

The background of the cover features a light yellow-to-white gradient. Scattered across this background are several stylized, light green leaf motifs, each consisting of two leaves on a short stem, arranged in a diagonal pattern from the top left towards the bottom right.

THE NEXT COLD WAR?

American Alternatives for the
Twenty-First Century

Jim Hanson

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TWENTY-FIRST CENTURY

Jim Hanson

PRAEGER

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Preface

Americans live in a problematic time. We no longer can act according to our cold-war past and assumptions about the world, but neither do we know how to act in a post-cold-war future. Should we contain Russia and China as cold-war adversaries of the past, or should we embrace them as partners in a new era of international cooperation? Should we intercede in Bosnia, Cambodia, and other troubled areas as we did when leading the free world, or should we defer to the United Nations? Should we subsidize developing nations with trade and aid, or should we compete to acquire their assets and win their markets? Should we withdraw from world commitments and pay more money and attention to our domestic problems?

Few Americans want to return to a cold-war era of superpower confrontation and geopolitical power plays. We would rather befriend the Russians and Chinese to the point of providing billions of dollars of aid and overlooking their totalitarian tendencies. We would rather turn over the role of global cop to the United Nations. We would prefer to abide by international law and agreements such as the World Trade Organization (WTO, formerly known as the General Agreement on Tariffs and Trade [GATT]). We would like to forget about most world problems and concentrate our attention and resources on the domestic problems related to economy, health, environment, and crime.

Yet the cold-war impulse remains in the recesses of our political and economic policies. A faint but reverberating national consciousness calls us to continue our geopolitical power strategies—to expand alliances such as the North Atlantic Treaty Organization, to provide armaments to dozens of countries, and to maintain the world's most expensive military force. Almost by habit, we pursue similar geoeconomic power strategies—to build competitive regions such as the North American Free Trade Agreement (NAFTA), to nego-

tiate bilateral trade deals to the point of starting trade wars, and to impose development policies on the less developed nations.

In sum, by failing to respond to the post-cold-war era, we may be living in our past and bringing about the next cold war.

While most Americans appear to be aware of the political policies and choices that threaten another cold war, they appear to be comparatively naive about the economic policies and choices that have the same effect. They do not regard NAFTA as a protectionist regional strategy to compete against other regions, or bilateral trade deals as a repudiation of WTO, or development policies as harmful to the less developed countries.

This is not to say that everything about NAFTA is protectionist, that all bilateral trade repudiates WTO, or that our development policies are completely exploitive. But the potential is there to provoke conflict rather than cooperation, to undermine rather than support international order, and eventually to bring about the next cold war.

I approached this problematic time by considering our cold-war past and exploring alternatives that would unite rather than divide the world. In *The Decline of the American Empire* (1993), I explored American behavior in early history and through the cold-war years as that of an informal empire.¹ However, empires even of the informal variety probably cannot survive in the post-cold-war world of the twenty-first century. The European colonial empires failed to survive the twentieth century. The Soviet empire crumbled because of imperial overstretch and the exhaustion of its economy. The United States survived the cold war as a de facto empire, but at the cost of enormous debt and loss of competitive capability in the world economy.

As a world power if not an empire, the United States may be inclined to continue to pursue a strategy of naked national interests and balance of power as urged by Henry Kissinger.² It may pursue such a strategy both in its exercise of geopolitical power and in its less familiar exercise of geoeconomic power. To compete head to head with Europe, Japan, and other economic powers, the United States is forming NAFTA to defeat its competitors. It seems just as sensible to want to win the global economic war as to win the cold war. But troublesome questions remain, and new questions emerge about American geopolitical and geoeconomic power and its exercise in a post-cold-war world when global survival requires new levels of cooperation.

This book attempts to address these questions and to propose some American alternatives for the twenty-first century. Economic questions include the following: Will the United States extend NAFTA beyond Canada, Mexico, and its territories? How would the proposed Western Hemispheric Free Trade Agreement relate to other economic regions in Latin America? How would it relate to the European Union, Asia-Pacific Economic Cooperation, and other economic regions? How would it relate to international organizations such as WTO, the World Bank, and the United Nations?

Larger strategic questions arise: Will the United States be a world leader

that promotes cooperation and world unity, or will it be a regional leader that provokes competition and world division? Will it continue to serve the interests of the developed countries primarily in the North at the expense of the less developed countries primarily in the South? Will its imperial instincts and habits of two hundred years continue to drive it to exercise control over the Caribbean, Middle East, and Pacific? Will it continue to act as the world's peacekeeper in "peripheries" or "fringes" as far-flung as Bosnia, Korea, and Iraq? Will it contribute positively to solutions for the more determinate causes of world problems, which are not about financial markets, political stability, or military power but about overpopulation, environmental deterioration, and economic development? Will it lead the world to an unprecedented era of international cooperation and peace, or will it contribute to the coming of the next "cold war"?

While the questions and answers are my own, I want to thank my good friend and colleague, Paul Sultan, for reading the draft and guiding me, especially with the economic answers. Also, I would like to thank my fellow members of the St. Louis Economic Conversion Task Force for their stimulating discussions over the past three years.

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Part I

WORLD ORDER

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Reconsiderations

Nothing in history is inevitable. There can and will be a Second American Century if Americans want it, if they are again stirred by the “blood of purpose and enterprise and high resolve.”

—Henry Grunwald
“The Second American Century,” 1990

THE NUMBER 1'ERS

The cry still echoes: The cold war is over! The Soviet Union lost! The United States is number one!

The afterglow still warms our national pride. For most of the number 1'ers and optimists—except Fukuyamians forlorn about loss of the good old days (more about them later)—it is a happy time. While it marks the demise of ideology and history, it caps the triumph of American-style capitalism and democracy.

It seems Henry Luce was right all along: The twentieth century is the American century; the twenty-first century will be another American century; America, winner of the cold war; America, number one! Joining Henry Grunwald in leading the cheers is the effervescent Ben Wattenberg:

We won the cold war. It didn't just end. We won it because we stayed strong, because we rallied our allies, and because we were right. We ought to understand that and say it. It was probably the most titanic ideological struggle in the history of this planet, surely the most expensive, and we won it. No more of that panty-waist stuff about how one day it just ended. . . .

We are the first universal nation. "First" as in the first one, "first" as in "number one." And "universal" as within our borders and globally.¹

The euphoria about winning and boasting of being number one evoke a sense of historic *deja vu*. As the great war to end all wars, World War I was to mark the beginning of a new world order based on the Fourteen Points of Woodrow Wilson and headed by the League of Nations. As a triumph of democracy over tyranny in Asia as well as Europe, World War II was to stabilize a world of universal democracy governed by the United Nations and universal prosperity established through the Bretton Woods economic agreements. It evoked Arnold Toynbee's conclusion that Western civilization alone was prevailing over the remaining civilizations in the world.²

Like their predecessors after other wars, the number 1'ers are fueling the flames of nationalism, regionalism, and divisiveness; their jingoism is undermining their own belief in the universal nation or an America-led universal system. As regenerationists (a political identity drawn from the Reagan presidency), they are causing the goodwill that could be generated after the cold war to degenerate. Their bragging is alienating the Russians, who took it upon themselves to dismantle the Soviet empire and who now are insulted as losers and spongers of Western aid. Their nationalism is inciting the Japanese, who are characterized as greedy and provincial money-grubbers, imitators or thieves of technologies, freeloaders on American defense, sycophants in foreign policy, and work animals having no soul and living in rabbit hutches. Some of this is raw racism, which is applied to the Chinese as well. Their cultural superiority is insulting the Muslims and encouraging Muslim-Confucian cooperation in military as well as economic trade. What are being regenerated are a return of regional hostility and the possibility of another cold war.

Number 1'ers and regenerationists proclaim the world triumph of American-style democratic industrial civilization. But glory is fleeting, and the triumph is fading into history as the post cold war future becomes increasingly problematic for victors as well as vanquished.

DECLINE RECONSIDERED

With the collapse of the Soviet empire, American power seems to be number one in the world. Russian officials now stand outside and beg for assistance at the end of Group of Seven (G-7) meetings, and they submit to the austerity measures of the International Monetary Fund. Bereft of Marxist ideology or material assistance from rival states, leftist guerrilla groups are unable to contest American power; Cuba is the most notable, and most pitiable, holdout. The Eastern European countries and the former Soviet republics are seeking American and European goodwill and assistance. Even China, the last major communist state and traditional holdout against Western influence, is encouraging free markets and signing free trade agreements. Since the Persian Gulf

War, American dominance has brought Kuwait and Saudi Arabia into its sphere, which already includes Egypt and Israel.

Believers in expanding American power are not confined to number 1's and regenerationists who extol American democracy and capitalism. A critic of American power, Susan Strange, argues that American economic expansion is continuing. The expansion is difficult to tabulate because it is occurring in less-developed economies which lie beyond formal territories but which are dominated by American corporations. She concludes, "What is happening is that the American empire is spilling out beyond the frontier and that the very insubstantial nature of frontiers where production is concerned just shows the consolidation of an entirely new kind of non-territorial empire."³

The issue of growth versus decline is sensationalized by hortatory optimists and pessimists. On the extreme growth side are Pollyannas such as John Naisbitt and Patricia Aburdene who pronounce unlimited growth and good times.⁴ On the extreme decline side are Jeremiahs such as Raveendra Batra who foretell economic apocalypse.⁵ In the aftermath of the post-cold-war euphoria, the optimists carry the day.

As a nervous optimist, Samuel P. Huntington has made a more serious attempt to refute the "declinists." Many things are in decline, he admits—trade deficits, budget deficits, American ownership of American assets, manufacturing in most industries, worker productivity, savings, and investment. These indicators appeared in the 1980s, he argues, because of the misguided policies of the Reagan administration; therefore, they will disappear in the 1990s.⁶ But most indicators continue to register decline in the 1990s; the trends are established; prosperity for the next generation already is affected; even if the trends ended next year, the case for decline is made. If decline is temporary, it is temporary on a long-term basis.

The issue is not a unidimensional question of how much growth or decline. It is a complex of trends and conditions that must be analyzed from the standpoint of relative time and point of reference. One may be optimistic in the short or intermediate term by the upturn in the business cycle but pessimistic for twenty years or more when business cycles even out and yield to long-term trends. Identifying a point of reference is even more important. One may be optimistic about most trends which point upward even when adjusted for population growth and inflation, but pessimistic about the same trends which show declining shares of world economic performance and resources.

The relevant reference point here is that most long-term trends are up relative to past American performance, but are down as a percentage of world performance. The other question of reference is the scale of performance being sought. Resources are at hand to achieve domestic objectives, but they are no longer at hand to achieve most worldwide objectives. If domestic objectives are the reference, one may talk about growth and be optimistic; if world objectives are the reference, one must talk about decline and be pessimistic. Henry Nau makes a similar point: "The key question for America in the future is not

whether its power has declined but what purposes it seeks to achieve in the world community and what specific economic policies it intends to follow.”⁷

What is disturbing is the American habit of thinking and acting as an empire, which is acquired from its past of being a rather typical empire throughout the nineteenth century and an informal empire during the cold war. It is continuing to behave, if not as an informal empire, then as a superpower, mostly because of its superior military technology and power. Yet its comparative size measured in commercial technology and economic power is very different. It is commonplace to say that the world gets smaller; modern transportation and communication reduce its geography to jet-propelled time and electronic space. But from the standpoint of the United States as an empire or superpower, the world is getting larger.

The postwar economic growth of Western Europe and Japan is a familiar success story. Most Asian and Middle Eastern economies are growing at rates greater than that of American economic growth—especially the Asian rim countries, China, and oil-rich Arab countries. American economic power is declining relative to that of the other developed and developing nations of the world. These postwar rivals are not American enemies but friends who press their challenge to what was once American hegemony in world economic markets. And not all the indicators of decline are relative. Federal debt alone exceeds \$4 trillion, which is more than half of the gross national product each year and which is \$16,000 per capita. During the last fifteen to twenty years, bankruptcies have increased, the poverty rate is up, and workers’ real earnings are down.

The American decline seems to be occurring more quickly than that of most large empires, more than that of the Roman empire and parallel to that of the recent British empire. This is typical of modern empires, whose developmental stages of growth and decline are more amorphous and more accelerated—more amorphous in the sense of intertwining with other countries, international institutions, and a global economy; more accelerated in the sense of changing economic fortunes in a global economy, as evidenced by the United States’s swing from being the largest creditor nation to the largest debtor nation in the single decade of the 1980s.

Number 1’ers may brag about winning the cold war, but the reality is that no one won. While the Soviet Union lost, the United States only survived. It is burdened with huge corporate as well as federal debt, large trade deficits, weakening currency, bad loans and investments in the less-developed countries, high foreign investment and low saving in its domestic economy, stagnant domestic manufacturing, and insufficient research and development for commercial uses. Handicapped during the cold war, many American corporations may be unable to compete in the current “corp war.” American assets and revenues are becoming a smaller part of a larger world.

Another test of American power is its capability for solving world problems.

The geopolitical problem of world order appears to emanate from the current transition between the cold-war order maintained by the United States and Soviet Union as world superpowers and some yet-to-be-established post-cold-war order. And sheer physical problems emerge, the solutions for which are now beyond the capacity of American resources. About half of the nations of the world are experiencing negative or stagnant economic growth, and 100 million people are added to the world population each year. The ozone layer is deteriorating, and the global atmosphere is warming, both aggravated more by the United States than by any other single nation.

It is often said that the nineteenth century was the British century and that, with Henry Luce's proclamation, the twentieth century is the American century. Many say that the twenty-first century will be the European century; others that it will be the Asian century. With the exception of the number 1'ers and optimists, few see it as another American century. It will take at least a full generation for the United States to lick and heal its cold-war wounds—to pay for the costs, debts, and lost opportunities incurred during the cold war and to rebuild American education, technology, infrastructure, finance, and industry.

The twenty-first century may become the first world century. This may be a welcome wash for all the rivals concerned and a step forward for the world at large. This may reflect the nationalist optimism not of number 1'ers but of world joiners. Then again, the twenty-first century may be a century of regenerated cold war and world conflict. This may reflect the pessimism of realists who see the continued exercise of self-interested geopolitical and geoeconomic power of the United States and its rivals, all struggling for world dominance.

RESPONSE TO DECLINE

Empires or great powers in their stage of growth tend to exercise control that is direct and informal. They tend to rely directly on their own resources rather than on the resources of allies or dominions, and they expand through the informal actions of their citizens and private organizations. Empires or great powers in their stage of decline, experiencing imperial overstretch and shrinking resources, tend to rely indirectly on their allies and the indigenous governments of their dominions; when confronted with crises, they tend to rely formally upon central government policies and edicts.⁸

By habit, it seems, American policymakers continue to seek hegemonic control after the Soviet collapse and into the 1990s—whether as a world empire, superpower, great power, or leader of the free world, now described as the world community. More than forty years of cold war thinking is a difficult habit to break, especially when encouraged by the boast of being number one. Three suppositions propelled the United States's ascension as a world empire and leader of the free world: The free world was endangered; the United States

was needed as its protector; American resources were sufficient for the task. Most American policymakers continue to suppose that the world is a place so dangerous that American leadership and resources still are required.

However, the popular American response to decline was the election of Bill Clinton as president. Since no politician gets elected by acknowledging decline, Clinton constructed political consciousness around the themes of gridlock, debt, and neglect of domestic problems such as health care. Above all, he advocated *change*, which was a code word to stop the decline and alleviate the anxiety brought about by forty years of cold war and its threat of thermonuclear destruction, wars in faraway places, and hundreds of billions of dollars spent for military weapons and foreign assistance. He personified what George Bush failed to project—a kinder and gentler society, a more casual Athenian democracy rather than a calloused Spartan autocracy.

The Clinton administration is exercising control that is more indirect, as is evident in the Balkan crisis that began in 1992. The Balkan crisis of 1947 provoked the aggressive and direct response of the Truman Doctrine, that asserted that the United States would directly intervene to save the Greek government. The present crisis evoked a cautious and indirect response that deferred to the more passive policies of the European allies and United Nations. Although under pressure primarily from liberal interventionists of his own party and although endorsing intervention in the Balkans in the 1992 presidential campaign, Clinton had to delay intervention until after a truce. Faced with an annual budget deficit exceeding \$300 billion and a debt of \$4 trillion, the Clinton administration avoided what appeared to be a prolonged and costly military venture. For a world troubled by civil wars and ethnic antagonisms, this abandoning of direct and unilateral military intervention was a landmark foreign policy, possibly the most important since the Truman Doctrine. It signaled an end of unilateral American action throughout the world, despite atrocities and humanitarian concerns. This may come to be recognized as the Clinton Doctrine, which will be of comparable importance to the Truman Doctrine, which it revokes. As the Truman Doctrine projected the expansionist impulses at the height of American power, the Clinton Doctrine reflects the consolidating tendencies in its decline.

The Clinton administration is exercising control that appears to be more formal. Even before taking office, Clinton urged more restrictions on the North American Free Trade Agreement. While directed primarily at Mexico, the environmental and employment strictures also applied to American corporations and the flow of free trade. The Clinton administration is proposing and enforcing stricter environmental restrictions, as indicated by its signing of the international biodiversity treaty. It is restricting international aid, trade, and investment, emphasizing that commerce must be fair as well free. It is bargaining harder with developing countries whose economic growth once resulted from American trade deficits. It is working with and through international agencies and multinational treaties to regulate the actions of transna-

tional corporations, from issues of saving the whales and rain forests to those of avoiding the warming of the atmosphere and the destruction of the ozone layer. During the cold-war passion to stop communism at any cost, corporations and banks were free to exercise their informal deals, so long as they did not aid communist governments; this included risky loans to the less-developed countries, disinvestment costing American jobs, environmental on-slaughts to extract raw materials, and admission of foreign competition destructive to domestic industries. In the name of the free-market system, the informal dealings of free commerce were not only unrestrained but subsidized by formal federal actions, mostly in the form of commercial treaties and of incentives offered by Exim Bank and other federal agencies (and indirectly by the World Bank, International Monetary Fund, and other international agencies).

This shift to control that is more indirect and formal is more than the liberal response of meddling in the activities of private enterprise, although it is that, too. It is a response to the crises of decline—to the costs no longer affordable, competition no longer beatable, allies no longer dependable, dominions and peripheries no longer governable, and domestic problems no longer avoidable. For the commercial classes (especially domestic corporations) and their conservative supporters, it is big government that overtaxes and overregulates and eventually kills the goose that lays the golden eggs. Yet the commercial classes (especially multinational corporations) also need big government to provide military security, embassies, favorable treaties, stable markets, investment capital and insurance, and international cooperation.

How can the United States respond best to its inevitable decline? There are three types of responses, varying from destructive to constructive. The first is the fatalistic response of empire and aggression whereby dominions are tenaciously held until the costs of suppressing local resistance clearly outweigh the benefits, which was the reaction of most European empires as late as the 1960s. The second is a partly positive response of abandoning formal empire and geopolitical dominance but of continuing informal control primarily through economic domination of less developed economies (by controlling investment and trade, which characterized American cold war policies). The third and most creative response is the abandoning of both formal and informal empire.

Most empires have reacted to decline by expending their energies and resources against their enemies; hence they have hastened their decline. The British response to the decline of its empire provides a positive alternative. In the nineteenth century, the British empire dominated world affairs; this included the United States, which Britain founded, invaded during the War of 1812, and after the Civil War helped to build with substantial capital investment. In the twentieth century, the relationship reversed as American power bolstered the British empire, threatened twice by Germany and by the Soviet Union during the cold war. The British empire, whose decline was obvious by the 1920s, made an unusually constructive response immediately after World

War II. Unlike the other European colonial powers, Britain voluntarily effected a peaceful and nondestructive transition from empire to what it called commonwealth. While other European empires were self-destructing in the 1950s and 1960s, the British empire was being peacefully transformed into a commonwealth of voluntary participation of autonomous nations that maintain their political and economic ties.

The American and British empires have shared many commonalities. Both are democracies; both are capitalist and are driven by profit-seeking corporations and consumption-hungry middle classes. Both began as sea-based empires and grew to the stature of world empires with far-flung dominions. Both ascended in the modern era of gas combustion and electronic technologies that allowed instant communication, transportation, and the geophysical means of worldwide contact and control. Both experienced increasing economic competition and relative economic decline on a worldwide basis. Both struggled against powerful adversaries in Eurasia, which strained their economies and hastened their decline. Both earlier and modern history have shown that those empires that respond in constructive ways enjoy long and peaceful retirements; those that react in destructive ways suffer painful and violent deaths.

OVERVIEW

The American agenda for the twenty-first century must move beyond world empire, protector, great power, or superpower. The United States cannot—to secure its future prosperity, it must not—continue to think and act as it did during the cold-war era. The twenty-first century demands an alternative strategy and agenda to the policies of the cold war—to the policies that doomed the Soviet republics and satellites to a generation of food lines and uncertainty, and to the policies that still threaten the economic prosperity and political democracy of the American republic. It requires a new politics, economics, and ideology for the fast changing post-cold-war era.

The first three chapters address the old and new world order and the current transition from geopolitics to geoeconomics. This transition is discussed more particularly in the next six chapters, which discuss the major economic regions and which predict the possibility of an economic cold war. The last four chapters discuss the alternatives for the United States, including its role as a world leader.

The subject of old and new world orders, introduced in Chapter 1, is discussed further in Chapter 2, which outlines the shifting world orders of European colonialism and of the American-dominated free world order after World War II and which points to the opportunity to create a stable international order. Chapter 3 examines the growing importance of post cold war economic strategies, regions, and multinational corporations, and it warns of the possibility of economic rivalries and a breakdown in world order.