

**2020, WEA OnLine Conference**

**TRADE WARS**

**Economic, political and theoretical implications**

**Discussion Forum from 5th October to 5th December, 2020**

Title of the paper

The current correlation of forces in the struggle for global economic hegemony

Author

Juan Vázquez Rojo

Abstract

The objective of this paper is to analyze the current correlation of forces between China and the United States to verify whether this distribution of power corresponds to the current hegemonic order. Starting from the concept of interstate hegemony and hegemonic order, a comparative analysis is made between both countries in five areas: productive, technological, commercial, financial and military. This analysis allows for a structural explanation of the causes of trade and technological war, as well as shedding light on the extent to which China may be a candidate to replace the United States as world economic hegemon. Among the main results, it is considered that the current hegemonic order is not representative of the current correlation of forces between both powers. However, China is still far from overtaking the United States. This fact causes an erosion in the world system and leads to a growing increase in inter-state tensions.

Author(s) Affiliation and Email

Coporación Univeritaria de Asturias and Universidad Camilo José Cela

Juan.vazquez@asturias.edu.co

## **1. Introduction**

From the end of World War II, the United States assumed leadership of the world order and the rules of capital accumulation (Arrighi, 1994). Moreover, the new world hegemon dominated all spheres: productive, technological, commercial, financial, cultural and military (Arrighi and Silver, 199; Arrighi, 1994). The rules and configuration of this new hegemonic order were established at the Bretton Woods conference. From this fact, the correlation of forces resulting from the war materialized in institutional structures that led to the birth of the World Bank (WB), the International Monetary Fund (IMF), NATO, the World Trade Organization (WTO) and the establishment of the dollar as the central currency of the international monetary system (Vázquez, 2019).

However, since the 1980s, the financial and commercial globalization led by the United States meant a progressive shift of economic weight from the West to the Asian region, which led to the emergence of economies of notable relevance. This dynamic has modified the correlation of forces, both geo-economic and geopolitical, of the post-war world order led by the United States, entering into conflict with China as an emerging power. Consequently, trade and technological war initiated in 2018 between China and the United States goes beyond a circumstantial fact, since it is a consequence of the struggle for world hegemony, derived from the crisis of the American hegemonic order.

In this way, starting from the concept of hegemony and hegemonic order, the objective of this work is to carry out an analysis that allows us to calibrate the current correlation of forces between the United States and China, so that we can verify whether the current hegemonic order is representative of that distribution of world power. In addition, this analysis allows us to shed light on the possibilities of China as a replacement for the United States as the world's economic leader and the tensions that may arise from this.

## **2. Interstate hegemony and hegemonic order**

In the field of the study of interstate relations and world orders, it is fundamental to study the concept of hegemony and hegemonic order. In general, the concept of interestatal hegemony referring to the power of a state to exercise leadership and government functions over a system of sovereign states (Arrighi and Silver, 1999). Specifically, the dominance of a state can be considered hegemonic if it leads the interstate system in the desired direction and this is perceived as the pursuit of the general interest (Arrighi and Silver, 1999). In this situation, the power correlance is unbalance, because one power can largely impose its rules and its particular vision in some areas such as political, economic, military, diplomatic or cultural, that is, the particular interest of the hegemon becomes a universal interest.

The interstate hegemony is materialized in the leadership and construction of an international structure of institutions and rules, in which the rest of the countries must move (Strange, 1988). The correlation of inter-state forces of a given world order is frozen in a fabric of international multilateral institutions that allows the rules of that order to be governed in a systemic way. This is what we could call a hegemonic order (Ikenberry and

Nexon, 2019). Thus, in phases of stability, soft and consensual power allows institutional mechanisms to operate smoothly, being perceived by most States as positive (Vázquez, 2019). In this context, the dynamic of the institutions, relations and rules can avoid the trend of the separate states to try to impose their particular interest without regard for system-level (Arrighi and Silver, 1999).

However, the hegemony of a country over the interstate order is neither natural nor constant. Rather, a hegemonic order is cyclical and its own dynamics endogenously create phases of boom and bust (Arrighi and Silver, 1999)). More generally, each cycle is the product of a configuration of forces that impose positions and consents on the behavior of the States, all of which is materialized in supra-state structures and agreements, that is, this historical structure does not impose actions in a deterministic manner, but rather imposes pressures and constraints that cannot be avoided by the actors of the world economy (whether they are accepted or confronted) (Arrighi and Silver, 1999).

This hegemonic orders are supported or directed by a specific block of history, in which state agencies, business and certain supranational treaties are combined, creating the conditions for a specific division of labor (Arrighi and Silver, 1999). Under this structure, the main agencies cooperate consciously or unconsciously to promote material expansion that increases the profits of capital in trade and production (Arrighi and Silver, 1999) This process reaches its limit at the moment in which the accumulation of capital exceeds what can be reinvested in production and trade without abruptly reducing the profit margins, that is, a crisis of capital depletion is produced. When this happens, the tacit consensus between the capitalist agencies breaks down, since they have no choice but to invade the markets of others, the division of labor as it was defined becomes sedentary and competition intensifies, in such a way that this is no longer a game of positive addition between the agencies, but rather it becomes a game of zero or negative addition (Arrighi and Silver, 1999).

From a purely economic perspective, the possibilities of making capital profitable through production and trade are increasingly risky, so that this type of investment is declining and the preference for liquidity tends to increase. At this moment a point of inflection is produced between material and financial expansion. Financial expansions create in turn the bases of a new material expansion, by transferring the liquidity of the previously dominant capitalist agencies to other places that are developing new actors that open the possibility of a new material expansion (Arrighi and Silver, 1999).

When a power loses its hegemony, it enters into a progressive decline, deteriorating, in turn, the prevailing world order. In the phases of decadence, following Arrighi (1994), the hegemonic powers are repeatedly affected in the productive and commercial areas, with financial and military domination remaining in the last instance before another power or group of powers obtains a new hegemonic leadership. In short, the moment of crisis appears when the ruling interstate order does not represent the correlation of forces of the moment (Vázquez, 2019).

In effect, the deterioration of the declining power is materialized in the emergence of inter-state rivalries, inter-company competition and the emergence of new configurations of power, which progressively leads to a collapse of hegemony and a period of systemic chaos (Arrighi and Silver, 1999; Vázquez, 2019). Specifically, in these situations, the prevailing structures cease to operate effectively, overwhelmed by the inability to represent the new correlation of forces among the actors, and new counter-hegemonic structures emerge, causing the acceleration of the decline of the ruling order. In this way,

as Arrighi and Silver (1999) point out: "disorder tends to reinforce itself, threatening to provoke a complete breakdown of the systemic organization" (p.40).

### **3. The post-war hegemonic order and its limits**

After World War II, the United States emerged as the hegemonic power that led the construction of the world order that has ruled until today. Thus, the new hegemonic power dominated the productive sphere, with the leading companies in technology, in trade, in finance and the military area (Arrighi and Silver, 1999; Gindin and Panitch, 2012). The configuration of the hegemonic order, which requires a freezing of institutional structures of the new correlation of forces and dominance at the global level, was led by the United States through the Bretton Woods agreements of 1944, the creation of both the World Bank and the IMF, the creation of the North Atlantic Treaty Organization (NATO) and the General Agreement on Tariffs and Trade (World Trade Organization (WTO) (Ugarteche, 2018; Vázquez, 2019).

In this context, the prevailing pillars of the emerging world order were established. First, with the Bretton Woods agreements, a global financial order was configured with the dollar as the international reserve currency through a system of fixed exchange rates and convertibility into gold. Secondly, the IMF and the World Bank were established as coordinators of economic growth and the expansion of free trade throughout the world (Iseri, 2007). Third, NATO served as a military security framework for the containment of the counter-hegemonic power of the Soviet Union in the world. In this way, the historical bloc formed at this stage was sustained by the hegemony of the United States, with Japan and the main European countries as regional allies, giving rise to an international political framework that acted as a structural support for legitimizing and expanding that hegemony, creating a context of positive addition between countries (Vázquez, 2019).

The limits of post-war expansion began to become evident at the end of the 1960s, when the reduced efficiency of business investments due to the saturation of markets in developed countries led to a fall in the ratio of GDP to capital stock of 25% in Europe and more than 30% in the United States between 1966 and 1980 (Álvarez, 2013). In addition, the growing competitiveness of Germany and Japan or the spending of the Vietnam War, made a dent in the value of the dollar and, therefore, in the convertibility fixed in Bretton Woods (Arrighi, 1994).

This fact accelerated with the so-called oil crisis of the beginning of the seventies, giving rise to high rates of unemployment and inflation and an increase in the current account deficit, definitively breaking the monetary structure of the gold-dollar pattern. Consequently, the elements that acted as a support for the US-led material expansion were increasingly weak, breaking down definitively in the 1970s. During this decade, which can be considered one of transition, the US power brings about a turn in its hegemonic project (Vázquez, 2020).

In the early 1970s, the Nixon Administration decided to break convertibility with gold, marking a turning point in the international monetary system and global finance. From that moment on, the United States would lead the process of financial and commercial globalization worldwide. In this way, the increasing liberalization of the financial and commercial sector at the global level was required, so the new U.S. foreign policy was to promote these types of measures in the international arena (Ugarteche, 2018; Vazquez,

2020). Ultimately, the U.S. offensive to liberalize world trade and finance sought to assimilate its own national interest and need with the international one, that is, it created a framework of universal interest about the benefits of financial globalization. This process freed financial capital from the monetary and movement barriers of both the United States and most advanced countries.

To a large extent, the new financial hegemony of the United States would feed back into neoliberal adjustment worldwide (Duménil and Lévy, 2014; Ugarteche, 2018). In order to reinforce and expand the new U.S. economic turn, the country's authorities saw the need to reform the post-war structure, so that the IMF would act as a guarantor of the internationalization of the new U.S. model and the application of neoliberal policies in states with credit line needs, the development of international financial markets and the globalization of financial capital, these being elements of vital importance in the construction of global capitalism in the three post-war decades (Alvarez, 2013; Gindin and Panitch, 2012; Ugarteche, 2018).

In this context, a key factor in the universalization of the U.S. model was the legislative and administrative changes at the global level aimed at expanding and liberalizing markets, which facilitated the growth of international trade and foreign investment. As a result, a legal, institutional and market infrastructure was built as the basis for financial globalization (Gindin and Panitch, 2012). In this process, in addition to the IMF, multilateral institutions such as the WB, the replacement of the GATT by the WTO in the 1990s will be fundamental, in addition to numerous free trade agreements such as the North American Free Trade Agreement (NAFTA), the Bilateral Investment Treaties (BIT), the Plaza Agreements or the Maastricht Treaty in Europe (Gindin and Panitch, 2012). In addition, the so-called arbitration community which acted as an internationalising vehicle for US law provided a legal framework conducive to the expansion of financial markets (Gindin and Panitch, 2012; Ugarteche, 2018).

The paradox of globalization has been the ability to elevate the United States as the world's financial center, but, in turn, has caused the center of gravity of the world economy to shift to Asia (Vázquez, 2019). In this sense, Giovanni Arrighi (1994) points out that in the stages of financialization, the displacement of financial capital causes the expansion of other new economic centers and creates the context for a new cycle. Thus, although the process of financial globalization is not definitively broken by the 2007 crisis, it brings to the surface the limits and contradictions developed since the 1970s.

As a consequence, the great beneficiary of their integration in commercial and financial globalization has been China. Given China's growth in recent decades and the need to transform its growth model, the role it plays in the world's geo-economy has been changing progressively over the last two decades. Thus, assuming an eventual decline of the West, the loss of American leadership and international instability, the Chinese authorities intensify the turn towards a new approach both internally and externally. This new strategy will clearly materialize with the arrival to power of Xi Jinping, establishing the guidelines for change in the country's productive model and in international relations, giving China a much more proactive role (Vázquez and Orellana, 2020).

In this way, China's new strategy is materialized in three projects with international impact: The Belt and Road Initiative (BRI) initiative, which began in 2013 and allows China to increase economic relations, solve the overcapacity of its companies, develop its poorest regions and considerably increase its soft power capacity (Vázquez, 2019). The 'Made in China 2025' plan, launched in 2015, aims to make the Asian country the leader in the production of high-tech goods and reduce its dependence on the outside

world by producing 70% of the materials needed by 2025. The Asian Infrastructure Investment Bank (AIIB), which was created as a complement to the BRI and the Asian alternative to the WB and the IMF, providing financing for infrastructure projects (Vazquez, 2019; Morrison, 2019).

This strategy contrasts with the Trump Administration's turnaround that has manifested itself against the three above-mentioned initiatives (Kim, 2019). Thus, after the failure of the Obama strategy, which began the turn to China with the Pivot to Asia plan in 2011, the arrival of the Trump Administration meant the beginning of a new approach, more geared towards the use of hard power and breaking with the principles of the previous cycle (Allan, Vucetic and Hopf, 2018), clearly denoting the deterioration of the United States consensual leadership.

#### **4. The current correlation of forces between the United States and China**

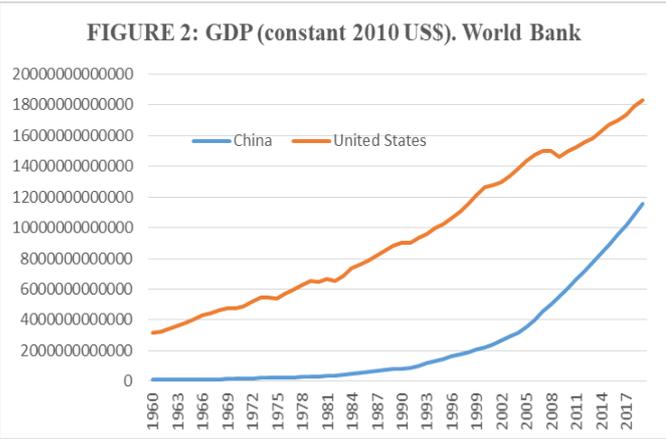
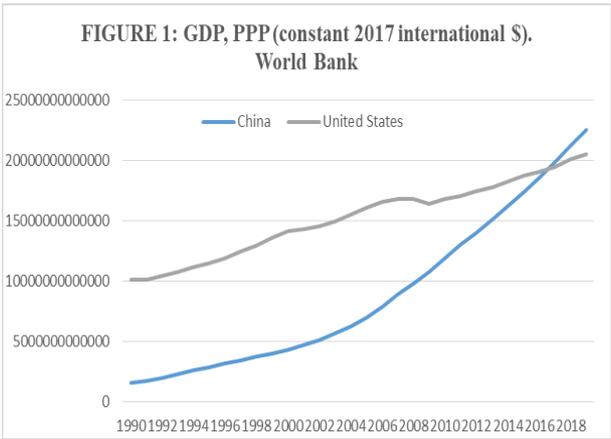
The evolution of financial and commercial globalization in the last forty years and the rise of China as a world power, makes it vitally important to analyze whether a structural change can really take place in the current hegemonic order. But there are major limitations to quantifying the structural power of a given power or world order (Norrlof, 2014; Wohlofth and Brooks, 2016). In fact, a comparative analysis of the main indicators does not clearly reveal the dependencies or systemic characteristics that exist in a power structure of a given world order (Norrlof, 2014; Wohlofth and Brooks, 2016).

However, analyzing indicators of the main economic areas can give us an approximate picture of the correlation of forces at a given moment. Moreover, such a quantitative analysis allows us to assess whether this correlation of forces corresponds to the current world order. This will shed light on whether China can really replace the US as the world's economic leader and, more specifically, whether in the short-medium term it has the capacity to do so.

To that end, making a synthesis of the main areas that a hegemonic power must dominate (Strange, 1988; Wallerstein, 1984; Arrighi and Silver, 1999; Kai, 2017; Wohlofth and Brooks, 2016; Vázquez, 2019), a comparison between the United States and China will be made in five areas: productive, technological, commercial, monetary-financial and military.

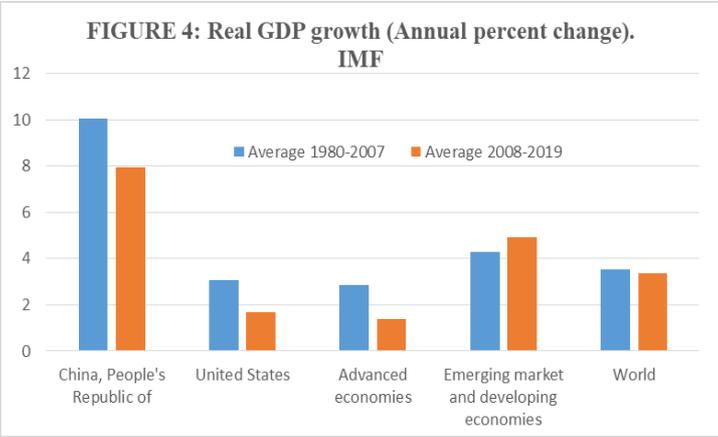
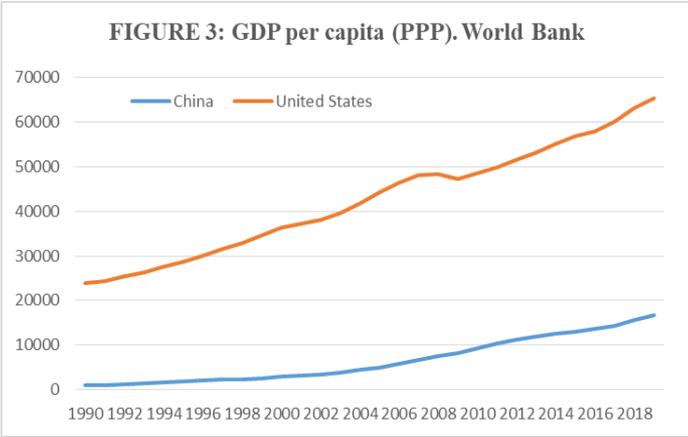
##### **a) Production**

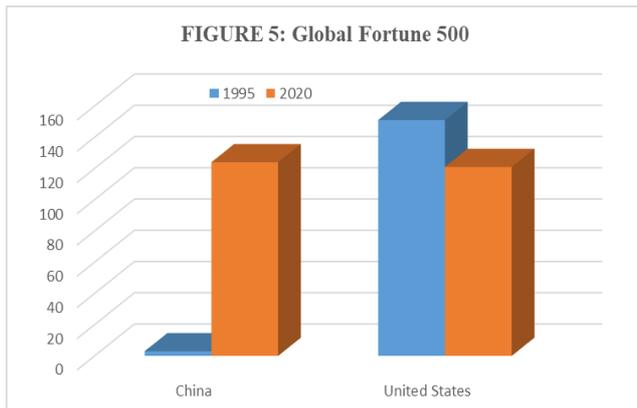
First, we will start by analyzing the productive size of both economies. As can be seen in Figure 1, which measures gross domestic product in purchasing power parity, China overtook the United States as the world's leading power. However, looking at Figure 2, if we measure GDP in constant dollars, the United States is still ahead of China. The historical trend also points to a clear advance by China, which is probably ahead of the United States. However, the big difference between the two countries is still in the per capita GDP. As shown in the Figure 3, measured in PPP, the United States exceeds 65,280 dollars, while China still has around 16,784 dollars, this is, China would still be a middle-income country.



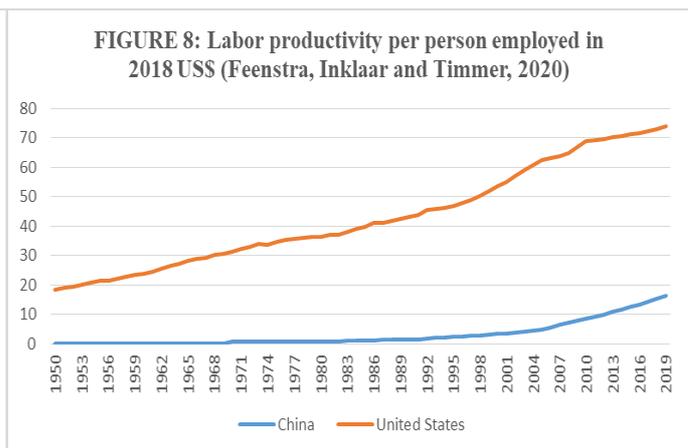
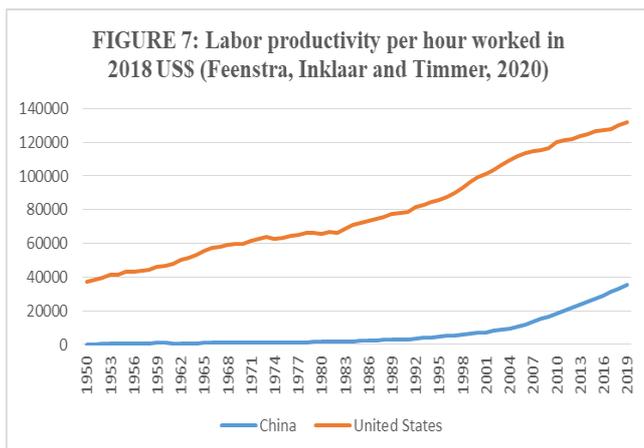
In terms of the growth rate, the Figure 4 shows that China's average growth rate has risen from 10% to 3.05% in the United States in the 1980-2007 period and 8% to 1.68% between 2008 and 2019. In the future, China's growth rates are expected to decline, although they will still be higher than those of the United States. More generally, according to IMF data, the trend is clear: the displacement of world GDP from the West to the East, with China leading world production with 21% in 2024 (Vázquez, 2019).

The trend is similar if we serve at the 500 largest companies in the world, according to the data of Fortune Global 500 (represented in Figure 5). In 2020, China, with 124, was in first place with the largest number of companies, far behind the second competitor, United States, with 121. In this case, again, it is importante to see the tendence: China had 3 in 1995.





On the other hand, if we analyze the proportion between the gross domestic product and the number of hours worked or the number of people employed (i.e., productivity), in recent years it has grown faster in China than in the United States, its growth has been higher in China. Specifically, the transformation of the Chinese economy has caused productivity to reach 30% of the world border by 2018, rising from 15% in the 1990s (Zhu, Zhang and Peng, 2019). However, although China has been able to reduce the gap with the United States, the Figure 7 and 8 shows that productivity measured in both ways is much higher in the American country.



As the Figure 6 shows, China doubles the US industrial sector, although in both countries the trend is towards de-industrialization. Despite the fact that, in general, industrial productivity is around 1.3 times the productivity of services (IMF, 2019), the Chinese industrial sector is of lesser added value than the American one, therefore, although the industrial sector is larger it is less productive.

In this line, according to the IMF (Zhu, Zhang and Peng, 2019), productivity growth in China will have a gradual downward trend as they approach the productivity frontier. Thus, the level of productivity in China will reach 57% of the border in the industrial sector and 44% in the service sector (Zhu, Zhang and Peng, 2019).

### b) Technology

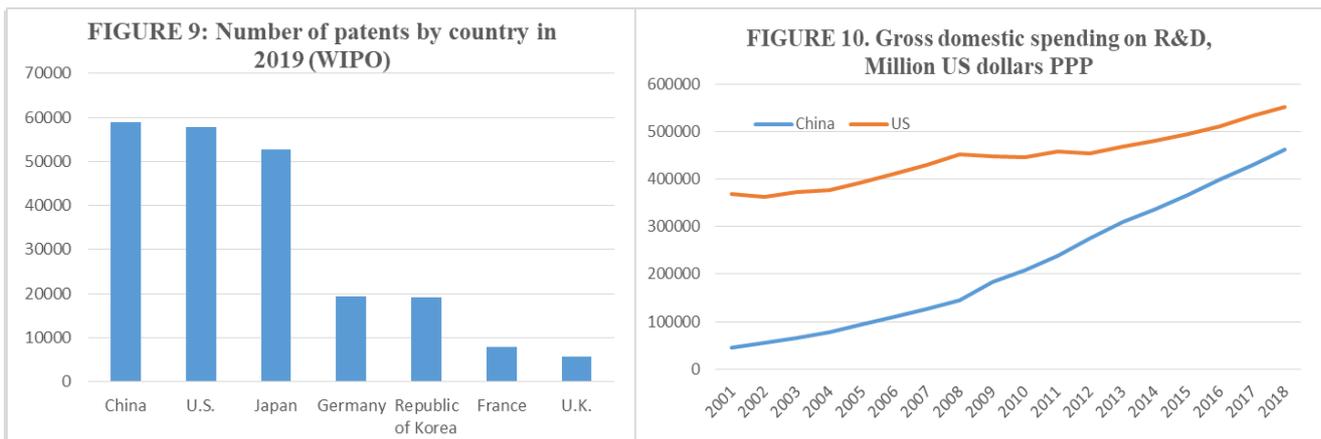
One of the most important points in the hegemonic rivalry is the technological section. As Kim, Lee and Kwak (2020) and Lewis (2018) point out, the focus is not on military force or territorial expansion, but on mastering global rules and institutions in trade and

technology. Specifically, the dispute revolves around the creation of new technologies, fundamentally digital, such as 5G or Artificial Intelligence. More concretely, Kim, Lee and Kwak (2020) argue that the United States and China are in the midst of technology war, competing over technological dominance in future technologies.

In this sense, it is important to emphasize that, in the last decade, the efforts of the Chinese authorities have focused on what Hu Jintao called "Scientific Development", a strategic plan for China to reach the technological level of the main world powers (Molero-Simarro, 2014). In general, China's strategy is framed by techno-nationalism (Kim, Lee and Kwak, 2020), that is, the main objective is to reduce dependence on foreign technology. Although this strategy comes from 2007, the plan par excellence is 'Made in China 2025'.

The 'Made in China 2025' plan, launched in 2015, aims to make the Asian country the leader in the production of high-tech goods and reduce its dependence on the outside world by producing 70% of the materials needed internally by 2025 (Vázquez and Orellana, 2020). Specifically, if these goals are achieved, China would become the leader in telecommunications, railroad and electric energy manufacturing by 2025 and would rank second or third in the robotics, high-end automation and new energy vehicle industries (Morrison, 2019). This project has had a great weight in the geopolitical tensions with the United States, since competition in the production of high value-added goods is a threat to U.S. hegemony (Vázquez and Orellana, 2020)

For this reason, it is essential to analyze to what extent China has been able to reach the technological level of the United States. If we compare the technological development of both countries, overall, the Global Innovation Index (2020) ranks the United States as the third best performing country, while China ranks 14th. However, among middle-income countries, the Asian country would be first. This fact is reflected in more specific aspects that value the index as an indicator of leadership in innovation. For example, in the subranking of institutions and infrastructures, China is in 62nd and 36th place, respectively, compared to 9th and 24th in the United States. In the same way, in the subranking of innovation and technological outputs, the Asian power rises to 7th place compared to 3rd place in the American country.



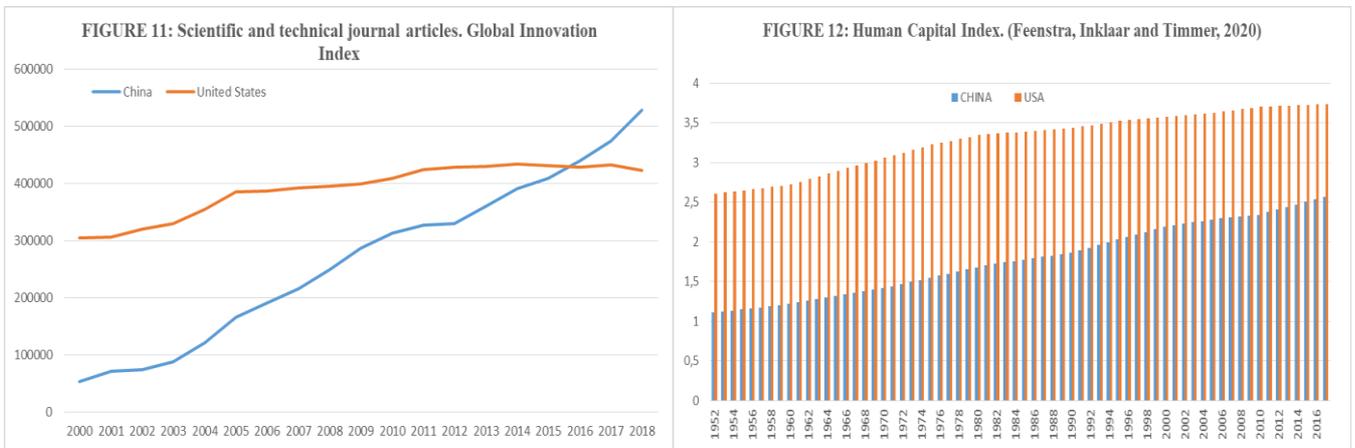
Furthermore, if we pay attention to the number of granted patents represented in Figure 9, in 2019, China led the number of patents for the first time since data became available, with the United States in second place. As for investment in research and development (Figure 10), although China has progressively increased the amount invested, the United States still leads this indicator.

In the same way, China is the first country in terms of researchers and scientific publications (Global Innovation Index, 2018). But if we take the Human Capital Index based on years of schooling and educational returns from the Figure 12, we can see how the United States continues to lead the indicator. Despite China's progress in recent decades, the United States outperforms the Asian country with an index of 3.7 to 2.5 (Feenstra, Inklaar and Timmer, 2020).

On the other hand, in relation to the technological war between China and the United States, one of the main points has been the development of 5G technology, in addition to advances in Artificial Intelligence. The race for leadership in these technologies is not only important from an economic point of view, but also geopolitically and geoeconomically, since they are called to be the skeleton of the new world (Castro, McLaughlin and Chivot, 2019).

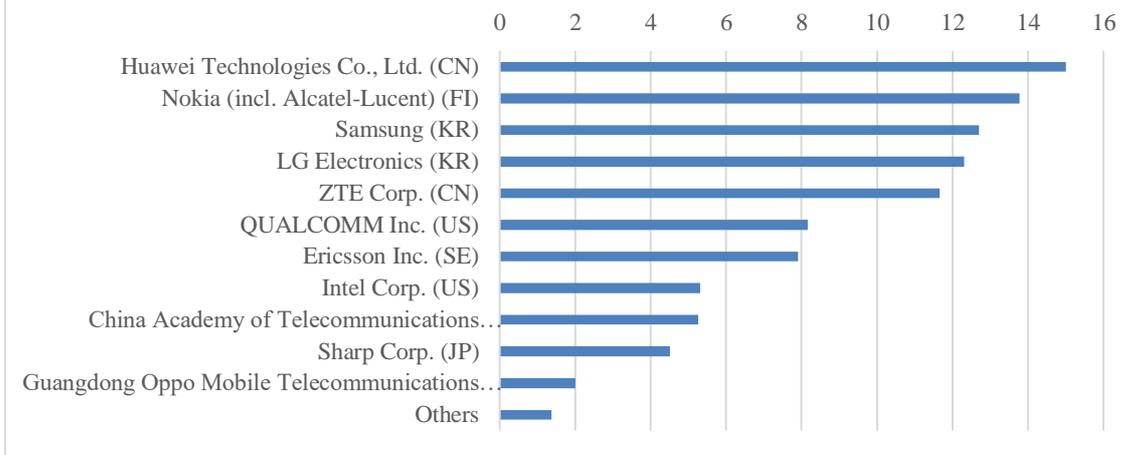
As Kim, Lee and Kwak (2020) point out, to a large extent, thanks to the technology development strategy (e.g. “Made in China, 2025”), the Asian country has managed to lead the development and applications of the technologies, representing one third of all 5G-related patent applications in the world (Kim, Lee and Kwak 2020). As can be seen in Figure 13, Huawei is the company that leads the number of 5G patents, with 15% of the total. In addition, another Chinese company, ZTE, holds more than 11% of the total. However, the first US company on the list is Qualcomm with more than 8% of the total.

As a result, the United States has focused its attacks on companies such as Huawei or ZTE. In addition, it has tried to get its allies to block these companies, albeit with limited success. In fact, countries in Europe, Africa, the Middle East and the Americas allowed the use of Huawei's 5G equipment in the creation of 5G infrastructure (Feng, Cheng and Wilburn, 2019; Kim, Lee and Kwak 2020).



In this way, the advantage being gained by Chinese companies will be key to leading the world market and obtaining royalties from the 5G patents they hold. Furthermore, as 5G is the skeleton of the new industrial revolution, these patents will also be used in smart cities, smart factories, autonomous/connected cars or smart homes (Lee and Kwak 2020).

**FIGURE 13: 5G SEP Owners. Share of total (Kim, Lee and Kwak 2020)**



In relation to other emerging technologies that will be key in the Fourth Industrial Revolution, in general, the United States continues to maintain an advantage. According to the analysis of Castro, McLaughlin and Chivot (2019), the United States leads in the development of hardware, although China is starting to get closer in the manufacture of supercomputers and artificial intelligence semiconductors. In concret, the United States is in a supercomputer race with China, and the position of the United States in the development of the fastest supercomputers in the world demonstrates both its strengths and the growing capabilities of China (Castro, McLaughlin and Chivot, 2019). However, the Asian country's advances are still far from closing the gap with the United States, since China's advances are relatively recent and have not yet materialized in the market for Artificial Intelligence chips (Castro, McLaughlin and Chivot, 2019).

As can be seen, China is increasing its capacity to develop disruptive technologies (as in the development of 5G, or in Artificial Intelligence), although it has significant limits in its ability to translate them quickly into an improvement in its overall technological capacity, due in large part to its weak institutional and infrastructural capacity (Brooks and Wohlforth, 2016).

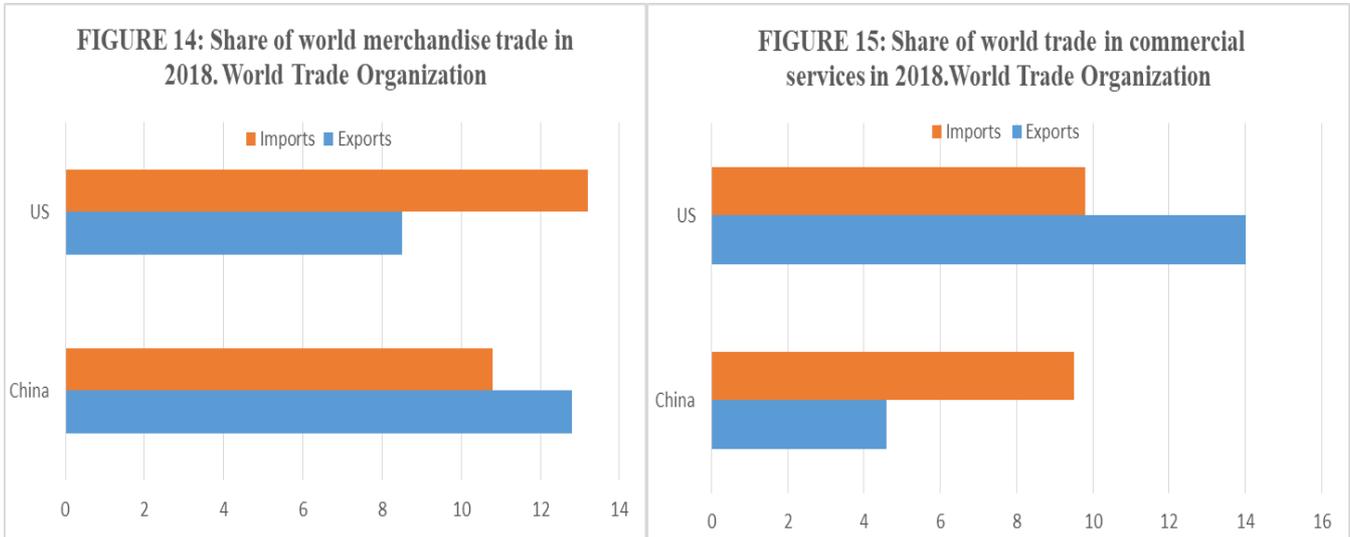
However, China has managed to catch up with the United States in key technologies such as 5G that will have a great impact on the development of the Fourth Industrial Revolution. Consequently, in the struggle for global hegemony, the establishment of standards in emerging technologies will play a key role.

### c) Trade

One of the most important points in the confrontation between the United States and China is the trade war. At least as far as the direct confrontation since Donald Trump's victory. The trade conflict was based primarily on the imposition of tariffs. Specifically, in March 2018, the Trump Administration announced the first round of \$50 billion in tariffs on Chinese products. The justification for such a move: unfair trade practices, currency manipulation, intellectual property theft, forcing technology transfer from US companies and reducing the bilateral trade deficit China responds by imposing tariffs on more than 128 US products

Beyond tariffs, the key to the trade war has to do with its founder's breaking the framework of trade globalization of recent decades. In other words, financial and

commercial globalization was a project led by the United States that ensured its worldwide hegemony during the last forty years. In fact, it was a key process in the configuration of commercial and financial institutions, rules, norms and standards worldwide. Therefore, the fact that the United States decided to break with this dynamic represents a qualitative change.



It is precisely within this framework of rules that globalization brought about that China managed to become the world's leading trading power. If we compare both countries, According to WTO data, China is the world's leading trading power. Specifically, as can be seen in Figure 14, China is the world's leading exporter of goods (12.8% of the world total) followed by the United States (with 8.5%). In contrast, the Figure 15 shows that the United States is the leading importing power (13.2% of the total) and China the second (with 10.8%). However, if we look at trade in services, the United States leads imports and exports (with 14 and 9.8% of the total respectively), compared to 4.6 and 9.5% of China, which ranks fifth in export quota.

The difference between total imports and exports reflects the bilateral deficit that the United States has with China. This fact is key in the discourses that defend the trade war, since they point out that the trade deficit is the cause of many of the imbalances in the U.S. economy and is the fault of China. One of the keys to Donald Trump's strategy has been the reduction of this deficit, both with the imposition of tariffs and with the trade agreement he reached with China in January 2020 (Setser and Yalbir, 2020). However, at the end of Donald Trump's first term, the agreement is far from being fulfilled and the deficit reaches a record not seen since 2018.

Beyond the trade quotas of each country, a fundamental aspect in the geoeconomic and geopolitical analysis is the trade links that each country has in the world. Thus, taking into account 190 countries, if we analyze which country is more important as a trading partner, China's growth since its entry into the World Trade Organization is spectacular (Rajah and Leng, 2018). Thus, in 2001, 80% of the 190 countries had a higher volume of trade with the Americas than China. By 2018, two-thirds of the countries trade more with China than with the United States (128 of 190). Specifically, about half of the 190 countries (90), traded twice as much with China as with the United States (Rajah and Leng, 2018).

#### **d) Money and finance**

In the international monetary system, the hegemonic currency must fulfill three basic conditions. First, the currency must act as an intermediary of exchanges, serving as a means of payment for commercial and financial transactions for the private sector and as a currency for exchange interventions for the public sector. The second, the international currency must play the role of unit of account, being the main invoicing currency for the world markets (as raw materials or derivatives) and anchor currency for the fixation of the exchange rates of any state. Third, the international currency must act as a reserve of value, both for private investors (banking markets, bonds, etc.) and for central banks (international official reserves) (Aglietta and Coudert, 2015; Vázquez, 2020; Gourinchas, Rey and Suzet, 2019; Davis and Kent, 2020; Kim, 2020).

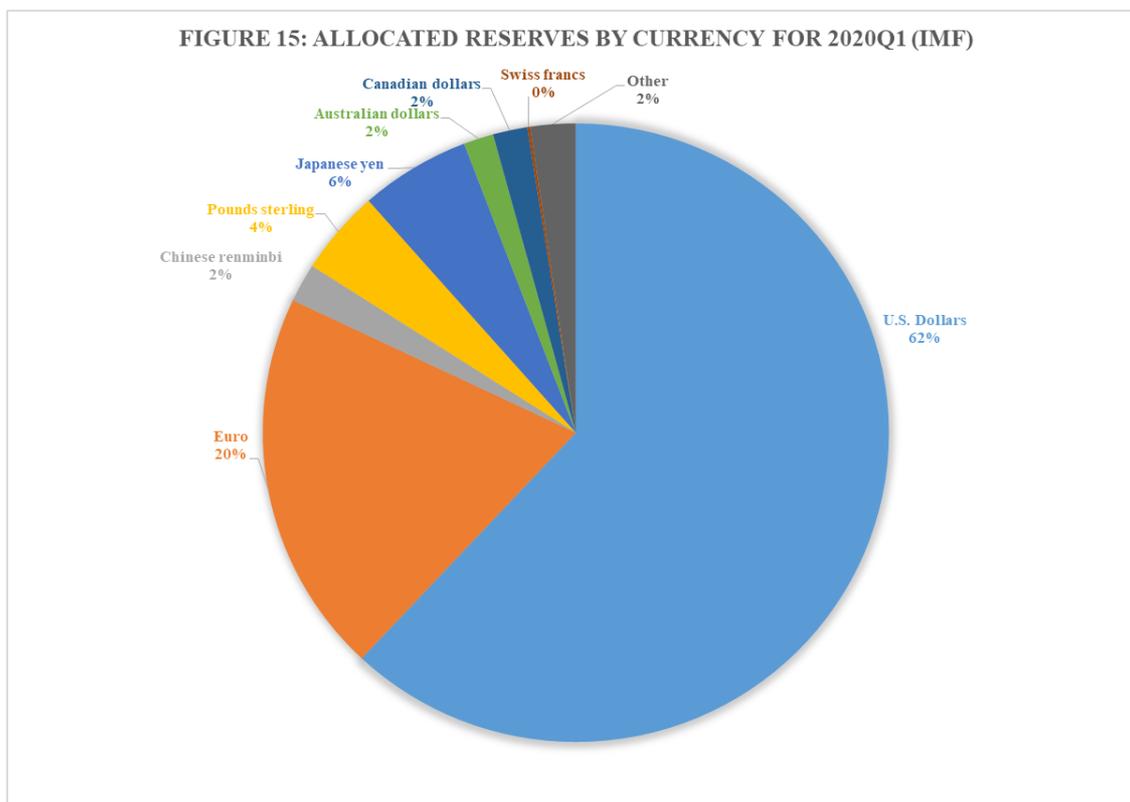
Fulfilling these conditions, the role of the dollar in the international monetary system is key, placing it at the center of financial and commercial transactions. Thus, the hegemonic currency's essential function is to provide liquidity to facilitate international transactions and operate as an international secure asset in crisis contexts (Gourinchas, Rey and Sauzet, 2019). To this end, the hegemonic power issues large amounts of nominally safe values denominated in its currency, which are absorbed by the rest of the world, given the demand for its liabilities by external agents, allowing external constraints to be considerably relaxed (Gourinchas, Rey, Suzet, 2019). In essence, given the benefit of this fact with respect to other countries in the world, it is commonly known as the "exorbitant privilege of the dollar" (Aglietta and Coudert, 2015; Vázquez, 2020; Gourinchas, Rey and Suzet, 2019; Kim, 2020).

As a result, the hegemonic currency has no macroeconomic limitations to maintain the credibility of its own currency and cannot incur default risk (Fields and Vernengo, 2011; Norrlof, 2014). Furthermore, as Norrlof (2014) points out, among the advantages of the dollar would also be that of seigniorage, balance of payments flexibility and political autonomy (Norrlof, 2014), all within a structural framework that generates commercial, financial and political gains in the long term (Norrlof, 2014). In fact, the US external balance reflects its role as a global banker or insurer, so the objective of the US authorities is not to control the current account deficit, but to ensure the mechanisms that perpetuate such a dollar-centered configuration of the international monetary system, something that has been increasingly shown since the 1980s until today (Barredo-Zuriarrain, 2016).

It is easy to see the dominance of the dollar by looking at the data. As can be seen in the Figure 15, by the first quarter of 2020, the dollar represented 62% of the world's foreign exchange reserves. The second reserve currency is the Euro, representing 20% of total reserves. The Chinese yuan is the 5th world reserve currency, representing 2% of the total. This shows that there is no direct correlation between the size of the Chinese economy and the international role of the yuan. In fact, it can be seen that the international role of the yuan is very weak compared to the size of China's GDP and international trade.

Furthermore, the dollar emerged stronger from the 2007 financial crisis despite the fact that the United States was the epicenter of it (Fields and Vernengo, 2011). This shows how the dollar remains the main safe-haven currency and continues to act firmly as the focal point of the international monetary system. Thus, according to data from various sources (BIS, IMF and SWIFT), far from a weakening or loss of confidence in the dollar, in 2019 the US currency represented 54.1 of international loans, 40.8 of global payments and 61.7 of foreign currency reserves (Gourinchas, Rey and Sauzet, 2019). Thus, the Federal Reserve continues to act as the world's central bank, something that has become evident after the crisis of 2008 and that of 2020 (Brenner, 2020; Davies and Kent, 2020).

However, for the rest of the countries in the world, the supremacy of the dollar is a financial problem, since it forces them to maintain reserves in this currency in order to have some room for maneuver in monetary policies, something that accentuates the strength and financial dominance of the United States (Vázquez, 2020; Costigan et al., 2017). So far, no alternative to this currency has emerged, mainly because of the captivity that the need to trade with the dollar causes to all countries in the world (Aglietta and Coudert, 2015).



In recent years, one of the countries with the largest reserves of dollars and U.S. treasury securities is China. This fact, more than a symptom of weakness, represents China's great integration and dependence on the dollar-led international monetary system (Klein and Pettis, 2020). In contrast, although incipient, with the aim of expanding its sovereignty and capacity for maneuvering in the geo-economic area, China has begun a process of internationalization of its currency in order to reduce dependence on the dollar and increase its capacity for soft power (Kwon, 2015). In this line, the Asian power has promoted bilateral trade of the yuan with countries such as Russia, Iran, Venezuela and Angola, has managed to have its currency included in the basket of currencies with Special Drawing Rights of the International Monetary Fund and, more recently, has created an oil futures market in yuan (Mathews and Selden, 2018).

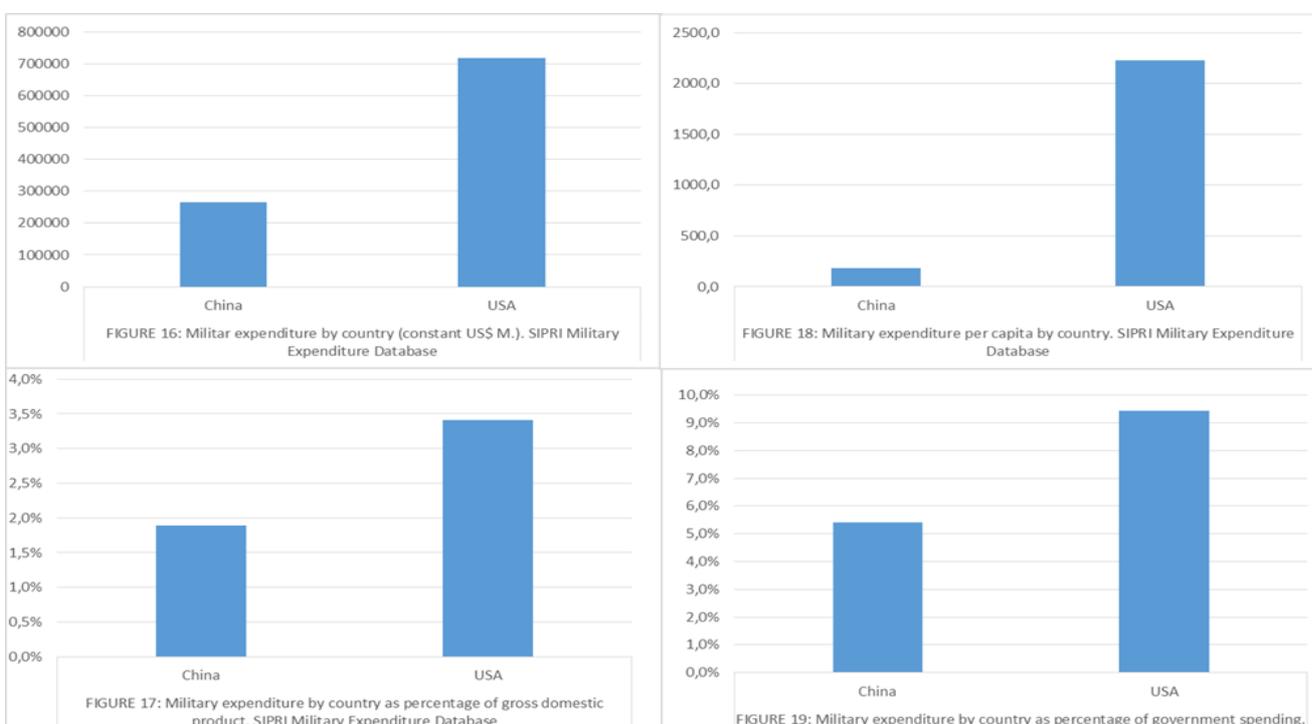
In addition, in the slow and gradual process of opening up the financial system, it has signed bilateral and multilateral agreements to extend exchange lines with at least 36 countries and an oil futures contract denominated in Yuan on the Shanghai International Energy Exchange (Barredo-Zuriarrain and Molero-Simarro, 2018). All this has allowed the yuan to go from less than 1% of world reserves to 2% (Figure 15 and IMF data). In addition, it has gone from 35th place in 2010 to move between the 5th and 7th position of the most used currencies in international operations (Barredo-Zuriarrain and Molero-Simarro, 2018).

However, for the time being, although some authors such as Taskinsoy (2020) argue that the yuan is increasing its attractiveness as an international currency, it is far from being able to become a substitute for the dollar due to the very structure of the Chinese economy (Barredo-Zuriarrain and Molero-Simarro, 2018; Klein and Pettis, 2020). In fact, as Norloff (2014) points out, even if the Asian power or other countries were to surpass the United States in key aspects, it is difficult to think that the power of the dollar would diminish (Norloff, 2014).

In the same line, according to Gourinchas, Rey and Sauzet (2019), in the short and medium term, despite its dysfunctions, the role of the dollar as the hegemonic currency is assured. However, in the long term, the dominance of the dollar is destined to disappear. Since the liquidity of the dollar is omnipresent in international markets, it becomes increasingly evident, with the decline in the relative size of the United States in the world economy, that a new Triffin dilemma may arise (Gourinchas, Rey and Sauzet, 2019). Thus, for Gourinchas, Rey and Sauzet (2019) the United States faces the modern Triffin's dilemma: over time, the country will be too small to provide secure dollar assets without exhausting its fiscal capacity.

### e) Military area

As in the financial sphere, in the military area the United States continues to be the leader with the most powerful army in the world (Vázquez, 2019). Indeed, following the index developed by Global Fire Power (2020), where the maximum score is 0, the United States is in first place with an index of 0.0606, followed by Russia with 0.0681, China 0.691.



As Brooks and Wohlforth (2016) point out, while states may have some flexibility in rapidly increasing investment in military equipment, the ability to increase actual military force in the short term is very limited. This process would be similar to any investment in technological development (Brooks and Wohlforth, 2016). However, certain longer-term trends can be observed in military spending data (Brooks and Wohlforth, 2016).

Thus, as shown in the Figure 16 to 19, the United States exceeds China in all aspects, both in spending measured in millions of constant dollars (718,689 versus 266,449), and in per capita spending in dollars (2223.7 versus 182.1). In proportion, 1.9% of Chinese GDP and 3.4% of US GDP, as well as 5.4% and 9.4% of total government expenditure respectively. Despite the large differences, China's spending has increased considerably in recent decades, doubling between 2009 and 2019.

Therefore, as Brooks and Wohlforth (2016) point out, accumulated military spending over time produces levels of development that are difficult to match in the short to medium term, despite the existence of countries with a large spending capacity. In other words, accumulated military spending over time generates a military stock that cannot be matched by increasing the flow of short-term spending (Brooks and Wohlforth, 2016). Therefore, derived from the data in the Figures 16 to 19, it can conclude that the accumulated spending in recent decades by the United States gives it a decisive advantage, something that China can hardly match despite the increase in spending in recent years (which is still far from the United States).

## **5. Discussion**

As has been pointed out, the hegemonic order that the United States has led since World War II entered into crisis at the end of the first decade of the 2000s, coinciding with the greatest economic crisis since the Great Depression of the 1930s (Vázquez, 2019). During the stage of financial globalization, although the United States is capable of redirecting its dominance, it cannot avoid the growth of powers like China. In fact, the crisis of 2008 brings out the limitations of globalization itself, in addition to questioning the power of the United States as a hegemonic power.

The analysis by areas, show that the United States maintains a trend of relative loss of power with respect to China in the productive, commercial and technological fields. However, it remains clearly dominant in the monetary and military spheres. As Arrighi and Silver (1999) point out, the decline of the hegemonic powers is beginning to be reflected in the productive and commercial spheres, something that can be seen in the relationship between the United States and China.

More generally, the shift of the economic center of gravity towards Asia, and in particular towards China, shows that the post-war world order does not represent the current correlation of forces. This process of change produces a deterioration in the power of the United States as a hegemonic power and in the structures of the post-war hegemonic order. Thus, there is discontent and a loss of legitimacy in the dominant norms, institutions and structures, something that is not only manifested in the emerging powers (Lewis, 2018), since it is the Trump Administration itself that dissociates itself from that order.

In this line, the positive-sum context that was established in the post-war world order among the major economies becomes a zero-sum game and the hegemony of the United States begins to lose the consensual capacity that had been established in the framework forged after World War II. Therefore, the institutional structures established since Bretton Woods do not represent the current correlation of forces (Vázquez, 2019). This fact is directly reflected in the relations between the United States and China, since although Bretton Woods assumed a balance of mutual benefit (Steinberg, 2010), the imbalance is

currently deepening, mainly because the prevailing institutions do not represent the current geoeconomic context.

Consequently, the new US agenda breaks the rules of multilateralism of globalization to promote defensive bilateral relations (Stokes, 2018), so that the trade and technology war initiated by the new US administration re-sults in an offensive to stop China's assault on world leadership (Kim, 2019; Layne, 2018). Thus, the protectionist measures of deficit reduction and recovery of the industrial sector are hardly compatible with the role of the world's financial center (Klein and Pettis, 2020).

However, the turn of the United States in recent years is not without its contradictions. As noted, the dollar emerged stronger from the 2008 crisis (Fields and Vernengo, 2011) and the Federal Reserve has strengthened its role during the Coronavirus crisis, providing liquidity to various private and institutional agents at the international level (Brenner, 2020; Davies and Kent, 2020). The contradiction is to maintain the role of the dollar with the political and commercial decoupling intentions of the Trump Administration (Vazquez, 2020).

At first, the crisis resulting from the COVID-19 has only accelerated the contradictions described here. On the one hand, the United States has given up leading and coordinating a way out of the crisis, both at the health and economic levels. In this sense, the recent break with the World Health Organization, would be another case of a head-on collision with multilateral institutions, as already happened with the WTO or NATO. However, the action of the Federal Reserve, has widely reproduced the schemes of the 2008 exit, providing liquidity in dollars in a coordinated manner at the global level (Brenner, 2020; Davies and Kent, 2020). This demonstrates the intention of the United States to strengthen the role of the dollar and financial leadership internationally.

If the United States deepens the decoupling strategy, the Federal Reserve may have trouble continuing its role and the dollar may no longer be as attractive as a reserve and global trade currency. In fact, the sanctions imposed by the Trump Administration are a limitation on the financial role of the United States. The countries affected by the sanctions (Russia, Venezuela, Iran or China) are forced to look for alternatives to the dollar, something that, in the medium term, could make financial transactions no longer dependent on the hegemonic currency and, therefore, harm the central role of the US financial system worldwide. In other words, the sanctions themselves and the protectionist measures may accelerate the need for the affected countries to seek alternatives (Desai, 2019).

China, for its part, is at the transition point where it is facing problems arising from its own growth pattern in recent years, such as inequality, contamination, the limits of the growth pattern or problems of overcapacity (Vázquez and Orellana, 2020). Xi Jinping's strategy, which to a large extent aims to find a way out of these problems, leads China to play a more assertive role at the international level. This is reflected in plans such as the Belt and Road or Made in China 2025, which increase tensions with the United States (Vázquez and Orellana, 2020).

However, at least in the next decade, the center of the struggle for world hegemony and for control of the rules of that structure may be marked by technological warfare. In this line, as Kim, Lee and Kwak (2020) and Lewis (2018) point out, at present the center of the struggle between powers is focused on developing the technology and standards that will build the skeleton of the fourth industrial revolution, that is, 5G.

## 6. Conclusions

As demonstrated throughout this work, the current hegemonic order led by the United States does not represent the current correlation of forces. If this correlation of forces is analyzed in five areas (productive, technological, commercial, monetary-financial and military), it can be seen that the United States continues to outperform China in general terms.

Specifically, the Asian country is beginning to rival the American country in the area of production, trade and, more recently, technology, mainly in technologies that can be disruptive, such as 5G. However, the superiority of the United States is clearly manifested in the financial, monetary and military spheres. Besides the fact that the American power has the most powerful army in the world, the dollar remains the hegemonic currency. This is reflected in the strategies of the Federal Reserve, both in the crisis of 2008 and in that of 2020, since it has acted as the Central Bank of the world.

In general, the correlation of forces described above is not represented in the current world order. In fact, the deterioration of the norms and institutions that represent it has become evident. This process means that the structural power of this order cannot operate effectively. Thus, the trade war, beyond its economic impact, represents the breaking of the rules of the current world order by the hegemonic power. In other words, the current hegemonic power is not comfortable with the rules and institutions it runs.

In this way, it is possible to describe three future trends. First, commercial and financial globalization as we know it is in deep crisis, as is the hegemonic structure in which it developed. Second, the United States does not intend, at least in the short term, to generate mechanisms to promote recovery from liberal and multilateral globalization. Third, although China has emerged as one of the main proponents of free trade, it is also leading the creation of new institutions and international agreements.

This situation is common in contexts of crisis of hegemonic orders, leading to increased inter-state and inter-company tensions due to the reconfiguration of the rules of that order or the construction of a new one.

Consequently, the coming world will be characterized by increasing tensions between China and the United States. However, the future of the new world will have to do with how these tensions are channeled, that is, whether the hegemonic order admits of a reform that can include China's demands in a win-win situation with the United States or whether the confrontation produces a regionalization of the world order in which both powers are divided into regions of influence.

## Bibliography

Aglietta, M. and Coudert, V., 2015, *El dólar. Pasado, presente y futuro del sistema monetario*, Madrid: Capital Intelectual.

Allan, B., Vucetic, S. and Hopf, T., 2018, 'The Distribution of Identity and the Future of International Order: China's Hegemonic Prospects. *International Organization*', 72(4) 1–31. doi: <https://doi.org/10.1017/S0020818318000267>

Álvarez, I., 2013, *Financiarización, nuevas estrategias empresariales y dinámica salarial: el caso de Francia entre 1980-2010*. PhD thesis. Universidad Complutense de Madrid. Madrid: Spain.

Arrighi, G., 1994, *The Long Twentieth Century: Money, Power and the Origins of Our Time*, London: Verso.

Arrighi, G. and Silver, B. J., 1999, *Chaos and Governance in the modern world system*, Minneapolis: University of Minnesota Press.

Barredo-Zuriarrain, J., 2016, 'The Inherent Instability of National Monetary Power in the 21st Century: The Triffin Dilemma Revisited. *Research in Political Economy*', (30), 91–123. doi: 10.1108/S0161-72302015000030B002

Barredo-Zuriarrain, J. and Molero-Simarro, R., 2018, '¿Está China frente al dilema de Triffin? ', XVI Jornadas de Economía Crítica, Spain: Universidad de León.

Brenner, R., 2020, 'Escalating Plunder', *New Left Review*, (123), 5-22.

Brooks, S. G., and Wohlforth, W. C., 2016, 'The Rise and Fall of the Great Powers in the Twenty-first Century: China's Rise and the Fate of America's Global Position'. *International Security*, 40(3), 7–53.

Castro, D., McLaughlin, M. and Chivot, M., 2019, *Who Is Winning the AI Race: China, the EU or the United States?*, Center for data innovation. <http://www2.datainnovation.org/2019-china-eu-us-ai.pdf>

Costigan T., Cottle D. and Keys A., 2017, 'The US dollar as the global reserve currency: implications for US hegemony'. *World Review of Political Economy* 8(1): 104-122.

Davies, S. and Kent, C., 2020, 'US dollar funding: an international perspective'. *CGFS Papers*, (65). Bank for International Settlements

Desai, R., 2019, 'The Past and Future of the International Monetary System', *Economic Revival of Russia*, 3, (61).

Duménil, G. and Lévy, D., 2014, *La crisis del neoliberalismo*, Madrid: Lengua de Trapo.

Feenstra, R. C., Inklaar, R. and Timmer, M. P., 2020. 'The Next Generation of the Penn World Table'. *American Economic Review*, 105(10), 3150-3182. <https://www.rug.nl/ggdc/productivity/pwt/>

Feng, E., Cheng, A., and Wilburn, T., 2019, 'China's tech giant Huawei spans much of the globe despite U.S. efforts to ban it NPR'. <https://www.npr.org/2019/10/24/759902041/chinas-tech-giant-huawei-spansmuch-of-the-globe-despite-u-s-efforts-to-ban-it>

Fields, D. and Vernengo, M., 2011, 'Hegemonic currencies during the crisis'. The Levy Economics Institute and Economics for Democratic and Open Societies. Working Paper, (666).

- Gindin, S. and Panitch, L., 2012, *The Making Of Global Capitalism: The Political Economy Of American Empire*, London: Verso.
- Global Fire Power, 2020, *Military Strength Ranking 2020*. <https://www.globalfirepower.com/countries-listing.asp>
- Global Innovation Index, 2018, *The Global Innovation Index 2018: Energizing the World with Innovation* [https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_gii\\_2018.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2018.pdf)
- Global Innovation Index, 2020, *The Global Innovation Index 2020: Who Will Finance Innovation?* <https://cutt.ly/tfOHv2P>
- Gourinchas, P., Rey, H., and Sauzet, M., 2019, 'The international monetary and financial system'. *Annual Review of Economics*, 11(1), 859-893. doi:10.1146/annurev-economics-080217-053518
- Ikenberry, J., G., and Nexon, D., H., 2019, 'Hegemony Studies 3.0: The Dynamics of Hegemonic Orders', *Security Studies*, 28:3, 395-421, DOI: 10.1080/09636412.2019.1604981
- Iseri, E., 2007, 'Neo-Gramscian Analysis of US Hegemony Today'. School of Politics, International Relations and the Environment (SPIRE). Keele University
- Kai, J., 2017, *Rising China in a changing world. Power Transitions and Global Leadership*, Singapore: Palgrave Macmillan.
- Kim, M., 2019, 'A real driver of US–China trade conflict: The Sino–US competition for global hegemony and its implications for the future. *International Trade*', *Politics and Development*, 3 (1), 30-40.
- Kim, T., 2020, 'The World's Banker: On the Rise in U.S. Wealth Inequality'. Harvard University
- Kim, M., Lee, H., & Kwak, J., 2020, 'The changing patterns of China's international standardization in ICT under techno-nationalism: A reflection through 5G standardization'. *International Journal of Information Management*, 54, 102145. doi:10.1016/j.ijinfomgt.2020.102145
- Klein, M. y Pettis, M., 2020, *Trade Wars Are Class Wars*, Yale University Press
- Kwon, E., 2015, 'China's Monetary Power: Internationalization of the Renminbi', *Pacific Focus*, 30(1), 78–102. doi <https://doi.org/10.1111/pafo.12038>
- Lewis, J. A., 2018, 'Technological Competition and China', Washington, DC, Center for Strategic and International Studies.
- Mathews, J. A., and Selden, M., 2018, 'China: the emergence of the petroyuan and the challenge to US Dollar hegemony', *The Asia-Pacific journal : Japan focus*, 16(22), 1-12.
- Molero-Simarro, R., 2014, 'La distribución primaria como factor determinante de la relación entre crecimiento económico y desigualdad de la renta: el caso de la China de la reforma (1978-2007)' PhD thesis, Universidad Complutense de Madrid. Madrid: Spain. <https://eprints.ucm.es/25595/>
- Morrison, W., 2019, 'China's Economic Rise: History, Trends, Challenges, Implications for the United States. Congressional Research Service' <https://fas.org/sgp/crs/row/RL33534.pdf>
- Norrlof, C., 2014, 'Dollar hegemony: A power analysis', *Review of International Political Economy*, 21:5, 1042-1070, DOI: 10.1080/09692290.2014.895773

- Rajah, R., and Leng, A., 2018, 'The US-China Trade War. Who dominates global trade?', Global Economic Futures project at the Lowy Institute <https://interactives.lowyinstitute.org/charts/china-us-trade-dominance/us-china-competition/>
- Setser, B. and Yalbir, D., 2020, 'Slouching Toward Phase One', Council on Foreign Relations. <https://www.cfr.org/blog/slouching-toward-phase-one>
- Steinberg, F., 2010, 'China, Estados Unidos y el futuro de Bretton Woods II', *Revista de Economía Mundial*. (25), 109-129.
- Stokes, D., 2018, 'Trump, American hegemony and the future of the liberal international order', *International Affairs*. 94. 133-150. doi: <https://doi.org/10.1093/ia/iix238>
- Strange, S., 1988, *States and Markets*, London: Pinter.
- Taskinsoy, J., 2020, 'Diminishing Dollar Hegemony: What Wars and Sanctions Failed to Accomplish, COVID-19 Has'. Doi: 10.2139/ssrn.3613367
- Ugarteche, Ó., 2018, *Arquitectura financiera internacional. Una genealogía (1850-2015)*, México DF: Akal.
- Vázquez, J., 2019, 'Caos sistémico: de la decadencia estadounidense al auge chino', In Guzmán, A., et al (Ed.). *Sinergia Digit@ l: Aportes a la Educación Superior Virtual* (pp. 25-43). Ediciones Summa. <https://cutt.ly/9fnzLSC>
- Vázquez, J., 2020, 'Límites del liderazgo estadounidense de la globalización financiera', In Guzmán, A., et al (ed.). *Diálogo de ciencias sociales, económicas y administrativas: perspectivas, tendencias y retos*, Bogotá: Ediciones Summa. (Forthcoming).
- Vázquez, J. y Orellana, D., 2020, '¿Hacia un cambio de modelo en la economía china? ', In CUIICID (ed.), Madrid: Tirant Lo Blanch. (Forthcoming).
- Wallerstein, I., 1984, *The Politics of the World-Economy: The States, the Movements, and the Civilization*, New York: Cambridge University Press.
- Zhu, M., Zhang, L., Peng, D., 2019, 'China's Productivity Convergence and Growth Potential—A Stocktaking and Sectoral Approach'. Working Paper No. 19/263, FMI. <https://n9.cl/3e0ci>