

# American Hegemony in Flux: The Sino-American Power Shift and the Reconstitution of the Global Economic Order

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## ABSTRACT

The 2008 global financial crisis marked a watershed moment in American hegemony, reshaping its role within global economic governance. This paper examines the evolution of American hegemony within the global economic landscape, particularly in the post-2008 financial crisis era, with a critical lens on the shifts and continuities that define current global economic governance. The crisis marked a pivotal moment, underscoring both the resilience and vulnerabilities of U.S. economic dominance. While American influence remains central, recent years have seen a recalibration of power dynamics, as emerging economies—most notably China—assert a more pronounced role in global financial institutions and trade networks. This paper critically analyzes these nuanced shifts, exploring how the United States adapts its leadership amid increasing Sino-American competition. Key themes include the rise of macroeconomic conflicts, challenges to the U.S. dollar's dominance, and the erosion of American soft power. The analysis further explores China's enhanced role in trade and finance suggesting a shift towards multipolarity. While U.S. dominance persists, this study argues that cooperation rather than confrontation may define Sino-American relations in the coming decades, offering strategic avenues for stability within a reformed global economic governance structure.

**Keywords:** American hegemony, Sino-American relations, Soft power, Multipolarity

## INTRODUCTION

The global financial crisis stands as a pivotal moment in the history of international relations, profoundly reshaping the role of the United States within the global economic landscape. The summer of 2008 marked a significant turning point in the international economic order. The potential collapse of the US financial economy posed a grave threat to the global economy as a whole, bringing the world perilously close to reliving the devastating effects of the Great Depression. Fortunately, the actual economic devastation caused by the Global Financial Crisis, the most severe economic downturn since the Great Depression, was not quite as catastrophic as its predecessor. However, the global financial crisis was an important inflection point in the trajectory of international relations. In his seminal work “*American*

*Power after the Financial Crisis*” (2014), Jonathan Kirshner suggests that the events following the crisis have fundamentally altered the international balance of power, particularly emphasizing its ramifications for American hegemony. According to Kirshner the crisis prompted a reassessment of the United States’ position in international affairs spurred by heightened economic integration on a global scale and the consequential ascent of China as a new economic powerhouse, challenging traditional American Dominance.

The American economy is frequently considered the “engine” of the global economy. Any signs of slowdown in the U.S.A are considered a threat to the other economies due to the spillovers it accompanies. Thus the economic downturn in America at the backdrop of the Global Financial Crisis questioned the capacity of the global economy to dissociate from the American cyclical

behaviour. U.S.A as the epicenter of the financial turmoil experienced a significant erosion of confidence in its economic leadership, leading to a reevaluation of its role on the world stage. Subsequently, China's rise as an economic power added complexity to the dynamics of global economic governance. In the context of Sino-American relations, the post-financial crisis landscape has fostered both partnership and competition, reflecting the dynamics of multipolarity in international relations. The economic interdependence between the U.S. and China has shaped a complex relationship characterized by mutual reliance and rivalry, influencing the broader balance of power. Amidst this dynamic, financial disputes have emerged as focal points, highlighting the intricacies of interdependence and the contest for influence in the international economic arena. These alterations in the Sino-American relationship intersect with broader debates about global economic leadership and the distribution of power. The evolving roles of both nations have spurred calls for reform within international institutions to better reflect the contemporary economic landscape. This push for reform underscores the recognition of the need to adapt international institutions to the realities of a multipolar world, where traditional power governance framework dynamics are shifting, and interdependence plays a central role in shaping state behaviour and cooperation.

The nuanced shifts and continuities in Sino-American relations stemming out of the global financial crisis have significant implications for the future of the global economy and the structure of international economic institutions in shaping the international order. Kirshner contends that while numerous scholars have addressed the global financial crisis, the majority have primarily focused on crucial aspects such as its economic causes, potential reforms to prevent recurrence, and associated political factors. However, there has been a noticeable lack of attention given to international relations, despite a growing interest in global economic governance. Ascribing to Kirshner's aspirations, the following sections of our discussion shall focus on evaluating from an international relations perspective how the United States' role in the global economic landscape has evolved and later shifted in the aftermath of the financial crisis, which is embedded in the Sino-American relations, impacting the overarching framework of global economic governance. Through this lens, we attempt to discern the complexities of navigating the post-crisis economic

landscape, where the interplay between major powers shapes the trajectory of global economic governance.

### **Evolution of American Hegemony in the Global Political Economy:**

Current global economic governance reflects more of the will of the American hegemony. The two leading international financial participants in the Bretton Woods System -International Monetary Fund and the World Bank were created following World War II under the leadership of the Americans. The United States since then has capitalised on these institutions as tools to maintain its post-war international economic dominance. Despite the fact that the Bretton Woods System came to an end with the US' economic power decreasing and the US dollar being stripped of its association with gold, the system of international finance that was created by the US is still maintained sustaining its hegemonic character. The genesis of such dominance though is not a modern day phenomenon but dates back to the ancient times. Fareed Zakaria's work titled "*From Wealth to Power*" (1998) bears a testimony for the same as it documents that America had become the richest country in the world by 1885. According to Zakaria, in line with realist theory of international relations, he contends that the American leadership sought to expand the nation's political influence overseas as they observed a rise in the country's comparative economic strength. America in the words of Zakaria was an unusual power—a strong nation with a weak state which took the centre stage during the mega events of the 20<sup>th</sup> century relying on its economic strength and geopolitical expediency.

Further, Kirshner describes the emergence of American hegemony in global economic governance, which culminated in unparalleled US unipolarity until the 2007 global financial crisis, as a result of several pivotal events. He emphasizes the notion that significant developments do not occur in isolation, highlighting the importance of revisiting key historical moments such as the Great Depression, the evolution of post-World War II US hegemony, cold war and the Asian financial crisis of 1997-98. Kirshner suggests that understanding the implications of the global financial crisis requires a comprehensive examination of these critical events in a cohesive geopolitical framework which cultivated conditions conducive for establishing American hegemony.

From this perspective, Kindleberger's view from the

1970s encapsulating optimism about the possibility of an institutionalized world order initially emphasized the significance of a hegemonic power in stabilizing the global economy. Charles Kindleberger argued that the recession of 1929 and the post war period that followed marked the start of a new world order facilitated by international economic institutions. The Great Depression brought about the transition from a world built around the *pax Britannica* to one based on the so-called *pax Americana* of the late twentieth century (James, 2011). The lessons of the Great Depression provided the essential building blocks of the financial order constructed after World War II. In the aftermath of the Great Depression, given the balance of power between the United States and Britain at the time, it is unsurprising that the IMF, as established, aligned closely with the American vision of capital liberalization. Therefore, American dominance was also supported by the emphasis of liberalists on the institutional power of hegemony.

The hegemonic state's character was further visualized by Keohane's theory of hegemonic stability. He posits that hegemonic powers must wield authority over essential resources, control capital sources, dominate markets, and exhibit competitive edges in producing high-value commodities (Keohane, 1984). Thus, beyond merely being the leading economic force with a robust capitalist system, the United States has effectively exerted political supremacy over all capitalist nations. Later during the Cold War era, the US established a framework of economic interdependence with key allies in Europe and Asia, shaping the dynamics of the global economy. This arrangement not only served strategic interests but also bolstered alliance cohesion, serving as a political adhesive that unified the global economy and facilitated the resolution of significant national disparities in economic matters (Gilpin, 2001).

The United State with ideology of free capital entered the twenty-first century even more powerful. However, history proves that the global power is not forever the same. Things stopped going well in 2007, when the financial system imploded in the worst crisis since the Great Depression. That disaster was the global financial crisis, born in the United States of too loose money and too lax regulation, aided and abetted by China's willingness to provide credit to America seemingly without limit (Garrett, 2010). The crisis engendered both novel challenges and opportunities. Pertinent to this discourse is Mearsheimer's offensive realism, wherein he posits

that owing to the condition of international anarchy, each power actively seeks opportunities to augment its influence, often at the expense of others, with the ultimate aspiration of achieving hegemonic status. Against the backdrop of the global financial crisis, China's ascendancy represents a concerted effort to contest American dominance, thereby carrying profound ramifications for the trajectory of American power and the structure of global economic governance.

### **Post-Crisis Realignment of Sino-American Relations:**

The aftermath of the global financial crisis witnessed a significant realignment of global economic power dynamics. China's emergence as an economic powerhouse has been one of the most consequential developments in the post-crisis era. With its rapid economic growth, China has become the world's second-largest economy, surpassing Japan and trailing only behind the United States. The growing economic clout of China has posed challenges to U.S. dominance in various spheres which encompasses multifaceted implications with regard to the Sino-American relations. The economic downturn and its aftermath have resulted in heightened tensions between the United States and China, amplifying their evolving military and diplomatic rivalry. The crisis not only impacted their bilateral relations but also hindered both countries' capacity to engage in long-term strategic competition and alter their position within the international system.

Following the onset of the global crisis, numerous scholars swiftly offered prognostications regarding its ramifications. While these forecasts varied across diverse academic domains, a discernible convergence emerged concerning predictions surrounding the Sino-American relationship and the consequent shaping of the global economic order. Amidst the shifting dynamics of the post-crisis era, global economic governance has undergone nuanced shifts and continuities. Examining the nuanced shifts and continuities that have emerged, Krishner (2014) suggested an impending rise in macroeconomic conflicts among nations. Ferguson (2009) goes too far, drawing parallels between the 2007-2008 scenarios and the pre-World War I British-German geopolitical rivalry, while Garrett (2011) foresaw persistent frustration and conflict stemming from economic imbalances between China and the US. Despite these challenges, Garrett emphasized both countries' dedication to embedding their diplomatic

strategies within a framework of multilateralism. Krishner (2014) further anticipated the global financial crisis impacting the international balance of power and eroding American soft power. However, he also envisaged a complex interplay of cooperation and competition characterizing bilateral ties between China and the US. In line with this perspective, Prasad proposed the necessity for a '*Grand Bargain*' between the two nations to navigate the intricacies of their relationship effectively. The following sections attempt to evaluate to what extent the predictions have translated into reality.

### **Intensified Macroeconomic Conflicts:**

In the years leading up to the crisis, trade primarily served as the cornerstone of unity between the United States and China. However, as anticipated by several scholars, the post-crisis landscape is marked by heightened macroeconomic conflicts among nations. The crisis effectively signaled the conclusion of a period where trade stabilized Sino-American relations and heralded the onset of one characterized by increasing friction and conflict. This shift is evidenced by the U.S.-China trade war initiated in 2018 by the Trump administration, which has intensified tensions between the two nations and undermined prospects for cooperation on vital global economic matters. Tariffs imposed on billions of dollars' worth of goods have disrupted global supply chains, roiling financial markets and amplifying uncertainty and volatility in the global economy.

Despite remaining unrivaled militarily and maintaining its position as the largest economy, the United States' relative power and influence are undergoing erosion within the realm of international relations. The crisis-induced differential costs on national economies, coupled with variations in post-crisis economic growth, have expedited the ongoing process of economic power diffusion. Consequently, this diffusion translates into shifts in political influence on the global stage.

### **Multi-polar Currency Order:**

Even preceding the crisis, economists foresaw a probable modest diminishment in the international role of the dollar, potentially leading to the formation of a multipolar world economy with a multipolar currency order. Post-crisis, one of the foremost challenges to US power revolves around the long-term trajectory of the dollar's international standing. This speculation seems to be materializing as geopolitical and geostrategic shifts, such

as the ongoing Russia-Ukraine crisis, provide the Chinese Yuan leverage over the American currency in trade relations with Africa, Russia, and its East Asian partners. The genesis of this trend traces back to the aftermath of the crisis when China accrued dollars to maintain a favorable exchange rate, subsequently transitioning away from the dollar while advocating for wider use of its currency. As the largest global exporter, China's pivot away from the dollar bolstered its economic autonomy and political influence, objectives catalyzed by the financial crisis. Additionally, post-crisis, China has demonstrated greater willingness to elevate its currency's role in global economic affairs. Alongside the Chinese Yuan, the euro and, more recently, the UAE Dirham have assumed significance in the foreign exchange market, paving the way for a multipolar currency order.

### **Eroding American Soft Power:**

The decline of the dollar as the world's reserve currency has brought about tangible geopolitical repercussions. As the crisis unfolded, some observers swiftly heralded the end of the 'unipolar moment' and the dawn of a 'Post-American' era. Scholars from the global south even ventured to suggest that the 'Washington Consensus' would be supplanted by a 'Beijing Consensus', amalgamating market economics with authoritarian politics, ultimately leading to the replacement of the dollar by the Chinese Yuan (Friedberg, 2010). While these predictions may seem futuristic, the ideological and policy shifts underlying them carry profound strategic implications. As the appeal of the American model waned across Asia, Africa, and beyond, the American soft power has experienced a significant decline. This erosion of soft power has also weakened the United States' ability to sustain an assertive foreign policy and, notably, to engage in costly global competition with China.

Further, one of the primary challenges to American dominance arises from Chinese regionalism. While the United States maintained soft power advantages in East Asia before the global financial crisis, the aftermath witnessed a shift. The weakening interdependence across the Pacific led to a more direct effort by China to establish an East Asian economic and political 'community', sidelining the United States.

Concerning the structural and institutional orientation of global economic governance, despite continued significant influence over international economic

institutions, US dominance has been tempered by China's ascent. Traditional Western-led institutions like the IMF, World Bank, and WTO face pressure to adapt to changing geopolitical dynamics. Initiatives such as the AIIB and NDB, established post-crisis, challenge the dominance of Western-led institutions, reflecting emerging economies' desire for greater influence in shaping the global economic order hence eroding the traditional American dominance.

### **Assessing the sustainability of US Hegemony amidst China's ascent:**

America's economic and financial hegemony remains a critical geopolitical asset. Despite the 2008 financial crisis raising concerns about American power, the issue post-crisis isn't one of decline but rather recognition that even the largest nation requires cooperation. According to Krishner, the global financial crisis serves as a learning moment for America in world politics, yet it doesn't necessarily indicate American decline. The US economy remains immensely large, sophisticated, and innovative, boasting abundant talent and resources. It's important to note that the post-crisis shifts signify a *relative* erosion of America's economic stature, with significant implications, albeit often exaggerated in magnitude.

While it can be argued that the US has experienced a gradual erosion of its various roles in global governance, this doesn't signify a decline in US hegemony. The primary reason is the absence of superior alternatives, especially for major emerging East Asian nations like India, which view Chinese dominance as a regional challenge. China faces significant limitations as a global power, lacking in power projection capabilities, the ability to provide public goods, or the appeal of its ideology and values to neighboring countries. Without possessing both hard and soft power, China struggles to implement "smart power strategies" necessary for achieving global leadership (Nye, 2009). Thus, it remains far from attaining hegemonic status either globally or regionally, particularly in Asia. Additionally, on the economic front, unless China assumes the role of a consumption engine and a security provider, the center-periphery connections between the US and Asia, and even with African nations, are unlikely to be severed. Top of Form

Subsequently China's economy is also highly linked with the US, any China-backed initiatives or institutions will not change the nature of global political economy

dominated by America to a large extent. Unless China can pose a substantial economic and military challenge to the US, the emergence of institutionalized networks in the post-crisis era is unlikely to pose a threat to US dominance. Instead, such developments could potentially serve as a supportive mechanism for the US in upholding global rules and order.

### **Way Forward:**

In conclusion, the evolution of the United States' role within the global economic landscape in the aftermath of the global financial crisis has had far-reaching implications for Sino-American relations and the overarching framework of global economic governance. While the United States remains a dominant player in the global economy, its hegemonic status has been challenged by the Chinese ascent. However, the present day scenario calls for Strategic and Economic Dialogue between the two powers that shall foster cordial bilateral ties in an era of intensifying multilateralism. In order to yield a global economic order characterized by stability, strategic manoeuvring and cooperation shall serve as the guiding ideals. Moreover, instead of a fierce economic warfare, mutual deterrence appears more comforting as it creates conditions conducive for a balanced share of power in the international economic order.

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