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## Capitalism Redefined:

The rise of China, Germany's echo and the Power Cycle Theory

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## Abstract

This work will provide an historical perspective on the economic competition between the United States and China that has characterised the last twenty years of international politics.

The study will attempt to draw a parallelism between the rise of Germany as an opposition to the British-led liberal order of the 19<sup>th</sup> century and the rise of China opposing the American-led liberal order of the 20<sup>th</sup> and 21<sup>st</sup> century, to try and inquire on the potential implication of the rise of China over the international scene.

Such a parallelism will be drawn on the basis of the work by Branko Milanovic, *Capitalism Alone* (Milanovic, 2019), and the work of Charles Maier (Maier C. S., 1981).

It will more specifically aim at identifying the affinities and the differences between the duality proposed by Milanovic between political and liberal capitalism, and the following quote by Charles Maier, pertaining the German Question in the second half of the 19<sup>th</sup> century and the first half of the 20<sup>th</sup> century: “Insofar as the international divisions of the period from 1914 to 1950 had an economic dimension, they involved conflict less between capitalist societies and a Bolshevik challenger than among different capitalist alternatives. [...]the British dominion alternative seemed to be a limited challenge [To the US], whereas the German threat to the open international economy had been more ominous and, just as critical, the emanation of an ugly political regime”. (Maier C. S., 1981, p. 349-350)

Furthermore, the work will rely on the theoretical framework of power cycle theory, as outlined mainly by Paul Kennedy (Kennedy, 1988) and Robert Gilpin (Gilpin, 1981), employing the concepts of “law of uneven growth” and “parity phase” to compare the two historical periods under analysis.

The first chapter of the work will consequently deal with the presentation of such a theoretical framework; building on this basis, it will furthermore briefly outline the capitalistic models identified by Maier and Milanovic, to demonstrate the compatibility of the economic models proposed by the two authors, keeping in mind that “to discern parallels is not the same as claiming identities” (Maier C. S., 1981, p. 330).

The second chapter will in turn focus exclusively on the modern competition between the United States and the People’s Republic of China. Here, the capitalist models proposed by Branko Milanovic, already outlined in the first chapter, will be analysed in depth, also focusing on the respective strength and weaknesses.

To illustrate the economic competition of the two models, the chapter will additionally provide the reader with two case studies, pertaining both micro and macro-economic competition.

The competition within the industry of semi-conductors will in fact be presented, largely based on the work by Chris Miller, “Chip War: the fight for the world’s most critical technology” (Miller, 2022).

Secondly, the Chinese development of a Central Bank Digital Currency will be taken into consideration, focusing in particular on the impact that such a development could have in a framework of de-dollarization of the International Monetary System. The chapter will consequently provide the reader with a brief historical outline on the dollarization of the International Monetary System, only to focus on the potential Chinese challenge to it.

Finally, a third chapter will try, building on the theoretical framework outlined in the first chapter, and the empirical data provided in the second, to identify some of the possible outcomes of the current economic competition. The chapter will therefore ponder the future of hyper-globalization, as termed by Dani Rodrik (Rodrik, 2011), observing how a new international economic model, more focused on the national strategic interest and on a new method of arranging the link between politics and economics, may be emerging; this will be in particular related to some of the most important events in the recent years, namely the American withdrawal from Afghanistan and the Russian invasion of Ukraine.

**Key words:** Globalization, China, United States, Power cycle theory

## Introduction

The central subject of this thesis is a comprehensive investigation into the rise of China as a prominent force on the global stage during the 21st Century. By employing a multifaceted approach that encompasses both economic and political viewpoints, the intent is to scrutinise the potential ramifications of China's ascent on the trajectory of globalisation, as well as on the broader landscape of the global economic order.

The approach taken by this study is to merge the perspective of International Relations with that of International Economics, thereby advocating for a thorough and all-encompassing reassessment of the intricate dynamics between the realms of politics and economics. The central objective therefore is to thoroughly assess the competition that exists between the United States and China, all within the overarching framework of capitalism. By delving into the intricate dynamics of these two economic superpowers, it seeks to gain a comprehensive understanding of the multifaceted factors that contribute to their ongoing rivalry. Through an in-depth analysis of their respective market systems, trade policies, and economic strategies, this research aims to shed light on the intricate web of competition that exists between these two global giants. The work seeks to unravel the complexities of this capitalist battle and provide valuable insights into the ever-evolving landscape of international economic competition.

The work will moreover employ the methodology of Applied History, as laid out by Graham Allison and Niall Ferguson (Allison & Ferguson, 2016); this means that it will “attempt to illuminate current challenges and choices by analysing historical precedents and analogues”. More precisely, the historical precedent chosen to analyse the current situation will be that of the rise of imperial Germany in the second half of the 19<sup>th</sup> century. Such a parallelism will have both an economic and a political dimension, in line with the general structure of the work.

From an economic perspective this thesis will try to draw a parallelism between economic nationalism and political capitalism. It will emphasise how these two economic philosophies have respectively contributed to the emergence of a distinct form of capitalism that diverges from the dominant liberal paradigm. Moreover, it will explore the conflicts and influences that have arisen as a result of this divergence. The study will additionally examine the future of capitalism as a socio-economic framework, providing an overview of the various capitalist models and their interconnections.

From an International Relations perspective this work will be based on the theoretical framework of the Power Cycle theory. Initially, it draws upon the broader version of this theory

as outlined by Robert Gilpin in his work "War and Change in World Politics" (Gilpin, 1981). Subsequently, it applies this framework to analyse the specific context of the Sino-American rivalry, employing Graham Allison's concept of the Thucydides' trap as an analytical lens (Allison, 2017).

Going more into the structure of the thesis, the work will be organised in three chapters, each containing three subsections.

The first chapter will outline the International Relations theoretical framework that buttresses the whole work: the power cycle theory. It will do so mainly through the work of the first scholar to employ such a framework, Robert Gilpin. Consequently, the paragraph will outline the main assumptions of the Gilpinian approach to International Relations, placing a special emphasis on the relationship between economic and political power within this framework (Gilpin, 1981).

The subsequent paragraphs will instead deal with the historical comparison upon which this work is built: the rise of China in the 21<sup>st</sup> century, and the rise of Germany in the 19<sup>th</sup>, culminating in World War I. Here it will employ a primarily economic perspective, highlighting the similarities between economic nationalism and political capitalism, especially within the theoretical framework of power cycle theory. More precisely, the second paragraph of the first chapter will outline imperial Germany's rise within the power cycle theory perspective (Doran, 2012), as well as the main characteristics of the economic model that allowed Germany to challenge the then-hegemonic Great Britain: economic nationalism (Rosselli, 2020).

The third paragraph will, on the other hand, introduce the more contemporary model of political capitalism highlighting the similarities and differences with economic nationalism. Once more, the theoretical framework of power cycle theory will be employed in the comparison, highlighting in particular the comparable historical role of the two economic systems.

The second chapter will be in turn completely focused on the contemporary dynamics of the international system. It will first of all, in the first paragraph, complement the characterization of political capitalism introduced at the end of the first chapter, analysing its depth its current position in the international arena. It will moreover compare it with its American counterpart, liberal meritocratic capitalism, while noting the weaknesses and strength of the two models (Milanovic, 2019). The paragraph will also aim at presenting potential "contaminations" within the two models, presenting for example some elements of political capitalism that characterise the United States as much as China. The *fil rouge* of the chapter will furthermore be an emphasis

on technological competition, highlighting the importance of technology and innovation in determining both economic and political outcomes.

The second and third paragraph of the chapter will in fact go more into the details of the competition between the United States and China, as well as the issues that China's rise poses to globalization.

In the second paragraph, the emphasis will be on micro-economic competition and trade globalization, which will be presented through the example of the current conflict in the semiconductor industry. This case study has been chosen for the perfect way it exemplifies the complexity of global supply chains, their vulnerability and the potential political exploitation of such vulnerabilities.

The third paragraph will instead propose a macroeconomic perspective, centred on financial and monetary globalization and the Chinese challenge to it. It will first present the current state of the international monetary system, and its historical origins.

It will then present the development of a Central Bank Digital Currency by the People's Bank of China as a potential significant challenge to the dollarization of the international monetary system, as well as a more general outline of such a currency.

The third and final chapter will finally aim at bringing together more closely the political and economic considerations that this work has dealt with.

The first paragraph of the chapter will in fact apply in detail the framework of the power cycle theory to the current international system, in light of the competition among the United States and China. It will introduce the concept of Thucydides' Trap, as outlined by Graham Allison, and characterize it as a modern re interpretation of Gilpin's theory. It will furthermore deal with the concept of Grand Bargain and show how it was applied within the context of the rise of China (Mastanduno, 2014).

The second paragraph will, on the other hand, take a more economic outlook. It will first of all present the current international economic system and analyse its historical origins, as well as its foundations. It will then deal to the disruptions that the Chinese rise might cause within the global economy, and some solutions that could be implemented to mitigate the adverse effects of such a rise.

The third and conclusive paragraph will try to imagine and depict some potential systemic adjustments that could be employed to avoid the political risk of hegemonic conflict, as well as the economic disaster of deglobalization. Furthermore, this paragraph will also provide a reflection on the recalibration of the relationship between politics and economics, in light of the reflections and data brought forward in this thesis.

The paragraph will present the adjustment to China's rise not based on single potential policies, but a systemic realignment proportional to the size of the unbalance that the Chinese rise caused. In addition, the possibility of a partial readjustment of the current globalization regime will be entertained. The work will in fact contend that the management of the international economic regime, and a subsequent reorganisation of globalization, is in the interest of both the United States and China and could consequently be used as a common testing ground upon which build the needed systemic rebalancing. Finally, this work will present its own conception of political capitalism, adjusting the concept to fit within the framework of power cycle theory.



## Chapter I

### Global Capitalism and the Power cycle theory

#### *1.1 The power cycle theory: Gilpin's economic realism*

*A large military establishment may, like a great monument, look imposing to the impressionable observer; but if it is not resting upon a firm foundation (in this case, a productive national economy), it runs the risk of a future collapse.*

*P. Kennedy*

As argued by William C. Wohlforth in the Oxford Handbook of International Relations, “it is only a slight exaggeration to say that the academic study of International Relations is a debate about realism” (Wohlforth, 2008, p. 132). With this he meant that realism is the backdrop not only for a great variety of theories in International Relations, but that almost any other approach to this discipline started by defining itself against it.

Consequently, the perspective adopted by this work in its study of the current International System will be a realist one, and it will proceed by amending classical realism with a greater emphasis on economic power.

Such an approach is largely compatible with Robert Gilpin's structural realism, and with the framework of power cycle theory that is related to it (Gilpin, 1981). Consequently, this work will briefly outline this theoretical framework, to better put into perspective the development of the subsequent analysis.

Gilpin's masterpiece “War and Change in World Politics”, published in 1981, is the result of the incorporation, within a realist approach, of some of the main critiques to classical realism developed throughout the second post-war period.

Both liberal transnationalists and Neo-Marxists theorists of *dependencia* had in fact criticised the classical realist disregard for the economic dimension, empirically corroborated by the historical events of the 70s: specifically, the impact of the oil crisis highlighted how states were threatened not only by military means, but that the economy also played an important role (Battistella, 2022).

On these assumptions, Gilpin developed his neo-realist theory. It can be regarded as a neo-realist, or structural realist, theory since it shares the systemic level of analysis of the more famous elaboration of realism made by Stephen Waltz.

In his doctoral dissertation titled "Men, the State and War," penned in 1959, Waltz delineated three distinct levels of analysis. The first level is the individual level of analysis, as identified by classical realists. According to this viewpoint, "the root of all evil is man, and thus he is himself the source of the specific evil, war" (Waltz, 1959, p. 3).

The second level is the collective level of analysis, favoured by both Marxists and liberals, who attribute to the internal order of the States the problems that arise in the International System. This level of analysis underscores the role of the state in the onset of war, elucidating "the significant ill of war by the detrimental attributes of some or all states" (Waltz, 1959, p. 6).

The third level, the systemic level of analysis, is the one Waltz himself gravitates towards. He traces this tradition back to the thought of Jean Jacques Rousseau, who first attributed the main cause of war to the anarchical structure of the State system. This elucidates the recurring nature of wars and the unattainability of a perpetual state of peace within the International System. Importantly, this level of analysis does not account for the occurrence of individual conflicts. Instead, it recognizes the state system as the "permissive cause" of war, not its immediate or efficient cause. As the concluding statement of "Man, the State and War" articulates: "The third image delineates the framework of global politics, yet without the first and second images, comprehension of the forces governing policy remains incomplete; the first and second images elucidate the forces at play in global politics, but without the third image, the assessment of their significance or the prediction of their outcomes remains elusive" (Waltz, 1959, p. 238).

Gilpin's work can however be set apart from its Waltzian counterpart, other than for the above-mentioned focus on the economy, for the fact that, *contra* balance of power theorists, according to Gilpin the anarchical structure of the system does not exclude the possibility of hierarchical distribution of power resources in favour to one power. To the contrary, the most important characteristic of modern International System is precisely, according to Gilpin, an unbalanced distribution of power and wealth. Furthermore, a unipolar system is not only possible, but it is also, and more importantly, the most stable distribution of power possible in the anarchic international system (Battistella, 2022).

This paved the way for a new neo-realist theoretical approach, of which Robert Gilpin was one of the forefathers, though building on the foundations already laid by Organski in 1958 (Organski, 1958).

Against the realist theory of the balance of power, Gilpin's power cycle theory assumes a long-term tendency in world history towards unipolarity (Battistella, 2021), favouring one major power in the long run.

If the realist theory of the balance of powers derives order from a condition of equilibrium, and identity from a tendency to resist universal rule, as stated among others by Henry Kissinger in *World Order* (Kissinger, 2014), the power cycle theory firmly opposes this conception on both accounts: stability and order in fact do not derive from equilibrium among the various actors, but from hierarchy; the most stable system according to this theoretical account is in fact the unipolar system. The materially pre-eminent power in such a system also manages to impose, either through force or consensus, his own values and identity; so, identity does not come from a tendency to resist universal rule, but from universal rule itself (Battistella, 2021). Consequently, as stated by Ikenberry, "order is not built on the balance of power, but on a structured asymmetry of power" (Ikenberry, 2014, p. 14).

According to Robert Gilpin's analysis, the economic richness of a state is at the root of its power in the international system. A state can obtain economic pre-eminence either because it manages to "lock in" a technological advantage before of its rivals (as it happened for Great Britain during the first industrial revolution), or because it manages to mobilise its resources in a more efficient manner. In turn, this economic richness allows a State to eventually become militarily, and therefore politically, pre-eminent. At the origin of power's pre-eminence, is economic richness; the economic aspect is therefore crucial in determining the subsequent political powers (Gilpin, 1981, p. 106-156).

In addition, Gilpin introduces a more symbolic aspect to power, which he calls "prestige". Though this is generated by economic and military power, the reputation, or role, that a State has in the International System is what allows the State to operate within it: as stated by Robert Gilpin, "prestige, rather than power, is the everyday currency of international relations" (Gilpin, 1981, p. 31).

The pre-eminent state, thanks to both its military and economic power, manages to become a hegemonic power, which is to say it manages to obtain a leadership that is recognised as legitimate by those it is exerted on, namely the majority of secondary states. In this recognition, the prestige that is attributed to the hegemonic state places it at the top of the International System. In this, Gilpin builds on the ideas already developed by Organski in *World politics* (Organski, 1958), but also by Edward H. Carr in its "*The twenty year's crisis*", in which the

British classical realist claimed that “it is only the strongest who can both maintain their supremacy and remain good neighbours” (Carr, 2001, p. 215).

Consequently, the power cycle theory adds a vertical dimension to the horizontal perspective that is provided by the balance of power theory (Yoon, 2005). This means that it focuses on the “rise, maturation, and decline in capability of each state relative to all of the other states (including but not restricted to potential aggressors) in the relevant system” (Yoon, 2005, p. 6). To phrase it differently, role is just as important as power when dealing with statesmanship (Doran, 2012, p. 110).

The rules established by the hegemon therefore help reinforce its power, but also benefit secondary states (Battistella, 2022, p. 28); thanks to these rules, the system remains stable. It should be noted here that, according to realists, stability, and not peace, is the best scenario that the anarchical system can possibly allow; the presence of hierarchy in the International System consequently does not affect the anarchical nature of the system itself, though it can mitigate its worst effects.

However, and here is the cyclical, dynamic aspect of Gilpin’s theory, the hegemonic power will inevitably suffer a relative decline over time, thanks to two overlapping mechanisms.

The first one pertains to the economic law of uneven growth, which was formulated as a realist version of the Marxist law of uneven development. Robert Gilpin's concept of law of uneven growth posits that the progress of states in terms of economic and technological advancements is not uniform or equivalent. Differential economic growth and technological progress across States may result in varying degrees of power and influence within the global system (Gilpin, 1981, p. 94-95).

According to Gilpin, the law of uneven growth has strong implications for the study of International Relations. In fact, during phases of accelerated economic development, States endeavour to augment their political and military capabilities in order to align with their recently acquired economic prowess. This process clearly facilitates conflict, in that emerging powers attempt to change the system, whereas dominant powers struggle to maintain the status quo.

The law of uneven growth also highlights the dynamics of power transitions. When a rising power begins to challenge the dominant power, the international system becomes unstable, and the likelihood of conflict increases. Gilpin argues that this instability arises from the inherent tensions between the distribution of power and the aspirations of States to secure their interests.

What is important to note in analysing the Gilpinian law of uneven growth, is the role of economic factors in shaping powers dynamics. It is in fact economic growth that allows States to subsequently accumulate military, and most of all political, power, thus expanding their influence in the International System.

Gilpin's law of uneven growth, as already stated, is to be put in contrast with the notion of a stable balance of power among states. It highlights the inherent instability and competition that arises from disparities in economic growth and the pursuit of power, and more importantly states that a balance cannot be maintained, due to the fact that States grow at different paces, and therefore will always unbalance the system.

It is important to note that Gilpin's law of uneven growth is not deterministic. While it identifies patterns and tendencies, it does not imply that conflicts or power transitions are inevitable. The specific outcomes and trajectories depend on various factors and are to be analysed case by case. This is in line with other neo-realist perspective, whose main goal is to highlight the underlining trends in world politics, without giving pre-made solutions for the single cases.

In addition, the concept of uneven growth is not the only underlying tendency in the International Systems that can bring about a new hegemon, or at least a challenge to the existing hegemonic order: since the hegemon profits from the existing order, is committed to its maintenance, through active intervention in the most instable regions, usually where unsatisfied secondary powers are active. This continuous effort will cause the hegemon to dedicate a significant portion of its economic productivity to military spending, a burden than it is not equally shared by the secondary powers. Military spending is not usually productive investment, though as we shall see it can foster innovation, and it needs therefore to be supported by a continuous economic growth. This mechanism, analogous to what Paul Kennedy termed imperial overstretch in 1988, defined by the British historian as “the fact that the sum of a country’s global interests and obligations is far larger than the country’s power to defend them all simultaneously” (Kennedy, 1988, p. 515), adds on to the law of uneven growth; overtime, the combined actions of these two trends causes the unipolarity of the system to fade away. Consequently, there is a general tendency for the cost of maintaining the status quo to rise faster than the hegemon capacity to support it (Gilpin, 1981, p. 11).

The combined effect of these two forces brings about the emergence of a “kind of parity phase” (Battistella, 2022, p. 35), where one of the rising powers reaches the threshold of 80% of the hegemon GDP; when this threshold is met, the system can no longer be considered as unipolar (Tammen, et al., 2000, p. 7).

Since according to the power cycle theory unipolarity brings stability to the international system, by definition what has been termed as parity phase will consequently be more unstable, and the risk of conflict in these periods becomes considerably higher.

This situation is aggravated by the fact that changes in prestige, or role, in these cases lag greatly behind actual power. In other words, a country's rise in economic and military power may take time to be recognized and acknowledged by other states, and subsequently reflected in its prestige (Gilpin, 1981, p. 31-34), for multiple reasons.

Firstly, perceptions and biases play a significant role in how prestige is attributed. Established powers, which may have dominated the international system for an extended period, are often reluctant to acknowledge the rise of new powers. They may view the ascent of a challenger with scepticism, questioning the sustainability or intentions of the emerging power. As a result, their recognition of the new power's increased prestige may be delayed (Doran, 2012).

Secondly, prestige is inherently linked with the power structure, and the subsequent institutional arrangements that are in place. International organizations, alliances, and norms established by the dominant powers can act as barriers to the recognition of a rising power's prestige. These structures tend to reinforce the existing order and preserve the status quo, and make it more difficult, for a rising power, to gain a prestige level that is proportionate with its actual material power.

Overall, according to Gilpin, changes in prestige lag behind changes in actual power due to the complexities of international politics, biases, historical legacies, and the institutional structures of the international system (Gilpin, 1981, p. 48).

This causes a disequilibrium between the actual power distribution in the International System, and the way in which the system is governed (Gilpin, 1981, p. 180-185). From the perspective of dominant powers, the costs of maintaining the international status quo have increased, producing a serious discrepancy between one's power and one's commitments. From the perspective of rising powers, the perceived costs of changing the international system have declined relative to the potential benefits of doing so. However the disequilibrium is viewed, what has changed is the distribution of power among the states in the system.

In his analysis, Robert Gilpin identifies various strategies that a hegemonic power can explore to try and maintain the status quo.

These strategies can be roughly categorised into three distinct options to diminish the disequilibrium in the International System, which can be pursued through various means: try to

augment the resource production in the dominant power, try to diminish the international commitments of the dominant power, and curtail the rise of the challenging power.

The goal of augmenting the resources available to the dominant power can be pursued by a plurality of methods.

One potential course of action to achieve this entails the dominant power augmenting taxes and tributes levied upon its citizens. The political risks of such a policy are obvious: increasing taxes frequently encounters domestic opposition, which may potentially result in acts of rebellion or social unrest. Hence, the pursuit of this course necessitates meticulous deliberation on the probable repercussions and their ramifications on the stability of the prevailing authority (Gilpin, 1981, p. 188).

An alternative method for raising resources is the implementation of inflationary policies or the manipulation of trade. Through the manipulation of its currency or the engagement in unfair trade practises, the dominating power endeavours to enhance its economic might. Nevertheless, employing such strategies can also have adverse ramifications. On the one hand, inflationary measures can introduce economic instability and negatively impact the overall standard of life for the population. On the other hand, engaging in trade manipulation might elicit retaliatory responses from other countries, so instigating trade wars and straining international relations. Hence, it is imperative to exercise prudence while considering the implementation of such measures, since their potential ramifications may undermine the general stability of the prevailing power.

Alternatively, the prevailing authority can prioritise enhancing its internal efficiency. Nevertheless, undertaking such a mission proves to be exceedingly arduous, especially within the context of an advanced and developed culture, where growth rates are usually lower. Efficiency gains frequently necessitate substantial structural reforms, alterations in governance, and enduring investments in education, infrastructure, and technology, and are consequently a complicated endeavour that may face opposition from vested interests or societal inertia. Moreover, the advantages of enhanced efficiency may not be promptly actualized, rendering it a less feasible alternative for promptly mitigating immediate disequilibrium (Gilpin, 1981, p. 189-190).

In addition to augmenting its resources, the dominating power may also try to limit the expansion of the rising power.

One potential course of action involves the adoption of assertive measures against the opposing party, such as the initiation of military offensives (Gilpin, 1981, p. 191-192). Nevertheless, this

particular method entails the potential danger of growing into a full-scale hegemonic conflict, whose negative implications are obvious. The outcomes of a conflict are in fact always unpredictable, and the costs to all the parties involved, both human and material, huge. A clear example of this is the First World War, where all of the parties to the conflict were weaker by 1918, compared to 1914.

The final avenue that the dominant power can pursue is related to diminishing its international obligations.

One potential strategy for lowering obligations is to pursue territorial expansion in order to take a more defensible position, which would allow for a minor allocation of resources. Furthermore, through the expansion of its geographical boundaries, the predominant power can strengthen its authority and develop a strategically advantageous position. Nevertheless, the use of this particular approach has inherent dangers of over expansion. The act of allocating limited resources across a wide range of responsibilities can place significant pressure on the governing and defensive capabilities of a dominant power as it seeks to manage and safeguard its extended territorial boundaries. Overextension may result in internal instability and increased susceptibility to counterattacks by adversaries or discontented populations. Furthermore, in the modern international system, territorial expansion is no longer considered as a legitimate goal for any power (Gilpin, 1981, p. 191).

An alternative strategy that the prevailing authority can employ to resolve the state of imbalance is through the practise of appeasement, when efforts are made to fulfil the requests put forth by the challenging party. The concept of appeasement entails the act of granting concessions or engaging in compromises in order to soothe tensions and diminish the reasons of a challenger to engage in future conflict. This can be achieved by diplomatic talks, economic incentives, or territory alterations. The fundamental justification lies in the notion that by appeasing some requests put forth by the challenging party, the prevailing power can effectively reinstate a state of stability and deter the further intensification of conflicts. While Gilpin acknowledges that appeasement is often viewed negatively due to its association with the events preceding the Second World War, he argues it can be a sensible and effective strategy, which nonetheless a careful balancing act. This is because making excessive concessions or being perceived as weak can potentially empower the challenger and encourage them to make additional demands or engage in further acts of aggression. Hence, it is imperative for the prevailing authority to meticulously evaluate the challenger's motives, capacities, and the prospective hazards associated with appeasement before undertaking any course of action (Gilpin, 1981, p. 193-194).



Finally, the predominant power may contemplate the explicit reduction of its international commitments. This may entail the process of reevaluating or terminating treaties, alliances, or international agreements. Though undoubtedly effective, such policies also entail obvious risks to the status of the dominant power, and its prestige within the International System. Furthermore, the reduction of international obligations could also lead to the forfeiture of advantages or collaboration from other countries, thereby exacerbating isolation and incurring significant expenses linked to diminished diplomatic influence (Gilpin, 1981, p. 194-195).

## ***I.II Germany and China: the challenge to the liberal order***

*Let me impress upon the attention of this House the character of this war between France and Germany. It is no common war, like the war between Prussia and Austria, or like the Italian war in which France was engaged some years ago; nor is it like the Crimean War. This war represents the German revolution, a greater political event than the French revolution of last century.*

***B. Disraeli***

As stated in the introduction, one of the main purposes of the following two paragraphs is to establish a parallel between economic nationalism and political capitalism, to justify the historical perspective taken by this paper.

This parallelism is rooted in the historical role that can be attributed to both variety of capitalism, within the theoretical framework of the power cycle theory.

They emerged in nations that were relatively late in joining the global economic arena, which was already dominated by a powerful liberal force. Both Germany and China, used here as paradigmatic cases, utilised these economic doctrines to establish their presence in the global arena and expedite their economic growth, ultimately propelling them to a significant standing within the international hierarchy. Consequently, although a linear progression is not discernible between the two economic doctrines, the historical role of economic nationalism and political capitalism exhibits similarities, as both doctrines have played significant roles in facilitating the development and catch-up of less developed countries with more advanced nations, remaining at the same time within a capitalist framework.

Going more into the structure of this work, the following paragraph will discuss economic nationalism and its relationship to the previously discussed framework of the power cycle theory, offering an interpretation to integrate economic nationalism within the framework of the power cycle theory.

As stated in the introduction, for historical reasons in this thesis it has been chosen to focus on the case of Germany as far as economic nationalism is concerned; what is however interesting to note is that Friedrich List, who is often regarded as the forefather of economic nationalism owes the development of such a theory to his stay in the United States, where he resided from 1825 to 1830. It is in fact worth noting that List initially identified as a liberal, an identity which he somehow maintained throughout his life (Rosselli, 2020, p. 38). During his time in America, he witnessed the economic policies implemented by Alexander Hamilton, the Treasury

Secretary of the United States. Hamilton adopted an interventionist and protective stance in order to mitigate the economic hegemony of Britain and foster domestic industrial progress (Rosselli, 2020, p. 38). List, who witnessed this experience and its consequences, applied it to his analysis of the single German states within the Zollverein customs union. He furthermore supported strongly the completion of the Zollverein, at the same time believing that the introduction of protective tariffs would stimulate economic growth while fostering a free market within the union. . However, List also recognized that once a nation achieved a certain level of industrial maturity and competitiveness, it could then embrace liberal economic policies (Levi-Faur, 1997, p. 168-170). This perspective can be regarded to be consistent with the historical development of the United States, which underwent a shift from embracing economic nationalism during its formative years to evolving into a liberal nation as its economy expanded and developed. It is consequently interesting to highlight how both nations that challenged the British hegemony in the 19<sup>th</sup> Century, namely Germany and the United States, did so through the strategic employment of nationalistic economic policies, strongly underscoring the role of economic nationalism within the power cycle theory framework.

Furthermore, as it will be shown in the following paragraph, the United States do retain some element of their economic nationalist past, which have evolved in a different form of political capitalism, according to Aresu (Aresu, 2020), thus reinforcing the link between economic nationalism and political capitalism.

Analysing the economic characteristics of economic nationalism, it is useful to point out List's critical perspective of David Ricardo's theory of comparative advantage. While Ricardo's theory is widely accepted in classical economics and illustrates the benefits of free trade, List challenged its applicability to developing nations and argued for protective trade policies instead (Levi-Faur, 1997, p. 166-168).

The classic example used to illustrate David Ricardo's theory of comparative advantage involves the production of wine and cloth in Portugal and Britain. Ricardo's theory suggests that even if one country has an absolute advantage in producing both goods, there can still be mutual benefits from specialization and trade based on comparative advantage.

In this example, suppose Portugal has a more favourable climate for wine production, allowing it to produce wine more efficiently than cloth, while Britain has advanced technology and resources that make it more efficient in producing cloth compared to wine.

According to Ricardo's theory, it would be beneficial for Portugal to specialize in producing wine and allocate its resources accordingly, while Britain specializes in cloth production, even

if Britain is, in absolute terms, more efficient in producing both wine and cloth. By doing so, both countries can gain from trade.

Portugal, with its comparative advantage in wine, can produce wine at a lower opportunity cost compared to cloth. By focusing on wine production and trading the excess wine with Britain, Portugal can acquire cloth at a lower opportunity cost than if it had produced cloth domestically. On the other hand, Britain, with its comparative advantage in cloth, can produce cloth more efficiently compared to wine. By specializing in cloth production and trading the excess cloth with Portugal, Britain can obtain wine at a lower opportunity cost than if it had produced wine domestically.

Through this exchange, both countries can improve their overall consumption possibilities and achieve gains from trade. Each country focuses on producing the good in which it has a comparative advantage, leading to increased efficiency and maximizing the utilization of resources (Krugman, Obstfeld, & Melitz, 2018, p. 53-62).

List on the other hand argued that embracing free trade and relying solely on comparative advantage would result in Portugal perpetually remaining an agricultural country, while Britain would benefit from industrialization and technological advancement.

List contended that Ricardo's theory did not consider the long-term implications of trade specialization on the development of domestic industries. He believed that if Portugal solely focused on wine production and traded with Britain for cloth, it would hinder the growth of Portugal's industrial sector. Portugal's economy would become dependent on agricultural exports and vulnerable to fluctuations in global wine prices.

As List himself put it, “the power of creating wealth is vastly more important than wealth itself”. List categorises capital into three distinct types: natural capital, material capital, and mental capital. Natural capital refers to the assortment of resources provided by the natural environment, including but not limited to land, bodies of water, waterways, and mineral deposits. In contrast, material capital includes physical assets utilised in the process of production, such as machinery, equipment, and unprocessed resources. Mental capital encompasses intangible assets such as skills, training, industry, entrepreneurship, and knowledge.

Among these, the German economist places a great importance on mental capital, which can be regarded as a precursor to the modern-day concept of human capital (Levi-Faur, 1997, p. 157).

To better explain his point, List offers the example of two families of farmers, each with five sons. The first family focuses on accumulating savings and relies on manual labour for their

livelihood, while the second family understands the importance of investing in their children's education and personal growth.

They utilize their savings to provide their sons with time, support, and encouragement for their development; two of the five sons remain on the farm, to learn from their father and experience the skills necessary to manage it. The other three sons are instead encouraged to leave the house to pursue their studies and gain different skills (Levi-Faur, 1997, p. 156-158).

Upon the death of the fathers, the future outcomes of these two families are expected to be distinct due to the different approaches adopted by the fathers. The first family's fortune is likely to decline inevitably. As their estate is divided into five parts, their land, which used to support the needs of a single family, will now have to sustain five. Consequently, the resources available for each family member will diminish, leading to poverty and limited opportunities for progress. In contrast, the second family's fate appears more promising. When the second father passes away, his estate will only be divided into two parts. Thanks to the good upbringing and education provided by their father, the trained sons are competent landowners who can efficiently manage their share of the estate. Each half of the divided land is expected to yield as much as the whole did before. Additionally, the other three brothers, who have pursued trades and professions, have secured their own incomes (Levi-Faur, 1997, p. 157-159).

According to List, by advocating for protectionist policies, Portugal, or any other developing country, could nurture its domestic industries and foster industrialization, therefore developing its mental capital, just like the second family did for its sons.

He argued that strategic protectionism allowed developing countries to develop their industrial capacity until they reached a level of competitiveness comparable to advanced nations like Britain.

List's work consequently highlights the advantages for developing nations to safeguard their domestic industries against foreign competition, so enabling the accumulation of capital, acquisition of technological knowledge, and promotion of economic growth. He believed that if Portugal were to solely rely on agricultural production, it would be trapped in a cycle where it could never catch up with the industrial advancements of countries like Britain.

In List's view, economic nationalism and protective trade policies were necessary for nations like Portugal to overcome their initial disadvantages and gradually develop their own industrial capabilities. Through an oculte use of tariffs, subsidies, and trade barriers, Portugal had the potential to safeguard its own domestic industry against the competitive forces exerted by technologically more advanced economies. This strategic approach would afford these industries the chance to expand and narrow the existing developmental gap.

List's perspective, therefore, contrasts with Ricardo's theory by suggesting that unrestricted free trade, without considering the specific circumstances of developing nations, could perpetuate an imbalance where advanced countries like Britain benefit from industrialization while keeping other nations dependent on limited sectors of the economy.

As already explained, economic nationalism played an important role in the rise of both Germany and the United States during the 19th century. In Germany, this period witnessed the consolidation of a unified German nation-state and the emergence of a strong industrial economy, which was fuelled by the principles of economic nationalism (Rosselli, 2020, p. 36-40).

In the context of Germany, economic nationalism was closely tied to the goal of achieving economic and political unity.

According to the arguments put forth by List, Germany should have placed emphasis on the advancement of its domestic businesses and protect them against external competition as a means to foster a robust and autonomous national economy. The concepts put out List exerted a significant impact on politicians and industrialists, who recognised the prospective advantages associated with fostering domestic industry (Rosselli, 2020, p. 36-40).

Consequently, Germany adopted protective taxes on imported goods as a means of safeguarding native businesses against international competition. The objective of these tariffs was to foster and bolster the development of German industrial base through the imposition of higher costs on imported goods, thereby safeguarding home markets. This programme facilitated the growth of pivotal industries, including steel, coal, and machinery, which afterwards formed the foundation of Germany's economic strength.

In addition, the German states actively supported industrialization, both by promoting infrastructural development, and by investing substantially in research and development, through the development of élite universities and technical schools.

As stated by Graham Allison, in 1914 “German science and technology had surpassed Britain’s to become the best in the world, fostered by a supportive government and nourished by esteemed universities” (Allison, 2017, p. 75).

Germany's rapid industrialisation was facilitated by the confluence of economic nationalism, the establishment of the Zollverein, and governmental aid. The German industrial sector experienced significant growth, resulting in a notable increase in exports, breakthroughs in technology, and the accumulation of capital.

The robust economic prowess, in conjunction with an expanding population and a proficient labour force, laid the groundwork for Germany to emerge as a prominent actor in the international arena (Doran, 2012, p. 112-113).

The ascendance of Germany's economic prowess during this era consequently established the foundation for its subsequent geopolitical objectives and military aspirations in the 20th century. Nevertheless, it is crucial to acknowledge that the adoption of economic nationalism does not inherently result in militarism or the emergence of radical ideologies. The complex interplay of political, social, and ideological factors contributed to the eventual transformation of Germany into a militaristic state under the Nazis (Levi-Faur, 1997, p. 154-156).

It should be acknowledged that the rise of Germany's economic power and the pursuit of economic nationalism were not the sole factors that led to the militaristic use of the economy during the Nazi era. The development of a militaristic state and the implementation of aggressive policies were driven by a combination of ideological, political, and historical circumstances that extended beyond the realm of economic nationalism, which will now be analysed following the power cycle theory paradigm.

In fact, Germany in the 19<sup>th</sup> century managed to rise faster in its cycle of relative power than any other State, going from a relatively poor country to a leading industrial and geopolitical power (Doran, 2012, p. 112-113).

In accordance with the theoretical framework outlined in the previous paragraph however, the increase in material power in Germany did not bring an equally swift and significant change in its role in the geopolitical arena. According to power cycle theory, to have stability in an international system there must be a balance between the power of a state to act in the international scene, and the role and responsibilities that such a State has in the international system. Looking at the relative decline of Great Britain in the second half of the 19<sup>th</sup> century, which was not accompanied by a decline in its responsibilities, it is possible to ascribe the outbreak of the first World War, in the power cycle theory framework, to the decline of British pre-eminence towards the end of the 19<sup>th</sup> Century, a relative decline that was complete by 1913. Looking at the data regarding the GDP elaborated by Angus Maddison in 2007 (Maddison, 2007, p. 379), illustrated in the table below, the relative decline of the British hegemony in favour of both the United States and the newly unified Germany is clear.

*Table I, Adapted from Maddison, 2007, p. 379, Evolution of Major Powers' GDP, (PPP, millions of 1990 International Dollars)*

<b>COUNTRY</b>	<b>1820</b>	<b>1870</b>	<b>1913</b>
United Kingdom	36 232	100 180	224 618
United States	12 548	98 374	517 383
Germany	26 819	72 149	237 332

However, the strong rates of absolute growth that Britain experienced in the same period gave the country the false perspective that its power was not declining. In turn, this complicated the recognition of the newcomer power, Germany, hindering its possibility to obtain the role its growth would have justified. As argued by Charles Doran (Doran, 2012, p. 117-120), Germany in the second half of the 19<sup>th</sup> century, just as its power was peaking, began to be characterised by an underlying anxiety to be recognised as equal to the other great powers, especially regarding its foreign policy role.

Furthermore, at the beginning of the 20<sup>th</sup> century Germany was forced to face the reality that Russia's potential power was in the foreseeable future much greater than its own; this, in tandem with France's effort to use Russia to encircle Germany, greatly increased the sense of threat that German's leaders experienced. Therefore, Germany began facing a double fear: on the one hand, its political élite began to think that the recognition and prestige they sought would never be obtained in the International System as it was, and on the other hand a growing sense of existential threat, posed by the Russian encirclement, began to pervade German élites; as the German Chancellor Hollweg said in 1914 "The Russian power is rapidly growing... the future belongs to Russia which grows continually and imposes an ever worse nightmare upon us" (Doran, 2012, p. 119).

Consequently, the lack of recognition by other European powers had significant consequences for Germany's foreign policy ambitions. It created a sense of frustration and resentment within German élites and population. Germany's aspirations for a constructive and influential role in shaping international affairs were repeatedly thwarted, leading to a growing disillusionment with diplomatic means (Doran, 2012, p. 124).

Consequently, Germany came to perceive the use of force as the sole feasible means to achieve its objectives. The persistent refusal to acknowledge Germany's contributions, which was exacerbated by the awareness of the trend within the nation, , fostered an escalating militaristic sentiment inside the nation.



Germany's more forceful and belligerent behaviours were motivated by a conviction that employing force was imperative in order to get the acknowledgment and prestige it perceived as rightfully entitled.

This this had profound implications, ultimately leading to the onset of World War I (Doran, 2012).

### ***I.III What is old and what is new in the current economic competition.***

*To discern parallels is not the same as to claim identities.*

***C. Maier***

This paragraph will turn its attention to more contemporary dynamics, introducing political capitalism as a challenger to the American-led liberal order, and then trying to establish a connection with economic nationalism; however, it will also aim at highlighting the differences between these two economic models, to better put into perspective the two historical periods taken into consideration.

Given that contemporary China represents the archetype of political capitalism, it is worthwhile to introduce Branko Milanovic's insightful characterization of communism: according to the Serbian economist, communism has either been regarded as the highest possible stage of development, as presented by the Marxist view (Milanovic, 2019, p. 69), or as a “detour in the wrong direction” from the right path in the case of liberalism (Milanovic, 2019, p. 70). However, Milanovic notes how both these visions and interpretations, which rely on a teleological vision of history, face inconsistencies when dealing with communism. This is particularly evident in the case of Marxism: in fact, if communism is the highest stage of development that a human society could aspire to, how could communist societies regress, in the Marxist view, back to capitalism is something that a Marxist conception of history simply cannot explain (Milanovic, 2019, p. 68-70).

But liberalism only fares slightly better; if, on the one hand, it is more capable than Marxism to account for the ultimate fall of communism, either directly, as in the case of the Soviet Union, or more indirectly, as in the case of China and the rise of political capitalism in the country, liberalism does not offer a convincing explanation as to why did communism arise in the first place. To treat as a mistake of history an economic system under which half of the world population lived for a little less than half century is not, according to Milanovic, a convincing explanation (Milanovic, 2019, p. 69-72); a different explanation is consequently required.

A common characteristic of both liberalism and Marxism is that they are guilty of Euro and Western centrism; they both assume the Western path of development, a “route from primitive communism, to slavery, to feudalism, to capitalism” (Milanovic, 2019, p. 74), as unavoidable and universal. In both of these visions, the so-called Third World has no specificity, and is bound to be “civilised” by its more evolved, Western, counterparts. This is true both in classical

liberalism, with the *mission civilisatrice* that characterized colonialism, and Europe's relationship with the rest of the world, and in Marxism, which sees in European exportation of capitalism a steppingstone toward global revolution and communism.

The alternative interpretation of communism in world history offered by Milanovic provides a more inclusive and non-Eurocentric perspective, acknowledging the different paths to development that various societies and cultures might pursue. In doing so, it questions the hierarchical and paternalistic notion that the West possesses intrinsic superiority, and that it is not possible to achieve progress and industrialization without adhering to the Western path of development.

Milanovic proposes an alternative interpretation, which serves as a catalyst for advocating a more sophisticated and inclusive comprehension of global history and development. This promotes a critical reassessment of prevailing narratives that have a tendency to marginalise and neglect the contributions and experiences of civilizations outside the Western context.

Milanovic's approach aims to promote a more equitable and inclusive perspective that recognizes the diversity and complexity of human experiences and paths of development (Milanovic, 2019, p. 74-76).

According to the Serbian economist in fact, socialist economies, rather than providing an alternative economic system to capitalism, actually paved the way for a different capitalist development path for the Third World, which in turn gave birth to a different variety of capitalism, what Milanovic defines as political capitalism. In this perspective, communism "is a social system that enabled backward and colonized societies to abolish feudalism, regain economic and political independence and build indigenous capitalism" (Milanovic, 2019, p. 75).

It is here that the parallelism with economic nationalism proposed by this paper reveals itself: what is argued here is that economic nationalism has provided, for those states who had been left behind by the first industrial revolution, an alternative path of development, countering the then predominating liberal paradigm, in the same way through which political capitalism has allowed Third World, in particular Asian, economies to close the gap with more developed countries.

In other words, making reference to the theoretical paradigm of the power cycle theory, outlined in the first paragraph, the role of both economic nationalism and political capitalism has been to fulfil the law of uneven growth, allowing for a relatively more efficient allocation of resources in emerging countries which allowed them to close the gap with the hegemonic power. In doing so, both economic doctrines advocated for a complete redefinition of the relationship between the state, markets and society, in overt contrast with the prevailing liberal paradigm.

Political capitalism managed to develop mainly in decolonised countries where a communist party managed to obtain power because communist ideology was an ideology committed both to national liberation and radical economic transformation, thus combining a national and social revolution. As Milanovic notes, Mao Zedong himself said “two big mountains lie like a dead weight on the Chinese people. One is imperialism, the other is feudalism. The Chinese Communist Party had long made up its mind to dig them up” (Milanovic, 2019, p. 79).

Such a combination of social and national revolution could only be obtained through a communist party. It is therefore not a coincidence that two of the most paradigmatic examples of political capitalist countries, China and Vietnam, followed precisely such a trajectory. The nationalistic character of the Chinese Communist Party has in fact always been clear to scholars; reforms promoted by the CCP were predominantly agrarian in nature, aimed at abolishing feudal relations in rural areas, promote education and literacy, weakening more clan-based social relations (Milanovic, 2019, p. 79-81). In this, the revolution was not only social, but had a clear nationalistic perspective: the emphasis on rural areas was in fact pursued in open contrast with the Comintern and Moscow’s suggestions and preferences, which saw in the workers of Shanghai, and other proto-industrial poles, the future of the Chinese Communist Party. Therefore, the national character of the Chinese revolution is not only clear in its anti-imperialism, be it Japanese or Western, but also in the rejection of Marxist internationalism, in favour of a Chinese version of communism; the simultaneous pursuit of social and national revolutions aimed to eradicate existing divisions and foreign rule, paving the way for domestic development and the emergence of an indigenous capitalist class. However, it is noted that the transformation to capitalism in China occurred under the control of a powerful state, differentiating it from the experiences of Europe and North America, where the role of the state was less significant. This distinction helps explain why capitalism in China and other countries often has an authoritarian character (Milanovic, 2019, p. 82).

A question that should now be addressed is whether the economic system that developed in China can actually be regarded as capitalist or not. Using the definition provided by Milanovic, in turn based on the work of Karl Marx and, most of all, Max Weber, to be qualified as capitalist, a society should have most of its production conducted through private means of production, a majority of wage labourers and the majority of decision regarding both production and pricing taken in a decentralized fashion (Milanovic, 2019, p. 21).

Since the period of liberalisation initiated by Deng Xiaoping, the share of industrial output coming from state-owned enterprises in China has declined from almost 100% to around 20%. These percentages are comparable to 1980s European countries such as France. The state of course does play a significant role in the Chinese economy, and the economic system could not be termed a liberal capitalist system, but it can be defined as a capitalist system as far as the ownership of the means of production is concerned. In agriculture, the evolution has been even more stark: from a production characterised by village communes in the 70s, the introduction of the so-called “responsibility system” in 1978 allowed for private leasing of the land, causing a shift toward private output, though most farmers are not wage workers, but self-employed. In the industrial production, the use of wage workers is instead widespread, and the majority of them are privately employed, given that the majority of production is nowadays done by private enterprises (Milanovic, 2019, p. 87-91).

Finally, the evolution from a communist to a capitalist mode of production is particularly evident if one analyses the decision taken in production and pricing policies: in the 70s, the state set the prices for the great majority of products, both agricultural and industrial. By the mid-1990s, prices were market-determined in all sectors of the economy, and the percentage of prices which are market-determined has continued to rise since then (Milanovic, 2019, p. 87-91).

The Chinese system can therefore be regarded as a capitalist system, a capitalist system with its own peculiar characteristic, which has been called a political capitalist system.

Today, political capitalism is characterised by three main features, identified by Branko Milanovic; the first of these is a strong technocratic character, with a great importance given to bureaucracy, which is put in charge of the system, and has the main objective to guarantee high economic growth (Milanovic, 2019, p. 91-93). Here, a first comparison can be drawn between this technocratic emphasis of political capitalism, and the importance that is given to an *ante litteram* human capital by economic nationalism: they both share some distinctive features in their recognition of the value of knowledge and expertise in driving economic development.

Political capitalism is characterised by the integration of political and economic power, emphasising the importance of bureaucrats and technocrats in managing the economy and the State. The emphasis in political capitalism is consequently put in expertise, which is the foundation of promoting economic efficiency and optimising the overall welfare of the nation. The bureaucratization of the economy is consequently intended to guarantee that economic policies are based on sound and informed judgements, based on a comprehensive knowledge and education.

Similarly, economic nationalism recognises the importance of human capital, encompassing the intellectual, technical, and aptitude attributes possessed by individuals within the labour force. Economic nationalists consequently place great importance in the allocation of resources in the realms of education, training, and skill enhancement as a means to augment the competencies of the domestic labour force. It is commonly believed that a workforce possessing advanced skills and education has the potential to stimulate innovation, enhance productivity, and bolster competitiveness, so fortifying the economic standing of a nation.

Therefore, a first parallel between political capitalism and economic nationalism can be discerned in the emphasis on knowledge and competences as the foundation of economic development. However, the emphasis on human capital within economic nationalism extends beyond the technocratic governance observed in political capitalism, encompassing investments in education, skills, and the overall development of the workforce, rather than being specific to a sectarian bureaucratic class.

The second important characteristic of political capitalism is the absence of a binding rule of law, which must be compensated, partially, by a merit-based selection of the members of the bureaucratic class, if the system is to be successful (Milanovic, 2019, p. 91-93). This means that the system relies more on the discretion and decisions of those in power rather than on clear and consistent legal frameworks.

This absence of a robust rule of law in political capitalism can create an environment where decisions and actions can be influenced by political considerations, personal interests, or arbitrary power. This can result in uneven enforcement of laws, favouritism, corruption, and a lack of legal protections for individuals and businesses (Milanovic, 2019, p. 93).

When comparing this aspect with economic nationalism, there may be similarities in terms of state intervention and the concentration of power. However, economic nationalism often emphasizes the importance of a strong rule of law to protect national industries and interests. It seeks to establish clear regulations and policies to guide economic activities and promote domestic industries. While economic nationalism may prioritize protectionist measures and government intervention, it still recognizes the need for a functioning legal framework to ensure stability, fair competition, and the protection of property rights (Rosselli, 2020, p. 55).

In contrast, political capitalism tends to exhibit a weaker rule of law, with decisions driven more by political considerations and the interests of those in power. This can lead to a less predictable and consistent business environment, creating challenges for investors, entrepreneurs, and individuals seeking legal protection and equal opportunities. Therefore, this could be characterised as a relevant difference between the two economic models.

Finally, the third and most important characteristic, which also allows for another comparison between economic nationalism and political capitalism, is the focus of political capitalism in preventing any kind of political influence of the private sector, which is in turn left free in the economic arena (Milanovic, 2019, p. 91-93). In this, the metaphor elaborated by Chen Yun, the father of China's first five year plan, is a useful tool to explain the role of the private sector in a political capitalist system: Chen Yu compared the private sector to a bird in a cage, which will, if controlled to tightly, not be able to sing and eventually die, but if left free, will fly away. In Deng Xiaoping view, in contrast with Chen Yun, the "size of the cage" was not however determined by the size of the private sector, but by its political role, its ability to dictate, or influence, state policy. The state should always manage to retain its autonomy, in order to be able to pursue policy that are in its national interest, and, when needed for political aims, limit and control the private sector (Milanovic, 2019, p. 91-93). The idea of a state which is always guided by a national interest, and which should always be able to pursue this national interest without being limited by economic actors, is a characteristic which is clearly shared by both economic nationalism and political capitalism. However, the role of the private sector in the two economic doctrines differs slightly: in economic nationalism, the role of the state is paramount in guiding and directing economic development to serve national interests. Economic nationalists often view the private sector as an essential component of the economy but believe that it should operate within certain boundaries defined by the state. The state plays an active role in setting policies, regulations, and goals for economic activities, including foreign investment, trade, and industrial development. In its most extreme formulations, such as fascist Italy and Nazi Germany, economic nationalism evolved toward a corporatist mode of organising production, which can take different forms. It may involve creating structured relationships between the state, private actors (such as business associations or industry guilds), and labour unions. The aim is to establish a cooperative framework where the interests of different groups are taken into account in decision-making processes. This can be seen as a way to ensure that the private sector aligns with national economic objectives and contributes to the overall development of the country (Rosselli, 2020, p. 133-140).

However, the extent of private actors' influence on the political system in economic nationalism can vary. In some cases, corporatism in economic nationalism can lead to a close relationship between the state and specific interest groups, where these groups have a significant say in policymaking. This can create a form of "state corporatism," where certain privileged private actors hold substantial influence over the political system. Their interests may align with the state's objectives, and they may have a strong voice in shaping policies that benefit their industries or sectors (Rosselli, 2020, p. 133-140).

On the other hand, economic nationalism does not necessarily guarantee a strong influence of private actors on the political system. Some variants of economic nationalism may adopt a more interventionist or dirigiste approach, where the state exercises tight control over economic activities, limiting the influence of private actors. In these cases, the state may directly manage or own key industries, control foreign trade, and restrict the autonomy of private enterprises. This approach aims to maintain a high level of state control over economic decisions and limit the potential for private actors to exert undue political influence.

In contrast, political capitalism, as discussed earlier, emphasizes keeping the private sector separate from the political sphere to prevent private actors from imposing their preferences on state policy. The objective is to maintain a clear distinction between economic and political power and prevent private interests from dominating the decision-making processes (Milanovic, 2019, p. 91-93). Therefore, if on the one hand the purpose of the private sector in both political capitalism and economic nationalism coincide, and both models consider the economy as a tool toward political power, economic nationalism defines the relationship between the private sector and politics in a variety of ways, compared with the more rigid conception of political capitalism.

Up until now, the focus of this research has mainly been on identifying the differences and similarities between two different challengers to a liberal order, respectively the German challenge to the British led liberal order (*Pax Britannica*), and the Chinese challenge to the American led liberal order (*Pax Americana*); the actual differences between these two models of liberalism, and the economic model they exemplified, have not been at the centre of the analysis. Why this has been the case is readily explained by the clear similarities between the two orders: both Great Britain and the United States were at the apex of a liberal international economic order, which fostered free trade and freedom of capital movement. They both supplied the key currency, and managed the international monetary system, which allowed such a system to work smoothly, though with some important differences which will be analysed shortly; they both benefitted from the order they created and dominated and had therefore a vested interest in trying to maintain the status quo.

The final part of this chapter will thus be dedicated precisely to such a comparison.

From a domestic perspective, this work will employ the terminology used by Branko Milanovic in *Capitalism Alone*, drawing a distinction between classical capitalism and liberal meritocratic capitalism. The Serbian economist characterises liberal meritocratic capitalism, which finds its most on point manifestation in the modern-day United States, by juxtaposing it with previous versions of capitalist's systems, namely social-democratic capitalism and, more importantly for



the current analysis, classical capitalism. The following table summarizes the differences between classic and liberal meritocratic capitalism, respectively represented by the United Kingdom before 1914 and the 21<sup>st</sup> Century United States. Since, as the following chapter will show, Milanovic considers inequality as one of the greatest threats to liberal meritocratic capitalism, the analysis emphasises in particular factor that can enhance income inequality.

**Table II**, adapted from Milanovic, 2019, p. 74, *Key Features of Classical and Liberal Meritocratic Capitalism*

	Classical Capitalism	Liberal Meritocratic Capitalism
Rising share of capital income in net product	Yes	Yes
High concentration of capital ownership	Yes	Yes
Capital-abundant individuals are rich	Yes	Yes
Capital-income rich are also labour-income rich	No	Yes
High correlation of income between parents and children	Yes	Yes

As it is known, a clear distinction between two factors of production, labour and capital, is at the basis of every capitalist system. As shown by the above table, one of the key distinctions between classical and liberal meritocratic capitalism is that in the former there is a partial overlapping between those individuals who receive income from capital, and those who receive it from labour; classical capitalists received their wealth almost exclusively from capital income, which constituted a lion's share of their overall richness. In the United States today, as reported by Milanovic, people who are capital rich also tend to be labour rich (Milanovic, 2019, p. 17).

Under classical capitalism, the economic structure was characterized by a clear distinction between the capitalists who owned and controlled the means of production, and the workers who exchanged their labour for wages. The top income earners in this system were primarily

the capitalists themselves, including financiers, rentiers, and owners of large industrial holdings. These individuals earned income from their ownership and investment activities rather than from their labour. However, in the present-day economy, there has been a shift in the composition of the top income earners. While the traditional capitalists still exist, a significant portion of the top earners now consists of highly paid professionals, managers, and skilled workers who are wage earners. These elite professionals in various fields draw their large salaries based on their specialized skills, expertise, and labour. Nevertheless, many of these individuals, due to their high earnings, also accumulate significant financial assets over time. This could be through inheritance or their own savings (Milanovic, 2019, p. 18). As a result, they derive additional income from their financial investments and holdings, contributing to their overall wealth, but also to market income inequality.

This is probably the most interesting development between classical capitalism and liberal meritocratic capitalism; for obvious reasons, such a development should have a strong impact on income inequality, making present day capitalism more unequal than its classical counterpart. However, the market conditions outlined in the above table do not account for the role of redistribution through direct taxes and transfers, which liberal capitalism has inherited from social-democratic capitalism, but classical capitalism lacked. These redistributive forces help to reduce inequality below the level determined solely by market income (Milanovic, 2019, p. 20).

Furthermore, it is necessary to recognize that a "yes" score on an individual characteristic does not indicate the extent to which it exacerbates inequality. While both classical and liberal capitalism exhibit a high concentration of capital income, the level of concentration was much more pronounced under classical capitalism. In the early 20th century, around 70 percent of British wealth was held by the top 1 percent of wealth-holders. However, in contemporary times, this figure has decreased to approximately 20 percent. Although wealth concentration still exists, it is significantly less severe than it was during the era of classical capitalism (Milanovic, 2019, p. 20).

From a more international perspective, both the *Pax Britannica* and *Pax Americana* supported a liberal international economic system, characterised by what can be termed as “globalization”. Globalization has undergone two distinct eras until today, each characterised by the reduced cost of transporting, respectively, goods and information (Milanovic, 2019, p. 150-152).

Before the first era, dating roughly from the 1860s and 70s to 1914, marked by the reduced cost of transporting goods, geographical constraints necessitated production and consumption to be co-located, limiting trade and economic interdependence. The Industrial Revolution, which lowered transportation costs, gave rise to what Milanovic terms the "first unbundling",

following the terminology employed by Richard Baldwin, enabling goods to be produced in one location and consumed in another, transforming the global economic landscape. This era was characterized by the trade of goods, direct foreign investment, which in turn led to colonialism as a way to secure property rights in distant locations, and the prominence of nation-states (Milanovic, 2019, p. 151). The first era relied on improvements in transportation, enabling the physical movement of goods across borders. In contrast, the second era hinged on advancements in information technology, allowing for virtual coordination and control of production processes without being constrained by geographical distance. Additionally, the first era saw the use of colonialism and imperialism to protect property rights, while the second era established global governance structures to safeguard foreign investments, but also to spread values supporting globalization. Consequently, this first era of globalization was supported by technological innovations, but also by a change in the economic narrative, due to the spread of free market economics thanks to the thought of the likes of Adam Smith and David Ricardo; Furthermore, the adoption of the gold standard helped financial globalization, enabling capital to move more freely internationally. However, despite a strong expansion of trade, 19<sup>th</sup> century globalization was based on a mixture of free trade policies and imperial, or colonial enforcements (Rodrik, 2011, p. 25-28).

In contrast, the second era of globalization emerged alongside the information and communication technology (ICT) revolution, disrupting traditional production-consumption paradigms. The "second unbundling" marked a shift in the control and coordination of production, which was centralized while actual production occurred in dispersed locations through global value chains. Information and control became central players, instead of the movement of goods, while global institutions took on the role of colonialism, and companies superseded nation-states as key actors in the global economy. Importantly, the ICT revolution allowed companies to design and control processes from a central location, facilitating efficient production across multiple units worldwide (Milanovic, 2019, p. 152).

Moreover, the second era's influence on economic development contrasts with the first era's traditional perspective. In the first era, development was seen as progressing through predetermined stages of import-substitution and export-oriented industrialization. However, the second era shattered this linear view, as countries could bypass conventional stages by integrating into global supply chains, becoming technological leaders in a shorter time span (Milanovic, 2019, p. 152-154).

The significance of technological advancements in shaping the trajectory of globalisation is underscored by the analysis of the two eras of globalization. The subsequent chapter will in

turn conduct a comprehensive analysis of this subject, taking into account contemporary dynamics.

## **Chapter II**

### **The Chinese Question**

*The Question is not whether China will become the most powerful nation on earth, but rather how long it will take her to achieve this status.*

*Organski*

After having outlined the historical and theoretical framework on which this work rests, this second chapter will turn to the core of the analysis proposed here: the competition between the United States and China in the 21<sup>st</sup> Century.

In doing so, it will especially focus on the competition that is developing in the realm of technological advancement between the two countries, arguing that it is there that the fight between the two superpowers will mainly be fought, and has been characterised by an eminently economic dimension up until now, in line with the theoretical framework of this work.

The next paragraph will in fact turn its attention to the competition between the two economic paradigm that characterise the United States and China, highlighting the weaknesses and internal contradictions of the two systems, thus complementing the description that was already put forward in the previous chapter. Moreover, it will place the competition in the context of power cycle theory, comparing the GDP of the two countries, showing how China is credibly challenging the US hegemony, unlike the Soviet Union during the Cold War which, as it will be shown, never managed to obtain the necessary economic power that is required to buttress political power in the international arena.

The second and third paragraph of the chapter will, on the other hand, analyse in depth the competition occurring in the technological arena between China and the US, adopting both a microeconomic perspective, and a macroeconomic perspective. Furthermore, they will also analyse the Chinese challenge both to trade globalization, and to financial globalization.

The second paragraph will in fact analyse the competition within the industry of semi-conductors, here considered as the paradigmatic example of globalization, and consequently the paradigmatic example of the growing politization of the economic arena due to the Sino-American rivalry.

The third paragraph will finally turn its attention to the international monetary system, studying the Chinese challenge to the American dominance in this field, through the development of the digital yuan, the world's first Central Bank Digital Currency.

## ***II.1 Political Capitalism and Liberal Meritocratic Capitalism***

*It is easier to imagine the end of the world than the end of capitalism.*

***M. Fisher***

Never before, in the history of the world, has a socio-economic system been so completely pervasive throughout the world as capitalism is today.

The current global landscape is in fact characterised by two epochal events, each with far-reaching implications for socioeconomic systems and global power dynamics.

First, capitalism has not only become the dominant force but has solidified its position as the only socioeconomic system operating worldwide. This remarkable ascendancy of capitalism is characterized by the organization of production for profit, utilization of legally free wage labour, and predominantly privately owned capital, all operating under a decentralized coordination framework, as already explained in the previous chapter (Milanovic, 2019, p. 2).

It is important to note that this is an unprecedented historical development as previous instances of capitalism coexisted with alternative modes of production like hunting and gathering, various forms of slavery, serfdom, and independent small-scale farming or craft-based production, and, finally, communism. Consequently, no other socio-economic system never managed to obtain the monopoly that capitalism has today.

So, in the present era, the global victory of capitalism has seen it stand alone, with no other major socioeconomic system existing as a significant competitor, particularly after the fall of communism in the late 20th century. However, as it will be shown later on in this paragraph, communist countries, notably the Soviet Union, never managed to become credible challenger to the hegemony of the liberal capitalist United States in the way that China has in the last twenty years.

One of the significant outcomes of this fact is the promotion and facilitation of cross-border exchanges, be it in terms of goods, capital, or even labour. Consequently, this has given rise to a process of globalization; it is in fact not a coincidence that the two periods of globalization analysed at the end of the previous chapter coincided with the hegemony of a liberal capitalist country, namely Britain and the United States.

It is important to recognize that this scenario of economic interdependence would have been substantially different if communism had prevailed over capitalism in the intense ideological struggle of the 20th century. Communist societies were in practice characterized by autarky and nationalism, despite its supposedly internationalistic nature, thereby limiting the extent of international trade and cross-border interactions. Unlike capitalism, which inherently has a drive to expand beyond national borders, communism's influence would likely have remained confined to regional pockets (Milanovic, 2019, p. 3).

The second significant event of the 21st century pertains to the rise of Asia, with particular emphasis on China, and the subsequent economic realignment of power. This phenomenon can be ascribed to the overarching influence of capitalism, which has played a crucial role in enabling the process of globalisation. As a result, the phenomenon of globalisation has played a significant role in facilitating the rise of the Asian continent. Capitalism, characterised by its intrinsic pursuit of financial gain and decentralised coordination, established the foundation for the worldwide economic interdependence. The complete spread of capitalism throughout the world, which was made possible by the international trade of commodities, financial resources, and workforce, played a pivotal role in the development of a globalised society. The phenomenon of globalisation has resulted in unparalleled levels of economic integration and has significantly transformed the dynamics of global power, particularly in favour of the Asian continent (Milanovic, 2019, p. 6).

Within the context of globalization, the rise of China in particular stands out as a significant outcome; its economic ascent has been propelled by its embrace of capitalism, albeit with distinctive characteristics. As in others Asian countries, a form of political capitalism has emerged, wherein governments play an active role in shaping economic policies, fostering industrial development, and strategically allocating resources. This unique blend of capitalism and state intervention has enabled Asian economies to navigate the challenges and opportunities of globalization effectively (Milanovic, 2019, p. 6-11).

Accordingly, in conjunction with the triumph of capitalism, there has been a momentous rebalancing of economic power between continents. Europe and North America, which managed to hold economic superiority over Asia at least since the 18<sup>th</sup> Century, have witnessed a transformative shift due to Asia's rapid ascent. For the first time since the Industrial Revolution, the incomes of these three continents are converging, nearing the levels they exhibited before the industrial era, albeit, clearly, at much higher absolute income levels (Milanovic, 2019, p. 5). The emergence of Asia, led mostly by China, has been an important

development of the modern era, resulting in novel dynamics in international relations and economic rivalry.

Asian countries have successfully applied capitalist concepts and strategically employed state-led programmes to harness the advantages resulting from globalisation. These States have successfully positioned themselves as key contributors in global supply chains, attracting foreign investments, promoting critical industries, and aggressively embracing technological advancements. This method has effectively supported the rapid growth of the economy, the achievement of technical equality, and the restructuring of sectors, thereby playing a significant role in the general rise of the Asian region. As will be demonstrated in the subsequent paragraph, this phenomenon is particularly prominent within the semiconductor industry.

The resurgence of Asia in the context of globalisation poses a challenge to the prevailing belief that capitalism and liberal democracy, and liberalism more generally, are intrinsically interconnected. The ascendancy of Asia serves as evidence that alternative models, such as political capitalism, have the potential to generate noteworthy economic outcomes and facilitate swift socioeconomic development.

This phenomenon elicits significant inquiries and incites a reassessment of prevailing economic theories and frameworks, alongside a more profound comprehension of the intricate interplay among capitalism, the State, and the ever-changing global economic landscape (Milanovic, 2019, p. 6-11).

It is true that Asia's rise is not exclusively tied to one form of capitalism, as liberal capitalist countries like India and Indonesia are also experiencing significant economic growth. However, the historical transformation of Asia is undeniably led by China, which has emerged as a formidable economic powerhouse on the global stage. Unlike historical periods when Western Europe and Asia coexisted with minimal interactions and knowledge about each other, the contemporary era sees intense and continuous interactions between these regions. The robust trade relationships, investment flows, technology transfers, and exchange of ideas between Western countries and Asian nations have created a highly competitive environment.

This intensified competition between different variants of capitalism is not limited to economic dimensions alone; it extends to political and social spheres as well. As already stated, two prominent models of capitalism have emerged, each with distinct characteristics: liberal meritocratic capitalism that has gradually developed in the West over two centuries, and state-led political capitalism exemplified by countries like China, Singapore, Vietnam, and others.



The Information and Communication Technology (ICT) revolution, a significant technical development of our era, has played a pivotal role in influencing the aforementioned changes. The proficient assimilation of information and communication technology in Asia has played a substantial role in fostering its economic expansion and propelling its industrial development. Simultaneously, specific industries in Western countries have undergone deindustrialization as a result of the relocation of manufacturing operations to Asia, where production expenses tend to be cheaper. This pattern has resulted in various social problems within Western societies, such as high levels of unemployment, stagnant wage growth, and increased income disparity (Milanovic, 2019, p. 6-11).

As a result, certain nations operating within the framework of liberal meritocratic capitalism have been internally challenged, as shown by the emergence of populist movements and nationalist ideologies in Western nations. The adverse consequences of deindustrialization have played a significant role in generating economic apprehensions and heightened anxieties on the erosion of national identity and sovereignty. Consequently, political measures have been taken to regain or strengthen national economic interests. Moreover, certain attributes of political capitalism can also be observed in the economic foreign policy of the United States, the primary nation that supposedly embodies liberal meritocratic capitalism.

The phenomenon referred to as "sanctionism," as identified by Aresu (Aresu, 2022), serves as an illustrative instance of this trend. It is defined by the capacity of Washington, thanks to its pivotal position in the global economic structure, to alter market operations and uphold its technological supremacy (Aresu, 2022, p. 35). Consequently, this has the potential to extend towards achieving military dominance in strategic industries. The concept of sanctionism builds upon the work already developed by Aresu in the previous years. The Italian political scientist affirms in fact that both China and the United States represent different version of political capitalism, therefore attributing to the US the same characteristics that Milanovic attributes to China, although limited in the realm of foreign policy (Aresu, 2020, p. 41). The position of both Milanovic and Aresu regarding political capitalism will be subsequently developed in the third chapter of this work.

The strategy of sanctionism was in any case already used by the United States in the so called "first chip war", fought in the '80s against Japan, resulting in the eventual triumph of the United States (Miller, 2022, p. 81-87). Currently, the US are involved in a second chip war, against China, as we shall see in the following paragraph. In order to achieve victory, the United States is openly deviating from the liberal economic principles that define their doctrine and values.

This can be put in a broader context of return to prominence of the concepts of national security and national interest, which will also be addressed in the third chapter of this text.

This work will now complete the characterisation of both liberal meritocratic capitalism and political capitalism, already outlined in Chapter I.III, particularly highlighting the respective weaknesses, which are mainly identified in inequality in liberal meritocratic capitalism, and corruption in political capitalism.

Liberal meritocratic capitalism is conceptualized by Branko Milanovic following the terminology employed by John Rawls in his seminal work "A Theory of Justice"; it combines the principles of meritocracy and liberalism to address the production, distribution, and social mobility within society. In Rawl's work, the concept of "meritocratic equality" refers to a societal framework that preserves the principle of "natural liberty" and enables individuals to freely follow their desired professions based on their inherent abilities, without encountering any legal impediments. This approach recognises the legitimacy of property inheritance legitimate feature. In contrast, the concept of "liberal equality" incorporates egalitarian strategies aimed at mitigating the effects of property inheritance. These strategies encompass the implementation of substantial inheritance taxes and the provision of cost-free education, both of which serve to diminish the intergenerational perpetuation of privileges. Therefore, the concept of "liberal meritocratic capitalism" incorporates the processes of producing and exchanging products and services within a capitalist framework, the allocation of these resources based on individual merit, and the advancement of social mobility as advocated by liberal principles. The following analysis will primarily focus on the systemic forces within liberal meritocratic capitalism that shape income distribution and contribute to the formation of an elite upper class, since, as stated at the beginning of this chapter, rising inequality is considered by Milanovic as the main threat to the liberal meritocratic capitalist system (Milanovic, 2019, p. 12-13).

Approximately a decade ago, a discernible trend emerged with the rise in the share of income from capital in net national income. This trend challenged the prevailing economic belief that the shares of labour and capital would remain stable, with labour accounting for around 70 percent of national income and capital for approximately 30 percent, as stipulated by Bowley's Law, considered as one of the basic trends in political economy. Bowley's Law, named after Arthur Bowley, argues in fact that the income shares of capital and labour are bound to remain almost constant over time (Milanovic, 2019, p. 15).

Consequently, economists paid little attention to the distribution of income between capital and labour or the concentration of capital income, as their focus predominantly centred on labour income and the growing wage premium among highly educated workers. However, this narrow focus resulted in an oversight of the crucial role played by capital, leading to a misconception.

Data reported by Milanovic regarding both affluent and developing nations, has demonstrated a clear increase in the share of capital in national income (Milanovic, 2019, p. 24). In the late 1970s, the labour share in the United States stood at approximately 67 percent but had declined by 4-5 percentage points by 2010. Consequently, it may be inferred that the proportion of capital must have increased proportionally. Given the fact that the initial proportion of capital income accounted for almost one-third of the total national revenue, this transition holds substantial significance. Although there may be additional factors at play, this analysis largely centres on the increasing proportion of capital income and its direct influence on income disparity among individuals.

Given that wealth is distributed more unequally than overall income, it follows that income derived from wealth will also exhibit greater inequality compared to other income sources, such as earnings or self-employment income (Milanovic, 2019, p. 26-29). Capital income tends to be concentrated among individuals occupying higher positions in the income distribution. This concentration of capital income among the wealthy contributes to the growing inequality within liberal meritocratic capitalism. The affluent not only possess a larger amount of wealth but also own a more substantial proportion of wealth relative to their income. Furthermore, they possess different types of assets compared to the rest of the population, and this composition of wealth significantly affects the average rate of return obtained by different income groups.

A notable characteristic that distinguishes liberal meritocratic capitalism from its classical form is the presence of individuals with high labour income among the top deciles or percentiles of the income distribution, as shown also in Table II, in chapter I.III. Moreover, an intriguing trend has emerged—a rising share of the population possessing both high labour and high capital income.

To describe this association, Milanovic proposes the term "homoploutia," derived from the Greek word *homo* for same, and *ploutia* for wealth, to signify the coexistence of high capital and labour income within the same household or individual. The prevalence of homoploutia has increased over the past few decades, reflecting a deepening connection between labour and capital income among the affluent segments of society (Milanovic, 2019, p. 34).

Although homoploutia as a pervasive phenomenon of capitalism is a relatively recent trend, its origins can be traced back to the dominant capitalist class reaction to the social movements that characterised the interwar period, in the 1930s. This is testified by fact that though, comparatively, Left wing parties emerged electorally stronger after the Second World War than the First throughout Europe, they did not challenge directly the existing chains of command of the Western economies as they did after the First World War (Maier C. S., 1981, p. 338). The traumatic experiences of militant protests in the last years of the 1910s and the first years of the 1920s had in fact highlighted how it was the State's repressive apparatus, rather than an actual moral authority or consensus, that prevented a collectivist turn in Europe. Capitalist legitimacy was therefore at stake after the First World War, and this was no longer the case in the aftermath of the Second World War. The re-establishment of legitimacy took the face of scientific management throughout the 20s and 30s. Rather than an emphasis on private property, the new capitalists élite shifted the focus on managerial expertise; figures such as Alfred Mond in Britain, Ernest Mercier and François Poncet in France, Gino Olivetti in Italy and Walter Rathenau in Germany justified their economic power on this basis (Maier C. S., 1981, p. 337). It was not a linear and painless process, but by the beginning of the 30s, union leaders did not challenge the hierarchical structure of the production process as they did only a decade before. This presumed technical and scientific superiority of the ruling classes allowed capitalist hierarchies to endure in a way that would have not been possible through simple ownership (Maier C. S., 1981, p. 339). This is at the root of a different capitalist class, compared to the classical capitalist of the 1800s, which finds in the phenomenon of homoploutia its coronation.

Political capitalism on the other hand is a socio-economic system characterized by a close integration of political and economic spheres, wherein the exercise of political power significantly influences and shapes economic activities. This system commonly arises in societies that have undergone communist revolutions after having experienced colonization or domination by external powers, as explained in the previous chapter. In the context of political capitalism, the state has a dominant position in guiding economic decision-making processes, resulting in the consolidation of power and resources within an identifiable category, the bureaucratic class.

They possess a significant influence over the dynamics of the system as they are crucial in setting economic policies, allocating resources, and accumulating wealth, as it was already stated in the previous chapter.

Nevertheless, a notable structural vulnerability inherent in the system of political capitalism is the widespread prevalence of corruption. The prevalence of corruption within this system is

attributed to the discretionary character of decision-making processes, which requires a certain level of flexibility in the interpretation and enforcement of rules and regulations. The absence of the rule of law in political capitalism, as previously discussed, is a notable departure from the fundamental principles of liberal democratic regimes, primarily due to its inherent clash with the discretionary authority exercised by the bureaucratic elite (Milanovic, 2019, p. 109-110).

China serves as a pertinent example, where corruption is particularly significant. The extent of corruption in China surpasses global standards and is even significantly higher compared to the era of Maoist China. This situation is exacerbated by the forces of globalization, which have facilitated the concealment of illicitly acquired assets, thereby increasing the allure and feasibility of engaging in corrupt practices.

Corruption has entrenched itself as a pervasive problem within modern globalization, primarily stemming from the ideological foundations and structures of the global economic system. The relentless pursuit of profit and economic growth at any cost, central to hypercommercialized global capitalism as termed by Milanovic, or hyperglobalization, as termed by Rodrick, creates a fertile ground for corruption to flourish (Milanovic, 2019, p. 163-165). With monetary gains placed on a pedestal as the primary value, corruption becomes an attractive means for individuals and entities to secure unfair advantages, manipulate markets, and gain illicit access to resources and power. This inherent incentive for corruption becomes deeply ingrained in the fabric of the system, making it difficult to address without addressing the very values that underpin global capitalism.

Moreover, the openness of capital accounts and the existence of tax havens further exacerbate corruption. These financial enclaves, located in both wealthy countries and tax havens, provide a safe harbour for individuals from poorer nations seeking immunity from legal pursuit or tax evasion. As such, they attract those aiming to evade accountability and exploit the discrepancies between regulatory systems to their advantage. Despite some efforts to crack down on tax havens, the vested interests that benefit from such arrangements, such as bankers, lawyers, and politicians, continue to wield significant influence in powerful nations, hindering comprehensive reforms to combat corruption (Milanovic, 2019, p. 163-165).

Efforts to address corruption within political capitalism exhibit two primary approaches. One approach involves strengthening the rule of law; however, this endeavour proves challenging as it undermines the discretionary powers of the bureaucratic apparatus, which are integral to the functioning of the system. The other response, exemplified by China's approach, entails a concerted campaign to curb corruption within the existing system. This involves employing

various tactics, including moral pressure, re-education programs, severe penalties (including capital punishment), and prosecuting both low-ranking officials ("flies") and high-ranking figures ("tigers") (Milanovic, 2019, p. 108).

However, given that as analysed here corruption is an intrinsic characteristic of political capitalism, it is not something that can be eradicated through a change of policy within the system. Rather, the aim of these measures is mainly to manage the level of corruption inside the system, containing its causes, and heightening the control of the State over corrupt practices. Nevertheless, corruption will in all likelihood remain as a structural weakness of political capitalism, undermining its legitimacy and its functioning, exacerbating the other problematic that may emerge within the system.

Both liberal meritocratic capitalism and political capitalism possess distinct advantages and attractiveness. Political capitalism offers obvious benefits to those in power, giving them more control over societies, the possibility of insulation from public pressure, and the possibility to use their political authority for personal gain. However, political capitalism can also confer advantages to the population under certain circumstances. When associated with an efficient administration and tolerable corruption, this system may help in overcoming legal and technical barriers that often impede growth in more democratic countries. The population may prefer prompt decision-making over prolonged consultations, particularly if they lack a significant stake in political matters. Moreover, the deepening of capitalism, with its emphasis on economic pursuits and encroachment into personal domains, leaves less time for broader political deliberations, a phenomenon observed even in established democracies such as the United States (Milanovic, 2019, p. 118-119). This is why even Branko Milanovic suggests, at the end of his work (Milanovic, 2019, p. 217-218), how a possible development toward a US branch of political capitalism cannot be excluded, whereas other authors, such as the aforementioned Aresu, argue that this is already the case (Aresu, 2020).

In any case, it should be noted that the appeal of political capitalism ultimately hinges on economic success. That is to say that whereas the benefits of liberal meritocratic capitalism, the most prominent of which are liberal democracy and the rule of law, are intrinsic to the system, the main benefit of political capitalism, the high level of economic growth, needs to be continuously proven and reinstated.

Moreover, the transferability of the Chinese model remains a subject of inquiry. While certain features of political capitalism, such as technocratic bureaucracy, the absence of the rule of law, and endemic corruption, can be found in various contexts, some elements appear specific to

China and challenging to replicate elsewhere. For example, Xu Chenggang's characterization of the Chinese political system as a "regionally decentralized authoritarian system" highlights the unique combination of centralization and decentralization that underpins China's success. This blend allows regional governments to implement economic policies within certain boundaries, leading to localized experimentation and policy effectiveness (Milanovic, 2019, p. 122-124).

Nonetheless, the drawbacks of political capitalism, including aloofness from generalizable rules and a dearth of accountability, cannot be overlooked. China's increasing integration into the global economy, substantial foreign interactions, and growing presence of foreigners within the country make aloofness an untenable position. Moreover, historically successful nations have often become models for emulation and assumed global roles proportional to their significance. China, under Xi Jinping's leadership, appears poised to take a more active international role and promote its own success and experiences worldwide (Milanovic, 2019, p. 124-125).

An additional factor linking domestic and foreign policies is the potential for China to resist Western influence by articulating the advantages of political capitalism. Passively accepting the Western promotion of liberal capitalist values may lead to their growing popularity within China. However, if China actively defines and promotes the benefits of political capitalism, it can counterbalance foreign influence and assert its own narrative. The viability of political capitalism as a successful model rests on the ability to insulate politics from economics, which is inherently challenging due to the state's economic role, and maintain a relatively incorrupt centralized backbone capable of enforcing decisions in the national interest. However, sustaining an acceptable level of corruption becomes increasingly difficult over time and can undermine other advantages of the system.

The export potential of political capitalism is limited, as insulation of politics and a relatively incorrupt administration are likely to exist in only a few countries. While the system can be exported or emulated, its economic success may falter in many cases, undermining its global appeal. Consequently, the attractiveness of political capitalism is contingent upon economic outcomes and the ability to address the contradictions of corruption and inequality inherent within the system.

This paragraph will now connect the current competition between political and liberal meritocratic capitalism, and more specifically between China and the United States, with the theoretical framework of the power cycle theory, to complement the more qualitative approach employed until now with a more quantitative perspective. Furthermore, it will draw a

comparison between the challenged posed to the US by the Soviet Union, here considered as fundamentally secondary and non-threatening for the United States hegemony, and the current Chinese question.

As stated in the previous chapter, one of the characteristic of Gilpin’s theory that sets it apart in the realist family is precisely its being a power-cycle theory, rather than a balance of power theory; in other words, not only it allows for unipolarity, but it actually affirms that it is more stable than any other distribution of power in the international system, be it the bipolar distribution advocated by Kenneth Waltz (Waltz, 1979), or the multipolarity supported by Morgenthau. Therefore, Gilpin’s realism can, *contra* balance of power realists, and through the importance, which is attributed to the economy, account for the end of the Cold War.

The Cold War system, in a Gilpinian conception, was not in fact characterised by a bipolar distribution of power, but it was unipolar at least since the end of the Second World War. America’s economic pre-eminence was not challenged by any other State. The Soviet Union, at the height of the oil crisis, in the economic turmoil of the end of the Bretton Woods system, managed to reach 49% of US’s GDP, as shown in Table III below.

**Table III**, Comparative evolution of USSR and USA GDP, 1950-1990, in billions of US Dollars 1974-75, based on Georges Sokoloff, *La puissance pauvre. Une histoire de la Russie de 1815 à nos jours*, Paris Fayard, 1993, p.787 et s.

Year	1950	1955	1960	1965	1970	1975	1980	1985	1990
GDP USA	657	810	902	1135	1328	1529	1870	2126	2421
GDP USSR	218	285	380	485	626	751	856	942	992
GDP USSR/ GDP USA %	33.1 %	35.2 %	42.1 %	42.7 %	47.1 %	49.1 %	45.1 %	44.3 %	40.1 %

The potential of China as the true challenger to the US hegemony, rather than the Soviet Union, was on the other hand evident from the Cold War Years within the Power Cycle theory framework, as illustrated by the following quote by Organski, dating 1958: “the question is not whether China will become the most powerful nation on earth, but rather how long it will take her to achieve this status” (Organski, 1958, p. 486).



Though presently China is not yet the most powerful nation on earth, it has almost reached the threshold of 80% of the US's GDP, as it will be more clearly illustrated in the third chapter, which was indicated as the necessary threshold to say that the system has entered in a parity phase (Tammen, et al., 2000); looking instead at military budgets, it seems that in this sector China is significantly lagging behind the United States. However, as the following paragraph will try to illustrate, the growing technologization of the world is making it increasingly harder to draw clear lines between military and civil sector. From this perspective, the semiconductor industry, the focus of the following paragraph, seems to be a perfect example.

## ***II.II The Chip War***

*The effects of the ICT revolution are not over yet, but they are, in many respects, similar to those of the Industrial Revolution: a large reshuffle in worldwide income ranking as some groups advance and others decline, along with significant geographical concentration of such winners and losers.*

### ***B. Milanovic***

In this paragraph, it has been chosen to analyse the industry of semiconductors as a perfect example of trade globalization, due to the complexity of the supply chains that are involved in the production of this technology. Additionally, it highlights the susceptibility of these supply chains, which often rely on a limited number of companies, some of which are situated in countries that are central to geopolitical tensions, such as Taiwan (Miller, 2022).

Semiconductors are a class of materials which is categorised thanks to its electrical conductivity. In fact, they are neither conductors, such as copper and aluminium, which exhibit high conductivity, nor have low conductivity, such as glass and rubber. Semiconductors instead can facilitate the movement of electric current under certain conditions, while also demonstrating insulating properties under different circumstances. This peculiar behaviour arises due to the structure of their atoms and the arrangement of electrons in their energy bands (Miller, 2022, p. 22-26).

In semiconductors, the valence electrons (outermost electrons) are tightly bound to the atoms, making them unable to move freely. However, when additional atoms of different elements are introduced into the crystal lattice of the semiconductor, a process is known as doping, it creates "impurity levels" in the energy band structure. Doping introduces either excess electrons (n-type doping) or electron holes (p-type doping) into the semiconductor material.

When an electric field is applied to the doped semiconductor, it becomes possible to control the movement of electrons and electron holes. In the presence of an electric field, electrons in the impurity levels can be promoted to higher energy states, making them mobile and able to conduct electricity. This controlled movement of charge carriers forms the basis for creating electronic devices like transistors, diodes, and integrated circuits (Miller, 2022, p. 22-26).

Silicon, due to its plentiful availability and exceptional electrical characteristics, stands as the semiconductor material most extensively employed. The exponential expansion of the electronics industry has been primarily propelled by silicon-based technology, which has subsequently become the fundamental infrastructure of contemporary computing and communication systems, giving the name in the process to the technological pole of the world: Silicon Valley.

Despite its undoubtful importance, silicon is not the only semiconductor material involved in electronics production; other semiconductor materials are of critical importance in specific fields such as high-frequency communication and optoelectronics, such as include gallium arsenide (GaAs) and indium phosphide (InP).

In fact, semiconductors as a class of materials possess some unique characteristics such as their capacity to amplify and manipulate electrical signals, making them crucial in the current information age.

It is only thanks to the continuous advancement in the field of semiconductor technology that the rapid development of computer processing power, data storage capacity, and communication capabilities has been possible.

Semiconductors play in fact a key role in the majority of modern technologies, including computers, cell phones, advanced communication systems, and artificial intelligence, and have made possible what is referred to as the Information and Communication Technology (ICT) revolution.

This revolution in turn has been central to the rise of Asia as a prominent player in the global economy during the second half of the 20th century and the current 21st century, already indicated as one of the most relevant recent developments of the last 30 to 40 years in the previous chapter.

The growing importance of Asia is due to a variety of factors, such as substantial investments by governments, the integration of global supply networks, and the region's commitment to cultivating talent and promoting innovation, which has allowed several Asian countries to play a crucial role within the global supply chains of the semiconductor industry.

However, the beginning of the semiconductor industry can be traced back to the United States, between the end of the 1950s and the 1960s, when the United States assumed managed to rise as the primary hub for semiconductor research, development, and manufacturing.

This was done mainly within the region of Silicon Valley, which during the latter half of the 1950s and the early years of the 1960s, experienced the advent of pioneering advancements and the development of noteworthy corporations.

Among these, it is particularly worth to mention the Shockley Semiconductor Laboratory. Founded by William Shockley, one of the co-inventors of the transistor and a Nobel laureate in Physics for his work on the development of this groundbreaking technology, it was the first semiconductor company to work on silicon.

Shockley, renowned for his exceptional scientific prowess, was known to possess a rather strong personality, which consequently contributed to the development of a tense and strained working atmosphere within his laboratory.

The "treacherous 8," a group of engineers and scientists, including Robert Noyce and Gordon Moore, became frustrated with Shockley's management style and decided to leave Shockley Semiconductor (Miller, 2022, p. 26-30). Consequently, in the year 1957, they made the decision to establish Fairchild Semiconductor. This strategic move ended up having a significant influence on the rise of Silicon Valley as a prominent centre for technological advancement.

Bob Noyce, one of the key figures in this group, was an exceptionally talented engineer and visionary leader. Being a member of the "treacherous eight", he played an important role in the foundation of Fairchild Semiconductor; furthermore, he subsequently was Intel's co-founder, together with Gordon Moore.

Noyce is widely acknowledged for his role in the invention of the integrated circuit, which was a crucial advancement, which allowed the large-scale applicability of semiconductor technology. The establishment of Fairchild Semiconductor and the visionary leadership of Bob Noyce were consequently instrumental in laying the foundation for the semiconductor industry's growth and the rise of Silicon Valley as a centre of technological excellence (Miller, 2022, p. 32-36).

Another key figure was Gordon Moore, who also co-founded both Fairchild Semiconductor and Intel, and later formulated Moore's Law, predicting the exponential growth of semiconductor transistor density, hence computing power, over time (Miller, 2022, p. 42).

The spread of semiconductors, made possible by visionaries such as Noyce and Moore, had a significant and far-reaching influence across multiple industries, with the military sector being particularly affected. The Pentagon, in light of its understanding of the significant potential inherent in microprocessors and memory chips, enthusiastically embraced the advent of this

technological wave. William Perry, a Silicon Valley entrepreneur, who served as undersecretary of defence for research and engineering from 1977, had a deep understanding of both the Silicon Valley and the Pentagon, and realized how these advanced chips could revolutionize weapons and systems used by the Defence Department (Miller, 2022, p. 75-76).

The United States experienced difficulties in preserving its military edge in the 1970s, particularly after losing the Vietnam War and witnessing the Soviet Union catch up in military capability. A notable strategist, Andrew Marshall, emphasised the necessity for higher-quality weaponry to counter the Soviet numeric advantage. The answer for Marshall resided in capitalising on the United States' dominant position in the field of computing and effectively applying microelectronics to the military capabilities of the US. Marshall's perspective encompassed the development of weaponry characterised by swift information acquisition, advanced command and control capabilities, and precise missile guidance, all of which would require substantial computational capabilities.

Thanks to its intimate knowledge of the semiconductor innovations in Silicon Valley, William Perry recognised the potential of harnessing the miniaturisation of computing power to facilitate these advancements. Consequently, he played a crucial role in the Pentagon's efforts to allocate resources towards the development and implementation of these cutting-edge technologies within the military sector. Notably, this included pioneer initiatives, such as the development of guided missiles that made effective use of integrated circuits, as well as the establishment of a satellite constellation designed to enable global positioning capabilities. Perry's strategic foresight entailed envisioning a future wherein precision weapons would possess the remarkable capability to strike targets with unparalleled accuracy (Miller, 2022, p. 78).

The use of powerful chips into weapon systems enabled substantial advances in military capabilities, as both Perry and Marshall predicted. Self-correcting guided missiles, such as the Tomahawk, used radar altimeters and topographical maps to hit targets precisely. But Perry's vision included more than just individually guided missiles: he launched the "Assault Breaker" programme, which combined numerous sensors, guided weapons, and communication devices, paving the door for automated combat with computer power spread to individual systems (Miller, 2022, p. 77-78).

Though at the time the proposals put forward by both William Perry and Andrew Marshall were considered excessive futuristic and unrealistic, they maintained a steadfast belief in the exponential advancements foreseen by Moore's Law, and in their possible applications to the

military realm. The Department of Defence maintained its commitment to allocating resources towards the development of advanced chips and military systems, driven by Andrew Marshall's aspirations regarding the potential capabilities that these chips could unveil (Miller, 2022, p. 79). Consequently, the initial assumption that a branch of US political capitalism can be found within the defence industry seems to be corroborated by the trajectory of the semiconductor industry in the US, where market considerations were often ignored in the name of national security and maintenance of the US dominant position in the world.

If the semiconductor revolution had established Silicon Valley as the world's leading hub for innovation, the development of the chip industry following the Vietnam witnessed a significant transformation in the global economic landscape, as the chip industry's development led to closer ties between Asia and the United States through investment connections and supply chains. The United States had come to rely heavily on the success of Silicon Valley, especially since the semiconductor sector was now emerging as a pivotal force determining the military capabilities of a country. Consequently, the growing economic power and technological aspirations of Asian countries, which first challenged the US control over the industry, caused significant concerns within the American foreign policy community. The first rival to American hegemony in the production of semiconductor was Japan (Miller, 2022, p. 80).

The rise and expansion of the semiconductor industry in Japan can be attributed to a convergence of various factors, characterised by an intricate interplay of political capitalism and economic nationalism. Japanese corporations were in fact able to capitalise on a protected domestic market, enabling them to distribute their goods in the United States while constraining the market presence of Silicon Valley in Japan. Until 1974, Japan implemented limitations on the quantity of chips that American manufacturers were permitted to sell within its borders, so conferring a competitive edge to Japanese companies within their domestic market. (Miller, 2022, p. 85-87).

Furthermore, it is significant that the Japanese government played an active role in providing financial support to chipmakers, and in promoting the creation of monopolies. This was evident in various initiatives, such as the VLSI Programme, a research consortium initiated by the Japanese government with the aim of fostering collaboration among companies (Miller, 2022, p. 87). Unlike in the U.S., where antitrust laws discouraged collaboration, the Japanese government's support fostered a more cooperative environment for the semiconductor industry in Japan.

Japanese chipmakers also had access to cheaper capital, thanks to their close links with banks and conglomerates that provided long-term loans at lower interest rates. This allowed them to invest heavily in gaining market share and sustain losses while waiting for competitors to go bankrupt. With practically unlimited bank loans available, Japanese firms consequently engaged in a relentless struggle for market share, leading to significant investments in production facilities and equipment, as well as R&D.

As a result of these factors, Japanese semiconductor firms steadily increased their market share in the industry during the 1980s, while American rivals, including Silicon Valley giants like Intel, faced significant challenges. Japan's CEOs kept building new facilities as long as their banks were willing to support their endeavours, enabling them to dominate the market and push Silicon Valley out of the DRAM chip segment (Miller, 2022, p. 89).

The first semiconductor war, during the 1980s between the United States and Japan signified a significant shift, as Japan established itself as a competitive contender in the worldwide semiconductor market. Though the United States ultimately won the war, it had a significant impact of the burgeoning semiconductor industry in Asia, specifically in South Korea and Taiwan, on the subsequent development of comparable sectors in neighbouring countries; this happened because, in order to diminish Japanese market share, while still managing to maintain the lower costs of production of Asian economies, the United States invested heavily in the semiconductor industries of other countries in the area.

Taiwan, with the establishment of Taiwan Semiconductor Manufacturing Company (TSMC) by Morris Chang in 1987, further propelled Asia's ascent in the semiconductor industry. TSMC introduced of an innovative foundry model, specified in producing semiconductors designed by outside companies. By adopting this particular strategy, TSMC was able to cut the costs associated with designing chips, allowing it to effectively specialise only in the production, leveraging the advantages of economies of scale.

Taiwan's success in the semiconductor industry led to the establishment of a robust ecosystem of suppliers, manufacturers, and research institutions, creating a virtuous cycle of innovation and growth (Aresu, 2022, p. 14-17). The rise of the semiconductor industry in Taiwan can be attributed to the leadership of Morris Chang and the strategic support from the Taiwanese government. In 1985, K. T. Li, Taiwan's influential minister, approached Chang with the goal of promoting a semiconductor industry on the island. Taiwan had been involved in semiconductor supply chains since the 1960s, focusing on assembly and testing of chips made abroad. However, Chang realized that to achieve sustained economic growth, they needed to

advance beyond mere assembly and move towards manufacturing chips designed by customers (Aresu, 2022, p. 17).

Chang, who possessed previous professional experience at Texas Instruments and a considerable background in the semiconductor industry, discerned the potential to establish a semiconductor company that focuses on manufacturing customised chips for clients. He held the belief that as the demand for chips in various fields continued to rise, corporations lacking expertise in semiconductors would be more inclined to outsource the manufacturing process to specialised entities, such as the company he envisioned. The idea of separating chip design and manufacturing was already present in Taiwan, which aligned with Chang's forward-thinking viewpoint.

With strong backing from the Taiwanese government, Chang founded the Taiwan Semiconductor Manufacturing Company (TSMC) in 1987. The government provided significant startup capital, 48% of the initial financing, and Chang secured support from Philips, a Dutch semiconductor company, which transferred its production technology and licensed intellectual property to TSMC. The rest of the capital was raised from wealthy Taiwanese businessmen, "asked" by the government to invest. The government also offered generous tax benefits, ensuring TSMC had sufficient funds to invest in its operations (Miller, 2022, p. 147-152). As stated by Chris Miller, "TSMC wasn't really a private business: it was a project of the Taiwanese State" (Miller, 2022, p. 150).

TSMC's early success can also be attributed to its close ties with the U.S. chip industry. Most of its customers were U.S. chip designers, and many top employees had worked in Silicon Valley. TSMC's collaborative approach, promising only to build chips and not design them, allowed it to serve as a reliable partner to fabless chip design firms. The symbiotic relationship between Taiwan and Silicon Valley resulted in a transformative impact on the whole sector. This collaboration allowed the integration of computing power into a wide range of devices, as Chang had predicted.

TSMC's foundry model significantly reduced startup costs for chip designers and democratized authorship by giving birth to numerous new fabless chip design firms. TSMC's continuous improvement in manufacturing processes led to its dominant position in producing the world's most advanced chips, making Chang and Taiwan the most powerful players in the semiconductor industry (Aresu, 2022, p. 15).



The emergence of Asia as a dominant player in the semiconductor industry can be attributed to the significant impact of globalised supply chains: as companies sought to reduce costs and tap into emerging markets, semiconductor manufacturing gradually shifted to Asia, primarily due to lower labour costs combined with the availability of skilled engineers. Asian nations, like South Korea and Taiwan, had in fact made important allocations of resources towards the development of infrastructure, education, and R&D, thereby establishing a favourable milieu for the progression of technology. The establishment of industrial parks and science parks has played a pivotal role in fostering collaboration and facilitating knowledge exchange within the semiconductor ecosystem (Milanovic, 2019, p. 150).

The ascent of Asia within the semiconductor industry can be consequently attributed, in part, to a steadfast commitment to nurturing talent and fostering innovation. In order to obtain a skilled workforce, governments implemented a strategy that involved the establishment of dedicated educational institutions focused on chip technology. Additionally, they formed partnerships with esteemed universities and research institutions to further enhance their efforts in nurturing skilled individuals in this field. The prioritisation of human capital development in Asian countries has resulted in the consistent production of highly skilled engineers, scientists, and technicians, which in turn played a crucial role in driving the progress of semiconductor technologies, and especially in the growing importance of the Asian continent in the field.

The work will now turn its attention to the last development within the semiconductor industry in the Asian region, specifically the rise of China. For the United States' dominance of the sector it is a challenge unlike anything faced before: in fact if the Soviet Union did not have the technological capabilities to challenge the US, and Japan on the other hand did not have the political will to do so, the Chinese challenge in the realm of semiconductor is a different matter entirely; in fact, it is worth noting that the relationship between the United States and Japan remained relatively stable during the initial chip war, characterised by a Grand Bargain (Mastanduno, 2014). Conversely, the forthcoming chapter will demonstrate that the relationship between the United States and China was already strained prior to the outbreak of the present chip war (Mastanduno, 2014).

Still to this day, the US holds a predominant position within the semiconductor industry, with companies such as Intel, AMD, and Qualcomm playing key roles within global value chains. However, in recent years, China has managed to make notable progress in its efforts to decrease its dependence on foreign technology and establish an autonomous semiconductor industry. The Chinese government has in fact initiated ambitious initiatives, such as the "Made in China

2025" plan, aiming at ameliorate domestic semiconductor manufacturing capabilities, thus fostering greater technological innovation. The ascent of China in the semiconductor sector can be attributed to the guidance of President Xi Jinping and the deliberate endeavours of the government to attain autonomy in chip manufacturing.

In 2017, Xi was heralded as the world leader more bent on maintaining and defending globalization at the World Economic Forum in Davos, emphasizing "dynamic, innovation-driven growth" and "win-win outcomes". However, behind the scenes, Xi was already pushing for China to focus on developing core technologies, with a particular emphasis on semiconductors (Miller, 2022, p. 211-221); as stated by Chris Miller, though he “didn’t call for a trade war, his vision didn’t sound like trade peace either” (Miller, 2022, p. 216).

China's dependence on imported semiconductors was becoming increasingly precarious with the advent of the Trump administration in the United States, and at the same time its imports of chips were consistently increasing.

As the demand for chips was surging due to trends like cloud computing, the Internet of Things, and big data, Xi realized that China needed to strengthen its semiconductor industry to avoid over-reliance on foreign technology. Moreover, the more and more obvious crucial importance of semiconductor came together with the realization that not only did China relied on foreign technology, but this technology was mainly controlled by a geopolitical rival, be it the United States, Taiwan, Japan or South Korea (Miller, 2022, p. 216).

To reduce dependence on imports, the Chinese government implemented strategic initiatives such as the aforementioned Made in China. This initiative sought to decrease the imported share of chip production from 85 percent in 2015 to a target of 30 percent by the year 2025. Nevertheless, it is important to note that China's objectives extended beyond mere expansion of its market share within the semiconductor ecosystem, like previous Asian economies did. Rather, its overarching goal was to instigate a profound transformation within the global semiconductor supply chain, diminishing its interdependence, rather than integrating within it (Miller, 2022, p. 211-221).

China's current strategy to achieve its goals in the semiconductor industry relies significant government subsidies, the unauthorised acquisition of proprietary information with state support, and the utilisation of its immense consumer market as a means to exert pressure on foreign companies, compelling them to adhere to its policies. This worried Beijing’s neighbours, particularly Taiwan, which holds a dominant position in the production of high-value electronics components (Miller, 2022).

The United States has recently begun to adopt stringent export controls and sanctions on critical semiconductor technologies toward China, due to concerns surrounding China's technological aspirations and potential security vulnerabilities. These policies have significantly hindered the possibility for China to access advanced chips. These measures have presented considerable challenges for Chinese enterprises such as Huawei and SMIC, impeding their capacity to engage in global competition, due to the lack of technology at their disposal.

The United States' offensive against Huawei can consequently be framed within the larger framework of competition between the United States and China, as well as the notion of weaponized interdependence.

Huawei, which was the spearhead of China's advanced technology, garnered significant international attention as it poses a formidable challenge to the United States' technological hegemony, and was consequently seen as a strategic threat rather than just a commercial competitor.

US officials worried that Huawei's expansion would lead to China's advancement in chip design and microelectronics, which would subsequently increase the world's reliance on Chinese technology, undermining US technological leadership (Miller, 2022, p. 263-268).

Huawei was founded by Ren Zhengfei in 1987 and has emerged as a significant global technology conglomerate with a trajectory that distinguishes it from other major tech companies. Its evolution aligns, to some extent, with South Korea's Samsung in terms of strategic orientation. Ren Zhengfei's business model differs markedly from the domestic market-centric strategies of China's tech giants such as Alibaba and Tencent. On the contrary, Huawei's distinctive approach is centred on three fundamental principles.

To begin with, Huawei has managed to obtain domestic political alliances, a strategy that bears resemblance to the rise of other prominent conglomerates such as Samsung, whose close ties with the South Korean government had been instrumental in its early days..

Furthermore, Huawei has managed to produce advanced technology, while remaining competitive in terms of cost. This strategy has been possible thanks to the company's study successfully introduced in other contexts, and subsequently recreating them with comparable levels of quality, while simultaneously aiming at reducing costs.

Moreover, Huawei has centred its strategy toward the integration within the global economy. In contrast to other Chinese companies, Huawei has always demonstrated a receptive attitude towards foreign competition. Again, the internationalisation strategy employed by Samsung

bears resemblance to the trajectory pursued by the company in its ascent to eminence (Miller, 2022, p. 232-237).

In addition, it is worth noting that Huawei's R&D expenditure, which stands at approximately \$15 billion, is comparable to the budgets allocated by prominent industry leaders like Google and Amazon.

The commitment to R&D can be traced back to Ren Zhengfei's proactive approach to learning from Silicon Valley. In 1997, Ren and Huawei executives embarked on a visit to the United States, immersing themselves in the practices of successful American tech enterprises like HP, IBM, and Bell Labs. Huawei also engaged Western consulting firms, such as IBM's consulting arm, to enhance operational efficiency and refine business practices (Miller, 2022, p. 232-237).

However, it is important to point out that Huawei has received substantial support from the Chinese government both in the early stages of its developmental trajectory, and in more recent times. Through subsidies, land allocations, state-backed credit, and tax deduction, collectively contributed to its expansion. Consequently, the extent of government support for a seemingly privately-owned organisation has raised concerns regard its independence, particularly in the United States. Its achievements, Huawei's complex and somewhat opaque ownership structure, coupled with questions about Ren Zhengfei's transition from the People's Liberation Army to Huawei, have fuelled the suspicions. Nonetheless, it is essential to emphasize that conclusive evidence substantiating the claim that Huawei was explicitly established by the Chinese state remains elusive (Miller, 2022, p. 232-237).

During the Trump presidency, multiple policies have been taken to address the growing influence of Huawei, imposing restrictions on the sale of US-manufactured chips to the company.

Subsequently, other nations such as Australia, Japan, and New Zealand adopted a similar stance by prohibiting Huawei's involvement in their respective 5G networks. Consequently, Huawei's access to the complex chipmaking ecosystem was severed, undermining its and diminish its worldwide impact. The U.S assault on Huawei, initiated in May 2020, represented a series of concerted efforts aimed at restricting the Chinese tech giant's access to U.S. technology and software. These restrictions were introduced with the objective of safeguarding U.S. national security interests. The measures extended beyond merely halting the sale of U.S.-produced goods to Huawei; they also encompassed goods manufactured using U.S.-produced technology, which had the potential to significantly impact the global semiconductor industry (Miller, 2022, p. 263-268).

The far-reaching implications of these restrictions are possible thanks to the interdependence, and the presence of a number of “choke points” in the supply chain, that characterise the semiconductor industry. Companies like TSMC, one of the world's leading semiconductor manufacturers, rely heavily on U.S. manufacturing equipment and technology. Likewise, Huawei depended on U.S.-produced software for chip design. This confluence of factors effectively isolated Huawei from the global chipmaking infrastructure, except for specific chips for which the U.S. Commerce Department granted special licenses.

The global chip industry rapidly adapted to comply with the new U.S. regulations, even though these actions appeared counterintuitive given that the U.S. was jeopardizing a significant customer. TSMC, for instance, not only committed to adhering to the rules but also aimed to align with their spirit. Huawei subsequently faced the compulsion to divest parts of its smartphone and server businesses due to difficulties in procuring essential chips (Miller, 2022, p. 263-268). Furthermore, China's rollout of its 5G telecommunications network, originally a high-priority government initiative, encountered delays attributed to chip shortages.

The U.S. assault on Huawei started a series of similar actions targeting other Chinese tech firms. Following discussions with the United States, the Netherlands decided against approving the sale of ASML's EUV machines to Chinese companies. Additionally, the U.S. blacklisted companies like Sugon, a supercomputer firm previously described as a "strategic partner" by AMD, and Pythium, which allegedly designed chips for supercomputers utilized in hypersonic missile testing. Pythium's chips were developed using U.S. software and manufactured in Taiwan by TSMC, demonstrating how reliance on foreign software and manufacturing rendered these companies susceptible to U.S. restrictions (Miller, 2022, p. 263-268)..

The concept of weaponized interdependence becomes more and more relevant, wherein the United States strategically leveraged its control over crucial choke points within the semiconductor supply chain as a means to apply influence and coercion upon Huawei and other Chinese technology enterprises. The interconnectedness of global trade and technology allowed the US to leverage its position to restrict access to advanced chip fabrication, impacting Huawei's operations and technological development (Miller, 2022, p. 263-268). Clearly, what Chris Miller defines as weaponized interdependence is closely related to the concept of sanctionism put forward by Aresu (Aresu, 2022), and the two concepts can both be considered as a form of American political capitalism. Despite this aggressive stance against Huawei, the US's attack on Chinese tech firms has been limited in scope, with many other prominent Chinese companies facing no specific limits on their access to US chips or chip manufacturers. China's

reluctance to retaliate is attributed to the US's escalation dominance in severing supply chains, highlighting the effectiveness of weaponized interdependence as a tool in the US-China competition.

However, the US's actions against Huawei have also been regarded as China's "Sputnik moment" - a turning point where China realized the need to reduce its dependence on foreign technology and prioritize self-sufficiency in key industries like semiconductors. The concept of "Sputnik moment" is clearly related to the dynamics of the Cold War: the reference is to the fear, and partial acknowledgment by the United States to have fallen behind the Soviet Union after the launch of Sputnik in 1957; what was supposed to be a victory for the Soviets in fact actually prompted the United States to greatly increase the effort in science and technology.

Similarly, the US's attack on Huawei and its use of weaponized interdependence have accelerated China's drive to develop domestic semiconductor capabilities and reduce reliance on foreign technology, leading to significant investments and strategic initiatives like the Made in China 2025 plan (Miller, 2022, p. 269). Companies like SMIC and Yangtze Memory Technologies Co. (YMTC) have received substantial financial backing and government support, aiming to close the technology gap with their international counterparts.

The technological competition between the United States and China has extended beyond the economic dimension, encompassing national security considerations as well. This shows the mutual influence between these two fields, especially in key industries such as the semiconductor one. The United States perceives China's notable progress in the semiconductor industry, specifically, as a plausible challenge to its own national security and pre-eminence in crucial technological domains, rather than a simple economic rival. Consequently, the United States administration has adopted an extremely aggressive approach in protecting its semiconductor industry, through the various measures analysed above.

In conclusion, the actions undertaken by both nations in their pursuit of supremacy in crucial technologies carry substantial consequences for global supply chains, innovation ecosystems, and the future direction of the semiconductor industry. Moreover, this competition is regarded here as a perfect example of how merely economic considerations can make way for more political and security discourses; this becomes particularly true when, within the power cycle theory framework, the system enters a parity phase.

### ***II.III The digital Yuan as a challenge to a dollar-based International Monetary System?***

*“China has no interest in dethroning the dollar. To the contrary, it has too much invested in the greenback. But preserving its investment in the dollar is entirely compatible with creating a more consequential international role for its own currency.”*

#### ***B. Eichengreen***

As the previous paragraph has shown, the United States has a history of strategically employing its economic power, and its position within the global economy, as a political instrument, using economic measures, +such as sanctions, as a means of exerting influence and safeguarding its national interests. This phenomenon, which it has been referred to as "sanctionism" in this work, following the terminology employed by Aresu, has historical origins dating back to the early 20th century, when the U.S. recognized the potential of economic power in shaping international relations.

A notable example of modern sanctionism has been observed in the previous paragraph in the context of the semiconductor wars. In response to growing competition from China in the semiconductor industry, the US government implemented sanctions and export controls on crucial semiconductor technologies. By restricting China's access to advanced manufacturing tools and materials, the U.S. sought to undermine its progress in the field and maintain its technological advantage.

The ability of the United States to employ sanctions to promote its foreign policy goals and economic interests clearly heavily affects countries and organizations that fall under its sanctions programs. The US has in fact an extensive list of active sanctions targeting countries across the world, causing significant economic impacts on the targeted nations. Many of these sanctions are unilateral, allowing the United States to impose them without substantial international support, further reinforcing its dominance in the global financial system (Bansal & Singh, August 2021, p. 3-4).

The dollar's centrality in the international monetary system is another tool, probably the most important, at the disposal of the United States in the realm of economic competition. Since the establishment of the Bretton Woods system, the US has skilfully employed its monetary power to enforce sanctions and economic measures against adversaries, compelling compliance with its foreign policy objectives.

The Bretton Woods institutional arrangements allowed for the dollarization of the International Monetary System (IMS), which endured even after its collapse. In fact, under the Bretton Woods system each central bank fixed the exchange rate of its currency to the US dollar through foreign exchange market trades. The Bretton Woods system was in fact a Reserve Currency Standard, where the dollar functioned as the reserve currency (Krugman, Obstfeld, & Melitz, 2018, p. 559-560).

This meant that central banks of other countries held a significant portion of their international reserves in the form of US Treasury bills and short-term dollar deposits, while simultaneously fixing their exchange rate on the dollar, and among them (Krugman, Obstfeld, & Melitz, 2018, p. 599-600).

For example, if the French franc price of dollars was fixed at FFr 5 per dollar and the Deutsche mark price of dollars was fixed at DM 4 per dollar, the exchange rate between the franc and the mark had to remain constant at DM 0.80 per franc. Market forces automatically held all other exchange rates, known as cross rates, constant based on the values implied by the dollar rates (Krugman, Obstfeld, & Melitz, 2018, p. 558-559).

In a reserve currency system, the country whose currency is considered as reserves has clearly a privileged and special position, as it has no need to intervene in the foreign exchange market to adjust the value of its currency (Krugman, Obstfeld, & Melitz, 2018, p. 560). Furthermore, from a domestic policy perspective, the reserve currency country also has the possibility to employ monetary policy for its own domestic agenda.

The US dollar's centrality in the IMS was consequently buttressed by the reserve currency status it acquired during the Bretton Woods era. Compared to the ideal case of fixed exchange rate presented above, the IMF agreements did allow for some flexibility in adjusting the exchange rates against the dollar.

To limit the asymmetric power of the reserve currency, the United States, the system in theory pegged the value of the US dollar on gold, at 35\$ an ounce. Consequently, the US should have managed its policies in order to keep its liabilities in dollars to other countries below the value of its own reserves. Accordingly, all countries could have redeemed their dollars for gold through the US central bank; however central banks accumulated significant dollar reserves and proved to be accommodating in renouncing their possibility to exchange their dollars for gold. Consequently, the convertibility of the US dollar to gold, which was a feature introduced in the institutional structure of Bretton Woods to limit the asymmetric powers of the reserve currency country, was *de facto* almost immediately abandoned (Eichengreen, 2011).

Moreover, the U.S. actively supported the stability and convertibility of the dollar, which was, together with the Canadian dollar, the first currency to become fully convertible after WWII, in



1945. This, together with the US's geopolitical influence as a global superpower after World War II, and the asymmetrical structure of the Bretton Woods system played a significant role in the dollar's centrality (Krugman, Obstfeld, & Melitz, 2018, p. 599).

Consequently, this inherent asymmetry of a reserve currency system created economic power imbalances in the Bretton Woods System and eventually led to policy disputes within the IMS. The dollar's convertibility to gold was suspended by President Nixon in 1971, paving the way for the definitive collapse of the Bretton Woods system in 1973 (Berman & Siripurapu, 2023).

However, the dollar retained its central position in the international monetary system due to several factors. First, central banks continued to hold significant dollar reserves even after the collapse of the Bretton Woods system. This ongoing accumulation of dollar reserves and interventions in the foreign exchange market by central banks contributed to the dollar's continued dominance (Krugman, Obstfeld, & Melitz, 2018, p. 629). Although the euro gained importance as an international reserve currency, after the introduction of the eurozone, the dollar remained the primary component of most central banks' official reserves. The dollar's stability, liquidity, and the depth of US financial markets played a crucial role in maintaining its central position.

Consequently, the asymmetric nature of the reserve currency system persisted even after the reserve currency system itself had fallen apart. Economist Ronald McKinnon from Stanford University draws parallels between the current floating-rate system and the asymmetric reserve currency system of the Bretton Woods arrangements. He argues that the current system resembles the past in certain aspects, leading to similar effects. McKinnon suggests that a more symmetric monetary adjustment mechanism could have mitigated the fluctuations in the world money supply (Krugman, Obstfeld, & Melitz, 2018, p. 630). During the 2000s, China implemented a policy of limiting its currency's appreciation against the dollar, resulting in the accumulation of significant dollar reserves. This policy potentially contributed to the global economic boom before the 2007–2009 financial crisis. The parallel with this Chinese policy, and Germany's policy in the 1950s and 1960s, as its economy was booming, has caused some economists to characterize this period as a "revived Bretton Woods system" (Krugman, Obstfeld, & Melitz, 2018, p. 630). The potential ramifications of this trend, its impact and some possible solutions will be analysed more in detail in the final chapter of this work.

Overall, the dollar's central position in the international monetary system persisted due to the ongoing demand for dollar reserves, the stability and depth of U.S. financial markets, and the

asymmetric nature of the system. All of these factors contributed to the dollar's retention of its central role, even in the post-Bretton Woods era.

The international monetary system, dominated by the US dollar, has long been a source of discontent for China. Given that China is the world's largest, or second largest economy, depending on the estimate, as well as the world leading export country, it has increasingly tried to challenge the dollar's hegemony in the IMS, and especially its potential to exert political, not to mention economical, pressure. In more recent years, China has been actively exploring the potential of its digital currency, the digital yuan or digital renminbi, as a strategic tool to drive dedollarization and internationalise its currency (Bansal & Singh, August 2021, p. 3-4).

The centrality of the dollar, and consequently of the US, in the IMS poses a significant problem for China; though it is currently the world's leading trade partner, the Reinmbi only accounts for about 2% of reserve currencies worldwide (Bansal & Singh, August 2021). This imbalance leaves China heavily vulnerable by US sanctions, a problem that is more and more manifest in the face of a potential trade war with the United States, as well as by the sanctions adopted by the US in facing the Russian invasion of Ukraine.

China's dissatisfaction with the dollar-centric monetary system is in fact rooted in the fact that it leaves the country vulnerable to the potential weaponization of financial tools by the United States, hindering its ability to conduct trade and financial transactions freely. To reduce its reliance on the dollar and counter the impact of sanctions, China has been actively exploring alternatives for internationalisation of its currency, such as promoting its digital yuan. The digital yuan, as a central bank digital currency (CBDC), could provide China with greater control over its financial system and payment infrastructure, reducing its dependency on the dollar-dominated international payment rails and potentially offering an avenue for other countries to bypass the U.S.-dominated financial system.

Digitalization, and the growth of cyberspace, have heavily influenced the world of finance through two main developments: cryptocurrencies and CBDCs (Aysan & Kayan, 2022).

CBDCs represent a significant advancement in the realm of digital currency and have emerged as a response to the growing influence of cryptocurrencies and the digitization of financial systems, as a way for central banks and governments in general to keep up with the increasing digitalization of finance.

Unlike cryptocurrencies, CBDCs are centralized digital currencies issued by central banks, providing a secure and regulated alternative to traditional currencies. Consequently, they offer a level of control and security that cryptocurrency lack, since is the State, through central banks,

that has control over the supply and distribution of a CBDC. However, their introduction also raises important considerations and challenges, particularly in terms of privacy and security, as countries grapple with striking a balance between transparency and anonymity in the digital currency landscape (Aysan & Kayan, 2022).

In the field of CBDCs, China has consistently been ahead of the curve: it has started working on its digital currency in 2014 and launched its first prototype in 2016. Since 2019, a pilot program has been launched in several major cities in the country, and as of 2021, more than 20 million personal portfolios were opened, with a total value of transaction of 35 Billion Renminbi, almost 5 Billion dollars (Bansal & Singh, August 2021, p. 5). The functioning of the digital yuan is made as to have the advantages of both physical and electronic payments. It involves no transaction costs, at any stage of the process, and it is possible to use it even in the absence of an internet connection. The patents filed by the PBoC's Digital Currency Research Institute further shed light on the potential design features of the digital yuan. The exploration of blockchain technology demonstrates China's commitment to innovation, even if the digital yuan itself is not based on blockchain. This highlights the forward-thinking nature of the country's approach to digital currency development, incorporating cutting-edge solutions to enhance financial management.

Perhaps one of the most noteworthy aspects of the digital yuan is its programmable nature. This characteristic sets it apart from traditional currencies and many existing digital alternatives. By regulating the CBDC supply through an algorithm based on specific triggers, such as interest rates and economic indicators, China positions its digital currency as a highly adaptable and responsive tool for monetary policy (Bansal & Singh, August 2021). The digital yuan would consequently potentially allow for the programming of monetary policy and financial transactions; for example, it would be possible for China's central bank to issue digital currency to a financial institution that becomes active only when certain stability criteria are met (Bansal & Singh, August 2021, p. 6). This would clearly allow for greater state control over domestic economy; the digital yuan in fact enables the Chinese government to have a more direct and comprehensive view of financial transactions and economic activities within the country. By reducing reliance on traditional banking intermediaries and promoting the use of the digital yuan as a payment tool, the government can closely monitor and regulate financial flows, enhancing its ability to implement and enforce monetary policies effectively. This increased control over the financial system aligns with the objectives of political capitalism, where political considerations and interests often play a central role in shaping economic policies and resource allocation (Bansal & Singh, August 2021, p. 10).

Furthermore, the digital yuan also provides China with the means to counter the dominant presence of private payment players like Tencent and Ant Group. These companies have significant control over mobile payments and possess vast amounts of financial data on Chinese consumers. By introducing the digital yuan as an alternative payment method, China can regain ownership and control over financial data, reducing the potential risks associated with private companies holding such sensitive information. This move again aligns with the framework of political capitalism, as the government seeks to assert its authority over key economic sectors and safeguard the stability of the financial system (Bansal & Singh, August 2021, p. 9).

But of course, its most interesting features for the matter analysed in this paragraph, the internationalization of Chinese currency, are the potential benefits of CBDCs in cross-border payments.

The first, and most obvious, advantage of CBDCs would be the lower number of intermediaries needed for a cross-border payment. Consequently, it would allow to significantly cut back on both costs and time involved in such payments. Furthermore, it would not be necessary to build new payment infrastructure, since it would be able to utilise the already existing network for digital payments. This would allow China to easily incentivise the utilisation of digital yuan in cross border payments, as it has already started to do, offering for example low interest rates on digital yuan debts, in order to gain market share (Bansal & Singh, August 2021).

Furthermore, China has already started some joint programs to help the internationalization of the digital yuan, such as the Multiple CBDC bridge, together with the Central Bank of the United Arab Emirates. This program, which was actually previously created by the Honk Kong Monetary Authority and the Bank of Thailand, aims at “developing a proof-of-concept prototype to facilitate real-time cross-border foreign exchange payments on distributed ledger technology” (Bansal & Singh, August 2021, p. 18). Other important attempts by China to internationalise its currency through the digital yuan are related to the Belt and Road Initiative. Up until now, China has only used the BRI to promote the utilisation of Yuan, without pushing for its digitalisation. However, given the control that China has over the project, it could try to push for systems of payment that effectively bypass the US centric financial system.

Furthermore, China’s position as a creditor country, especially toward the African region, would allow it to exert influence over these countries, pushing for the utilisation of digital yuan to pay back these loans, in order to augment the overall reserves of digital yuan, possibly coupled with concessions, in order to incentivise its utilisation (Bansal & Singh, August 2021).

However, it should be noted that the historically, the internationalization of a currency was mainly market driven, whereas China's project is a wholly government-driven process. Furthermore, China's financial system is tightly controlled, thus reducing the attractiveness for the internationalisation of its currency. The already mentioned controls over the appreciation of the RMB also restrict the flow of RMB internationally. Furthermore, trust has always been fundamental in financial systems (Bansal & Singh, August 2021). The Bretton Woods system endured for almost 30 years thanks to the trust of the rest of the world toward the United States, and its capacity to convert in gold the dollar reserves. China at the time does not enjoy the same status in the current financial system, which would make other countries sceptical toward adopting the Chinese currency as their main international reserve.

Furthermore, it is true that China is way ahead of the curve as far as CBDCs are concerned, but it is also true that other actors, such as the US, or the EU, are starting to catch up; consequently, the current monopoly that China enjoys will probably come to an end in the following years (Bansal & Singh, August 2021).

## Chapter III

### The end of the world: is it just the beginning?

*But we are here in the realm of speculation, where the serious student cannot do more than canvass guesses and possibilities.*

*E. H. Carr*

This final chapter will bring together the political and economic aspects that the research has outlined, focusing in turn on the interplay that occurs between the two disciplines, politics and economics. In doing so, it will put forward a new approach to navigate the complicated relationship between China and the United States. In accordance, the chapter aims at providing an outlook of the impact that the rise of China has had and is continuing to have. In the first paragraph, it will highlight the impact from the perspective of the international political order; in the second paragraph, it will in turn focus on the impact on the international economic order. The third paragraph will finally consider potential solutions to such challenges, bringing definitely together the economic and political framework of this work, and trying to canvass some of the characteristics of the order to come.

The first paragraph, which, as already mentioned, will present a comprehensive analysis of change within the international political order, will apply the theoretical framework of power cycle theory to recent developments, as well as presenting a potential application of such a theory to the US and China, through the lenses of the Thucydides' Trap, as presented by Graham Allison.

The analysis will therefore take into consideration recent events, such as the decision of the United States to withdraw from Afghanistan, as well as the outbreak of the conflict in Ukraine, considering these developments from the perspective of power cycle theory.

Finally, the paragraph will analyse the concept of Grand Bargain, as presented by Mastanduno, and how it has shaped the relationship between China and the United States.

The second paragraph will in turn present the current economic order, defined as hyperglobalization by Dani Rodrik (Rodrik, 2011). The paragraph will retrace the origins of this order, tracing its institutional backbone to the Bretton Woods system, created after the end of World War II. It will consequently proceed to analyse the principles and institutions upon which the world economy was governed under Bretton Woods, subsequently highlighting the

contrasts and continuities with the current economic order. After this, it will present China's structural challenge to this order, as well as some possible solutions to accommodate its rise.

The third paragraph will finally underscore the need to redefine the relationship between China and US, highlighting the role that the global economy might play in this process. It will in fact argue that the preservation of globalization is the greatest shared interest between China and the United States, consequently analysing a new framework for globalization that could be created to reach a compromise between the two countries.

Finally, the chapter will analyse the potential role of political capitalism in this process, considering this economic doctrine within the theoretical framework of power cycle theory.

### ***III.I The Withdrawal from Afghanistan and the Russia Ukraine War: the start of a new parity phase?***

*“The size of China’s displacement of the world balance is such that the world must find a new balance. It is not possible to pretend that this is just another big player. This is the biggest player in the history of the world.”*

***Lee Kuan Yew***

As briefly explained in the introduction to this chapter, this first paragraph will deal with the rebalancing of the international political order, following the theoretical framework outlined at the beginning of this thesis, the power cycle theory.

To further corroborate the theory, it will make use not only of academic texts, but also of politicians’ choices and speeches; in particular, the speech that current US president, Joe Biden, pronounced as US troop withdrew from Afghanistan, will be considered in this paragraph as a perfect example of application of the power cycle theory to actual policy making decisions.

Joe Biden's speech marking the withdrawal from Afghanistan offers in fact a pertinent backdrop to analyse the unfolding dynamics of power transitions, notably within the context of Robert Gilpin's power cycle theory. As the US President notes, the international landscape is undergoing a profound transformation characterized by intensified competition between the United States and China and the multifaceted challenges posed by Russia (Biden, 2021). The president of the United States stated in fact the importance of the competition with China as one of the major reasons behind his decision to withdraw US’s troops from Afghanistan, highlighting how this competition is the “fundamental national security interest of the United States of America” (Biden, 2021). This global recalibration underscores the consequences of the law of uneven growth, a cornerstone of Gilpin's theory, as emerging powers, namely China, challenge the supremacy of the established hegemon.

The decision to withdraw from Afghanistan exemplifies the start of a pivotal shift in foreign policy priorities, mirroring Gilpin's emphasis on adaptability and clear, achievable goals in the face of changing power dynamics. The current power cycle, characterised by China's ascendancy, brings to the fore the need to acknowledge, and recalibrate in response to, the rise of new actors on the global stage. The strategic considerations in ending prolonged military



interventions and forfeiting the liberal foreign policy which characterised the post-Cold War era, echo the theory's recognition of the waning efficacy of maintaining an entrenched status quo, mirroring the concept of the costs of maintaining international order rising faster than the hegemon's capacity to support it.

The withdrawal from Afghanistan thus becomes emblematic of a broader recalibration within the international system, encapsulating the intricate interplay of power dynamics as a novel parity phase emerges, marked by the United States' recognition of a shifting global balance and the imperative to secure its competitive edge in a changing world order.

The concept of Thucydides' Trap, defined by Graham Allison as "the natural, inevitable discomobulation that occurs when a rising power threatens to displace a ruling power" (Allison, 2017, p. 13), intricately weaves into the fabric of power cycle theory, within the context of the intensifying rivalry between the United States and China; in fact, the recognition of a transformed world order, characterized by intense competition with China, aligns with Gilpin's premise of unbalanced growth leading to shifts in the distribution of power. Consequently, building on the foundation of Robert Gilpin's power cycle theory, Thucydides' Trap offers a nuanced perspective on the inevitable power shifts and the potential pitfalls they entail, providing therefore an in-depth analysis of what has been called the parity phase. In the backdrop of the US withdrawal from Afghanistan, the intersection of these two concepts becomes particularly salient. As explained above, the Sino-American rivalry serves as a modern manifestation of Thucydides' Trap. This dynamic is reminiscent of historical cases where such power transitions have led to conflict, serving as a cautionary tale for the contemporary context, which is precisely what has been done in this work, with reference to the German rise in the second half of the 19<sup>th</sup> Century.

The awareness of these trends in the current International System is not only evident in Joe Biden's speech explaining the reasons behind the United States' withdrawal from Afghanistan. Russia's decision to launch the invasion of Ukraine instead of using the indirect hybrid warfare it had employed until February 24, 2022, was presumably based on similar analysis of US foreign policy (Battistella, 2023), which was believed to be primarily focused on containing China. This has made it difficult for the US to continue practicing a liberal foreign policy due to the economic burden of imperial overstretch. In this Putin seems to adopt, either consciously or not, the theoretical perspective outlined in this work, just as Biden did.

The centre of US foreign policy has in fact objectively shifted from Europe to the Pacific region in an attempt to contain China's rise. This shift was evident during the Obama administration and was intensified by Trump's launch of a trade war against China (Battistella, 2023).

Biden's withdrawal from Afghanistan provides consequently further proof that the US is primarily focused on China, though the aforementioned speech by Joe Biden also mentioned Russia among the main challengers to the United States. This nascent instability therefore finds further confirmation in the Russia-Ukraine conflict. As Russia's incursion into Ukraine defied prior expectations of a prolonged period of stability, it might be indicative of the rising tensions underpinning the transition into a parity phase.

In this light, the Russia-Ukraine war could be seen as the initial tremors of the emerging parity phase. The underlying dynamics of power transitions and the associated disruptions in the international order are manifesting. While the power cycle theory as a whole provides insights into this transformation, the concept of Thucydides' Trap focuses on the tensions that arise during a parity phase, emphasizing the precariousness of this juncture.

Following the structural framework outlined in the first chapter, the main cause of the conflict is to be found in the anarchical structure of the international system, in line with neo-realist interpretation of International Relations.

However, to simply say that the system is anarchical is not sufficient to explain why a conflict breaks out: the international system, according to the framework provided here, has in fact always been anarchical.

Therefore, to explain the rising tensions, it is necessary to identify some recent changes in the anarchical structure of the system, and it is here that the power cycle theory comes into play.

An anarchical system is perceived as stable, as explained in the first chapter, only insofar there is a clear hegemon, and is therefore manifestly unipolar.

However, the unipolarity of the current international system is no longer evident, and consequently its stability too appears to be withering. The economic side of this trend, as it will be explained, is a renewed attention to the concept of national security over economic considerations, closely related to the return to light of the US branch of political capitalism.

China's economic ascendancy, mirroring the theory's assertion of uneven growth, has positioned it on the cusp of challenging the US's hegemony. As Organski aptly predicted decades ago, China's rise substantiates its potential as a challenger. While China's GDP approaches the threshold of 80% of the US's GDP, as shown in table IV below, its military prowess is still burgeoning. This again in accordance with power cycle theory, which sees

economic power as a necessary basis for a subsequent development of political and military power.

*Table IV, Evolution of China and USA's GDP, 1989-2021, in billions of US Dollars, current prices, adapted from IMF data, <https://www.imf.org/en/Publications/WEO/weo-database/2022/October>.*

Country	1989	1997	2005	2013	2021
USA	5642	8578	13039	16843	22997
China	458	958	2290	9625	17458
China/USA %	8%	11%	18%	57%	76%

Examining on the other hand the concept of Purchasing Power Parity (PPP), as Graham Allison among others does, provides a different perspective on China's rise in relation to the United States.

PPP is an economic concept used to compare the relative value of currencies and the cost of living between different countries. In essence, PPP reflects how much of a particular currency is needed to purchase a standardized basket of goods and services that are available in both countries. As Stanley Fischer, the world's leading professor-central banker, reported to Graham Allison "In comparing the size of national economies, especially for the purposes of assessing comparative military potential (indeed the main purpose of this paragraph), as the first approximation, the best yardstick is PPP. This measures how many aircraft, missiles, ships, sailors, pilots, drones, bases, and other military-related items a state can buy and the prices it has to pay in its own national currency" (Allison, 2017, p. 26)

Under the PPP perspective, China's rise to becoming the world's largest economy is indeed complete. While nominal GDP (measured using current exchange rates) may still indicate the United States as the largest economy, PPP-adjusted GDP provides a more accurate picture of economic strength by accounting for differences in price levels between countries.

China's rise to economic prominence can of course be traced back to the late 20th century when the Chinese government initiated economic reforms under the leadership of Deng Xiaoping. These reforms aimed to transition China from a centrally planned economy to a market-oriented one, which resulted in remarkable economic expansion. China's labour force, vast consumer

market, and integration into the global economy played crucial roles in its ascent, through the economic doctrine of political capitalism, as analysed in the previous chapters.

China's manufacturing prowess and export-oriented industries, driven by low-cost labour, have been the main propellers of its economic growth. The country's entry into the World Trade Organization in 2001 further accelerated its integration within the world's economic order. China's emphasis on infrastructure development, technological advancement, and innovation, exemplified by the Belt and Road Initiative, has further solidified its position as a global economic player.

However, China's is no longer merely an export-oriented economy; it is currently the largest producer, but also the largest consumer, in the world (Allison, 2017, p. 24). As the below table V, extrapolated by Graham Allison, shows, the growth that China went through in the last 40 years is beyond anything ever seen before:

*Table V China, as a percentage of the United States; Measured in US Dollars, from World Bank Data. (Allison, 2017, p. 22)*

	1980	2015
GDP	7%	61%
Import	8%	73%
Exports	8%	151%
Reserves	16%	3 140%

Since the 1980s China has in fact grown at a rate of 10% per year; to put this into perspective, in the years between 1860 and 1913, when the United States managed to rise as the hegemonic power in the world, eventually surpassing European powers, most notably Great Britain, the US's annual growth averaged 4%. Clearly, after the Great Recession of 2008, Chinese growth has indeed slowed down, but as Graham Allison states, "since the Great Recession (until 2017, the year "the Thucydides' Trap" was published), 40 percent of all the growth around the world has occurred in just one country: China" (Allison, 2017, p. 27). Consequently, although in absolute terms the Great Recession has slowed down China's growth, in relative terms it has actually caused an acceleration.

Moreover, China's transition from being the "world's factory" to becoming a hub for technology and innovation is emblematic of its pursuit of economic diversification and higher value-added activities. The government's focus on research and development, advancements in artificial

intelligence, high-tech manufacturing, and renewable energy sectors are indicative of China's transformation into a more knowledge-based economy. A generation ago, China languished at the lower end of global rankings in education, science, technology, and innovation. However, after two decades of focused investment in human capital, China has emerged as a formidable global competitor, even outperforming the United States in certain areas. This transformation is evident in educational assessments like the Program for International Student Assessment (PISA), where China's math ranking significantly outpaces the United States. Chinese high school graduates also possess a three-year advantage in critical-thinking skills over their American counterparts in engineering and computer science. China's investment in education is reflected in its increasing share of global value-added in high-tech manufacturing. The rise of China in the fields of science, technology, engineering, and mathematics (STEM) has resulted in its emergence as a prominent player in sectors such as robotics, computer manufacturing, semiconductors, and pharmaceuticals.

The nation's commitment to innovation is showcased by its leading role in patent applications, with China surpassing even the United States in this regard.

Despite concerns about intellectual property theft and espionage, China's growing relevance as an innovator is undeniable. The country's achievements in fields like supercomputing, quantum communications, and radio telescopes underscore its capacity for ambitious, long-term projects. This stands in contrast to the US, where some large-scale initiatives have faced setbacks and cost overruns. While acknowledging China's imitation-driven past, it's increasingly challenging to dismiss its genuine strides in innovation.

Economically, the data presented clearly points to a state of parity or near-parity between China and the United States. Yet, militarily, China has not achieved a comparable status, as shown in table VI below. The power cycle theory posits that military power lags behind economic power, with the former being derived from the latter. This implies the potential for a future development in China's military budget as it aligns with its growing economic capabilities. Within the power cycle theory framework, this could lead to an evolution of China's military expenditures in the trajectory towards the year 2050 (Battistella, 2022).

*Table VI, Evolution of China and USA's military budgets, 1989-2021, in billions of US Dollars, current prices adapted from SIPRI data, <https://milex.sipri.org/sipri>.*

Country	1989	1997	2005	2013	2021
USA	329	293	533	679	801
China	11	16	43	164	293
China/USA%	3%	5%	8%	24%	36%

Consequently, this dual analysis directs attention to two key aspects. First, the potential trajectory of China's military development, which could evolve in tandem with its economic ascent. Second, the nature of the economic competition between the United States and China. While the former indicates the possibility of a growth in military capabilities, the latter raises questions about the implications of the economic rivalry. As the two global giants compete for economic supremacy, their strategies and actions can significantly impact international relations and power dynamics.

As a result of these shifts, a notable emergence of a U.S. branch of political capitalism can be discerned. To analyse the concept of political capitalism, the present study has hitherto anchored its analytical framework primarily in the theoretical contributions of Aresu and Milanovic. However, the position advanced by this work occupies an intermediary stance vis-à-vis these two scholarly perspectives. It contends that the United States does, in fact, manifest a political capitalist disposition, a phenomenon discernible most prominently in its national security policy and industries. Nevertheless, the discerning observer must acknowledge that, subsequent to the Cold War era and potentially commencing from the 1980s, the primacy accorded to the notion of national security had undergone a gradual attenuation in favour of economic imperatives.

The evolution discussed here is closely connected to the conceptual foundation of anarchy. Just like the anarchical structure of the international system has been overlooked in the period after the end of the Cold War, the so called “unipolar moment”, so have the political implications of the economy, and economic interdependence, been disregarded.

The reemergence of more traditional principles of anarchy in the international system, as exemplified by recent events like the Russia-Ukraine conflict, has its corresponding trend in the international economic system in the revival of national security, especially within the

United States, through the concept of political capitalism, and its emergence in the US themselves.

The prominence of this change in perspective is notably emphasised by a convergence of various variables, with the primary one being the much-referenced mention of Joe Biden's speech. Similar to the ongoing reconfiguration of the international arena in response to emerging geopolitical fault lines, the United States is currently readjusting its strategic orientation, placing fresh emphasis on the protection of its national security interests rather than prioritising economic interdependence. The aforementioned recalibration serves as a significant witness to the complex relationship between political and economic factors inside the complicated fabric of current global power dynamics.

In this context, the security industry becomes a locus for the fusion of economic and security considerations. The government's interest in safeguarding national security could drive increased investments in research and development, fostering an environment where private companies collaborate with the state to develop cutting-edge technologies. This alignment of interests could shape the evolution of the security industry, consequently leading to the emergence of a U.S. brand of political capitalism.

The reference made by Joe Biden to the "fundamental national security interest of the United States of America" highlights an increasing acknowledgment that economic components are intricately intertwined with security deliberations. This underlines a shift towards greater importance being accorded to security matters over economic factors. As competition between nations intensifies, as the anarchic nature of the international system becomes more and more evident, as the parity phase reaches its maturity, the ability to control strategic industries and supply chains becomes crucial for national security.

The U.S.-China trade war, which encompasses disputes over trade imbalances, intellectual property theft, and technological dominance, can be considered an early example of this trend, just like the outbreak of the Russia-Ukraine war has been considered as an example of the return to the fore of the anarchic nature of the international system.

The semiconductor industry, integral to modern technology, has in fact emerged as a prime example of this nexus between economics and security, as it was analysed in the previous chapter. Semiconductors power a wide array of applications, from consumer electronics to defence systems, positioning them as strategic assets that can significantly impact a country's technological and military capabilities.

The strategic importance of semiconductors, coupled with concerns about reliance on foreign supply chains, is a prime example of the revaluation of the balance between economic interests and national security imperatives. The realization that vulnerabilities in these supply chains can

be exploited to undermine a nation's defence capabilities underscores the interconnectedness of economic and security domains.

All of these developments call for a restructuring of the relationship between China and the United States, moving past what was termed as the “Grand Bargain” (Mastanduno, 2014).

The concept of a "Grand Bargain" represents a strategic approach employed by a dominant state to perpetuate its hegemonic status within the global order. This strategy is defined by several key elements: the hegemonic power's ability to uphold its favoured international order while managing the associated costs, the identification of supporting states that could potentially challenge the prevailing order but instead find it aligned with their interests, the reinforcement of shared principles among these supportive states, and the establishment of mutually beneficial agreements between the dominant power and its allies. This approach can be likened to what Graham Allison terms "engage but hedge," wherein a dominant power like the United States engages a rising power such as China on economic fronts to foster a cooperative relationship, while also maintaining military supremacy and strategic alliances to hedge against potential conflicts (Allison, 2017).

This strategic framework found its Chinese counterpart in the notion of a "peaceful rise," wherein China aimed to pursue economic development and global influence through cooperative means rather than confrontation. The Grand Bargain was underpinned by the acquiescence of the United States to China's export-led economic growth, and in turn, China's acceptance of the dominant role of the US Dollar within the international monetary system, through the accumulation of significant dollar reserves, as highlighted by Table V; the potential ramification of this policy will be further analysed in the following paragraph. This symbiotic relationship, reminiscent of a revived Bretton Woods system as elaborated in Chapter 2.3, served both sides' security interests.

For China, the Grand Bargain facilitated a conducive global environment, aligning with its long-term strategy of peaceful ascent. This required cooperation with the dominant power rather than antagonism. From the American perspective, the arrangement allowed for economic interdependence with the world's second-largest economy while securing a partner whose foreign policy echoed US global priorities.

However, the stability of the Grand Bargain was disrupted by the 2008 financial crisis, which eroded both sides' faith in the concept of a peaceful rise. The crisis dented America's leadership



credibility, particularly within the capitalist system, due to its own economic mismanagement. Meanwhile, China's newfound assertiveness marked a departure from its previous approach.

According to Gilpin's theoretical framework, stability in international systems is achieved when power aligns with prestige. Economic power has shifted noticeably, while military power is undergoing a slower transformation. Prestige, however, lags behind. As Mastanduno emphasizes, the evolving competitive relationship between major powers need not conform to either the optimistic ideals of liberal theory or the pessimistic projections of realist thought. Instead, it may evolve into a more typical great power dynamic, characterized by a mix of cooperation, competition, and occasional conflicts. This signifies that the true challenge lies in accommodating change while upholding peace within the international order (Mastanduno, 2014).

In conclusion, while China's economic ascendance has brought it to a point of potential parity with the U.S. economy, the transition towards a true parity phase involves a more complex interplay of economic and military factors. As China's economic strength shapes its trajectory, it remains to be seen how this will influence its military capacity and the dynamics of the U.S.-China rivalry. Additionally, the economic competition between the two nations will continue to shape the global order, with repercussions extending beyond economics into the realms of security, politics, and diplomacy.

The second paragraph will consequently deal with an in-depth analysis of the current economic system, and the impact of China's rise within it.

### ***III.II The end of hyper-globalization?***

*China was globalization's greatest success story during the last quarter century. Yet it may prove to be the reason for its downfall during the next.*

***D. Rodrik***

If the previous paragraph dealt with the potential consequences of the rise of China on the international political order and introduced its ramifications on the economy.

This second paragraph will take a more economical outlook. It will in fact deal with the historical origins of the current international economic regime, to better present China's rise within it, and the potential challenge it represents to it.

The current international economic regime, which has been termed hyperglobalization by Dani Rodrik, evolves from the institutional framework created by the United States, and the other Western winners of the Second World War, namely the Bretton Woods system, named after the New Hampshire town where it was created (Rodrik, 2011).

The Bretton Woods regime was characterized by what John Ruggie termed "embedded liberalism", an international economic regime that "unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism" (Ruggie, 1982, p. 393);

The establishment of the Bretton Woods system in the aftermath of World War II marked the beginning of a period characterised by cooperative global economic governance. According to Dani Rodrik, one of the notable achievements and advancements of this system was the adoption of multilateralism (Rodrik, 2011). American hegemony and pre-eminence supported an economic system designed to create an equilibrium between national autonomy and international cooperation, with key institutions like the International Monetary Fund (IMF) and World Bank established to aid stability, reconstruction, and development. However, regarding trade policy, the core responsibilities were given to the GATT, the General Agreement for Trade and Tariffs. Furthermore, while the GATT did have a general secretariat in Geneva, it was not an International Organization, but an International Agreement. It is consequently not surprising

that this is the only institution that was completely reformed when the narrative on globalization changed at the end of the 20<sup>th</sup> century.

Established shortly after World War II, the General Agreement on Tariffs and Trade (GATT), created in 1947 in its aftermath, served as an international trading framework that fostered economic cooperation while reducing tariff barriers through multilateral negotiations among participating nations, thus facilitating trade liberalisation. However, it is important to note that the GATT operated within a relatively more restricted framework when compared to the subsequent, current era of hyperglobalization. The primary emphasis of the GATT was directed towards the resolution of conventional obstacles to international trade, particularly tariffs. However, it is worth noting that the enforcement mechanisms employed by the GATT were relatively restricted in their reach.

Given that trade policy can have significant implications on the distribution of domestic incomes, it has always had an intricate and conflictual relationship with domestic politics. The notion of a strict separation between trade policy and national politics, often idealized by proponents of technocratic governance, remains an ideal concept far from practical realization. Historical antecedents, including the harrowing experiences of the Great Depression and the tumultuous interwar period, had resoundingly illuminated that trade policy cannot be disentangled from the realm of domestic political considerations. In the aftermath of World War II, the international economic system embarked on a quest to harmonize open global trade with the imperatives of national politics, acknowledging the inescapable dominance of domestic political exigencies. Bretton Woods regime's vision included an ideal equilibrium between international discipline and allowing governments to meet their individual economic and social needs. Contrary to the utopian dreams of unfettered technocracy, the Bretton Woods architecture recognized the inexorable linkage between international economic policies and the aspirations of domestic constituencies. Within this ambit, the International Monetary Fund and the World Bank were conceived as instrumental avenues to embody and operationalize this equilibrium. Opposed to advocating a binary between wholesale free trade and insular protectionism, this regime sought a nuanced middle ground which upheld different national economic and social models. It signified an endeavour to circumvent the dire choice between untrammelled free trade and hermetic economic boundaries. Consequently, it tried to strike a balance between the two, compromising in the name of the necessary harmony between the domestic and international regimes. In the following years, the GATT, which functioned as a secretariat rather than a formal entity, played a pivotal role in facilitating productive rounds of international trade negotiations. In the intricate dynamics of the Bretton Woods era, a

discernible aspect emerges: the GATT did not aim at promoting full globalisation. Instead, it aimed to harmonise divergent trade policies, allowing nations to pursue their distinct economic and social trajectories (Rodrik, 2011). It is in the context of this system that Peter Hall coined the concept of "varieties of capitalism", where different nations designed capitalist models according to their unique attributes, strengths and even preferences (Hall & Soskice, 2001).

The establishment of the World Trade Organisation (WTO) in 1995 heralded a significant change in the course of globalisation, initiating a period sometimes referred to as "hyperglobalization" (Rodrik, 2011). The advent of this contemporary phase of globalisation marked a departure from the principles and objectives of the earlier Bretton Woods era.

Therefore, the transition from GATT to WTO represented an historic turning point for global economic landscape and international trade relations - reflecting not only an evolution in institutional framework but also significant transformation in nature of globalization itself.

Unlike the Bretton Woods consensus, where domestic policy objectives were preeminent and economic globalization was aligned with national agendas, hyperglobalization heralded a reversal of roles, whereby domestic economic policies were relegated to a subsidiary status vis-à-vis international trade and finance. This transformation gained momentum amidst the backdrop of the financial globalization wave around the early 1990s, as domestic economic agendas were overshadowed by the imperative of economic globalization. Consequently, policy discussions turned towards "international competitiveness", whereby nations were forced to adopt similar strategies such as low corporate taxation rates, fiscal prudence, deregulation and reduced union influence (Rodrik, 2011).

This shift from the Bretton Woods regime to hyperglobalization under the WTO was driven by a confluence of factors. The success of the GATT in facilitating postwar prosperity contributed to a growing conviction among trade policy elites that even greater liberalization was essential; as stated by Dani Rodrik "the GATT became a victim of its own success".

Multinational corporations actively pursued the implementation of comprehensive global regulations in order to optimise their operational effectiveness. However, developing nations which aim to become attractive export platforms are more inclined than developed nations to adopt regulations as an aid for attracting foreign investment. This transition also marked a doctrinal evolution, as the 1980s saw the ascendancy of Reagan and Thatcher in the United States and the United Kingdom, signalling the beginning of the neo liberal era, around the so called "Washington consensus", which advocated an unbridled free market while casting governments as impediments to market functioning.

The former era, embodied what scholars refer to as "shallow integration," signifying an alignment of trade objectives with domestic policies that retained individual national nuances; in these situations, the maintenance of the trade regime is not demanding on domestic policy. On the other hand, hyperglobalization signifies a significant shift in perspective, where the emphasis on economic integration takes precedence over domestic regulations, thus having "deep integration" as a goal (Rodrik, 2011, p. 106). Furthermore, an increase in focus on global priorities leads to greater pressure for policy alignment among nations. As a result, this process of recalibration has the potential to disrupt the previously established balance between a nation's ability to independently shape its domestic policies and its pursuit of international economic goals (Rodrik, 2011).

Establishment of the WTO thus has had far reaching consequences for the way economic globalisation was conceived. The Uruguay Round, which led to the formation of the World Trade Organisation, is in this context a defining moment in international trade negotiations, leading to a broadening of liberalisation efforts. The previous rounds of negotiations had in fact previously excluded sectors, notably agriculture and services, that eventually came under its purview. Furthermore, the Uruguay Round established an innovative mechanism for resolving disputes that reinforced WTO's capacity at effectively enforcing decisions compared with GATT, who took a more relaxed stance toward enforcement (Rodrik, 2011).

Consequently, this, and the other consequences of deep integration discussed above, has constrained the extent to which countries can freely pursue their national objectives, thus reducing their policy autonomy.

The transformation of the global landscape, characterised by the progressive decline of United States dominance and the corresponding shifts in paradigms discussed earlier, creates a strong background for the reevaluation of hyperglobalization. The development hyperglobalization can be attributed to the intricate interplay between economic prowess and geopolitical considerations. This phenomenon was in fact developed under the patronage of the United States. The power cycle theory posits that the evolving dynamics of power are precipitating a notable reconfiguration of the global order. The emergence of new global actors, most notably China, in the context of power transitions, calls for a comprehensive reevaluation of the underlying structure that supports hyperglobalization.

As the US hegemony wanes, the once-stable foundations that buttressed hyperglobalization begin to quiver. The underlying narrative of hyperglobalization, conceived under the auspices of the United States' economic supremacy and geopolitical leverage, is encountering turbulence in the face of emerging powers seeking a seat at the global table. This potential paradigmatic

change renders a re-evaluation of hyperglobalization necessary, acknowledging the dynamic and nuanced role of rising powers, as well as the critiques of globalization in developed economies. Both of these requirements, according to the perspective adopted here, could be met through a rebalancing toward national policies.

The role of China is clearly central within this recalibration discourse. China's durable economic growth has significantly enhanced its geopolitical influence, following the theoretical framework of this thesis, and it is now establishing itself as a pivotal actor with the potential to reshape the global order.

According to the power cycle theory, it is anticipated that this will result in a period of increased instability. This is due to the competition among emerging powers to assert their influence, and the international system's efforts to adjust and reestablish power dynamics. The re adjustment of hyperglobalization, and of the international economic regime in general, will require an intelligent approach to China's rise, utilising its economic opportunities and diplomatic influence while at the same acknowledging the inevitable tensions and adjustments that will occur in a world with multiple powers, and potentially various spheres of influence.

This work has already brought to the fore in the second chapter two examples of how China's rise challenges hyperglobalization both from the perspective of trade globalization and the perspective of financial and monetary globalization.

China has emerged as a formidable challenger to the US-led economic order by employing a strategic blend of economic strength, ambitious technological policy measures, and the consequent potential for military parity. The semiconductor industry has served as a prominent domain for examining the rivalry between China and the US, as well as the potential implications on globalization in a world where national security is once again the greatest strategic concern of States. Both the US assault on Huawei, and China's subsequent attempt to break completely free from global supply chains encompass a wider goal of restructuring the worldwide technological landscape; for China, this means reducing the United States' dominance in critical sectors.

Although the focus of this paragraph, and of this work in general, has been globalization in trade policies, China's challenge also extends to financial globalization, as it was noted in paragraph 2.3. The development of the digital yuan consists in a clear example of serves China's strategic objective to contest the hold of the United States on the international monetary system. Introducing a possible alternative to the US dollar as the global reserve currency, could effectively challenge the US position in the world's economy. What's more, in this endeavour

China is not completely isolated, as the displacement of the US dollar's supremacy is a goal shared at least with the others BRICS countries (Papa & Liu, February 2022).

For China, the underlying objective of both its quest for autonomy in the semiconductor industry, and its struggle for de-dollarization, is limiting the United States' ability to exploit its economy, and its position within the global economy, for geopolitical benefits. The goal consequently, rather than supplanting the US as the economic hegemon, seems to be to diminish its influence, and creating a more multipolar economic world. As reported by Eichengreen, this is not unprecedented; on the contrary, "aside from the very peculiar second half of the twentieth century, there has always been more than one international currency (Eichengreen, 2011)".

In any case, the economic ascent of China has resulted in increased levels of competition across various domains, including trade partnerships, innovation ecosystems, and investment arenas. The Belt and Road Initiative (BRI) represents a significant undertaking by China to create extensive networks of trade, investment, and influence, thereby presenting another alternative to the established economic structures led by Western nations. This initiative encompasses a vast infrastructure and economic development project, reflecting China's commitment to forging new pathways for global connectivity and economic cooperation. By challenging the traditional dominance of Western-led economic frameworks, the BRI showcases China's ambition to reshape the global economic landscape. The BRI serves as a means for China to not only improve its access to crucial resources and markets, but also to strategically expand its economic involvement beyond its own borders. Furthermore, China has the potential to leverage its position among the adhering countries to expand the utilization of its new Digital Yuan in the following years, to start and spread a potential alternative to the dollar (Bansal & Singh, August 2021). According to the data reported by Bansal and Singh however, in 2016 the yuan was used only for 13.9% of trade settlements between China and Belt and Road countries (Bansal & Singh, August 2021). Consequently, though the Belt and Road Initiative offers a pertinent example of China's challenge to the US dominance on the world economy, it also underscores the extent of the limitations in scope of such a challenge.

Nevertheless, the economic rise of China does pose variety of challenges related to the future of hyperglobalization, and its sustainability.

One of the foremost challenges stems from China's substantial trade surplus and its ramifications for global economic stability. The significant rise in China's current account surplus, as evident from the data presented in Table V, reaching a remarkable 11 percent of GDP before the 2007 financial crisis, has sparked concerns about its potential effects on global demand dynamics. This phenomenon has particularly raised concerns about its potential

ramifications on the manufacturing sectors of other countries. The trade imbalance is further corroborated by China's deliberate devaluation of its currency, which effectively acts as an export subsidy. Consequently, this has resulted in allegations of unjust trade practises and protectionism (Rodrik, 2011); however, it is hyperglobalization, with its emphasis on global economic integration and uniform standards, that has contributed to a situation where nations like China have to resort to suboptimal policies , such as currency manipulation and the related trade surplus, to sustain their own path of development. This surplus diverts demand towards Chinese goods, disadvantaging other economies, especially the manufacturing sectors worldwide. Historically, such large trade imbalances have given rise to protectionism, and there is a real risk of a political backlash against China's trade practices and globalization in general, as the competition in the semi-conductor industry previously analysed has shown.

However, China's economic activities have resulted in numerous trade disputes with its partners. Imports from China have been identified as a potential cause for the lack of growth in median wages other countries, such as the United States. Esteemed economists, such as Paul Krugman, have argued that China's "mercantilist" strategies have resulted in a significant loss of employment opportunities, estimated to be over a million jobs, within the U.S. economy (Rodrik, 2011).

However, China's trade surplus is a more a consequence of the global rules in place rather than an intrinsic part of its growth strategy, as already stated above. China's strategy involves rapid structural change, promoting industrialization and the continuous upgrading of its productive capacity, mainly in the tradable sector, particularly manufacturing. This strategy is compatible with balanced external trade if the increased supply of goods matches the domestic demand for those goods.

For a significant period, China's model operated harmoniously. However, changes occurred in the late 1990s as China prepared to join the WTO. Tariffs were reduced, subsidies and domestic-processing requirements were phased out, aligning China's policies with WTO regulations. To compensate for reduced support to manufacturing, China allowed its currency, the renminbi, to undervalue progressively (Rodrik, 2011). This undervaluation had the same economic impact as export subsidies coupled with import taxes, inevitably leading to a trade surplus. Consequently, China's WTO membership in 2001 was followed by a sharp increase in its trade surplus (Rodrik, 2011).

The vehement resistance to external pressure for renminbi appreciation from the Chinese government stems from its potential to jeopardize China's economic growth. It is estimated that the impact of allowing the Reinmbi to appreciate freely in the foreign exchange market could



result in a reduction of China's GDP in more than 2 percentage points. Given the level of economic interdependence of the world's economy, such a slowdown in the Chinese economy could have greatest adverse effects on the rest of the world than its current policy of currency undervaluation has. This dilemma exemplifies the negative ramification of existing global regulations, specifically those pertaining to the restriction of subsidies and industrial policies, which have compelled China, and other emerging economies, to adopt a less than ideal strategy of currency undervaluation. To maintain its currency's exchange rate, China has accumulated over \$2 trillion in reserves, primarily in low-return U.S. Treasury bills.

To effectively tackle this intricate matter, it is imperative to consider allowing developing nations, such as China, the autonomy to pursue their respective growth policies. The reconsideration or incorporation of restrictions on subsidies and industrial policies within the WTO warrants attention, particularly in relation to developing nations. A broader exception that encompasses the specific circumstances of these nations could be a viable approach. It can be reasonably anticipated that emerging economies will implement currency, financial, and macroeconomic strategies that aim to avoid significant trade imbalances. In reciprocation, it is incumbent upon these nations to ensure that their policies are formulated in a manner that does not inflict detrimental effects upon the global economy as a whole. This approach would enable China to employ intelligent industrial policies to support employment and growth without the fear of WTO sanctions. It would also allow China to let the renminbi appreciate without adverse impacts on growth, ultimately eliminating the primary rationale for its reluctance to reduce its trade surplus.

Though managing the current problem posed by China's trade surplus is undoubtedly important, it is just as crucial to recognise that the world economy is confronted with the challenging endeavour of reconciling the substantial disparities in cultural, social, and political aspects between China and the prevailing Western values and institutions.

One should exercise caution in presuming that China's economic growth will inevitably result in the adoption of Western values, namely those of liberalism and democracy, as it will be argued in the following paragraph. Moreover, as Graham Allison argues, it would not necessarily be a good thing for the international system if China were to behave as the United States did during their rise. It is in fact likely that the aggressive stance that the 19<sup>th</sup> Century United States took under the presidency of Theodore Roosevelt, would not be met by the contemporary United States with the same acquiescence that characterised the British reaction in the 19<sup>th</sup> century (Allison, 2017).

China's historical and cultural context shapes its views on economic organization, society, and governance, and it will advocate for a world order reflecting these distinctive perspectives as it gains economic power. Navigating these tensions will be more manageable under global rules that respect diversity and minimize the need for stringent international regulations. Such rules need not rely on a single hegemonic power, be it the United States or China, and can provide greater stability in the world economy as the role of the U.S inevitably diminishes. This approach would work well with China's emphasis on the principles of national sovereignty and non-interference in domestic affairs, which results in a more restrained approach to global governance; furthermore, an approach that recognises the legitimacy of different path of developments is certainly more suited to accommodate a world where cultural differences among the leading powers are more manifest than ever before.

### ***III.III The future of the American-led liberal order***

*There is no “solution” for the dramatic resurgence of a 5,000-year-old civilization with 1.4 billion people*

***G. Allison***

The previous two paragraphs have highlighted the magnitude of the challenge that the rise of China poses to the current order. Now the last paragraph of this work will attempt to outline what could be the basis for a rebalancing of the order, drawing upon the scholarly contributions of Graham Allison and Dani Rodrik, to envision plausible systemic adaptations aimed at averting the political peril of hegemonic conflict (Allison, 2017) and the economic danger of deglobalization (Zeihan, 2022).

It is important to acknowledge, in the first instance, that the potential political influence gained by China is primarily a consequence of its remarkable economic ascent witnessed over the past few decades. Furthermore, given that the Chinese Question is currently an essentially economic question, though with numerous potential political ramifications, the solution can still be found within the economic order. As a result, this research argues there is a pressing need to reevaluate the link between politics and economics. The concept of political capitalism, as elucidated within these pages, offers a compelling framework for achieving this objective. It is worth noting that the realist school of thought in international relations, despite its numerous contributions, has occasionally overlooked a crucial aspect - the significance of the economy. Thus, it has been deemed of crucial importance in this work to adjust the realist framework, recognising the pivotal role that the economy plays in shaping a country's position in the international arena. However, it is just as imperative to acknowledge the significant influence of politics in the realm of economics, particularly during times of political instability.

In the complex fabric of global affairs, few factors are as intricately linked and significant as the bilateral relationship between the United States and China. The existing economic connection between the two nations in question is marked by a significant degree of interdependence, giving rise to a notion commonly referred to as Mutually Assured Economic Destruction (MAED). This concept highlights the fact that “short of nuclear exchange, the greatest damage from any conflict with China is likely to come in the economic realm” (Dobbin, Gomer, Shlaok, & Scobell, 2011). MAED clearly finds its conceptual origins in the strategic reciprocal deterrent witnessed throughout the duration of the Cold War, commonly

referred to as Mutually Assured Destruction, or MAD for short. MAD emerged as a defining feature during a pivotal era in history, marked by the advent of nuclear weapons.

The emergence of MAED, which complements but does not substitute MAD as far as the relationship between the US and China is concerned, gives rise to a noteworthy aspect of the current global landscape - the intimate interconnection of economies, which acts as a deterrent against potential conflicts. On one hand, the United States is the principal market for China's exports, while on the other hand, China continues to hold the position America's largest creditor. Considering this, it becomes evident that a conflict possesses the potential to incur significantly amplified economic ramifications, thereby leading to subsequent social repercussions. The costs associated with such a scenario would undoubtedly surpass any conceivable advantages that might be derived from engaging in said conflict (Allison, 2017, p. 204). The intricate web of economic interdependence has now reached unprecedented heights, surpassing even the levels witnessed prior to the outbreak of World War I (Rodrik, 2011). In addition, it is worth noting MAED has even more limiting implications MAD. While MAD allows for the possibility of limited conflicts without resorting to nuclear weapons, MAED works in theory as the ultimate deterrent against direct confrontation. The idea of preserving the robust commercial ties that bind together the United States and China as a conventional war erupts between these two nations is truly beyond imagination (Dobbins, Gomber, Shlaok, & Scobell, 2011).

However, as the system is entering in a parity phase, it becomes increasingly clear, and will continue to do so in the coming years, that the interactions between these two emerging superpowers encompass far more than just economic interdependence. In light of the comprehensive explanation provided in Chapter 3.1 concerning the culmination of the previous strategic approach, namely the Grand Bargain, there emerges an intensified sense of importance in formulating a fresh trajectory.

Considering these developments, the objective of this paragraph is to determine the fundamental principles upon which a new system could be based upon. In other words, this work seeks to uncover the underlying bedrock upon which a fresh framework can be established. Given the extensive transformations examined within the context of this thesis, it becomes imperative to embrace fresh outlooks when considering global phenomena, rather than solely relying on existing paradigms. The emergence of this particular approach stems from the persuasive argument put forth by Graham Allison in his scholarly work, wherein the esteemed American scholar asserts that what has been referred to as the Chinese question “is a condition, a chronic condition that must be managed over a generation. Constructing a strategy

proportionate to this challenge will require a multiyear, multiminded effort” (Allison, 2017, p. 208), as it was necessary to address the German Question.

The ensuing content of this section, therefore, does not consist of conclusive resolutions, but rather comprises thoughtful considerations. These reflections are rooted in both scholarly discussions and a careful examination of historical events. In contrast to Graham Allison's approach, this research focuses on the future of the economic order led by the United States, rather than delving extensively into the intricacies of the Sino-American relationship. It seeks to explore the trajectory and potential developments of the American-led economic order, shedding light on the various factors that may shape its future course. At the same time, it is imperative to highlight that the central focus of this entire thesis revolves around the notion that the future of the American order is intricately connected to the rise of China, and its relationship with the US; consequently, this calls for a thorough examination that must be conducted in parallel.

Furthermore, in the pursuit of cultivating a comprehensive comprehension of present-day dynamics, the utilisation of historical knowledge has proven to be an invaluable reservoir of enlightening perspectives. However, it is of utmost importance to delve deeper than mere simplistic comparisons when utilising historical analogies. It is essential to recognise that the dissimilarities between situations can be just as momentous as their resemblances, as the initial chapter has attempted to demonstrate. By carefully scrutinising various contexts and drawing comparisons between them, it is possible to gain a deeper understanding of potential developments. Undoubtedly, as previously mentioned, the distinctions within these comparisons hold equal if not greater significance than the resemblances (Allison & Ferguson, 2016).

Concerning the subject of this thesis, acknowledging the historical factors that have influenced the development of globalization since the Second World War, namely, as scholar such as Ruggie and Maier argue, the incorporation of some aspects of economic nationalism within a liberal framework, it is possible to gain insight into the new alternative to liberalism, political capitalism, and the fundamental dynamics of these interactions.

In the realm of international politics, Graham Allison contends that “statecraft is more a matter of riding waves of history rather than making them” (Allison, 2017, p. 209). This means recognising that though adopting a deterministic approach to international realities is counterproductive, structural realities must be faced, and to a certain extent accepted. This is, according to the approach taken in this work, the quintessence of what a realist approach to

International Relations should be. Again, this is not a deterministic stance, but rather a pragmatic acknowledgment that riding the currents of history requires an acute awareness of their contours, and consequently of facts. A statement that a scholar of such dynamics should always keep in mind is the answer that the German chancellor at the time of the outbreak of the First World War offered, when questioned on the causes behind the outbreak of World War I: “Ah, if we only knew” (Allison, 2017, p. 9). The first chapter of this thesis has tried to provide a better answer to the question, reasoning on the disequilibrium between prestige and power, and the implications it had on the future parties to the Great War. The Bretton Woods compromise has provided then provided even a solution to the management of the German Question, as it will be shown in this paragraph.

The matter at hand, referred to as the Chinese Question, presents itself as a distinct issue that necessitates a unique and alternative approach for resolution.

As we delve further into this chapter, an undeniable reality that demands our attention when contemplating this matter is the imminent rise of China as the preeminent global economic powerhouse, rivalling the United States (Allison, 2017). The rise of China has in fact completely transformed the international arena, leading to the necessity of a re-evaluation and reassessment of current political and economic frameworks. In line with Graham Allison's claim presented above, this calls for more than just a policy adaptation; rather, it signifies a significant restructuring of the way the international order is conceived.

The United States has in fact played the key role of shaping the global order after World War II, primarily in the areas of economy, politics, and military affairs.

Nevertheless, China's consistent economic growth in the aftermath of the 2008 crisis, which stands in stark contrast to the stagnation observed in Western countries, signifies a significant reconfiguration of relative power dynamics. This does by no mean imply an absolute decline of the United States, or of the Western world more generally. It merely means acknowledging that there is a disequilibrium between power and prestige in the international order, using the Gilpinian vocabulary outlined in the first chapter; it is a disequilibrium which is dangerous, as the German Question has showed, and which is hardly sustainable in the long term (Doran, 2012).

The first paragraph of this chapter underscored the dissolution of the Grand Bargain that once underpinned US-China relations (Mastanduno, 2014), based on the “engage but edge” strategy described by Graham Allison (Allison, 2017). This strategy was based on a substantial contradiction: it fostered deep economic engagement while preparing for potential conflict.

Such a contradiction appeared in the policy of the United States since the rise of China was addressed under the same assumption that characterised the rise of Japan and Germany before it: that the emerging country would eventually conform to the existing international order, taking its place as a responsible stakeholder of the system (Allison, 2017).

Such an assumption had, according to this work had at least three clear flaws. In the first place, it did not account for the potential magnitude of China's rise, which, for simple demographic, and more generally speaking dimensional reasons, was from the very beginning far greater than the German or Japanese rise, though, as it has been shown in this work, the extent of China's rise, and its speed, was unlike anything the world has seen before.

In addition, the United States "forgot" that both Germany and Japan had been previously defeated in a hot war, and not only that, but their very institutional foundations were set out during a period of American direct occupation of the country; this leads to the third, and final mistake behind the "engage but edge" strategy, related to the second, which is the stark differences between the United States and China, which were already introduced in the previous paragraph. As this thesis has already argued, it should at the same time be realised that this should not necessarily have detrimental impact on the world order to come, if it is acknowledged. Consequently, a revised Bretton Woods compromise will be harder to reach, but nonetheless the potential threats of leaving the matter unattended are of an existential character.

The redefinition of the US-China relationship demands the establishment of a fresh form of great power interaction rooted in shared objectives. Foremost among these objectives must be the preservation of the global economy's integrity. Given their status as the world's two largest economies, the United States and China bear a mutual responsibility to address this challenge, and at the same time, are the two countries that stand to lose the most out of a decoupling of economic relations, as the concept of MAED outlined above illustrates (Allison, 2017). This should be used as the basis for the new economic order, and it will require compromises on both sides. Beyond the incorporation of China within the current global economic order, as previously expounded, there exists a pressing need for a comprehensive restructuring of the concept of globalization.

What this part of the thesis intends to do is outlining the principles around which this reorganization could be structured, trying, to paraphrase Dani Rodrik, to ponder what could be the characteristics of a new capitalistic framework that can adapt to the contemporary global landscape outlined until now (Rodrik, 2011).

A leading characteristic of capitalism has in fact always been its capacity to adapt across history, incorporating elements from different, and even rival, philosophical traditions within it. According to the interpretation provided by numerous scholars, such as Ruggie (Ruggie, 1982), and more indirectly Rodrik (Rodrik, 2011), the Bretton Woods system itself, presented in this work as the initial foundation upon which the US dominance of the world economic order has been based upon, is itself the result of the incorporation of some elements of economic nationalism within liberal internationalism, as exemplified on the core of the compromise of embedded liberalism, presented in the previous paragraph. Consequently, following this approach, and translating it to the present, what is necessary is “an updating of the Bretton Woods compromise for the twenty-first century” (Rodrik, 2011, p. 259), as stated by Rodrik, but one that accounts for the role of political capitalism as described in this work, thus partially breaking away from Rodrik’s perspective.

This work will now consequently present its own interpretation of the concept of political capitalism, and its current role, which was already partially introduced throughout the thesis, relating it to the theoretical paradigm of the power cycle theory, thus bringing together the economic and political structural elements of the thesis.

As it was previously stated in chapter 2.1, this work mainly based its characterization of political capitalism on the work of Branko Milanovic, whose perspective is complemented by the interpretation provided by Alessandro Aresu, who attributes the three main characteristics of political capitalism, an efficient bureaucracy, the absence of the rule of law, and the primacy of politics over the economy, to both China and the United States. As far as the US are concerned however, Aresu argues that political capitalist characteristics can mainly be found within the defence department, where a political continuity can be found that goes beyond the economic interests of the private sector (Aresu, 2020).

This work tries to find a balance between the two positions, further amending Aresu’s view. It has in fact been shown in this work how a tendency toward political capitalism is indeed present within the operate of the United States; however, bringing this aspect together with the framework of the power cycle theory, this work argues that this becomes relevant mainly in the presence of a parity phase. During these instable periods, the importance of national security rises to prominence, marking a significant shift toward the politization of capitalism. Given that, as argued in chapter 3.1, the international system is currently entering such a parity phase, and therefore a potential development toward a more politicised capitalism would be a prediction in line with the arguments and data presented up until now. This development is not in complete contradiction with the work of Milanovic, who sees a possible convergence of liberal capitalism



and political capitalism, especially in the United States, as a possible and plausible development of the coming years (Milanovic, 2019, p. 226-227).

The first way for incorporating the concept of political capitalism within the global economic order would be to acknowledge the reality that there is more than one path to development, as China, and other non-Western countries have clearly showed. Consequently, there is the imperative to acknowledge the rich tapestry of diverse development trajectories that characterizes nations across the globe. This would entail a return of the concept of “varieties of capitalism”, accepting the fact that a universally applicable institutional and economic framework is a mirage. The exigency is to tailor economic structures to the unique contextual idiosyncrasies of each nation, respecting the intricate interplay of historical legacies, preferences, and specific circumstances.

The return to prominence of national interest, analysed before, implies in fact that in the following years each State could become inclined to pursue policies in a less coordinated and standardised way. The potential expansion of BRICS that might be witnessed in the years to come is an example of this, as more states seem to be trying to bypass the current economic framework (Papa & Liu, February 2022).

Consequently, to keep the global economic order as intact as possible, it is necessary to recognise once more the privileged position that the national level has in the formulation of policies; the goal, therefore, should be the alignment of globalization with the capacity of governance to sustain it. This necessitates a concerted effort to fortify the resilience of national economies, ensuring that globalization functions as an empowerment mechanism rather than an impediment to domestic processes (Rodrik, 2011).

Furthermore, States must retain the autonomy to safeguard their distinctive social constructs, regulations, and institutions. Trade, conceived as a conduit for development rather than an end in itself, demands careful consideration of its potential societal ramifications. Hence, it is vital that the consequences of trade within the fabric of societies undergo democratic deliberation and political discourse, ensuring that it aligns with the broader aspirations of the population.

Simultaneously, there is a call for international institutions to adhere to a principle of non-interference in the institutional frameworks and cultural norms of sovereign states. Rather than imposing external models, the role of international institutions should pivot towards facilitating effective cooperation among national entities while preserving the rich tapestry of institutional diversity. Therefore, it is imperative for proponents of free trade to garner support inside the realm of domestic political discussions, as the administration of global markets continues to be

primarily under the jurisdiction of nation-states in the foreseeable future (Rodrik, 2011), probably even more so than before, due to the renewed importance of political capitalism.

The primary objective of this work has been to propose an alternative perspective that challenges both the realist approach, which subordinates the economy to political considerations, and the liberal school's tendency to overlook the political consequences of economic decisions. By critically examining these two prevailing viewpoints, this study aimed at shedding light on the limitations and potential drawbacks associated with each, while advocating for a more nuanced understanding that recognises the intricate interplay between political and economic factors. The interrelationship between the politics and economics is indeed innate and will necessitate constant consideration as a cohesive unit.

## Conclusion

*The basic dilemma of social science is whether to explain trivial matters with exactitude or to treat significant matters with imprecision.*

*In this study we have chosen to follow the latter course*

***R. Gilpin***

This work has tried to present the reader with a meticulously organised comprehension of the ongoing rivalry between the United States and China. Its main objective has been to provoke contemplation regarding the viability of the current American-dominated global economic order and the forthcoming trajectory of capitalism. The research has adopted a multidisciplinary approach, blending principles of International Relations theory with a comprehensive examination of economic globalisation, encompassing both its historical and contemporary aspects. The focal point of this endeavour has consistently been the interconnectedness of politics and economics, which is at the core of this work.

The present study has been conducted within the theoretical framework of power cycle theory in the field of International Relations. This framework has been combined with the methodology of applied history to provide a deeper understanding of the subject matter.

Moreover, by analysing thoroughly the evolution of economic theories regarding globalisation, this thesis has attempted to illustrate that one of the most conspicuous attributes of capitalism, which undoubtedly contributes to the triumph of the prevailing socio-economic structure, is its remarkable ability to adapt and adjust. Additionally, capitalism has shown throughout history a remarkable capacity to assimilate and amalgamate diverse theoretical and philosophical perspectives, as it did with economic nationalism and classical capitalism, thereby further enhancing its resilience and efficacy. This work has consequently sought to analyse how the collapse of the first globalization after the outbreak of the First World War came into being from a geopolitical standpoint, namely highlighting the political factors that eventually brought an end to the *Pax Britannica* and to the long 19<sup>th</sup> Century. In line with both the theoretical framework and the methodology, this research has tried to use this historical as the basis for a comparison with more contemporary dynamics, namely the rise of China and the challenges it poses to the current *Pax Americana*, and specifically the economic order it sustains; at the same

time it has tried to maintain the independence of the present, without conceding to facile analogies, by addressing the specific technological battle that characterises the current rivalry.

The emphasis of the comparison has not been, however, on geopolitical factors, but rather on the economic models that has allowed respectively Germany and China to become credible challengers to the constituted order.

This is not to say that there were no potential geopolitical comparisons to be made, such as the relative isolation of the challenger within the international community, with the partial exception, in both cases, of a multiethnic, imperial power, protagonist in the previous century, but whose relative decline was clear in the international arena. However, to fulfil the main purpose of this thesis, the analysis of the future of the current economic order, it has been deemed more accurate to centre the comparison on the economic systems of the challengers, and to the impact their economic rise had on the constituted order.

As already mentioned, the research then focused on the challenges that the Chinese rise poses to the current globalization, taking into account both the aspect of trade globalization, as well as financial globalization. It has been chosen to give particular relevance to technology in this arena, arguing that it is in this realm that the competition between the two countries has begun to become more and more manifest, entering into a phase of overt confrontation. The focus has been in particular on the semiconductor industry, as far as trade globalization is concerned. This subject has been chosen for its unique intersection of supply chains vulnerabilities, national security interests, and economic interconnectedness. From the perspective of financial globalization, it has been chosen to focus on the challenge posed to dollarization by the Chinese development of a Central Bank Digital Currency. It has been chosen to focus on this particular potential challenge to globalization to remain within the framework of technological competition, though it is not the only way through which dollarization is currently being challenged, as it was explained in the thesis.

Finally, the present study has sought to gauge the scale of the Chinese threat to the established American order, shedding light on the remarkable growth of China's economy ever since it embraced globalisation and opened its doors to international trade and investment. In this particular instance, the application of the power cycle theory, which was initially introduced at the outset of this study, has been effectively utilised to analyse the ongoing developments. Furthermore, this analysis has been further enhanced by incorporating the more contemporary concept of Thucydides' Trap, as elaborated upon Graham Allison.

It has been tried to show that the past strategy toward China, the so-called Grand Bargain, has come to an end, and that it is therefore necessary to work to find a coherent and new approach to the issue. It has then been tried to illustrate the potential challenges that China poses to the economy, highlighting how the extent of the unbalance created by the fast Chinese rise in the world economic order has not been addressed, and that in the economic, as it was for the political, realm, the world is being managed without accounting for the change that has occurred in the last years.

With this in mind, this thesis has finally sought to consider what could be the implications of such an unbalance, and how this could be addressed. Here, the emphasis moved toward the complicated relationship between capitalism, globalization and the State, advocating for the need of a new elaboration of this relationship, which becomes more necessary as the foundation of the old relationship between the three, namely the US's clear economic dominance over the other economies in the world, has significantly eroded.

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