

Does China have Structural Power? Rethinking Chinese Power and its Consequences for the International Order

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International relations (IR) theory has produced two main assessments of the effects of the rise of China. Realists have argued that it will generate a structural tension that will inevitably lead to increasing competition between China and the United States. Liberals have highlighted how China has been socialized to the contemporary rule-based international order. The paper argues that these two assessments of the Chinese rise either downplay the role of Chinese power, in the case of liberalism, or build their theorizations on an anachronistic and oversimplified conceptualization of Chinese power, as with structural realism. The article looks at Chinese structural power analyzing cases such as the progressive internationalization of the *renminbi* and China's recent attempts to build regional institutions in the economic and financial realm centred on its leadership. The article describes how Beijing is increasingly capable of dictating terms of political and economic interaction to its partners.

Keywords: rise of China, structural power, power transition, *renminbi*, international order

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I. Introduction

International relations theory has produced two main accounts of the rise of China. On the one hand, focusing on military power, relative advantages and security dilemmas, realism has argued that China and the United States are likely to be embroiled in a Thucydides trap, which will lead them to hegemonic competition and possibly to direct military confrontation. The second and most optimistic account, promoted by liberal theorists, sees China as a responsible power, increasingly integrated and socialized to the rules and norms of the liberal international order.

I will argue that both these narratives, while capturing part of the reality of the Chinese ascent, fail to consider key political and economic developments that have a fundamental impact on the definition of the current and future international order. I will argue that this is a consequence of a fundamental theoretical pitfall: an oversimplified conceptualization of power, based on the idea of power as resources.

An assessment based on a less parsimonious but more realistic idea of what political power is and how it can be theorized helps to

reconceptualize the Chinese rise and the extent of its consequences. In order to do so I will present the weakness of the “power as resources” concept as employed by the literature on the Chinese rise. Moreover, I will highlight how the concept of structural power helps theorize the consequences of Beijing’s rise for Asia and globally.

The first section highlights how mainstream scholarly accounts have used a very narrow and limited concept of power in order to describe the nature and the consequences of the Chinese rise. The second part reviews the scholarly literature relative to the critique of the concept of power as resources and explores the main theoretical alternatives. Among those alternatives, the concept of structural power seems to be the better equipped to provide valuable explanations of the consequences of the Chinese rise in Asia and globally.

In the third section, I will suggest that China has structural power. The main elements underpinning it are the process of internationalization of the *renminbi* and the construction of several international institutions centered on Chinese leadership, such as the Asia Infrastructure and Investment Bank (AIIB) and the Chang Mai Initiative.

These developments suggest that China is neither the revisionist power envisioned by structural realism and power transition theory, nor the order taker depicted by liberal accounts.

II. Realism, Liberalism and Chinese Power

The vast debate on the rise of China has produced two main theoretical accounts. Realists and power transition theorists have argued that the Chinese rise will generate a structural tension that will inevitably lead to increasing competition and conflict between China and the United States. Liberal analyses have highlighted how China has grown more responsible and has been socialized to the contemporary rule-based international order. These two assessments of the Chinese rise either downplay the role of Chinese power, in the case of liberalism, or build

their theorizations on an oversimplified conceptualization of Chinese power, purely based on military capabilities, as in the case of realism.

Realist scholars have offered a pessimistic picture of Chinese ascendancy. Power transition theory and structural realism assume that the Chinese rise will necessarily bring instability and conflict in the longer term. As Aaron Friedberg famously stated in 1993, East Asia in the aftermath of the Cold War was already “ripe for rivalry.”¹ Structural realists explicitly compare the Chinese rise to the rise of Wilhelmine Germany or Imperial Japan. From this perspective, today’s China can be considered as a potential regional hegemon that will, voluntarily or not, threaten its neighbors’ security and destabilize the present international order. As John Mearsheimer stated, “A wealthy China would not be a status quo power but an aggressive state determined to achieve regional hegemony.”² This would lead to conflict both with the United States and its Asian allies such as Japan and South Korea.³

Similarly, power transition theory foresees increasing levels of conflict between a rising China and the United States and its allies. The rising power, approaching parity in economic and military terms, will increasingly be dissatisfied with the status quo and increasingly keen to use coercion to reshape the rules of the order in its favor.⁴ Realist and power transition theorists see in the proliferation of territorial disputes a

¹ Aaron L. Friedberg, “Ripe for Rivalry: Prospects for Peace in a Multipolar Asia,” *International Security* 18, no. 3 (1993-1994): 5-33.

² John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton, 2001); John J. Mearsheimer, “China’s Unpeaceful Rise,” *Current History* 105 (2006): 162.

³ Avery Goldstein, “Power Transitions, Institutions, and China’s Rise in East Asia: Theoretical Expectations and Evidence,” *The Journal of Strategic Studies* 30, no. 4 (2007): 639-82; Aaron L. Friedberg, *A Contest for Supremacy: China, America, and the Struggle for Mastery in Asia* (New York: W.W. Norton & Company, 2011).

⁴ Ronald L. Tammen and Jacek Kugler, “Power Transition and China-US Conflicts,” *The Chinese Journal of International Politics* 1, no. 1 (2006): 35-55; Steven Chan, *China, the US and the Power-transition Theory: A Critique* (London: Routledge, 2007).

clear sign of Beijing's dissatisfaction towards the status quo.⁵

Both power transition theory and structural realism assume as an independent variable of their frameworks the share of military capabilities owned by a rising power, and possibly in addition to that, population, technology and economic might. They employ a notion of power defined as "resources," which assumes that a nation's power is the by-product of a clearly measurable amount of resources owned by the state.

As Jack Levy clearly stated, "PTT [power transition theory] posits that national power is a function of population, economic resources, military capabilities and the political capacity to transform them into national power."⁶ Levy also emphasizes that scholars need to be very cautious in basing their analysis and predictions of the Chinese rise on this theory. First, it tends to oversimplify complex relations between the current hegemon and the rising power. Second, the theory focuses only on a very narrow, even if very relevant, aspect of the Chinese rise, namely economic and military resources. The rise of Chinese GDP and an increasing military budget are surely relevant elements to be considered. However, they are hardly the only relevant factors in theorizing and analyzing the rise of China. Finally, PTT tends to assume that once a rising power reaches parity in terms of GDP, it will try to translate its economic might into military power, necessarily generating a process of hegemonic transition leading to war.

Analyses inspired by neo-classical realism assume a partially different position listing a number of intervening variables such as nuclear weapons or a Chinese status-quo orientation that can make a

⁵ Taylor M. Fravel, "Power Shifts and Escalation: Explaining China's Growing use of Force in Territorial Disputes," *International Security* 32, no. 3 (2007-08): 44-83.

⁶ Jack S. Levy, "Power Transition Theory and the Rise of China," in *China's Ascent: Power, Security, and the Future of International Politics*, ed. Robert S. Ross and Zhu Feng (Ithaca: Cornell University Press, 2008), 14.

direct military clash between the two superpowers unlikely.⁷ Nonetheless, they maintained that a conflict between the challenger and the challenged remains the most likely outcome of the process of transition.⁸ Ultimately, theoretical analyses based on structural realist premises have considered only military capabilities and “latent power,” namely, other resources that might help in increasing the military budget.⁹ This is surely a narrow understanding of Beijing’s rise.

Liberals, on the contrary, see China as a state that has been socialized to the rules and norms of the contemporary international order. Alastair Iain Johnston explained how China was progressively socialized with respect to international norms and regimes during the period of reform and opening.¹⁰ China, having internalized the norms of the current international order is described as a status quo power, or a “responsible stakeholder,” uninterested in pursuing its interests outside the rules of the global order or in reshaping it according to its interests.¹¹ As John Ikenberry stated, “The existing international order is highly developed, expansive, integrated, institutionalized, and deeply rooted in the societies and economies of advanced capitalist states and parts of the developing world – China will become influential and successful to the extent it works within and through existing rules and institutions.”¹²

⁷ Scott D. Sagan, “Why do States Build Nuclear Weapons? Three Models in Search of a Bomb,” *International Security* 21, no. 3 (2006): 54-86; Camilla T. Sørensen, “Is China Becoming more Aggressive? A Neoclassical Realist Analysis,” *Asian Perspective* 37, no. 3 (2013): 363-85; Steven E. Lobell, Norrin M. Ripsman, and Jeffrey W. Taliaferro, *Neoclassical Realism, The State, and Foreign Policy* (Cambridge: Cambridge University Press, 2009).

⁸ Chan, *China, the US and the Power-transition Theory*.

⁹ Mearsheimer, *The Tragedy of Great Power Politics*, 55-56.

¹⁰ Iain Alistair Johnston, *Social States: China in International Institutions, 1980-2000* (Princeton: Princeton University Press, 2008).

¹¹ Robert Zoellick, “Whither China: From Membership to Responsibility?” *NBR Analysis* 16, no. 4 (2005): 5-15.

¹² G. John Ikenberry, “America’s Challenge: The Rise of China and the Future of Liberal International Order,” *New American Foundation* (2011), 6.

These analyses assume that China is surely a status quo power interested in growing inside the order. The Chinese leadership since the beginning of the era of reform and opening has understood that the contemporary rule-based order is “easier to join and harder to overturn.”¹³

If structural realism oversimplifies the nature of Chinese power, liberal analyses tend to underestimate the impact and the consequences of it on the present and future international order. China is considered as an order taker and a status quo power.¹⁴ Liberals highlight how China has been progressing in all the key dimensions the liberal tradition considers as necessary to build peaceful and stable relations with other countries, with the notable exclusion of democracy.¹⁵ The relations between contemporary China and the rest of the world are in fact characterized by increasing levels of transnational contacts and economic interdependence. Moreover, China has been included within a great number of international institutions and regimes.¹⁶

Arguing that China joined the contemporary Western-led rule-based international order surely captures a fundamental reality of the Chinese rise. As Foot and Walter verified, China is increasingly adhering to fundamental global norms regarding a number of crucial issues, from economic governance to climate change, to the use of dispute settlement.¹⁷

This, nevertheless, is only a part of the picture. These analyses tend

¹³ Ibid., 2.

¹⁴ Iain Alastair Johnston, “Is China a Status Quo Power?” *International Security* 27, no. 4 (2003): 5-56.

¹⁵ Bruce Russett and John Oneal, *Triangulating Peace: Democracy, Interdependence, and International Organizations* (New York: W.W. Norton, 2001).

¹⁶ David Shambaugh, *China Goes Global: The Partial Power* (Oxford: Oxford University Press, 2013).

¹⁷ Rosemary Foot and Andrew Walter, *China, the United States, and Global Order* (Cambridge: Cambridge University Press, 2010); David C. Kang, *East Asia Before the West: Five Centuries of Trade and Tribute* (New York: Columbia University Press, 2010).

to underestimate the consequences of the Chinese rise on the international order. Liberal accounts often do not ask whether China is willing to change those norms or promote an alternative order. This question goes beyond the simple dichotomy between compliance and non-compliance to global or Western norms. China should be considered not just as an order taker. It should be also considered also as an order maker, namely a power that attempts to build institutions and promote norms reflecting its role, interests and identity. As Pu stated, socialization should be considered a two-way street, not simply a process through which non-Western powers can reach a certain “standard of civilization.”¹⁸

This does not necessarily mean that China is a revisionist power, or that China wants to pursue global hegemony, trying to substitute the United States. Nor does it mean that the future of Asia will be defined by an updated version of the pre-Western tribute system.¹⁹ It means more simply that it is necessary to find a way to theorize a middle ground between the gloomy and simplistic perspective inspired by realism and power transition theory, and the idea that China is merely a subject to a process of socialization in which it will grow more responsible and more educated to global norms.

This middle ground should be built on a more accurate understanding of what Chinese power means for the current international order. The Chinese ascendancy will probably contribute to changing the face of Asia. However, it is not likely to generate a hegemonic war as predicted by PTT. Nevertheless, in order to appreciate the defining features of Chinese power and to estimate its likely consequences, we should critically analyze what concept of power underlies our theoretical stance. In the next section I will address one of the main theoretical

¹⁸ Pu Xiaoyu, “Socialisation as a Two-way Process: Emerging Powers and the Diffusion of International Norms,” *The Chinese Journal of International Politics* 5, no. 4 (2012): 341-67.

¹⁹ John K. Fairbank and Tatuan Chen, *The Chinese World Order: Traditional China's Foreign Relations* (Cambridge: Harvard University Press, 1968); Kang, *East Asia Before the West*.

problems related to the limits I just highlighted, namely the concept of “power as resources” in IR theory.

III. Power in International Relations Theory

Power is the central concept for realism. As we anticipated, however, structural realists generally employ an oversimplified concept of power that in turn shaped the debate on the Chinese rise.

Structural realists and power transition theorists have never considered a formulation of power different from power as resources because every alternative, rooted in a multi-dimensional conceptualization, would entail a number of problems, such as the problems of measurement, domain specificity and fungibility²⁰ that would undermine the theoretical premises both of balance of power theory and power transition theory.

As a consequence, all the analyses rooted in structural realism remain firmly embedded in the idea of “power as resources.” Military force is considered the real and only measure of power and war-winning capabilities are considered to be what matters most in international politics. The neorealist idea of what power is and how it works has been primarily influenced by Kenneth Waltz. In his *Theory of International Politics*, he assumed the distribution of capabilities as a defining characteristic of the structure of the international system. Therefore, the power of a great power is defined by the share of that power’s military capabilities in the system.²¹ A similar degree of generality is evident in Robert Gilpin’s definition of power. He stated that “power refers simply

²⁰ Regarding fungibility, Baldwin refers to the idea of movable goods that can be freely placed and replaced by others of the same class. It connotes universal applicability or convertibility in contrast with context specificity or domain specificity.

²¹ Kenneth N. Waltz, *Theory of International Politics* (New York: Addison-Wesley Pub. Co., 1979).

to the military, economic, and technological capabilities of states.”²² John Mearsheimer was even more explicit in equating power with military resources. He posited that in international politics, “A state’s effective power is ultimately a function of its military forces. I define power largely in military terms because offensive realism emphasizes that force is the ultima ratio of international politics.”²³ This sort of conceptualization has led scholars to focus almost exclusively on military power and military force.

The Waltzian concept of structure defined by a fixed ordering principle, anarchy, and by distribution of material capabilities has also been the subject of a number of criticisms, mainly by constructivist scholars. Alexander Wendt, for instance, promoted the idea of structure defined both by material elements and the distribution of ideas. This implies the possibility to overcome the Hobbesian concept of anarchy embedded in the neorealist theory.²⁴

Despite the criticisms, the neo-realist understanding of power and international structure has deeply influenced the field. As David Baldwin stated, “The field of international relations has paid a price for its preoccupation with military force. The importance of military force has been exaggerated, the role of non military power has been underestimated and the field of IR has been impoverished by its insulation from studies of power in other realms.”²⁵ The neorealist conceptualization of power suffers from three basic limits: power is considered inherently non-specific, mono-dimensional and perfectly

²² Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981), 13.

²³ Mearsheimer, *The Tragedy of Great Power Politics*, 55-56.

²⁴ Alexander Wendt, “Anarchy is What States Make of It: The Social Construction of Power Politics.” *International Organization* 46, no. 2 (1992): 391-425; Alexander Wendt, *Social Theory of International Politics* (Cambridge: Cambridge University Press, 1999).

²⁵ David A. Baldwin, “Power and International Relations,” in *Handbook of International Relations*, ed. Beth A. Simmons, Walter Carlsnaes and Thomas Risse (London: Sage, 2002), 179.

fungible.²⁶ On the contrary, moving away from a mono-dimensional concept, we should consider power as domain specific, multi-dimensional and not perfectly fungible.

The first fundamental theoretical step is admitting that political power is not perfectly fungible.²⁷ For neo-realists, perfect fungibility of power derives from the implicit metaphor of money, employed by Waltz, as the foundation of their theory.²⁸ Waltz derived the equivalence between money and power from structuralism in sociology since the metaphor of money was already present in the works of Talcott Parsons and Karl Deutsch.²⁹ Considering power as the political equivalent of money leads to the assumption that every additional unit of military capability would entail an additional unit of power that in turn would provide an additional unit of political influence. In this way, military resources and military power become a conceptual *passé par tout* to analyze every form of interaction between states, including the military, political and economic realms.³⁰

Several scholars contested and rejected the “power as resources” approach, proposing an alternative conceptualization that can be labeled “power as relations.” This approach borrows from the theoretical tradition that stems from the work of scholars such as Lasswell, Kaplan

²⁶ Robert J. Art, “Force and Fungibility Reconsidered,” *Security Studies* 8, no. 4 (1999): 183-89.

²⁷ David A. Baldwin, “Power Analysis and World Politics: New Trends versus Old Tendencies,” *World Politics* 31, no. 2 (1979): 161-94; Michael Barnett and Raymond Duvall, “Power in International Politics,” *International Organization* 59, no. 1 (2005): 39-75.

²⁸ Raymond Aron, “Qu’est-ce qu’une théorie des relations internationales?” *Revue française de science politique* 17, no. 5 (1967): 837-61.

²⁹ Talcott Parsons, “On the Concept of Influence,” *Public Opinion Quarterly* 27, no. 1 (1963): 37-62; Karl Deutsch, *The Nerves of Government: Models of Political Communication and Control* (New York: Free Press of Glencoe, 1963).

³⁰ David A. Baldwin, “Money and Power,” *The Journal of Politics* 33, no. 3 (1971): 577-614; Stefano Guzzini, “Structural Power: The Limits of Neorealist Power Analysis,” *International Organization* 47, no. 3 (1993): 443-78; Felix Berenkoetter, “Thinking About Power,” in *Power in World Politics*, ed. Felix Berenkoetter and Michael J. Williams (London: Routledge, 2007).

and Dahl, who looked at the relational nature of power. Notably, Robert Dahl considered power as “the capacity of an individual, or group of individuals, to modify the conduct of other individuals or groups in the manner which he desires.”³¹ Every actor tries to obtain conformity to its will. This attempt to establish control is eminently an exercise of power. “A” will try to obtain conformity and oblige “B” to follow its preferred course of action. If power is assumed not to be perfectly fungible, the exercise of power is not directly and proportionally related to the share of military capability in the system.

Conceiving power as relational allows admitting that power is inherently domain specific. A state may exercise power in the economic domain or in the security domain in different ways. Different tools of political power (such as diplomacy and symbolic power) can be effective even if not backed by military resources.

Theoretical research on power criticized Dahl’s position stating the existence of two other faces of power. Peter Bachrach and Morton Baratz highlight another important aspect to be considered: “non decisions.” They argued that an important source of power is deciding which issues should be addressed and which should be ignored. Who is able to shape the agenda for decision making owns a relevant and very specific power.³² This approach also involves the structure of institutions both at the domestic and international level. Institutions, setting the rules of the game, tend to define what kind of issues should be addressed or ignored and contribute to setting the agenda.

Other studies highlighted how even this conceptualization should be considered limited and introduced the idea of a possible “third face of power.” Authors such as Lukes and Cox argued that a more subtle and pervasive nature of power consists in shaping normality and reducing

³¹ Robert A. Dahl, “The Concept of Power,” *Behavioral Science* 2, no. 3 (1957): 204.

³² Peter Bachrach and Morton S Baratz, “Decisions and Non Decisions: An Analytical Framework,” *The American Political Science Review* 57, no. 3 (1966): 632-42.

conflict. As Lukes argued, “The most effective and insidious use of power is to prevent such conflict from arising in the first place.”³³

This idea is related to the Gramscian concept of hegemony. Gramsci argued that a hegemonic power is able to persuade the subject of a power relationship that inequality of power is not only acceptable but also legitimate. As a consequence, hegemony is not just a form of political power exercised through coercion and violence but through political leadership and ideology. Borrowing from Gramsci, Robert Cox defined hegemony as “a structure of values and understandings about the nature of order that permeates a whole system of states which appear to most actors as the natural order.”³⁴ As Cox himself posited, when it comes to hegemony and hegemonic power, “Ideas and material conditions are always bound together, mutually influencing one another, and not reducible one to the other.”³⁵

An important concept that encompasses both the second and the third faces of power is the concept of structural power developed by Susan Strange. Strange defined structural power as:

The power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate. This structural power... means rather more than the power to set the agenda of discussion or to design the international regimes of rules and customs that are supposed to govern international economic relations. That is one aspect of structural power, but not all of it [...] Structural power, in short, confers the power

³³ Steven M. Lukes, *A Radical View* (Basingstoke and New York: Palgrave MacMillan, 2005).

³⁴ Robert W. Cox, *Approaches to World Order* (Cambridge: Cambridge University Press, 1996), 151.

³⁵ *Ibid.*, 151.

to decide how things shall be done, the power to shape frameworks within which states relate to each other, relate to people, or relate to corporate enterprises.³⁶

This definition clarifies how the concept of structural power regards both the capacity to shape formal institutions and also the legitimacy, knowledge and forms of production, echoing the concerns of scholars who proposed a three faced conceptualization of political power in IR.

According to Strange, structural power is defined by four different structures: security, finance, production and knowledge. Contrary to Marxism, realist and liberal approaches do not assign epistemological or ontological priority to any of those. The production structure is “what creates wealth in a political economy.”³⁷ Consequently, at the international level the production structure is determined by international specialization in the realm of economic production. The financial structure that already in the late 1980s Strange considered increasingly relevant pertains to credit and finance. In *States and Markets*, she defined how the possibility to gain confidence as a credit provider is a key asset for structural power. Credit is a key mechanism of political authority since “whoever can gain the confidence of others in their ability to create credit will control the economy.”³⁸ Moreover, at the international level, confidence as a creditor entails the capacity to manage the currency in which credit is denominated. This affects the exchange rate with respect to credit denominated in other currencies. Consequently, the monetary system is a key component for Strange’s idea of financial structure, together with the social relations between creditor and debtor.

The last dimension is what she calls knowledge structure. In her

³⁶ Susan Strange, *States and Markets: An Introduction to International Political Economy* (London: Bloomsbury Publishing, 1988), 24-25.

³⁷ *Ibid.*, 27.

³⁸ *Ibid.*, 30.

writings, the definition of knowledge structure includes both ideological elements and elements related to technology and science. On the one hand, her formulation is influenced both by the neo-Gramscian idea of hegemony and by Lukes' idea of the third face of power. On the other, the knowledge structure is assimilated by the amount of know-how and technology a nation owns. As a consequence, the mastery of advanced technologies in the system can contribute to the structural power of a nation.

The concept of structural power is surely less parsimonious than the notion of "power as resources." Moreover, it eschews statistical and "objective" measurements. However, it can be considered very useful in assessing the consequences of the Chinese rise, since it serves to shed light on fundamental issues such as China's growing capacity to structure relations with other fundamental regional and global players on its own terms, particularly when it comes to financial and economic governance. The People's Republic of China is indeed increasingly behaving as an order maker and as a public goods provider, evidencing how both the image of a system breaker proposed by realism and a socialized and disciplined power advanced by liberals can hardly describe the current realities.

IV. The Chinese Rise and Structural Power

The notion of structural power is a valid instrument to assess the consequences of the Chinese rise on the contemporary international order providing a theoretically driven analysis that does not fall either into the trap of power as resources or into an ad hoc analysis tailored on any form of Chinese exceptionalism. As a consequence, we should try to evaluate whether China, together with a mighty army and fast growing economy, has developed any structural power. In order to do so I will consider two main aspects that are central for a structural power analysis: the attempt to internationalize the Chinese currency, the *renminbi*, and the attempt to

promote international institutions built upon Chinese centrality.

1. The Internationalization of the *Renminbi*

Even if the *renminbi* is not likely to substitute the US dollar as the leading reserve currency of the international monetary system in the short term, the Chinese leadership is committed to promoting its internationalization and as an alternative reserve currency and currency for international trade in the Asia Pacific region and occasionally even beyond.

As Barry Eichengreen reminded us, the “exorbitant privilege” of providing the key currency for the international system is a central factor determining a power transition. The United States surpassed the United Kingdom in terms of GDP in the late nineteenth century. At the time, Washington did not act as a public goods provider since the international trade and national reserves were largely denominated in pound sterling. The situation changed dramatically after this and in the 1920s when the dollar surpassed sterling as the leading international and reserve currency.³⁹

This precedent has several implications. First, even if the role of the dollar is still an essential part of American primacy and a fundamental part of American structural power, this does not exclude the possibility in the future of the presence of several internationalized currencies. Second, as the rise of the dollar did not require the demise of the pound sterling, a potential rise of the *renminbi* would not require the demise of the dollar.⁴⁰

³⁹ Barry Eichengreen, *The Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* (Oxford: Oxford University Press, 2011).

⁴⁰ Barry Eichengreen, “The Renminbi as an International Currency,” *Journal of Policy Modeling* 33, no. 5 (2011): 723-30; Jeffrey A. Frankel, “Internationalization of the RMB and Historical Precedents,” *Journal of Economic Integration* 27, no. 3 (2012): 329-65.

Finally and most importantly, today the *renminbi* faces many of the difficulties the US dollar faced a century ago. London had everything Washington and New York have today: specialised investment banks with a global network of overseas branches, a large and liquid bond market and an open stock exchange. Great Britain enjoyed the trust of credit that Strange considered a key asset of structural power. The London stock market and the British bond markets were by far the most liquid in the world. The United States before the Federal Reserve Act in 1913 did not even have a functioning central bank. Moreover, US banks could not open branches abroad. All these obstacles notwithstanding, by 1924, a larger share of global foreign exchange reserves was held in dollars rather than in pound sterling.⁴¹ Since 1945, the dollar's international role has provided the United States with a series of benefits, including balance of payments flexibility, policy autonomy, and exchange-rate gains.⁴² The use of the dollar as the only completely internationalized currency has helped to loosen constraints on its hegemonic power and has originated structural commercial, financial, and political gains.⁴³

In order for Beijing to pursue the internationalization of the *renminbi*, it is following the example of the United States between the two world wars and is enacting a number of reforms. First, it has been encouraging its use for international trade. Second, it is stimulating its use for private financial transactions. Third, it has been creating incentives to central and private banks for its use as a reserve currency.

The effort to internationalize the Chinese currency started in 2006

⁴¹ Eichengreen, *The Exorbitant Privilege*.

⁴² Benjamin J. Cohen, *Organizing the World's Money: The Political Economy of International Monetary Relations* (New York: Basic Books, 1978).

⁴³ Susan Strange, "The Persistent Myth of Lost Hegemony," *International Organization* 41, no. 4 (1987): 551-74; Carla Norrlof, *America Global Advantage: US Hegemony and International Cooperation* (Cambridge: Cambridge University Press, 2010); Carla Norrlof, "The Profitability of Primacy," *International Security* 38, no. 4 (2014): 188-205.

with the publication of a report on “The Timing, Path, and Strategies of RMB Internationalization” by a study group set up by the People’s Bank of China (PBOC), China’s central bank.⁴⁴ Since then, China has adopted a complex strategy aimed at the internationalization of the *renminbi*. It promoted the use of its currency in financial markets in Asia and made an effort to promote its use in international trade and direct investment settlement. Since 2007, China launched the so-called Dim Sum bond market to allow the purchase of *renminbi*-denominated bonds internationally. Moreover, it allowed border states to trade *renminbi*. Since then, Laos, Mongolia, Myanmar, Nepal, North Korea, and Vietnam have started to use *renminbi* as the main currency for foreign trade. Today, China also uses its own currency for payments of energy and raw materials purchased from Brazil, Kazakhstan, Kyrgyzstan and South Africa.⁴⁵

Since 2010, China has abandoned the dollar as currency for bilateral trade with Japan and Russia. Since 2012, the Chinese government allowed all Chinese exporters to trade and invoice using the *renminbi*. During the same year, China and Japan started to direct currency trading on the foreign exchange market. Moreover, China started to divert part of its reserves from US dollars to Japanese yen.

Another important policy inaugurated in 2008 was the negotiation of bilateral currency swap agreements (BSAs) between the People’s Central Bank and other central banks in the region and globally.⁴⁶ In this manner, China can promote a wider use of the *renminbi* without completely liberalizing currency controls. As Liao and McDowell

⁴⁴ Peoples Bank of China Study Group, “The Timing, Path, and Strategies of RMB Internationalization” (Beijing, 2006).

⁴⁵ Hung G. Fung and Jot Yau, “The Dim Sum Bond Market and its Role in the Internationalization of the Renminbi,” *European Financial Review* (2013, March 1st): 64-67.

⁴⁶ A currency swap is a foreign-exchange agreement between two institutions to exchange aspects of a loan in one currency for equivalent aspects of an equal in net present value loan in another currency.

explained, there is a strong correlation between BSAs and the creation of FTAs (free trade agreements). This means Beijing is trying to build a network of trade agreements centered on itself, backed by a strategy which makes the *renminbi* a feasible monetary public good.⁴⁷

All these steps are starting to reveal significant consequences. For instance, economic analysts noted that the value of Asian currencies is increasingly moving together with the value of the RMB.⁴⁸ These steps are progressively creating the premise for a fundamental change in Chinese monetary policy. The People's Bank of China is progressively abandoning its former policy of pegging the *renminbi* to the value of the dollar and removing the restrictions on capital account convertibility.⁴⁹

The fact that the PBOC is increasingly allowing the *renminbi* to float against the dollar is likely to determine fundamental changes for China's macro-economic policies. A completely independent monetary policy and further policies directed toward the liberalization of the *renminbi* should require deep reforms of the banking system, still largely based on the four public giants and influenced by the visible hands of the state and the financial system. In order to develop a stable, deep and liquid financial market that is able to underpin the internationalization of the *renminbi*, China should improve the supervision and regulation of financial institutions, and markets will have to be reinforced before it is safe to move to capital account convertibility. Moreover, the state should detach state-owned enterprises from the easy and politically driven credit

⁴⁷ Steven Liao and Daniel McDowell, "Redback Rising: China's Bilateral Swap Agreements and RMB Internationalization," *International Studies Quarterly* 59, no. 3 (2015): 401-22.

⁴⁸ Masahiro Kawai and Victor Pontines, "The Renminbi and Exchange Rate Regimes in East Asia," ADB Working Paper 484 (2014).

⁴⁹ Wensheng Peng and Shu Chang, ed., *Currency Internationalization: Global Experiences and Implications for the Renminbi* (London: Palgrave Macmillan, 2010); Eswar Presad and Lei Ye, *The Renminbi's Role in the Global Monetary System* (Washington: Brookings Institution, 2012); Benjamin J. Cohen, "The Yuan Tomorrow? Evaluating China's Currency Internationalization Strategy," *New Political Economy* 17, no. 3 (2012): 361-71.

they have been accessing until the present day. Ultimately, the PBOC would cease to be able to pursue competitive devaluations in order to boost exports.⁵⁰

The most recent step was undertaken in 2014 with the Shanghai Free Trade Zone (SFTZ). In this new kind of special economic zone, the Chinese government has been experimenting with new localized reforms. Among those reforms, there is a complete liberalization and convertibility of the *renminbi*.

Both of these steps already signal the commitment of the Chinese authorities to the progressive expansion of the *renminbi*'s international role. However, further reforms are needed to achieve the internationalization of the Chinese currency. Several of them, in particular the complete convertibility and removal of restrictions on the movement of capital, appear to be politically costly. These reforms would not simply imply substantial macro-economic adjustments. They would rather signal the necessity for the party to rethink the current economic model based on export-led growth and high savings. Most importantly, they would force the Chinese Communist Party to reconsider its role in controlling and often micromanaging the economic system, in particular when it comes to credit and finance. The Chinese elite is divided on these prospects. Reformists such as the governor of the People's Bank of China, Zhou Xiaochuan, push for an acceleration of reforms needed to internationalize the *renminbi*. Conservatives, especially in the SASAC and in the Ministry of Finance, tend to be more cautious, since those reforms could seriously diminish the competitiveness of Chinese state-owned enterprises (SOEs).⁵¹

⁵⁰ Barry Eichengreen, "ADB Distinguished Lecture Renminbi Internationalization: Tempest in a Teapot?" *Asian Development Review* 30, no. 1 (2013): 148-64; Hyoung-ky Chey, "Can the Renminbi Rise as a Global Currency? The Political Economy of Currency Internationalization," *Asian Survey* 53, no. 2 (2013): 348-68.

⁵¹ Yang Jiang, "The Limits of China's Monetary Diplomacy," In *The Great Wall of Money: Power and Politics in China's International Monetary Relations*, ed. Eric Helleiner and Jonathan

However, an internationalized currency would result in a number of advantages for Beijing, as it does today for Washington, such as a reduction of transaction costs, macro-economic flexibility, and political and economic leverage over partners. It would also create incentives for Chinese authorities to start to rebalance the economy from investment to consumption, and from exports to domestic absorption. The process of internationalization of the *renminbi* appears to follow a familiar path for observers of Chinese economic reforms. As has already happened with the SEZs (special economic zones) and agricultural reforms, gradual, retractable and localized experiments generally precede far-reaching reforms.

Politically, the process of internationalization has relevant consequences in terms of recognition and prestige. The use of Chinese currency in international transactions represents one of the most evident symbols of the renewed centrality of the PRC in the region and of the benign nature of Beijing's rise. Second, it highlights how the Chinese ascendancy leads to a partial redefinition of the order, regionally and, to a minor extent, globally. The "rise of the redback" signals the possibility for China to act as an order maker and public goods provider in Asia.

2. Building International Institutions.

Another example of the rising Chinese structural power is the attempt to promote institutions in the realm of international economic governance centered around Chinese leadership or at the very least edifying regional institutions excluding American presence.⁵² First, China has been

Kirshner (Ithaca: Cornell University Press, 2014); Christopher A. McNally, "Sino-capitalism: China's Reemergence and the International Political Economy," *World Politics* 64, no. 4 (2012): 741-76.

⁵² Christopher Dent, "Paths Ahead for East Asia and Asia-Pacific Regionalism," *International Affairs* 89, no. 4 (2013): 963-85; Ralph Emmers and John Ravenhill, "The Asian and Global Financial Crises: Consequences for East Asian Regionalism," *Contemporary Politics* 17, no. 2

promoting a wide network of FTAs. Since 2001, when it was admitted to the WTO, Beijing has signed and implemented twelve FTAs.⁵³ More recently, Chinese economic diplomacy has also promoted multilateral initiatives, the China-ASEAN FTA and the Regional Comprehensive Economic Partnership (RCEP).⁵⁴ The latter would favor a much deeper level of economic integration compared with pre-existing bilateral FTAs, which mainly deal with trade in goods. The RCEP would cover other relevant sectors such as investments and services.⁵⁵

Together with the promotion of bilateral and multilateral trade agreements, China has been promoting a process of economic regionalization that aims at underpinning its role as regional leader. The process of economic regionalization in East Asia started in the late 1980s and was largely guided by Japan. In 1997, Japan proposed the creation of an Asia Monetary Fund (AMF) that would have been able to provide liquidity and assistance to countries hit by economic crises. In the Japanese proposal the credit received by the AMF would not be characterized by the same conditionality normally imposed by the IMF and the World Bank. The proposal was rejected due to the strong opposition of the United States who considered it a dangerous attempt to decouple the regional financial institutions from the global financial governance centered on the IMF and the World Bank. At the time, China chose not to support the Japanese initiative, worrying that the AMF could enhance Japanese leadership in the region.⁵⁶

(2013): 133-49.

⁵³ Guoyouand Song and Wen Jin Yuan, "China's Free Trade Agreement Strategies," *The Washington Quarterly* 35, no. 4 (2012): 107-19.

⁵⁴ The proposed RCEP agreement includes ASEAN members, Australia, China, India, Japan, South Korea and New Zealand.

⁵⁵ Jeffrey Wilson, "Mega-Regional Trade Deals in the Asia-Pacific: Choosing Between the TPP and RCEP?" *Journal of Contemporary Asia* 45, no. 2 (2015): 345-53.

⁵⁶ Philip Y. Lipsy, "Japan's Asian Monetary Fund Proposal," *Stanford Journal of East Asian Affairs* 3, no. 1 (2003): 93-104; Eric Altbach, "The Asian Monetary Fund proposal: A Case Study

The idea of providing a mechanism for greater financial cooperation and self-help during a financial crisis resumed a few years later. This time China promoted the idea of creating an institutionalized mechanism detached from the Bretton Woods institutions and capable of providing liquidity and assistance to countries hit by liquidity problems and speculative attacks.

As a consequence, in 2000, during an ASEAN PLUS Three (APT) meeting, the creation of the Chiang Mai Initiative (CMI) was approved. The CMI was based on two different mechanisms, a system of economic surveillance and a system of bilateral currency swap that would provide liquidity in case of crisis. The CMI mechanisms however were not utilized in 2008 and 2009 in the aftermath of the crisis. The APT decided to reform the CMI, approving the “Chiang Mai Initiative Multilateralization” (CMIM) in 2009. China and Japan lead the initiative, each contributing thirty-two per cent of the reserves.⁵⁷ These agreements, together with the BSA (Bilateral Swap Arrangements) promoted since 2008, represent an important, if not decisive, change in the financial governance in Asia Pacific. As Evelyn Goh argued, “The politics of the CMI shed light on the shifting dynamic of resistance, deference, and contestation between Japan, China and the United States during the broader process of re-negotiating the regional order.”⁵⁸ The cooperation in the APT framework demonstrated how Japan and China, together with Korea and other ASEAN members, would be able to build an alternative mechanism of financial governance, based on rules and norms different from those provided by American-led institutions such as the IMF.

The CMI created the institutional premises for a credible challenge

of Japanese Regional Leadership,” *Japan Economic Institute Report* 47 (1997).

⁵⁷ Randall C. Henning, “Future of the Chiang Mai Initiative: An Asian Monetary Fund?” *Peterson Institute for International Economics Policy Brief*, no. 9 (2009).

⁵⁸ Evelyn Goh, *The Struggle for Order: Hegemony, Hierarchy, and Transition in Post-Cold War East Asia* (Oxford: Oxford University Press, 2013), 234.

to IMF conditionality in a future financial crisis. This would potentially enable East Asian countries to insulate themselves from the global regulatory regime centered on the IMF and American leadership. In that case, China would become the first provider of economic and financial assistance and would be able to determine the nature and the forms of conditionality to be attached to the provision of a fundamental public good such as lending of last resort in a time of crisis.⁵⁹

At the moment, the revolutionary potential of the CMIM is limited by the Sino-Japanese rivalry.⁶⁰ Japan wants to maintain an institutional link between the CMIM and the IMF, while China would prefer the CMIM to be an alternative and completely detached from the IMF. However, the CMIM would represent an extremely relevant institutional resource if in the future Beijing and Tokyo overcome current political and security problems.

The AIIB, a development bank inaugurated in December 2015, represents another source of structural power for China. The AIIB was promoted by Beijing together with other twenty-two Asian partners in December 2016. The establishment of the AIIB helps in understanding the current Chinese approach to the region. On the one hand, China is increasingly socialized to the rules of the global order. On the other hand, it has been promoting new institutions centered on its own interests and its own centrality. The AIIB joins the already existent Asia Development Bank (ADB) in financing projects aimed at building infrastructure and promoting economic growth in Asia. The AIIB, however, has a relevant political and strategic value for Beijing. The ADB is substantially led by Japan, which is the larger lender, and includes the United States among

⁵⁹ William W. Grimes, "The Asian Monetary Fund Reborn?: Implications of Chiang Mai Initiative Multilateralization," *Asia Policy* 11, no. 3 (2011): 79-104; John D. Ciorciari, "Chiang Mai Initiative Multilateralization: International Politics and Institution-building in Asia." *Asian Survey* 51, no. 5 (2011): 926-52.

⁶⁰ Richard C. Bush, *The Perils of Proximity: China-Japan Security Relations* (New York: Brookings Institution Press, 2013).

its members. On the contrary, China will be the main lender and most powerful member of the new bank. China has twenty-six percent of the voting rights in the bank and thirty percent of the stakes, more than the other five major investors combined. The AIIB has an initial capital of one hundred billion USD, half of which are contributed by China.

This attempt is politically important for two different reasons. First, Beijing is enhancing its structural power, creating an institution based on its own centrality and norms and rules favoring its own interests. This new institution is not related to the Bretton Woods system and its governance mechanisms, in contrast with the ADB as well as the CMI. The success of the initiative testifies to the widespread dissatisfaction towards the role of global financial institutions. On the one hand, several Asian states lament the incapacity of the Bretton Woods institutions to adapt their internal structures and voting rights to the development of Asian economies. On the other hand, many states favour the creation of forms of governance that forgive hard political and economic conditionality.

The success of the bank indicates that China is able to promote forms of governance alternative to current global institutions both in terms of membership and in terms of rules. Moreover, the AIIB is likely to contribute to the process of internationalization of the *renminbi*. Ultimately, through the AIIB China aims at enhancing what Susan Strange called “trust of credit.”

The strategic relevance of the AIIB emerges when considering American opposition. The Obama administration considered the creation of such an institution a problem for the Bretton Woods system, since it is likely to limit the conditionality of the main global financial institutions. As a consequence, the United States has encouraged its closer allies not to participate in the AIIB.⁶¹ Notably, Japan is the only significant US

⁶¹ Zachary Keck, “Why the US Is Trying to Squash China’s New Development Bank,” *The*

partner in the region that refused to join the AIIB.

These developments are meaningful in a number of ways. They demonstrate that even if China is not trying to squarely challenge the institutional structure underpinning the contemporary economic order, it is promoting forms of institutional cooperation that are potentially alternative to the institutions built upon American leadership. China demonstrates a certain degree of structural power when it promotes initiatives that enable it to provide public goods, such as an internationalized currency and lending of last resort.

The creation of an indigenous Asian system of economic governance reflects the desire to isolate the region from the instability and costs associated with American political and economic hegemony.⁶² Institutions such as the CMIM, AIIB, and RCEP reflect the desire to build forms of international cooperation based on rules and norms originating in Asia and tailored to local interests and identities.

Ultimately this analysis allows one to put forward several relevant hypotheses. First, international competition between great powers does not necessarily entail less order. On the contrary the rise of China's structural power has led to the promotion of alternative forms of institutionalized cooperation, aimed at addressing fundamental problems of economic coordination, such as provision of credit in time of crisis.

Second, the future economic order, both regionally and globally, is likely to be characterized by an increasing degree of normative heterogeneity. Rules and norms advanced by Beijing are likely to be different from those that have underpinned the current global economic order. Beijing tends to promote forms of cooperation that entail a larger role of the state in the economy, especially when it comes to the role of

Diplomat, October 10, 2014. <http://thediplomat.com/2014/10/why-the-us-is-trying-to-squash-chinas-new-development-bank/>.

⁶² Mark Beeson and André Broome, "Hegemonic Instability and East Asia: Contradictions, Crises and US Power," *Globalizations* 7, no. 4 (2005): 507-23.

state-owned banks and state-owned enterprises. Third, the rise of China's structural power and the emergence of an increasingly plural economic order is likely to fundamentally undermine the capacity of the Bretton Woods institutions to impose forms of conditionality similar to those imposed on South East Asian states after the Asian Financial Crisis in 1997-1998.

Fourth, this analysis also points to the fact that structural power is not a mere consequence of the increase of China's material capabilities. In order to fully develop its structural power, especially when it comes to financial power and "trust of credit," Beijing has to continue to develop both its international role as a leader of multilateral forums and accelerate domestic reforms. Beijing needs to deepen a number of reforms necessary for the next steps toward regional financial and economic leadership. Among those, the most important are probably the liberalization of capital flows and a more independent monetary policy.

Finally, it is important that any analysis based on the concept of structural power is necessarily associated with the capacity to promote cooperation with other great and middle powers and to be perceived as a reliable leader, able to promote stability. On the one hand, at least since the Asian Financial Crisis, China's most important partners in the economic and financial realm, namely Japan, South Korea, and the ASEAN states, have, even if to different degrees, shared the interest to promote forms of closed and "intra-Asian" economic cooperation. This interest represented a reaction to the way the US handled the Asian Financial Crisis, and more generally to the approach to economic conditionality promoted by the IMF and other global financial institutions. Cooperation with China generally appears to be politically less costly, since Beijing attaches great importance to non interference and respect for sovereignty, as opposed to the high degree of conditionality embedded in the Bretton Woods institutions. Nevertheless, the image of a promoter of stability and reliable power could be undermined by China itself in a number of ways. Beijing could choose to

escalate one of the many territorial and maritime disputes with one of its neighbors; it could abandon the principle of non interference, increasing the cost of participating in the new forms of institutional cooperation; and it could reverse the process of economic and financial reforms.

Ultimately, Beijing has already developed significant forms of structural power, and it is already able to promote significant elements of its own vision of the international order. Consequently the future of the global order is likely to be more plural, both in terms of leadership, ideas, and values as well as institutional structures. Nevertheless, it is important to point to the fact that this is not a historical or theoretical necessity. The rise of China's structural power might be reversed if China itself abandons its role as stabilizer or gets engulfed in military confrontations with its neighbors and particularly with key partners in the region such as South Korea and Japan.

IV. Conclusion

The theoretical and empirical debate regarding such an important issue as the rise of China has been fundamentally biased by an oversimplified conceptualization of power stemming from the idea of "power as resources." This paper suggested that employing a more nuanced, even if necessarily less parsimonious, conceptualization of power helps to highlight other relevant aspects of the challenge posed by China to the contemporary international order and to the present American primacy.

This article also highlighted how the idea of structural power is very useful in order to understand the Chinese rise and its consequences. The idea of looking at the four structures listed by Susan Strange as key components of structural power and in particular to the finance structure helps to illuminate several crucial dynamics that are not captured by realist and liberal theories.

Structural power has two main implications. It means that an actor is able to shape the surrounding environment inducing others to

participate in interactions modeled on its interests and ideas. Overall, focusing on structural power means mainly theorizing and analyzing the complexity of the challenge posed by Beijing's ascent. Accepting a discourse based either on the power transition or the idea of a one-way socialization of the Chinese state undercuts the possibility of analyzing the processes, contestation, hybridization and redefinition that mark the contemporary international order.

The Chinese attempts to act as a public goods provider, through institutions such as the CMI and the AIIB or through the internationalization of the *renminbi*, show how the Chinese rise does not necessarily mean a disruption of the order or the origin of a large-scale security dilemma. The rise of Chinese structural power rather means that Beijing is going to be more active in contesting and reshaping the rule of the economic and political order in Asia and globally.

Structural power also means the capacity for an actor to isolate itself from the interests, will and attempts at coercion of other powerful actors. In this case, it means that China will be increasingly able to resist US pressures and promote institutionalized channels that are relatively independent from American interests, ideas and norms. The creation of institutions such as AIIB and RCEP are the evident signal that China aims at exercising a leadership role and promoting its own norms, while isolating the region from the normative influence of the United States and the global financial institutions.

This analysis also points out the potential obstacles China needs to overcome to achieve a regional leadership and to aspire to a role of global order maker. Predictability and capacity to obtain consent of partners and neighbors have been a crucial element of America's structural power and of the US-led global order. China's drive to leadership might be undermined both by its own foreign policy and by the incapacity to adapt the domestic system to the role of "order maker." The recurrent escalations of maritime and territorial disputes provide examples of how Beijing might undermine its role of public good

provider in Asia. On the domestic front, the possible failure to increase the reliability and the predictability of Chinese institutions might also undermine the Chinese potential to compete with the United States in terms of economic and political influence.

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