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Economic Empires and Currencies

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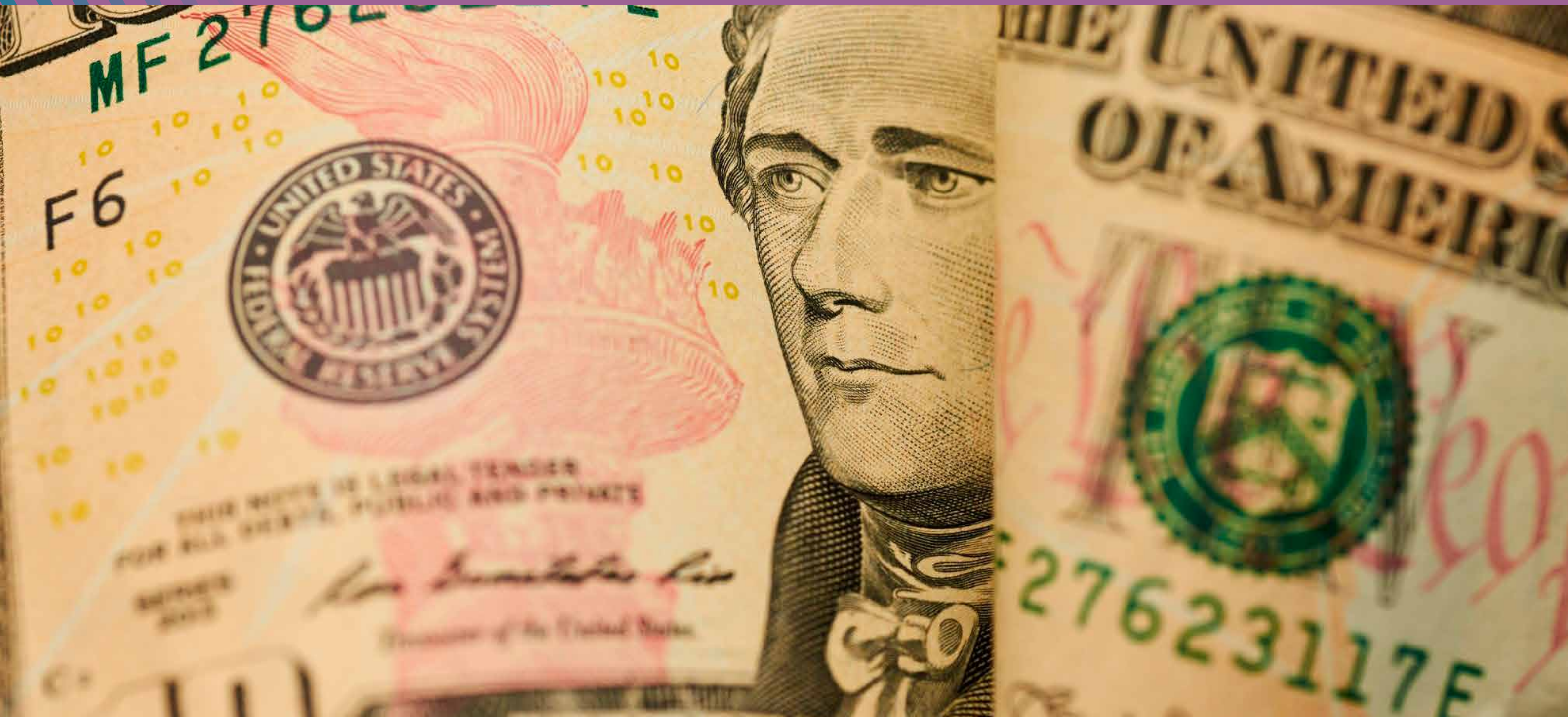

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Economic Empires and Currencies

David Brodet

This article describes the rise of the United States in becoming the leading economic power, the mechanism of American control over the world economy after World War II, the dollar as reserve currency, the signs that domestically have undermined the US standing, and the impressive Chinese rise upward—all changes that will dictate who the hegemonic power in the 21st century will be. The article emphasizes the combination of two conditions: the US as a hegemonic power and the dollar as international reserve currency. Thus, it does not expand on Europe and the euro, and on China and the Japanese yen, for which the two conditions do not apply. While the second part of the article discusses China, which aspires to be a great power, it has not yet met the condition of its currency being an international reserve currency.

Israel is not part of this complex global game; rather, it must maneuver between the two giants but not always willingly.

Keywords: United States, China, Europe, dollar, euro, yen, gold, international trade, economy, hegemony

The Rise of the American Empire

The United States of America, the largest and most successful democratic republic in history, was founded in 1776 following a rebellion of 13 autonomous British colonies against the United Kingdom. Today it is a union of 50 states with 330 million residents. After the Declaration of Independence, the process of creating an American nation began, based on a federal constitution and a transition from “states” to “a union of states”—a state with a low level of government involvement. The US, which received its independence around the time of the beginning of the Industrial Revolution, was initially an agricultural country and society that cultivated land on a large scale. Its agricultural production rested mainly on cotton and tobacco crops in the southern states. These crops required large and fertile areas of land, a warm climate, an abundance of water, and plenty of cheap labor, which was made up of slaves brought in ships from western Africa beginning in 1610. The southern states were the wealthy ones in the US. The civil war (1861–1865), whose primary catalyst was the issue of slavery, resulted in significant changes to the US economy, as it moved the center of gravity from the agricultural south to the industrial north. Although the central government gained strength and a nation was formed, it remained divided over its past—the war having forged and shaped its character.

The rise of the US to superpower status was a direct result of its understanding that national selfishness and turning inward could not serve its objectives.

After the civil war, the US underwent an extremely quick industrial revolution and became an advanced industrial–technological country that immediately embraced the second industrial revolution—the technological revolution—having already accumulated some experience. In the last third of the 19th century, the American economy grew impressively and integrated technological inventions that transformed the US and the entire world. The American patent registrar said in 1900 that “we have reached the culmination of inventions,” referring to the abundance of inventions that appeared in the second half of the 19th century, like the electric light bulb and the telephone.

By the 20th century, the US had become a regional and global power with a strong economy and good governance, which served as a solid basis for becoming a world power. The makers of American foreign policy advocated isolationism, meaning that they were only concerned with the American continent (the Monroe Doctrine from 1815). World War I was the first time that the US diverged from its policy of isolationism and intervened in the war in Europe—a short involvement of a single year—and without any large-scale conscription relative to World War II. At the end of the war, the US resumed its isolationist policy.

The nationalistic developments in Europe following the end of World War I led to the outbreak of World War II. This was already a bloody war when the US became involved; during its four-year involvement in the war in Europe and Japan, the US led the Allies and brought about decisive victory over both Nazi Germany and Japan. The US was fully mobilized (16 million Americans served in World War II and 417,000 fell on the battlefields) and still wanted to return home. But two years after the war, upon understanding that its peace and security required it to defend democracies before they fell, the US returned to Europe. If it had not done this, the victory of World War II would have been pointless, and one totalitarian tyranny would have taken the place of another.

The rise of the US to superpower status was a direct result of its understanding that national selfishness and turning inward could not serve its objectives. What would have happened to Europe if the US had not come to its aid? This is an intriguing question.

World War II was the finest hour for the US. It ended the war as a military, industrial, political, and cultural power. Its industrial might reached enormous dimensions, producing tens of thousands of tanks, aircraft, ships, and submarines. The food industry developed due to the need to produce field rations, and other support industries were established, increasing the tremendous industrial value. During the war, many women joined the workforce, replacing the fighting male workforce.

World War II exhausted Europe and especially its economy, with entire industries destroyed. Most exhausted was Britain, which had been an economic superpower and its pound sterling had been the international reserve currency until the war.

Economically, the end of World War II was completely different from that of the previous world war, which had involved the imposition of punishments, humiliation, and the payment of reparations. In contrast, at the close of World War II, punishments and reparations were not imposed; instead, aid and support were granted for rehabilitating the defeated countries.

The US shaped the end of the war by creating cooperation mechanisms, a lesson learned from the dismal finale of World War I. In October 1944, an international summit conference, attended by representatives of 44 countries, was held in the town of Bretton Woods, in order to determine a global financial system; as a result, the International Monetary Fund (IMF) and the World Bank were founded. The idea of establishing the World Trade Organization (WTO) was also born there. These bodies, in addition to the establishment of the United Nations, which replaced the League of Nations, aimed to stabilize the world and ensure economic stability and cooperation between countries. In effect, the cooperation and creation of global institutions that began there characterized the second half of the 20th century. This was the result of a prior decision made between the Americans and the British on the treatment of the defeated countries. The famous British economist John Maynard Keynes was very involved in the economic planning of the period after the war. He drew conclusions from the years preceding World War II and sought to balance between the deficit countries and the surplus ones in the global economy and proposed mechanisms to automatically balance them. Thus, the IMF and the World Bank are not only powerful executive tools, but they are also ideological bodies. For over 70 years, they have been central and most effective in spreading a clear political ideology: capitalism.

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The US was involved in the plan to rehabilitate Europe (the Marshall Plan). It designed the international architecture on the ruins of World War II, to ensure that such a war would not happen again and to protect the Western democracies from the Soviet Union (led by Stalin) and Communist subversion; as a result, NATO was established. This was the peak of the "American century"—an era of abundance, strength, and anxiety.

A natural result of the war was passing the baton of the international reserve currency from Britain to the US. American surplus production flowed to the victorious and defeated countries of Europe, whose economies had been destroyed in the prolonged war. This included both Western and Eastern European countries, Russia, and Japan. This generous policy continued for many years.

In the 1950s, the US—as the strongest and wealthiest power, constituting about half of the global production—managed a policy of rehabilitating the world's economy, and from the 1960s onward, it adopted a strategy of maintaining a trade deficit, so that the rest of the world would have greater exports than imports and generous aid for development, thus creating dollar surpluses worldwide. As a result of this strategy, the world since then has enjoyed a long period of growth and has been relatively free of violence and major wars, certainly not like the great wars of the 20th century.

The dollar as an international reserve currency provides an enormous advantage to the US economy because it can finance its trade deficit by printing dollars.

The Mechanism of American Control and the Position of the Dollar

The economic and financial mechanism built after the war is a central element in understanding the leadership of the US and how it became an economic empire. The war created a strong, modern, and industrial economy in the US, with advanced and effective methods of managing large corporations and organizations.

In the 1950s, the leaders of the American economy understood well that in order to drive the world economy, they needed to send their production surpluses out and supply the world's great demand for goods, both for consumption and for the purposes of development and rehabilitation of the world's economies. The US provided the majority of these goods in grants and favorable loans, so that the countries could finance the rehabilitation of their economies without the need to "sacrifice" their standard of living in order to rebuild. The dollar was in demand and was considered a reliable and strong currency, as governments, corporations, and individuals maintained their reserves in dollars.

In the 1960s, the US continued to fund generous aid programs and invest throughout the world. The defeated countries, Germany and Japan, began to generate surpluses themselves—thanks to their considerable ability to rebuild due to their developed heritage in the past—and built modern and advanced production power. These measures caused the other economies to expand their exports while creating a deficit in the US balance of trade. As only the US could print dollars to finance the deficit and the world was only willing to keep dollars, the US continued to maintain a trade deficit and to fund aid programs and investments for the rest of the world while taking in the surplus dollars that the world held—the reserves.

The dollar as an international reserve currency provides an enormous advantage to the US economy because it can finance its trade deficit by printing dollars (much of the printing of dollars in the 1960s and 1970s was not done in exchange for US government debt but rather was done at its central bank and in the financial system). No country in the world has this privilege. The US consumes more than it produces and finances this by printing dollars. Ostensibly, it pays in paper, and the world is willing to hold this "paper" (the dollar) as a commodity in itself. This enables American citizens to maintain a higher standard of living than citizens of the rest of the world in a similar economic situation. Most of the printing of money is not government debt but rather the liability of the Federal Reserve System—these liabilities are listed on the balance sheet of the Federal Reserve and are not listed in the national debt. Over the past 12 years, the liabilities of the Federal Reserve have grown from one trillion dollars to about seven trillion dollars. This is also true of the European Central Bank, which is the central bank for the euro; the euro is also considered an international reserve currency, but it is not as important as the dollar (money is also printed in Israel, but in small amounts and only for the needs of the domestic market).

At first, the process worked smoothly and the world easily accepted the mechanism. France was the first country to question the mechanism. Valéry Giscard d'Estaing, France's finance minister in the 1960s, said that the US had "exceptional privilege" in being able to print dollars, as it enabled Americans to maintain their standard of living despite the trade deficit. The president of France at the time, Charles de Gaulle, who was patriotic and proud, wanted gold instead of dollars and sought to replace France's surplus dollars with gold. For a while, the US shipped gold to France from the underground vaults at Fort Knox, where the gold reserves were kept, with an exchange rate that the US determined of 35 dollars per ounce of gold. In August 1971, President Nixon cancelled the gold standard, and the printing of dollars was disconnected from gold. The power to produce money was transferred to governments—specifically to the central banks.

When the US finances the deficit in its budget, it issues bonds that the world—which maintains dollar reserves—buys, enabling the US to pay a low interest rate to finance its budget deficit. Consequently, the world's citizens subsidize the government spending of the citizens of the US. Thus, a large, high-quality, and highly liquid world market in bonds has been created, which is a necessary condition for the dollar to be an international reserve currency.

In the 1970s, the current account surplus was replaced with a deficit (because of the Vietnam War and the social programs of President Johnson); the economies in Europe and Japan continued to produce their own surpluses; the US sustained its support and investments in other countries by printing dollars; and the world maintained its loyalty to the dollar. In 1989, with the fall of the Communist bloc in Eastern Europe, it seemed that the American economic victory was at its peak. The dollar continued to be the international reserve currency despite problems in managing the budget and an increase in the national debt.

The great change in the US economy accelerated from the beginning of the 2000s; the federal budget deficits grew (wars in Afghanistan and Iraq); and the current account deficits greatly increased. The budget deficits increased the public debt, and various kinds of private debt also grew: consumer debt, mortgages, and student debt. The US maintained a policy of dual deficit: in the government budget and in the balance of payments. In any other country in the world this would immediately lead to an economic crisis; instead, the world continued to have confidence in the dollar, and as long as it continued, Americans did not pay the price for the deficits in their standard of living. Surplus capital from around the world continued to flow to Wall Street; US-led globalization expanded; cheap goods streamed into the US; and the flow of capital to investments continued. The US consumed the net exports of Europe and Japan and later also of China. It was convenient for China, in its growth process, to cooperate with the American mechanism. China grew mainly by its exports to the US, and it invested its surplus dollars in US bonds. There was no crisis on the horizon.

It was convenient for China, in its growth process, to cooperate with the American mechanism. China grew mainly by its exports to the US, and it invested its surplus dollars in US bonds. There was no crisis on the horizon.

American overconfidence in the system led to excess. The amount of credit increased, the federal budget deficits rose, and the overall debt grew. Households borrowed and barely saved. The federal debt, which was about five trillion dollars in 1995, was over 27 trillion dollars in 2020 (including an acceleration because of the COVID-19 crisis). Debt cannot grow infinitely. Leverage will eventually explode in the US, even if it is the largest and most important financial center in the world and has the license to print dollars; this was already felt in the financial crisis in 2008. The COVID-19 crisis of 2020 is the deepest global recession since the great depression of the 1930s and could bring about changes in the global balance of power, including the position of the US.

If the world stops having confidence in the dollar, the US will not be able to continue to operate the same mechanism that has helped it so much for the past 75 years.

If the world stops having confidence in the dollar, the US will not be able to continue to operate the same mechanism that has helped it so much for the past 75 years. The world will look for other means of maintaining reserves, which includes governments, central banks, companies, and individuals. There is a reason why we have recently seen the world looking for a stable and credible alternative currency. Currently, the search for cryptocurrencies (the most prominent of which is bitcoin) has begun, just as gold was a refuge for stability in the past. The search for a different state currency or a currency unconnected to states—such as gold or a cryptocurrency—relates to the other struggle that is taking place for world hegemony between the two great powers, the US and China, which will be described below.

The American economy after World War II, which was based on a monetary policy linked to gold, was strong. The middle class grew stronger, and the growth trickled to all workers and sectors, with a decrease in inequality.

Gold, the Dollar, the Printing of Money, and Monetary Policy

To understand the need to find a currency that has a stable basis, we will expand a little on gold, the creation of money, and monetary policy. In 1792, after the American War of Independence and the consolidation of the US, Congress determined that the dollar would be the American currency and it would be based on gold and silver, which would be the coins in circulation. As gold is a very rare metal, a monetary policy based on gold limited the amount of money and credit and thwarted politicians and popular pressures from having influence on the amount of money that was in circulation. It was argued that the gold standard would limit growth and lead to deflation.

During the Civil War, the US government—the government of the Union (of the northern states)—started to issue banknotes that could not be exchanged for gold (known as "greenbacks" because of their green color) to finance the great expenses of the war. The printing of this money caused an economic boom and large investments in trains and railways (and a westward break toward California). A few years after the Civil War, Congress again linked the dollar to silver and gold—a step that led to a monetary contraction.

In 1900, a legal limit was placed on the amount of money that the treasury could produce without a basis in gold. A large financial crisis in 1907, which New York bankers—led by J. P. Morgan—were able to stabilize, resulted in the establishment of the Federal Reserve ("the Fed"), the central bank of the US, in 1913. After that, the Fed was given the authority to print money and maintained a gold reserve at a rate of 40% of the amount of money in circulation. This commitment was lowered to 25% after World War II, until 1971.

The heyday of gold was from 1860 until 1914, and again from 1925 until 1931. After World War I, a currency war took place in Europe, creating an economic crisis around end-of-war arrangements, which were in the background of the outbreak of World War II. The concept that connected the amount of money to gold was an apolitical arrangement. Even after the cancellation of the gold standard, the principle remained. The monetary policy of strong and independent central banks limited the amount of money to such that would maintain steady and sustainable growth, with stable prices. There was not any theory that justified the unlimited printing of money.

The American economy after World War II, which was based on a monetary policy linked to gold, was strong. The middle class grew stronger, and the growth trickled to all workers and sectors, with a decrease in inequality. The stock market on Wall Street attracted foreign investment, and sophisticated financial instruments were created. The printing of money was controlled and supplied the needs of the economy while maintaining price stability. During these years, the US advanced globalization, enabled by its position as a superpower and its global economic dominance, as well as with respect to the standing of the dollar.

Since cancelling the gold standard in 1971, without having such a strong anchor, money was printed and the amount of credit in the American economy increased as an expression of growth and future wealth, both real and imagined. Some of the printed dollar surpluses were maintained as reserves in the rest of the world, and credit and debt grew across the globe. At the end of 2019, global debt stood at 255 trillion dollars—more than three times global production. Globalization allowed the US to continue to lead the world economy even when cracks began to appear in its internal economic management. The fall of the eastern Communist bloc in 1989 provided strong moral support for the US. The world continued to have confidence in the dollar and to demand it for the purposes of trade and for maintaining value. The dollar overcame major challenges like the oil crisis of the 1970s and the accumulation of large reserves by the oil-producing states (petrodollars). Japan's large trade surplus vis-à-vis the US in the 1980s challenged the standing of the dollar, as did the euro issued in the 1990s and the fast growth of China. Throughout the years, the dollar served as an in-demand international reserve currency, with the world having confidence in the US economy and the dollar. The US continued to have a deficit in its current account (and in its budget), which financed the flow of goods (and capital) from around the world by the printing of money as well as through inflation, which eroded the value of the currency (seigniorage).

Disruptions to the Mechanism of American Economic Control

It seems that the US fulfills the Talmudic statement that "this one derives benefit and that one does not suffer a loss." It enjoys price stability, growth, and a high standard of living; crises were prevented in the countries of the world; there is large-scale growth; and globalization has expanded to Asia. The US intentionally took on the role of ensuring that the wheels of the global economic mechanism keep on turning.

Cracks, however, appeared in the mechanism of American economic control with the burst of the dot-com bubble in 2001. Signs of economic weakness appeared, caused by a combination of a high level of private consumption, a deficit in the federal budget (due to the wars in Afghanistan and Iraq following 9/11), and especially the buying of stocks of some of the technology companies, which did not have solid economic logic.

Even after reducing the American involvement in the wars, the deficit in the federal government's budget continued to be high. In 2008 the world experienced a global financial crisis as a result of financial weakness in the US (the sub-prime crisis). The Federal Reserve and the US administration infused some three trillion dollars into the American economy—amounts that the US and the world had never known prior to that. Ostensibly, the Federal Reserve rescued both the financial system and the US economy from a severe crisis (as did the central bank in Europe), but fundamental problems in American economic behavior did not change, and around the world the question was asked whether this mechanism could continue. No mechanism in the world for circulating surpluses is as effective as the one that the US has successfully built. The lack of a financial alternative to the US has left it at the center of things, and capital continued to flow to Wall Street, although at a lower rate. In 2018 and 2019, an effort was made to decrease the Fed's liabilities, but this was shattered with the COVID-19 crisis. President Trump and the Federal Reserve provided an aid plan during the pandemic that infused some six trillion dollars, and the Fed's balance sheet amounted to over seven trillion dollars (November 2020)—ten times that of the beginning of 2008. It seems that money is free.

The large amount of money printed after the financial crisis of 2008, however, did not lead to inflation; rather it raised doubts about neoliberal monetary theories and the management of the economy by central banks, and renewed the appeal for the printing of money to be in the hands of politicians.

The large amount of money printed after the financial crisis of 2008, however, did not lead to inflation; rather it raised doubts about neoliberal monetary theories and the management of the economy by central banks, and renewed the appeal for the printing of money to be in the hands of politicians. A new economic movement arose in the US—the Modern Monetary Theory (MMT)—which supports transferring the authority to print money to elected officials for funding large budgets. Members of the movement say that a state that has its own currency can create money out of nothing, which justifies expanding budget expenses and a relatively large deficit. This is seemingly a version of Keynes's theory about government involvement in the economy. The experience of large-scale printing of money in both the 2008 crisis and the COVID-19 crisis of 2020 ostensibly proves that no disaster resulted. In contrast, many want to create money without any government involvement, such as cryptocurrencies, as an expression of the lack of confidence in the dollar and in (political) governments.

The biggest potential threat facing the US is its excessive privilege as a result of its financial standing and the dollar being the international reserve currency. This is its great asset, and it is under threat.

Worrisome Symptoms in the United States

It is very difficult to identify when a turning point in the American position will take place. The weakening of its influence is not uniform in all areas. It takes good understanding to recognize when an empire is in decline and when one is on the rise. We have learned from history that the collapse of empires is slow; the rise and fall of empires in the past have lasted for centuries.

The decline in the standing of the US, as seen over the past few years, from about 50% of global GDP at the beginning of the 1950s to about 20%, has continued for decades. This is a result of the rise of the significance of other countries, and to a certain extent also the weakness of the US, which began with the general ineffectiveness of US institutions, the increased burden on Americans to pay for various services, and the loss of US moral standing. The COVID-19 crisis demonstrated the dysfunctionality of important systems in the US, first and foremost the health system, in addition to poor infrastructure and political and racial division. Clear competitive advantages that the US once had are now threatened, such as higher education, immigration policy, infrastructure, and the capability of the public service. In the index of social progress, the US fell from 19th place in 2011 to 28th place in 2019.

The threat to the moral standing of the US will affect the behavior of other countries toward it. In the years after World War II, the US, considered the great victor in the war and as the savior from the Nazi enemy, was perceived as being highly moral. Today its external and internal conduct is perceived as being less moral. This is a subjective perspective that is not based only on facts and figures.

The biggest potential threat facing the US is its excessive privilege as a result of its financial standing and the dollar being the international reserve currency. This is its great asset, and it is under threat. The continuation of the dollar as an international reserve currency in the future will be determined by the results of analyzing the state of the American economy and its money-printing policy. If confidence in it is lost, the US currency will collapse, Americans will have to pay higher prices for many products, and they will suffer from inflation. The interest rate will rise, and, with it, the danger of a decline in growth, because investments will decrease. Economic unrest will be accompanied by social unrest. In the decade prior to the outbreak of COVID-19, the US exported (by printing dollars) seven trillion dollars to finance the deficits in the current account, while the world accumulated reserves. The biggest export industry in the US is its currency—the dollar. In its current situation, the US is in need of a trillion dollars a year of imported capital in order to finance the growth of its current account and its budget. American savings are negative. The question is whether the US model of having exceptional privilege to print money will continue.

The American dream—relying on work as the basis for advancement and entrepreneurship—has been painfully lost. Inequality is increasing; pensions are being eroded; and the importance of capital is greater than the importance of skilled and effective work. The two ideological sides in the US are not satisfied with the situation: The right complains about intervention in the economy, and the left complains (even after Trump's capital infusion during the COVID-19 crisis) that the intervention benefits the rich, while the workers suffer. During the COVID-19 crisis, the US made intensive use of the power of the dollar. The Fed printed a greater amount of money than in the 2008 crisis, while the government increased its budget, and the stock exchange celebrated.

There is an assumption that the vaccine against COVID-19 will lead to the end of the crisis and restore the situation to its previous state, but such a situation cannot be taken for granted. The state of the stock exchange, especially Nasdaq, which is rising thanks to the tech stocks, is not a sign that everything is okay. The continuation of the socioeconomic crisis raises uncertainty and undermines American stability and the continuation of the US system. For several years now, the American empire has suffered from symptoms that indicate weakness, which could lead to a decline in entrepreneurship, and to a rise in socioeconomic gaps, an increase in racism, and internal polarization between blacks and whites, economic classes, and ethnic groups relating to religion and worldviews, as well as an expensive and unequal health system. (National health spending in the United States is about 17% of GDP—the most expensive in the world—while the average of the developed countries is 10–11%. Healthcare is so expensive that purchasing health insurance is out of reach for millions of Americans. This was the background to the Obamacare program, which aimed to enable 20 million people to receive medical insurance.)

There is great risk to the standing of the middle class, which was the backbone of America's success in the years after World War II until 1980.

There is great risk to the standing of the middle class, which was the backbone of America's success in the years after World War II until 1980. A deep socioeconomic fracture is evident—as is the shattering of the basic American dream—the belief that with hard work anyone can succeed and maybe even get rich. The sense is that the rich and powerful are blocking the young, the weak, and the middle class. The increase in inequality stems from neglecting the basic deal in which workers in the US economy earn enough so that they are not just workers but also consumers and buy what they produce. Most prominent is the difficulty of the intergenerational transition in the US. The members of the dominant baby boomer generation, who own 60% of the wealth in the US, are having difficulty parting from their lofty standing, and tension has developed between them and the members of Generation Y (the millennials), who possess only 3% of the wealth. The members of Generation Y have suffered from stagnant working conditions that have caused the average real income to drop, which has negatively affected them, as well as from the 2008 crisis and the 2020 crisis.

Generation Y wants change in economic and social management and is having difficulty in taking hold of the baton.

The continuation of Trump's presidency would have increased China's chances of closing gaps with the US, because China would have advanced its development plans while the US would have continued to quarrel with its traditional allies.

The COVID-19 crisis that began in 2020 is a health crisis and no less an economic, social, and human crisis. COVID-19 has harmed the weak, the poor, and people of color. Prior to the pandemic, there were social and racial tensions, and these have intensified during the COVID-19 crisis. President Trump's conduct during this crisis exacerbated the cracks in the American ethos, after having shook-up the global agreements, which intensified the uncertainty and the lack of faith in the world's economy and in the US's being the world's stabilizing and balancing force. Trump pursued a trade war with China and other countries, including traditional friends of the US, and this was seen—despite the logic in some of the American claims—as a whim of the president. He changed US policy in the global arena to that of an isolationist one and confronted American allies in Europe and in NATO. Trump brought the "give and take" business approach to international relations, made frequent use of economic sanctions (in place of war), and adopted a policy of deglobalization, which could lead to fragmenting the world economy and weakening global supply chains while exacerbating the struggle against China—actions that harm global growth and trade and cause damage to the US.

President Biden is likely to continue the confrontation with China but will seek to return the US to the position of leader of the free world, while making it more difficult for China to fulfill its aspirations. The continuation of Trump's presidency would have increased China's chances of closing gaps with the US, because China would have advanced its development plans while the US would have continued to quarrel with its traditional allies, which did not strongly support its struggle with China, and, in effect, would have left the US alone. Biden will restore the alliance with the traditional friends and lead a joint Western force that will overcome China better than if the US had done it alone. President Biden's test will be rehabilitating the American economy and society in the wake of the COVID-19 crisis, the racial tensions, and the enormous split within the American public that emerged during the election campaign. His success would save the US economy and restore global confidence in it.

The massive budget deficit for 2020, about 17% of GDP, raises doubts about the ability of the US to cope with the deficit and the debt in the long term. The fundamental economic problems have not changed. Together, the government and the Fed infused the economy with over six trillion dollars during the COVID-19 crisis. Major quantitative easing was meant to maintain liquidity in US financial markets for all users of the dollar as a production factor (credit, maintaining reserves, and the like), as part of the global financial lifecycle that is based on confidence in the American economy and the dollar. In July 2020, Fitch Ratings announced that the "future rating forecast" of the US was being lowered to a negative outlook. The American rating was affected by the occasional difficulties in passing the budget in Congress and in the Senate and from the public debt that is growing quickly as a result of the government's deficits.

The question arises of whether the quantitative easing of 2008 and 2020 did not harm the free market—a very strong principle in the American ethos. The Federal Reserve became a powerful ruler over the capital market. It funds the government, corporations, capitalists, and consumers and institutes a 0% interest rate up to a negative real interest rate. The Fed stabilized the stocks and bonds market as a central economic objective. The stock exchange is strong vis-à-vis a weak economy, and there is a disconnect between Wall Street and the economy. The financial system and its components—debt, yield, risk—are distorted, and the low interest rate will remain for a long time. Total US domestic debt reached 70 trillion dollars at the end of 2020—the highest in real and relative terms since World War II: a federal debt of 27 trillion dollars, a business debt of 20 trillion dollars, and a household debt of 23 trillion dollars.

The US will have difficulty facing such a mountain of debt, depending on what the policy of President Biden will be. If he invests in infrastructure and development plans, he will restore capabilities to the US that have dwindled in recent years.

China: The Rise from the Abyss

There is a lot of curiosity regarding China's rise as an economic power over the past four decades. China's amazing growth from a negligible country in the global economy to a contender for world leader arouses great astonishment and considerable concern. The two responses are correct and make the world curious about the future.

As a state power for a very long time, China has a different history from that of the US, which is a young country and only a few hundred years old. China is a nation-state, and the US is an immigrant state. China has seen powerful glorious periods and has also known times of humiliation and suppression. The impressive growth over the past four decades came after nearly a century of decline in Chinese history (1839–1949). Hence, the curiosity and the desire to understand the amazing process that occurred in China is considerable; this is not an intellectual curiosity but rather a need to be familiar with who will rule the world.

Until the mid-18th century, China was a developed country with a high level of technology relative to that time. Paper and gunpowder originated in China, and it had extensive knowledge about the healing properties of plants. Many years of scientific progress enabled the Chinese empire to build the Great Wall. The Chinese saw themselves as the center of the world and perceived foreigners as irrelevant.

The US will have difficulty facing such a mountain of debt, depending on what the policy of President Biden will be. If he invests in infrastructure and development plans, he will restore capabilities to the US that have dwindled in recent years.

In the second half of the 18th century, as Europe embarked upon the Industrial Revolution, which greatly changed its economy and transformed the West's technological development, China froze and became engrossed in its internal problems. After thousands of years, the Chinese imperial dynasty ended in 1912, and Sun Yat-sen became the first president of the Chinese Republic; he is considered the father of the modern Chinese nation. The government of the young republic was not stable, however, enabling militaristic Japan to take over parts of China in the 1930s, without any opposition from the West. Within China, internal struggles began, especially between the republican Chiang Kai-shek and the communist Mao Zedong.

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Mao succeeded in taking control of China in 1949, by means of communist ideology and Soviet assistance. China became a communist state even though its society and economy, composed of peasants and farmers, did not correspond to the communist idea of Marx and

Engels; Marx's writing arose in an industrial society (England), while China was still an agricultural society (the Chinese Communist Party had been founded in 1921). Mao, however, knew how to sweep up the nation in a national struggle and how to come to power. He managed a brutal and effective government, united the country, provided basic food needs, but sacrificed tens of millions of people in the process. The central governing authority in China is bifurcated—the Communist Party and the government. The central government operates via 34 administrative divisions and through the self-governance of some 700,000 villages.

China created a special model that is a combination of market economy and authoritarian rule—a model that challenges economic theories and political science theses.

Mao ruled in China for 27 years and carried out his objectives: the Great Leap Forward, the Cultural Revolution, "re-education," the aggressive nationalization of private property, and the brutal purge of landlords in the villages and the bourgeoisie in the cities. He resettled tens of millions of Chinese and succeeded in taking over the country based on the long-standing Chinese tradition that a person is seen as part of a collective of family, village, and empire. This is part of the Confucian tradition; it is the middle way and hierarchical; it is also this and that, yin and yang, black and white—opposites that complement one another; an individual as part of a collective; an interesting meeting between old and new ideology. Mao's totalitarian ideology was uncompromising. A prominent example is the policy limiting families to only one child—a human experiment that caused countless violations of human rights—which was only canceled more than 60 years later. This policy led to a severe demographic imbalance, exacerbated the aging of the population, and had far-reaching consequences for the future of China's economic development. Thus, a short-term solution created a long-term problem. It is possible that the demographic situation as a result of this policy will be an obstacle to China's vision of becoming a leading power.

Economic Revolution

After Mao's death in 1976, a brutal struggle of a radical cultural revolution took place during the years 1976–1979, led by Jiang Qing, Mao's widow. Deng Xiaoping, one of China's leaders (vice premier and chair of the Central Military Commission), instituted a pragmatic policy known as the "open door policy" and a development strategy of "the four areas of modernity": agriculture, industry, technology–science, and military. Deng Xiaoping instilled the unconventional hybrid model of capitalism combined with communism and started a new era in China, thus dramatically influencing society and economy in China for decades. He led a strategy for an industrial revolution, 200 years after Europe's Industrial Revolution and a century after the US. The reforms pushed China straight into the late 20th century and enabled it to benefit from the results of the industrial revolution that had been already established and developed in the West. The leap forward was done while maintaining the political power of the Communist Party. The economic openness combined long-standing tradition with progress and modernity, communism with capitalism, while it pitted East against West and the individual against the collective. It was an economic political culture that mixed Confucianism, Daoism, Buddhism, and communism; according to the Chinese, this blended doctrine would restore their leadership of the world, as had been the case until the 18th century as they saw it.

The government in China succeeded in separating economics from politics: a capitalist-style economy and communist politics. China created a special model that combines market economy and authoritarian rule—a model that challenges economic theories and political science theses; a model of freedom of employment and economic prosperity in exchange for giving up political rights. China has demonstrated an impressive ability to manage its economy and carry out massive national projects in a huge territory with an enormous population. Money is not a bad word in communist China, and there is a new generation of wealthy people who have adopted the Western consumer culture in the fields of fashion, art, and design (in 2020 China had 142 billionaires, in dollars). Along with very wealthy, China has a growing middle class that is changing the character of Chinese society. While China has not become a democratic country, it has adopted Western economic ideas. The goal is to make the economy grow with a model that suits the Chinese regime and will fulfill the basic Chinese aspiration to be a leading power.

China was a closed country and, to a large extent, it has been isolated and boycotted by other countries, first and foremost by the US. In the 1970s, China's share of global exports stood at less than 1%. In an extraordinary and thorough process, it worked to establish simple export industries based on cheap manpower, along with an accelerated process of urbanization. For 20 years, it demonstrated impressive economic performance and established many industries, becoming a central exporter in simple industries like textiles, clothing, toys, household goods, and the like. The rise of China in global trade led it to the next stage of integrating into the international system. During the presidency of Jiang Zemin, China was accepted into the World Trade Organization (WTO) in 2001 and thus won its entry onto the global stage, aware of its strong standing and the possibility of fulfilling its apparent aspirations of being a great power. Some see its acceptance into the WTO as the beginning of the struggle between China and the US and as great error made by the US. China's entry into the WTO slowed the growth of the US. China's share of the world trade had already reached 10%, and its entry into the WTO accelerated its export-based growth.

In the second decade of the 21st century, China changed its economic strategy and adopted a policy of preferring the domestic market. Its share of global exports shrank, while it increased its investment efforts around the world. It no longer focused on producing cheap goods that relied on cheap labor but rather invested in technological industry and in the research and development of innovative industrial products. China developed from a simple industrial economy reliant on inexpensive labor into a services and technology economy, based on skilled labor, on growth in private consumption, and on innovation. It made impressive achievements in economic growth, urbanization, improving the standard of living, technology, and its international standing. Within 40 years, the Chinese successfully transferred some 700 million people from villages to cities, in order to establish industrial factories that would compete with Western industry, initially due to cheap wages and later as a result of efficiency and innovation. China's growth changed the world economy whose center of gravity moved eastward, with China becoming an international player both in the East and across the globe. Thanks to China and to the developments in India and South Korea, Asia is today a leader, as it had once been until the middle of the 18th century.

From 2002 to 2012, during the presidency of Hu Jintao, China experienced extremely fast growth that seemingly did not correspond with the laws of economics. This growth harmed China's natural resources and the environment and created large financial debts in formal banking and "shadow banking" (banking activity that is not within the framework of the familiar banking institutions, but via non-bank institutions that developed in various places and constitute part of the government in the broader sense). China poured more cement and concrete from 2006 to 2013 than the US did in the entire 20th century, and it created a demand for energy, iron, and other goods. All this was done while demonstrating

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the economic dominance of the state, which controls the flow of capital and determines the important economic decisions. This model has now been scrutinized for the first time. Since 2012, under the authoritarian rule of President Xi Jinping, China has experienced a slowdown in growth—from the double-digit rate that had characterized China over the past few decades to 6–7% per year. The slowdown has become clearer given the challenges that China faces: a large aging population (due to the one-child policy), intolerable pollution, great financial leverage ("shadow banking"), and the policy of Trump, who declared a trade war that hinders Chinese exports. Furthermore, the COVID-19 crisis has further exacerbated China's relations with the US and other countries.

China's 12th five-year plan created by President Xi Jinping in 2011 changed priorities from emphasizing investment, production, and accelerated growth to increasing private consumption, improving the standard of living, and addressing environmental sustainability.

The Ambition to Be an Empire

China has a great demand for raw materials and natural resources and its high rate of growth has caused significant global phenomena: demand for energy and raw materials and greenhouse gas emissions. China is looking for natural resources and oil outside of its borders and is creating a kind of economic imperialism by taking control of assets around the world: Cameroon, Nigeria, and Uganda in Africa; Ecuador and Venezuela in South America; Pakistan and Kazakhstan in Asia. China's spread takes place through many investments and aid to many countries, with "soft power"—imperialism without colonies. China is also investing in its ambitious Belt and Road Initiative that will connect China to Europe and Africa by land and by sea. The cost of the project is estimated at a trillion dollars, and it aims to reinforce China's becoming a rising empire in the 21st century. China is developing the Silk Road Economic Belt with a pincer movement: by connecting to Europe through the historic land path along the northern route and by building a land-sea bridge to Europe (including Eilat-Ashdod) along the southern route.

China's 12th five-year plan created by President Xi Jinping in 2011 changed priorities from emphasizing investment, production, and accelerated growth to increasing private consumption, improving the standard of living, and addressing environmental sustainability. In the transitional stage, a growth slowdown occurred. In the structural adjustment process, there have been many fluctuations and periods of uncertainty. In the first stage, the amount of Chinese consumption did not completely match the scope of the slowdown in investments. Savings were higher than investments, and inventory surpluses were created, causing capital to move outside of China. The Chinese government has made a concerted effort to create as soft a landing as possible for the economy and to ensure that it does not enter a crisis and severe recession.

The 13th five-year plan in 2016 reinvented government capitalism: It emphasized innovation, high technology, financial reforms, and responsiveness to the demands of the middle class, which had become accustomed to a fast rise in the standard of living, while continuing the process of urbanization—of moving from the village to the city. China under the presidency of Xi Jinping does not hide its intentions to rule the world and to institute a new world order according to Chinese principles, all while tightening, before all, party control within China itself. In order for China to be a dominant and leading power in the world, it must redefine itself economically, socially, environmentally, and culturally. The question is whether such a pace can continue in the coming decades.

China's successful transition to the era of the Industrial Revolution and the success of urbanization on such a large scale indicate the government's continued ability to devise and carry out an organized and determined plan to close decades-long gaps of economic and technological stagnation. China has demonstrated an impressive ability to create technological innovation on a very high level. China has major technology giants like Xiaomi (smartphones); Alibaba; JD.COM (online commerce); Tencent, which operates social networks, games, and online payment services; Baidu, which operates the search engine that is sometimes called the Chinese Google; and Huawei in communication technologies. China's online payment market is the largest, and its supercomputer is the fastest. China is building the largest research center for quantum computing in the world, investing considerable funds in artificial intelligence, and poses serious competition to the US in these fields.

China and the US have been engaged in an intense struggle over economic and technological leadership. Over the past few years, the US has been processing the progress that China has made in technology and innovation. In an attempt to protect American production through regulation and defensive trade policy, in 2020 President Trump issued an executive order against the Chinese apps WeChat and TikTok, claiming that they threaten American national security.

Advanced technology is a strong component of a great power's strength. History has proven that every great power at its peak has been the result of technological superiority that it had developed by itself. This was the case of Britain in the 19th century and the US in the 20th century. Although China aspires to be a technological power in the 21st century, it does not yet have clear technological leadership that would provide it with the standing of a leading power; however, it has impressive accomplishments that indicate that it will be there soon. In several fields (such as 5G communication), it has proven a high level of technological capability that challenges the US.

The trade and technology war that President Trump declared on China in 2018 was a severe step for solving a real problem of a large American trade deficit with China. There is, however, economic, strategic, and political logic in the American struggle. Administrative steps taken by China created a large trade deficit in its favor, which was not just a natural result of a market economy and its comparative advantage with respect to the US. China has encouraged its businesses to bite into market shares of rival foreign companies in various ways. It uses selective enforcement and discriminatory and non-transparent regulation in the fields of health and antitrust.

The Chinese understood that they optimally exploited the trade regime in their favor, especially their imbalance toward the US. By the end of the 2020s, in the post-COVID-19 reality, China will surpass the US in the size of its GDP.

The trade war disrupted globalization processes and global trade and supply chains. Ultimately, Trump's policy also hurt the American economy and consumers. It also became clear that Xi Jinping is more of a globalist than Trump. China benefited from globalization and from American openness, and it has an interest in maintaining the global trade regime. The Chinese understood that they optimally exploited the trade regime in their favor, especially their imbalance toward the US. By the end of the 2020s, in the post-COVID-19 reality, China will surpass the US in the size of its GDP.

China, however, is not free of problems that could stand in its way to becoming a leading power. Its large population demands constant creation of sources of employment, which will be threatened by robots and artificial intelligence. The aging of the population and the gap in the population as a result of the one-child policy pose a challenge to the growth of the young and educated workforce, reducing the flexibility of the state and even leading to the contraction of the population, large gaps between rich and poor, environmental challenges, and difficulties in building a developed higher education system. Supervision of the internet by the ruling party, which does not enable freedom of expression, deeply harms individual freedom, democracy, and liberalism. There is an ongoing discussion of whether this tension between the rise in the standard of living and the expansion of the middle class on one hand and the lack of individual political rights on the other can persist over time. Although this tension could severely harm China's hegemonic ambitions, so far, the Chinese government has succeeded in preventing mass protests and demonstrations to the point of violent civil disobedience.

Parallel to the internal processes taking place in the US and the strengthening of China's economy, China and the US are engaging in a fascinating international struggle for control and power.

China, which is where the COVID-19 pandemic began, has emerged from the crisis battered but in a better condition than the rest of the world's countries (growth of 2.5% in 2020). The Chinese sense of victory over COVID-19 has raised its self-confidence and has led to aggressiveness in conflicts on the border with India, Mongolia, and Tibet and to angry responses from Britain, Germany, Canada, the Czech Republic, and Australia. China is busy redrawing its historical international borders on land and in the sea. It is taking over rocky islands in the South China Sea, expanding them using concrete blocks, and claiming exclusive economic water rights.

The US has blamed China for the pandemic and for initially hiding it, and it is expected that the world will be wary, to a certain extent, of relying on China. COVID-19 will lead to a regression of globalization and a focus on the national economies, and countries will shift from purchasing from China to self-production. This will require a substantial change in the center of gravity of global production, which is difficult to imagine happening in the near future.

The 14th five-year plan beginning in 2021 focuses on the domestic economy, the security of supply chains, and the strengthening of the sectors related to national security—food and energy—especially advanced semiconductor technologies.

The Struggle for Hegemony Between China and the United States

Parallel to the internal processes taking place in the US and the strengthening of China's economy, China and the US are engaging in a fascinating international struggle for control and power. The economic relations between them are not like those that existed between the Soviet Union and the US; rather, the US and China maintain extensive economic relations, and China is integrated in the world economy. The struggle is taking place in all areas of life, especially those that constitute fundamental components of a country's national security. In higher education, the US still leads in having the most universities that are ranked among the top 100 institutions in the world; however, the relative number of high-quality American universities has declined, due to the entry of institutions from around the world into these rankings. For many years, the US and the Western countries had dominated the field of science, which had been the secret of their power during the past two centuries. The Chinese are investing considerably in science and in improving the quality of universities and have the patience necessary for making achievements in the field. The Chinese have emphasized technological innovation and within relatively few years they have attained many impressive and proven accomplishments:

G5 in communications, developments in artificial intelligence, cyber, and innovation in financial payment methods.

American dominance in the world is expressed by the dissemination of American culture: the world of cinema in Hollywood, pop music, and especially the use of the English language, which is the international language and provides great strength to the US in the global world. These are soft elements that are a dominant factor in world culture. The Chinese cannot yet surpass the US, even though more than 1.5 billion people speak Chinese. The Chinese social network TikTok is one harbinger of change—as one of the first Chinese consumer apps in the Western market.

The American army is strong and well-equipped; it uses advanced technologies and has a considerable presence in all strategic regions in the world. The question of patriotism and motivation are central to its success. Its military accomplishments since the Vietnam War, however, are debatable. Not standing on the sidelines, China is boldly developing its military might, in particular in the South China Sea.

From the start, the US has been characterized as being a dynamic society and economy, and it has proven great vitality in the speed and decisiveness with which it has recovered from the economic crises that it has experienced. The American business sector is entrepreneurial and successfully led the US economy to new heights in each decade of the 20th century. In the beginning of the 21st century too, the US has proven successes but at a lower rate than in the past. Studies indicate a decline in the entrepreneurship, competitiveness, and dynamism that has characterized the US, as a result of bureaucracy, regulation, and centralization that have negatively affected growth and productivity. Biden's presidency will be judged historically by its ability to restore the economic and technological standing of the US and to resume its being the leader of the Western world.

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The Financial System as a Litmus Test

The US benefits from the fact that, at this stage, China cannot challenge it and replace it as financial center and leader of an international reserve currency, despite its high level of economic growth and impressive development in technology, science, and international influence. The Chinese financial system is not strong enough to become the global financial leader. It is not transparent enough, while China's fast growth has created many problems of "shadow banking" (all of which is under the direct or indirect control of the Chinese government). In the near future, we will not see a real challenge that will threaten to rob the United States of its financial leadership and turn the Chinese currency, RMB, into an international reserve currency, certainly as long as it is managed by the authorities and is not freely traded. Global financial hegemony requires the existence of elaborate money and capital markets and the creation of the rule of law and justice that gains international confidence.

In 2015 the IMF recognized that the Chinese currency should have the status of a reserve currency like the dollar, the euro, the yen, and the pound sterling; but China must still undergo major banking reforms to maintain a large financial center and central global capital market and build confidence in its currency. China is working on positioning Shanghai as a global financial center (at the expense of Hong Kong), but what is necessary is a lot more than reforms in the financial system and the capital market. Among other things, China needs to build a macroeconomic system with a free foreign currency market at the center, which is not managed by the government, and create policy that will build global confidence in China's

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currency and its economy, with government transparency. In 2020, the world central banks only held 2% of their reserves in the Chinese currency, in contrast to 62% in dollars. China is coping with problematic "shadow banking" that developed due to the country's fast development and the accumulation of a public and private debt that is approximately 300% of the GDP (2020). China cannot offer financial services like those of the United States, or even financial centers like London or Tokyo; it has a long way to go. China's rulers understand the importance of the issue and its being a necessary condition for China to become a global economic–financial power.

China has benefited from the connection between the RMB and the dollar. The relative stability of the RMB is somewhat artificial. The central bank of China steers the exchange rate and maintains a low level of fluctuations around the dollar, even though since 2016 the RMB has been linked to a currency basket that is made up of 24 currencies. The Chinese authorities do not yet want China's exchange rate to be tradable.

The Chinese excel at the digital payment system and are leaders in financial innovation.

For China to be a financial power, it must ensure that foreign investors are active in the Chinese capital market. Trade in stocks needs to grow beyond the level of 5% (2020) of the stock market in China, which is ten times what it was in 2015. No fewer than 156 Chinese companies with a total value of 1.2 trillion dollars are listed on the three largest stock exchanges in the United States (for example, Alibaba, PetroChina, and Baidu). China wants access to American capital, while US residents and international investors want access to the Chinese business world, which is a business market with great potential. The struggle between these two great powers has also harmed this area.

The Chinese excel at the digital payment system and are leaders in financial innovation. Alibaba and Tencent rule payment apps through Ant (Alipay) and WeChat (Tencent). Some 80% of 900 million smartphone users in China use these means of payment, and small entrepreneurs have access to loans. The Chinese fintech market is the most developed and advanced in the world. China is the first country that is advancing a digital currency (CBDC) in order to strengthen the standing of the RMB and to increase its use in international transactions in the Belt and Road Initiative—projects worth tens of billions of dollars (roads, trains, and ports).

As part of its desire to acquire a special and leading position in the world, in 2015 China announced the establishment of the Asian Infrastructure Investment Bank (AIIB). The institution was established in order to compete with the World Bank and while most countries in the world joined it—including Israel—the United States and Japan did not. The bank is active in financing projects in Asia, South America, and Africa, where the Chinese have been strengthening their international standing. The Americans see this step as a threat to their superiority and as a challenge to the World Bank, in which they are a central player.

The great challenge facing China is the need to clarify how a liberal economy and an authoritarian communist regime will coexist. Will the lack of democracy in the Western sense allow China to maintain one of the world's leading financial systems that relies on the confidence of global investors and particularly on the issue of its currency being a recognized and accepted international reserve currency? This is a big challenge for the Chinese government. The economy is a strategic tool for achieving power. Is it possible to continue to maintain the model that has been so successful over the past few decades, of bifurcated rule—government and party? Wherever there is a confrontation between national strategy and economy, sometimes the economic interest is secondary to the government's desire to achieve power, influence, and deterrence. China's popularity in the West decreased due to COVID-19, the restrictions on Hong Kong, and tension with countries, such as India, Australia, Korea, and Japan. If the US (during the Biden presidency) succeeds in recapturing its traditional democratic allies, it will be easier for the US to maintain its power and make things more difficult for China.

What Can We Expect?

The Chinese understand that the world economic order determines social and political organization and the hegemony in the world. China could possibly adopt a proactive policy and behave like the US did after World War II and strive for its economy and currency to lead in the world. Another possibility (with a low probability) is that China will work to strengthen the SDR (Special Drawing Rights) as a kind of currency—a quantitative financial measurement unit that the International Monetary Fund invented in 1969 for central banks. An international institution could be established that will ensure that surpluses from China and Japan are transferred to governments in need, thus creating aggregate demand that will stabilize the world.

The Chinese possess many dollar-denominated assets and are working carefully to prevent significant losses in selling them (in December 2020 there were 1.1 trillion dollars in US government bonds) for political reasons, which would lead to a rise in the interest rate in the US. This caution has already cost them economically. They need time to build a credible monetary–financial system based on free trade of the Chinese currency and transparency in their political structure, before the final assault. The central banks of Russia and India have reduced the amount of dollars in their possession. The entry threshold for the status of being the leading monetary power is high; to this end, it is necessary to win the confidence of the world's citizens, and first and foremost, of those in the financial industry. As long as the level of transparency of the political and economic regime is low, and especially that of the financial system, the central banks and global corporations will hesitate to rely on the Chinese currency. Monetary leadership is not a technical result of economic and technological strength; rather, it requires confidence in the soft elements of the state's power. Therefore, it is hard to see a transition to the Chinese currency as an international reserve currency in the near future. That being said, China is making efforts to strengthen its financial system and its currency.

The world is in a dilemma: There has been a decrease in confidence in the US and in the dollar, but no state currency can replace it. The euro too, whose position is strengthening, does not pose a challenge to the dollar. The more dangerous possibility is that the lack of confidence in the dollar and the absence of an alternative natural currency—one that represents a large economic power with a strong economy that has the confidence of the international financial system, such as the US since World War II and Britain before it—will lead to a period of instability, similar to that between the two world wars, and give rise to a trade and currency war. The financial–monetary race will be an interesting, important, and dramatic competition between the US and China, which will not be easy for either of them. It is not clear how many years this race will continue. In order to maintain their leading monetary standing, the Americans will have to improve their economic–social functioning and ensure cautious monetary management. They have an advantage as the current leaders and in that the world is accustomed to the dollar.

The conclusion is that the struggle for hegemony between the two great powers, China and the US, will continue. The US can continue to lead with the dollar as the international reserve currency for many more years, if it improves its economic and social performance. This is up to the US and not dependent on any other country or bloc. Its actions will bring it closer to or push it further away from the position of leading the international reserve currency. The world will continue to look for alternatives via non-state currencies that are not under political influence—a search that will try to offer a complementary currency but not a replacement in the global currency basket.

The Elephant(s) and Israel

The struggle for world hegemony poses a challenge for Israel that it does not face in any other economic arena. Israel has an extensive and special longstanding relationship with the US. Israel's economic relations with China are relatively new and have greatly accelerated in the past decade. The involvement of Chinese infrastructure companies in projects in Israel is an important contribution to the Israeli economy, which has earned tens of billions of shekels—thanks to the low prices—from Chinese companies, while risking dependence on these companies. Israel initially felt the meaning of the struggle between the two great powers in the first decade of the 2000s, in the military export affairs regarding the Phalcon espionage aircraft and the Harpy UAV, when the US caused Israel to retract its sale to China. Recently the tension has shifted to infrastructure and technology issues. Israel has an interest in not harming US defense interests.

The struggle poses difficult dilemmas for Israel in the political and economic sphere, and Israel finds itself inadvertently caught between two large elephants. Careless behavior by Israel could severely damage its economy and the political relations between the two great powers. The Israeli government must know how to act with these two giants and find the path that will allow it to benefit economically from both countries without harming either of them. This requires that Israel make many decisions, some strategic and long-term and some tactical and ad hoc, whose essence is defining the red lines for foreign involvement.

Israel, as an open economy and state, must maintain economic relations with all the major economic blocs—in exports and in investments. The Israeli economy, whose growth relies on exports, has a diverse trade policy with all economic blocs, without depending on any single one. Israel is not interested in standing between these two elephants. The result is clear, but this does not mean that we will be able to completely avoid this. This is a walk down a narrow path that requires closely following and having a good understanding of political–economic processes and of the sensitivities of each great power, and especially, of China, which is different from what we are familiar with in the West. There is a need to manage risks wisely and mindfully. The government's decision to establish a committee to assess foreign investments is a step in the right direction, and the committee is capable of creating the individual tools to monitor risk management and to find the right balancing point that will maintain the advantages of relations with China while understanding the risks inherent in them.

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Brodet led 13 public and government committees and in the business sector, he was the head of several boards, including Bank Leumi (2010–2019), Bank Mizrahi (1997–1998), the Blue Square Israel (2000–2013), Yes satellite TV (1999–2004), and El Al (since 2020), and in the public sector, he served as the chairperson of the Board of Governors of Ben-Gurion University of the Negev (1998–2010), Hadassah Hospital (1999–2008), and Hadassah College (1997–2018).

Call for Papers for *Strategic Assessment*

The editorial board of the INSS journal *Strategic Assessment* invites authors to submit articles to be published in the journal's updated format. Proposals for special themed issues are also welcome.

Strategic Assessment, a multidisciplinary and interdisciplinary peer-reviewed journal on national security, cyber, and intelligence, was launched in 1998 and is published quarterly in Hebrew and English by the Institute for National Security Studies (INSS) at Tel Aviv University. *Strategic Assessment* serves as a platform for original research on a spectrum of issues relating to the discipline of national security, cyber, and intelligence. The purpose of the journal is to spark and enhance an informed, constructive debate of fundamental questions in national security studies, using an approach that integrates a theoretical dimension with policy-oriented research. Articles on topics relating to Israel, the Middle East, the international arena, and global trends are published with the goal of enriching and challenging the national security knowledge base.

The current era has seen many changes in fundamental conventions relating to national security and how it is perceived at various levels. As national security research evolves, it seeks to adjust to new paradigms and to innovations in the facets involved, be they technological, political, cultural, military, or socio-economic. Moreover, the challenge of fully grasping reality has become even more acute with the regular emergence of competing narratives, and this is precisely why factual and data-based research studies are essential to revised and relevant assessments.

The editorial board encourages researchers to submit articles that have not been previously published that propose an original and innovative thesis on national security with a broad disciplinary approach rooted in international relations, political science, history, economics, law, communications, geography and environmental studies, Israel studies, Middle East and Islamic studies, sociology and anthropology, strategy and security studies, technology, cyber, conflict resolution, or additional disciplines.

In the spirit of the times, *Strategic Assessment* is shifting its center of gravity to an online presence and availability. While INSS will continue to prepare issues on a quarterly basis, articles approved for publication, following the review and editing process, will be published in an online version on the journal's website in the format of "published first online," and subsequently included in the particular quarterly issues.

Strategic Assessment publishes articles in five categories:

Research Forum – academic articles of a theoretical and research nature on a wide range of topics related to national security, of up to 7000 words in Hebrew or 9000 words in English (with APA-style documentation). Articles should be researched-based and include a theoretical perspective, and address a range of subjects related to national security. All articles are submitted for double blind peer review. Submissions must include an abstract of 100-120 words; keywords (no more than ten); and a short author biography.

Policy Analysis – articles of 1500-2000 in Hebrew words and up to 2500 words in English that analyze policies in national security contexts. These articles will be without footnotes and bibliography and use hyperlinks to refer to sources, as necessary. Recommended reading and additional source material can be included. Submissions must include an abstract of 100-120 words; keywords (no more than ten); and a short author biography.

Professional Forum – panel discussions on a particular topic, or in-depth interview, of 2000-3000 words (up to 3500 words in English) including source material (APA-style). Submissions must include a short author biography.

Academic Survey – a survey of 1800-2500 words (up to 3000 words in English) including references and recommended reading (APA-style) of the latest professional literature on a specific topic relating to national security. Submissions must include a short author biography.

Book Reviews – book reviews of 800-1300 words (up to 1500 words in English) including source material (APA-style) on a wide range of books relating to national security. Submissions must include a short author biography.

Articles should be submitted electronically to editors-sa@inss.org.il and indicate the category of the attached article. You may also use this e-mail address for questions or additional information about the journal.

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Editors, *Strategic Assessment*

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