9 A cautionary tale of market power and foreign policy

Beyond the geoeconomics of renminbi internationalisation

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9.1 Introduction: why the cautionary tale?

In the midst of the renminbi's gradual rise, we often fail to question its externalities or consequences outside the economic spectrum – the ramifications of the renminbi's full or partial convertibility in the future beyond pure economic impacts. However, the renminbi's influence on foreign policy could be larger than expected. The lack or avoidance of a discussion on non-economic impacts of the renminbi stem from the reluctance to assume anything else besides the dollar standard as the predominant setting in the global financial system, which has been the primary mode of international financial transactions since the breakdown of the Bretton Woods system. We also refrain to assume the kind of world in which the renminbi plays a significant role equivalent to other key currencies. In contrast, there is a widespread recognition of China's trade volumes. While China's trade policy is often accompanied by warnings of its consequences, its policy on renminbi internationalisation does not go that far nor gathers as much attention – because we fail to assume a world in which the dollar is significantly challenged by another currency. In turn, the renminbi's inclusion in the International Monetary Fund (IMF)'s special drawing rights (SDR)[1] is often viewed only as a symbolic change to the existing global monetary system, as the proportion of the renminbi in the currency basket is still minimal, and the currency plays a minor role in that context.

The renminbi's rise is an admirable achievement in that, its value has risen as a result of China's rapid economic development in a relatively short span of time, and has begun to play a significant role in China's recent projects that are transforming the global economic order. The launch of the Asian Infrastructure Investment Bank (AIIB) and the Belt and Road Initiative (BRI) initiatives are the most notable projects associated with internationalising the renminbi.[2] Thus far, the dominant view in evaluating renminbi internationalisation is that, at a glance, with the renminbi constituting about 1.1 per cent of official reserves around the world (the dollar is at 63.7 per cent), and only 2 per cent in currency trades involve the renminbi (as opposed to the dollar at 90 per cent and the euro at 40 per cent), the renminbi has a long march towards internationalisation.[3] [4]

This chapter acknowledges the shortcomings of renminbi internationalisation in global finance, but it also offers an alternative perspective by turning to the other side of renminbi internationalisation – its effects on shaping China's foreign policy, backed by its market power. China's market power, in this context, can be defined as a form of structural power based on purchasing or consumption power, which empowers the Chinese authorities to utilise it towards other objectives and in large part for China's global strategy.

For a nation state, economic and financial policymaking are indeed inseparable, and are closely intertwined. Thinking about China's foreign policy agenda in accordance with its renminbi's movements enables us to read into China's strategic mindset, and it is a task that is all the more essential for countries that are largely dependent on trade with China; as the understanding of China's motivations is required for policy responses to China's interventions. The point of the argument here is that, although using the renminbi-denominated market power may not have been China's pure and original policy intent, China can indeed utilise it towards its foreign policy interests as the renminbi becomes internationalised towards full convertibility.

The chapter proceeds as follows: following this introductory section, the second section develops the logic of China's market power as a foreign policy measure in geopolitics. The third section compares China's power projection via the renminbi with the U.S. dollar domination and power projection in Asia. The fourth section provides case studies of China's renminbi internationalisation that impacts geopolitics – via the electronic payment services China UnionPay (CUP) and China's transactions for oil denominated in renminbi – or Petroyuan, which signals the end of the petrodollar system. Finally, the concluding section provides policy implications as to predicting China's geopolitical moves based on renminbi internationalisation and responding to such moves from the Asian perspective.

9.2 The logic of China's market power as a foreign policy measure

The projection of market power and the role of the renminbi

In economics, particularly in industrial organisation (IO), market power is defined as a firm's ability to raise the price of goods or services above the marginal cost.[5] But market power in political science and international relations – particularly in international political economy (IPE) – is a broader concept than it is in economics. In the field of IPE, market power is directly associated with a state's political and economic capacity on the global stage. Market power is a form of structural power in geopolitics. In explaining structural power, Susan Strange makes it very clear that finance – the control of credit – is the facet which has come to be of decisive importance in international economic relations and in the competition of corporate enterprises.[6] Projecting market power requires the economic capacity of a state, and the recognition of such economic capacity by its trading partners. A state with a currency that is internationally recognised is able to project a significant level of market power in the global market. China has strived to achieve this goal since its entry into the global economy, although it still has a ways to go in fully internationalising the renminbi as a safe-haven currency that can overthrow the existing international monetary system that is dominated by the dollar. China is not the international 'lender of last resort', it may never be, and it will take time to confirm whether China wants to play such role, but it has been made clear by China's initiatives that it wants to increase its bargaining leverage globally by using its accumulated reserves.

The definition of market power is important in explaining how China projects it and puts it to use. Simply defining China's market power requires looking at it from two angles: China's imports – manifested by its consumption power; and its exports – manifested by the competitiveness of their products. China's ability to consume resources – especially oil and gas – for continued economic development is a crucial component of its market power. China's export competitiveness is still questionable, as China's labour costs are on the rise, and despite the incremental appreciation of the renminbi in recent years, China's relatively low price of goods largely depends on the renminbi-dollar exchange rate. Bearing the limitations of its financial market and dwelling on the time frame for increasing export competitiveness, China has pursued very rapid and aggressive promotion of its currency internationalisation but with capital controls remaining, reflecting the Chinese government's recognition that they have yet to possess full-fledged market power. For the purposes of analysis in this chapter, I consider the 'consumption power-based' market power.

The maintenance of capital controls by China in the course of renminbi internationalisation is a big departure from most advanced economies that have liberalised their capital accounts.[7] In retrospect, taking the Japanese yen for instance, the amendment of the Foreign Exchange and Foreign Trade Controls preceded

Table 9.1 China's recent policies towards renminbi internationalisation

Policy-Driven Efforts	*Market-Driven Forces*
• Bilateral Currency Swap (BCS) agreements to ensure liquidity of renminbi for trade and direct investment (33 swap agreements with foreign central banks worldwide)* • Promotion of cross-border trade and direct investment denominated in renminbi	• Pilot schemes set up for renminbi use in settlements • Direct renminbi trading with non-USD currencies • Offshore market renminbi (CNH, or Chinese Yuan traded outside the Chinese mainland) • Official renminbi clearing banks designated across 22 locations around the world**

* For a complete list of countries that have entered in a BCS agreement with China, see Aravind Yelery. 2016. "China's Bilateral Currency Swap Agreements: Recent Trends". *China Report*. 52 (2): 138–150. Also see Prasad's *'Gaining Currency'*, pp. 138–139.

** The renminbi offshore clearing banks are located in Hong Kong, Macao, Taiwan, Singapore, United Kingdom, Germany, South Korea, France, Luxembourg, Qatar, Canada, Australia, Thailand, Malaysia, Chile, South Africa, Argentina, Zambia, Switzerland, United States, Russia, and United Arab Emirates (as of March 14, 2017).

the internationalisation efforts, and the amendment of the Foreign Exchange and Foreign Trade Act ensued in 1998.[8] For the yen internationalisation, Japan's moves were focussed on convertibility of the currency and capital liberalisation, but such moves were also accompanied by prolonged stagnation of the Japanese economy. What propelled China's efforts towards renminbi internationalisation was the strong expectation of the renminbi to appreciate. Nonetheless, expectations on renminbi depreciation have been on the rise, and the Chinese government has issued guidelines to limit capital outflows via issuing ten guidelines.[9] It is expected that a sharp change in the renminbi's international circulation would expose Chinese domestic financial markets to greater volatility.[10] In this regard, renminbi internationalisation is far from stable and is largely dependent on the global economic shifts.

Beyond geoeconomics: market power projection as a foreign policy tool for global strategy

Nation states today are engaged in geopolitical frictions and tensions, but not necessarily in full-scale combat involving human warfare. Since the Obama administration, drones were used in air strikes intended for minimising human casualties has proved otherwise, and nuclear arsenal build-up is on the rise for deterrence in theory, but there is less and less guarantee for nuclear weapons to serve as mere deterrence tools. Instead, new forms of wars have emerged – economic wars such as cyber theft of commercial secrets via unchartered territories of cyberspace, or resource wars emanating from energy pursuits and climate change among environmentalists, developers of renewable energy and traditional forms of energy towards competition. The field of geoeconomics – the study of spatial, temporal, and political aspects of economies and resources – has been developing since the 1990s, since Luttwak coined the term geoeconomics as 'the logic of war in the grammar of commerce'.[11] Fast-forwarding to post-Global Financial Crisis of 2008, Blackwill and Harris have elaborated on the term by defining the statecraft of geoeconomics as 'the use of economic instruments to achieve geopolitical goals'. They argued that America's geoeconomic policies that were established post-WWII are hampered by neglect and resistance, making it overly reliant on its traditional military force.[12] Meanwhile, China is engaged in geoeconomic expansion via the BRI and giving out loans via the AIIB, but it certainly does not limit itself to geoeconomic activities only.[13] By providing loans and economic deals through its initiatives, it forges ties with other nations – particularly those that stand against America, and secures energy for further economic development and to expand its military power. But none of such activities would have come about had it not been for the build-up of China's market power – mostly consumption power – post-World Trade Organisation (WTO) entry. In other words, China's market power is an outcome of China's economic activities since 2001, which benefitted largely from the U.S.-led neoliberal order and globalisation. It is no longer mere market power – it is now China's tool to bolster its foreign policy measures and affect other nations in their decision-making.

Domestically, China's state-led, geoeconomic initiatives and foreign policy-making is supported by China's market power is also reflected in China's joint ventures with foreign companies. Foreign firms that have vested interests in the Chinese market cannot afford to forego the attractiveness of the exponentially growing market that China offers, as consumption levels are on the rise. In turn, foreign firms that are bound by their Chinese market shares end up voluntarily or involuntarily contributing to China's market power projection overseas. China has been very proactive in developing its private sector, striving to develop its own standards for goods and services and to brand them under Chinese brands and labels, and has been proactive in launching cooperation schemes with multi-national corporations (MNCs) for sectors that it needs improvement, particularly in sectors associated with science and technology. The economic interests that are intertwined between Chinese authorities that control the Chinese market and foreign entities at firm levels are the sources of China's core strengths on which it can build its power to compel others towards realising its global strategy.

9.3 China's power projection in Asia via the renminbi and comparisons with the dollar dominance

China's strategic binds in Asia: from economic to security, from regional to global

China's expansion of power may be traced back to the very beginning of China's economic opening via Deng Xiaoping's economic reform in 1978. Strictly put, the paths towards renminbi internationalisation were not clearly visible until China joined the WTO in 2001. China's global power projection via military means were accelerated only after the Global Financial Crisis (GFC) and economic downturn in the U.S. in 2008.[14] China's impact on Asian economies grew exponentially as it developed into a manufacturing powerhouse and became the dominant exporter of the region.

The GFC was a turning point in which China came to understand the fundamental shortcomings of the U.S. economy and U.S. global leadership.[15] Accumulating dollar reserves for financial crisis prevention proved to be less beneficial than originally expected. Moreover, China saw opportunity on upping its game on Sino–U.S. trade as its bargaining power. In the aftermath of the GFC, on the basis of understanding that China would need and should pursue a financial system that adheres to its best interests in economic growth, it began to develop and exercise its monetary policy aligned with its global strategy. China began testing its diversification initiatives via accelerating the internationalisation of the renminbi. Such initiatives led to the inclusion of the renminbi in the IMF's SDR basket of currencies, and the launch of the AIIB. Albeit in a relatively smaller scale as opposed to the dollar, it increased its efforts towards expanding cross-border transactions denominated in renminbi.[16] These initiatives are clear indications that China would seriously pursue renminbi internationalisation, in refutation to the dollar dominance in the global economy.

In all of these initiatives, China's top-down decision-making structure by the central leadership adds to the speed and power in pursuing its agenda and ulterior motives. There are limitations, because China's ample foreign reserves alone cannot solve all the institutional issues. Taking the AIIB for example – the system of lending for infrastructure building that China pursues lacks mechanisms for audit and supervision, and relies on co-financing with the World Bank.[17] None of the applications for projects have been rejected by the AIIB thus far.[18] In other words, China is still in the early stages of exploring the methods of power projection through the use of renminbi, and is figuring out how to consolidate it. Meanwhile, it has decided and demonstrated through its actions that it would proceed with strategic military power projections in tandem with internationalising its currency.[19]

U.S. policymakers understand the need for China's economic reform, but the Obama Administration was not successful in bringing out a strategic response to China's moves. The Asia Pivot, for one, ended in a failed attempt by the Obama Administration to bring out the best policy outcomes for the U.S. and its Asian allies, both in economic and strategic terms. Because China's economic reform entails capital liberalisation (albeit the remaining capital controls), and renminbi internationalisation is part of it, the U.S. sees as one of its mutual economic interests. With further capital account liberalisation by China, the U.S. firms and investors will benefit from a more open environment for businesses operating in China.

Yet, there is a pushback factor – largely geopolitical and institutional – that lies in the U.S. reluctance for full convertibility of the renminbi. The concerns regarding full convertibility range from anticipated worries on currency volatility and economic instability to bigger ones such as geopolitical expansion (i.e., the plausible control and blockage of the Straits of Malacca that would deter freedom of navigation in the South China Sea, and the construction of silk roads encompassing East and South, and Central Asia, as well as the Middle East and Europe – all in the context of China's energy pursuits and geoeconomic gains). Put another way, the U.S. has come to welcome renminbi internationalisation in the context of China's domestic economic reform, but is reluctant to welcome China's dominance in global or regional finance. The U.S. seeks to sustain the dollar dominance and wants to refrain from allowing for full convertibility of the renminbi. It also does not think that China should be granted market economy status at the current stage (the anticipated date that China would be given market economy status was December 11, 2016).[20]

America's strategic binds in Asia: from security to economics, as part of global strategy

In the postwar era, East Asian economies such as Japan and the Four Dragons – South Korea, Taiwan, Singapore, and Hong Kong – and certain Southeast Asian countries considered to be in line with Kaname Akamatsu's 'Flying Geese Model' were dependent on the U.S. economy for development loans and trade.[21] Before mutual economic interests were met, many of the countries were heavily reliant on military ties with the U.S. and were placed under the U.S. nuclear umbrella via the 'hub-and-spoke' system that the U.S. retained.[22] Under the U.S. nuclear umbrella, country attempts to develop nuclear weapons were denied by the U.S. government.[23] The U.S.-led neoliberal order manifested in East Asia was based primarily on mutual security interests, as East Asia remained the hotbed of any potential conflict during the Cold War era. Building on the mutual security interests, the U.S. deepened bilateral economic interests in the region in order to solidify the military ties, and East Asian countries benefitted tremendously (particularly Japan, South Korea, and Taiwan) from U.S. sponsored aid programs and investment in the postwar years. Japan, in particular, was discouraged from engaging in military activity excluding the operation of the self-defense force, and was expected to solely adhere to the Yoshida Doctrine. Instead, the U.S. would guard the countries from military threats – although such guarantees were questioned by East Asian states at various points in time in their bilateral relationships. Amidst the cross-straits conflicts of the 1990s and the North Korean nuclear and missile threats from the 1990s and into the 2000s, the U.S. alliance system as the military stronghold in the region remained intact.

In sum, in the case of U.S. power consolidation in Asia, mutual economic interests were met and pursued based on the foundations of the security alliance that served as the fundamental pillars of the bilateral relationships. U.S. dominance in Asia evolved from security dynamics and spilled over to the economic arena. In the Chinese case, it was vice versa: mutual economic interests were met first, but security tensions remained, and military power projection followed suit. It took almost half a century for the U.S. (from 1971 to present) to first consolidate a security architecture, then to exercise its economic power in tandem with the military pursuits. China is working towards what America accomplished in Asia but on a different path, in a reversed order – gaining recognition for its economic significance first, then adding geopolitical expansion to its economic stronghold, all in the scope of only a decade and a half (from 2001 to the present). While China's footsteps are not entirely a duplication of U.S. power build-up in the postwar years, there are foreign policy ideals that China pursues for power projection by building a similar structure for itself in the global economy. For this reason, the ramifications of China's renminbi internationalisation may be more than what is perceived only in the realm of global finance.

Superpower and rising power: the U.S.–China tension build-up

There are two main critical junctures in the waxing and waning of U.S. hegemonic power in the new millennium since China's WTO entry in December 2001. The first is the U.S. decision to wage war against Iraq in 2003 in response to the 9/11 terror attacks. In the aftermath of the 9/11 terrorist attacks, the Bush Administration waged war against Iraq, citing the need to abolish the Saddam Hussein regime for developing weapons of mass destruction (WMD). During the Iraq War, the U.S. bilateral security ties with Japan and South Korea were fortified. In response to U.S. requests to take part in the Iraq War, Japan's medical assistance groups and South Korea's military troops were stationed in Erbil, Iraq. Japanese and South Korean civilian deaths in Iraq were minimal but did occur. However, the two countries did not engage further with Middle Eastern politics nor voice concerns in such a way that would hinder their alliance with the U.S. The Bush Administration's inability to find WMD and involvement in petroleum and military industries put American leadership under severe scrutiny, and U.S. motivations and involvement in the Middle East conflict was looked upon with suspicion from the global community.[24] The Iraq War led to increased defence-spending for the U.S. economy and exacerbated the twin deficits – namely, fiscal and current account deficits.

The second critical juncture for U.S. hegemonic power post-China's WTO entry is the Lehman shock and the U.S. economic downturn that led to the GFC in 2008. In the years leading up to the GFC, China's moves indicated that it would part ways with the U.S.-led neoliberal order to a certain extent, by creating its own pathways based on its core interests. China's pursuit of an independent track was witnessed in the following actions: China issued the Panda bond – Chinese renminbi-denominated bonds issued by non-Chinese nationals to be sold within the Chinese mainland for the first time in 2005; upon becoming weary of the U.S. dollar accumulation in its official foreign exchange reserves, China created the China Investment Corporation (CIC) to manage China's sovereign wealth funds (SWFs) in 2007 and began to heavily invest overseas; and the launch of the 'indigenous innovation' (*zizhu chuangxin*) path for science and technology development to create China standards based on the 15-year *Medium to Long Term Plan for the Development of Science and Technology*. Tectonic shifts followed in the global arena – upon the inaugural leaders' summit in 2008, the G20 and its leaders announced on September 25, 2009 that the G20 would replace the G8 as the main economic council of wealthy nations, paving the way towards a multi-polar international system. In the aftermath of the GFC, China began to engage with the U.S. towards "cooperation" on a regular, bilateral basis in the U.S.–China Strategic and Economic Dialogues from 2009.

Into the 2010s, the Chinese Communist Party (CCP) leadership seized the opportunity to push onward with domestic reforms to lessen China's heavy reliance on exports (with the U.S. as the number one trading partner) and to adjust its foreign policy direction in accordance with the waning U.S. leadership in the global arena.[25] In the aftermath of the financial meltdown, it dawned upon U.S. policymakers that they were left with the task to work towards domestic economic recovery while also dealing with China. The U.S. leaned towards "cooperating" with China by holding regular policy discussions and gaining economic benefits from the relationship rather than coercing China to succumb to U.S. security interests. By this time, the U.S.–China economic symbiosis since China's WTO entry had become extremely vital to U.S. businesses, as U.S. companies were heavily reliant on the Chinese market and U.S. consumers were looking for cheaper products imported from China. The U.S. government was also in a symbiotic bind with China financially, as China became the primary holder of U.S.

treasury bills.[26] China demonstrated its retaliatory measures in the WTO during this period against U.S. trade protectionism.[27] However, because the bilateral economic relationship made the two economies dependent on each other, it was difficult for the Obama Administration to force China to adhere to U.S. requests. On the security front, cautionary warnings were raised regarding China's military build-up and expansion of geopolitical influence within the Asia-Pacific region and beyond.

The turnaround of the U.S.-led neoliberal order has come with the election of Donald J. Trump as the President of the U.S. on November 8, 2016 (sworn in on January 20, 2017). A dramatic shift has come in foreign policy and domestic policymaking since he took office. As the election results started flowing towards the final vote count for the 2016 U.S. presidential election, European and Asian stock markets went erratic, striving to absorb the shocks from the unexpected election results. As the world (and Asian economies in particular) had bet entirely on Hillary Clinton's win, it took time for the markets to absorb the shocks from the election results. Asian local currencies went volatile – the Japanese yen plummeted and the Korean won plunged as opposed to the dollar. It is with scepticism that such currency volatilities can be resolved by the renminbi's rise. What would happen if the renminbi rose to full convertibility and the local currencies responded frantically both to the dollar and the renminbi? What are the plausible impacts of the renminbi if it becomes fully convertible? The next section of case studies on market power and renminbi internationalisation provide possible scenarios of the ramifications.

9.4 Cases of market power in renminbi internationalisation

The cases that demonstrate China's market power in this section are the renminbi operating as *a)* credit, in a fiat money-based global economy, and *b)* transaction medium for oil, in a commodity-based global economy. Both are important cases that illustrate how China's renminbi internationalisation backed by market power can be translated into foreign policy projection.

Electronic payment services in renminbi: China UnionPay challenging VISA and MasterCard

In a world of fiat money, the method of electronic payment services (EPS) plays a significant role in delivering the exchange of goods and services. In recent years, electronic payment methods such as PayPal, Apple Pay, Samsung Pay, and other forms of fiat money such as bitcoins supported by the protocol of the blockchain technology came about as mediums of electronic payment. But the dominant players in fiat money are still credit cards. While advanced countries like Japan and Germany still have a preference for cash use for everyday transactions and high rates of cash circulation domestically, credit cards issued by banks have gained a dominant position in goods and services trade. Right after joining the

WTO, since the year 2002, China has been developing and pushing for its own credit card for domestic and foreign use under the auspices of the People's Bank of China (PBOC) – China UnionPay (CUP), or *yinlianka*. Headquartered in Pudong in Shanghai, China, CUP has expanded rapidly in terms of the number of countries it covers for transactions in the past decade and a half. It is now used in over 141 countries, and is the third-largest payment network by value of transactions it processes behind VISA and MasterCard. By 2016, CUP had become a global leading bankcard association for credit cards.[28]

EPS was not an exception to the Sino–U.S. competition and contest. On September 15, 2010, the U.S. filed a complaint in the WTO with respect to "certain restrictions and requirements maintained by China pertaining to electronic payment services for payment card transactions and the suppliers of those services".[29] The U.S. questioned whether China was complying with WTO rules on market access, and alleged that China poses a series of requirements that constitute impermissible market access restrictions or national treatment limitations on foreign suppliers of the EPS. CUP was expanding throughout China, but VISA and MasterCard were facing difficulties penetrating the Chinese market. The U.S. argued that (1) China permits only CUP to supply EPS for payment transactions denominated and paid in renminbi, (2) foreign suppliers of EPS can only supply the services for payment card transactions in renminbi, (3) requires that all payment card processing devices to be compatible with that the CUP system bearing the CUP logo, and that (4) while CUP has guaranteed access to all merchants in China that accept credit cards, foreign suppliers of EPS must negotiate for access to merchants. The WTO Panel rejected claims (1) and (2) but concluded that CUP is a sole supplier of EPS issued in mainland China and used in Hong Kong or Macao, or issued in Hong Kong or Macao and used in mainland China, and found China's demands for all payment cards issued in China to bear the CUP/Yinlian logo were inconsistent with China's national treatment obligation under Article XVII of the General Agreement on Trade in Services (GATS). Upon the adoption of the panel report by the WTO Dispute Settlement Body (DSB) on August 31, 2012, China stated that it will need time to comply with WTO obligations according to the panel rulings, and was given 11 months from the date of adoption of the panel report, which lapsed on July 31, 2013. The U.S. did not agree that China complied with the WTO panel rulings. China announced subsequently in 2015 that it would open up the market for foreign payment networks in June 2016.

Realising that they could not obtain satisfactory results in the WTO, VISA and MasterCard proceeded with the only other option – to cooperate with CUP, but the cooperation did not last very long. On February 2016, CUP and VISA signed a Memorandum of Understanding (MoU) to collaborate on EPS.[30] CUP ended the monopoly on domestic bank card clearing in June 2015, and gave foreign EPS providers direct access to the Chinese market (valued at US$6.84 trillion in 2014) for clearing bank card transactions. However, the co-branded cards (with both CUP and VISA/MasterCard logos) are to lose China market shares as they will expire without the opportunity for renewal. This was announced by

PBOC authorities, which banned the co-branded card renewals citing concerns of capital flight on December 5, 2016.[31] VISA and MasterCard were not available for comments on the abrupt decision. The ban on co-branded cards came shortly after U.S. president-elect Trump accepted a phone call from Taiwan President Tsai Ying-wen, upending the 'One China' policy.

In July 2016, CUP overtook VISA in the global cards market (valued at US$22 trillion in 2016) by value of card payments, resulting mainly from the rapid expansion of the Chinese market. According to Retail Banking Research (RBR), Chinese market power is demonstrated in global card market shares – VISA and MasterCard maintained 50 per cent and 31 per cent respectively in global cards market, while CUP remained predominantly domestic with just 0.5 per cent share outside China.[32] The mission for China on EPS, it seems, will be expanding that offshore market share in the next decade. China does not see eye to eye on operations with foreign EPS providers such as VISA and MasterCard, and if cooperation is deemed implausible, it would best expand globally based on its expanding domestic market.

Oil transactions in renminbi: challenging the petrodollar

During the postwar period, and since 1974, the dollar was supported by the petrodollar system, in the aftermath of the Bretton Woods breakdown. The petrodollar system was created through a series of Henry Kissinger's secretive meetings with King Faisal bin Abdulaziz Al Saud of Saudi Arabia. The U.S. and Saudi Arabia would come to an agreement that if the Saudis, the primary exporter of oil among the Organisation of the Petroleum Exporting Countries (OPEC) nations to the U.S., priced all of its oil in dollars, it would be guaranteed military security and protection from Israel by the U.S. By 1975, all of the OPEC member countries were producing oil priced in dollars, and held their oil surplus proceeds in U.S. government debt securities by the U.S. Treasury for military protection offered by the U.S. By this unofficial arrangement, it may well be argued that the dollar became fully convertible for oil instead of gold. In turn, the U.S. developed and maintained strong military presence in the Gulf states (of which the people are largely Sunni Muslims) – Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Egypt, Jordan, and Yemen. Under this system, the U.S. balanced its power against Iran (of which the people are mainly Shia Muslims) and protected Israel, the Jewish state, and prevented Soviet power from penetrating into the region.

During the Obama administration, however, two important factors that came into play made the solidity of the petrodollar system into the mid-to-long term future questionable. First, the U.S. discovered fracturing methods to utilise its shale gas, and no longer became dependent on Saudi oil. Second, the Iran Nuclear Deal (or the Joint Comprehensive Plan of Action, JCPOA) was reached, paving the way towards oil transactions that are denominated in euro.[33] Prior to the JCPOA, Iran was accepting various currencies for oil – including the Chinese renminbi and the Indian rupee, because under U.S. sanctions it could not trade its oil in dollars.[34] Although the Iranians stopped accepting the renminbi and the rupee citing currency volatility, and requested that all of its oil transactions be done in the euro post-JCPOA, China learned from its interactions with Iran that oil transactions denominated in renminbi could contribute to the internationalisation of the renminbi.

So began China's drive towards 'renminbi-for-oil'. China's activities in using renminbi as the currency for oil transactions have escalated. In June 2015, Russia's third-largest oil producer Gazprom Neft announced that it is now settling all of its crude sales to China in renminbi, and through the East Siberia Pacific Ocean pipeline to China.[35] This occurred even before the agreement was reached on renminbi inclusion in the SDR at the IMF on November 30, 2015. Saudi Arabia, which has been the number one oil exporter to China in the 2000s, is now also pressured to conduct oil transactions in renminbi because it is very close to losing its lead to Russia, that is settling its oil transactions with the Chinese in renminbi, in the Chinese market share for oil.[36] The Saudis will be all the more pressured to do so, especially if (1) U.S. oil imports from the Saudis decrease significantly if self-sustainability in oil production is realised in the U.S. or renewable energy production takes off, and if (2) OPEC's recent decision to control production does not lead to a significant rebound of oil prices in the longer run.

China's market power is a definite source of support for renminbi use in oil transactions. Such use of the renminbi in oil transactions will only increase as China's demand for oil increases exponentially into the future. China's onshore oil fields are already in decline, and its oil use is only increasing, thereby contributing to its increased appetite in foreign imported oil.[37] The International Energy Agency (IEA) estimated that by 2030, China will be the primary consumer of Iraqi oil.[38] Backed by market power, China is able to demand the use of renminbi for payment. At the same time, China is ambitiously preparing to launch its oil futures denominated in renminbi.[39]

If China successfully challenges the petrodollar system by rendering the renminbi as the currency of exchange for oil transactions, its current efforts in BRI will bolster its geopolitical leverage along the Straits of Hormuz and the Straits of Malacca, through which a dominant percentage of the world's oil exports pass. China appears to be interested in playing a political role in the Middle East, with Xi Jinping calling for the creation of a Palestinian state during his visit to Egypt in January 2016.[40] Xi Jinping was also the very first state leader to visit Iran post-JCPOA, and China's longstanding ties with Iran make it very likely that China will be standing against US domination of the region in the coming years. In this manner, China is advancing into the Middle East with a foreign policy agenda that is backed by its market power in oil consumption. China's ongoing efforts to challenging the petrodollar system with renminbi transactions for oil is backed by its market power, which will only increase with time. It would be an understatement that such efforts are purely for energy consumption – they are closely aligned with its geopolitical motivations to decrease U.S. influence in the Middle East.

9.5 Conclusion and policy implications

This chapter has dwelt on the impacts of renminbi internationalisation from the perspectives of market power and foreign policy, with comparisons between the Chinese and American pathways towards economic and security binds in the Asian region, and case studies of Chinese market power projected onto foreign policymaking via the renminbi, in fiat money-based and commodity-based realms of the global economy. While it is unclear whether the renminbi will rise to replace the dominant U.S. dollar as the main anchor, it is certain that it is a leveraging tool for China and that the push towards renminbi internationalisation is backed by its market power – via consumption power and the expectation of renminbi appreciation. We stand at a crossroads where we see the practice of foreign policy not only convened with conventional military engagements but with economic coercion, and where the direction of global hegemony could be altered significantly.

For a sustainable cooperation among the countries of Asia towards further economic growth, a system of monitoring and checks-and-balances is needed, via the WTO is necessary. This is particularly so in economic sectors that have not been opened by China through the market access protocols for China's entry to the WTO and in concerted efforts to restrain negative consequences of China's utilisation of market power for foreign policy results. Recent development of a skirmish between China and South Korea – mainly economic retaliation on sectors not included in the market access protocol that China signed onto upon WTO accession – upon South Korea's recent decision to deploy the Terminal High Altitude Area Defense (THAAD) missile battery against China's wishes[41] add to a series of previous economic retaliation behaviour by China. For the record, China's restriction of tourism flow to Taiwan upon the election of Tsai Ing-wen as president in 2016 – who does not endorse the 'One China Principle' advocated by China, or China's export ban of rare earths when the Japanese government's purchase of the Senkaku/Diaoyu Islands in 2012[42]–were exemplary cases in which China used its market power to coerce other countries to fulfill its foreign policy agenda, which were a manifestation of China's vehement contests. Ironically, such records are against Chinese President Xi Jinping's proclamations on abiding by the principles of free trade at the World Economic Forum in January 2017.[43] As long as China claims that it is part of the global trading system and benefits from it, checks-and-balances should be placed on the movements of the renminbi in cases of its usage towards economic retaliation.

The renminbi is clearly an aspiring currency that has the possibility to rise to counterbalance other dominant global currencies in the future. Bearing in mind the nature of linkages between renminbi internationalisation and foreign policy, expectations that it would counterbalance the dollar does not equate to nor guarantee a more stable global order. On the contrary, it increases China's bargaining leverage to deliver unexpected foreign policy consequences. It is important to understand that renminbi internationalisation is not just a question of avoiding transaction fees for converting local currencies to the dollar and vice versa using VISA or MasterCard, or being able to purchase oil in renminbi in rates that would be cheaper as opposed to the petrodollar system when the BRI and pipeline projects come through. The understanding that renminbi can be used as foreign policy projection just as the dollar has had is vital to understanding the global financial architecture of the future. This is a crucial task for all countries that are engaged heavily in bilateral or regional economic relations with China for years to come.

Acknowledgement

This chapter was originally prepared for the CAG-GSEC Workshop on 'The Asian Century and China-Japan Cooperation' at Keio University, January 16–17, 2017. Grant: JSPS-NUS Joint Research and Book Project, 'Geopolitics of the Financial System in Asia'. The author would like to thank Professor Junko Shimizu of Gakushuin University for her invaluable comments.

Discussion

MODERATOR: Masaya Sakuragawa
DISCUSSANT: Junko Shimizu

Q: (Junko Shimizu) I think that renminbi internationalisation has been promoted by both policy driven efforts and also market driven policies. From the policy driven efforts, the Chinese government took the bilateral currency swap agreement since 2009. Dr. Park explained that after 2008, they started to promote renminbi internationalisation. As of May 2015, already 32 swap agreements with worldwide foreign central banks exist. Additionally they promote cross border trade and direct investment in renminbi. That's a policy driven effort. On the other hand, they tried to make renminbi internationalisation by using foreign exchange market force. At first, they tried to start the pilot scheme for use of the renminbi in trade settlements, and also they tried to do direct renminbi trading with U.S. dollar currencies. So in the case, for example, in Tokyo, we have renminbi-yen direct trading market. It is not so often used but there are now many direct trading markets in the world. And also they tried to use offshore market renminbi such as CNH because the Chinese government tried to internationalizse their currencies while keeping capital control. In offshore market utilisation, they put offshore renminbi clearing banks in foreign exchange market. As of November 2015, 15 countries across Asia, Europe, Middle East, and North and South America have offshore renminbi clearing banks in their foreign exchange market. Late of last year, in New York, they had offshore renminbi clearing banks. Unfortunately, in Tokyo market, there are no clearing banks now. I think that they are using market stream forces as well to promote the renminbi internationalisation.

We can see that renminbi internationalisation is promoted rapidly and aggressively while the government keeps capital control. It is very unique.

On the other hand, the Japanese government started to liberalise their markets especially focussed on the currency compatibility and capital openness, though it was following IMF liberalisation. Thus, there are big differences between renminbi internationalisation and Japanese yen liberalisation. Personally, I think that liberalisation with capital control is impossible and the Chinese government tried the impossible way to internationalise their currency. So far, renminbi internationalisation was very successful because there is strong expectation of renminbi appreciation. That strong expectation of renminbi appreciation is called market power in Dr. Park's paper.

So, what is market power? From the standpoint of international finance, market power is sometimes huge production or huge demand of final goods. For example, if other countries export to China, and China is a very good customer. However, in terms of export, I don't think China has a lot of market power yet because China's export is not so competitive compared to other Asian countries such as Japan. China's market power largely depends on its exchange rates.

So my questions are – what is Chinese market power? Why could China promote renminbi internationalisation with capital control and regulations?

The reason why China has to protect their country by using capital control may be that the Chinese government itself recognises that they do not have any market power.

So far, renminbi internationalisation had been advanced and supported by the strong expectation of renminbi appreciation. Many countries want to have renminbi but because of the capital control, they cannot easily have renminbi. If they use renminbi for trade transactions, they can keep renminbi outside of the country. That's why they follow the renminbi internationalisation. However after depreciation expectation was growing, especially in 2015 to 2016, unfortunately, the share of renminbi–renminbi transaction is now declining. So it means that Chinese internationalisation with capital control is very good when people expect that Chinese renminbi appreciate, but when it is expected to depreciate, it's not very good. In this sense, renminbi internationalisation is not stable and not decided upon by China itself but largely depends on the world economy. In your chapter, your conclusion is such that market power and its policy of internationalisation are not stable.

C: (Tomoo Kikuchi) You talked about the U.S. interest shifting mainly from security to economics while China's was vice versa. The starting point was after the Second World War, talking about NATO and national plans and so on. I'm not sure whether that's the right starting point because we know even after the First World War, economically speaking, the U.S. already had the world power but, of course, it took two World Wars for U.S. the to become a hegemon.

I have some estimates about the U.S. becoming energy self-sufficient and an energy exporter by 2025. That trend is crucially important for U.S. engagements in the Middle East because of shell gas revolutions among other things. That the U.S. was the biggest oil consumer and oil importer is going to change, which has implications for the entire world. Interestingly, if you look at regions, now LNG has become a very important source of energy especially in Japan after the Fukushima accident and also because of environmental considerations. But LNG doesn't really have a spot market yet. So there are some efforts, institutional efforts to create the spot market. The reason why it is important and maybe there is potential for China and Japan to collaborate on setting up a market is that Japan and China are the biggest consumers and importers of LNG. I think that's a very interesting trade also to talk about collaboration between China and Japan. We know that the energy and financial markets are closely correlated.

Q: (Masahiro Kawai) When I discussed One Belt, One Road (OBOR) with an Indian expert, that expert said if One Belt, One Road would result in geo-economic benefits then Indians would be happy to accept it. But if OBOR has a geopolitical objective then India would go against it. I thought that was very interesting, and you defined geoeconomics as the use of economic tools to achieve political objectives. Is this a standard definition of geoeconomics? In the case of the use of geoeconomics, I thought the objective would be to achieve certain national objectives by using both geographical relations and economic tools to achieve them. On the other hand, I thought geopolitics would be to achieve political objectives. So I need clarification on the choice of the word.

A: (June Park) Geopolitics is more of a military dynamic. It's not about getting what economic benefits you want to reap, but more about having a strategic power leverage upon your opponent. So let's say in the context of the THAAD deployment system in Korea, excluding any kind of economic activity there, China is using its market power to coerce the Koreans to cancel off the THAAD system. It is cancelling entertainment contracts and *other* contracts, and lots of things in turn are translated into foreign policy. This is the context of geoeconomics, but way before the time when geoeconomic dynamics were not so visible, it was mainly about gaining territory through combat, by killing citizens, maybe in the Napoleon days or maybe during the deterrence days – Star Wars days between the U.S. and the Soviets. That was more geopolitical than geoeconomic. So that's the difference that you may have gotten from the Indian expert who tried to say that if we have geoeconomic benefits because they will benefit from it, too. If the OBOR is successful and they're able to gain geoeconomically then it benefits the Indians so it's okay. But, geopolitically, if China becomes stronger and it tells India what to do, India doesn't want that. I think that's what the Indian expert was saying.

Q: (Masahiro Kawai) The second point is why China would be interested in renminbi internationalisation from political perspectives, and not just from economic perspectives. From political perspectives, perhaps, reliance on the existing U.S. dollar dominant financial system can undermine political interests of countries which want to go against the United States, maybe Russia. Maybe in the future, China may become like that. You know international cross border settlement and reliance on SWIFT would mean that financial transaction information is shared by the United States, by the major Western countries. That may go against the interest of countries which want to take on. the United States. I hope China is not going to choose that path. That's one example.

A: (June Park) With regard to SWIFT, which was a very good comment, I think we need to see this from what we've been seeing from 2009 and onwards. There's no guarantee that China wants to respect the existing order. So my own understanding is that China tried and tries to benefit primarily from the existing order. But in the future direction, it wants to project its own power because the existing order does not give them the full power leverage on the global stage that it desires. It's been disappointed by the voting system of the IMF and World Bank. That's why it wants to go a little bit further and create its own standards and create its own technology branded in "Made in China" names.

Q: (Masahiro Kawai) Another example is financial sanctions against North Korea using a bank in Macau and a U.S. dollar-based deposit. So perhaps those countries which want to go against the United States may want to establish their own financial transaction systems. I thought that's a kind of discussion you might be interested in, so I just want to know if this is something you have been thinking about? If you have not thought about this, would you like to discuss these issues because China choosing the SWIFT system and existing U.S. dollar financial system would give the message to the rest of the world that China is going to respect the existing order? And then China is going to behave within that order. Is that the kind of path that China wants to take?

Sometime ago in the heyday of the Japanese economy, there was a discussion about denominating oil transaction in yen but that did not come true. Actually, I don't know why it didn't come true, but perhaps studying that episode would be very useful for China.

A: (June Park) With regard to economic sanctions, I think it may be possible to keep the renminbi transactions going, especially if Russia wants to play the game with Donald Trump. It looks like the Donald Trump Team is considering lifting economic sanctions on Russia. I don't know which one but you are right on the Iranian sanction. Still, some primary sanctions prohibit the use of the U.S. dollar and it could be circumstantial. But, again, just as in the UnionPay, this is an opportunity for the Chinese. If successful, it could reap benefits for Chinese foreign policymaking. So that's why it's a cautionary tale that I'm talking about.

Q: (Masahiro Kawai) To clarify my comments on North Korea sanction case, because those banks operate within the U.S. dollar-based system, the United States was able to go after the North Korean deposits and accounts.

A: (June Park) Yes, I remember – Banco Delta Asia I think. But, now there's already trade going on between China and North Korea. 99 per cent of North Korea's trade is dependent on China. So what they have to do is to target individuals in order to sanction them and I think that's the recent UN security resolution. Financial sanctions in this kind of manner may not work anymore.

Q: (Masahiro Kawai) My point is that if China is within this system, China may be vulnerable to U.S. behaviour.

And one more thing that you mentioned – the differences between yen and yuan internationalisation without or with capital controls – actually Japan also deployed capital controls until the early 1980s. South Korea also did so and then they had to let it go because Americans were pushing. When was that year?

C: (Junko Shimizu) December 1980.

A: (June Park) Okay. The 1990s was when yen internationalisation was pursued by the government.

Q: (Yuqing Xing) I think you exaggerate China's intention of internationalisation of its own currency. For example, in terms of UnionPay, from my understanding, it's that China tried to develop its own settlement system rather than using UnionPay to promote or project this like a soft power or its foreign policy because China considers its market size. Therefore, the Chinese government always wants to promote its own Google, its own Facebook, its own Amazon, whatever. That's consistent with China's industrial policy rather than foreign policy.

The second point is that you mentioned about Petro–Yuan transaction. I think that's created due to a special situation that Iran and Russia face as economic sanctions. So once economic sanctions were lifted, do you think Russia and Iran would still agree with yuan settlement?

The last point is that now China's situation changed significantly in particular in terms of yuan's internationalisation. You mentioned the offshore market. China tries to use the offshore market but now the offshore market basically is dead.

I just want to say that there's a recent order to impose a capital control. There are ten guidelines. The last one is that banks and the individual are banned to benefit for their own purpose when it harms national interest.

A: (June Park) Regarding UnionPay, I mentioned that it didn't start originally as a foreign policy projection tool. It started when Jiang Zemin wanted a unified bank settlement system using cards. It was labelled something like Golden Pay System and it tried to take off several attempts throughout the 1990s. It went on and off, and, in 2002, China was finally able to succeed in finding something that's agreeable. It only had four members in the beginning, which are China's state-owned banks. So I don't try to say that this was used originally as a tool for foreign policy, but what's important is it became a tool that China can use as leverages. But it's closely associated with how Chinese people spend their money and you just go out there in any Asian country that accepts UnionPay, you will see Chinese people using their cards, be it co-branded or not branded. So that was the point that I was making with regard to UnionPay.

One more thing to add with regard to the Petro–Yuan is whether China will be able to diversify its energy sources, not just depending on oil but on renewables. I mentioned the projection by energy consulting companies is that, by 2030, China will be consuming 90 per cent of the Iraqi oil. So once Iraq settles down for some stability, China will be the primary consumer of Iraq's oil. At the same time, I don't think that China will just sit and watch the renewable market go away from its hands. So we'll have to see in the longer term, in the future whether or not this Petro–Yuan would be successful.

Notes

1 On October 1, 2016, the Chinese yuan (hereafter renminbi) officially joined the Special Drawing Rights (SDR) basket of currencies designated by the International Monetary Fund (IMF). Along with the U.S. dollar, the euro, the Japanese yen, and the British pound, the renminbi became part of SDR that can be exchanged for freely usable currencies. The decision towards the international acceptance of the renminbi was reached after years of China's lobbying within the international organisation, spearheaded by Zhou Xiaochuan of the People's Bank of China (PBOC). Zhou's argument in a 2009 essay pointed towards the inherent vulnerabilities of the international monetary system largely dominated by the U.S. dollar. Currently, the yuan enjoys the third-largest weighting in the IMF's SDR at 10.92 per cent of the whole basket. See IMF SDR. www.imf.org/external/np/exr/facts/sdr.htm.

2 "BRI Began With an Official Statement by Xi Jinping in Kazakhstan on September 7, 2013." www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml

3 "Renminbi as a Reserve Currency." *Central Banking*, August 11, 2014. www.centralbanking.com/central-banking-journal/advertisement/2357296/renminbi-as-a-reserve-currency

4 According to international political economist Benjamin Cohen, a currency must be competitive in order to operate as an international currency. He elaborates on the criteria for international currency as the following: (1) widespread confidence in the currency's future value backed by financial stability in the country of origin, (2) qualities of "exchange convenience" and "capital certainty", and (3) the promise of a broad transactional network with the prospect of acceptability by others. See B. Cohen. "Will History Repeat Itself? Lessons for the Yuan," in Barry J. Eichengreen and Masahiro Kawai, eds. *Renminbi Internationalization: Achievements, Prospects, and Challenges* (Tokyo: Asian Development Bank Institute/Washington, DC: The Brookings Institution, 2005).

5 Tirole, J. 2015, p. 284. Tirole distinguishes an economist's definition of market power from that of a policymaker, which generally means pricing above *average* cost instead of marginal cost.

6 Strange, S. 1988, p. 30.

7 Prasad, Eswar S. The dollar trap: How the US dollar tightened its grip on global finance. Princeton University Press, 2015. p. 37.

8 "The New Foreign Exchange and Foreign Trade Law and Japan's Balance of Payments." Prepared by the Bank of Japan for the Eleventh Meeting of the IMF Committee on Balance of Payments Statistics, Washington DC, October 21–23, 1998. www.imf.org/external/bopage/pdf/121.pdf

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11 Luttwak, Edward N. "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce." *The National Interest*, No. 20 (Summer 1990), 17–23.
12 Blackwill and Harris, 2016, pp. 23–24.
13 "FT Investigation: Beijing Has Spent Billions Expanding Its Ports Network to Secure Sea Lanes and Establish Itself as a Maritime Power." *Financial Times*, January 12, 2017. http://ig.ft.com/sites/china-ports/?segmentId=7005c83a-1f5c-33ca-66c5-ca8c9d224ab6
14 Coincidentally, the timing of China's power launch was met with the technology boom of platforms that began around 2007 with the release of the iPhone by the late Steve Jobs, former co-founder and CEO of Apple. This version of the paper will not dwell on technology spill-overs, but subsequent revisions will shed light upon how the technology sharing impacted Chinese entrepreneurs to rise based on platforms.
15 Yong and Pauly, 2013.
16 "Cross-Border RMB Settlements." *Mizuho Bank*. www.mizuhobank.com/service/global/cndb/rmb/pdf/cross_border.pdf.
17 On a side note, China has come to realise that domestic market expansion is necessary and a departure from an export-based economy. Although China's position in exports would be pursued for the time being, it is quite clear that its foreign policy drives via the BRI and the AIIB is also to resolve overcapacity issues in steel, metals, and other major (heavy) sectors of manufacturing.
18 Personal interviews via Q&As on a lecture regarding the AIIB by an anonymous Thailand Ministry of Finance official regularly attending AIIB board meetings, Bangkok, Thailand, January 7, 2017.
19 The attempted control over the South China Sea is a clear example of this endeavour.
20 For developing discussions on China's market economy status, see details on the two rapidly developing WTO dispute cases, *DS471: United States – Certain Methodologies and Their Application to Anti-Dumping Proceedings Involving China* (Complainant: China, December 3, 2016). www.wto.org/english/tratop_e/dispu_e/cases_e/ds471_e.htm, and *DS515: United States – Measures Related to Price Comparison Methodologies* (Complainant: China, December 12, 2016). www.wto.org/english/tratop_e/dispu_e/cases_e/ds515_e.htm
21 K. Akamatsu. "A Historical Pattern of Economic Growth in Developing Countries." *Journal of Developing Economies*, 1(1) (March–August 1962), 3–25.
22 Victor Cha. 2016. In *Powerplay*, Cha explains that the U.S.–built bilateral security networks with Asian states as opposed to the aggregate form of security alliance system such as North Atlantic Treaty Organisation (NATO) in Europe, due to the complex political landscape in Asia.
23 Such cases include South Korea and Taiwan in the 1970s.
24 As an alternative view, while many American and foreign observers appear to think that oil (particularly oil producing states and oil companies as the real culprits) was the real motivation behind the invasion of Iraq in 2003, John Mearsheimer and Stephen Walt in 'The Israel Lobby and US Foreign Policy' (2004) have suggested

that the critical driving forces behind the U.S. Middle-East policy towards the Iraq War were Israel and the neoconservatives in the lobby.

25 Yong and Pauly, 2013.

26 "The US Treasury's December 2016 Indicate Japan's Holdings Slightly Ahead of China." http://ticdata.treasury.gov/Publish/mfh.txt. In August 2016, China held more US treasury bills than Japan.

27 For further details on the poultry and tires cases in the WTO DSB that ignited the U.S.–China trade frictions during this period, see *DS392 United States – Certain Measures Affecting Imports of Poultry From China*. April 17, 2009. www.wto.org/english/tratop_e/dispu_e/cases_e/ds392_e.htm. and *DS399 United States – Measures Affecting Imports of Certain Passenger Vehicle and Light Truck Tyres From China*. September 14, 2009. www.wto.org/english/tratop_e/dispu_e/cases_e/ds399_e.htm.

28 It is said that the concept of a nationwide payment network in China dates back to 1993 when Jiang Zemin, the then-Chinese president, advocated for the 'Golden Card Project'. China UnionPay is an outcome of China's multiple attempts at creating a unified Chinese bank card system since the 1990s. Launched on March 26, 2002 by then PBOC governor Dai Xianglong, it started with four state-led banks of China as members: the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China (ABC), the Bank of China (BOC), and the China Construction Bank (CCB).

29 For details on this case, see *DS413 China – Certain Measures Affecting Electronic Payment Services*. September 15, 2010. www.wto.org/english/tratop_e/dispu_e/cases_e/ds413_e.htm. Japan and South Korea requested for third party participation in the case, in addition to Australia, India, and the European Union among others.

30 "CUP and VISA Sign MOU to Collaborate on Payments Security, Innovation and Financial Inclusion." http://investor.visa.com/news/news-details/2016/CUP-and-Visa-Sign-MOU-to-Collaborate-on-Payments-Security-Innovation-and-Financial-Inclusion/default.aspx

31 "Bank Cards to Lose China Market Share." *Financial Times*, December 5, 2016. www.ft.com/content/1f26b75c-bac2-11e6-8b45-b8b81dd5d080

32 "UnionPay Takes Top Spot From VISA in $22 Trillion Global Cards Market – RBR." *Finextra*, July 22, 2016. www.finextra.com/pressarticle/65412/UnionPay-takes-top-spot-from-visa-in-22-trillion-global-cards-market – rbr.

33 The Iranian nuclear capability was becoming a threat to the region (particularly to Israel) and motivated the U.S., along with other P5 members – UK, France, China, Russia of the UN Security Council, and Germany, to sign an agreement – the Joint Comprehensive Plan of Action (JCPOA) to lift EU and UN sanctions on Iran to halt (or delay for 15 years) its nuclear development. Although primary U.S. sanctions are still placed on Iran under the surveillance of the U.S. Treasury, lifting other sanctions paved the way for the reopening of the Iranian economy.

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39 "China's Ambitious Oil Futures Contract Delayed: Burst of Speculation in Metals Futures Gives Regulators Cold Feet About Complex Contract." *Financial Times*, September 15, 2016. www.ft.com/content/dbd43e5c-78cc-11e6-a0c6-39e2633162d5
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42 "Fight Against China on Rare Earths." *Financial Times*, March 14, 2012. www.ft.com/content/4c3da294-6cc2-11e1-bd0c-00144feab49a
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