When Prometheus Falls

Managing Relative US Hegemonic Decline

May 17, 2007

Sean Clark
Doctoral Fellow, Centre for Foreign Policy Studies
Ph.D Student and Sessional Lecturer, Dalhousie University
sn861357@dal.ca

Paper Presented at:
The Canadian Political Science Association
University of Saskatchewan
Saskatoon, Saskatchewan
May 31, 2007
(Panel D-6b)

"War does not always arise from mere wickedness or folly. It sometimes arises from mere growth and movement. Humanity will not stand still."

Gilbert Murray[1]

The balance of international economic power is shifting. The last two decades have witnessed incredibly rapid Chinese and Indian economic growth. Should these former titans continue at this 'growth miracle' pace, they will inevitably threaten America's dominance of the global order. In short, we are witnessing the potential return of China and India to their traditional position atop the pinnacle of global economic power. Meanwhile, as this shift occurs, America's declining hegemony will matter greatly to world politics—for periods of hegemonic transition are some of the most important events in all of global affairs.

The Challenges of Hegemonic Decline

Hegemonic transitions are turbulent and, quite frequently, exceptionally bloody and destructive episodes of international history.[2] In fact, there is a strong relationship between *relative* hegemonic decline and the outbreak of major war.[3] These conflagrations have extracted tolls of successively unprecedented scales.[4] Additionally, the financial burdens such conflicts impose are similarly unrivalled. Global wars are the principal source of public debt for world powers, constraining both the winners and losers of hegemonic war long after hostilities have been concluded.[5]

Military conflict aside, the disorder of structural transitions can negatively impact global prosperity. Kindleberger highlights the importance of international economic leadership, arguing that without such guidance, gains from international cooperation are extremely difficult to achieve.[6] Furthermore, Krasner notes that a decline in hegemonic power places pressure on the hegemon's willingness to maintain an open international economic order, resulting in a significant loss to global welfare.[7] As such, the prosperity of any nation dependent upon a stable trading order is made particularly vulnerable

---

[1] Quoted in E.H. Carr, *The Twenty Years' Crisis*, (Houndmills: Palgrave, 2001), 191.

[2] Periods of warfare between major powers are traceable to the growth and decline of economic power in the international system. Rasler and Thompson, "Global War, Public Debts, and the Long Cycle," *World Politics*, (July, 1983), 489. Paul Kennedy agrees, noting that major shifts in military-power balances have followed shifts in productive balances. Cited from Niall Ferguson, *The Cash Nexus*, (New York: Basic Books, 2001), 390-1.

[3] Dale Copeland, *Origins of Major War*, (Ithaca: Cornell University Press, 2000), 2, 209-34, looked at 13 major wars or crises across 10 historical periods and found that every conflict was initiated by a state fearing decline.

[4] For discussion regarding the expansion of both men under arms and the casualties their wars inflict (including a rise in the capacity of war to kill by a factor of roughly 800 between the 17th and 20th centuries, as well as war dead as a consistently expanding toll as percentage of world population, see Ferguson, *Nexus*, 34, 428.

[5] See Rasler and Thompson, "Debts," especially 500-505.

[6] Kindleberger argues that the interwar economic disaster arose because the US did not assume Britain's hegemonic mantle. See Charles Kindleberger, *The World in Depression: 1929-1939*, (Berkley, University of California Press, 1973).

[7] Krasner, "State Power," 317-8. Thompson and Vescera note that the basic prediction of Krasner is that the system will be more open as the hegemon is ascending, and will become less open as the hegemon declines. Thompson and Vescera, "Growth waves, systemic openness, and protectionism," *International Organization*, (Spring, 1992), 495.

during periods of hegemonic transition. Being particularly reliant on international trade, Canada must remain intimately aware of this danger—for the country's ability to profitably exchange goods overseas rests upon both the American-led postwar multilateral trading regime, as well as American military power. Should either of those institutions become threatened or diminished, a key underpinning of Canada's wealth would be deeply imperiled.

Unfortunately, there is a dearth of literature investigating these issues. In fact, the potential for serious economic dislocation posed by these shifting international dynamics has gone largely unnoticed. The purpose of this paper is therefore to provide a theoretical explanation for the prospective policies likely to be adopted by America as it faces the growth of its overseas rivals and a tumultuous international order. In addition, the paper performs a preliminary analysis of the subsequent implications for Canada, and then prescribes several policy avenues that the country should consider when faced with the prospect of relative US decline.

Historical Backdrop: Dominance and Divergence

At the turn of the first millennium AD, China and India combined for a staggering 60% of global population and 58% of world GDP.[8] By 1000, their population share had fallen slightly, to 50%, and then stayed at this level for the next 700 years. Meanwhile, China and India continued to dramatically outproduce all other nations. China alone dominated the world economy from 1000-1500 AD. In fact, so impressive was the Chinese economy that national iron production during this time occurred at rates equal to those of the early British industrial revolution, some 400 years later.[9] Even as late as 1820, long after Europe had established its military and political dominance over the languishing Orient, China and India's shares of world population and GDP remained an impressive 57% and 49% respectively.[10] Production in the pre-industrial world was an overwhelmingly Asian phenominon.

However, as the 20th century approached, the massive populations of China and India became relatively poorer. While their populations still comprised an excess of 40% of the global total, the Chinese and Indian shares of world GDP began to plummet. By 1870, their combined measure stood at just 29%, and by 1900, this dropped even further, to 20% of the world total. Meanwhile, this decling wealth share was accompanied by political, economic, and social stagnation. China and India were rapidly sliding off the world stage. As a result, Europe and its overseas offshoots began to dramatically overshadow the wealth and power of these ancient cultures. The balance of global production lay in Asia's favour no more.

Although GDP per capita measures do not fully capture the total economic might a nation has at its disposal, this measurement can be used as a rough approximation of how efficient and vibrant an economy really is. When subjected to this analysis, the divergence between China and India and the West becomes more pronounced. By 1000 AD, the collapse of the Roman empire brought the GDP per capita figures of China, India

[8] Figures calculated from statistical spreadsheet accompanying Angus Maddison's *The World Economy: Historical Statistics*, (Paris: OECD Development Centre, 2003).
[9] William H. McNeil, *The Pursuit of Power*, (Chicago: University of Chicago Press, 1983), 24, 27.
[10] Maddison, spreadsheet.

and the Italian peninsula into line, with all three nations earning $450 (1990 International Geary-Khamis dollars) per citizen.[11] However, by 1500, Western Europe began to pull away. With an average product of $772, these nations outpaced China's $600 and India's $550 per person. This process continued so that by 1820, Western Europe's GDP per capita figures more than doubled China and India's. Even more dramatically, once Europe began to enjoy the fruits of the industrial revolution, the pace of divergence accelerated—so much so that by 1900, Western Europeans were nearly five times more productive than their Asian counterparts. Not to be outdone, continent leaders such as Great Britain and the United States enjoyed rates of per capita wealth more than 700% greater than China and India. Divergence was as steep as it was stark.

Over the last 2,000 years, the Chinese and Indian states have fostered both massive populations and tremendous wealth. This indicates not only considerable political success—for the task of governing a quarter of the Earth's inhabitants is a difficult one indeed—but also points to the creation of socio-economic conditions amendable to growth and the overcoming of the Malthusian challenge. Yet the historical record also indicates that these political and economic structures contained inherent inefficiencies and constraints. Ultimately, the competitive advantages of the European economies eroded Asia's supremacy, leaving the Orient politically weakened and relatively impoverished. China and India's story of the last 1000 years, then, has been one of economic dominance, and then divergence. Not only did the more efficient Western economies overtake Asia's level of production, it eventually left the region far behind.

The 20th Century: Transformation and *Re*convergence?

When the 20th Century began, this pattern of steep divergence only accelerated. While China and India's percentage of global population remained relatively stable over the past century, at just below 40%, their share of world GDP kept plummeting until it bottomed out at 8% during the early 1970s.[12] However, during this decade, the pendulum began to shift the other way. In fact, since the doldrums of the 1970s, their combined economic growth has far exceeded the global average, leading to a rapidly climbing share of world production. By 2003, China and India were once again responsible for fully 20% of all the goods and services produced in the world.

I. World GDP[13]

Country	1990	1995	2000	2003
China	2,109,400	3,441,940	4,254,961	5,659,200
India	1,098,100	1,425,623	1,899,526	2,267,136
US	5,803,200	6,558,151	8,019,378	8,430,762
Canada	524,475	570,868	699,572	748,363
World Total	**27,121,589**	**30,934,828**	**36,639,485**	**40,384,605**
China & India % of World Total	*11.8%*	*15.7%*	*16.8%*	*19.6%*

[11] Maddison, spreadsheet.
[12] Maddison, spreadsheet.
[13] Statistics from Maddison, spreadsheet; and the author's calculations.

Critically, China and India's relative productivity has demonstrated similar convergence towards the international average. Between 1973 and 2003, India's per capita GDP nearly tripled, growing from $853 (1990 International Geary-Khamis dollars) to $2,160. When looking a China in particular, this growth had been even more significant, with per capita levels rising more than 500%, from $839 to $4,392. And while it is true that these figures remain far below the averages of Western Europe ($19,912), Canada ($23, 236), and the United States ($29,037), the rapid growth of so large an economy nonetheless indicates that an impressive economic transformation is currently underway.

Into the Future: Population

The question remains, how likely are these rates of economic growth to continue at their current level? Will China and India be able to sustain the blistering pace set in the 1990s, or will this reconvergence stall and once again leave the Asian titans as laggards in world politics? Obviously, little certainty can be attached to answers of these questions. Prognostication is an imprecise sport. However, there are several key dynamics and trends that allow for reasonable speculation.

The simplest trend to gauge is population. Fertility and demography are slow to respond to external stimuli, and thus reasonable approximations of how populous China and India will be in the near future are possible. As a result, the United Nations confidently predicts that China's population will range (depending on the fertility assumption) between 1.2 billion and 1.65 billion by 2050, while India's population is expected to sit somewhere 1.39 billion and 1.96 billion.[14] Combined, these figures measure roughly 33% of the globe's total population, down slightly from their 20th century average.

The Future of Economic Growth

More difficult to determine is how fast these economies are likely to grow. Yet before we address this question, it is wise to examine *why* countries grow in the first place. Economists and economic historians have long pointed to the addition of material resources—whether they be minerals, invested capital, or labour skills—as vital to further and enhance the production of goods. Provided that efficient markets exist to match supply and demand judiciously, these early models[15] postulate that the augmentation of a stock of inputs results in an increased number of outputs. When an economy puts more resources into the chain of production, it is likely to get more goods out of it.

By this method, increasing output is achieved by either additional capital investment, or by adding labour to an economy. Specifically, investment growth can be achieved by either increasing the level of savings (that is, forgoing present consumption and investing in capital instead), or by attracting foreign investment. As for labour, it can be added through population growth, or by improving its overall productivity. Critically, the latter can be quickly achieved by shifting workers from low productivity farming to higher productivity manufacturing and services, a movement witnessed by economies

[14] UN Population Division, "World Population Prospects: The 2006 Revision Population Database, available at http://esa.un.org/unpp/index.asp?panel=1; and the author's calculations.

[15] For a survey of these models, see J.L. Anderson, *Explaining Long-Term Economic Change*, (Cambridge: Cambridge University Press, 1991). Prominent early scholars include Adam Smith and John Hicks.

undergoing the early stages of economic transformation. When the marginal product of labour is low, and that of manufacturing is high, it is relatively easy for an economy to shed farm workers without reducing production. Meanwhile, moving this labour to the manufacturing sector can dramatically increase manufacturing output and bring the welfare gains of a 'growth miracle' to the economy as a whole.[16]

Unfortunately, in the long run, this straightforward relationship between adding capital and reaping the rewards takes a complicated turn. Work done by Solow and his fellow neoclassical economists point out that the simple addition of capital eventually faces the problem of diminishing marginal returns. Each unit of capital is constrained by limited utility, and once returns begin to diminish, its relative contribution to total production becomes less and less. Without the technology of production improving exponentially, economic growth will cease. As a result, growth can only be sustained, in the long-run, by technical progress, for only innovation has proven itself capable of offsetting the tendency of the marginal productivity of capital to fall over time.[17] Innovation is therefore the root of economic growth.

Research performed by the economic historian Douglass North points to the lack of property rights—particularly those that protect the fruits of innovation—as the reason for history's slow pace of technical change, and therefore economic growth.[18] Once property rights were established, individuals were permitted to earn returns on their long run investments, and thus, economic growth rates began to dramatically improve.[19] As Romer notes, without patent rights, history bore witness to little invention, and therefore little sustained growth.[20] The few, intermittent technological and scientific advances that occurred prior to the 1760s were attributable to individual curiosity, government rewards, or privately funded prizes.

In political systems that lack property rights, the private returns of innovation remain well below social returns—leading to their underproduction. Furthermore, since ideas are economic goods that face increasing returns to scale, the incentive of profit is necessary to facilitate their creation in quantities sufficient to meet social demand. Appropriate social infrastructure is therefore necessary to encourage the required capital investment, skill accumulation, and idea development that fuels economic growth. Once such structures are put in place, and profit-seeking individuals are allowed to earn rents on their ideas, these innovators will continue their search for new and better ideas. The result is economic expansion that consistently outpaces population growth and remains impervious to the ravages of diminishing marginal returns.

As such, 'growth miracles' are—at least in the abstract—relatively well understood. Reforms that shift incentives in the economy away from wasteful individual diversion, and instead towards production activities that stimulate investment, the accumulation of skills, technology transfer, and the efficient use of capital, lay the

---

[16] Much of East Asia's postwar economic success was due to this process. Paul Krugman and Maurice Obstfeld, *International Economics*, (Reading: Pearson, 2000), 703.
[17] Charles Jones, *Economic Growth*, (New York: W.W. Norton, 2001), 43-4, 167, 195.
[18] Jones, *Growth*, 89.
[19] Jones, *Growth*, 164.
[20] Jones, *Growth*, 121.

groundwork for rapid economic growth.[21] The empirical record indicates that development of this social infrastructure can fundamentally transform the level of income enjoyed by those countries that successfully adopt and implement these prescriptions.

Growth Without End?

China and India offer no exception to this process. The past several decades have witnessed fundamental reforms in the economic structures of these two nations. Whereas China once forbid private enterprise, shunned individual success, and sealed itself off from international trade, the Communist Party declared in 1978 that "to grow rich is glorious" and set off an intensive program of market liberalization.[22] In India, the collapse the Soviet Union—New Delhi's chief overseas patron—sparked a similar round of reforms. The most important of these dramatic policy shifts have been the freeing of labour markets and the establishment of property rights. In both countries, entrepreneurs are now able to respond to market incentives, shift in and out of unproductive industries, and capitalize on their investments and innovation.

The results have been remarkable. As little as 20 years ago, China and India were home to little technology and contributed minimally to the expansion of the global technology frontier. Today, however, it is a much different story. Microsoft and IBM have opened large research and development labs in China,[23] and India is known as one of the world's most vibrant software hubs. This evidence suggests that many of the basic ingredients necessary for sustained economic growth have been firmly established. By implementing the property rights model, China and India have set in place the conditions where economic theory suggests sustained economic growth is possible. Judging by the theories of Solow and North, there is nothing to suggest that these countries cannot continue along the same 'growth miracle' trajectory as their East Asian predecessors

Moving from theory to actual practice, an examination of historical precedent provides similar reason to think that further, rapid Chinese and Indian growth is possible. For example, the 'Asian Tigers'—the East Asian countries that underwent the process of economic transformation prior to China and India—maintained high annual GDP growth rates for several decades. In fact, these high rates only subsided when per capita income levels began to converge with world's high-income average. Critically, there is little reason to suggest that China and India cannot maintain the same high rates until convergence is similarly achieved.

---

[21] Jones, *Growth*, 195-6.
[22] Krugman and Obstfeld, *International Economics*, (Reading: Pearson, 2000), 269.
[23] For a brief overview of China's technology industry, see Bradley Thayer, "Confronting China: An Evaluation of Options for the United States," *Comparative Strategy*, January 2005, 24:1, 76-8.

III. **Postwar GDP Growth**[24]

	1950s	1960s	1970s	1980s	1990s	1950-'99
Japan	9.1	11.3	5.2	4	1.5	6.2
South Korea	0.7	8.4	10.3	9.7	6.4	7.1
Taiwan	7.8	10.1	9.6	8.1	6.3	8.4
China	4.6	2.2	3	7.1	7.7	4.9
India	2.4	1.5	2.3	4	5	3

The similarities between East Asia's early industrializers and the recently ascendant China and India are more than superficial. Both groups of countries are highly hierarchical societies with reformist governments and ambitious economic growth agendas. Both reflect similar cultural characteristics, and have endured a similar historical experience. Perhaps most importantly, both groups adopted the Western economic model taught by Adam Smith, Alfred Marshall, and Robert Solow. The result is that even though the growth strategies of the Asian Tigers were neither flawlessly executed, nor provide templates amenable to perfect duplication, their postwar success highlights the potential for sustained growth by ancient cultures with impoverished backgrounds. If anything, the early industrializers offer a rough guide of what we should expect as China and India transit from Third World to First.

A further argument supporting the likelihood that China and India will reach high-income status is the broader pattern of income convergence that is occurring in the world economy as a whole. Judging by the slow, upward trend of middle-income countries towards high-income levels, it would seem that there are larger, non-region-specific learning dynamics at play. As Jones notes, this gradual movement reflects the tendency for societies to incrementally discover and adopt successful institutions and policies conducive to economic growth.[25] Models of successful growth tend to be diffused and adopted over time. In an area so competitive as international politics, successful policies are coveted, and therefore likely to be replicated.

Despite these arguments in favour of continued Chinese and Indian economic expansion, several concerns have been raised as to the potential endurance of current trends. Foremost is the view that China's autocratic nature will hinder further economic growth. Here it is argued that the totalitarian nature of the Chinese political system will ultimately stifle the individual creativity and independence necessary for sustained innovation. In fact, the Communist Party has repeatedly demonstrated a willingness to control even the minutest elements of personal life.[26] In doing so, advocates of

---

[24] Carlos Sabillon, *World Economic Historical Statistics*, (New York: Algora Publishing, 2005), 111-15, 152.

[25] Jones, *Growth*, 153. Smith's *Wealth of Nations* was not published until 1776—a relatively short time in historical terms. Also note that this convergence phenomenon is much more prevalent in middle-income countries than those most impoverished. Unfortunately, the last 100 years has demonstrated that while middle and upper income levels have a propensity to converge, the poorest of the poor tend to remain that way.

[26] Perhaps the finest example of this is the recent wrangling between Western Internet firms and the Chinese government. In this contest, the foreign search engine companies of Google and Yahoo conceded to Beijing's wishes and now block sites linking the Chinese public to organizations such as the Falun Gong

democracy argue that these heavy-handed measures will ultimately constrain further income growth. Furthermore, this monopoly of power breeds corruption and impedes the creation of transparent fiscal, monetary, and regulatory institutions.[27] Burdened by these perverse economic incentives and inefficient economic arrangements, broad-based, sustained prosperity is impossible to achieve.

Yet the weight of these arguments is rather suspect. The literature of economic development suggests that the relationship between democracy and economic growth is "not robust,"[28] and thus autocracy's curbs on growth cannot simply be assumed. So long as the ruling elite is able to implement an efficient system that reduces transaction costs and encourages economic growth,[29] democracy is by no means a necessary element. In addition, it is hardly unusual for wealthy Asian countries to be home to highly interventionist governments. Singapore, for example, maintains rigid social controls, yet also enjoys one of the most productive economies and some of the highest living standards in the world.[30] Similarly, Taiwan and South Korea enjoyed impressive economic transformation while led by austere autocratic governments. More importantly, even though this latter political arrangement may have been conducive to considerable levels of corruption, the diversion of wealth to individuals was not sufficiently rampant to derail these incredible growth miracles. As a result, China's authoritarian nature should not be seen as automatically precluding the rapid attainment of considerable affluence.

Another potential constraint, leveled at both China and India, is that the tremendous inequities of wealth—the incredible gap between the relatively small, wealthy elite and the hundreds of millions of struggling farmers and urban labourers—will create social strains unmanageable by the countries' weak political and social infrastructure. In this view, the wealth imbalances exacerbated by economic growth hold the possibility of collapsing the entire growth project.[31] Additionally, the environmental consequences of growth threaten to aggravate this situation. However, scant empirical evidence is offered to support this assertion. The history of early industrializers, it must be remembered, is replete with income disparity and rapacious resource usage—yet none of these earlier growth miracles were subject to internal collapse.

A third prospective growth constraint lies in the nascent banking systems upon which the Chinese and Indian economies now depend.[32] In many cases, government

---

and Taiwanese independence movements. If anything, the episode demonstrates the antithetical position of the Chinese leadership to the free and open exchange of ides.

[27] Niall Ferguson, *Colossus*, (London: Penguin, 2004), xxiii-iv.

[28] Michael Todaro and Stephen Smith, *Economic Development*, (Addison Wesley, 2003), 711.

[29] North has discussed this necessity at length. See, for example, Douglass North, *Institutions, Institutional Change And Economic Performance*, (Cambridge: Cambridge University Press), 2003.

[30] It should be noted that *some* of these controls have recently been relaxed (Jonathan Hopfner, "Singapore: Uptight No More," *Globe and Mail*, June 24, 2006) in order to foster the creativity and dynamism necessary for a knowledge economy. Nevertheless, strict controls remains, and yet this intensive involvement by the state in private life has not prevented Singapore from reaching a virtually unmatched level of per capita income.

[31] For this view, see Merle Goldman, Raja Menon, Richard Ellings, "Letters from Readers," *Commentary*, February 2001, 13, 19.

[32] For a more detailed discussion of this problem, see James Riedel, et al, *How China Grows: Investment, Finance, and Reform*, (Princeton: Princeton University Press, 2007). Other concerns exist, such as

oversight of financial transactions is extremely ineffective and rife with moral hazards. This is perhaps the most potentially damaging limit to further growth, as rewards to innovation and investment are vital to market economies and sustained economic expansion. Nevertheless, this condition is hardly unique amongst emerging economies. More importantly, Asia's financial resiliency would seem to have been underplayed. For example, while 1997's East Asian Financial Crisis demonstrated the fragility of East Asia's banking system, most countries quickly recovered.[33] Consequently, even though the effects of a similar financial calamity in China or India would be far-reaching and seriously impact growth rates, there is little to suggest that such a crisis would upset the underlying process of innovation and reward, and thus permanently hamper progress towards convergence with high-income levels.

Some economists have also suggested that much of East Asia's recent prosperity is the result of augmentation of the capital stock (the result of high domestic savings rates and large influxes of foreign investment[34]) and the shift from unproductive farm labour into the much more productive manufacturing sector.[35] Consequently, once the agricultural sector runs out of surplus labour, countries enjoying rapid, early transformative growth—such as China and India—may be unable to sustain this rate of progress. When the improvement of manufacturing productivity can no longer simply rely on the recruitment of surplus workers, growth will become much more difficult to achieve. More importantly, if innovation-led productivity improvements do not keep pace with this abundance of capital, these high investment rates will face diminishing marginal returns and growth will similarly begin to slow. The fundamental question, then, is whether or not Chinese and Indian innovation can keep pace with the massive savings and investment programs currently underway. Obviously, only time will provide a sufficient answer to this query. However, there is considerable reason to expect present rates to continue—for not only has it been demonstrated that China and India have established much of the social infrastructure necessary to foster the innovation necessary for *sustained* growth, the history of the East Asian tigers points to the prospect that rapid economic expansion amidst high savings and investment rates is indeed possible, at least until per capital incomes converge with the global high income average.

Finally, it is worth noting that China need not match Western rates of productivity. Even if Chinese economic growth slows and per capita incomes remain far

---

continued government support for terribly inefficient state-owned industries, but the privatizations necessary to eliminate these drags on growth are a relatively straightforward process.

[33] The effects of the 1997 Asian financial contagion were overcome rather quickly. With the exception of the long-languishing Japanese economy, all the East Asian powers returned to growth by 1999. Obviously, this market correction put an end to the mid-1990s 'bubble,' but the region has nevertheless enjoyed consistent economic expansion ever since. Figures from World Bank, *World Development Indicators Online*. Available at www.worldbank.org.

[34] China is an excellent example for both of these phenomena. Not only is the national savings rate roughly 30% of GDP, Foreign Direct Investment in China now totals around 40% of GDP—a level not seen since the Open Door policies of the 19th Century. Krugman and Obstfeld, *International*, 269; and Ferguson, *Colossus*, 284.

[35] See, for example, Krugman and Obstfeld, *International*, 703.

below Western levels, the nation is populous enough to supplant the United States as the world's largest economy.[36] The same principle applies to India. These economies simply do not need to match Western efficiencies, for their tremendous populations allow for lower productivity, while still equaling or exceeding the aggregate economic wealth of the United States, Japan, and Europe. Indeed, China and India each need only achieve one-quarter of America's per capita income to successfully equal the current hegemon.

Eastern Rise, American Decline

As we have seen, China and India are rapidly increasing their portions of international production. Moreover, there is ample economic theory and historical precedent to suggest that this movement is likely to continue for the foreseeable future. Furthermore, the sheer demographic weight of these Asian powers ensures that even if this growth slows, China and India will nonetheless emerge as economic colossi. Obviously, the consequences of this growth will be considerable, as it will place considerable stress on global resource demand, ecological concerns, global health issues, and even migratory patterns. Yet perhaps the most important ramifications of this shift towards greater Chinese and Indian power will be felt in the realm of international politics.

Realist scholars are deeply concerned by such movements in the balance of economic production. In fact, a state's economic foundation is the root of its power, and drives its ascent and descent through the world order. More specifically, hegemonic cycles theory[37] describes how states capable of fostering the development of 'leading sectors' at the technological frontier earn 'super-rents' which, in turn, underlie their quest for hegemonic control of the international system.[38] States that enjoy persistent domestic innovation generate stocks of riches that they can then translate into military power, propelling their ascent to international pre-eminence. A prospective hegemon is therefore obliged to maintain its dominance of the cycles of innovation, ensuring its hold on leading sectors, and then use this hegemonic potential to generate effective military capabilities.[39] For its hegemony to endure, it is imperative that the state remains proficient at economic innovation and sustains the production of potent military forces.[40] Yet despite these efforts, the processes of diffusion, imitation, and competition—as well as the unavoidable law of diminishing marginal returns—ensure that the growth of

---

[36] Krugman and Obstfeld, *Economics*, 269.

[37] Hegemonic cycles theory (HCT) is the broad heading for a category that encompasses all the related hegemonic stability, power transition, and 'long cycle' permutations. More precisely, Charles Kindleberger first elucidated hegemonic stability theory in *The World in Depression: 1929-1939*, (Berkley, University of California Press, 1973). The actual term 'hegemonic stability theory' came from Keohane, "The Theory of Hegemonic Stability and Changes in International Economic Regimes, 1967-77," in *Change in the International System*, edited by Ole. R. Holsti, Randolph M. Siverson, and Alexander L. George, (Boulder: Westview, 1980), 132. For a discussion of the distinctions of the latter two variants, see Charles F. Doran, "Confronting the Principles of the Power Cycle: Changing Systems Structure, Expectations, and War," in Manus Midlarsky, (ed), *Handbook of War Studies II*, (Ann Arbor: University of Michigan Press, 2000), 347, 362.

[38] George Modelski, "The Long Cycle of Global Politics and the Nation-State," *Comparative Studies in Society and History* (April 1978), 214-35.

[39] Tellis, Ashley, et al, *Measuring National Power in the Post-Industrial Age*, (Santa Monica: RAND, 2000), 36-7.

[40] Tellis, *Measuring*, 41.

commercial and political rivals is inevitable.[41] Unfortunately, it is within the very nature of states to strive for power and wealth, and thus once hegemony is achieved, a state endeavours to stave off any loss of international position and retain system dominance. As we shall see, the results of this quest to halt relative decline matter a great deal to *all* members of the international order.

The question, then, is what is likely to happen should the United States continue to face the persistent erosion of its hegemonic power? What sort of American policies should we expect in light of Chinese and Indian growth—economic shifts far greater than any previous challenge to America's dominance of the international order—and how might they affect world politics? As a rough guide, Gilpin offers three prospective strategies that a declining hegemon can pursue:[42] a decliner can use military power to thwart the rival economic challenge and security threat; it can retreat into trade protectionism to uplift its flagging economic fortunes (even though this retrenchment will most likely accelerate the diminution); or it can rejuvenate its domestic economy through market reforms and/or selective intervention in the economy. The latter tactic attempts to shift the production mix from industries where a declining comparative advantage is held to ones with better prospects of returning excess profits and maintaining the hegemon's leading-economy status. To conduct a deeper analysis of the strategic choices available to the hegemon, as well as the policies it may pursue, this paper will utilize the simple political economy decision-making model that follows.

A New Model of Hegemonic Transition

In this model, the policymakers of a declining state are confronted with two levels of concern: the first is its existence, the second, wealth and relative power. In an anarchical world, a state's paramount worry is survival.[43] All other issues are subsumed to this primal necessity.[44] However, when a state is not in imminent danger, it will concern itself with wealth (in terms of competitiveness, productivity, and profit), and relative political power, a matter comprising of international power distribution, international trade levels, and domestic political support.[45] Regardless of their voting system or organizing principle, hegemons are influenced by domestic coalitions of imperial, protected economy, and open economy interests. These coalition groups lobby policymakers as they weigh the benefits and costs of each of Gilpin's alternatives and determine the hegemon's policy choices according to which option maximizes gain at both the existential, and the wealth and power levels of strategic concern.[46]

---

[41] Tellis, *Measuring*, 38-9.

[42] Robert Gilpin, *Global Political Economy* (Princeton: Princeton University Press, 2001), 146.

[43] Joseph Grieco agrees, arguing that states, "are fundamentally concerned about their physical survival and their political independence." *Cooperation Among Nations*, (Ithaca: Cornell University Press, 1999), 10, 30.

[44] State viability and domestic welfare requires the protection of economic activity. Urs Luterbacher and Carla Norrlof, "Production, Protection, and International Relations," paper presented at ECPR Conference, Canterbury, 18.

[45] Krasner has a similar formulation that emphasizes four basic state interests: aggregate national income, social stability, political power, and economic growth. Krasner, "State Power," 317-8.

[46] This follows Anthony Downs' assertions that "parties formulate policies in order to win elections," and that, once elected, "democratic governments act rationally to maximize political support." Ferguson, *Nexus*, 227.

There are two types of threats that can imperil a nation's productive base. The first are *endogenous* threats, which include concerns such as civil order and the control of the government and its legal institutions over the population found within its borders. Without domestic order, economic production is difficult to achieve. A further endogenous threat relates to domestic productivity and the Malthusian dilemma. If domestic production cannot rise faster than the rate of population increase, the very existence of the state is threatened. No government can retain it integrity for a sustained period if domestic political and economic structures are incapable of meeting the material needs of society. Widespread starvation will not permit an endurance of the status quo.

The second category of existential threats includes those *exogenous* to the state itself. These concerns can include changing climactic conditions or other such environmental concerns, but mostly come in the form of, or potential for, foreign invasion. Perceptions of exogenous threats arise from three factors. First, policymakers pay keen attention to the relative rate of growth between rival states and themselves. These 'dynamic differentials' matter greatly to state security, for when a state declines it becomes less and less able to withstand any potential aggression from ascendant opponents. The second factor is directly observable: the armed expansion of rivals or potential foes. Watching a credible opponent expand its power through military force immediately creates a sense of insecurity and fear. And finally, the third factor influencing a decliner's perception of rivals is the offence-defence balance—the military-technology equilibrium where it is either "easier" to conquer territory or to defend it.[47] When defensive weapons and strategies are dominant,[48] conditions are much more stable and conflict has a greater likelihood of resolution without resort to arms.[49] Depending on where equilibrium lies, the effect of the offence-defence balance is to either exacerbate or mollify the perceived danger from a dynamic rival.

It is also important to consider the overwhelmingly cautionary logic of atomic weapons. Although their lack of fungible efficacy enables conventional war to endure, the awesome destructive power of nuclear weapons has raised the potential cost of offensive action by great powers to an incredible degree.[50] In the nuclear age, the present offence-defence balance rests firmly in favour of defence, a fact that, if proven enduring, will calm the existential fears of a hegemon in decline.[51]

---

[47] As originally described by Robert Jervis, "Cooperation under the Security Dilemma," *World Politics*, (January, 1978), 187-194, 199-206. For an overview of the theory, see Sean Lynn-Jones, "Offense-Defense Theory and Its Critics," *Security Studies*, (Summer, 1995), 660-91.

[48] Weapons can obviously be employed in both offensive and defensive situations, but are relatively more effective in one posture than the other. For example, fortresses and machine guns are better suited to defence, while artillery and armoured vehicles are more effective in offensive operations. Military strategies share similar characteristics.

[49] Glaser, Charles, and Chaim Kaufmann, "What is the offense-defense balance and can we measure it?," *International Security*, (Spring, 1998).

[50] Some would even argue that the cost is so great that war amongst the great powers is no longer possible. See Martin van Creveld, *The Art of War*, (London: Cassell & Co, 2000), 214.

[51] Realists stress the pacifying effect of nuclear weapons because "if possessed in sufficient numbers and invulnerable configurations, [they] make victory impossible and war a feckless option." Robert Jervis, "Theories of War in an Era of Leading-Power Peace," *American Political Science Review*, (March, 2002), 7. Analysis of the costs and havoc nuclear arms could potentially wreak provides sufficient substantiation of the claim of atomic 'revolution.' These estimates make clear the potential trauma brought to bear on a society subjected to a nuclear assault. The US Office of Technology succinctly writes that "[t]hroughout

A state's response to an existential threat is simple: total pre-emptive war. Where survival is deemed to be at risk, witnessed either by the military expansion of an ally or a shift in the offence-defence balance against the hegemon's favour, a state will mobilize the totality of its resources to defend its security. As the state and its economy have become more productive, so too has the number of resources it can deploy towards this effort.[52] Wars of survival are therefore ferocious, bloody affairs.

The second level of concern includes those of wealth and relative power. If a state's very existence remains secure, policymakers will pay greater attention to international power distribution, international trade levels, and domestic political support, utilizing the tools of limited war and inter-state trade in pursuit of these interests. The decisions regarding which tactics to adopt in pursuit of the government's objectives will be influenced by the three main domestic coalitions, each deriving benefit from a particular type of international structure. Different governments will assign different weights, but during second-level deliberations, generally those interests that dominate the domestic arena will succeed in having their policies implemented.

Wars that are the result of the second level concerns of wealth and power are generally limited, but decliners who do not face existential threats may nonetheless derive utility from the use of force. In fact, there are many steps short of complete resource mobilization that military action can take, separated roughly into the categories of limited war, crisis initiation (a bargaining strategy that is essentially the forcing of an opponent, via the deployment of forces or other hostile means, to the brink of war in an attempt to gain favourable concessions),[53] intensified arms racing,[54] security arrangements (the extension and revocation of security guarantees), and deterrence (enhancing retaliatory capabilities). In the nuclear age, where the ability of atomic weapons to deter provides some (although far from assured) protection against existential challenges, these policies may hold greater appeal. Glenn Synder observes that in this condition a 'stability-instability' paradox can be found, where the "common realization that all-out war would be irrational and provides a license for threats and lower levels of violence."[55] Indeed, "mutual deterrence can still be used as a platform for hostility, coercion, and even limited wars."[56] With survival relatively assured through nuclear

---

all the variations, possibilities, and uncertainties...one theme is constant—a nuclear war would be a catastrophe." A single one-megaton weapon—the equivalent of one million tons of TNT—over a modern city would cause 200,000 to 2 million immediate deaths. Use of a larger fraction of existing arsenals against a range of military and economic targets at the national scale would cause 20-160 million immediate deaths and severe long-run complications. Office of Technology Assessment, *The Effects of Nuclear War*, (May, 1970), 3. Available at http://www.wws.princeton.edu/ota/disk3/1979/7906/7906.PDF, accessed March 17, 2006.

[52] See, for example, Bruce Porter, *War and the Rise of the State*, (New York: Simon and Schuster, 1994) and Brian Downing, *The Military Revolution and Political Change*, (Princeton: Princeton University Press, 1992).

[53] Two examples of 20th century crisis initiation are the Soviet Union's heightening of tensions in the 1948-9 Berlin and 1962 Cuban missile crises. For a further analysis of crises, see Michael Brecher and Jonathan Wilkenfeld, "Crises in World Politics," *World Politics*, (April, 1982), 380-417.

[54] A term from Copeland, *Major*, 10, describing the tactic of trying to overburden an opponent's economy with defence spending and hasten its economic decline.

[55] Robert Jervis, "Theories of War in an Era of Leading-Power Peace," *American Political Science Review*, (March, 2002), 7.

[56] Jervis, "Theories," 7.

deterrence, policymakers may consider limited war or other sub-existential uses of force a more fruitful course of action because of a decline in the existential risks associated with open conflict.

Policymakers use the instrument of trade to affect international power distribution, interdependence levels, and domestic political support. Trade enhances productive efficiency by allowing for the expansion of economic specialization. The exchange of goods between two countries effectively enlarges market size and allows the gains from trade to be realized.[57] Since this level of productivity is the foundation of nation's wealth, trade can thus be used to improve a state's total aggregate welfare. In addition, the gains from trade can augment existing military arrangements, thereby providing 'security externalities.' Indeed, Gowa and Mansfield argue that trade enhances the potential military power of any country that engages in it.[58] However, trade can hurt those domestic groups that compete with imports, as their capital is tied to industries that cannot match cheaper foreign goods. Thus, trade generates surplus wealth, but significantly impacts both security and economic distribution, ensuring that it is a contentious and impassioned issue.

Hegemons try to improve their relative position through trade policy. Embargoes and preferential trading agreements are implemented in an attempt to limit a hegemon's provision of public goods to those countries that do not pose an overwhelming threat.[59] The instruments of tariffs, non-tariff barriers, and restrictions on the movement of factors such as capital and labour can also be used. These are implemented to enhance both the hegemon's relative position, as well as the government's political support. If trade policies are devised as a means to enhance aggregate welfare, they will be limited and support open trade. If constructed to benefit import-competing domestic groups (in return for political support), they will be restrictive and trade reducing. If formulated to maximize aggregate welfare, benefit export interests, and support domestic reform, the policies pursued will emphasize international openness.

At the secondary level, policymakers are concerned with power, wealth (considerations that include competitiveness, productivity, and profit), and political support. How leaders maximize these interests depends upon the relative influence of three domestic coalitions.[60] The first coalition, comprised of those who are willing to expand or defend their interests by war, can be characterized as operating under the banner of *imperial interests*. Interestingly, the costs of empire usually exceed benefits, especially as aggressive states find that the cost of conquest grows as distance from the

---

[57] See Krugman and Obstfeld, *International*. For a less technical account, see Tony Cleaver, *Economics: The Basics*, (London: Routledge, 2004), 153-58.

[58] Joanne Gowa and Edward Mansfield, "Power Politics and International Trade," *American Political Science Review*, Vol 87. No. 2 (June, 1993), 408. The term 'externalities' is used because this benefit is not measured in the import/export market transaction.

[59] An example would be the US-led GATT's prohibition of members from the Soviet orbit from joining. An example (albeit unsuccessful) of a strategic embargo is Napoleon's Continental System, designed to deprive Great Britain of the European market for its manufactures. See Kennedy, *Rise*, 129.

[60] Jack Snyder argues that domestic pressures often outweigh international ones in the calculations of leaders, *Myths of Empire*, (Ithaca: Cornell University Press, 1993), 19-20. James Morrow concurs, finding that domestic politics is the likely source of the pressure for protection. "When do Relative Gains Impede Trade?," *Journal of Conflict Resolution*, 41, no. 1 (1997), 14. This model, therefore, sees the state as more than the simple billiard ball analogy that many Realists do.

core increases. Motivated by this paradoxical nature of imperial expansion, Synder examines the roots of domestic influences on foreign policy[61] and concludes that narrow interest groups, attempting to capture the concentrated gains that empires bring (mercantilists, for example), will band together via logrolling, or vote trading, and advocate imperial policies.[62] These groups are able to capture the political agenda with the tools of ideological myths, such as paper tiger imagery and domino theories, bringing national popularity to their cause.[63] Thus, imperial interests dominate when they are able to find public resonance with the myths they expound. When such circumstances arise, the model predicts that imperial war is a strong possibility.

A second coalition is closed economy interests. These are import competing groups who benefit from tariff and non-tariff barrier protection erected to place their foreign competitors at a disadvantage. Motivated by concentrated gains, and facing an opposition that endures diffuse losses, these small groups overcome the difficulties of collective action and band together to lobby the government to intervene on their behalf.[64] Their success depends on how important their political support and campaign contributions are to the government vis-à-vis the leadership's reliance on public popularity, as well as the level of harm endured by the voting public as a consequence of these protectionist policies. Governments will derive a utility function and attempt to maximize both the contributions of the closed economy interests (through the enaction of protection) as well as general popularity (through the welfare-improving measures of trade openness).[65] When closed economy interests dominate this calculation, protection will prevail and the economy will become less open.

The model's third coalition is open economy interests.[66] These are export firms and international capitalists, entities who depend on international trade and capital flows.[67] Driven by profit, these groups pressure government to keep barriers to trade at a

[61] Synder, *Myths*, 6-8.
[62] For instance, in the late 19th Century it was the compact London commercial elite (with its vast investments abroad) that benefited inordinately from the British empire. Ibid., 33.
[63] Ibid., 16-9, 47-9, 94.
[64] The general public and other industries endure general welfare losses as a result of the inefficiencies of protection, yet these are so small and shared among everyone so as to do little to spur opposition to the protection demands of rent-seeking closed economy interests. This is why we see most active groups pushing *for* protection. Olson, *Nations*, 362. The insight that protection is inefficient is a central foundation of economics, dating back to the writings of Adam Smith and David Ricardo. For a lucid overview of these great works, see Robert Heilbroner, *The Worldly Philosophers*, (New York: Touchstone, 1999).
[65] Gene Grossman and Elhanan Helpman, "Protection for Sale," *American Economic Review*, (September, 1994), 833-50. This formulation specifies campaign contributions and electoral votes, but an extension to include the broader concept of 'political support' expands the validity of the model to beyond those countries with democratic institutions.
[66] Exported oriented firms and capitalists. See Helen Milner, "Trading Places: Industries for Free Trade," *World Politics*, (1988), 350-76.
[67] In 1945, Albert Hirschman argued that trade creates its own vested interests, and these groups include exporters, importers, industries dependent on either, regions where these industries are concentrated, secondary consumers of imports, and others such entities. Francis Fukuyama and G. John Ikenberry, "Report of the Working Group on Grand Strategic Choices," Princeton Project on National Security, 18. Available at http://www.wws.princeton.edu/ppns/conferences/reports/fall/GSC.pdf.

minimum.[68] The more internationalized and export-oriented these groups are, the more resolute their defence of international economic openness will be. This preference extends into the balance of war and peace, as high trade levels are empirically correlated with lower levels of war.[69] Again, this coalition will be averse to disruption of stable trading relations because such turbulence harms profits.[70] The conduct of war comes at an opportunity cost of the peacetime benefits of trade, hence the greater the importance that trade is to these interests, the more vociferous their opposition to conflict will be.[71] Their preferences are important, as Milner notes, because analysis of leading firm preferences and government policy indicates that over time, these firms tend to get the level of protection they demand.[72]

All these factors and groups are weighed in the hegemon's cost/benefit analysis. Of the three alternatives Gilpin outlines, decliners will attempt to maximize their gains according to these two levels of concern. Simply put, if immediate survival is not at stake, policymakers will take steps to maximize relative international power, wealth, and domestic support. This is a difficult calculation, and relies most frequently on imperfect knowledge, yet policymakers do their best to approximate and balance these values. Moreover, the distributional consequences of these policies matter, as witnessed by the interplay between government and the three coalitions. Essentially, if the expected net benefits of war (rewards such as survival, maintenance of system pre-eminence, an enlarged resource base, and domestic political support) exceed the expected net costs (blood, treasure, and political capital), military action will be taken.[73] Different governments will assign different weights, but during second-level deliberations, generally those interests that dominate the domestic arena will succeed in having their policies implemented.

Into the Future: Probable Paths for America

Surrounded by ocean and protected by a relatively invulnerable nuclear triad, the rise of China and India does not pose an existential threat to the distant United States. Nevertheless, America is likely to pursue several key tactics and strategies should China

---

[68] Milner suggests that firms do not wish for protection because of fears of retaliation, restriction of exports or future opportunities, increased competition in third-party markets, tariffs increase price of import inputs, the danger of disruption costs and disadvantageous market positions. "Industries," 361-2.

[69] Edward Mansfield, *Power, Trade, and War*, (Princeton: Princeton University Press, 1994), 27, 117-50.

[70] Commercial concerns frequently react negatively to the onset of war. For example, see Ferguson, "Nexus," 276 for negative reaction (in terms of bond markets) to the outbreak of wars from 1830 to 1914.

[71] And the greater the market concentration, the greater the opportunity cost of abandoning peace. Gowa, *Allies*, 118. Mansfield found a similar finding (that the level of international trade is inversely related to the probability of the onset of a wide variety of types of wars, but does note that in some configurations of power distribution more trade does not succeed in halting the onset of war. Mansfield, *Power*, 26-7. This concurs with the model, where trade levels become relatively unimportant when state survival is the dominating issue.

[72] Milner, "Industries," 375. Even if there are only some international firms in certain sectors of the economy, bargaining will moderate the protection demands of the industry as a whole, 372-3.

[73] This paper argues that, at least in the interstate, hegemonic context, war is as Jack Hirshleifer suggests: "economics by other means." Quoted in Ethan Kapstein, "Two Dismal Sciences Are Better Than One: Economics and the Study of National Security," *International Security*, Winter, 2002/03, 158. Although emotion can exacerbate policymaker myopia, great powers base their decisions primarily on the rational grounds of security, wealth, and political calculations.

and India continue to grow and generate potential power capable of challenging America's hegemonic leadership. Firstly, the United States is likely to maintain its longstanding tradition of offshore balancing. America's military will undoubtedly remain opposed to the territorial aggrandizement of its chief overseas rivals. As witnessed in both the First and Second World Wars, the United States will not tolerate a European or Asian rival that could amass a continent's worth of resources, and thereby challenge America's regional hegemony. Secondly, the United States will also endeavour to keep the offence-defence balance firmly at a defensive equilibrium. In the nuclear age, this is most effectively achieved by maintaining an unquestioned second-strike capability. Consequently, America will ensure sufficient resources are devoted to its nuclear deterrent to maintain this advantage. Moreover, it would unsurprising if the United States took military action to thwart the nuclear development programs of those states lacking a significant regional retaliatory capability. Finally, in regards to terrorism, it is likely that the United States will continue with its present legal and judicial counter-terrorism efforts.[74] Intelligence monitoring, police arrests, and criminal prosecutions are certain to be continued, as will assassinations of those terrorists unable to be brought to trial safely.

In terms of the secondary concerns of wealth and trade, the policies adopted likely will, as Milner suggests,[75] repeat history and reflect the orientation of America's leading firms. Should open economy interests dominate, the United States will pursue a more liberal trade regime.[76] Should protection-seeking firms be at the forefront of American economic life, tariffs and 'America-first' economic policies will be on the menu. Given that the resurgence of European and Japanese economic strength did little to dampen the internationalist tendencies of America's leading firms,[77] there is some reason to imagine that Chinese and Indian growth will result in a similar policy stance. Ultimately, if China and India do not pose as existential threats to the United States and its productive base, limit their territorial expansion, and the American economy continues its international orientation, the United States is unlikely to retreat too steeply into trade protectionism when confronted with this new international economic challenge.

Canada: Managing in a Turbulent Wake

Unfortunately, even a slight reduction of America's liberal trading proclivities will significantly impact the Canadian economy. At 72.9%, Canada has an incredibly high trade to GDP ratio.[78] Moreover, this reliance on trade continues to increase. Between 1995 and 2005, growth in export and import volumes nearly doubled GDP growth, outpacing the latter's 3% with annual increases of 5%.[79] The key question, then,

[74] Margaret Purdy, "Countering Terrorism: The Missing Pillar," *International Journal*, (Winter 2004-5), 4.
[75] Helen Milner, "Trading Places: Industries for Free Trade," *World Politics*, (1988), 375.
[76] Again, it is important to note that it is America's policies that are key to the endurance of an open international trading order. As most realist political economists would suggest, Chinese and Indian interests are likely to favour an open order—for they have the most to gain from a system that earns them an ever-growing share of international rents. Thus, the key remaining variable is the United States.
[77] Milner, 357, 375.
[78] For example, the percentage for a large economy such as the US measures only 24.4%. World Trade Organization, Statistical Database, September 2006 data, available at http://stat.wto.org/Home/WSDBHome.aspx?Language=.
[79] WTO, Database.

is how well can a multipolar international order sustain the stable, liberal international trading order upon which Canada so dearly depends?

The answer to this question matters a great deal, for as a small economic power, Canada relies on the multilateral process of the GATT/WTO framework for its international economic bargaining leverage. In fact, Canada's share of the world merchandise trade measures only 3.45% of total exports and 2.96% of world imports. In terms of commercial services, Canada's portion is even smaller, totaling 2.16% of global exports and 2.73% of imports. Given this relatively weak position, Canada lacks the leverage necessary to extract fully reciprocal trade deals from its major trading partners. In addition, neither Europe nor Asia feels the same geostrategic imperative to make concessions with Canada as the United States does. For example, free trade negotiations with the European Union would not enjoy the prospect for favourable, non-economic linkages that the FTA and NAFTA bargaining processes did.

Canada's reliance on American hegemony goes far beyond economics. Not only does Canada depend on the United States for its maintenance of a global liberal trading order, the country is also firmly entrenched in the American security apparatus. From NATO to NORAD, from Afghanistan to Cheyenne Mountain, Canada partners with the tremendous of might of the US military. Underlying this often-symbolic partnership is the fact that Canada free rides on America's provision of hemispheric defence and support for international security. However, concomitant with this dependency is vulnerability. A reduction of American power would leave Canada more exposed to the vagaries of the international system.

Yet despite all these reasons for consternation, there is the distinct possibility that the United States will shield Canada from the more adverse affects of its hegemonic decline. Even though America is far more populous, much more powerful, and significantly less reliant on international trade than Canada, there are several bargaining advantages that lay in Canada's favour. In fact, the United States has little choice but to be concerned with the welfare of Canada for several reasons. Most importantly, geographic proximity ensures the existence of common security interests. The shape of North America's strategic geography runs north-south, and thus it makes prudent military strategy for Canada to be incorporated into America's continental defence plans.[80] Consequently, the United States has little choice but to oppose any foreign aggression against the core productive base of its northern neighbour. Similarly, Canada offers a vast storehouse of raw materials and petroleum reserves vital to the US economy, giving rise to an American desire for preferential access. Finally, trade with the Canadian market—incorporating some 32 million consumers, a well-educated workforce, and a strong research and development base—offers considerable efficiency gains for the US economy. Ultimately, the architecture of North American security and economic relations ensures that the potential effects of an American hegemonic decline on Canada will at least merit the consideration of US policymakers.

Prescriptions for Canada

Canadian foreign policy would be wise to reflect these realities and pursue several key objectives. Firstly, it is imperative that Canada cooperates with the United States and

[80] Desmond Morton, *Understanding Canada's Defence*, (Toronto: Penguin, 2003), 11.

opposes territorial aggression overseas, insofar as when the challenger's conquests have the potential to generate sufficient power to challenge American hegemony. Minor conflicts can remain safely ignored, but continental ambitions, such as those frequently witnessed in the 20th century, must be staunchly defended against. Secondly, Canada must not assist with the nuclear ambitions of other nations, nor provide them with technology that could fundamentally alter the current defensive equilibrium of the nuclear offence-defence balance (technology such as a missile defence shield invulnerable to atomic triads). In terms of the international military balance, Canada must remain resolutely status quo.

A third security prescription deals with terrorism. It is imperative that Canada continues to share terror-related intelligence, and help track, capture, and if necessary, kill terrorists when the opportunity arises. The terror threat will remain an important American strategic concern, so long as militants desirous and capable of inflicting damage on the United States exist. Consequently, failure by Canada to cooperate in this matter would not only place its own citizenry at risk, but also seriously endangers the Ottawa-Washington relationship. Given how one-side the dependence of this relationship runs, too great an aggravation of the United States would be unwise.

Canada must also foster an American trade response to the shifting international climate amendable to its national interests. To these ends, Canada would be wise to support the continued internationalization of US firms. This can be done through two means. The first method, by far the most simple, is to encourage American investment in the Canadian economy—something best achieved by promoting an attractive commercial climate. The two primary characteristics of such an environment are political stability and a productive workforce. As such, good governance and further productivity improvements would have beneficial strategic implications.

The second method is continued support for global and regional trade liberalization initiatives. Canadian negotiators must remain at the forefront of this project, simultaneously jettisoning national tariff and nontariff barriers, while encouraging their Western allies to do the same. Additionally, adherence to rules-based trade dispute resolutions would also improve the likelihood of American leading interests maintaining their international orientation. Firms prefer the stability of rules-based governance to the uncertainty of power-based outcomes, and if such procedures are enshrined in liberal trade agreements, these companies are more likely to look beyond their domestic markets.

Finally, policymakers will have to at least consider the prospect of additional calls to deepen North American integration. Indeed, when faced by powerful overseas rivals, the US may find itself compelled subjugate economic interests to geopolitical concerns, just as it did during the Cold War. Consequently, security will drive American encouragement of further North American integration. In fact, should China and India grow at the most rapid rates estimated, this pressure towards integration is likely to be extended to the rest of the Western Hemisphere. Similarly, domestic Canadian interests will compound this dynamic and strive for tighter North American economic cooperation and integration to compensate for the stagnating international multi-lateral framework.[81]

[81] Such a strategy recalls the Canadian impetus to join the initial Free Trade Agreement in the 1980s.

A return to multipolarity would likely force Canada further into the American security, economic, and perhaps even political orbit.

Interestingly, perhaps this last dynamic poses the greatest challenge to Canada's most fundamental postwar foreign policy question: how does the country support and benefit from cooperation with the US, while maintaining its own interests and independence? If anything, American hegemonic decline will likely mean tighter economic and political integration between Canada and the United States. In the end, while the growth of China and India may not deeply, irrevocably harm Canada directly, it could nonetheless make the age-old challenge of retaining Canadian political independence and policy freedom from the United States an even more arduous task.