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Hegemonic Crisis, Comparative World-Systems, and the Future of Pax Americana

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World-System analysis came into being in the 1970s, when U.S. global power was being challenged seriously in the aftermath of its Vietnam War defeat and the run on the dollar following the dissolution of the Bretton Woods gold standard. In this context, the analysis of hegemonic decline in the capitalist world-system became a core theme of discussion among leading world system analysts. In the classical Wallersteinian formulation, capitalist world-system differed from premodern world empires in that the core of the system is divided among competitive states, and one of these states performed a hegemonic role at a given time period. Sixteenth-century Dutch, nineteenth-century UK, and twentieth-century US were the hegemonic states of the respective periods, enjoying commercial, political and military primacies and setting the rule of the game for other states to follow. These primacies, nevertheless, were destined to decline after they peaked, and the world-system would be pushed into a period of inter-core rivalry in which competing core states competed to become the next hegemon. To the world-systemists, the challenges that the US faced in the 1970s signaled the beginning of the decline of the US hegemony, which emerged amidst the chaos of the two world wars (Wallerstein 1984; 1974).



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To Wallerstein, the capitalist world-system has reached its limit of expansion, and the crisis of U.S. hegemony is equivalent to the crisis of the system itself, and such crisis will ultimately lead to the end of the capitalist system as we know it. (Wallerstein 1979) Others who loosely follow a world-system perspective, on the other hand, assume the contest for the throne of new hegemony would proceed as usual, and they are keen to look for candidates of the next hegemon, with Germany (Europe), Japan, and China as the favorite at different times. Likewise, according to more recent works by Arrighi (1994; 2007) and Arrighi and Silver (1999), the trajectory of the end of American hegemony will likely depart from earlier hegemonic declines, and the world-system is likely to face one of the three scenarios: the dawn of protracted systemic chaos and warfare, the rise of a more egalitarian world market society led by emerging powers in Asia, and the rise of a coercive US-centered global empire.

In the theorization of the current transition and prediction of what may happen in the future of the world-system, most discussion were constrained by the limited number of cases of hegemony and hegemonic transitions. With the Dutch and UK hegemonies as the only two precedents from which we could generalize, our imagination about what is happening and what will happen amidst U.S. hegemonic decline is seriously limited. In this regard, Christopher Chase-Dunn's discovery of a wide range of premodern world-systems that follow similar dynamics of core-periphery division of labor and interstate competition or integration is a significant contribution to the debate. It vastly expands the number of cases available for comparison, therefore leading us to a whole new range of possibilities to ponder at. At the same time, Chase-Dunn and his team's efforts to look for quantitative indicators to measure the development and cycle of world-system empirically also complement the narrative-based analysis of most other world-systemists, enabling us to decipher past patterns, even within our current capitalist world-system, that has been overlooked before.

Semi-periphery Marcher State or Second Hegemony of the Hegemon?

In Chase-Dunn's works on premodern world systems, he outlines the different formations of world-systems that coexisted and were linked to one another at different extents and levels – e.g. politico-military interaction and prestige goods trading – fall short of full-scale integration into one singular system. Sharing the common feature of a core-periphery division of labor, the core region of these system might be governed by a single imperial state, or it may be divided into competing core states. The modern capitalist world-system is no more than a special, globally encompassing case of these world-systems, and all these systems follow some similar fundamental dynamics. (see Chase-Dunn and Hall 1997) As such, Chase-Dunn and his collaborators have elevated world-system analysis to a new level, allowing us to transgress within-system comparison based on a singular system and move on to theorize over comparison between a large number of

world-systems that have ever existed. It instantly broadens our horizon in the projection of the current trajectory of world transformation and its future.

For example, Chase-Dunn and his collaborators observe that in many premodern world-systems, transformation of the system came by through the take-over by some semiperipheral or peripheral marcher state. Such take-over could be transformative, changing the fundamental structure of the world-systems involved. One prominent example is the Mongolian nomadic state in the thirteenth century. It occupied a peripheral or semiperipheral position in the steppe and managed to invade the core zones of most regional world-systems in the medieval times. Such invasion ended the fragmentation of trade routes across Eurasia and integrated different regional systems into a thirteenth-century Eurasian world-system. (Abu-Lughod 1989) Another example is the rise of the sixteenth- and seventeenth-century Manchu semi-nomadic states that invaded the Ming dynasty at the center of the Asian tribute-trade system, establishing the Qing empire that doubled the size of the Ming empire and created a more commercialized economy within the empire and throughout East Asia.

To draw from the insights of these pre-modern pattern of semiperipheral states' transformative takeover of the system, we could ask whether a similar process would emerge at the contemporary capitalist world-system. There have been works suggesting many political and institutional innovations in the modern world-system – such as universal suffrage for women, unpropertied citizens, and minorities – usually first emerged in the semiperiphery before they were adopted in the core and periphery. (Markoff 1996) More recently, increasing attention is paid to the BRICS countries, including Brazil, Russia, India, China, and South Africa, which not only command an increasing share of world GDP, but also become more active and conscious in collaborating with one another to form a power bloc shaping global governance. Besides the regular BRICS summits that started in 2009, these countries also built a multilateral BRICS Development Bank, later known as the New Development Bank, aimed at financing development projects in the Global South. Some other works find that the BRICS group has been taking the lead in transforming the many multilateral institutions they participated in, such as the WTO, by blocking or reshaping the organizations' imperatives dictated by rich countries. (Hopewell 2016). In the meantime, others argue that the BRICS countries are becoming sub-imperial powers that started their colonizing inroad into other peripheral zones like Africa, outcompeting traditional core powers (Bond 2013). Provided that the BRICS countries are not only economic powerhouses but also politico-military heavyweights mostly independent from the U.S. military umbrella, it is not far flected to imagine that the BRICS countries will dominate world politics in unison eventually, creating another instance of semiperiphery transformative take-over, or at least overshadowing, of the core. Among the BRICS countries, China is the most economically dynamic one, and it has been a long-time autonomous and formidable military power in Asia too.

It is natural that the thinking about a BRICS takeover of the world-system would be seen as more or less equivalent to a rising Chinese domination of the system.

Another new horizon that Chase-Dunn's works open and illuminate regarding possible scenarios about the future of the world-system is the thesis about self-succession of hegemony. Built on the careful observations and data of his collaborators, Chase-Dunn points out that historically, there was not one but two British hegemonies. The first round of British hegemony was in the mid-eighteenth century, when the American colonies supported Britain's global ambition. After the fall of the eighteenth-century British hegemony following its loss of the American colonies to the settler revolutionaries, Britain expanded its colonial control of India and turned it into a new resource base supporting Britain's global hegemony. As such, the British managed to recover from its first hegemonic decline in the late eighteenth century. It successfully renewed its hegemonic power status grounded on the military manpower drawn from and economic advantage gained from British India. Based upon these insights, one could ask whether the United States could recover from its hegemonic decline since the 1970s and renew its global domination to attain a second-round hegemony. (see Chase-Dunn et al 2010; Chase-Dunn and Lawrence 2011)

As such, we are confronted with two possible scenarios of the world-system future: a semi-periphery transformative takeover of the system and a round-two hegemony of the US. Whether these scenarios could become reality depends a great deal on the evolving role of China in the world-system, as China is the single most dynamic and assertive state among the BRICS in the semiperiphery. It is also a state believed by many to be capable of leading the effort to topple U.S. global domination.

China and BRICS: Semiperipheral Challengers to the U.S. Hegemony?

Accompanying the recent economic rise of China, many have purported that the global political center of gravity has been shifting from West to East and from developed countries to developing ones. The book by British writer Martin Jacques, *When China Rules the World*, is just an example. Roger Altman, a veteran investment banker and former Deputy Secretary of Treasury of the US, published "The Great Crash, 2008: The Geopolitical Setback for the West" in *Foreign Affairs* in the wake of the global financial crisis, arguing that the financial distress of the West and the continuous robust economic performance of China is accelerating the wane of American's global power and wax of China's. Journalist Fareed Zakaria even titled his 2009 bestseller *The Post-American World*, seeing the rise of China at the expense of the United States as a global power shift comparable to the rise of the West during the Renaissance and rise of the United States in the twentieth century. Many see China as the most powerful BRICS country that has the actual

capability of leading other emerging powers to topple U.S. domination and foster a new and more egalitarian order.

But unfortunately, that talk about falling U.S. global power and the rise of China as a new superpower leading humanity out of Pax Americana is greatly exaggerated, just as how the talk of the rise of Germany and Japan as challengers to the United States back in the 1970s and 1980s was exaggerated. The decline of U.S. dominance in world politics, while true, has been slowed and delayed. U.S. share of global GDP has been stably above 20 percent and it continues to be the world's largest economy with comfortable lead, as measured in current U.S. dollar. The United States also continues to be the world's leading military power with all other military powers trailing far behind.¹

The persisting economic and military power of the United States is attributable largely to the ongoing status of the U.S. dollar as the most widely used reserve currency and international transaction currency in the world during the last thirty years. The internationally dominant status of the dollar, which many refer to as the “dollar standard,” allows the United States to borrow internationally at low interest rates and print money to repay its debt as the last resort. This capability to borrow in its own currency has been allowing the United States to solve many of its domestic economic malaises and maintain the most enormous, active war machine in the world through external indebtedness, while avoiding the kind of debt crises that have wreaked havoc on many developing economies having borrowed in creditors' currency. Ironically, the persistence of the dollar standard is now being maintained by the rise of China as the biggest foreign holder of US-dollar-dominated assets, mainly in the form of U.S. Treasury bonds.

The Dollar Standard and Pax Americana

The post-World War II global hegemonic role of the dollar was sealed in the Bretton Woods Conference of 1944, which established the gold convertibility of the dollar under the promised rate of thirty-five dollars for one ounce of gold. The stability of the resulting global monetary order in the 1950s and 1960s was warranted by America's sizable gold reserve, current account surpluses, and its unparalleled competitiveness in the world economy.

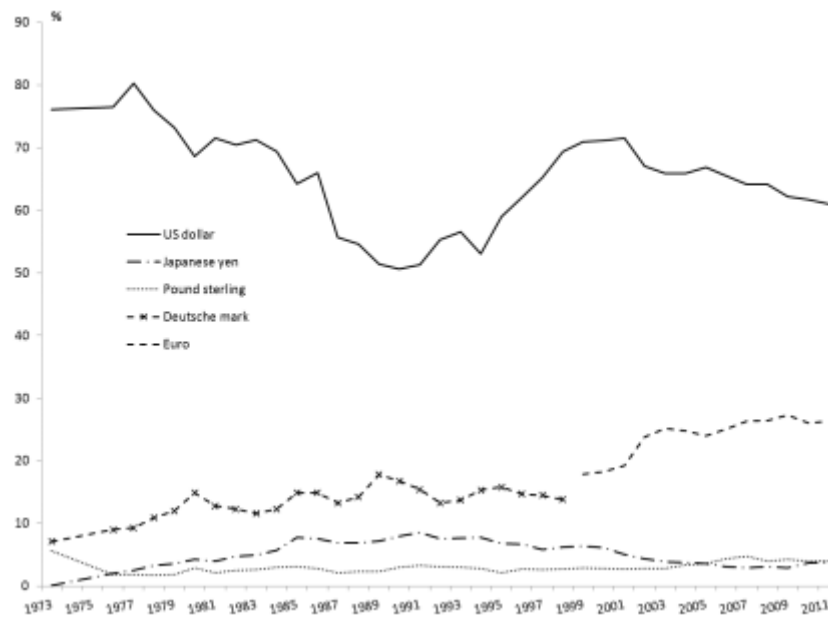
The collapse of this Bretton Woods order in 1971 can be traced back to the rising productivity of Europe, West Germany in particular, and Japan following their full recovery from the world war in the late 1960s. Increasing international competition, coupled with the rising wage demand of domestic organized labor and the escalating fiscal and current account deficits incurred by the US's troubled involvement in Vietnam, led to a run on the dollar and the outflow of gold reserves from the US. It left Nixon with few choices but to suspend the gold convertibility of the dollar in

¹ For more thorough discussion, see Hung (2015)

1971, forcing other major capitalist economies to undo their currencies' peg from the dollar. The abolition of gold convertibility allowed the United States to attempt reducing its current account deficit and reviving its economic competitiveness through dollar devaluation.

Upon the collapse of the Bretton Woods system, many predicted the end of dollar hegemony and the rise of a multipolar global economic order grounded on more or less even domination of multiple major currencies such as the yen and Deutsche mark. What is puzzling is that this predicted multipolar moment never came, and the dollar hegemony continued for four more decades until today. Even with the formation of the euro as a competitor, the dollar remains the most widely used reserve currency in the world.

Figure 1. Shares of Currencies in Identified Official Holdings of Foreign Exchange in the World, 1976-2011



Source: IMF COFER dataset

The same can be said regarding the use of the dollar in international transactions. While the dollar hegemony under the Bretton Woods system was a manifestation of US's overwhelming economic might, the lingering dollar hegemony after the Bretton Woods collapse was the most significant lifeline that the United States relied on to slow its economic decline. The post-Bretton Woods continuation of the hegemony of the dollar, as a fiat money since 1971, lasted even longer than the dollar hegemony under Bretton Woods.

Table 1. Currency distribution of global foreign exchange market turnover (percentage, total=200)

	1998	2001	2004	2007	2010	2013
US dollar	86.8	89.9	88.0	85.6	84.9	87.0
Pounds sterling	11.0	13.0	16.5	14.9	12.9	11.8
Deutsche mark	30.5	--	--	--	--	--
French franc	5.0	--	--	--	--	--
Japanese yen	21.7	23.5	20.8	17.2	19.0	23.0
Euro	--	37.9	37.4	37.0	39.1	33.4
Mexican peso	0.5	0.8	1.1	1.3	1.3	2.5
Chinese yuan/RMB	0.0	0.0	0.1	0.5	0.9	2.2

Source: BIS Triennial Central Bank Survey

The dollar's lasting prowess was first made possible by the exchange between the United States and its military allies during the Cold War period, when the former provided a security umbrella and weapons in exchange for the latter's support of the use of dollars in trade and foreign-exchange reserves. The role of U.S. global military domination in warranting the dollar standard was well illustrated by numerous episodes at the height of the Cold War, when governments of America's European allies were requested to support the dollars by increasing their purchase of dollar instruments and U.S. military supplies, paid in dollars, under the explicit threat of reduction of U.S. troops stationed in their countries.

This dollar-security nexus ensured that the dollar would remain the dominant foreign reserve currency in Western Europe and Japan. It also ensured that the monarchial and authoritarian oil-producing states, which needed U.S. protection even more, would invoice their oil exports in dollars. Large-scale governmental purchases of dollar instruments among key capitalist powers and the use of dollars in oil and arm trades accounted for the vast market liquidity of the currency, motivating private enterprises and other governments to use it for their reserves and trade settlement.

This geopolitical support of dollar hegemony remained unchallenged until the end of the Cold War, in the 1990s. With the Soviet bloc as a common security threat gone, regional powers used to being held hostage by the U.S. security umbrella tried to break free of the U.S. dollar-security nexus. The rise of the euro represented an explicit attempt to create a new currency rivaling the dollar. But Europe's continuous dependence on the United States to defend its geopolitical interests, as shown by the Kosovo War in 1999, as well as the lack of centralized monetary authority and fiscal integration in the eurozone, has been undermining the ascendancy of the euro as a true alternative to the dollar.

The Chinese Foundation of U.S. Staying Power

In 2000-2008, the dollar's credibility seemed to be threatened by an unprecedented simultaneous deterioration of the dollar value and U.S. current account deficit. This simultaneous fall is largely attributable to the rise of China as a formidable low-cost exporter to the US. The rise of China's export sector was unleashed by a series of policy changes in the mid-1990s that precipitated an expanding stream of low-wage rural migrant laborers. Such export-oriented path of growth was also facilitated by China's currency peg with the United States that keeps Chinese exports competitively cheap.

While China's export expansion led to the deterioration of U.S. current account deficit, China's large trade surplus enabled China to accumulate substantial foreign-exchange reserves. It devoted most of these reserves to the purchase of U.S. Treasury bonds, turning themselves into the largest creditor to the US. Their financing of the U.S. fiscal deficit allowed the U.S. government to expand expenditures while cutting taxes. It fueled the American appetite for Chinese exports, and the resulting increase in China's trade surpluses leading to yet more purchases of U.S. Treasury bonds. These constituted two mutually reinforcing processes of increasing Chinese exports to the United States and increasing Chinese holdings of U.S. public debt, continuously deepening the market and financial dependence of China on the US. China's massive investment in low-yield U.S. Treasury bonds is tantamount to a tribute payment through which Chinese savings were transformed into Americans' consumption power. In 2008, China surpassed Japan as the biggest foreign holder of U.S. treasury bonds, and its holding continued to escalate despite the financial crisis that broke out in Wall Street in 2008.

Table 2. China's and Hong Kong's holding of US Treasury Securities before and after the crisis' outbreak (billion dollars)

	China	Hong Kong	China & HK as share of total foreign holding	China & HK as share of total outstanding	Fed holding as share of total outstanding
End of Sept 2008	618.2	65.5	24.5%	11.8%	8.3%
End of Feb 2013	1,222.9	143.2	24.1%	12.0%	15.5%

Source: US Treasury, Major Foreign Holders of U.S. Treasury Securities database

Many expect that China's hoarding of U.S. Treasury bonds made the United States increasingly vulnerable to China, which enjoys geopolitical autonomy from Washington and does not rely on U.S. military protection like earlier leading Asian purchasers of U.S. debt have. China is theoretically capable of dumping its dollar assets anytime to induce a run on the currency, financial collapse, hyper-inflation and fiscal crisis in the US. This, if it happens, would spell the final disintegration of the dollar standard.

But upon closer examination, we will see that China's purchase of U.S. Treasuries has become a compulsion generated by its export-led model of development. China's dumping of Treasuries out of its geopolitical rivalry with the United States is unthinkable. The vested interests of China that propagated export-oriented growth in the 1990s, composed of coastal provincial governments, export manufacturers and their lobbyists, plus officials from the Ministry of Commerce, were keen on perpetuating such model, preempting China's transformation to a more balanced developmental model driven by domestic consumption and depending less on the US. China's entrenched export-oriented growth makes the Chinese economy vulnerable to any major contraction of consumption demand in the United States and Europe. The large incentive of the Chinese government to employ its foreign reserves to purchase U.S. debt is not only a result of the vast liquidity and presumably stable, safe return of the U.S. Treasury bonds, but also an effort to secure the continuous increase in U.S. demand for their own exports.

China's addiction to U.S. Treasury bonds is attributable to China's trade structure too. Under China's reprocessing export model, China has become a nodal point where raw materials, machines, and components from Asia and other developing countries are put together into finished consumer goods to be exported to the United States and Europe. While China's overall trade surplus has been mounting, it has been running a rising trade deficit with the whole world if we take out the United States and Europe. This means that the growth in value of China's exports to Asia, Latin America, Africa, etc., has not caught up with the growth of China's import of manufactured components, machineries, and raw materials from them. The United States and Europe are the two sole sources of China's trade surplus. China's exports to the US, needless to say, are settled in U.S. dollars. Even China's exports to Europe are settled in U.S. dollars instead of euros. As long as China's rising trade surplus comes mostly in dollars, the Chinese central bank has few choices other than investing these dollars into the most liquid and relatively safe dollar-denominated asset, that is, U.S. Treasury bonds.

Recently, there are a lot of reports about China's activities in using its foreign exchange reserves for "buying the world" through outward foreign direct investment. Chinese companies' acquisition of Volvo Cars from Ford Motor and Chinese SOEs inroad into mining and energy sectors in other developing and developed countries from Zambia to Canada attracts a lot of media attention. But despite these high profile cases, China's outward foreign direct investment is so far of negligible aggregate size, in comparison with other major sources of FDI in the world. The Chinese official statistics show that the stock of China's non-financial outward FDI by the end of 2010 amounted to 298 billion USD (317 billion if financial investment is included). This amount is even smaller than the outward FDI from Singapore, a city-state with a much smaller economy than China. China's outward FDI looks even more insignificant if we take into consideration that 63 percent of that amount was actually FDIs that land in Hong Kong.

The stock of China's outward FDI in places other than Hong Kong is less than 118 billion USD, which is less than a tenth of Chinese holding of U.S. Treasury bonds in the amount of about 1.2 trillion at the time. After all, no other market except the U.S. debt market has liquidity deep enough to absorb China's mammoth reserves. Paul Krugman was not exaggerating when he claimed that China had been caught in a "dollar trap," in which it had few choices other than to keep purchasing U.S. Treasury bonds, helping to perpetuate the hegemonic role of the dollar.

Though China has the geopolitical autonomy that theoretically enables it to end its dependence on the dollar and even end the dollar standard, in reality, it has been helping perpetuate the standard, and hence U.S. geopolitical dominance, through its insurmountable addiction to U.S. Treasury bonds caused by its export driven growth. Compared to China's 1.2 trillion holding of U.S. Treasuries, the BRICS bank forex reserve pool of 100 billion and China's pledged contribution of 400 billion is little more than a drop in the ocean.

The Chinese government has been recently emphasizing its ambition to internationalize the RMB into a major reserve and international transaction currency as a way to maintain its export-oriented model while reducing its holding of U.S. dollars, hence curbing its addiction to U.S. public debts. But in actuality, the Chinese RMB, which is not yet a fully convertible currency, has a long way to go to become a major international currency. Its share in international currency use is minuscule, falling way behind the British pound and the yen, even the Mexican peso (see Table 1). The RMB's rise to the status of a significant international currency will require RMB's full convertibility, which in turn needs China's financial liberalization. This process will take time, even if the reluctant CCP finally agrees to take the very risky step of fully opening up its banking sector to the global economy. This step is far from an easy choice for the party-state, as such opening would be a blow to its command of the economy via its control of credits. Before such radical shift on the part of China, the talk about the death of the global dollar standard and U.S. global dominance under a China-led BRICS challenge will be far from reality.

Possible Futures

Of the two possible scenarios of the future of our world-system—a semiperiphery transformative takeover and a second-round hegemony of the United States—as inspired by Chase-Dunn's works on comparative world-systems, we see that the first possibility is not likely for the time being, provided that China, as the most powerful semiperipheral state today, is still tied by the internal contradictions of its developmental model and could not be exonerated from its supporting role behind the staying global dollar standard. It is still possible that in the longer term, China will be able to radically reformulate its model of development, rebalance its economy and fully actualize its potential power to lead other semiperipheral states to prevail and transform the system. Before it happens, China will continue to support the global dollar standard. It is unclear as to whether the

U.S. state would take advantage of the staying power of the dollar to foster the rise of new competitive sectors and formulate new solutions to the crisis of capitalism to turn itself into a second-round hegemony, as Chase-Dunn and others ponder, or it will employ the dollar's power to exacerbate its global military domination and move further to create a coercive US-centered global empire, as presaged by Arrighi. This is going to depend on how the internal contradictions and class conflicts of American capitalism will unfold.

No matter what will be the case, Chase-Dunn's program of comparative world-systems is a liberating perspective that frees us from the rigid conception about possible scenarios of the future according to classical world-system formulations. This research program will continue to stay as an indispensable analytical reference for our understanding of the present and projection of the future in the decades to come.

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Disclosure Statement

Any conflicts of interest are reported in the acknowledge section of the article's text. Otherwise, author has indicated that he has no conflict of interests upon submission of the article to the journal.

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