliance are so unclear (Economist, 3/6/99, 65).

It is clear, in this case, that international organizations are not very effective at settling disputes due to resistance on behalf of the nation-states. International organizations simply lack the authority to

settle disputes. Furthermore, other consequences seem to arise from these disputes that continue to strain relations between nation-states. These strained relations do not lend themselves to increased international integration.

Second, in return for citizenship, Britain's offshore dependencies are being asked to clean up their banks. But will that merely drive hot money elsewhere? Four Caribbean territories—Anguilla, the Cayman Islands, the Turks and Caicos and the British Virgin Islands (BVI)—plus Bermuda and Gibraltar depend in part on financial services and so are vulnerable to this charge. The Americans, in particular, are irritated by what they consider to be tax havens, some just off their coast, perfectly placed to launder the earnings of Latin American drug barons (Economist 3/20/99, 78).

This case raises the issue of illegal activities which if left unattended has the potential to corrupt the entire economic system. This is further complicated by cultural differences in the sense that what may be acceptable practices in one country may not be acceptable practices in another. International organization are again limited in their ability to define, resolve, and enforce these activities.

Third, the finishing line may be in sight in China's marathon negotiations to rejoin the world-trading system. But the final stretch will be grueling. It was excluded from the world-trading regime in 1950, just after the communist revolution, and for three decades pursued autarky. However, China has since become the world's tenth-largest trading nation. For 13 years it has been trying to get back into, first, the General Agreement on Tariffs and Trade, and then its successor, the WTO (Economist 4/3/99, 64).

This case raises the question of who decides who is allowed to participate in exchange and who is not. Do economically stronger powers carry more clout and leverage in making these decisions? If so, then the international organization is not truly international. This is a formula for strained economic relations.

As evidenced above, economic integration is not the solution to the world's problems. In fact, it creates new issues and tensions as it fixes old ones. Although they can create rules, limited authority and coordination difficulties are obstacles for economic institutions. This is indicated in the aforementioned cases by use of such phrases as "incapable of enforcing its rules", "rules on compliance are unclear", "hot money", and "excluded".

Sanctions alone simply do not work if the availability of alternative supplies exist. This became evident in 1979 when President Carter embargoed 17 million tons of grain from the Soviet Union. The Soviets simply bought their grain from Western Europe, Japan, and other countries (Spanier and Wendzel 1996, 347).

The bottom line to this argument is this: economic institutions simply provide a forum for settling disputes; decisions still rests with the nation-states.

Conclusion.

I am not trying to downplay the significance of economic integration in the sense that it generates revenue and creates jobs. However, I cannot ignore the following: 1) nation-states possess the powers of authority, autonomy, independence, and sovereignty powers while international economic institutions are limited in their powers; furthermore, there is no evidence that suggests that international economic institutions are becoming more powerful as evidenced by their inability to settle disputes; 2) it is the function of the nation-states to make final decisions regarding its economic welfare which is only a part of its political system, therefore, the nation-states maintain their relevance as evidenced by the absence of an international government; 3) resistance on behalf of the

nation-state will continue to limit economic integration as evidenced by domestic policies set by Islamic Fundamentalists and the resistance on behalf of European banks to consolidate; and 4) the globalist and pluralist schools do not fit in the cases discussed throughout this chapter because the state is clearly the primary actor as indicated by the European banks refusal to consolidate, and cooperation between nation-states seems to be slow and difficult to achieve.

States will no doubt survive the challenge of the new transnational business actor. The reason: each needs the other, even though some conflict between them is unavoidable. Their conflict is complementary. According to political scientist Samuel Huntington, "It is conflict not between likes but between unlikes, each of which has its own primary set of functions to perform. It is, consequently, conflict which, like labor-management conflict, involves the structuring of relations and the distribution of benefits to entities which need each other even as they conflict with each other. The balance of influence may shift back and forth from one to the other, but neither can displace the other (Spanier and Wendzel 1996, 394).

Chapter 3

Speed of Integration

In this chapter, I will show that not all that much has changed, particularly over the last fifteen years, regarding the speed of economic integration. International economic integration is slowed by many factors. I will do this by: 1) reviewing a few general facts; and, 2) conducting a world wide analysis and an analysis of the United States to using transnational crime, debt, trade and GDP as indicators. I will show that economic integration is not the ideal solution to the world's problems. In fact, it creates problems as it fixes them. Consequently, the nation-states are not at risk of being absorbed into the system because they are responsible for handling these problems.

General Facts.

Economic integration, although a new term, is not a new concept. Trade occurred centuries ago. We simply have become more efficient since industrial and technological advancements. The conditions of the world have not changed that much where all of a sudden the nation-state will be undermined and absorbed into a new world order (thus making it irrelevant). This is evidenced by the amount of fluctuations in economic performance (see Table 2 page 36).

The volume of world trade now exceeds $8 trillion per year. This means that about $900 million worth of goods and services are bought and sold among nations every hour. Consequently, one region experiencing and economic boom will stimulate the economies of other regions by increasing its purchases from them. One the other hand, let's not forget that the reverse could also happen. One region suffering an economic downturn will reduce imports from other regions and these areas, too, will face economic difficulties because of a decline in trade.

Although many benefits are shared as a result of economic integration, it also requires some painful adjustments. Trade can mean the loss of certain jobs, and the creation of others. An increase in imports, for example, may raise demands for protective tariffs and other trade restrictions.

In addition, the transition for lesser developed countries to a diversified economy can be long and difficult because of lack of funds and skilled workers. The financial demands of such and economic transformation often lead developing countries to seek outside sources for funding. The World bank and the International Monetary Fund have loaned money to countries in need.

Borrowing the money needed for economic growth has caused monumental debt in many parts of the world. Today, developing countries such as Mexico and Brazil are struggling to pay the interest charges on their loans. When loans cannot be repaid, banks often suffer huge losses. These losses can sometimes hurt business in the country in which a bank is located (Farah and Karls 1997, 1918).

It is clear that from the discussion thus far that, economic integration can and does produce many negative results. Some of them include: 1) intensifies relative deprivation; 2) increases competitiveness, not necessarily cooperation; 3) perpetuates exploitation and unequal growth; 4) increases transnational crime; 5) increases debts; and 6) cross border pollution.

First, the benefits from a global economy will likely be uneven across socioeconomic classes within the domestic economy: capitalists will be pitted against workers; and withing the working class, skilled workers against unskilled. The income gap between capitalists and laborers is caused by increased global competition, which induces the domestic corporations to seek access to low-wage labor pools in developing countries, forcing down wages for unskilled domestic workers. Furthermore, faced with global competition, manufacturers are forced to seek new

technologies, which tend to be labor-saving and to raise demands for highly skilled workers at the expense of unskilled ones (Chen 1998, 120). In addition, some believe that economic integration has negative effects such as exporting jobs instead of goods, allowing tax revenues to escape, and impairing domestic economic development by sending capital abroad instead of using it at home (Spero 1990, 117). In these cases, it is obvious that relative deprivation, unequal growth, and competitiveness all create increased tensions, not cooperation, among players.

Second, custom violations, smuggling, product piracy, arms trafficking, money laundering, and drug trafficking are just a few of the illegal activities that increase as international economic integration increase regarding transnational crime. The criminal narcotics industry, alone, ranks among the wealthiest and most powerful multinational business conglomerates in the world, grossing an estimated $500 billion a year. To put this into perspective, U.N. Secretary General Koffi Anan recently claimed that the illegal narcotics industry is greater than the global oil and gas industry and twice as large as the overall automobile industry. The effects of this worldwide, highly integrated industry have been felt from Colombia to Thailand, from Afghanistan to Sudan and from Russia to the

United States (Global Organized Crime Website 05/17/99). In addition, customs violations are still a large problem as reported by the U.S. Department of Justice. They have been sporadically increasing since 1979 (Maguire and Pastore 1998, 372).

Third, nation-state have many international economic development agencies on which they can call upon for assistance during economic crisis such as: the International Bank for Reconstruction and Development (IBDR), International Development Association (IDA), International Finance Corporation (IFC), and Regional Banks, external debt still remains a serious problem in many nation-states (see Table 1 below). In spite of all of this available assistance, debt has risen approximately 215 percent in fifteen years (World Bank Website 1997).

TABLE 1: External Debt

	1980 in Millions of $	1995 in Millions of $
Sub-Suharan Africa	84,119	226,483
East Asia and Pacific	64,600	404,458
South Asia	38,014	156,778
Europe and Central Asia	87,919	425,319
Middle East and N. Africa	83,793	216,046
Latin America and Caribbean	257,266	636,594
Total Debt	651,711	2,056,676

Source: World Bank Website

Finally, another social issue that poses a problem to the nation-state is that of cross-border pollution. Industrial development and expansion coupled with nation-states' desire for economic growth have contributed to environmental concerns such as global warming, depletion of the ozone layer, acid rain, air and water pollution, and the depletion of natural resources. Chlorofluorocarbons (CFCs) were once used to clean circuit boards. Scientists later determined that CFC contributed to the depletion of the earth's ozone layer. Taiwan, Hong Kong, and the United Kingdom would not buy or sell products that contained CFC. Nation-states have the authority to pass laws to protect the environment. For example, "The Superfund law that regulates the disposal of toxic waste in the United States can penalize a firm for something it may have done twenty-five years ago. There's nothing to prevent environmentally permissive countries today from passing that kind of law in the future" (Schoell 1993, 126). Once again, we see that the nation-state is called upon to accept responsibility and exercise its authority to control and protect its environment.

World Wide Analysis.

There is no indication that greater amounts of trade produces higher GDPs as evidenced by the lower income

economies when measured against the higher income economies. (See Table 2 page 36). For example, Mozambique shows 102 percent of their GDP ($1,469 million) is accounted for by trade. Whereas, Japan shows 17 percent of their GDP ($5,108,540 million) is accounted for by trade (World Bank Website 1997). Although, Mozambique's trade volume is higher, Japan's GDP is astoundingly higher.

Overall, the average annual gross domestic product (GDP) growth rate is down despite increasing integration in trade. In addition, 48 countries decreased their annual export volume, 3 countries remained the same, 36 countries decreased their annual import volume, 2 remained the same, and 46 countries showed a decrease in the percent of their GDP accounted for by trade (World Bank Website 1997). Overall, 75 countries showed some decrease in their volumes of trade.

Furthermore, other issues overshadow and interfere with economic development and integration. For example, ethnic cleansing, factional violence, human rights issues, civil unrest, and self-determination in the cases of Rwanda, Sierra Leonne, Haiti, and Russia. Resolution and stability must occur before economic development and integration can be effective. History, however, indicates that once a situation is quelled in one place another arises somewhere

TABLE 2: World Economic Integration Indicators

		Trade (% of GDP)		Export Volume (% Avg Annual Growth Rate)		Import Volume (% Avg Annual Growth Rate)	
		1980	1995	1980-90	1990-95	1980-90	1990-95
Low Income Economies							
1	Ethiopia	27	39	**1.2**	**-9.4**	**3.3**	**-3.3**
2	Burundi	32	43	**7.4**	**-4.8**	**1.4**	**-14.6**
3	Malawi	64	69	**0.1**	**-1.8**	**1.3**	**-1.6**
4	Chad	**65**	**46**	**5.4**	**-10**	**10.5**	**-12.1**
5	Rwanda	**41**	**32**	**5.6**	**-19.6**	1.3	-1.9
6	Sierra Leone	**62**	**40**	**-2.1**	**-4.3**	-9.9	-1.1
7	Niger	**63**	**30**	-6.4	-2	-4.5	2.5
8	Burkina Faso	43	45	**5.4**	**1.3**	2.1	8.3
9	Madagascar	43	54	**-0.1**	**-6.8**	**-4.6**	**-5.6**
10	Uganda	**45**	**33**	-1.4	3.9	-0.6	28.7
11	Guinea-Bissau	**52**	**48**	**-5.1**	**-18.3**	**1.3**	**-5.4**
12	Haiti	**52**	**17**	**-2.9**	**-11.2**	**-4.4**	**-6.8**
13	Mali	**51**	**38**	**2.6**	**-3.7**	**1.2**	**-3.4**
14	Kenya	67	72	2.6	16.6	**1.1**	**-5.6**
15	Togo	**107**	**65**	4.9	9	**1.1**	**-11.2**
16	The Gambia	**119**	**103**	2.3	26.9	1	9
17	C. African Republic	**69**	**46**	2.5	3.5	**6**	**-3.3**
18	India	17	27	6.3	7	**4.5**	**2.7**
19	Benin	**66**	**64**	**7.7**	**-0.3**	-6.3	29.4
20	Nicaragua	68	76	**-4.4**	**-8.7**	-4.1	7.3
21	Zambia	87	71	-3.5	26.9	**-5**	**-6.2**
22	Angola	**	132	**11.3**	**4.2**	**-3.4**	**-4.1**
23	Pakistan	**37**	**36**	**9.5**	**8.8**	2.1	10.3
24	Mauritania	**104**	**104**	**7.8**	**3.5**	1.1	4.4
25	Zimbabwe	64	74	**2.2**	**-6.6**	**-2.2**	**-5.1**
26	Senegal	**72**	**69**	2.6	3.6	1	6.1
27	Cameroon	**54**	**46**	**4.5**	**-1.7**	**-1.4**	**-11.2**
28	Cote d'Ivoire	**76**	**76**	**3.3**	**-7.5**	-4	5.4
29	Sri Lanka	**87**	**83**	6.3	17	2	15
Middle Income Economies							
30	Lesotho	**143**	**138**	**	**	**	**
31	Egypt, Arab Republic	**73**	**54**	-0.2	-0.1	**-0.7**	**-2.9**
32	Indonesia	**53**	**53**	5.3	21.3	1.2	9.1
33	Morocco	45	62	**4.2**	**0.8**	**2.9**	**1.7**
34	Syrian Arab Republic	54	**	**6.4**	**-3.2**	-9.3	22.3
35	Guatemala	**47**	**47**	-1.3	8.2	-0.6	19.3
36	Dominican Republic	48	55	**-1**	**-10.2**	2.6	8.9
37	Romania	**75**	**60**	-6.8	-4.7	**-0.9**	**-5.3**
38	Jordan	**	121	**7.4**	**7.1**	-3.1	13
39	Algeria	**65**	**57**	**2.5**	**-0.8**	**-5.1**	**-5.7**

TABLE 2. World Economic Integration Indicators (Continued)

		Trade (% of GDP)		Export Volume (% Avg Annual Growth Rate)		Import Volume (% Avg Annual Growth Rate)	
		1980	1995	1980-90	1990-95	1980-90	1990-95
Middle Income Economies							
40	El Salvador	**67**	**55**	-2.8	13	1.3	16.2
41	Paraguay	44	82	**9.9**	**-1.9**	3.2	7.3
42	Colombia	32	35	**9.7**	**4.8**	-1.9	22.3
43	Namibia	**142**	**110**	**	**	**	**
44	Peru	**42**	**30**	-1.9	11	-1	12.1
45	Turkey	17	45	**12**	**8.8**	**11.3**	**11.2**
46	Poland	**59**	**53**	**4.8**	**3.9**	1.5	26.4
47	Botswana	**116**	**101**	**11.4**	**-0.8**	**7.7**	**-5.6**
48	Venezuela	**51**	**49**	**1.6**	**-0.1**	-6.1	19.3
49	South Africa	**64**	**44**	0.9	2.8	-0.8	5.3
50	Mauritius	113	120	**8.6**	**2**	**11**	**2.5**
51	Brazil	**20**	**15**	6.1	6.6	-1.5	8.5
52	Trinidad and Tobago	**89**	**68**	-4.3	4.9	-12.1	8.1
53	Hungary	**80**	**67**	**3**	**-1.8**	0.7	7.9
54	Oman	**100**	**89**	**13.1**	**9.8**	-1.6	18.5
55	Uruguay	36	41	**2.9**	**-3.1**	-2	21.7
56	Saudi Arabia	**101**	**70**	-8.2	4	-8.4	5.9
57	Argentina	12	16	**3.1**	**-1**	-8.6	45.8
High Income Economies							
58	Republic of Korea	**74**	**67**	**13.7**	**7.4**	**11.2**	**7.7**
59	Portugal	61	66	**12.2**	**0.5**	**9.8**	**2.4**
60	Spain	34	47	6.9	11.2	**10.1**	**5.3**
61	New Zealand	**62**	**62**	3.6	5.4	4.6	5.5
62	Israel	**91**	**69**	5.9	10	4.6	12.3
63	Kuwait	**113**	**104**	-2	42.3	-6.3	23
64	United Kingdom	52	57	**4.4**	**1.8**	**6.3**	**0.9**
65	Italy	47	49	4.3	6	**5.3**	**-1.7**
66	Finland	67	68	2.3	8.7	**4.4**	**-1.9**
67	Hong Kong	181	297	**15.4**	**15.3**	11	15.8
68	Netherlands	**103**	**99**	4.5	5.8	**4.6**	**4.3**
69	Belgium	128	143	**4.4**	**4.2**	**4**	**0.3**
70	France	**44**	**43**	**4.1**	**2.3**	**5**	**0.8**
71	Austria	76	77	**6.4**	**3.9**	**5.8**	**1.9**
72	Germany	**	46	**4.6**	**2.2**	**4.9**	**2.9**
73	Denmark	**66**	**64**	4.4	5.4	**3.6**	**3.4**
74	Norway	**81**	**71**	6.8	6.5	**4.2**	**0.7**
75	Japan	**28**	**17**	**5**	**0.4**	**6.5**	**4**
76	Switzerland	**77**	**68**	**6**	**3.3**	**4.9**	**-6.7**

Notes: Bold indicates remained the same or decreased and ** represents data not available.

else. Therefore, the likelihood of faster of total integration is not likely to occur soon.

The cases above indicates that the speed of integration is not increasing at alarming rates.

United States Analysis.

Figure 1 (see page 39) represents the compiled data for the United States contained in Table 3 (OTEA January 1999). The following four patterns are illustrated in this line graph.

First, we see a rather moderate and continuous increase in the total U.S. GDP between 1980 and 1997. The average increase per year is 313 billion dollars. The overall increase between 1980 and 1997 is 5326.7 billion dollars. That is an increase of approximately 192 percent.

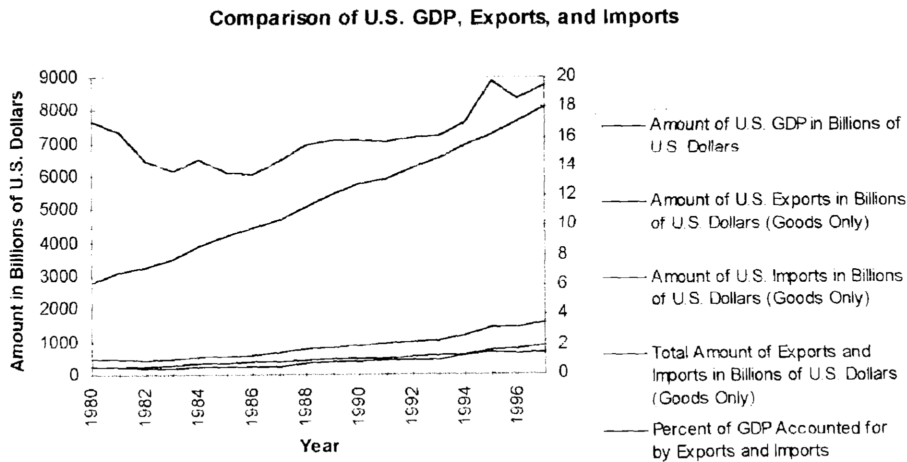
Second, with the exceptions of slight dips noted in 1982, 1983, 1985, and 1996, we see a gradual and continuous increase in the total amount of U.S. exports. The average increase per year is 27.2 billion dollars. The overall increase between 1980 and 1997 is 462.5 billion dollars. That is an increase of approximately 205 percent.

Third, with the exceptions of slight dips in 1982 and 1991, the import data also shows a gradual and continuous increase between 1980 and 1997. The average increase per year is 37.7 billion dollars. The overall increase between

TABLE 3: United States Economic Indicators

Year	U.S. GDP in Billions of $	U.S. EXPORTS in Billions of $ (Goods Only)	U.S. IMPORTS in Billions of $ (Goods Only)	Total Trade in Billions of $ (Goods Only)	% of GDP Accounted for by Trade
1980	2784.2	225.8	248.6	474.4	17.0390058
1981	3115.9	239.1	267.8	506.9	16.2681729
1982	3242.1	215	250.5	465.5	14.3579779
1983	3514.5	207.3	272.7	480	13.6577038
1984	3902.4	225.6	336.3	561.9	14.3988315
1985	4180.7	222.2	343.3	565.5	13.5264429
1986	4422.2	226	370	596	13.4774547
1987	4692.3	257.5	414.8	672.3	14.3277284
1988	5049.6	325.8	452.1	777.9	15.4051806
1989	5438.7	371.7	484.5	856.2	15.7427326
1990	5743.8	398.5	508	906.5	15.7822348
1991	5916.7	426.4	500.7	927.1	15.6692075
1992	6244.4	448.7	544.9	993.6	15.911857
1993	6558.1	459.7	592.8	1052.5	16.0488556
1994	6947	609.6	570	1179.6	16.9799914
1995	7269.6	683.8	757.6	1441.4	19.8277759
1996	7661.6	618.3	809	1427.3	18.629268
1997	8110.9	688.3	888.3	1576.6	19.4380402

FIGURE 1: U.S. GDP, Exports, and Imports



1980 and 1997 is 639.7 billion dollars. That is an increase of approximately 257 percent.

Finally, we see that: 1) the total amount of exports and imports fluctuated between 13 and 20 percent between 1980 and 1997; 2) on average 16 percent of the GDP is accounted for by exports and imports between 1980 and 1997; 3) there has been an overall increase in exports and imports of 2 percent in eighteen years; and, 4) the GDP is growing slightly faster than the exports and imports.

The bottom line to all of this is that integration and GDPs are increasing slowly and proportionately. Thus, posing no threat to the nation-state.

Conclusion.

The speed of economic integration is not overwhelmingly increasing. The tensions arising from the negative effects of economic integration slow the process. It is gradual, slow, and proportionate to other economic indicators such as exports, imports, and GDP. In addition, other issues such as political uprisings, and civil unrest interferes with and slows economic integration.

Chapter 4

Conclusion

In chapter 1, I discussed various points of views regarding the future of the nation-state and its relevance regarding international economic integration. Some believe that the complexities of international economic integration will undermine the authority of the nation-states and render them irrelevant. Others believe that international economic integration is nothing more than another issue in which nation-states are responsible for controlling.

Obviously, economic institutions and organizations generate revenue and may therefore exert pressures on the nation-state. However, it is unlikely to replace or render the nation-state irrelevant as evidenced by the following reasons.

In chapter 2, I show that the nation-states will not stand idly by and allow the pressures of economic institutions associated with international economic integration to continue without establishing at least domestic controls. Nation-states have political powers such as sovereignty that allows them to restrict or even refuse transactions and exchanges when they are not in accordance with their satisfaction. For example, the European banks have resisted consolidation and Japan has restricted foreign

direct investments. These domestic controls tend to slow the integration process. Furthermore, there is no evidence that suggests that international economic institutions are becoming powerful enough reduce the authority of the nation-states. This is evidenced by their inability to resolve disputes; specifically, the World Trade Organization.

In chapter 3, I show that international economic integration is not just a matter of dollars and cents. It can be a social issue as well. For example, it can cause inequalities, perpetuate illegal activities, create debt, and raise environmental concerns that eat away at our social fabric. These trends result in strained and very controlled international economic relations. For instance, customs screening prevents many items from even crossing international borders. In addition, there is no evidence that suggests that economic integration is growing at alarming rates as indicated by reductions in volumes of import and export activities in many countries and proportionate levels of growth in relation to their gross domestic products. Furthermore, increased volumes of trade does not necessarily produce higher gross domestic products as evidenced in the cases of Mozambique and Japan. This fact alone can cause nation-states to reject increased rates of integration.

D'Amato sums up the issue of international economic integration like this, "the increase in cross-border financial and economic activities does not equate to rendering the nation-state irrelevant. Territorial states remain the predominant political actors in our world, although their interactions are becoming bewilderingly complex and their operational reach increasingly extraterritorial" (D'Amato 1994, 414). The nation-state is needed, still sets the rules for interactions, and is therefore not at risk of becoming irrelevant.

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