THE MIDDLE EAST AND THE END OF THE COLD WAR

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To an extent that is only now becoming clear the Cold War dominated political events for more than forty years, not only at the international but also at the national level. The Cold War was first of all a product of a bipolar distribution of power in the international system. It was a struggle between the two states with the largest military capabilities. For a time, into the 1960s, the Soviet Union was also the most important economic rival for the United States, at least in terms of aggregate economic output. The intensity of the Cold War was exacerbated by the conflicting ideologies of its two major protagonists. The legitimating myth of the Soviet Union, marxism leninism, was antithetical to that of the United States, Lockean liberalism. The United States and the Soviet Union were rivals not only because they were the poles in bipolar world but also because their governing ideologies were so fundamentally at odds.

With the end of the Cold War the extent to which the distribution of capabilities and the legitimating myths of the superpower structured both international and domestic relations weakened. Not only did international politics change, domestic cleavages in many polities changed as well. In Italy and Japan long standing conservative but corrupt political parties lost office. The Marcos regime was removed in the Philippines. While these governing coalitions could be tolerated during the Cold War because they were seen as a bulwark against the left, they could be challenged in the post Cold War era without fear of radicalizing and communizing the polity as a whole. Bloody internal conflicts developed in Somalia, Rwanda, and most significantly in the former Yugoslavia. Domestic conflicts in the Third World was not been absent from 1945 to 1990, but with the end of the Cold War the superpowers were much less interested in containing such conflicts. The internal strife in Bosnia, Croatia, and Serbia would have been inconceivable before 1990 because the Soviet Union and the United States would have regarded it as too destabilizing.[1]

The Cold War also significantly affected economic and political developments in the Middle East. The creation of Israel was, at least in part, a result of the policies followed by the great powers, as was the independence and form of government of a number of Arab states. The United States and the Soviet Union each cultivated their own allies in the Middle East. The control and price of oil was the result of political more than economic calculations. The United States tolerated not only the nationalization of the holdings of the international oil companies, a development that would have been hard to repress in any event, but also major and discontinuous increases in the price of oil, a development that could have been avoided had purely economic interests rather than larger geo-strategic calculations determined American policy. The Arab Israeli conflict could be extended through four wars and over forty years because the Arab states, despite four defeats, could still hope that the Soviet Union would give them greater support or that the United States would become disillusioned with Israel.

The end of the Cold War has four major implications for the global economic system in general and for political and economic developments in the Middle East in particular.

1. Rules for international trade will become increasingly differentiated across issue areas and countries because existing regimes are not congruent with the interests and power of major states, especially the United States. Explicit (formally constituted) regional trading blocs will become more significant in Europe and to a lesser extend North America but not in the vast majority of countries of the Third World. Formal regional agreements in Asia will be of limited consequence although Japan will continue to attempt to integrate the region through trade and direct foreign investment.

2. The global financial system, which is inherently integrated and cannot be regionally differentiated, is more difficult to manage because there is no longer a hegemonic lender of last resort. Nevertheless, the capabilities of the national central banks of the major economic powers coupled with international agreements that have reduced the temptations to engage in free riding and designated specific national responsibilities ought to prevent any global financial crisis.

3. The prospects for peace between Israel and the Arab states are greater because the disappearance of one of the poles in the bipolar world means that the two sides can no longer both depend on an external sponsor. The Arabs can no longer hope that the Soviet Union will give them more support or that the United States will give Israel less. The local military balance,

including Israeli possession of nuclear weapons, is what matters, and that balance provides the basis for a resolution of the conflict.

4. With the end of the Cold War conflict among oil producing states around the Persian Gulf is more likely and the management of such conflict more problematic. The superpowers are no longer in a position to constrain their allies, something that they were motivated to do during the Cold War because of their fear that they could be drawn into a mutually undesired conflict. Short term sharp increases in the price of oil remain a possibility. During the Cold War such increases occurred because the United States was not willing to discipline its allies (Iran and Saudi Arabia). In the post Cold War world such increases could occur because the oil rich but militarily weak states of the Arabian peninsula remain a tempting target. The configuration of forces that would be most likely to deter such an attack, a commitment of European and Japanese military assets to the Middle East, is not in the offing.

WHAT WAS THE COLD WAR AND WHAT HAVE WE NOW?

The Cold War was defined by a bipolar distribution of power and by the antithetical legitimating ideologies of the two superpowers. Purely with regard to capabilities the United States was always stronger than the Soviet Union. The estimates of Soviet economic strength are now much disputed and it is clear that the CIAs figures exaggerated Soviet output. In the mid 1970s American officials estimated that in 1955 Soviet GNP was 38 percent that of the United States, in 1970 52 percent, and in 1975 57 percent.[2] American economic output was in reality at least twice as large as that of the Soviet Union, but it was the official estimates that guided policy and informed sentiment. When Khrushchev threatened figuratively to bury the United States his prediction was taken seriously. The spectacular firsts in space, symbols of both technological and military prowess, were Soviet not American. The Soviets had (and Russia still has) formidable military capability. By the late 1960s, the Soviet nuclear force was functionally equivalent to that of the United States. The Soviets enjoyed dominance in conventional weapons in Europe. They began to develop some capability to project forces overseas. While Russia may now look more like an empty shell, with the exception of its nuclear weapons, the Soviet Union for almost all of the Cold War struck fear into the hearts of American policy makers.

This fear was coupled with loathing for it was not just military and economic might, but also ideological differences that fueled the level of antipathy that characterized the Cold War. Marxism-leninism provided the Soviets with a resource that could challenge capitalism because it offered an alternative model of political and economic organization. American beliefs, ultimately derived from the Lockean liberal philosophy which has dominated American political discourse, were at every critical juncture antithetical to those of the Soviet Union. Americans believed in the individual, democracy and capitalism. The Soviets in the vanguard party, the state, and socialism. Both ideologies were critical for defining what it meant to be a citizen of the Soviet Union or the United States, for identity was based on political beliefs not on nationality or blood. Both Soviet and American belief systems made universal claims, and were therefore inherently expansionary.[3]

Within the western bloc the United States enjoyed an initial preponderance of power across virtually all issue areas. It had the largest economy by far. It commanded the heights of high technology. It dominated international trade and finance. It controlled world oil markets both through its own production and the operation of its international oil companies. No other western country possessed anything like American military capability. Hence in the early post war world, the United States had a clear external enemy, the Soviet Union with which it was involved in a bipolar struggle; within its own sphere of influence the United States enjoyed clear hegemony.

The intense bipolar struggle between the Soviet Union and the United States had striking implications for third areas. The Soviets and the Americans did not just oppose each other as two distinct blocs, they also struggled over peripheral areas, most of which had no strategic or economic value. Korea (one of the poorest countries in the world when the Korean War was fought), Vietnam, and Afghanistan were worthless. They had no impact on the strategic or economic resource of the major powers, but they cost the United States and the Soviet Union dear. If the superpowers were willing to fight over countries with no resources all the more reason to expect them to be centrally involved in the Middle East. Both the Soviet Union and the United States made strong, although always inherently ambiguous commitments to their allies. Inherently ambiguous because it was never clear how much risk or material resources the superpowers would be willing to sacrifice. Would the United States have sent its own troops or escalated to the use of nuclear weapons if, for instance, the Soviets had intervened with conventional capability and fought with the Arab states. In the context of the Cold War conflicts in the Middle East would never be resolved by the participants alone.

The contemporary situation is more complex. The Soviet Union has collapsed and divided into some fifteen countries. While Russian military capacity remains formidable, its aggregate economic output is much less than that of the United States. The United States enjoys mastery in some issue areas, most clearly the ability to project conventional force across long distances. It possesses a powerful nuclear arsenal. Its aggregate economic position has eroded but it is still by far the world's largest economy. The US share of aggregate production for all OECD countries fell from 58 percent in 1953 to 38 percent in 1975. Since that time it has remained relatively stable, accounting for 35 percent of output in 1988 and 33 percent in 1991.[4] The American share of world trade has followed a similar pattern, declining in the immediate postwar period and stabilizing over the last two decades.[5]

In some areas, however, American power has dramatically declined. The US share of world monetary reserves fell from 50 percent of world reserves in 1948 to 15 percent in 1970, remained at 13-17 percent during the mid 1980s and then fell to under 10 percent in 1988. From the world's largest creditor, the United States has become the world's largest debtor.[6] In 1965 the United States accounted for 62 percent of all official development assistance from OECD countries. In 1991 it accounted for 20 percent.[7] The United States lost control of international oil markets in the early 1970s when it became a net importer rather than net exporter and when oil exporting states nationalized production facilities. In a number of high technology industries, Japan has either challenged or surpassed the United States.

In the realm of ideas and legitimating ideologies, there are no serious challengers to democracy and capitalism, if not necessarily always expressed in their extreme Lockean versions. Marxism is utterly dead. Even the social democratic parties of western Europe are floundering. Some Asian countries, most notably Malaysia and Singapore, but also to a small extent Japan, have espoused an Asian way that would place more emphasis on community and order, but this stance has not congealed into a clear and universal ideological vision of how social and political order should be structured. Fundamentalist Islam and similar religious movements in other religious traditions guide the lives of many millions of people but they have limited impact on the most advanced and powerful, areas of the world. The ideological struggle, at least for the moment, is dead.[8]

The simplest summary description of the contemporary international distribution of power is flat unipolarity. The United States is the most powerful state. It is the leading exponent of the only universal vision of human society which has universal, albeit sometimes weak, appeal. It has no close near rivals. Nevertheless, its capabilities relative to those of other countries, especially other advanced industrialized market economy countries, has declined. More importantly, in a number of critical areas such as oil and finance, the capacity of the United States is very limited.

IMPLICATIONS OF CHANGING POWER CONFIGURATIONS

The postwar world in both the economic and military arenas was structured by the Cold War. For all of the intensity of conflict between the superpowers, it was a relatively predictable environment. The Soviet Union and the United States would oppose each other. Their military conflict was, however, disciplined by the mutual fear of nuclear war. In the economic sphere the Americans, in particular, were prepared to sacrifice short term economic interests to strengthen the position of the western alliance in general.

With the end of the Cold War a new set of fault lines will develop. At the global level, the end of the Cold War will result in rules for international trade that are more differentiated across regions and products. Multilateralism (which was always multilateralism only within the non-communist world) will become weaker. In some limited areas regional economic groupings will become more salient. The international financial system, driven by technological and policy changes that are now irreversible, will continue to be highly integrated although more difficult to manage. With specific regard to the Middle East, the end of the Cold War has dramatically enhance the prospects for permanent peace between Israel and its Arab neighbors, but, at the same time has also increased the risk of conflict in the Persian Gulf. Dramatic and economically disruptive increases in oil prices cannot be discounted in part because the areas that would be most immediately affected in the short run, Japan and Europe, are the least prepared to use military force.

International Trade and Regional Trading Blocs

The success of the postwar regime for international trade -- which was accompanied by historically unprecedented aggregate growth rates and even more rapid growth in trade and international capital flows -- was a function of the hegemony of the United States in the non-communist world. The specific terms of regime, the rules embodied in GATT and other international accords, reflected American preferences, values, and assumptions. The basic principles of the GATT were diffuse reciprocity embodied in the rule of most favored nation treatment and the reduction of tariff and non-tariff barriers.[9] The developing countries were given special and differential treatment but the expectation, at least the expectation of the advanced industrialized countries, was that such departures from general rules would only be temporary and that developing countries would "graduate" and be treated like all other trading states.[10]

In practice as opposed to theory, the United States assumed a disproportionate share of the costs of adjustment for international openness. While the United States consistently advocated general liberal principles it was prepared to accept departures in practice. The United States frequently acted against its own short term economic interest. The European Community, for instance, might have been trade creating in general but it was trade diverting for the United States. Nevertheless American policy makers gave strong support to the Treaty of Rome and earlier to the European Coal and Steel Community and the European Payments Union. For almost all of the Cold War the United States tolerated not only Japanese discrimination against American exports (perhaps explicable given the fact that the United States ran a balance of payments surplus with Japan until the 1970s), but also against American direct foreign investment, which would have alleviated Japan's payments imbalance.

The primary aim of American policy makers was not the narrow economic interests of the United States or even global prosperity, but rather the defeat of communism. American leaders wanted to strengthen the western alliance. They were not concerned with relative gains among allies. Indeed, just the opposite: the free trading regime of the West provided highly levels of prosperity and therefore greater power resources for the alliance as a whole.[11] High level of economic growth also contributed to domestic political stability and thwarted communist ambitions in Europe and Japan. The communist parties of France and Italy, the two strongest in Europe, were never able to secure control of the government. In Japan, the left was effectively marginalized from the early 1950s to the early 1990s. With regard to general security issues which were defined by bipolarity and the Cold War, the post war trading regime worked extremely well for the United States. The trading regime of diffuse reciprocity in principle with specific departures in practice did not, however, maximize the narrow economic interests of the United States.

With the end of the Cold War, the collapse of the Soviet Union, and the relative decline in the power of the United States, the incongruity between the rules of the game on the one hand, and the power and interest of states on the other has grown. The United States is much more interested in specific economic objectives and less concerned with general milieu goals. American decision makers are no longer willing to bear a disproportionate share of the burden of adjustment.

International rules of the game are always a product of power and interests. Rules will only be stable if they are coincident with the interests of the most powerful actors. Power and interests have changed. The rules will change as well, although not without conflict and discord. Incongruities between extant rules and underlying capabilities and interests are greater for Asian (and especially Japanese) relations with the U.S. and Europe than they are for European American interactions.

The tacit assumption of the GATT regime was that the rules would affect all countries in more or less the same way. This assumption has proven problematic with regard to Japan. It has been harder to penetrate the Japanese market than for Japanese firms to penetrate the American and European markets. The reason for this difference has been conceptualized in a number of different ways including the directive role of the state,[12] the interactions between the state and the private sector[13], and the nature of keiretsu ties.[14] Regardless of the specific explanation, the openness of the Japanese market does not seem to be affected by the diffuse reciprocity principles of GATT in the same was as other major industrialized countries. The level of intra-sectoral trade, for instance is lower for Japan than it is for any other advanced industrialized country.[15]

It has also been difficult for direct foreign investment to secure access to Japan. Higher levels of direct foreign investment will generally create more support for an open economic policy. In recent years direct foreign investment has been growing much more rapidly than either trade or world gross domestic product. From 1983 to 1989 direct foreign investment outflows grew at a compound annual rate of 28.9 percent, compared with 9.4 percent for exports and 7.8 percent for gross domestic product.[16] Like trade, there is much more balance in direct foreign investment between the United States and the E.C. than there is between Japan and either the United States or the Community. In 1988 the stock of American direct foreign investment in the Community was $131.4 billion and the stock of

Community investment in the U.S. was $193.9 billion. In contrast, the stock of Japanese investment in the U.S. was $53.4 billion compared with $17.9 billion worth of U.S. investment in Japan, and the value of Japanese investment in the EC was $12.5 billion compared with $1.7 billion worth of EC investment in Japan.[17]

The sales generated by the majority owned affiliates of American, Japanese, and European companies in each others' markets are, like trade and investment flows, very imbalanced: Japanese affiliates sell much more abroad than European or American affiliates sell in Japan. In 1989, majority owned U.S. affiliates of Japanese corporations had total sales of $225.5 billion. The sales of majority owned American affiliates in Japan were about one quarter those of Japanese affiliates in the United States.[18]

In contrast, in 1989 the affiliates of European corporations in the United States had total sales of $472 billion, and European affiliates of American corporations had total sales of $571 billion. Like trade, the sales of foreign affiliates of American corporations in Europe, and European corporations in the United States, are fairly balanced.[19] All foreign firms accounted for 18 percent of sales in Germany, 10 percent in the United States, but only 1 percent in Japan.[20]

In sum, the principles of non-discrimination and diffuse reciprocity embodied in GATT and other international agreements have been particularly advantageous for Japan because changes in formal rules, such as lowering tariffs, have had less impact on access to the Japanese market than on access to the European and especially the American market. So long as the United States was economically dominant and preoccupied with the security threat from the Soviet bloc, the skewed economic impact of post war regimes was irrelevant. In some ways it was even advantageous because penetration of the American market and the generation of trade surpluses promoted higher levels of savings and growth in east Asian allies and made the western alliance as a whole more formidable.

With the end of the Communist threat and the relative decline in American power, these outcomes became increasingly less acceptable for U.S. policy makers. The rules of the game were incongruent with underlying preferences and power capabilities and pressure to change the rules increased. Despite the conclusion of the Uruguay Round and the agreement to create a World Trade Organization, American policy makers have in actual practice moved away from the principle of universal treatment in which all countries, at least all countries within the western alliance, were treated in the same way. They have moved toward trying to define a specific set of rules for trade with Japan, rules that are designed to promote well defined interests, especially opening the Japanese market.[21] Laura Tyson, appointed by President Clinton as the chair of the Council of Economic Advisors, has explicitly argued that the Untied States should adopt a policy toward Japan based on quantitative targets for American exports, a quite astonishing position for the chief official of an agency that had traditionally been a staunch defender of conventional free trade.[22]

The trading interests of the United States vary with different regions of the world. It is locked into an interdependent and more or less balanced relationship with Europe that is highly stable despite specific disputes, most notably over agriculture. The NAFTA is designed to eliminate trade barriers between the United States, Mexico, and Canada. The rules for NAFTA concerning such questions as dispute settlement and local content are specifically crafted for the North American context. Other countries in the western hemisphere, notably Chile, Venezuela, and Argentina, have expressed interest in joining. With regard to Japan, the United States has focussed on market opening measures and is moving toward emphasizing quantitative targets rather than changing procedures. Different policies for different countries and different problems; the universality, multilateralism, and diffuse reciprocity of the postwar world is only one approach; regional and bilateral agreements are alternatives that will become increasingly important.

Different rules for different countries does not imply that the international trading system will become unstable. The Cold War regime was, after all, never universal. The Soviet bloc was always excluded. Some trading areas, especially textiles and agriculture, were treated differently. International oil was always governed to some extent by oligopoly collusion first among the international oil companies and later, and less successfully, among oil exporting states.

Regional economic integration could be the result of both formal accords or of economic interactions that occur without any explicit regional agreement. Increasing regional trade that is the result of differential growth rates, a development now taking place in Asia, is completely consistent with global multilateralism. Increases in regional economic activities that occur as a result of formal compacts are at the very least in tension with multilateralism since such accords must have different rules for members and non-members.

There will not be any general movement toward formal compacts. The prospects for stable regional regimes are greatest in Europe where the most progress has already been made. Economic activities within the western hemisphere will also, building on the North American Free Trade Agreement, be based on different rules for members and non-members. There is little likelihood of significant regional agreements in Asia; that is, explicit accords that would constrain or channel the policies of states and the decisions of private actors, although Japan will try to secure its position in the region through trade and direct foreign investment and the rapid growth of Asian countries will make intra-Asian trade more important for Asian countries. The prospects for significant regional economic integration in the Middle East either through explicit agreements or natural economic interactions are negligible.

Regional arrangements are easiest when there are a number of countries that are more or less the same size and at the same level, ideally a high level, of development, or when there is one dominant state. Regional commitments offer benefits but they also pose the risk of making some countries more vulnerable and dependent than they would be solely as a result of the level of economic interaction that would have taken place in the absence of a formal accord. These risks are greater for smaller countries and for countries with immobile factor markets which make it more difficult to adjust to changing external incentives or pressures.[23] The risks are least for large highly developed countries.

Regional integration could progress further in Europe because the largest states -- Germany, France, Britain, and Italy -- can balance each other and in the process alleviate the anxieties that smaller members of the Union might have about being coerced by their more powerful neighbors. Highly developed factor markets have made it easier for European rulers to accept higher levels of interdependence.

The high level of institutionalization in Europe, a result of specific political conditions not just calculations of economic benefit, enhances the likelihood of even closer integration in the future. Both the experience of the first and second world wars and the role of the United States made it easier to take the initial steps, often the hardest steps, that led toward the European Union. Germany's post war leaders were convinced that continental domination was impossible. The most attractive option for Germany was to integrate into Europe, to bind Germany so that it would no longer be a threat to its neighbors. The United States was a strong supporter of European integration because it wanted a strong Europe to oppose the Soviet Union. The Cold War removed potentially contentious security issues from the European agenda.

Even in Europe, however, integration has moved in fits and starts. After the initial flurry of activity associated with the Treaty of Rome integration stalled until the mid 1980s. The Single European Act adopted in 1986 reflected the fact that for the major European governments greater market integration, which could end Euro-sclerosis by spurring productivity and growth, was an attractive economic policy, especially given the fact that most European governments feared that expansionary monetary and fiscal policies would only increase inflation.

The Maastricht Treaty had even more ambitious objectives, especially monetary unification. Maastricht, however, may be the last manifestation of the easy integration that Europe enjoyed during the Cold War. Ratification of the Agreement was difficult. The European Monetary System collapsed in 1992 because the German Bundesbank, fearing inflation in the wake of unification, imposed high interest rates that were ultimately intolerable for the United Kingdom. France, suffering from persist high unemployment, is increasingly anxious about its dependence on the staunchly anti-inflationary policies of the German central bank which essentially sets interest rates in Europe.[24] Regardless of whether European integration stalls or goes forward, the extent of European regional cooperation is, and will remain, unique.

The second most prominent effort at regional economic integration is the North American Free Trade Agreement. NAFTA is much less ambitious than the European Union; it is a free trade area without common external tariffs or provisions for free factor movement. North America hardly fits the profile of equal size and high level of development which is most conducive for integration. The United States is much larger than either Mexico or Canada, and Mexico is relatively underdeveloped.

NAFTA was the result of efforts by the weak to constrain the strong. Both Canada and Mexico are very dependent on the American market. About 80 percent of Canada's exports flow to the United States while 25 percent of American exports go to Canada. In 1990 73 percent of Mexican exports went to the U.S. while only about 5 percent of U.S. exports went to Mexico. Mexican dependence on the U.S. market grew substantially during the 1980s as a result of direct foreign investment which greatly increased Mexican manufacturing exports. From 1980 to 1989 manufactures increased from 32 to 69 percent of Mexican exports to the U.S.[25]

The question for both Canada and Mexico was: would they be better off without an agreement that left them subject to arbitrary changes in policy by the United States or with an agreement that could make them even more dependent, but that could also constrain the policy options available for the United States? It would be harder for the United States to act arbitrarily with an agreement than without one. Both Canadian and Mexican leaders opted to pursue an accord. In Canada, the Macdonald Report, commissioned initially by the Liberal Prime Minister Pierre Trudeau and endorsed by his successor the Conservative Brian Mulroney, recommended a free trade agreement with the United States because non-tariff barriers were creating a climate of uncertainty that damaged Canada's economic prospects. The initiative to expand the Canada United States Free Trade Agreement to a North American Free Trade Agreement came from Mexico where President Salinas was motivated not only by concerns about cementing economic reforms within Mexico but also with access to the U.S. market.[26]

For the United States, the North American Free Trade Agreement is a reflection of faltering faith in the multilateral GATT regime. The NAFTA created an economic bloc of 360 million people. It might enhance the bargaining leverage which the United States has vis a vis the European Community. The United States, however, is far less dependent on the Mexican and Canadian markets than vice versa.

There has been much less progress toward formal regional economic integration in east Asia. Here the problem of power asymmetry cannot be resolved. Japan is by far the largest economic actor in the region, but it is not large enough to dictate its own terms for regional integration nor are other Asian countries so dependent on Japan that extra-regional options are precluded. There is anxiety about Japanese economic dominance. There is an historical legacy of Japanese aggression.

Unlike North America where both Canada and Mexico would be highly dependent on the United States market with or without an agreement, the major trading states of east Asia have, thus far, been able to maintain a more diverse trading profile. The United States, not Japan, is the largest export market for the East Asian NICs. Given current trading patterns it would be more important for Korea, Taiwan, Hong Kong, and Singapore to secure access to the American market than to the Japanese market.

Empirical data on trade suggests that regionalization is increasing only within Europe. Table 1 shows intra-regional exports as a percentage of total exports for three major regions: North America (Canada and the United States, but not Mexico), the European Community of 12, and Japan and South and East Asia. The results are mixed. There has been an increase in intra-regional trade in the European Community. While the percentage of trade within the Community was stable at about 55 percent from the early 1970s until the mid 1980s, it increased to 60 percent in the late 1980s.

(Place Table 1 about here)

The pattern in North America is quite different. Intra-regional trade increased until the mid 1980s but then fell despite the United States Canada Free Trade Agreement. Obviously, the impact of NAFTA remains to be seen. Japanese exports to south and east Asia declined during the 1970s and early 1980s but increased dramatically after 1985 rising from 19 to 29 percent of Japanese exports in 1990, a record high for the last thirty years. Japanese investment in east Asia also increased sharply after 1985 with the appreciation of the yen.[27]

There is also variation with regard to currency alignments. Within Europe the Deutchmark is the dominant currency, another indicator of regional integration. The U.S. dollar is the dominant currency in the western hemisphere with Canada, Chile, Colombia, and Mexico basically pegging to the dollar. Argentina is an exception giving greater weight to the DM than to the dollar. In Asia, however, the yen is not the dominant currency. Thailand, China, and Korea give very high weight to the dollar. Frankel and Wei conclude that "Each of the Asian countries is more properly classed in a dollar bloc than in a yen bloc."[28] Hence regionalization has proceeded in Europe and, to a lesser extent in North America, but not in Asia.

For the Middle East the prospects for significant regional integration, either juridically through the conclusion of international agreements or in practice in the form of increased transactions, are modest at best. The relative backwardness of several Middle Eastern countries makes the elimination or reduction of trade barriers difficult because domestic adjustment is impeded by underdeveloped factor markets. Unlike Europe, or Canada and Mexico in North America, trade among the countries of the Middle East cannot account for a significant percentage of total trade regardless of the institutional arrangements which they adopt. The oil exporting states must find their markets elsewhere. The normalization of relations with Israel would surely increase trade within the area, but Israel is simply too small a market to create any kind of dynamic movement toward meaningfully regional integration.

In the post Cold War world the Middle East, like almost all other areas of the Third World (the Mercosul in southern South America is one exception), will not form into a coherent regional bloc. At the same time multilateral trading rules will become weaker. Israel's ties with the European Union and with the United States will continue to provide economic opportunities. Other Middle East countries will cut their own bilateral deals. The conditions governing the sale of petroleum will continue to be negotiated between buyers and sellers. The economic ties of the countries of the Middle East will be characterized by different rules for different countries and different situations.

The development of a more differentiated international trading system does not mean that there will greater instability. The prominence of multilateralism in the Cold War world was not a function of its economic attractiveness but rather of the political calculations of the United States, and especially the willingness of American policy makers to bear the burden of openness. A set of economic accords more grounded in specific interests, accords that might be multilateral, regional or bilateral, can effectively govern international trade. Given the level of involvement in the world economy for major private actors as well as all of the major industrialized states, there is little chance of competitive devaluations or tariff wars. The world trading system is not like a bicycle that must always be moving forward lest it tumble into the pit of closure and protectionism. Stability can be sustained by interests and specific accords.

International Finance

If there is a general threat to the stability of the international economic system as a whole it is much more likely to come from the financial sector than from trade. Trade can be, indeed has, been differentiated. In contrast, finance is inherently inter-linked. Changes in technology have led to the integration of international financial markets. It is no longer possible for even the largest states to extricate themselves from global developments. The ability of any state to conduct an independent monetary policy has been constrained by the magnitude and mobility of international capital. The costs of isolation are high. Interbank loans are vast. The collapse of a major private financial institution does have global repercussions. Finance, unlike trade, can affect everyone at the same time in the same way. A financial crisis could have devastating global consequences.

Global financial integration is not necessarily a comforting situation, but weaker states lack the power to extricate themselves from this system and stronger ones lack the incentive and capacity to reintroduce capital controls. The French, and other European states with high levels of unemployment, are not enchanted with the tight monetary policies pursued by the Bundesbank, but the option of monetary insulation is not available. Many smaller countries have tied the value of their currencies to the U.S. dollar, the Japanese yen, or the German deutchmark because the attraction of stability is greater than any constraint on their already limited national control.

The major threat to global stability posed by international financial markets is the danger of systemic collapse. In his now classic study on the great depression Kindleberger argued that the most important role for a hegemon was to act as a lender of last resort. The disaster of the 1930s was not the result of competitive devaluations or protectionism, but rather of the unwillingness of the United States to provide stability for an international financial system that was already highly integrated. The United States failed to act as a lender of last resort although it had the capacity to do so.[29]

In the contemporary world there is no obvious single leader. The United States tacitly assumed this role during the Cold War, but it is now a major debtor rather than the largest creditor. The major industrialized market economy countries have attempted to deal with the problem of a bank failure by adopting the principle of national responsibility. Individual countries are responsible for their own banks, even when they are operating in international markets. This system, embodied in the Basle accords of the late 1980s, is yet to be tested.[30]

There is, however, no reason to believe that it is inherently flawed. There have been major crisis involving large international banks, BCCI, is the most notable example, which did not threaten the stability of the international financial system as a whole even though the losses for individual depositors were substantial. Even in the absence of a hegemon, national monetary authorities, acting as lenders of last resort for their own financial institutions, could prevent an international financial crisis. Multilateral management will work for the international financial system.

The Israeli Arab Dispute

All wars come to an end in one way or another; one of the protagonists defeats the other or both come to the conclusion that neither can achieve a decisive victory. In a bipolar world it is extremely difficult to resolve regional disputes if the two superpowers are engaged. Each of the regional adversaries can depend on outside support; neither can be decisively defeated; both can secure arms and other forms of material assistance.

The recent progress that has been made in settling the dispute between the Arab states and Israel is a result of the end the Cold War and of nuclear proliferation. Before 1990, the United States was the major external power. It had supported Israel since its creation. The United States also had Arab allies. It backed the conservative regimes on the Arabian peninsula. It supported Jordan. With Sadat's dramatic shift in policy, it became the most important source of external assistance and military aid for Egypt. Indeed Israel and Egypt are by far the largest recipients of American foreign aid. The United States materially underwrote the Camp David accords and the peace between Egypt and Israel.

The United States, however, could never become the major external ally for all of the states in the region because it would always be in the interest of the Soviet Union to maintain a presence. Syria and Iraq depended on the USSR for their military equipment and other forms of aid. While the specific configuration of states supported by the United States and the Soviet Union changed over time, the antagonistic involvement of both superpowers was an inevitable product of the Cold War.

The potential for external intervention precluded the settlement of the Middle East conflict on the basis of the regional military balance of power. The military capabilities of the Arab states and Israel were a function of the level of support they could receive from their allies not just the skill and material that could be mobilized within their borders. Despite the variety of weapons available from countries such as North Korea and China, the most sophisticated armaments were provided by the Soviets and the Americans and their motivations were strategic rather than pecuniary.

Despite being defeated in every major war the Arab states could still hope for ultimate military victory not only because of their size but also because the external support of the Soviet Union might increase or, more significantly, the support of the United States for Israel could decline. The fact that the balance of power in the Middle East was determined not by the indigenous capabilities of the combatants but by the commitments of external powers greatly complicated any long term calculation of interests. For the Arabs it was necessary to count not only the military capability of Israel at the present moment but also the future intentions of the United States. If the Arab states secured an initial victory in some future war, would the United States try to save Israel by committing its own troops? Under some future circumstances could the threat to withhold oil supplies compel the United States to alter its military support for Israel? So long as such questions could not be answered with confidence, the Arab states had reason to hope that they might ultimately prevail. With the end of the Cold War, the answers are much clearer.

The collapse of the Soviet Union left the United States as the only truly global power. The ability of the Russians to project military power into the Middle East has been severely truncated by internal disintegration, the creation of six new independent states along Russia's southern tier with majority Moslem populations, and the potential for military disputes within the old Soviet Union. The United States is now the only major external source of support for any of the Middle East countries. The Arab states no longer have an alternative.

The military balance has also been affected by a second consideration -- Israeli possession of nuclear weapons. There is a powerful argument for the stabilizing consequences of nuclear proliferation.[31] Nuclear weapons extremely destructive, but this does not completely distinguish them from conventional weapons which, even in the second world war killed hundreds of thousands of people in single bombing raids on Dresden, Tokyo and other cities. The critical fact about nuclear weapons is that they are destructive with a high level of certainty. Success, if it can be called that, does not depend on brilliant strategy or luck. In the case of the major powers the ability to obliterate an opponent is certain. There is no effective defense. The major nuclear powers all have invulnerable second strike capability.[32]

The Israeli deterrent against an Arab attack is less certain. Given its small size, it is much more difficult for Israel to be certain that a pre-emptive attack would not destroy its land based missiles and air craft.[33] Israel does not have the capacity to develop submarine launched ballistic missiles which would be much more secure. Nevertheless, Israel's nuclear weapons make it possible that a successful Arab invasion would result in the destruction of the major population centers of the Arab world. The probability of such a retaliatory attack could never be assigned with any high level of confidence, but nuclear weapons make possible an outcome that would be impossible in a purely conventionally armed world.

The possibility of a nuclear Armageddon is an important contributor to peace in the Middle East. In the past Arab leaders have rolled the dice with the hope that their military would be able to overrun Israel. With an Israeli nuclear force such a victory might leave them with no capitals in which they could enjoy their triumph.

Conflict in the Persian Gulf

The end of the Cold War and changing power configurations have, however, paradoxically increased the possibility of military conflict among the states of the Persian Gulf and other Arab countries as well. For the superpowers there was a clear ordering or preferences with regard to how they dealt with specific regions. The best situation was one in which they could exclude their rival from a particular area as the Soviets succeeded in doing in eastern Europe and the United almost succeeded (with the exception of Cuba) in the western hemisphere. Barring regional dominance the next best outcome would be one in which each superpower was able to balance the other in a particular region. The worst possible outcome would be a situation in which the superpowers were dragged into undesired direct conflict by their regional allies, because the outcome of such a clash could be utterly catastrophic. During the Cold War there was a strong incentive for each of the superpowers to restrain their regional partners from policies that could result in the direct clashes between Soviet and American forces.

The Cold War inevitably meant that both the United States and the Soviet Union would be involved in the Middle East as they were in much more peripheral areas. The antipathy between Israel and at least some Arab states was so intense that neither the Soviets nor the American could prevent conflict, even though it could drag them into unwanted involvement. The United States did, for instance, place its nuclear forces on an advanced level of alert (DEFCON 3) during the 1973 Middle East war when it appeared that the Soviet Union might intervene on behalf of Egypt whose army was crumbling in the face of advancing Israeli forces.[34]

It was easier to exercise effective constraint on the Arab states when the potential target of an attack was another Islamic state rather than Israel. Iraq attacked Iran but only after the latter's relations with the United States were shattered and direct American intervention was out of the question. Intra-Arab clashes in the Middle East were limited.

With the end of the Cold War Soviet/Russian constraint has disappeared. The balance of power among the Islamic states is problematic, because there are huge incongruities between economic wealth and military capability. A rich state incapable of defending itself will always be a tempting target. While there are plausible, although contested, arguments that conquest no longer pays and that trade is a more secure route to riches than war, such a position is not plausible for the Middle East.[35]

Kuwait, Saudi Arabia, and the UAE emirates control huge oil reserves and have small populations. Their military resources, however, are scant compared with those of Iran and Iraq whose oil revenues have always been absorbed by the demands of their much larger populations and ineffective political regimes. The Table 2 gives some indication of the contrast between wealth and power in the Persian Gulf.

(Place Table 2 about here)

Not to belabor the obvious, the Persian Gulf is a region with big disparities between wealth and military power. The big possessors of wealth have limited military capacity and the possessors of military assets have more limited wealth. Moreover, Iran and Iraq, do not have stable regimes. The discount rates of their rulers are high. Assets now can be worth much more than those in the future.

The temptation to use force to secure wealth is inherent in the region. The prize is huge. Conquest of the Arabian peninsula would bring not only additional reserves but also the possibility of establishing, at least for a time, effective control of world oil prices because the short run demand for petroleum is highly inelastic. The peculiarities of Saddam Hussein's regime need not be invoked to explain the invasion of Kuwait. Had the attack succeeded, Iraq could have influenced if not determined the production of levels of Saudi Arabia and the Emirates even without overt conquest. Iraq would have been able to dictate world oil prices in the short run.

Iraq attacked in 1991 not because the value of conquest had increased (although the long war with Iran had drained resources), but because of the end of the Cold War. The Soviet Union, soon to be the former Soviet Union, could no longer exercise effective constraint on Iraq. There were no regional allies available for Kuwait, Saudi Arabia, and the Emirates that might have deterred Iraq. The only two states capable of balancing Iraq are Iran and Israel; these were not plausible alternatives for the conservative Sunni regimes of the Gulf in 1991.

Iraq's error was in misperceiving or inaccurately predicting the reaction of the United States. It was a failure that is easy to understand without resort to cognitive psychology or the failings of American diplomacy.[36] Regardless of what April

Glaspie said to Saddam Hussein, even if the Ambassador had taken the most belligerent of stands, it could have been regarded as cheap talk.

There is an inherent problem in establishing the credibility of American commitment to defend the weaker oil exporting states of the Arab world. There is an incongruity between the interests of the United States and its military commitments and power. The United States is less dependent on Middle East oil than either Europe or Japan, although all of the major industrialized countries are locked into a single world market at least as far as prices are concerned. Yet the United States must be the major military actor in any intervention in the Persian Gulf area because neither Japan nor Europe could deploy adequate forces. The incongruity between American interests and American military commitments inherently limits the credibility of U.S. guarantees and increases the temptation to probe American resolve. The situation in the Persian Gulf would be much more stable if it were Japanese and European rather than American military forces that were playing the major role.

The past behavior of the United States would not have indicated that it was prepared to use its military power to secure economic objectives related to oil. No single economic development was more damaging to the western world than the quadrupling of oil prices that occurred in 1973-74. Increases in productivity and economic growth rates declined sharply after 1973. There are a number of alternative explanations but one prime candidate is the sharp and unpredicted increase in crude oil costs.[37] Higher prices forced many companies to scrap some capacity and to alter their allocation of factors. They led to a fall in real wealth, a decline in aggregate demand because of government attempts to control rising inflation, and, for the United States, a decline in exports and rise in imports because of rising dollar exchange rates. These macro-economic changes reduced the rate of growth of productivity.

The international oil market and the international financial system pose the two biggest collective goods challenges in the contemporary global economy. A collapse of either one would have devastating and widespread consequences. Individual states cannot be excluded from the benefits of relatively low and stable oil prices. Until the late 1960s, stability was provided by the major international oil companies who arbitrarily set the price for crude petroleum. The companies were able to maintain their oligopoly position by taking high profits at the wellhead, where official concessions from host country governments provided high barriers to entry, and low profits in refining and marketing where readily available technology would have made competitive access attractive had profit levels been higher. But consumers in general also benefitted from a system that was highly predictable and which provided energy at prices that were consistent with high levels of economic growth.

Ironically, it was the policy of the American government that initially weakened the hold of the major companies. After the CIA intervened to overthrow the Mossadegh government in Iran smaller American companies, as well as the major were allowed to operate in that country. Other smaller independent companies secured concessions in new areas, most importantly, Libya. Even before 1973, host country governments succeeded in raising oil prices because they could squeeze the independents which had limited, often only one, source of supply. The major oil companies with operations in many producing countries were not so vulnerable. The United States government tolerated these pressures as it did the quadrupling of oil prices after the 1973 Middle East war, an increase that was precipitated by its major allies Iran and Saudi Arabia.[38] The fundamental concerns of the United States during the Cold War were strategic not economic.

Given the history of American behavior, the fact that during the Cold War US leaders accepted increasing oil prices, and the uncertainty of American commitment with the end of the Cold War, Saddam Hussein did not take an inexplicable gamble. On the contrary, the unified position masterfully constructed by the Bush administration, as well as the effectiveness of the American military operation, could hardly have been predicted in advance.

The Gulf War did not secure permanent stability in world oil markets. The collective goods problem remains. There is no guarantee that the United States would take the lead in some future operation. The Gulf War was a glorious success but its domestic political benefits were not great enough to get Bush re-elected. A costly intervention any place in the world could radically alter the sentiments of the American public and make any military action extremely unattractive for an American president. Yet military might is what will be needed at some point in the future to prevent another effort to grab the oil resources of the economically rich but militarily weak producers of the Middle East.

The collective goods problem would be less severe if other major countries were in a position to contribute military resources of their own. The legacy of the second world war has created an aberrant situation in which the second and third largest economies, Japan and Germany, eschew a military force that can be projected outside of their own borders. Over time these countries will inevitably secure greater capabilities if only because it will become more and more clear that the American commitment to Europe and Asia will decline.[39] A military deterrent provided by the major users of Middle East oil would be more credible than the one that is now provided by the United States because the coincidence of interests and policy would be less ambiguous. During the Cold War oil prices rose precipitously (albeit they also fell) because the United States, which might have pressured its Middle East allies to increase production, was more interested in preventing any inroads by the Soviet Union. With the end of the Cold War oil prices may rise precipitously, again if only in the short run, because major consuming countries are unable to resolve the collective goods problem involving the commitment of military resources to guarantee the stability of international oil prices.

CONCLUSIONS

The end of the Cold War has meant peace, almost certainly lasting peace, between Israel and its Arab neighbors. The end of bipolarity has eliminated the uncertainty that clouded any long term calculation of the military balance. At the same time there is less guarantee of peace within the Arab world. External constraints are weaker. The kind of economic interdependence that characterizes Europe is simply not in the cards. The states of the Middle East will cut their own deals as Israel has already done with the European Union and the United States and as oil exporting states have done with their customers. The movement toward economic normalization which will accompany the Arab Israeli peace process ought not to be confused with explicit regional accords that establish different rules between members and non-members. The peace process will make the rules governing economic transactions between Israel and the Islamic world more like the general multilateralism of the World Trade Organization. Order in the global economy will be sustained more by specific calculations of interest, calculations which argue strongly for continued high levels of transactions, not by general global principles.

Table 1

Intra-Regional Exports as a Percentage of Total Exports

	1963	1973	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
N. Am	27	34	27	29	29	34	38	40	39	37	35	34	
E.C. (12)	48	56	55	52	54	54	54	54	57	58	60	60	
Japan to S. and E. Asia	27	24	24	23	23	23	22	19	20	23	25	27	29

Sources: GATT, International Trade 1987-88 (Geneva: 1988), Table AA10, and 1989-90 (Geneva: 1990), Table A3, and for Japan 1990 Japan, Institute of Fiscal and Monetary Policy, Ministry of Finance, Financial Statistics of Japan (Tokyo: 1991), Table 6-2.

Table 2

	WEALTH Per Capita GNP US $, 1992	MILITARY CAPABILITY Personnel	Tanks	Combat Aircraft
Iran	2,190	430,000	700-800	195
Iraq	< 2,695	500,000	2500	195
Saudi Arabia	7,940	130,000	700	273
Kuwait	> 8,356	21,000	235	59
UAE	22,220	49,000	216	76

Sources: Per capita income figures from World Bank, World Bank Atlas 1994 (Washington: World Bank, 1993), pp. 18-19. Figures on military capability from S. Gazit, et. al., eds, The Middle East Military Balance (Boulder: Westview Press for the Jaffee Center, 1993), country pages.

NOTES

1. Great power concern with the Balkans is nothing new. During much of the 19th century the eastern question was a central issue in European politics. All of the major powers feared that a collapse of the Ottoman Empire would drag them into unwanted conflict in the Balkans, which is, of course, exactly what happened in August 1914. See, for instance M.S. Anderson, The Eastern Question, 1774-1923 (London: Macmillan, 1966).

2. United States, Executive Office of the President, International Economic Report of the President (Washington: Government Printing Office, 1977), p. 138.

3. For a discussion of the central importance of Lockean liberalism in the United States see Louis Hartz, The Liberal Tradition in America (New York: Harcourt Brace, 1955); for the Soviet Union see Kenneth Jowitt, The New World Disorder (Berkeley: University of California Press, 1992).

4. Calculated from figures in OECD, National Accounts 1960-1988. Volume I: Main Aggregates (1990), Table 13, National Accounts 1960-1986, p. 145; World Bank, World Development Report, 1993, p. 239.

5. UN, Yearbook of International Trade Statistics 1960 and 1970-71; UN, 1984 International Trade Statistics Yearbook; GATT,

International Trade, various years.

6. 6. Data on reserves can be found in IMF, International Financial Statistics Yearbooks 1987 and 1989. Susan Strange "The Persistent Myth of Lost Hegemony," International Organization 41 (1987), pp. 568-69, argues that the US is less constrained than other countries.

7. Derived from figures in World Bank, World Development Report 1993, Table 19.

8. For an argument that history has come to some kind of conclusion at least in the Hegelian sense see Francis Fukuyama, The End of History and the Last Man (New York: Free Press, 1992).

9. John Ruggie has argued that embedded liberalism, which legitimated domestic economic stability, as well as international openness, was the moving principle of the postwar regime. I am skeptical. Measures to protect domestic interests, such as Article 19 of GATT, which allowed temporary import restrictions to mitigate injury to domestic industries, was a concession to domestic political constraints rather than a reflection of general principle. For Ruggie's general discussion see his "Embedded Liberalism," in Stephen D. Krasner, ed., International Regimes (Ithaca: Cornell University Press, 1983), and for his more recent application of the concept of embedded liberalism to Asia see John Gerard Ruggie, "Unravelling Trade: Global Institutional Change and the Pacific Economy," in R. Higgott, et. al., Pacific Economic Relations in the 1990s: Cooperation or Conflict? (London: Allen and Unwin, 1993).

10. The developing countries had a different vision of what they wanted the international trading regime to be but they lacked the power to implement their preferences. See Stephen D. Krasner Structural Conflict: The Third World Against Global Liberalism (Berkeley: University of California Press, 1985).

11. For a discussion of the relationship between free trade, growth, and power see Joanne Gowa, Allies, Adversaries and International Trade (Princeton: Princeton University Press, 1994), Chapter 3.

12. Chalmers Johnson, MITI and the Japanese Miracle (Stanford: Stanford University Press, 1982).

13. Daniel Okimoto, Between MITI and the Market (Stanford: Stanford University Press, 1989).

14. Robert Lawrence, "Japan's Different Trade Regime,"; Michael Gerlach, Alliance Capitalism (Berkeley: University of California Press, 1992).

15. These differences in levels of intra-sectoral trade can be easily discerned by looking at the country tables in any of GATT's Annual Reports which provide a description of trade by country and single digit SITC number.

16. UN, Centre on Transnational Corporations, World Investment Report 1991: The Triad of Foreign Direct Investment (New York: 1991), p. 4, Table 1.

17. Derived from figures in UN, Centre on Transnational Corporations, World Investment Report 1991: The Triad of Foreign Direct Investment (New York: 1991), p. 40 Figure II.

18. Information from U.S., Department of Commerce, Survey of Current Business 71, 7 (July 1991), Table 10 and U.N. , Centre on Transnational Corporations, World Investment Report 1991), p. 45 Figure IV; and U.S., Department of Commerce, Survey of Current Business 71, 10 (October 1991), p. 42, Table 12.

19. Information from U.S., Department of Commerce, Survey of Current Business 71, 7 (July 1991), p. 81, Table 10, 71, 10 (October 1991), p. 42, Table 12.

20. Robert Z. Lawrence, "Japan;s Different Trade Regime: An Analysis with Particular Reference to Keiretsu," Journal of Economic Perspectives 7 (Summer, 1993), p. 7.

21. Discussions and agreements with Japan have included the Structural Impediments Initiative (SII), the Market Opening Sector Specific (MOSS) negotiations, the 1991 semiconductor agreement, and the 1994 agreement on cellular telephone service concluded between Motorola and its Japanese competitor only after pressure from the American government. For the Motorola discussions see New York Times, February 15, 1994, p. 1 and February 16, 1994, p. c4. Reuters Asia Pacific Business Report, March 16, 1994, Lexis on line.

22. Laura d'Andrea Tyson, Who's Bashing Whom (Washington: Institute for International Studies, 1992).

23. For a discussion of the relationship between political vulnerability and international trade see Albert Hirschman, National Power and the Structure of Foreign Trade (Berkeley: University of California Press, 1945), Part I.

24. Stanley Hoffmann, "France: Keeping the Demons at Bay," New York Review of Books 41, 5 (March 3, 1994), p. 12.

25. Judith Goldstein, "International Law and Domestic Institutions: Reconciling US-Canadian "Unfair" Trade Laws," manus., Department of Political Science, Stanford University, April 1994, p. 2; IMF, Direction of Trade Yearbook 1991, p. 279; OECD, Department of Economics and Statistics, Foreign Trade by Commodities, 1989 Vols. 2 and 5 (Paris: 1991).

26. Rachel McCulloch, "The United States - Canada Free Trade Agreement," in F. Macchiarola ed., International Trade: The Changing Role of the United States, Proceedings of the Academy of Political Science 37, 4 (New York: 1990); Goldstein, "International Law,: p. 3.

27. GATT, International Trade 1987-88 (Geneva: 1988), Table AA10, and 1989-90 (Geneva: 1990), Table A3, and for Japan 1990 Japan, Institute of Fiscal and Monetary Policy, Ministry of Finance, Financial Statistics of Japan (Tokyo: 1991), Table 6-2. For a more sophisticated analysis based on the gravity model see

Jeffrey Frankel and Shjang-Jin Wei, "Trade Blocs and Currency Blocs," National Bureaus of Economic Research, Working Paper No. 4335 (Cambridge: April 1993) which concludes that there are regional biases in the European Community, the western hemisphere and the Pacific. The largest regional bias is in the Pacific region including Asia, the United States, Canada, Australia, and New Zealand. However, the bias in Pacific and Asia trade did not increase during the 1980s. The growth in intra-regional trade was the result of more rapid economic growth in Asia. The most significant increase in regional bias came in the European Community

28. Frankel and Wei (93), p. 15.

29. Charles P. Kindleberger, The World in Depression: 1929-39 (Berkeley: University of California Press, 1973).

30. Ethan Kapstein, International Organization

31. Kenneth Waltz has been the most effective arguments for nuclear proliferation. See, for instance, "Nuclear Myths and Political Realities," American Political Science Review 84 (September 1990). See also John Mearsheimer's discussion of the Ukraine in "The Case for a Ukrainian Nuclear Deterrent," Foreign Affairs 72 (Summer 1993).

32. Often is took them a surprisingly long time to develop secure second strike capability. See the discussion of China in

Scott Sagan, "The Perils of Proliferation," International Security 18 (1994).

33. Israeli has developed Jericho missiles with a range of 1000 miles. See Shlomo Gazit, "The Middle East: Main Strategic Trends," in S. Gazit et. al., eds., The Middle East Military Balance (Boulder: Westview Press for the Jaffee Center for Strategic Studies, 1993), p. 12. As early as 1980 Israel proposed a nuclear free zone for the Middle East perhaps because its leaders actually believed that this would be stabilizing, perhaps because they were not fully confident of the second strike capability of their forces, perhaps because non-proliferation and arms control are one more area where the Arab states could be engaged in constructive negotiations that could ultimately lead to a normalization of relations. Proposals for a nuclear free zone have not progressed. Shai Feldman, "Arresting Weapons Proliferation," in Gazit et. al., pp. 108-112.

34. Scott Sagan, The Limits of Safety: Organizations, Accidents, and Nuclear Weapons (Princeton: Princeton University Press, 1993), Chapter 5.

35. For the argument that war no longer pays see Richard Rosecrance, The Rise of the Trading State: Commerce and Conquest in the Modern World (New York: Basic Books, 1986). For a different view see Peter Liberman, "The Spoils of War," International Security 18 (1993).

36. There is a large literature which employs cognitive psychology to explain misperception. For instance, leaders ignore information which does not conform with their existing beliefs. See Robert Jervis, Perception and Misperception in International Politics (Princeton: Princeton University Press, 1976). In the case of Saddam Hussein no such resort to cognitive arguments is necessary.

37. Zvi Griliches, "Productivity Puzzles and R & D: Another Nonexplanation," Journal of Economic Perspectives 2 (1988), Table 1.

38. For a discussion of these developments, especially the critical bargaining between Occidental Petroleum and Libya, see Stephen Krasner, Defending the National Interest (Princeton: Princeton University Press, 1978), pp. 257-60.

39. For a fully developed argument along these lines see Kenneth Waltz, "The Emerging Structure of International Politics," International Security 18 (Fall 1993).