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Commentary No. 157, March 15, 2005 by Immanuel Wallerstein

"East Asia and the World: The Decades Ahead"

As late as the 1960s, few analysts in the Western world thought that either Japan or China, and of course much less Korea, would become major players in the world-economy. Today, no one doubts that they are already precisely that. In the 1980s, there were endless almost hysterical articles in the Western press about the coming dominance of Japan. This theme died down in the 1990s, to be replaced in the years after 2000 with a series of similarly almost hysterical articles about the possible coming dominance of China. What is the reality?

There seems little question that all of East Asia has made enormous progress as centers of capital accumulation, advanced technology, and rising productivity. Furthermore, the curves are all moving upward steadily. What is important, of course, are not absolute figures but figures relative to those of other major centers of capital accumulation - the United States and western Europe in particular. Grosso modo, one can say that since the 1970s at least, the economic strength of the United States has declined relative to both western Europe and East Asia, and that for the moment western Europe and East Asia have remained at par with each other.

I refer here to strength in all the arenas - production, commerce, and finance. The last great stronghold of the United States is the fact that the dollar remains the world reserve currency. However, the continuing fall in the value of the dollar, caused by the immense fiscal deficits of the United States in both the national debt and the current accounts, deficits which seem to be growing steadily and vertiginously, has put this stronghold into doubt. As everyone has noticed, the only way the United States has been able to cope with these two immense deficits is by borrowing money. And the major lenders are China, Japan, and to a lesser but not insignificant extent (South) Korea. The great debate in the world press is whether or not East Asia will continue to buy U.S. Treasury notes at the rate they have been doing in recent years. All three countries have signaled in the last six months that they are considering a greater diversification of their holdings in other currencies. It is generally (but not unanimously) argued that, should East Asia begin to do this, the dollar will fall further, perhaps precipitously, and that this might result in a serious depression not only in the United States but also elsewhere in the world.

It seems to me clear that the Bush administration has no intention or political possibility of curbing either of the two great deficits. The East Asian countries will have to choose in the near future between two dangers. On the one hand, if they reduce their investments in dollar holdings, they will curb the ability of the United States to purchase their goods, and they risk a consequent fall in employment and profits. On the other hand, if they continue to invest in a falling dollar, they are over time losing national wealth. The first is a short-term danger and the second is a medium-term danger. As the U.S. deficits grow, the middle-term danger will undoubtedly come more and more to the front. Indeed, this is happening already. I consider it virtually inevitable that East Asia will diversify and that the dollar will then lose its status as the sole world reserve currency. I believe that the United States will lose far more - economically and politically - in the resulting great turmoil than East Asia, and this consideration will actually be a spur to East Asia's taking this action sooner rather than later.

What then will happen? Our world-system, which is already chaotic to a significant degree, will become more so. One worry that everyone has is the impact of this chaos on military power and power conflicts. This is very hard to predict. For one thing, the United States could move in one of two quite different directions - a return to isolationism based on fortress America or more unilateral adventurism. It could even do both - first more adventurism and then fortress America. This is of course extremely important to East Asia. It will have an immediate impact on the developments on the Korean peninsula, and on the tensions between the Chinese government and Taiwan. It will also put forward as an urgent matter whether or not Japan engages in major military rearmament. In both South Korea and Japan, there will be the question of whether they go forward with developing nuclear weapons.

East Asia will find itself facing a fundamental question: whether or not the region will move in the direction of some kind of serious integration, as Europe has done over the last half-century. The difficulties are obvious. Both China and Korea are divided countries, in search of reunification. And all three countries - China, Japan, and Korea - harbor major historic grievances vis-a-vis each other. Such grievances are not insuperable as the story of Europe is showing us, but they have to be taken quite seriously and directly addressed in some way. Will this happen?

The plus of moving in the direction of East Asian cooperation and reconciliation is obvious. The combined economic, political, and yes military power of East Asia would become formidable in the coming half-century. In the transition the world-system is undergoing from its present historical structure - that of a capitalist world-economy - to something else, the East Asian bloc would come to play a central role, perhaps the central role.

The negative side is also obvious. First, such an effort would face very vigorous opposition from the United States and, to a lesser extent, western Europe. It might also face opposition from India. But, perhaps more important, it would open a debate about the relative role of China and Japan in any arrangements that would be under discussion, as well as the unwillingness of Korea to be treated as a minor partner without much right to a voice. Many efforts at regional unions in the past century have foundered on just such issues.

What is important to understand is that the question of East Asian political accord and integration is one that is almost entirely within the power of East Asia to resolve. The rest of the world is not going to be able to do much about it, either to aid it or obstruct it. The ball, as we say, is in East Asia's court.

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