POWER TRANSITION THEORY:

A SYSTEMATIC APPROACH TO MEASURING SATISFACTION OF A RISING STATE WITH THE STATUS QUO

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Declaration

This thesis contains no material that has been accepted for the award of any other degree in any University. To the best of my knowledge and belief, this thesis contains no material previously published or written by any other person, except where due reference is given in the text.

Monday, 30 May 2022

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Date

Dedication

"The vision recurs;

the eastern sun has a second rise;

history repeats her tale unconsciously, and goes off into a mystic rhyme;

ages are prototypes of other ages,

and the winding course of time brings us round to the same spot again."

The Christian Remembrancer, 1845.

There is nothing new under the sun, or so it says. I firmly believe that we are on the cusp of a life altering event, and the US-China power transition is the dominant defining force of our lifetime. This project is my attempt at understanding the current world, its direction and the forces that drives it. I hope that at the very least, someone else finds it useful.

I dedicate this study to my mother, for the conversation that sparked this idea and for all your support. To Prof Shelton, for your guidance. And to anyone else who had to suffer through me turning every single unrelated conversation into whether the US and China could go to war, for an entire year.

ABSTRACT

Power Transition Theory (PTT) has been in International Relations for more than 50 years and recently saw a resurgence due to the mounting tensions between the US and China. Power transition theory suggests that the international order is structured in a hierarchy, with a dominant power at the top, then great powers underneath it and others below. Once in a while, a great power rises to challenge the dominant power and whether a transition occurs through war or peace, is determined by the rising power level of satisfaction with the status quo. As such, a transition with a dissatisfied great power is most likely to happen through war. While improvement has been made in how the theory measures power, the measurement of satisfaction has vastly remained ad hoc. In its essence, this paper seeks to resolve this problem by proposing a typology of dissatisfaction, namely political dis/satisfaction and economic dis/satisfaction. Moreover, this paper hypothesize that political dissatisfaction is most likely to lead to war than economic dissatisfaction. As such, the focus of this study is to engage in theory development by improving the measurement of satisfaction as a variable in PTT. This discussion happens twofold, primarily through theory building discussion, then through testing it in the UK and US/Germany transition. Lastly, since the US/China transition is of actuality, this paper provides an analysis of this transition in line with the improvement made to the power transition theory

Keywords: Power Transition Theory, satisfaction, political dis/satisfaction, economic dis/satisfaction and inter-war studies

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Chap 1: Introduction and Research Methodology

1.1 Introduction

The power dynamics between the United States of America (USA) and the People's Republic of China (PRC) has dominated academic narratives in the post-Cold War era in international relations. Recent debates have revolved around two significant questions[1]: First, how would the rise of China impact the regional and global order? Second, how will and/or should the United States (US) react to it? With a significant portion of academics considering it a given that China will overtake the US as the world dominant power, interests have been focused on the 'how' of the US-China power transition. In other words, on whether the transition of power between the US and China will be peaceful or result in war. Various studies under this field have sought to answer this question by looking through the lens of the Power Transition Theory (PTT). While PTT can be a useful theory in understanding power transition, it has many flaws, chief amongst them is in the measurement of the key variable of the theory, namely satisfaction in a rising state. This paper seeks to address that short coming in the measurement of satisfaction, by providing a systematic method of measurement. While this paper provides a subsequent analysis of the US-China transition, this research focus is rather on the study of transition and improvement of PTT.

1.2 Rationale of the Study

While reviewing previous power transitions that occurred over five hundred years, the Harvard Thucydides' project concluded that out of sixteen cases of power transition, twelve had resulted in war[2]. Which shows that the likelihood of War tends to be high in a power transition. Thus, demonstrating the inherent risk that exist during a power transition. Simply defined, PTT is an international relations theory that seeks to explain this inherent risk and the structural conditions that lead to war during a power transition. Power transitions have been significant events in International Relations, as they have often defined the global geo-political and socio-economic order to come. Thus, with both states respectively being the largest economies in the world and amongst the most powerful states by some metrics, understanding the interaction and potential power transition between the US and China is crucial, as it will be a significant determinant and influence on the global order. As such, a theory that aim to this end ought to be accurate. This study matters as it seeks to contribute knowledge and further understanding on the potential re-definition of the global order. Furthermore, with the likelihood of war in a power transition, this paper seeks to provide answers that can be used in preventing escalation to war in the current power transition between the United States and China.

[1] Zhang and Austin (2014, pg. 1-2)
[2] Belfer Center for Science and International Affairs (2021)

Lastly, while the measurement of power development as a variable has seen an adoption of a systematic and uniform approach, the same cannot be stated about the measurement of satisfaction as a variable, as amply discussed below[3]. Since the attainment of power capability for a rising state to challenge the dominant state can arguably be considered a necessary condition (such as a weak dissatisfied state is unlikely to challenge the dominant state and alter the status quo), it becomes clear that satisfaction is the most determinant variable of the theory. With satisfaction being the most critical component of the theory, the lack of an objective and systematic approach in its measurement consists of a theoretical flaw for PTT. It is in this regard and with the aim of filling this gap that this paper proposes a typology of dis/satisfaction, namely as political dis/satisfaction and economic dis/satisfaction. Which will improve the use of PTT and address the theoretical flaw.

1.3 Research Question, sub-questions and hypothesis

In order to achieve the above stated aims, this paper ask the following main question: In a power transition, is war most likely to occur as a result of political dissatisfaction as opposed to economic dissatisfaction of a rising state toward the status quo? Additionally, this paper also provides an answer to two important sub-questions, namely (1) How to measure economic dis/satisfaction? And (2) How to measure political dis/satisfaction? This paper argues that what lead to war is not dissatisfaction in a general sense, but rather a particular type of dissatisfaction. In other words, the type of the dissatisfaction matters most. The hypothesis advanced is that political dissatisfaction is most likely to lead to war when compared to economic dissatisfaction.

1.4 Literature review

The literature review is subdivided in 3 sub-sections. The first section provides a review of the existing literature on the fundamental structure of PTT. The second section reviews literatures discussing the measurement of power capabilities/development in PTT. The third section reviews literature on the measurement of satisfaction as a component of PTT, which is the central issue of this thesis.

1.4.1 PTT fundamental structure

Power Transition Theory was first brought forth by A.F.K Organski (1958,1968), the author laid out the fundamental of the theory, its conceptualization that the international order is set in a hierarchy, the linkages between states powers and the stage of transition[4]. Following which, Organski and Kugler (1980)[5] conducted the first empirical test of the theory's hypothesis, affirming that major power conflict occurs when great power reach near power parity with the dominant power. This further enhanced their

[3] Tammen, Kugler and Lemke, (2017)
[4] Organski (1968)
[5] Organski and Kugler (1980)

argument about faster recovery by economically developed states following a war with a major power, dubbed as the 'phoenix factor' and the assertion that arms race dynamics are not always externally influenced. Using new evidence to replicate Organski and Kugler (1980) test, Houweling and Siccama (1988) concluded that power transitions are a reliable predictor of war for all major powers, thus providing further support to the theory[6]. Kugler and Lemke (1996) works expanded the test of power transitions hypothesis done by Organski and Kugler (1980) and did so through the use of econometrics, differential calculus, game theory and expected utility, with a focus on the notion of parity proposition[7]. De Soysa, Oneal and Park (1997) replicated the work of Houweling and Siccama (1988), using a revised measure of national capabilities and a modified set of major powers, and found further support for PTT but highlighted that the strength of the evidence varied based on how power is measured and how the set of cases are analysed[8]. Tammen, Kugler, Lemke et al (2000) works brought forth detailed historical cases of power transitions and aggregated the progress made in the theory.

Moreover, where Organski's initial conceptualization of PTT hierarchy was limited at the level of a single global hierarchy, Tammen et al (2000) extended this to a notion of multiple hierarchies within the global hierarchy. Further advancement made in their contribution includes an assessment of contexts under which nuclear deterrence is stable, how the speed of transitions increases the probability of conflict and policy recommendation in regard to Asia's awaiting transitions[9]. The work of Tammen (2008) further developed PTT within the context of Asia, as well as contrast the theory to the concept of balance of power[10]. However, a study by Lebow and Valentine (2009) argued that it had found little support for any power transition theory main empirical implications[11]. Kugler (2011) summarized the main propositions and updates on the evolution of the theory until 2012[12]. Rauch and Wurm (2013) works suggest that combining PTT with the Liberal Hegemony Theory can bring forth previously excluded opportunities in managing a peaceful power transition[13]. The most recent summary and updates on the evolution of the theory has been done by Tammen, Kugler and Lemke (2017)[14].

Rauch (2017) recent work suggested the addition of a third variable 'the will to power', which aimed to capture the willingness of rising powers to commit themselves to changing the status quo[15].

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6 Houweling and Siccama (1988)
7 Kugler and Lemke (1996)
8 De Soysa, Oneal and Park (1997)
9 Tammen, Ronald, Jacek Kugler, and Douglas Lemke, et al (2000).
10 Tammen and Ronald (2008)
11 Lebow and Valentino (2009)
12 Kugler (2011).
13 Rauch and Wurm (2013)
14 Tammen, Kugler and Lemke (2017)
15 Rauch (2017.a).

1.4.2 Measuring Power capabilities/development

Traditionally, national power was measured by capturing the mobilization of untapped resources for war purposes (Knorr, 1956), the military strength (see Claude, 1962), or various notion of the will to fight (Aron, 1967). PTT proposed a drastically different method that conceptualized national power as being entrenched in the development of socio-economic and political resources[16]. Central to this developmental process are three intertwining sets of changes: (1) the increase of economic productivity resulting from industrialization, (2) the demographic transition that occur during the economically active ages resulting in increase in the demographic pool and (3) the increase in the capacity of elites to mobilize resources produced by the population[17]. A.F.K Organski (1958, 1968) brought forth the argument that industrialization led to gain in wealth, population increase and political modernization, which lead to great increase in power to a nation. As a result, these changes have the effect of increasing the ability of the nation's representative to influence behaviour of other nations, that is, increasing the nation's power[18]. In such a way that the size of a nation (meaning one with smaller population) put a limitation on the level of power it can attain. A small nation like Guatemala, even if it was to fully realize its potential, will never be as significant on the world stage as a nation like India[19]. Katherine Organski and A.F.K Organski (1961) argued that population ought to be a central component of power[20]. Thus, at this stage, power was roughly measured as Power = Economic productivity X Population. The gross national product (GNP) was used to capture nation's productivity as it combined demographic and economic elements of a nation.

The empirical test of this approach resulted in good performance, equal to the one of a more complex indices of power developed by Singer et al (1972) known as the Correlates of War (COW) project, which included demographic, industrial and military components[21]. As such, both approaches identified the same periods of transitions among developed nations (see Thompson 1983a; Organski and Kugler 1980). The second innovative contribution to PTT measurement of power was found in the inclusion of political capacity and measuring its performance. The fundamental question posed was whether "the political system is more productive, more effective and more efficient than another in its ability to extract resources for its own ends?[22]" An initial attempt in measuring this capacity known as Relative Political Capacity (RPC) was in place and tested by Organski and Kugler (1980). Following which, numerous other works added specificity to this general concept as well as extending RPC reach to

[16] Kugler and Organski (1989) chapter 7 pg. 190 in Midlarsky (1989)
[17] Idem
[18] Idem
[19] Idem
[20] Organski, K and Organski, A. F. K., 1961.
[21] Kugler and Organski (1989) chapter 7 pg. 191 in Midlarsky (1989)
[22] Idem

include global, regional and domestic political capacity see Organski and Kugler (1980), Kugler and Domke (1987), Kugler (1987), Rouyer (1987), Snider (1988), and Kugler and Arbetman (1997).

In summary, this caused the inclusion of RPC in the measurement of power, resulting in Power = (Economic Productivity per Capita x Population) x Relative Political Capacity. Resulting in the development and validation of an approach to measure power that accounted for the outcome of wars with a high degree of accuracy[23]. A study by Kugler and Swaminathan (2006) substantiated this argument by showing that individuals production output is the basis of power and for conflict to be waged participants are required. The works of Arbetman and Kugler (1997), Kugler and Tammen (2012), Lemke (1995), Lemke & Reed (2001b) and Boulding (1962) added further component to the understanding and measurement of power, such as political performance and a geographical component. This has resulted in a quasi-consensus around the use of GDP and/or the Composite Index of National Capability (CINC) as a way to capture the power variable. Rauch (2017), stands as one of the few critics suggesting for an amendment in the way PTT measures power[24]. Details about this paper approach to measuring power is discussed in the second chapter.

1.4.3 Measuring satisfaction

With regard to the measurement of satisfaction, various approaches have been tried. The most popular includes measuring associations among alliances and alliances patterns, see Altfeld & Bueno de Mesquita (1979), Kim (1989), Organski and Kugler (1980), Signorino and Ritter (1999), Bueno de Mesquita (1975) and Sweeney (2003). Critics against this approach raises the fact that alliance tend to be long-standing arrangements and forming new ones requires considerable diplomatic time and effort, and since the changes can be slow, it makes it challenging to assess how they are changing the status quo. Moreover, absence of alliances are not necessarily indications that states are in enmity nor all alliances are sincere statements of regards (e.g.: The German-Soviet Non-Aggression Treaty).

Another popular method tried has been by measuring build-up of arms among nations, see Werner & Kugler (1996) and Lemke (2002), the rationale used for this measurement is that a build up by one such actor implies they are preparing for war and this is tied to its increasing dissatisfaction with the dominant state. However, a critic here is that other causes could be behind the arm build-up such as internal pressures rather than external ones, and while this could be useful in measuring general dissatisfaction, it lacks fundamentally in measuring specific dissatisfaction[25]. Other literature includes using interest rate as measurement of dissatisfaction (see Bueno de Mesquita, 1990); measure of transfer of arms from

[23] Kugler and Organski (1989) chapter 7 pg. 192 in Midlarsky (1989
[24] Rauch (2017.b).
[25] Tammen, Kugler and Lemke, (2017)

suppliers (See Childs, 2011 and Kinsella, 2008), but also Klempp (2016) critic of these approach. All attempts in measuring satisfaction have found to be lacking.

Another key problematic of PTT measurement of satisfaction as argued by Rauch (2016)[26] is that satisfaction is looked at as a dichotomous variable, thus, a state is either dissatisfied (indicating power transition war) or satisfied (indicating a change through a peaceful power transition). Moreover, satisfaction in PTT is also often seen as a static and not continuously evolving variable. Despite being a key variable of PTT, satisfaction has remained under-developed from a theoretical, conceptual and methodological point of view[27].

There is a widespread agreement within PTT academics that the lack of systematic understanding of satisfaction as a variable is one of the main weaknesses of the theory, see Benson (2007: 273); Danilovic and Clare (2007: 291); Kim and Gates (2015: 225); Lemke and Kugler (1996: 22); Lim (2014: 284); Silverson and Miller (1996: 61); Tammen (2008: 322); Tammen et al. (2000: 121). This paper seeks to address the theoretical, conceptual and methodological flaw in the study of satisfaction in PTT. By proposing this framework of a typology of satisfaction, it addresses the issue highlighted under this section of the literature review. The framework suggested by this paper conceptualize an understanding of satisfaction that is not binary nor static, but also one that can reflect the changing status quo in timely manner. Furthermore, this paper approach in measuring dis/satisfaction focuses on a specific dissatisfaction rather than a general one, thus accommodate a dynamic and dual understanding of satisfaction, such that a state can be satisfied about one matter and dissatisfied about another, which lead war. While acknowledging that no theory can explain everything, the fact that the US did not go to war with the United Kingdom (UK) during the same period can be considered an anomaly of transition and this study contribute to the literature with an approach to measuring satisfaction that clarifies that anomaly.

1.5 Methodology

1.5.1 Operationalization of variables

This study takes a deductive pathway, as observed under the literature review, it identifies the existing gaps in how satisfaction is measured. The study does not test the theory as a whole, rather an essential part of PTT which is satisfaction as a variable. This is done through comparative analysis of two power transitions -USA vs UK and Nazi Germany vs UK- which differed in their outcome. Through the method of congruence, this paper assesses whether the outcome of the case is consistent with the theory's prediction (see figure 1). The theory is tested within its domain of application, thus ensuring its explanatory leverage. As per a Y-centred research approach, the transitions have been chosen according to variation on the Direct Variable (DV), with one leading to war while the other did not.

[26] Rauch (2016), Adjusting power transition theory-
[27] Rauch, (2017.b)

Moreover, it identifies how a single Indirect Variable (IV), namely political dis/satisfaction changes with the DV.

Transition Outcome	Rising State	Politically satisfied	Politically dissatisfied	Economically satisfied	Economically dissatisfied
Peaceful	United States	+	-	-	+
War	Nazi Germany	-	+	-	+

***Figure 1**: (-) Denotes the absence of the condition and (+) denote the presence of the condition*

The IV for this study are (1) Economic dis/satisfaction and (2) Political dis/satisfaction, the DV is power transition. Variance occurs at the level of the DV considering that the outcome of the power transition can be peaceful or conflictual/war. In terms of variable operationalization, a crucial reminder of what has been stated above is that satisfaction is not looked at as a once-off fixed variable, but rather as a continuously evolving one. This is critical as the study measures satisfaction throughout the historical timeline (the inter-war period) during which the events key to this study unfold. However, a look at historical key events outside of that period may be used, as they provide the background and context within which the study must be understood. With regard to the operationalization of variables, economic dis/satisfaction is measured through the following set of indicators: Trade policy (Free Trade vs Protectionism), Foreign Investment (increase vs decrease), economic policies, and Debt (repayment vs default/cancelation). While political dis/satisfaction will be measured by looking at (1) Rising state behaviour toward existing security treaties in its region of influence; (2) the frequency of (un)sanctioned incursion in naval, aerial and territorial region of influence by the dominant state (and allies); (3) presence of expansionist behaviour by rising state in region of influence that is unsanctioned by dominant state. The rationale behind the choice of these indicators is amply discussed in the second chapter of this paper. Lastly, in order to prove causality between the IV and the DV, this paper relies on process tracing which allows to track causal pathway through a qualitative analysis methodology, thus enabling the ability to determine if and how potential cause/s can influence a particular change.

1.5.2 Rationale for case study choice

For this study, the United States and Germany in relations to the United Kingdom have been chosen as the case study to empirically test the addition made to the theory. The chosen case studies, are part of the case files under Harvard Thucydides Trap Project, which is one of the most comprehensive works done in this discipline. Additionally, case have also been filtered through the PTT required criteria of GDP and CINC index as identifiers of rising powers and dominant one (see chapter 3). Moreover, in order to ensure a relatively equal presence of economic dissatisfaction between both cases, this study chose an historical period that experienced the Great Depression, which affected the countries in this study. The assumption in the choice of the latter is that the economic impact of the Great Depression act as an economic equalizer, thus, by ensuring a choice of cases with a similar economic environment, the contrasting effect of the political variable will be made clearer. This paper argues that the economic impact of the great depression resulted in economic dissatisfaction as a common variable in our chosen case studies (see figure 1).

However, where this paper differs from the Harvard project is it in its pairing of states. The Thucydides Trap project group the transition constellations as follows[28]: (1) Soviet Union, France, and United Kingdom vs Germany and (2) United States vs Japan. The first part of the pair of states being the ruling states (namely Soviet Union, France, United Kingdom and United States) while the second part of the pair considered the rising states (namely Germany and Japan). This paper argues that since both conflicts occurred within the same timeline and as well as intertwined with each other's, they should not be separated. Moreover, with most of the literature agreeing that the Soviet Union, France and the United Kingdom were the ruling powers at the time (since the US influence was restricted to its regional zone of influence), this separation of transition constellations avoid to deal with an obvious question: why was there no war between the United States (which would qualify as a rising states) with the mentioned ruling states? This study argues that the United States political satisfaction is what restrained its desire to change the status quo, despite the fact that it was also experiencing a dissatisfying economic period (as a result of the Great Depression). The purpose of the first case study is to test the theory as per the alteration made and contribute toward theory development. The second case study of this paper will be the current US-China transition, which will provide a demonstrated application of PTT and re-assessment of this transition based on the theory alteration made earlier.

1.5.3 Data collection method

Lastly, the research relies on both primary and secondary sources for its data collection. Primary sources include government documents such as policy briefs, speeches, passed legislations and more. While secondary sources include but not limited to other researcher's work likes journal articles, books and more. The main target are international historical records of interwar politics as well as current affairs.

1.6 Ethical consideration

Considering that the method of data collection and analysis for this paper is textual analysis and a desktop study, there is no requirement for ethical clearance. This decision was reached by the School of Social Sciences Ethics Committee, constituted as a subcommittee of the University Human Research Ethics Committee (Non-Medical), which has been evaluated by the subcommittee chair. Moreover, this

[28] Belfer Center for Science and International Affairs (2021)

decision has been ratified by the University Human Research Ethics Committee (Non-Medical), under the ethical clearance/waiver number WINTR2021/07/31.

1.7 Chapter outline

Chapter 1: Introduction and Research methodology

This chapter provides a discussion of this paper research matter, such as the rationale of the study, the research question and sub-question, the literature review, the methodology employed as well as ethical consideration.

Chapter 2: Theoretical Framework Development

This chapter primarily provides a comprehensive look at PTT in its current form, following which, it engages in theory development by integrating the typology of dis/satisfaction that is the central contribution of this paper. The purpose of this chapter is to provide the components of theoretical framework that will be used for the empirical tests of the power constellation, as well as a revised assessment of the US-China power transition.

Chapter 3: Empirical test - Power constellation US/UK vs Nazi Germany/UK

This chapter provides an empirical test of the proposed approach in measuring satisfaction in a power transition. This will be done by analysing the power constellation of the US/UK vs Nazi Germany/UK that led to the second world war. This chapter should answer whether war most likely occurred as a result of political dissatisfaction as opposed to economic dissatisfaction of the rising state toward the status quo?

Chapter 4: Analysing the US-China power Transition

This chapter provides a re-assessment and analysis of the US-China power transition that takes into account the proposed approach to measuring dis/satisfaction.

Chapter 5: Conclusion

Under this chapter, a summary of this thesis main findings, the scope and limitation of the study as well as a recommendation for future research are provided.

Chapter 2: Theoretical Framework Development

2.1 Power Transition

Simply defined, power transition theory studies the pattern of structural change in power relationship and the probability that they may result in conflict and/or cooperation during a period of transition at various level of analysis[29]. The theory has a set of fundamental assumptions. The first one is that the international order is organized in hierarchy, not anarchy. At the top of this hierarchy there is a dominant power (the most powerful nation in the global order), followed by great powers (nation of great capability but not equal to the dominant power on a one-on-one comparison), then middle powers and small powers (See figure 2). The dominant power with the help of certain great powers (its allies), ensure the maintenance of the status quo in their favour.

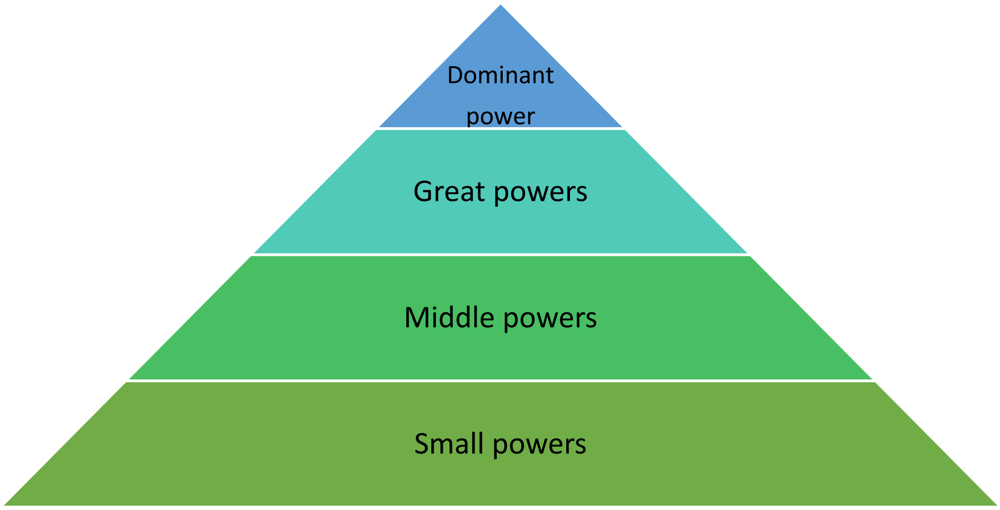

Figure 2: PTT hierarchy

The second assumption is that the rules of engagement in domestic and global political system are fundamentally similar.[30] Albeit the relative lack of enforceable law in the global sphere, there are little differences in the rules of engagement governing domestic and international arena. As such, just as competition over limited resources between political actors exist in the domestic system, so it does on the global order. The third assumption is that whereas the balance of power theory argues that the objective of nations is to maximize power, PTT argues that the objective of nations is to maximize net gains[31]. In PTT, power is a crucial variable influencing how the international order functions, but it does not operate in a power-maximization model. Thus, as long as parties perceive that net gains from conflict are inferior to the net benefits in the international order, a peaceful competition will be ensured[32]. The opposite does apply, if the net gains from conflict are perceived to be superior than the net benefit in the global order, war will ensue[33].

[29] Tammen, Kugler and Lemke (2017), p.1
[30] Kugler and Organski (1989) chapter 7 pg. 173 in Midlarsky (1989)
[31] Idem
[32] Idem
[33] Idem

This net gains are expressed in terms of benefit (of economic and/or security nature) distributed within the global order[34], as such, nations that are allies of the dominant power tend to be satisfied as they benefit more from the status quo, than non-allies who are dissatisfied and this is relatively consistent across all level of powers.

Satisfied great powers provide support to the dominant power to ensure peace, the maintenance of benefits distribution and the rules of engagements. It is for this reason that PTT see alliances as stable and reliable element that cannot be changed in the short run. This outline a significant contrast between PTT and realist theories, PTT argues that world peace is not the result of a balance of power, rather a preponderance of power in the hands of one nation and its allies[35]. An equal allocation of military, political and economic development across contestant states has higher probabilities of war as an outcome, thus, peace is best sustained when disparities in said development exist between powerful and weak nations[36]. As a dissatisfied great nation reach near parity with the dominant nation, an increase in instability will be evident and so will the probability of conflict[37]. It must be stated that PTT does not argue that war is inevitable when all conditions are met, but rather that the probability of war occurring is most likely.

Organski (1980) originally envisioned 3 stages of transitions that referred to the domestic changes that happens when a country went from under-developed to developed status[38]. The first stage being of potential power, the second being of transition growth in power and the third of power maturity[39]. For a thorough detailing of the various dynamic of those stages of transition see Organski (1980). For the purpose of this study, the implication is that, it is the domestic transition from stage to stage that often led to the overtaking of one great power by another in the global order[40]. Reason being, a state that has reached the stage of power maturity will inevitably be caught and overtaken by those undergoing a transition, since the former has already exploited its power potential while the latter is growing at a rate faster than the earlier developed nations[41]. In this context, transition is used to refer to the period where the rising state surpass the dominant nation. Thus, the overtaking process at the global level is but an externality of the domestic transition[42].

[34] Idem
[35] Organski (1968), pg 363
[36] Idem
[37] Kugler and Organski (1989) chapter 7 pg. 175 in Midlarsky (1989)
[38] Kugler and Organski (1989) chapter 7 pg. 178 in Midlarsky (1989)
[39] Organski (1968), pg 350
[40] Kugler and Organski (1989) chapter 7 pg. 178 in Midlarsky (1989)
[41] Idem
[42] Idem

2.2 Power Development/Capability

The literature review offered a detailed exploration of the evolution made in measuring power capability in PTT. In this section, the focus will be on the chosen method employed in this paper. Briefly recapitulating, prior to PTT, power was measured in various ways including military strength, mobilization of untapped resources for war purpose and/or various notions of the will to fight. PTT contribution was to root this measurement in the development of socio-economic and political resources of a nation. As such, the initial attempt to measure power was Power= Economic Productivity (measured through GDP) x Population. Later on, RPC was added to the equation resulting in Power = (Economic Productivity per Capita x Population) x Relative Political Capacity. The influence of domestic dynamics on the externality of a state is evidently present in the way power capability distribution is measured in PTT. The current consensus is to rely on the use of the Composite Index of National Capability (CINC) Index based on data from the Correlates of War Project, often in correlation with GDP. The index is made out of an average of percentages of six different components, namely: military expenditure, military personnel, energy consumption, iron and steel production, urban population and total population[43]. These components are expressed as ratio's and makes up a percentage of the world total. As such, the country with the highest CINC ratio is the most powerful in the world and vice versa.

$$\text{Ratio} = \frac{\text{Country}}{\text{World}}$$

$$\text{CINC} = \frac{TPR + UPR + ISPR + ECR + MER + MPR}{6}$$

TPR: Total population of country ratio; **UPR**: urban population of country ratio; **ISPR**: iron and steel production of country ratio; **ECR**: primary energy consumption ratio; **MER**: military expenditure ratio; **MPR**: military personnel ratio.

Considering that these numbers have already been computed, this paper will not undertake the repetitive exercise of doing so. Thus, power capability will be measured through the most accepted method, which is the combination of the CINC index and GDP.

2.3 Dis/Satisfaction

PTT fundamental assumptions stated above have implications for the measurement of its variables. For example, PTT definition of power underline an intrinsic relationship between a state domicile development and externality on the international order. Simply put, a country's power on the global order is a result of domicile socio-economic and political factors. Thus, the very process of one power

[43] National Material Capabilities (v6.0) — Correlates of War, 2021

overtaking the other is but an externality of domestic factors. As such, this paper argues that it is only logical that an understanding and measurement of dis/satisfaction cannot be alienated from the dynamics between domicile factors and their externalities. The measurement of dis/satisfaction cannot occur out of the realm of this intertwining relationship between domicile factors and their externalities. Another fundamental assumption of PTT that ought to be a central principle in influencing not just the measurement of dis/satisfaction, but the very definition of it, is the concept of net gains maximization. PTT argues that countries do not seek to maximize power, but rather to maximize net gains, which is expressed in terms of economic and/or security benefits. As such, a country is satisfied when it perceives that the net benefit from the international order is superior to net gains out of that international order, which ensured a peaceful competition[44]. In contrast, a country is dissatisfied when it perceives that the net gains out of the international order are superior to the net benefit in the international order, which result in war[45] (see figure 3). Consequently, we can define satisfaction as occurring when a rising state perceives that the net benefit from the international order is greater than the net gains it could experience out of that order. While dissatisfaction occurs when a rising state perceives that the net gain it could experience out of the international order are superior than the current net benefit it receives in the international order.

Status Quo Equilibrium	Rising Power Status	Transition Outcome
Net benefit in IO > Net gains out of IO Or Net gains out of IO < Net benefit in IO	Satisfaction	Peaceful
Net gains out of IO > Net benefit in IO Or Net benefit in IO < Net gains out of IO	Dissatisfaction	War

Figure 3: Relationship between Status quo, rising power status and transition outcome. IO: International Order

As the rising state becomes the dominant state, it can no longer find satisfaction in its benefit being dictated by the former dominant state, this would be in contradiction with the principle of seeking maximum net gains. Thus, the desire by both states to maximize their net gains by seeking to secure their stature as dominant state create a temporary dislocation that is often resolved through war. Simply put, there can only be one dominant state at the top of the pyramid. This suggestion is also consistent with PTT second assumption mentioned earlier, that the rules of engagement in domestic and global political system are fundamentally similar. As such, competition over limited resources (hereby being the dominant power privilege/stature) between political actors also exist in the global order.

[44] Kugler and Organski (1989) chapter 7 pg. 173 in Midlarsky (1989)
[45] Idem

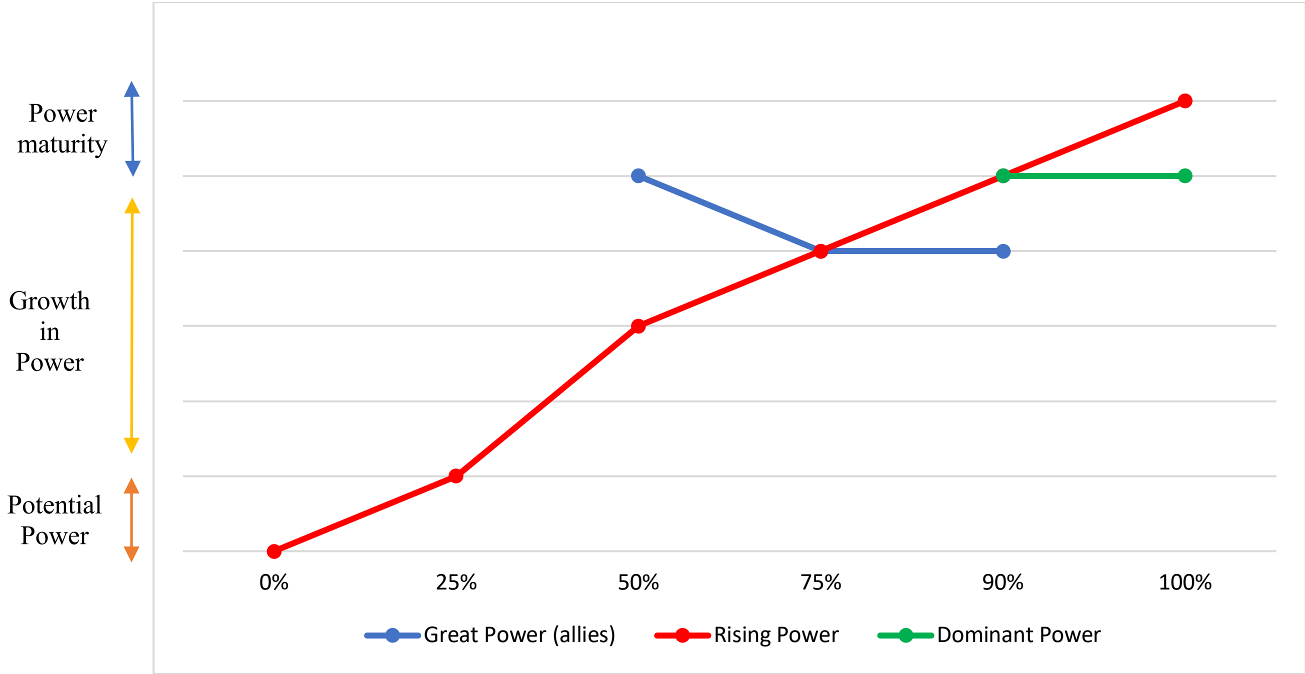

Figure 4: Rising state journey

Figure 4 demonstrate approximately the relationship between power capability (y axis) and various net gains (x axis) in the dynamics of a power transition. The maximum net gains that can be extracted from the International Order is expressed as 100% value and power maturity expresses the highest echelon of power that can be attained by a state. In the stage of potential growth, the rising state is depicted as being able to extract net gains ranging from 0% to 25%, since all the power and net gains it can experience are set in a potential future. However, this is purely hypothetical because the value it will extract will vary based on whether it is an ally or not of the dominant power, but either way it cannot surpass the value great powers extract from the international order. This also influences the rising state satisfaction status. Once it leaves the stage of potential power and start experiencing growth in power, the net gains it experiences also increase. The rising state may not necessarily receive benefit of equal value to other great states (allies of the dominant power), which could be potential cause for dissatisfaction, it does however match them in power capabilities and can even overtake them. At this stage, the rising state most likely is a great power as well. However, the crucial point here being that, the dominant power is still theoretically able to provide the rising state with enough benefits to ensure the equilibrium remains in place. Meaning the dominant power can still ensure that the net benefit enjoyed by the rising state remain superior to the net gain it could receive out of that order. Concurrently, the rising state which may not be satisfied at that stage will not go to war with the dominant power as the net gains that will come out of this are inferior to the net benefit in the current International Order. This is consistent with the finding and evidence from Organski and Kugler (1980) empirical tests, which suggested that the rising state only attacked after it had overtaken the dominant state in power capacities[46]. Conflict started after and not before the parity point, contrary to Organski (1968) original argument that war is waged once the dissatisfied states has reached parity with the dominant nation.

At the point of power maturity, the potential net gains that can be attained is expressed in a range from 90% to 100%. Once the rising state and dominant state reach parity (expressed here as 90%), the dominant power potential value offering in terms of benefit to the rising state has reached its cap. This is simply because both states cannot simultaneously enjoy maximum net gains (100%) reserved to whoever is the dominant state in the international order. Consequently, since every nation seeks to maximize gains, it would be contrary to this principle that a great power which has overtaken a dominant state will accept to keep receiving the benefit that are sub-maximum net gains. This result in disturbance in the equilibrium of the international order as the net benefit the former dominant state can offer to the new dominant state (former rising state/challenger of the IO) can only be inferior to net gains the rising state can secure for itself through war. While Figure 4 assumes a linear growth (which is not necessarily the case) this is simply for demonstration purposes. It is crucial to highlight that this paper makes a distinction between war and conflict, the former requires a direct involvement (or through proxy) of both countries' military. While the latter is broadly considered as any action by a rising state that is in divergence with the dominant state interest. As such if the rising state seeks to establish alternative global infrastructures (economics, security and/or political in nature) that are not primarily in line with the interests of the dominant state, this can be considered as a conflict with the international order. Considering that this is quite literally of a conflict of interest.

Lastly, earlier this paper highlighted the theoretical, conceptual and methodological flaw in the study of satisfaction in PTT. Critics made included the lack of systematic and objective approach to this measurement, as well as the fact that the current approach has a binary and generalized understanding of dis/satisfaction. The issue with this, is that it led to a vague assessment of the reason behind the dis/satisfaction of a state. To resolve this issue, this study proposes a typology of dissatisfaction, as economic dis/satisfaction and political dis/satisfaction. These choices are informed by the fact that the net benefit experienced by nations in the International Order are of an economic and/or security nature. The political dis/satisfaction type will include an assessment of security benefit under its umbrella. In its essence, this paper suggest that it is not dissatisfaction in the general sense that leads to war, rather a specific type of dissatisfaction (namely political dissatisfaction). As such a rising state could be economically dissatisfied yet politically satisfied and not go to war, while a rising state that is economically satisfied but politically dissatisfied could go to war.

[46] Kugler and Organski (1989) chapter 7 pg. 183 in Midlarsky (1989)

This proposition is in line with Kugler and Arbetman (1997)[47] suggestion that under stress, political goals take precedence over economic priorities, since government facing external and internal threats sacrifice economic stability to maintain their political standing. Figures 5 provides an outlook of how potential dis/satisfaction status by type can impact the outcome of a transition.

Political satisfied	Politically dissatisfied	Economically Satisfied	Economically dissatisfied	Transition Outcome
+	−	+	−	Peaceful
−	+	−	+	War
+	−	−	+	Peaceful
−	+	+	−	War

***Figure 5**: (-) Denotes the absence of the condition and (+) denote the presence of the condition*

2.3.1 Economic dis/satisfaction

Based on the earlier definition of dis/satisfaction, we can state that economic satisfaction occurs when a rising state perceives that the economic net benefit from the international order is greater than the economic net gains it could experience out of it. While economic dissatisfaction happens when a rising state perceives that the economic net gain it could experience out of the order are superior than the current economic net benefit it receives in the international order. As mentioned in the literature review, various approaches to measuring satisfaction have been attempted with little success. One notable approach by Bueno de Mesquita (1990) suggested using interest rate, but critics argued that economic indicators are based on structural characteristic of a state's economy, rather than on its agreement with the status quo[48]. This paper disagrees with the critics regarding the use of economic indicators on the basis that in its essence, PTT acknowledges that a rising state existence in the international order are intrinsically influenced by domestic factors as amply argued above. The very act of transition is but an externality of domestic factors and this is evident in the measurement of power, as amply discussed above. Moreover, state economies do not exist in isolation from each other's, such is evident by the fact that economic malaise such as the Great Depression (which occurs within our historical timeline) started in the United States but affected the global economy. In more recent example, trade deficit has been the cause of tension and dissatisfaction in the recent years in the US-China relations, affecting both national and global economies, but to bemoan deficits has been recurrent throughout history and not just for the United States[49]. National economies are made of components such as Foreign Direct Investment, which flows are often the cause of satisfaction or dissatisfaction for a state. While they might not be telling

[47] Kugler and Arbetman (1997)
[48] Tammen, Kugler,.and Lemke (2017)
[49] Roberts (2021)

when used individually, when combined, high FDI and Real GDP tend to be a more common characteristic in rising states and dominant power, than weaker ones.

As such, the use of economic indicators should not be completely dismissed, rather a focus should be on economic indicators that offers an understanding of inter-state relations as well as of a state in relationship to the international order. This paper will measure economic dis/satisfaction through the following set of indicators: Trade policy, Foreign Investment, economic policies, and Debt. However, not all indicators are expected to be present in all great power cases. Moreover, certain indicators may play a more significant role in one country while less so (or any at all) in other countries; and where similar indicators are present in two countries, they may have a different function. This is due to countries unique economic context at a given time. Economic policies differ as they are primarily contextual, but can also be indicative of a state's attitude toward the status quo. But the focus in this context is on economic policies that are outward looking, thus impacting other states. Economic policies chosen in this category will have to be outward looking and the primary purpose is to provide context of the state intentions, as such whether a trade deficit equate to dissatisfaction will mainly depend on the context set by economic policies. As such a trade surplus experienced by a country, could be indicative of dissatisfaction if it occurs within a pro-protectionist context, while indicate satisfaction when it is within a pro- free trade context. Figure 6 provides an understanding of how these indicators are operationalized.

Indicators	Satisfied	Dissatisfied
Foreign Investment	$Increase$	$Decrease$
Trade	$Pro - Free\ Trade$	$Pro - protectionism$
Sovereign Debt	$Repayment$	$Default/Cancelation$
Economic policies	Contextual	

***Figure 6**: Operationalization of indicators. (-) Denotes dissatisfaction (+) denote satisfaction*

2.3.2 Political dis/satisfaction

Based on the earlier definition of dis/satisfaction, we can state that political satisfaction occurs when a rising state perceives that the political net benefit from the international order is greater than the political net gains out of it. While political dissatisfaction happens when a rising state perceives that the political net gain it could experience out of the order are superior than the current political net benefit it receives in the international order. As mentioned earlier, the political variable is linked to security benefit in the international order. This choice was made to ensure a broader approach to measuring this variable, that is not strictly reserved to security dynamics and exclusive of policies. As such, political dissatisfaction happens when a rising state is faced with constraints of a political nature (set forth as the rule of engagement under the IO) that prevent its ability to pursue its maximum net gains.

The underneath assumption is that a state whose region of influence, territorial integrity and such is not threatened is satisfied and vice versa. When the existing rules of engagement hinders the rising state ability to exercise and grow its influence, a politically dissatisfied state will challenge those rules through various means including nonconventional ones.

The case of the United States 19th Century rise and power transition with the United Kingdom is an adequate embodiment as well as justification for this typology of dis/satisfaction. While this case features in the PTT literature as the most prominent peaceful power transition, the reality is far more nuanced. Rauch (2011) offers a more detailed exploration of this case, but this paper focus is on a summary and the essential take away from it. Based on GDP data, the US had overtaken the UK in 1869[50] and the CINC data shows the US overtaking the UK by 1892[51]. Thus, by both indicators the US was more powerful than Britain in the early years of the 20th century. While traditional PTT considered the US a satisfied rising power and this case to be a peaceful power transition (Organski 1968: 363 – 377), both nations achieved large territorial gains and were involved in wars and militarized interstate disputes more often than any other powers[52]. One indicator of politically dissatisfaction by the US include the beginning of the implementation of the Monroe Doctrine in 1823. The Monroe doctrine objected to European colonialism in the Americas, which was interpreted as a hostile act against the United States.

Furthermore, both nations were also engaged in a series of scuffles with each other's such as the War of 1812, The Mackenzie Rebellion of 1837 and various other conflict leading to the signing of the treaty of Washington in 1871[53]. The Venezuela Crisis in 1895 is a significant event as it nearly caused this conflict to turn into full blown war, but its peaceful resolution shifted the long-term relationship between both nations. A resolution that occurred after Britain ceded to US concessions. This conflict emerged following a border conflict between Venezuela and the United Kingdom, which saw the United States supporting Venezuela as part of the US Monroe doctrine. In brief, what this paper wants to bring across is the fact that the underlying theme across those disputes was what the US considered a threat to its sovereignty and regional integrity. This is evident by the fact that most, if not all, these conflicts were related to border conflicts and the likes. Moreover, these events create a dilemma for PTT academics, how can they reconcile the belief that the US was a satisfied rising power when considering these events? Academics have gone further to argue that the US and the UK did not go to war because of shared ideologies, cultural ties and other similar reasons. However, these instances have proven this to be erroneous. This dissonance can only be resolved through a conceptualization of dis/satisfaction as a

[50] Rauch (2017.a) pg. 209
[51] Idem
[52] Chan (2008)
[53] Rauch (2017.a) pg. 211

non-binary variable (a country can be satisfied about one matter and dissatisfied about another) and acceptance of a typology of dis/satisfaction. In such manner, one can argue that the US was economically satisfied but politically dissatisfied.

In this paper, a focus will be on foreign policy relations of the rising state with regard to the state security and its sovereignty vis a vis its region of influence and the dominant state. Political dis/satisfaction will be measured by looking at frequency of disregard of the rules of engagement and the type of disengagement that a rising state is exhibiting. A rising state that portrays more frequent disregard for the rules of engagement will be considered dissatisfied and vice versa. As such, this measurement will occur in the following areas: (1) Rising state behaviours toward existing security treaties in its region of influence; (2) the frequency of (un)sanctioned incursion in naval, aerial and territorial region of influence by the dominant state and its allies; (3) presence of expansionist behaviour by rising state in region of influence, unsanctioned by dominant state.

2.4 Conclusion

This chapter provided a definition of key concepts discussed in this paper, as well as a discussion centred on theoretical framework development. As such, this chapter argues that while it has been widely accepted that certain key concept of PTT influences the way power is measured this can also be extended in the measurement of satisfaction. One example of this is the intertwining relationship between a country domicile socio-economic and political development and its transition of the global status. The other example is the concept of net gains maximization. This chapter amply discussed various aspect of dissatisfaction, defined economic and political dis/satisfaction and discussed how to measure them. The subsequent chapters will undertake the exercising of empirically testing the theory and its new additions.

Chapter 3: Theory testing – Power constellation US/UK vs Nazi Germany/UK

3.1 Power Development/Capability discussion

Chapter 2 provided more details on how power development/capabilities is computed and as stated, this paper will rely on pre-existing calculations of CINC Index based on the Correlate of War project and GDP. In terms of GDP, as seen on figure 7 the US reached parity with the UK in 1858 and overtook it in 1869[54]. In terms of CINC score, as per figure 8, the USA had overtaken the UK by 1892. Thus, for the purpose of this study, by 1900, the US had become the dominant power. Which raises the question, why did the US not challenge UK for the status in that case? PTT answer to this question is that the US was a satisfied great power and this is consistent with the theory. However, as discussed in the second chapter and further discussed under the dis/satisfaction section in this section, this is only partially true.

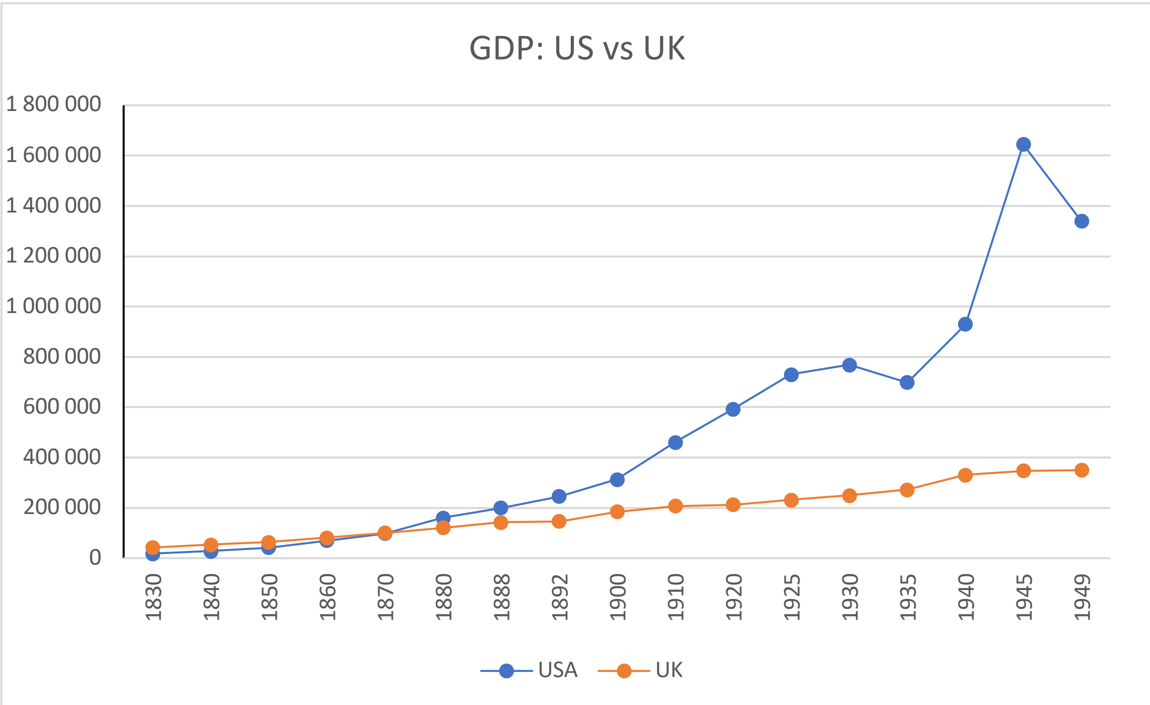

Figure 7: Historical GDP: USA and UK (in million per International Geary-Khamis dollars) Data. Source: Maddison project – historical statistics[55]

[54] Rauch (2017.a) pg. 209
[55] Maddison (2008)

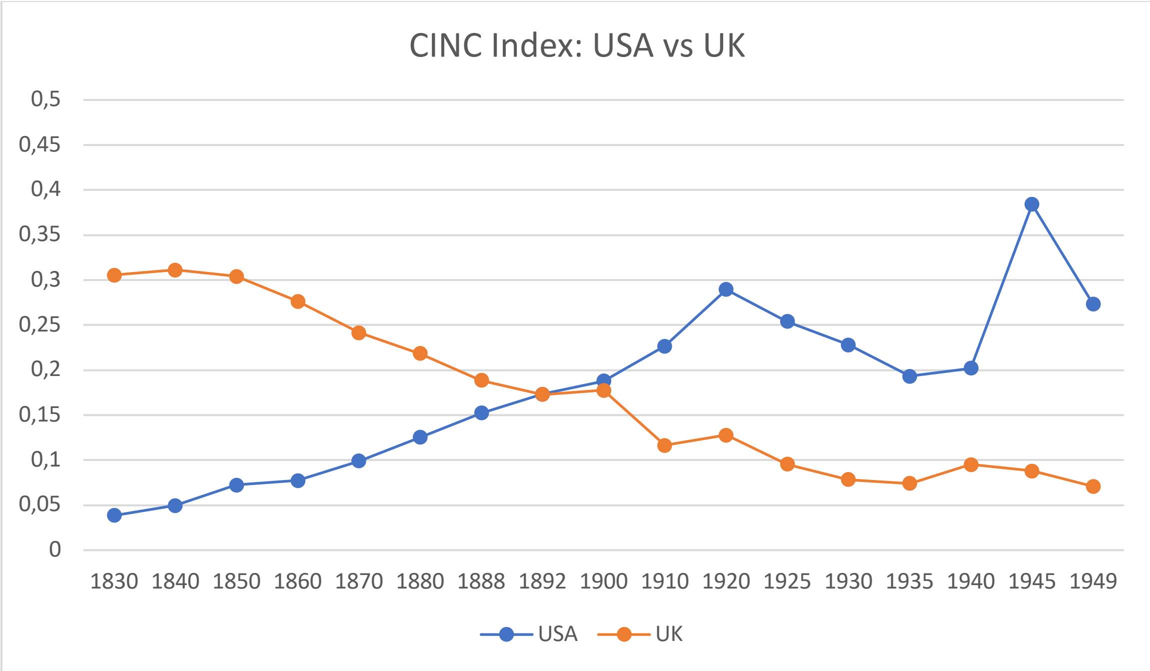

Figure 8: CINC Index USA vs UK. Source: Correlate of War Project[56]

With regards to GDP, figure 9 shows that Germany briefly overtook the UK first in 1908 when its GDP reached $199 122bn compared the UK GDP of $196 316bn. But in the context of this study timeline, Germany overtook the UK during the roaring twenties, specifically in 1926 when its GDP reached $229 363bn compared to the UK GDP of $223 270bn. However, by 1932 the crippling impact of the Great depression had settled in and Germany lost its dominance as its GDP dropped to $220 916bn compared to the UK $238 544bn. This changed in 1935 when the German GDP reached $275 496bn, thus surpassing the UK GDP of $271 788bn. While this is not evident in the chart (figure 9), this lasted well into 1944 and only changed in 1945 as Germany lost the war. In terms of CINC, Germany reached parity with the UK in 1926 and overtook it in 1934 (see figure 10). Thus by 1935, Germany was more powerful than the UK by both metrics.

[56] National Material Capabilities (v6.0) — Correlates of War (2021)

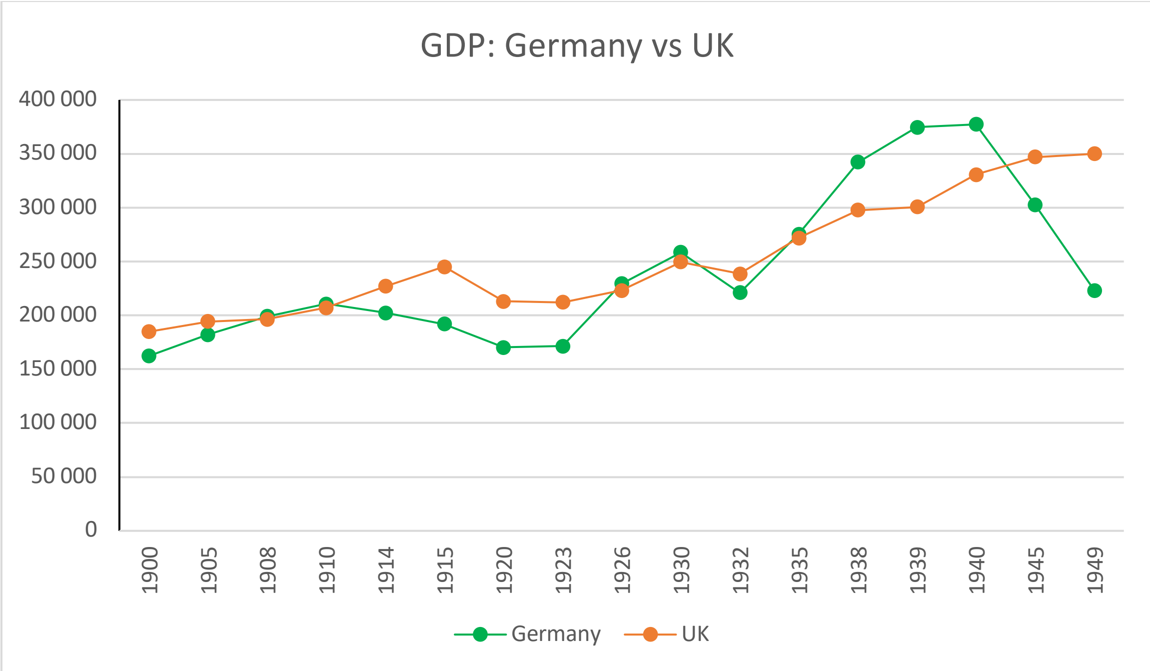

Figure 9: Historical GDP: Germany and UK (in million per International Geary-Khamis dollars) Data. Source: Maddison project – historical statistics[57]

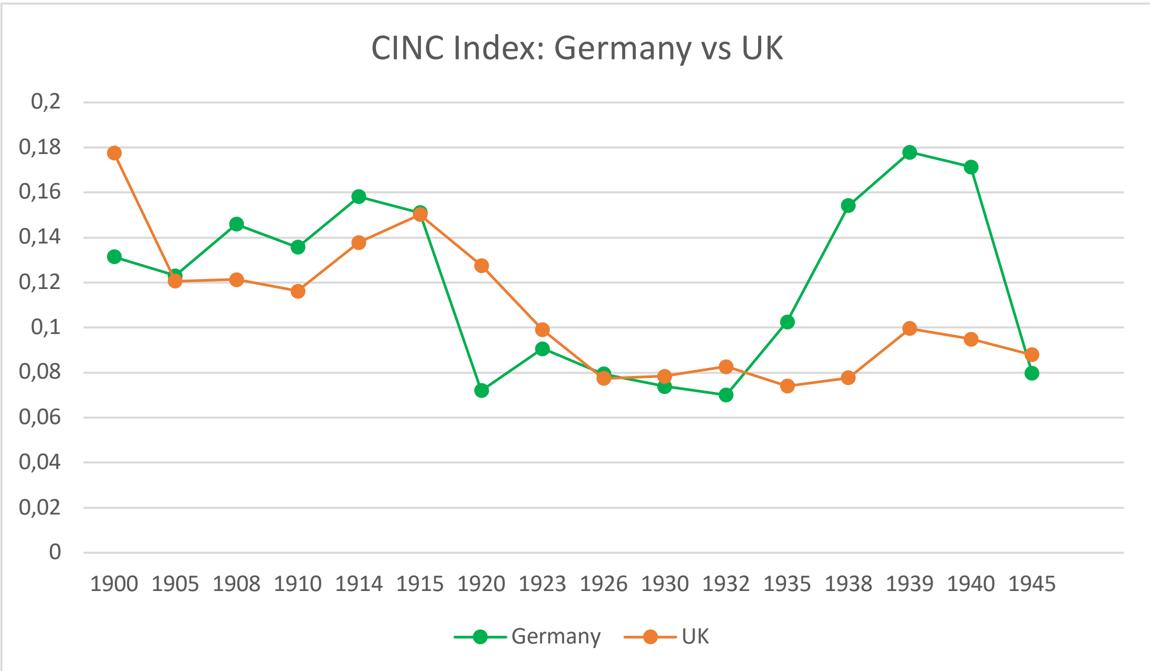

Figure 10: CINC Index Germany vs UK. Source: Correlate of War Project[58]

[57] Maddison (2008)
[58] National Material Capabilities (v6.0) — Correlates of War (2021)

3.2 Contextualisation and the Great Depression

As stated in the first chapter, the timeline of this study is set within the interwar period (1918 – 1939). However, key historical events outside of that window will also be looked at as they provide further context for this study. The central power constellation studied under this paper, namely the pair of US/UK vs Germany/UK, were great powers and the dominant power at the time. The great depression and its effect, is seen here as a 'great economic equalizer' as it negatively impacted most of the involved countries in this study. This is built on the assumption that the economic impact of Great Depression ensured a relatively similar economic environment, which aid in contrasting the effect of the political variable. This paper argues that the economic impact of the great depression resulted in economic dissatisfaction as a common variable in our chosen case studies. The early 1920s were characterized by a period of economic boom known as the roaring twenties, during which Germany and the US benefited tremendously, amongst other countries.

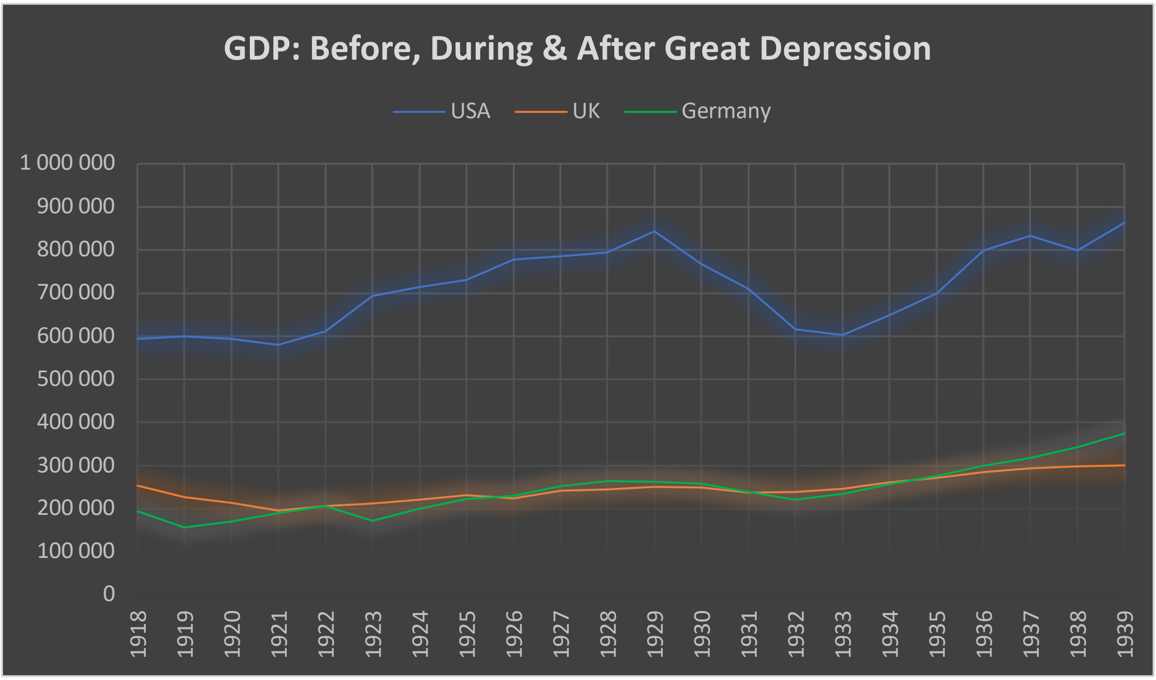

Figure 11: Historical GDP (in million per International Geary-Khamis dollars) Data. Source: Maddison project – historical statistics[59]

Figure 11 shows that the US GDP grew from $593 billion in 1919 to $843 billion in 1929, then came crashing from thereof. During the roaring twenties, the US GDP experienced an average growth at the rate of 4.9 percent per year[60]. Germany in a similar fashion saw its GDP grow from $156 billion in 1919 to $263 billion in 1928, and going downward afterward. In the same period, the UK GDP experienced two contractions prior to the Great Depression: the first when its GDP contracted from $226bn in 1919 to $212bn in 1920 and $195bn in 1921. The second in 1926 when its GDP dropped to $223bn from its

[59] Maddison (2008)
[60] What Happened during the Great Depression? (2012)

height of $231bn in the preceding year. In 1929, the UK GDP was $251bn after which it contracted for two years, respectively to $249bn and $236bn before regaining an upward trajectory. During the great depression, the global GDP fell by approximately 15% between 1929 and 1932[61] and international trade by over 50%[62]. As a percent of global GDP, world trade accounted for 11% in 1870 then 19% in 1900, which grew to 22 percent in 1913 only to drop to 15 percent in 1929, then to 9 percent in 1938[63].

The UK industrial production was down by 23% between 1929 and 1932 and its foreign trade declined by 60%[64], while its unemployment rate rose above 10% in the month after the stock crash of 1929 and peaked at 26.6% in January 1931[65]. In the US, GDP declined by 30% between 1929 and 1939[66], while its industrial production was down by 40% and its foreign trade decreased by 70% between 1929 and 1932[67]. Moreover, unemployment rose above 10% in November 1930 and peaked at 25.6% in May 1933[68]. The crisis was so severe that almost half of all US banks collapsed in the early 1930s[69]. Germany did not fare better, between 1929 and 1932 its industrial production declined by 41% and its foreign trade by 61%[70]. The unemployment rate stood above 10% in October 1929 and peaked at 33.7% in December 1930, and remained at those level until June 1935[71]. While the focus is on these three countries, the effect and severity of the Great Depression extended to the majority of the world. The severity of the financial crisis has been extensively documented; this paper provides an overall picture to anchor this study.

So far, two observations can be made from looking into the experience of the great depression. Both observations are significant as they demonstrate the challenge that a static understanding of satisfaction faces in certain context. The first one is that while the countries that constitute the sample for this study were indeed negatively affected by the Great Depression, great powers (the USA and Germany) were more affected by the severity of the Great depression than the dominant power (United Kingdom). Similarly, the great powers also benefited far more from the roaring twenties than the dominant power did. This is a significant observation as the shift from maximum net benefit enjoyed during the roaring twenties to lower net gain during the depression is the fundamental cause of economic dissatisfaction, in this paper assumptions. In other words, the net benefit from the global order during and after the depression were inferior to the net gain during the roaring twenties. In theory, the damage caused by the Great Depression should have been significant enough for affected great powers to seek a better system, which as amply discussed later led to a shift toward protectionism.

[61] Blum, Cameron and Barnes (1970, p. 885)
[62] Idem
[63] Estevadeordal, Frantz and Taylor (2003, pg. 395)
[64] Blum, Cameron and Barnes (1970, p. 885)
[65] Akerlof and Shiller (2010, pg. 67)
[66] Field (2020)
[67] Blum, Cameron and Barnes (1970, p. 885)
[68] Akerlof and Shiller (2010, pg. 67)
[69] Reinhart and Rogoff (2009, pg. 146)
[70] Blum, Cameron and Barnes (1970, p. 885)
[71] Akerlof and Shiller (2010, pg. 67)

The second observation is that by looking at GDP data it can be noted that while the Great Depression lasted until the mid 1940s for some countries, the countries chosen for this study appear to have recovered from the mid 1930s. The USA GDP was back above it 1930 high of $768 315bn by 1936 when it reached $798 322bn[72]. Germany to its 1928 high of $263 367bn by 1935 when it reached $275 496bn[73]. The UK GDP recovered in 1934 reaching $261 680bn, above its 1929 high of $251 348bn[74]. This could potentially cause a conundrum in a context where dissatisfaction is not seen as static, as it will suggest that those countries shifted from satisfied (roaring twenties) to dissatisfied (great depression) then back to satisfied (depression recovery). However, GDP alone does not offer real value, which is why this paper looks at other economic indicators as well as comparing economic policies changes during the interwar period to provide more nuance.

At the time, Britain was the world's greatest shipping nation, its second largest exporter and overseas lender[75], evidence of how much stake they had in the status quo and making them overtly exposed to the consequences of the collapse of world trade. However, the depression in Britain between 1929 and 1932 was not an economic turning point for the UK and it was mainly its external based economic indicators that felt the impact. As figure 11 shows, the economic trends in the 1930s moved in similar direction than the previous decade. From 1870s, Britain economy was demonstrating signs of deceleration[76] consistent with PTT expected decline of a great power (see figure 7). Rapid industrialization in western Europe and the US was threatening Britain's former dominant markets. In fact, by 1913 already the US accounted for 32 percent of the world's manufacturing production, Germany for 14.8 percent and Britain for 13.6 percent[77]. While this brought forth the need for an economic structural readjustment, this was not critical before 1914[78], since Britain maintained control in its settlement regions such as India and the Far East[79]. For example, British investment in Europe and the US halved from 52 percent to 26 percent of the total, while those going to Latin America and British Colonies (and dominions) rose from 23 percent to 55 percent between 1870 and 1914[80].Moreover, the first world war provided further stimulation, which further shielded the reality that Britain was in a disadvantageous position when it came to the development of new industries and economic transformation. Britain de facto was in need of transformation to ensure long-run growth performance prior to the Great Depression, this made the rate at which inter-industry resource transfer (from stagnating industry to expanding sectors) took place, the dominant theme in Britain interwar economy.

[72] Maddison (2008)
[73] Idem
[74] Idem
[75] Richardson (1969, pg. 6)
[76] Richardson (1969, pg. 8)
[77] Bairoch 1982 as cited in World Trade Report (2013, pg. 50)
[78] Richardson (1969, pg. 8)
[79] Idem
[80] World Trade Report (2013, pg. 48)

This is evident by the fact that during the depression, net investment was mainly positive in the new industries, while they were negative in older industries during and after the depression[81] (see figure 12 pattern of employment). For example, between 1929 and 1933, negative net investment in old industries amounted to close to £57 million (mostly in the cotton industry), while positive net investment of £9.7 million was experienced in new capacity in the motor industry[82]. Thus, the Great Depression instead marginally aided the structural readjustment process and mostly impacted sectors that were export based.

Annual rates of change in employment, 1929–32 and 1920–37

	1929–32 (%)	1920–37 (%)
A. *Stagnating industries*		
Agriculture and forestry	−2·4	−1·5
Fishing	−1·1	−1·6
Coal mining	−7·0	−1·8
Iron and steel	−9·8	−1·9
Shipbuilding	−16·0	−2·7
Mechanical engineering	−9·1	−1·7
Railway shops	−5·7	−1·6
Cotton	−7·4	−1·6
Woollen and worsted	−3·2	−0·5
Linen, hemp and jute	−7·8	−1·0
B. *New Manufacturing industries*		
Electrical engineering	+2·0	+3·7
Vehicle manufacture	−4·4	+3·4
Motor vehicle repairs	+4·5	+11·3
Rayon	−4·3	+5·0
Non-ferrous metals	−7·2	+1·1
Paper, printing and publishing	+0·3	+1·4
C. *Expanding service and non-manufacturing industries*		
Building and contracting	−2·6	+1·9
Gas, water and electricity	+2·7	+2·6
Distribution	+2·5	+1·9
Insurance, banking and finance	+0·9	+1·6
Professional services	+1·6	+1·5
Miscellaneous services	+1·9	+1·7
Central government (civilians)	+2·7	+5·4
Local government	+2·5	+2·1
All industries	−1·6	+0·4

Figure 12: Pattern of employment in Britain. Source: The Economic significance of the Depression in Britain pg. 11 / Table 2.

Furthermore, the depression was not endogenous to Britain but rather imported through the balance of payments[83]. While components of the balance of payments showed signs of stress, domestic indicators were mildly affected in comparison to the international experience[84]. In 1930 the export volumes were already 18 percent down from the 1929 level[85]. Figures 13 shows the severe collapse of export volumes and values while imports were maintained at their levels. Figure 14 shows that Britain deficit on its balance of trade began from 1930 and got wider there forth, further evidence of more impact on external based economic indicators than domicile one. With regard to its Balance of payment, with the exception

[81] Richardson (1969, pg. 10)
[82] Feinstein (1965)
[83] Richardson (1969, pg. 3)
[84] Idem
[85] Richardson (1969, pg. 4)

of 1930 and 1935, Britain has run a deficit between 1929 to 1945 (see annex #1[86]). Consistent with the observation made above concerning the pressure on the UK economic transformation (or lack thereof), the first deficit appeared in after 1914, specifically in 1915. Thus, while Britain domicile economy was mildly affected and was able to maintain its import volume and value, evidence of the Great Depression on its external economic indicators remained even long after.

Year	Export volumes	Export values	Import volumes	Import values
1929	100	100.0	100	100.0
1930	82	78.3	97	86.3
1931	62	53.6	100	72.3
1932	62	50.1	87	58.9
1933	63	50.5	88	57.1
1937	80	71.5	106	87.0

Figure 13: Import vs Export figure Great Britain. Source: The Economic significance of the Depression in Britain[87]

	Exports and Imports: 1920-1990						
	S040 Exports Goods	S041 Exports Services	S144 Exports Total	S42 Imports Goods	S43 Imports Services	S145 Imports Total	Balance
1920	647	162	810	649	82	731	79
1921	490	152	643	551	94	645	-2
1922	665	147	811	639	103	741	70
1923	725	164	890	693	102	794	96
1924	764	155	920	771	102	872	48
1925	776	138	914	796	100	896	18
1926	683	157	840	819	111	930	-90
1927	765	181	946	837	108	945	1
1928	781	171	952	811	105	916	36
1929	803	181	984	846	116	962	22
1930	664	182	846	822	128	950	-104
1931	506	177	682	835	150	985	-303
1932	493	175	667	737	142	879	-212
1933	505	173	678	735	143	878	-200
1934	537	166	704	785	133	918	-214
1935	625	169	794	822	141	963	-169
1936	585	187	772	840	145	985	-213
1937	596	214	811	887	135	1 022	-211
1938	563	193	756	850	152	1 002	-246
1939	500	202	702	792	293	1 086	-384
1940	320	156	476	718	419	1 138	-662
1941	273	137	409	689	284	973	-564
1942	185	185	370	486	334	821	-451
1943	133	275	408	432	382	815	-407
1944	145	371	516	476	429	906	-390
1945	236	186	422	354	491	845	-423

Figure 14: Britain balance of trade. See Annex #2

[86] Annex #1
[87] Richardson (1969, pg. 5)

Lastly, during the Great Depression a severe resurgence in protectionist trade policies characterized the global economy[88]. Protectionism grew in the 1920s, it peaked in the Depression years[89]. By the 1920s, many countries had implemented tariff measures that provided them with a fluidity to raise rates in the light of changing circumstances[90]. Government around the globe imposed tariffs, import quotas and exchange controls to restrict spending on foreign goods[91]. Between the third quarter of 1931 and the third quarter of 1932, world trade volume fell 16 percent; between 1929 and 1932 it fell by 25 percent, with close to half of it caused by higher tariff and non-tariff barriers[92]. In June 1930, The US imposed the Smoot-Hawley tariff which increased the average tariff on dutiable imports by nearly 20 percent[93]. This was a significant shift considering that just a decade before, President Wilson's fourteen points brought forth a doctrine which suggested an existing linkage between international peace and an open international economy[94].

In November 1931, the UK enacted the Abnormal Importation Duties Act, giving authorities discretion to imposes higher duties on selected goods and in February 1932, the General Import Duties Act was passed by parliament which imposed a 10 percent across-the-board tariff on import, as well as more restrictions on certain imports and exemptions for imports from the empire[95]. As stated above, British policies including this one was not so much influenced by the Great Depression, tariff were imposed following an increase in conservative influence in parliaments who gained power in the National Government at the height of the crisis, but had been advocating for protectionism since the early 1920s[96]. In January 1932, the German government raised 'equalizing' tariffs on goods coming from countries with depreciated currencies[97].

3.3 Dis/satisfaction discussion

3.3.3 Germany dis/satisfaction

(a) Economic Dissatisfaction

The origin of the great depression in Germany has been attributed to a set of reasons, from the pressure of reparation payment to malfunctions of the domestic economy and an overreliance on foreign capital. This paper observes that the cause is mixture of these reasons, with foreign capital acting as the catalyst. Germany internal economy was weak after the first world war, characterized by capital shortage in industries, disorganized financial market and an obliterated German savings during its inflation period[98]. To illustrate the scale of the latter, in the early years of the hyperinflation of 1922-23, one US

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[88] Eichengreen and Irwin (2010, pg. 871)
[89] Estevadeordal, Frantz and Taylor (2003, pg. 361)
[90] James (2001, pg. 113)
[91] Eichengreen and Irwin (2010, pg. 871)
[92] League of Nations, Review of World Trade, 1938, p. 62; and (Madsen, 2001)
[93]Eichengreen and Irwin (2010, pg. 875)
[94] James (2001, pg. 113)
[95] Eichengreen and Irwin (2010, pg. 878)
[96] Idem
[97] Eichengreen and Irwin (2010, pg. 877)
[98] Falkus (1975, pg. 452)

dollar was worth 1 000 marks, but by November 1922 a dollar bought 6 000 marks[99]. This reached 8 000 marks on the 4 January 1923, then by the 15th of the same month a dollar was worth 56 000 marks[100]. It only got worst from that point on as it reached 60 000 000 marks in the first week of September, inflation was such that a typical Hamburg dockworker was paid 17 billion marks a day by fall 1923[101]. Consequently, the country experienced a chronic deficit in its current balance of payment nearing a severe depression (see annex #3); these made the importance of foreign sector significant in propping up the economy and the currency, in order to settle the balance of payments and enhance supply of capital[102]. Furthermore, Germany's ability to pay reparations depended on the capacity of export trade to expand over imports[103], as such a trade deficit will be in its disfavour. These created conditions for an over-reliance on foreign capital, which made Germany vulnerable to worsening economic conditions should an outflow of foreign fund occur.

Germany's reparation bill presented in 1921 was the equivalent of close to 300% of its 1913 Gross National Product (GNP)[104]. This reparation was made of three portions. The first portion, denominated A bonds, was aimed to compensate for direct war damage and had a nominal value of 12 billion gold marks[105]. The B bonds (second portion) was for Germany to assume inter-allied debt owed to the US by Britain and France, estimated at 38 billion gold marks[106]. The C bonds costing 82 billion gold marks were a hypothetical burden, that sought to reassure the public and parliaments of Western Europe and safeguard against vigorous economic recovery of the former enemy[107]. This rose to a total of 132 bn gold mark, but once Belgian war debt was included the figure was 138bn gold mark[108]. In order to settled the bill, the plan by the London Settlement of May 1921 called for a payment of 2 billion gold marks a year plus 26 percent of the exports[109]. Keynes pointed out that it would have required German exports to rise by 24 bn gold marks a year (two and a half times the pre-war export) and this without any increase of imports above their pre-war level[110]. However, by the third quarter of 1921, actual export amounted to 2 432 00 000 gold marks (about one third of the pre-war figure), which meant that the actual reparation bill from May through December 1921 under the London Settlement Plan amounted to 1 965 000 000 gold marks. Simply put, Germany export in those 8 months needed to exceed its import by almost 2 bn gold marks, while in reality the import exceeded the export by 557bn

[99] Pelz (2016, pg. 129)
[100] Idem
[101] Idem
[102] Falkus (1975, pg. 452)
[103] Williams (1922, pg. 482)
[104] Ritschl (2012, pg. 2)
[105] Idem
[106] Idem
[107] Idem
[108] Williams (1922, pg. 483)
[109] Idem
[110] Idem

gold marks[111]. Figure 15 provides a glimpse of Germany balance excess of imports over exports denominated in gold mark, prior World War 1.

Year	Deficit
1909	1 900 000 000
1910	1 400 000 000
1911	1 600 000 000
1912	1 700 000 000
1913	700 000 000

Figure 15 - Source: Federal Reserve Bulletin[112]

This was only worsened after the war, as occupation forces reopened the German market in 1919 imports flooded in, while the German economy was not yet able to produce for export[113]. This is evident when looking at Figure 16, which shows German trade figures in million marks (calculated by valuing goods in 1913 prices). It can be seen that 1919 recorded the largest trade deficit during that period. A cause-and-effect relation between reparation and the increase in German import is evident, for example, the loss of certain territory for Germany (as per the reparation agreement) such as its Poland farming territory and its iron territories to France added a permanent new element of imports to its balance[114]. Eichengreen and Irwin (2010) found that trade costs increased the most for Germany and less for Britain[115]. However, a significant observation out is that Germany balance of payment resulted in a surplus in 1926, 1929 to 1933, 1935 to 1937 and 1939 (see figure 17 and annex #3). The first two period occurred during a depression (1926 and 1929) and it is not uncommon to witness an improvement in the balance of payments[116]. But as discussed below, this was mostly a result of increasing trade barriers rather than improvement in trade relations.

Year	Imports	Exports	Balance
1913	11 206	10 199	-1 007
1919	5 867	1 565	-4 302
1920	3 947	3 724	-233
1921	5 751	4 482	-1 269
1922	6 310	6 207	-103

Figure 16: Calculated by valuing goods in 1913 prices (In million 1913 marks)[117]

[111] Williams (1922, pg. 483)
[112] Federal Reserve (1923, pg. 697)
[113] Webb (1987, pg. 424)
[114] Williams (1922, pg. 488)
[115] Eichengreen and Irwin (2010, pg. 892)
[116] Falkus (1975, pg. 453)
[117] Webb (1987, pg. 423)

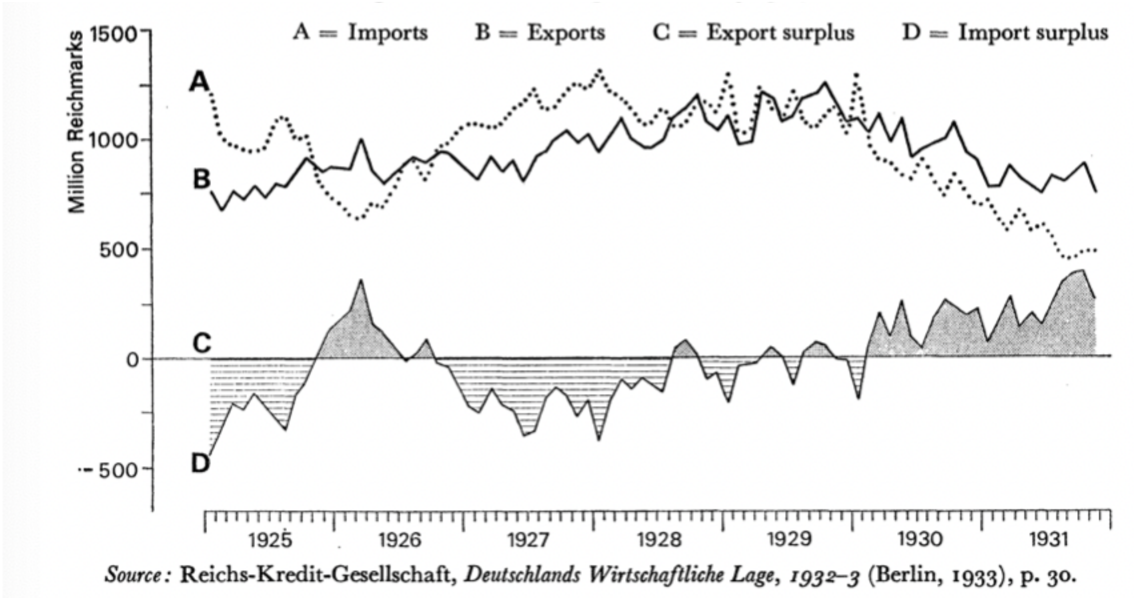

Figure 17: Germany Imports vs Export

For Germany, foreign capital was significant for two reasons. Firstly, it provided net additions to the money supply and funds available for investment, which was crucial considering its recent experience of hyperinflation (which devastated domestic savings), but even as domestic savings increased, foreign loans was still sought after by German's industries and public entities on a large scale[118]. Secondly, foreign loans were crucial for Germany as it enabled it to acquire gold and foreign exchange required to maintain the external value of the currency [119], and ensuring payment of the reparation obligations (which was owed in foreign currency) as well as previous loans. In 1920, foreign-owned deposits at Berlin banks rose from 14 to 23 billion paper marks[120]. During certain periods, foreign issues made up the larger portion of total publicly raised capital investment. An estimate put total foreign borrowings between 1924 and 1929 to 18bn gold marks (half of which were long term loans)[121]. Between 1925 and 1927, foreign investment potentially accounted for close to one-third of total capital formation, and as much as 40 percent of private bank deposits at the end of 1928 were owned by foreigners, which indicate the size of short-term obligations[122]. The majority of this imported capital came from American investors, between 1924 and 1928 the US accounted for 70 percent of German long-term borrowings in each year; this only fell to 55.4 percent in 1929[123]. Short-term borrowings shared a similar origin source, as such making the US, Germany principal creditor. Figure 18 provides a look at German borrowing in million marks by spring 1931.

[118] Falkus (1975, pg. 456-457)
[119] Idem
[120] Webb (1987, pg. 428)
[121] Falkus (1975, pg. 455-456)
[122] Idem
[123] Falkus (1975, pg. 452)

Source	Long-term	Short-term	Total
United States	5 265	3 143	8 408
Britain	1 110	2 053	3 153
Netherlands	1 174	2 069	3 243
Switzerland	512	1 878	2 390
Other	1 494	2 826	4 320
Total	9 545	11 969	21 514

Figure 18: German borrowing from abroad Spring 1931. Source: [124]

Throughout history, German industry depended greatly on the German banking system to supply them with long-term capital, this was a factor that forged close link between business activity and the financial market[125]. The Banks often made use of short-term borrowing to finance long-term investment, leaving them vulnerable to sudden demands from their creditors[126]. Throughout the 1920s, various economic reports and survey published by major German banks demonstrated significant awareness of the inter-connection between the capital market, foreign borrowing and the state of the economy[127].These reports raised concerns that shortage of capital was quickly felt throughout the economy. Around March 1925, a noticeable change in trade conditions in New York and London resulted in the lessening of the flow of foreign capital in Germany. The Dresdner Bank Report in May claimed that the lessening flow of capital from the United States "explains the late crisis in Germany on the money market… the main problem is not so much the height of interest rates as the quantity of disposable capital and the question whether it is obtainable long- or at short-term.[128]" The Economist noted the raising numbers of insolvencies in April which "seem to be due to Capital and credit difficulties"[129]

From 1925, a decline in German loans from the US was observable and by the middle of 1928 it was the end of the period of massive exports of United States capital, which continued a downward course throughout 1929. By April of that year, a sudden massive withdrawal of foreign short-term credits occurred, leading to a rapid dip of the gold and foreign exchange reserves of the Reichsbank, with the gold reserve covering falling to only 43 percent (40 per cent being the minimum allowed)[130]. In 1929 alone, foreign capital imports declined from RM223 million in the first quarter, to RM75 million in the

[124] Harris (1935, pg. 95)
[125] Falkus (1975, pg. 455)
[126] Falkus (1975, pg. 456)
[127] The principal reports used are the two series (both semi-annual) of Reichs-Kredit-Gesellschaft, op. cit. Disconto-Gesellschaft (monthly) op. cit., Dresdner Bank, Monthly Report on German Economic Conditions (Berlin); Reichsbank, Verwaltungsbericht (Berlin, annual); Gemeinschaftsgruppe Deutscher Hypotheken- banken, Geschlftsbericht (Berlin, annual); and Berliner Handels-Gesellschaft, Economic Report (Berlin, weekly). As cited in Falkus (1975, pg. 457)
[128] Falkus (1975, pg. 460)
[129] Idem
[130] Falkus (1975, pg. 461)

second and RM65 million in the third[131]. In August 1931, trade credits extended to Germany by British merchant banks were frozen[132]. In essence, German financial institution borrowed short term from the US (and foreign countries including Britain) then issued this in form of long-term loans to German business. When the US (and foreign countries including Britain) started calling out its capital or froze credits to German Banks at the onset of the great depression, this led to a fall of credit market in Germany which culminated into the Great Depression. Thus, it logically followed that Germany policy response was to enact exchange controls in order to limit capital exports[133]. This was done not only to prevent loss of gold and foreign exchange reserves, but also initially as a new temporary approach to their trade and payments regime controls to limit spending on imports[134].

German economic dissatisfaction is further evident in the fact that the country brought back the rate of the Bülow tariff of 1902, as soon as the limit placed on Germany under the Versailles treaty came to an end in 1925[135]. As such, by 1927 agricultural duty rates were about three-fifths higher than in 1913[136] and in December 1929, Germany introduced a sliding scale for grain tariffs[137]. Lastly, the introduction of the 'New Plan' in September 1934 by Hjalmar Schacht (acting economics minister and Reichsbank president under Hitler) brought import activities under the supervision of the Reichsbank by requiring importers to obtain Devisen certificates issued by control boards[138]. Schacht held a contrarian belief on free trade and common monetary standard and argued that "the world has become too small, people and goods are crowding in on each other so much, that a self-steering economy in the sense of the automatism of the gold standard or the theory of free trade is no longer possible.[139]" Ever since, systems of manage traded have been dubbed 'Schachtianism'. One of the impacts of the depression is that it changed the pattern of trade from international to more dependence on domestic sources, but also toward the creation of an economy of blocs. As such, by the spring of 1938, Germany had established bilateral trade treaties with twenty-fives countries. Germany shifted its focus away from trading with Industrialized countries toward stronger import and export with poorer and less developed producers of raw materials and commodities[140]. The Nazi seizure of power made the above adopted measures a more permanent feature of the economy in 1933 and in June of the same year, Germany imposed a moratorium on all foreign debt repayments and cancellation of reparations[141].

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[131] Falkus (1975, pg. 462)
[132] Eichengreen and Irwin (2010, pg. 876)
[133] Eichengreen and Irwin (2010, pg. 879)
[134] Eichengreen and Irwin (2010, pg. 888)
[135] James, (2001, pg. 112)
[136] Liepmann (2019, pg. 58-59)
[137] James, (2001, pg. 113)
[138] James, (2001, pg. 141)
[139] Idem
[140] James, (2001, pg. 142)
[141] James, (2001, pg. 141)

(b) Political Dissatisfaction

While Wilson's fourteen point initially provided a framework for a peace agreement, the treaty of Versailles codified those and went beyond the fourteen points. Other than the massive reparation payments imposed on Germany and discussed above, there was also loss of territory and demilitarization. Germany was forced to relinquish 10 percent of its pre-war territory in Europe and all of its colonies[142]. As such article 119 stripped Germany of its colonies in China and Africa; The respect of Austria independence was mandated by Article 80; Germany had to renounced its territorial claims and recognize the independence of Czechoslovakia (See Art 81 – 86); What was formerly German West Prussia and other territory were given to newly-independent Poland under Article 87-93; The Alsace-Lorraine which was captured by Germany in 1871 was given back to France according to article 51. The treaty also called for the occupation of the Rhineland and its demilitarization (see article 42/44 and 180), in order to make it easy for France to invade Germany and prevent the latter from aggressive action. As of the 1st of December 1921, there were 138 500 men in the occupied territory (93 000 French, 25 300 Belgian, 7 800 British and 12 300 American) and by the 15th December 1923, this number totalled 163 000 men[143].

The Occupation of the Rhineland from the May 1 to Dec 31 1921 costed the German Government the sum of 3 691 589 000 paper marks[144]. When Germany defaulted on a payment in January 1923, France and Belgium occupied the Ruhr in an effort to force payment[145]. The occupation of the Ruhr which started in January 1923 and ended in August 1925 resulted in the death of 130 people following the passive resistance and civil disobedience by German civilians. France and Belgium occupation of the Ruhr was in breach of the Treaty of Versailles, considering that it called for unanimous agreement by allies, which Britain did not give[146]. The harbour city of Gdansk (formerly Danzig) and the coal-rich-Saarland was placed under the administration of the League of Nations, while France was permitted to exploit the economic resources of the Saarland until 1935[147]. After 15 years, residents of Saar were allowed to choose whether they wanted to be German or French and 90 percent voted to be part of Germany in 1935[148].

Other clause dealt with the limitation on the army and navy capabilities, as well as forbidding Germany to maintain an Air Force. German military troops stood at 1.9 million[149] before World War 1 and was to be reduced to a mere 100 000 called for by articles 159 – 163. German troop were to be 'devoted exclusively to the maintenance of order within the territory and to the control of the frontiers.' Limitations were imposed to the strict details such as how much ammunition they could possess, or the

142 The Paris Peace Conference and the Treaty of Versailles (2021)
143 Marx (1929 pg., 200)
144 Eulenberg (1931, pg. 642)
145 The Dawes Plan, the Young Plan, German Reparations, and Inter-allied War Debts (2021)
146 Miller (1924, pg. 46)
147 The Paris Peace Conference and the Treaty of Versailles (2021)
148 Wright (2007, p. 57)
149 World War I - Forces and resources of the combatant nations in 1914 (2021)

number of infantries, artillery and engineers just to mention a few. Moreover, Germany army and navy size was limited and Kaiser Wilhelm II and a number of high-ranking German officials as war criminals under the terms of the treaty[150]. In March 1935, Hitler announced that he was rearming Germany by introducing a military draft with the goal of creating an army of more than half a million soldier (thus breaching Articles 159 – 163) and most of the article that restricted German military size[151].

In 1936, the League Council unanimously voted on the German reoccupation and remilitarization of the Rhineland on 7 March 1936, stating "That the German Government has committed a breach of Article 43 of the Treaty of Versailles by causing, on March 7, 1936, military forces to enter and establish themselves in the demilitarized zone referred to in Article 42, and the following articles of that treaty, and in the Treaty of Locarno.[152]" History tells us that Germany went on a spree of unsanctioned expansionist behaviour in the years to follow, which indicate political dissatisfaction.

3.3.4 USA dis/satisfaction

(a) Economic Dissatisfaction

The liberalization of trade was a central tenant of the famous fourteen points speech made by Woodrow Wilson (US President 1913 – 1921), which served as a statement of principles for peace negotiation to end World War 1. In his third point, he called for 'the removal, as far as possible, of economic barriers and the establishment of an equality of trade conditions among all nations consenting to the peace and associating itself with its maintenance.[153]' This doctrine linked international peace to open international economy, but also demonstrated the US interests in trade liberalization. US benefits from trade liberalization were well highlighted during a speech at Newark in September 1928, when Secretary Hoover stated that the rise in American export after 1922 was 'not just an accident' but rather the result of a deliberate reorganization of the Department of Commerce for 'the promotion of American trade abroad on a greater scale than had ever been achieved or ever attempted by any government anywhere in the world[154].'

He contrasted post-World War 1 result of other countries which rose by only 10 percent above their pre-war export, with that of America that was up by more than 58 percent its pre-war export[155]. Figure 19 shows the rapid rise of US export after 1922. From the above point, it can be argued that to the US an increase in its export product was a source of satisfaction and a decrease in export product equate dissatisfaction. As mentioned earlier, US foreign trade decreased by 70% between 1929 and 1932[156]. For the fiscal year of 1929 to 1931, the US loss 19 percent on imports and 31 percent on exports[157].

[150] The Paris Peace Conference and the Treaty of Versailles (2021)
[151] Lindsay (2012)
[152] Wright (1936, pg. 487)
[153] James, (2001, pg. 101)
[154] Foreign Trade of the United States, 2021
[155] Idem
[156] Blum, Cameron and Barnes (1970, p. 885)
[157] Bidwell (1932, pg. 392)

Figure 20 shows the downward trajectory of US Balance of Payments on Good between 1928 to 1940 and the two deficits in 1935 and 1936.

Year	Domestic exports	Change from previous year
1923	$4 090 715 000	$............................
1924	$4 497 649 000	+406 934 000
1925	$4 818 722 000	+321 073 000
1926	$4 711 721 000	-101 007 000
1927	$4 758 864 000	+47 143 000
1928	$5 030 099 000	+271 235 000
1929	$5 157 083 000	+126 984 000

Figure 19: American export. Source[158]

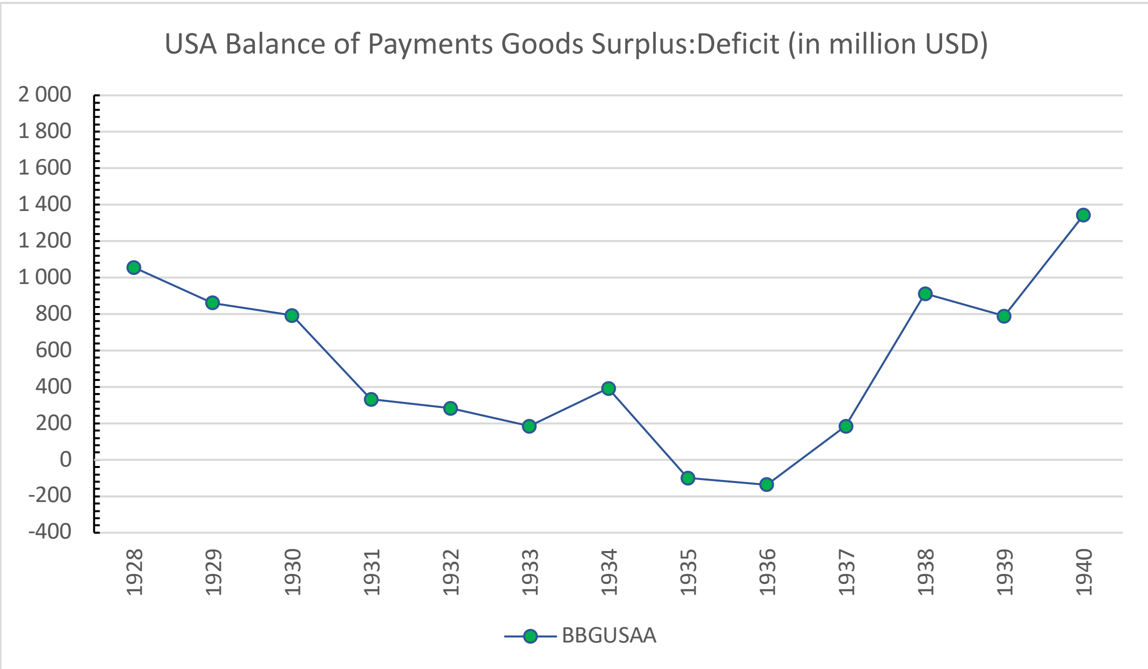

Figure 20: Source: Global Financial Database (GFD Finaeon) – See Annex #4

- Debts

As discussed above, one of the key features of the economic period in the inter-war was the burden of debt tied to war. While Germany owed reparation to Britain and France (and other countries), both countries owed war debt to the US. The network of post-war inter-government indebtedness involved

[158] Foreign Trade of the United States, 2021

28 countries, Germany being the most heavily indebted and the US owed 40 percent of total receipts[159]. A cause of tension between US and allies was the wartime debt. The US was adamant in collecting what it had loaned to the allies, over the course of the War, which was evident by the fact that it consistently rejected calls to cancel these debts under war time cause or to link reparations to inter-allied war debts[160]. In the Balfour note of 1922, London made this link by stating that it would seek reparations and wartime debt repayments from its European allies equal to its debt to the United States[161]. The US Congress responded the same year by establishing the United States War Debt Commission in order to negotiate repayment plans with the 17 countries that owed the US[162].

Following the inability of European powers to reach a solution on German reparations in late 1923s, the US came up with the Dawes Plan. Under this plan, Germany annual reparation payments would be initially reduced but set to increase in time with improving economic conditions[163]. Amongst a set of other suggestions, the plan sought to ensure France and Belgium would evacuate the Ruhr and foreign banks would lend Germany $200 million[164]. The latter had for purpose to aid the German government in meeting its reparation payment to France and Britain, which in turn would enable them to pay the US back[165].

This was then followed by the Young Plan, which set a specific amount of German reparation payment (mentioned above), as well as sought to provide more loans, decrease foreign supervision of German finances and ensure evacuation of the last occupying troops on German soil[166]. In June 1931, President Hoover proposed a one-year moratorium on war debts and reparation payments[167]. The same year, the US lending virtually ceased and did not recover during the rest of the decade[168].

Figure 21 provides a look at the evolution of foreign borrowing from the US, it can be noted that by 1928 and 1929 there were significant decrease, in line with the beginning of the drying up of credit market which evolved into the Great Depression. Despite all the efforts the US made to ensure it would recover its loan, by mid-1933, all European debtor countries (excluding Finland) had defaulted on their loans from the United States[169]. Consequently, country defaulting on their sovereign debt to the US constitute a sign of dissatisfaction. This is evident by the passing of the Johnson Act of 1934, which prohibited the extension of credit to countries that had not paid back US loans made to them during the first world war[170].

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159 Crafts and Fearon (2010, pg. 289)
160 The Dawes Plan, the Young Plan, German Reparations, and Inter-allied War Debts (2021)
161 Idem
162 Idem
163 Idem
164 Idem
165 Idem
166 Idem
167 Crafts and Fearon (2010, pg. 295)
168 Crafts and Fearon (2010, pg. 294)
169 The Dawes Plan, the Young Plan, German Reparations, and Inter-allied War Debts (2021)
170 Lend-Lease and Military Aid to the Allies in the Early Years of World War II (2021)

Year	Foreign Borrowing	Change from previous year
1923	$ 413 662 100	$............................
1924	$928 493 742	+514 831 642
1925	$1 085 380 750	+156 887 008
1926	$1 134 659 650	+49 278 900
1927	$1 375 713 060	+241 053 410
1928	$1 250 951 267	-124 761 793
1929	$671 230 806	-579 720 461

Figure 21: Foreign borrowing from the US[171].

- Tariffs

Unlike Great Britain and Germany, the US internal economy was to a greater extent self-reliant. Moreover, during the 1920s, America was the engine of the world recovery from the effects of the First World War and it ensured maintenance of economic stability[172]. America was the world leading exporter, second biggest importer (after Britain) and replaced Britain as the world largest international lender in 1918[173]. However, another fundamental change from Woodrow's vision of free trade was a shift toward protectionism in the 1930s. Initially, US tariffs were imposed to protect the local agriculture sector as Europe was recovering from the war and challenging US production in certain sector. The U.S Fordney-McCumber Tariff Act of 1920 gave flexibility to an apolitical commission of expert on tariff, that will ensure equal rate between American and foreign costs of production[174]. This model was promptly replicated throughout the rest of the world[175]. But things escalated with the Smoot-Hawley tariff bill, which some economist argue to be the cause of the depression, as tariff and then increasingly non-tariff protective measures (quotas, hygiene measures) were instrumental in the engineering the world depression[176]. The Hawley-Smoot Act laid down tariffs on 21 000 items[177] and increased the average tariff on dutiable imports by nearly 20 percent[178].

When it became effective on the 17 June 1930, it was followed by a swift drop in US imports, from a total of $4.4billion in 1929 to $1.3 billion in 1930[179]. Following the Smoot-Hawley tariff bill, US foreign trade declined at the beginning of the depression from $7 billion in 1929 to $2.5billion in 1932, and

171 Foreign Trade of the United States, 2021
172 Crafts and Fearon (2010, pg. 288-289)
173 Crafts and Fearon (2010, pg. 289)
174 James, (2001, pg. 116)
175 James, (2001, pg. 113)
176 James, (2001, pg. 102)
177 James, (2001, pg. 113)
178Eichengreen and Irwin (2010, pg. 875)
179 James, (2001, pg. 121)

imports declined from $5.9 billion to $2 billion in the same period[180]. Two years after this tariff bill was passed, the volume of US exports and Imports had fallen by approximately 41 percent[181]. Those who do not agree with it being the cause of the depression, argue that at best, it prolonged the depression and possibly deepened its impact. Even with the later introduction of the Reciprocal Trade Agreement Act with the New Deal, which some argue to be evident of US returning to a free trade approach, the fact that the focus of the act was not on building multilateral trade relationship but rather bilateral trade relationships, portray a shift away from open free trade to an economic of blocs. Ambassador William E. Dodd wrote to the secretary of state at the time "The tariff policy 1923-1930, the dangerous loans of 1923-1928, and the refusal of the Senate, 1921, to live up to the expectations of the election of 1920 are, therefore, the basic causes of Mussolini and Hitler, of British and French economic autarchies.[182]"

(b) Political Satisfaction

During the interwar period, the US mainly demonstrated casual and mild involvement with global politics. Prior to the 1920s, US sought to secure to secure global peace and its own commercial interest, but by the mid-20s its focus was more on the latter and less on the former[183]. US withdrawing from significant involvement in international affairs have been attributed to a disillusionment with its involvement in the first world war and more pressing internal issues such as the economic uncertainty of the Great Depression[184]. With regard to its relationship with the dominant power (UK), except for the economic strains caused by debt repayment, both countries had become much closer after the border incidents mentioned in the second chapter, this has been dubbed as 'the Great Rapprochement'. This period between 1895 and 1915, saw a convergence of military, diplomatic, political and economic objectives between both nations, fostered by British withdrawal from the Western hemisphere and America asserting its dominance in its region.

Both countries forged stronger relationship in the first world war, with the US siding with Britain against Germany. During the interwar period, there was no unsanctioned incursion in naval, aerial and territorial region influence of the rising state by the dominant state and vice versa. Moreover, with regard to security treaties, the US played an important role in promoting peace and security in Europe throughout that period in partnership with the allies. The US approach consisted of keeping Europeans and non-regional problems at arm lengths. As such while the League of Nations came out of the Treaty of Versailles, the US was never a member of former[185] and despite playing a role in the accomplishment of the latter it did not ratify it. The US desire to stay out of global affairs beyond its regions of influence

[180] Crafts and Fearon (2010, pg. 293)
[181] Baldwin (2009, pg. 64)
[182] Dodd to Hull, 19 May 1934, Hull Papers, reel 11.
[183] 1921–1936: Interwar Diplomacy, 2021
[184] Idem
[185] The League of Nations, 1920 (2021)

was evident by the series of laws passed in the 1930s such as the Kellogg-Briand Pact (1928) and the Neutrality Acts of the 1930s, which aimed at preventing US involvement in foreign war[186].

The Kellogg-Briand Pact was initially proposed by French minister of foreign Affairs, Artistide Briand, as a bilateral agreement between the US and France to ban war between both nations[187]. However, the US President Calvin Coolidge and Secretary of State Frank B. Kellogg were less eager than Briand, as they fear that this would be perceived as an alliance and a commitment by the US to intervene should France ever be in danger[188]. Instead, the US proposed that the pact be extended to include other nations, which it eventually did.

The first neutrality act was passed in May 1935 as a response to increasing tensions in Asia and Europe, and prohibited US sales of arms, ammunition and implements of war to foreign nations at war, as well as required arm manufacturers in the US to apply for an export license[189]. This was renewed in February 1936 and expanded to prohibit Americans from lending money to belligerent nations[190]. Further extensions were made in 1937 and 1939, with an important part of this being the extension of the 'cash-and-carry' clause, under which state that any sales of US allowed items must be paid for immediately[191]. An important point of note is that the clause was engineered and later extended to include sales of arms as a way to assist Great Britain and France (the dominant powers) in a war against the axis[192]. It was only in September 1941 that the US demonstrated commitment to aiding the allies yet remained out of war until December 1941[193]. In instances were US military involvement occurred, they were in Latin America and the Caribbean through the Roosevelt Corollary to the Monroe Doctrine[194]. Roosevelt application of the Doctrine saw the US occupation of the Dominican Republic (1916 – 1924), Haiti (1915 – 1934), Nicaragua (1912 – 1933) and Cuban intervention (1906 – 1909; 1917 - 1922)[195].

Thus, the US was military capable to do the same in Europe but just not interested but most important, is that the US interventions sought to restore the status quo and did not aim to be colonial expansions. Those interventions saw no objections from the dominant power. The US made no direct involvement when the Japanese invaded Manchuria and some part of China, as well as during Germany's annexation of Czechoslovakia in 1938 and the fall of France[196]. The same was evident during the Italian invasion of Ethiopia and the Spanish Civil War[197]. It was only the surprise attack on the US Navy at Pearl Harbor in December 1941 by the Japanese forces which dragged the US into the conflict[198].

[186] The Neutrality Acts, 1930s (2021)
[187] The Kellogg-Briand Pact, 1928 (2021)
[188] Idem
[189] The Neutrality Acts, 1930s (2021)
[190] Idem
[191] Idem
[192] Idem
[193] Lend-Lease and Military Aid to the Allies in the Early Years of World War II (2021)
[194] Roosevelt Corollary to the Monroe Doctrine, 1904 (2021)
[195] Idem
[196] The Great Depression and U.S. Foreign Policy, 2021
[197] American Isolationism in the 1930s (2021)
[198] idem

3.4 Conclusion

This chapter focused on theory development by testing the applicability of the economic and political variables. Primarily, it was established that based on GDP and CINC data, the US overtook the UK in 1900 while Germany overtook the UK in 1935. Moreover, the assumption that Great Depression served as an economic equalizer has been thoroughly documented and discussed under this paper, with ample evidence provided to back it up. It has been shown that the US and Germany were more affected by the Great Depression than Britain, as the latter impact was more felt on its export-based sectors. This is evident by the fact that its import remains consistent but also that Britain recovered faster than both great powers. The dissatisfaction section expectation (discussed in Chapter 2), were found to be present where applicable. In the case of Germany and economic indicators, this paper observed a causal relationship between decrease of foreign capital and increase in dissatisfaction. In one such highlighted instance, the drying up of foreign capital in Germany led to implementation of exchange control mechanism to limit capital export and limit spending on import, as well as import activities being put under the supervision of the Reischbank. In the case of the US however, no linkage between foreign capital and its impact was observed as the indicator was not significant for that economic context.

With regards to trade, the use of balance of trade surplus/deficit comparison to determine dissatisfaction was found to be challenging. In the case of Germany for instance, period of depression coincided with surplus rather than deficit and (vice versa). While the US, had more consistent surplus regardless. However, once the impact of protectionism was considered, the indicator demonstrated consistency with expectation as countries shifted more toward protectionism and further away from free trade. This was evident through a decrease of imports as a result and implementation of tariffs. In the case of Germany, bringing back the Bülow tariffs of 1902 as soon as the Treaty of Versailles limit came to an end in 1925 is an example of economic dissatisfaction related to trades expressed through economic policies. Furthermore, a shift toward bilateral trade instead of multilateral trade. On the question of trade concerning the USA, it was established that US export increase was a source of satisfaction, thus, the slump during and after the Great depression in its export can be interpreted as a sign of economic dissatisfaction. The US imposing tariffs and a shift toward a focus on bilateral rather than multilateral trade partnership (which both great powers did).

Consistency was also found with regards to debt, Germany debt and reparation payment put significant pressure on the country and dissatisfaction was expressed by Hitler unilateral cancellation of all repayment in 1933. While in the case of the USA, debt repayment by allies showed to be a cause of tension. The US consistently rejected calls for debts cancellation and by-mid 1933 all European debtor (except Finland) had defaulted on their debts to the USA. The adoption of the Johnson Act of 1934 and the cash-and-carry clause in the Neutrality acts provided further evidence that this was a source of dissatisfaction for the US.

On the question of political dissatisfaction, the US was found to be a satisfied nation as per the indicators set. This is because US-UK relationship was experiencing what has been dubbed the Great Rapprochement. As such, the UK made no 'unsanctioned' incursion in the US region of influence during the interwar period. Moreover, the US aided and played a significant role in the establishment of the Versailles Treaty to the benefit of its allies, without joining itself. The US passage of various act to limit its involvement in global affairs beyond its region of influence is further evidence of political satisfaction. Lastly, in case where US military involvement occurred such as Dominican Republic, Haiti, Nicaragua and Cuba, these cannot be considered unsanctioned considering that they are not so, relative to the interest of the dominant power at the time. Germany on the other hand, disregarded the rules of engagement and violated the Versailles Treaty and Treaty of Locarno on multiple counts. One such instance was Hitler remilitarization of the Rhineland in 1936 and rearming the military beyond the size authorized under the treaty. With regards to the second indicator, Germany was stripped of 10 percent of its pre-war territory in Europe and of all colonies; the occupation of the Rhineland by the UK and its allies; and the Occupation of the Ruhr by France and Belgium are clear evidence of incursion in the region of influence by the dominant state. Lastly, Germany portrayed expansionist behaviours in its region of influence such as the annexation of Czechoslovakia and the series of military invasions well known during the Nazi era. In brief, this paper theory development has been found successful as the outcome was in line with the theory predictions.

Chapter 4: Analysing the US-China Power Transition

4.1 Contextualisation

Between 1947 and the first half of the Cold War, the US held a containment policy toward China, considering that the latter was part of the communist bloc and the US sought to deter further spread of the ideology[199]. It was only following Richard Nixon 1972's visit to China, that the US foreign policy toward China gradually shifted toward one of engagement[200]. This shift in US policy was influenced by a desire to profit from the Sino-Soviet split at the time. Watanabe (2013, p. 3) argues that since then, the US foreign policy has largely remained within the engagement framework despite certain variation in its nuances. This is detailed in Mukoma (2021) works, demonstrating the applications of the engagement framework under various US administrations.

In the 2018 National Defence Strategy report (which dictates US Defence policies for the decade to come), the US Department of Defence stated that the primary concern in U.S. national security was no longer terrorism, but rather interstate strategic competition[201].

Consequently, the U.S. two main goals were expressed to be [202]:

- Restoring America's competitive edge by blocking global rivals, namely Russia and China from challenging the U.S. and its allies.
- Keeping those rivals from throwing the current international order out of balance.

The report identifies China and Russia as revisionist powers and state that the re-emergence of long-term strategic competition with those states is the central challenge to U.S. prosperity and security[203], which is occurring at a time when the U.S. competitive military advantage was eroding. It is abundantly articulated that the U.S. perceives China and Russia as actors undermining the 'free' and 'open' international order established by the U.S and its allies post-World War 2, which sought to safeguard liberty and people from aggression and coercion[204]. Further evidence marking a shift in US sentiment toward China includes the 23rd July 2020 speech by Mike Pompeo, who was serving as the U.S Secretary of State. During which, he declared that the engagement policy with China had failed and called for the end of that era, thus, marking a significant historical shift in US policy[205]. Pompeo brought forth accusations of unfair trade practices, intellectual property theft, human rights abuses and China's aggressive moves in the East and South China seas as proof of the failure of the engagement policy[206].

[199] Timeline: U.S. Relations With China 1949–2021 (2021)
[200] Watanabe (2013)
[201] U.S Department of Defence, (2018)
[202] What Is the National Defence Strategy? (2018)
[203] U.S Department of Defence, (2018)
[204] U.S Department of Defence, (2018)
[205] Communist China and the Free World's Future - United States Department of State, 2020
[206] Idem

Between 2017 and 2021, a total of 15 executives orders were issued that directly and indirectly targeted US-China relations, adding to the 116 China-related measures adopted by the White House as well as other executive departments and agencies[207]. The above observations clearly demonstrate a shift in US-China relations, one that is influenced by rising tensions. For proponents of the Power Transition Theory, the current state of affairs between the US and China provides a supporting argument to the theory. This chapter however does not seek to repeat that discussion, instead, it primarily seeks to re-assess the situation in the context of the additions to the PTT theory made by this paper. Specifically, it seeks to establish the current state of political dis/satisfaction and economic dis/satisfaction of China toward the status quo. The chosen timelines for this study is from 2000 to 2020, because of China accession to the World Trade Organisation (WTO) in 2001.

4.2 Power Development discussion

In terms of GDP as per Figure 22, China has not caught up with the US yet. While in terms of the CINC Index as per figure 23, The gap between China and the US has been widening since 2003, where China matched then surpass the US. As such, it can be argued that the transition between the US and China is yet to occur. As a result, academic debates on this matter have been mainly predictive in nature.

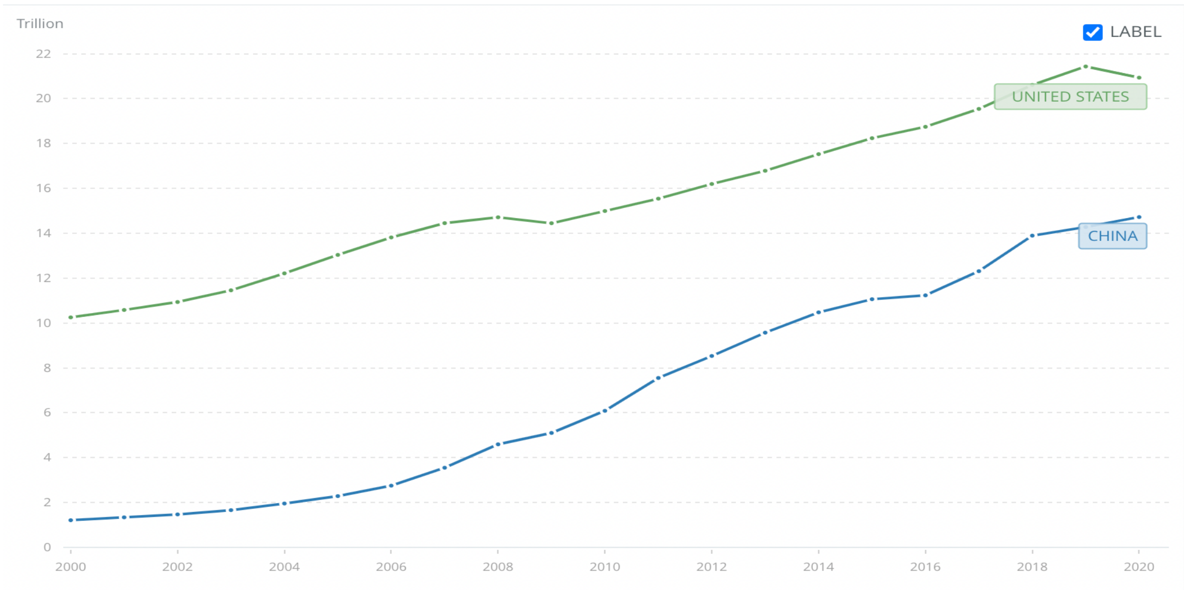

Figure 22: Historical GDP USA vs China. Source: World Bank Data[208]

[207] Timeline of Executive Actions on China (2021)
[208] GDP: China, United States

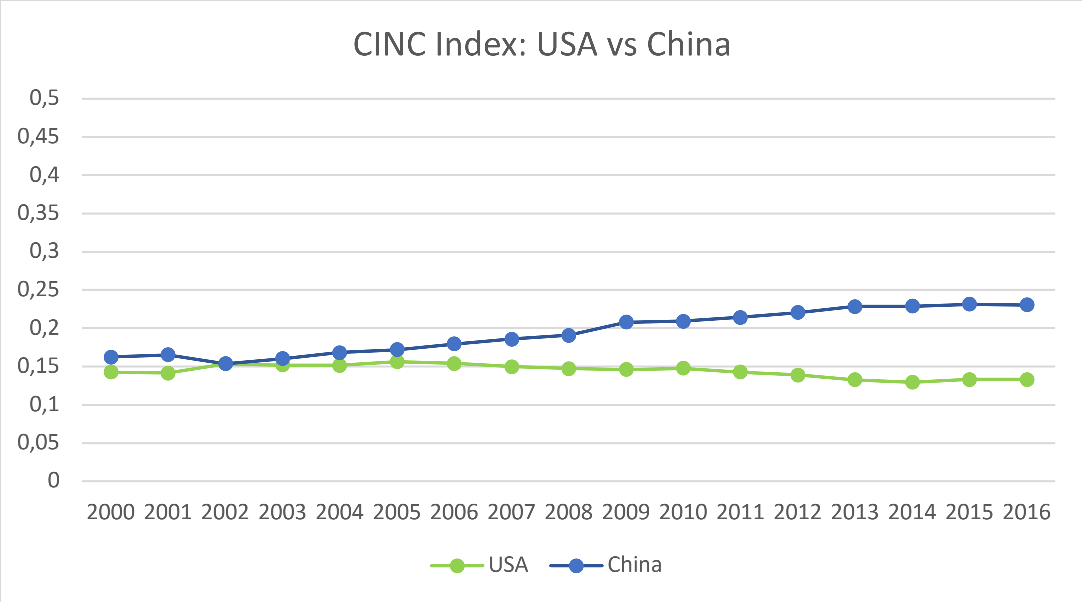

Figure 23: CINC Index USA vs China. Source: Correlate of War Project[209]

4.3 Dis/satisfaction discussion

While the US remain a larger economy than China and the transition is still in the future, signs of and causes for dissatisfaction precedes the outcome of a transition. From the US perspective, China is considered a dissatisfied country as amply made clear under this chapter's introduction. Furthermore, recently the US Secretary of Defence Lloyd J. Austin III reiterated this, while making an address at the Reagan Library in California. During which he stated that "The leaders of the Chinese Communist Party have been increasingly vocal about their dissatisfaction with the prevailing order and about their aim of displacing America from its global leadership role. China's President, Xi Jinping, regularly talks about 'great changes unseen in the world in a century.' And he recently assured his fellow Party members that 'time and momentum are on China's side.[210]'" This chapter will look at the variables amply discussed above in the context of the US and China, in order to assess whether China is dissatisfied.

4.3.1 Economic dis/satisfaction

While the US remains the world biggest economy, there is no doubt that China has tremendously benefited from the international order since its accession to the WTO. As of 2018, China stood as the world greatest manufacturer accounting for 28.4% of global output, followed by the US[211]. Between 2000 and 2019, Foreign Direct Investment Inflow in China has increased from \$41billion to \$187

[209] National Material Capabilities (v6.0) — Correlates of War, 2021
[210] Garamone (2021)
[211] Richter (2020)

billion[212]. US Foreign direct investment in China has grown from $11.14bn to $116.2bn in that period[213]. China is currently the world largest official creditor, having surpassed traditional official lenders such as the World Bank, the IMF and all OECD creditor government combined[214]. An estimate put at 6% of world GDP, the amount that countries worldwide owed to China as of 2017[215]. So far, while there are increasing calls for China's debt cancellation owed by the world poorest nation, China's position on this is still unclear. This could prove to be an area of concerns and potential dissatisfaction in the future, especially considering that almost all of the lending from China comes from government and state-controlled entities[216].

In terms of export, China became the world number one exporter and second to the US in terms of import in 2019[217]. China's export to the world has grown to $2.73 trillion in 2020, from $253 billion in 2000 (see figure 24). Since 2000, China has run a surplus on its balance of trade with the world uninterruptedly[218]. The US remains China's largest trading partner in terms of goods and services in 2020, US imports of goods and services from China reached $450.4billion[219].The US has levied accusations against China includes (but not limited to) currency manipulation, unfair trade practices, intellectual property theft and lower market openness for US businesses. Many have pointed at the US deficit in its balance of trade with China as evidence of the case. Thus, while the trade war is a significant event, it is crucial to point out that it was incited by the dominant power and not the rising power. But as far as this study inquisition into the rising power behaviour on the matter is concerned, it is crucial to assess whether China 'unfair' trade practice have shifted toward more protectionism than free trade. A study by Mukoma (2021), looked into China implementation of its WTO's accession requirements and found that China made significant progress in liberalizing the majority of areas that were part of its membership commitments and this, in a short space of time[220]. For example, China has reduced average tariffs for Industrial goods and agriculture from 15 percent to 8.9 percent, with all cuts executed by 2010[221]. As of 2019, China's overall tariff rates stood at 5.39%[222].

Moreover, where China still underperformed when it came to enforcement Intellectual Property Rights, it was mainly due to lack of coordination and transparency, as well as resources constraints[223]. Areas

212 Foreign direct investment, net inflows (BoP, current US$) - China | Data (2021)
213 U.S. direct investments in China 2000-2019 | Statista, 2021
214 Horn, Reinhart and Trebesch (2020)
215 Idem
216 Idem
217 China (CHN) Exports, Imports, and Trade Partners | OEC (2021)
218 China Trade Balance 1960-2021 (2021)
219 The People's Republic of China | United States Trade Representative (2021)
220 Mukoma (2021, pg. 1)
221 Mukoma (2021, pg. 14)
222 Tariff rate, applied, simple mean, all products (%) - China | Data (2021)
223 Mukoma (2021, pg. 15)

that remain to see improvement includes trading rights (specifically rights to import copyright-intensive products), price control and government guidance pricing. Lastly, China implementation of WTO's requirements with regard to foreign financial institutions and joint ventures is a key area where progress has lacked tremendously[224]. The common argument on the latter is that China use joint ventures as a way to promote forced technology transfer. But even in this case, improvements have been made recently, as such, firms like Tesla and BlackRock are operating in China without a Chinese partner[225]. As such, it is clear that China's has not only tremendously benefited from the International Order economically since its inclusion in the WTO, but it has also largely complied with its demand. Thus, exhibiting behaviours of an economically satisfied rising state.

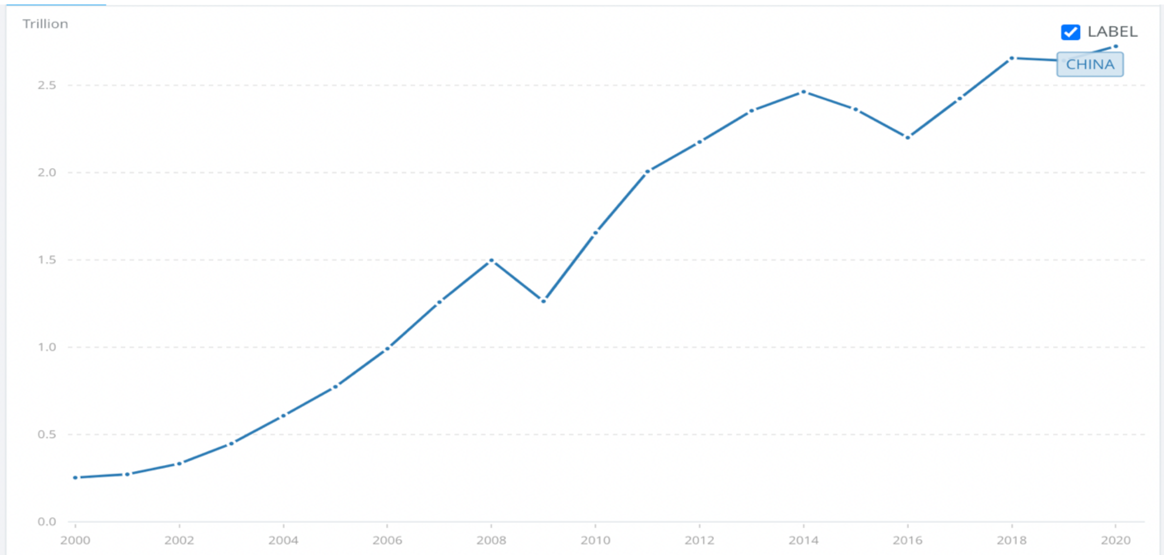

Figure 24: Export of goods and services (current US$). Source: World Bank[226]

Even when looking at the recent trade war between the US and China, evidence of dissatisfaction is more observed with the dominant power than the rising power. While both countries have engaged in a set of tariff increase that could be reasonably interpreted as a shift toward protectionism, China has mainly responded to the US actions. The trade war largely remains between the dominant and rising great power, and in this case the dominant power is responsible for taking the first step. Tensions in the US-China relations have always existed, their evolution into a trade war is a significant historical event and calls for potential decoupling between both economies is being taken more seriously by the US. The consequences of these actions could be a stronger shift to protectionism and a resurgence of an economy of bloc, as experienced during the inter-war period but of a larger magnitude. Similar to the protectionist shift during the interwar period, the biggest economic impact of decoupling will most

[224] Mukoma (2021, pg. 16)
[225] Huang (2021)
[226] Exports of goods and services (current US$) - China | Data (2021)

likely be on world trade. A report by Capital Economics argues that if decoupling between the world's largest economies was to take place, the consequences would be much more disruptive to the China bloc than the United States bloc. This is based on the fact that the large share of the global economy rest in the US bloc, out of bilateral relationships involving all 217 global economies recognised by the World Bank (inclusive of Taiwan), 114 are categorised in the US bloc and 90 in the China bloc[227]. Moreover, while China bloc account for the large share of global population, it only accounts for a quarter of the world's GDP compared to the US bloc which account for 68 percent of the world GDP[228]. The report observes that of the world's 50 largest economies, 43 are heavily dependent on demand from and production in the US bloc, and this reliance is lower among countries in the China bloc[229]. Lastly, the largest economies derive 12 percent of their GDP from exports consumed in the US bloc and spend a similar amount of their GDP on importing foreign value added generated in the US bloc[230]. In comparison, this figure only stands at 4 percent of GDP in both directions irrespective of bloc when it comes to China[231].

From these observations, it is clear that as it currently stands, the benefits that China will reap from remaining in the International Order are superior than the potential rewards out of it. However, should the US push for decoupling find success, this equation could change. China's awareness of this is evident, China's introduction of the 'dual circulation economy' is it response to the external economic pressure caused from COVID-19 effect on trade as well as increasing US decoupling push. In May 2020, Xi Jinping introduced this new economic strategy which seeks to ensure that China's domestic market plays the dominant role in its economic growth[232]. Based on the indicators set forth under this thesis, this paper argues that as it currently stands, China is economically satisfied since it leans more toward free trade rather than protectionism; experiencing an increase in foreign investment (received and issued); and currently has not been on the receiving end of debt default/cancelations. However, the shift of economic policies pursued by both nations -namely decoupling in the US and dual circulation in China - indicates potential risk in the future.

4.3.2 Political dis/satisfaction

On the 22 January 2013, the Republic of Philippines brought a claim against the People's Republic of China under Annex VII of the United Nations Conventions on the Law of the Sea (UNCLOS), to the Permanent Court of Arbitration, regarding the role of historic rights and the source of maritime entitlements in the South China Sea[233]. This claim questioned the lawfulness of certain behaviours by

[227] Zhou (2021)
[228] Idem
[229] Idem
[230] Idem
[231] Idem
[232] Idem
[233] The South China Sea Arbitration - The Republic of Philippines v. The People's Republic of China (2021)

China in the South China sea, which Philippines alleged to be in violation of the Convention[234]. China adopted a position of non-acceptance and non-participation in the proceedings[235], demonstrating disengagement. In 2016, the Permanent Court of Arbitration ruled in favour of the Philippines on almost every count and despite being a signatory to the treaty that established the tribunal, China refused to accept the court's authority[236]. Tensions between China and the Philippines are an important event considering that the USA has a mutual defence treaty with the Republic of Philippines and will be forced to intervene should the Philippines territories be under attack by China. China began to build island and militarize the South China Sea, specifically the Paracel Islands and Spratly Islands, around December 2013[237]. Currently, China occupies seven sites in the Spratly Islands, where it has engaged in island and military based building (see figure 25). The South China Sea (SCS), East China Sea (ECS) and yellow sea border three U.S treaty allies: Japan, South Korea and the Philippines; As well as including the Taiwan Strait, which surround Taiwan with whom the US has security-related policies under the Taiwan Relations Act (H.R. 2479/P.L. 96-8 of April 10, 1979)[238]. Figure 26, provides a cartographic look of the current maritime territorial disputes as follows[239]:

- Paracel Islands in the SCS: Claimed by China and Vietnam, and occupied by China;
- Spratly Islands in the SCS: Claimed entirely by China, Taiwan and Vietnam, and in part by the Philippines, Malaysia and Brunei, which are occupied in part by all these countries except Brunei
- Scarborough Shoal in the SCS: Claimed by China, Taiwan and the Philippines, controlled by China since 2012
- Senkaku Islands in the ECS: Claimed by China, Taiwan and Japan, administered by Japan

The 1960 US-Japan Treaty on Mutual Cooperation and Security states in Article V that: "Each Party recognizes that an armed attack against either Party in the territories under administration of Japan would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional provisions and processes." The US has reaffirmed on countless occasions that since the Senkaku islands are under the administration of Japan, they are covered by the clause in Article V[240]. Chinese control of its near-seas region will complicate the US ability to intervene militarily in a crisis or conflict between China and Taiwan and fulfil US obligations

[234] Idem
[235] Idem
[236] Territorial Disputes in the South China Sea | Global Conflict Tracker (2021)
[237] US-China strategic Competition in South and East China seas (2021, pg. 15)
[238] US-China strategic Competition in South and East China seas (2021, pg. 56)
[239] US-China strategic Competition in South and East China seas (2021, pg. 7)
[240] US-China strategic Competition in South and East China seas (2021, pg. 56)

under US defence treaties with Japan and the Philippines and South Korea[241]. Moreover, the US and China are involved in disputes on whether the latter has a right under international law to regulate the activities of foreign military forces that operates within China's Exclusive Economic Zones (EEZ).

The US and most countries position is that while UNCLOS gives coastal states the right to regulate economic activities (such as fishing and oil exploration) within their EEZs, it does not give coastal states the right to regulate foreign military activities in part of their EEZs beyond their 12 nautical mile territorial waters[242]. A position which China disagree with. The US has been carrying military exercises in the region under the guise of its freedom of navigation operation (FONOP). In January 2018, the US navy destroyer sailed the Scarborough Shoal which China called a provocative and illegal behaviour from the US[243]. In March of the same year, the USS Mustin vessel and Arleigh Burke-class guided missile destroyer travelled within 12 nautical miles close to the Mischief Reef in the Spratly Island[244]. Which the Chinese Ministry of National Defence called a "serious military provocation"[245], considering that 12 nautical mile is within the accepted legal claim of a country maritime shore. More recently, China passed a new maritime law that went into effect on 1 September 2021 (amending its 1983 maritime traffic safety law), which seeks to impose new notification and other requirements on foreign ship entering what China describes as 'seas areas under its jurisdiction[246]'. Following which, the US sent its aircraft carrier strike group (USS Ronald Reagan) into the disputed South China Sea for the second time this year[247].

While in the South China Sea, the US carried flight operations, maritime strike operations, anti-submarine operations and tactical trainings[248]. The USS Ronald Reagan joined the USS Carl Vinson and HMS Queen Elizabeth, raising the number of dominant power and allies' aircraft carriers in the Western pacific to 3[249]. Earlier that month, the US announced that its collaborating with the UK to help Australia deploy nuclear-powered submarines, to allow the latter to patrol parts of the South China Sea[250]. The frequency of 'unsanctioned' incursion in China's region of influence by the US and its allies has been on the increase[251]. From October 2 to 3, the American and British aircraft carrier carried joint

241 US-China strategic Competition in South and East China seas (2021, pg. 3)
242 US-China strategic Competition in South and East China seas (2021, pg. 8)
243 Ali and Blanchard (2018)
244 Ali and Blanchard (2018)
245 Ali and Blanchard (2018)
246 Wang (2021a)
247 Wang (2021b)
248 Idem
249 Idem
250 Biden Announces Defence Deal With Australia in a Bid to Counter China (2021)
251 Territorial Disputes in the South China Sea | Global Conflict Tracker (2021)

exercised with 15 other warships from Japan, New Zealand, Canada and the Netherlands near Okinawa and in the Philippine Sea[252].

Before moving into contested South China Sea territory, where they operated with Australian, Canada, Japanese and New Zealand Warships[253]. Other drills exercises included the participation of Singapore, Malaysia and India[254].

China's naval presence extends all the way to the Indian Ocean Region, where it has 8 warships present at any given time[255]. Recently, Pakistan began construction of China's military projects and this comes as Pakistan signed a contract with China to receive four frigates and eight submarines by the end of the decade[256]. While this paper does not suggest that sales and purchasing of armaments and/or arms race should be interpreted as signs of dissatisfaction, for the reason stated under the literature review.

These recent developments remain a significant factor to consider. Pakistan Ambassador to China stated that 'these projects will strengthen Pakistan Navy's Capabilities to respond to maritime challenges to ensure seaward defence, maintain peace, stability, and balance of power in the Indian Ocean Region[257].' China concluded an arrangement with Cambodia in 2019, which would allow its military troops to utilise the country's naval facility, similar arrangement have been made with established commercial port facilities in Pakistan and Sri Lanka[258].

The US intelligence services also reported that China is building a secret military facility in the United Arabs Emirates[259]. In the Atlantic Ocean, a recent US intelligent report claimed that China intends to establish its first military base in the Atlantic Ocean, specifically in Equatorial Guinea[260]. The US has made clear to Equatorial Guinea that it should keep its relation with China within a framework that is not threatening to the US policies[261]. The European Union has also expressed concerned over what they see as 'the growing list of China's actions that are of concern'[262]. This list includes China's 'problematic and unilateral actions' in the South and East China's Seas as well the Taiwan Strait; systemic repression of ethnic and religion minorities in Xinjian and Tibet; and the erosion of autonomy and democracy in Hong Kong[263].

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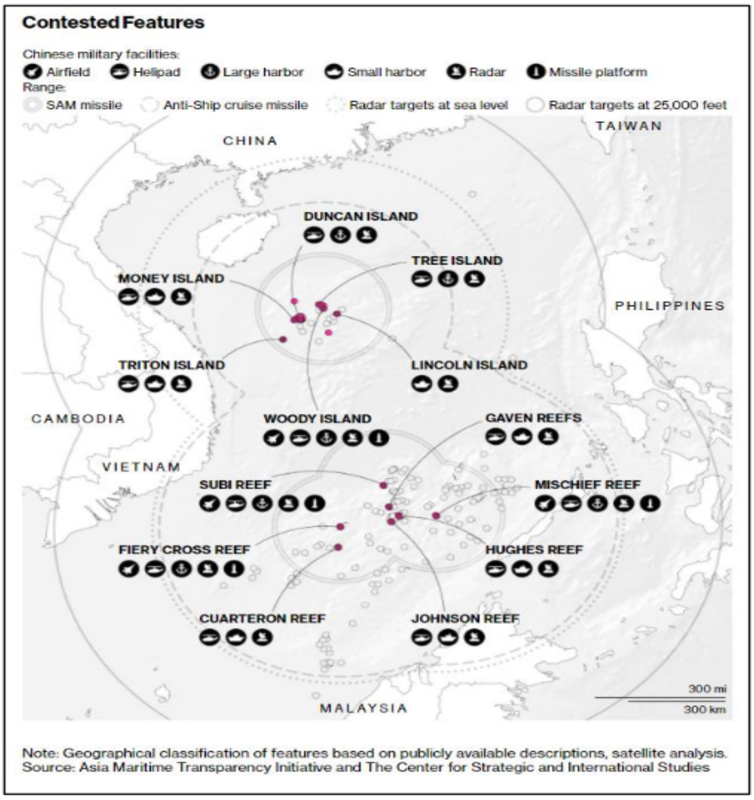
[252] Hille (2021)
[253] Idem
[254] Idem
[255] Kumar (2021)
[256] Idem
[257] Idem
[258] Kurevlev (2021)
[259] Idem
[260] China set to establish first military base in Atlantic Ocean: US intel reports (2021)
[261] Idem
[262] US, EU voice concern over China's 'unilateral' actions at sea (2021)
[263] Idem



Source: Illustration accompanying Karen Leigh, Peter Martin and Adrian Leung, "Troubled Waters: Where the U.S. and China Could Clash in the South China Sea," *Bloomberg*, December 17, 2020.

Figure 25: Reported Military Facilities at South China Sea sites occupied by China

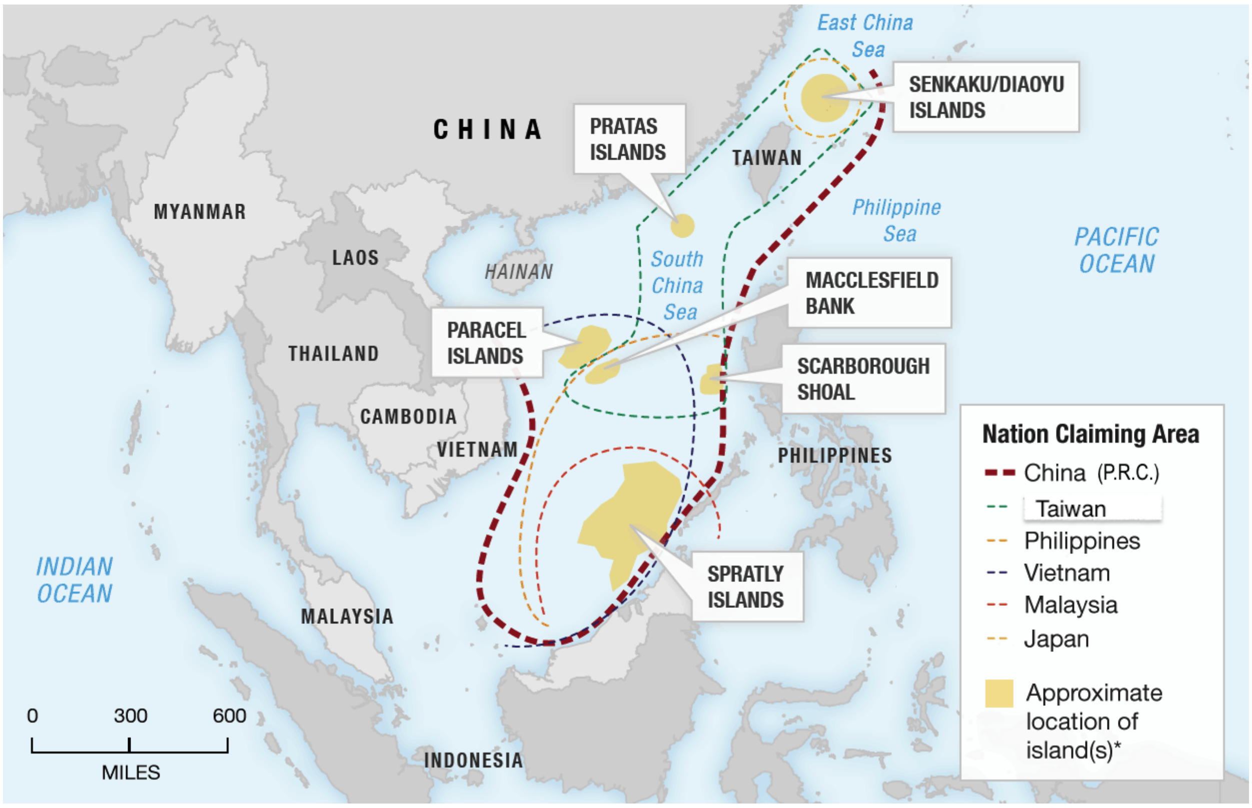


Figure 26: Competing claim to South and East China see territory

- Beyond Mainland: the Taiwan Strait and Hong Kong

In October alone, a record number of the China People's Liberation Army (PLA) aircraft estimated at close to 200, had violated Taiwan air defence zone[264]. These have been supplemented with series of military exercises in the vicinity of the Taiwan-controlled Pratas Islands in the South China Sea[265]. China's aim is to deter secessionist provocations and foreign interference. In the same month, Taiwan's president confirmed the presence of US military in its territory, which is quasi contradictory to the US foreign policy of strategic ambiguity it has held on the Taiwan-China question for decade. This most recent event is only compounding to the series of escalation in the US-China relationship discussed above. The PLA arsenal of provocation also includes non-traditional threats such as cyber and cognitive warfare[266]. And as a response, Taiwan is ramping up its military as well. Since the arrival of the independence leaning democratic progressive party in 2016, Taiwan has lost eight diplomatic allies to Beijing, namely Burkina Faso, Panama, Sao Tome and Principle, Dominican Republic, El Salvador, Solomon Islands, Kiribati and recently Nicaragua[267]. An invasion in Taiwan by China will force the US to intervene as set under the terms of the 1979 Taiwan Relations Act. This, position Taiwan as the next frontier in the US-China power transition battle.

With regards to Hong Kong, the terms of the Sino-British Joint Declaration signed in 1984 provided China with ability to resume sovereignty over Hong Kong. In effect, Hong Kong had become a special administrative region of the PRC, which meant that except for foreign and defence affairs which are the responsibility of mainland, Hong Kong would still enjoy a high degree of autonomy until July 2047. However, protests in Hong Kong over the introduction of an extradition bill led pre-existing tensions between mainland and Hong Kong to reach new height. China responded by imposing National security law on Hong Kong, which aimed to prohibit 'treason, secession, sedition and subversion against the Chinese government.' This has been largely seen as China's interpretation and manipulation of Hong Kong Basic Law, which serves as its constitution. As such, while Art 18 of the Basic Law prohibit China's law from applying in Hong Kong, this exception is made when it comes to Defence, Foreign Affairs and/or Exceptional Circumstances (China declaration of state of war or state of emergency) as per annex 3 of the basic law. Using this legal loophole, China proceeded to bypass the Hong Kong Legislative Council through various set of actions and policies, which will not be discussed in this paper. However, for what is of concern to this paper, the UK's Ambassador to the UN and WTO in a speech in Geneva has stated that China's actions are a clear breach of the Sino-British agreement and China is currently 'in a state of on-going non-compliance with the Joint Declaration'[268].

[264] BBC News (2021)
[265] In a first, defense report released in Chinese, English simultaneously (2021)
[266] Idem
[267] Taiwan loses Nicaragua to Beijing as diplomatic ally (2021)
[268] UN Human Rights Council 47: UK statement at the side event on Assessing the National Security Law in Hong Kong (2021)

4.4 Conclusion

In conclusion, this chapter analyses of US-China power constellation argues that the transition is yet to occur considering that China has not yet reached or overtaken the US GDP, while it has done so in terms of CINC index. In terms of dis/satisfaction, this chapter concludes that China is economically satisfied considering the increase of it FDI over the studied period of time. As well as, the fact that China has moved toward free trade with reduction of tariffs and evident by increase in export and the surplus in its balance trade. Moreover, the current benefit China derives from the international order are superior to the benefit it could derive out of it. However, this paper also observed that this trend may not continue in the medium to long-term future, as the US pushes for 'economic decoupling' and China respond to it with a 'dual economy' strategy aiming to focus on domicile economy. Current tensions between the US and China have the potential to escalate and result in China shifting toward becoming an economically dissatisfied rising power. This paper also categorises China as a politically dissatisfied rising state, which is evident by not only its refusal to accept the ruling of the permanent court of arbitration and breach of UNCLOS terms. But also, China's increasing frequency of expansionist behaviour and 'unsanctioned' incursion in the region of influence, expressed through militarization of the South and East China Sea, harassment of neighbouring countries navies and more. Furthermore, on-going issues between China and Taiwan, as well as China denegation of the Sino-British joint declaration by cracking down on Hong Kong autonomy, support this paper observation. Lastly, this paper also observed an increase in the frequency of 'unsanctioned incursion in what China considered to be its region of influence by US and allies. Thus, China is economically satisfied and politically dissatisfied. PTT predict that at the on-set of a transition between a dissatisfied rising power and a dominant power, mounting tensions and/or conflict should be evident and this is in line with current observation in the US-China transition. The analysis carried has been in line with the framework, as such this point toward a likelihood of a transition through war if the trajectory remains the same.

It is important to note that a dominant school of thought in the US engagement with China since Richard Nixon visit in 1972, has been the belief that by encouraging and promoting China's access to the global infrastructure, this could lead to long term democratization in China. The assumption is that since democratic countries are less likely to go to war with each other, a democratic China is less likely to be a potential cause for conflict in the long term. While this remains arguable and still to materialize in the case of China, there still is a merit to the claim that in a status quo that is predominantly democratic, democratic countries have less incentives to go to war with each other's as the net benefit in the IO far exceed the net gains outside of the IO. This may be the reason why democratic countries are less likely to go to war with each other's.

Chapter 5: Conclusion

5.1. Summary and main findings

The first chapter of this paper focused on Introducing the topic and discussing research matters. In this chapter, the study highlighted that its rational was not only to improve on the theory, but also contribute knowledge and further our understanding of the potential re-definition of the global order. This contribution can be used in gaining a better understanding growing conflict between rising and dominant powers, as well as preventing further escalation. Moreover, the research question, sub-questions and hypothesis were clearly highlighted. The main research question sought to determine whether In a power transition, war is most likely to occur as a result of political dissatisfaction as opposed to economic dissatisfaction of a rising state toward the status quo?. The two sub-questions asked were how to measure political dis/satisfaction ? and how to measure economic dis/satisfaction? This paper hypothesis that in a power transition, political dis/satisfaction of a rising state toward the status quo is most likely to lead to war than economic dis/satisfaction.

The literature review looked at existing literature on PTT fundamental structure, the measurement of power capabilities/development as well as the current literature on the measurement of satisfaction as a variable. With regards to the latter, this exercise allowed to identify the existing gap in literature when it came to measuring satisfaction in PTT, this being the gap that this research primarily sought to fill to address the key weakness in PTT. The literature review demonstrated that the current approaches used in measuring satisfaction were ad-hoc, too general and not systematic. As such, this paper proposed a typology of dis/satisfaction, namely political dis/satisfaction and economic dis/satisfaction. This was further discussed under the methodology sections which outlined how the variables were operationalized. Namely, the direct variable (DV) being the transition outcome, with variance (peaceful vs war transition) occurring at the level of the DV. The indirect variable (IV) were (1) Economic dis/satisfaction and (2) political dis/satisfaction. . With regard to the operationalization of variables, economic dis/satisfaction was to be measured through the following set of indicators: Trade policy (Free Trade vs Protectionism), Foreign Investment (increase vs decrease), economic policies, and Debt (repayment vs default/cancelation). With Protectionism, Decrease in Foreign Direct Investment and Debt default/cancelation being indicators of dissatisfaction while their opposite indicating satisfaction.

While political dis/satisfaction was to be measured by looking at (1) Rising state behaviour toward existing security treaties in its region of influence; (2) the frequency of (un)sanctioned incursion in naval, aerial and territorial region of influence by the dominant state (and allies); (3) presence of expansionist behaviour by rising state in region of influence that is unsanctioned by dominant state. Increase in negative behavior was to represent dissatisfaction while its opposite to represent satisfaction.

The research also relied on the method of congruence to assess whether the outcome of the case is consistent with the theory's prediction. Lastly, in order to determine causality between the IV and the DV, this research used process tracing, which allows to track causal pathway through a qualitative analysis methodology. Further discussed items under this sections included the data collection method, ethical considerations and chapter outline.

The second chapter undertook the theory building exercise, which primarily discussed how is PTT in its current state as well as detailing what this paper sought to add to it. PTT fundamental assumptions were highlighted as well as how this influences power relationship in the status quo. The crucial take away from this chapter is the understanding that in PTT, power is a crucial variable influencing how the international order functions, but it does not operate in a power-maximization model. Thus, so long as parties perceive that net gains from conflict are inferior to the net benefits in the international order, a peaceful competition will be ensured. The opposite does apply, if the net gains from conflict are perceived to be superior than the net benefit in the global order, war will ensue. The relationship between benefit/net gains and power is a critical differentiator of PTT when compared to other theories such as the balance of power. This chapter also discussed the case of the United States 19th Century rise and power transition with the United Kingdom as an adequate embodiment as well as justification for this typology of dis/satisfaction. It was highlighted that the current thinking in literature was that this transition could be categorized as simply peaceful due to shared political and socio-cultural heritage between both nations. However, existing conflict were present in that transition which PTT in its current state is unable to account for. Lastly, the chapter provided a definition of key concepts discussed in this paper, as well as a discussion centred on theoretical framework development. As such, this chapter argues that while it has been widely accepted that certain key concept of PTT influences the way power is measured this can also be extended in the measurement of satisfaction.

The third chapter is the heart of the thesis as it provides a proof of concept to this paper modified version of PTT. This chapter empirically tested the hypothesis through a case study, namely the UK vs Germany and USA power transition during the interwar period. This case study was chosen as its period coincided with the Great Depression, which this paper demonstrated that its impact did act as an economic equalizer, as it negatively impacted the subjects of this study in relative consistency. Since both countries had relatively equal level of economic dissatisfaction, this enhanced the effect of political dis/satisfaction. This paper established that based on GDP and CINC data, the US overtook the UK in 1900 while Germany overtook the UK In 1935. In the case of rising states in this power constellation, this paper finds that the USA and Germany were economically dissatisfied indeed as they were more affected by the Great Depression than Britain, as the latter felt the impact mainly in its export-based sector and recovered faster than both rising powers. In the case of Germany and economic indicators, this paper observed a causal relationship between decrease of foreign capital and increase in dissatisfaction. In one such highlighted instance, the drying up of foreign capital in Germany led to implementation of exchange control mechanism to limit capital export and limit spending on import, as well as import activities being put under the supervision of the Reischbank. In the case of the US however, no linkage between foreign capital and its impact was observed as the indicator was not significant for that economic context. With regards to trade, the use of balance of trade surplus/deficit comparison to determine dissatisfaction was found to be challenging. In the case of Germany for instance, period of depression coincided with surplus rather than deficit and (vice versa). While the US, had more consistent surplus regardless. However, once the impact of protectionism was considered, the indicator demonstrated consistency with expectation as countries shifted more toward protectionism and further away from free trade. This was evident through a decrease of imports as a result and implementation of tariffs. In the case of Germany, bringing back the Bülow tariffs of 1902 as soon as the Treaty of Versailles limit came to an end in 1925 is an example of economic dissatisfaction related to trades expressed through economic policies. Furthermore, a shift toward bilateral trade instead of multilateral trade. On the question of trade concerning the USA, it was established that US export increase was a source of satisfaction, thus, the slump during and after the Great depression in its export can be interpreted as a sign of economic dissatisfaction. The US imposing tariffs and a shift toward a focus on bilateral rather than multilateral trade partnership (which both great powers did). Such consistency was also found when it came to debts relation, which is detailed in the third chapter.

While when it comes to political dis/satisfaction, the USA was found to be satisfied and Germany to be dis/satisfied. The US was found to be a satisfied nation as per the indicators set. This is because US-UK relationship was experiencing what has been dubbed the Great Rapprochement. As per the theory predicted outcome, Germany power transition with the dominant power resulted through war, while the USA power transition was peaceful. In summary, this paper has demonstrated how the inclusion of the political dis/satisfaction and economic dis/satisfaction variables to the measurement of satisfaction improves on the theory. As well as validated the hypothesis that political dissatisfaction most likely lead to war when compared to economic dissatisfaction.

With regards to the US/China power transition, this paper find China is an economically satisfied and politically dissatisfied rising state. This paper discussed how China has benefited tremendously from the international order since its accession to the WTO. As well as why the benefit of remaining within the International Order still outweigh the benefit China could yield out of the International order. With regards to economic indicators of dissatisfaction, China has experienced increased Foreign investments, currently lean more toward pro-free trade than protectionism and as the world largest lender, it has not experienced default on its issued debt that could cause dissatisfaction. Thus, based on this criteria China is considered an economically satisfied country. However, the current trend in economic politics, specifically the US push for decoupling will most likely alter this status. The US continued pursuit of economic decoupling will result in a China that feels alienated from the International order. Consequently, this will lead to a perception that the benefit under the international order are inferior to the benefit out of it for China. This is evident by China responses to the economic decoupling policy perceived attempt to alienate it from the International order, by adopting the 'dual circulation economy' which seeks to reduce its dependence to export revenue in favour of domicile economy. China's political dissatisfaction has been expressed by providing evidence of disengagement and disregard of treaties within its region of influence (namely the Sino-British Joint Declaration and the UNCLOS); frequency of unsanctioned incursion in naval and aerial region of influence by the US and its allies; as well as presence of expansionist behaviour by China in the South and East China seas, Taiwan and Hong Kong to mention a few. As such, this paper recommends promoting and adopting policies that ensures that the benefit China receive from the international order remain far superior than net gains it could receive out of it. While this may reduce risk of economic dissatisfaction, on the grander scale what is important is to ensure China's political satisfaction.

5.2. Limitations and recommendations for further studies

In terms of limitations, one challenge was the difficulty in categorizing certain economic activities such as China's Belt and Road initiative for instance, within this dis/satisfaction framework. The question that must be asked is whether China global infrastructure project are challenging the dominant power order (conflict of interest) or in line with it? This has clear implication and constitute evidence on China's perspective on whether net benefit from the IO exceed net gains it can receive out of it (and vice versa). Unfortunately, the framework in its current approach simply does not accommodate such significant factor. The same can be said of PTT attitude toward arms races as a sign of dissatisfaction. As such, the strength of evidence may always vary based on how satisfaction is measured. It is in this spirit that this paper recommends that further test of other known cases of power transition should be condoned, as well as inclusion of further indicators variables to improve on the ability to accurately capture rising state dis/satisfaction.

Appendix section

Annex table #1: Tables-Feinsten-1972-Natonal Income expenditure and output of the United Kingdom 1855-1965 (Table37)

	TABLE 37: BALANCE OF PAYMENTS, CURRENT ACCOUNT, 1900-65								
									£mn
	Merchandise				Invisibles				Total
	Imports	Exports and re-exports	Debit balance		Debit	Credit	Credit balance		Current balance
	(1)	(2)	(3)		(4)	(5)	(6)		(7)
1900	485	356	129		61	224	163		34
1901	485	349	136		70	225	155		19
1902	491	350	141		65	230	165		24
1903	505	361	144		54	241	187		43
1904	512	372	140		53	245	192		52
1905	527	409	118		56	262	206		88
1906	568	462	106		62	289	227		121
1907	603	519	84		68	314	246		162
1908	550	457	93		66	309	243		150
1909	581	470	111		68	321	253		142
1910	632	536	96		76	346	270		174
1911	634	559	75		77	356	279		204
1912	694	600	94		83	380	297		203
1913	719	637	82		88	405	317		235
1914	660	540	120		107	361	254		134
1915	840	500	340		155	440	285		-55
1916	980	630	350		190	630	440		90
1917	1040	620	420		270	740	470		50
1918	1170	540	630		305	660	355		-275
1919	1460	990	470		295	720	425		-45
1920a	1761	1585	176		294	787	493		317
1920	1812	1664	148		299	784	485		337
1921	1022	874	148		239	580	341		193
1922	951	888	63		232	496	264		201
1923	1011	914	97		240	520	280		183
1924	1172	958	214		238	530	292		78
1925	1208	943	265		228	545	317		52
1926	1140	794	346		232	560	328		-18
1927	1115	845	270		222	590	368		98
1928	1095	858	237		221	582	361		124
1929	1117	854	263		233	592	359		96

1930	953	670	283		221	540	319		36
1931	786	464	322		200	419	219		-103
1932	641	425	216		183	348	165		-51
1933	619	427	192		162	346	184		-8
1934	683	463	220		158	356	198		-22
1935	724	541	183		169	375	206		23
1936	784	523	261		183	417	234		-27
1937	950	614	336		196	485	289		-47
1938	849	564	285		206	436	230		-55
1939	800	500	300		400	450	50		-250
1940	1000	400	600		660	460	-200		-800
1941	1100	400	700		590	470	-120		-820
1942	800	300	500		730	570	-160		-660
1943	800	240	560		900	780	-120		-680
1944	900	270	630		1020	970	-50		-680
1945	700	450	250		1280	660	-620		-870
1946	1063	960	103		1012	885	-127		-230
1947	1541	1180	361		937	917	-20		-381
1948	1790	1639	151		893	1070	177		26
1949	2000	1863	137		934	1070	136		-1
1950	2312	2261	51		1025	1383	358		307
1951	3424	2735	689		1247	1567	320		-369
1952	3048	2769	279		1267	1709	442		163
1953	2927	2683	244		1304	1693	389		145
1954	2989	2785	204		1398	1719	321		117
1955	3386	3073	313		1590	1748	158		-155
1956	3324	3377	-53		1754	1909	155		208
1957	3538	3509	29		1759	2021	262		233
1958	3377	3406	-29		1774	2089	315		344
1959	3639	3522	117		1824	2084	260		143
1960	4138	3732	406		2049	2190	141		-265
1961	4043	3891	152		2114	2262	148		-4
1962	4095	3993	102		2161	2375	214		112
1963	4362	4282	80		2292	2483	191		111
1964	5003	4466	537		2519	2657	138		-399
1965	5049	4777	272		2693	2874	181		-91

Notes:

Invisibles are presented on a balance of payments rather than a national income basis (see chapter 6.0).

a For 1900 to 1920 (first row) Southern Ireland is included;

	from 1920 (second row) onwards it is excluded.								

Annex table #2: Sefton Weale Table – Exports and Imports (£m constant prices)

Exports and Imports: 1920-1990	S040 Exports Goods	S041 Exports Services	S144 Exports Total	S42 Imports Goods	S43 Imports Services	S145 Imports Total
1920	647	162	810	649	82	731
1921	490	152	643	551	94	645
1922	665	147	811	639	103	741
1923	725	164	890	693	102	794
1924	764	155	920	771	102	872
1925	776	138	914	796	100	896
1926	683	157	840	819	111	930
1927	765	181	946	837	108	945
1928	781	171	952	811	105	916
1929	803	181	984	846	116	962
1930	664	182	846	822	128	950
1931	506	177	682	835	150	985
1932	493	175	667	737	142	879
1933	505	173	678	735	143	878
1934	537	166	704	785	133	918
1935	625	169	794	822	141	963
1936	585	187	772	840	145	985
1937	596	214	811	887	135	1 022
1938	563	193	756	850	152	1 002
1939	500	202	702	792	293	1 086
1940	320	156	476	718	419	1 138
1941	273	137	409	689	284	973
1942	185	185	370	486	334	821
1943	133	275	408	432	382	815
1944	145	371	516	476	429	906
1945	236	186	422	354	491	845
1946	477	232	709	501	361	862
1947	507	203	710	598	266	865
1948	646	219	865	621	224	846
	S 40B	S 41B	S144B	S 42B	S 43B	S145B
1948	16 363	4 764	21 127	15 966	6 337	22 303
1949	18 024	5 277	23 300	17 468	6 386	23 855
1950	20 628	5 994	26 622	17 681	6 390	24 071
1951	20 807	5 794	26 601	20 010	6 031	26 041
1952	19 615	5 895	25 510	17 935	5 694	23 629
1953	19 430	7 170	26 601	19 370	6 204	25 574
1954	20 488	7 762	28 250	19 886	6 755	26 642
1955	22 353	8 002	30 355	22 179	7 501	29 680
1956	23 820	7 889	31 709	22 154	7 726	29 880
1957	24 251	8 374	32 624	23 225	7 533	30 757
1958	23 536	8 641	32 177	23 364	7 778	31 142
1959	24 236	8 971	33 207	25 296	8 018	33 314
1960	25 590	9 783	35 373	28 485	9 011	37 496
1961	26 239	10 073	36 312	27 991	9 153	37 145

1962	26 705	10 135	36 840	28 589	9 281	37 870
1963	28 479	10 156	38 635	30 228	9 336	39 564
1964	29 495	10 523	40 018	33 880	9 921	43 801
1965	31 088	10 593	41 681	33 944	10 205	44 150
1966	32 337	11 484	43 821	34 740	10 500	45 241
1967	31 764	12 121	43 885	37 712	10 589	48 301
1968	36 166	13 281	49 447	41 627	10 507	52 134
1969	39 839	14 660	54 499	42 116	11 833	53 949
1970	41 406	15 958	57 363	44 491	12 120	56 612
1971	43 763	17 348	61 111	46 568	13 147	59 715
1972	43 740	18 230	61 970	51 944	13 568	65 512
1973	49 586	19 648	69 234	59 376	13 912	73 288
1974	52 885	20 953	73 838	59 481	14 428	73 909
1975	50 712	21 014	71 726	54 312	14 674	68 986
1976	55 599	22 252	77 850	57 984	14 581	72 565
1977	60 478	23 314	83 792	59 158	14 374	73 532
1978	62 002	23 431	85 433	62 019	14 835	76 854
1979	64 963	24 031	88 994	67 982	16 171	84 153
1980	65 456	22 997	88 454	64 154	16 761	80 915
1981	64 650	22 889	87 538	61 506	17 038	78 544
1982	66 712	21 904	88 616	64 993	17 388	82 381
1983	68 185	22 139	90 324	70 878	16 972	87 850
1984	73 981	21 641	95 622	78 833	17 544	96 377
1985	77 989	24 207	102 196	81 335	17 530	98 865
1986	81 246	25 738	106 983	87 336	18 345	105 681
1987	85 528	27 585	113 113	93 767	20 125	113 892
1988	87 069	26 150	113 219	105 976	21 915	127 891
1989	91 199	26 794	117 993	114 319	22 979	137 298
1990	97 276	26 463	123 739	115 659	23 348	139 007

**Annex table #3: Germany Balance of Payments Goods Surplus/Deficit in RM. Annual from Dec 1880 to Dec 2004
. Scale: Millions**

31/12/1900	BBGDEUA
31/12/1901	BBGDEUA
31/12/1902	BBGDEUA
31/12/1903	BBGDEUA
31/12/1904	BBGDEUA
31/12/1905	BBGDEUA
31/12/1906	BBGDEUA
31/12/1907	BBGDEUA
31/12/1908	BBGDEUA
31/12/1909	BBGDEUA
31/12/1910	BBGDEUA
31/12/1911	BBGDEUA
31/12/1912	BBGDEUA
31/12/1913	BBGDEUA
31/12/1920	BBGDEUA
31/12/1921	BBGDEUA
31/12/1922	BBGDEUA
31/12/1923	BBGDEUA
31/12/1924	BBGDEUA
31/12/1925	BBGDEUA
31/12/1926	BBGDEUA
31/12/1927	BBGDEUA
31/12/1928	BBGDEUA
31/12/1929	BBGDEUA
31/12/1930	BBGDEUA
31/12/1931	BBGDEUA
31/12/1932	BBGDEUA
31/12/1933	BBGDEUA
31/12/1934	BBGDEUA
31/12/1935	BBGDEUA
31/12/1936	BBGDEUA
31/12/1937	BBGDEUA
31/12/1938	BBGDEUA
31/12/1939	BBGDEUA
31/12/1940	BBGDEUA
31/12/1941	BBGDEUA
31/12/1942	BBGDEUA
31/12/1943	BBGDEUA

**Annex table #4: United States Balance of Payments Goods Surplus/Deficit (USD). Annual From Dec 1790 to Dec 2009
. Scale: Millions.**

Date	Ticker	Open	High	Low	Close
31/12/1900	BBGUSAA				566
31/12/1901	BBGUSAA				693
31/12/1902	BBGUSAA				501
31/12/1903	BBGUSAA				414
31/12/1904	BBGUSAA				491
31/12/1905	BBGUSAA				423
31/12/1906	BBGUSAA				539
31/12/1907	BBGUSAA				480
31/12/1908	BBGUSAA				691
31/12/1909	BBGUSAA				393
31/12/1910	BBGUSAA				208
31/12/1911	BBGUSAA				541
31/12/1912	BBGUSAA				569
31/12/1913	BBGUSAA				684
31/12/1914	BBGUSAA				496
31/12/1915	BBGUSAA				1117
31/12/1916	BBGUSAA				3130
31/12/1917	BBGUSAA				3313
31/12/1918	BBGUSAA				3300
31/12/1919	BBGUSAA				4166
31/12/1920	BBGUSAA				2976
31/12/1921	BBGUSAA				1965
31/12/1922	BBGUSAA				711
31/12/1923	BBGUSAA				373
31/12/1924	BBGUSAA				1017
31/12/1925	BBGUSAA				717
31/12/1926	BBGUSAA				400
31/12/1927	BBGUSAA				701
31/12/1928	BBGUSAA				1056
31/12/1929	BBGUSAA				861
31/12/1930	BBGUSAA				793
31/12/1931	BBGUSAA				332
31/12/1932	BBGUSAA				283
31/12/1933	BBGUSAA				184
31/12/1934	BBGUSAA				391
31/12/1935	BBGUSAA				-100
31/12/1936	BBGUSAA				-137
31/12/1937	BBGUSAA				185
31/12/1938	BBGUSAA				911
31/12/1939	BBGUSAA				789
31/12/1940	BBGUSAA				1341
31/12/1941	BBGUSAA				1761
31/12/1942	BBGUSAA				5284
31/12/1943	BBGUSAA				9587
31/12/1944	BBGUSAA				10434
31/12/1945	BBGUSAA				5711

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