International Master's Program in International Studies

National Chengchi University

國立政治大學國際研究英語碩士學位學程

Revealing the True Power of Economics in the China-United States Relationship:

Separating Theory from Reality in Economic Coercive Potential

解析中美關係之「經濟」支配力：現實中經濟脅迫之不同理論

Grant Nordby

Advisor: 薛健吾

April 2016

Abstract

Economic asymmetric interdependence can lead to tensions in a geopolitical relationship, and as China's economic strength continues to rise the academic and policy circles have analyzed the possibility of tensions boiling over. However, such discussions have often over estimated Chinese economic prowess or over-emphasized United States incumbent economic and geopolitical advantage. This research aims to systematically analyze the economic realities utilizing Kirshner's tools for economic coercion, and applying them to their respective economic sectors. Chapter one introduces the research questions and aims, chapter two explains Kirshner's tools for economic coercion as well as lays the groundwork for this research's methodological framework. Chapter three aims to provide an objective overview of the economic realities between the United States and China. Finally, chapter four and five provide two case studies that test the hypothesizes derived from the analysis of Kirshner's limitations on economic coercive potential and the Chinese-United States economic realities as explored in chapters two and three.

國與國之間經濟互賴的失衡足以導致地緣政治衝突風險的升高，因此隨著中國經濟實力的持續增長，學界及政界皆開始注意到中美衝突加劇的可能性。然而，持此種風險論者經常過分高估中國的經濟實力，抑或過度強調美國的經濟與地緣政治優勢。本研究旨在系統性地分析中美經濟實力現況，並將採用 Kirshner 提出的若干經濟施壓工具套用至兩國各自的經濟情勢。本研究的第一章即點明研究問題與目標。第二章將闡述 Kirshner 提出的若干經濟施壓工具，並以此建構本文的理論架構。第三章將客觀地呈現中美兩國的經濟實力概況。第四及第五章將分別呈現兩個個案研究，以此檢驗 kirshner 所提出的假設分析經濟高壓手段的限制，以及二、三章所論述之中美兩國經濟情勢。

立 政 治 大 National Chengchi University

Table of Contents

Chapter One: Introduction 3
1.1 Introduction 3
1.2 Research Questions 5
1.3 Paper Structure 8
Chapter Two: Theoretical Analysis and Methodological Framework 10
2.1 Broad Theoretical Groundwork and Implications 11
2.2 Economics as a Form of Power: Kirshner's Tools for Economic Statecraft 19
2.3 Dangers in Dependence: Framework for Further Study 25
Chapter Three: Economic Realities 29
3.1 Monetary Power 29
3.2 Financial Power 37
3.3 Trade 42
4.4 Conclusion 49
Chapter Four: China's Monetary Policy After 2014 a Case of Monetary Power 53
4.1 Introduction 53
4.2 An Argument the 2014-2015 Renminbi Evaluation Changes as a Case Study 54
4.3 Chinese Grand Strategy 56
4.4 China's Monetary Policy after 2014 62
4.5 Rivaling Explanations and conclusions 72
Chapter Five: United States Steel Protectionism after 2010 Case Study in Economic Coercion Potential 77
5.1 Introduction 77
5.2 An Argument for Public Law 112-99 As A Case Study 79
5.3 United States vs. China Steel Trade Dispute and the Resulting WTO Proceedings 84
5.4 Rivaling explanations and conclusions 97
Conclusion 101
References 106

國立政治大學 National Chengchi University

Chapter One: Introduction

1.1 Introduction

Tom Clancy recently published a new book titled, "The Bear and The Dragon" in which tensions between China and the United States boil over. Tom Clancy has been praised before for his ability to accurately gage and predict future conflicts and in this book Clancy writes about how human rights violations, control over information and greed by People's Communist Party in China sparks war (Groll, 2013). Though the book is very entertaining, the conflict is largely one-sided and the United States dominates China because of old assumptions about the two countries economic and political standing in the World. While this is just fantasy literature, it has parallels to the way in which today's scholars, economists and politicians actually look at the strategic relationship. Proponent's on both side, utilize economic statistics on trade flows and capital holdings to argue that that one side has the leverage necessary to influence the others behavior. This research makes use of the same economic data in an effort to study the economic relationship more holistically, and in doing so reveal the true potential for economic coercion each country has. This research moves beyond fantasy, and shows that, in reality, the complex economic relationship between China and the United States can hardly be used by either party in a grand effort to cripple or control the other.

國立政治大學 National Chengchi University

While much is uncertain about the future of both trade and geopolitics both will most likely be greatly influenced by the nature of Chinese-United States relations. Both President Obama and President Xi have, on numerous occasions, voiced this sentiment. In 2013, President Xi said, "A sound China-U.S. cooperation can serve as the ballast for global stability and the propeller for world peace" (Ministry of Foreign Affairs, 2013) in a joint press conference with Obama in California. But as both countries navigate a new, less friendly Trump administration their choice to work with or against each other will shape every global issue from nuclear

weapons and terrorism, to trade and technology. This is the first great confrontation between great powers with profoundly different world views since the Cold War, and increasingly economics is being pushed to the forefront of the discourse between the two countries.

We have already seen how the complex relationship between the U.S. and China has shaped the internal economic workings of the two countries. It is estimated that China now employs nearly one million Americans, and it is likely that America employs many more Chinese; furthermore, investment and foreign capital flows benefit both economies (Obama & Xi, 2015). Domestically, the impact of trade with China has been thoroughly studied and remains a contentious issue, making its benefits and drawbacks well understood. However, as the relationship develops and China's new economic power begins to take shape, how the U.S.-Chinese economic relationship will shape regional and world trade in the future is less certain. Likewise, China and the United States' shaping of issues from nuclear proliferation to climate change has greatly benefited the study of great power politics; furthermore, their cooperation and conflict in international organizations such as the United Nations and World Trade Organization has progressed critical thinking about the intersection between liberal institutionalism and great power politics. Much like the progress made in these areas, studying Chinese-United States economic and trade relationship, can help advance our understanding of the interplay between International Political Economy and great power relationships. To that end, the unique Chinese-United States relationship necessitates a detailed study exploring if either country has exposed itself to the possibility of economic coercion or what can be expected should conflict arise between the two countries.

國立政治大學 National Chengchi University

1.2 Research Questions

There is still much to be learned about the changing nature of the economic relationship, pushed largely by the growing economic prowess of China, and also the growing populism and backlash against free trade that has taken root in the United States and other rich countries. China's return to prominence as a world trade and economic power, has led to deeper consideration among scholars about what economic power means in terms of "real" or geopolitical power (Okano-Heijmans, 2012). While there are certainly considerable ties between economic strength, the military, and other traditional measures of geopolitical power, economic strength as its own form of power or leverage over other countries is less well understood. This is ironic considering that this is perhaps the most important and interesting form of power in our new world characterized by globalization and interconnectedness. As China's economy has experienced unprecedented year on year growth the academic and political communities have been quick to question what this means for China's place in the world and what the Chinese government's intentions are on the world scale. Most of this research and dialogue have been centered around China's investments in the South China Sea and military equipment and infrastructure. While this body of research is important for an understanding of Chinese geopolitical intentions and priorities, these inquiries are certainly not all-encompassing and leave much unexplored about the nature of China's economic strength, such as where that strength comes from as well as what vulnerabilities exist. For its vast size, the massive body of research surrounding China's growing influence in the world still leaves many economic questions unanswered. Ironically, the very source of China's newfound power is still enshrouded in mystery.

國立政治大學 National Chengchi University

This is not unsurprising when considering the complexity of economic ties today and the preponderance of scholars who prefer to study the use of power after its acquisition as opposed to the means of acquisition or its origin. However, particularly in the case of China, it is an important consideration and one that warrants more study. As mentioned at the onset, it is generally accepted that China and the United States are the great powers that will have the heaviest hand in deciding the future, but appreciation for the complex interplay between the two economies doesn't fit this understanding. In many ways it is this complex economic relationship and its management that will decide the future; therefore, in this circumstance it is important that China's growing economic power and its sources be clearly understood.

After a more thorough examination of Chinese economic growth this research better explains where this growth has come from as well as whether it translates into economic power that can be used to influence the United States. This research to no surprise finds that China has benefitted more than any other country from international trade, racking up an astounding trade surplus, mostly at the hands of the United States, which is where its rising power as has been studied elsewhere. China and the United States have both benefited from this economic relationship; however, it has also given rise to dependencies and tensions that call into the future of the relationship. Further study is needed and is preliminarily undertaken in the following chapters to discover whether this co-dependent relationship is sustainable as well as if there are vulnerabilities in the Chinese growth model that limit their economic power as a means of economic coercion. As Stephen Roach explains "the countries (China, and the United States) were united in their fixation on growth and entered into a new and powerful collaboration aimed at achieving that objective. The United States provided China with something very important: the world's largest base of external demand that could support China's export-led production

立 政 治 大 學 國 National Chengchi University

model" (Roach, 2014, p. 2). For the United States it was the continued growth of consumption, and to China is was a ticket to greater growth in the manufacturing sector and more foreign exchange holdings, a deal at the time that neither country could afford. However, today that agreement has gone farther than anyone at the time could have foreseen, leaving potentially crippling dependencies on both sides.

Dependencies in International Relations are rarely a good thing because they leave a nation reliant on another for their continued way of life. Vulnerabilities such as this leave the state open to threats or coercion as a means to control the actions of the dependent nation. For this reason, dependency and coercive action have been important subject of study in international relations, and within that realm, economic coercion has grown more prominence (Kirshner, 1995). However, because dependency is more likely larger states dominating smaller states (the measure of size between states being used here is in terms of GDP) there has been relatively less research on the use of economic coercion among powerful states. The Chinese-United States relationship is special case, as Roach continually reminds us, in that there have never been two large economies that have allowed themselves to become so utterly intertwined. For these reasons, the Chinese-United States economic relationship is a good study for furthering of our understanding of economic coercion and its possibilities. It is also a necessary step toward better understanding of the economic realities that exist today and what they could mean for the future of both bilateral Chinese-United States relations as well as the world that relies on them. Lastly it also applies more broadly to the need to expand the scholarship surrounding what "power" is and why it matters where power comes from rather than just how power is used. Economic power has yet to get the focus it deserves. Perhaps showing the integral role that economics plays in the relationship between two of the great powers of the world as they vie for influence

國立政治大學 National Chengchi University

will change perceptions of economics both as a means of power but also as a form of power in its own right.

As The United States and China confront each other on a wide range of issues, economics plays a part to varying degrees, therefore perhaps the biggest question is whether or not economic coercion is a viable tool for either country influence the other and achieve objectives. The answer to this question is reliant on many other factors, which will also need to be addressed such as: What is the nature of the Chinese-United States relationship, is it virtuous relationship marked by Keohane and Nye's notion of complex interdependency (Keohane & Nye, 1987) or is it a relationship that Roach calls codependency (Roach, 2014), wherein the many discernable dependencies that are in constant flux can lead to coercion or conflict aimed from one state to the other; Is the United States more dependent on China (or vice versa) or do they exist largely at parity; where are each countries weakness/strengths and in what situations would they be important. These are the questions that will drive our understanding of the Chinese-United States relationship and will help to reveal what may be coming in the future as the countries and their cooperation (or lack thereof) come to define the future of international relations.

國立政治大學 National Chengchi University

1.3 Paper Structure

The following chapters aim to answer these questions, and provide a framework for understanding the intertwined Chinese-United States economic relationship. Chapter two provides the theoretical background for understanding the current literature as well as where there are insufficiencies, and expounds on the nature of the Chinese-United States relationship. Chapter two also establishes the framework for studying the Chinese and United States

economies for vulnerabilities by exploring Kishner's four tools for economic coercion as well as their perspective limitations in parallel with the current literature on dependence and interdependence mainly through the work of Nye and Keohane. Chapter three undertakes the necessary preliminary research to dig deeper into the Chinese-United States economic relationship, and thereby revealing strengths and weakness both countries' economies exhibit. In parsing through the economic data that is relevant to Kishner's four tools for economic coercion for dependencies (mutual or asymmetrical) it becomes clear that power is split between the United States. The concluding chapter makes the argument for further study as well as provides two case studies in which economic coercive action can be observed and used to confirm or reject the claims laid out in chapter three.

However, to provide the fullest picture and further test the hypothesizes Chapters Four and Five explore case studies. Chapter Four focuses on China's potential for monetary power by looking at the time period surrounding Chinas shock revaluation of the renminbi in 2015 before their ascension to world reserve currency status. Chapter Five follows the time period before and after the passing of Public Law 112-99 and the World Trade Organization proceedings that followed. In looking at these case studies the research reveals the difficulties that exist in the practical use of economic leverage even in two countries where theoretical advantages are a stark as those that exist between China and the United States.

國立政治大學 National Chengchi University

Chapter Two: Theoretical Analysis and Methodological Framework

Much of the research into growing Chinese influence in both Asia and the world explores economic growth as a means of power accumulation rather than its own tool for statecraft. In this chapter it becomes clear why this research, while useful, only tells a small part of the story while ignoring some major problems that have large implications for the Chinese-United States relationship. While not an outright repudiation of the current literature it complicates the notion of economic growth as an absolute indicator of growing power ignoring possible vulnerabilities that such economic growth can create.

Furthermore, instead of looking at the Chinese-United States economic relationship retroactively through the two countries relative power positions, this chapter lays out a framework to reveal the nature of the complex Chinese-United States relationship based on economic makeup first and foremost. This is achieved by looking at the literature on economic coercion and statecraft as well as the changing nature of "dependence" in an increasingly interdependent and interconnected world. Utilization of this literature both shows how the economic leverage can be its own form of power, as well providing a framework that will be used in the following chapters to dig deeper into the Chinese-United States economic relationship and make predictions that can be tested by looking at case studies.

This Chapter first outlines the broad theoretical groundwork for this research as well as showcases its usefulness for policy makers and scholars, then it gives details on the economic coercion theories this paper uses to analyze the Chinese-United States economic relationship. Lastly, this chapter answers the first of the research questions regarding the nature of the Chinese-United States relationship by expounding on inter-dependency as outlined by Keohane

and Nye and as developed by Roach and others. According to these measures this chapter provides the bases to call the relationship and co-dependent although somewhat uneasy relationship.

2.1 Broad Theoretical Groundwork and Implications

In addition to the practical uses of this research as provided in the introduction, there are more potential implications for the theoretical study of International Relations. From the Positivists perspective, Realism and Liberalism, can both gain from a better understanding of how economic coercion's viability or uses. Realists will have a better grasp on the economic origins of power as well as examples of real economic coercive power and the real capabilities of both China and the United States. This has not been a part of Realist claims; however, the analysis to this point focuses mostly on debt and credit holdings, rarely exploring other areas of monetary and economic power. In kind, this analysis will benefit from the research done in these same fields, although there are holes in the literature that our analysis will have to fill.

Liberalist camps, for their part, can take away more from the study on codependency and interconnectedness and how disputes are mediated. Most beneficial to our analysis will be the utilization of game theory which helps us to make sense out of when economic coercion will be used, when threats will be issued and how they will be received. As the world becomes more globalized and trade comes under heavier strain the real examples of conflict and resolution will be particularly beneficially as liberalism makes a case for greater connectivity.

Post-positivists theories are more varied and this analysis will not find use in all of them (nor vice versa). However, some ideas – such as decentralizing state actors as the only creditor or source of investment for foreign governments, or sole player in international trade – will be

立 政 治 大 學 國 National Chengchi University

welcome contributions (Asian Development Bank, 2007). As well as careful analysis of the monetary, financial, and economic systems and how those systems both affect and are affected by power and the changes thereof (R. Cooper, 1975). Lastly, Constructionists and Critical Theorists might gain from this analysis' use of political structure's, monetary regimes, and interest groups to explain changes in state preferences. Although this analysis makes use of these structural and societal levels of analysis mainly as a vehicle to understand the pressures placed on the Chinese or United States governments to utilize and/or yield to tools of economic coercion, they are an important aspects of understanding State objectives in the short and long term. Understanding communication feedback loops as well as negotiation theory is an important part of this research especially during the case studies wherein, WTO mediation and signaling became an important decider in success.

However, much of this delineation between Liberalism, Realism, and Constructivism, is arbitrary and mute for our analysis since the application of the ideas is more important than where they come from. Although there are certainly opportunities for overlap and application of this piece to wider range of International Relations, and it will necessarily draw on research from the different International Relations Theories, this paper is primarily a study in International Political Economy, and therefore relationships should be looked at differently. Furthermore, the lines between the theories blur too easily in our analysis to be of real use in a review of the existing literature on economic coercion. For this reason, both the positivist and post-positivist theoretical labels alike will be set aside for a more useful IPE categorization of perspectives commenting on International Relations. Such a system is outlined in "International Political Economy: Perspectives on Global Power and Wealth" – along with a short comparison and argument for its use over the use over the division as outline above. The authors make a

compelling case that International Political Economies perspectives differences are more of a function of "relative weight" of importance as they are assigned to different set of causes. Although, "these perspectives can lead to widely different explanations of specific events and general processes within the international political economy" (Frieden, Lake, & Broz, 2010, p. 10) rather than being attributed to ideological differences are instead associated with differing opinions on what factors are being emphasized. These factors highlight IPE's commitment to broadening understanding between politics and economics, and therefore are a better match for our focus on economic coercion and how it comes to bear on Great Power relations between the United States and China.

These perspectives or factors that are weighted differently are separated along two different dimensions: "the relationship between the international and domestic political economies" and "the relationship between the state and social forces" (Frieden et al., 2010, p. 5). These two spectrums provide us with four unique perspectives based on their weighted view on each factors importance: International political, International economic, Domestic Institutional, Domestic Societal.

	Political or Institutional constraints	Societal or Economic Constraints
International level of analysis	International Political	International Economic
Domestic level of analysis	Domestic Institutional (or Institutionalism)	Domestic Societal (Or Societal)

Figure 2.1

Each of these perspectives will be useful, and a good balance is the sign of a strong analysis that takes into consideration and equally weighs the benefits and drawback of each approach; therefore, review of the existing research is served well by having a good understanding of which level of understanding is being used.

International Political's view, which explores the constraints imposed on countries based of geopolitical and diplomatic realities within which they exist, is important in understanding Drezner's Sanctions paradox which looms large over any research into the utility of economic coercion. To better understand when states would choose to utilize economic coercive tools and which tools will be used it is best to make use game theory and Drezner's model which explains "the behavior of senders (agents) and targets by taking into account their opportunity cost of deadlock and expectation of future conflict with each other" (D. Drezner, 1999, p. 4).

Therefore, two things (to Drezner) help determine if states will decide to engage in economic coercive action, whether there will be future conflicts, and what would be the political and economic costs of a prolonged or deadlocked fight over sanctions, both of which are affected by their standing in relation to each other, and in the context of the greater global hierarchy or community. Perhaps this is best understood as a pivot away from the literature that came before which was mostly oriented around domestic societal understandings of why and when economic sanctions would be taken. These explanations are driven by pressures placed on agent states by their citizens, or that the domestic structural constraints or real costs of war are too great for the country to engage in war but the political leader must do something (or it is politically beneficial for him/her to do so) (Barber, 1979). Concessions are made when the citizenry of the population of the target country has significant power and demands it, or the ruling elite feels the pain of the economic restrictions themselves. However, this is an imperfect model that doesn't provide any

國立政治大學 National Chengchi University

opportunity for prediction nor does it explain much outside of what can be gathered from an understanding of the prerequisites and limitations on economic coercion. Instead, Drezner's model helps us to understand better how each country views their relationship and economic priorities and make predictions about whether or not economic coercion will be used and whether or not it will be successful. This is largely defined by how each country sees itself as Drezner's model shows they are more likely to undertake coercive action against foes, but more likely to gain concessions from allies.

In looking toward the United States and China's situation, the possibility of an agent's economic coercive actions succeeding would be greatly depending on how the international community responded to the actions taken. As Kirshner puts it, "an awareness of the relative position of the players is vital for the evaluation of either utility or viability for any form of coercion" (Kirshner, 1995, p. 21). Albeit, International Political focuses on more political constraints rather than economic constraints imposed on the country from the outside, but political realities still play a part in the lobbying and formation of political groups that impose sanctions or cut off flows of foreign direct investment. Furthermore, a countries geopolitical isolation can be an important part of economic coercive actions as target states seek to circumnavigate the negative effects imposed by agent countries.

In contrast to International Political's view, International Economic puts more emphasis on social economic factors. This also has implications for Drezner's paradox because the target country is concerned that if many conflicts are expected than concessions weaken their position long-term. As Drezner states:

立 政 治 大 學 國 National Chengchi University

> The target's conflict expectation determines the magnitude of concessions. Facing an adversarial sender, the target will be worried about the long-run implications of acquiescing. Because it expects frequent conflicts, the target will be concerned about any concession in the present undercutting its bargaining position in future interactions. The sender might exploit the material or reputation effects from these concessions in later conflicts. (D. Drezner, 1999, p. 4)

Furthermore, the interplay between how power shapes and is shaped by the economic system is a fundamental question of our analysis. The United States power has certainly shaped the modern world's interconnectivity through organizations such as the World Trade Organization and through its financial markets, as well as the predominant reserve currency. However, this economic system also gives back to the United States and provides more power to uphold and set international norms. This power paradox has provided the United States strong insulation from Chinese threats to stop buying U.S. debt (Setser, 2008). However, it also provides strong incentive for China to disrupt the economic system and increase even though there are possibly disastrous consequences for doing so. Such action is called "Systemic disruption" and according to Charles Kindleberger's findings when studying the French situation in the 20th century, systemic disruption is most likely to be exercised by mid-sized states, who have sufficient power but not dominant stake in the current system (Kindleberger, 1985). While the agent country still retains some stake in the international monetary system it might see the opportunity of success as far exceeding environmental costs. However, systemic disruption does come at a high often unwieldy cost likely demonetizing the international economy, meaning that until an alternative payment system or preferred currency for exchange establishes itself trade would be difficult in most places and impossible in others (Kirshner, 1995). Upon these lines lay

the answer to the first question regarding the nature of the Chinese United States relationship. While certainly isn't a relationship that can be characterized as one of trust or unconditional support, but an unsettled, increasingly unequal co-dependence. This is especially true as the United States relative power wains after decades of hegemonic supremacy. Subversive systemic disruption is a very possible outcome if China perceives great benefits from challenging the dollar and the United States led financial and economic system and begins to dump its accumulated reserves.

Ironically, understanding United States exposure to such actions and what China would gain (or lose) from destabilization of the financial system are both, in no small part, a study in the domestic institutions and situations at play in each country. One of the best example of this Domestic Institutional view is Roach's book "Unbalanced: The Codependency of America and China". Domestic Institutional perspectives focus on the importance of internal institutions and the State's policy makers. This can be particularly helpful when studying intentions are strategies (to the extent that they exist) at play in both China and the United States. This is a large part of Chapter Four wherein Chinese intentions, goals, and institutions play an important factor in their ability to successfully utilize monetary power to affect United States policy makers. Furthermore, this is a necessary level of analysis to understand the growing interdependence between the two countries and how these economic intersections will affect their continued cooperation or growing tensions. Roach explores exactly these issues in great detail, although he misses on opportunities to discuss how domestic institutions or policy makers would change or benefit from taking economic coercive action. Instead, he focuses on the aims of each country and how their relationship has become so interconnected and what that means for the policy makers and domestic institutions going forward (Roach, 2014).

國立政治大學 National Chengchi University

Lastly, Domestic Societal views emphasis, much like Domestic Institutional, the internal workings of a nation in the situation in which the state finds itself. Unlike Domestic Institutional though, the Domestic Societal approach emphasizes the economic and sociopolitical pressures that drive policy. "The determinants of national policy are the demands made by individuals, firms, groups rather than independent action by policy makers" (Frieden et al., 2010, p. 10). As economic coercive actions are taken the most effected are going to be the citizens of the target country and it will most likely be them that pressure their government's with loss of power, or instability that push for change. This is an important factor in Chapter Five in looking at the United States motivations for protecting steel as well as understanding the constraints in use of trade as a coercive tool. Therefore, understanding the consequences of economic coercive action and the power of an aggressor country to wield it, is really a function of understanding the internal economic situation and sociopolitical power that exists within both China and the United States.

These four perspectives combine to give us insight into the nuance of economic power and at the levels of analyses that will reveal whether the exercise thereof, the undertaking of economic coercion, can be successful and in what circumstances. However, these perspectives are only lenses through which to understand the process, levels of analysis which focus more or less on certain economic or sociological pressures, and national or international structures that provide constraints. Therefore, we will need to look deeper into economic coercion itself: where do countries derive their economic power; what constitutes economic coercion; and what forms does economic coercion take. For answers to these questions we can look to Kirshner's book "Currency and Coercion".

國立政治大學 National Chengchi University

2.2 Economics as a Form of Power: Kirshner's Tools for Economic Statecraft

The forms of economic coercive power are: Trade, Finance, and Monetary Power. And they are affected, in varying degrees, by their reliance on the existence of a "modern, somewhat integrated, international market economy" (Kirshner, 1995, p. 24). It is not altogether necessary here to go into detail about the differences in their perspective reliance's on a global economy, suffice it to say: Trade and Finance both are moderately dependent since they both depend on a relatively common set or system of rules in order to exist and provide guarantees for assets although both could be undertaken in some form bilaterally; Monetary Power is most dependent on a global economy and the flow of currencies. Our global economic reality is characterized as interconnected and globalized and there is little that could have the chance to undo that reality; therefore, this is only useful as it pertains to the effect of economic coercive action on the global economy as a whole, and it is fair to say all would have profound effect on all countries connected to the globalized economy.

Besides the effect economic coercive action could have on the globalized economy, the remaining two considerations that will drive our analysis of how economic power is create and utilized are: the efficiency of each respective tool for economic coercion; and the limitations that each economic coercive form would face in implementation. There are three ways in which economic instruments of power can be limited in their effectiveness: Feedback, circumvention, and defense. First, feedback is largely a problem of perception, all the more so if the actions are highly publicized. From a domestic societal view, the question is how will the citizens and markets react to the actions taken, from a domestic institutional standing, what affect will this have on future conflicts – economic and otherwise – with the target country. Lastly, from international political view point will the international community respond positively to the use

of economic powers by condoning or even taking part in the economic actions as part of a coalition, or will they respond negatively, either because of fear that they can also be targeted or because it is an abuse of economic power with the greater globalized system.

Circumvention is simply the methods or actions a target country can take in an effort to escape the negative effects of the sanctions imposed by the agent country. Circumvention usually needs the cooperation of another country either by seeking new sources of finance or new markets for goods after trade sanctions. A country is rarely, if indeed ever, truly isolated today and therefore circumvention is always a part of the equation when applied to the use of economic coercive power.

Lastly, defensive actions are undertaken by target states in an effort to protect themselves from the potential use – or as a way to combat the further use – of sanctions. The most common form of defensive action would be matching trade restrictions or tariffs on the importation of goods. It is notable that defensive measures are only really feasible if the target country understands what is happening and who is doing it. Therefore, this is an important consideration as it applies to the advertisement of economic coercive action as we will see below.

Efficiency, to Kirshner, "refers to the ability of the home state to wield the instrument skillfully and to direct specifically at the target government" (Kirshner, 1995, pp. 27-28). There are three ways in which efficiency can be determined: level of independence of the central government; the level of publicity surrounding the use of economic coercion; and how focused is coercive measure. Level of independence is important because states must be able to decisively take action without interference. Domestic or International factors could play a part in this consideration. For example, countries belonging to the World Trade Organization would have to

國立政治大學 National Chengchi University

show justification and abide by the WTO rules when applying sanctions or taking other economic measures against another country. Likewise, the tool needs to be in the hands of the government as we will see with the use of trade, the government can restrict trade by law or by increasing tariffs, but in practice trade is an action taken by people and businesses making the possibility of illegal trade or circumvention too high for effective use.

Advertising the use of economic coercion can be a limitation and an opportunity. Some components of economic power are necessarily public and do not provide a choice and are therefore much more limited; however, where a choice can be made it is usually to the benefit of the agent country. There are two faces to publicizing economic coercive measures. First, making the economic coercive measures known would increase the chances that an agent state can gather support for their effort from third parties; however, publicity can make the compliance difficult and can actually strengthen rather than upset the security of the target government because it may inspire nationalism, strengthening the will of the target to resist or boycott trade, as well as possible pushback internationally (Baldwin, 1985, p. 108). Furthermore, if economic coercive actions are made public it provides the opportunity for the use of defensive measures to be taken, and the more that is known the greater the chance of success. Ideally the agent country would be able to obtain enough economic pressure unilaterally or could construct an economic environment where opportunities of circumvention can be minimized or eliminated making the advertisement of their actions unnecessary. Some tools for economic coercion are necessarily public while others are private, however, since private components can be made public when it suits the agent country and public components do not have that freedom, private tools of economic coercion are generally more efficient.

國立政治大學 National Chengchi University

The last consideration is: How focused is the coercion on the country or a specific industry being targeted. The goals of economic sanctions are most often met when they can contribute to the destabilization and overthrow of a recalcitrant government, followed by a new government that changes the offending policies (Hufbauer, Schott, & Elliott, 1990). This is a bit ambitious in the context of our analysis, but economic coercive actions that can put pressure on the government that can destabilize or threaten destabilization of the government or economic sector being targeted will have the greatest efficiency and chance for success. Furthermore, targeted attacks require less political and economic resources to achieve success along with minimizing the chance of negative backlash. It is a good idea to analyze each economic component – trade, finance, and monetary power – for their respective limitations and levels of efficiencies when applied to economic coercion:

1. Trade is not very efficient. Although trade can be very focused in targeting countries and/or economic sectors, it is a very public form of economic coercion as they are usually legislated and/or taken in the form of a coalition with other countries. Lastly, the government is not totally independent or in control of trade as a form of economic power since trade decisions are often dominated by domestic concerns and private actors are often quick to find ways around restrictions.

   Trade also faces many limitations as feedback from domestic constituents makes it hard for economic sanctions to be sustained after the negatives of trade reduction are felt, and defensive measures are easily constructed and applied in the form of reciprocating tariffs or trade barriers, which can lead to a trade war. Trade is also easily circumvented. Even if a broad coalition of countries is found, goods will almost always be accepted elsewhere or a black market can be established.

2. Finance is moderately efficient since the central government is somewhat more autonomous than with trade. The government is also the largest provider of finance internationally, and changes in government finance policy are less public than trade. Although, financial sanctions have the potential to cause a financial or general economic crises they are not necessarily as flexible in targeting of specific economic sectors.

   Economic coercive measures centered around finance are also moderately limited in scope. Although, they are less limited by feedback from domestic constituents they do impose some cost on the agent countries mainly by forgoing economic opportunities in the target country. Unlike trade in goods, financial trade must be done through formal and official channels therefore the creation of a black market is exceedingly difficult; however, the formation of a coalition is more difficult as more countries will see greater opportunity from the exit of another country from the market. Outside of circumvention, financial sanctions are difficult to defend against. The only tool available is the threat to default on loans if they exist.

3. The exercise of monetary power is remarkably efficient. Since governments alone can print money they exercise complete independence and control over the use of monetary power. Changes in monetary policy are also largely private. It might become clear after a while that the country is manipulating its currency in an effort to harm another country, but for the large part it can be explained away and is very hard to prove. Monetary power is less focused than other forms of economic power, but when combined with other economic factors can be highly effective in destabilizing the currency of the target country.

國立政治大學 National Chengchi University

Monetary Power is traditionally the least susceptible to problems of feedback since monetary power is usually a function of international currency reserves and savings which can affect the government's wealth and spending, but be isolated from the private sector and citizens. Furthermore, circumvention is largely impossible short of totally readjustment of one's currency which is costly and inefficient. Kirshner says, "such a strategy would be akin to committing (monetary) suicide in order to escape murder" (Kirshner, 1995, p. 27). Lastly, defense is difficult geopolitically as the best option requires the willingness of another country to intervene and play as a protector. Assuming there is such a country it would trade currency vulnerability for outright currency dependence.

It will be necessary to revisit these three components of economic power as we look more closely at the economic realities that exist between China and the United States in the next chapter which shows real figures between the countries; however, this provides a good basis for understanding what the prerequisites are for each tool and what limitations exist to their use as we apply them to the case studies. The limitations and prerequisites of the components of economic power alone cannot fully explain when economic coercive measures are taken. Wielding economic power is the exploitation of dependencies of another the target country; therefore, in order to understand when the United States or China can exercise their respective mechanisms for economic coercion it is also important to understand concepts such as Roach's theory of Co-dependency as it is applied to the United States-Chinese relationship, and the advancement of Keohane and Nye's theory of complex interdependence (Keohane & Nye, 1987; Roach, 2014). As the next chapter outlines and as the case studies in chapters four and five prove neither country has absolute power over the other and what little relative leverage exists it is hard

to exploit. This is especially true because the United States – Chinese economic relationship is such that relative strength is split between the areas – Trade, Finance, and Monetary Power. As the next chapter shows, this leaves the countries fairly well match in terms of theoretical power as well as largely interdependent.

2.3 Dangers in Dependence: Framework for Further Study

Dependence for this research is much different that the dependency as it is a part of dependency theory. Dependency theory mainly refers to the economic reliance of developing countries on developed countries as a way to perpetuate power allowing for the economic exploitation against the will of the target state (Ghosh, 2001). This has the effect of locking the target state into a long-term position of low economic growth. although there is most likely implication for that field as they understand economic manipulations as a way of perpetuating power. Instead, dependence for this research refers to an economic vulnerability – the economic future of the target state is dependent on moves or conditions of the agent state. This vulnerability can then be exploited by the home state politically to dominate the target states. The differentiation being that dependence is a power relationship where the target state can technically gain, even relatively, in an economic sense (this is not true according to dependency theory). The threat of coercive action is only credible if the target state is reliant on the agent state to an extent that a disruption in the status quo would cause great harm to the target country.

Dependency, however, is rarely that clear. Instead, disruption of the status quo is often damaging to both sides in absolute terms. This is more indicative of a co-dependent relationship as is outlined by Roach. Such a relationship has proven difficult to define, and even more

國立政治大學 National Chengchi University

difficult to navigate for countries that find themselves in such an arrangement. In the terms of economic coercion, action and concessions are going to be taken if the relative gains – that is the gains made in relative power position – outweigh the absolute economic loses. This can be difficult to foresee before the coercive action is taken and therefore, states are often unwilling to engage in coercive action unless there is a clear disparity in size of the two countries' economies, and as is shown in the United States trade case study, this can be a problem in utilizing theoretical leverage. This is a rare occurrence since it is hard to conceive of a co-dependent economic relationship in which large disparities in economic size would exist. This is especially true as economic coercive action in one area of the economy, such as trade, where one country might have an advantage, can lead to retaliation in a separate sector, such as foreign direct investment. Therefore, it becomes almost true that economic coercive action in a co-dependent economic relationship requires not only the significant relative gains compared to the absolute economic loses, but also that favored in every sector or are sufficiently insulated from defensive measures.

Co-dependency has an additional, potentially volatile component being that countries once co-dependent do not have to remain forever co-dependent. Certainly, both countries in a co-dependent relationship have the strategic incentive to regain independence of their economy and thereby better secure the continuation of a self-sustained economic future; however, in practice one country is likely to re-balance, forcing the other into an unfavorable and unequal dependence or a hard rebalancing of their own. As Roach demonstrates this can be an especially volatile transition. As one country begins to lose relative power they may panic and take economic coercive action while any power to do so still exists. There is little to lose in the perspective of the agent country because their economic future is already in jeopardy; however,

國立政治大學 National Chengchi University

Roach suggests an approach based on absolute gain as opposed to economic coercive action based on concerns over relative loses in power. This would require a re-balancing of the home economy for better self-sustaining growth (Roach, 2014).

Lastly, interdependence, as defined by Keohane and Nye, is similar to co-dependence; however, it suggests that the relationship is much more stable and provides much more upside in terms of mutual, absolute economic gains as well as no relative loses. Any damage to such an arrangement would be counter to both countries interests. While Keohane and Nye explore interdependence along four different areas – "risks of nuclear escalation; resistance by people in poor or weak countries; uncertain and possibly negative effects on the achievement of economic goals; and domestic opinion opposed to the human costs of the use of force" (Keohane & Nye, 1987, p. 727) – and mainly as it pertains to the use of physical force, overtime the theory of interdependence has become central to definition of globalized world economy with definitive constraints for the use of economic power (Wagner, 1988). Keohane and Nye do allow for "asymmetries in interdependence" that can be used as "a source of power" (Keohane & Nye, 1987, p. 728); however, they do not posit the volatility that is outlined in Roach's take on codependency. Waheeda Rana explains that, "Interdependence does not only mean peace and cooperation among actors, but a relationship between actors characterized by cooperation, dependence, and interaction in a number of different areas, and conflict as well" (Rana, 2015, p. 291). Although competition exists both countries, with an eye toward absolute gain, will seek the greatest benefit through cooperation. Complex Interdependence furthers this by complicating the lines that separate "high" and "low" politics by showing the many ways in our increasingly interconnected world that they can influence each other.

國立政治大學 National Chengchi University

This research will necessarily draw on all three of these approaches as it attempts to postulate on the possibility and effectiveness of economic coercive action by either the United States or China against the other. First, the analysis will require an understanding of the background of the relationship as well as the intentions of both countries that can only be gained from a broad view taken from the four different perspectives on international political economy as outline above. In taking from each of the four different perspectives a more balanced understanding of the pressures on both agent and target states as they engage in economic coercion. Furthermore, this is a necessary step in understanding the two countries views of each other as well as their objectives (both economic and otherwise) and their priorities in achieving them, an important part of understanding the motivations for attempting economic coercion as well as possibility for concessions. Secondly, this analysis will make use of the existing literature on the four types of economic coercive tools as well as the conditions for their use and their efficiency. Framing the analysis along these lines gives a systematic way of grading whether the conditions are right in the United States – Chinese relationship for the use of economic coercion providing us with the opportunity to make projections and test those projections against reality. Lastly, the most important factor to the utilization of economic power is the exploitation of a vulnerability or dependency in the target country; therefore, the next chapter looks at the realities as they exist in the United States – Chinese economic relationship and what vulnerabilities exist in either country if any.

Chapter Three: Economic Realities

Detailing the economic relationship between the United States and China in an effort to reveal the vulnerabilities of both countries should they exist, requires a systematic approach based on Kirshner's tools for economic coercion: Trade, Finance, and Monetary Power. This chapters more holistic approach provides a more comprehensive view of the complex economic relationship between China and the United States. By separating the three areas and creating a systematic analysis this research minimizes the tendency to declare one area or tool of economic statecraft as paramount to the others. The findings of the chapter are therefore mixed and show a more nuanced view of the economic realities between China and the United States that complicates more simplistic narratives that one country holds absolute economic coercive power. The findings are thus that China holds relative strength in monetary power. The United States has greater leverage in trade. And, finally, China and the United States have reached parity in terms of finance.

The structure of this section follows the tools as outlined by Kirshner starting first with monetary power, following with financial power, and ending with trade. By analyzing the current economic realities existing between the two countries this research finds that economic coercive potential is split between the two parties. This is true in so far as: China has economic coercive leverage in monetary power and the United States has economic coercive leverage in trade, but neither country has substantial leverage in financial power.

3.1 Monetary Power

It is prudent to start with monetary power, because it is the economic coercive tool with the least prerequisites to its use and of the greatest efficiency as posited by Kirshner who says,

國立政治大學 National Chengchi University

"given a reasonably integrated international market economy, monetary power, *in theory*, should be the most potent instrument of economic coercion available to states in a position to exercise it" (Kirshner, 1995, p. 31). Monetary Power has the lowest threshold to its use according to Kirshner's measurements of efficiency: publicity of the coercive action, ability to target specific countries and government, and sufficient agent-government control. This is because, assuming there is a global economy and a relatively free flow of currencies, as is the case today, then there are few other constrains to its use. Monetary power can be undertaken with or without alerting either the public of the agent country or the government of the target country. This has two results both to the benefit of the agent country. First, the public, having little knowledge of the action taken, cannot protest its use or any adverse effects that might come from its use. Secondly, the target country will have little means to respond if the destabilization of their currency has uncertain origins. For the first two prerequisites outlined by Kirshner – the domination of domestic politics and the publicity – both are largely a function of how transparent the agent country wishes to be providing great freedom to their use of monetary power. The last requirement – focus of action – also has a low barrier for clearance because monetary power is can be focused through the dumping of the target currency or through the selling of their treasury bonds (Kirshner, 1995). This chapter operates under these assumptions; however, the case study in chapter four complicates this notion as it moves beyond theory and into reality.

Where does a countries monetary power come from? Monetary coercive power refers to the manipulation of actions that value, use, and stabilize the national currencies issued by states, in order to influence the preference or behavior of other states (Kirshner, 1995, p. 3). Therefore, any attempt of a country to change the valuation, uses, or to destabilize a currency is the utilization of monetary power. The main definitive way of understanding a countries monetary

power capabilities is the measurement of their reserves. Knorr tells us that as agent countries take monetary coercive action to put a target currency under pressure "a weak reserve position will curtail a government's capacity to engage in warfare at home or abroad" (Knorr, 1973, p. 88) as it pertains to hard power capabilities, so does it also apply to the ability of the target country to stabilize its own trade positions or engage in development projects at home. The vulnerabilities and capacity to use monetary power are intertwined. Theoretically, those with high foreign debts and low foreign currency reserves are vulnerable to monetary coercive action; whereas, countries with low to no foreign debt as well as high foreign currency holdings are in a greater position of power to utilize monetary power.

The United States national debt is nearing twenty trillion dollars (US Debt Clock, 2017), furthermore the U.S. reserve assets total just over 110,000 million dollars (Treasury, 2016b). This positions the United States assets and debts at definitive polar opposites of each other. Furthermore, the United States national debt represents 105 percent of GDP meaning that the United States owes more than it can produce in a given year. This creates a distinct vulnerability, in traditional terms of monetary power. China also seems to be in quite the position to exploit it. Although no clear tracking or official data on Chinese debt are reported by the Chinese government, there are estimates between three trillion and six trillion dollars (National Debt of China, 2015). This represents a relatively low percentage of GDP at 66 percent. Both of these figures are dwarfed by the estimates of Chinese foreign currency reserves, which sits at just over 3 trillion dollars (BloombergMarkets, 2016).

Even the great disparity, as is evident between the difference in debt and reserves of the countries, doesn't provide the full picture of United States exposure. China also holds a vast amount of U.S. debt as Figure 1 shows China owns just shy of 1.2 trillion dollars of US. Debt.

國立政治大學 National Chengchi University

For our analysis this is a definitive demarcation of Chinese theoretical capacity for monetary power.

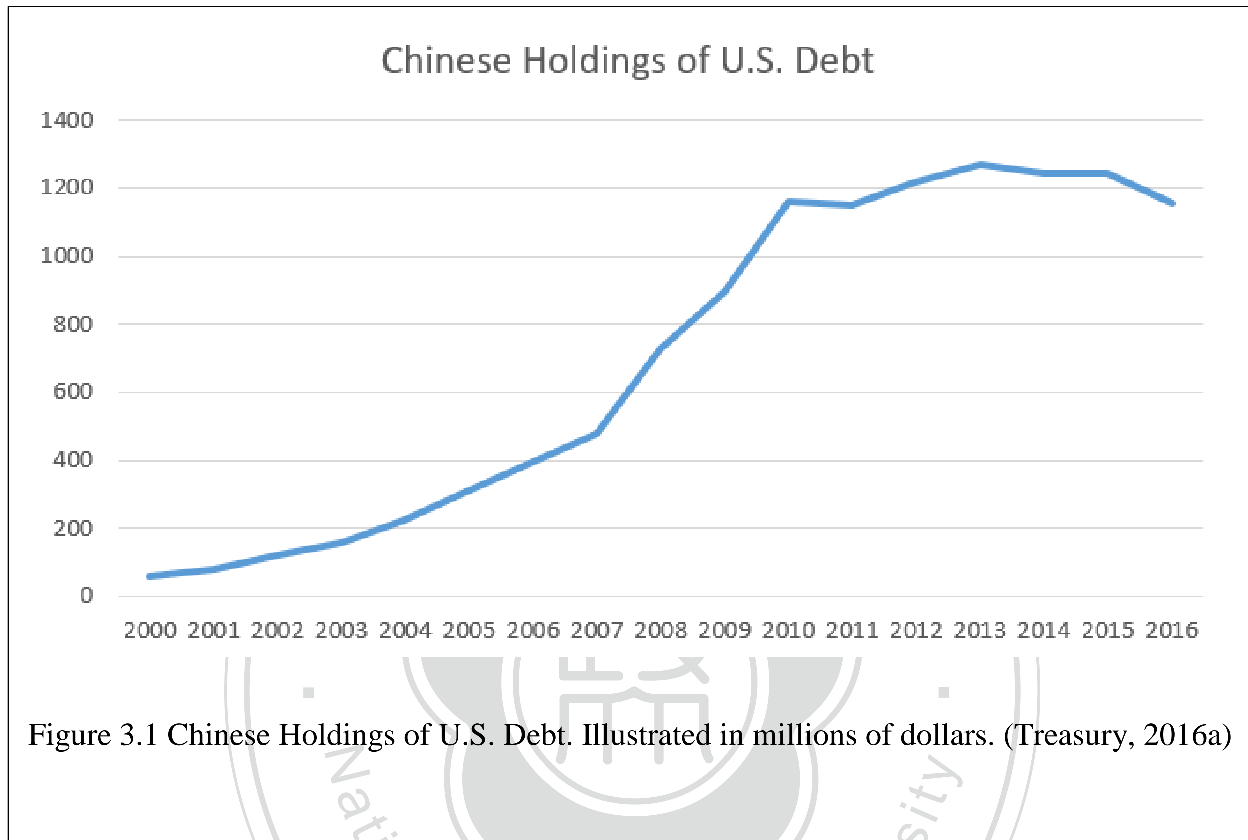


Figure 3.1 Chinese Holdings of U.S. Debt. Illustrated in millions of dollars. (Treasury, 2016a)

According to Setser, "never before has a country as poor as china lent so much money to a country as rich as the United States. And never before has the United States relied so heavily on another country's government for financing" (Setser, 2008, p. 17). By this traditional measurement, China has significant leverage over the United States in terms of monetary coercive power. Therefore, in the first case of economic coercion action which tracks monetary policy it would be prudent to test and see when China would choose to utilize their leverage, and to what extent China was successful in their attempt. By utilizing a case study, chapter four does exactly this.

These are the facts that many today point to when claiming that China has the capacity to influence the United States and guide policy make; however, it is noteworthy that looking at the gross accumulation of foreign debt is most useful when looking at smaller economies with more local, or less globalized, currencies. The United States is neither of these things. Although,

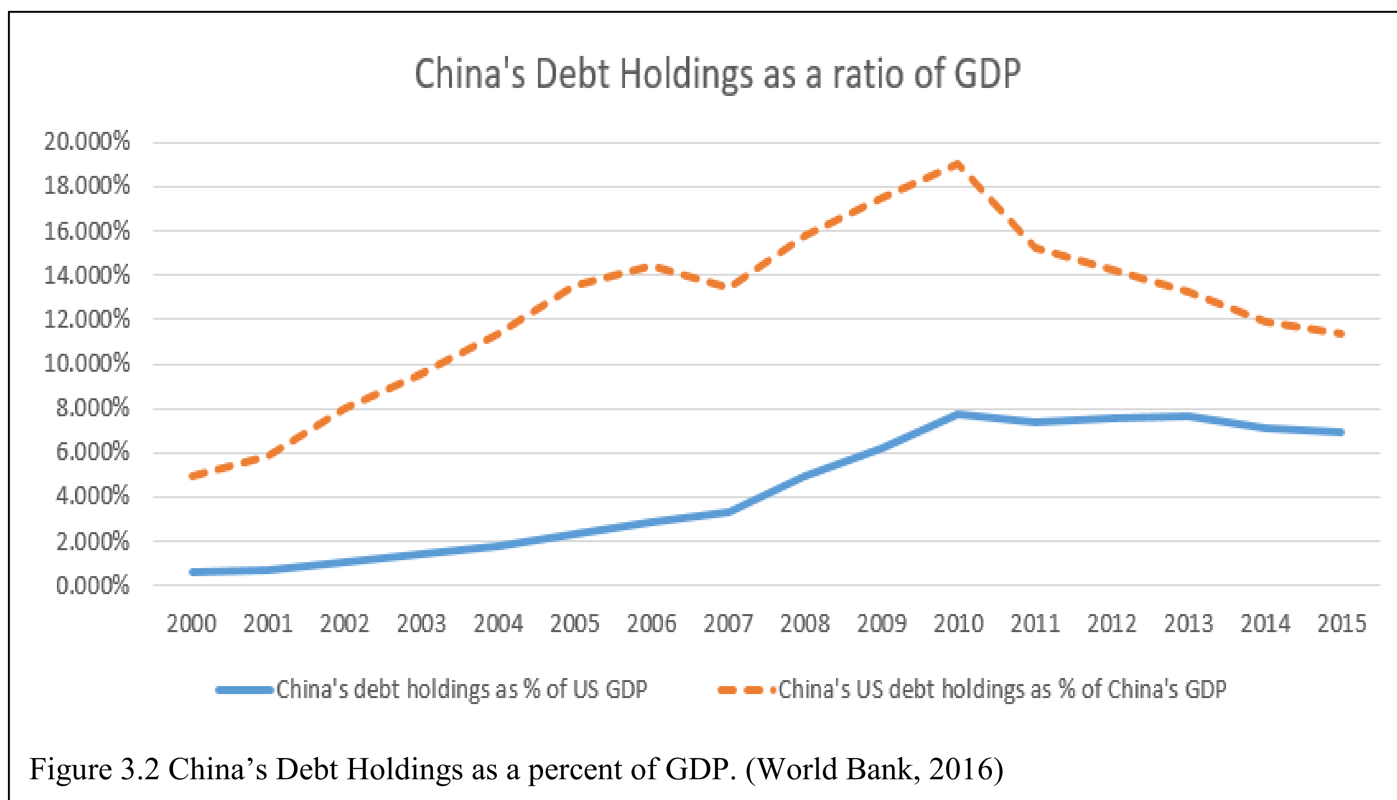


Figure 3.2 China's Debt Holdings as a percent of GDP. (World Bank, 2016)

many news reports, politicians, to do so, comparing Chinese debt holdings to the United States GDP can show the reliance relative to the United States annual output.

The Chinese debt holdings looked at in this light tell a more telling story of the economic co-dependence of the two countries. The percentage of China holds of United States treasuries in terms of United States GDP is actually quite low comparative to 2007-2012. This is true for a number of reasons. First, United States treasuries is only one way in which China can buy United States debt. Therefore, Although Chinese treasury holdings usual argument for Chinese supremacy of the United States in monetary policy as a tool of economic coercion, it is not the

only measure that should be taken into account. Purchasing power parity can also play a factor as well as private debt and private debt holdings. Brad Setser has explored some of these other options providing a more nuanced view of China's debt holdings and their relative leverage. Second, China also has significant exposure since their United States treasuries holdings represent a comparatively higher percentage of their annual economic output making it a double edge sword as likely to hurt them. Indeed, as figure 3.2 shows there is a convergence of the two lines, indicative of an interdependent relationship. From this it is reasonable to assume that China's ability to utilize their debt holdings will be constrained by the economic pressure that will create on their economic growth.

With this is mind, it is prudent to assess China's goals in using their debt holdings to influence United States policy. According to Kirshner, there are three ways in which monetary power can be utilized: currency manipulation, monetary dependence, and systemic disruption. In choosing the case study for testing the projection that China has relative strength in the exercise of monetary power it is prudent to choose a realistic manifestation of their power. Monetary dependence is not an option in this case because it requires the setup of a special currency zone or a system in which the target currency is directly tied to the agent currency. No such arrangement between the United States and China exists. Secondly, systemic disruption is an unlikely case since China still benefits greatly from the liberal trade order as it has been set up by the United States, and any disruption to that system would be uncontrollable and detrimental to the global economic recovery which China relies on for strong demand for their exports. It is realistic however that China will seek first to uncouple itself from this system or create and lead a parallel economic system. Therefore, systemic disruption or the unseating of the United States as the center for the global trade financial systems can be seen as a far off objective, but not as an

國立政治大學 National Chengchi University

observable phenomenon that can be put to the test. The remaining option is the possibility of currency manipulation which is a perfect test. Kirshner tells us that:

> Currency manipulation is the simplest instrument of monetary power, and has the widest number of applications. Currency manipulation can be used either for short-term coercive power, that is, to change a target state's preferences or action over a specific issue, or to provide general long-term support for an ally. This instrument has a great degree of flexibility: it can be used with varying degrees of intensity, ranging from mild signaling to the destabilization of national regimes. (Kirshner, 1995, p. 8)

United States politicians have long made claims of Chinese currency manipulation all over the campaign trail; however, for the selection of a case study to test the objectives and the utility of Chinese monetary power it is more prudent to select a specific time and purpose for which China exercised its leverage. This fits with the understanding of economic statecraft that action is taken to have a relatively negative impact on another country to obtain definable objectives. Just as China is likely to choose a limited and achievable goal in utilizing their leverage in monetary power, this research should also aim to select a case in which China can reasonably affect the U.S. dollar as small an impact as possible on U.S. debt holdings. As many have commented, China cannot dump large quantities of U.S. Treasuries without destroying the value of their remaining holdings. In other terms, in flooding the market with the asset they could destroy the dollar, but such an action would also dilute the effectiveness of the remaining holdings to have any effect on devaluing the dollar or in stabilizing their own currency (Dyer, 2009).

Because China's utilization of its leverage necessities calculations that take into account their considerably large U.S. debt holdings their relationship remains one of co-dependence. However, this is a noticeably volatile codependence as China sees its their debt holdings working against them they may move away from United States treasuries as a means of stable investment, shaking violently the United States growth model dependent on cheap international financing (Roach, 2014).

Likewise picking a specific time period is necessary for any tracking of a currency overtime. As Figure 1 has shown buying of U.S. Treasuries increased significantly since 2000 – even in the midst of the 2008 financial crises; however, it is most prudent to look at the time after the 2008 financial crises when the buying has more or less leveled off and even dropped. This is because, for the same reason that the United States' politicians have continually made claims of currency manipulation but come up short to take action, it is exceedingly difficult to prove currency manipulation over an extended time. Instead, tracking the Renminbi and Chinese sales of U.S. Treasuries in the months after China's shock devaluation in August 2015 and ahead of the promotion of the Renminbi to World Currency Reserve status in November of the same year provides the best option to test Chinese leverage in monetary power. This is because it is a shorter time frame in which great fluctuations in the Renminbi were met with decisive action was taken to sell U.S. treasury assets for a definitive purpose: to gain entry into the elite group of world currencies.

Given these figures and findings, this research can proceed on current reality that China has high theoretical leverage in utilizing monetary policy as a tool for economic coercion. However, given some of the difficulties provided in this subsection and in the previous chapter

國立政治大學 National Chengchi University

showing the inherent difficulties that remain stubbornly present in the use of monetary power we can derive and test two hypothesis:

Hypothesis One: China can use monetary power to stabilize domestic market, meeting a limited but crucial aim of the Chinese government.

Hypothesis Two: The renminbi's ties with the dollar make long term currency manipulation difficult, limiting monetary power's utility.

These hypothesizes acknowledge China's theoretical advantage, but also take into account the unruly nature of using economic coercion as a means to influence a foreign power as well as the vast inter-dependencies characteristic of the Chinese-United States relationship. as introduces the case study that will test their validity. This sub-section also proposes following the 2015 monetary policy changes and the time surrounding as a means to test the validity of the hypothesizes. The conclusion of this chapter further expounds on the importance of this time period and its usefulness in delineating between real and theoretical economic coercive power.

3.2 Financial Power

Exercising financial power is not as free in its workings as is monetary power, because the government doesn't have sole power over the foreign direct investment. However, financial power and monetary power are somewhat related as both deal with the trading of currency based assets. In theoretical terms, financial power is more dependent on the wills of the public – in this case corporations – because they represent a significant subsidy on the cost of doing business in the country as well as significant return on investment as the country's economy grows. If either the United States or China moved to limit financial ties with their counterpart there would be push back from investors and multinational corporations alike. Furthermore, much of the control

the government had in terms of monetary power was derived from being the sole provider of its currency – in the case of this research the Renminbi or Dollar – but this is not the case in financial markets. While governments are most often the greatest foreign investor they are certainly not the only actor since any corporation will be investing and setting up business assets that can be exploited later as the target market develops. This is less true in China since much of the investment and setting up of business assets are conducted through state run banks and state owned enterprises; therefore, they conduct much more control over the financial sector than does the United States (Wang, 2007).

Coercive actions limiting foreign direct investment and finance are more public than monetary policy because they would require executive action in the short term or legislation in the longer-term. This not only alerts the target country of the intended action inviting defensive measures or retaliation, but it also exacerbates the potential for negative domestic feedback. To the exercise of financial power's benefit, it is somewhat target specific. Financial coercive action would target investment flows which could impact many different parts of the economy and therefore be broad based, or it can target specific sectors. However, there is potential for circumvention in rerouting funds through other countries or other unaffected financial sectors thus circumventing agent-government control.

國立政治大學 National Chengchi University

For these reasons the utilization of financial power, while less efficient than monetary power, is still a potent tool of economic coercion. Finance, however, is an area in which China and the United States have high stakes in the success of the other.

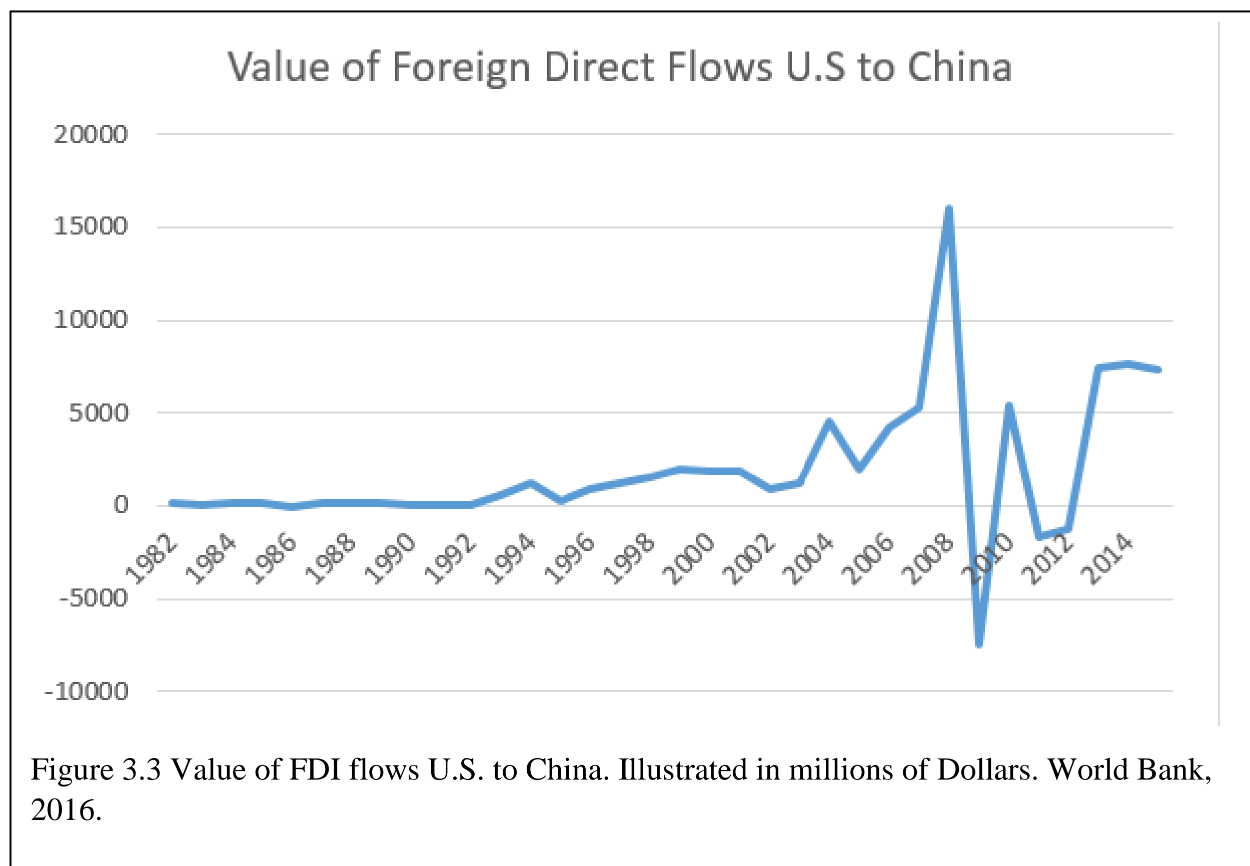


Figure 3.3 Value of FDI flows U.S. to China. Illustrated in millions of Dollars. World Bank, 2016.

Chengchi

China and the United States have both invested billions of dollars in an effort to take advantage of profits in the other country. As Figure 3.3: shows, The United States invested heavily in China up until the financial crises of 2008 during which flows turned negative “most likely reflecting a pullback of capital from China through intra-company channels” (Hanemann, Rosen, & Gao, 2016, pp. 30-31). For this reason, financial flows can be volatile and therefore an unreliable tool for economic coercion.

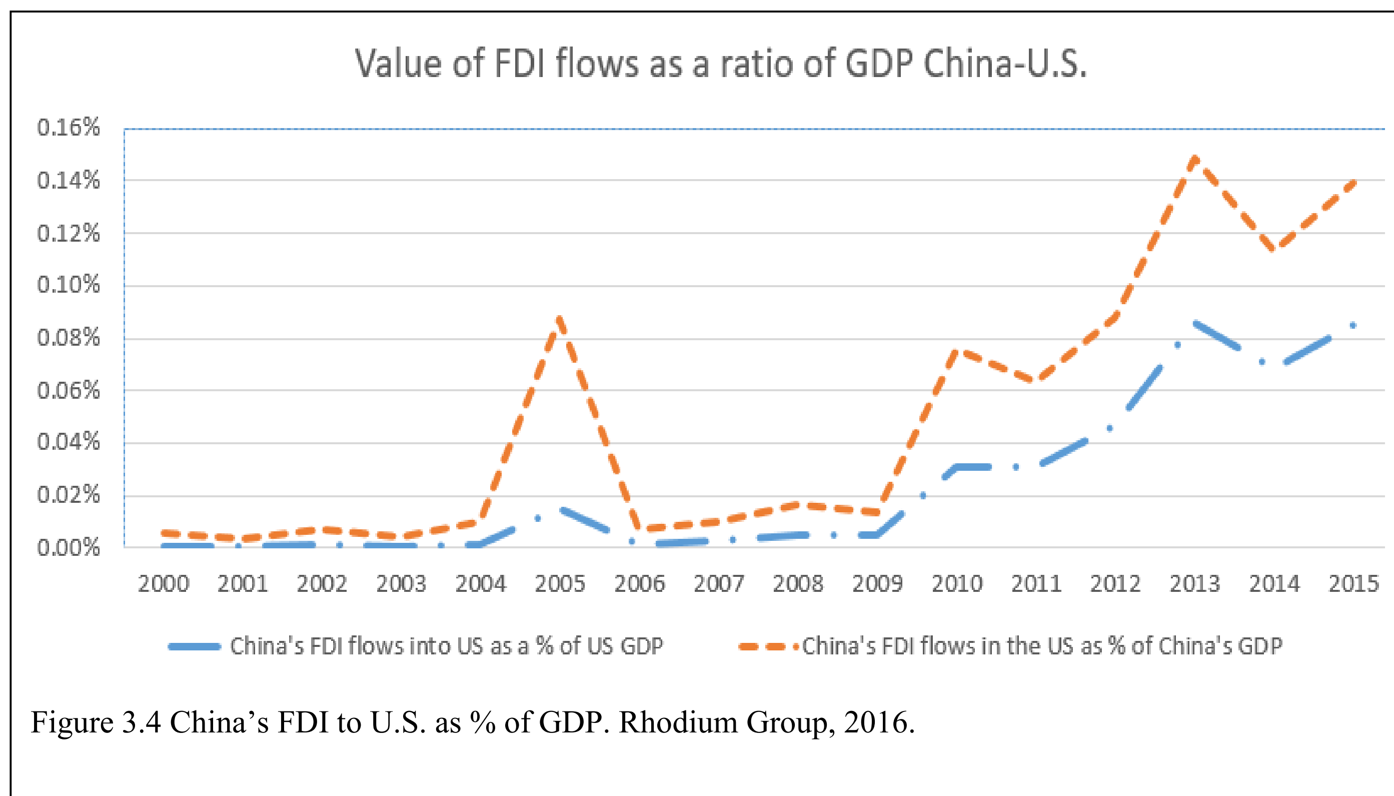


Figure 3.4 China's FDI to U.S. as % of GDP. Rhodium Group, 2016.

Because both the United States and China have worked their way toward parity with each other in terms of year-on-year investments and the unique nature of foreign direct investment as a way in which one country, its enterprises, and citizens at large can directly benefit from the growth of markets abroad, the financial relationship between China and the United States seems to represent an interdependent relationship as it was imagined by Nye and Keohane. In so far as it is allowed, foreign direct investment benefits both countries creating more opportunities for growth for their respective multinational corporations as well as creating growth in investment opportunities.

As is always the case with interdependent relationships this does not mean that there isn't the potential for conflict or competition. To the contrary, competition is largely a good thing as they race for greater economic gains in the two markets, fighting over profitable companies

creating greater incentives for efficiency in both markets as well as providing more assets for more adventurous projects and enterprises (Davies, 2013). Conflict in this case is usually for greater investment opportunities. Some projects run into political trouble in both countries as they question the motivations of the investment, economic exploitation or security ramification (Montlake, 2013). Therefore, using FDI as a means of economic coercion is self-defeating as it might provoke retaliation undermining the original intent to gain greater financial access.

There are some areas of unbalance, but they are hard to exploit without significant backlash as well as significant risk. United States has been investing considerably longer than China and is therefore better positioned to cause overall harm to the Chinese economy. The

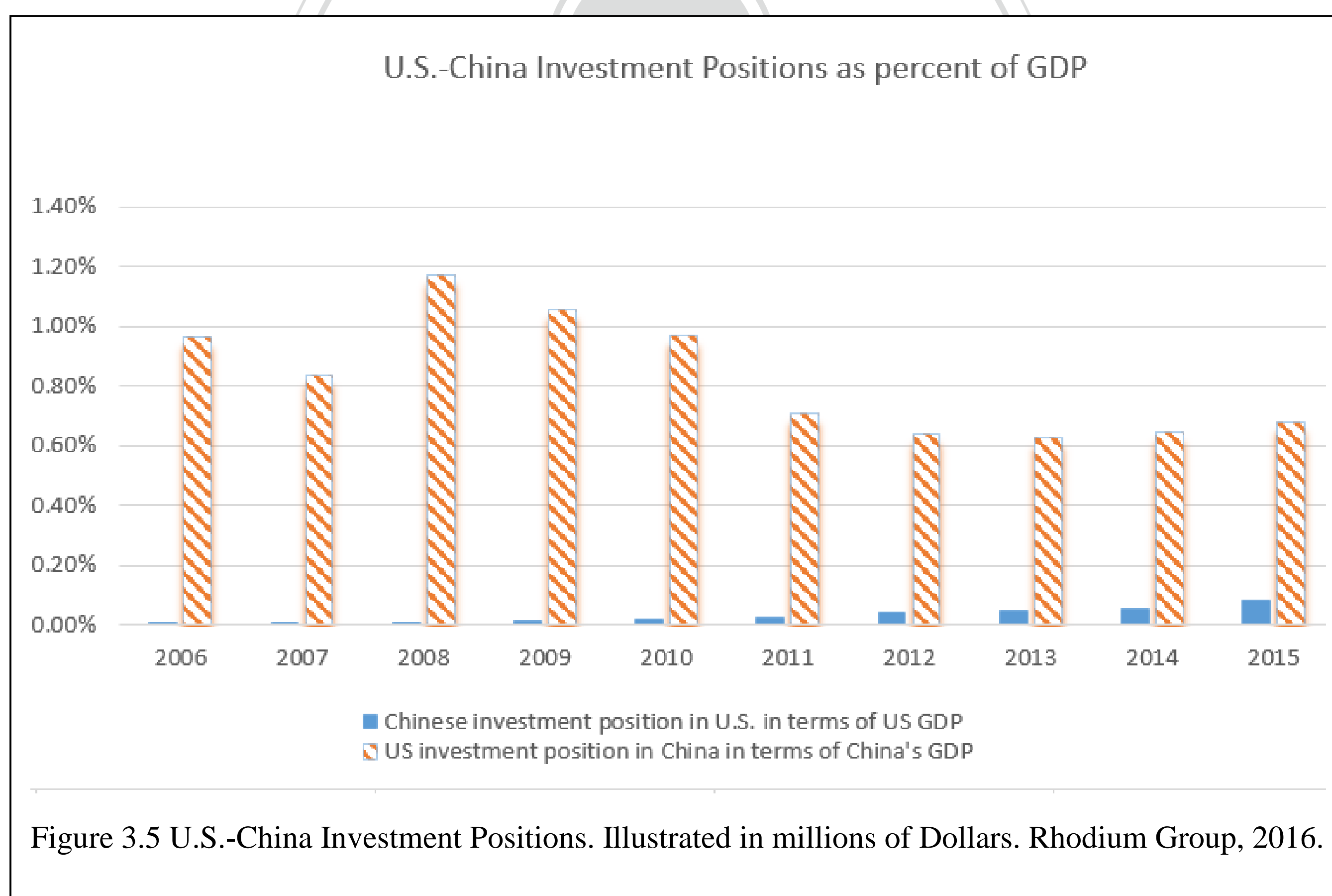


Figure 3.5 U.S.-China Investment Positions. Illustrated in millions of Dollars. Rhodium Group, 2016.

United States investment position – the cumulative foreign assets and liabilities in an economy – are over 70 billion dollars with China's being only 14 billion.

China is quickly making up ground, but this could run into political push back. Figure 3.5 shows the disparity. However, this can hardly be exploited since the government can do little to require the withdrawing of foreign assets short of creating massive disincentives which make it costly to hold foreign investments – such a move would be a debilitating tax on multinational corporations – or the US government could pass legislation requiring the withdraw of large portions of the Chinese economy. Neither would be a very efficient use of economic power since the absolute costs would almost certainly exceed the relative gains. When the absolute loses outweigh the relative gains as heavily as they do in this case there is no other choice but to conclude that the bilateral relationship is indicative of an interdependent union.

In this sub-section, it becomes clear that neither China nor the United States can gainfully utilize finance as a tool for economic coercion. Since this research focuses on cases of attempted economic coercion as a means to test theoretical potential versus practical application of economic coercion, it is unnecessary to pick a case study for financial power. However, it provides a perfect example of the level of economic interdependence that the United States and China enjoy and what is at risk in the event of an economic or political fall-out.

國立政治大學 National Chengchi University

3.3 Trade

Any conversation regarding the United States-Chinese economic relationship invariably leads to the trade deficit the United States has experienced at the hands of the Chinese economy. The United States has run a deficit every year since 1985. China has also enjoyed this trade surplus at ever increasing amounts totaling a net gain of over 250 billion dollars last year. Figure 3.6 shows the incredible hole the United States has dug for itself. There is little question that this has been the avenue through which China has achieved such high economic growth and therefore

found new international influence and their gains in hard power. Furthermore, this feeds off of and is fed by their vast currency holdings; however, is it on its own a vulnerability or a tool for economic coercion?

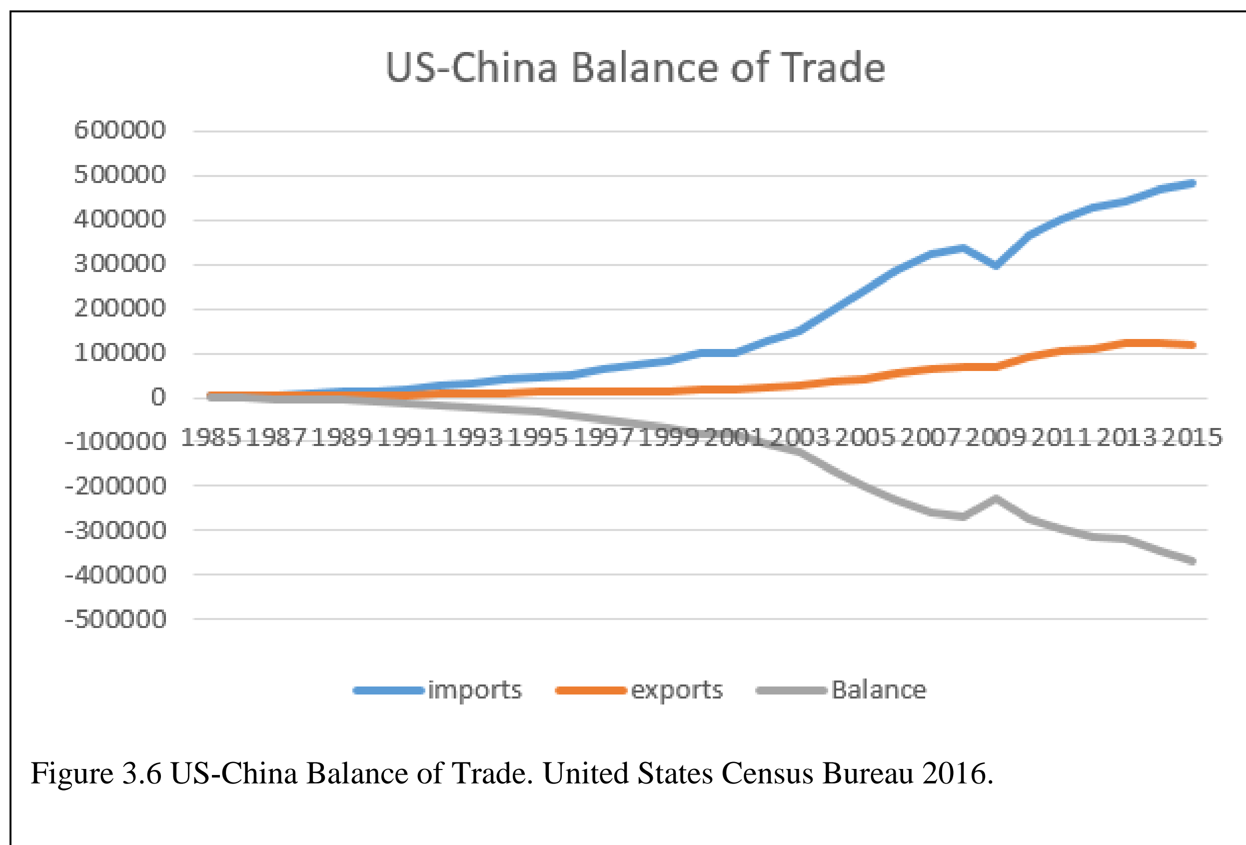


Figure 3.6 US-China Balance of Trade. United States Census Bureau 2016.

Chengchi Un

It seems obvious that trade would be an area of favor for China; however, the topic is much more contentious than it would appear. There is much more research on China's use of its massive currency and debt holdings as a tool of economic coercion than there is on the potential use of trade sanctions against the United States. This is because in a global economy characterized by interconnectedness bilateral trade wars benefit the importer not always the exporter. This goes double for a country that can garner the support of the international community or is a highly desired market for goods, as the United States has shown itself to be.

As Kirshner explains, "the creation of a dependent trade relationship often involves the fostering of bilateralism as opposed to multilateralism. This means that increases in multilateral relations could actually undermine trade power under some circumstances" (Kirshner, 1995, p. 24).

While it can certainly be said that the United States has proven itself to be dependent on cheap Chinese imports, in typical co-dependent fashion, the Chinese economy is likewise dependent on US consumers high demand for their goods. When confronted with this reality that both countries benefit significantly from their bilateral trade agreements many jump to the conclusion that there is no gain, nor definitive winner, to be had from a trade war breaking out between the two countries. This does not follow the economic realities between the two countries, instead it is a relationship that while co-dependent is rife with conflict and possibly volatility.

Roach argues that there have been two mirror but opposite stories of globalization at play in the bilateral relationship. He posits that

> Americans have been squeezed as workers but have benefited as consumers. The opposite is true for the Chinese: They have benefited as workers but are squeezed as consumers. The mirror images of codependency couldn't be sharper. Second-round impacts however, could be very different. Neither globalization nor codependency is static. As China and the United States face up to the rebalancing agendas, their roles in a globalized world will change. (Roach, 2014, p. 107)

Changing roles in the greater geopolitical landscape can be a volatile time, and there is little reason to claim that a power transition between the United States and China would be much different (Friedberg, 2011). Therefore, the question becomes: in the event of that economic

tensions boiling over who is relatively more dependent on whom and who is in the better position to exploit the vulnerabilities? The United States has three aspects that work to their benefit: First, the sheer size of their economy; Second, their market is the most sought after for cheap products; Third, they benefit from their position as the central player and architect of a world trade system that goes back to World War II.

Figures on trade statistics need to take into consideration the GDP of their respective countries to give a better understanding of what's at stake for the two countries. Reliance on foreign goods is a two-way street, and the successful use of economic coercion must take into account the United States home economy and the goods from the outside that it requires to maintain current economic output. Figure 3.7 further illustrates the trade relationship and the shared dependence.

Figure 3.6 US-China trade as percent of GDP. United States Census Bureau 2016.

The United States is still the largest economy in the world, and as such the trade deficit with China – while large – represents up only a relatively small fraction of their overall GDP. China's economy, while still large, stands to lose slightly more as a percentage GDP growth. According to Kirshner, "States that are large enough to have a high degree of absolute trade but a low trade/GNP ratio are the best situated in the arena of trade power, because they are at once powerful and yet insulated"(Kirshner, 1995, p. 22). This is certainly indicative of the United States position, whereas, China's economy is still massive, their high population combined with their export-trade driven economic growth make for vulnerabilities to the use of trade as a tool of economic coercion. Having said that their reliance is clearly dropping, as figure 3.6 shows especially after 2006.

The United States also enjoys the advantage of being a highly sought after market for trade in goods. Since the United States has grown as an economy to specialize in services rather than manufacturing it has grown accustomed to acquiring most goods by importation. China is the most recent beneficiary of that convention. However, there is an inherent asymmetry at play. The United States requires the goods that China provides to continue their consumption led growth pattern, but they do not require that China is the provider; contrariwise, China would have a difficult time filling the hole left in the United States restricted Chinese imports. Furthermore, while China produces and trades goods to the United States they are predominantly cheap unskilled-labor intensive products that can be produced elsewhere. While this would most likely lead to higher prices, the United States would be able to continue near their current rate of economic growth. Instead, the goods that the United States provides to China are more finite in their origins, for example United States agricultural products would have the potential to more

than hurt GDP growth they could significantly increase prices of staples such as chicken, soybeans, corn, and pork (Bradsher, 2016).

Lastly, The United States still benefits largely from their central position as architect of the post-World War economic system. The United States list of benefits it enjoys from the system it helped create include having a heavy hand in the writing of the rule required for ascension into the WTO and its trade litigation mechanisms. Being central to the drafting of the system and allocating resources to its proper utilization mean that the United States have a "disparity in the power resources" (Besson & Mehdi, 2004). As well as being the world's primary reserve currency, they are also the largest shareholder of the World Bank and have the most votes in the IMF. According to Malawer, "The U.S. has been the most active in the WTO's dispute resolution system. The focus of the U.S. has increasingly been on china, and Chinese litigation has been primarily focused on the U.S. Further, the pace of WTO litigation among all countries has picked up" (Malawer, 2014). However, the United States wins far more than they lose when they bring the cases as the complainant.

These three advantages lead to the conclusion that the United States holds relative leverage in the utilization of trade as a tool of economic coercion. However, trade is not as free as monetary power in its usage, trade is a very public form of economic coercion and therefore will come with higher risk of domestic feedback as well as potential condemnation or loss of face with the international community. Although the United States has been allowed greater freedom in their use of trade sanctions they are not above ridicule and each new constraint on the liberalization of trade has consequences for the world economy (Leonard, 2016).

Furthermore, trade is highly susceptive to the paradoxical relationship in which agent countries will be more likely to take coercive action against their non-ally counterparts, but much less likely to win any substantial concessions. Also, because of the expectation of further and potentially escalating conflicts economic coercive action will probably only be for limited objectives and using constraint. For these reasons it is prudent to pick a case study to test the validity of the United States leverage in trade. If valid the case study can also shed light on what would be the necessary condition for economic concessions to be achieved. In light of this, the case study to be explored will focus on the "Public Law 112-99" signed in 2012, which both allowed for the placement of countervailing duties on Chinese goods such as solar panels, steel products, and tires (Miles, 2014) which the United States claims gain an unfair advantage from their producers situation as a State Owned Enterprise. Since these are products that have been subject to trade disputes as well as have been adjudicated in the past, it is a good study of the sanctions paradox and the perpetuation of trade conflicts. Therefore, will provide the opportunity to assess when concessions are made and for what reasons overcoming the sanctions paradox, as well as, providing an opportunity for predictions to be made.

From the facts and figures in this subsection it becomes apparent that the United States has theoretical economic coercive potential in trade. However, given the large level of interdependence characteristic of the Chinese-United States economic relationship, and the inherent difficulties in utilizing trade as an effective tool to coerce foreign powers this research proposes two hypothesizes that can be used to test the United States true economic coercive capabilities versus their theoretical potential outlined above:

Hypothesis one: The United States cannot use trade as an effective means to influence economic decisions in China.

國立政治大學 National Chengchi University

Hypothesis two: The United States can use trade barriers to signal displeasure with Chinese policies showing China's policy as contrary to the global norms.

These hypothesizes aim to reflect why the United States would initiate attempts to use trade as a tool of economic coercion while acknowledging the difficulties in doing so. In order to uphold or deny these hypothesizes this subsection proposes following the passing of Public Law 112-99 and the subsequent WTO dispute resolution procedures.

4.4 Conclusion

Already there is a strong case to be made that the economic relationship between the United States and China is indicative of an interdependent relationship and it cannot be used for coercive purposes. This is true for a number of reasons as shown above, but also because power is split between the different economic areas that create economic coercive leverage. Although it can be said, in absolute terms China has grown in power, and largely as a function of their burgeoning economy. This understanding which is dominant in analysis of the Chinese-United States great power relationship but only tells part of the story. Instead, another analysis has been started in this chapter and shows that both countries hold vulnerabilities and even where there is strength there is also great risk in its utilization. While, these vulnerabilities make for the possibility of economic coercion to take place. The theoretical potential for economic coercion is very different from real world success as the case studies in the next two chapters will show.

To understand where these vulnerabilities are, this chapter used a framework of analysis that applies Nye and Keohane's theory on interdependence with Roach's understanding of the volatile co-dependent relationship between China and the United States. To understand how the vulnerabilities can be exploited the framework utilized Kishner's tools of economic statecraft –

政 治 大 學 國 立 National Chengchi University

Trade, Finance, and Monetary Power. Using these criteria to look at the economic realities of the Chinese-United States interdependent relationship it is proposed that China has leverage in monetary power, whereas, the United States has relative advantage in trade, while in financial power both sides benefit from maintaining the status quo and any attempts at coercive action would likely result in greater losses than relative gains. From these realities four mirroring hypothesizes have been derived:

Hypothesis One: China can use monetary power to stabilize domestic market, meeting a limited but crucial aim of the Chinese government.

Hypothesis Two: The renminbi's ties with the dollar make long term currency manipulation difficult, limiting monetary power's utility.

Hypothesis three: The United States cannot use trade as an effective means to influence economic decisions in China.

Hypothesis four: The United States can use trade barriers to signal displeasure with Chinese policies showing China's policy as contrary to the global norms.

In an effort to confirm or reject these hypothesizes this chapter outlines two case studies: first, the selling off of U.S. Treasury Securities by the Chinese in 2015 to devalue the Renminbi, and second, the signing of Public Law 112-92 as well as its subsequent arbitration. This case studies provide the opportunity to test the real world economic coercive outcomes against the projection as posited by the theoretical framework establish above.

In the first case of Chinese control over monetary policy and the possible manipulation for geopolitical gain, there have long been claims of currency manipulation at the hand of the United States as well as other; however, it has been generally accepted by mainstream economics

國立政治大學 National Chengchi University

if not politicians and the general public, that after the 2008 financial crises those efforts have largely stopped. In fact monetary policy has shifted toward keeping the Renminbi strong, increase stability of economic growth, and induce uncoupling from overreliance on the Dollar (Worstall, 2016). This remains consistent with their move during the time period in the proposed case study – August 2015 to Early 2016 – in which China changed their exchange rate policy twice in six months. First, allowing it to drop against the dollar by -2.8% and then completing uncoupling by tying it instead to the number of reserve currencies (J. Zhang, 2016). However, this has had an adverse effect on their currency reserves falling 500 Billion dollars at the end of 2015, and 2016 is set to be the greatest year of sell-offs since economic opening up and reform (People's Bank of China, 2016). Taken together this marks significant shifts in Chinese monetary policy that is better fits the changing Chinese world view as well as the monetary power to make their world view possible. The case study will help shed light on the real capabilities China holds in shaping United States policy and shifting the international order.

The second case, representing the United States potential for trade leverage, will track Public Law 112-99 as well as the following trade dispute mediation undertaken in the World Trade Organization. Furthermore, in following trade as a means of economic coercion the research will focus on steel and tires both of which have a long history of trade disputes, as well as strong popular support, fundamentally important to both countries (Kapur, 2016; T. P. Stewart, Drake, Want, Bell, & Scott, 2014). Therefore, the antidumping and countervailing duties as they were legislated for Public Law 112-99 depict the many levels at which trade disputes play out. The long history and strong industry lobbying support demonstrate the domestic societal factors, the necessary trade legislation and the subsequent signing by President Obama take represent the domestic institutional factors, and lastly trade retaliation and following

國立政治大學 National Chengchi University

trade dispute resolution by the World Trade Organization follow international economic and international political factors respectively. This case study will reveal the United States real economic coercive capabilities.

Further research into the two case studies can provide insight into the two remaining research questions beyond the dominant research question (who has economic leverage in the Chinese-United States economic relationship): when is economic coercive action in the Chinese-United States relationship likely to succeed; as well as, why there are not more instances in which the United States and China try and to exercise their prospective leverage. Perhaps most important for research into great power relations and International Political Economy are the potential impacts this research's case studies have for the economic relationship between China and the United States as well as for the international community at large. For example, has there been a Chinese uncoupling due to greater Asian regional trade and the Renminbi's ascension to world currency reserve status, and is the United States losing influence among its economic and strategic allies or in the economic system through the World Trade Organization. These are periphery considerations that will have an impact on the overarching question about whether economic coercion as a tool can play a deciding role in shaping the international world order.

Chapter Four: China's Monetary Policy After 2014 a Case of Monetary Power

4.1 Introduction

A case study provides the opportunity to delve deeper into the perceived advantage that China wields over the United States in monetary power. In engaging in an analysis of a real world case of Chinese monetary power this research aims to answer the remaining questions: when is economic coercive action in the Chinese-United States relationship likely to succeed; as well as, why aren't there more instances in which China tries to make use of their leverage. Over the course of the case studies deeper analysis presents a more complex and complicated picture of the broader and more definitive areas of leverage presented in the analysis of economic realities. This suggests that theoretical advantage, while supported by economic figures, can often be hard to capitalize on in reality.

In the case of China's monetary power, this research makes use of "the most likely case" of economic coercive action (Eckstein, 1975). As such, this research aims to take a case of Chinese utilization of economic power that has a high likelihood of success and explore how successful it was in reality as well as what were the circumstances of its failure or success. This falls short of an all-out attempt to disprove the theoretical advantage, as is often the aim of similar studies of "most likely cases"(Gerring, 2007), instead it suffices to show the complexities and difficulties in wielding economic coercive power and the limited returns that come with high risk. Therefore, in following with the hypothesizes of this research, although the earlier chapter exploring the economic realities between the United States and China confirms a theoretical advantage in monetary power for China, the remaining hypothesizes and their respective

confirmation or rejection will show the limitations, however wide or narrow, for the use of their monetary power. The Hypothesis looking to be confirm or rejected are as follows:

Hypothesis One: China can use monetary power to stabilize domestic market, meeting a limited but crucial aim of the Chinese government.

Hypothesis Two: The renminbi's ties with the dollar make long term currency manipulation difficult, limiting monetary power's utility.

The case chosen to help confirm or reject these hypothesizes as well as answer the remaining research questions is the selling off of United States Treasury Securities by the Chinese government in 2015 in an effort to reevaluate the renminbi. This chapter first expounds on the importance of the 2014-2015 time period and the monetary policy changes that took place as a useful case study, then explores the Chinese strategic goals and how they pertain or can be furthered by utilizing economic coercion, and finally follows the events of the monetary policy changes as well as tracks their effects on the United States policy making. In doing so, this research finds that China's real economic coercion capabilities do not align with their theoretical leverage in monetary policy.

立 政 治 大 國 學 National Chengchi University

4.2 An Argument the 2014-2015 Renminbi Evaluation Changes as a Case Study

This case was chosen using the most likely case approach in an effort to eliminate selection bias, and because of the likelihood of successful use of monetary power, but also because the case takes place recently. The importance of having a recent case is twofold: first, it is well after the 2008 global financial crisis and the economic facts of the case can be considered during "normal" world economic growth; and secondly, the facts of the case represent the most recent strategies of the Chinese government. According to Mohamed El-Erian chairman of the

Global Development Council under President Barack Obama, "The 2008 global financial crisis, coupled with the disappointing recovery in the advanced economies that followed, injected a new urgency into China's efforts to shift its growth model from one based on investment and external demand to one underpinned by domestic consumption" (El-Erian, 2016), but this has meant currency reevaluation. Understanding this the changing nature of Chinese monetary policy, and finding its place in the broader context of Chinese grand strategy is the first task in addressing the remaining research questions, and the most recent case can show best both the short term objectives and implications of changing policy changes.

The case study can be considered a major development in the Chinese – United States economic relationship since the measures taken on the Chinese side were drastic, and it led, in part, to the ascension of the Renminbi as a world reserve currency. The shocking devaluation of the Renminbi was all the more shocking because "during the 1997 Asian financial crisis, China's economic situation was much worse than it is today, but the government still resisted the temptation to devalue the renminbi – and the country managed to emerge from the crisis virtually unscathed" (Yongding, 2015). During that time, China recognized that devaluation would mean more uncertainty in the Asia Pacific region, and perhaps loss of investment in their own market; furthermore, a devaluation at that time would make exports less costly therefore hurting the recovery of the worst effected economies such as Thailand, Korea, and Malaysia (Halloran, 1998). This means that the August 2015 devaluation connotes a different thinking in currency policy, mainly that there is less focus on investment flows into China, and more of an emphasis on stabilizing rapidly falling exports and the low asset prices needed to grow internal demand. Furthermore, this change in policy shows how much the Renminbi and the Asian Pacific economic situation has changed. According to the World Bank, the Renminbi's centrality is

already evident in the East Asian Region, and a number of key Southeast Asian countries currencies are now linking their exchange rate more in tandem with the Renminbi's value than with the United States. This means more freedom in Chinese monetary policy from foreign evaluations (2011).

Lastly, this case is chosen because it is generally difficult to prove instances of monetary power. As outlined chapter two, this is one of the benefits of monetary power as a form of economic coercion; however, it does make it exceedingly difficult to study because it is hard to identify when it is being used. This case is really the only case after the 2008 global financial crises that we can definitively say China's government chose to influence the Renminbi's value, and study what effect that is having on the United States economic policy. If it were easy to prove China's currency manipulation, there would probably be a clearer and more unified U.S. response. Instead of engaging in the unsubstantiated claims of politicians and United States media outlets that China is undervaluing its currency, or following the Chinese government line that China's low exchange rate is a result of many other factors outside of the governments control, and choosing a less clear case picked out of the bias perspective to achieve the desired result, this research takes the opposite approach of finding the most clear example of currency reevaluation and extrapolating what role China and the United States played. Furthermore, there are few proven instances of monetary power on the side of China, this not only makes studying Chinese monetary power difficult, it begs the question why doesn't China press harder on its advantage?

國立政治大學 National Chengchi University

4.3 Chinese Grand Strategy

It is prudent to begin with an analysis of Chinese grand strategy with an eye toward their monetary policy and the centrality of the Renminbi. It is far too broad to go too deep into through the mysterious motivations of the Chinese government from South-China sea to energy security; for this research it is sufficient to look at Chinese Grand Strategy to answer the question that Cohen lays out for analyzing a country's aims in utilization of international monetary power: Are they seeking influence or autonomy? According to Cohen, influence is defined as "the ability to shape events or outcomes" naturally this means, to a certain extent, controlling to behavior of other actors. Cohen goes on to say: "An actor, in this sense, is powerful to the extent that it can effectively pressure or coerce others; in short, to the extent that it can exercise leverage or managerial authority. As a dimension of power, influence is the essential sine qua non of systemic leadership." That is to say that influence is a necessary condition to a country wanting to control a system or achieve currency centrality. This is in contrast to autonomy in that, autonomy is "power as a capacity for action". This is the same as have the freedom to control one's own monetary policy without being overly concerned about other countries' reactions. Cohen says, "in this sense, power does not mean influencing other; rather, it means not allowing other to influence you – letting you have your way" (B. j. Cohen, 2008, p. 457).

From a certain perspective, it can be difficult to assess what the objectives are for the Chinese government; however, there are prerequisites to a country achieving either – or both because the two forms of Cohen's international monetary power aren't mutually exclusive – influence or autonomy. Therefore, in this section we can follow Chinese monetary policy to assess whether influence or autonomy is getting the higher priority. Kirshner, himself, recognizes the importance politics and the Chinese government's preferences will play in the future of the Renminbi stating, "the outcome will be determined more by politics than

economics, as both the RMB ‘optimists; and ;pessimists; explicitly recognize (Helleiner & Kirshner, 2014). If China was seeking more influential international monetary power and the centrality of the Renminbi it would necessitate deep financial reforms allowing the currency to be held in more liquid markets with full currency convertibility (Subramanian, 2011). Likewise, if China is seeking more autonomy in its international monetary power there will be more policies to reshape international economic structures set up by the United States to if not take away United States advantage, then to voice more of their concerns and allieviate a certain Chinese disadvantage. Also, China would move to uncouple their currency from the dollar giving maximizing monetary policy autonomy.

Understanding Chinese priorities is very much a practice of following the changes in economic realities, again this is why a most recent, post-2008 global financial crises case is necessary. In the past China has played an important role in supporting the status quo, “with its accumulation of massive dollar reserves, China has reinforced the dollar-based international monetary order” (Helleiner & Kirshner, 2014). This is representative of a time in which Chinese upholding of the system was beneficial to their own development. At that time, China was in little position exercise influence. It is easy to say that purchasing the vast dollar reserves China has become known for was an effort to accumulate autonomy, wherein as Cohen explains, there is a quiet power in having enough reserves to decide when currency reevaluation occurs. Cohen points out that China has long been the target of United States (and others) to revalue their currency. China has largely ignored these pleas, cushioned by their large reserves the Renminbi “appreciated in small steps by little more than 15 percent – far short of what most overserves think is needed to make a real dent in China’s trade surplus” (Cohen, 2008).

For relevant comparison, the China's rise and the Renminbi's threat to the dollar's supremacy is often compared to the Yen during Japanese explosive rise in 1970 or even to Germany before that. Dollar depreciation forced re-evaluation resulting in the Yen doubling in value from 160 yen per dollar to 60 (Hamada & Patrick, 1988). Chinese large dollar reserves as well as the centrality of their holdings under a state-controlled financial system has buffeted such power (Helleiner & Kirshner, 2014). This seems to underpin the argument that China is seeking autonomy in its monetary policy rather than influence over the United States, although it is tough to say this was calculated or just smart investment since the dollar is both stable and the most liquid currency holding.

More significant and definitive in terms of determining Chinese priorities was the government actions during the 2008 global financial crisis. Financial instability and dollar weakness meant that China had their first opportunity to play destabilize the system or at least play spoiler by denying further investments. Instead, much as it did during the Asian financial crisis, China opted for stability. China instead came to the systems rescue providing crucial support for the dollar, providing further funding for the deficits the United States would need to deepen for the economic bailout and recovery (Helleiner, 2014). This provides compelling evidence that China's priority is not on wielding influence, but on stability. Daniel Drezner claims the most that China asked for was guarantees on existing investments and assets, and that none were given. China and the United States acted in common interest, a bailout was given helping the United States economic recovery while also protecting Chinese Sovereign wealth investments in United States banks (D. W. Drezner, 2009). Again, this is less a strong show of influence and leverage and more of the passive power Cohen alludes to in his assessment of

monetary autonomy that comes with little risk, but provides protection during uncertain economic times and instability.

Since the global recession though, many scholars see more assertiveness in Chinese international monetary policy and their accumulation of monetary power. Sticking with this researches basis of analyzing Chinese strategy, it can be difficult to assess whether this is an effort to solidify its monetary autonomy or a power grab to increase influence and help the Renminbi establish itself as the world's central currency. Indeed, not long after the worst of the financial turmoil was over, and economic recovery was still fragile; Zhou China's central bank governor released an essay, "Reform the International Monetary System" calling into question the stability of a world monetary system relied so heavily on the dollar. While some scholars saw this essay as a termination notice on dollar's supremacy, a close reading suggests concerns about the systems inherent conflict that puts domestic monetary goals at the whim of the dollar currency market, which is particularly burdensome to developing economies. Instead, Zhou's qualms with the international monetary system are more theoretical (based on the Triffini Dilemma) having to do with problems of autonomy. Idealistically he proposes, "an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies (zhou, 2009). It seems that his call is less for an international monetary system built out of and to the benefit of the renminbi's influence; instead, it is a call for greater autonomy and balance, brought about by "gradual change that built on past efforts to strengthen the IMF's Special Drawing Rights" (Helleiner & Kirshner, 2014).

Taken chronologically, since the beginning of China's rise, after 2001 when China joined WTO and the renminbi's internationalized beginnings, the Chinese government has placed its

priorities on autonomy and monetary stability over accumulating or exercising fleeting opportunities for influence. However, there is another level of analysis, beyond that of follow monetary policy and extrapolating intentions, that also lays credence to the argument that China's priority and monetary strategy is placed on stability and autonomy as well. The Chinese Communist's Party's power is largely legitimated by China's continued GDP growth and economic stability. "The leaders of Chinese Communist Party are especially sensitive to encroachments on their policy autonomy, and place a great premium on stability, which suggests that they will be anxious about the extent to which they loosen their control over their currency. This will shape the future of the RMB" (Helleiner & Kirshner, 2014). China is well acquainted with economic turmoil and the devastation, both for the common people and political elites, and keeping that uncertainty and instability at bay is of paramount concern. Steinberg, furthers this argument saying, "Two different types of political actors are likely to advocate for reserve accumulation: those whose careers depend on financial stability and those with stakes in export-oriented industries" (Steinberg, 2014). Of course both of these point to China.

Understanding the history of Chinese monetary policy helps explain why there are few instances of overt efforts to utilize leverage to influence foreign countries policy. Such action could trigger retaliation destabilizing the world monetary system. This is quite opposite of what China has shown to be its priority for over twenty years. However, this does lead to the 2014-2015-renminbi reevaluation as well as the selling off of United States Treasuries, and the renminbi's rise to world reserve status. This, seemingly, is a departure from the past intentions of establishing autonomy in monetary policy and domestic influence, and more of an exercise of influence and push for renminbi centrality. Actually as is shown in the next section this is more of an exercise in the new autonomy China has found in its domestic monetary policy, and the

國立政治大學 National Chengchi University

objectives largely remain the same: stability both economically and politically, at home and abroad; strategic uncoupling from the United States; grow domestic economic strength.

4.4 China's Monetary Policy after 2014

At the beginning of 2014, the renminbi began to depreciate as Figure 4.1 illustrates. In late February a fourteen-year appreciation turned around and began a slide that the Chinese government has taken measures to manage.

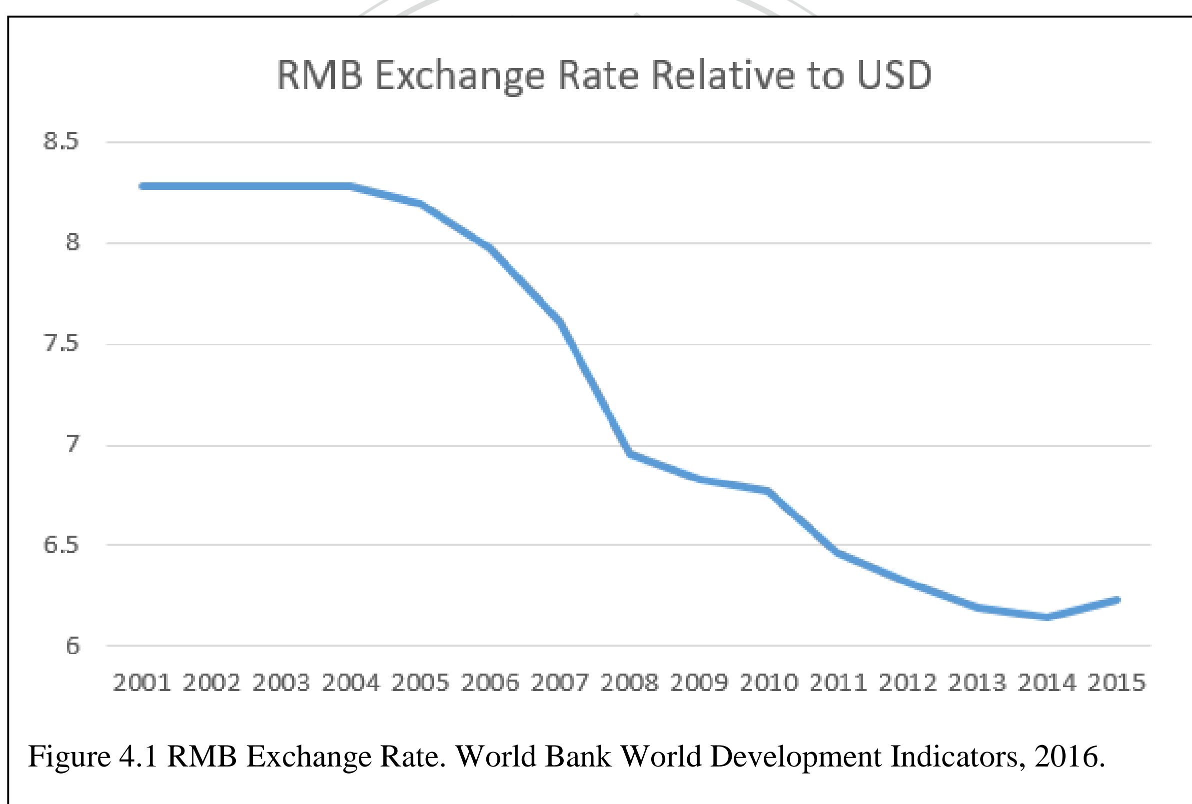


Figure 4.1 RMB Exchange Rate. World Bank World Development Indicators, 2016.

This change is was both a shock to China's domestic economy as well as the world economy, and analyzing what happened as well as the Chinese response is the purpose of this case study, especially as it pertains to China's real economic coercive capabilities. First, the steps China has taken since the renminbi's turnaround:

- Feb-25 2014: People's Bank of China makes decision to set sequentially lower reference rates, and intervenes in the spot market to weaken RMB (Affairs, 2014)
- Mar-17 2014: China widens the trading band to +/- 2 percent (Holodny, 2016)
- Aug-11 2015: China adjusts exchange rate devaluing the renminbi by nearly 2 percent. Currency falls 1.8 percent its biggest fall since China establishes currency market. (Lu & Sweeney, 2015)
- Sept-10 2015: Foreign central banks and sovereign wealth funds are allowed to enter onshore currency market (W. Zhang, Cao, & Yeung, 2015)
- Sept-11 2015: State Administration of Foreign Exchange will conduct checks on firms' foreign exchange buying to prevent speculation on renminbi depreciation and prevent illegal cross-border money transactions (Lu & Sweeney, 2015)
- Nov-30 2015: CNY included in IMF Special Drawing Rights (IMF, 2015a)
- Dec-11 2015: New trade-weighted CNY index introduced measuring renminbi against basket of currencies (Wei, 2015)
- Dec-25 2015: AIIB articles signed by representatives from 57 countries (AIIB, 2015)
- Jan-1 2016: Foreign exchange reserves fell $512.7 billion in 2015 (Noah, 2016)

While in no way exhaustive this timeline highlights the key points and facts of the Chinese government's monetary policy making. What they all have in common is an emphasis on stability and departure away from the dollar.

The first of these events is the most confounding as the trigger for renminbi depreciation was Chinese made. Indeed, right after the move to depreciate the renminbi many analysts claim

國立政治大學 National Chengchi University

that it was a move to bolster newfound investments into China hoping companies would buy in while the renminbi was, momentarily, low. However, this was more of a move to yield to economic factors. After "18 months of sustained appreciation" the renminbi began to slide lower.

The signs leading this adjustment are two-fold. first, China's economic slowdown, while not great – only 7.7% to 7.4 % - it created many problems in the financial and banking sectors. Consumer price inflation had already dropped significantly, undermining the ability for companies to make profits on domestic consumption, something that was a high priority for a more sustainable and autonomous development model. If domestic profits slumped as a drop in consumer price inflation dictated that model would be impossible to achieve (Economist, 2015). Second, China's high foreign direct investment inflows since 2009 were unsustainable, and largely a symptom of low or negative interest rates being pushed in Japan, Europe, and the United States, and of an artificially high renminbi that benefited from promises of stability. According to a Report to Congress on International Economic and Exchange Rate Policies:

> For more than a year, market participants – particularly Chinese firms operating in both the onshore and offshore markets – had been able to profit from the combination of high domestic RMB interest rates, low dollar borrowing rates, and a steady and predictable pattern of RMB appreciation. In fact, China's exchange rate volatility declined last year, with inter-day and intra-day movements of the RMB getting significantly smaller during the third and fourth quarters of 2013. Expectations of continued low volatility created a clear incentive for firms to borrow dollars at low interest rates and invest the funds in China, which fueled the large capital inflows. (Affairs, 2014)

國立政治大學 National Chengchi University

Meaning, of course, that the promise of low volatility couldn't be kept after the faucet on inflows was turned off and the high liquidity this provided the market was lost. Namely, when talk of interest rate hikes began in the United States and economic prospects were looking up elsewhere, the first of China's capital outflows began.

Again, from one perspective this move to change the renminbi's reference point allowing for the depreciation of the renminbi is a confounding one, but it needn't be regarded as predatory. This would be a misinterpretation of the facts, while some saw it as a deliberate move to depreciate the renminbi, artificially boosting growth and undermining Western economies, the renminbi was not under-valued as they claimed, but artificially high. While this was a move in response to symptoms caused by policies of "quantitative easing" and low interest rates in Western economies it certainly wasn't with the intention of starting a currency war. Indeed, Rickards argues that if there were the beginnings of a currency war it had started at the hands of the United States:

> Quantitative easing could be used by the Fed not just to ease financial conditions in the United States but also in China. It was the perfect currency war weapon and the Fed knew it. Quantitative easing worked because of the renminbi-dollar peg maintained by the People's Bank of China. As the Fed printed more money in its QE programs, much of that money found its way to China in the form of trade surpluses or hot money inflows looking for higher profits than were available in the United States. Once the dollars got to China, they were soaked up by the central bank in exchange for newly printed renminbi. The more money the Fed printed, the more money China had to print to maintain the peg. China's policy of pegging the renminbi to the dollar was based on the

國立政治大學 National Chengchi University

> mistaken belief and misplaced hope that the Fed would not abuse its money printing privileges. Now the Fed was printing with a vengeance. (Rickard, 2011, p. 135)

Therefore, who can blame them for taking preliminary measures to combat the negative inflation this caused. It was less of an act of coercion than it was an act to preemptively combat an excessively high renminbi evaluation that was having negative effects on the domestic economy.

This along with the widening of the trading band to +/- 2 percent, doubling the allowed movement it had against the dollar, while still maintaining the peg weren't big enough move to have eliminate the over-valuation and more actions were necessary. However, such moves were impeded by continued threats of capital flight. It has long been the rule of thumb that ordinary people were not allowed to convert more than $50,000 worth of Chinese renminbi into foreign currency per year, and this remains true. However, Chinese officials have made it harder to convert even that much, and citizens and business people alike have moved to circumvent these rules (Hewitt, 2015). Essentially, China finds themselves trapped in an economics problem involving the impossible trinity. "They cannot achieve a stable currency, the free flow of capital, and an independent monetary policy all at once. Since China has tightened its control on capital, it now much choose between stability in its currency or its monetary policy" (J. Zhang, 2016). It is clear that China needs the free flow of capital into the country, but it can't abide the free flow of it out; furthermore, to contend with its largest short term and long-term objective of ascending to IMF Special Drawing Rights China is required to allow greater market forces to come to bear in its currency evaluations.

As China battles with its priorities the capital continues to flow out. What started in 2014 has increased through 2015 and 2016. Attempts at stemming it such as the State Administration

of Foreign Exchange (SAFE) conducted checks on financial firms' compliance to regulations, or attempts at counteracting the outflow by encouraging greater inflows like those that took place in September 2015 have done little to alleviate the problems capital flight presents. The earlier theoretical model of monetary power and China's vast reserves as a tool of economic coercion don't take into account the dangers of capital flight. These dangers are especially poignant in China's case as it needs the liquidity to support greater development and domestic consumption. Now beginning our third year of capital outflow growth some are very worried even as SAFE officials say "China's capital outflow has moderated a lot and it will move towards balance in the future" and "the current reserves are adequate" (F. Tang, 2017). Official totals of capital flight has been daunting, but those are also misleading since it doesn't take into account those under reporting true export income, buying online decentralized currency like bitcoin, or literally capital flight as citizens fly money out stuffed in their luggage; furthermore, not all of China's reserves are immediately on hand a lot of them are "tied up in illiquid assets" such as natural resource rights and the Asian Infrastructure and Investment Bank (Lopez, 2015). It is redefining or perhaps revealing the role that vast reserves can really play in economic crisis or economic coercion, "Adequacy of foreign reserves is an outdated concept from the days of the gold standard" (VanDerKamp, 2017). It would appear as though, the power of reserves is greatly exaggerated as a tool of economic coercion, but it may also be mute in terms of economic distress.

Throughout and despite the fears of capital flight, China's resolve to obtain IMF special Drawing Rights remained absolute. So, on August 5, 2015 when the IMF published their report that China still had significant work to do to achieve Special Drawing Rights status, China got to work fulfilling those requirements (IMF, 2015b). The move that gained the most discussion and

coverage was the August 11, 2014 readjustment. In comparison to the .7 percent adjustment in the reference rating that took place in February of the previous year, the August 11th adjustment was indeed quite a bit larger at 1.9 percent dropping the renminbi 1.8 percent (Lee & Chen, 2015) falling just over 3 percent in three days (Yan, 2015).

Again, and with the background of a higher audience, fears of a currency war spread pitting the United States dollar and the Japanese yen against the renminbi (Ryan, Inman, & Farrer, 2015). These call were misguided though, as many called the move a depreciation to spur exports and aid a struggling economy, the reality was actually much more complex. What many called for – a more market oriented evaluation of the renminbi – was exactly what the People's Bank of China was trying to give to meet IMF standards for Special Drawing Rights. Since the People's Bank of China sets the day to day value of renminbi, it can be easy to understand why there was a feeling that this was a deliberate move to at worst undermine economic activity and currency valuations in other countries, or at best a way to artificially boost exports (Economist, 2015). In reality, it was an attempt to have a one off change in renminbi valuation while at the same time moving the renminbi away from its peg on the dollar and allowing the market to play a greater role (*China's Currency Devaluation*, 2015). The move was away from the old system of "central parity" wherein the renminbi could trade at a value plus or minus 2 percent of the central rate that the People's Bank of China chose for that day with the approval of the Chinese State Council. Under the new currency regime, the starting rate would have to be closer to the previous day's closing rate, greater emphasis would be put on supply and demand conditions in the foreign exchange market, and there would be limited intervention (Pettis, 2015).This is a small step toward the liberalization of the renminbi, but an important one.

國立政治大學 National Chengchi University

At the end of November of 2015 China did succeed in its goal of receiving Special Drawing Rights and being counted among the elite list of currencies including the dollar (41.73 percent), the euro (30.93 percent), the renminbi (10.92 percent), the yen (8.33 percent), and the pound (8.09 percent) (IMF, 2015a). Certainly, a hard fought win for the Chinese government; however, was it an exercise of economic coercion? Their ability to express autonomy in their monetary policy and their seeming success in shaping United States policy when they backed the renminbi's ascension to Special Drawing Rights status would suggest so. As we saw above, however, it is clear that their monetary policy was constantly being thrown into question by market forces and they are still on unequal footing as the renminbi continues to depreciate, and capital continues to flow out. This is partially because the dollar is rising quickly in value and through the Chinese government's own choices the renminbi no longer enjoys its tie to the dollar.

In terms of Chinese using the influence their reserves gain them to achieve United States backing for their ascension to Special Drawing Rights, it is hard to say that the United States was swayed by the Chinese debt holdings and their steading move, not just away from buying treasuries, but also into selling them. Instead, it is more likely that the United States saw greater opportunity in the IMF force China to adhere to the rules of free capital flow and market oriented currency evaluation that are required for reserve currency status. Indeed, the United States ultimately backed China's bid to have the renminbi recognized as a global reserve currency. This followed further financial reforms such as allowing foreign central banks and sovereign wealth funds greater access into China (Mayeda, 2015). Such an exchange doesn't represent the overwhelming exercise of coercion, but at best a convergence of interests between the two parties. The United States benefits from another cooperative power that upholds the economic

system and world order that has provided relative peace since World War II, and China holding more responsibility in the IMF can help bring that reality into fruition.

Furthermore, it is of note that the United States only lost .17 in their holdings. The Euro suffered the greatest loss at a little over 6 percent, with the pound and the yen losing 3.21 and 1.07 respectfully. Even as China hoped to move away from their reliance on the dollar, bolstering their ability to hold more of their domestic currency with near the same risk and reward as the dollar, they did little to weaken the dollar's international position. This does not fit with the image of systematic disruption trying to weaken a dollar dominated global economy or an attempt to destabilize the dollar's valuation as Kirshner would be necessary to fit the traditional Kirshner definition of monetary power (Kirshner, 1995, p. 3).

China did show signs of autonomy in monetary policy, which Cohen recognizes as a passive form of economic power in which a country cannot be dictated to (B. j. Cohen, 2008). Even so, it came at a high cost and showed the difficulties of utilizing even the most efficient – as Kirshner posits it to be – tools of economic coercion. Instead, in the three categories Kirshner provides to measure for an economic coercive tools ability to succeed – feedback, defense or circumvention, and efficiency (Kirshner, 1995)– China's exercise of monetary power to achieve SDR status it ranks low on all three.

China suffered large feedback costs due to their changes in monetary policy. The biggest example of which was the quick response from businesses and wealthy citizens in exchanging their renminbi for other foreign currency assets, and moving other assets overseas. This created an even greater strain on an already artificially high renminbi, and sparked the slow bleed from

國立政治大學 National Chengchi University

the State Administration for Foreign Exchange's foreign reserve holdings, which as noted above, fell $512.7 billion in 2015 and continues to fall.

In terms of United States defensive or Circumvention, it is hard to say that any extraordinary steps needed to be taken. As China began to sell U.S. treasury bonds there was no collapse in the demand as some assumed. Instead, demand was met in some areas of the world as well as growth in the American economy filled in the shortfall. Market forces helped the United States circumvent negative effects of China's sell-off of U.S. treasuries so that the government itself didn't have to act (Chovanec, 2015). Furthermore, as far as retaliation it seemed that China was doing its best to defend against the negative consequences of currency regime change, and no immediate action from the United States was necessary.

Lastly, China's exercise in monetary power could hardly be considered efficient. They did achieve their goal of uncoupling from the U.S. dollar, gaining greater autonomy in their ability to hold more renminbi with all of the same perks of holding another IMF reserve currency, and stave off economic instability at home. As argued earlier, these were the most important goals of the Chinese government and all were achieved. Although economic crisis is always, constantly looming, China didn't go away empty handed for their efforts; however, there were great concessions that were made, in finance liberalization and currency regime change, that shouldn't be necessary if China's real-term monetary power matched the theoretical model. Furthermore, although it probably wasn't their main objective, their actions failed to be significantly reduce United States influence. For this reason, the measures taken can't be considered very efficient.

國立政治大學 National Chengchi University

4.5 Rivaling Explanations and conclusions

Scholars may point to other factors at play during the time period of this case study in an effort to explain the actions taken. In the realm of economics and certainly in International relations it is difficult to account for all of the many factors at play in government official's decision making and the fluctuating values of a currency like the renminbi. As part of a well-rounded analysis of the case study these differing explanations need to be accounted for. Mainly these departures center around the Chinese motivations this is because the policy changes that affected the renminbi's evaluation were public made and their effects documented in the currency's worth; however, why Chinese officials felt it necessary to make these changes is up for debate. This analysis of the 2014-2015 policy changes that culminated in the rise of renminbi to special drawing rights status, argues that the primary motivation was stability at home. However, there are other explanations for these changes. In an effort to conciliate the numerous factions that can arise from the many sides of this issue and complete a more holistic view of the real potential of China's monetary power this analysis will focus on three other rivaling explanations. First, that China sought greater autonomy in the renminbi's movements. Second, China's sought even greater yet influence over the United States or in the world. Third, China's revaluation was part of a move to undermine institutions built and led by the United States.

The view that China's actions could have been aimed at greater autonomy of the renminbi and their economy at large is a good place to start because such a view does not necessarily detract from the narrative above that paints China's actions as an effort to maintain market stability. In this instance the two ideas are not mutually exclusive. Greater autonomy is a part of China's goals of more sustainable economic growth and renminbi stability. By the renminbi being included in the reserve currencies that hold special drawing rights they can begin

國立政治大學 National Chengchi University

to enjoy some of the same benefits the dollar enjoys such as greater convertibility and more countries holding renminbi as an asset which helps keep demand high and the renminbi stabile. Autonomy aids Chinese economic stability by relieving uncertainty that comes from having to invest in foreign assets. This is what special drawing rights provides; however, it comes at the cost of currency market liberation as outline above which allows greater financial access to the outside world (Bradsher, 2015). Ascension did come with certain autonomy tradeoffs and China's willingness to compromise on issues of financial market autonomy is an indication that, although autonomy as a vehicle can be useful, stability is the real concern.

Next, the view that China's motivations were born from a thirst for greater world influence, while shouldn't be ruled out entirely, is dangerous because it applies long-term calculations to a short term case. The brokers of this idea are bent toward a fear of China's rise and it can skew the perception of any case study. In the policy actions and the selling off of United States treasuries there are no facts that point to a view that it was in an effort to grab power from the United States; instead, the economic turmoil flamed by the fears of slowing demand for Chinese exports, shows greater concern for stability. Transcendental results of China rising to reserve status, such as greater voting right in the World Trade Organization, are happenstantial in this case. The steps towards that conclusion point more towards attempts to stabilize the economy than to accumulate voting privileges. This is an example of trying to force an argument to fit a theory rather than letting the case speak for itself. Whereas, China's long-term preferences to gain power and influence over the United States and on the world stage cannot be ruled out, they are far from supported by this case study and their actions to prevent a renminbi hard revaluation and to stabilize their economy on a more sustainable growth pater.

國立政治大學 National Chengchi University

Finally, the argument that China's actions were more indicative of an attempt to undermine United States world order falls wide of the mark because by seeking special drawing rights they are committing to a greater stake in the United States world trading system. As noted above, this is a major reason why the United States was willing to endorse China's claim to a spot in the basket of reserve currencies. Furthermore, the fact that China made considerable concessions to financial openness and currency market liberation points shows that China increasingly conforming to the rules of international trade which undermines to preformed assumptions that China sought to undermine existing trade and currency market norms. Instead, China's hope to stabilize the renminbi and achieve more sustainable economic growth by achieving special drawing rights faced no contradictions or concessions and should be regarded as the primary motivation.

The story of China's attempt to utilize its vast foreign currency reserves and their considerable advantage in monetary power to achieve parity with the United States by gaining Special Drawing Rights, sheds light on the true capabilities and nature of monetary power as a form of economic coercion in the Chinese-United States relationship. Therefore, the information should be sufficient to definitively confirm or reject the hypotheses:

Hypothesis One: China can use monetary power in bargaining and to stabilize domestic market, meeting a limited but crucial aim of the Chinese government.

Hypothesis Two: The renminbi's ties with the dollar, and the finite, although vast, foreign reserves make long term currency manipulation difficult, limiting monetary power's utility.

國立政治大學 National Chengchi University 政

Cohen assumed that China's vast currency reserves did provide them a great amount of autonomy in how and when they adjusted their currency to bring more market forces to bare (B. Cohen, 2015). No currency can forever delay the confrontation with the impossible trinity, but China has thus far been able to successfully navigate the financial and currency liberalization in a way that put their near-future economic stability on firm ground. They also secured themselves a high enough bargaining position to ascend to reserve currency status. Their limited goals of uncoupling with the United States dollar securing further autonomy and freedom long-term show that theoretical monetary power can indeed be transformed into real leverage; however, it is hard to imagine that a more ambitious utilization of monetary power for greater gain would have similar success.

These limitations on monetary power are largely put in place by the dollar's own strength in the global economy. The large foreign reserve holdings not only showed limited capacity to quell fears of economic slowdown, but the selling off of U.S. Treasuries had no effect on the United States economic outlook. Therefore, China's ties to the dollar remain a stubborn problem that has limited upside. Perhaps a bigger problem that the original hypothesis didn't account for, but the case study reveals, is the role that the IMF and the world order which still relies on the dollar still works to the United States favor. Short of creating real economic panic, which was outside of Chinese interest and possibly even capacity to do, there was no way to get a good enough bargaining position to gain Special Drawing Rights without making some concessions and currency market reforms. Moreover, even in succeeding, they still had little impact on the United States policy makers who largely supported ascension to reserve status, not because they were afraid of Chinese economic coercive action, but because it was also in their best interests to

see China make necessary reforms and take a greater role and have more stake in the United States led global economic system.

Therefore, China's theoretical leverage in monetary policy largely fell mute in reality. Although China did achieve in long sought after goal of special drawing rights, it came with large concessions in financial liberation and currency reforms. Furthermore, the case study showed the limited ability of United States Treasury sales to influence the United States decision making or even to effectively stabilize their economy. Also, China's motivations for economic coercion haven't reached a place wherein a dumping of United States Treasuries can be considered given the grave consequences that would have for the Chinese domestic economy. Instead, the Chinese policy makers focus remains on domestic political and economic stability.

The next chapter likewise aims to reconcile the United States' theoretical and real economic coercive potential; however, it follows a case study surrounding the passing of Public Law 112-99 specifically as it pertained to United States importation of Chinese steel as well as the subsequent WTO mediation on the resulting trade disputes. Like in this chapter in the case of China's use of monetary power, an irreconcilable gap is revealed between the United States' theoretical advantage and their attempt at capitalizing on that leverage in utilizing trade as a means to influence Chinese policy.

國立政治大學 National Chengchi University

Chapter Five: United States Steel Protectionism after 2010 Case Study in Economic Coercion Potential

5.1 Introduction

Questions still remain in comparing the real possibility of the United States utilizing trade as an effective means of economic coercion as opposed to the theoretical leverage some scholars claim it has. These questions are: when is the United States utilization of sanctions or tariffs likely to succeed; as well as, why aren't there more instances in which the United States tries to make use of their leverage? Answering these questions is the main purpose of deeper analysis into the case study involving United States Steel protectionism since 2010, the time period immediately before the passing of Public Law 122-99 and the resulting World Trade Organization Mediation that followed.

This case study selected contains many elements that policy makers and researchers have claimed to be the source and motivations behind the United States theoretical advantage in trade as a tool of economic coercion. Particularly Spaulding in writing about German trade policy and the preconditions for applying international trade leverage outlines the elements necessary for successful use of trade as a tool for economic coercion (Spaulding, 1991). Following from Spaulding's earlier work and into today's discourse regarding the United States, the three main assumptions that are prevalent in the discourse about United States trade policy as tool for influencing Chinese policy making are: First, that the China's high reliance on the United States for exports; second, that the United States gains an advantage from their many strategic and economic allies both in Asia and elsewhere when assigning tariffs; third, the United States

benefits from their history as the architect of the World Trade Organization and the current economic liberal order (Bradsher, 2016).

In an attempt to address these rivalling assumptions about the United States use of trade sanction and answer the remaining research questions that still remain regarding the United States theoretical versus practical leverage in trade, two hypotheses have been devised:

Hypothesis one: The United States cannot use trade as an effective means to influence economic decisions in China.

Hypothesis two: The United States can use trade barriers to signal displeasure with Chinese policies showing China's policy as contrary to the global norms.

By using the time period surrounding the passing of Public Law 112-99 as a case study, this research aims to verify both hypotheses showing that the theoretical use of trade to influence Chinese policy to be overblown, and confirming that the best the United States can hope to achieve is to signal displeasure to China and cast them as acting as a spoiler of the liberal economic order. This chapter will first justify and show the importance of the time period from 2010 to 2015 and the passing of Public Law 112-99 as an ideal case study. Next an outline of the events and economic specifics will be provided as well as analysis of the intent the actions taken by both China and the United States. From this conclusion can be drawn about the level to which the United States was successful in their attempt to use trade as a tool of economic coercion allowing for rejection or verification of the above hypotheses. Lastly, alternative explanations for the United States actions and/or failure in this case will be explored and rejected.

國立政治大學 National Chengchi University

5.2 An Argument for Public Law 112-99 As A Case Study

A case study following Public Law 112-99 is the most likely case in which it would both meet the United States' interests to utilize economic leverage as well as, according to the assumptions above, the United States should be successful. This is most likely to be a case in which the United States' economic and political interests would be best served by wielding trade leverage because of the nature of Steel producers and their power in United States domestic politics. It is argued that states are overly concerned with their relative economic position not just the maximization of wealth (Grieco, 1990; Waltz, 1979). Furthermore, scholars such as Bayard and Elliot and others have shown that the United States is likely to engage in just such behavior (Bayard & Elliott, 1994; Goldstein, 1994). This is particularly true in a democracy like the United States wherein large industries that make up a greater proportion of the economy have more monetary resources to lobby policy makers such as the case with steel. Also, steel and other such industries employ a disproportional number of workers and have active labor unions that will vote in their interests which will of course lean towards more protectionist policies that do more to guarantee future employment (T. Stewart, Drake, & etc., 2014). Perhaps Roach sums it up best when he states:

> Washington is faced with two basic choices on economic policy that bear critically on its relationship with China – make good on its trade sanctions, or face up to the imperatives of a new domestic agenda that alleviates the pressures of outsize trade deficits (Roach, 2014, p. 195)

Therefore, according to Roach, this isn't just the most likely case for attempted sanctions or tariffs, it is the only option.

立 政 治 大 學 國 立 政 治 大 學 National Chengchi University

Because the United States is at its most likely to succeed this is also a beneficial case to compare theoretical vs. practical applications of trade as an economic coercive tool. Public Law 112-99 was a theoretically ideal opportunity for economic coercive activity because all of the assumed prerequisites for success listed above were present. First, as shown above in chapter three, China was very reliant on the United States as a market for their exports. China's growth

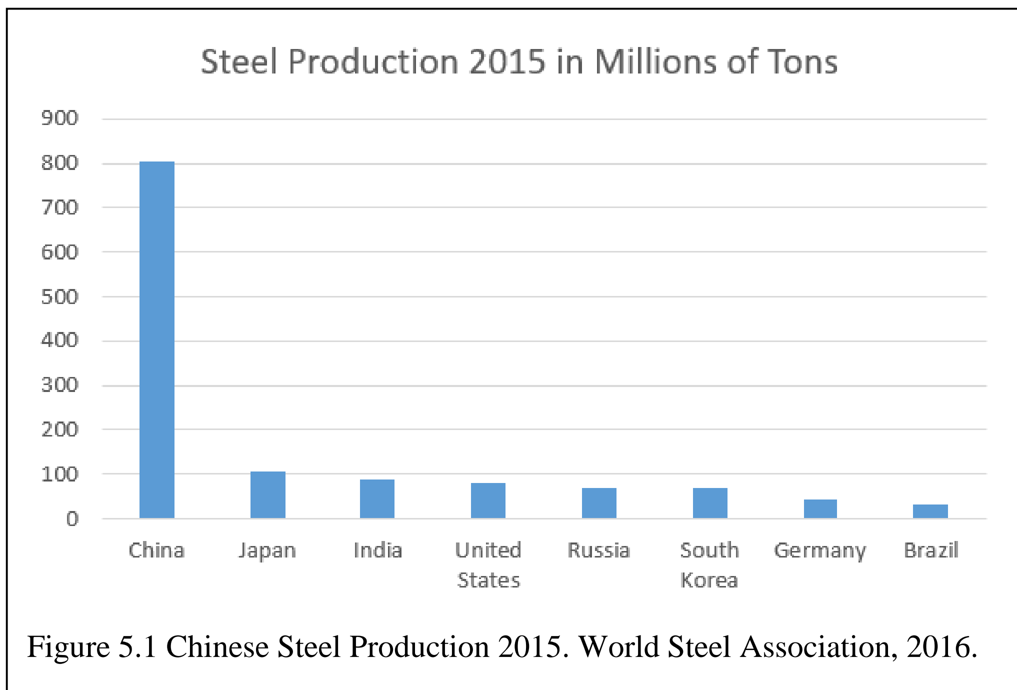


Figure 5.1 Chinese Steel Production 2015. World Steel Association, 2016.

model was reliant on the exportation of steel for two reasons: First, this keeps the steel industry strong allowing for a high number of jobs in China, and secondly it keeps the price of steel low which helps to fuel more infrastructure projects. This is apparent in that China produces around 800 million tons of steel which is eight times higher than the next highest producer and almost higher than the rest of the world combined, and also in that China accounts for fifty percent of the world's consumption. This is a huge reliance on the production of steel for economic growth and stability, and shows why China is willing to do whatever is necessary to keep prices stable.

Subsidies and government control in the steel industry kept steel artificially cheap, creating an abundance of cheap building materials to aid China's rapid infrastructure

development; however, cheap steel was also dumped on foreign markets (Price, Brightbill, Weld, & Capeloto, 2010). China's subsidies topped 1 billion RMB and this only calculated direct

Figure 5.1 ITA Steel Exports Report: China, 2016

subsidies excluding those from environmental or land tax breaks, as well as indirect subsidies to equipment or supplies (Steel Industry Coalition, 2016). Proof of this reliance can be seen in China's steel production growth from 2000-2009 before the financial crises and then the return to even higher levels thereafter. According to the OECD, while other countries production remained largely flat, China's production grew to be "10 times the U.S. production" (R. Tang, 2010). Figure 5.1 shows the growth in China's Trade in Steel Mill Products by quarter after 2005 and through the 2009 financial crisis (ITA, 2016a). China's over reliance on steel exports to keep domestic prices low and stable fits both their aims for development and economic stability; however, it also makes them a theoretical target for economic coercion.

The result of this rapid growth in steel production has been "significant levels of steel imports entering into the United States market, capturing a historically-high percentage of U.S. market share and resulting in thousands of U.S. job losses and numerous plant closures

National Chengchi University

throughout the steelmaking supply chain" (AISI, 2017). Therefore, this is also a strong case because the United States has much from gain from utilizing their potential leverage in trade. Failure to protect the steel industry threats United States jobs as well as puts infrastructure building projects in jeopardy as they become reliant on China's steel production policies. It is estimated that half a million jobs will be lost if current practices continue (Stewart & Drake 2014).

Furthermore, China's propensity for over production, flooding the global steel market, has also frustrated policy makers in Europe and elsewhere around the world. This fulfill the second prerequisite for successful use of economic coercion in which the United States can mobilize a coalition of countries and economies to put added pressure on China. According to Scott and Jiang, the European Union stands to lose 350,000 jobs in steel production if China were accepted formally as a market economy and "due to excess capacity and production in China" not to mention job losses in industries up and down the supply and manufacturing chain (Scott & Jiang, 2015). Indeed, China's inability to compromise on the issue of steel overproduction and dumping has set itself apart from the world economy in which every country has their own steel industry and "make it a point of national pride to support a domestic steel industry" (Miller & Yap, 2015).

Lastly, this is an ideal case study because it takes place after China's well after China became a full member of the WTO and their position was normalized. Therefore, both China's practice of dumping steel on the world market and the resulting United States countervailing duties went under WTO dispute mediation procedures. This provides the opportunity to explore the theoretical advantage some scholars perceive in the United States position within the WTO. Furthermore, the United States had significant grounds for challenging Chinese steel production

國立政治大學 National Chengchi University

policies given the current structure of the WTO. Claims of "dumping" mediated within the WTO require a calculation of "normal value" of the good and whether or not that value is being meet or undercut. Furthermore, it is necessary to determine whether sales in the exporting country are made in the "ordinary course of trade" or whether other externalities are influence price and market behavior both domestically and in the global market (WTO, 2016a). At first glance the United States counter-vailing duties meet both requirements, as the subsidies provided by the government both in infrastructure projects and in steel production affect steel pricing at both supply and demand side of "normal" evaluations (Daniel, 2014); also, because close ties between steel mills and state-owned enterprises the "ordinary course of trade" had been drastically undermined. In 2011 three of the world's top steel producers were Chinese state owned enterprises, furthermore, federal and provincial government own large stakes in a number of steel mills that encroach on the normal market forces that determine trade (Szamosszegi & Kyle, 2011).

Therefore, theoretically, the United States, in their trade war over steel production, should have a significant advantage since all three of the prerequisites for successful utilization of economic coercion are present. This case is also detrimental for the United States both in its position as upholding fair trading practices in the liberal trade order it has willed into existence, and from the perspective of its domestic economic needs. The combination of these factors make the steel trade disputes after 2010 the most-likely case for the United States' use of trade as a tool of economic coercion to influence China's policies. However, the United States falls short in its ability to capitalize in reality on the theoretical advantage many scholars and policy makers perceive.

5.3 United States vs. China Steel Trade Dispute and the Resulting WTO Proceedings

After the global financial crisis in 2008 and 2009 the United States perceived Chinese cheap steel as flooding the global market, hurting the opportunity for better, more sustainable economic recovery. Cheap development projects led to housing bubbles, while also undercutting manufacturing, a rotting core of an older United States economic system. In an effort to combat these economic forces the United States began to took the fight to its perceived source – cheap steel exports from China. Starting in 2010 the United States took the following actions as their first steps in a building a trade war:

- December 2009 – U.S. producers of steel pipe seek countervailing duties on China from U.S. Department of Commerce (Blue, 2010)
- January 4 2010 – Department of Commerce announces finding over production and subsidies consistent with dumping practices and initiate the collection of antidumping duties and countervailing duties to subsidized products (ITA, 2010)
- April 10, 2010 – China imposed antidumping and countervailing duties on U.S. steel exports
- September 15, 2010 – the United States initiated dispute settlement proceedings challenging China's imposition of duties. Dispute number DS414 (USTR, 2015)
- March 13, 2012 – Public Law 112-99 is signed to apply the countervailing duty provision of the Tariff Act of 1930 to nonmarket economy countries (Congress, 2012)
- June 15, 2012 – WTO upholds U.S. claims of unfair countervailing duties from on Steel exports to China (WTO, 2015)

立 政 治 大 學 國 National Chengchi University

- May 25, 2012 – China requests WTO consultations with United States regarding on countervailing duties. Dispute number DS437 (WTO, 2016b)
- September 17, 2012 – China requests WTO consultations with United Sates regarding PL 112-99. Dispute number DS449 (Corr, Ma, & Scoles, 2012)
- March 27, 2014 – WTO upholds China's claims relating to "double remedies" but disagrees with claims against application of countervailing duty provisions to nonmarket economy countries (WTO, 2014)

These events, along the timeline of the trade dispute starting around 2010 and through the signing of Public Law 112-99, show the key points during the trade war between Chinese and United States steel manufactures. At the most superficial level it is already clear to see that the events follow a traditional plot of trade dispute escalation and tit-for-tat tariff negotiation.

It is not difficult to understand the motivations of the United States policy makers who were feeling the economic pressures of recession were looking for scapegoats and projected their problems onto the Chinese. Falling into an old chorus, policy makers and labor groups called China currency manipulator and a trade enemy stealing United States manufactory jobs, and pressured Obama to fulfill a campaign promise to take action (Palmer, 2009). In December of 2009 they succeed and an investigation was launched, and in January 2010, the findings were made public and the latest trade dispute began. Roach sees this as the defining feature of United States fiscal policy: a reluctance in crafting "forward-looking solutions" and a propensity towards "false prosperity" (Roach, 2014, p. 185). The Obama administration in their attempt to pacify the electorate did the economic expedient, but were unprepared for what followed.

國立政治大學 National Chengchi University

In April, China retaliated with their own countervailing duties on another steel product that the United States exported to China. The move was toward Grain-oriented flat-rolled electrical steel, a high-technology steel that the United States specializes in. Two things are of note, first, that the retaliatory action remained specific to steel and also that "the two largest U.S. manufacturers of GOES (grain-oriented flat-rolled electrical steel) are AK Steel Corporation, based in Ohio, and Allegheny Ludlum, based in Pennsylvania, large employers in politically important states (USTR, 2010). China's careful retributive action is fairly commonplace in trade disputes, as Krustev tells us, sanctions or tariffs are as much about signaling and negotiation as they are about economic forces (Krustev, 2010). In this case, the United States, under strong pressure from an electorate subject to a harsh economic climate, signaled to China that their oversupply of cheap steel should no longer be dumped into the United States market; however, China found leverage in the trade negotiations by finding a corresponding duty and applying even greater political pressure by targeting key areas within the United States.

This breakdown in trade negotiations leading to increasing tariffs and barriers to trade are what Kirshner describes in his layout for the limitations of utilizing trade as a means of economic coercion; because tariffs or trade restrictions are highly publicized and by nature easily felt by both private industry and government alike, there is almost always retaliatory action. This creates an environment highly conducive to escalation, and mistrust that hurts both sides of the trade equation. Roach sees this as a classic prisoner's dilemma, describing an event in game theory wherein two rational actors don't cooperate even when failure to cooperate results in a worse outcome for both of them. According to Roach, "The only possible escape from the dilemma – and it is a temporary one, at best – is for one prisoner to learn from the actions and behavior of the other prisoner and tailor his or her moves to fit the history of counterparty response to the

common dilemma" (Roach, 2014, p. 207). Roach's view that one party must break the cycle of mistrust in trade that hurts both sides is probably accurate, but almost impossible. As Drezner's sanctions paradox shows, competing parties are unlikely to cede ground in the face of trade pressures (D. Drezner, 1999). Of course, the Chinese-United States bilateral trade relationship hasn't gotten so bad as to have sanctions appear, but the principle features of an adversarial relationship, meaning that there is an unwillingness to cooperate or yield to trade pressures because there is an expectation of future conflicts. Chinese policy makers cannot simply change their subsidies to steel or the economic centrality of state owned enterprises in the steel manufacturing sector, or it would reduce the perceived cost in further uses of tariffs or trade restrictions from the United States as a way to influence Chinese behavior. Instead, China hopes to disincentive such action by raising the cost of applying tariffs. Therefore, the Chinese actions to find a corresponding product in which to apply duties and to make it as economically and politically costly as possible for the United States, follows an old narrative in which one country's attempt to utilize sanctions or trade restrictions as a means to influence another country. Ironically, one of the largest barriers to the United States' successful utilization of their theoretical trade advantage is that one such success would signal weakness on China's part, and as such no such success can be granted.

In the WTO, the international trading community has measures to prevent these very same trade disputes from escalating, providing an outlet for countries to step out of the prisoner's dilemma and break the cyclical nature of sender/receiver tariffs and retaliation. It was these very same mediation panels that the United States turned to in September of 2010 to challenge China's imposition of duties. It is telling that the United States turned to mediation instead of pushing further with their perceived leverage in trade dealings with China. Perhaps China's

國立政治大學 National Chengchi University

retaliation successfully conveyed their unwillingness to yield and to make further tariffs as costly as possible. However, it is also possible that the United States thought they had a strong case to bring against the Chinese duties, and also that they're leverage in trade also extended to their ability to sway the WTO mediation procedures in their favor as some scholars have suggested. Indeed, the United States under the Obama administration – and throughout the length of this case study – "brought 16 complaints against China at the World Trade Organization (WTO), and did not lose a case" (Economist, 2017). One of the criticisms of the WTO mediation process is that decisions overwhelming fall on the side of the complainant. This doesn't so much show a bias or advantage the United States holds in its position at the WTO, but rather reveals the nature of a system in which countries bring cases in which they believe they can win and the WTO has an inherent "institutional bias" wherein cases are found favorable most often, showing the institution is effective and creating a justification for the systems existence. This is certainly to the benefit of the United States who uses the system more and the detriment of developing countries including China, but it isn't a bias born from or in support of United States supremacy or centrality in the world economic system (Bown, 2004).

Nonetheless, the United States brought the fight to the WTO to settle their dispute. In the United States view this is a low risk high reward scenario; if the United States loses they are in the same position and can take other measures to retaliate against China, or if the United States wins then their original trade restrictions remain in place and the negative defensive measures that China placed on the United States are circumvented. The United States approach also reveals the changing goals and motivations for the United States' use of economic coercion. The United States sought retribution in two areas outside the consideration of countervailing duties: First, the United States claimed that China's Ministry of Commerce (MOFCOM) – the ministry

國立政治大學 National Chengchi University

in charge of assessing foreign trading practices and apply tariffs – operated without disclosing data and calculations necessary to justify application of tariffs (WTO, 2015); Secondly, in addition to the dispute regarding steel products, the United States also attacked Chinese financial service market claiming "China is breaking its trade commitments to the United States and other WTO partners, both by favoring its one state-owned financial services firm" (USTR, 2010). These moves were calculated and adhere to the United States larger strategy in utilizing economic coercion. The United States not only disputed the countervailing duties which were aimed at hurting one of the most important economic areas to post recession recovery, but they also hope to create international and institutional pressure to influence China's governmental transparency. This is also clear in their extension into the financial service sector. Financial services is an area of the global economy in which the United States dominates, but China's state-owned monopoly in the area runs counter to both the United States economic interests but also to their ideology of market openness. In filing these cases to the WTO for mediation, the United States hoped to achieve economic goals and further their economic coercive goals by creating international pressure for change to fundamental Chinese practices and policies.

Again, the United States' ability to rally the international community to their cause of economic openness is one of the assumptions scholars use as a defense for the perceived leverage the United States has in using trade as a tool of economic coercion. The United States actions outlined above are a clear attempt at that, and although they were successful in proving their claims in the dispute (DS414) and having the countervailing measurements dropped, they were unable to create any real pressure for China to change its policies. The international community typically, and particularly after the 2008-09 international financial crisis, is unwilling to engage in questions of transparency or market fairness unless it is in their own economic

interest and especially if it has the potential to upset their important economic relationship to China. The European Union is the area the United States looks most to help support their causes; however, Geeraerts tells us that the EU sees the world as much more fragmented and multipolar than it did before the economic crisis and has trended toward "conditional cooperation" with the United States and China. According to Geertaerts:

> Understandably, the US and the EU would prefer to integrate China in the global governance structures they established and safeguarded in the past few decades and hope for a reproduction of the existing system. Yet it is far from clear how Beijing will seek to manage its position in the evolving international system and how it will strike the balance between power politics and multilateralism. Some point out that precisely during critical power transitions many emerging powers in the past have relinquished their resistance against imperialist policies by gradually starting to apply the very strategies themselves: the use of coercion to chase unequal economic gains, the creation of spheres of influence and the formation of alliances to prevent hostile powers from obstructing these ventures. (Geeraerts, 2013, p. 56-57)

Clearly given China's rise and growing importance economically and the relative decline of the West after the financial and debt crises, Europe is growing more concerned about the consequences that come with projecting or proselytizing values onto China. For this reason, the United States has largely been unable to get Europe or others to join in their economic coercive efforts.

The WTO arbitration process takes a long time to complete, and DS414 arbitration wasn't complete until October 2012. Even further, China wasn't brought into compliance until

July of 2015. This shows another challenge the United States faces; even when the United States receives everything they sought in the mediation process it still took five years for the process to complete. This can also work in the United States favor when they are applying sender rather than the target of tariffs; however, this denotes another wrinkle in the feedback cycle between the two-sides. Although, the tariffs were eventually lifted, China's original goal was ultimately met. They exacted high costs to the United States for their actions, and signaled their willingness to combat any attempt by the United States to coerce China or influence the way that they do business.

Up until 2012 the United States' attempts at prompting change in China's economic policies and domestic institution's governance were unsuccessful, and the economic recovery was slow at best and threating return to recession at worst. Therefore, the United States took further action towards achieving both high economic activity and increase pressure on China to reform by making an amendment to the longstanding, so-called Smoot-Hawley act of 1930. The Smoot-Hawley act has not been regarded as the best of US policy, to many scholars and economists it is the worst piece of trade protection legislation in United States history and others link it to the deep economic troubles of the Great Depression. Roach offers his analysis of both the Smoot-Hawley act as well as a grim prediction of where trade war escalations can lead:

> The Smoot-Hawley Tariff of 1930 provides a vivid worst-case scenario of what happens when trade skirmishes turn into open war. This one piece of legislation raised average tariffs by close to twenty percent on almost nine hundred items imported in the United States. . . Unlike the broad shot-gun approach of Smoot-Hawley, an anti-China currency or trade bill would be targeted at just one purported adversary. But codependency makes that one target vital to American interests. (Roach, 2014, p. 190)

立 政 治 大 學 國 National Chengchi University 政

At the time Roach and many others were concerned with legislation initiatives to mark China a currency manipulator such as those by Senator Schumer (now Senate minority leader) and Lindsey Graham that would apply tariffs to equalize and counter act Chinese currency artificial depreciation (Schumer, 2005). The reality manifested quite a bit differently however, where proof of currency manipulation can be difficult – for reasons outline above – and therefore difficult to both counteract efficiently using tariffs or trade restrictions as well as difficult to justify to the international community, Public Law 112-99 amended the Smoot-Hawley tariff act of 1930 to be applicable to "non-market economies". In doing so, the United States could apply countervailing duties to products that benefited from economic practices, policies, or actions they deemed contrary to normal capitalistic or market oriented trade system. This legislation got to the heart of the United States attempts to both rewrite the trade imbalance and force China to move towards a more open and market oriented economy (Congress, 2012). The main practice that this applied to was China's system of state owned enterprises, primarily their involvement in the steel manufacturing among other industries (Treasury, U.S. 2014).

In response, China issued not one, but two requests for WTO consultation and arbitration with claims that relate to Public Law 112-99. The first of the two requests was filed in May of 2012 only two months after the amendment was signed. This first case, coded DS437, was an effort to have the countervailing duties that corresponded to the law removed. The second case, coded DS449, submitted in September of the same year, names Public Law 112-99 directly as in violation of the United States commitments to the WTO in their stipulations about how to measure "normal" market prices and the application of antidumping and countervailing duties. Indeed, the burden was on China to prove that their practices were in adherence with market-oriented practices commonplace in the West, something that is hard to do given China's

commitment to state intervention and Socialism with Chinese characteristics. Hu Jintao who was General Secretary and President during much of this time period upheld the necessity of government control and intervention to aid growth. In a report to the Seventeenth National Congress of the Communist Party he recommitted to this economic model, and said that “reform and opening up represent a great new revolution carried on by the people under the Party’s leadership” (Jintao, 2007). This clearly shows that greater market openness and capitalist reforms will not totally out of question would only be undertaken only as China saw fit and when it would be to their benefit.

The first case China brought claimed that the United States was applying countervailing and dumping duties twice: once for the dumping of goods on the United States market, and again for the involvement of the government in state owned enterprises and subsidies the government provided the steel industry. In effect the United States was applying twice the value of duties allowed under WTO rules to compensate for products that are being sold under their “adequate remuneration” (WTO, 2016b). In the second case, China calls into question Public Law 112-99 itself saying that terms for determining “non-market” economies are arbitrary and can be used to circumvent the United States trade obligations as a WTO member.

The results of the cases were mixed. In the first case, although they weren’t successful in all their claims, China was able to prove that Public Law 112-99 did result in “double remedies” in the case of steel products and the United States was required to investigate instances of double remedies and make corrections. However, the United States was able to maintain the countervailing duties as long as they weren’t being applied twice. Furthermore, in the second case China failed in their argument that the Public Law 112-99 was a measure taken by the United States to escape their free trade obligations. The requirement for the United States to

立 政 治 大 學 國 National Chengchi University

investigate whether "double remedies" remained; however, as long as the United States fulfilled its due diligence in assuring that duties were not egregiously added, they could issue new countervailing duties to counteract subsidies that resulted from governments involvement with state owned enterprises (WTO, 2014, 2016b).

As noted earlier, WTO mediation takes a long time. In this instance the United States is the benefactor. Although the deliberations resulted in upholding the Chinese claims that the law allowed for "double remedies" the tariffs twice applied were allowed to stay on for two years and then another year as the United States brought itself into compliance. Furthermore, China's failure to show Public Law 112-99 as arbitrary provides justification for the United States actions. While the ruling doesn't necessarily single China out for the actions of state owned enterprises in the steel industry and elsewhere making them look like they are engaging in unfair trade practices, Public Law 112-99 is claiming exactly that, and a failure to show the law as baseless does little to help China's case that it is a market driven economy engaged in fair trade with the world.

國立政治大學 National Chengchi University

From these two cases it is easy to say that the United States came out ahead in the WTO's trade dispute mediation process; however, was the United States really able to leverage its position to coerce or influence China's policy makers to reform its economies away from state owned enterprises or to end the subsidies that hurt United States steel manufactures? The answer is: No. As figure 5.2 above shows China's growth in exports didn't slowdown as a result of the United States countervailing duties. Actually, importation of steel in the United States continued to grow from all countries not just China. According the American Iron and Steel Institute "US finished steel imports from all countries increased 36 percent in 2014 and captured 28 percent of the US market last year the highest import market share in history compared to only 23 percent in 2013" (ITA, 2016b; Welitzkin, 2015). Figure 5.3 shows the continued growth in the United

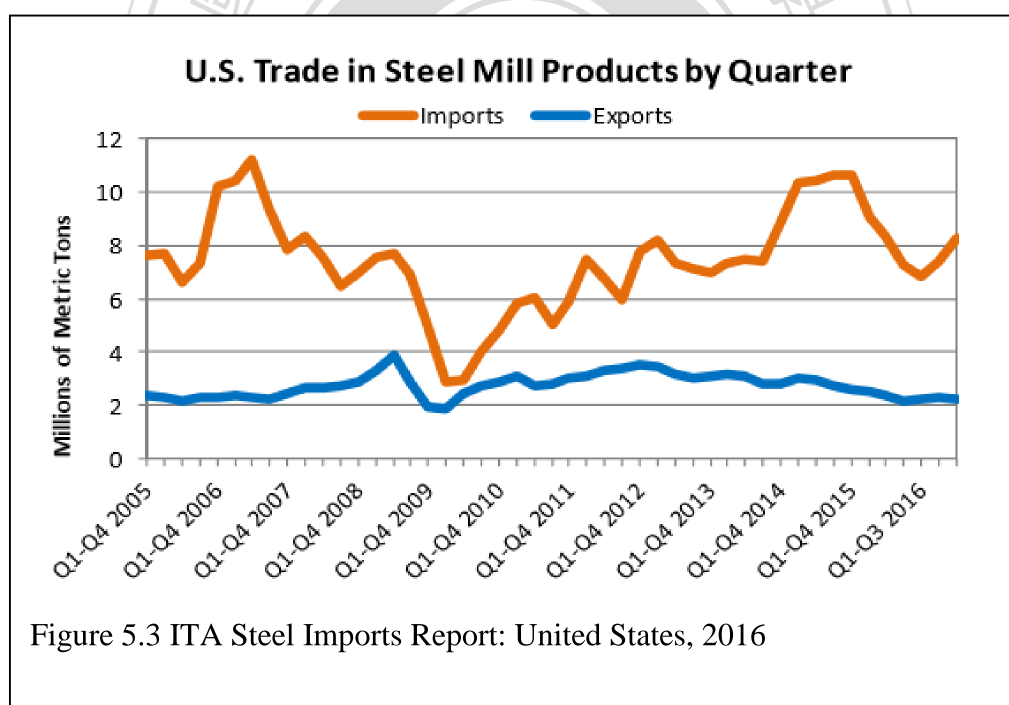


Figure 5.3 ITA Steel Imports Report: United States, 2016

States importation of steel. Among other factors this is because the United States was unable to affect the root of the problem with low global steel prices and affect Chinese overproduction. Instead, China successfully circumvented the countervailing duties finding export markets elsewhere, driving the price down further and, in effect, the United States consumed steel from

other countries at even higher rates taking advantage of lower prices (Carvalho, 2015). In so doing, the United States duties on Chinese steel could be considered self-destructive to the domestic steel market.

The United States was able to signal to the rest of the world, to a certain degree, that China was not adhering to strict market-oriented and free trade practices; however, nothing came from these gestures. The European Union along with the rest of the world remained unwilling to join the United States in meaningful action, and change in China from high government intervention and state owned enterprises have not come to fruition. As sanctions theorists posit signaling can be a reasonable motivation for applying trade barriers; however, the United States was unsuccessful in achieving their loftier goals of reform and/or a trade rebalance in steel with China.

The years from 2010 to 2015 shed light on the disparity that exists between the United States perceived advantage in trade as a tool of economic coercion and the reality. The case study contains elements that the champions of the United States claim give the United States leverage when apply trade as a tool of economic coercion. The United States had high importation of steel from China as well as China's reliance on the foreign market for their excess production provided an ideal case situation, as well as the numerous rounds of WTO mediation are both present. Therefore, the information should be sufficient to definitely confirm or reject the hypotheses:

Hypothesis one: The United States cannot use trade as an effective means to influence economic decisions in China.

國立政治大學 National Chengchi University

Hypothesis two: The United States can use trade barriers to signal displeasure with Chinese policies showing China's policy as contrary to the global norms.

The first hypothesis can be confirmed. The United States, despite all of the elements that proponents of US trade leverage being present, fell short in its ability to influence Chinese policy maker's economic decisions. China did not lose any market share of the global steel market, instead throughout the years of the study, their exports continued to grow; furthermore, the China enacted no reforms as a response to the United States passing of Public Law 112-99. The United States impotent attempts to capitalize on theoretical economic coercive leverage did little to persuade allies around the world to call for more economic freedom, instead, their own reputation was put at risk when China disputed the law, albeit unsuccessfully.

The second hypothesis can also be confirmed, as the United States tactfully tied their economic interests with larger ideological goals of free trade. Public Law 112-99 doesn't name China specifically, but instead applies to any "non-market" economy. This is not to say that the legislation wasn't written with China in mind, but it is aligned with higher free market and capitalistic principles, although self-serving. These efforts gained validation in the WTO's rulings, but even then, the United States grandstanding on free market ideologies, it is unlikely to compel real change in China's policies or economic practices.

國立政治大學 National Chengchi University 政

5.4 Rivaling explanations and conclusions

In the complexity of the United States political and economic climate it isn't surprising that numerous interpretations of these actions arise. To complete the case study these differing explanations need to be accounted for and either accommodated or rejected. The three main counter-narratives are: First, failure of the United States was less a result of the economic

realities outlined in the previous section of the case study and more a function of insignificant political will; secondly, that the United States actions were not an effort at economic coercion, but arose out of domestic political and economic concerns; third, and perhaps most troubling, that this is an incomplete picture of economic coercion because the steps taken by the United States weren't drastic enough.

Much like in the case of Chinese monetary power, the first varying explanation need not be contradictory to the argument made above; instead, the inability of the United States to harness significant political and public outcry to create greater change of the Chinese policy is an additional hurdle the United States faces in the successful utilization of trade as a means of economic coercion. This is true for two reasons, first, generally the two parties support – or opposition – to free trade stem from different places, and second, there is little continuity in trade policy. Both of these complicate the bargaining feedback loop that Krustev outlines and is largely apparent in the case study above wherein one state demands concessions in one area and the other relents to the demands or both sides sustain the loss of noncompliance (Krustev, 2010). In this case, the United States can send mixed signals based on the differing objectives between Republicans and Democrats and different administrations or congressional sessions. Roach also saw this as an inherent difficulty in the United States political regime because there was no long-term central bargaining or planning measure (Roach, 2014). In cases, such as in Public Law 112-99 if China can sustain trade losses in the short-term they may be paid off in the long-term as consensus breaks down or the make-up of Washington changes. This is an additional factor particular to the United States and other democracies in utilizing trade as a means of economic coercion, but it doesn't undermine the underlying argument.

國立政治大學 National Chengchi University

Additionally, some might argue that the United States motivations don't fit with a case of economic coercion because motivations were primarily domestic. While it is certainly true that Obama yielded to domestic labor pressures and was making an effort to keep campaign promises, the argument cannot ignore the international climate in which these took place. The labor pressures, the campaign promises, and the public outcry that resulted in Public Law 112-99 were reactions to cheap Chinese steel that were being dumped on the market. Although, campaign promises are frequently made and frequently broken, and labor unions often call for higher tariffs and trade barriers, in this case real actions were taken. The domestic factors weren't minimal; however, they cannot account for all of the facts of this particular case study that takes into consideration the international steel prices and Chinese overproduction.

Finally, the third explanation is a serious one especially today after Trump was elected by calling President Obama weak on China (Donnan & Hornby, 2016). Politicians especially may argue that the United States failed to significantly sway Chinese policy makers to curb steel subsides because tariffs and trade barriers were insignificantly high. Indeed, this case study doesn't deal with sanctions which would eliminate the importation of Chinese steel while maximizing United States leverage, but instead only with counter-vailing duties. That is because there are no instances of the United States resorting to such extreme tactics. The argument that the United States fails to influence China, not because they have insufficient leverage, but because they have not resorted to extreme enough measures is gathering steam (Z. Cooper & Lorber, 2016). This is faulty logic that can lead to trade war. Although this case study does not make use of sanctions because no such sanctions exist, as shown above, the case does exhibit all of the prerequisites for successful use of economic coercion. The measures undertaken in the Public Law 112-99 were sufficient and match the intentions of the United States interests and

國立政治大學 National Chengchi University

therefore the lackluster performance of the United States attempt at economic coercion is not a factor of the actions taken but on the inherent difficulties in utilizing theoretic potential for economic coercion.

Because of steels centrality in modern infrastructure and security projects, as well as its core role in both Chinese and the United States economies both in providing jobs and wages as well as materials for further economic activity, it isn't surprising that China and the United States have clashed many times on issues relating to the steel trade. Steel production was, of course, one of the ways in which Mao proposed China could complete its great leap forward, becoming a modern economy and a global power. After decades, China has indeed catapulted into economic success, and has found itself more capable to challenge the United States on all issues including trade. The United States policy makers still like to consider themselves the center of the world's liberal trading system; however, the size of China's economy will not be ignored and economic coercive action for lofty goals, as this case study shows, are difficult to obtain.

國立政治大學 National Chengchi University

Conclusion

Although, newspaper writers, politicians and even some scholars, like to theorize about the economic coercive potential between the United States and China this research shows that such speculation falls into the realm of fiction on par with Tom Clancy's novel that depicts an economic conflict between the United States and China that escalates to war. The co-dependency that exists between the United States and China is clearly troubling to both powers as they come to terms with their own economic realities in the context of what can be a politically trying relationship. China seeks greater economic stability and pursues greater autonomy in economic decision making to that end; the United States, on the other hand is coming to terms with new challenges to the economic centrality that they have enjoyed since the second world war. These observations led to several questions being raised, namely: Who has economic coercive leverage and in what areas; when is economic coercive action in the Chinese-United States relationship likely to succeed; as well as, why aren't there more instances in which economic coercive activity takes place.

In an effort to answer these questions several hypotheses were proposed for testing:

Hypothesis one: China can use monetary power to stabilize domestic market, meeting a limited but crucial aim of the Chinese government.

Hypothesis two: The renminbi's ties with the dollar make long term currency manipulation difficult, limiting monetary power's utility.

Hypothesis three: The United States cannot use trade as an effective means to influence economic decisions in China.

國立政治大學 National Chengchi University 政

Hypothesis four: The United States can use trade barriers to signal displeasure with Chinese policies showing China's policy as contrary to the global norms.

Chapter two set up the theoretical framework for testing these hypotheses based on Kirshner's tools of economic coercion and their terms of use and efficiency as well as provided the necessary theoretical background for understanding the relationship between China and the United States by using Keohane and Nye's interpretation of complex interdepended and Roach's analysis of the United States-Chinese co-dependent relationship. Chapter three confirmed the first two hypotheses by looking into the many facets of the economic relationship between the two countries. In so doing, it laid bare where the conventional thinking on the economic leverage came from as well as the holes that aren't adequately accounted for and sets up two case studies that can further reveal the true economic coercive potential between the two countries and test the remaining group of mirrored hypotheses.

Chapter four and five give the facts and analyses of the most-likely cases in which the respective countries could hope to be successful in their attempts at economic coercion. The Chinese case study depicting China's real use of monetary power followed the 2014-2015 time period wherein China made policy changes to achieve special drawing rights. From this case study hypotheses three and four could both be confirmed because China's aims were limited, but even within those limited goals their ability to sell U.S. Treasury bonds to ward off economic calamity was narrow. The United States case of real trade leverage followed Public Law 112-99 and the steel trade disputes that took place before and after in the years 2010-2014. From this case study the hypotheses could both be confirmed because the United States failed to change China behavior of providing subsidies to the steel industry or running steel mills through state

owned enterprises. However, the United States did succeed a more limited objective of wielding the WTO mediation process to highlight Chinese transgressions in the world steel market.

Now at completion, it is important to look at the implications of this research that goes beyond the hypothetical and theoretical use of economic coercion between the United States and China by making use of a more complete version of the economic realities between the two countries as well as following two case studies. The reality shows that both sides gain a lot from cooperation, as is shown in the foreign direct investment flows both countries enjoy, as well as the many benefits that trade brings. However, it is become increasingly clear that tensions are rising despite the numerous benefits. This research does not go so far as to suggest that there will be no cases of economic coercive activity in the future. To the contrary, after studying the two cases studies it can be said that economic coercion does take place between the two countries, but the impact of those actions and the difficulties in raising economic pressure without damage to the home economy makes economic coercion an ineffective and even dangerous way to settle disputes.

As the United States and China choose to confront each other on one of the many issues facing the two important world players the question of whether or not they will turn to economic means in an effort to coerce the other. However, this research makes clear that any effort to do so is fraught with both difficulty and risk. Indeed, the future is tough to predict, and while the conditions outlined in chapter three remain true this research suggests that neither China nor the United States will be able to effectively influence the others preferences using economic coercion; however, as economic conditions shift that could change. This is part of the unequal co-dependence Roach feared from the Chinese-United States relationship (Roach, 2014). In fact, this is particularly true for China as they begin to make moves both to liberate themselves from

國立政治大學 National Chengchi University

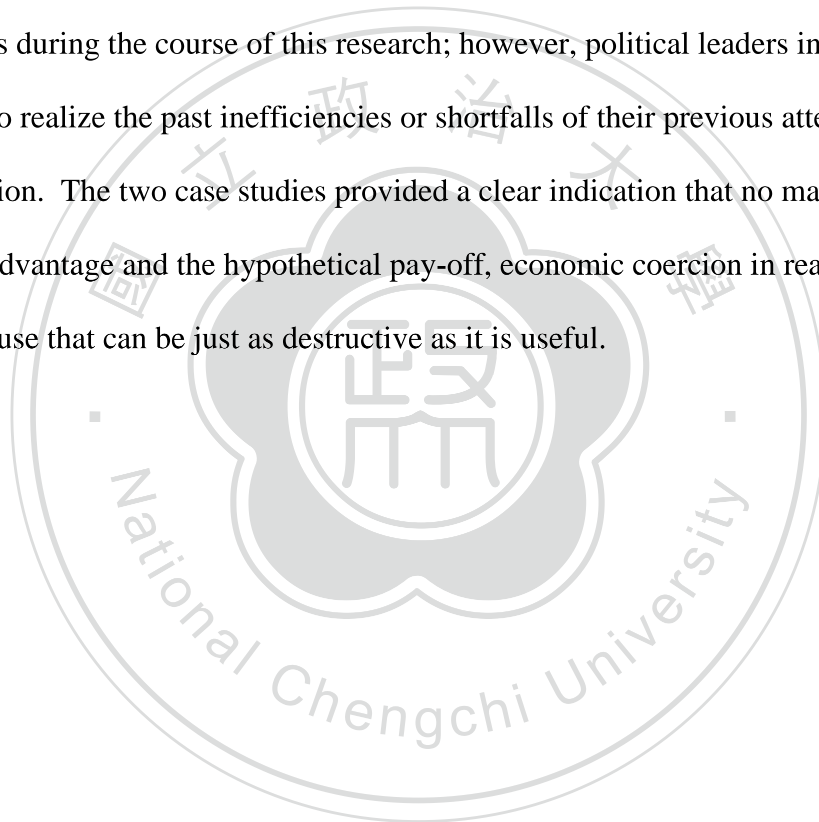
their dependence on the dollar as their foreign reserve currency and to internationalize the renminbi perpetuating their already sizable leverage in monetary power.

Indeed, this has already begun to come into fruition. McDowell and Liao show that the renminbi has become more internationalized due to higher demand and the strength and stability of the Chinese economy and in another paper they show how political factors also play a role in who signs preferential trade agreements with China as well as how this leads to interest convergence. McDowell and Liao make a compelling case as they provide 25 countries that have established bilateral currency swap agreements and 37 countries that have central banks that added the renminbi to their reserve portfolio (McDowell & Liao, 2016; McDowell & Liao, 2015). These developments have implications for this research on two levels: first, while China's newfound economic leverage in monetary policy cannot be used against the United States directly, it does have implications for other, economically smaller countries, that are also highly dependent on China; second, it shows how the economic and even political spheres of influence can begin to form. Indeed, particularly after the 2008 financial crisis many countries are become more skeptical of United States hegemonic power and the benevolence of the liberal capitalistic international economy that they championed. Instead, many scholars perceive a growing preference among states to have a Chinese led alternative parallel to the United States and the McDowell and Liao research seems to confirm such sentiments (Barma, Ratner, and Weber 2007; Rachman 2011).

Such spheres of influence and growing international tensions are reminiscent of the Cold War, and in light of this, the two countries should work to identify the trappings of economic coercion as a tool to influence the other, and recognize the harm that such actions would have on both of their economies as well as the world. Learning from the past and the failings of their

previous attempts at using theoretical economic coercive potential China and the United States should seek to bolster and improve cooperation both economically and strategically instead of threatening the very system both countries interdependently rely upon.

Likewise, journalists would be wise to realize the greater complexity of the economic relationship as it is shown here, and take that into account when crying for greater economic reaction or retaliation on either side. Little mention was made about specific policy makers or political regimes during the course of this research; however, political leaders in both countries would be wise to realize the past inefficiencies or shortfalls of their previous attempts at economic coercion. The two case studies provided a clear indication that no matter how great the theoretical advantage and the hypothetical pay-off, economic coercion in reality is a very difficult tool to use that can be just as destructive as it is useful.


國立政治大學
National Chengchi University

References

AISI. (2017). *Public Policy Agenda*. Retrieved from Washington, D.C.: http://www.steel.org/~/media/Files/AISI/Reports/AISI-2017-Public-Policy-Agenda.pdf?la=en

Asian Infrastructure Investment Bank (2015). Introduction of the AIIB.

Asian Development Bank. (2007). Uncoupling Asia: Myth and Reality. *Asian Development Outlook 2007: Growth Amid Change* (pp. 66-80). Hong Kong, China: Asian Development Bank.

Baldwin, D. (1985). *Economic Statecraft*. Princeton, New Jersey: Princeton University Press.

Barber, J. (1979). Economic Sanctions as a policy instrument. *International Affairs* (55), 367-384.

Barma, N., Ratner, E., Weber, S. (2007). A World Without the West. *National Interest*.

Bayard, T., & Elliott, K. (1994). *Reciprocity and Retaliation in U.S. Trade Policy*. Washington, D.C.: Institute for International Economics.

Besson, F., & Mehdi, R. (2004). *Is WTO Dispute Settlement System Biased Against Developing Countries? An Empirical Analysis*. Paper presented at the Ecomod, Paris.

Bloomberg Markets. (2016). China Monthly foreign Exchange Reserves. Bloomberg. Retrieved From: https://www.bloomberg.com/quote/CNGFOREX:IND.

Blue, G. (2010). Request for Comments Concerning China's Compliance with its W commitments [Press release]. Retrieved from

國立政治大學 National Chengchi University

https://steel.org/~/media/Files/AISI/Public%20Policy/wp_trade_wto_Compliance_Written-92710.pdf

Bown, C. (2004). Developing countries as plaintiffs and defendants in GATT/WTO Trade Disputes. *The World Economy*, 27(1), 59-80.

Bradsher, K. (2015). China's Renminbi Is Approved by IMF as a Main World Currency. *New York Times.*

Bradsher, K. (2016). In China-U.S. Trade War, Trump Would Have Weapons. *New York Times*.

Carvalho, A.d. (2015*). Steel Market Developments*. Retrieved from http://www.oecd.org/sti/ind/Steel-market-developments-2015Q4.pdf

China's Currency Devaluation. (2015). Retrieved from https://reserve.usbank.com/pcrcp/pdfs/insights/chinas-currency-devaluation.pdf

Chovanec, P. (2015). Why China's U.S. Treasury Sell-Off is Good News. *Foreign Policy*.

Cohen, B. (2015*). Currency Power: Understanding Monetary Rivalry*. New Jersey: Princeton University Press.

Cohen, B. j. (2008). The International Monetary System: Diffusion and Ambiguity. *International Affairs,* 84(3), 445-470.

Congress, U. S. (2012). Public Law 112-99. 126 STAT. 265.

Cooper, R. (1975). Prolegomena to the choice of an international monetary system. *International Organization*, 29(1), 63-97.

Cooper, Z., & Lorber, E. (2016). The Right Way to Sanction China. *The National Interest*.

Corr, C. F., Ma, P. W., & Scoles, S. D. (2012). China requests WTO consultants with United States regarding PL 112-99, certain AD/CVD measures Lexology.

Daniel, L. (2014). *Steel Market Developments: 2nd Quarter 2014*. Retrieved from Paris: http://www.oecd.org/sti/ind/2-Steel-market-developments-2014Q2.pdf

Davies, K. (2013). *China Investment Policy: An Update*. Retrieved from OECD Publishing:

Donnan, S., & Hornby, L. (2016). Obama Steps Up Trade Battle with China. *Financial Times*.

Drezner, D. (1999). *The Sanctions Paradox: Economic Statecraft and International Relations*. Cambridge, UK: Cambridge University Press.

Drezner, D. W. (2009). Bad Debts: Assessing China's Financial Influence in Great Power Politics. *International Security*, 34(2), 7-45.

Dyer, G. (2009, February 23, 2009). China's Dollar Dilemma. *Financial Times*.

Eckstein, H. (1975). Case Studies and Theory in Political Science. In Polsby (Ed.), *Handbook of Political Science* (Vol. 7, pp. 79-138).

Economist. (2015). China's Monetary Policy: Elusive Prudence. *Economist.*

Economist. (2017). How Trump Can Press China Without Resorting to a Trade War. *Economist*.

El-Erian, M. (2016). The Perils of China's Currency Devaluation. *The Guardian*.

Fish, I. (2013). Why Does the U.S. Still Give Millions of Dollars in Aid to China. *The Huffington Post*.

Friedberg, A. L. (2011). *A contest for Supremacy: China, America, and the Struggle for Mastery in Asia.* New York: Norton and Company.

Frieden, J., Lake, D., & Broz, J. L. (2010). *International Political Economy: Perspectives on Global Power and Wealth.* New York: WW Norton & Company.

Geeraerts, G. (2013). The Changing Global Context of China-EU Relationship. *China International Studies.*

Gerring, J. (2007). Is There a (Viable) Crucial-Case Method? *Comparative Political Studies*, 40(3), 231-253.

Ghosh, B. N. (2001). *Dependency Theory Revisited.* London: Ashgate Publishing.

Goldstein, J. (1994). *Ideas, Interests and American Trade Policy*. Ithaca, N.Y.: Cornell University Press.

Grieco, J. (1990). *Cooperation Among Nations: Europe, America, and Non-Tariff Barriers to Trade*. Ithaca, N.Y.: Cornell University Press.

Groll, E. (2013). The Incredible Predictive Power of Tome Clancy's Novels. *Foreign Policy.*

Rottenheim Group. (2016). FDI flows China to U.S. New York NY.

Halloran, R. (1998). China's Decisive Role in the Asian Financial Crisis. *Global Beat* (24).

Hamada, K., & Patrick, H. (1988). Japan and the International Monetary Regime. *The Political Economy of Japan*, 2(takashi Inoguchi Daniel Okimoto).

Hanemann, T., Rosen, D. H., & Gao, C. (2016). *Two-Way Street: 25 Years of US-China Direct Investment.*

Helleiner, E. (2014). *The Status Quo Crisis: Global Financial Governance after the 2008 Meltdown*. Oxford: Oxford University Press.

國 立 政 治 大 學 National Chengchi University

Helleiner, E., & Kirshner, J. (2014). Politics of China's International Monetary Relations. In Eric (Ed.), *The Great Wall of Money: Power and Politics in China's International Monetary Relations* (pp. 1-22). Ithaca and London: Cornell University Press.

Hewitt, D. (2015). Capital Flight from China: Why Investors Are Taking Their Money Elsewhere. *International Business Times*. Retrieved from http://www.ibtimes.com/capital-flight-china-why-investors-are-taking-their-money-elsewhere-2174989

Holodny, E. (2016). Timeline: The rise and fall of China's currency. *Business Insider*.

Howell, K. (2015). U.S. sends China millions in foreign aid despite $1.3 trillion debt. *The Washington Times*.

Hufbauer, G., Schott, J., & Elliott, K. (1990). *Economic Sanctions Reconsidered* (Vol. 1). Washington, D.C.: Institute for International Economics.

IMF. (2015a). IMF Executive Board Complete 2015 Review of SDR Valuation [Press release]. Retrieved from http://www.imf.org/external/np/sec/pr/2015/pr15543.htm

IMF. (2015b). *Review of the Method of the Valuation of the SDR-Initial Considerations*. Retrieved from: http://www.imf.org/external/np/pp/eng/2015/071615.pdf

International Trade administration. (2010). *Commerce Finds Dumping and Subsidization of Drill Pipe from the People's Republic of China.* International Trade Administration. Retrieved from http://enforcement.trade.gov/download/factsheets/factsheet-prc-drill-pipe-ad-cvd-final-010411.pdf.

國立政治大學 National Chengchi University

International Trade Administration. (2016a). *Steel Exports Report*: China. Retrieved from http://trade.gov/steel/countries/pdfs/exports-china.pdf

International Trade Administration. (2016b). *Steel Imports Report*: United States. Retrieved from http://www.ita.doc.gov/steel/countries/pdfs/imports-us.pdf

Jintao, H. (2007). *Hold High the Great Banner of Socialism with Chinese Characteristics and Strive for New Victories in Building a Moderately Prosperous Society in All Respects.* Retrieved from http://www.lancaster.ac.uk/fass/projects/ndcc/download/17thcongress.pdf

Kapur, A. (2016). The Curious Case of Chinese Steel. *The Economic Times*.

Keohane, R., & Nye, J. (1987). Power and Interdependence Revisited. *International Organization*, 41(4), 725-753.

Kindleberger, C. (1985). The International Monetary Politics of a Near Great Power: Two French Episodes, 1926-1936 and 1960-1970. *Keynesianism vs. Monetarism*. London: George Allen and Unwin.

Kirshner, J. (1995). *Currency and Coercion: The Political Economy of International Monetary Power*. Princeton, New Jersey: Princeton University Press.

Knorr, K. (1973). *The Power of Nations*. New York: Basic Books.

Krustev, V. L. (2010). Strategic Demands, Credible Threats, and Economic Coercion. *International Studies Quarterly*, 54(1), 147-174.

Lee, J., & Chen, T. (2015). China Rattles Markets with Yuan Devaluation. *Bloomberg*.

國立政治大學 National Chengchi University

Leonard, M. (2016). *The Age of Economic Coercion: How Geo-Politics Is Disrupting Supply Chains, Financial Systems, Energy Markets, Trade and the Internet*. Retrieved from World Economic Forum.

Lopez, L. (2015). One Number Means Everything in China Right Now. *Business Insider*.

Lu, J., & Sweeney, P. (2015). Timeline of China's intervention to keep yuan stable since August devaluation. *Reuters*.

McDowell D., & Liao S. (2015) Redback Rising: China's Bilateral Swap Agreements and Renminbi Internationalization. *International Studies Quarterly* 59, 401-422.

McDowell D., & Liao S. (2016) No Reservations: International Order and Demand for the Renminbi as a Reserve Currency. *International Studies Quarterly,* 0, 1-22.

Malawer, S. S. (2014). U.S.-China Trade Relations-Litigation in the WTO 2001-2014. *International Law Practicum*, 27(1), 19.

Mayeda, A. (2015). U.S. Takes Step Toward Support for China's Reserve-Currency Bid. *Bloomberg*.

Miles, T. (2014). China Loses WTO Bid to Overturn U.S. Law against Unfair Subsidies. *Reuters*.

Miller, J., & Yap, C.-W. (2015). Why Chinese Steel Exports Are Stirring Protests. *The Wall Street Journal*.

Montlake, S. (2013). Why Chinese Purchase of Smithfield Could Be Game Changer for Pork Trade. *Forbes*.

國 立 政 治 大 學
National Chengchi University

Noah, L. (2016). How Much Did China's Foreign Reserves Fall in January 2016? *Market Realist*.

National Debt of China. (2015). National Debt Clocks. Retrieved from: http://www.nationaldebtclocks.org/debtclock/china.

Office of International Affairs (2014). Report to Congress on International Economic and Exchange Rate Policies. Retrieved from Washington D.C.: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2014-10-15%20FXR.pdf

Palmer, D. (2009). U.S. Slaps Duties on $2.6 billion China Steel Pipe. *Reuters*.

Pettis, M. (2015). China: What the New Currency Regime Means and How It Affects the World. *Capital Finance International*.

Price, A. H., Brightbill, T. C., Weld, C. B., & Capeloto, T. V. (2010). T*he Reform Myth: How China is Using State power to Create the World's Dominant Steel Industry*. Retrieved from Washington, D.C.: http://www.steel.org/~/media/Files/AISI/Reports/AISI-2017-Public-Policy-Agenda.pdf?la=en

Rachman, G. (2011) *Zero Sum Future: American Power in an Age of Anxiety.* New York: Simon and Schuster.

Rana, W. (2015). Theory of Complex Interdependence: A Comparative Analysis of Realist and Neoliberal Thoughts. *International Journal of Business and Social Science*, 6(2), 290-297.

Rickard, J. (2011*). Currency Wars: The Making of the Next Global Crisis*. New York: Penguin Group.

國立政治大學 National Chengchi University

Roach, S. (2014). *Unbalanced: The Codependency of America and China*: Yale University Press.

Ryan, F., Inman, P., & Farrer, M. (2015). China stuns financial markets by devaluing yuan for second day running. *The Guardian*.

Schumer, C. (2005). Schumer, Graham Urge Action Against China's Unfair Currency Manipulation [Press release]. Retrieved from www.schumer.senate.gov

Scott, R., & Jiang, X. (2015). Unilateral Grant of Market Economy Status to China Would Put Millions of EU Jobs at Risk. *Economic Policy Institute*.

Setser, B. (2008). China: Creditor to the Rich. *China Security.* 4(4), 17-23.

Spaulding, R. (1991) German Trade Policy in Easter Europe, 1890-1990: Preconditions for Applying International Trade Leverage *International Organization.* 45(3), 343-368.

Steel Industry Coalition (2016) Report on Market Research into the Peoples Republic of China Steel Industry. Retrieved from: http://www.steel.org/~/media/Files/AISI/Reports/Steel-Industry-Coaliton-Full-Final-Report-06302016

Steinberg, D. (2014). Why Has China Accumulated Such Large Foreign Reserves? In Helleiner & J. Kirshner (Eds.), *The Great Wall of Money*: Cornell University Press.

Stewart, T., Drake, E., & etc. (2014). Surging Steel Imports Put up to Half a Million U.S. Jobs At Risk. *Economic Policy Institute*.

Subramanian, A. (2011). *Eclipse: Living in the Shadow of China's Economic Dominance*. Washington: Peterson Institute for International Economics.

國立政治大學 National Chengchi University

Szamosszegi, A., & Kyle, C. (2011). *An Analysis of State-owned Enterprises and State Capitalism in China*. Retrieved from: https://www.uscc.gov/sites/default/files/Research/10_26_11_CapitalTradeSOEStudy.pdf

Tang, F. (2017). China's Forex Reserves Drop Below US$3 Trillion for First Time in Six Years. *South China Morning Post*.

Tang, R. (2010). *China's Steel Industry and Its Impact on the United States: Issues for Congress*. Retrieved from https://fas.org/sgp/crs/row/R41421.pdf

Treasury, U. S. (2016a). Debt Position and Activity Report. United States: U.S. Department of Treasury.

Treasury, U. S. (2016b). U.S. International Reserve Position. Washington D.C.

Treasury, U.S. (2010). United States Files Two WTO Cases Against China [Press release]. Retrieved from https://ustr.gov/about-us/policy-offices/press-office/press-releases/2010/september/united-states-files-two-wto-cases-against-china

Treasury, U.S. (2014). China Fails a Second Time in its Challenge to U.S. Countervailing Duty Law [Press release]

Treasury, U.S. (2015). U.S. Wins Trade Enforcement Challenge to China's Duties on Steel [Press release]. Retrieved from https://ustr.gov/about-us/policy-offices/press-office/press-releases/2015/July/us-wins-trade-enforcement-challenge

US Debt Clock. (2017). Retrieved From: http://www.usdebtclock.org

United States Trade Commission. (2016). U.S. International Trade Data. https://www.census.gov/foreign-trade/balance/c5700.html.

國 立 政 治 大 學 National Chengchi University

USAID. (2016, November 02, 2016). About China. https://www.usaid.gov/china.

VanDerKamp, J. (2017). Forget the Statement, China's Capital Outflow Is Still Enormous. *South China Morning Post*.

Wagner, R. H. (1988). Economic Interdependence, Bargaining Power, and Political Influence. *International Organization*, 42(3), 461-483.

Wang, X. (2007). China as a Net Creditor: An Indication of Strength or Weakness? *China & World Economy* 15(6): 22-36.

Waltz, K. (1979). *Theory of International Politics*. New York: Random House.

Wei, L. (2015). China's Central Bank Signals Intention to Loosen Yuan's Peg to Dollar. *Wall street Journal*.

Welitzkin, P. (2015). Rising Steel imports spur calls for action. *Washington Post*.

World Bank (2017). GDP. In World Bank Data Set (Ed.).

World Bank (2011). Multipolarity: The New Global Economy. Retrieved from: http://siteresources.worldbank.org/INTGDH/Resources/GDH_CompleteReport2011.pdf

World Bank (2016). Foreign Direct Investment, Net Inflows in BOP Database (Ed.).

World Steel Association (2016). World Steel in Figures. Retrieved from: https://www.worldsteel.org/en/dam/World+Steel+in+Figures+2016.pdf

Worstall, T. (2016). Trump's Right, China Is a Currency Manipulator - But They're Manipulating the Yuan UP. *Forbes Magazine*.

國立政治大學 National Chengchi University

WTO. (2014). Dispute Settlement: Dispute DS449 [Press release]. Retrieved from https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds449_e.htm

WTO. (2015). Dispute Settlement: Dispute DS414 [Press release]. Retrieved from https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds414_e.htm

WTO. (2016a). Anti-Dumping: Technical Information. Retrieved from https://www.wto.org/english/tratop_e/adp_e/adp_info_e.htm

WTO. (2016b). Dispute Settlement: DS437. Retrieved from https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds437_e.htm

Yan, S. (2015). China Rushes to Calm Fears of CNN Money. Retrieved from http://money.cnn.com/2015/08/13/investing/china-currency-yuan-pboc/index.html

Yongding, Y. (2015). China's Daring Depreciation. *Project Syndicate*. Retrieved from

Zhang, J. (2016). China's Dilemma: Stabilize Monetary Policy or the Renminbi.

Zhang, W., Cao, B., & Yeung, K. (2015). A Timeline: The Chinese Yuan's Journey to Global Reserve Status. *Bloomberg News*.

Zhou, X. (2009). Reform the International Monetary System. *BIS Review*.

國立政治大學 National Chengchi University