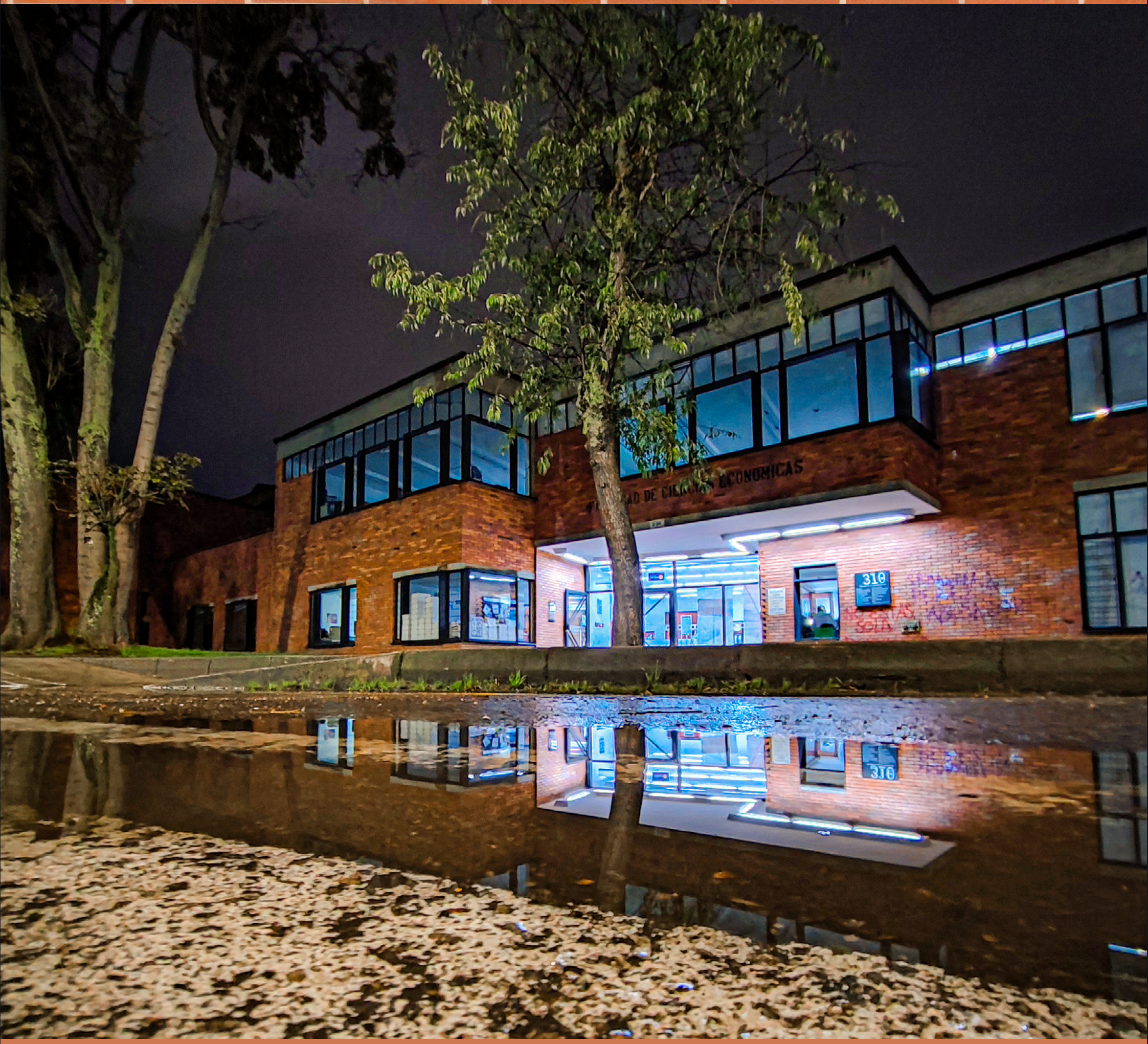
88

CUADERNOS DE ECONOMÍA

ISSN 0121-4772



Facultad de Ciencias Económicas
Escuela de Economía
Sede Bogotá

UNIVERSIDAD NACIONAL DE COLOMBIA

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Cuadernos de Economía Vol. 42 No. 88 - 2023

ARTÍCULO

WORLD MONEY, CHINA AND THE US AND GLOBAL MERCANTILISM. A MONETARY-KEYNESIAN INTERPRETATION

Hernando Matallana

Matallana, H. (2023). World money, China and the USA and global mercantilism. A Monetary-Keynesian interpretation. *Cuadernos de Economía*, *42*(88), 61-80.

China and the USA are caught up in an exacting and complex competition for world hegemony. Both countries seek to instrumentalise the world market to their advantage and deploy their global power strategies at monetary, financial and economic levels, the USA as a means to maintain its global hegemony China to challenge this order and establish its own dominance. The current function of the national currency of the largest international net debtor as the dominant world money entails a systemic market-logical contradiction. Rising tensions between

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Suggested citation: Matallana, H. (2023). World money, China and the USA and global mercantilism – A Monetary-Keynesian interpretation. *Cuadernos de Economía, 42*(88), 61-80. https://doi.org/10.15446/cuad.econ.v42n88.104706

This paper was received on September 8, 2022, revised on February 10, 2023, and finally accepted on February 10, 2023.

the USA and its allies and China will not be reduced by the renminbi becoming a world money.

Keywords: China; mercantilism; USA; world market; world money.
JEL: E12, E50, F30, F40.

Matallana, H. (2023). Dinero mundial, China y Estados Unidos, y mercantilismo global. Una interpretación keynesiano-monetaria. *Cuadernos de Economía*, *42*(88), 61-80.

China y los Estados Unidos de América están atrapados en una compleja y dura competencia por el predominio mundial. Ambos países instrumentalizan el mercado mundial y despliegan sus estrategias de poder en los niveles monetario, financiero y económico, Estados Unidos como medio para mantener su declinante hegemonía mundial, y China como medio para desafiarla y establecer la suya. La función actual de la moneda nacional del mayor deudor neto internacional como dinero mundial dominante, el dólar estadounidense, encierra una contradicción sistémica. Las crecientes tensiones entre Estados Unidos y sus aliados, por una parte, y China, por otra, no se reducirán por el hecho de que el *renminbi* se establezca como dinero mundial.

Palabras clave: China; Estados Unidos; mercantilismo; dinero mundial; mercado mundial.
JEL: E12, E50, F30, F40.

"Hide your strength, bide your time." (Deng Xiaoping)
"China, China, China!" (Donald Trump)

INTRODUCTION

China and the USA are caught up in an exacting and complex competition for world hegemony. Both countries seek to instrumentalise the world market to their advantage and deploy their global power strategies at monetary, financial and economic levels, the USA as a means to uphold its declining global hegemony and China to challenge this order and establish its own dominance

Tensions between the world's two largest economies over key international issues such as monetary dominance, international finance and trade, technology, information, and claims over terrestrial and maritime jurisdiction and space will continue to escalate as China builds up its global financial, economic and military military capability.

World money and the world market as the means and stage of competition for global hegemony already reveal the mercantilist nature of great power politics. As mainstream economics lacks a genuine theory of the world market, and the money-capital relation (*Geldkapitalverhältnis*) as the power relationship in capitalism is alien to mainstream economics, a thorough understanding of the market logic of the ongoing struggle for world hegemony requires an alternative approach that can only be provided by a heterodox theory of the monetary production economy.

This article proposes an interpretation of US-Chinese global competition in the light of Monetary Keynesianism, a lesser known Berliner strand of heterodox monetary economics, which of the key theoretical elements are intermingled in the text.[1] Section II examines China's international monetary condition and its mercantilist strategy towards global hegemony; section III analyzes the global monetary power of the USA and the defense of it declining hegemony; and section IV concludes with final remarks. References are listed in section V.

CHINA

China has undergone an unprecedentedly rapid transformation from a stagnant centrally-planned agricultural economy into a powerful industrialized monetary production economy under the rule of the Communist Party -which has asserted a control over society reminiscent of the *Ancien Régime.*

Measured in terms of GDP, its economy is already at least as large as those of the USA and the EU, albeit its per capita income is one-sixth that of the USA and one-fourth that of the EU. Its share of global trade is larger than that of any industrial-

[1] A basic model is not presented here due to space limitations. The key references are the publications by Hajo Riese and Karl Betz.

ized country and it has sustained foreign trade surpluses with every world region except North East Asia (Japan and South Korea), and oil producers such as Russia and the Gulf states. Its technological advances in manufacturing already pose a challenge to the EU, the UK, Japan and South Korea; industrial complexity, domestic transportation and communication systems modernize and expand at a rapid pace; its share in key industrial chains are main components of world economy and its military capability already surpasses that of the EU and the UK. Furthermore, China is the largest word creditor (when Hong Kong is included), ahead of Japan and Germany and the USA's second largest, behind only Japan.

And yet China's renminbi is not a world money as are the US dollar, the euro and the yen. It operates principally as a national currency with no key global role. Most of its credits and claims against debtor countries are denominated in foreign currencies, mainly the US dollar. Given China's weight in the world market, this is an extraordinary situation not only in itself, but also historically, with far-reaching implications for China and the world economy.

It is clear that the internationalisation of China's renminbi has gained momentum in the past decade, mainly through the financing of foreign trade and infrastructure projects in underdeveloped countries. Increasing demand for renminbi-denominated financial assets from international trading firms and banks, as well as demand for international reserves from central banks and the governments of some underdeveloped countries have enhanced its international role. Demand also comes from international agents seeking to avoid financial settlement systems and conditioning of international financial transactions set up and supervised by Western powers.

However, rising international demand for the renminbi is not primarily the result of decisions taken by private agents based in the financial and foreign exchange markets of Western hard currency countries, of its increasing use by international trading corporations, nor of its use as an international medium of deferred payments (i.e. as reserve currency) by governments and central banks of developed countries whose national currencies are already used as the settlement medium of international debt contracts.

In a world market where money rules, the fact that the renminbi is not an international medium of deferred payments determines China's status as an underdeveloped country, by far the largest by any measure, despite the fact it has become a world economic power and is the USA's and the world´s largest net creditor. As long as this status quo lasts, China will not become a globally monetary peer capable of competing with the USA, and will remain an underdeveloped country, that is, an extended low-wage workbench of developed countries, conditioned by global USA dollar hegemony.

Thus, if China is to challenge the global hegemony of the USA on equal terms, it must establish the renminbi as an international medium of deferred payments and impose its status as a world money. As China is already an international net creditor and will remain so for the foreseeable future, it still has to harden its national currency further as a means of forging its international liquidity preference, while maintaining its undervaluation.

The money-capital relationship implies private property, which in turn entails financial freedom-to-choose in the world market. Hence, only by hardening the renminbi and adapting its financial and exchange regulations and practices to the interests of international private wealth owners, banks and firms -most of which are based in developed countries- will China ensure agents and institutions become willing over time to accept and even demand the renminbi as a medium of deferred payments and hold it as a store of value in their portfolios and use it in international finance and trade. The final stage of China´s strategy to impose the renminbi as a world money involves ensuring it is accepted as a key reserve currency by the Federal Reserve, the European Central Bank and the Bank of Japan, i.e. by the central banks of already established hard reserve currencies.[2]

Protectionist monetary, financial and exchange policies followed by the People's Bank of China, opaque fiscal policy and unreliable governmental financial market policy, plus tight control of foreign portfolio investments and international capital movements have hindered the succesful forging of the international liquidity preference of the renminbi and weakened its non-pecuniary liquidity premiums, thus discouraging acceptance and demand from international financial agents. However, it has been the tough monetary and financial protectionism of the central banks and governments of developed countries that has so far created most of the barriers to the renminbi achieving international convertibility on equal terms with the US dollar, euro and yen.[3]

Central banks and governments in the USA, the EU, UK and Japan are well aware -though they do not admit it publicly- that were they to accept the renminbi as a reserve currency it would attain the status of an international medium of deferred payments, thus unwittingly contributing to its acceptance as a world money and a surge of its liquidity preference among international financial agents. This, combined with the hardening of the renminbi by the People's Bank of China and the Chinese government, would further raise its non-pecuniary liquidity premiums. This in turn would lead to self-reinforcing increased demand for the renminbi-denominated financial assets created by China's financial institutions, further expan-

[2] This is what happened with the US dollar in the interwar period and the Japanese yen in the 1970s. In the case of the deutschmark, the 1953 London Debt Agreement on pre- and post-war German debt was key to its early acceptance as an international medium of deferred payments following World War II, because of West Germany's foreign trade surpluses and international net creditor position, but also the need to foster economic stability in Western Europe amid growing tensions between the Western Allies and the USSR.

[3] Long-standing mistrust and growing geopolitical tensions between China and developed Western nations have played a part, due mainly to stark ideological differences over private property as a social relationship, the state and political regimes, conflicting monetary, financial, exchange and trading policies and practices, outstanding territorial and maritime claims and potential military threat.

sion of domestic financial markets and rising use of the renminbi by foreign banks and corporations for international debt settlement and trade finance.

The ensuing rise of the worldwide share of the renminbi-denominated financial assets in portfolios of international agents would foster its rise as a dominant world money. Conversely, the share of US dollar-, euro- and yen-denominated nominal assets in international financial portfolios would diminish, leading to a relative (and eventually absolute) reduction in the scale of their own monetary national spaces globally.

Given China's current position as a net creditor, the rising international monetary and financial role of the renminbi as a global currency implies that the People's Bank of China would have an increased autonomy to establish its exchange rate against key world currencies, destabilise the current privileged position of these currencies in foreign exchange markets and set in motion a deep restructuring of the international monetary and financial system, leading as a result to a global power shift from the USA to to East Asia.

Higher non-pecuniary liquidity premiums of the renminbi would allow the People's Bank of China to set a lower discount rate, while maintaining its stability-oriented restrictive monetary and exchange policy and keeping the renminbi undervalued. Low interest rates and the undervaluation of the renminbi would simultaneously foster domestic consumption, investment and external foreign trade surpluses, stabilise and boost realised profits of Chinese firms and provide room for stability-oriented fiscal policy and sustainable public debt management.

This would in turn further promote public investment in infrastructure, based on credit and self-financed capital accumulation, technological development and technical change, rising labour productivity and economic growth, industrial transformation and rising complexity, increased real wages and employment and a reduction in urban and rural poverty. Externally, it would lead to expanded lending to business by already internationally powerful state-owned banks, the increased competitiveness and global reach of Chinese foreign trade, rising accumulation of investments in foreign assets, a continued build-up of its net international creditor position and a powerful military build-up.

Particularly during its early stages, China's strategic protection of its domestic financial assets market through tight controls of international capital movements and a decoupled monetary policy, critical to the successful transformation of its centrally-planned economy into a monetary production economy. The implementation of these policies promoted internal monetary and financial stability, played a key part in the undervaluation of the renminbi and allowed China to launch and maintain its mercantilist strategy for national economic development and global dominance.

The continuation of some of these measures may still be necessary, possibly in a less restrictive form, as a means of increasing China's labour productivity and per capita output, which still lag far behind those of the USA, EU and Japan. For the time being, the implementation of monetary, financial and exchange policies similar to those pursued in the developed countries, which ultimately serve the interests of international private, mainly Western, investors and central banks and the governments of Western powers and Japan, clashes with China´s need to ring-fence the autonomy of its monetary policy, the stability of its financial markets, the undervaluation of the renminbi and the shoring-up of its international net creditor position.

Over time, sustained strengthening of the renminbi and the relative expansion of China’s national monetary space may overcome the resistance of central banks and governments of developed hard currency countries, lead them to accept it as an international medium of deferred payments and consequently motivate reluctant international private investors to demand renminbi-denominated assets issued by China’s banking and financial system. China would become a developed country in its own right, though this remains uncertain under current global monetary and financial power relations, due mainly to fierce resistance by the central banks and governments of Western powers and Japan, and the continuing dominance of the US dollar as the principal world money.

For the time being, however, China’s rise to world monetary hegemony has been shifted to the uncertain medium-term future. This is has been partly due to government’s unpredictable drastic changing course of its money, credit, financial and exchange policy; which has varied from first strategically slowly opening its financial and exchange markets to Western investors and making it less opaque vis-à-vis Western governments, central banks and private international agents, in the 1980s and 1990s, to reversing the open policy in the last decade. And partly to the resistance of central banks and governments of developed countries to accept the renminbi as a reserve country; and consequently, by the reluctance of international private agents to demand renminbi both as international medium of deferred payments and alternative store of value.

In the meantime, however, China has found a temporary workaround, without renouncing its global mercantilist power strategy. Most probably, it will continue to build a regional monetary and financial hegemony tailored to its national economic and military interests, comprising its neighbour countries in East Asia and the Indo-Pacific, while expanding foreign finance and trade to the Middle East, the Persian Gulf and North Africa, alongside foreign investment in developed countries and the acquisition of mining rights and oil reserves in underdeveloped countries, including Russia. Underdeveloped countries in Central Asia and sub-Saharan Africa will continue to supply the mineral raw materials, agricultural products, low value-added manufactures and cheap labour power China requires both for its national economic development and the expansion of its regional and global dominance.[4]

[4] In the last two decades, a more than half of the share of East Asian’s countries foreign trade has become intra-trade, and its intra- and inter-country input-output matrix of financial services, high

Russia already fits into China's new centre-periphery system as a satellite exporter of food, oil, coal and gas and low- and medium-tech manufactures, enjoying a special status due to its technology, industrial capacity and nuclear military power. Over time it will become increasingly dependent on China given the structural weakness of the rouble and its financial and economic backwardness, but also as a consequence of its economic and political breakaway from Western capitalism and financial, trade and political sanctions by NATO countries imposed in response to the war in Ukraine.

India follows its own path as a large Third World country, but even so, its economy is one-fifth the size of China's when measured in terms of its GDP. Furthermore, though its foreign debt is relatively low in terms of GDP when compared with other countries, this will increase if the Bank of India and the government prove unable to reverse the continuing overvaluation of the Indian rupee. Most probably, China's growing power in East Asia and the Indo Pacific will increasingly drag India into its sphere of financial and economic influence. Japan, South Korea, Australia and New Zealand will be confronted in the near future, if not already, with the dilemma of maintaining their defence alliance with the USA or attempting to pursue a security-neutral path.

Clearly, none of this stands in the way of mercantilist China continuing to expand its financial and high-tech trade relations with the USA, Europe, the UK and Japan as well as with South Korea, Canada, Australia, New Zealand and India, increasing its infrastructure loans and its imports of raw materials and agricultural products from underdeveloped countries in Central and South East Asia, Latin America, Africa and the Middle East and growing its oil imports from oil-producing Gulf countries.

Yet, China´s successful mercantilism threatens to be derailed, in part by China itself, due to the recent reemergence of mutual mistrust between China and the Western powers. This has been occasioned by China´s global monetary, financial, exchange and trading policies and practices that conflict with the global rules of the game established by the developed countries in recent decades. Over the last decade, Xi Jiping´s national 'striving for achievement' strategy, burying the policies of Deng Xiaoping, has led to growing geopolitical tensions due to China´s aggressive expansionism and counter-strategy of disengagement pursued by the USA and possible military confrontation between the two countries.[5] Western

tech industrial manufacturing and agricultural production has also become highly dense. Hence, countries of East Asian region, including China, Japan, India, South Korea, Hong Kong and Indonesia, have strongly increased their capability to self-produce monetary, financial, production and trade conditions largely allowing for integrated self-sustainability of their regional economy, thereby reducing their monetary and economic dependence on Western counterparts.

[5] The roots of this mistrust lie in long-standing ideological differences about the private property relationship and the economic system; the state and the political regime; the colonial legacy of China´s "century of humiliation" by Western powers from the mid-19th to the mid-20th centuries and China's historical and strategical territorial and maritime claims over Taiwan, the South China and East China Seas and the Diaoyu/Senkaku Islands.

countries, and in particular the USA, will wield their global monetary, financial, economic, trade and military power to contain China and force it to comply with the international rules of the game whenever they can.

THE USA

The USA was able to impose its monetary and financial hegemony worldwide during the final stages of WWII and in its aftermath, largely due to its unique position as the world's largest net creditor in its own currency. This particular circumstance allowed the US government and the Federal Reserve to set the US dollar exchange rate within the Bretton Woods system, thus reinforcing its international liquidity preference. In turn, high US dollar non-pecuniary premiums enabled the Federal Reserve to keep its discount rate low, ensuring modest financial costs both for production and demand, which in turn led to the rapid expansion of domestic output and unemployment, both domestically, while rapid increasing labour productivity allowed for rising real wages.

This world monetary and financial supremacy placed the USA in Triffin's dilemma. Maintaining its net creditor position as well as its absolute advantage in foreign trade required the Federal Reserve to keep its national world money scarce by pursuing restrictive monetary policy, supported by non-deficit spending by the government. Yet, in a world market characterised by the existence of multiple sovereign nations and national currencies, most of which were not internationally accepted mediums of deferred payments, the development and smooth operation of its world hegemony required the USA to forgo keeping its currency scarce, allowing the US dollar to overvalue and leading to sustained foreign trade deficits.

At the height of US world dominance, loose Federal Reserve monetary policy was characterised by a low money market interest rate, largely supported by high non-pecuniary premiums of the US dollar. Expansive deficit fiscal policy was largely driven by aggressive government spending, foreign aid and military policy as a means to boost activity domestically and sustain near-full employment while, in the external sphere, containing the USSR during the Cold War. Expansive monetary and fiscal policy led to the overvaluation of the US dollar while its foreign trade balance turned negative, thus allowing indebted countries to access the currency, meet financial obligations to US lenders, avoid recurrent debt default and escape prolonged financial and economic crisis.

This is what actually happened in the case of a rather small number of industrialised and industrialising countries, though the effects were particularly significant for West Germany and Japan in the 1950s and 1960s as they became successful mercantilist countries and their currencies gained the status of international mediums of deferred payments, thus permitting the surge of their international liquidity preference.

In the following decades, they became the largest net creditors of the USA, their central banks gained relative exchange rate policy autonomy and their non-pecuniary premiums increased while those of the US were destabilized. As a result, since the early 1980s, the Federal Reserve has generally used its discount rate to counter inflation and attain domestic price stability and has limited its exchange market interventions to hinder US exchange rates overshooting, while the US government has pursued a stop-go deficit fiscal policy coupled with rising public debt. From this point on it has become increasingly difficult for the USA to impose its world hegemony by wielding its global monetary, financial and economic power, despite its military might.

The main consequence of the USA losing its net creditor position and becoming a net debtor was the eroding power of the Federal Reserve vis-à-vis the national central banks of its net creditor countries, entailing the loss of its unchallenged ability to set the US dollar exchange rate by using its discount rate against competing countries. This led to a reordering of pecuniary and non-pecuniary liquidity premiums of the three key world currencies and consequently to destabilisation of US international monetary hegemony of the USA.

The dysfunctional dynamics of the multipolar international monetary system that emerged after the collapse of the Bretton Woods system was characterised by international currency competition, unstable non-pecuniary liquidity premiums of key currencies and mounting international financial imbalances among major economies. Notwithstanding international monetary and exchange cooperation efforts by major central banks involving coordinated interest rate hikes and cuts, financial market instability and overshooting exchange rates threatened the stability of the world market.[6]

Initially, in the early 2000s, the euro looked like an international reserve currency that would achieve high international liquidity premiums and could potentially weaken the global monetary hegemony of the US dollar. However, the flawed design of its monetary constitution in relation to the lack of a common fiscal policy and public debt market of the union, the disparatity of economic and fiscal policy and continuing tensions between northern and southern Western European countries, all of which contributed to financial crises in peripheral countries and provoked a political crisis within the European Union during the Great Recession (later also during the Covid pandemic crisis), sharply weakened the euro's liquidity premiums as an international medium of deferred payments and store of value. Conversely, both the international liquidity premiums and the global dominance of the US dollar strengthened.

In the meantime, the USA has become the world largest debtor to Japan, West Germany (and, after unification, Germany) and the EU, the Asian Tigers and China, while remaining a net creditor only to indebted, mainly underdeveloped countries, whose weak currencies lack a liquidity preference as international mediums

[6] The liberalisation of domestic and financial markets in the wake of the neoliberal reforms of the 1980s up to the 2008 international financial crisis only served to reinforce the inherent instability of the multipolar world monetary system.

of deferred payments. However, despite the fact the USA has become increasingly indebted internationally on the back of rising foreign trade deficits, the US dollar remains the key means of global power available to the Federal Reserve, the US government and US banks and corporations, while international financial and trade contracts have continued to be settled worldwide primarily in the US dollar.

This is mainly due to its high non-pecuniary liquidity premiums, enabled by its still undisputed international dominance as the world money, to the depth, liquidity and integration of the US banking system and financial markets, the global lending and investment reach of its international banks and corporations, the size of its national economy, the breadth of its resource-rich continental territory, its huge technological edge and the high productivity of its workforce, in addition to its unchallenged military might.

The fact that the US dollar has relative higher non-pecuniary liquidity premiums than other key currencies allows US banks and financial corporations to set interest rates on its domestic financial assets hold by foreign lenders that are lower than those of financial assets denominated in other currencies hold by US international investors and corporations. This enables the USA still to maintain a positive foreign income account despite its being an international net debtor. However, the internationally dominant position of the US dollar as the world money of the world's largest debtor entails a market-logical contradiction, since, being indebted in its own currency, the USA can always depreciate its debts by devaluing its currency, thus occasioning in the longer term a net worth loss to its foreign debtors and particularly to international wealth owners, which it is that it has done over the last four decades or so.

This privileged position of the US dollar will be maintained as long as the USA remains a world power unchallenged by a rising, successful, net creditor mercantilist country capable of imposing its currency as the world money, as occurred with the US dollar against the pound sterling in the interwar period. This is the current threat that China's rise to the status of global power currently poses to the USA as it strives to impose the renminbi as a world money, something that the USA and its Western allies and Japan are willing to go the lengths to prevent happening. At the core of the strategic competition between the USA and China for monetary hegemony are the status of the US dollar as the dominant world money and the undervaluation of mercantilist China's underdeveloped renminbi.

The long-standing overvaluation of the USA dollar has also had far-reaching implications for the USA economy.

Since the realisation of profits depends on a positive foreign trade balance, relinquishing its absolute advantage in foreign trade meant that the entrepreneurial profitability (i.e. profits after paying interest) of US firms henceforth depended principally on the final consumption of wealth owners, the investment of firms, government deficit spending, a capital income surplus from the US foreign portfolio and direct investment - although these profits were diminished by sustained foreign trade deficits. However, as the net debtor position of the USA has grown ever larger, its positive foreign current account has steadily reduced or become negative, especially in recent years, thus leaving the final consumption of wealth owners, the business investments and the government's deficit spending as the principal sources of profit for US firms, which have become increasingly financialised.

Moreover, sustained government deficit spending has become the main way in which both the foreign trade deficit and the domestic private balance are financed and, hence, of market-state profits (i.e. profits as defined in Keynes's Treatise on Money), and will continue to be so in coming years, since the foreign current account will remain negative. Thus, US public debt will continue to rise, the interest on government debt as a share of federal spending will remain steady and possibly rise in the near future[7], their joint increase benefitting Treasury bill-holders by stabilizing the net worth of portfolios and enlarging unearned interest income. This will further exacerbate unequal functional and personal income distribution, in favour of private wealth owners and to the detriment of low- and medium-wage workers and marginalised groups. It is certain that this public debt-private financial gain will continue as long as domestic and international investors are willing to grant the US federal debt a high enough non-pecuniary liquidity premium.

Furthermore, although the steady overvaluation of the USA dollar has allowed for an increase in consumption-led well-being because of the availability of low-wage cost manufactures imported from China, it has come at the cost of its countrywide de-industrialization, particularly in the Rust Belt states, the relative loss of the country's overall edge in terms of labour productivity and the loss of technological know-how and infrastructure investment. The emergence of high-tech industries and services has partially offset the effect of deindustrialisation in the larger cities, but the overall trend continues, at least in formerly prosperous Rust Belt states.

The reduced power of the Federal Reserve to steer the US dollar exchange rate as a result of the net debtor position of the USA and the growing ability of the People's Bank of China to set the renminbi exchange rate because of its net creditor position blocks any attempt by the USA to reverse overvaluation of the US dollar by instrumentalising the Federal Reserve's discount rate. A higher discount rate leads to revaluation of the US dollar, increasing both foreign trade deficits and US external debt with China, as was the case before and during the first year of the Ukraine war. A lower discount rate does not drive down the US dollar exchange rate against the renminbi, even when set at zero, as happened during the Great Recession, since China's central bank pegs its currency to the US dollar.

Neither the US government nor the Federal Reserve have a market-conform means of hindering China's ability to set the undervaluation of the renminbi by sterilisation, accumulate international reserves, change its central bank discount rate and credit policy, control private capital movements and forcibly instrumentalise the

[7] Its actual path depends on the time dynamics of interest rates, growth rate and primary fiscal balance.

portfolio decisions of its own citizens. Except for the two last measures, this was also the case of the USA vis-à-vis West Germany and Japan in the early stages of rise of these two countries as mercantilist powers in the 1950s and 1960s under the Bretton Woods system and of the Asian Tigers in the 1980s after its collapse.

Still, the USA could try to undervalue its currency and regain its lost absolute advantage in foreign trade by various means, including by lowering money wages domestically. However, assuming it is politically feasible to achieve this without widespread social unrest - an unrealistic expectation- this would be countered in the short- to medium-term by China, which would either devalue the renminbi, limit money wage increases below labour productivity gains or stop them altogether, or by combining both of these options, a possibility which cannot be ruled out given China's authoritarian one party regime.

The USA could counter China's countermeasures by implementing measures aimed at reducing production costs and increasing its international competitiveness by means of the deterioration of labour conditions, which has already occurred anyway during the last half-century, as labour unions were forcibly weakened and dismantled by neoliberal policies, in a process that particularly affected blue collar workers, minorities and unskilled immigrants. The magnitude of the overvaluation of the US dollar relative to the renminbi seems to have reached a point where even a sharp reduction in domestic money wages and further deteriorations in labour conditions in an attempt to achieve domestic price deflation and foster international competitiveness may not be sufficient for the process to be reversed, at least not without triggering a domestic and possibly a global debt deflation crisis.

It may be the case that the accumulating gap between sustained overall labour productivity growth and stagnation and a decline in real wages due to the suppression of productivity-oriented monetary wage increases, particularly of low paid jobs, has become large enough for it alone to have sufficiently improved US competitiveness in the world market. This by itself would have halted and, at least partially, perhaps reversed growing US dollar overvaluation and allowed the US economy to regain its absolute advantage in foreign trade. However, this has not happened, largely as a result over the last sixty years or so of growing market power, rising mark-up pricing margins and profit rates imposed by monopolistic US corporations, as well as increasing financialisation, with all their compounding misallocation effects on the level and structure of industrial production and the prices of US agriculture, manufacturing and services and their negative effects on the environment.

Greedy profit-oriented policies followed by US monopolistic corporations have led not only to a steady internal decline of wages in US functional income distribution, but have also wiped out possible gains in terms of absolute advantages in foreign trade that the US economy might have obtained if free competition had driven its international competitiveness. It should perhaps be noted in passing that in a seldom quoted passage of The Wealth of Nations, liberal Adam Smith commented critically on high rates of interest and their negative effect on absolute advantage in foreign trade and on wage earners.

The US government could also selectively use tariffs on Chinese products as a means of curbing US foreign trade deficits and protecting its domestic manufacturing industry, a policy initiated by the Trump administration and continued and expanded by president Biden. Once again, however, this will not stop China from countering, not only by imposing tariffs on US products, but also by adjusting the exchange rate of the renminbi. Hence, while a tariff war between the USA and China would reduce the US foreign trade deficit and affect the volume and structure of its trade, its overall effect will be temporary, only lasting until China fine-tunes its undervaluation of the renminbi. Open price-dumping wars are still possible as well.

Tough measures by the US government, such as banning exports of high-tech products to China are motivated by trade and security factors. In particular, these measures involve the recent worldwide ban on critical semiconductor exports to China, combined with the prohibition on the importation and use of Chinese high-tech. These measures will contribute to maintaining the technological and military edge of the USA while negatively impacting Chinese industry, technological advances and military capability in the short- to medium-term. The extent to which they will affect China's route to global power over this period remains unclear though, as this depends principally on its ability to maintain its mercantilist strategy.

A further means available to halt or reverse the overvaluation of the US dollar is the ability of the US economy to rapidly increase the labour productivity of its workforce at a faster rate than China, while holding money wage increases proportionally below those of labour productivity, as a means to reduce labour unit costs and increase international competitiveness. Increasing the rate of increase in US labour productivity requires huge funding for investment in research and development and technological innovation by the government, private banks and corporations, including the powerful US military-industrial complex. The US government will go to great lengths to fund and subsidise any efforts that lead to increasing the country's technological advantage over China, including large-scale investments in infrastructure, computation and communications.

Furthermore, the US government can and has supported the international competitiveness of the US economy by fostering the re-allocation of US firms from China back to the US mainland by subsidizing domestic production and imposing taxes on US firms that produce overseas and keep profits offshore. Industrial decoupling and de-globalisation promoted by the USA and Europe in the aftermath of the global supply chain crises triggered by the Covid pandemic, in order to reduce industrial and economic dependency on China, is part of the US global strategy to contain China's advance in the world market.

There is no doubt that the USA wields significant technological leverage over China, but the key variable in the competitive relationship is not so much the level but the relative rate of increased labour productivity. China has not only been catching up in this sphere, but the rate of increase in the physical productivity of its workforce has been higher (or at least not lower) than that of the USA in recent decades and it cannot be ruled out that this will continue to be the case in the near future, as it also funds investment in technology through its powerful state-owned banks and is developing its own military-industrial complex.

Even though income, industrial, trade and exchange rate policies have consistently failed to reverse the overvaluation of the US dollar and undermine China's mercantilist strategy, the US government and Federal Reserve will nonetheless continue to pursue these policies, as they are fully commonsensical in a world economy in which the market logic of money-capital forces individual nation states to follow mercantilist strategies as a means of global competition, even for a hegemonic power like the USA.[8]

In the meantime, the Biden administration has stepped up the USA's powerful dollar diplomacy in India, South East Asia, the Middle East, the Persian Gulf, Latin America, Africa and Eastern Europe, particularly since the beginning of the war in Ukraine, both as means to regain its lost ground in these peripheral regions and to counter China's advance. As China lacks a true international medium of deferred payments of its own, it has thereby been obliged to increase its efforts both to maintain the undervaluation of the renminbi as its key means of accessing the US dollars it needs through foreign trade and to continue promoting the acceptance and demand of renminbi-denominated international reserves by underdeveloped countries and, when possible, by Western industrialised countries, Japan and South Korea.

The US government's recourse to the global function of the US dollar as the ultimate world money -albeit this time not primarily as a means to impose its global monetary hegemony as during the Cold War, but to defend the currency and prevent China becoming a true peer competitor- and China´s resolve to establish the still underdeveloped renminbi as a world money and impose a global monetary hegemony of its own, determine, and will continue to determine, the competition of the two states for global power in forthcoming decades.

The monetary nature of this harsh competition lays bare once again the global asymmetry that characterises and determines the power-mediated world market relationship between the small and exclusive group of hard currency developed countries and the larger number of weak currency underdeveloped countries in the international division of labour system. As the saying goes, world money rules the world.

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[8] Mutatis mutandis, this was also the core of the mercantilist policy that Amsterdam and the UK masterfully applied against Italian cities at the beginning of the 17th Century, the UK used against Amsterdam during the 17th and 18th Centuries, Germany and the USA against UK from the late 19th Century up to World War I, and the USA against the UK until the end of World War II, West Germany and Japan since the 1950s and 1960s and the Asian Tigers starting in the 1980s.

FINAL REMARKS

It was the possibility of the resurgence of global monetary and financial instability that Keynes sought to avoid by coming up with his bancor plan in the latter stages of World War II while protecting British imperial interests, and the White plan also sought to avoid while promoting the USA monetary and financial primacy interests. However, realpolitik prevailed over arguments of enlightened academics and liberal intellectuals, and the Bretton Woods system became a global instrument of US hegemony.

The United States set aside any plans for an international monetary system that would prevent the imposition of the Pax Americana. By so handling, however, it opened up the possibility of conditions that could lead to its being challenged later, in an uncertain future, by another country, which at the time, however, seemed impossible. The current function of the national currency of the largest international net debtor as dominant world money, namely the US dollar, entails a systemic market-logical contradiction, which determines current competition in the world market for global monetary, financial, economic and military supremacy between China and the USA.

The USA is the largest international net debtor in its own overvalued currency, while China is the world's largest holder of financial claims denominated in the foreign money of its main debtor rather than in its own undervalued national currency. The role of the US dollar as world money, in addition to the country's status as the only hegemonic debtor in its own currency, puts it in a unique position vis-à-vis its foreign net creditors, principally Japan and China, but also the EU and the UK.

The USA could unwind its foreign debt by letting the US dollar devalue against the national currencies of its creditors, or by denying the latter's rights to payment of principal and interest, thereby defaulting on its financial obligations and triggering a global monetary, financial and economic crisis. The first of these alternatives has been the path followed by the USA to deal with its position as international net debtor since even before the collapse of Bretton Woods system, mainly targeting West Germany and Japan. As for the second alternative, while the matter has not so far been raised on the world stage, China has on several occasions openly expressed its concern and demanded assurances from the USA that it will not default on its financial obligations.

In all likelihood, the USA will resist accepting the renminbi as an international medium of deferred payments to the utmost. Accepting this state of affairs would imply not only allowing the monetary and exchange rate policy of the Federal Reserve to be conditioned by the People's Bank of China, but also recognizing the crisis of its monetary hegemony. As for a possible US strategy aimed at beating China's mercantilism, this has already been initiated by the protectionist and export-promoting measures implemented by the Trump administration and maintained and expanded by President Biden. Reversing the overvaluation of US dollar and achieving the overvaluation of renminbi -something that appears to be beyond reach in the short- and mid-term- would require the USA to become a fully mercantilist power, and would entail abandoning free trade and redefining the rules governing world trade.[9]

In the meantime, due largely to high mark-up profit margins of powerful US corporations, the financialisation of profits and long-entrenched neoliberal anti-labour and anti-welfare policies, combined with the overvaluation of the US dollar, both the distribution of wealth and functional and personal income distribution will continue to worsen, labour conditions will further deteriorate for medium- and low-paid jobs, blue-collar real wages (though not only) will continue to stagnate and fall, middle-class debt will increase, social and drug crises and urban and rural impoverishment will worsen, as they have over the last half century and racism, xenophobia and white supremacism will continue to rise.

The USA is still the world's hegemonic power, and although this will continue in the near future, it is not clear whether this state of affairs will persist.[10] In the coming decades, the USA will have deal with challenges to its global monetary, financial and economic hegemony. In the 1970s, medium-sized world powers, notably West Germany and Japan, destabilized US dollar pecuniary premiums and weakened the power of Federal Reserve to set its monetary and exchange rate policies unilaterally. However, they never posed a real threat to the US monetary hegemony and ultimately aligned with the dominant Western liberal ideology.[11]

This time, however, US hegemony is challenged by the rise to global power of a self-conscious, mercantilist, nationalistic, ideologically dissenting, politically pragmatic, realpolitik-driven China, which will most likely be supported by Russia. Europe and possibly Japan, South Korea and Australia will continue to ally with the USA for the time being, while monetarily and economically dependent underdeveloped countries will align with one side or the other or assume positions of non-alignment, as they did during the Cold War and have again recently since the outbreak of the war in Ukraine.

The liberal conception of the world market that Western governments are always ready to trumpet whenever it suits their own hegemonic interests, and celebrated

[9] This would not be a historical novelty, as the USA pursued a mercantilist approach was pursued in the past, at the end of Civil War, against the UK, Germany and France, with the significant difference that this time the US dollar is the hegemonic world money and the USA is still the most powerful country in the world.

[10] The ongoing tightening of current monetary policy by the Federal Reserve, as a means to curb energy and food price inflation triggered by Russia's war in Ukraine, the potential build-up of price inflation in real assets markets and the continued possibility of the entrenchment of a spill over to money wages and prices, has contributed to the temporary strengthening of the US dollar exchange rate against the euro, yen and renminbi. However, the time duration and financial reach of current US dollar strengthening is uncertain, and not exclusively because of the unknown outcome of the war.

[11] While it is true that the USSR was a challenge to US supremacy during the Cold War, this was mainly due to its status as a nuclear power and not in monetary, financial or economic terms.

by mainstream economists as the level neutral playing field through which global economic development can best be achieved simultaneously by all countries, but also denounced by the liberal Friedrich List in the mid-19th century as a way of legitimizing their protectionism, does not fit with the Chinese Communist Party's view (supported by a dubious dialectical-materialist theory) of global capitalism as a hierarchical power system.

Like every other successful mercantilist country over the past six centuries, including the USA between the end of the Civil War and the late 1950s, China will continue in the coming decades to instrumentalise the world market and expand its international net creditor position through the strategic maintenance of its absolute advantage in foreign trade. In the mid- to long-term, as China strives to impose the renminbi as a world money while maintaining its undervaluation, the US, its Western allies and Japan will continue to be pushed into a more and more defensive position.

China increasingly needs the renminbi to become a dominant world money –as a means to impose its hegemonic agenda globally on its own terms, force other countries into financial dependence on its national currency and reshape the world economy to serve its particular national interests, unhindered by the capability of the USA (i.e. the Federal Reserve and the US federal government) to deploy 'dollar diplomacy' through its global monetary, financial and economic network.

As for the implications of renminbi becoming an international medium of deferred payments despite stiff resistance, such a major shift would further destabilize the dynamics of the global monetary system, possibly triggering an international monetary crisis. This is at least what occurred during the interwar period of the 20th century as the UK was forced by the rising primacy of the USA to give up the hegemony of the pound sterling and accept the US dollar as the new hegemonic world money at the end of World War II.

In the meantime, externally, the restrictive protectionist financial markets policy followed by the Chinese government and the People's Bank of China, in tandem with the nationalism of the Communist Party, will continue to hamper international acceptance of the renminbi as a medium of deferred payments and consequently demand for it at the global level. In the meantime, China's powerful state-owned banks and companies will continue to expand overseas investments in developed countries and to finance infrastructure projects in the underdeveloped world. Yet, despite China being a powerful country, it will remain underdeveloped as long as the renminbi lacks the status of an international medium of deferred payments, thus remaining trapped beneath the monetary dominance of developed currencies, especially the US dollar.

Internally, the Chinese Communist Party will be confronted by growing tensions arising from its continuing policy of political and cultural surveillance of its ageing population, constant bureaucratic supervision and control of both public and private economic activity, financial speculation in property and resource misallocation, and rising inequality of wealth and income distribution. Above all, however, it will increasingly have to deal with the irresolvable contradiction it has set in motion by pursuing its national (and nationalist) interest in developing China as a monetary production economy while holding to a conception of society and state that precludes private property as a social relationship and bourgeois freedoms.

Money and central planning as the two alternative foundations of the economic coherence of complex societies imply distinct systemic functional conditions. Consequently, China cannot have both. It will thus be compelled to choose either to go back to the planned economy (a failed attempt at achieving socialism) by isolating itself from the world market, or to integrate with world economy by accepting the market logic of the money-capital relation without any clear assurance that it will become a developed country.

In any case, tensions between the USA and its allies and China will continue to grow and will not ease if the renminbi becomes a world money. To be sure, neither China´s stark nationalism nor entrenched US primacy will help smooth tensions between these two global powers as the world moves to a new and unstable multipolar international monetary system.

Since the USA, the EU and Japan will continue to resist China's hegemonic challenge by all available means, the emerging multipolar international monetary system will be marked by uncertainty concerning interest and exchange rates and non-pecuniary liquidity premiums in international financial markets, with critical worldwide consequences for economic stability. Ongoing internal wars, worsening foreign indebtedness and development crises in underdeveloped countries are all manifestations of this contradiction, to which must be added the growing worldwide crises of human rights and climate change, which have no foreseeable solution.

To be sure, the inner particularization of the world market into different intertwined national monetary spaces due to the existence of multiple national currencies entails an inner market-logical contradiction involving international monetary competition through mercantilism as the key strategy towards national global dominance, the division of the world economy into developed and underdeveloped countries, and continuous monetary and financial instability and systemic crisis. Historically, this dynamic has more often than not led to wars between the great powers.

ACKNOWLEDGEMENTS

I thank Alvaro Martín Moreno and Gonzalo Combita, both of the School of Economics at the Universidad Nacional de Colombia, for their critical comments on this article. All errors are my own responsibility.

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