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Global Economic Leadership: Pax Britannica and Pax Americana

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Abstract

The dissertation analyzes the relevance of economic primacy in terms of global leadership and hegemony in the history of international relations. Elaborating on the ideas of Robert Keohane, Charles Kindleberger and Michael Beckley the author compares the British economic dominance within Pax Britannica with the US economic leadership within Pax Americana as well as the rise of the USA with the rise of mainland China. The scholar coins his framework to assesses economic potential of the leading powers that includes various general and specific economic indicators which allows to evaluate the overall size of economy, welfare level, participation in trade and capital movement, sectoral division, progress of industrialization and the role of an economy in global value chains, etc. The remarkable fact is that most considered indicators are common for the 19th and 21st centuries that allows to compare Pax Britannica and Pax Americana. Finally, he concludes whether in the 2020-s there is a state that may repeat the destiny of the USA of 1940-s and convert into a new leader taking advantage of their economic resources endowment superiority. What is more, this research provides a substantial proof for the international relations law that implies that claiming a political status without having sufficient economic resources is the road to nowhere. The examined cases of successful global leadership aspirations (the British Empire and the United States) and failures to pay world primacy bills (the German Empire, the Nazi Germany and the Soviet Union) support it. It is extremely relevant amid the war in Ukraine of 2022 that is another illustration of how a poor and limited in economic resources country claims what it cannot afford dooming its citizens to humiliation and long-lasting and painful transition. Also, it may serve as a warning to other potential challengers to the US primacy like mainland China that may embark upon a path of aggressive foreign policy with limited economic potential (e.g., threatening Taiwan's sovereignty). As for the competition between the USA and the PRC this thesis demonstrates that Beijing is still seriously lagging behind Washington in terms of economic development, and it is questionable whether the Chinese authoritarian leader will not let personal ambitions take over economic rationale amid the necessity to overcome the middle income trap.

Key Words: Economic primacy, Economic potential, Global economic leadership, Hegemony, Rise of China

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초록

이 논문은 국제 관계의 역사에서 글로벌 리더십과 헤게모니 측면에서 경제적 우위의 관련성을 분석합니다. 로버트 케오헨과 찰스 킨들버거의 아이디어를 바탕으로 저자는 팍스 브리태니커 내의 영국 경제 지배력을 팍스 아메리카나 내의 미국 경제 리더십과 비교한다. 로버트 케오헨,찰스 킨들버거,마이클 베클리의 사상을 자세히 살펴보면,저자는 팍스 브리태니커 내의 영국 경제 지배력을 팍스 아메리카나 내의 미국 경제 지도력,미국의 부상과 중국 본토의 부상과 비교한다. 학자는 경제의 전체 크기,복지 수준,무역 및 자본 이동 참여,부문 별 부문,산업화 진행 및 글로벌 가치 사슬에서 경제의 역할을 평가할 수있는 다양한 일반 및 특정 경제 지표를 포함하는 주요 강대국의 경제적 잠재력을 평가하기 위해 자신의 틀을 화폐로 주조합니다. 놀라운 사실은 대부분의 고려 지표 팍스 브리태니커와 팍스 아메리카나를 비교할 수 있습니다 19 세기와 21 세기에 대한 일반적인 것입니다. 놀라운 사실은 대부분의 고려 지표 팍스 브리태니커와 팍스 아메리카나를 비교할 수 있습니다 19 세기와 21 세기에 대한 일반적인 것입니다. 마지막으로,그는 2020 년대에 1940 년대 미국의 운명을 반복하고 경제적 자원 기부 우월성을 활용하여 새로운 지도자로 전환 할 수있는 국가가 있는지 여부를 결론 지었다. 또한,이 연구는 충분한 경제적 자원을 갖지 않고 정치적 지위를 주장하는 것이 아무데도 갈 수 없다는 것을 의미하는 국제 관계법에 대한 실질적인 증거를 제공합니다. 성공적인 글로벌 리더십 포부(대영제국과 미국)와 세계 최우선 지폐(독일 제국,나치 독일 및 소련)지불 실패에 대한 조사된 사례가이를 지원합니다. 2022 의 우크라이나 전쟁 가운데 매우 관련성이 높은 것은 가난하고 제한된 경제 자원 국가가 시민들을 굴욕과 오래 지속되고 고통스러운 전환으로 인도 할 수없는 것을 주장하는 또 다른 예입니다. 또한,그것은 제한된 경제적 잠재력(예:대만의 주권을 위협하는)을 가진 공격적인 외교 정책의 길에 착수 할 수있는 중국 본토와 같은 미국 우위에 대한 다른 잠재적 도전자들에게 경고 역할을 할 수 있습니다. 미국과 중화 인민 공화국 간의 경쟁에 관해서는,이 논문은 베이징이 여전히 경제 발전 측면에서 워싱턴보다 심각하게 뒤떨어져 있음을 보여주며,중국 권위주의 지도자가 중간 소득 함정을 극복해야 할 필요성 속에서 개인적인 야망을 경제적 근거로 삼지 않을 것인지는 의문이다.

키워드 : 경제 우위, 경제적 잠재력, 글로벌 경제 리더십, 헤게모니, 중국의 부상

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Introduction

Topic Relevance

The world has seen significant changes since the end of the Cold War. Unlike the situation more than thirty years ago more and more states leaders dare to question the US leadership and claim that the era of unipolarity has come to an end. The economic success of mainland China together with based on high oil prices Russian economic growth of 2000-s are often used as illustrations to the trend of the East rise amid the stagnation of the West that in the long run is doomed to lose its primacy. What is more, the number of those who openly question Washington's leading role in international affairs has also risen since not only the representatives of isolated and relatively minor rouge states such as Cuba, North Korea or Syria criticize the American leadership but also the leaders of such major actors in the international arena as mainland China and Russia challenges the US supremacy. In the Chinese case that refers to the trade war and general economic confrontation with the USA together with the assertive policy towards its neighbors: constant threats to Taiwan, border conflicts with India, exerting pressure on Hong Kong, etc. In case of Russia, it is an extremely aggressive foreign policy: war with Georgia of 2008, annexation of Crimea and sponsoring separatists in East Ukraine (Donbass and Lugansk), intervention in the Syrian civil war, support of dictatorships (e.g. Maduro in Venezuela and Lukashenko in Belarus). In the end, the lack of deterrence let Putin's regime unleash a full-scale war against Ukraine and only fueled the dictator's ambitions of global leadership.

Still, it is essential to remember that any relatively rational and reasonable policy must be based on sufficient economic resources endowment. The economic potential of a country sets the limits for its activity in the international arena. Definitely, one may violate this rule and assume obligations without having enough resources to implement them. Anyway, the historical examples of such powers show that it is a road to nowhere. The German courage on the battlefield of the First World War, the zeal and fanatism of Nazis in the Second World War, exhausting continuous economic mobilization of the Soviet people for the whole history of this state were not enough to review the existing world order and convert and economically weaker state into a hegemon. In the end the people of German Empire, the Nazi Germany and the Soviet Union got only millions of corps, humiliation and a severe economic crisis provoked by a total economic devastation.

However, the economic primacy does not entail that such a state will seek to take advantage of it and aspire global leadership or hegemony. The case of the USA after the First World War is the best illustration of that political isolationism may be an even better way to ensure sustainable development of an economy and preserve interior resources for future challenges. Still, it does not the opposite way. The political will is essential for converting economic primacy in leadership, but no will and ambition may compensate for the lack of material resources.

Thus, in order to analyze the current situation amid the war in Ukraine, Chinese aggressive policy towards Taiwan, North Korean nuclear threats, Iranian aspirations to acquire nuclear weapons as well as the open criticism of the US foreign policy from failed states, it is essential to fully understand the economic balance of power in the world by comparing the economic potentials of the leading states. What is more, since the world had already seen the shift in economic leadership that was followed by the shift in political one (the end of Pax Britannica after WW1 and the rise of the USA), it seems relevant to compare the reality of the 19th century (*Pax Britannica*) with the one after the Cold War end (*Pax Americana)*.

Purpose and Objectives

The purpose of this research is to conduct a historical analysis of global leadership and hegemony to examine the role of economic resources endowment for political aspirations in the international arena as well as to fulfill a comparative analysis of the UK economic primacy in Pax Britannica and the US primacy in Pax Americana in order to conclude whether anyone is ready to challenge the US leadership in the modern reality.

The author realizes the purpose by attaining the following objectives as follows to determine the economic resources endowment role in the history of global leadership and hegemony, to justify the choice of the British Empire and the USA as the only powers that could ever claim global leadership, to justify drawing a parallel between *Pax Britannica* and *Pax Americana* in terms of economic primacy, to assess and compare the economic potential of the British Empire and other prominent states within *Pax Britannica*, to assess and compare the economic potential of the United States and other prominent states within *Pax Americana*, to conclude whether in the modern world any power has enough economic resources to challenge US dominance in the international arena, to compare the rise of the USA within *Pax Britannica* with the rise of mainland China within *Pax Americana*.

Data Review

The scholar uses data from various sources: official documents, monographs, articles from scientific and periodicals, news reports and statistics provided by various government agencies, international organizations, as well as research centers.

There are examined the following official documents: *IMF Annual Report 1976* (IMF Annual Report, 1976), *Limitation of Naval Armament (Fivepower Treaty or Washington Treaty)* (Limitation of Naval Armament (Five Power Treaty or Washington Treaty), 1923), *Naval Defense Bill. (No. 80.)* (Naval Defence Bill (No. 80.) HL Deb 27 May 1889).

Among the monographs, it is worth highlighting the research by one of the leading experts on the history of the Byzantine Empire Fyodor Uspensky, which is a comprehensive analysis of all stages of the development of this state (Uspensky, 2011). Also, *The History of Slavery: from ancient to Modern Times* by John Ingram, a British historian of the 19th – early 20th century comprises an analysis of various forms of slavery that have existed throughout the history of mankind (especially relevant, given the modern tendency to speculate on ideas of racial discrimination) (Ingram, 2020). *The Great Spanish Empire* by Hugh Thomas allows one to examine Spain during its heyday and glean valuable information regarding unrealized plans for further expansion of the Spanish crown, namely the conquest of China (Hugh, 2018). Charles Boxer's *The Portuguese Seaborne Empire 1415–1825* is an informative analysis of the history of the Portuguese colonial Empire both during its heyday and decline (Boxer, 2020). *The Anglo-Boer War: 1899–1902 by* Arthur Conan Doyle is not just a valuable detailed analysis of the conflict itself, but it also provides a key to understanding the British colonial idea and the main motives behind British colonial expansion in Africa (Conan Doyle, 2019). *The Spanish Civil War 1936-1939* by Anthony Beevor is especially valuable for describing the economic state in which the once leading world power found itself in the 1930-s (Beevor, 2019). Also worth noting are *Trade in Transition: Exports from the Third World, 1840-1900* by John Hanson (Hanson, 1980) and *A Financial History of Western Europe* by Charles Kindleberger (Kindleberger C. P., 1984), which present extremely useful statistical data to assess the economic potentials of various countries of the world in the 19th – early 20th century. *The Death of the Empire. Lessons for Modern Russia* by E.T. Gaidar presents a very detailed and comprehensive analysis of the economic collapse of the USSR (Gaidar, 2020). *The First Scientific History of the War of 1812* shed light on the true causes and the drawbacks of the war between Russia and France in 1812 (Ponasenkov, 2020). Finally, *The Black Book of Communism. Crimes, Terror, Repression* is a detailed analysis of the crimes of Communists over the past century, the study of which will help to understand the true nature of this ideology, as well as to avoid the repetition of tragic mistakes of the past in the future (Courtois, et al., 1999).

As for scientific and journalistic articles, the article by Y.L. Latynina *Byzantium: an ideal Catastrophe* contains a concise analysis of the entire history of the Byzantine Empire (Latynina, 2015). Paul Schroeder's *Did the Vienna Settlement Rest on a Balance of Power?* questions the popular thesis that the Vienna world order was relatively polycentric (Schroeder, 1992). The articles by Javier Silvestre (Silvestre, 2021), John B. Parrish (Parrish, 1956), Stephen Broadberry and Douglas Irwin (Broadberry & Irwin, 2004) present an analysis of various macroeconomic indicators of the leading countries of the world in the 20th century. A. Peri in *Heroes, Cowards, & Traitors: The Crimean War & its Challenge to Russian Autocracy* examines the impact of the Crimean War on the political elites of the Russian Empire and discusses the consequences and causes of the Russian defeat (Peri, 2008). What is more, there are used the results of various quantitative and qualitative studies that examine the dependence of economic growth on trade, as well as capital movement (Balassa, 1988) (Lee & McLaughlin Mitchell, 2012), (Liu, Luo, Qiu, & Zhang, 2014), (Naveed & Shabbir, 2006). Finally, the report of World Bank economists Indermit Gill and Homi Haras *An East Asian Renaissance: Ideas for Economic Growth* (Gill, Kharas, & others, 2007) as well a number of articles are devoted to middle income trap concept (Ekanayake, 2021), (Zeng & Fang, 2014). Also, Michael Beckley's *The Power of Nations: Measuring What Matters* provides a relevant method for economic potential assessment based on GDP and GDP per capita that it applied in the 2nd chapter of this dissertation (Beckley, 2018).

In addition, this study uses data from news reports, while the statistics for this work are provided by the World Bank, the International Monetary Fund, the Organization for Economic Cooperation and Development, Maddison Database 2020, Statista, World Integrated Trade Solution and other official sources.

Hypothesis

Any long-lasting political leadership should be based on economic primacy, while any foreign policy ought to correspond to the economic resources endowment. A country that acts in the international arena disregarding its economic potential limitations is doomed to collapse and humiliation. After the beginning of the era of Great Geographical Discoveries, when the world became truly global, only two states could claim the status of a global leader as follows the British Empire of the 19th century and the United States after the end of the Cold War. Their political dominance was based on economic primacy. Therefore, in the foreseeable future, no other state will be able to claim global leadership until its economic potential becomes at least comparable to the American one.

Scientific Novelty

The author elaborates on Robert Keohane's ideas about the British economic primacy within Pax Britannica and the US economic dominance within Pax Americana as well as applicates the provisions of Charles Kindleberger's *hegemonic stability theory* to compare the reality of the 19th century with the modern one. He modifies Keohane's criteria of economic primacy, applies Michael Beckley's method of economic potential assessment and coins a new comprehensive framework for economic potential assessment that incorporates both general and specific indicators with the second group reflecting the economic realities of *Pax Britannica* (1812 – 1914) and *Pax Americana* (since 1991). Having demonstrated the economic primacy of the British Empire and analyzed the history of its decay, the researcher draws a parallel with the current situation in the international arena and concludes whether the statements about the demise of the existing hegemon and the global economic leadership shift are justifiable. Detailed examination of economic potential of the USA and its possible competitors shows that in 2022 there is no power that could repeat the path of the USA after WW2 and become a new world leader taking advantage of the economic resources endowment.

Dissertation Composition

This research consists of introduction, four chapters and conclusion.

The first chapter reads about various approaches to economic primacy, hegemony and global leadership of the representatives of various schools of IR theory. The author examines the ideas of prominent representatives of realism, neoliberalism and neo-Marxism and analyzes the provisions of Kindleberger's hegemonic stability theory. Also, the scholar touches upon the economic potential measurement method coined by Michael Beckley that is implied further in the research. The last part of the chapter presents the comprehensive framework for economic potential assessment within *Pax Britannica* and *Pax Americana* and the indicators choice explanation.

The second chapter is devoted to the historical analysis of global leadership and hegemony. Using the method of economic potential assessment by Michael Beckley, the researcher examines the history of international relations from 5^{th} century B.C. until the 1990-s, explains why there were only two powers that could claim global leadership (the British Empire and the USA) as well as using the examples of the German Empire, the Nazi Germany and the Soviet Union points out the destiny that is waiting for those who dare to claim a political status they have no sufficient economic resource for.

In the third chapter the author analyzes Pax Britannica (the 19^{th} and early 20^{th} centuries) in terms of economic potential of the leading powers. Having compared the key macroeconomic indicators such as GDP, GDP PC, exports volume, investment flows, economic sectoral division, coal and steel industries statistics as well as labor efficiency and safety, the scholar proves that the British Empire was the leading economy in the industrial world with no one being able to question its primacy. Also, the comparison of the UK and US economies helps to trace the reducing US lagging behind the first world economy.

In the fourth chapter the author analyzes the economic potential of the USA and five world leading powers as follows Germany, Great Britain, Japan, mainland China, Russia and France by examining various macroeconomic indicators such as GDP, GDP PC, exports and imports volume, inward and outward FDI, value added by different sectors of the economies, currencies' share in international currency reserves as well as the number of the largest corporations which are the residents of the countries. Special emphasis is placed on the comparison of the US and Chinese exports and imports structures to show the basis of the Chinese rapid development and fast-growing trade share. Also, a special section is devoted to middle income trap concept to stress what kind of problem Beijing must overcome to convert the PRC into a developed economy. Also, the emphasis is placed on the exceptional role of the USA in the interconnected globalized world.

Chapter I. Theoretical Approaches to Global Leadership and Hegemony. Research Methodology

1.1. Prior Research Review

There is a plenty of research devoted to global leadership, world hegemony and economic primacy from representatives of various schools of international relations theory. In this chapter they will be subdivided as follows into the Realist, Neoliberal, Neo-Marxist perspective, moreover, the special emphasis is placed on American economist Charles Kindleberger's *hegemonic stability theory* that is the basis for this research. There will be stressed the basic provisions of each school, analyzed their contribution to the development of the hegemony and leadership theory as well as pointed out several weaknesses of such approaches. Also, there will be justified the choice of Beckley's method as well as Keohane's and Kindleberger's hegemonic stability theory as the basis for this research and indicated how the ideas of these scholars affected its concept.

1.2. Realist Perspective

In political science, there are many approaches to the definition of global leadership and hegemony. Analyzing the terms "global leadership" and "hegemony" among representatives of various variations of realism in the theory of international relations, it is fair to start with the ideas of the founding father of this IR school, namely Hans Morgenthau. In *Politics Among Nations*, the main postulates of classical realism were formulated as follows: the main driving force of the actors in the international arena (states) is the struggle for power; there exists a certain balance of power which some states want to review; every country is pursuing its national interests, etc. (Morgenthau, Politics Among Nations. The Struggle For Power And Peace, 1949). The author did not use the term "global leadership" in this work, however in *The Purpose of American Politics* Morgenthau notes that one of the priorities of US foreign policy should be confrontation with the USSR due the need to maintain the balance of power and not allow the aggressive Soviet state to disrupt the status quo. It is Washington that ought to take the initiative and lead the rest of the democracies in an attempt to resist the totalitarian communist bloc (Morgenthau, 1960). It is fair to note that the place that

Morgenthau assigned to the United States in world politics, namely the role of a state that will guarantee the current balance of power and rally other actors in the international arena concerned about the aggressive intentions of totalitarian countries, can be compared with various concepts of global leadership within the framework of realism. Thus, as Chinese researcher Biao Zhang noted, Morgenthau, de facto, developed his own concept of "global leadership", which was subsequently reflected in the works of his followers (Zhang, 2017). As for the relevance of economic development, Morgenthau pointed out that industrial capacity along with geography, national resources endowment, military preparedness, population, national character and morale, quality of diplomacy and government are the key components of a state´s national power (Morgenthau, 1960).

Another significant realist concept concerning global leadership and hegemony is "structural leadership". It assumes that a state's endowment in a certain amount of material resources (economic potential, military power, technology, natural resources, etc.) determines its ability to act as a leader or hegemon in international affairs. For instance, Robert Gilpin in *War and Change in World Politics* used the term "hegemonic leadership". It suggests that in a world, where every moment in the history of international relations reflects the distribution of material resources, a state that wins in the struggle for power and dominance (whose superiority is proved in a war for hegemony) does not just define new rules of the game in the international arena but forms a new world order. Relying on its endowment in material goods, prestige, the ability to use force to defend its interests, it exercises "hegemonic leadership" (Gilpin, 2010).

Another realist, George Modelski, uses the term "world leadership". It refers to the dominance of a state in the international arena for a certain period of time, due to the fact that at that very moment the economy of such a country demonstrates impressive economic growth indicators, it is this state that becomes the world center of innovation and the strongest military power. All these factors lead to the fact that this superiority allows the state to spread its economic, scientific, political and other innovations around the world, with other actors in the international arena only benefiting from this, since they gain access to the latest discoveries and progressive ideas. That is why they recognize this state as a world leader (Modelski, 1987).

Z. Brzezinski in *The Choice: Global Domination or Global Leadership* compared two possible vectors of US foreign policy after September 11, 2001. The American expert compared the course of establishing American global domination, which would involve interaction with other participants in international relations from a position of strength, and the US attempt to act as a global leader who, with the support of the leading states of the world, would strengthen its national security and become a guarantor of stability and security for the rest of the world (Brzezinski, The Choice: Global Domination or Global Leadership, 2005). Similar ideas are set forth by Henry Kissinger in *Does America Need a Foreign Policy?: Toward a Diplomacy for the 21st Century.* The ex-diplomat emphasizes the need for the United States to take into account the position of other leading powers and prefer reaching a compromise to putting open pressure on other states in order to maintain the American superiority in the international arena (Kissinger, 2001).

Finally, John Mearsheimer calls a hegemon a state that is so superior to all other powers that no one has sufficient military resources to challenge this superiority. In fact, for Mearsheimer, the hegemon is the only great power in the system of international relations. He believes that there were and still are regional hegemons in the world (for example, the United States), but no one has ever become a true global hegemon (Mearsheimer, 2011). Also, the American scholar attaches special importance to the geographical factor and almost completely rejects the possibility of becoming a global hegemon, since a power that has reached the level of a regional hegemon will not be able to further expand its influence due to natural barriers such as oceans (the stopping power of water). For Mearsheimer, the only form of a kind of US global leadership remains being a night watchman, namely, a power that could, at the request of other states, act as an arbitrator and resolve a conflict, as well as assist other countries in case of crises, without imposing its will directly (Mearsheimer, 2011). However, Mearsheimer himself notes that there is no such global night watchman, so the American policy towards liberal hegemony is doomed, since, similarly to the liberal state model, the liberal international order needs a night watchman state (Mearsheimer, 2018).

As for economic potential, the debate about the form of the US leadership after the victory in the Cold war became possible primary due to the fact that the USA managed to preserve its economic dynamism being the world leading economy. It is a basic precondition for seeking global leadership or hegemony (Brzezinski, 2000).

Another scholar who presents his method of measuring the power of states in the international arena is Michael Beckley. He stresses the necessity to examine net indicators and suggests his own method of economic potential evaluation based on GDP and GDP per capita. In his research he demonstrates the empirical proof of the theoretical concept and in general his method seems to be useful and relevant (Beckley, 2018). However, it is too general and does not match the purpose of this research to conduct a comprehensive comparative analysis of *Pax Britannica* and *Pax Americana.* Anyway, it will be applied in the 2nd chapter in order to assess state's economic potential within the historical retrospective of global leadership and hegemony since the key aim of this part is to explain the exceptional economic and political status of the British Empire and the USA, while the analysis within *Pax Britannica* and *Pax Americana* requires a more comprehensive framework of economic indicators.

Still, the key problem of the above-mentioned approaches is that scholars underline the importance of economic resources endowment but do not present a comprehensive framework to assess the economic potential of a state. For instance, the approach of Morgenthau seems relatively outdated. The problem is that unlike the 19th century and the first half of the 20th century which were the era of industrial economies, today we live in the world of postindustrial and even knowledge-based economies. Therefore, Morgenthau's focus on natural resources endowment and industrial capacity does match the modern reality. The same problem may be observed with Modelsky and Gilpin's approaches or Brzezinski's criteria. Paradoxically, in the modern world natural resources turn out to be often an obstacle to sustainable economic growth, especially, in case of developing economies. The rise of Japan and four *Asian tigers* which have extremely limited natural resources and the collapse of the Soviet economy, the inability of Venezuela and Russia to overcome the middle income trap (these states are extremely rich in natural resources with their economies being based on oil and other raw material exports) is the great illustration of this trend (Gaidar, 2020). Also, in terms of the 21st century reality it is important to take into account the multinational corporations, currency power and global value chains factors which seem to be ignored by the experts.

1.3. Neoliberal Perspective

One of hegemonic stability theory neoliberal authors Robert Keohane, in *After Hegemony: Cooperation and Discord in the World Political Economy* notes that the 19th and 20th centuries were characterized by the existence of one state (the British Empire and the United States, respectively), which completely surpassed its opponents in economic potential and military power (hegemon). It implemented a plan to create a world order based on world vision, as well as on its interests (Pax Britannica, Pax Americana). Keohane defines four pillars of the economic primacy as follows superiority in raw materials endowment, capital sources, markets access and domination as well as comparative advantage in goods with high value added. As for, military power, Keohane stresses that military superiority is necessary for repelling potential threats and securing the international political economy's stability. As for global leadership, Keohane uses the term hegemonic leadership which implies that a hegemon tries to convince others of sharing its perception of the desirable world order model and secures that no one dares to question its leadership both by paternalistic redistribution and authoritative control. Thus, such a pattern of leadership does not exclude the use of force and other coercive measures to secure the dominant position in the international arena, therefore it is a combination of cooperation and control. It is the basic definitions of leadership and hegemony which are the ones further used in this research. Also, The American scholar focuses on international cooperation, especially within the framework of various institutions and notes that the world can successfully do without a hegemon, whose place will be occupied by a system of international agencies. The presence of a hegemon can promote mutually beneficial international cooperation, however, the hegemon itself needs international cooperation in order to formulate the rules and ensure that others follow them (Keohane, 1984).

Another prominent neoliberal, Joseph Nye in *Bound to Lead. The Changing Nature of American Power* argues that the United States was not a real hegemon in the period after the end of World War II before the collapse of the USSR, as its military potential was opposed by Soviet military power

(Nye, 1990). Nevertheless, in his famous *Soft Power: The Means to Success in World Politics*, the scholar admits that the United States remains the only superpower in the world after the collapse of the USSR, but in order to achieve their goals in the field of international trade, financial regulation or responding to global challenges, for example, the terrorist threat, they need interact with other prominent players in the international arena such as the European Union, Japan, mainland China, etc. Therefore, the author is convinced that in modern realities it is inappropriate to talk about a unipolar world and American hegemony (Nye, 2004).

Like realists both neoliberals consider the economic power of the USA in the 20th and 21st centuries together as the British economic potential as a pillar of their exceptional status in the international arena. Omitting the ongoing debate about the policy that should be implemented by Washington, there is no denying the fact that it is the economic might and endowment in economic resources that allow the USA to seek hegemony or global leadership.

Robert Keohane presented a rather comprehensive framework for assessing the economic potential of a state but still it should be adjusted. First, just like in the case of Realists, it is worth underlining that natural resources can be a great additional factor which would enhance the economic potential of a state. Raw materials endowment per se nether guarantees economic success, nor provides the state's leaders with exceptional power, unless a country is a monopolist. Also, there should be introduced specific indicators corresponding to the particularities of the economic reality that would show how successful the state is amid current economic trends and challenges. For instance, coal and steel industries indicators for the 19th century, or reserve currencies and top corporations indicators for the 21st century. Anyway, Keohane's four pillars of economic primacy are used as a basis for the coinage of the framework for assessing states' economic potential within Pax Britannica and Pax Americana,

1.4. Neo-Marxist Perspective

Neo-Marxist Immanuel Wallerstein presents his interpretation of structural leadership. He introduces the concept of capitalist countries hegemonic leadership, which provides for exploitation and unequal exchange within the framework of the world capitalist system, which, in turn, is an order built on the principles of hierarchy and hegemony (Wallerstein, 1979).

Another representative of this school of international relations theory, Antonio Gramsci, also touches on the issue of hegemony and leadership in his writings. The Italian communist formulated his own hegemony concept that is cultural hegemony. He drew the attention of the scientific community to the fact that hegemony is not limited to material resources only. He noted that in order to establish the hegemony of a class in society, it is important to provide an ideological basis. So, considering the international arena in general, a state that seeks hegemony is to provide its own set of ideas and values that would be a basis for its cultural hegemony (Gramsci, 1999).

Definitely, the Communist ideas appealing to the worst instincts of human beings that is the desire "to take everything and share" instead of hard work and self-development, are based on jealousy and human weakness. They showed their true destructive nature during the 20th century with the atrocities of the Soviet, Chinese, Cuban or Cambodian regimes being just single illustrations of the essence of the left ideas (The Black Book of Communism. Crimes, Terror, Repression, 1999). Still, like realists and liberals, Marxists also acknowledge the primacy of material resources over ideas and claim that it is the economic development that defines the role of a state in the international relations.

As for the Marxist perspective, the key problem related to this school consists in the fact that in the modern world and the era of knowledge-based economies the society class division does not seem relevant. Unlike the 19th and most 20th centuries when the majority of economies were industrial with the secondary sector being the key one, today more value added tends to be generated in the tertiary sector (services). So, the theme of plant workers exploitation by tycoons has lost its significance. Also, the 20th centuries saw the demise of the colonial empires with more than a hundred countries becoming independent and breaking free from the metropole's control, thus the traditional pattern of exploitation of other peoples has also lost its relevance. Still, one may argue that today we may witness another type of exploitation as follows developed economies take advantage of developing ones. But it is more about economic competition and the ability to better catch up with the current international, technological, economic or political trends than an illustration of a direct suppression.

1.5. Kindleberger's Hegemonic Stability Theory

It is difficult not to agree with neoliberal John Ikenberry that, even remaining within the framework of the realist paradigm of thinking, considering only material resources endowment and the ability to impose its will on others by force as the only precondition for hegemony is a very limited approach. As the American scholar noted, a potential leader needs to have the will to lead others, as well as the ability to negotiate with other participants in international relations to reach a mutually acceptable agreement that will secure its superior position (Ikenberry, G., 1996).

Economic potential itself does not guarantee that a state will act as a hegemon or strive to become a global leader. It is up to its leaders to decide how to use the resources a country possesses. But no political will can compensate for the lack of material resources which will be proved further in this chapter. However, for the international economy the lack of a strong leader means instability, disarray and inability to timely and successfully respond to such global challenges as economic crises. Charles Kindleberger in *The World in Depression* demonstrated that one of the key reasons why the Great Depression turned out to be so devastating, long-lasting and it took so many efforts for the leading Western countries to deal with this challenge is the lack of a true leader. The vacuum of leadership, which emerged due to the fact the former leader the British Empire was in decay and did not have resources to carry out the functions of a global leader, while a new potential leader (the USA) remained in self-isolation even despite having all the material resources, did not let the Western world respond to the menace of the Depression in the optimal way and to escape it with less severe losses. Kindelberger underlines that economic leader stabilizes world economy in general by supervising and maintaining a certain level of trade openness, coordinating other states macroeconomic policies as well as ensuring a relative monetary stability in the world. Another important function of the leader is to be ready to provide liquidity during crises smoothing it consequences. (Kindelberger, 1986).

Afterwards, in *World Economic Primacy* he elaborated on this theme, introduced the concept of "national cycle concept" and demonstrated the historical examples of economic leaders' rise and fall. But the most remarkable idea of this book is that economic leaders on the one hand have to pay a high price for their position but on the other hand face ingratitude as well as open criticism from others. So, it is essential to understand that prestige and dominant status imply the need to distract leader's own recourses to stabilize international economics and to interfere during crises (Kindleberger C. , 1996). Thus, anyone aspiring global dominance must keep in mind what the economic leadership burden means.

1.6. Methodology

The author applies comparative historical analysis method to analyze the role of economic primacy in the history of international relations, assess the economic potential of the leading power within *Pax Britannica* (1812 – 1914) and *Pax Americana* (since 1991) as well as to make conclusions whether US dominance is fading away. Taking into account the fact that some Robert Keohane's indicators are losing their relevance in the reality of the 21st century (primary natural resources), in this research the author will present his own framework to assess economic potential of a country both within Pax Britannica and Pax Americana. As for the historic analysis the researcher applies the method of economic potential assessment coined by Michael Beckley which is based on GDP and GDP per capita (Beckley, 2018). It allows to get the basic understanding of economic potential differences among various powers that seems enough for the historical analysis conducted in the 2nd chapter. Still, the comparison of *Pax Britannica* and *Pax Americana* as well as the comparison between the rise of the USA and the rise of mainland China requires a more detailed analysis and a comprehensive framework that would incorporate various economic dimensions such as trade, investment and other part from the overall seize of an economy and the general welfare level.

In order to conduct a comprehensive comparative analysis of *Pax Britannica* and *Pax Americana* the researcher applies the following economic indicators framework: all figures are subdivided into general ones used to assess economic potential within both *Pax Britannica* and *Pax Americana* and specific indicators that in the case of Pax Britannica show a country's success in terms of industrialization and secondary sector state, while in the case of Pax Americana demonstrate the dependence of the world on the existing leader.

There are five general indicators: nominal GDP is used to measure the overall seize of economies, nominal GDP per capita shows the general welfare level, exports volume indicates a state's position on the global market of goods and services, investment indicators determine a state's position on the global market of capital, while sectoral division of the economies is examined to understand the current stage of economic development of an economy (agrarian – industrial – postindustrial – knowledge-based economy). This research examines nominal GDP and GDP per capita due to the fact that there is no comprehensive historical statistics of GDP PPP, thus the choice is primary due to the need to make the direct comparison between the 19th and the 21st centuries. Still, the lack of price level consideration may be thought to be this research weakness.

General indicators

GDP (nominal in USD: 2011 USD for Pax Britannica and 2015 USD for Pax Americana)	Indicates the general size of an economy (Basic indicator for Beckley's economic potential assessment method)
GDP per capita (nominal in USD: 2011 USD for *Pax Britannica* and 2015 USD for *Pax Americana*)	Indicates the general welfare level of an economy (Basic indicator for Beckley's economic potential assessment method)
Export of goods and services (million current USD)	Indicates the position of an economy on the global market of goods and services
Foreign investment in million current USD (*Pax Britannica*)/ Foreign direct investment in billion current USD	Indicates the position of an economy on the global market of capital
Sectoral division of economy: based on labor (*Pax Britannica*)/ based on value added (*Pax Americana*)	Indicates the stage of economic development: agrarian/ industrial/ postindustrial/ knowledge-based economy

Other indicators are specific either for *Pax Britannica* or *Pax Americana*. The first group indicates the progress of industrialization and the general state of the secondary sector of an economy, includes labor efficiency and safety figures as well as coal and steel industries indicators since these industries used to be the main ones during the 19th century. As for the second group, these indicators correspond to the reality of the 21st century and evaluate to what extend other economies depend on the examined country. Since the only economy that turns out to be able to challenge the US primacy in several indicators is mainland China, the emphasis is placed on the comparison of the USA and mainland China's figures. This group of indicators includes share of world nominal GDP, export, outward and inward stock FDI as well as demand for national currency as the reserve one and the number of residing corporations among top-100 by market capitalization. The choice of such indicators is primary due to the fact that unlike the 19th century the 21st is the era of globalization with global value chains, free floating currency rates and multinational corporations the market capitalization of which is comparable to GDP of several state's economies.

Specific Indicators

Pax Britannica (1812 – 1914)

Coal industry output	Indicates the general progress of industrialization as well as shows superiority over other economies in terms of industrial development
Steel industry output	Indicates the general progress of industrialization as well as shows superiority over other economies in terms of industrial development
Labor safety in coal mining	Indirectly indicates the development of mining technology and indirectly evaluates the state of coal industry of a country

Labor efficiency (in various sectors of an economy/ various services and industries)	Is used to compare the UK and US economies in terms of development of various services and industries as well as the technological advance of the countries
Pax Americana (since 1991)	
Share of world nominal GDP, %	Indicates the general weight of an economy in the world economy
Share of world exports of goods and services, %	Indicates the position of an economy on the global market of goods and services as well as shows the dependence of others on imports from the examined country
Share of world imports of goods and services, %	Indicates the dependence of exporters on the country's market and the domestic demand for foreign goods and services
Share of world outward stock FDI, %	Indicates the dependence of other states on the economy as the donor of FDI and the activity of its corporations
Share of world inward stock FDI, %	Indicates the dependence of foreign companies on the country in term of its market, its comparative advantages or other factors depending on FDI motivation
Demand for national currency as the reserve one, %	Indicates the dependence of other economies on the national currency of a state
Number of residing corporations among top-	Indirectly indicates the place of a economy in

100 by market capitalization	global value chains and shows the dependence of other countries on the activity of domestic firms

The comprehensive analysis of *Pax Britannica* and *Pax Americana,* the comparison of the leading economies of the time using both general and specific indicators, the comparison between the British and the American economic primacies as well as the comparison between rise of the USA in the 19th century and the rise of mainland China in the 21st century will be presented in the 3rd and 4th chapters of this research.

Chapter II. Global Leadership and Hegemony in History

2.1. Global Leadership and Hegemony in History

In this chapter the history of mankind will be briefly analyzed from the economic leadership perspective. Also, it is in this part of this research there will be justified the choice of the British Empire and the United States after the end of the Cold War as the only true global leaders, whose dominance was based on economic superiority. The basis of economic potential assessment in this chapter is Michael Beckley's method that evaluates a country's GDP and GDP per capita as the two key indicators (Beckley, 2018).

2.2. Global Leadership and Hegemony in Antiquity

Despite the fact that before the Great Geographical Discoveries era and the emergence of regular transport links between almost all parts of the world, it is very difficult to perceive the world as global, it is possible to note certain trends within separate and often isolated from each other, regions. The first power that can be considered to be a regional leader is the Empire of Alexander the Great of the 4th century BC, which stretched from the Adriatic coast in the west to the territory of modern Pakistan in the east. For a short period of time, it was this state that became the leading economy (due to its huge size) of the world, the strongest military power and the largest center of culture and science, which was able to accumulate the achievements of both Western and Eastern peoples who found themselves under the rule of the young emperor. However, the Macedonian Empire of Alexander the Great lasted too little to be seriously considered as at least a regional Eurasian leader. After the death of Alexander the Great in 323 BC, the gigantic empire immediately became the field of fierce battles of the emperor's former closest associates (the Diadochi), who later became kings in their own states which used to be provinces of the once unified empire (for example, the Seleucid Empire, the Egyptian Kingdom, the Macedonian Kingdom, Bactria, etc.).

The first state that could fully claim the role of a regional leader, if not a global one, is the Roman Empire, whose possessions stretched from the Portuguese coast of the Atlantic Ocean in the west to the territory of modern Syria in the east. Being the leading economy of its time, as can be judged by the fact that already in the 1st year AD, the GDP per capita in the Italian part of the empire amounted to 1,407 2011 US dollars (England was able to achieve similar indicators only in the middle of the 13^{th} century, France – at the very end of the 13^{th} century – at the beginning of the 14^{th} century, China – in the 15^{th} century, while Russia – only in the 1880s) (Maddison Project Database 2020). Also, the Roman Empire can be rightfully considered the strongest military power, whose success is evidenced by the results of numerous military campaigns, after which, by the beginning of the 2^{nd} century AD, the empire controlled most of Western and Southern Europe, all of Asia Minor, North Africa, with the Mediterranean Sea turning into the "Roman Lake". Rome became a center of science and art. Latin was the language of international communication (within the Mediterranean and Western Europe). Moreover, it is remarkable that after the fall of the Western Roman Empire in 476 AD, it took more than a thousand years for humanity to repeat the achievements of Roman science (e.g. technologies for the manufacture of glass, concrete, surgical operations, etc.). Thus, as Zbigniew Brzezinski rightly noted, the Roman Empire was not a world power by modern standards, but since the various continents at that time were largely isolated from each other. Anyway, no one co compare with the power of Rome within the region. So, the regional dominance of the empire was complete, and its political organization and culture became the basis for all subsequent empires on the European continent (Brzezinski, 2000).

A similar status of a regional power can be attached to the Chinese Empire in Antiquity. The Chinese Empire of the Han Dynasty (3^{rd} century BC – 3^{rd} century AD) and the Roman Empire were in relative isolation from each other and were hegemons within their region. However, the problem with assessing the contribution of the Chinese Empire to the development of all mankind lies in the fact that it was the successors of the Roman Empire, namely Western states such as Spain, France, Great Britain, the United States, were eventually able to win the fight against the countries of the East, to turn most of the latter into their colonies or dependent territories, to make their values, culture, as well as economic, political and social model universal for the rest of the world. The Chinese economic development on the contrary turned into stagnation that lasted for centuries. The GDP per capita in the territory of modern China did not exceed 2 thousand 2011 US dollars for more than nine centuries (from 1000 to 1950) (Maddison Project Database 2020).

2.3. Hegemony and Global Leadership in the Middle Ages

The fall of the Western Roman Empire could have been a chance for the Eastern Roman Empire to become if not of a global, then at least a regional leader. However, as Yulia Latynina noted, the history of the Byzantium Empire can be considered a continuous degradation and decay in terms of Roman scientific and cultural legacy (Latynina, 2015) . In fact, the entire history of this empire, which is not just a successor, but the Roman Empire itself, is a series of humiliating defeats from barbarians, constant coups d'etat, religious persecution and intellectual degradation. Great evidence of the level of ignorance to which the state, which was once the center of science and progress, was driven by the imposition of religious obscurantism, is the famous *Christian Topography* of Cosmas Indicopleustes (6th century AD), the main purpose of which is to prove that the Earth is flat. It is worth citing Roman emperor Julian the Philosopher (reign: 361-363), who in his essay *Against Christians* wrote, addressing Christians: “You, of course, understand the difference between your and our education. In your school, you will never make a person either courageous or virtuous, while under our system everyone becomes the best. Look at your children who are brought up reading your sacred books. If they are not slaves in adulthood, consider me a liar and a maniac.” (Uspensky, 2011).

Similarly, it is very difficult to call the kingdom/ empire of the Franks (5^{th}–9^{th} centuries) or the Holy Roman Empire of Otto I (10^{th} century) a potential global leader. The case of the Arab Caliphate is appropriate to compare with the empire of Alexander the Great, because the period of successful conquests of the 8^{th} century was followed by the gradual disintegration of a huge state.

Another great power that could claim hegemony is the Mongolian Empire. Unlike the Roman or Chinese Empires, this state was not a leading economic, scientific power, did not have a popular culture, but was rightfully considered the leading military power of its time. However, as Brzezinski notes, due to the absence of a dominant political culture on the extremely large territory the conquerors began to adopt the customs and values of the conquered peoples. Together with internal strife and the problem of the lack of a successor to the great khan, it led to the fact that the empire, which had disintegrated into several parts, ceased to be Mongol: the heirs of Genghis Khan turned from Mongol khans into emperors of China, the sultans of Persia, etc (Brzezinski, 2000).

2.4. An Empire on Which the Sun Never Sets

The first power that can claim the status of a global leader is Spain, namely the Spanish Empire of the 16th – early 17th century. The heyday of the empire was during the reign of kings Charles V (1516-1556) and Philip II (1556-1588). With the beginning of the Great Geographical Discoveries era, Spain and Portugal became the two main European powers that controlled a significant part of the world known at that time. A great example are the Treaties of Tordesillas (1494) and Zaragoza (1529) between the two Iberian Peninsula monarchies, that was the act of global delimitation of spheres of influence. Subsequently, at the end of the 15th century and the 16th century, the Spanish possessions included most of Southern Central America, part of modern Mexico, the Philippines, Southern Italy, Flanders. Moreover, Charles V was simultaneously emperor of the Holy Roman Empire (1530-1556). Afterwards. during the reign of Philip II Spain took advantage of the dynastic crisis in Portugal after the death of King Sebastian (reign: 1557-1578) in the Battle of Alcácer Quibir in Morocco. As a result of a successful military campaign, Philip II became the king of Portugal in 1581. After the unification of the two monarchies, Portugal retained considerable autonomy because Philip II ruled over his Portuguese possessions mainly with the help of Portuguese aristocrats and governmental officials. Also, the trade and shipping zones of Spain and Portugal remained separated. British historian Hugh Thomas noted that if Philip II had moved the capital of his great empire from Madrid to Lisbon and was able to ensure the movement of the Castilian nobility to Portugal, the Portuguese city would have become the largest metropolis of that time. This would significantly strengthen the bond between the two crowns and would also be the key to an even greater expansion of Spanish global dominance (Hugh, 2018). Nevertheless, even considering the fact that the Spanish crown did not control Portuguese possessions in Brazil, Africa and Asia directly, the accession of Portugal led to Spain becoming the first power in the world whose influence extended to all parts of the world: from North America to Southeast Asia.

Analyzing the economic potential of the empire, in 1600 it was the Spanish monarchy that was the richest in Europe (Table 1), since at that time the prevailing economic school was mercantilism, according to the postulates of which it was the accumulated treasures that was considered an indicator of economic success.

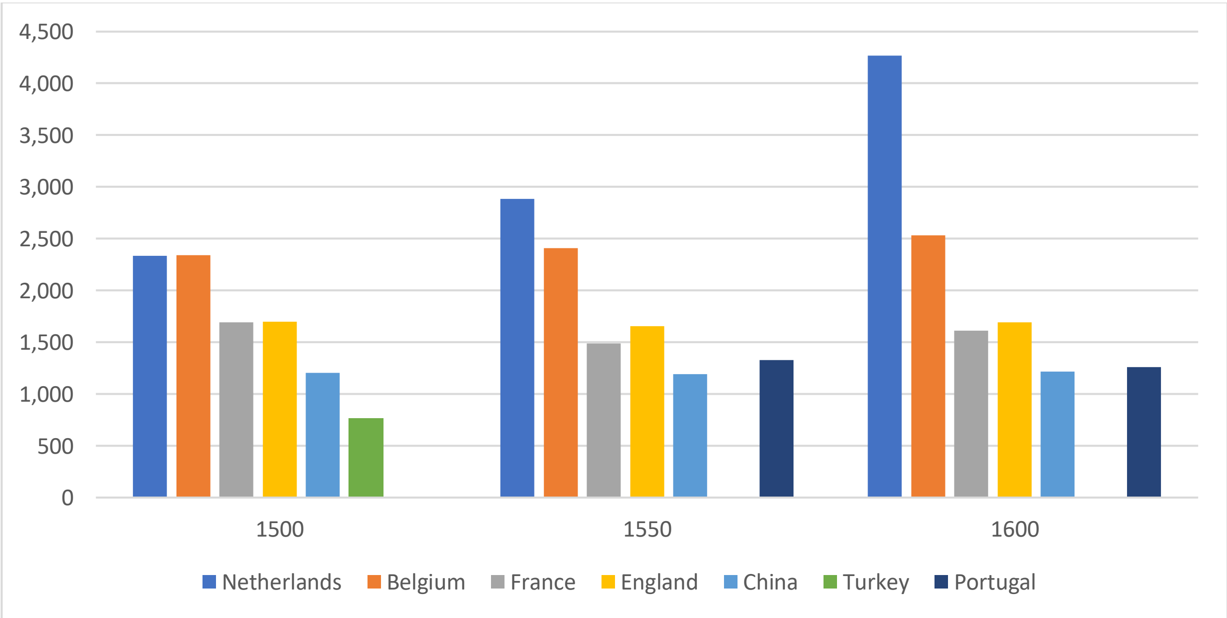
Table 1. Estimated Wealth of Countries in 1600

Country	Estimated wealth, ducats (1 ducat is about 100 pound sterling of 2014)
Castilla	9,000,000
Ottoman Empire	6,000,000
France	5,000,000
Venice	3,900,000

Data Source: Hugh, T. (2018). World Without End: Spain, Philip II, and the First Global Empire. Moscow: AST.

In addition, the empire in the 16th century included the most economically developed regions of that time, which were the territories of the modern Netherlands and Belgium. There were concentrated the main industrial centers of the 16th century (Figure 1).

Figure 1. GDP Per Capita of Selected States/ Provinces in 1500, 1550, 1600, 2011 US dollars



Data Source: Maddison Project Database 2020

What is more, Spain and Portugal became the leading trading powers, at the very beginning of the 16th century, the Portuguese fleet managed to establish control over the Indian Ocean after defeating the combined fleet of Mamluk Egypt and Gujarat at Cape Diu in 1509, as well as occupying key strongholds on the main trade routes (Goa, Hormuz, Malaka, etc.) (Boxer, 2020). Spain at first did not meet any resistance at all in the Western Hemisphere, and the influx of gold and silver from overseas possessions turned Spain into the richest power.

However, speaking about the economic power of the Spanish Empire, it is important to remember that, ultimately, the development of precious metal deposits and the unprecedented influx of gold and silver to Europe at that time played a cruel joke with the empire. As E.T. Gaidar demonstrated in *The Death of the Empire. Lessons of Modern Russia* a huge influx of precious metals led to a rapid increase in prices, paralyzed the growth of investment and became an obstacle to the development of industry, agriculture and trade. Gaidar concluded: "The history of Spain of the 16th –17th centuries is an example of a power that fell into decay without suffering defeat on the battlefield, but collapsed under the influence of exorbitant ambitions based on such an unreliable foundation as income from American gold and silver" (Gaidar, 2020).

It is fair to call the Spanish Empire the strongest military power of the 16th century. Spain was able to beat its main competitor in Europe that was the Ottoman Empire. The defeat of the Turks at the walls of Vienna in 1529 stopped their rapid expansion on the European continent, and the defeat of the Turkish fleet at the Battle of Lepanto (1571) put an end to Turkish dominance in the Mediterranean. In addition, in the entire history of the "treasure fleet", which transferred gold from American possessions to Spain, the opponents of the Spanish crown managed to defeat the Spaniards only once (the defeat of the Spanish "treasure fleet" by the fleet under the command of Dutch Admiral Piet Hein off the coast of Cuba in 1628). Also, the very fact that Spain's rivals (England, France, etc.) were forced to resort to the services of privateers (for example, Francis Drake, John More, Christopher Newport, and others) confirms that the rest of the 16th century states did not dare to challenge the Spanish fleet in open combat (Hugh, 2018).

Nevertheless, at the end of the 16^{th} century, the Spanish crown suffered a terrible defeat from the Englishmen who destroyed the Invincible Armada in 1588. It put an end to the myth of Spanish invincibility in the battlefield. Moreover, England obtained an opportunity to pursue a more independent policy that would be against the hegemon´s interests. British historian Hugh Thomas believes that if Spain had been successful in the war against England, the Spanish Crown would have turned its attention to the Far East. Back at the end of the 16^{th} century, the Spanish king was repeatedly offered various plans to conquer the Eastern lands, including Thailand and China. If Spain had managed to break the resistance of England and begin subjugating China several centuries earlier than Great Britain and other European powers, there would have been no questions about who the global leader in the 16^{th} century was (Hugh, 2018).

Anyway, the Spanish Crown managed to implement a number of regional initiatives namely to create the Holy League and to fight against the threat to the entire Christian world that was the Ottoman Empire. Also, Madrid launched educational and missionary activities both in the Americas and in Asia, however, unlike the British Empire, which will be examined later the Spanish rulers lacked innovative ideas for the reorganization of the whole world, such as the struggle for the slave trade prohibition and the abolition of slavery, the spread of enlightenment ideas or the classical liberal model. Subsequently, the empire lost its most developed possessions which was the Netherlands. Then began the economic decline, and by the beginning of the 20th century, Spain had become one of the poorest and underdeveloped countries in Western Europe (Beevor, 2019). Still, it was Spain that became the first real contender for the role of a global leader in a single world where all regions were connected to each other.

2.5. British Empire

After the beginning the Spanish Empire decay, for more than two centuries, there was an active confrontation between various powers with no one being the only hegemon. The Netherlands, France or England never achieved such a level of superiority in relation to other players in the international arena of their time to earn the title of a superpower. However, the situation changed dramatically after the victory of the British Empire over the French Empire of Napoleon I. It was France of the late 18th – early 19th century that was the only power in the world that could compete with Great Britain both on land and at sea, as well as in the field of economics, politics. Finally, it offered the world its own project for future development (Napoleon´s idea of a Europe based on the principles of enlightenment, human rights, the fight against the Inquisition, the unification of the European countries legislation, the idea to create united Germany and Italy, education reforms, another economic system that is the cooperation of continental European powers amid continental blockade of Britain, etc.) (Ponasenkov, 2020).

Throughout the 19th century, the British Empire was the most powerful and developed country in the world which deserves the title of the first global economic and political leader. A detailed analysis of British economic leadership will be presented in the next chapter. Nevertheless, it should be explained why the United Kingdom became the first global economic leader and why the position of London was different from the one of its predecessors.

After the victory in the wars with Napoleonic France, the British Empire was the largest state in the world with colonies scattered across all parts of the world: from North America to Oceania. Even if we leave aside the rich reserves of natural resources and the huge demographic potential of the empire, the UK had the global deployment capability like the USA after the Cold war, which, together with the world's strongest fleet, ensured British domination throughout the world.

As for the British military potential, after the victory over Napoleonic France, Great Britain firmly secured the status of the strongest maritime power, which only the German Empire could challenge only at the beginning of the 20th century (Horvath, 1997). However, even leaving aside the Naval Defense Act of 1889, in which the two-power standard was introduced, which implied that the British navy should surpass the fleets of other two strongest naval powers (Naval Defence Bill (No. 80.) HL Deb 27 May 1889), it is fair to conclude that it was naval superiority that became the key to the expansion of the colonial empire and the development of British trade.

Definitely, the British Empire never possessed the world's largest land army (The World's Largest Armies From Antiquity To The Present, 2014), but its leaders successfully compensated for the limited potential of its land army with naval power and diplomacy. Although Zbigniew Brzezinski states that Great Britain was omnipotent overseas but was not able to dominate Europe alone, instead relying on cunning diplomacy, guided by the principle of maintaining the balance of power, the very fact that one state was able to interfere in the affairs of other powers on the European continent throughout the entire 19 century defending British interests, as well as to make potential competitors struggle with each other, is an excellent proof that it is unfair to equate Great Britain of the 19th century with other great powers, namely France, Russia, Prussia-Germany, Austria-Hungary (Brzezinski, 2000).

There are many examples of successful diplomacy as follows leading anti-French coalitions and sponsoring their participants (Ponasenkov, 2020), the Crimean War (1853-1856) that is the creation of an anti-Russian coalition, the Franco-Prussian War (1870-1871) that can be interpreted as the defeat of a potential rival (France) by Prussia, even the Holy Alliance activity, in which Britain never participated, can be considered as an instrument that autonomously maintained a certain balance of power in Europe, which primarily contributed to the fact that the economic and political potential of Great Britain only strengthened. It is fair to call such a practice a very skillful use of soft power introduced by Joseph Nye in *Soft Power: The Means to Success in World Politics* (Nye, 2004).

Paul W. Schroeder concluded that the Vienna system of international relations was based not on the principle of maintaining the balance of power between the great powers, but on the hegemony of the British and Russian empires with Britain being the leading economy, scientific and naval power and Russia having the largest land army, vast territory and population (Schroeder, Did the Vienna Settlement Rest on a Balance of Power?, 1992). Nevertheless, the economic potential of the British Empire was so much stronger than the Russian one that it is extremely difficult to seriously say that Russia alone could challenge British global superiority, especially considering the results of the Crimean war (1853-1856).

In addition, during the 19th century, Great Britain managed to realize a number of projects for the global transformation of the world, and when implementing these initiatives, it was London that acted as a leader who set the general trend followed by representatives of other states. One of the examples is the campaign for the prohibition of the slave trade and the abolition of slavery. In 1807, the British Parliament passed an Act banning the slave trade, and an active fight against slavery began in all British colonies. Finally, colonial slavery was abolished in 1838. Subsequently, other leading countries followed Great Britain: slavery was banned in France in 1848, in Portugal in 1858, in Russia in 1861, and the final abolition of slavery in the United States in 1863 (Ingram, 2020). Moreover, in the case of Great Britain, the metropole paid compensation to slave owners throughout the vast empire (Conan Doyle, 2019). Also, such initiatives include the promotion of liberal values, parliamentarism, technology (telegraph, steamships, etc.), English metric system, the education system, the economic model, as well as the English language. It was in the 19th century that English became the language of international communication, and it retains this status to this day.

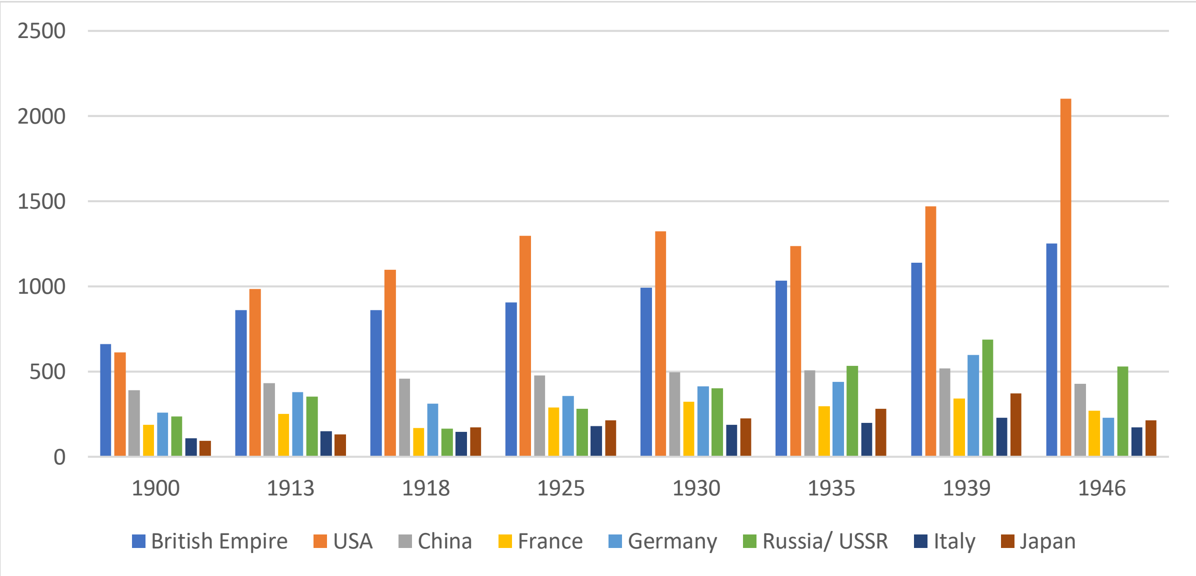
Thus, throughout the 19th century, the British Empire was not just a hegemon that surpassed all potential rivals economically, possessed enormous military power, was the center of science and progress, but it also was a full-fledged global leader. The best proofs of this thesis are the abolition of slavery by the entire developed part of humanity, the active promotion of the ideas of parliamentarism and classical liberal democracy in the leading countries of that time, enlightenment, even the notorious "burden of the white man", namely the justification of colonial policy, which was subsequently adopted by representatives of other states. As for those who disagree with British global leadership, the fate of the Chinese Empire, Russia of Nicholas I or France of Napoleon III is a clear example of the fact that the opposition of a number of states cannot be an obstacle to global leadership if it finds the means to neutralize the threat emanating from them in time.

So, the case of the British empire shows that in order to become a true global leader and to exert influence over all the world regions it is essential to first become a leading economy, the center of innovation and trade whose success serves as a lighthouse for humanity and makes others follow the leader´s policy. Also, it is remarkable that it was the economic decay of the empire that led to the decay of British leadership since no one managed to defeat the empire in the battlefield.

2.6. Global Leadership and Hegemony in the 20th Century

From the beginning of the 20th century and almost until the end of World War II, a unique situation was observed in the world. The British Empire, which was increasingly falling behind the world´s first economy, the United States, formally continued to try to act as a global leader, taking responsibility for resolving regional conflicts and other controversies, but the number of those who disagreed with London's leadership steadily grew. Moreover, all this time, the economic colossus, which significantly surpassed all potential rivals (Figure 2), was for most of the first half of the 20th century, with rare exceptions (for example, World War I, the Washington Naval Agreement of 1922, etc.) in voluntary international isolation, dealing almost exclusively with regional issues in Latin Caribbean America.

Figure 2. GDP of Selected States 1900-1946, billion 2011 US dollars



Data Source: Maddison Project Database 2020

When assessing the power of a particular state, it is important to take into account that it is a strong economy that is the main factor with the help of which, over a certain period of time, it is possible to rapidly increase military, scientific and technical potential, as well as strengthen its political influence with the help of soft power. The history of US involvement in two world wars is the best proof of this rule.

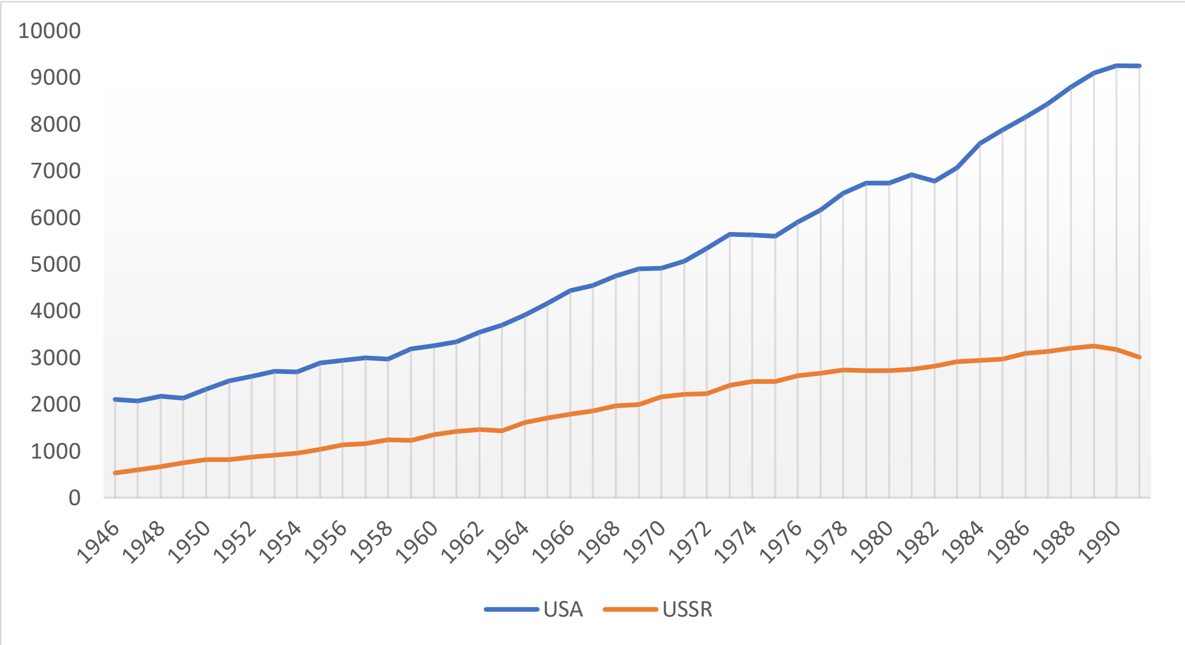
When the First World War began, it was difficult to call the United States a country that, even despite the status of the world's first economy, could challenge the British Empire. However, even if we do not take into account the fact that it was the US president who initiated the creation of the League of Nations, which became the main international institution for the next two decades, the Washington

Maritime Agreement examination (the United States and Great Britain had the highest allowed tonnage of capital ships) (Limitation of Naval Armament (Five Power Treaty or Washington Treaty), 1923) will be enough to conclude, that the era of Britain's global leadership was coming to an end. The United States became the main winner in the First World War, losing just over 100 thousand people (American War and Military Operations Casualties: Lists and Statistics , Updated July 29, 2020), while the German, Austro-Hungarian and Ottoman Empires fell apart, Italy, Romania and Japan only slightly expanded their possessions, France was devastated by the war, a long internal crisis began in the British Empire, and the Russian Empire converted into to the Soviet Union.

Analyzing the results of the Second World War, it is also the United States that benefited the most from this conflict, again suffering meager (if compared with the USSR, China, Japan or Germany) losses with casualties being a little more than 400 thousand people (American War and Military Operations Casualties: Lists and Statistics , Updated July 29, 2020). Moreover, the United States emerged from this confrontation as the only real superpower, the first economy in the world, whose GDP is 1946 exceeds the total GDP of the entire British Empire by 1.68 times, and the GDP of the USSR, which was the third economy in the world, by 3.97 times (Maddison Project Database 2020). In addition, unlike the USSR or the British Empire, the US territory was not affected by the war, and Washington was able to successfully consolidate its influence on the European continent with the help of economic assistance and military presence.

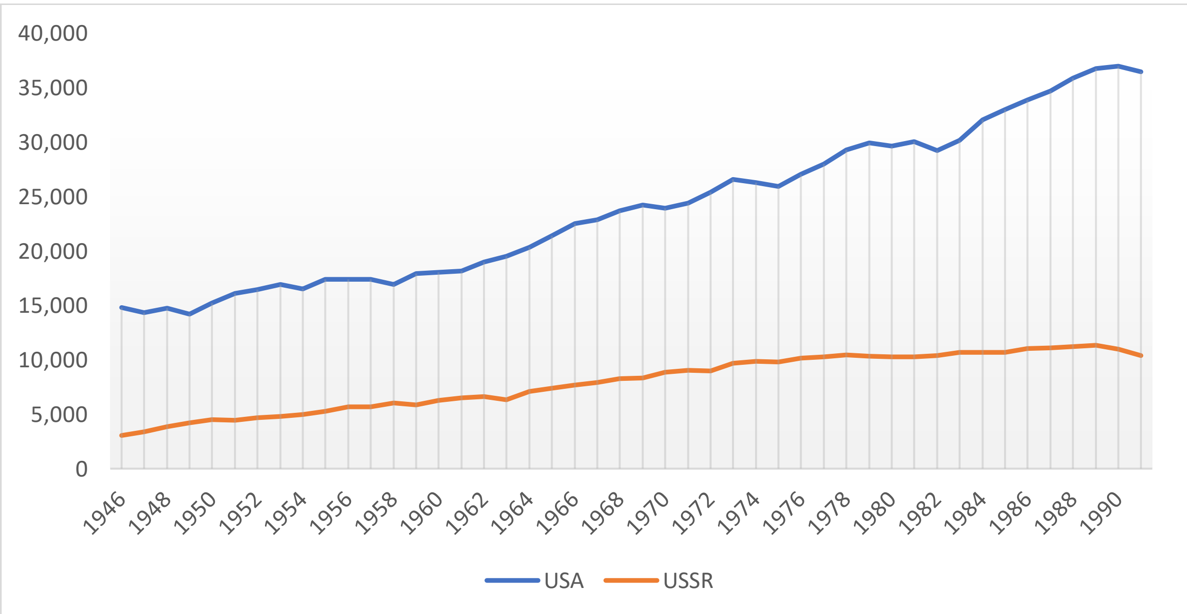
As for the Cold War and the confrontation between the USA and the USSR, even if we omit that the Soviet planned economic model was doomed, after the end of World War II, the economic potential of the USSR never came close to the one of the USA: the Soviet GDP never amounted to even 50% of the US GDP (Figure 3), and for the entire history of its existence, GDP per capita in the USSR reached its maximum in 1988, being only 11 thousand 2011 US dollars (Figure 4). This was the level of the USA the mid-1920s, even before the Great Depression.

Figure 3. USA and USSR GDP (1946-1991), billion 2011 US dollars



Data Source: Maddison Project Database 2020

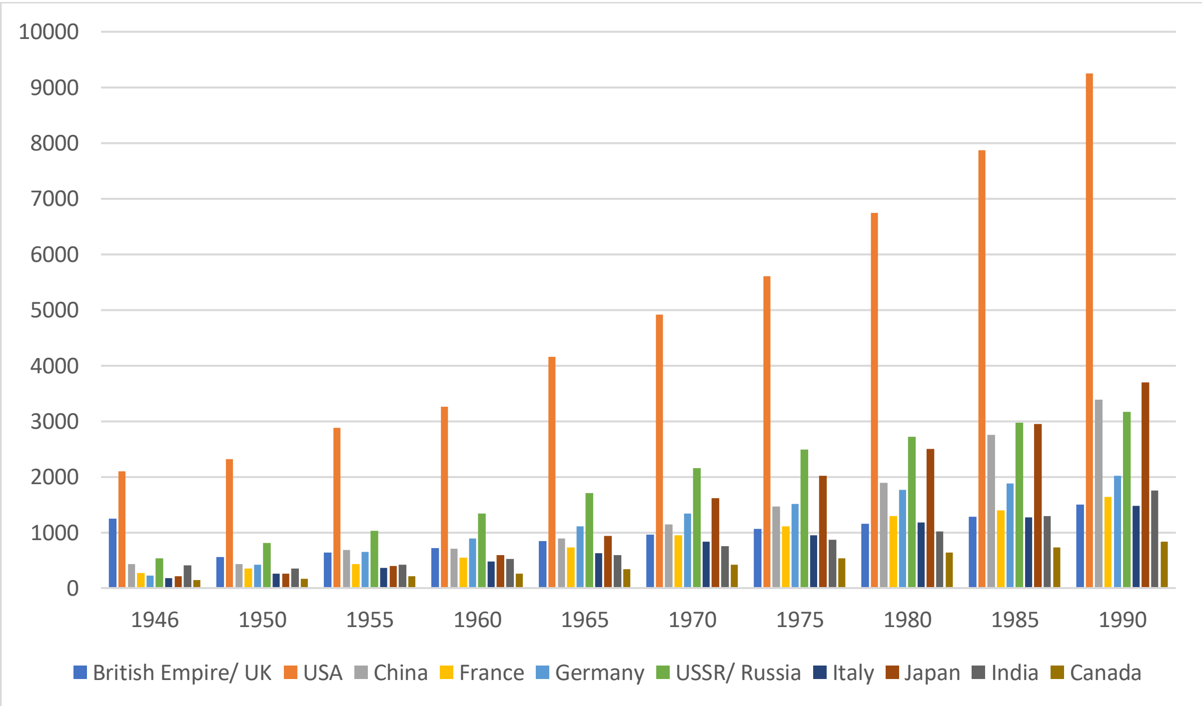
Figure 4. USA and USSR GDP Per Capita (1946-1991), 2011 US dollars



Data Source: Maddison Project Database 2020

Analyzing the situation in the postwar world in general, the economic superiority of the United States and Western countries over the USSR and its allies becomes even more obvious. By the mid-1980s, the USSR began to lose the status of even the second economy in the world, subsequently falling behind Japan and China. The United States throughout the second half of the 20th century immediately after the collapse of the British colonial Empire did not meet a single truly serious rival in terms of economics (Figure 5) (Maddison Project Database 2020). Taking into account the fact that it was the United States that became the founder of the new financial Bretton Woods system, with the US dollar being the main international currency, and that after the decision of the Jamaica Conference, the exchange rates of most currencies began to be tied to the dollar (IMF Annual Report, 1976), it is fair to agree with the Robert Keohane, who noted that the period after the end of World War II was characterized by the economic hegemony of the United States (Keohane, 1984). An excellent proof of this can also be the fact that it was the USA and other Western countries that the leaders of the USSR turned to for help when the internal economic situation in the country became critical (in the late 1980s – early 1990s) (Gaidar, 2020).

Figure 5. GDP OF Selected States 1946-1990, billion 2011 US dollars



Data Source: Maddison Project Database 2020

However, it would be unfair to call the USA a global leader during the Cold War. The fact is that Washington was forced to fight the USSR for more than four decades. The Soviet Union can hardly be called a real superpower, but the huge nuclear potential, the use of which could put all of humanity on the brink of extermination cannot be discounted. Also, before the transformation of mainland China into its junior partner (normalization of US-Chinese relations and the beginning of active economic cooperation between the US and China in the early 1970s) the United States was forced to confront the threat posed by the second bastion of communism. Considering that in addition to the USSR and the PRC, many satellite states acted as Washington's opponents: from the GDR to Cuba, it is impossible to say that the United States could lead the whole of humanity or at least the vast majority of its representatives. However, the victory in the Cold War and a clear demonstration of the “alternative path of development” futility became the guarantee that in the 1990s all conditions were created for the United States to have a real opportunity to become a global leader.

2.7 Implications

Since the Great Geographic Discoveries era when the world became global with the majority of its regions being connected with each other by trade routes as well as political and economic cooperation, there were only two powers that could claim the status of the true global leader. Unlike their predecessors the British Empire and afterwards the USA turned out to be not just leading powers within one particular region like the Roman Empire, the Chinse Empire, the Mongolian Empire, etc. but they were able to expand their influence in all the parts of the globe.

Unlike the Spanish Empire, Great Britain managed to beat or successfully manipulate all its possible opponents converting into the largest colonial empire in the history and since 1815 until World War I never met a full-fledged resistance from other great powers. However, the British leadership was not only based on the strongest navy or soft power (diplomacy). As it will be demonstrated in the next chapter, the British Empire was the global economic leader which was simultaneously the largest economy, key producer, exporter of goods and capital, the most developed state in terms of labor efficiency as well as the leading country by GDP per capita. Charles Kindleberger said: “Leaders pay a disproportionate share of the costs of stability, and grow weary in so doing, especially when they are accused of reaping exploitive national gains, seignorage for providing international money, or amassing private investment without providing savings, technology, or other valuable considerations, quite apart from the prestige sought” (Kindleberger C. , 1996). The British Empire took that burden and up until the end of World War I acted at the same time as the political and economic leader of the world. But like during the Victorian era when the strongest economy was a pillar of the UK global presence and political preponderance, it was the post-war economic decay that put an end to the British global leadership.

Washington finally terminated its political isolation only after World War II and consolidated the Western world in the face of the red menace. Twenty years after World War I America spent in self-isolation being the largest and most developed economy in the world. It did not take the burden of neither global economic, nor political leadership and tended to refrain from global obligations except for several global initiative (e.g., the naval limitation, etc.). In the third chapter there will be presented the analysis of the economic potential of the USA and its possible opponents in terms of global economic leadership. Still, it should be considered that the endowment of economic resources may serve only as a precondition for becoming a new global economic leader due to the lack of the will to take such a responsibility (Kindleberger C. , 1996).

What is more, it is important to remember the cases of the German Empire, the Nazi Germany and the Soviet Union. Their leaders aspired the review of the existing status quo without having enough economic resources to support their ambitions. The German Empire and the Nazi Germany were plunged into a devastating war with the richest and most developed economies of the time (the British Empire and the USA), while the USSR tried to challenge the American leadership and superiority with its economy being more than two times as low as the US one. In the end these powers were defeated and humiliated, all the three states collapsed, with their economies being devastated. These examples do not guarantee that the mistakes of the past will not be repeated, still this experience should be kept in mind in order to at least mitigate possible negative consequences. Also, they indicate what is the leadership burden and the economic price for high political aspirations.

Still, one may claim that there is not enough data to make any general conclusions about the sufficiency measurement of economic resources endowment for high political aspirations since the world has been global only for less than six centuries and it has seen only one shift of global leadership. Also, the analysis of failure cases can be considered to be affected by survivorship bias due to the fact that the history of two world wars overshadows the experience of other global conflicts. Anyway, this is just a matter of time, and the future will make the overall picture far clearer, but within the examined period the position of the British Empire in the 19th century and the one of the United States of America after the Cold War do look exceptional.

Chapter III Pax Britannica

3.1. Indicators Choice

After the victory over Napoleon, the British Empire lost its main competitor in colonial expansion in all the regions of the world. Britain did not become the only hegemon on the European continent that could openly impose its will on all other countries within the region, would have indisputable military superiority or had a large network of obedient satellite states. However, using the contradictions between the largest European states, namely Russia, France, Austria (Austria-Hungary), Prussia (Germany), Italy, the Ottoman Empire, etc., the British Empire managed, firstly, to prevent the formation of a real challenger of the British leadership on the European continent until the beginning of the 20th century, as well as to spread its influence in all parts of the world, creating an unprecedented in size colonial empire, whose possessions stretched from British Columbia to New Zealand (Brzezinski, The Great Chessboard. The Dominance of America and Its Geostrategic Imperatives, 2000).

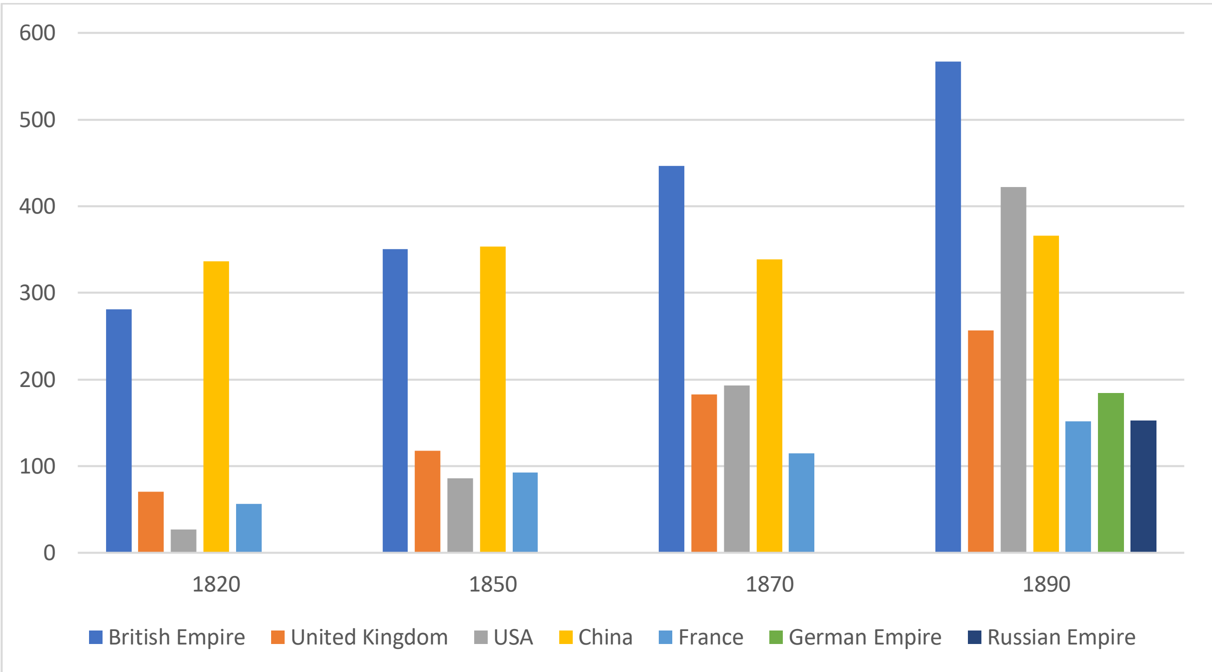
As Paul W. Schroeder rightly stressed, the British hegemony after the Vienna Congress of 1814-1815 was based on economic, naval and scientific superiority, while the Russian Empire remained the country with the largest land army and a huge population (Schroeder, Did the Vienna Settlement Rest on a Balance of Power?, 1992). However, subsequently, the gap between economic, scientific and technological development between Great Britain and Russia began to increase rapidly, which ultimately led to the fact that even a huge army could not save St. Petersburg from a humiliating defeat in the Crimean War (1853-1856). It clearly demonstrated that Russia was terribly falling behind other leading powers (Peri, 2008). As for the rest of the potential competitors of Great Britain, their economic potential until the very end of the 19th century was still significantly inferior to the British, which is what this chapter is devoted to.

In this chapters there are used the following general indicators to assess the economic potential of the British Empire as well as the ones of its competitors: GDP demonstrates the seize of economies, GDP per capita shows the states' welfare level, the export volume allows us to judge about a country's role in the world market of goods and services, while the volume of investment indicates a state's position in the world capital market. The comparison of the UK and US economies' sectoral division demonstrates the USA lagging behind the UK in terms of industrialization and economic development in general. Such a comparison is relevant due to the fact that the 19th century saw the beginning of a new global leader rise (the USA) which remained in shadow until the economic decay of the British Empire and did not question British primacy in international affairs until the time when the USA became the first economy of the world. Thus in order to analyze the current situation in terms of new potential leader rise it is important to examine the history of the American success amid the British dominance. Also, there are analyzed specific figures such as the iron and steel industries statistics that assess the progress of industrialization as well as economy's general development since these were the two main industries of the 19^{th} century. The labor safety and productivity data is relevant since the 19^{th} and the early 20^{th} centuries were the industrial era, thus, such additional indicators facilitate evaluation of general industrialization progress as well as the development of particular industries.

3.2. General Macroeconomic Indicators

One of the main pillars of British global hegemony was the economic superiority of the empire over all other economies of the world. By the middle of the 19^{th} century, the British Empire became the greatest economy in the world in terms of GDP (total GDP of the whole empire), overtaking China. However, it is important to take into account the fact that China's economy was in a state of unprecedented stagnation for more than four centuries. So, its high GDP (more than 300 billion 2011 US dollars) was due to the huge population of the empire with the number of people living on its territory being 381 million in 1820, 412 million in 1850, 358 million in 1870, and 366 million people in 1890. It is also noteworthy that the GDP of the British metropole exceeded the GDP of any Western state throughout the first half of the XIX century, being inferior in this indicator to such Asian giants as China and India solely because of the enormous difference in population (throughout the 19^{th} century, the population of China exceeded 300 million, and the Indian was more than 200 million people, while the subjects of the United Kingdom in the metropole numbered from 21 million at the beginning to 37 million people at the end of the 19th century). Only after the end of the American Civil War (1861-1865) by the early 1870s, the US economy reached the size of the metropolitan economy of the British Empire, but the United States managed to match the total GDP of the entire British Empire only at the beginning of the 20th century. Undoubtedly, the lion's share of the British Empire's GDP was accounted for its colonies and dominions, but neither the German Empire, nor the French Empire and Republic, nor Russia were able to achieve the GDP of the United Kingdom throughout the XIX century (Figure 6).

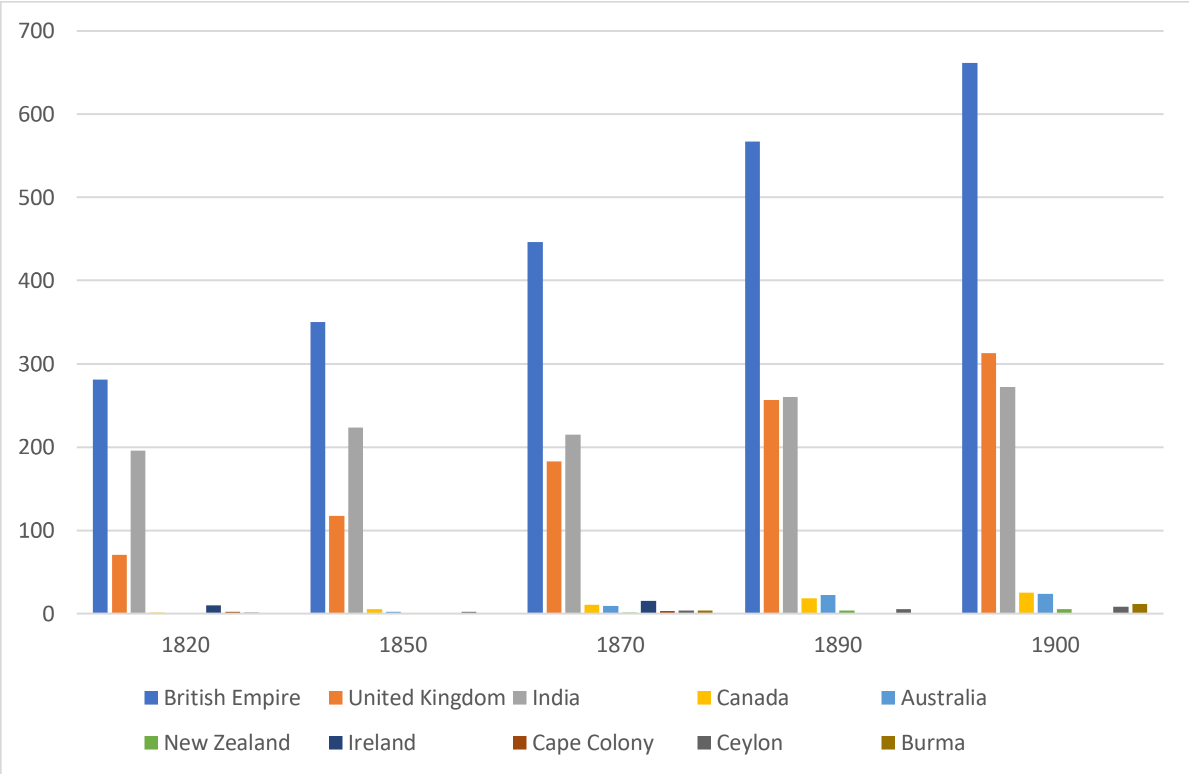
Figure 6. GDP of Selected States 1820-1890, billion 2011 US dollars



Data Source: Maddison Project Database 2020

Within the framework of the total GDP of the British Empire, it is remarkable that the share of the metropole´ GDP gradually increasing, while the one of British India was decreasing. So, if in 1820 the GDP of British India was more than two-thirds of the total GDP of the empire, then by the 1870s it had fallen to 48%, and by the very end of the century it stopped at 41%. The share of the metropole, in turn, increased from a quarter of the total GDP of the empire in 1820, exceeded 40% by 1870 and stopped at 47% in 1900. Such a breakthrough is due to the active industrialization, the consequences of the industrial revolution of the beginning of the century, as well as the successful development of the metropole, including through the establishment of supplies from colonial possessions and the creation of new markets in various corners of the globe (Figure 7).

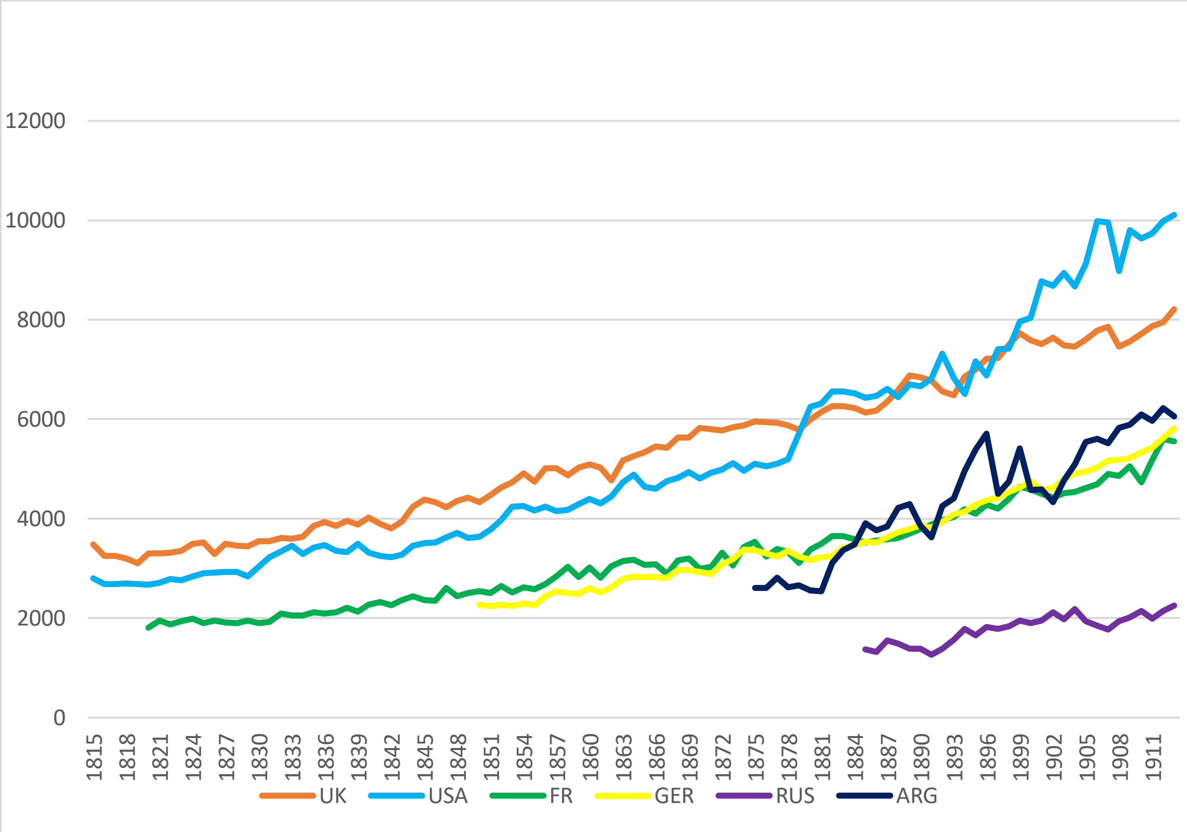
Figure 7. British Empire GDP 1820-1900, billion 2011 US dollars



Data Source: Maddison Project Database 2020

As in the case of GDP, Britain was the leading country in the world in terms of GDP per capita. It was only by the mid-1870s that the United States was able to reach the British level, while European states were falling behind the United Kingdom during the entire 19th century. Against the general background, it is noteworthy that Argentina which in the second half of the century was rightfully considered the most developed country in Latin America, was ahead of European countries in terms of GDP per capita (Figure 8).

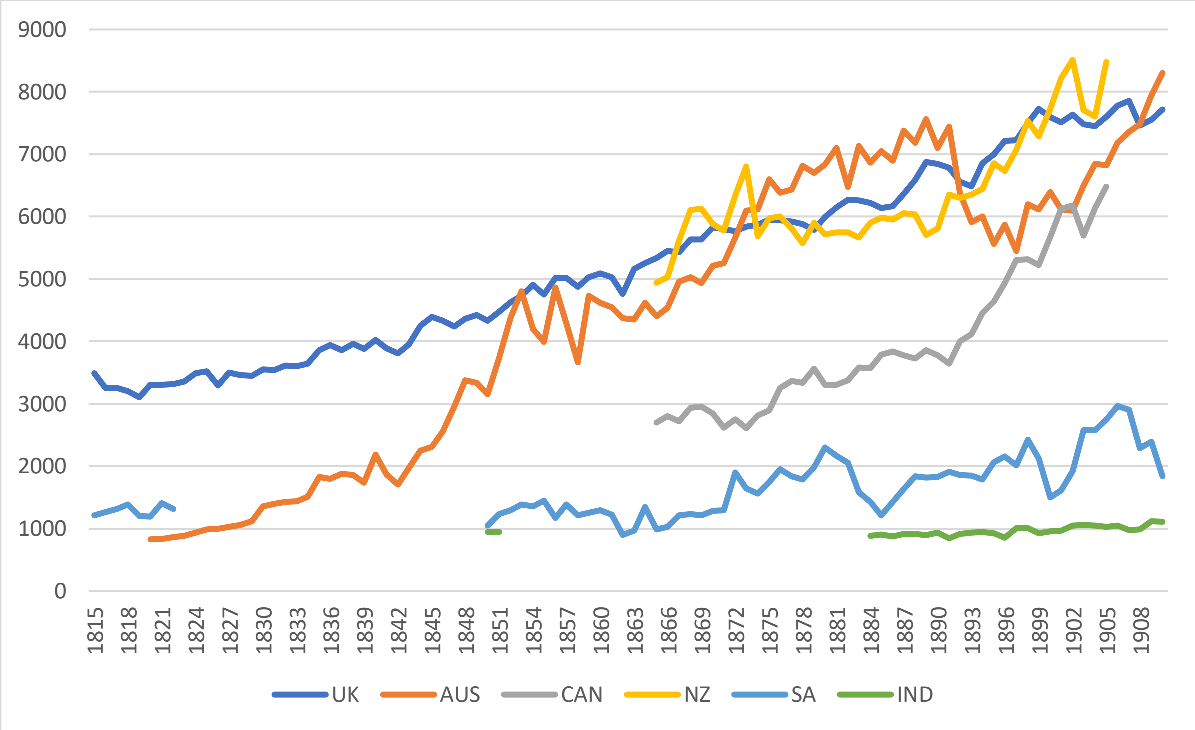
Figure 8. GDP Per Capita of Selected States 1815-1910, billion 2011 US dollars



Data Source: Maddison Project Database 2020

Within the British Empire it is remarkable that the gap between the United Kingdom, Australia, Canada, New Zealand and the Cape Colony, along with India, was only widening throughout the century. The latter was in a state of economic stagnation for the entire 19th century, while in the African possessions of the British crown there was a huge difference in the standard of living of the colonizers and the indigenous population. In addition, the standard of living, if calculated using GDP per capita, in British Australia, New Zealand and at the very end of the 19th century in Canada was higher than not just the standard of living of an average European country, but also exceeded the one of such great powers as France and Germany. Still, it is important to understand the fact that in these British colonies, which subsequently converted into dominions, the population was relatively small. For example, the population of British Canada in the 19th century did not exceed 5 million people, in Australia – four million people, and in New Zealand the number of inhabitants did not even reach one million people. This is also the main reason why the share of these colonies and dominions in the total GDP of the empire was so low (Figure 9).

Figure 9. GPD Per Capita of Different Parts of British Empire (1815-1910)



Data Source: Maddison Project Database 2020

3.3. British Empire and International Trade

An important indicator which can be used to assess the position of the British Empire in the world of international trade is exports. It was Britain that was the main exporter of goods throughout the 19th century. Thus, the export of the metropole alone in 1840 and in 1860 was almost equal to the export of France and the German states (excluding the Austrian Empire). Even after the formation of the united German Empire in 1871, the situation did not significantly change. It was the United Kingdom that remained the main exporter of the world throughout the 19th century, ahead of both other European states and the future global economic leader (the United States of America). However, the United States managed to almost match Great Britain in this indicator at the very end of the century, while the lag of the European powers was still great (Table 2).

Table 2. Exports of Selected States 1840-1900, million dollars

	1840	**1860**	**1880**	**1900**
United Kingdom	250.2	661.3	1085.5	1417.1
Germany	135.0	241.0	688.5	1097.5

France	134.1	439.5	669.3	793.0
United States	117.7	316.2	823.9	1370.8
Russia	67.0	132.4	247.9	369.0
Japan	-	3.8	25.4	101.8
Italy	-	112.2	213.0	258.3
Ottoman Empire	-	45.0	40	71.5
Austria (Austria-Hungary)	54.0	128.8	275.1	394.4
Belgium	26.9	90.8	234.8	371.1
Netherlands	20.0	97.2	251.1	680.3

Data Source: Hanson, J. (1980). Trade in Transition: Exports from the Third World 1840-1900. New York: Academic Press.

As for the export of colonies and dominions of the British empire, it is remarkable that the exports of British India, Australia, Canada or Straight Settlements (British Malaysia) during the 19th century were comparable to the exports of the Ottoman Empire or Japan. Thus, even when considering the British colonial possessions as separate entities in international economic relations, in this indicator they are in no way inferior to some of the leading countries of the world (Table 3).

Table 3. Exports of Various Parts of British Empire, million dollars

	1840	**1860**	**1880**	**1900**
United Kingdom	250.2	661.3	1085.5	1417.1
Australia	7.0	76.4	113.0	153.2
British India	56.5	136.1	325.0	353.9
Canada	15.6	36.2	68.9	148.0
New Zealand	-	2.8	24.4	57.2
Cape Colony	5.4	10.0	37.1	36.6
Newfoundland	4.4	6.2	5.7	8.6
Caribbean Possessions	25.9	20.4	27.2	24.7
Guyana	8.2	7.4	12.7	10.0
British West Africa	-	-	7.0	16.1
Ceylon	2.0	10.9	20.6	29.9
Sarawak	-	-	-	4.4

Straits Settlements	8.0	32.0	63.0	116.4
Egypt	-	-	-	82.9
Aden	-	0.9	6.5	9.8

Data Source: Hanson, J. (1980). Trade in Transition: Exports from the Third World 1840-1900. New York: Academic Press.

3.4. British Empire in Global Capital Flows

Great Britain was the most active participant in the movement of capital, being the largest net exporter of capital throughout the 19th century. The volume of the British foreign investment exceeded this indicator of two, and subsequently three major investor countries in the world, namely the Netherlands, France and the German Empire. Until the outbreak of the First World War, it was the United Kingdom that was the main creditor of the rest of the world, while the United States used to be an attractive target for European investment (Table 16).

Table 4. Foreign Investment of Major Lending Countries, 1825-1913 (in millions of dollars)

	1825	**1840**	**1855**	**1870**	**1885**	**1900**	**1913**
United Kingdom	500	750	2,300	4,900	7,800	12,100	19,500
France	100	300	1,000	2,500	3,300	5,200	8,600
Germany	-	-	-	-	1,900	4,800	6,700
Netherlands	300	200	300	500	1,000	1,100	1,250
United States	*	*	*	*	*	500	2,500

Data Source: Kindleberger, C. P. (1984). A Financial History of Western Europe. London.

Even during the First World War, Great Britain, being the main US debtor, firmly secured the status of the second creditor of the Entente countries. So, by 1919, the debt of the Entente countries to Great Britain was 1 billion 740 million pounds, which is only 160 million pounds less than the total debt of the Entente countries to the United States. At the same time, he total amount of loans provided by France did not exceed 400 million pounds. However, it is important to consider the fact that the United Kingdom, being one of the key creditors of this union, itself became the main debtor of the United States. Since in 1919 the total amount of loans issued by Americans to the British amounted up to 842 million pounds (almost half of all American loans). In addition, it is important to take into account the fact that the main recipient of British loans was the Russian Empire (568 million pounds) (Table 17). After the victory of the Bolshevik in the Civil War, the leadership of the USSR refused to pay imperial debts, which mainly affected Great Britain. The study of how much this decision of the Soviet leaders aggravated the economic decline of the British Empire may represent a potential area for further research.

Table 5. Inter-Allied War Debts, Estimated as of 1919 (in millions of pounds sterling)

Loans to	**From United States**	**From United Kingdom**	**From France**	**Total**
United Kingdom	842	-	-	842
France	550	508	-	1,058
Italy	325	467	35	827
Russia	38	568	160	766
Belgium	80	98	90	268
Serbia	20	20	20	60
Other Allies	35	79	50	164
Total	1,900	1,740	355	3,995

Data Source: Kindleberger, C. P. (1984). A Financial History of Western Europe. London.

3.4. British and American Economic Models

Since the United States of America was the only state that manage both to leave Great Britain behind in terms of GDP and exports and afterwards in the 20th century became a new world economic leader, it is worth comparing the economic models of the British Empire metropole and the USA. Comparing the economies of Great Britain (the metropole) and the USA in the 19th century, the most striking difference is the predominance of the agricultural sector in the American economy that could be noted throughout the whole age. It is primary due to the fact that territory of the United States is much larger than the one of the United Kingdom with the southern states being the main suppliers of cotton to the world market (Table 5). Moreover, since the second half of the 19th century, the USA became the undisputed leader in wheat exports to the world market (Table 6). Nevertheless, the industrial revolution took place in Britain earlier than in the USA, by the middle of the century the industrial sector had become the main sector of the economy (more than 40% in 1849), and by

1889 the industrial sector and the service sector were almost equal (43.2% and 41%, respectively). In the USA, industrialization was carried out much more rapidly. So, if in the middle of the century agricultural sector accounted for about two-thirds of the economy, then after 60 years the service sector became the predominant sector of the economy, with the agricultural and real sectors being approximately equal (30.4% and 30.2%, respectively) (Table 4).

Table 6. Sectoral distribution of labor in the United States and the United Kingdom, circa 1850–1910 (%)

United States

	Agriculture	**Industry**	**Services**
1849	60.0	17.1	22.9
1869	48.3	23.8	27.9
1889	41.6	25.5	32.9
1909	30.4	30.2	39.4

United Kingdom

	Agriculture	**Industry**	**Services**
1849	28.3	40.9	30.8
1869	22.2	42.2	35.6
1889	15.8	43.2	41.0
1909	11.8	43.5	44.7

Data Source: Broadberry, S., & Irwin, D. (2004). Labor Productivity in Britain and America During the Nineteenth Century. NBER Working Papers 10364.

Table 7. Key Exporters of Raw Cotton 1840-1990, million dollars

	1860	**1880**	**1900**
Brazil	3.2	3.2	2.2
China	1.1	0.2	7.3

Egypt	5.5	37.3	64.5
British India	23.0	55.5	32.2
Peru	3.0	0.7	1.5
United States	191.8	211.5	241.9

Data Source: Hanson, J. (1980). Trade in Transition: Exports from the Third World 1840-1900. New York: Academic Press.

Table 8. Value of Exports of Wheat, Selected Countries 1840 – 1900, million US dollars

	1840	**1860**	**1880**	**1900**
British India	3.2	-	5.5	12.7
Chile	-	1.1	5.7	-
Egypt	1.3	1.9	5.3	-
Uruguay	-	-	-	1.0
Argentina	-	-	-	46.9
Austria-Hungary	0.7	0.9	10.4	-
Belgium	0.2	n.a.	n.a.	7.5
Canada	0.2	4.7	5.9	12.0
France	0.4	10.8	n.a.	3.4
Germany	-	-	-	9.2
Italy	-	5.3	4.8	n.a.
New Zealand	-	-	0.4	1.7
United Kingdom	-	-	1.7	0
United States	1.6	4.1	190.6	73.2
Roumania	2.3	5.0	14.4	19.5
Russia	11.5	28.0	42.5	53.7
Serbia	-	-	-	2.2

Data Source: Hanson, J. (1980). Trade in Transition: Exports from the Third World 1840-1900. New York: Academic Press.

3.5. Exceptional Position of British Empire in Industrial Era

Since the 19th century is considered to be the century of industrial countries, as evidenced by the rapid growth and predominance of the industrial sector in the economic models of the world leading countries, there will be introduced specific indicators that would demonstrate the success of an economy in terms of industrialization and secondary sector development. These figures include coal and steel industries output, labour productivity and safety indicators. Their examination also shows why the economic position of the British Empire was so exceptional and why the 19th century is called the Victorian era.

The first group of indicators determine the state of the coal industry in a country. It was coal that was the main energy resource during the 19th and early 20th centuries. Thus, indicators of coal production can be used to draw conclusions about the promotion of industrialization and success in the development of the industrial economy.

Throughout the 19th century, Great Britain retained the primacy in coal mining. Moreover, in the first half of the century, this country accounted for more than half of all coal production in the world. In 1830, Belgium was the second country to produce coal, but its share in world production was only 6.1%. In the middle of the century, the results of the industrialization that had already begun in the United States were already evident, but it was only the beginning of the 20th century that the USA would manage to take a lead. Also, on the eve of the First World War, the German Empire almost reach Great Britain´s level of coal production (20.7% for Germany versus 21.8% for Great Britain). Nevertheless, if we look at the situation only in the 19th century, it is the British Empire that can be called the undisputed leader in the coal industry (Table 7).

Table 7. Main Coal Producers 1830-1913, % of World Coal Production

	Britain	Belgium	France	Germany	United States	Rest of the World
1830	81.3	6.1	5.1	4.8	2.1	0.5
1850	71.0	6.6	5.0	7.7	8.6	1.1
1913	21.8	1.8	3.0	20.7	38.6	14.1

Data Source: Silvestre, J. (2021). Productivity, Mortality, and Technology in European and US Coal Mining,1800-1913. Working Papers 0205.

Examining the quantitative indicators of coal mining in the period from 1830 to 1913, British superiority is unquestionable. In the 1830s and 1850s, Great Britain was the only country in the world where were mined more than 10 million tons of coal. It is also remarkable that even at the beginning of the 20th century, such a large European economy as France could not exceed the coal production figures of Great Britain in the middle of the 19th century (coal production in France in 1913 is 40 million tons, while in Great Britain in 1850 it is 62.5 million tons). Finally, it is worth highlighting the impressive breakthrough that the United States managed to make over the last six decades of the 19th century. In 1850 the USA did not produce even 10 million tons of coal, then in 1913 the United States produced more than 500 million tons of coal, which was more than 200 million higher than the British production (Table 8).

Table 8. Output of Coal, in Thousands of Metric Tons

	Britain	Belgium	France	Prussia	United States
c.1830[①]	30,500	2,531	2,047		799
1850	62,500	5,803	4,252	4,419	7,580
1913	287,500	22,842	40,051	180,058	517,059

Data Source: Silvestre, J. (2021). Productivity, Mortality, and Technology in European and US Coal Mining,1800-1913. Working Papers 0205.

The second group of indicators is connected to the steel industry. Throughout almost the entire 19th century, Great Britain retained the status of the main producer of pig iron in the world. Statistics on the production of pig iron in the 19th and at the beginning of the 20th century serves as another indicator that allows us to assess both economic development and the progress of industrialization in a particular country, since it was pig iron that was widely used in production, being processed into steel. Since 1810, more than half of all pig iron in the was produced in the United Kingdom, and over 70 years (1800-1870), British production grew more than 30 times (from 190 to 5,964 thousand tons per year). For a long time, the second world producer of pig iron used to be France, but its production volume, since 1820, was 2-3 times inferior to the British one. The United States entered the top three pig iron producers only in 1840, but by 1870 they managed to leave France behind and get closer to Great Britain. Still the British production was three times as large as the American one. What is more, on the eve of the formation of the German Empire, the North German Confederation became the third largest world producer of pig iron, being slightly ahead of France. As for the rest of the

[①] Britain 1830; Belgium: 1833; France 1834; US: 1830 world, it accounted for less than a third of the total pig iron production on the planet. Finally, it is remarkable that before the beginning of British industrialization, the Russian Empire was one of the leaders in terms of pig iron production (e.g., in 1800), nevertheless, its production did not increase until the beginning of belated industrialization in the early 1870s (Table 9).

Table 9. Production of Pig Iron 1800-1870 (thousands of metric tons)

	1800	**1810**	**1820**	**1830**	**1840**	**1850**	**1860**	**1870**
World total	599	620	1010	1,590	2,770	4,470	7,300	11,840
United Kingdom	190	250	368	677	1396	2,249	3,890	5,964
United States	40	60	22	185	321	631	920	1,865
France	140	…	164	222	500	570	967	1,178
Germany	39	45	89	118	167	396	522	1240
Sweden	…	…	50	95	116	139	173	268
Austria (Austria-Hungary)	…	…	73	103	164	162	313	403
Belgium	…	…	55	60	…	144	320	563
Spain	…	…	…	…	…	40	…	73
Russia	190	…	…	…	213	220	228	358

Data Source: Parrish, J. (1956). Iron and Steel in the Balance of World Power. Journal of Political Economy, 64(5), 369-388.

At the very end of the 19th century, the situation changed dramatically. In 1900, Great Britain, which accounted for about 22% of the world's cast iron production, had already lost the status of the key world producer of pig iron. At the very end of the 19th century, the situation changed dramatically. In 1900, Great Britain, which accounted for about 22% of the world´s cast iron production, had already lost the status of the key world producer of pig iron. Also, the German Empire, after rapid industrialization, began to come very close to Great Britain in this indicator. In addition, already in 1900, it is possible to note the success of the Russian and Austro-Hungarian Empires in carrying out industrialization. For example, the Russian production was even greater than the French one.

However, both Russia and Austria-Hungary were still falling far behind Germany, Great Britain and the USA. In 1913, Great Britain lost the second place in the world in terms of pig iron production to the German Empire, and over the past 13 years, Germany reached the level of production which was almost two times as great as the British one. Still, no one could challenge the leadership of the United States, which accounted for about 39% of the world's pig iron production. The US production was 1.6 times higher than the one of Germany and was 3 times as great as the British one. France and Russia firmly established themselves in fourth and fifth place respectively, but their production volume was 6 times less than the American one (Table 10).

Table 10. Production of Pig Iron 1870 – 1913 (millions of metric tons)

	1870	**1900**	**1913**
World total	12.5	41.0	80.0
United Kingdom	6.1	9.1	10.4
United States	1.7	14.0	31.5
Germany	1.4	8.5	19.3
France	1.2	2.7	5.2
Russia	0.4	2.9	4.6
Belgium	0.6	1.0	2.5
Austria-Hungary	0.3	1.5	2.3
Sweden	0.3	0.5	0.7
Japan	…	…	0.2

Data Source: Parrish, J. (1956). Iron and Steel in the Balance of World Power. Journal of Political Economy, 64(5), 369-388.

So, it is fair to conclude that for most of the 19th century, Great Britain was the main producer of pig iron in the world, whose share accounted for up to half of all world output. Nevertheless, thanks to the rapid industrialization of the second half of the 19th century in the USA and the last quarter of the 19th century in Germany, both countries managed to catch up with Great Britain by 1900, and in the case of the USA to leave behind the United Kingdom. In the 20th century, the gap between the USA, Germany and Great Britain only increased.

Another illustration of the British economic leadership is the production death statistics in coal mining. Definitely, in the 1850s, the mortality rate in coal mining per ten thousand workers in the

UK was relatively high, namely, the figure of 43.8 deaths per ten thousand workers in this industry exceeds similar figures of France (40.2 deaths), Belgium (32.5 deaths) and Prussia (17.9 deaths). A logical explanation for this phenomenon is the fact that Great Britain was the first country to start industrialization, and by the middle of the 19th century it was in the UK that was responsible for mining more than 2/3 of all the coal in the world. Thus, if we analyze the mortality rate in coal mining per million tons of coal, the industrial mortality in the UK (14.3 deaths) will be significantly lower than in Belgium (24.9 deaths), in France (28.1), being inferior only only to the Prussian one (12.1 deaths). In 1890, almost 20 years after the formation of the German Empire and a little more than 20 years after the victory of the Union in the Civil War (1861-1865), the industrial mortality in the coal industry in Great Britain was about one and a half times lower (both per million tons of coal mined and per ten thousand workers), than in France and in the German Empire. In the USA, there was a similar mortality rate as in the UK based on millions of tons of coal mined, however, when calculating per 10 thousand workers, the American figure (26.5 deaths) still exceeds the British one (18.3 deaths). In general, over the 60 years presented in the tables, the mortality rate in coal mining in the UK decreased by more than three times. In 1912, after the United States took over the leadership in coal mining, and the German Empire firmly established itself as the third world coal producer, the mortality rate in the UK was still lower than in both above-mentioned countries. So, based on the calculation per ten thousand workers, the mortality rate in the UK was 13.3 deaths, while in the German Empire it was 22.9 deaths, while in the USA the number of deaths was 35.7. When calculated per million tons of coal mined, the mortality rate in the UK (5.3 deaths) is approximately equal to the American (5.4 deaths), but significantly lower than that observed in Germany (8.4 deaths). So, it was the UK that was the country with the safest coal mining in the second half of the 19th – early 20th century among the states presented above (Table 11; Table 12).

Table 11. Deaths per 10,000 worker year

	Britain	Belgium	France	Prussia	United States
c. 1850[②]	43.8	32.5	40.2	17.9	

[②] c.1850 refers to 1851-1853, for Britain; 1851-1853, for Belgium; 1853-1855, for France; and 1852-1854, for Prussia. US data refer to the portion of the country under inspection of accidents.

1860	35.7	24.6	33.2	23.8	
1871	27.5	25.9	27.8	29.8	55.0
1880	22.3	29.3	16.7	31.2	28.1
1890	18.3	14.4	24.2	27.2	26.5
1900	13.4	10.6	13.3	23.1	32.8
1912	13.3	10.6	12.2	22.9	35.7

Data Source: Silvestre, J. (2021). Productivity, Mortality, and Technology in European and US Coal Mining,1800-1913. Working Papers 0205.

Table 12. Deaths per 1,000,000 metric tons mined per year

	Britain	Belgium	France	Prussia	United States
c. 1850[③]	14.3	24.9	28.1	12.1	
1860	11.4	20.3	23.9	14.1	
1871	8.6	17.1	17.1	14.3	12.3
1880	7.5	18.1	9.4	11.7	6.6
1890	6.1	8.3	11.4	9.8	6.0
1900	4.6	6.2	6.4	8.7	6.0
1912	5.3	6.7	6.1	8.4	5.4

Data Source: Silvestre, J. (2021). Productivity, Mortality, and Technology in European and US Coal Mining,1800-1913. Working Papers 0205.

The final important indicator that can be used to compare the UK and US economies in the 19th and early 20th centuries is labor productivity. Up until the 1890s, Great Britain maintained a slight superiority over the United States in this indicator analyzing both economies in general, but since the beginning of the 20th century, the situation became diametrically opposite with the gap in favor of the United States consistently increasing. Examining labor productivity in both countries within single sectors, it is evident that back in the 1840s the United States was significantly ahead of Great Britain in terms of labor productivity in industry. By the beginning of the second decade of the 19th century, American superiority in this indicator had almost doubled. However, in agriculture and services, the situation was absolutely different. Only by the beginning of the 1880s, the United States managed to reach and slightly exceed the British level of labor productivity in these fields, then in the 1910-s, the labor productivity in both states was almost the identical (Table 13).

③ c.1850 refers to 1851-1853, for Britain; 1851-1853, for Belgium; 1853-1855, for France; and 1852-1854, for Prussia. US data refer to the portion of the country under inspection of accidents.

Table 13. US and UK Labor Productivity 1839-1911 (US/UK, UK=100)

	Agriculture	**Industry**	**Services**	**Economy in General**
1839/41	78.1	159.7	84.8	93.8
1849/51	98.9	162.7	65.2	89.9
1859/61	100.0	152.8	73.0	95.0
1869/71	92.4	145.1	77.4	94.0
1879/81	103.9	146.3	103.6	98.1
1889/91	96.7	167.8	104.1	100.3
1899/01	112.0	170.9	116.1	114.8
1909/11	108.5	186.5	119.3	124.7

Data Source: Broadberry, S., & Irwin, D. (2004). Labor Productivity in Britain and America During the Nineteenth Century. NBER Working Papers 10364.

A comparison of labor productivity in the two countries in various industries demonstrates that the UK had a significant superiority over the United States in mining and construction. For instance, in the middle of the century reached the British labor efficiency was one and a half times as great as the American one. Nevertheless, even in the first half of the century, the United States was already ahead of the United Kingdom by more than 2 times in terms of labor productivity in manufacture (Table 14).

Table 14. US and UK Labor Productivity in Industry 1839-1911 (US/UK, UK=100)

	Mining	**Manufacture**	**Construction**	**Total Industry**
1839/41	63.5	239.3	53.3	159.8
1849/51	68.3	224.9	53.6	162.7
1859/61	60.5	190.5	77.8	152.8
1869/71	102.5	182.6	64.1	145.1
1879/81	98.8	169.9	93.5	146.3
1889/91	108.5	193.6	110.3	167.8
1899/91	146.5	195.7	94.1	170.9
1909/11	161.3	201.9	133.6	186.5

Data Source: Broadberry, S., & Irwin, D. (2004). Labor Productivity in Britain and America During the Nineteenth Century. NBER Working Papers 10364.

In services, it is worth highlighting the success of the British banking and financial sector. Even with the advent of the new century the UK preserved its leadership in this field. However, in distribution and transport and utilities, the United States managed to catch up with Great Britain by the end of the 19th century. Afterwards in transport and utilities the USA left the UK far behind. As for government efficiency, it was approximately at the same level (Table 15).

Table 15. US and UK Labor Productivity in Services 1839-1911 (US/UK, UK=100)

	Transport and Utilities	Distribution	Other Private Services	Government	Total Services
1839/41					84.8
1849/51					65.2
1859/61					73.0
1869/71	88.2	69.6	47.1	97.8	77.4
1879/81	113.4	107.0	63.9	97.5	103.6
1889/91	146.5	95.9	72.7	98.0	104.1
1899/91	198.3	106.1	76.4	110.3	116.1
1909/11	191.3	118.7	79.1	100.0	119.3

Data Source: Broadberry, S., & Irwin, D. (2004). Labor Productivity in Britain and America During the Nineteenth Century. NBER Working Papers 10364.

So, analyzing both economies in general and single industries or service sectors, there can be drawn one conclusion as follows: there used to be a slight superiority in labor productivity in the United Kingdom until the early 1880s, which was replaced by the American leadership, but only since the beginning of the 20th century.

So, the British Empire used to be an unquestionable economic leader in terms of industrialization for during the 19th century. It used to solely produce more coal than all other economies altogether, was the one responsible for more than 40% of world pig iron production, demonstrated the highest rates of labor productivity in key industries as well as showed solid labor safety indicators. It was only at the last quarter of the 19th century when the UK started to lose its primacy and was surpassed by the USA but even at the beginning of the 20th century the UK still was superior to the USA in several indicators.

3.6. Implications

For most of the 19th century, it was the United Kingdom that was the world's leading economy, it was the British Empire that became the first European power to overtake China in terms of total GDP, it was Great Britain that had the highest GDP per capita among the leading economies of the world until the 1870s, with the lion's share of the world's iron and steel production being concentrated on the British isles and London being the financial and commercial center of the world. Also, it is remarkable that Great Britain used to be a true leader in terms of industrialization and demonstrated the outstanding indicators in terms of output, labor safety and efficiency significantly surpassing all possible competitors.

It was only at the end of the century that British economic leadership began to fade away. First, the USA became the leading country in the world in terms of GDP per capita and GDP, then it converted into the main producer of coal and steel, came close to the UK in terms of participation in world trade, and was also slightly ahead of Great Britain in terms of labor efficiency in both industry and services. However, on the eve of the First World War, it was the United Kingdom that remained the main exporter of capital, goods and services in the world. Even during the Great War, Britain provided almost as many loans to its Entente allies as the United States.

What is more, the British colonies themselves, some of which later obtained the status of dominions, demonstrated macroeconomic indicators (GDP, GDP per capita, exports, etc.) comparable to those shown by some strong powers in the international arena of that time such as Belgium, the Netherlands, the Ottoman Empire or Japan. In general, the 19th century which is rightfully called the "Victorian era" can be characterized as the period of British economic leadership, which was the key pillar of the Empire's global political leadership.

Also, it is remarkable that the rise of the United States as a new global leader began with rapid economic development. Only after leaving behind all the other actors in the international arena in the field of economics, Washington embarked on a more active foreign policy and only after the victory in the First World War started to claim a leading role in international affairs. Still the American leaders did not try to challenge the British global leadership and refrained from hard political obligations beyond the Western hemisphere being busy with interior issues. What is more, even when the USA became the first world economy, such an isolation did not terminate and was renewed after the end of the First World War. Still, as soon as the British Empire faced a severe economic crisis and started to lag behind the USA in the examined macroeconomic indicators, Washington started to aspire higher political goals in the international arena and finally consolidated the Western world in the face of the red menace but only after the Second World War.

As for the failure cases, the destiny of the French Empire of Napoleon III and the Russian Empire of Nikolay I show that political ambitions and personal desires cannot substitute the lack of economic resources. While the only successful case of global leadership change demonstrates that a potential leader remained in the shadow of the current one refraining from active foreign policy outside their region (in the US case it is the Western hemisphere) and challenging primacy of the more developed and wealthier power until it was economically mature enough to take place of the leader that was facing a dramatic decay and could no longer fulfil its international obligations.

Chapter IV Pax Americana

4.1 Examined Indicators

This chapter will use similar general indicators to those analyzed in the second chapter to compare the economic leadership of the British Empire of the 19th century and the American economic superiority after the end of the Cold War. The US economic potential will be compared with the one of the six prominent countries, which are at the same time important political players in the international arena, large economies, strong military powers and scientific centers: the United Kingdom, Germany, mainland China, Russia, France and Japan.

A number of general indicators will be used to measure the economic potential of the above-mentioned countries in the late 20th and early 21st centuries. GDP and GDP per capita assess the overall economy size and the citizens´ welfare. The volume of exports and imports demonstrate the role played by the state in international trade of goods and services, while the share of various sectors of the economy in generating added value shows at what stage of economic development a state is and what is the basis for its economic growth. The FDI outflow and inflow marks the position of each of the seven economies in the global capital movement. What is more, a special section is devoted to the middle income trap to explain what obstacles mainland China needs to overcome in order to become a developed economy. Such an emphasis is placed on the comparison of the US and Chinese economies due to the fact that among all the analyzed countries in this chapter mainland China is the only one that could compete with the USA in several examined indicators. So, it seems relevant to compare the export and import structure as well as elaborate on middle income trap challenge in order to show why the Chinese global leadership ambitions are overestimated and are not supported by this state´s material resources endowment. Moreover, the structure of imports and exports of the United States and China will be compared to point out several US advantages and indicate the differences between developed and developing economies. Also, there will be used several specific indicators to assess the role of the USA in the economically interdependent world of the 21st century. The number of the largest resident corporations is used to understand the country´s influence in the world of international business. Also, it indirectly demonstrates who occupies the top positions in global value chains. The share of reserve currencies assesses the demand for different national currencies, while the share of the USA and mainland China in world GDP, trade and capital flows determines to what extend other countries depend on the two leading powers.

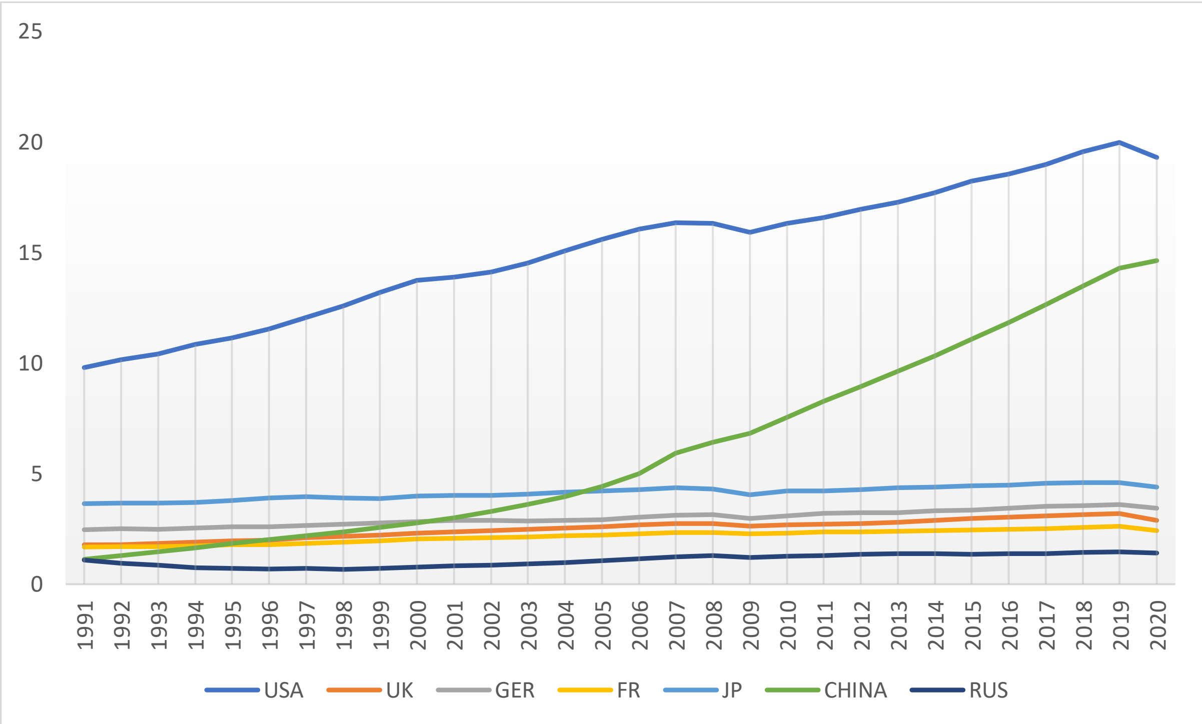
4.2. GDP and GDP per capita

As it was demonstrated in previous chapters, already on the eve of World War I in 1913, the United States was the largest economy in the world by GDP. Subsequently, throughout the 20th century, American leadership remained unquestionable. After the collapse of the British colonial empire, which began after the Allied victory in World War II, the United States lost the only potential competitor with a GDP comparable to that of the United States. As for the confrontation with the Soviet Union, it should be remembered that the Soviet GDP never exceeded 50% of the American one (Maddison Project Database 2020).

After the end of the Cold War, the situation remained without significant changes. In 1991, the second world economy, Japan, had a GDP that was not even 50% of the American one (US GDP in 1991 was 9.8 trillion 2015 US dollars, Japan's GDP in the same year was 3.6 trillion 2015 US dollars). The gap between the rest of the leading countries of the world and the United States in this indicator was even more significant, for example, the GDP of the recently united Germany was only 2.5 trillion 2015 US dollars, the British one equaled 1.8 trillion, the French reached 1.7 trillion, while the GDP of Russia and China only slightly exceeded 1.1 trillion 2015 US dollars (Figure 1).

Nevertheless, since the beginning of the 1990s, it is possible to note a remarkable growth in the GDP of mainland China (more than 7% per year). Already in 1995 Beijing left Paris behind, in 1996 reached London´s level, while in 2001 Chinese GDP surpassed the German one. However, it is important to understand that even in 2005, when mainland China became the second economy in the world, leaving Japan behind, the US GDP was more than 3 times as large as the Chinese one (US GDP was 15.6 trillion 2015 US dollars, while the GDP of mainland China was 4.4 trillion 2015 US dollars). Over the next 14 years, until 2020, Beijing managed to maintain a very impressive GDP growth rate, so from 2006 to 2019, Chinese GDP grew by an average of 8.8%, while US GDP increased by only 1.8% during this period. As a result, according to 2020 data, the United States remained the largest economy in the world by GDP (19.3 trillion 2015 US dollars), but it was mainland China that secured the status of the second economy in the world by this indicator (14.6 trillion 2015 US dollars). The Chinese GDP was 75.6% of the American one. Such a situation has not been observed since the collapse of the British Empire. As for the other leading world powers, it is remarkable that the gap between them and the United States has remained almost unchanged. In 2020, Japan's GDP was 4.4 trillion (22.8% of US GDP), Germany´s did not exceed 3.4 trillion (17.6% of US GDP), Great Britain´s one reached 2.9 trillion (15% of US GDP), France´s one equaled 2.4 trillion (12.4% of US GDP), while and Russia´s was slightly more than 1.4 trillion 2015 US dollars (7.25% of US GDP) (Figure 10).

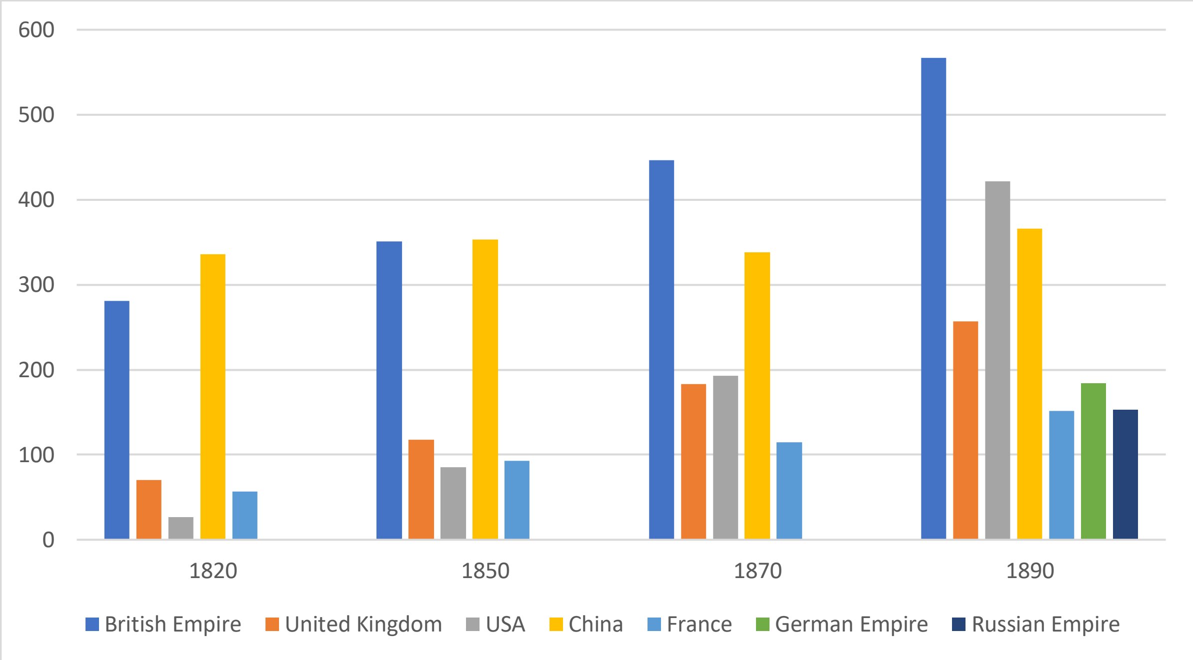
Figure 10. GDP (constant 2015 US dollars) Selected States (1991–2021), trillion dollars



Data Source: The World Bank. GDP constant 2015 US$

Thus, the situation at the beginning of the 21st century resembles a lot the one of the 19th century. The USA is the largest world economy, while mainland China is still lagging despite an impressive economic growth. So, it may relevant to draw a parallel between the US economic boom of the 19th century and the rise of mainland China in the 2000s (Figure 11).

Figure 11. GDP of Selected States 1820–1890, billion 2011 US dollars



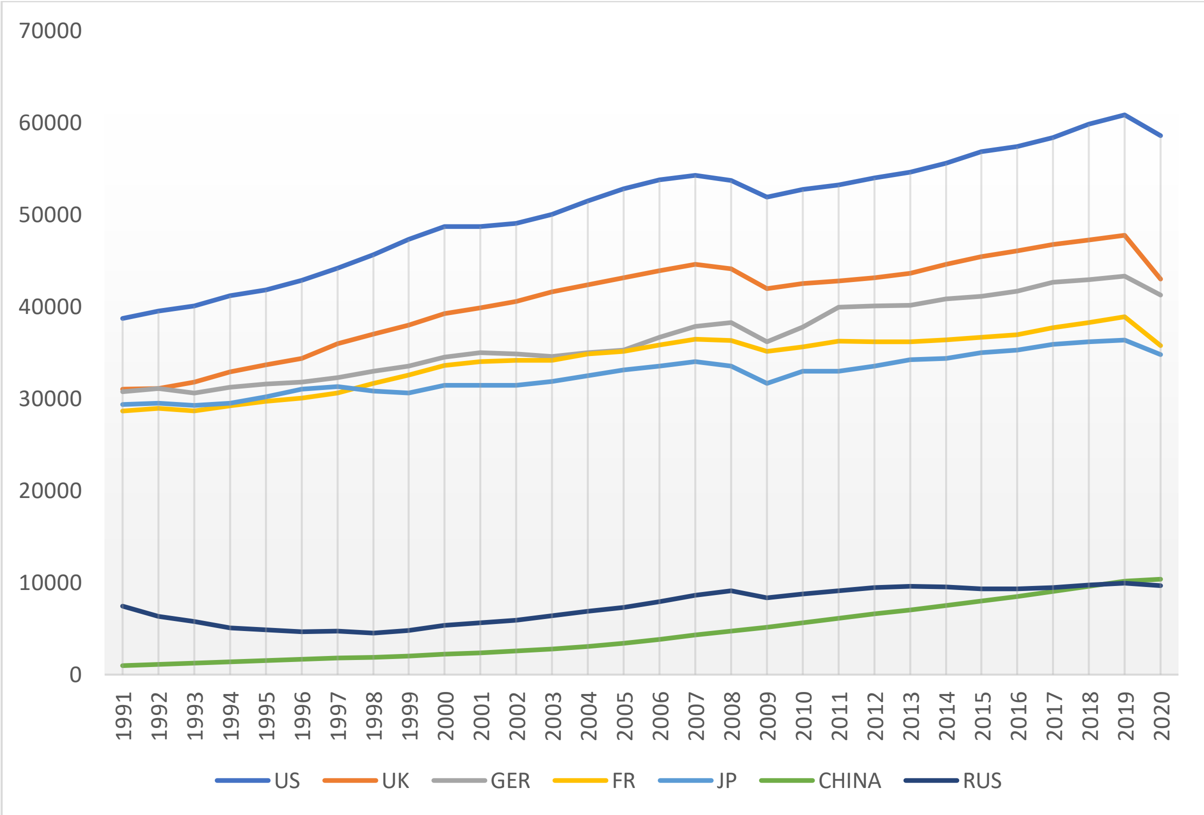
Data Source: Maddison Database 2020

However, analyzing GDP per capita, the main difference from the economic rivalry between the United States and the British Empire immediately becomes evident. The fact is that the impressive economic growth rates of mainland China are primarily due to an extremely low starting position. In 1991, Chinese GDP per capita did not even reach 1 thousand 2015 US dollars, being more than 38 times as low as the American one. As for other leading economies, GDP per capita in the UK, Germany, Japan and France did not exceed 81% of the US one. The Russian GDP per capita was just over 19% of the American one (Figure 12).

By 2001, the situation had not changed significantly. The American GDP per capita, which amounted to 48.7 thousand 2015 dollars, was 1.2 times as high as the British, 1.39 times as the German, 1.43 times as the French and slightly more than 1.5 times as high as the Japanese indicator. The gap between Russia and China also remained dramatic, given that Russian GDP PC did not reach 12%, and Chinese – 5% of the American (Figure 12).

Nevertheless, over the next nineteen years, solid economic growth rates allowed mainland China to bypass Russia in terms of GDP per capita and reduce the gap with the United States. Thus, according to data for 2020, after the outbreak of the crisis caused by the coronavirus epidemic, Chinese GDP per capita exceeded 10,000 US dollars, while Russian GDP per capita was only 9667 2015 US dollars. However, China's GDP per capita was only 17.7% of the American one. As for the other powers, the GDP per capita of Great Britain and Germany slightly exceeded 70%, and the ones of France and Japan – 59% of the American indicator (Figure 12).

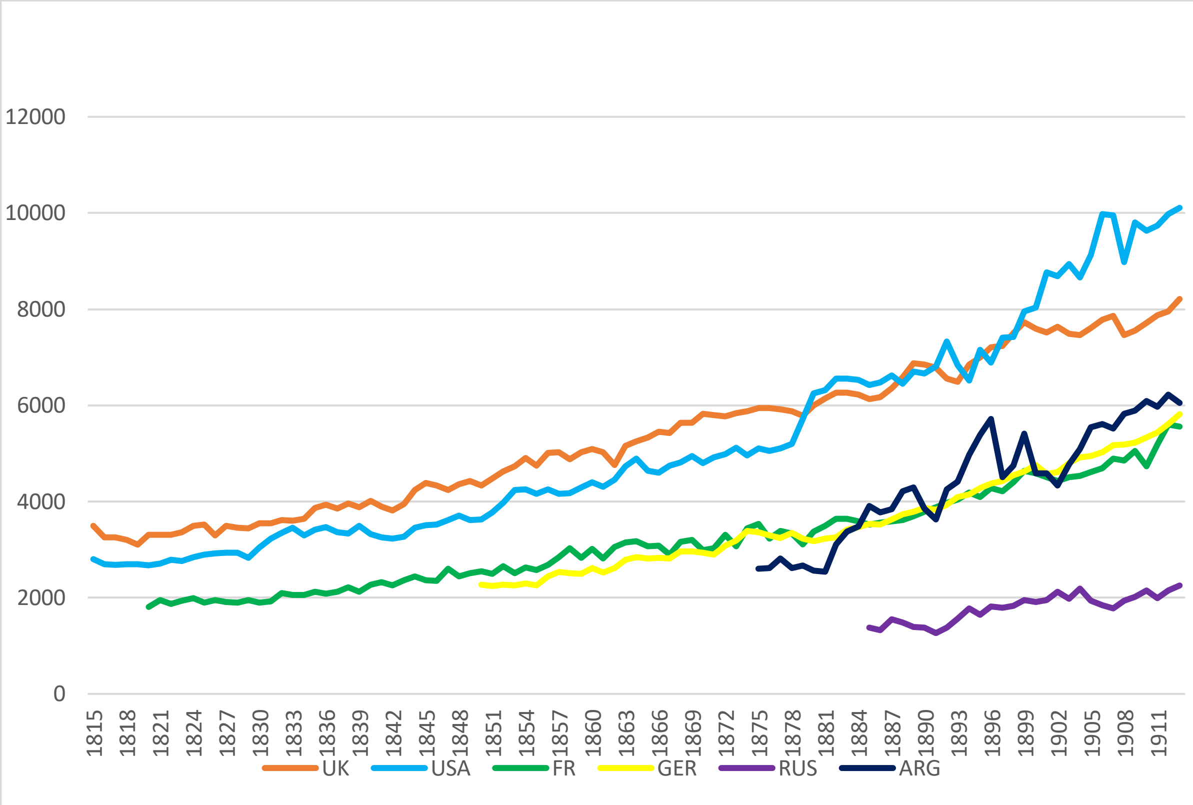
Figure 12. GDD Per Capita of Selected States (1991–2020), 2015 US dollars



Data Source: The World Bank. GDP per capita. constant 2015 US$

Thus, in case of GDP per capita the situation differs a lot from the one of the 19th century. The United Kingdom together with the United States used to be among the leading states in welfare level by GDP per capita. What is more, the USA even managed to leave behind Great Britain in this indicator, while nowadays the Chinese GDP per capita does not even reach 20% of the US one (Figure 13)

Figure 13. GDP Per Capita of Selected States, 2011 US dollars



Data Source: Maddison Database 2020

So, compared to the situation at the beginning of the 1990s, when there was not a single economy in the world whose size was at least 50% of the American economy (by GDP), by the beginning of the 2020s it has undergone significant changes, since mainland China is the second largest economy in the world. However, it is worth considering the dramatic difference in the population of the USA and China. Chinese GDP per capita is still very much inferior to the American one. Mainland China remains a developing economy, and in order to become a developed state and reach the level of economic development of the United States together with other leading economies of the world, Beijing will have to overcome the middle income trap.

4.3. Middle Income Trap

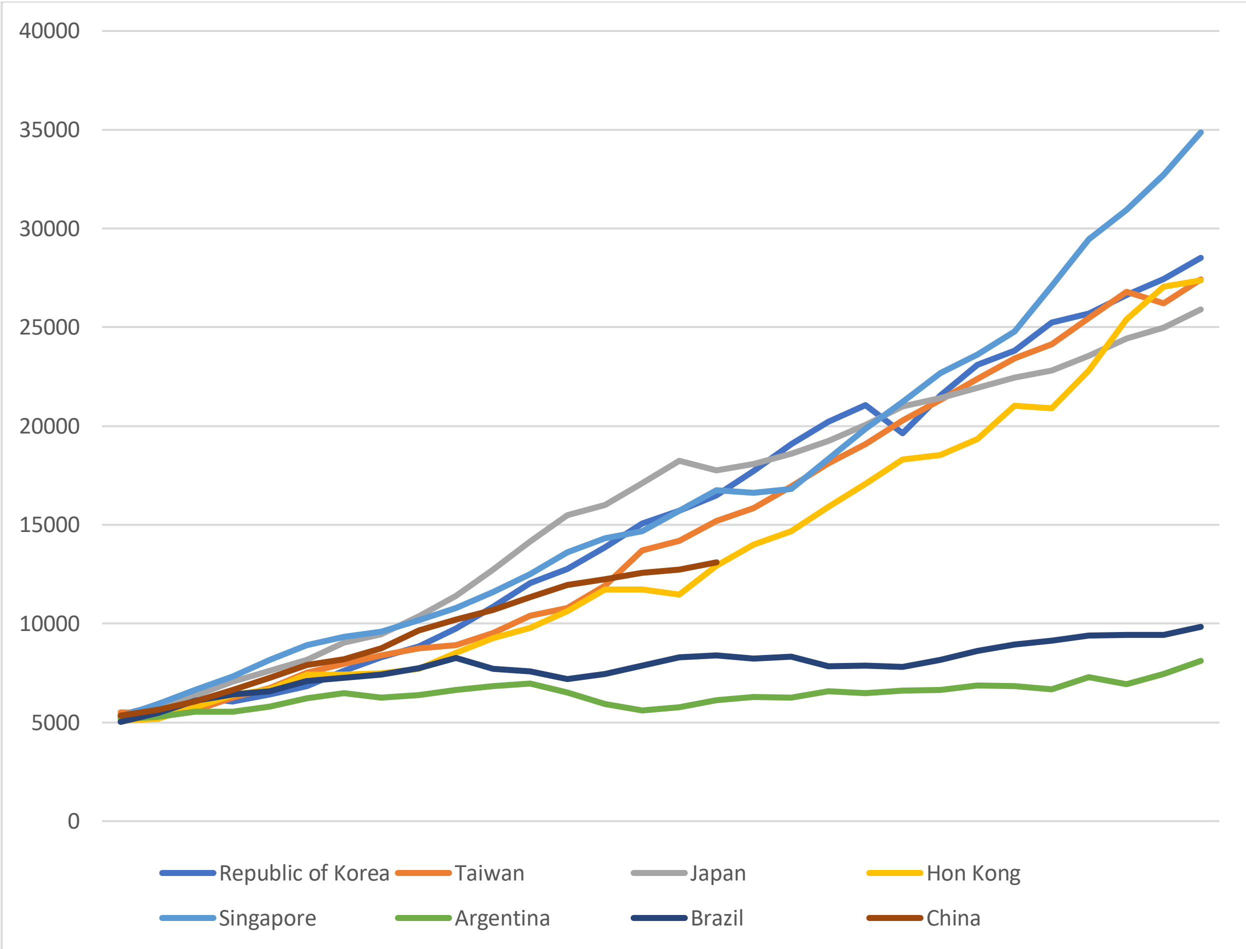
As is the case of many other developing countries, such as Argentina, Russia, Brazil, South Africa, high rates of economic growth and a significant increase in the level of welfare of mainland Chinese residents forced the country's leaders to face a new problem, namely the need to overcome the middle income trap. It is a key precondition for the PRC to follow Japan, Taiwan, the Republic of Korea, Singapore and Hong Kong, and to turn into a developed state.

The term "middle income trap" was coined by two World Bank economists Indermit Gill and Homi Kharas. It describes a situation when an emerging economy with high growth rates reaches the average income level (by world standards) but cannot become an economy with high per capita income. Since this country no longer has the advantages that allowed it to reach an average income level, for instance, cheap labor, which both attracts foreign investors seeking to place their production on the territory of this country and allows local companies to gain a comparative advantage over foreign competitors (Gill, Kharas, & others, 2007).

In the 20th century, only five emerging countries managed to make a breakthrough and obtain the status of developed economies, namely Japan, the Republic of Korea, Taiwan, Singapore and Hong Kong, while the vast majority of states remained developing countries. Time will tell whether mainland China will repeat the fate of the Republic of China, but the experience of overcoming the middle income trap shows that the key to success lies in the development of human capital, increasing the companies´ competitiveness and stimulating high-tech industries (Ekanayake, 2021). According to World Bank statistics, mainland China is currently an economy with an average income (The World Bank. The World by Income and Region). A number of experts have already noted that its economy has fallen into the notorious trap (Zeng & Fang, 2014).

Comparing the dynamics of GDP per capita growth in Japan, the four Asian tigers, Brazil and Argentina (as prominent representatives of countries that have fallen victim to the middle income trap) in the first 30 years after overcoming the GDP per capita of 5 thousand 2011 US dollars with similar indicators of the PRC, the picture will look like incomplete. The fact is that mainland China was able to achieve the Argentine results of the beginning of the 20 century or the success of the Asian tigers of the 1960s, 1970s only in 2002. Nevertheless, even taking into account all the conditionality and incompleteness of the data, it is possible to conclude that the future of the Chinese economy will be determined within the next decade. Undoubtedly, China has succeeded much more than Latin American countries, but a slight lag behind Japan and Asian tigers is still noticeable (Figure 14).

Figure 14. GDP Per Capita of Selected States For 30 Years Since They Reached 5 thousand 2011 US dollars



Data Source: Maddison Project Database 2020

This comparison may seem questionable, but it is important to take into account the fact that the economic success of the Asian tigers and Japan was achieved against the background of relative external stability, the leaders of the countries refrained from foreign policy adventures, while state interventions in the economy were cautious and consistent (Balassa, 1988).

Continuous threats to Taiwan (BBC, China warns Taiwan independence 'means war' as US pledges support, 2022), (BBC, China-Taiwan tensions: Xi Jinping says 'reunification' must be fulfilled, 2022), interference in Hong Kong's internal affairs (Council on International Relations, 2021), (Reuters, China's interference in Hong Kong reaching alarming levels: U.S. congressional panel, 2016), (Deutsche Welle, 2022), border conflicts with neighbors, for example, with India, extremely aggressive rhetoric against the United States (CNN, 2022), (CGTN, 2022) are hard to call the creation of stable external conditions to ensure sustainable economic growth. As for domestic policy, the artificial collapse of *Tal Education Group* (RBC, 2021) and the pressure on the Chinese giant *Alibaba*, which has already led to a rapid drop in the company's shares (BBC, Is Alibaba's fate a warning to China’s tech giants? , 2021), indicate that the risk that the Chinese leader may not be able to resist the temptation to conduct large–scale interventions in the economy, including seeking to achieve his political goals, is very high. Given that mainland China remains an authoritarian state, one cannot ignore the possibility that the desire to preserve or strengthen the authoritarian leader´s personal power will not be stronger than the intention to create and maintain favorable conditions for sustainable economic growth.

4.4. Trade in Goods and Services

The second group of indicators that assesses a country´s economic potential is data concerning the participation of an economy in world trade. This category includes export and import of goods and services, as well as their structure.

In the early 1990s, the United States significantly surpassed all other leading countries in the world in terms of exports of goods and services. For instance, in 1991, American exports reached 594.9 billion US dollars, while German exports amounted to 442.3, Japanese were 350.8, French stopped at 270.8, while British exports did not exceed 255.5 billion US dollars. As for Russia and China, Russian exports were less than 70 billion US dollars, while Chinese exports were about 56 billion US dollars (Figure 15).

By 2004, there had been already seen several dramatic changes. Though, the United States remained the world's leading exporter (1 trillion 176 billion US dollars), German exports exceeded 1 trillion US dollars and accounted for just over 85% of the American. Also, it is remarkable that China, with exports of 607.4 billion US dollars, was able to leave behind Great Britain (577 billion US dollars) together with France (560 billion US dollars) and come close to Japan (625 billion US dollars).

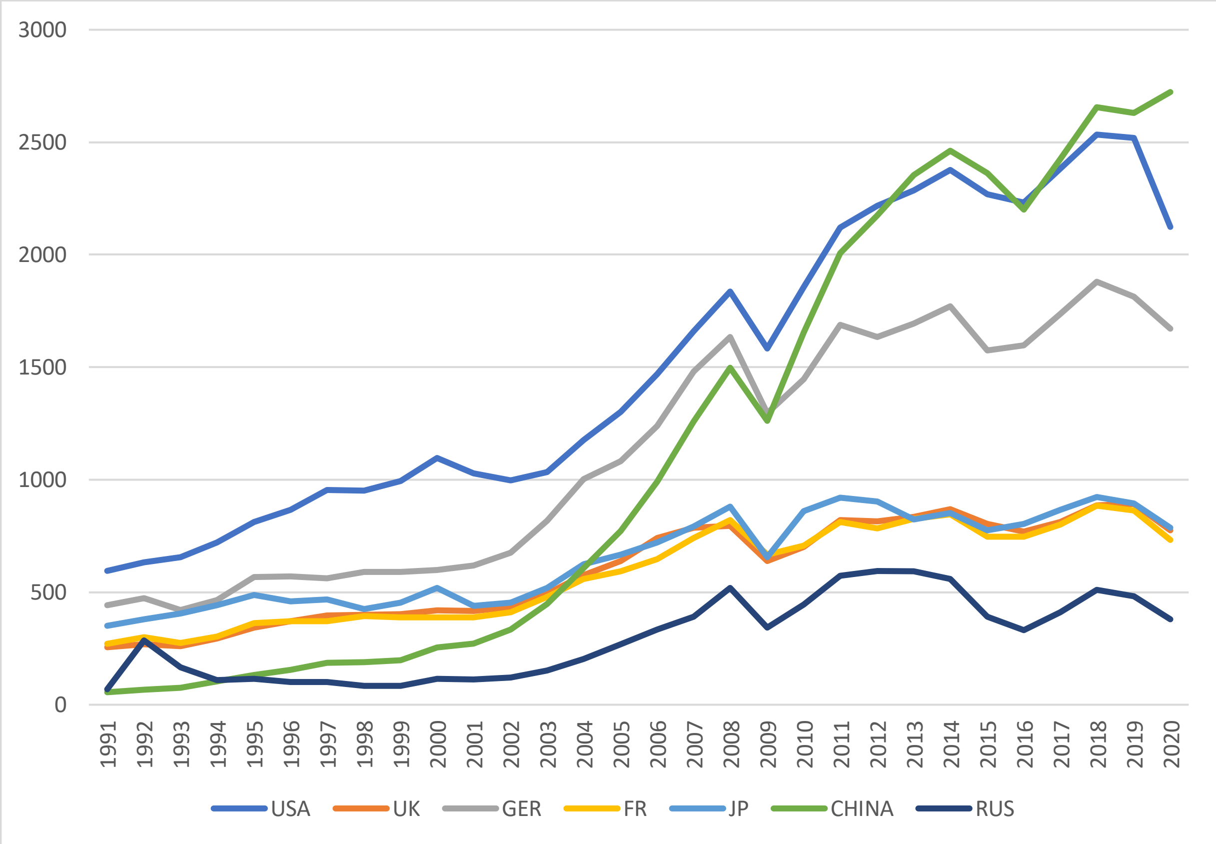
Already in 2005 Mainland China overtook Japan in terms of exports and became the third exporter of goods and services in the world. As for Russia, its exports also increased and amounted to 203 billion US dollars, but against the background of the other economies, such a change looks rather small (Figure 15).

In 2010, mainland China became the world's second exporter (1,655 billion US dollars), leaving behind Germany (1,446 billion US dollars), but the gap with the United States was just over 200 billion US dollars. Nevertheless, already in 2013, for the first time since the beginning of the 20th century, there was a change of the leading exporter in the world: mainland China became the new leader, whose exports reached 2 trillion 354 billion US dollars, while the American amounted to 2 trillion 287 billion US dollars. Germany, which was the third exporter in the world, was already significantly behind both of the above-mentioned countries. German exports were equal to 1 trillion 687 billion US dollars. As for the UK, Japan and France, their exports only slightly exceeded 800 billion US dollars. Russian exports were about 600 billion US dollars (Figure 15).

In 2020, after the outbreak of the coronavirus pandemic, China remained the main supplier of goods and services in the world (Chinese exports reached 2 trillion 723 US dollars). US exports amounted to 2 trillion 123 billion US dollars, while the German reached 1 trillion 670 billion US dollars. Exports of Japan, Great Britain and France exceeded 700 billion, while the Russian were slightly more than 350 billion US dollars (Figure 15).

Thus, over the past three decades, the United States lost its status as the world's main exporter, giving up the primacy to China. Germany firmly secured the status of the world's third exporter, while the exports of the leading European powers and Japan did not even reach 1 trillion US dollars (Figure 15).

Figure 15. Exports of Goods and Services 1991–2020, current US dollars



Data Source: The World Bank. Exports of goods and services. current US$

So, unlike the *Pax Britannica* case the leading power (the USA) has lost its primacy in exports. Throughout the 19th century no one could question London´s trade leadership with the USA still being unable to surpass the British Empire in this indicator up until the 20th century (Table 18).

Table 18. Exports of Selected States 1840-1900, million dollars

	1840	1860	1880	1900
United Kingdom	250.2	661.3	1085.5	1417.1
Germany	135.0	241.0	688.5	1097.5
France	134.1	439.5	669.3	793.0
United States	117.7	316.2	823.9	1370.8
Russia	67.0	132.4	247.9	369.0
Japan	-	3.8	25.4	101.8
Italy	-	112.2	213.0	258.3
Ottoman Empire	-	45.0	40	71.5
Austria (Austria-Hungary)	54.0	128.8	275.1	394.4

Belgium	26.9	90.8	234.8	371.1
Netherlands	20.0	97.2	251.1	680.3

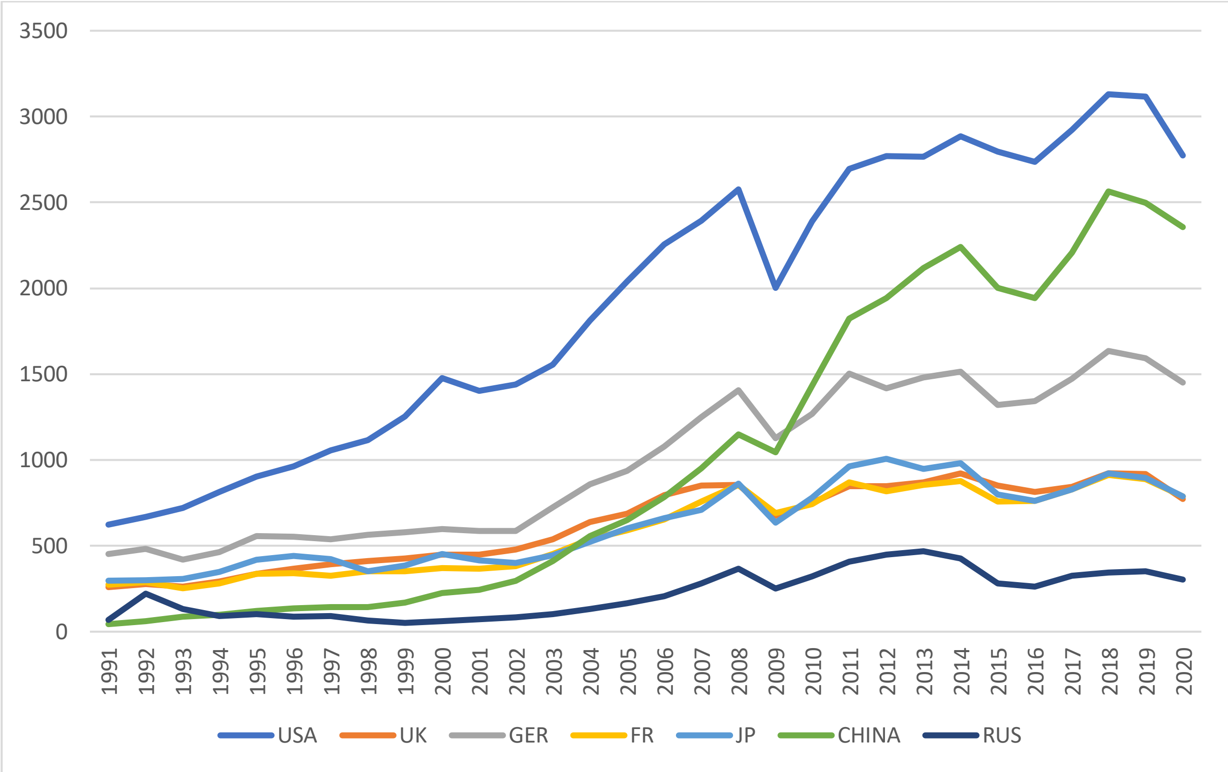
Data Source: Hanson, J. (1980). Trade in Transition: Exports from the Third World 1840-1900. New York: Academic Press.

Another indicator that determines which place an economy occupies in world trade is the volume of imports of goods and services. Throughout the 30 years, the United States maintained leadership in this indicator, but significant changes were observed among other leading economies of the world. In 1991, US imports amounted to 623.5 billion US dollars, Germany, which at that time was the second world importer of goods and services had imports of 451.4 billion US dollars, while the imports of Great Britain, France and Japan did not exceed 300 billion US dollars. As for the imports of China and Russia, both economies imported goods and services worth less than 70 billion US dollars (Figure 16).

Like in the case with exports, the Chinese imports growth is also remarkable. In 1991 mainland China was the last of the seven countries in terms of imports, still, in 1994, mainland China was already ahead of Russia, in 2004, left behind France and Japan, in 2007, surpassed the UK, and in 2010, China became the second largest importer in the world. Nevertheless, in 2010, the superiority of the United States over all other economies of the world remained indisputable. US imports amounted to 2 trillion 390 billion US dollars, while Chinese imports reached 1 trillion 432 billion US dollars, the German indicator was 1 trillion 267 billion, the one of Japan was 782 billion, the British one was 748.9 billion, the one of France equaled 742 billion, while the Russian did not exceed 322 billion US dollars (Figure 16).

In 2020, the situation remained almost the same: the USA was still the main importer in the world (2 trillion 775 billion US dollars), Chinese imports accounted for about 85%, the German reached 52%, the Japanese, British and French were slightly more than 27%, while Russia´s imports were about 11% of the American (Figure 16).

Figure 16. Imports of goods and services 1991–2020, current billion US dollars

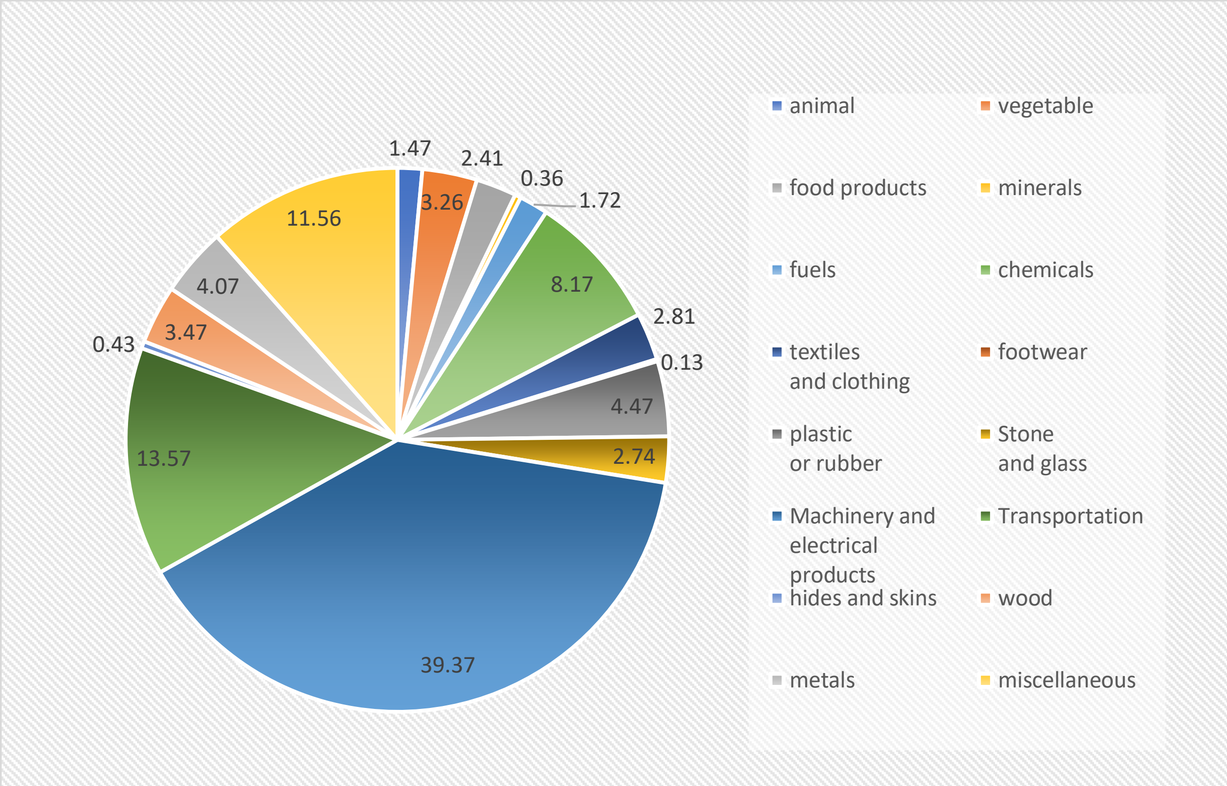


Data Source: The World Bank. Imports of goods and services. current US$

It is relevant to analyze the structure of the two top world exporters and importers (the USA and PRC) in order to better understand the difference between the economies, as well as to demonstrate the basis of the rapid expansion of mainland China's presence in the world market of goods and services.

In 2000, the main US exported goods were machinery and electrical products (39.4%), transportation (13.6%) and chemicals (8.2%). More than half of American exports accounted for relatively high-tech goods, the production of which required advanced technologies. At the same time, American exports of textiles, clothing, shoes did not exceed 3%, while the share of raw materials was only 6.5% (Figure 17).

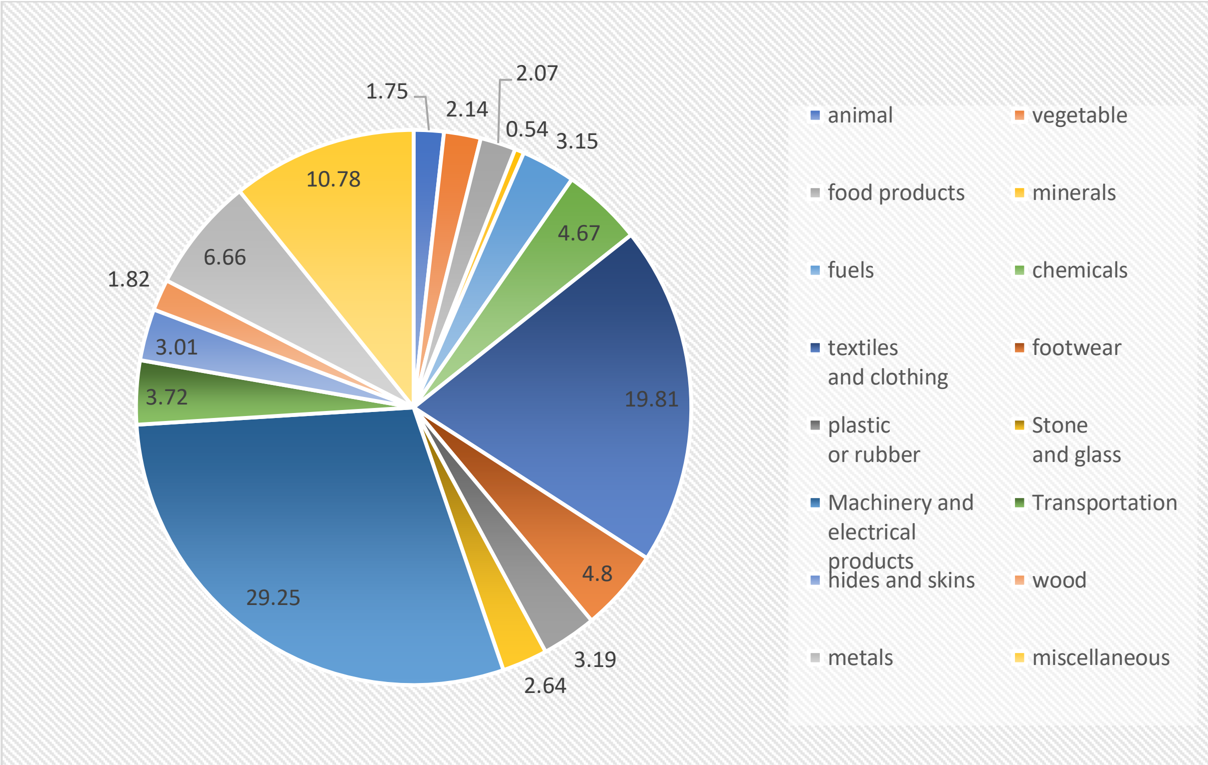
Figure 17. USA Exports of Goods in 2000



Data Source: World Integrated Trade Solution. United States Product Exports 2000

Although machinery and electronic equipment also used to be the main component of the Chinese exports of goods in 2000 (29.3%), the key difference from the US exports was that the second imported goods were textile and clothing (19.8%). Moreover, the share of footwear exports (4.8%) exceeded exports of vehicles. In addition, the share of metals was 6.6%, and raw materials in general equaled 5.4% (Figure 18).

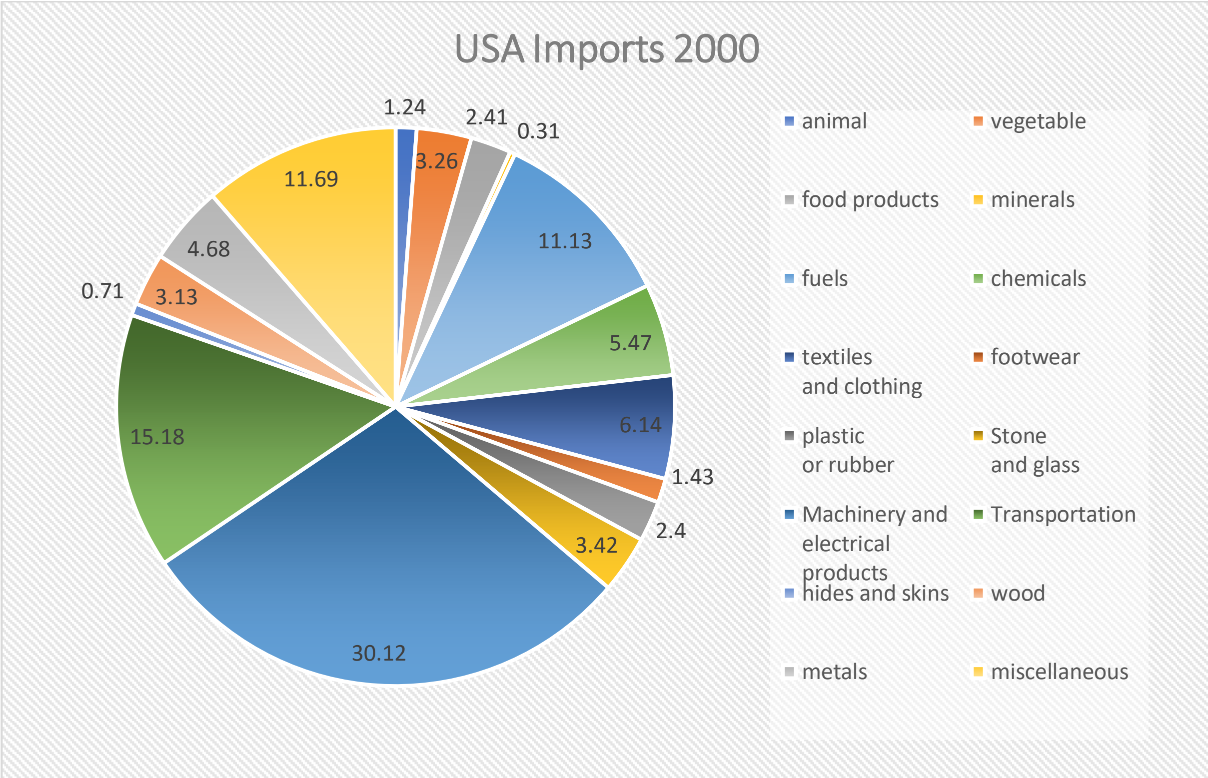
Figure 18. PRC Exports of Goods in 2000



Data Source: World Integrated Trade Solution. China Product Exports 2000

In American imports of 2000, the main item was machinery and electronic equipment (30.1%), the second was transportation (15.2%), while the third was fuel (11.1%). What is more, the shares of metals (4.7%), wood (3.1%), glass and stone (3.4%), as well as chemicals (5.5%) were relatively small (Figure 19).

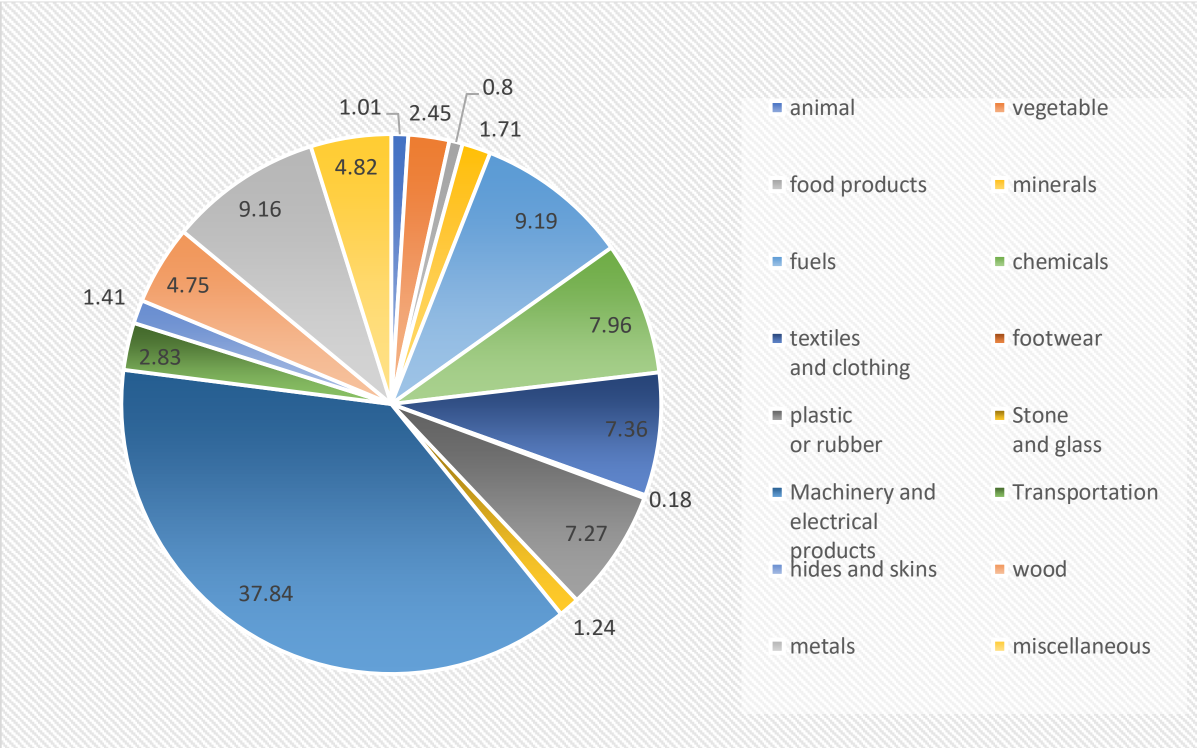
Figure 19. USA Imports of Goods in 2000



Data Source: World Integrated Trade Solution. United States Product Imports 2000

The share of machinery and electronic equipment in Chinese imports in 2000 was extremely high (37.8%). In addition, the Chinese economy strongly depended on supplies of fuel (9.2%), metals (9.2%), plastic and rubber (7.3%), as well as wood (4.8%). The share of textile and clothing imports was also significant (7.4%). (Figure 20).

Figure 20. PRC Imports of Goods in 2000 (World Integrated Trade Solution. China Product Imports 2000)



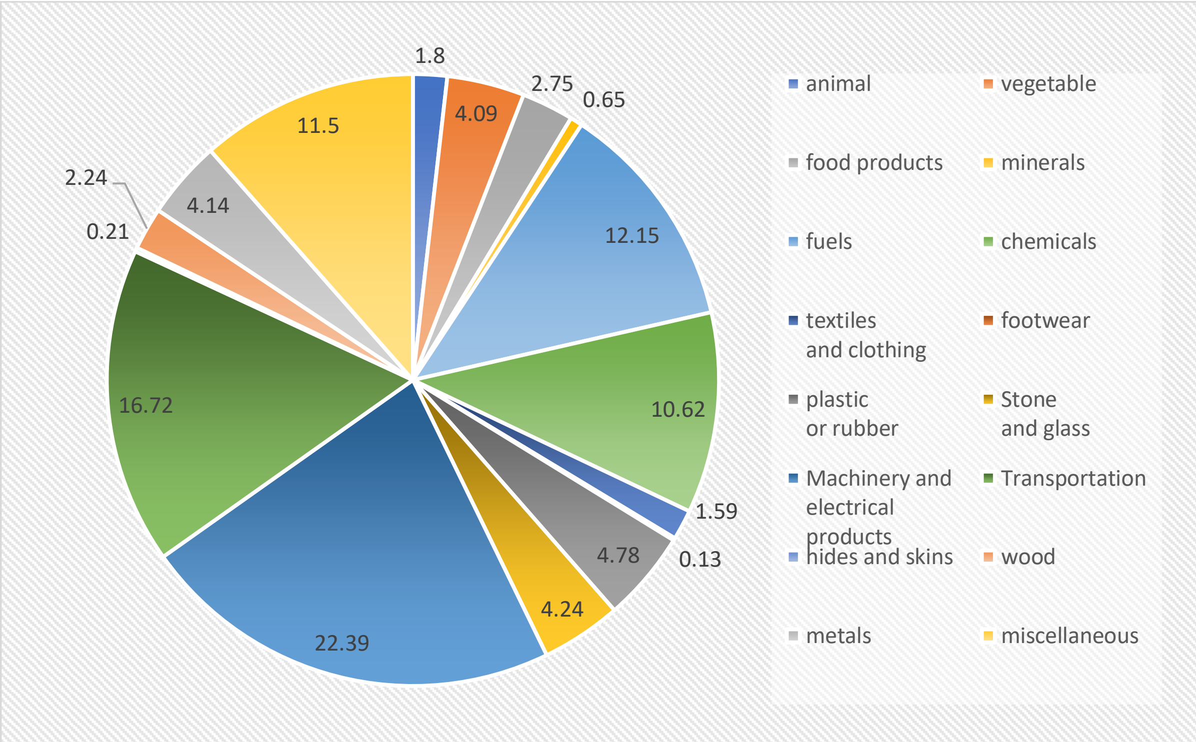
Data Source: World Integrated Trade Solution. China Product Imports 2000

The comparison of exports and imports of goods from the United States and China in 2000 shows that one of the key elements of Chinese exports used to be textiles that do not require the use of high technologies, while the basis of American exports, were electronic equipment and machinery, transportation and chemicals, the production of which is much more complex. It is remarkable that both economies were highly dependent on fuel imports, but China was more in need of supplies of various raw materials. Finally, the share of machinery and electronic equipment in Chinese imports was significantly higher (by almost 8%) than in American imports, which indicates a higher dependence of the Chinese economy on the supply of foreign equipment.

By 2019, the structure of US goods exports changed significantly: the key item was machinery and electronic equipment, but their share decreased to 22.4%. The second place used to belong to transportation, the share of which increased to 16.7%, while the share of chemical exports reached 10.6%. The main difference from the situation in 2000 was that thanks to the Shale Revolution, the

United States became a leading supplier of energy resources to the world market, so it was fuel that was the third element of American exports (12.2%) (Figure 21).

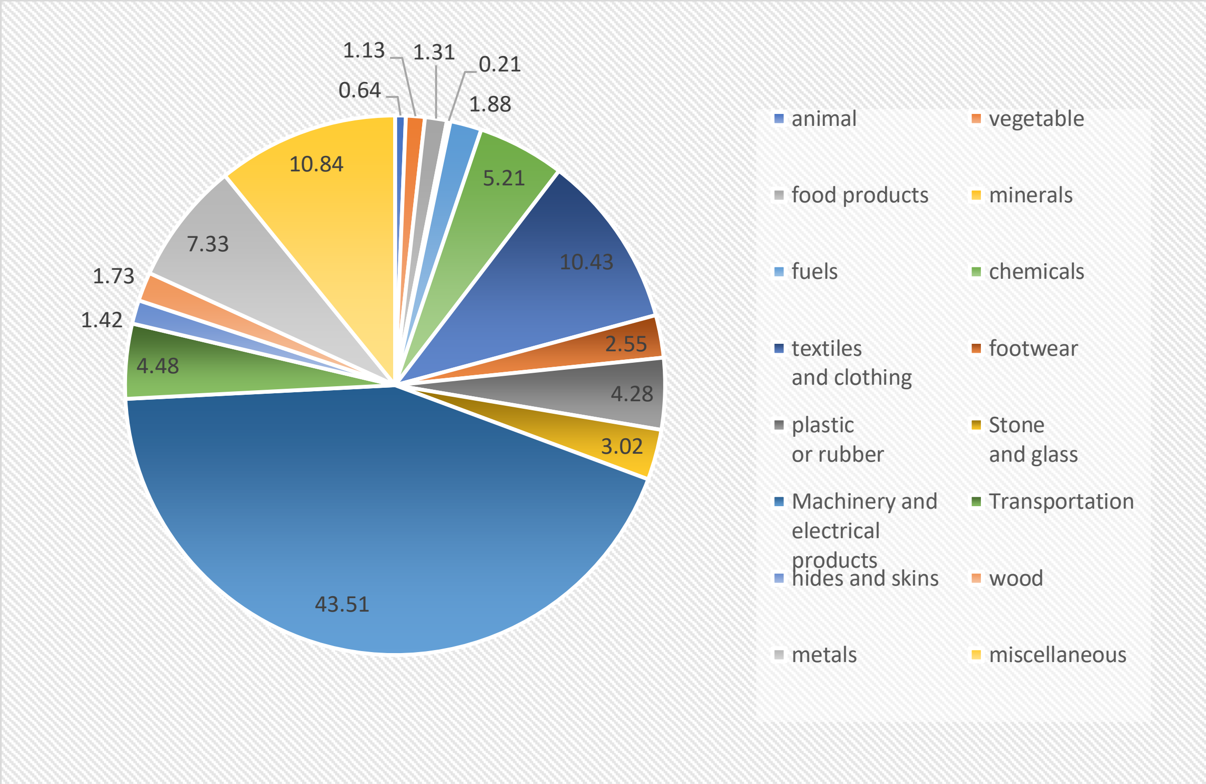
Figure 21. USA Exports of Goods in 2019



Data Source: World Integrated Trade Solution. United States Product Exports 2019

The structure of Chinese exports also undergone certain alterations by 2019: the share of machinery and electronic equipment dramatically increased (43.5%), the share of textiles plummeted (10.4%), while the share of metals slightly rose (7.3%). The export of transportation remained very low (4.5%), while the one of fule was scanty (1.9%) (Figure 22).

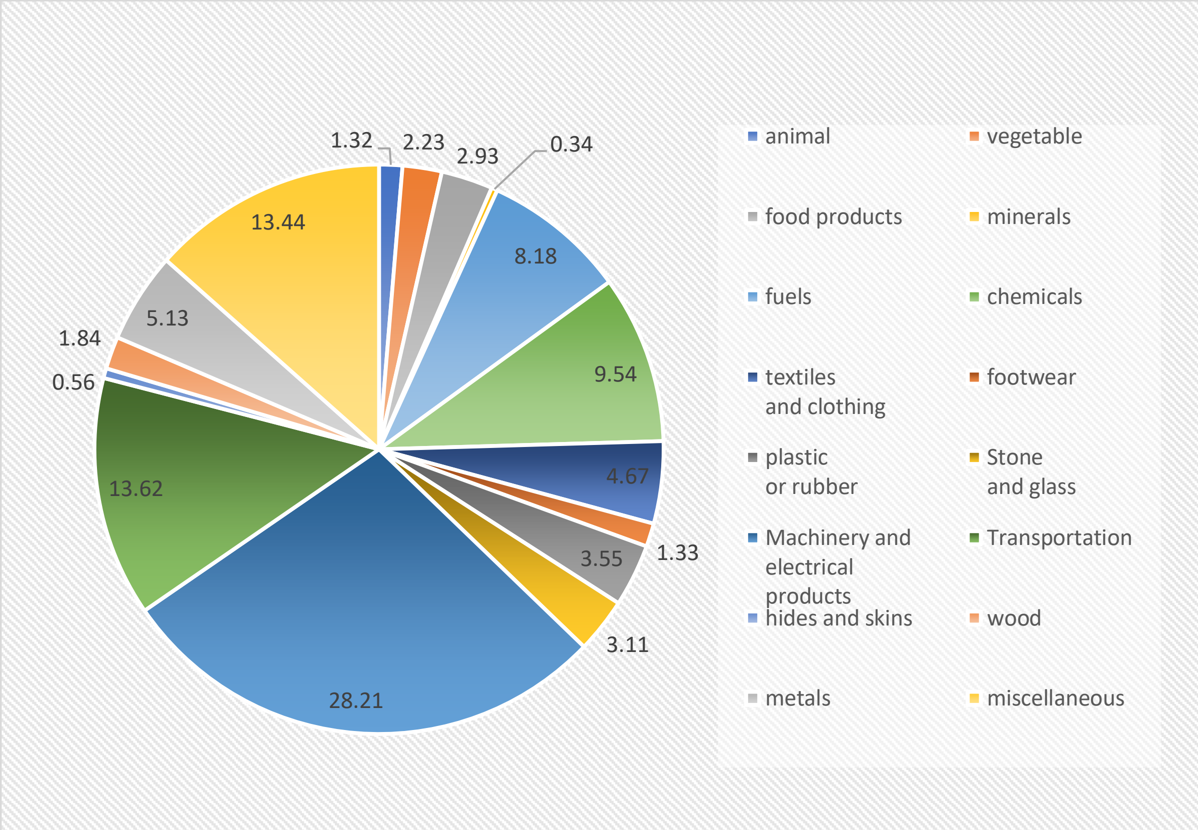
Figure 22. PRC Exports of Goods in 2019



Data Source: World Integrated Trade Solution. China Product Exports 2019

By 2019, the share of machinery and electronic equipment in American imports decreased by almost 2% (28.2%), the share of transportation imports decreased by 1.6% (13.6%), the share of textiles dropped by a little more than 1% (4.7%), while the share of metals increased by a little less than 1% (5.1%). However, after the Shale Revolution, the interior demand for energy resources in the USA decreased significantly, with the United States becoming the leading exporter of fuel to the world market. Thus, the share of fuel in imports decreased by almost 3%, stopping at 8.2%. Imports of chemicals increased by 4% reaching 9.5% (Figure 23).

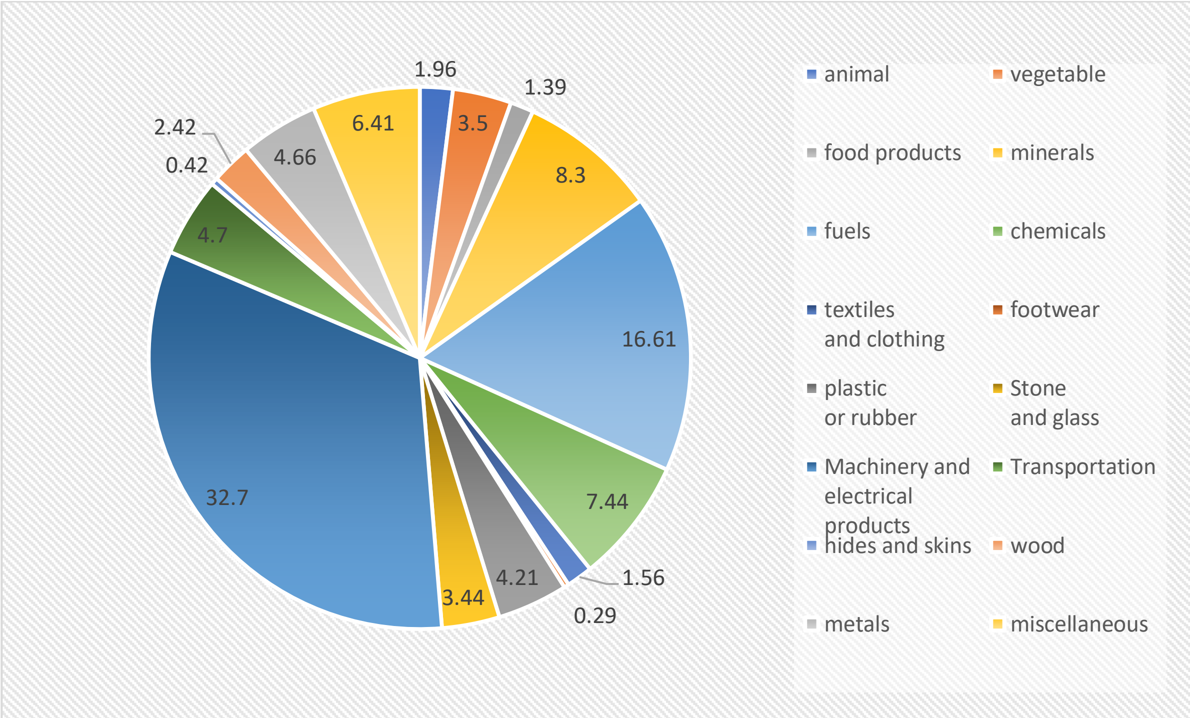
Figure 23. USA Imports of Goods in 2019



Data Source: World Integrated Trade Solution. United States Product Imports 2019

As for changes in Chinese imports by 2019, imports of machinery and electronic equipment decreased by almost 5% (32.7%), metal imports fell to 4.7%, imports of plastic and rubber decreased by 3% (4.2%). Moreover, fuel imports rose by more than 7% (16.6%), imports of mineral resources increased by more than 6% (8.3%), while imports of glass and stone grew by 2.2% (3.4%) (Figure 24).

Figure 24. PRC Imports of Goods in 2019



Data Source: World Integrated Trade Solution. China Product Imports 2019

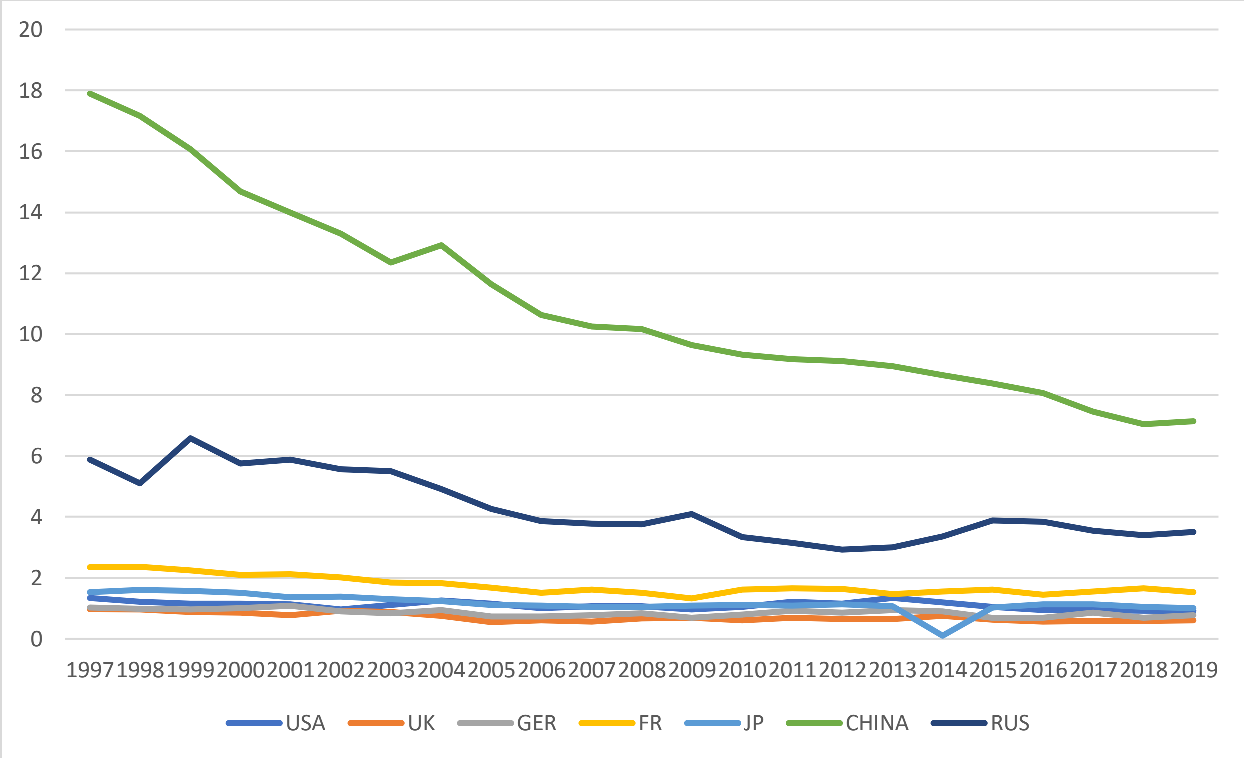
By the early 2020s, China achieved significant success in the development of a more advanced industries. The increased share of machinery and electronic equipment together with the decreased share of textiles in the export of goods testify this. However, comparing Chinese exports with American exports, the difference between a developing economy and a developed one becomes clear. For instance, the share of such relatively high-technological goods as transportation is low in Chinese exports is still low. What is more, the United States dramatically surpasses China in terms of chemicals exports. In addition, it is important to take into account the fact that Chinese exports of machinery and electronic equipment are often the result of the assembly of products of developed countries corporations, carried out on the territory of mainland China. Further, it will be shown that China continues to be the second main recipient of foreign direct investment. Moreover, it is important to understand that assembly has a relatively low share in global value chains. So, given the need to overcome middle income trap and to respond to the outflow of production from China to countries with cheaper labor (Reuters, Adidas sees ongoing sourcing shift from China to Vietnam, 2018), (Taiwan News, 2022), (Reuters, Samsung ends mobile phone production in China, 2019) the further growth of China's exports due to electrical equipment is questionable. Another serious problem for the future development of the Chinese economy remains the increasing dependence on imports of mineral resources (mainly energy resources). The United States has become a leading oil exporter and a major gas exporter, which was able to quickly cancel the import of Russian energy resources during the Ukrainian crisis of 2022 (The White House, 2022), mainland China does not have such freedom to maneuver.

4.5. Sectoral Division of Economies

This section is devoted to the analysis of structure of the seven examined economies, based on the World Bank statistics, which assess the contribution of each sector of the economy to generation of added value. The World Bank proposes the following sectoral division of the economy: agriculture, forestry and fisheries, industrial production (including construction), manufacturing, as well as service sector.

Considering the share of agriculture, forestry and fishing in the value added of the seven economies, the difference between developed countries (USA, Great Britain, France, Germany, Japan) and developing countries (Russia and China) is evident. Throughout the examined period, the share of this sector did not exceed 2.35% in the economies of the developed countries represented here. Since 2003 this indicator dropped even below 2%. However, the cases of Russia and mainland China are different. In 1997, agriculture, forestry and fishing accounted for about 18% of all the generated value added in China, while in Russia this figure was slightly less than 6%. By 2005, when mainland China became the second economy in the world by GDP, the share of this sector remained significant reaching 11.6%, while in Russia it stopped at 4.26%. In 2009, the share of agriculture sector in the Chinese economy for the first time fell below 10%. Still, even in 2019, the Chinese figure of 7.1% was remarkably superior to the Russian one (3.5%), and to the indicators of the developed countries (Figure 25).

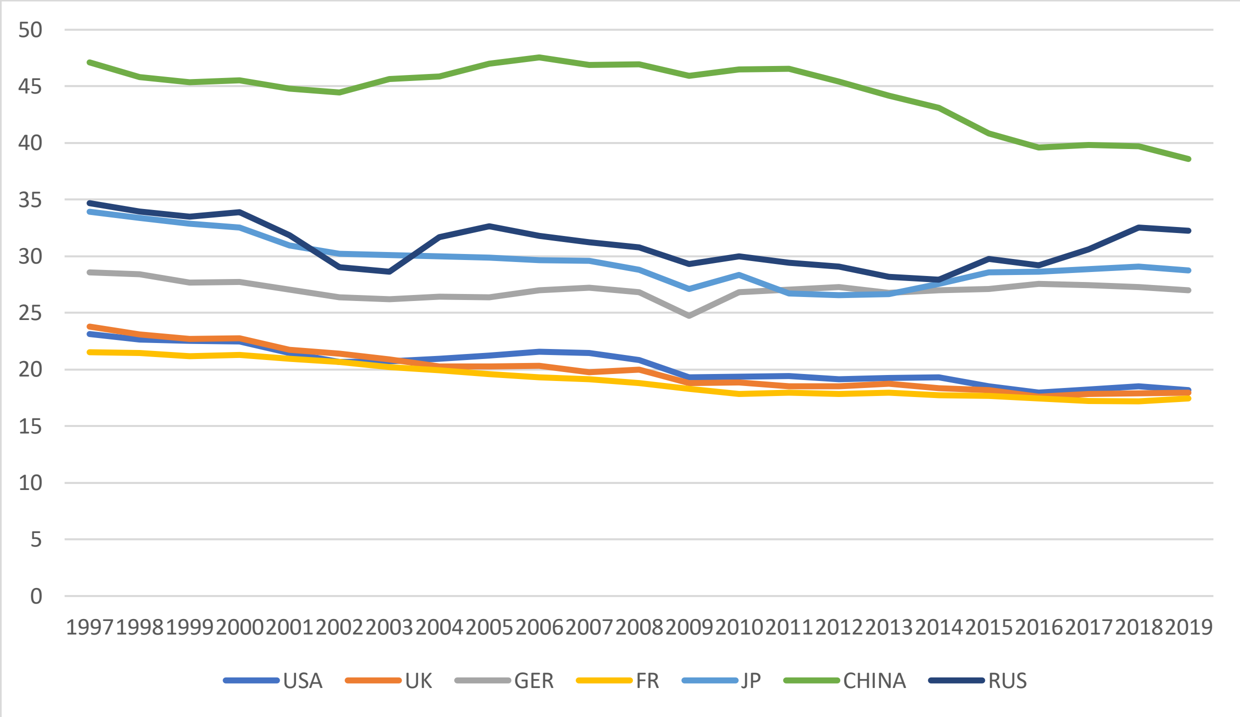
Figure 25. Agriculture, forestry, and fishing, value added (% of GDP) 1997–2019



Source: The World Bank. Agriculture, Forestry, and Fishing, Value Added, % of GDP

As for the share of the industrial production and construction in value added, there is also a dramatic difference between China and developed countries. The industrial share in Chinese economy significantly decreased: in 1997 it was 47.1%, in 2008 it equaled 47%, and in 2019 dropped to 38.6%. Anyway, throughout the analyzed period, it did not fall below 38.5%. In such developed countries with a traditionally high share of the industrial sector as Germany and Japan, this indicator did not exceed 34% during the period under examination. As for the USA, Great Britain and France, the share of industrial production fluctuated between 17–24%. The Russian indicator decreased from 34.7% in 1997 to 28.7% in 2003, but subsequently increased again and reached 32.3% in 2019 (Figure 26).

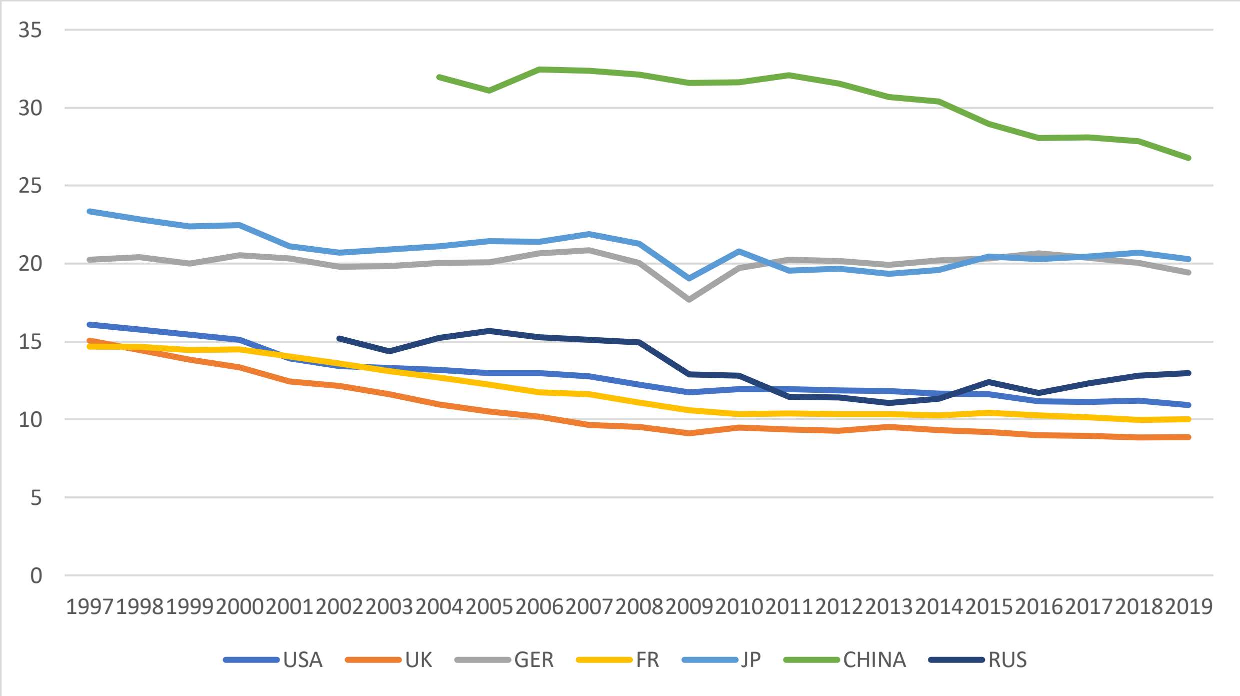
Figure 26. Industry (including construction), value added (% of GDP) 1997–2019



Source: The World Bank. Industry (including construction), value added, % of GDP

The same difference may be observed in analyzing the share of manufacturing in value added in Chinese economy and the economies of developed countries. From 2004 to 2019, the share of manufacturing in the economy of mainland China decreased from 32% to 26.8%. However, it never exceeded 23% in Germany or Japan, was lower than 17% in the USA, Great Britain and France. In Russia, the share of the manufacturing was in general at the level of the last three countries, given that from 2002 to 2019, this indicator decreased from 15.2% to 13% (Figure 27).

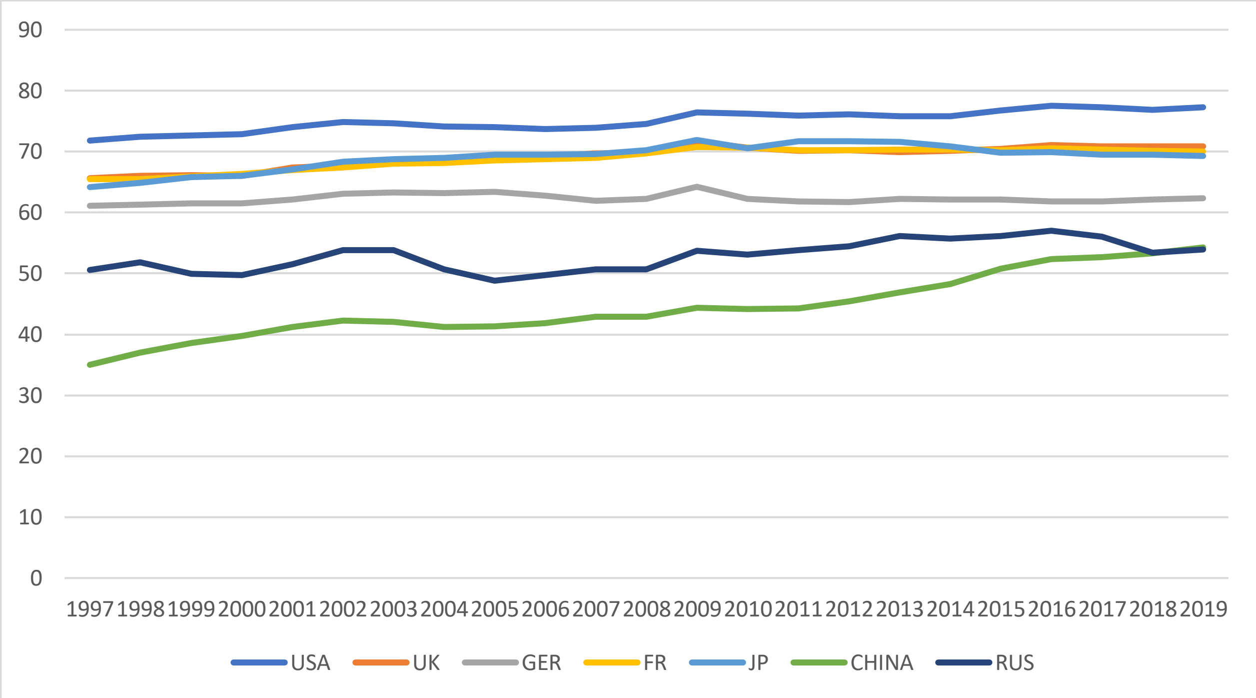
Figure 27. Manufacturing, value added (% of GDP) 1997-2019



Source: The World Bank. Manufacturing, value added, % of GDP

Finally, the difference between the economies of developing and developed countries is even more visible analyzing the share of the service sector in added value. From 1997 to 2019, the service sector in the Chinese economy significantly increased. If in 1997 it accounted for only 35% of the value added, in 2019 this indicator reached 54.3%, even exceeding this figure of the Russian Federation (54%). However, the share of the service sector in the economies of developed countries did not fall below 60% during the examined period. In the USA, it increased from 71.8% in 1997 to 77.3% in 2019. Also, it should be noted that the leading Western powers reached the Chinese share of the service sector of 1997 (35%) at the very beginning of the 20th century (as was demonstrated in the previous chapter), and afterwards this indicator continuously increased (Figure 28).

Figure 28. Services, value added (% of GDP) 1997-2019



Source: The World Bank. Services, value added, % of GDP

Definitely, the calculations by generated value added and labor enrolled differ a lot. Still, the comparison of economies´ sectoral division shows that unlike the 19th century and competition between the British Empire and the USA when both the USA and the United Kingdom used to be almost even in terms of industrialization and service sector development at the end of the century, mainland China is still relatively underdeveloped country compared to the USA (with relatively large agriculture and industry sectors). It is only on the verge of a conversion to a developed economy, and it is questionable whether its leaders will manage to overcome the middle income trap (Table 19).

Table 19. Sectoral distribution of labor in the United States and the United Kingdom, circa 1850–1910 (%)

United States

	Agriculture	Industry	Services
1849	60.0	17.1	22.9
1869	48.3	23.8	27.9
1889	41.6	25.5	32.9

1909	30.4	30.2	39.4

United Kingdom

	Agriculture	Industry	Services
1849	28.3	40.9	30.8
1869	22.2	42.2	35.6
1889	15.8	43.2	41.0
1909	11.8	43.5	44.7

Data Source: Broadberry, S., & Irwin, D. (2004). Labor Productivity in Britain and America During the Nineteenth Century. NBER Working Papers 10364.

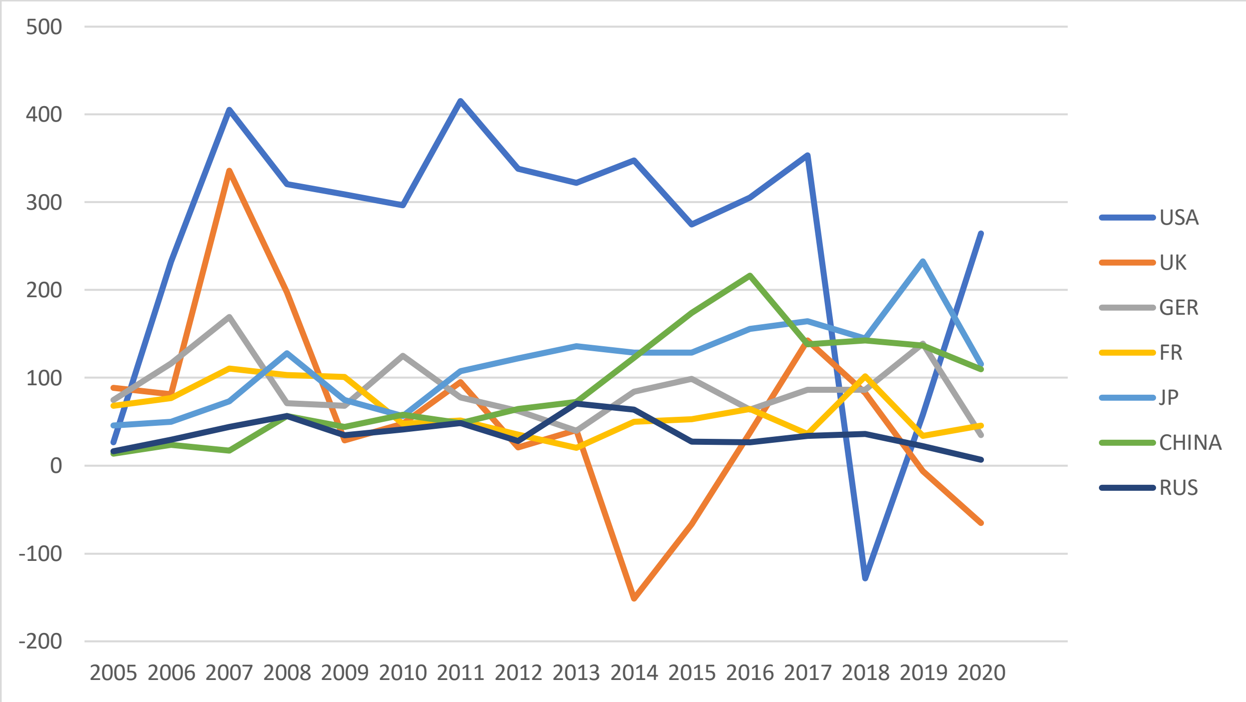
The large industrial and manufacturing sectors provide Beijing with certain advantages, for example, it allows it to depend less on foreign partners in the assembly and manual production of various goods. However, it is important to understand that overcoming the middle income trap and becoming a developed economy is impossible without a rapid expansion of the service sector. Moreover, the high rates of economic growth in the PRC, on the one hand, led to the rise in the welfare of the population, but, on the other hand, increased the demands and needs of the PRC citizens. Cheap labor factor, which for decades was the key reason why the world leading companies moved their production to mainland China, now is losing its relevance. The fact that several multinational corporations have already launched the transfer of their production facilities from mainland China to other developing states with lower labor force is the best illustration of this trend (Reuters, Adidas sees ongoing sourcing shift from China to Vietnam, 2018), (Reuters, Samsung ends mobile phone production in China, 2019), (Taiwan News, 2022).

4.7. Foreign Direct Investment

The next group of indicators assesses the role of an economy in the international capital movement. It includes the annual figures of both the inflow of outflow of a state´s FDI as well as inward and outward FDI stock. The choice of FDI among all the investment indicators is due to their definition which implies that this type of investment provides for the establishment of a certain level of management and control over foreign production (Moon, 2016). Thus, it allows representatives of foreign companies to directly influence the economic and even political life of the country that is the object of investment. As for attracting FDI, the existence of a direct link between the inflow of FDI and economic growth has not been proven (Naveed & Shabbir, 2006). However, there are several examples when it was the inflow of FDI that became one of the keys to impressive economic growth rates (mainland China case) (Liu, Luo, Qiu, & Zhang, 2014). Moreover, the attractiveness of the country for FDI can be considered as a means to assess the prestige, global influence and importance of the economy in the eyes of foreign partners. In addition, since this type of investment provides for direct control, it can be the key to political rapprochement and strengthening cooperation between countries, also it may significantly reduce the likelihood of a full-fledged conflict between economies strongly connected by FDI (Lee & McLaughlin Mitchell, 2012).

The FDI outflow in most of the seven countries analyzed in this chapter were subject to extremely strong fluctuations. In some years, these indicators were even negative that meant a reduction in the presence of companies of these countries abroad. That is why, here will be examined average indicators for 2005-2020. The main donor of FDI was the United States (258.9 billion US dollars per year). The second and third donors of FDI lag behind the United States by more than two times: Japanese FDI amounted to 116.6 billion US dollars per year, while Chinese equaled 90.1 billion US dollars per year. As for the other states, this figure was 87.4 billion for Germany, 62.5 billion for France, 56.9 billion for the UK, and 36.7 billion for Russia. What is more, it was the United States that recorded the highest figures, for example, 405 billion US dollars in 2007 and 415.3 billion US dollars in 2011 (Figure 29). Still, it is important to understand that all the calculations are carried out at current rates, therefore, in order to more objectively assess the situation, considering account inflation, as well as the initial presence of the country's companies abroad, it seems relevant to analyze accumulated outward FDI (outward FDI stock).

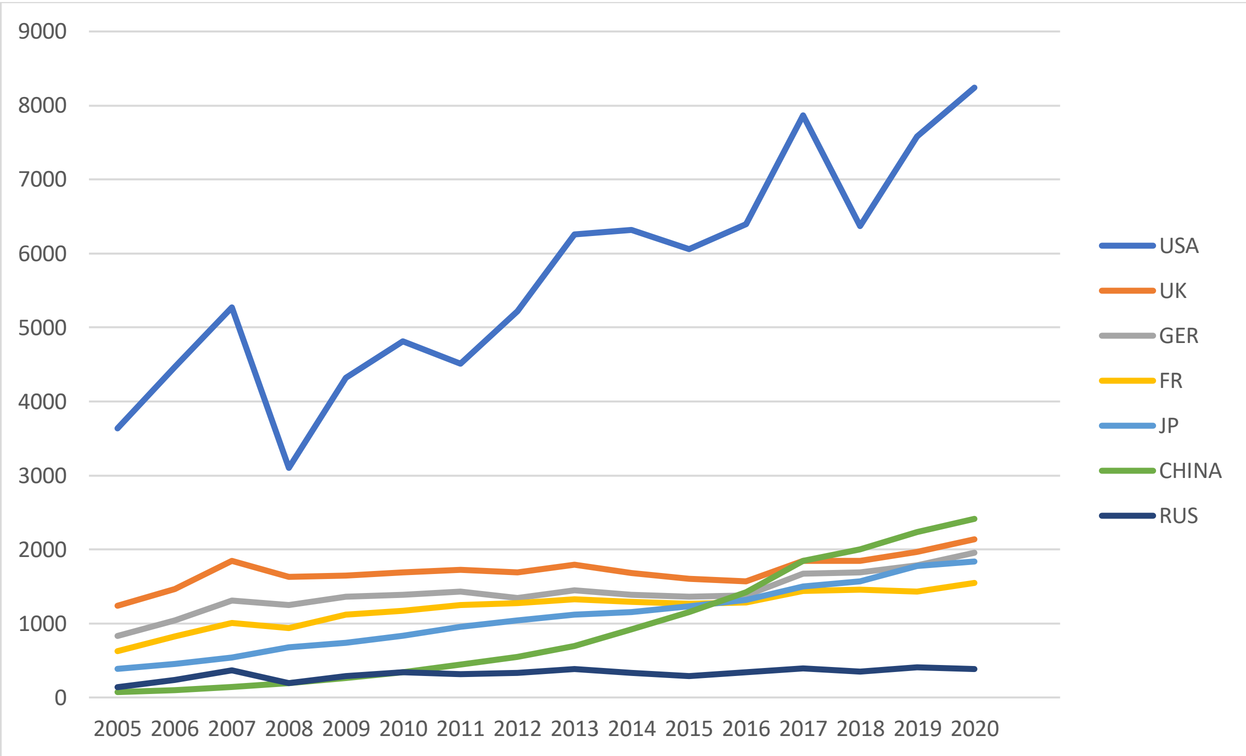
Figure 29. FDI outflow billion dollars 2005–2020



Data Source: OECD. FDI Flows Outward, Million US dollars, 2005–2020

The superiority of the United States becomes even more obvious considering the outward FDI stock. Regardless of the year, the gap between the superpower and other economies, except for the crisis of 2008, was more than twofold. In 2005 American outward FDI stock amounted to 3 trillion 638 billion US dollars. The British indicator was 1 trillion 239 billion, the German one reached 831 billion, the French one was 625.6 billion, the Japanese was 386.6 billion, the one of Russia did not exceed 139 billion, while the Chinese was 72.5 billion US dollars. By 2014, certain changes were already visible, primarily a significant increase in China's outward FDI stock. Though, the US figure of 6 trillion 320 billion US dollars was very far from all the ones of other economies of the world, given that the accumulated the indicator of the UK reached only 27% of the American figure, German – 22%, French – 20.5%, Japanese – 18%, Chinese – 14.5%, while Russian – only 5%. Nevertheless, already in 2016, China left behind Japan, France and Germany, and in 2018 it slightly outstripped the UK, becoming the second economy in the world in terms of outward FDI stock. In 2020, the United States continued to be the world leader with outward FDI stock reaching 8 trillion 241 billion US dollars. The second economy in the world by this indicator was already China, still the gap was more than threefold since the Chinese figure was only 29% of the American. As for other economies, the British outward FDI stock accounted for 26% of the American figure. This indicator of Germany stopped at 24%, the Japanese equaled 22%, the French –19%, while the Russian was about 5% of the US (Figure 30).

Figure 30. Outward FDI Stock billion dollars 2005–2020



Data Source: OECD. FDI Stock Outward, Million US dollars, 2005–2020

So, the United States secures unchallengeable leadership in the FDI donorship. Despite the significant successes of the PRC, it is too early to claim that at the moment this economy can become an alternative to the American one in the context of being FDI donor for all other countries in the world. Thus, the US leadership on the capital market corresponds to the one of the British Empire until the First World War. Like in *Pax Britannica* case, the PRC is still significantly lagging the USA in terms of outward investment (Table 20).

Table 20. Foreign Investment of Major Lending Countries, 1825-1913 (in millions of dollars)

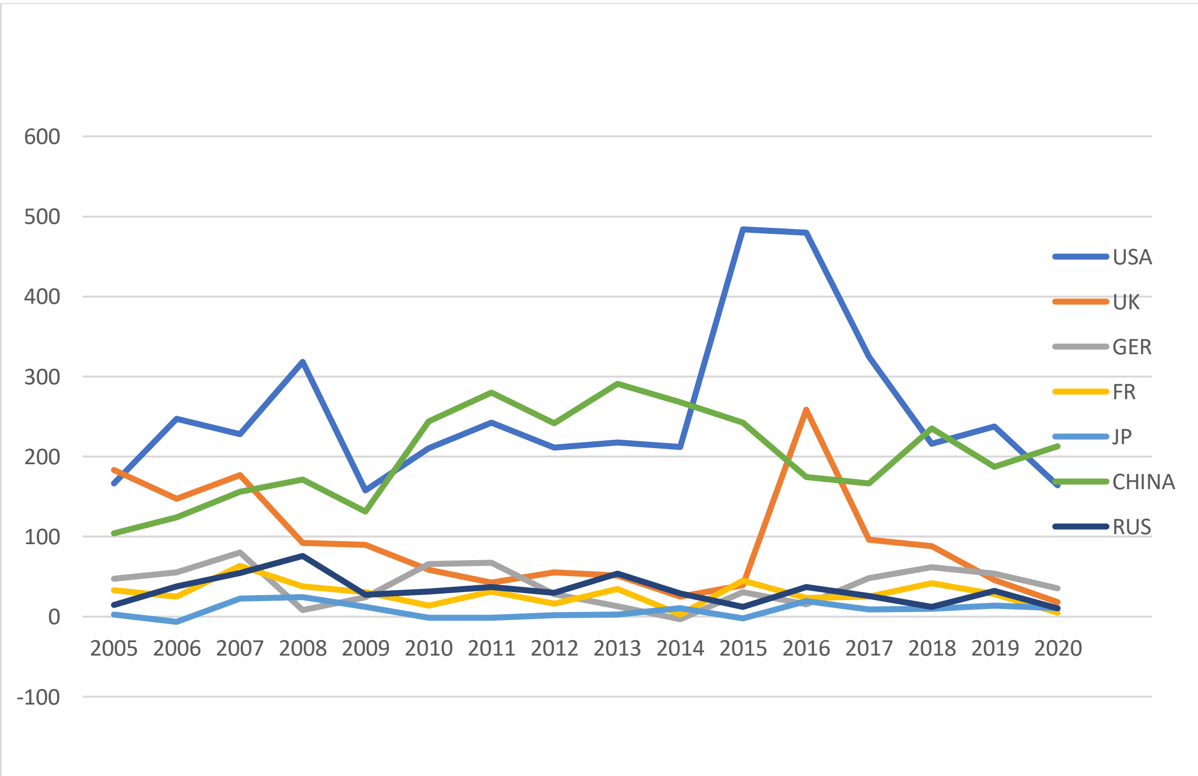
	1825	**1840**	**1855**	**1870**	**1885**	**1900**	**1913**
United	500	750	2,300	4,900	7,800	12,100	19,500

Kingdom							
France	100	300	1,000	2,500	3,300	5,200	8,600
Germany	-	-	-	-	1,900	4,800	6,700
Netherlands	300	200	300	500	1,000	1,100	1,250
United States	*	*	*	*	*	500	2,500

Data Source: Kindleberger, C. P. (1984). A Financial History of Western Europe. London.

However, the case of inward FDI is slightly different. Analyzing the average indicators of FDI inflow of the seven economies, the American leadership looks impressive, but not as unquestionable as in the case of outward FDI. On average, over 16 years (from 2005 to 2020), the annual inflow of FDI in the USA was 257 billion US dollars, FDI inflow in China reached 202 billion, the one in the UK was 92 billion, in Germany – 39.5 billion, in Russia – 32.6 billion, in France – 28.6 billion, while in Japan – 8 billion dollars. What is more, it was the USA that recorded the highest amounts of inward FDI flows in 2015 and 2016: 484 and 480 billion US dollars (Figure 31).

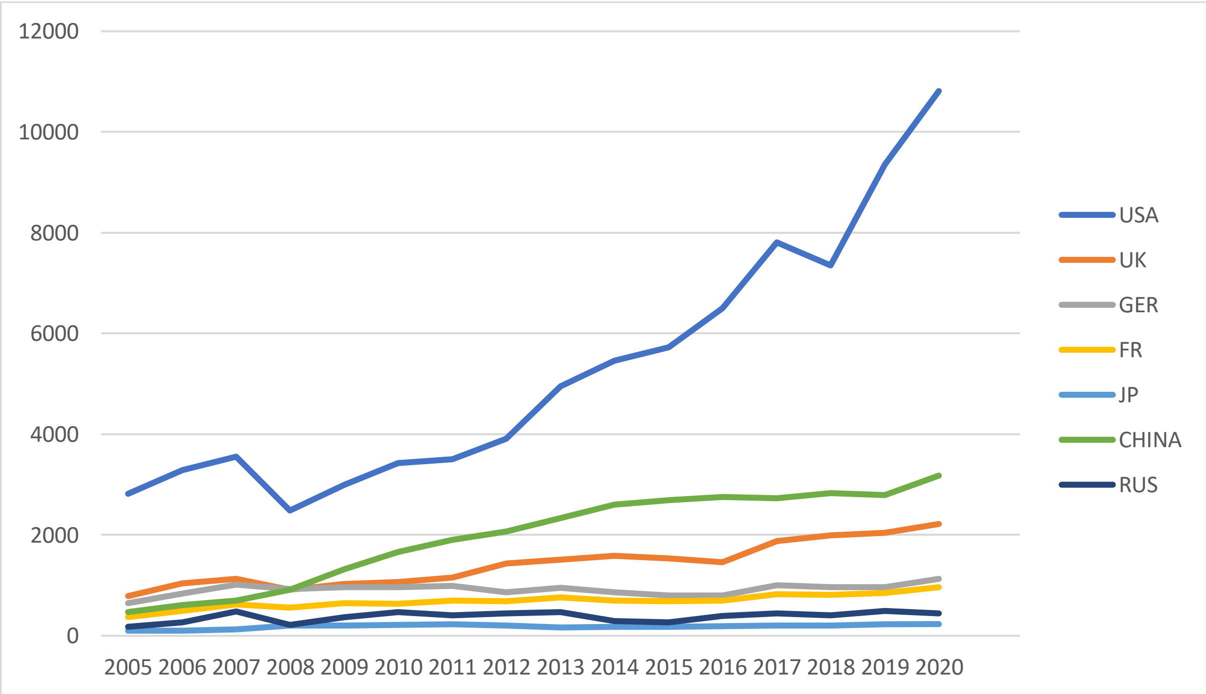
Figure 31. FDI Inflow billion dollars 2005–2020



Data Source: OECD. FDI Flows Inward, Million US dollars, 2005–2020

However, in terms of inward FDI stock, the gap between the US and other economies of the world only increased over 16 years. In 2005, the US inward FDI stock amounted to 2 trillion 818 billion US dollars, which was 3.6 times as high as the British, 4.3 times as the German, 6 times as the Chinese, 7.6 times as the French, 15.8 times as the Russian and 27.9 times as great as the Japanese indicator. China managed to leave behind the UK and Germany in 2009 against the background of the economic crisis, which caused a reduction in FDI flows to developed countries. Still, even in 2020 the US inward FDI stock (10 trillion 814 billion US dollars) was 3.4 times as great as the Chinese one, 4.9 times as the British, 9.6 times as the German, 11.2 times as the French, 24 times as the Russian, and 46.6 times as high as the Japanese one (Figure 32).

Figure 32. Inward FDI stock billion dollars 2005–2020



Data Source: OECD. FDI Stock Inward, Million US dollars, 2005–2020

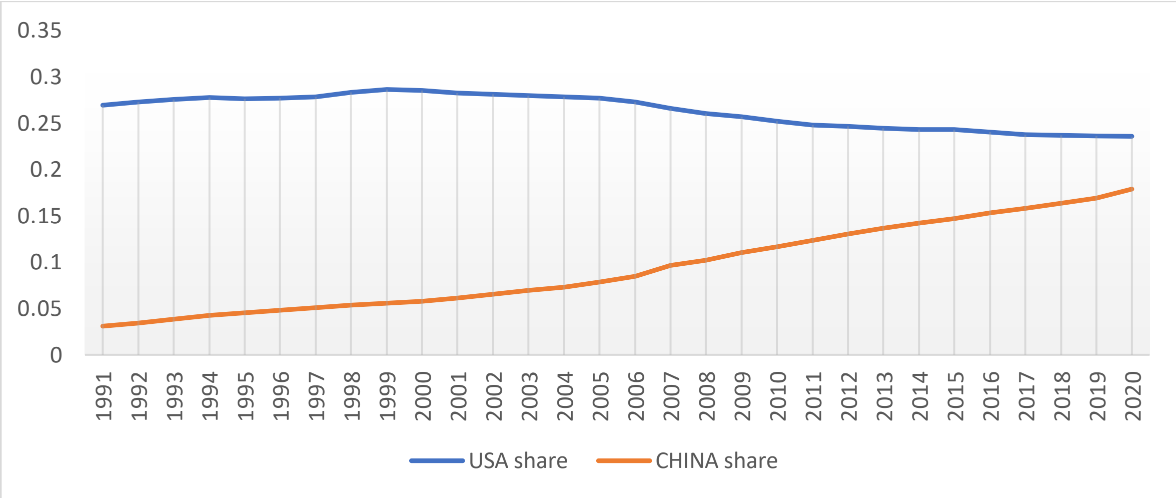
So, the USA remains the world leader in terms of both inward and outward FDI with no economy in the world being able to question American dominance on the capital market. Unlike the situation during and after the First World War, when the United States surpassed the British Empire in terms of investment, China´s role in the world of international finance is extremely low compared to the US one.

4.8. USA and PRC in Interconnected World

The *Pax Americana* reality differs a lot form the one of *Pax Britannica* since today we live in the globalized world with the unprecedented trade liberalization, global value chains and floating exchange rates. So, analyzing the economic potential of a state it is essential to assess to what extent other world depend on this state and how much this country relies on others. In order to examine and compare the position of the USA, mainland China and other leading economies within *Pax Americana* there will be introduced several specific indicators such as the demand for national currency as a reserve one, number of corporations from top-100 world leaders by market capitalization and the comparison of the US and Chinese shares of world GDP, exports, imports as well as inward and outward FDI stock. The world GDP and trade share of each state will show the dependence of other economies on trade and other forms of economic cooperation with Washington and Beijing, while the world FDI share will demonstrate the same relation on the global capital market. Mainland China is chosen to be compared to the USA since it secures the status of the second economy in terms of outward and inward FDI, imports and the only one that has managed to surpass the USA in terms of exports. As for reserve currencies indicators, one of the key differences between British and American economic leadership is that, unlike the 19th century, when the exchange rate of the world's major currencies was pegged to the gold standard, the Kingston Conference of 1976 introduced a system of floating exchange rates (IMF Annual Report, 1976). So, the demand for national currency as a reserve one may serve as an additional indicator that can make the economic potential assessment framework more comprehensive and shows the dependence of others on the issuing country. As for the top corporations statistics it is relevant because it lets us understand the place of countries' firms in global value chains and demonstrates where the most prominent world corporations on the production of which depend the citizens of other states are residing.

Comparing the US and Chinese share if world nominal GDP, the Chinese breakthrough is remarkable. In 1991 mainland China accounted for less than 5% of world GDP, while the US share was almost 27%. When in 1999 the US share reached the highest number within the examined period (28.6%), the Chinese one was still only about 5.5%. However, in the next twenty years the American indicator only decreased, while the Chinese one continued to grow. In 2011 the USA share for the first time fell below 25% and in 2020 was only 23.5%. As for mainland China, in 2011 the Chinese indicator exceeded 12%, while in 2020 it almost reached 18%. Also, it is important to keep in mind that it is nominal GDP statistics, so by GDP PPP Chinese success looks even more significant (Figure 33).

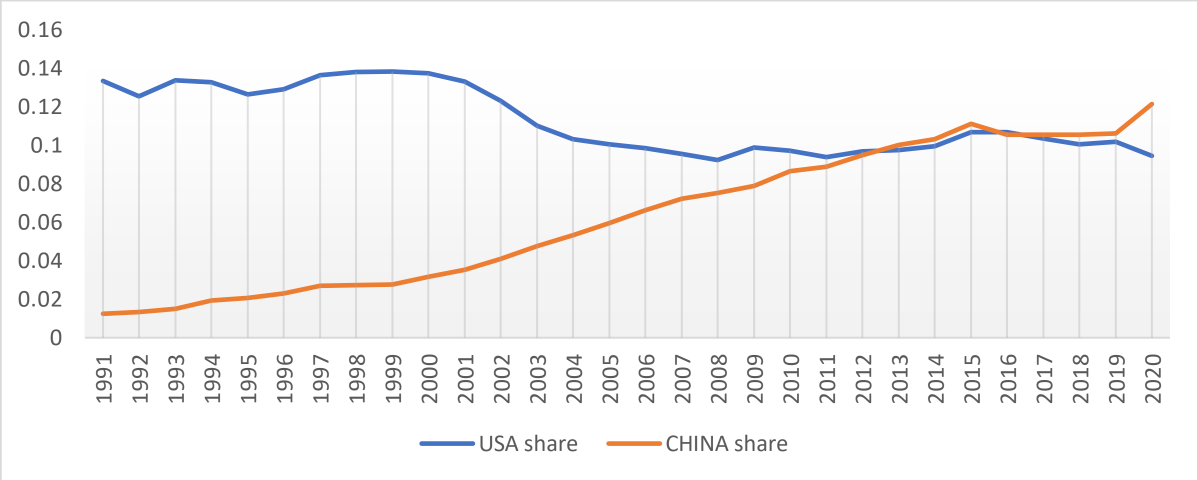
Figure 33. US and Mainland China's share of world nominal GDP, % of world nominal GDP



Data Source: The World Bank. GDP per capita. constant 2015 US$

As for the comparison of the US and mainland China's export share, the Chine rise amid the US indicator decrease is even more evident. In 1991 the USA solely accounted for more than 12% of world exports and maintained such a share until 2003. Afterwards, the US figure never exceeded 11% with the US share in 2020 being only 9.5%. As for mainland China, the breakthrough is remarkable: in 1991 the Chinese share was just 1.2% and did not exceed 3% throughout the 1990-s but for the next twenty years the Chinese indicator quadrupled. Thus, in 2011 the Chinese indicator almost equalled the US one and by 2020 Beijing has managed to secure superiority in this figure with China being responsible for 12% of world exports.

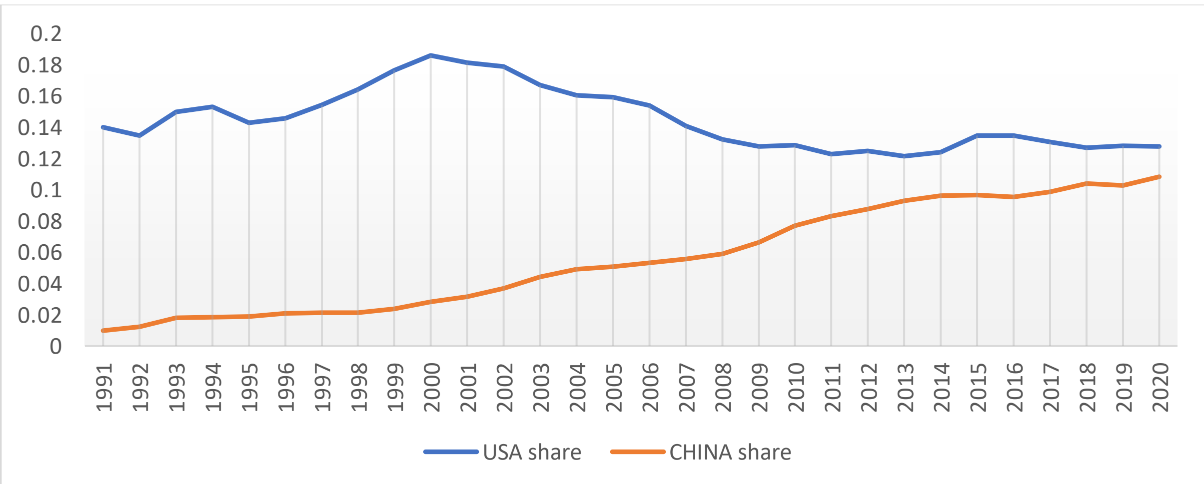
Figure 34. US and Mainland China share of world export, % of world export



Data Source: The World Bank. Exports of goods and services. current US$

The situation with imports is slightly different since the USA still secures the status of the key world importer, while mainland China is still falling behind. However, the US dominance is not as unquestionable as it used to be. In 1991 the USA was solely responsible for 14% of world imports, afterwards at the beginning of the 2000-s it reached 18%, while the Chinese indicator never exceeded 3% throughout the 1990-s. Still, almost like in the case of exports for the next twenty years the Chinese figure tripled and by 2020 reached 10.8% but still fell behind the US one (12.8%). So, it is fair to conclude that the USA does not dominate the global market of goods and services like in the 1990-s but the US share is still significant (Figure 35) with a plenty of foreign companies depending on the US import.

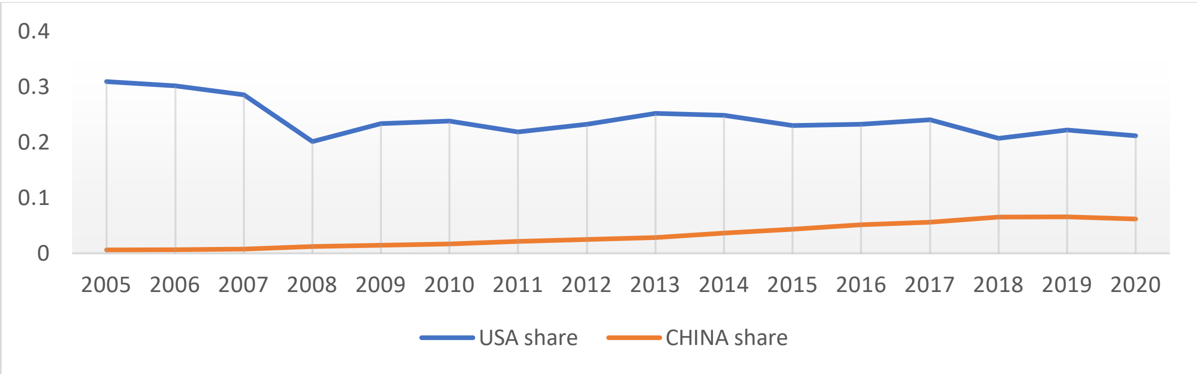
Figure 35. US and Mainland China share of world import, % of world import



Data Source: The World Bank. Imports of goods and services. current US$

Unlike the trade in goods and services where it is possible to state that the world has become significantly less dependent on the USA, the situation on the world capital market is different. There is no denying the fact that the US share of outward stock FDI significantly decreased since 2005 (31%) but it never dropped below 20%. So, on average 1/5 of all FDI in the world is provided by the USA. Taking into account that the second world donor of FDI (mainland China) is responsible only for a little bit more than 6%, the US preponderance looks impressive (Figure 36).

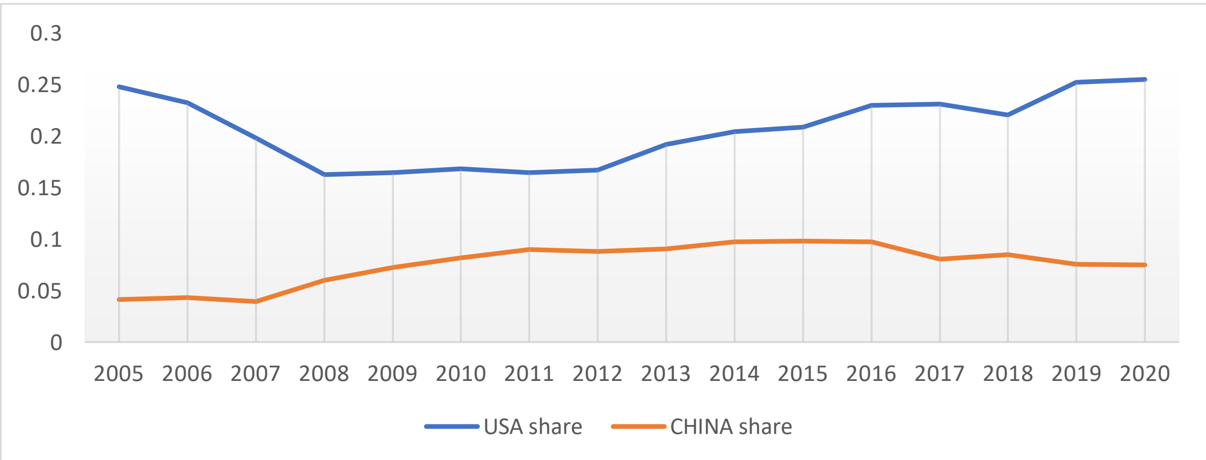
Figure 36. USA and Mainland China share in outward stock FDI (2005-2020)



Data Source: OECD. FDI Stock Outward, Million US dollars, 2005–2020

As for inward stock FDI, the situation is quite the same with one difference: since 2005 the US indicator has not decreased. So, like in 2005, in 2020 more than 1/4 of all world FDI goes to the USA. As for the Chinese indicators, throughout the examined period they never exceeded 10% with dropping to 6.1 % in 2020. That proves the idea that today the US economy is the most attractive target of FDI with the US dominance being unquestionable (Figure 37).

Figure 37. USA and Mainland China share in world inward stock FDI (2005-2020)



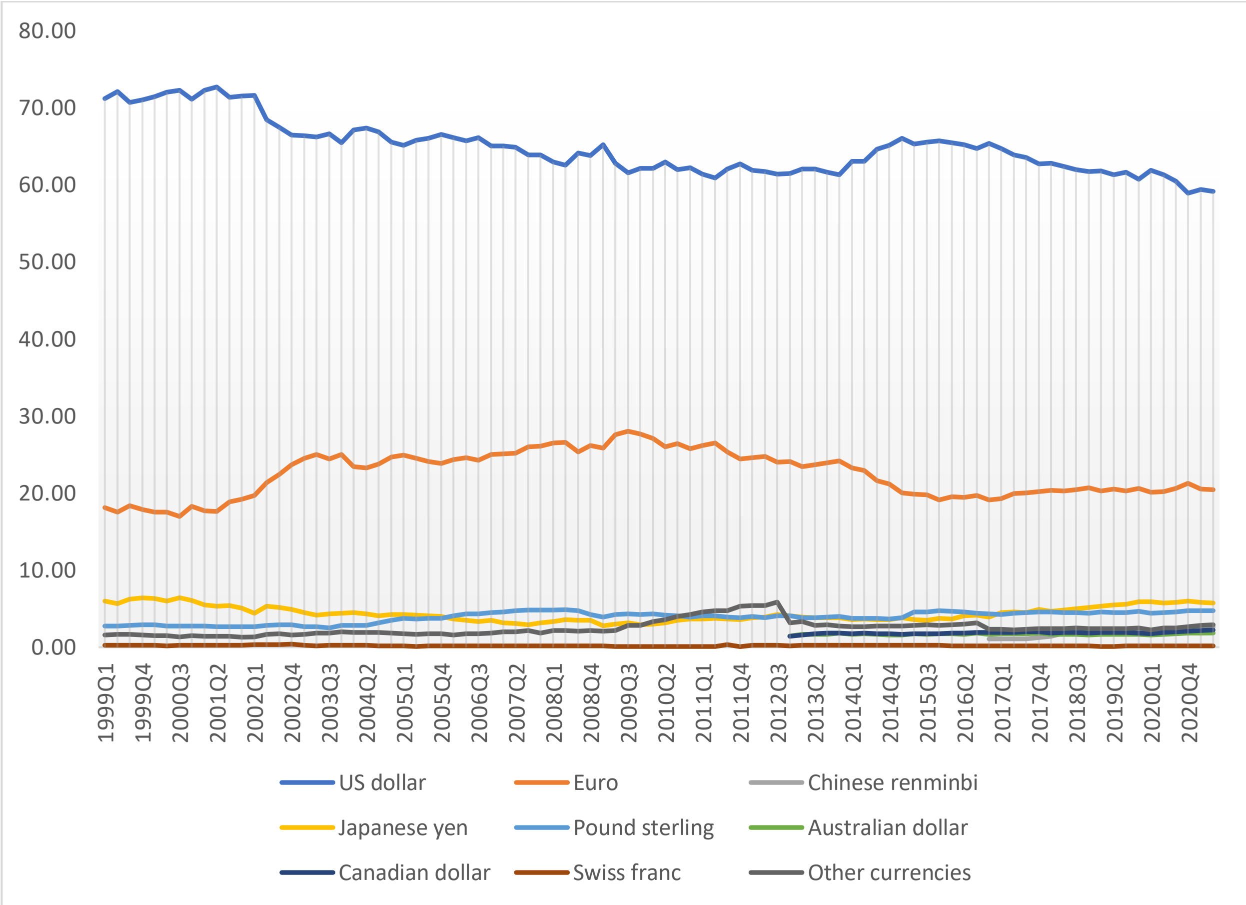
Data Source: OECD. FDI Stock Inward, Million US dollars, 2005–2020

As for reserve currencies, the main one in the modern world is US dollar. It plays a key role in forming of special means of borrowing rates, as well as in most financial transactions all over the world. In the new currency system, based on world supply and demand, the fact that the US dollar accounts for more than half of all foreign currencies reserves of the world's countries is another great illustration of the US primacy.

Over the past two decades of the 21st century, the demand for US dollars as a reserve currency decreased. At the end of the 20th century US dollar accounted for more than 70% of world´s currency reserves, but by 2021 this figure decreased to 59%. However, no other currency in the world is in such demand as the US dollar. Over the first two decades of the 21 century, the share of the world's second reserve currency (euro) increased from only 18% to 20.5%. As for other currencies of the world, the share of the Japanese yen could not exceed 6.5%, while the one of the pound sterling was lower than 4.9%. The Canadian dollar reached only 2.3%, the Australian dollar did not exceed 1.9%, and the Swiss franc´s share never equaled more than 0.5%. As for the Chinese yuan, which in 2016 became the fifth reserve currency of the IMF and immediately took third place in the organization's currency basket after the dollar and the euro, the demand for this monetary unit as a reserve remains insignificant. From 2016 to 2021, the yuan's share in the foreign exchange reserves of the world reached only the maximum value of 2.6%. The share of the Russian ruble is so low that this currency is included in “other currencies” in the statistics provided by the IMF (Figure 33).

Such a great demand for the American currency, as well as the impressive size of the country's public debt and a record influx of investments indicate what an outstanding reputation the US economy has. Also, it shows how much representatives of other countries of the world believe in the successful future of the American economic model. In the conditions of floating exchange rates, in a world where the vast majority of currencies are freely converted, sold and bought on the foreign exchange market, the steady demand for American currency and a relatively modest demand for other currencies of the world is an excellent proof of American economic superiority.

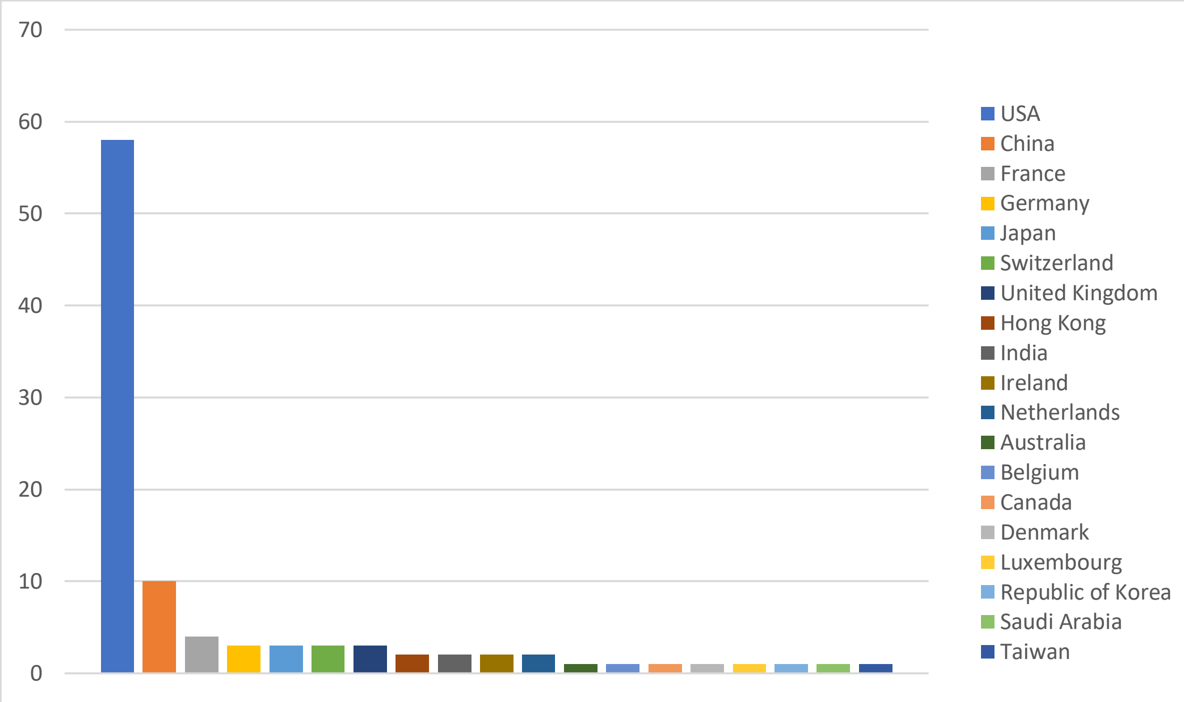
Figure 38. World Reserve Currencies 1999-2021



Data Source: IMF. World Reserve Currencies 1999-2021

Analyzing the list of top 100 largest world corporations by market capitalization is another illustration of the US economic primacy. In 2021, 58 corporations on the list were American, with 7 of them being in top 10 world largest MNEs. Such American giants as *Apple*, *Microsoft*, *Amazon* and *Alphabet*, together with *Saudi Aramco* are the five largest corporations in the world. The second place in this rating belongs to the PRC, but its indicators is limited to 10 companies registered in mainland China, as well as two which are residents of Hong Kong. The number of other state's corporations does not exceed 4. Moreover, there is no Russian company in the top 100 largest MNEs in the world (Figure 39).

Figure 34. Countries by Number of Top 100 Largest Companies by Market Capitalization, 2021



Data Source: Statista. The 100 largest companies in the world by market capitalization in 2021

So, although the USA has lost its dominance on the global market of goods and services, the dependence of the world on the US economy is significant. The USA is solely responsible for more than 1/5 of world inward and outward FDI, its currency is the key means of international transactions, while more than 60% of top 100 largest corporations by market capitalization are American ones. The only economy that can challenge the USA in some indicators is mainland China but taking into account the differences in exports and imports structure addressed earlier and the general Chinese falling behind in terms of economic development stage the US position is exceptional. Also, unlike the USA of the last quarter of the 19th century that equaled or surpassed the United Kingdom in terms of *Pax Britannica* specific indicators, mainland China is still seriously lagging the USA in all specific indicators except for GDP and export share.

4.9. Implications

Like the British Empire in the 19th century, the United States at the beginning of the 21st century is a country with economic potential, significantly exceeding the one of all its possible rivals. At the same time, the USA has the highest nominal GDP and GDP per capita, is a developed economy, a leading donor and recipient of FDI which is being responsible for more than 20% of inward and outward FDI in the whole world. Its national currency is the main means of international transactions and the key reserve currency of the world. It is in the USA that the vast majority of the world's largest companies are registered. Moreover, it is remarkable that their capitalization exceeds the GDP of some middle world powers.

As for exports, for decades mainland China used to attract Western FDI and converted into the world factory because of the relatively law labor force cost. Now, in conditions when mainland China is a middle–income country, when many leading corporations have already begun to move their production to other developing countries due to the rising labor costs, it is a big question whether the authoritarian Chinese leader will be able to secure favorable conditions necessary to overcome the middle–income trap. Still, the Chinese rise is remarkable, the only question is whether state’s leaders will be able to maintain it.

What is more, as a result of the Shale Revolution, the United States has become a leading exporter of oil and gas. The American dependence on the import of foreign natural resources is several times lower than the Chinese. This factor also distinguishes the United States from the leading Western European states and Japan. As for Russia, this factor played a cruel joke with this country, since it was the natural resources endowment that let it leaders for decades parasitize on energy resources exports instead of carrying out structural economic reforms. It led to the fact that in almost all the analyzed indicators, Russia is inferior to both the leading developed countries and the PRC.

Still, the main difference between American economic primacy and the British one is that in addition to creating a developed network of international financial institutions, where the United States occupies a leading position, the American currency has become the currency of international transactions and the main reserve currency of the world. Nevertheless, both countries are the largest and most economically developed economies of their time, leaders in the markets of goods and capital, whose example serves as a benchmark for other economies of the world.

However, despite the significant economic success of the 1990-s and 2000-s, mainland China does not seem to be mature enough in terms of economic development to question US primacy because it is still a developing economy lagging the USA in terms of GDP, GDP per capita, imports and FDI. What is more, only time will demonstrate whether mainland China will manage to overcome the middle income trap and become a developed economy. Until then it is too early to consider the rising mainland China as a real threat to the US economic primacy and global leadership. Even if the Chinese leaders try to question US dominance in international affairs, the PRC merely does not have enough resources to carry out global leader obligations. So, there is a risk that such an ambition may force Beijing follow the fate of Berlin or Moscow making mainland China devastate itself in a doomed attempt to aspire high political goals in the international arena.

Also, the world now still heavily depends on the USA in terms of exports, imports and FDI with the US export being far more diverse compared to the Chinese one. The US dollar remains the key reserve currency, while American corporations dominate international business. Definitely, it does not mean that the leaders of revisionist powers will abandon their ambitions and will stay in the US shadow until their time comes. But the fact is that these economies are not ready to take up the global leadership burden. So, until anyone else manages to present others an alternative to such an intense interaction with the USA, attempts to question US global economic primacy seem doomed and harmful to humanity in general since they may disrupt the existing economic links and impede mutually beneficial cooperation. As for potential revisionist leaders, they run a risk of making their countries repeat the destiny of the Russian Empire of Nikolay I, the German Empire in the First World War, the Axis powers in the Second World War and the USSR in the Cold War.

Conclusion

Economic primacy is the main precondition for both global leadership and hegemony. However, it does not guarantee that a state with great economic potential will seek international ascendance. The lack of political will to take up the burden of leadership can outweigh any economic resources endowment. The most prominent example of such a scenario is the history of the USA of the 1930-s. What is more, the global leadership implies the readiness to waste interior resources to secure the dominant position in the international affairs, maintain the status quo and implement global projects for the sake of humanity, Thus, any leader of an economically strong power should think twice before claiming such a status. The decay of the British Empire, bankruptcy of the USSR and the economic crisis in the German Empire after the First World War demonstrate the destiny of those who cannot bear the assumed burden and fulfil taken obligations.

After the beginning of the Great Geographical Discoveries Era the world became global. There were only two powers that could claim the role of a global leader or a global region: the British Empire of the 19th century and the USA after the Cold War end. Only these states had an indisputable economic superiority over all other countries of their time. First of all, their economies were the largest in terms of GDP. Secondly, they used to be the wealthiest states among other great powers in terms of GDP per capita. Thirdly, they were the world trade leaders in terms of goods and services. Fourthly, both the British Empire and the USA dominated the world capital market being the key donors of foreign investment (The USA also remains the main recipient of foreign investment). Fifthly, both Great Britain and the USA were extremely rich in terms of natural resources endowment. The first used to export the resources from its various colonies in all the parts of the Earth, while the second possesses large natural resources deposits on its own territory. The situation became even better for the USA after the Shale Revolution that had converted it into the main oil exporter in the world. But it should be taken into account that in the modern reality natural resources endowment can be a good additional favorable factor but not the basis for economic development. The cases of Russia and Venezuela show that the temptation to parasite on oil exports instead of conducting structural economic reforms tends to be too strong for countries' leaders. In addition, London secured primacy in the two main industries of the 19th centuries: coal mining and steel production, while Washington has an overwhelming superiority over the rest of the world in terms of the largest corporations which are registered in the USA. The British Empire was the true leader of the industrial whose success served as a benchmark for other economies. As for the USA in the modern economically interconnected and interdependent world, its position and the level of other states dependence on the US economy remains exceptional in terms of trade, investment, currency, technology, etc.

As for the differences between the British Empire and the United States, Great Britain was the largest and greatest colonial empire in the history of humanity, while the USA is a federative republic. Unlike the London, Washington does not have any prominent in terms of natural resources, labour force or production colonial possessions. In the 19th century and before the end of the Second World War some colonies or dominions of the Empire had an economic potential that sometimes was higher than the one of the middle powers of that time (e.g., Canada and New Zealand were wealthier than most European countries in terms of GDP PC, Australia, Canada and India exported more than the Japanese and the Ottoman Empires, while only the Chinese GDP was superior to the Indian one for the most of 19th century, omitting the total GDP of the British Empire). However, the USA managed to make its currency the means of international transactions and the main reserve world currency. In the 19th century in the golden standard era no currency played such an important role. Also, Washington managed to consolidate US influence within key international economic institutions such as the World Bank and the International Monetary Fund which did not exist in the 19th century. Still, these differences are relatively minor amid the general economic preponderance of both powers.

The detailed analysis of economic primacy and global leadership history provides the criteria for potential contesters for this status. Only a state that secures economic preponderance, that is the most developed and wealthiest economy, that dominates the world market of goods, services and capital simultaneously being the key international center of science and technology may claim global leadership. The best illustration of this law is the destiny of the British Empire that reached global leadership when it was the first world economy, the world fabric and the first power to launch industrialization. At the same time, its political influence faded away with the postwar economic decay. Also, the new leader (the USA) never sought political ascendance before converting into the leading economic power. Paradoxically, Washington even remained in self-isolation after obtaining economic primacy in the 1920-s and the 1930-s. What is more, two German defeats in World Wars and the collapse of the USSR are the relevant examples of what is waiting whose who dare to claim any political dominance without substantial resources endowment.

Nowadays, no other state is ripe for repeating the path of the postwar USA and challenging the US economic primacy. By the time the USA succeeded the British Empire, Washington had already left London behind in terms of all the key macroeconomic indicators, while the Second World War gave the USA a chance to become the leading military power. Today the situation is completely different. None of the developed states is great enough in terms of economy seize and economic resources endowment, while China is still an emerging economy that still have to overcome the middle income trap. The Chinese economy is still industrial one with large shares of agriculture, construction and manufacturing. Also, mainland China is unlikely to be able to secure the former high rate of economic growth due to the fact that its comparative advantage in cheap labor is fading away. Beijing does not have enough resources for global leadership, even equaling US GDP will not compensate for the gap with the US GDP PC, imports, outward and inward FDI, currency power, number of top corporations, etc. Moreover, it is still doubtable whether the Chinese leaders will manage to secure favorable conditions for sustainable economic growth and will not fall prey to selfish ambitions of an authoritarian leader to consolidate personal power at the expense of state´s welfare. If mainland China sticks in the middle income trap, it will be left far behind all other leading powers. Also, the Chinese leaders should keep in mind the history of the German Empire, the Nazi Germany and the Soviet Union which demonstrate that great ambitions without suitable economic resources endowment leads to a catastrophe, crisis and humiliation.

As for Russia, the current war in Ukraine demonstrates how important the factor of dictator´s personal desires and ambitions is. There is absolutely no economic rationale behind the open aggression against a neighboring country, confronting all the developed world from part of a large undeveloped country that has been stuck in the middle income trap for more than ten years. Like the Soviet Union in the 20th century, the Russian Federation claims the status if not of at a superpower but at least of one of the leading world powers without having a substantial economic potential. In the long run, the limited economic resources endowment together with the war disgrace and fatigue will lead to the collapse of Putin´s regime plunging Russia into a long transition period. So, the Russian opposition to the US global leadership will not last long.

Only the USA has all the necessary economic resources to claim global leadership or try to secure or establish its hegemony in the whole world. But the American leaders should remember what the leadership burden entails. It is only up to them to choose whether it is worth spending American wealth for the sake of some high goals or ambitions. Still, in case the US political elites are ready to embark upon this path, they are to be ready to ingratitude, jealousy and open criticism from a lion´s share of international community. But the level of world dependence on the USA in the modern economic reality shows that an attempt to disrupt the existing links and to impede the interaction between the hegemon and others will be harmful to humanity in general, at least until any other economy or a group of economies are ready to take the US place. Until now that has not happened.

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