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The COVID-19 Pandemic and the Incoming Hegemonic Shift

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Abstract—**The objective of this paper is to analyze the importance of economic trends in the past four decades to the evolving situation in the hegemonic cycle. The theoretical framework stems largely from the systemic cycle theory. We further the conceptual research agenda which involves growth models in hegemonic analysis. The methodology of the paper relies on available data and projections from WTO, World Bank, and IMF. We will use them to show the extent of the economic hegemonic decline in the USA, and contrast this to its military and political capabilities. The paper will place the trends of the COVID-19 pandemics within the broader historical tendencies including Trump-era protectionism and the extent of the attempted decoupling of the US from the global economy.**

Keywords—hegemonic shift, systemic cycle, growth models, protectionism

I. Introduction

Definitions of hegemony abound (see [13]) but we will utilize an approach that is sensitive to economic, political, and military aspects of hegemony. The word itself comes from Greek ἡγεμονία, meaning leadership and rule [1]. In our context, it is descriptive of a specific political and economic state in the global system. The idea of hegemony came to the forefront of International Political Economy via the Hegemonic Stability Theory. HST suggested that the establishment of a liberal international economy is a function of the existence of a strong hegemon intended on the construction of such a liberal structure [2]. The two historical examples are the UK in the 19th century and USA in the decades following WW2 [3]. In contrast with the British, largely unilateral approach, the USA sought legitimacy via multi-lateral arrangements of the Bretton-Woods system [12]. According to this theory, liberal market globalization cannot be taken for granted and special care should be given to its economic underpinnings and the power relations between political-economic entities.

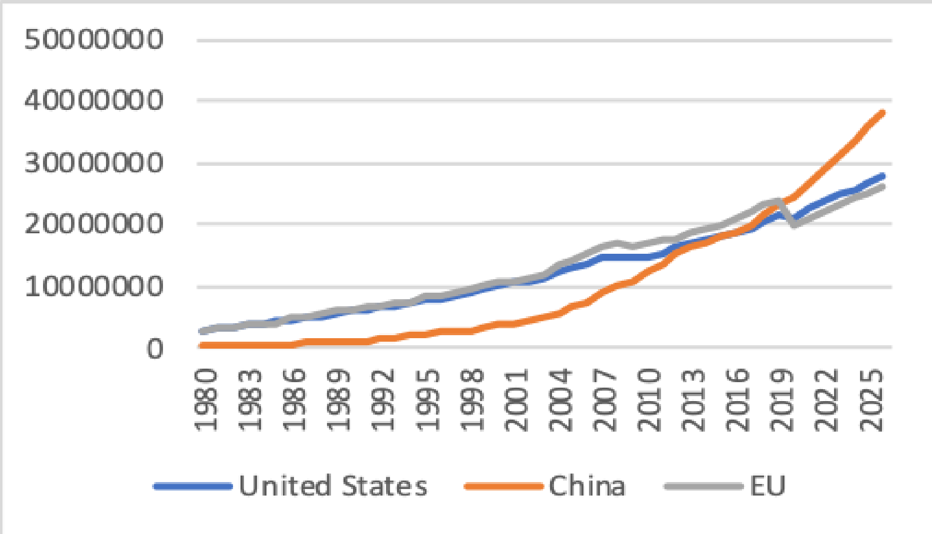
Hegemony was also important to the structuralist strand of IPE. Within the world-systemic perspective, Wallerstein saw hegemony as based on productive superiority but spilling over into the military and political spheres as well [4]. He identifies only Holland (United Provinces), Great Britain, and the United States as hegemonic powers in their periods he tentatively suggests 1625-1672 for United Provinces, 1815-1873 for Great Britain, and 1945-1967 for the USA [5]. Arrighi has created a more complex system whereby global domination is primarily economic and fluctuates between material and financial expansion. He identified four historic cycles of capital accumulation regimes – Genoese (Genoa supplied much of the capital that made Spanish and Portugal colonization of the 16th century possible), Netherlands, UK, and the USA. These have overlapped so that the material expansion of the future hegemon starts during the financial expansion of the previous one [6]. One of the key points of Arrighi's approach was the focus on shifts within the very center of the world system (generally speaking, the hegemonic power) whereby the basis of its economic predominance is the successful material expansion[14]. However, once the regime of capital accumulation is exhausted the economic thrust must turn to financial expansion in search of profits. At its core, systemic cycle theory is a theory of investment with repercussions for economic geography. There are deterministic pitfalls that must be avoided, but I have elsewhere been able to offer a reinterpretation of the systemic cycle in Keynesian terms [7].

Therefore, this article approaches hegemony in its three aspects of economic, political, and military domination. This has repercussions for case selection as well. The largest economic entities by all measures are currently the USA, China, and the EU. These three actors are fairly close, as measured by GDP levels, with next-ranked economies trailing far behind. In terms of nominal GDP, the USA is the largest economy in the world, and following China and the EU, the next entity would be Japan at 24% of the highest-ranking economy (USA). In terms of PPP GDP, which provides a more realistic comparison as it corrects for price levels, the largest economy of the world is China, and following USA and EU, the next ranked is China at 38% of the highest-ranking economy (IMF, 2021). Therefore, the choice of entities to compare is clear: it can only be the three grouped and highest-ranking entities. This article will try to assess the economic, political, and military trends pertinent to this analysis.

Section 2 will analyze the key economic trends in USA, EU, and China, including growth projections and growth models. Section 3 offers insights into the political aspects of hegemony, focusing on various efforts of the Trump administration to decouple the USA from various initiatives and organizations. Section 4 compares the key assets for credible force projection in the USA, EU (+ the UK), and China in hopes of providing a better understanding of the military aspects of the hegemonic shift. Finally, the last section offers conclusions.

II. THE ECONOMIC BASIS OF HEGEMONY: GROWTH AND TRADE

Figure 1 compares the historical dynamic of Gross Domestic Product corrected for Purchasing Power Parity for the EU, USA, and China.



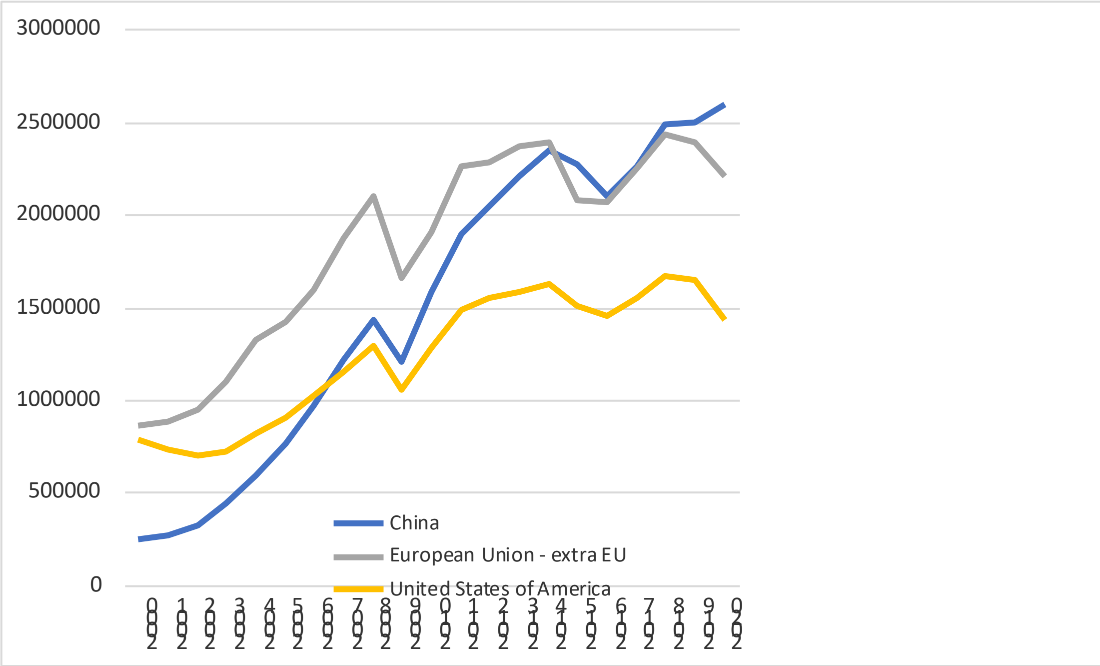
a. source of data: IMF, 2021; own calculation, estimate starts after 2020 for USA and Chine, but after 2019 for some EU members

Fig. 1. Purchasing Power Parity (PPP) GDP in millions international USD.

Measured in this way, it is striking that the combined GDP of EU members was almost the same as the GDP of the USA in the 1980-2003 period. It was only with the Big Bang expansion of 2004 that the EU GDP overcame the US economy and this advantage dissipated after Brexit (shown since 2020 on the graph). The GDP of China shows a remarkable and steady increase. It was at 10% of the EU GDP in 1980, it reached 35% in 2000, 54% in 2007, and overtook the USA in 2017 and EU in 2020 with the effects of corona pandemics and Brexit pushing EU to third place. IMF projections show the GDP of China as 47% above the EU level and 38% above the USA by 2026.

IMF's projections are impressive in terms of research. However, there are inherent challenges with growth forecasting in general, and it is worth considering that. Since 1988 there were 469 recessions in 194 countries that are part of the IMF's WEO database 1988. Of these 469, only 17 were predicted by the IMF a year in advance, and 47 predicted recession never happened [13]. The projected data should therefore be understood as reflective of the current state of affairs and as not being able to account for exogenous events.

The next two figures show the importance of trade as the principal engine of hegemony. Figure 1 shows the levels of exports expressed in nominal USD in the 2000-2020 period. EU is shown as a block – with only extra EU exports graphed.



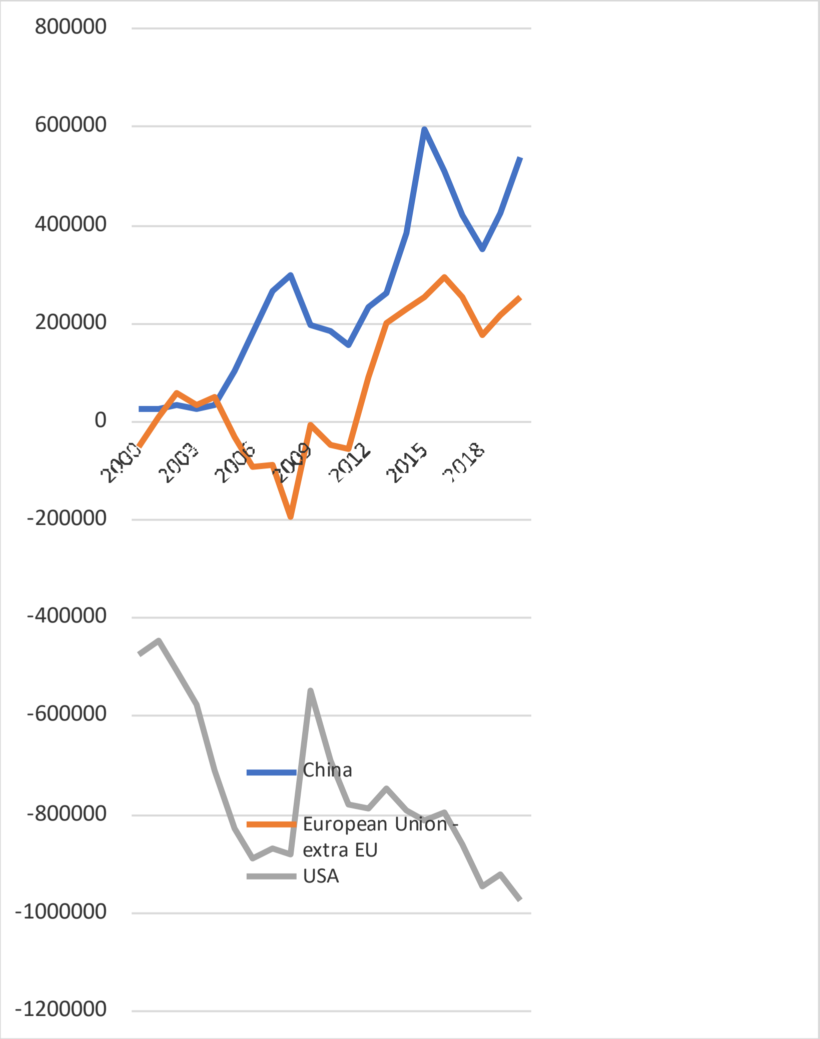
b. source of data: WTO, 2021

Fig. 2. exports in millions nominal USD

This can help us understand the global importance of trade of these three entities. USA has started this period as a close second to extra EU trade of the European Union, with China far below. US exports grew more rapidly in the 2000s (and were cut short by the 2009 global recession) and then continued the growth trend until the 2015-2016 mini-recession. The Trump administration had a clearly expressed goal of increasing production in the USA and ameliorating the adverse trade position against China. We can see that exports grew again in the first two years (2017-18), to levels slightly higher than 2014, but then decreased in 2019-20. This trend was certainly greatly exacerbated by the COVID-19 pandemics. EU trade displayed a more rapid growth, although extra-EU exports were sharply cut in the same periods as US ones. In all, extra EU trade of the European Union was 9.7% higher than the US exports level in 2000 and grew to be 54% higher in 2020.

Chinese exports grew by far the most robustly. They overcame US exports by 2007 and extra EU trade of the European Union by 2015. Overall, their growth in the two decades was one of the most significant global economic events. They were at a level of 32% of US exports in 2000 but grew to 181% in 2020.

While the absolute size of exports is an important comparison regarding the global importance of an economy, we need to correct imports to assess the effects on the specific economy in question. Figure 3 shows net trade (exports - imports).



c. source of data: WTO, 2021; own calculation

Fig. 3. trade deficits and surpluses (million nominal USD)

Here we see a clear divergence between the USA as a large net importer and the EU and China as large net exporters. 2002-2006 saw the most destructive episode in the rapid increase of US deficits, 2009 brought a painful, but structurally useful correction, but the deficit has since plunged to record lows. In sharp contrast, extra EU net trade was mildly positive in the 2001-2004 period, negative until 2011, and then experienced substantial growth since. China had positive net trade in the entire period, and it substantially grew in the 2005-2008 and 2011-2015 periods as well as since 2018.

However, we should note that GDP growth can be a result of diverse development strategies and growth models see also [7] A relatively large trade surplus or deficit in absolute terms can be structurally unimportant if it is a feature of an extremely large economy. Likewise, a deficit five times lower than that of the US would be twice as crippling to an economy 10 times smaller. It is therefore important to keep track of the structural importance of net trade. Focus on the structure can help us understand the role of net trade-in growth models. Table 1 compares the structural importance (or % GDP) of manufacturing, services, bank credits, stock markets, net exports, household expenditure, and investment. The table compares the USA, PR China, and EU, but also the values for the three largest national economies in the EU, which together add to more than half of its GDP: Germany, France, and Italy.

TABLE I. GROWTH MODEL APPROXIMATION – 2019 OR MOST RECENTLY AVAILABLE

%GDP / country	USA	Germany	France	Italy	EU	PR China
Value added in manufacturing	11.3 (2018)	19.1	9.8	14.9	14.4	26.8
Value added in services	76.9 (2018)	62.6	70.2	66.3	65.5	54.3
Bank credit to private sector	51.9	79.7	105.3	73.1	85	165.4
Market capitalization	147.9 (2018)	54.3	84.9	/	52.5 (2018)	59.6
Net trade	-2.9	5.8	-2.3	3.7	4	1.5
Household expenditure	67.9	52.4	53.7	60.1	53.8	39.2
Investment	21	21.4	24.2	18.1	22	43.3

[d] Source of data: World Bank, 2021 for all values except - OECD, 2021 for Household debt and net export, and IMF, 2021 for General government debt

There are three sets of important growth variables that can be discerned in Table 1. Firstly, the divide on the supply side of the growth model – between manufacturing and services. The last five decades saw the gradual replacement of industry jobs who service jobs in the developed world, and this has consequences for the value of exports (industry tends to have high value-added) as well as the ability of labor to unionize and/or influence political decisions (industry can support unionization to a far greater degree than the tertiary sector). Among the six cases shown in the table, France and USA have the lowest levels of value-added in manufacturing (around a tenth of GDP), while China has the largest (more than a quarter of GDP), trailed by Germany. Conversely, in value-added services, the USA has the highest level by far (more than three quarters) with China at the lowest levels (54% GDP).

Secondly, Table 1 shows the important distinction in finance channels: that between the patient bank capital and the impatient stock-market capital (market capitalization). The first channel of bank credits to the private sector is largest by far in China (165% GDP) and lowest in the USA (52%). Conversely, market capitalization is largest by far in the USA (148%) and lowest in China (60%).

Thirdly, it shows the demand-side of the growth models, with the comparison of structural sizes of net trade, household expenditure, and investment. These are (alongside government expenditure) functional elements of the GDP. We can see that the USA has a growth model which is fueled primarily by private consumption (68% GDP), China has a growth model which is fueled primarily by investment (43% - with its large absolute net trade position amounting to only 1.5% of GDP) and Germany leading in the importance of net trade (5.8%). We can deduce three key points pertinent to the analysis of hegemonies:

- The industry is structurally significantly more important in China and to a certain degree in the EU (particularly Germany) than in the USA. This matter as an edge in industry and trade is an important element in the economic aspects of hegemony.
- While the USA has a clear structural stock-market financial edge over both the EU and China, China makes up for this in a certain sense by the enormous role played by banks.
- In terms of growth models, the USA provides an example of a dysfunctional demand-side growth model. Dependency on private consumption in the context of very large trade deficits may translate into a high standard of living for its consumers, but surely spells out difficulties in maintaining high growth rates. On the other hand, China may run into long-run issues with investment taking up such a large proportion.

III. POLITICAL ASPECTS OF HEGEMONY: INTERNATIONAL ORGANIZATIONS AND INITIATIVES

As noted in the first segment, the formation of Bretton-Woods institutions was a crucial element of the US hegemony. While the hegemony has been challenged in many respects, its institutions remain intact. Granted, international trade was influenced primarily during the GATT years, while progress has stalled since WTO was formed in its stead in 1995. However, the primary functions of WTO, as well as IMF and the World Bank remain preserved and their membership undiminished. The process currently underway may nevertheless indirectly weaken these organizations. Various initiatives have been interpreted as a Chinese challenge to US-led organizations. Firstly, the roles of either the World Bank or the IMF have been supplanted by Asian Infrastructure Investment Bank (2015), China Development Bank (2015 – current form), and China Export-Import Bank. These join many other similar regional organizations (e.g. Asian Development Bank or various mechanisms and funds that were a result of European economic integration), but the Chinese-led organizations are novel and come from a country not militarily dependent on the USA. This is likely the reason for the alarm raised specifically by the mentioned banks. Secondly, the One Belt One Road agenda works to provide funding for large infrastructural programs in the geographical area interesting to the expansion of Chinese trade. Whatever the ability of the IMF to influence policy via conditioning its loans, it is undermined by the existence of ready alternatives, particularly when they seem to be largely uninterested in conditioning broader policy.

The reaction of the Trump administration has been described as a result of a fear of losing the hegemonic position in face of Chinese initiatives [8]. The strategy revolved not only around a tariff confrontation but also around the retreat from various organizations and initiatives, which are now mostly recommitted to by the Biden administration. Table 2 summarizes these events.

TABLE II. AMERICA FIRST AS WE RETREAT

Organization/initiative	Trump Administration	Biden Administration
Paris Agreement	Began withdrawal in June 2017 – completed in November 2020	Recommitted in January 2021
Trans-Pacific Partnership	Withdrew the US signature in January 2017, with TPP consequently left uncompleted	TPP was subsequently reformed as a Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), active since 2018. Biden Administration has not moved to apply as of yet.
UNHRC and UNESCO	Obama administration stopped funding UNESCO in 2009, but the US withdrew in 2018. The USA also withdrew from the UN Human Rights Council in 2017	Recommitted to UNHRC in February 2021
WHO	Stopped funding in April 2020, began withdrawal in July 2020	Recommitted to WHO in January 2021
JPCOA (Joint Comprehensive Plan of Action), INF (Intermediate-range Nuclear Forces Treaty), Open Skies Treaty	Three arms treaties that the US revoked in the 2018-2020 period – the nuclear deal with Iran, in 2018, INF in 2019, and Open Skies in 2020	Signaled willingness to return to JPCOA, urgently extended another key treaty – New START upon taking office

e. Source: NYTimes, 2021; USA Today, 2021, CNN, 2017; The Guardian, 2020; NBC News, 2021

We can see that the "America first" policy of the Trump era involved several canceled treaties, organization memberships, and initiatives. The Biden Administration was quick to revert many of these decisions. Table 2 emphasizes the point that hegemony and isolationism are mutually exclusive. Retreating from various multilateral channels may remove pressure from the USA, but it also removes the means through which other actors may be influenced. Taking into account the recent Chinese organization building activity, we can see that the Trump era has shown exactly the inverse tendency of a retreat from existing hegemonic mechanisms.

IV. MILITARY ASPECTS OF HEGEMONY: CREDIBLE FORCE PROJECTION CAPABILITIES

Finally, we turn to the military aspects of hegemony. This section will show that this is an area that provided the most resilience of the old hegemon. I have argued elsewhere [9] that credible force projection hinges on aircraft carriers and large amphibious vessels. While it is increasingly true that such assets are vulnerable to far more inexpensive unmanned vehicles it remains the only practical way to quickly globally dispatch and support ground troops in large quantities. Any power that wishes to retain the capability to credibly and autonomously intervene at large distances will need to keep such vessels. Table 3 shows such assets in the USA, China, EU, and the UK at the time of writing [10].

TABLE III. BLUEWATER FORCE PROJECTION CAPABILITIES

Navy	Aircraft carriers	Amphibious assault and dock (over 5000 tons)	Total displacement in relevant types (metric tons)
USA	10 Nimitz 307826 (3 N) 528707 (5 TR) 206475 (2 RR) 1 Gerald Ford 101605 Total Aircraft carrier: 1144613	7 Wasp 288049 2 America 91386 11 San Antonio 278300 Total Amphibious assault & dock 657735	1802648
China	Liaoning 67500 Shandong 70000 Total Aircraft carrier: 137500	Hainan 40000 Yuzhao 200000 Total Amphibious assault & dock 240000	377500
EU (France, Spain, and Italy)	Charles de Gaulle 42500 Juan Carlos I 27079 Cavour 30000	3 Mistral 64500 2 Galicia 27630 3 San Giorgio 21150	226709

	Giuseppe Garibaldi 13850 Total Aircraft carrier: 113429	Total Amphibious assault & dock 113280	
UK	2 Queen Elizabeth 130000	2 Albion 39120	169120

Numerous other assets play a role in functional force projection. However, these allow us to assess and compare the blue water capabilities by using this key type of asset as a proxy. Table 3 shows these vessels organized by an aircraft carrier and amphibious assault & dock (amphibious assault ship, amphibious transport dock, landing platform dock, landing helicopter dock) and calculates the sum of their displacement by metric tonnage. In the current EU, only three national militaries have such assets (France, Italy, and Spain). Before Brexit, the EU had a cumulative larger blue water force (by this metric) than China, but now significantly trails it.

The most significant issue with EU military capacity is not the assets at the disposition of its member states. It is rather the complex and inefficient nature of its foreign and security policy. It is overly reliant on unanimity in decision making and a common security mindset has been reliant on NATO (i.e. cooperation with the USA) rather than a search for European military unification, various initiatives notwithstanding (e.g. EU Battlegroups, Eurocorps, European Gendarmerie Force). This has changed to a significant degree with the “America first” policy which created incentives for the EU to try to rekindle its quest for “strategic autonomy” [11].

V. CONCLUSIONS

In the economic sense, the trends favoring the global predominance of China are speeding up. The trade confrontations of the Trump administration and a far more rapid economic recovery from the COVID-19 pandemic have exacerbated the divergence between China and USA. However, the rapid growth in China has been a fact for decades, and both of these sets of circumstances play only a role in increasing existing trends. These trends that increasingly focus on China are not only economic but as we have seen, also political and military.

EU as another theoretical candidate for global hegemony lacks ambition, as well as political and military capacities to fill this role. However, strategic autonomy may in the long run become an imperative of the continued existence of the EU. An increasingly multipolar world is a world with a hegemonic vacuum. In such circumstances, the EU may find itself institutionally innovating its way toward a more preponderant global role in the long run.

Likewise, the USA has spent the last four decades avoiding the gloomy predictions of hegemonic downfall. In the first assessment, it seems clear that economic trends are not in the US favor and that Trump and COVID-19 have only speeded up an inevitable result. However, as this analysis has shown, the Biden administration was quick to gather the reins. Also, various capacities take an exceedingly long period to fully develop (a trait in common to blue-water capability and functional globally-oriented organizations). These were destroyed neither by the long-term adverse trends nor by its brief foray into isolationism. The USA will certainly continue to play a very large and unavoidable global role – although not likely a hegemonic one.

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