The U.S. Economic Hegemony and The Rise of China:

What lessons to be learned?
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Abstract

After the end of the World War II, the United States supplanted Great Britain as the Global hegemon. After the end of the Cold War in 1991, the U.S. hegemony became a unique superpower. But the U.S. economic hegemony began to erode by the year 2000, with the rise of the rest as China. However, the U.S. economy remains the world’s leading economy.

This thesis aims to investigate whether the rise of China has an impact on the U.S. dollar and the U.S. manufacturing job. This thesis is a theory consuming study. Two theoretical perspectives have been used in this thesis. In order to be able to reach the aim and to answer the research question; a qualitative method has been used in this thesis based on secondary materials.

The findings show that the rise of China has an impact on the U.S. economic hegemony. Since 2001, the U.S. trade deficit with China has considerably increased. The U.S. has become the first debtor country in the world. However, the U.S. dollar remains the currency of the international trade. In twenty years, the U.S. will be an influential country, but one amongst several influential countries, as well China, in a multipolar world. But the U.S. will not experience the same situation as Great Britain did after WWII. China will observe a decline of its economic growth due to factors like the increase of the cost of productivity, which in turn could cause a domestic instability with serious consequences in Asia and in the rest of the world.

Key words: U.S. decline, rise of China, balance of trade, hegemony, emerging country, interdependence.
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<th>Abbreviation</th>
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<td>FAS</td>
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<td>FAS</td>
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<td>GATT</td>
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<td>IR</td>
<td>International Relations</td>
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<td>SOE</td>
<td>State-owned enterprise</td>
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Chapter One

1 Introduction

In the end of the Cold War in 1991, many scholars from Europe, as well as a few in America expected the advent of multilateralism. But the U.S. began the decade as the only superpower, and a unipolar power in the world. Between 1990 and 1998, the U.S. increased its gross national product (GNP) with 27 percent whereas Europe increased its GNP with 16 percent, and Japan increased its GNP with 7 percent. In the 1990s’, the U.S. became more powerful than that of any other country in the world’s history since the Roman empire. At the Bretton Woods conference, the proposal of Keynes to implement Bancor as the world currency was rejected by the U.S. government that imposed the U.S. dollar as the international reserve currency with the possibility to be converted into gold. Over the last two decades, the U.S. experienced a robust increase in economy strength resulted in a decrease in unemployment and inflation.

The U.S. hegemony was at centre within the Department of State whether the America’s post–cold war would be maintained over a long time or it would be temporary. More than 15 years after the Cold War, the U.S. is still leading the world’s economy in terms of GDP according to policymakers and foreign policy scholars. Therefore, it will take a long time before the U.S. economic hegemony is challenged. However, China as an emerging country has succeeded in advancing up four positions in the last decade alone, leading Great Britain, France, Germany and Japan to be transformed into the world’s second major economy at the back of the U.S. And yet, at the end of the 1970s, the Chinese economy was based on agriculture and trade and only represented 5% of China’s gross domestic product.

China is the principal exporter of goods to the U.S. as well as the largest creditor of the U.S.

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Furthermore, China is the greatest holder of the U.S. foreign reserves such as treasury bonds.\textsuperscript{10} The lack or the decline in power of the global hegemon within the international system can make it difficult for the stability and the implementation of economic openness.\textsuperscript{11} “Over the past 10 years, the annual real growth of China’s gross product averaged 10.5 percent, compared with 1.7 percent in the US. The Chinese economy increased at an annual rate of 9.66 percent in the first half of 2011, vs. a rate of less than 1 percent in the US America’s days as top dog of global out are numbered, at best.”\textsuperscript{12} According to economists from Golden Sachs, the Chinese economy has already surpassed the U.S. economy in terms of exporting and manufacturing.\textsuperscript{13} The U.S. trade deficit with China was estimated to be $296 billion in 2011.\textsuperscript{14} In 2011, the Chinese external debt was $ 406 billion whereas the U.S. external debt was estimated to be $ 14 trillion.\textsuperscript{15} In 2011, the Chinese unemployment rate was 4\% while the U.S. unemployment was 9.1\%.\textsuperscript{16} In spring of 2009, the Chinese government announced its intention to be less dependent on the U.S. dollar as the single currency in the international trade.\textsuperscript{17}

The current study focuses on leadership and power relations between the United States (U.S.) and China, with an interest in economic factors. The exploration of this issue will be guided by two theoretical perspectives, using the theory of declinism and the hegemonic stability theory.

1.2 Definitions of key words

1.2.1 Hegemony

\textsuperscript{11} Cohn, Theodore H. Global Political Economy. Theory and Practice. Pearson Education.2007.P.73
\textsuperscript{12} http://www.businessweek.com/magazine/china-vs-the-us-the-case-for-second-place10132011.html. Bloomberg Businessweek. Accessed 22/06/2012
The term hegemony is used when there is inequality of the distribution of power.\textsuperscript{18} One entity or group of people dominate other groups in the society.\textsuperscript{19} The U.S. hegemony is one of the vigorous debates in world politics, because there is no consensus regarding criteria that determine a state as global hegemon. Nevertheless, a number of previous studies agree that the U.S. emerged as global hegemon after the end of the World War II.\textsuperscript{20}

1.2.2 Emerging countries
Although there is no consensus concerning the term of emerging countries\textsuperscript{21}, an emerging country is a country whose gross domestic product is lower than that of a developed country. An emerging country is characterized by a rapid growth, and a standard of living that approaches that of a developed country.\textsuperscript{22} That is in developing countries that have emerged emerging countries. For instance, China, India, Indonesia, Brasilia and Argentina are regularly associated with that category.\textsuperscript{23}

1.3 The purpose of the study
The U.S. is the greatest world’s economy in terms of GDP and its challenger, China is the number one world’s largest exporter of goods. This thesis aims to investigate the impact of the rise of China economic power on the U.S. economic for example the U.S. dollar and the U.S. manufacturing job.

1.4 Research Question
In order to understand the U.S. economic hegemony and the rise of China, this study seeks to address the following question:

\textsuperscript{18} Cohn, Theodore H. Global Political Economy. Theory and Practice. Pearson Education.2007.P.75

\textsuperscript{19} \url{http://www.wisegeek.com/what-is-hegemony.htm} Wise Geek.Clear answer for common questions. Accessed 30/05/2012


\textsuperscript{22} \url{http://www.trader-finance.fr/lexique-finance/definition-lettre-P/Pays-emergent.html} Trader-Finance.fr Accessed 14/06/2012

\textsuperscript{23} \url{http://www.trader-finance.fr/lexique-finance/definition-lettre-P/Pays-emergent.html} Trader-Finance.fr Accessed 14/06/2012
Will the trade balance between the U.S. and China shift from an American dominance to a Chinese dominance in twenty years?

1.5 Delimitation
As the economic indicators are many, this study will focus on the trade balance and its consequences between the U.S. and China during the period from 2001 to 2011. Today, the trade balance is one of the contentious issues in the U.S.-China relations since China’s entry into the World Trade Organization in 2001.

1.6 Hypothesis
The hypothesis which will be used in this paper is to investigate whether the U.S. as the first economy in the world will experience a decline of its economic dominance in the next twenty years like the previous global hegemon as Great Britain, France, Spain, Portugal etc… which used their power on certain fields of the world. However, I will focus on Great Britain because scholars in international relations (IR) argue that the world history observed two hegemonic periods: England during the nineteenth century and the twentieth century under the U.S. after WWII, which replaced Great Britain as dominant power.24 Although in the past, the world knew other dominant countries as mentioned above, but these countries had not known the same influence comparing to British and U.S. influence during the nineteenth and twentieth centuries.

The hypothesis will get support if the result of this study shows that the U.S. economic leadership declines in the international system by the China’s rise.

1.7. Disposition
This thesis is organised in seven chapters. The first chapter is concerned with the introduction, the aim, the hypothesis, and the research question. The second chapter consists of the historical background. In this chapter, I briefly present the transmutation of power from Great Britain to the U.S. from 1865 to 1945. I also present a section of the China’s history from the beginning of reforms to the entry into WTO in 2001. The third chapter presents the methodology, which is a very important part in this research. The fourth chapter deal with the literature review.

The fifth chapter consists of the theoretical framework. The sixth chapter regards the analysis and the discussion of the main findings. Finally, the seventh chapter focuses on the conclusion and further research.
Chapter Two

2.1 Historical Background

In order to understand the U.S. economic hegemony and the China’s economic rise, I will briefly make a summary of the U.S.’s history and China’s history. This will help the reader to grasp the current position of these two countries.

2.2 The U.S.’s rise in the twenty century.

This section examines how power transition occurred from Great Britain to U.S. from 1865 to 1945. In 1860, the Britain’s industrial sector had attained an absolute domination, its production accounted for 19.9 percent of the world’s part while the U.S. world’s manufacture was only 7.2 percent. But by 1900, the Britain’s industrial production decreased to 18.5 percent and the U.S.’ part increased to 18.5 percent. By 1928, the U.S. increased its share to 39.3 percent and Britain saw its part dropped to 9.9 percent. Britain’s part of world trade decreased from 24 percent in 1870 to 14.1 percent in 1913, while Germany’s part rose from 9.7 to 12.2 percent and the U.S. part increased from 8.8 to 11.1 percent. The fall of the British’s trade performance benefited largely to a new rising of powers namely the U.S. and Germany thanks to the intervention of banks and the state in the infrastructure for instance railroads (U.S.) and canals (Germany). Just before the WWI, the U.S. increased its industrial power that represented for 32 percent of world industrial production. WWI was considered as the period when the financial distinction changed from London to New York. This was seen as an evidence of the Britain’s decline as a hegemonic power. The Britain’s external expenditure increased due to the WWI. The U.S. became a powerful creditor for the first time of its history. However, the U.S. disorganized the pre-war trade and the monetary systems that England had managed to keep. The U.S. had succeeded in reaching Britain in almost all industrial sectors by the late 1870s, and by the early 1880s, the U.S. surpassed Britain in economic power and Germany also surpassed Britain 15 years later. The U.S. economy increased to two times the British’s economy by WWI. Despite the fall of the iron’s production at less 10 percent by 1914, London remained the capital of the world at the period of WWI thanks to finance. Also the British currency remained the main currency of the world. Britain invested capital abroad more than its competitors for instance it invested five times as

much as the U.S. However, Britain’s economy was falling, and the British growth rates had decreased below two percent until the WWI whereas the economy of the U.S. and Germany was growing at around five percent. The end of the WWII is considered as the time when Britain lost its economic hegemony, because the U.S.’ GDP accounted for ten times that of Britain, but Britain remained an influential country, thanks to the charisma of Winston Churchill. The U.S appeared from WWI as the country having the greatest industrial ability. Also it became the principal creditor of the world. The U.S. required to the European countries to pay back all their war liabilities, for instance Britain and France held the greatest war debts to the U.S. that were almost $5 billion and more than $4 billion, respectively. The U.S. emerged as a global hegemon after WWII. After its foundation in 1949, few observers could bet that China would become a great economic power. In 1953, for instance, China’s share of the world’s manufacturing production accounted only for 2.3 percent and its total industrial ability corresponded only to 71 percent of Britain’s in 1900.

2.3 The Chinese history
Since its foundation in 1949, China experienced a dictatorial regime led by Mao that resulted in the isolation of China on the international scene. At the end of the 1970s, the Chinese economy was based essentially on agriculture and presented many signs of poverty. Its share’s trade was only estimated to be 5 percent of China’s gross domestic product. This figure is not enough for the size of a nation like China while in the late 1970s whereas the U.S. was the leading power in the world, even though some malaise and doubt appeared. The relationship between the U.S. and China observed a real turning when Richard Nixon, The U.S. President met with Mao Zendong in the Great Hall of the People off of Tiananmen Square in 1972. China re-established of a moderated way of economic relations with the capitalist system in making decision to spend U.S.$ 4.3 billion to import industrial

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In 1978, Deng Xiaoping took control of the Communist party and he implemented a certain number of reforms to modernize the country. He created some selected special economic areas that were able to implement their own fiscal system in order to attract foreign business enterprises. The special economic zones gave opportunity to people to do business dissociated from the authority state. The economic reforms made by Deng gave spectacular results. In the 1980s, the economic growth was practically 10 percent, whereas inflation was gradual. But in the 1990s, many changes were done for instance the removal of several restrictions on foreign enterprises and domestic enterprises as well. However, the Chinese economy was still seen as the economy in the twentieth century. Until the 1990s, the Chinese economy was dominated by the state-owned enterprises that accounted for more than three-quarters of all industrial output. If the vision of Deng was to open China to the world and modernize its domestic means of production; the two leaders namely Jiang Zeming and Zhu Rongji, who replaced him after his death, made a radical decision to introduce China into the global economy and they planned to make China an important actor in the global economy. For Jiang Zeming and Zhu Rongji, it was time for China to imitate its immediate neighbours and Germany whose economy was based on massive exports of goods towards developed countries. The World Trade Organization was the way for China to become a vital actor in the world’s economy. China became a member of the WTO in December 2001.Before becoming a member of the WTO, it had already succeeded in transforming its economy, not only by the reforms cited above but also by the presence of foreign enterprises doing business throughout China.

Chapter Three
Methodology and Materials
This chapter aims to describe the methodology used to investigate and understand leadership and power relations between the United States (US) and China, with an interest in economic factors.

3.1. Method
This study will be conducted through a qualitative method to attain the aim and to answer the research question. The method used in this study will be done with the support for secondary sources. Secondary sources are materials written by other authors. The use of secondary sources gives me the advantage for not travelling in the U.S. and China to collect information from the U.S. government and the Chinese government. It is time saving and money saving. This fact can be considered as a great weakness for conducting such study. Aware of this weakness, I will try to use credible and reliable secondary sources.

3.1.1 Qualitative method
Qualitative method helps the researcher to identify and describe the complexity of social problems for instance homelessness.\(^{43}\) It provides an overview of the behaviour and perceptions of people and allows to study their views on a particular topic in greater depth than in a survey. Moreover, qualitative method generates ideas and hypotheses that can help to understand how the target population perceives an issue and to define or identify the options linked to this question.\(^{44}\) One of the strength of qualitative method is that the researcher is able to modify the structure of his research field at any time he likes.\(^{45}\) However, qualitative method also presents some weaknesses. Objectivity\(^{46}\) is one of them. Qualitative method is not a suitable technique for reaching statistical explanations regarding big populations. Reliability is another weakness of qualitative method.\(^{47}\)

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3.2 Discussion on Materials

For this thesis, I used a diversity of materials for example edited books written by well-known authors in International Relations such as Paul Kennedy. I also collected materials such as figures from international organizations and well-know websites, TV channels for instance CNN and international newspapers as well. Furthermore, I used articles in this thesis that I got from the Linneaus university’s research engine ELIN. For example, the article written by Carmel Davis, *U.S. Hegemony, China, and the U.S. Current Account deficit*.

With regards to criticism of sources, there are four classical rules that contribute to a better assessment of the credibility of sources: *authenticity, independence, simultaneousness* and *tendency*.48 *Authenticity* is a basic requirement for the source of the collected material; the goal is to know if the collected material is authentic and also if this material has been produced by the persons mentioned.49 The classic rule on *independence* defends that primary sources are more credible than secondary sources.50

Regarding the criterion of *Simultaneousness*; it supports that the time when the source was produced must coincide with the time when the event had happened.51 The last criterion is *Tendency* whose goal is to explore if the author of a source is not partial as he provides information.52

As mentioned above, the sources used to answer the research question are secondary sources. This means that several of the sources may have been affected and the information that they have chosen to develop and disclose may have been biased, and also many authors may have been guided by the spirit of patriotism when writing materials. The debate on the US-China relationship is very strategic and sensitive; it addresses issues that can have an impact on the international system as well as on the national security of the two countries. To try to reduce the risk of using less reliable materials, I used materials for example reports, scientific papers, edited books and data from non-governmental organizations and also from International institutions for instance the International Monetary Fund, World Trade Organization and the World Bank.

Chapter Four
4. Literature Review
4.1 Previous studies on the U.S. hegemony and the rise of emerging countries

A number of researchers investigated the U.S. hegemony and the rise of emerging countries. For instance, in his article U.S. Hegemony, China, and the U.S. Current Account Deficit, Carmel Davis concluded that the relationship between U.S. and China is beneficial for both countries. For China, their exports to the U.S. are vital for the rapid growth of their economy because the domestic demand would not have been enough to generate a rapid growth over the earlier years. For the U.S. hegemony, a China having a strong economic growth is probably more peaceful. A slow growth could have consequences on employment and internal stability. “A leadership concerned about its survival might engage in an adventurous foreign policy, perhaps provoking a war with, say, Taiwan that might engage the U.S. as an enemy.” Moreover, China is engaged to promote the liberal international system. Therefore, it participates in stimulating the global growth what is capital to reinforce the U.S. hegemony. A China with a strong economic growth is too important for the U.S. hegemony because China massively supports the U.S. treasury.

In his book Superfusion: How China And America Became One Economy And Why The World’s prosperity Depends on It, Zachary Karabell arrived at the conclusion that the couple formed by China and America is capital and important for the world’s prosperity today since the explosion of the financial crisis in 2008. The financial crisis in 2008 has shown that China is playing a capital role as the main creditor of the U.S. to resolve the damage caused by the credit and housing bubble. And China’s reserves depend on U.S. imports from China. As today the world is globalized, the couple, “Chimerica” is not only essential for the two economies but also for the rest of the world because China and America are the two most powerful economies in the world.

Chapter Five
5. Theoretical framework

5.1. Overview
The section of theoretical framework will guide this thesis to answer the research question. Two theoretical perspectives will be used namely the theory of declinism and the hegemonic stability theory.

5.2 Theory of declinism
The theory of declinism is a commonly theory. It has been employed in order to describe the transition of power from a global hegemon to a challenger in the international system. The issue of the U.S. decline and the rise of emerging countries were at centre in debates among scholars in the 1980s. Paul Kennedy is one of the famous thinkers who popularized the theory of declinism in his book, *The Rise and Fall of the Great Powers*. The central thesis of this book, which parallels the history of great empires since the sixteenth century, lay in the concept of overstretching (hyperextension), as an explanation of the law assuming that "every empire will perish." For being too expanded, empires will inexorably be condemned to decline when the costs of the external defence of overextended borders and homeland security spending in territories too large demand considerable deductions on the national wealth. The theory of declinism argues that the evolution of nations follows key steps: *rise*, *expansion* and *decline*. The first step is about the influence that a state begins to have over certain fields on the international arena. The second step is when a country reaches a hegemonic influence that is to say when it dominates over other countries on certain fields such as economic, politic and military on the international system. The final step is *decline*, it explains the relative decline of power of global hegemon on the international system. This step is characterized by a great uncertainty on the international order. All the influential countries seem to be at the same level. It is, at this period that conflicts regularly occur on the international arena. The leading country is no longer able to resolve alone conflicts. It needs the support for other influential powers. Moreover, the percentage of observing wars among

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greater powers is low but the problem is that international negotiation appears more non-
peaceful.60

5.2.1 Strengths and Weaknesses of the theory of declinism
The theory of declinism contains some strengths. To describe transition power in the
international system; the theory of declinism develops testable suggestions including
independent and dependent variables.61 The theory of declinism describes in detail the
economic decline of a country, using economic indicators for instance economic
productivity, economic growth, deficit, international trade and capital flows, savings and
investment, and so on...62 It has also some weaknesses. Most of the literature about power
transitions from a global hegemon to a challenger country are based on the origins, broad
causes, and periods when wars had occurred between the rival powers.63 This literature does
not pay much attention concerning the issue of peaceful power transition and do not describe
much of alternative approaches for the great powers before and during the change of the
world order.64

5.3. Hegemony Stability Theory
The reason that I have chosen hegemony stability theory is that this theory is often used to
describe leadership and balance of power between a global hegemon and a rising power on
the international scene. This theory also explains the principal characteristics that a country
has to have in order to be seen as a global hegemon. Charles Kindleberger is the first
economist to present the hegemony stability theory after an analysis of the Great Depression
of 1929.65 He notes that the period of Great Depression was marked by the end of British
domination over the world, without the U.S. had yet taken over. Therefore, it lacked a leader
to support politically international financial stability. Hegemonic stability theory thus poses
the existence of a dominant power as the necessary and sufficient condition for the existence
of an open and stable international economy. “Maintenance of a liberal international
economic order requires the long term support and leadership of a hegemonic power and the
power must possess economic, political and military capabilities to control the arrangement of

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international political and economic norms.” To preserve stability in the international economic system, the global hegemon have to be able to provide public goods. The leading country maintains the stability of the global economy by ensuring that the distribution of global credit is adequate (it provides the necessary liquidity in case of crisis, acting as lender of last resort), that exchange rates are stable, the insured macroeconomic coordination and open markets. It is also the benevolent giant that ensures the respect of rules by the entire community of States. On this basis, the realistic writers like Stephen Krasner and Robert Gilpin complete the approach, indicating that the dominant power does not play this role by goodness but because it serves its interests, in particular the promotion of its security. Thus, during its dominant position in the early nineteenth century, Great Britain defended an open trading system by dismantling its tariff protection, the activity of the financial centre of London creating at the same time a strong development of the mobility of capital, while maintaining a stable exchange system, the gold standard. When Great Britain began to lose its dominant position, the trade and financial protectionism made his return at the end of the century and the gold standard disappeared during the WWI. It is only after WWII that the U.S. accepted to play the role of the benevolent leader. This fact shows again that the tendency of an open economy entirely depend on choices of the most powerful country which has the means to impose rules on other states. This is what has made Great Britain the hegemon in the nineteenth century and the United States in the twentieth century.

5.3.1. Strengths and weaknesses of the hegemonic stability theory

The hegemonic stability theory argues that the lack of or the relative decline of a global hegemon may lead to instability on the international economic system. The world history observed the instability of the gold-exchange principle during the interwar period because of Britain’s incapability to play the leading role and the U.S reluctance to supplant Great Britain as a global hegemon. However, the basic principles have been criticized by some scholars.

70 Christian Chavagneux. économie politique international. La Découverte, Paris, 2004.P.17
They argue that hegemony stability theory takes only into account an insignificant number of great powers during defined historical periods. Opinion is also divided about the definition and assessment of the term of hegemony. In addition, writers on the hegemonic stability theory differently explain military, political, economic and cultural features. That is why there is an existence of divergences concerning the period when British hegemony declined and whether the U.S. hegemony is declining.

5.4. Comparison of the two theoretical perspectives:
These two theoretical perspectives do not have the same principal assumption about how the term of hegemony should be employed in the context of leadership and power relations between a global hegemon and a challenger. As said earlier, the theory of declinism points out that the transition of power from a global hegemon to a competitor country in the international system experiences a set of wars. Between 1660 and 1815, while former Great powers for instance Spain and Netherlands saw their influence declined; five major countries emerged (France, Britain, Russia, Austria, and Prussia), which dominated the diplomacy and warfare of eighteenth-century Europe. As said above, the hegemonic stability theory argues that the international economic system is open and more stable when there is the existence of a single leading country. There are some resemblances between these two theoretical perspectives though. When a challenger raises its influence on certain fields such as economic power, there is an impact on the economy hegemonic of the global hegemon. The absence or the decline of a global hegemon in the international economic system may cause an unstable period.

5.5. Operationalization:
In this section, I will present and discuss two key terms from my two theoretical perspectives.

5.5.1. Key terms
The key term ‘rise’ and ‘decline’ is frequently used to describe transformations in the international system. Sometimes this term describes a cyclical vision of history, that is to say it explains a cycle of international order through period. The key term ‘rise’ and ‘decline’ presents some weaknesses. The cycle of the emergence of great wars is questionable in the international-Relations literature. “ In contrast to the Middle Ages, when warfare was

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73 Cohn, Theodore H. Global Political Economy. Theory and Pratice.Pearson Education. 2007.P.74
74 Cohn, Theodore H. Global Political Economy. Theory and Pratice.Pearson Education. 2007.P.74
endemic in the West, the Modern Ages is marked by conspicuous recurrences of large-scale wars-by cycles of conflict or waves of great wars. This tendency for modern war to arise in great waves is noted by Robert Mowat, who explains that from the fifteenth century on …social and political changes are discernible, which may taken to begin modern history.”77 The modern time experienced less warfare than the Middle Ages. Nevertheless, this did not prevent war to occur even if that period observed a long period of peace.

Public good is the central point of the hegemonic stability theory. To maintain stability in the international system, the global hegemon uses public goods. Public goods have two features: nonexcludability and nonrivaness. Nonexcludability suggests that others can get advantages from a good, even if they were not involved in its preparation. 78 For instance, a sidewalk is nonexcludable the fact everybody can enjoy it even those who have not contributed to build it. Nonrivalness signifies that the use of a good by an individual or a state have no impact on other users. Again, a sidewalk is nonrival the fact several persons can at the same time profit from utilizing it. Yet public good is differently perceived by the three principal theoretical perspectives in international political economy, namely liberalism, realism, and historical structuralism. Liberalists assert that a benevolent hegemon has to have the will to provide a large amount of public goods in order to guarantee stability of the free trade in the international system.79 At the end of WWII, the U.S. guaranteed security as public good to Western Europe and Japan through its nuclear umbrella. The goal of the U.S. was to help its allies to be concentrated on post-war economic improvement. Moreover, the U.S. as global hegemon used the U.S. dollar to enable the growth of the international trade in financing, for example economic programs of underdeveloped countries.80 A global hegemon may be capable of not supporting some nations that do not respect trade rules which had been shaped by it. This shows that the provision of public goods is not automatic. As for realists, they think that a global hegemon prioritizes its own interests rather than the general interest. In supporting free trade, a global hegemon can increase its finances, economic prosperity, and political influence.81 Moreover, realists consider that in order to force other countries to share the cost of providing public goods, a global hegemon is able to suspend credits and trade relations. This shows that a global hegemon is coercive. Historical structuralists do not see a

78 Cohn, Theodore H. Global Political Economy. Theory and Pratice.Pearson Education. 2007.P.75
79 Cohn, Theodore H. Global Political Economy. Theory and Pratice.Pearson Education. 2007.P.75
80 Cohn, Theodore H. Global Political Economy. Theory and Pratice.Pearson Education. 2007.P.75
81 Cohn, Theodore H. Global Political Economy. Theory and Pratice.Pearson Education. 2007.P.76
global hegemon as benevolent because its trade policies have a goal to dominate over less developed countries in the periphery.

Public good is not a good indicator to answer the research question because the hegemonic stability theory is weak in terms of the definition of hegemony and characteristics that define a country as a global hegemon. In international relations, each state defends its own interests. Therefore, a global hegemon cannot be benevolent. The key term ‘rise’ and ‘decline’ is a good indicator to answer the research question because previous studies on the cycle of power transitions used this key term to describe international change.

In the analysis of my thesis, I will test the key term ‘rise’ and ‘decline’ of the theory of declinism in order to help me to answer my research question. The key term ‘rise’ and ‘decline’ that will be tested is mentioned in the table 1 and the results of testing will be mentioned in the table 4 with the support for the following signs:
0= no decline, - = relative decline, += moderate rise, ++= much rise.

Table 1: Testing of the key term ‘rise’ and ‘decline’ of the theory of declinism.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Key terms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rise</td>
</tr>
<tr>
<td>U.S.</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
</tr>
</tbody>
</table>
Chapter Six
6. Analysis and discussion
In this chapter, I will apply the key term ‘rise´ and `decline’ of the theory of declinism in the context of the trade balance and its consequences between the U.S. and China from 2001 to 2011, which in turn appears in the form of various factors that I believe, can be used to illuminate the positions of these two countries in twenty years.

6.1. The Rise of China
6.1.1. The China’s economic rise in trade with U.S. and its consequences.
Economic reforms made by China began to give impressive results. Since 2001, China has increased its economic influence in the world. China has become the country having the greatest trade surplus with the U.S. by supplanting Japan. The trade between China and U.S. experienced a great shift from 2001 to 2011 (see table2). The U.S. official figures show that China had a trade surplus with U.S. in 2011 of $295.5 whereas the Chinese trade surplus with U.S. in 2011 accounted to only $ 206.2 billion-$89.3 billion less than the U.S. value. According to the WTO, the U.S. trade deficit with China was less than half the U.S. official figures or less than $115 billion in 2011. The measure of the trade balance between U.S. and China is questionable. The U.S. exports are measured by F.A.S (Financial Access Survey) value while the China’s exports are measured by the often used FOB (Free on board) value. China also utilizes the C.I.F (cost, insurance, and freight) to estimate its imports. FOB is bigger than FAS. With FOB, dispatch is done on board or into a carrier by the shipper without charge. FAS is considered as the value of a commodity at the port of exportation, commonly containing the investment price plus all charges contracted in classifying the

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commodity alongside carrier at the port of exportation in the country of exportation. The U.S. considers China’s exports via Hong Kong to the U.S. as exports to China; the problem is that it does not incorporate its exports to China via Hong Kong as exports to China. Hong Kong contributes in the value appended to China’s exported goods via Hong Kong, however, in the U.S. statistics; the value-appended are all estimated in China’s balance.

Table 2. U.S. and Chinese Trade Figures, 2001-2011. (billion U.S. dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S. Trade Figures</th>
<th>Chinese Trade Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exports to China (F.A.S)</td>
<td>Imports from China (C.V.)</td>
</tr>
<tr>
<td>2002</td>
<td>22.053</td>
<td>125.168</td>
</tr>
<tr>
<td>2003</td>
<td>28.418</td>
<td>152.379</td>
</tr>
<tr>
<td>2004</td>
<td>34.721</td>
<td>196.379</td>
</tr>
<tr>
<td>2005</td>
<td>41.837</td>
<td>243.462</td>
</tr>
<tr>
<td>2006</td>
<td>55.224</td>
<td>287.773</td>
</tr>
<tr>
<td>2007</td>
<td>65.238</td>
<td>321.508</td>
</tr>
<tr>
<td>2008</td>
<td>71.457</td>
<td>337.790</td>
</tr>
<tr>
<td>2009</td>
<td>69.576</td>
<td>296.402</td>
</tr>
<tr>
<td>2010</td>
<td>91.878</td>
<td>364.944</td>
</tr>
<tr>
<td>2011</td>
<td>103.879</td>
<td>399.335</td>
</tr>
</tbody>
</table>

Comment: Table 1 shows that the great part of the difference between the trade data from the two countries stocks from significantly different figures for China’s exports to the United States. Whereas the difference between the U.S. and China figures for exports to China has by and large been $10 billion or less since, China’s figures for its exports to the US varied by $48.0 billion in 2001 and $81.8 billion in 2010.

The consequence is that U.S. official trade figures underestimate the value on both U.S. exports to China and imports from China other the Chinese government statistics. Normally, the trade figures for both countries should be calculated by F.O.B for exports and C.I.F for imports which are commonly used in the international trade. According to Chinese

government, the U.S. trade deficit with China was $144 billion in 2006 whereas the U.S. Department of Commerce argued that the U.S. trade deficit with China was 233 billion in 2006.93 The U.S. trade deficit with China in 2006 was 28 percent of the global U.S. trade deficit. Exports are the keystone of the China’s economy. However, this economic policy leads to an overabundance of labour and capital sometimes to the detriment of security and environment.94 A clear example is the construction of the Three Gorges Dam which has destroyed ecosystem. The Yuan (the Chinese currency) exchange rate policy has become one of the contentious issues between U.S. and China. The U.S. government often accuses China of manipulating its currency in order to boost its exports to U.S. However, the U.S. also benefits from the trade relationship. Today, American consumers have a large diversity of cheap goods imported from China. This contributes to the U.S. economic growth and at the same time to the decline of inflation of products of consumption.95 Furthermore, “Exchange rate changes do not correspond with trade deficit changes.”96 The U.S. currency (dollar) saw its value depreciated from 2002 and yet this does not help the U.S. to decrease its deficit. In 2002, the U.S. trade deficit was $470 billion and in 2006, it was $818 billion. Yet, the depreciation of a currency has rarely helped to reduce the trade deficit of a country. For example, the Japanese yen was appreciated from 238 per dollar in 1985 to 128 per dollar in 1988, however the U.S. trade deficit with Japan did not observe a reduction but the U.S. trade deficit augmented from $46 billion to $52 billion, attaining $88 billion in 2006.97 In 1994, China made a modest exchange rate adjustment. It depreciated its national currency from 5.76 per dollar in 1993 to 8.6 in 1994, the problem is that the 1994 China’s trade surplus with the U.S. rose by only $ 52 billion. This amount was far less than the increase of $6.6 billion in 1993 before the China’s currency depreciation. These examples can be interpreted that the exchange rate has a little impact on the trade balance. Therefore the exchange rate affects only the U.S. trade of limited manner.98


94 Karine Lisbone-de Vergeron.China’s strengths and weaknesses.European issues n0 234.3/04/2012.P.2


6.1.2 Foreign Direct Investment (FDI): key of success of the China’s economic rise in the trade balance with U.S.

Since China began its economic reforms in the late 1970s, it has become the attraction of foreign direct investments. Today, China is the first beneficiary of FDI in the world.\(^9^9\) By the end of 2006, China received $685 billion of FDI.\(^1^0^0\) Several companies from different countries installed their production plants in China. And also many foreign industries relocated to China. In 2006, foreign companies contributed with 58 percent \(^1^0^1\) of China’s total exports and in 2010 this rate reached 68 percent.\(^1^0^2\) These figures show that foreign – invested enterprises contribute much to China’s foreign trade. The U.S. is one of the largest investors of China’s FDI. By the end of 2006, the China’s FDI received $53.96 billion from 52,211 U.S. companies located in China. This fact is one of the explanations that boost the China’s exports to U.S.\(^1^0^3\) However; the U.S. companies are the major beneficiaries of this process because they only use China to make cheap goods, that they sale in the U.S. and in other markets. Foreign companies help the Chinese Government to address the issue of unemployment in the Chinese countryside. However, the Chinese low labour cost causes a wage inequality which in turn limits the apparition of a rich middle class, which is an important asset to stimulate interior demand.\(^1^0^4\)

6.1.3 The China’s economic rise as the largest creditor nation.

Manufacturing is the central sector of the China’s rise economic. In 2011, China’s value manufacturing accounted for 32.3% of GDP, while the U.S. value manufacturing accounted for 12.1% of GDP.\(^1^0^5\) In 2008, China replaced Japan as the greatest foreign holder of U.S. public.\(^1^0^6\) Consequently, China has become the U.S. government’s greatest foreign creditor.

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\(^1^0^4\) Karine Lisbon-de Vergeron.China’s strengths and weaknesses. European issues n0 234.3/04/2012.P.3
\(^1^0^6\) Shalendra D.Sharna.China’s as the World’s Creditor and the United States as the World’s Debtor.2013.P.1
Yet, this situation put China in the position of defender of the U.S. economy to avoid that its own economy collapse. The U.S. market is very important for the Chinese economic growth.

6.2. Decline of U.S.

6.2.1 The U.S. manufacturing job

Loss of the U.S. manufacturing job has also become a thorn in relations between China and U.S. In 2010, the Economic Policy Institute released a report in which it concluded that between 2001 and 2008, 2.4 million jobs were destroyed or displaced due to the U.S. wide trade deficit with China. Yet, the U.S. trade deficit with China is not the only reason of the destruction of the U.S. manufacturing job. Another reason is that the U.S. industrial sector is now oriented towards high tech industry and services. This change of the industrial strategy had already begun in the 1980s, when the U.S. had observed the trade deficits in manufacturing industry due to New Industrialized Economies for example Hong Kong, Singapor, Tawain, and Korea. This tendency continues with other U.S. trade partners (see table 3). In 2011, the U.S. trade deficit with the European Union was $ 99.2, but the U.S. deficit with China was greater than that of any other country and many trading groups. Despite this transformation of industrial strategy, the proportion of manufacturing value added in U.S. GDP in 2005 was a bit higher than in 1990. But, this figure cannot hide damages caused by the delocalisation of the U.S. companies in China. In U.S., several areas have remained empty because of this process.

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Table 3: U.S. Trade Balances with Trading Partners: 2011 ($ billions)

<table>
<thead>
<tr>
<th>Country or Region</th>
<th>U.S. trade deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-295.5</td>
</tr>
<tr>
<td>OPEC</td>
<td>-138.5</td>
</tr>
<tr>
<td>EU27</td>
<td>-99.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>-65.6</td>
</tr>
<tr>
<td>Japan</td>
<td>-62.6</td>
</tr>
<tr>
<td>Asean</td>
<td>-41.8</td>
</tr>
<tr>
<td>Canada</td>
<td>-35.7</td>
</tr>
</tbody>
</table>

Comment: The U.S. trade deficit with China was much greater than other U.S. trading partners and many trading groups. It was greater than the total U.S. trade deficits with the Organization of the Petroleum Exporting Countries (OPEC), European Union (EU27), and countries of the Association of Southeast Asian Nations (ASEAN).  

6.2.2. The U.S. dollar and loss of status of the net creditor country.

As said earlier, U.S. has become a dominant economic country after WWII. The U.S. dollar replaced the British pound as the main currency of the international trade. Accordingly, U.S. became the largest net creditor country in the world thanks to its trade surplus with its principal trade partners. But China’s rise has shaped a new financial order. In the 2000s, the U.S. became the world’s greatest debtor nation. In the early 1990s, the U.S. international investment position (NIIP) declined in a gradual way. This tendency quickly continued in the late of 1990s as the U.S. deficits also aggravated. Yet until 1989, the U.S. was a net creditor to other countries. US$2.4 trillion was the amount that the U.S. owed the rest of the world at the end of 2007 according to the Bureau of Economic Analysis. At the end of 1997, the U.S. debt was US$1.1 trillion. China and Japan were the biggest countries which held 44% of U.S. Treasury securities at the end of 2008. The U.S. dollar began to lose its value in 2002 due to the U.S. high deficit caused by the decrease of exports as well as the low economic growth. The new U.S. status as the world’s largest debtor nation has raised worries in China which openly claimed the replacement of the U.S. dollar as the principal currency of the international trade. Despite the U.S. dollar depreciation, foreign investors always trust in

the U.S. economy. When U.S lost for the first time in its history its triple A in August 2011, observers were expecting that U.S dollar is more and more depreciated. Yet, investors flocked to the U.S. debt securities. Investors wanted to send a clear message to the rating agency Standard & Poor’s that the U.S. debt had no risk. However, U.S. leaders have begun to implement measures of austerity in order to reduce the U.S. deficit. The financial crisis of 2008 due to the crisis of subprime showed that the U.S. was no longer able to solve alone a major economic crisis. The intervention of other influential countries (China, Russia, EU, etc…) was necessary to cope with this financial crisis.

Table 4. Results

<table>
<thead>
<tr>
<th>Countries</th>
<th>Rise</th>
<th>Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>China</td>
<td>++</td>
<td>0</td>
</tr>
</tbody>
</table>

0= no decline, - = relative decline, += moderate rise, ++= much rise.

The U.S. experienced a relative decline in terms of trade balance with China from 2001 to 2011. However, the U.S. remains the largest economy in the world. It has an extraordinary capacity for innovation and technology. The U.S. has always bounced back when there are economic difficulties. The great depression of 1929 is the good illustration where the U.S. had succeeded in bounding. Four years after the financial crisis of 2008, the economic growth is expected to be 2% in 2013 and unemployment rate continues to decline for several months - 7.8% if I compared with the unemployment rate in the euro zone (11.6%). This number is rising for months. Although, the U.S dollar has much depreciated in the most critical moment (2008-2010). This helped the export industries to boost theirs sales, in particular the automotive industry. The U.S. debt is a real problem for the U.S. economy. The U.S. lives over its financial means. If this situation persists, it would have an impact on its position as the largest economy in the world. However, the U.S. has another asset namely the U.S. dollar.

which is not only the currency of a country but also the currency of the world. The U.S. dollar represents for two thirds of global reserve currencies. As result, the U.S. enjoys an exclusive privilege: It is able to create money (U.S. dollar) of infinite way that other countries in the world are bound to continue buying, in particular China. The U.S. has strong democratic institutions which provide confidence in financial markets. Although, China has much increased its economic influence in the world by becoming the largest economy in terms of exports and the largest manufacturer in the world, however, it also has many challenges to overcome. Recently many companies in China were on strike because the workers required an increase of wages and also a certain number of the U.S. companies based in China, have relocated to the U.S. due to moderate increase of the Chinese cost of production. Consequently, millions and millions jobs will be created in the coming years. The relocation of the U.S. companies from China to U.S. shows another face of globalization: emerging countries have emerged so much that their salaries become less competitive than before. Notwithstanding, its strong economy, China is still considered as a relative poor country. Its economy only produces $7,600 per person, compared to the GDP per capita of $47,400 for the U.S. Moreover, the Chinese economy depends on investment rather than consumption. Its economy depends on exports to U.S. China ships 18% of its exports to the U.S. This trend to rely on investment is not a good thing for a country which has the ambitions to become the next largest economy in the world. Investors have more confidence in the country which has a stable political system than unstable system political. Although at first sight, China is stable, however it has social and political tensions. Minority ethnic groups for example Uyghur and Tibetan claim to be independents. China is a country where human rights are not respected by the central government. Majority of the Chinese people and some politicians demand political reforms. To maintain political stability, the Chinese government supports economic growth so that hundreds of millions unemployed and underemployed find jobs and increase their standard of living. China has another challenge. Population ageing is also a great challenge that China should face in the coming decades partially due to one-child policy. By 2035, almost 20 percent of the population will be age 65 or older. This figure is similar to Japan whose the population of 65 or older was estimated just over 20 percent in 2008. “Starting in approximately 2015 and over the course of two decades, the pure quantity of labour will shift from contributing nearly 2 percentage points to GDP growth to subtracting

around 1 percentage point.”117 China is not a country of immigration comparing with the U.S. which has a long tradition of receiving immigrants. China depends much on foreign energy for its industrial sector whereas by 2020, the U.S. will be the largest producer and exporter of energy resources in the world.118 Accordingly, the U.S. will be independent of energy. This will radically reduce the cost of energy for its industries and will help the U.S. to begin a new phase of industrialization, growth and technological innovation. Although, the two economies are interconnected that is to say that China needs the U.S. to sustain its economic growth and the U.S needs China to sustain its abyssal debt. China is in the position of dilemma. If it stops purchasing the U.S. dollar, the U.S. dollar will be worthless. Therefore, China will lose its status of the largest net creditor in the world and its economy will collapse. The replacement of the U.S. dollar by the Chinese currency yuan as the currency of the international trade will not be today or tomorrow. Even if, China has many challenges to address. Yet China has a demographic advantage. China has the largest population in the world, which is a considerable asset to an economy of consumption. Both countries seek to diversify trade partners. China is the first trade partner in Africa. The U.S. is negotiating a large free trade area including Canada, Mexico, South Korea and other countries. This shows that China does not want to be dependent on the U.S. and vice-versa. In international relations, each nation sees its interests. Although, China is increasing its economic influence on the international system. The question is to know if China is able to supplant the U.S. as the global hegemon. It should be remembered that the U.S. supplanted Great Britain as the global hegemon after WWII when Great Britain lost its economic hegemony. Today, China is the largest net creditor in the world, the first in terms of exports and the second largest economy in the world. The problem is to know if all these assets are sufficient to play the role of the benevolent country and also if China has the will to play the role of the next global hegemon. China has not the will to play this role, it prioritizes soft-power and multilateral and bilateral approaches to solve international issues such as armed conflict. China is aware that this role demands many financial resources and other means for instance diplomatic and military. China is more interested in domestic issues than international issues. Corruption is a real problem in China. The central government is aware of this challenge not only it tarnishes its image outside but also it costs at least 1 point of GDP growth to the Chinese economy. The

117 [http://www.heritage.org/research/reports/2011/04/the-united-states-vs-china-which-economy-is-bigger-which-is-better](http://www.heritage.org/research/reports/2011/04/the-united-states-vs-china-which-economy-is-bigger-which-is-better)

118 [http://www.rue89.com/2013/01/30/lidee-du-declin-des-etats-unis-est-un-fantasme-239113](http://www.rue89.com/2013/01/30/lidee-du-declin-des-etats-unis-est-un-fantasme-239113)
Accessed 24/05/2013
central government is facing the massive flux of migrants workers to cities resulting in an increase of the air pollution. Another challenge is the housing in big cities. Because of a strong urbanization, China destroys thousands and thousands of villages and farmlands which in turn cause social tensions. In view of the above, I would say that China will not seek to play the role of the global hegemon.
Chapter Seven

7. Conclusion

7.1 Conclusion

The future of the world history is a big challenge to predict because many events can occur in the international system. Nevertheless, factors of the Britain’s decline and the current positions of the U.S and China can be a precious asset to answer the research question.

The U.S will remain the first economy in the world for following reasons: The U.S. energetic autonomy will be a considerable advantage for the U.S industrial sector and households.1- The decrease of cost of the energy will contribute in increasing of the purchasing power of Americans. The consumption of households is the main engine of the U.S. economic growth.2- The decrease of the U.S. dollar value is also a considerable asset for the U.S. industrial sector to increase its exports.3- The soundness of political system.4- Confidence of investors on the U.S. fiscal policy.4- High quality of innovation and technology. Nevertheless, the U.S. will not have the same influence that it had just after WWII because its status of the first debtor country in the world will relatively decline its influence in the international financial institutions. In twenty years, the U.S. will be an influential economic country among several influential countries as China in a multipolar world. But the U.S. will not experience the same situation as Great Britain did after WWII. The U.S. dollar will remain the international currency for reasons mentioned above. China will observe a decline of its economic growth due to factors as the increase of the cost of productivity which in turn could cause the domestic instability with serious consequences in Asia and in the rest of the world. But China could rely on its large population in order to maintain a relative economic growth. The U.S. will use all means it has to maintain its leadership and its power in this globalized world. But the U.S. would not use war to counteract China’s rise because consequences would be very disastrous for both countries and also for the rest of the world. It should be remembered that both countries are nuclear powers. To solve their contentions, U.S. and China will prioritize dialogue and negotiations, though this task prove difficult the fact is that both the countries do not have the same approach to international relations.
7.2. The Further research

This study has laid the ground for further studies. It would be interesting to investigate other characteristics of the hegemony that might also contribute to the U.S. economic hegemony and the rise of China. These are (1) the military hegemony (2) the education hegemony (3) the cultural hegemony.(4) political hegemony.
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