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Hegemons, Political Power and Demographics

Examining Changes in the USA's Political
Power in the Past Decades with a
Comparison to the PRC from a
Demographic-Economic View



Abstract

The purpose of this dissertation is to investigate the relevance of demographics in regards of International Relations and to examine whether or not it should be devoted more relevance than currently. The basis of examination is a non-mathematical framework which looks at the different elements that are needed for gaining and holding power, and which specifically stresses out the importance of different resources. This framework is constructed as a matrix/pyramid hybrid and is based on secondary research of various academic works. The framework is applied to a comparison of historical power overview of the USA and PRC as well as an examination of forecasted changes in global economy and population and their interdependences.

One of the important finds of the research is that demographics has not been counted as a highly relevant element of political power so far because up to the latest periods practically no countries could match up the political/military/technological power of the USA. Nonetheless it is predicted that the economies of the PRC and India will outperform the economy of the USA in 30 years, and with the PRC's heavy investments into military, its growing economy will help to match up this gap.

It is also found that the changes that are predicted to occur in the coming 50 years will have great effects on the Western and Chinese economy as well as a number of other countries', mostly because of governmental and corporate health-spending and derived changes in the consumer society, which will create both local and global viscous circles as the examined developing countries are economically highly dependent on the developed ones, and as a growing part of the GDP is spent on social/healthcare, citizens will have lesser capabilities of spending on merchandise/services.

The conclusions of the dissertation outline further research possibilities into a more quantifiable framework as well as a comprehensive study of the paper's subject on further countries; mostly including the BRIC group's other members.

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1 Introduction

1.1 The Research Question

The end of the Cold War and the collapse of the Soviet Union, the reunification of Germany and after all Europe, the rise of the Japanese economy, and more recently China are shaping the global politics and economy to an extent that have not occurred for a very long time. In fact, globalisation and its diverse aspects; the way they are today have probably never existed. While parts of the world reunite and move forward, new powers are born and old powers cease. The USA's situation has changed considerably in the last two decades. Its global leading position of economy and politics, while previously were unquestioned, recently however one can speculate if it's still lasting and if so, how long.

But is it just money and the exploitation and availability of natural resources that govern international politics and IR or should there be more focus on the examination of the much less popular subject of demographics? Changes in global demographics (the growth of population in the newly developed countries and the ageing of population in the West) will have significant effects on how the global economy will be shaping, and what need there will be for raw materials, food and other items (UN, 2004). This seems to be an unavoidable fact, unless humanity invents a sort of technical miracle which prevents this from happening – which is rather improbable. And then of course the military capabilities of a larger nation have not even been mentioned. The question this dissertation will try to examine – mostly through studying existing literature and the history of the post-WW2 period – is whether the USA is losing its status as a global leader or hegemon and whether there are other countries that can step in its place; will the issues of ageing population and immigration threaten its further development and/or give a leap to other countries or will this issue hinder the competitors' growth instead? Or the whole hype on the subject is non-viable and everything will remain the same?

1.2 Structure

Amongst my primary aims is the examination of demographic issues because I feel that this is a subject that is not being given enough importance at the moment in the subject of IR, even though managing the domestic population both politically and in sociological terms can and as I will point out does have vast effects on a country's international political performance, both in positive and negative terms; therefore the structure will primarily aim at pointing out links between political power and sociological/demographic matters.

In order to evaluate whether the USA or China counts to be a hegemon or not it is necessary to set up a basic framework that tries to measure this. I do know that there have been many before me who were more knowledgeable and have set up frameworks; I reviewed a number of them and found that creating a mix of them could be more fruitful. Since I'm not able to create a mathematical system I will instead outline a more general but at the same time generally applicable one that will serve well for the purposes of this dissertation and might be useful for further examinations and/or expansion. The framework will also review a number of existing values related to political power and will try to combine their positive aspects.

The Second Chapter will examine the USA's rise to global leadership after the Second World War with regards to economic management of investments, global finances, creating interdependencies on its self; in other words making sure that while its own economy prospers the global allies were drawn into an ultimate dependence on the USA, mostly because of economic and political reasons. Further parts of this chapter will also look at how this situation has changed during and after the Cold War when the international threat of Communism was still strong and then lessened; how the American allies turned to and then away from the American politics and policies and how the international economy has slowly gotten somewhat free of the American pressure to find new areas of investment and prosperity. In this chapter I will also make references to the sociological management of the domestic American population and their effects on the USA's global political power, as well as pointing out differences between the current situation and the one which existed while the Soviet Union was still a global power, also pointing out how these differences give a

completely different shape to the current American power and what their importance is to a possible loss of the position of primary global influencer.

Chapter 3 will look at a slightly similar historical review of the PRC with the difference that it will focus more on the domestic history of the country and will be somewhat shorter than the preceding chapter because the PRC did not have such an international political importance as the USA did up until the last few decades. At the same time because of this I will examine how China became more important on the international arena by looking at trends related to outsourcing and FDI towards the region and making some references to my framework that has been set up previously.

Finally, Chapter 4 will attempt to draw preliminary conclusions on the historical findings on whether or not the USA has lost part of its political strength and if so then whether this was to the gain of China or not. As it will be seen this question cannot be answered with a simple yes or no at the moment and therefore much of this chapter will be devoted to pointing out the possible future role of demographics in both countries and how they may influence the economies of these countries and in a bit wider sense the combined global changes with special regards to the previously mentioned factors of aging, social and health care, living standards and their effect on consumption and economy, immigration and their similar effects, etc.

The fifth and last Chapter will draw final conclusions and will offer some ideas for further research including references to the extension of the framework that I outlined, as well as the studying of other countries that may become relevant in the future.

1.3 Definitions

First off, in order to clarify the ways of this dissertation, defining a number of significant terms, especially political power and hegemony are of key importance and I will start out by looking at power. Power, as in general can be held by different individuals, groups or authorities. While there are many synonyms of *power*, (even in sociological terms)

ranging from *coercion* and *oppression* to *influence*, (Encarta® Online (Microsoft Corporation), 2008) the definition of political power as such is rather difficult.

Hay (Political analysis, 2002) elaborates on the limitations of political analysis: generally the basic problem is that political analysis can be based on a multitude of schools and views, therefore it's difficult to define something that's truly common in understanding amongst experts. This is one of the problems; another and maybe more relevant and visible question is: what makes *political* analysis political. (*ibid*) Hay explains that in his view political analysis is named so because its emphasis on the political aspects of social relations. This at the end means that a political analysis should after all include notions of cultural and sociological elements, and should not be narrow-focused on the distribution and use of power. Hay specifically mentions the extra-political variables as key elements in the analysis; in short, these factors are interdependent, and should be handled as such. In the coming subchapters, I will also try to gather some of these elements myself and point out how and why they are important in the definition of political power and in more general for international relations.

1.3.1 Measuring Economic Power

Measuring economic power is somewhat easier than measuring political power because domestic and global financial flows are to some extent more transparent and visible than the reasons behind the shaping of politics and decision-making. Since it is money (and its convertible equivalents) that run(s) the global life as such, the economic performance of a state can be – to some extent - linked to its political power (Hay, 2002). In this paper I will not specifically go into economic power's measurement in terms of billions of dollars but instead I will try to fit the question into a dependency theory which constitutes part of the political analysis. The reason for this is that it more effectively serves my purposes, and at the same time allows me to devote more space to the political and demographic analysis which I consider more important for this paper, due to the word count limitation.

1.3.2 Political Power - Theme with Variations

Hay (2002, p. 174) again makes a comparison between two 'classical' debates on how power should be viewed. His basis for examination is the *faces of power* vs. *the Foucault-Habermas debate* which in short tries to compare whether political power should be measurable and if power is ever-present. On this matter, I think that power is in fact ever present, and as Hay explains the work of Polsby, the 'second face of power' (agenda-setting) and Luke's 'third face of power' (preference-shaping) make power itself Janus-faced: people apply tactics and strategy in decision-making because this may yield better results in the long term (*ibid*); face it: this is human nature, and is such hardly predictable, yet rather non-transparent, which makes it relatively hard of power being measurable on a mathematical basis. Also, still linking power to human nature, it does need to be ever present in my opinion because if we assume that power would cease to exist then we'd also need to assume that all people would become equal, as there would be nothing that differentiated between them.

Susan Strange (1988, p. 24) argues that in her opinion there are two kinds of powers, structural and relational, where relational means getting somebody doing something that they do not want, and structural meaning the ability to set future occurrences in favourable terms for self. I think that these two should not necessary be separated because if we examine the question of agenda-setting vs. relational power it can be seen that they do not rule out each other: her (but also Hay's and Lukes') example for relational power is Person A selling a car to Person B at a sub-market price while both knowing that this is only good for Person A. This however does not mean that Person A could not have arranged the situation so that Person B had another choice! While this might be temporarily favourable to Person A, the other can possibly ask favours in the future to equalise the situation. (Lukes, 1974)

So how can power be measured? As Torres elaborates, Seligman probably is right when he says that "*no one as yet has been able to quantify per capita influence or aggregate power*" (A New (And Partial) Approach to Measurement of Political Power in Latin American Countries, 1973). I think both were right: power is a measure created by humans and is

based on criteria of behaviour which therefore makes difficult to measure. Nonetheless there is still a need to agree on a standard set of aspects which can examine power.

Here it is important to discuss the similarities and differences between domestic and global political power. Torres tries to explain domestic political power by the means of concentration, i.e. measuring the number of participants who have access to domestic decision-making against of those who do not. His main focus is based on his experiences of the Latin American world and suggests considering the following elements:

(1) foreign interests; (2) the landed oligarchy; (3) industrialists; (4) rural labour; (5) urban blue-collar workers; (6) urban white-collar workers (including professionals such as doctors, lawyers, engineers, etc., as well as government office workers); (7) the military; and (8) the Church. (ibid)

Members of each of these groups would then be graded based on their (assumed) political awareness and readiness for action. He tries to set up a mathematical equation that provides how much influence these groups have on the way domestic politics work although in my personal opinion he fails to explain convincingly how these people can influence higher level of politics, instead he rather briefly points out (though by using different phrases) that classes that are being able to think better outside the box can influence those who are unable to do so. (ibid) It is true of course that these two things have much in common but he seems not to make a deliberate connection between them. Another thinker, Herbert A. Simon (Notes on the Observation and Measurement of Political Power, 1953) approaches the question from a similar but more deliberate view: he suggests that measuring power should be in fact based on someone's (say Person A's) capability to influence others, but not on the basis of values. He writes:

The difficulty is revealed when we try to state what we mean by a "value." If we list specific values; wealth, wisdom, or what not - then the statement that "A possesses certain of these values" is not what we mean when we say "A has power." (Simon, 1953)

This is important because what makes someone be influential; the fact that a person bears values that are regarded as desirable by the others? To some extent this is true, just to mention a non-political example of TV celebrities. They are famous, often rich, and seemingly successful and many people want to be like them. Still they would be unable to make a political influence unless those who have the *political power* would allow them do so (i.e. a celebrity is not usually able to campaign for too long for or against political values effectively unless someone who already has influential political power supports this). It can therefore be assumed that people who are value leaders only influence a specific group of the society and are usually not powerful in other means; moreover, their power is not always lasting. Simon also argues that values that are perceived as powerful are not always so, and those that are thought to be weak can be really powerful. (*ibid*) Ghandi is a good example of what he has meant by these thoughts.

Based on his views then, this means that in order to have power it is necessary that the beholder needs to have ultimate capabilities of influence so that they cannot be overridden by others. While of course we can assume that we do not have gods walking amongst us, power as such is only effective if it cannot be overridden by others on a given level. Taking everyday examples, the parents have the power at home to influence their child's behaviour but these parents are subordinates to other people at the workplace who are influenced by others again higher in the hierarchy, etc. The same applies to political power: regional forces are controlled by hierarchically stronger forces which at the end lead to the level of global power. It should be noted though that these controlling forces are not set in a strictly pyramid-shape but much rather are part of a pyramid/matrix-based hybrid system of interdependencies (making it even more difficult to quantify them) which I will try to portray later. Another important element that yields power to one is the system's dependency on the individual element; if an element can be eliminated without having major negative side effects on the whole system then this element was not fit enough to survive.

Gathering the thoughts of others so far and looking at the underlined words a definition starts to take shape. Add a final keyword now: resources. Resources (not necessarily in the exclusive sense of raw materials) are the key to every kind of power, without them, there's no power; this is evident in my opinion. Still, just by themselves they

do not help: they must be *used effectively, strategically*. Resources as the key ingredient however does not simply relate to raw natural resources but also to financial, military, people, etc; the question of what resources I deem necessary will be discussed in the next chapter. Finally, merging all the outlined thoughts a definition can be constructed: the one who has *political power of a given hierarchy* is the one ***who is capable of exercising ultimate influence on the others with the sound use of resources, out of the box thinking and strategy that can be peaceful or via force, or by making one's environment to depend on the influence*** (like the “*fear and togetherness*” that I’ll explain later) and in global-economic terms these measures are still viable.

1.3.3 Hegemony

Concentrated power on a global level can lead to the creation of *hegemons*. Dictionary definitions vary for the exact description of *hegemony* but they all match in the sense that hegemons are leaders (mostly states) with dominating capacity of power that they can and do use to influence other nations. (As we can see it’s rather similar to the definitions of *power* itself except for the state’s addition). Gramsci (1971) offers a more academic definition, which is in essence that hegemons are those groups or entities that have a set of additional powers (such as socio-political, intellectual, moral, etc) and a capacity to lead others so that the scenario does not simply serve the interests of the leading group or entity but also the ones that are being lead perceive it as a common good.

While I personally agree with this definition and will use it in the course of this paper, there are some thoughts that need to be addressed. The definition questions whether the Cold War superpowers were in fact hegemons or dictatorships: it is said that both the USA and the Soviet Union have become hegemons at that time, even so, especially the countries of the Eastern Bloc were not necessarily delighted by their leader being the Soviet Union – nonetheless they did not have many other viable choices. On the other hand the existence of *additional powers* showed through the creation of the NATO and Warsaw Pact as the leaders and countries who were members of these tried to overcome the other group not only politically and in military sense but also and through the above mentioned set of

cultural, socio-political, intellectual, etc ways. So we can differentiate between entities that are *hegemons* and others that are *dictatorships*. I recommend defining *hegemons* as Gramsci did “[...] *interests of the leading group or entity but also the ones that are being lead perceive it as a common good*” whereas defining *dictators* as “[...] *interests of the leading group or entity but also ensuring that the subordinates either perceive it as a common good or by the various means of power those subordinates have no other choice but to accept.*”

As it can be seen based on this differentiation there is a really small line between the two, and although it might not be small for those who live in them, in global political terms, these can overlap.

Mearsheimer and Nye are two of the well-known thinkers who disagree in the USA being a true hegemon (Nye Jr, *Understanding International Conflicts: An introduction to Theory and History*, 2002). They argue that the USA is not in fact a hegemon because it cannot impose its will on a global basis especially not in cultural terms. I think their prescription of global influence in culture is mistaken because first of all *hegemons* are not deities in a monotheistic religion: there can be more of them, and secondly *hegemons* are not necessarily *dictatorships* as it has been discussed.

Therefore in my opinion the possibility of a small number (2-3) of *hegemons* and/or global *dictatorships* existing at a given time in a world is important: if the whole globe followed one leader then the individual countries would cease to exist in *sovereignty* to a certain extent, which could then raise the question of the continuing of existence of *states* as such or their decline into *colonies*.

1.3.4 Invert Pyramid of Power

The previous subchapters have outlined the different definitions of power given by others and I tried to define power in my own terms as well. While my definition’s elements are all important, in my opinion the most relevant of all is resources, which needs to be stressed out separately. The reason for this choice is that all elements of power are part of a

system that should be imagined as an invert pyramid, where one can differentiate needs that are necessary for having power as such, while others are necessary for developing long term hold of power, ultimate power and hegemony/dictatorship. Each of the elements can be grouped into a 3+1 set of 'needs', (where the plus one stands for additional powers for hegemons) where the basic needs constitute the ones that are necessary for having power in general: the capability of influencing others and making sure that the others at a basic level depend on us.

By itself of course, these are not enough to keep one empowered, if one cannot make sound use of the situation and enhance these basic needs, which is where it is important to come up with ideas that strengthen the basic level elements and also to handle

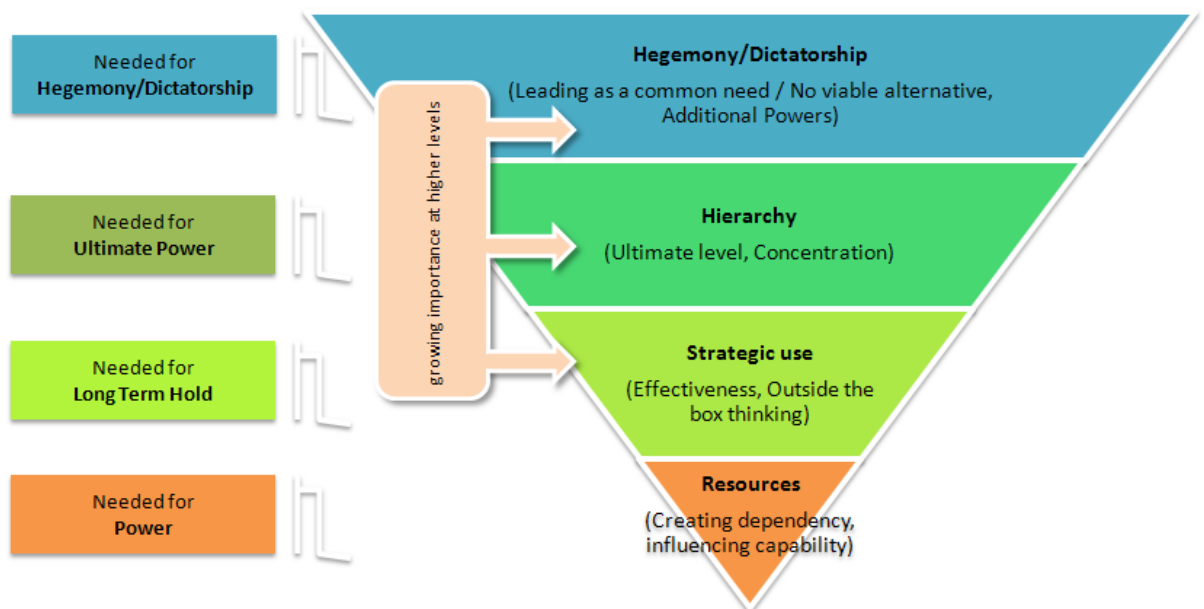


Figure 1-1: Invert Pyramid of Power

The hierarchical power is a constantly existing necessity at all levels but it comes the strongest around the top: the concentration of power and its wielding at global level are necessary to develop a country into a global power and most countries do not have the appropriate basics for this.

1.3.5 The 'R' Word

As the pyramid shows *resources* are the basic building blocks of power. Torres (1973) tried to define political power on a domestic level; still his original idea of *concentration* could be reflected onto a global scale if we imagined that instead of the concentration of raw decision-making participants a country would need natural, demographic and financial resources such as¹:

- Access to and extraction of raw materials that are processed domestically and are reinvested into the domestic manufacturing or create wealth as part of the financial resources. Domestic control of extraction and processing is important: a counter-example of this is the access and extraction of precious stones in Africa: while some countries have large unexcavated reserves of expensive stones, mining and refining are being controlled by foreign companies that provide a boost to their own nation's GNP and leave a small proportion of the profit in local hands.
- Demographic factors such as the sheer size of population (that can be weighted according to portions of children [future workers], working, and non-working), and scale of level of education. It is a controversial issue but as it will be seen still belongs to the question of demography is the ability to create a need within the environment (population in case of domestic politics) to follow the guidelines set by the political leaders, though this is not always a positive asset.
- Financial investments that have positive effect on a country's GNP and GDP. GNP in this case is probably more important because in nowadays globalized world much of a country's income is derived from investments that are physically placed outside the domestic borders but after all mostly stimulate the domestic economy, rather than the local (see the example of Africa again).
- Military power, which included a mix of all the three listed so far. The number of soldiers, technological advancement, nuclear capabilities, etc. This issue will be dealt with at a minimal level in this paper because I lack expertise in the matter and because I'm not able to make predictions on the subject for the coming decades.

Parts of the previously outlined pyramid consist of 'hard powers' others are 'soft powers' as well; both are needed for the success (Nye Jr, Soft Power and Leadership, 2004). Soft powers in other terms is preference shaping and has already been touched upon with

the faces of power. As Nye explains, “*in behavioural terms, soft power is attractive power. Soft power resources are the assets that produce such attraction*”. These resources can and do exist at both domestic and international levels as they will be pointed out in the coming chapters.

Nonetheless I still think that hard power capabilities are more important than soft power resources and potential: if attraction does not work as a method of influencing, force can still prove useful if the oppressor is appropriately placed in the hierarchy level of power, i.e. there is no likelihood of retaliation. While human behaviour can be considered as soft power, as one could argue that after all the execution of political will occurs in the minds of the individuals, I still think that coercion is ultimately a more effective tool in assuring the execution of will than words, especially if political leaders are committed to an aim and they have the resources to satisfy this. Practically the reason behind my argument is that people who dare to actively oppose a political will are usually scattered amongst those who are passive or supporting about it and therefore rarely group up to an appropriate level to influence the execution of political will; it happens, but rarely.

There are two more things that were not added by Torres, still need pointing out:

- As for the hegemons, there’s the additional power that was deemed necessary.
- The *factor of absence*, i.e. what happened to the world if the country ceased to exist?

Neither of these can be really quantified but they can be exemplified nonetheless. Additional power can mean the global spreading of a language, or for example holding the Summer Olympic Games, reaching successes in science and space exploration, etc. The *factor of absence* is while not a strictly politics-related issue, it’s important to mention because influence is derived from it; practically it’s a key to survival. It is the dependency on the element which is needed for its survival. China manufactures about 75% of the toys being sold in the USA and about 70% of the global market. They also manufacture about 70% of the global microwave ovens, 90% of kettles, 30% of portable media players, 75% of USB flash drives, and 50% of Notebook and PC accessories, just to mention a few things (Trade Media Holdings Ltd, 2008)². The reports also point out that most of the manufacturing companies are expanding at about 20% or more annually. So if China ceased

to exist, the rest of the world would be missing all these things. While this is improbable as such to occur it well shows the dependence of the global economy on some key players, and therefore is relevant for IR and political measures.

1.4 Research methodologies

1.4.1 Sources used

As it will be and can be seen my research is completely based on secondary elements, books, publications that are print and/or web-based. I tried to make use of the different publications from the past and near-present as they characterize different viewpoints of the times they were written in. At the same time I aimed at gathering various sources that represent different ideologies so that the research is not one-sided or biased. Supporting evidence for statistical data comes from relevant international organizations' publications that are affected in the given question.

The chief reason for the lack of primary research is mostly that while this topic could be researched more deeply, such results would not fit into a roughly 15,000-words-long paper, but should rather constitute to be part of a larger work, such as a book. Also one of my aims with this paper is to ring the bell in the readers' minds whether this issue is in fact as important as I'm portraying it, in other words to encourage some discussion, regardless of whether or not this work ever makes it outside the walls of Brookes; because of this, it touches upon a wide range of elements and due to the word and my resource limitation it does so sometimes superficially.

1.4.2 Limitations and validity, notes

One of my original aims was to try to go against previous experience and set up a measurement scale that could be applied to global political power, but after much trying, I

forfeited it because there are simply too many factors that cannot be quantified, such as personal influence, or luck; and there are many other questions that are not discussed publicly and would be necessary to set up a *fair and valid system* of equations (such as truths behind conspiracy theories, which factor may sound like unprofessional to mention, but it does make a whole lot of difference to way history and power is shaped whether for example it was Hitler who burned the Reichstag, or was maybe was it the Americans who ignored the warning signs before the attack on Pearl Harbour or New York to go into war later).

There are some other things that could be mentioned but into which I will not be getting too deeply, such as scientific research capabilities, space race, etc. These are factors that after all had a large impact on the history of the 20th century, however they cannot be measured and just as with the case of conspiracies, they cannot be fully studied either because their relation to political power is neither always obvious, nor their documentation full and credible. Nonetheless these can be classified as the part of the *additional powers* that are important for hegemons.

2 Historical Political Overview of the USA and the Coalition

Since the end of the Second World War, for a long time the “*political foundations of the international economy have rested on American leadership, close cooperation among the USA and its Cold War allies*” with little efforts from these allies to create a global and open economy (Gilpin, 2001). Due to the fact that the global economy has been controlled by a minimal number of important countries up till the very latest years, these countries’ economic and political influence has grown to the levels of hegemonic, with the USA at first place. This chapter will review the important events that have lead to the USA’s primary position of the world politics and economic power. It will also provide some links that are recurring and are worth mentioning.

2.1 Post-WW2 Period

2.1.1 Rebuilding after the World War and the Second Red Scare

It is now history and widely known that the USA could take the role of the global helper because of its luck in the Second World War. Luck from the point that except for the bombing of Hawaii its territory was unharmed and because it’s manufacturing economy became very powerful during the years of the war – and which afterwards was turned to manufacture the rebuilding of the European continent and the building of the American dream.

2.1.1.1 International economic influences

After the War, the American economy had large reserves of unused capacities and raw materials. Much of the American industry has therefore turned towards the rebuilding of Europe, which was often sponsored by American corporations frequently via the Marshall

Plan. This was necessary because continuing the American expansion of its economy would not have been possible without a market that was able to make use of the American goods and services. Also, to stabilize the global economy, the European currencies were pegged against the dollar and interest rates were set to keep up international economic growth. This was very important for the USA because previously the British pound or the gold was the basis of measurement, but with the dollar taking their places; it gave the USA an outstanding possibility to influence the world economies which still lasts. (Braithwaite & Drahos, 2000)

The dollar became so important in the financial world that it became the reserve currency, and although the USA has slipped from the positive side to being a deficit country; leaving some liquidity for the others. Becoming a political hegemon and the most important currency was a good combination for the US; practically, this meant that the USA was not only the sole relevant power besides the Soviet Union in political terms, but it had an unpunished influence over the monetary (and therefore political) systems of its international allies (Braithwaite & Drahos, 2000). The dependence on the dollar and the spreading of American based multinational organizations created a lift in the performance of the American economy. (Seabrooke, 2001)

On the international level however the US did not manage to continue achieving such success for an extended period of time. By the mid 60s the economies of EEC and Japan have strengthened to the extent that the USA's economic hegemony could be questioned. The other problem was that the relationship between the Soviet Union and the capitalist countries has eased by the 60s therefore it seemed that the need for military spending was less burdening than before. This encouraged trade between the European countries (without an American influence) and thus the importance of the dollar and the American influence weakened. The dollar soon became overvalued while the European and Japanese currencies undervalued. This created tension in the import/export systems and with huge spending on the Vietnam War, the American economy has slowed down.

By the 70s most of the currencies were floating, although the USA did most of what it could to prevent this from happening; however its declining productivity and reserves helped foreign banks to exploit the possibilities in the international markets and free

trade/currencies. Soon the gold was set from its original \$35/oz to \$38 (1971), then \$44 (1971 again), then \$70 (1972) but this did not help either, as countries decided to abandon the pegging and the Bretton Woods agreement was closed.

2.1.1.2 American domestic politics

On the domestic level, with interest to the subject of this paper, the Red Scare defined much of the post-WW2 period. It was an important step in strengthening domestic political power and control over the population via a set of means.

The Soviet Union developed its first nuclear bomb in 1949, while during the first part of the 1950s the USA made some fragile attempts to block the spreading of Communism and instead encourage the spreading of the American values, the Soviet breakdown of the 1956 Hungarian revolution and later the failure on the Korean War has shown the world (and the USA) that its efforts in their current means were fruitless (Maynes, Charles William - Strategic Studies Institute U.S. Army War College , 1993). The Vietnam War was also part of the plans to counter the spreading of Communism, though its success was rather limited.

These occurrences pointed out that the USA was not after all capable of a total global influence, and the US Government could not allow itself to be defeated or at least weakened in domestic terms in front of the American population. Soon the ways of the allies broke separate, and the Communist threat was portrayed as evil.

First, committees were set up to oversee the loyalty of the party members towards the American values and then later the loyalty of the common people was examined. People who failed to pass the 'exams' were practically made impossible of getting a job (Schrecker, 1998). Children were taught what to do in case of a nuclear attack; people were mailed personalized fallout shelter construction guides, as well as the booklet *Survival under Atomic Attack*, and generally were told how to focus their lives on surviving the Communist threat, to stock food and supplies at home and to keep their eyes open for anything suspicious. Airing of commercials such as the *Daisy Girl*³ (connecting a girl picking daisies and being destroyed by an enemy nuclear bomb), the *Duck and Cover*⁴ (explaining what to

do in case of a nuclear attack and how to prepare for it) and numerous movies enhanced the citizens' patriotism by picturing the Communist threat and/or the nuclear threat, and developing games and activities helped maintaining the feeling of threat and the need of acceptance of government actions. Patriotism became a very important question not only via the employment of *fear* (the common enemy, and the public sweeping out of those who were allegedly connected to it) but also via the feeling of *togetherness*. Organizations that gathered people based on different factors (such as group of men, women, religion, like the Minute Women of the U.S.A. or YMCAs, and many others) became popular as people found networking possibilities and thus strengthened their feeling of togetherness and patriotism.

The system was nonetheless effective: looking at these advertisements of the past (like the D&C) it is obvious that if there was in fact a need to duck and cover because the citizen has seen the nuclear flash, it probably made no difference to them anymore because they died before they could duck. Still they believed that they were living in a dangerous environment and the government had been doing a fine job in defending them, enhancing their lives, and they were thankful for this. Also as it was mentioned already that the government was active in enhancing the standards of living in the USA at the time and were fed with technologies and activities that kept them busy. This was an important move for many reasons, especially because happy people are ignorant and they can be easier blindfolded against underlying political wishes and political activities that can be otherwise questioned on being fair; this I will get into later on.

Nevertheless, many of the American allied countries have taken on similarly influencing their own population; the American values were spread and the American Dream as a phrase became a key target for many who immigrated to the States. This, the spreading of influential values can be considered as an *additional power*, which at the time none of the global 'competitors' could reproduce; while there is probably no data on the ratio of Communist Bloc citizens wishing to live the Western way of life vs. the other way around, probably everyone can guess the general thoughts on this.

In summary the anti-Communist era was important in the global politics because its originally American domestic roots have strengthened the global need for a *democratic*

leader and the successful American propaganda helped the States to become and remain this leader that the world had seemed to need.

2.1.2 Breaking of the fellowship

By the end of the Cold War, the American domestic politics became incoherent, and the other leading developed countries tried to build up their alliances. (Braithwaite & Drahos, 2000). America's European allies started to look for new ways of managing their money. The European Monetary System came to existence in 1979 with the purpose of stabilizing the European exchange rates. One of the challenges the EMS posed was that the participant countries had to have a level of stability in order for the system to work, and the answer for this challenge later led to the creation of the Euro which will be analysed in Chapter 2.2.1. Nevertheless, for the time being, France, Germany, and other West-European countries have achieved considerable successes in forging a European economic unity, even if it was and still is not perfect. (*ibid*)

2.2 1990s onwards

2.2.1 Changes in the global values and economies

There are different views on why the early 1990s brought a positive turn in the global economy. Gilpin explains, that the American economy was growing faster than ever during most of the 1990s and by the middle of the decade, the USA has become – instead of the world's biggest creditor that it was a decade before – the world's biggest debtor. The problems started to occur when the Americans began to finance their ever-high consumption from personal savings on a personal level, and foreign credit on a global level, but the investment levels within the country did not match up to the spending. Gilpin (The Challenge of Global Capitalism, 2001) explains that by the turn of the millennium the

American trade deficit grew to about \$1bn per day, which resulted in the USA's foreign debt to reach more than 20% of its GDP (Madrick, 2000).

Others think that the upturn in the economy was due to the restraints of the system. Brenner explains that the reasons why there was a slowdown between the 1970s and 1990s was because the economies that were originally devastated by the wars have reached an optimal level of output and therefore they created an overcapacity of supply which has led to the waning profits. By the 1990s however the source of oversupply was eliminated which brought the economy back to a positive level (The Economics of Global Turbulence, 2006). However developing new processes and technologies is expensive and in the times of depression it may be a risk; therefore, many companies turned to moving the production to less expensive places. This was sustained by legislative measures as well: during the late 1980s a number of laws were passed in the US that hindered the imports of foreign, mostly East-Asian goods into the USA but at the same time prescribed that these economies would need to open their markets to direct foreign investment which in the long run would help the US-based companies create profits and ease the existing problem of the over dollar (Brenner, The Boom and the Bubble: The US in the World Economy, 2002). Although he does not specifically point out, but this has marked the dawn of what is now being referred to as outsourcing.

2.2.2 War on Terrorism and 9/11

Previously, as this has been mentioned the USA's global political and economic power was greatly enhanced by an anti-Communist coalition that was made out of countries that were willing to give up a part of their decision making power to help the 'world to fight Communism'. It has also been identified that the domestic American political life and generally the American population was in large agreement of the necessity of the financial and political actions that were taken in those years, however as the Soviet Union collapsed, America's power has weakened because the old allies became less willing to follow the guidelines and set their own courses.

As Webster Tarpley (9/11 Synthetic Terror: Made in USA, 2006) historian points out Carl Schmidt's theory (on Neo-conservatism), a state needs to have an enemy image projected towards the society to keep it coherent. This lines up with the patriotic and happy society image that I elaborated on before. He goes on further explaining that the dangers of this method is that people who do not question the central ideology can focus a lot of their lives around it, which causes economic changes as well. The reason why the USA's War on Terror is important to mention is manifold. Generally, the 9/11 attacks partially created, or more rather partially recreated the global image of enemy that previously existed in the picture of the Soviet Union, this time however it was Bin Laden, Afghanistan, Iraq, Iran, and a number of others that were targeted. (*ibid*)

While I'd like to avoid getting into why a governmental action instead of a real terrorist attack would have been imaginable in 2001, it is still an important issue: during the Cold War the Communist threat was visible from the point of the Soviet Union vs. USA arms race and the world became deeply divided on the matter. It is documented and is known that both countries had an arsenal weapons that could have destroyed the world, and the US. Government did its job in creating patriotism and fear in the domestic population which has been explained already.

On domestic levels, the Cold War tactics worked almost perfectly: the case of the 9/11 attacks followed a similar situation as the Cold War's times, regarding nationalism and patriotism at least. According to a CNN/Gallup/USA Today poll taken 16th September 2001, after the attacks took place, the Bush administration's popularity has grown to 86%, with other findings of

“Overwhelming support for a military response even if it were to cost thousands of U.S. troops' lives, last months or years and require revival of the military draft [...] strong support for a long war, even if it meant less spending on education, Social Security and other popular programs, an increase in taxes and a prolonged recession [...] a deep, profound sense that the country needs to pull together and that now's the time to reach out to family, friends and neighbours.” (USA TODAY (Richard Benedetto and Patrick O'Driscoll), 2001)

Not much longer, legislations were passed to give more power to the anti-terrorist forces and the Administration, with regards to personal freedom and similarly to the Red Scare, people were prisoned because they were allegedly connected to Al Qaeda, or because they were propagating views different from the government's.

Fear and togetherness once again came to be the centre of everyday's for the Americans and to some extent the Western World. Terrorist attacks around the world and continuous news coverage on heightened state of alertness⁵ with the danger of a (continuously) imminent terrorist attack provided excellent soil for the governments to pass regulations on limiting individual liberty. The reason why this is important to mention is because it did not only enhance America's domestic political power but also its global power. Looking at the current situation, the EU is fighting a losing battle on issues like visa and biometric identification of the European tourists wishing to travel to the USA.

Besides arranging favourable international legislations like the one mentioned above, the USA did not have an overwhelming international success in convincing the world about its new problems; partially due to the rather blurred evidence of terrorist attacks and the American government's reluctance on clearing up some of the gray spots related to the events, generally a proportion of people and nations questioned the truth behind the situation from the very beginning. Also, many countries felt that on the contrary to the previous World Wars and the Cold War, it's America's personal matter, and not the world's. The wars on Iraq and Afghanistan have not been a real success for many reasons either: the number of states that lined up in the long term behind the USA was small. Even with reference to the current events, America's legitimacy of probing Russia's use of force in Georgia is being questioned in reference to their own acts in Iraq. Seemingly, the USA has lost a visible part of its power to dictate on a global level.

3 The PRC's Political and Economic Force⁶

This subchapter will review the economy of the PRC and the historical advancements since the end of World War II. On 2007 numbers, the PRC had the second largest GDP in the world; currently after the USA in PPP measure, and third in exchange-rate measure, after the USA and Japan (IMF, 2008), although the average GDP per capita is still low; which ranks the country 107th on the nominal, and 82nd on the PPP global rank.

3.1 The Post World War II Period

After the Second World War the Chinese government focused on the building of the socialist structure of the industry; heavy industry was preferred and consumption was kept at low levels. (Worden, Savada, & Dolan, 1988)

The post-war recovery process also included changes in the banking system, which mostly meant nationalisation and economic system, which in turn meant the nationalisation of enterprises. Food production was centralized as much as it was possible to control and distribute food as necessary. The government tried to overcome food supply problems, which were very grave at times by restructuring the supply chain within the country and by importing food and resources from other countries. (*ibid*)

The recovery period lasted until roughly 1952 when the first Five Year plan was executed. China 'imported' the knowledge from the Soviet Union who provided economic planning experts, scientists and a number of other professionals who assisted in bringing the plans to life. By 1956, all of the economic ventures were either nationalised or brought into a public-private partnership structure. Light industries were merged into large cooperatives as well as farming was. Agriculture was also modernized. This was very much necessary because even though the country has somewhat recovered from the war, food shortages kept posing serious problems because the population was growing steadily.

By 1958 the government realized that unless it started to put further stress on the enhancement of the agricultural output, the industrial output would be endangered because of demographic reasons. The plan did not work: undesirable weather conditions had struck the poorly constructed mechanical systems necessary to keep up irrigation and water supply, and agricultural output fell further. Making things worse, industrial output rose steadily for a while but then it was struck by famines and starvation as people were overworking. (*ibid*)

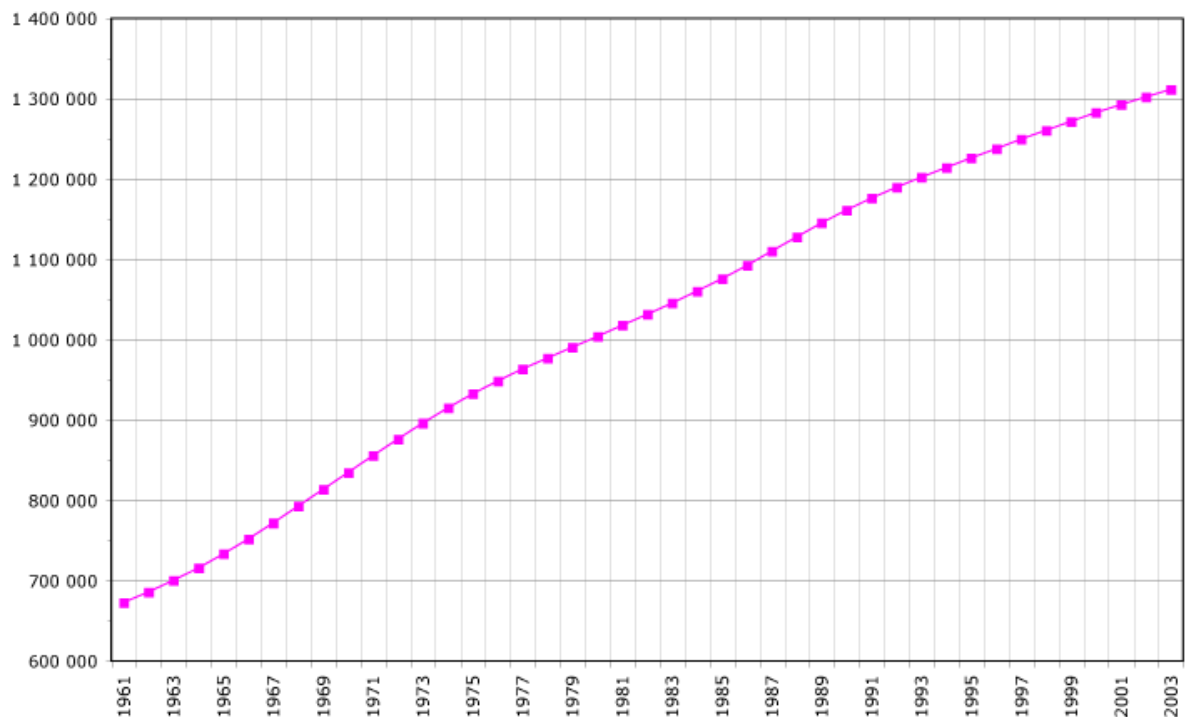


Figure 3-1: China's population growth after 1960 (FAOSTAT, 2005)

Soon the government set up new plans and put agriculture and its supporting services first, and heavy industry last. Fertilizers came to be used, hydro power plants were to be set up and the importing of advanced Western technologies as well as planning instead of political needs helped the agriculture to recover slowly. In the first part of the 1960s both agricultural and industrial output grew by almost 10% per year. The new plans worked much better than the old ones and they were not changed for almost a decade therefore.

The first part of the 1970s brought mostly continuing increased economic output and also the first international agreements to China as the PRC was contracted to produce chemicals in extensive amounts related to fertilizing and oil production. The rest of the

decade was spent on political issues and power struggles that slowed the economic performance. (*ibid*)

3.2 The Post-Mao Era (Reforms)

After Mao's death modernisation became faster than previously. Foreign technologies were imported to fuel the economy and the political leadership became more willing to open towards the importing of foreign expertise and exchange of knowledge. A family planning (one child policy) program was also initiated to counter the high population growth with which the agriculture still had problems keeping up. Smaller farmers were given incentives to enhance their productivity by giving them money and a part of their produces to be kept if they met certain targets. Unemployment was tackled by giving more freedom to the common people in setting up joint ventures. Larger, state owned enterprises were also given back parts of their profits that could be spent at their free will or on investments. Bonus schemes were set up at large companies to encourage meeting higher targets. Policies were initiated to allow international trade and ease the existing policies for the involved partners. First the textile export started growing steadily which was followed petroleum and food related goods. (*ibid*)

Foreign trade grew quickly, in a few years it tripled. Commercial regions were set up where foreign companies could trade more easily and under more favourable financial terms. The standards of living also grew as GDP did, and as people were able to source more foreign goods into their everyday. (*ibid*)

Changes occurred in the pricing systems. The importing of foreign goods caused issues in the economy because the price gap was rather wide between the domestic and imported goods; therefore the state issued a control on some of the prices, while others were let to be driven by the market. The control lessened as the years past and market driven economy was allowed to prevail, the consumer society started to develop. (*ibid*)

In the second half of the 1980s inflation, corruption and the mixed nature of state and private owned market started to create serious problems. Also, about 60% of the total

population was still employed within the agricultural industry although it only accounted for 30% of the economic output. This was tackled by urbanization and investment into better automatisations of the agriculture. In the 1990s after Deng Xiaoping's death the processes sped even further up. (*ibid*)

3.2.1 Outsourcing and FDI

As it has been discussed previously, companies have realized that in order to cut costs and remain competitive in a period of negative economical performance, they need to find new processes that are profitable and sustainable. This was helped by the changed legislation in the USA which encouraged outgoing FDI and changes in the international trade. During the 1990s, the outsourcing or 'offshoring' of many services to other, most often far away countries have become a popular and feasible solution to cut corporate costs not only in the USA but also in some parts of Western Europe. The positive effects of outsourcing were easy to see: the skilled workforce in the off shore countries was 60-90% less expensive than in the originating country (PriceWaterHouseCoopers, 2005), whereas jobs, such as data entry or back office tasks were derogatory in the West, they were well paying opportunities in local terms and were respected and sought after, resulting in higher motivation and better performance (McKinsey Global Institute, 2003). Another economic positive of outsourcing is that since these jobs are often – as mentioned – well paying jobs in India or other parts of the world, the local workforce will have more money to spend and their investment/spending fuel the local economy, and often American or other Western firms' subsidiaries (such as of purchasing computers and high-tech electronics).

The above mentioned report quotes Forrester, a major research and analytics company who projects that from the 2003 level of 400,000 American outsourced jobs, by 2015, there will be around 3,300,000, saving about \$136bn in wages for the American companies. It is therefore a relevant question to ask, what will happen to these 3 million jobs that will be lost within the domestic market, and how the domestic economy will be able to tackle the newly developed situation. MGI suggests that as of now, about two thirds of the services sector is made up by jobs that cannot be outsourced (e.g. hotels, restaurants,

etc). Still, it's important to examine the numbers from a wider sense. The loss of three million jobs over a twelve year period would average to an annual 250,000 or so, which is not that much if one takes into account that during the late 1990s the average jobs lost in the USA due to layoffs were around 1.1-1.2 million *per year* (Kletzer, 2001)⁷, which MGI argues the USA can recreate 'easily'. Nonetheless the question is more complex than the simple recreation of jobs.

Offshoring creates wealth for U.S. companies and consumers and therefore for the United States as a whole: that is why companies choose to follow this course. (MGI)

The problem with this statement is that the MGI study fails to recognize that though jobs might be recreated; losing a job has several negative effects. As specific examples, Kletzer mentions the decreased loyalty towards a new employer after losing a job, as well as the inability or unwillingness to adapt to the new environment and the simple fact that in many cases finding a new job is not immediately successful, therefore the workers still suffer from a temporary loss of income. This would also hinder sectors as hotels, restaurants, etc. because people would cut down on eating out or on holidays if they have less income; therefore simply because those sectors cannot be outsourced it does not mean that outsourcing others would not have negative effect on the economy's performance. Furthermore the fact that American corporations are being made more lucrative with outsourcing does not necessarily mean that the process actually creates wealth for the consumers. As mentioned previously outsourced jobs are often regarded as low-prestige jobs, which are domestically often being handled by people who have limited possibilities. For them, the wealth that's being created for the outsourcers is often far away.

Outsourcing has been more important in the economic upturn in India and some other countries than China. Although it is predicted that China may take over India's first place on global outsourcing by 2015 (Vembu, 2007), what gave China an economic boost in the last decades were the exports and FDI.

Historically speaking there are three main phases of the Chinese FDI development, mostly based on political policy changes, which are: 1979-83, 1984-91 and 1992 ongoing. The first phase incorporated the setup of Special Economic Zones (SEZ), which enabled the incoming FDI to become more important for the overall national economy as investors were given extra rights in these areas. Still, in these five years, a total of \$1.8bn (annual \$360mn) of FDI arrived into the country, mostly into the SEZ provinces. In 1984, fifteen, mostly coastal cities were opened for FDI which caused a rocketing in the inward FDI, averaging of an annual \$2.1bn which was hindered by the 1989 events at Tiananmen Square. The trends took about 3 years to recover when Xiaoping visited most of the relevant FDI-target cities and ensured investors that the country was committed to open markets. New legislations were passed to enhance FD investors' wellbeing in the country and alleviate them from some restraints. Between 1992 and 1999, the average annual inwards FDI was \$36bn with a 32% annual increase (OECD/OCDE, 2000). By the new millennium (2002) FDI in China has reached 22%, even though the East Asian economic crisis crippled the rest of the region, and on global levels, FDI was stagnating at around 1%. GDP has been growing around the rate of 9-10% annually continuously.

As of 1995, most of the FDIs went into Labour intensive sectors, which was followed equally by Technology intensive and Capital intensive markets.

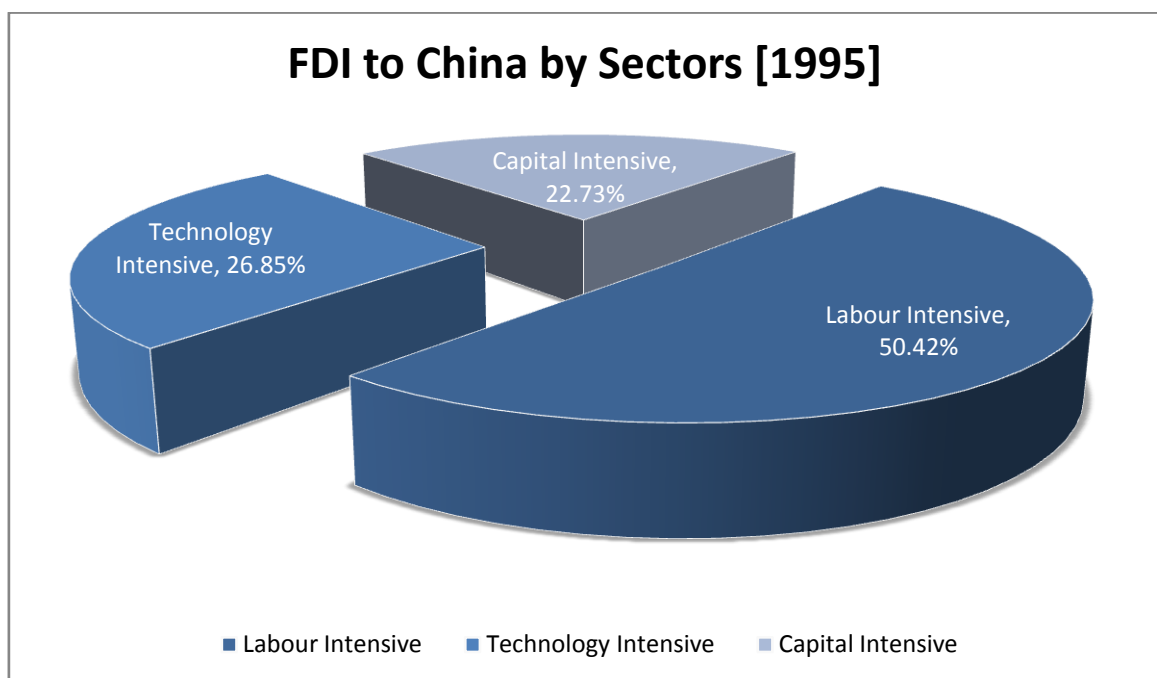


Figure 3-2: FDI to China by Sectors in 1995⁸

Figure 3-2 shows how the FDI was allocated in the different sectors in 1995. While this data is by no means 'new', still it gives an overall idea on how the world could have become so dependent on Chinese manufactured goods in some specific sectors, of which some examples are mentioned in subchapter 1.3.5 on page 16.

Nonetheless there are many underlying problems in the Chinese society. The high inequalities, negative side effects of the One-Child Policy and the ageing population will also affect China, just as it now starts to affect the West, albeit in China's case this may come a bit later than with the USA and Europe.

4 Future Outlooks - Has America actually lost its political strength?

Analysing a question that has so many background reasons is never easy. Lost as such is an extreme word because it assumes a result of zero against whoever won with a result of (say) 100. The USA is not at a zero level by any means and nobody else is at a 100-level either, especially because a mathematical equation for measuring power had not been set up. Still I do wish to say that in my opinion and based on the previous chapters there has been a shift and it resulted in weakening American influence.

As it could be seen from the comparison the main factors that helped the USA dictate in the past years are very different from the ones that enhance China's growing power. China had practically no relevant influence on the global IR after the Second World War, at least definitely nothing similar to the USA's.

With the fall of the Soviet Union however the strong American domestic support has weakened as the national unity against the 'evil forces' was not anymore necessary in the way it previously was (Gilpin, 2001).

China on the other hand grew because it had and still has a pool of resources that others can hardly match to and with seemingly sustainable and strategic development the Chinese government managed to bring the country to the level where it cannot be anymore disregarded on the international field, by means of economy, population and military. Still the common link between the USA's and China's monetary growth is the market-driven economy and what the OECD report calls market-oriented and export-oriented FDI (2000, p. 11). China is so vast the investors firstly realized the export-oriented FDI is a good investment because labour is cheap. Later they also realized that market-oriented investments are good because there's a growing need and enormous market for it, whereas many other places of the world were (or are) in recession. This gave China a significant place in the global economy which then quite quickly shifted to not just economic importance but also to political and military importance.

4.1 Resources Examined

In the early chapters I marked resources as the key element in developing and keeping power. It has been also pointed out later that the USA could become a hegemon because it had access to resources (mainly technological and financial) that were unavailable at the time for other countries for various reasons. Furthermore, the USA had access to natural resources within its own territory or through the allies that enabled it to keep up the growth and reinvest its economy, military, research, which partially points out why IR has not really considered in depth if other countries could rise to challenge the US in its position because resources and their derivatives haven't been available for the others, while plenty for the US. Practically if we aim at examining hard power the technological advancements in finance and its supporting industries, as well as in military created such a gap between the USA and any other state that so far could not have been bridged. The resources that I named key were Access to and Extraction of Raw Materials, Financial Investments, Military Power (including technological background) and Demographic Factors which will now be looked at, at an overview level of the first three and detailed level of demographics as the main subject of this paper.

Technically the USA to a large extent depends on oil supplies that are imported from areas of the world which are politically volatile (Energy Information Administration, 2008), and although it is itself the third largest oil producer, its actual production is declining, having to import roughly 2/3s of its total consumption. Strictly theoretically, (by military terms) the USA could get hold of important oil reserves through Canada, if it ever became necessary though. By coal production terms, the USA is self sufficient and exports most of its production.

China also imports about half of its oil consumption but its own production is still growing. Nonetheless the Chinese imports of oil even more heavily relies on the same political area (Middle East) as the USA's does, which can be accounted as a threat for both countries, but especially the PRC. China is also the largest producer and consumer of coal in the world, but the country is self sufficient (*ibid*). Furthermore, while the country currently

takes relatively small use of renewable energy sources, it has the world's largest hydropower potential (CIA , 2008).

There are many other raw materials that can be used as resources, like iron ore/steel, etc, but it is not the aim of this paper to analyze each of them.

As a section summary, whether or not access to raw materials can hinder the USA's hegemonic position is not simple to answer. China currently has access to necessary amount of raw goods that are needed for its ongoing future development. Nonetheless if oil supplies become short, it will definitely alter the global scenario of exports, imports and development.

Financial investments and operations had a major impact on the USA's rise as hegemony. It has also been mentioned that while outsourcing would presumably have a hindering effect on the growth on the American economy and in turn a positive effect on the economy of the country to where offshoring investments are targeted, just by itself this would not endanger the hegemonic situation of the USA; however FDI does have a significant effect on the shaping of economies and in turn the domestic investment capabilities of a country. China and India have become major targets of FDI in the last decades and India is predicted to grow to be the 3rd largest economy in the world by 2030 (Goldman & Sachs (Wilson, Dominic; Purushothaman, Roopa), 2003). The Goldman Sachs report carries numerous predictions for the state of global financial scenario. The report outlines that by 2040, China would replace the USA as the largest economy in the world, and India, which will be #3 by that time, would later on replace it at the second rank.

Projected US\$ GDP												
2003\$bn	BRIC				G6						Totals	
	Brazil	China	India	Russia	France	Germany	Italy	Japan	UK	US	BRICs	G6
2000	762	1078	469	391	1,311	1,875	1,078	4,176	1,437	9,825	2,700	19,702
2005	468	1724	604	534	1,489	2,011	1,236	4,427	1,688	11,697	3,330	22,548
2010	668	2998	929	847	1,622	2,212	1,337	4,601	1,876	13,271	5,441	24,919
2015	952	4754	1411	1232	1,767	2,386	1,447	4,858	2,089	14,786	8,349	27,332
2020	1333	7070	2104	1741	1,930	2,524	1,553	5,221	2,285	16,415	12,248	29,928
2025	1695	10213	3174	2264	2,095	2,604	1,625	5,567	2,456	18,340	17,345	32,687
2030	2189	14312	4935	2980	2,267	2,697	1,671	5,810	2,649	20,833	24,415	35,927
2035	2871	19605	7854	3734	2,445	2,903	1,708	5,882	2,901	23,828	34,064	39,668
2040	3740	26439	12367	4467	2,668	3,147	1,788	6,039	3,201	27,229	47,013	44,072
2045	4794	34799	18847	5156	2,898	3,381	1,912	6,297	3,496	30,956	63,596	48,940
2050	6074	44453	27803	5870	3,148	3,603	2,061	6,673	3,782	35,165	84,201	54,433

Figure 4-1: Predicted changes in global economies (source: ibid)

Nonetheless as the countries grow they lose some of their speed as they become less competitive against the already developed nations. In case of China, the current 8% annual GDP growth is predicted to slow to 4% by 2030 and 3% by 2050, whereas India will still grow at a 5% annual rate (*ibid*).

The important finding of this section is that America will not specifically lose its economic power, however others will probably outperform it. This will be due to India's and China's continued position of being a good investment target both for consumer and manufacturing purposes.

Probably the most important but most derivative element of the resources subject is the military power, as far as hard power goes: having raw materials and strong financial background does not safeguard a country if it lacks military power; neither do they by themselves ultimately enhance the bargaining power of a country. Nonetheless in order to develop significant military strength a country needs both raw and financial resources, as well as technological and personnel capital. Since IR is to a large extent currently prefers hard power against soft power in its measurements and predictions, this is actually a reason why countries such as China, India, or Russia haven't been brought up as possible short-term challengers to the USA's primary hegemony position; these countries do not, or did not have the appropriate mix of resources to create and keep up a significant military force.

This question is also the most difficult to reliably evaluate. While the number of personnel in the US Army and the People's Liberation Army (PLA) are public, it is a country's vital interest that its possible enemies do not have access to its military secrets, may that be the actual number of nuclear bombs, biological weapons and level of technological advancement. In statistical terms, the PLA is the largest standing army of the world with roughly twice as many active troops as in the US Army (Center for Strategic and International Studies, 2006), (Department of Defense, 2006). Many of the Chinese land forces (weapons, tanks, etc) are based on Soviet technologies and are often outdated in comparison to the American counterparts; however the PLA is in the process of modernization and transformation (Department of Defense, 2007). Currently, the PRC has a somewhat higher spend on its military than the US by proportion of the GDP (4.3% vs. 3.9%) but due to the differences between the economies of the two countries, in actual numbers

the PRC's spending is around 10% of the USA's (*ibid*). It should be noted though that China's military spending has doubled in the 2000-2005 period and is probable that growth has continued since (*ibid*). This points out an important strength: as long as the economy keeps growing at such a pace the country will have growing resources to spend on its already enormous military, and modernize it.

4.2 Population and demographics

As the major part of this paper the following subchapters will be examining in deeper details the predictions of America's and China's demographic changes in the coming decades and their possible effects on the countries' political power. Aside from military questions and findings of yet unknown resources, probably the biggest influence on the future of global political and economic power will be made by the sheer demographic changes of the planet.

While the world is currently growing in population, the Western world is already facing issues related to the ageing of population (United Nations Development Programme, 2005). Demographics as such have not been dealt with in details by IR academics, as it seems to be a subject regarded as of secondary importance. I think this is wrong because changes in the population can have major influence on how a country develops and as such its behaviour in politics and IR. Just to mention a few general examples in a nutshell: changes in population and the number of citizens can and does influence industrial output both civilian and military production, research capacity, mining capacity, military power (number of soldiers and spec. ops.), but also have possible hindering effects, like ageing population's problems (pensions, healthcare, social security burdens, etc), agricultural burdens (need of food supply and supporting logistics), etc. Another one of the reasons why previously demographics was not considered as a primary issue was that most of the population issues came from LDCs which were – let's face it - fairly irrelevant in terms of influencing global politics and IR if we disregard their need for aid. The wake of the East and South Asian region (China, India, and to some extent Japan) and its rise to a possible

challenger of the USA as world hegemon, as well as the Western world's ageing population and emigration issues do however provide a reason for examination.

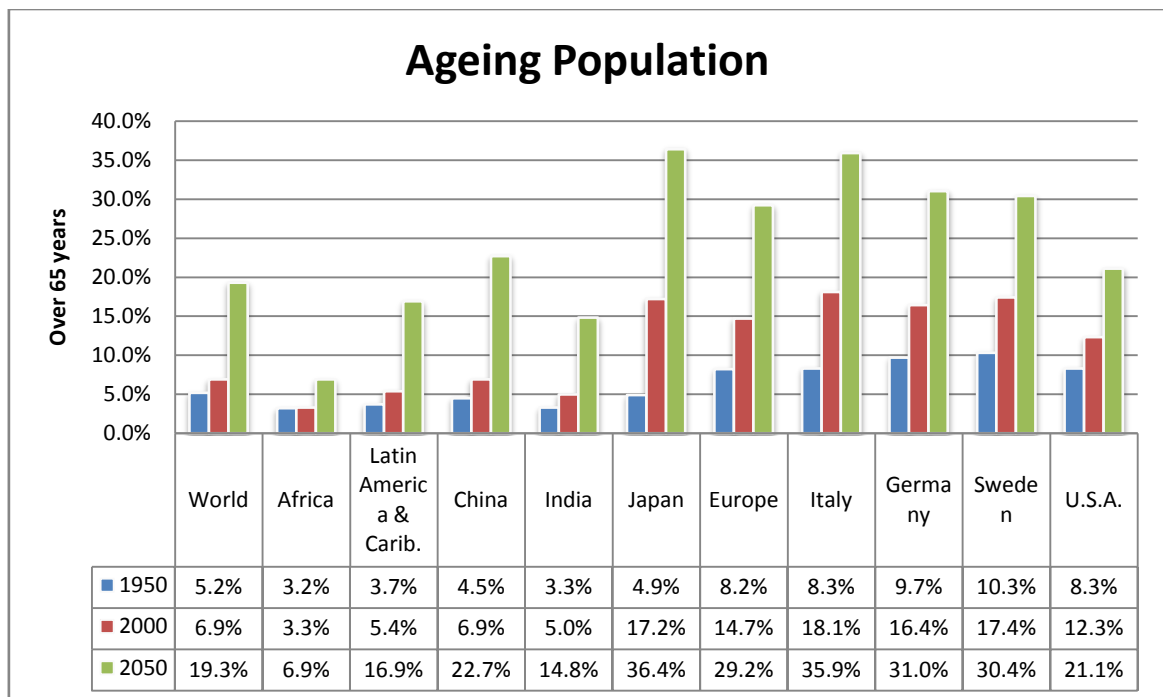


Figure 4-2: Observed and Forecasted percentages of the Elderly (65+ years) in Selected Areas, Regions, and Countries of the World: 1950, 2000 and 2050 (UN, 2000)

Figure 4-2 shows the observed and predicted changes in global population between 1950 and 2050. As it is known the Western countries are already facing problems of the ageing population, however as the chart shows neither Europe nor the USA have doubled its proportion of elderly people in the last 50 years, whereas Europe and Japan will double the proportion of elderly people in the coming 40-50 years, and so will the USA but China for example will triple it (also see Figure 4-4 and Figure 4-6). This will pose a very serious burden on the rest of the society which will lead to changes in economies simply because of the different needs of older people both by terms of consuming habits and by health issues. Naturally if a state will be required to spend a larger amount of its money on health and social care then 1) it can spend less on production and military and/or 2) it needs to raise its income (taxes) to sustain expenditure which means that the population will have less to spend on consumption which would then lead to economic slowdown.

As it will be outlined, the population growth will also be a problem in the USA especially because they also face emigration issues, whereas China does not at the moment;

at the same time the price of food is rising steadily and we're far probably far from the peak of it, which will also pose threats to the national economies.

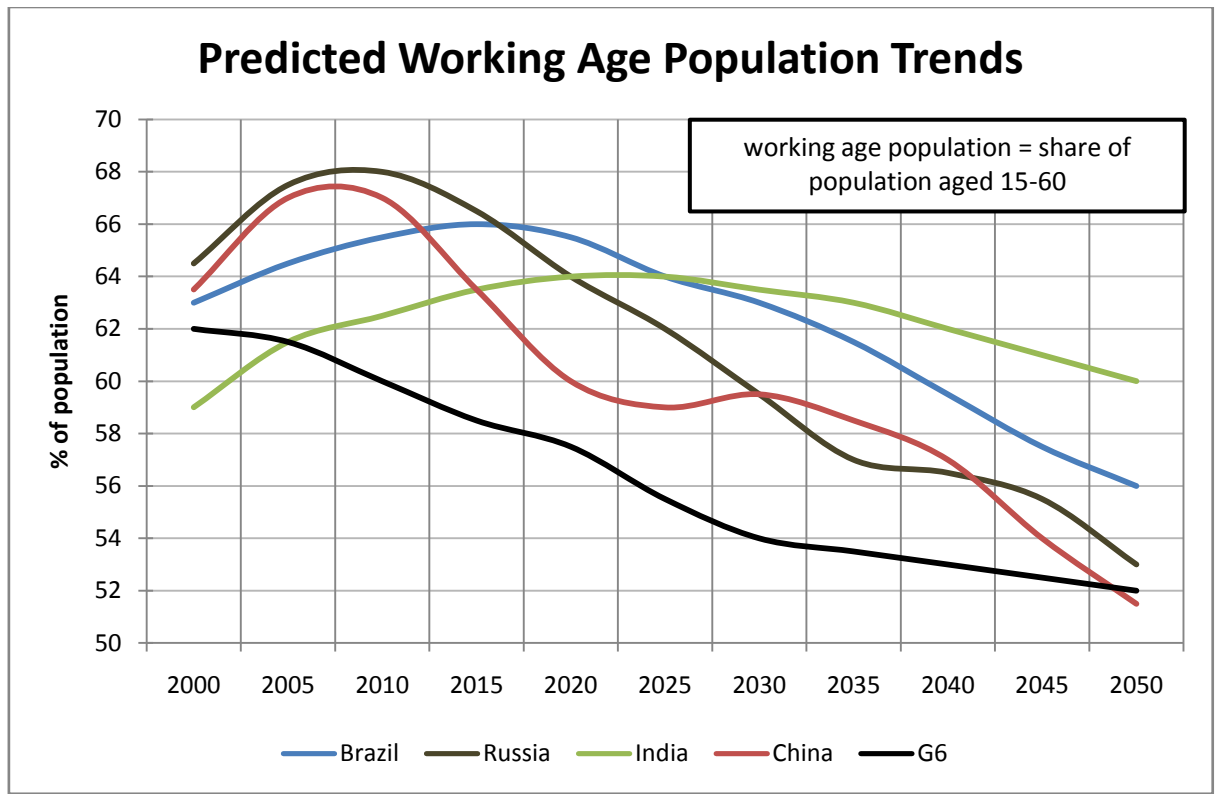


Figure 4-3: Observed and Forecasted Proportion of Working Age Population in Selected Countries Between 2000-2050 (Goldman & Sachs (Wilson, Dominic; Purushothaman, Roopa), 2003)

Figure 4-3 shows the observed and forecasted proportion of working age population in selected countries between 2000 and 2050. As it can be seen, while G6 countries will be hit earlier with the possible effects of the ageing population, China will also be affected.

While my aim with this chapter is not to find solutions to the population issues I do wish to outline a few important elements that can and will influence the shaping of economies and have possible effects on the changes of political powers.

4.2.1 American⁹ demographics

The USA currently spends the largest proportion of its GDP on a per capita basis on healthcare in the whole world, about 16% (World Health Organization, 2008), which is predicted to rise a further 3.2% in ten years (Department of Health & Human Services,

2008). While the country currently spends more on healthcare than food (Krugman & Wells, 2006), the three percent rise by itself almost equals to the current spending on military (that is 3.9% of the GDP (Department of Defense, 2008)). Health insurance costs have risen faster (78% increase for family covers since 2001) than salaries (19%) and inflation (17%) (Kaiser Family Foundation, 2007) in the last few years and while the American health care system is ranked first in its responsiveness and cost (being the most expensive) but 37th in performance and 72nd level of health, out of 191 examined (World Health Organization, 2000). Currently about two thirds of the coverages are funded by the employers, which is partially subsidized by the government via tax exemptions that account to about \$150bn per year (Krugman & Wells, 2006) and when in 2005 the government tried to cut the tax exemptions, the political upheaval was so heavy that they needed to back off (*ibid*). A further study (Hartman, Catlin, Lassman, Cylus, & Heffler, 2007) found that spending on senior healthcare is much higher than on child healthcare and the cost has been rising steadily in the last two and half decades.

These issues indicate several weaknesses that will become even more important in the future: although the country is spending record-high amounts on healthcare, its effectiveness is at best mediocre, and as mentioned the spending is on the rise. Furthermore, as it has been pointed out, most of the people receive their insurance as an employee benefit, which means that if healthcare costs rise further (as they most probably will) it strains employers because they'll need to spend more of their profits on employee benefits, and if they cannot handle these rising costs they can go bankrupt, forcing them to make a choice between their own survival against the health (care) of their workforce. GM is a good example of such a company at the moment, struggling to keep itself afloat in the economic downturn while having large amounts of employees who are on health benefits (Krugman & Wells, 2006). Naturally, laid-off workers often need to be supported by aid.

The same study points out an interesting but politically important fact: Medicaid, the American health insurer for the poor people takes care of roughly as many patients (about 15% of the population) as Medicare (the company for elderly people's medical insurance), however Medicaid patients are usually undereducated, always poor and mostly the ones who do not vote. This at the end means that their healthcare is completely driven by the goodwill of politicians and from political point of view, almost in vain. Also, out of the

current 35 million covered by Medicaid, 8 million were newcomers to the company between 2000 and 2004; had they not been taken on board, these people would have gone uninsured and in poor health. This in the long term could mean that they'd be the first to be cut off from the state-funded healthcare.

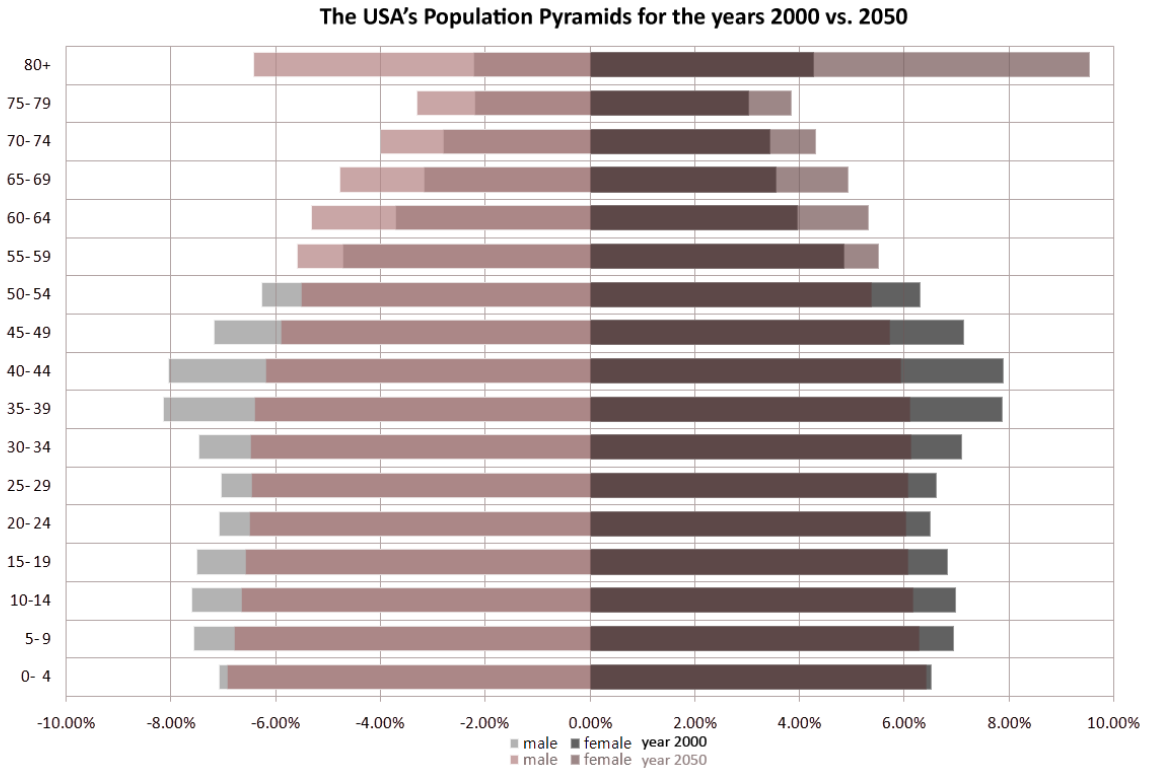


Figure 4-4: USA's Current and Predicted Population Pyramids

While I do not wish to engage too deeply in the possible solutions of the healthcare problem in America – simply because it is not the primary subject of the essay, I do wish to point out that there seem to be no perfect solutions. Some suggest that instead of having employer funding for healthcare, people should pay more (out-of-pocket). This in my opinion does not help the question of economic slowdown because if the population spends more on healthcare then they spend less on other consumption. Also as it has been pointed out, currently about 30% of the population is state-funded on healthcare because these people cannot receive insurance from other sources. For the sake of simplicity, assuming that the proportion of poor people will not change by 2050 and Medicaid will serve 15% of the population, still the 10% absolute growth amount of elderly would result in 40-45% of

people being state-funded. And considering the 8-million-rise in Medicaid customers between 2000 and 2004 even this is improbable, especially if we consider that from the current about 300 million the American population is expected to rise to 440 million in 2050, and by then the proportion of non-white population will account for 54% of the total American population (of which 30.3% [absolute] is predicted to be Hispanic) (BBC News, 2008). In the light of lower living standards and health level within the Hispanic population, this is very important.

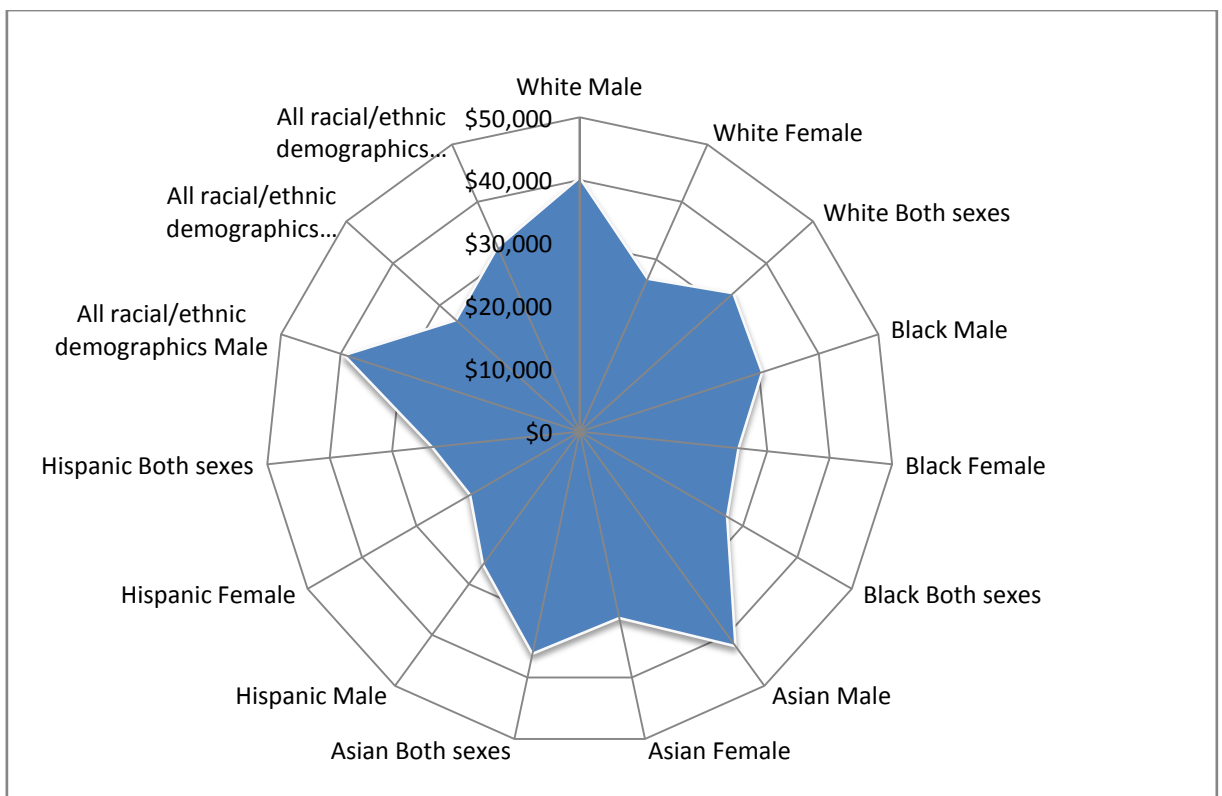


Figure 4-5: Median personal income /yr for the various ethnic groups in the USA (2005) (U.S. Census Bureau, 2006)

Figure 4-5 shows the 2005 rates of median personal incomes for the different ethnic groups within the USA; as it can be seen the Hispanic population under indexes heavily on the average salaries which assumes a lesser standard of living. This is supported by the 2004 ACS – Hispanics report pointing out that Hispanics have higher fertility rate (about 1.5x higher than amongst the non-Hispanic USA citizens), but they have lower education attainment (about 60% of Hispanics aged 25 and older were high school graduates and about 13% had a bachelor's degree or more education. Among non-Hispanic Whites aged 25

and older, about 89% were high school graduates and about 30% had a bachelor's degree or more education) and most importantly, about 22% of Hispanics live under the poverty line, whereas this is 8.8% for non-Hispanics (U.S. Census Bureau, 2004).

And these are just two major elements of a number of issues that exist. The Western world faces problems from obesity which also count towards healthcare costs as well as derivative costs which at the end hinder the economy.

4.2.2 The 'Yellow Peril'¹⁰

Martin Wolf wrote in the Financial Times in 2003 the following:

Should [the rise of East Asia] proceed as it has over the last few decades, it will bring the two centuries of global domination by Europe and, subsequently, its giant North American offshoot to an end. Japan was but the harbinger of an Asian future. The country has proved too small and inward-looking to transform the world. What follows it-China, above all-will prove neither... Europe was the past, the US is the present and a China-dominated Asia the future of the global economy. That future seems bound to come. The big questions are how soon and how smoothly it does so. (Wolf, 2003)

This is in fact a brave – but looking at the past few decades – feasible statement. So what has caused the East's and most of all, China's rapid and continuing rise when just a few years earlier, at the end of the Second World War, it was the poorest country of the world? Arrighi explains, that the countries of the Third World had resources that were in high demand by the 'First World' countries, which paired with their 'abundant and cheap labour supplies' caused a major expansion in cash flows (investments in modern terms) originating from the West, which caused rapid industrialization that started fuelling what Arrighi calls the 'New International Economic Order' (Adam Smith in Beijing, 2007).

Still, China's economy greatly depends on the American economy's capacities, i.e. its capacity to 'receive' the goods that are being manufactured in the East; and the rest of the world (Europe and others) plays a secondary role in the situation. Although it has been pointed out that the market-oriented FDI in China has grown considerably in the recent years, still a lot of China's actual income is derived from the export. Because of this, it's important for the country how the trading partners' economies will shape in the future. In the last subchapter I predicted that the current First World's economy is deemed to slow in the future partially because of demographic reasons, and it has also been shown that the proportion of working age population will decrease in China as well.

4.2.2.1 When size simply matters...

China is currently the largest country in the world, by the means of population and grows further. Nonetheless the problem of aging and some economic question will soon be re-shaping the Chinese economy and politics just as well as this will happen in Europe and the USA; the government's One Child policy will soon have burdening effects on the society. While during the 1970, the average fertility rate of a Chinese woman was around 5.0 children, by recent times this has fallen to around 1.8 (Bristow, 2007) or so (exact data is not known). Originally the policy was launched for economic reasons rather than simply counteracting overpopulation: less people had smaller demands for natural resources, as well as prompted a decline of unemployment, which eased the need for governmental spending on them (Yanjiu, 1983). While the policy has helped slowing the country's population boom, the long-term economic effects are not only positive and the policy is not due to change at least for two more years from now. Currently the country enjoys unprecedented economic growth partially because of its massively available workforce which is further fuelled by the increased inclusion of women into the workforce (since if they are not pregnant they can work), however as the supply of children will sooner or later under index the number of aged population, the country will face similar problems but in greater terms than the West currently faces. (*ibid*)

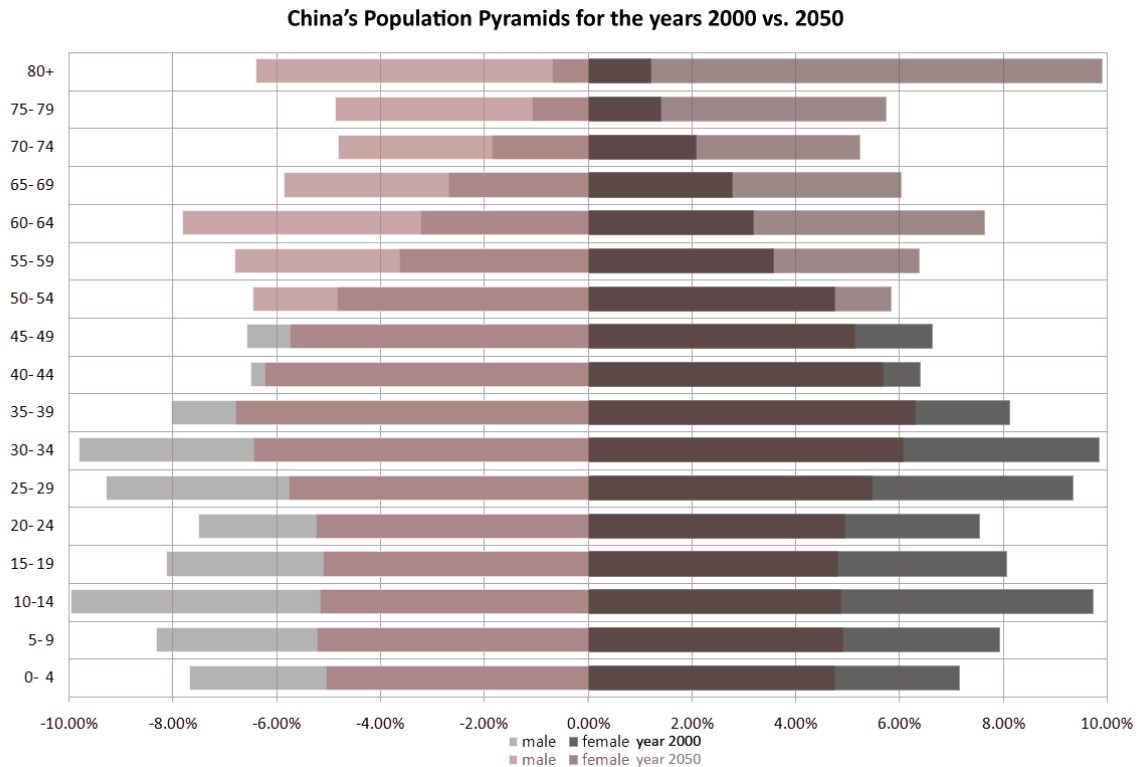


Figure 4-6: China's Current and Predicted Population Pyramids (U.S. Census Bureau, Population Division, 2008)

Figure 4-6 shows the overlay of the current and predicted Chinese population for years 2000 and 2050. While the chart operates with percentages for the sake of comparability, actual data shows¹¹ that the population's structure is predicted to change considerably: currently the younger (<20) population is around 424 million people, predicted to change to around 238 million, the middle aged (20-60) will change from 711 to 608, whereas the older (60+) generation will amount for, instead of 86 million, to 459 million. In addition to the general questions and issues raised by the ageing population, there are additional caveats that the One Child policy holds: if for any reason the state funded pensions do not prove to be supportive enough, in an 'ordinary' society the children of the elderly may support the old members of the family, but there is certain dynamism in the efficiency of the support given by the children, i.e. if there are numerous children who may or may not support the elderly, there's still a chance of the existence of a supporter within the family. On the other hand, if the family has only one younger member, his/her support is crucial to the elderly members as this person means 100% of the internal (from

within the family) support (Bristow, 2007). This raises a further economic problem: if the supporter spends considerable amount of their resources on the elderly, they lose these resources from being spent on their own family, or on any other means that can fuel the economy, whereas in the 'ordinary' societies, the support may be divided amongst more people, thus the individual contribution is less burdening. Also, if for whatever reason (unwillingness, death, etc) the supporter is not helping the elderly members of the family may become impoverished. This issue creates a similar picture of possible future healthcare cost-related issues on the consumer society; people will simply need to spend their money on supporting family members rather than consuming. (*ibid*)

Although the Chinese health care system is very different from the American, it still has some common problems: in China, the majority of health insurances are handled and paid by the state, whereas people do not have to pay anything or just a small proportion. On the other hand, because in China the rural population is generally poorer than the urban, and as the country is so vast in area, rural health standards are still far from those in Europe or the USA. Food supplies are also still often short in rural areas and with the growth of food prices and also the growth of population, this will cause problems in the future.

Another issue that will rise to considerable significance is the changes of living standards in the country. Currently the economic success is a result of cheap labour and growing living standards (one fuelling exports the other the imports and consumption), however the two are contradictory in the long term because if people get paid more their standards of living will rise but this will mean that workforce will become too expensive for the investors who will look elsewhere; which is what happens currently in India from where outsourced services are being moved to China because of cheap labour issues (discussed previously). Furthermore, China is very much two-faced when it comes to living standards and sociology: a small proportion of the urban population has gotten richer recently and their living standards are growing, however still the majority of the country live in the countryside and earn their money from agriculture; education levels are very low in rural China, less than half of the children finishing middle school as they discontinue their studies after the compulsory elementary education. This is important because it shows that much of the population still lives at low standards and it makes them more reliant on state support, which will add to the state's burdens in the coming years.

Thirdly, global demographic changes will be important for the country as well: if the major trading partners of the country will experience an economic slowdown because their citizens will need to spend their money on social/healthcare rather than consumption then there will be less need for manufacturing consumer goods, which, knowing what extent China accounts for on a global level at the moment reveals a threat to their prosperous future, unless of course the country finds new trading partners, that is if the current LDCs would catch up to a new level of prosperity. As Figure 4-2 pointed out, by 2050 the USA and China will have a roughly similar proportion of elderly population, and while there is a prediction that the American economy will suffer because of healthcare issues and the immigrants' lower education level and its derivatives, China will face similar inconveniences because its non-urban population is less educated and more frail of health problems.

5 Conclusions

The main question of this paper was to analyze how the USA has gained its status as a hegemon and to make predictions for the future if it can keep its number one place on the global political arena or if there is a threat of losing this towards China. There was special focus dedicated to the importance of demographic changes. During the first part of this paper I tried to set up a framework to measure political power in a way that it can be applied generally, regardless of the hierarchical level in question, while attempting to bridge differences between structural and relational power. It was also my aim to differentiate major political powers from hegemons and dictatorships, although this differentiation was made at a superficial level as my experiences are yet limited to make a valid and fair mathematical system that stands its place against questioning. Nonetheless I think I succeeded in my aim of bringing a new, mixed framework for measurement with a valid explanation of my reasoning.

Based on the discussion of the previous paragraphs it can be concluded that USA earned its hegemon status and global influential power because it had extensive access to key resources during the second half of the 20th century and managed to strategically use these to turn the global political scene to its favour. The country successfully managed to develop a need for its own self on the international political palette so that the majority of the lesser countries depended on it; practically most of the global financial systems are ever since closely linked with the shaping of the American political and economy life. America influences much of the world's thinking and actions, not only on the financial markets, but also by setting policies and rules. The US also wields one of the largest and most effective armies of the world which currently ensures that the country is in relative safety from any possible adversary armies.

China (PRC), compared to the USA today is a less powerful nation but it seems to be on the appropriate course of developing itself to join the 'band of hegemons'; it has access to raw materials and natural resources to fuel its own development and other resources to enhance technologies, economy and military forces. The sheer size of the Chinese population and the domestic political system currently makes it possible to quickly

implement the political will within the country – build, manufacture, research the necessary things. The PRC also makes good strategic use of its resources: the country has become more open and market friendly in the last decades and reinvests the incoming FDI into developing its own self, the urban education and military power.

At the same time, although it is predicted that China would take over the USA's current first place as the biggest economy, the question is not that simple. Both countries depend on sourcing a considerable part of their raw materials from politically fragile territories, which can become important later on. Demographic changes will inevitably play an important role in shaping the political powers of these countries because the USA's population is ageing and they are facing immigration problems, which combined will cause a slowdown in the American economy. China at the same time exports most of its manufactured goods to the areas of the world which will probably face economic decline in the future, also because of immigration and ageing, and their related costs, which in turn will affect the Chinese economic output. The population of the PRC will also face problems of healthcare, ageing and changes in the living standards, which will again affect the country's economy. Economic changes of course will have effects on technological and military capacities.

Therefore in answer to the original research subject, the USA would weaken and probably lose its overall first place as a global hegemon but probably would not cease to be one; China and perhaps also India will rise to be hegemons, as I previously wrote that the existence of a few (2-3) hegemons and/or dictatorships globally is possible, which with the decline in natural resources and investments in military capacities would possibly portray a politically more diverse and active 21st century than the last few decades have been.

5.1 Possibilities for further studies

This paper has set out a basic framework in the first chapter on how hegemons can be separated from global political powers that are not hegemons and from dictatorships. Gramsci (1971) identified that hegemons need to have what he called *additional powers*

which separate them from the rest of the relevant states. One of the key questions that have remained unanswered is the creation of the de facto list of issues (*additional powers*) that are necessary for a global political power to qualify as a hegemon. While I personally lack the experience to create such a definitive list I nonetheless tried to come up with a number of elements that could be part of it.

Examining the other global political powers I feel that Russia and India at the time needs to be left out from the hegemon group because they lack the additional powers that have been mentioned so many times, just as the pool and strategic use of resources. Although it would worth studying how these countries can and might change their global influence in the future I was not be doing so, mostly for the sake of word limit. Practically Russia is a ruler in and partially around its own territory, with not many other countries questioning its right to be so; the world's passivity over the Georgian/Ossetia attacks in early August 2008 exemplify this well. At the same time they do not currently have a global influence over economy, politics, manufacturing, and even their military force seem to be struggling with keeping itself financed and effective. Nonetheless things are changing slowly. Mostly due to the price rise of crude oil, Russia has received extreme amounts of profits on its oil exports, much of what was invested into military spending, which has grown from about \$6bn in 2002 to about \$60bn so far this year, totalling an investment of \$190bn in the last 7 years (Toth, 2008). And if we look at it once again, we can see that the country is rich in raw materials, has high population and a strong domestic political power, which with sound planning can be merged into a new hegemonic power.

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Endnotes

¹ This list is not based on specific sources or references but instead is my compilation; while I understand that there may be further relevant elements I tried to list the most important ones only, for the sake of word limitation and analysability.

² Based on various reports available on China Sourcing Reports (Trade Media Holdings Ltd, 2008) with data from 2002-2007. Further about 60 reports are available on the website for informative convenience.

³ Video available on LBJ Library and Museum - Daisy Spot
<http://www.lbjlib.utexas.edu/johnson/media/daisyspot/>

⁴ Video available on Cinemaniacal: <http://cinemaniacal.com/video/duck-and-cover>

⁵ As of 28th August 2008, there are over 200 videos and 11,500 article hits for the word 'terrorism' on cnn.com/search, which accounts for a roughly 1150 pages-long list of hits. The first 920 pages (i.e. 83%) of the list contain articles that were created after the 9/11 attacks, while the oldest article on page 1150 of the search is dated 1995. Statistically, between November 1995 and September 2001, CNN posted 1.08 articles per day relating to *terrorism*. Since September 2001 till today, this has grown to an average of 3.60/day. Source: (CNN.com, 2008)

⁶ Historical overview mostly based on the following material: China : Library of Congress Country Studies - Federal Research Division, (Worden, Savada, & Dolan, 1988) <http://lcweb2.loc.gov/frd/cs/cntoc.html> - Accessed 10 August, 2008

⁷ Using statistics from the US Bureau of Labour Statistics (BLS)

⁸ Labour-intensive sectors include Food processing, Food manufacturing, Textiles, Clothing & other fibre products, Leather & Fur products, Timber processing, Furniture, Paper & Paper products, Printing, Cultural, Education & Sports goods, Rubber products, Plastic products, Non-metal mineral products, Metal products, and Others. Capital-intensive sectors include Beverage manufacturing, Tobacco processing, Petroleum refining & Coking, Chemical materials & products, Chemical fibres, Ferrous metal smelting & pressing, Non-ferrous metal smelting & pressing, and Transport equipment. Technology intensive sectors include Medical & Pharmaceutical products, General machinery, Special machinery, Electrical machinery & equipment, Electronics & Telecommunication equipment, and Instruments & Meters.- Source: (OECD/OCDE, 2000)

⁹ American throughout this chapter, unless otherwise mentioned refers to the USA.

¹⁰ Gilpin (2001, p. 38 (comment 17))

¹¹ For the easier comparability I applied a -15% weighting to the 2050 data to equal out the change from 1.2 bn to 1.4 bn, therefore numbers assume a roughly equal 2000 vs. 2050 population (in raw numbers)