WHEN POWERS CLASH: AN AMORAL APPRAISAL OF RMB-USD INTERACTIONS

Two millennia ago, on a crisp winter evening, thousands flocked to Chang'an's luminous streets, jostling between carriages and merchant stands to glimpse the annual lantern festival.[1] Han dynasty China was already astoundingly international[2] — an outlook the country has regained in recent decades. Following China's initiation of the open door and reform policies (*gaige kaifang*) in 1978 and its accession to the World Trade Organization (WTO) in 2001, China and the global economy have become intertwined "in ways that profoundly changed both."[3]

Growth engenders controversy. As China's international influence swells, countries affected by its actions have grown increasingly critical, especially of its exchange rate policy.[4] While the word "renminbi" (RMB) was literally Chinese to most Americans before 2003,[5] the United States has since led calls for China to adjust its exchange rate policy,[6] claiming that the value of the RMB contributes to the loss of American jobs,[7] the current account imbalance, and the ballooning federal deficit.[8] The U.S. Department of the Treasury has alleged that "China is a [c]urrency [m]anipulator,"[9] while the media has featured allegations that China is weaponizing the yuan.[10] Apart from the fact that this argument relies on controversial economics and an arguably simplified

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[1] *See* Yang Meng, *The Legendary Origin of the Lantern Festival*, CGTN (Feb. 26, 2021, 1:21 PM), https://news.cgtn.com/news/2021-02-26/The-legendary-origin-of-the-Lantern-Festival-YbJbWuEvss/index.html [https://perma.cc/Z59L-TRF8].

[2] *See* Yongjin Zhang, *System, Empire and State in Chinese International Relations*, 27 REV. INT'L STUD. 43, 52 (2001).

[3] STEPHEN L. MORGAN, THE CHINESE ECONOMY 99 (2021) (noting that while "China was an isolated economy" accounting for less than one percent of world trade in 1978, it "became the world's largest exporter in 2006 and the world's largest trader in 2012").

[4] Thomas Hall, Note, *Controlling for Risk: An Analysis of China's System of Foreign Exchange and Exchange Rate Management*, 17 COLUM. J. ASIAN L. 433, 434 (2004).

[5] Shang-Jin Wei, Comment, *Some Bubbles in the Discussion of the Chinese Exchange Rate Policy*, *in* DEBATING CHINA'S EXCHANGE RATE POLICY 93, 93 (Morris Goldstein & Nicholas R. Lardy eds., 2008).

[6] Hall, *supra* note 4, at 434; *cf.* FAN ZHIYONG, CHINA'S OPENING-UP: THE IMPACT ON MONETARY POLICY CHOICE 212 (Cui Zengbo & Huang Leping trans., Enrich Pro. Pub'g 2011) (2009).

[7] *See, e.g.*, WAYNE M. MORRISON & MARC LABONTE, CONG. RSCH. SERV., RS21625, CHINA'S CURRENCY POLICY: AN ANALYSIS OF THE ECONOMIC ISSUES, at summary (2013).

[8] *See, e.g.*, Leong H. Liew, *US Trade Deficits and Sino-US Relations*, 40 J. CONTEMP. ASIA 656, 656 (2010) ("US political players have made the value of the yuan a useful strategic scapegoat for the mounting deficits in US trade . . . .").

[9] Press Release, U.S. Dep't of the Treasury, Treasury Designates China as a Currency Manipulator (Aug. 5, 2019), https://home.treasury.gov/news/press-releases/sm751 [https://perma.cc/3KFM-LHTH].

[10] *See, e.g.*, Mike Bird, *Beijing Risks Economic Self-Harm by Weaponizing the Yuan*, WALL ST. J. (Aug. 5, 2019, 1:34 AM), https://www.wsj.com/articles/beijing-risks-economic-self-harm-by-weaponizing-the-yuan-11564983069 [https://perma.cc/937H-9ERC].

narrative,[11] its suggestive framing elevates established players onto a moral high ground — and thus helps justify preventing developing countries from independently pursuing their national interests.[12]

Focusing on interactions between the RMB and the U.S. dollar (USD), this Note applies an amoral framework to the exchange rate debate, arguing that there is no morality to a country's exchange rate policy and that all countries are — and should be recognized as — driven predominantly by their domestic interests in determining exchange rates. In the historical and legal fields, scholars have long emphasized the power imbalances in the Sino-U.S. relationship, highlighting the self-serving role of the dominant, Western-driven narrative.[13] Applied to a political-economy context, the RMB-USD case is a prime example of how the developed world, with the United States at the helm, infuses economic policymaking with a moral dichotomy, thereby allowing it to construct rules to its own advantage at the exclusion of emerging economies.

This Note proceeds as follows. Part I examines the Global North-South opposition in international finance and the moral underpinnings of arguments directed against China's exchange rate policies. After introducing the concerns that motivate an exchange rate regime, Part II summarizes the current monetary structure through the evolution of the Bretton Woods system, the lack of workable international standards, the resulting dominance of powerful states, and the prevailing importance of domestic interests in shaping international finance. Part III elaborates on China's exchange rate regime and argues that, despite external pressures, China's move toward greater exchange rate flexibility is driven largely by long-term domestic interests. Part IV concludes.

I. AN ARTIFICIAL MORAL OPPOSITION

With historical vestiges of colonialism allowing wealthy nations to enjoy disproportionate influence in fashioning the rules and language of

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[11] *See, e.g.*, *Currency Manipulation Accusation Against China Not Just "Wrong Now," But Fundamentally Flawed*, RETHINKING ECON., https://www.rethinkeconomics.org/journal/the-chinese-currency-manipulation-argument-may-be-wrong-in-a-more-fundamental-way [https://perma.cc/S9Q5-JVKH]. As the value of the RMB fluctuates, it creates both winners and losers. MORRISON & LABONTE, *supra* note 7, at summary ("The effects of China's currency policy on the U.S. economy are complex. If the RMB is undervalued (as some contend), . . . this benefits U.S. consumers and U.S. firms that use Chinese-made parts and components, but could negatively affect certain U.S. import-competing firms and their workers.").

[12] Geopolitical tensions often take on a moral coating as well, as when Congress recently made the "moral and strategic case" for clashing with mainland China over Taiwan. Press Release, Sen. Bob Menendez, Senate Foreign Relations Committee Overwhelmingly Approves Taiwan Policy Act of 2022 (Sept. 15, 2022), https://www.menendez.senate.gov/newsroom/press/senate-foreign-relations-committee-overwhelmingly-approves-taiwan-policy-act-of-2022 [https://perma.cc/XML5-2Y8N].

[13] *See, e.g.*, TEEMU RUSKOLA, LEGAL ORIENTALISM: CHINA, THE UNITED STATES, AND MODERN LAW 25–27 (2013); William P. Alford, *Law, Law, What Law? Why Western Scholars of China Have Not Had More to Say About Its Law*, *in* THE LIMITS OF THE RULE OF LAW IN CHINA 45, 51 (Karen G. Turner et al. eds., 1st paperback ed. 2015).

international finance,[14] the developing world is frequently excluded from international policymaking and thus from generating discourse favorable to its position.[15] Designed under a colonialist mindset,[16] institutions such as the International Monetary Fund (IMF)[17] and the World Bank "remain in key aspects colonial in character."[18] Within these institutions, developing countries have less of a say in both leadership and voting: by tacit agreement, leadership has long been selected from Europe or the United States, while the average person in the Global North is represented by eight times the number of votes as the average person in the Global South.[19]

Discourse premised on morality obscures power struggles.[20] Despite China's rich and notable history, the power imbalances under which it has operated in recent centuries[21] have led external discourse to portray the country as an Other perennially "in transition": savage and half-formed.[22] In order to gain admission into the WTO, "China had to agree to alter its legal institutions to conform to North Atlantic standards."[23] China's WTO "accession protocol" was "filled with unprecedented ad hoc directives for the reorganization of [its] economic and legal systems" that "exceeded both quantitatively and qualitatively what had been demanded of any other member of the WTO."[24]

On the other hand, justified by a "hegemonic self-righteousness,"[25] "the United States sees the world as an extended playing field for its domestic political economy,"[26] frequently portraying other countries as morally questionable. More than "prevent[ing] the self-righteous from seeing that what they consider morally self-evident may be informed by

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[14] Jason Hickel, Opinion, *Apartheid in the World Bank and the IMF*, AL JAZEERA (Nov. 26, 2020), https://www.aljazeera.com/opinions/2020/11/26/it-is-time-to-decolonise-the-world-bank-and-the-imf [https://perma.cc/CDT3-BUP3].

[15] *Cf.* JOSÉ ANTONIO OCAMPO, RESETTING THE INTERNATIONAL MONETARY (NON)SYSTEM 43 (2017).

[16] Hickel, *supra* note 14.

[17] *See* OCAMPO, *supra* note 15, at 30–31 (arguing that the IMF became a "controversial North-South institution" because of "[t]he divorce between the handling of cooperation among developed countries outside the Fund and the management of the crises faced by emerging and developing countries from the late 1970s to the early 2000s within the Fund," *id.* at 31).

[18] Hickel, *supra* note 14.

[19] *Id.*

[20] In other words, "[t]here is no innocent knowledge to be had," as traditions "dispos[e] us to see the world in light of our preconceptions." RUSKOLA, *supra* note 13, at 51. Perhaps the only way to overcome prejudicial tiers of morality is by developing and demonstrating economic and political prowess.

[21] Alford, *supra* note 13, at 51.

[22] RUSKOLA, *supra* note 13, at 207.

[23] *Id.* at 205. Insomuch that China is perennially viewed as "in transition," it cannot become "*part* of the universal . . . and thus potentially capable of imparting lessons to the United States." *Id.* at 222.

[24] *Id.* at 206.

[25] WOLFGANG STREECK, *Scenario for a Wonderful Tomorrow*, *in* CRITICAL ENCOUNTERS: CAPITALISM, DEMOCRACY, IDEAS 95, 102 (2020).

[26] *Id.* at 101.

self-interest,"[27] this perspective is especially consequential when interacting with a country that Western discourse traditionally portrays as "lawless" and, by extension, morally inferior.[28] The United States's extraterritorial jurisdiction in China in the twentieth century is particularly instructive of this difference, as this extraterritoriality served both to introduce China into an existing global order and to prevent its full ascension into international society.[29] The curious United States Court for China[30] — a court largely ignored in contemporary scholarship but one that possessed breathtaking discretion in fashioning extraterritorial law[31] — presided over Americans exempt from Chinese law,[32] while *The Chinese Exclusion Case*[33] barred Chinese citizens from even entering the United States.[34]

Within such a tilted framework, the exchange rate complaints that the United States levels toward China typically contain a moral undertone, employing language such as "cheating,"[35] "manipulate,"[36] and "unfair"[37] to portray China as a conscious bad actor. Indeed, "currency manipulation" — rather than the more neutral "currency management" — is a concept that relies on a particular type of power discourse,

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[27] *Id.* at 102; *see also id.* at 101 (observing that some Western elites "project what they collectively regard as self-evident, natural and reasonable onto *their* outside world, and they are puzzled that anyone could possibly fail to see things the way they do"); DAVID BARSAMIAN & NOAM CHOMSKY, PROPAGANDA AND THE PUBLIC MIND 46 (2001).

[28] *See* RUSKOLA, *supra* note 13, at 6, 31, 44. Traditional Chinese governance preferred to rely on government officials' "inherent sense of justice" rather than "strict codes of law." DAVID GRAEBER, DEBT: THE FIRST 5,000 YEARS 272 (2011); *see also, e.g.*, RUSKOLA, *supra* note 13, at 14. Law, however, played an outsized role in governance. *See, e.g.*, Alford, *supra* note 13, at 47.

[29] RUSKOLA, *supra* note 13, at 114.

[30] The court applied a newly created body of law that was a veritable amalgamation of international law, Chinese law, and American state and federal law — relying principally on laws from Alaska and the District of Columbia. *Id.* at 165–66, 171–73.

[31] *Id.* at 140; *see id.* at 165, 173.

> The United States Court for China was, in short, an imperial court that was left to fashion its own peculiarly placeless law, justified by the conviction that China itself was a lawless place. In America's extraterritorial empire in the Orient, U.S. law became its Oriental Other. Considered as part of a global story of American law, it took a *particularly particular* form, divested even of its seemingly most universal feature, the constitutional rights of U.S. citizens.

Id. at 174.

[32] *See id.* at 141, 156–57.

[33] Chae Chan Ping v. United States (*The Chinese Exclusion Case*), 130 U.S. 581 (1889).

[34] *See id.* at 609; RUSKOLA, *supra* note 13, at 143–44. The Chinese immigration cases "came to stand for the proposition that in certain areas the U.S. government possesses 'plenary' or 'inherent' powers that are part of its authority simply by virtue of its being a sovereign state in a world of other sovereign states, and hence not subject to constitutional restrictions," a concept that "has all the appeal of an Occidental version of unqualified despotism." *Id.* at 146.

[35] *E.g.*, John Whitesides, *Senior U.S. Lawmakers Condemn "Provocative" China Currency Devaluation*, REUTERS (Aug. 11, 2015, 5:57 PM), https://www.reuters.com/article/us-china-markets-yuan-congress/senior-u-s-lawmakers-condemn-provocative-china-currency-devaluation-idUKKCN0QG29H20150811 [https://perma.cc/4X37-FZYW] (quoting Senators Bob Casey and Lindsey Graham).

[36] *E.g.*, Press Release, U.S. Dep't of the Treasury, *supra* note 9.

[37] *E.g.*, *id.*

with the scale of justice tipping invariably toward the hegemon. In the 1970s, Japan became an "early victim of currency warfare," with the United States threatening to restrict Japanese imports unless the yen appreciated.[38] Thereafter, a rising yen led to "massive bubbles in the stock and property markets," which burst in 1991, proving catastrophic for the Japanese economy.[39] Over the last several decades, the United States has similarly accused other booming East Asian economies of deliberately undervaluing their currencies,[40] taking a moral stance to pressure them into bilateral negotiations regarding market liberalization.[41]

While America's structural power has frequently allowed it to get its way in international finance, it is not the only country acting for the welfare of its constituents — nor should it be.[42] Because states are "vehicles of power" that "operate in the interests of the particular internal power structures of their societies," instead of "moral agent[s]" serving altruistic functions,[43] it is only natural that a country's government would prioritize domestic interests in establishing monetary policy. In macroeconomic policymaking, both China and the United States prioritize domestic interests, rather than external influences, in fashioning exchange rate and current account policies.

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[38] Ronald McKinnon & Zhao Liu, *Modern Currency Wars: The United States Versus Japan* 10 (Asian Dev. Bank Inst., Working Paper No. 437, 2013). Even now, insinuations of Japanese currency manipulation abound. *See, e.g.*, *U.S. Keeps Japan on Currency Monitoring List and Warns Against Intervention*, JAPAN TIMES (June 11, 2022), https://www.japantimes.co.jp/news/2022/06/11/business/financial-markets/u-s-keeps-japan-currency-monitoring-list-warns-intervention [https://perma.cc/7UQY-Y4QL].

[39] McKinnon & Liu, *supra* note 38, at 12. There is a concern that "China could suffer a similar fate to that of Japan if it continues to be dictated to without being able to make free, independent policy choices." Li Sheng, *Income Inequality, Financial Systems, and Global Imbalances: A Theoretical Consideration*, 5 GLOB. POL'Y 311, 318 (2014).

[40] *See* Takatoshi Ito, *Influence of the Renminbi on Exchange Rate Policies of Other Asian Currencies*, *in* DEBATING CHINA'S EXCHANGE RATE POLICY, *supra* note 5, at 239, 239 (noting that despite the diversity and uncoordinated nature of exchange rate regimes among East Asian countries, they are portrayed together as "manipulating" their exchange rates); *Currency Manipulation Accusation Against China Not Just "Wrong Now," But Fundamentally Flawed*, *supra* note 11.

[41] *See* Anwar Shaikh & Isabella Weber, *The U.S.-China Trade Balance and the Theory of Free Trade: Debunking the Currency Manipulation Argument* 5 (New Sch. for Soc. Rsch., Working Paper No. 05/2018, 2018), http://www.postkeynesian.net/downloads/events/Shaikh-Weber_2018.pdf [https://perma.cc/9Y7K-8FLE].

[42] While this Note focuses on exchange rate independence, all countries arguably reserve the right to adopt policies that promote domestic interests and sovereign autonomy. *See, e.g.*, *Self-Determination (International Law)*, LEGAL INFO. INST., https://www.law.cornell.edu/wex/self_determination_(international_law) [https://perma.cc/S3XT-6ZCC]; *see also* RONALD I. MCKINNON, THE UNLOVED DOLLAR STANDARD: FROM BRETTON WOODS TO THE RISE OF CHINA 36, 60 (2013) (arguing that U.S. monetary policy is "insular" and inwardly focused).

[43] NOAM CHOMSKY, *Ruling the World*, *in* UNDERSTANDING POWER 140, 163 (Peter R. Mitchell & John Schoeffel eds., 2002).

II. EXCHANGE RATES, CURRENT ACCOUNTS, AND BRETTON WOODS

This Part provides context for the RMB-USD exchange rate interaction by examining the international financial framework and emphasizing U.S. structural power both before and after the Bretton Woods monetary system. With the creation of the IMF in 1944, Bretton Woods created a par value system that attempted to stabilize exchange rates among member countries.[44] After the original Bretton Woods collapsed in 1973, there have been no binding international standards governing exchange rate regimes, with exchange rate interactions operating more through domestic institutions than through the international arena.[45]

A. Exchange Rates

Exchange rates involve perennial coordination.[46] Because exchange rates are relative by definition, when one currency is undervalued, other currencies must necessarily be overvalued.[47] Exchange rate policy forms a part of monetary policy,[48] which broadly refers to actions that a country's central bank takes to "influence the availability and cost of money and credit to help promote national economic goals."[49] There are two basic types of exchange rate regimes, fixed and floating,[50] with various degrees of flexibility in between.[51] Industrialized countries

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[44] *Cooperation and Reconstruction (1944–71)*, INT'L MONETARY FUND, https://www.imf.org/external/about/histcoop.htm [https://perma.cc/5H64-RNCR].

[45] *See* OCAMPO, *supra* note 15, at 29 ("Bretton Woods was hardly a fully coherent system, as in particular it lacked criteria to govern changes in par values, and had no systematic means for increasing reserves. However, the ad hoc system that came about as a result of the pressure of market forces and the failure to reform was even more distant from any coherent design.").

[46] *See* JEFFRY A. FRIEDEN, CURRENCY POLITICS 40–41 (2014); Simon Johnson, Comment, *Toward a Balanced Approach*, *in* DEBATING CHINA'S EXCHANGE RATE POLICY, *supra* note 5, at 166, 167.

[47] *See* MARC LABONTE & MARTIN A. WEISS, CONG. RSCH. SERV., IF11296, U.S. DOLLAR INTERVENTION: OPTIONS AND ISSUES FOR CONGRESS 1 (2019).

[48] Gregory T. Chin, *Understanding Currency Policy and Central Banking in China*, 72 J. ASIAN STUD. 519, 520 (2013).

[49] *About the FOMC*, BD. OF GOVERNORS OF THE FED. RSRV., https://www.federalreserve.gov/monetarypolicy/fomc.htm [https://perma.cc/S8Z9-XU2C]; *see also Structure and Functions of the Federal Reserve System*, FED. RSRV. EDUC., https://www.federalreserveeducation.org/about-the-fed/archive-structure-and-functions [https://perma.cc/P5BA-7YM8]; Chin, *supra* note 48, at 520 ("Traditionally, central bankers think of exchange rate policy as part of monetary policy. Whereas foreign exchange rate policy primarily determines the value of domestic money for imported foreign goods, and the cost of its exports, monetary policy mainly has a direct bearing on the value of domestic money for domestic goods, assuming the absence of major fluctuations in the exchange rate.").

[50] *What Is the Difference Between a Fixed and a Floating Exchange Rate?*, CZECH NAT'L BANK, https://www.cnb.cz/en/faq/What-is-the-difference-between-a-fixed-and-a-floating-exchange-rate [https://perma.cc/89AH-2BKJ].

[51] CLAUS D. ZIMMERMANN, A CONTEMPORARY CONCEPT OF MONETARY SOVEREIGNTY 88–89 (2013) (noting "major options" for exchange rate regimes after the 1970s include "allowing the currency to float freely, pegging it to another currency or to a basket of currencies, adopting the currency of another country, or participating in a currency bloc" (footnote omitted)).

generally have floating currencies, while most developing countries maintain pegged or managed exchange rate regimes.[52] The USD, as the unofficial global reserve currency, serves as the peg in fixed exchange rates in many emerging economies.[53]

Managing the exchange rate involves a constant balancing of domestic and international interests. In a floating regime, monetary authorities can intervene to stabilize the currency, typically with an eye to fulfilling national monetary objectives, such as controlling inflation.[54] Maintaining the peg in a fixed exchange rate system, on the other hand, restricts the monetary authorities' ability to conduct domestic monetary policy[55] and risks diminishing domestic price stability in favor of exchange rate stability.[56]

Many exchange rate regimes involve some management — or "manipulation" — that caters to national priorities.[57] If, for instance, the U.S. government wants to raise the value of the dollar, it buys dollars and sells its foreign exchange holdings, and vice versa.[58] Apart from direct intervention, the Federal Reserve (Fed) controls the dollar exchange rate through the federal funds rate, a figure that is heavily influenced by mandates to achieve domestic macroeconomic stability.[59] U.S. interventions in the foreign exchange market have always been fueled by the goal of ensuring dollar primacy.[60] When the Federal Open Market Committee (FOMC), the Fed's policymaking body, promulgated a series of guidelines to undertake foreign exchange operations in 1962, its basic purpose was to, among other things, "safeguard the value of the dollar."[61] As long as these operations "did not interfere with the domestic objectives of monetary policy" — and did not otherwise concern the Fed or Congress — these interventions have always received the backing of "a clear majority of FOMC members."[62] More recently, in response to the 2008 financial crisis and the COVID-19 pandemic, the Fed engaged in successive rounds of quantitative easing, injecting

[52] JOSEPH GOLD, LEGAL EFFECTS OF FLUCTUATING EXCHANGE RATES 13 (1990).

[53] *See* LINDA YUEH, CHINA'S GROWTH: THE MAKING OF AN ECONOMIC SUPERPOWER 268 (2013); *see also* W. MAX CORDEN, CHINA'S NEW PLACE IN A WORLD IN CRISIS 104 (2009).

[54] FRIEDEN, *supra* note 46, at 3.

[55] *See, e.g.*, LEONG H. LIEW & HARRY X. WU, THE MAKING OF CHINA'S EXCHANGE RATE POLICY 95 (2007).

[56] *Id.* at 99. Inflation is, in turn, "not exclusively, or even primarily, an economic problem, but rather a political one." GRETA R. KRIPPNER, CAPITALIZING ON CRISIS 63 (2011).

[57] *See* CORDEN, *supra* note 53, at 104; LABONTE & WEISS, *supra* note 47, at 1.

[58] LABONTE & WEISS, *supra* note 47, at 1.

[59] Jin Zhongxia, Comment, *The Open Economy Trilemma: An Alternative View from China's Perspective*, *in* DEBATING CHINA'S EXCHANGE RATE POLICY, *supra* note 5, at 100, 102.

[60] MICHAEL D. BORDO ET AL., STRAINED RELATIONS: US FOREIGN-EXCHANGE OPERATIONS AND MONETARY POLICY IN THE TWENTIETH CENTURY 146 (2015).

[61] *Id.*

[62] *Id.* at 138.

enormous quantities of money into the economy,[63] which can have the effect of weakening the dollar.[64]

A country that does not use the dollar as legal tender employs similar measures to influence its exchange rate and responds to analogous domestic concerns. China's monetary authorities, for instance, typically rely on monetary measures and capital controls "for maintaining the RMB exchange rate within [a] set target."[65] The People's Bank of China (PBC) can issue RMB or purchase foreign currency to affect the level of foreign reserves, or it can use capital controls to adjust the value of the RMB.[66] China's "contemporary legal regime" of the RMB exchange rate "is designed, as it has been since the beginning of the reform era in 1979, to serve China's overall economic development"[67] by, in part, limiting inflation while providing adequate stimulus.[68]

B. Demise of Bretton Woods

The rise and demise of the Bretton Woods monetary regime[69] illustrate both the triumph of short-term domestic interests over ideals of international cooperation[70] and the singular position of the United States. Since the regime's official abandonment in 1973, there has been no unifying international framework guarding exchange rates,[71] and international monetary entities have been heavily influenced by the United States.[72] As international financial markets "exist under the authority and by permission of the state," they are "conducted on whatever terms the state may choose to dictate, or allow."[73] Thus, there is nothing inherently moral about an international financial architecture, as policies and standards result from a combination of power dynamics, compromises between states and coalitions, and historical circumstances.

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[63] ZIMMERMANN, *supra* note 51, at 86; Eric Milstein & David Wessel, *What Did the Fed Do in Response to the COVID-19 Crisis?*, BROOKINGS INST. (Dec. 17, 2021), https://www.brookings.edu/research/fed-response-to-covid19 [https://perma.cc/F5Q6-Q7VN].

[64] ZIMMERMANN, *supra* note 51, at 87.

[65] Bryan Mercurio & Celine Sze Ning Leung, *Is China a "Currency Manipulator"?: The Legitimacy of China's Exchange Regime Under the Current International Legal Framework*, 43 INT'L LAW. 1257, 1262 (2009).

[66] *Id.*; Hall, *supra* note 4, at 477.

[67] Hall, *supra* note 4, at 457.

[68] CORDEN, *supra* note 53, at 109.

[69] The system collapsed following "a deliberate decision *not* to make all the difficult adjustments necessary to keep to a fixed-rate system." SUSAN STRANGE, STATES AND MARKETS 105 (1988).

[70] *Id.* at 102 ("It was the pursuit of short-term instead of long-term national interest that sowed the seeds of monetary disorder and financial instability.").

[71] *See id.*

[72] For instance, the United States is the only country with veto power over certain policy decisions in the IMF. *See* MARTIN A. WEISS, CONG. RSCH. SERV., IF10676, THE INTERNATIONAL MONETARY FUND (2022); *IMF Members' Quotas and Voting Power, And IMF Board of Governors*, INT'L MONETARY FUND (Nov. 18, 2022), https://www.imf.org/en/about/executive-board/members-quotas [https://perma.cc/PZ2A-PZU5].

[73] ERIC HELLEINER, STATES AND THE REEMERGENCE OF GLOBAL FINANCE 2 (1st paperback prtg. 1996) (quoting SUSAN STRANGE, CASINO CAPITALISM 29 (1986)).

While the 1944 Bretton Woods Conference that created a par value system centered around the dollar was a "major landmark[] in international cooperation,"[74] from its founding, Bretton Woods traced U.S. dominance in international finance. The presumption of dollar stability in the IMF Articles of Agreement adopted at the conference allowed the United States to enjoy uniquely favorable treatment.[75] In the original agreement, if exchange rates between the dollar and another member's currency did not fall within the permissible margins, that member, and not the United States, would be seen to violate its obligations.[76]

Three decades later, the loss of credibility of U.S. monetary policy, lack of confidence in dollar stability, and fear of importing U.S. inflation played key roles in the collapse of Bretton Woods.[77] In 1969, the Nixon Administration began to "adopt[] a practice of 'benign neglect' about the growing balance-of-payments deficit and the United States' commitments under Bretton Woods,"[78] which meant that "the balance of payments deficit and the dollar overhang [would] grow unchecked."[79] The federal government's focus on domestic growth and employment, coupled with the emergence of inflation, "flooded foreign economies with dollar reserves, put[ting] upward pressures on their currencies and price levels."[80] In closing the gold window in 1971,[81] President Nixon attempted to safeguard the dollar's position in the international economy and, should that fail, "to gain control over the trade deficit and minimize associated job losses in the U.S. economy."[82]

By 1970, the markets began to "view[] exchange-market disorder as a dollar crisis,"[83] and "West European governments [became] increasingly unwilling to finance growing U.S. deficits."[84] In late 1978, "[w]ith no sign that the United States was going to reduce its growing external deficit and curb domestic inflation, foreigners began to lose confidence

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[74] OCAMPO, *supra* note 15, at 1; *see also* GOLD, *supra* note 52, at 3 (describing the procedures by which members could propose changes to par values).

[75] GOLD, *supra* note 52, at 251.

[76] *Id.* at 7.

[77] *See id.* at 249; KRIPPNER, *supra* note 56, at 90–91; OCAMPO, *supra* note 15, at 29.

[78] BORDO ET AL., *supra* note 60, at 199.

[79] Martijn Konings, *The Institutional Foundations of US Structural Power in International Finance: From the Re-emergence of Global Finance to the Monetarist Turn*, 15 REV. INT'L POL. ECON. 35, 44 (2008). Professor Allan Meltzer observed in 1991 that there was "little evidence . . . of any systematic effort by the Federal Reserve to conduct monetary policy in a manner consistent with the requirements of a fixed exchange rate system" and "no evidence that any of the administrations objected to this neglect." Allan H. Meltzer, Fifth Annual Homer Jones Memorial Lecture at Washington University in St. Louis: U.S. Policy in the Bretton Woods Era (Apr. 8, 1991), *in* 73 FED. RSRV. BANK ST. LOUIS REV. 54, 55 (1991).

[80] BORDO ET AL., *supra* note 60, at 199.

[81] *Id.* at 200; *see also id.* at 205–06 (noting this decision "sent shock waves through the international community," led to a weeklong shutdown of European exchange markets, and incited fears of "a collapse of international monetary relations," *id.* at 205).

[82] KRIPPNER, *supra* note 56, at 91.

[83] *See* BORDO ET AL., *supra* note 60, at 29.

[84] HELLEINER, *supra* note 73, at 102–03.

in the dollar."[85] Foreign governments and investors hastened to institute a number of policies in anticipation of a weakening dollar, as Saudi Arabia sold its dollar reserves, Western Europe created the European Monetary System, and investors fled from the dollar.[86]

U.S. transgression of the par value system resulted in no legal sanctions. After the United States retreated from dollar convertibility, it "did not adopt other 'appropriate measures' to ensure that exchange rates between the dollar and other currencies would respect the permitted margins above and below parities," as required by the Articles.[87] While the Secretary of the Treasury claimed that the refusal to take such measures placed the adjustment burden on other IMF members, "[t]his attitude was inconsistent with the basic principle of the par value system that each member was legally responsible for observing the obligations of the Articles in relation to its own currency."[88] The dollar's hegemonic position "did not release the United States from this principle or from accountability."[89]

After Bretton Woods collapsed, multilateral negotiations attempted to establish another framework, all the while operating under U.S. dominance.[90] But, as the United States became cognizant of how it was "the main beneficiary" of Bretton Woods's collapse, it steadfastly "resisted attempts to construct a new formal international financial regime."[91] The amended IMF Articles of Agreement failed to propose workable legal standards, with obligations "formulated as law of so soft a character as to defy objective judgment."[92] While the oft-cited Article IV,

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[85] *Id.* at 131.

[86] *Id.* at 131–32.

[87] GOLD, *supra* note 52, at 7; *see also id.* at 251 (describing how U.S. Treasury Secretary John Connally argued that "if currencies floated as a result, the United States would not be responsible for that phenomenon"). After the United States suspended convertibility, it no longer enjoyed the exceptional treatment provided by the original Articles. *See* Articles of Agreement of the International Monetary Fund, art. IV, § 4(b), Dec. 27, 1945, 60 Stat. 1401 (1945) ("A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund under Section 2 of this Article shall be deemed to be fulfilling this undertaking."); *see also* GOLD, *supra* note 52, at 251 ("[A]s the United States was no longer buying and selling gold for its currency in transactions with other members when approached by them, it was required by the Articles to take other appropriate measures to see that the margins for exchange rates involving the dollar were respected in exchange transactions in the United States.").

[88] GOLD, *supra* note 52, at 252.

[89] *Id.*

[90] Professor Eric Helleiner notes that "given the central role of the New York financial markets, the dollar, and U.S. banks in the . . . international financial order," any cooperative action needed U.S. support. HELLEINER, *supra* note 73, at 109.

[91] Konings, *supra* note 79, at 51. The United States opposed "any language that might express or imply a reduction in the role of the U.S. dollar" in negotiating the 1976 Second Amendment of the IMF Articles, GOLD, *supra* note 52, at 252, and the resulting amendment clearly reflected U.S. interests, *see* HELLEINER, *supra* note 73, at 110.

[92] GOLD, *supra* note 52, at 16.

section 1 stipulates that countries should "avoid manipulating exchange rates . . . to gain an unfair competitive advantage over other members,"[93] the precise meaning of "manipulating" was never clearly defined.[94] Indeed, for the United States, the "main virtue" of that section was its elusiveness, providing "as much freedom as possible for the national determination of domestic policies."[95] Thus, emphasis on national determination served at the outset to benefit the hegemonic actor, instead of countries at the margins of international financial governance.

C. Post–Bretton Woods: The United States's Structural Power

The dissolution of Bretton Woods provided the United States with vast structural power to promote domestic objectives in the global financial architecture.[96] Post–Bretton Woods, unregulated global capital markets loosened constraints on U.S. monetary policy while allowing inflows of foreign capital to sustain U.S. standards of living.[97] U.S. policymakers were cognizant that maintaining "the continued openness of international capital markets" meant they could continue to employ the "dollar weapon."[98] This strategy both encouraged foreigners to bear the burden of the United States's large current account deficits[99] and allowed the United States to "preserve its policy autonomy."[100]

America "has lived beyond its means" for decades, "exploit[ing] the borrowing capacity afforded by the dollar's worldwide acceptability to postpone payments adjustments indefinitely."[101] The dollar's dominant-currency status has allowed the United States to borrow cheaply and promote power abroad.[102] The Pentagon "spend[s] nearly as much as the rest of the world combined to project American influence around the world,"[103] and the dollar's appeal provides the issuer with immense "latitude to pursue foreign political objectives."[104] Moreover, as the

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[93] OCAMPO, *supra* note 15, at 25 (quoting Second Amendment of Articles of Agreement of the International Monetary Fund, art. IV, § 1, *approved* Apr. 30, 1976, 29 U.S.T. 2203 (last amended Dec. 15, 2010)).

[94] *Id.* at 209.

[95] GOLD, *supra* note 52, at 17.

[96] The United States is "where all the trendsetting developments originated: the ending of the Bretton Woods system and of inflation, the growth of budget deficits as a result of tax resistance and tax cuts, [and] the rise of debt-financing of government activity." WOLFGANG STREECK, BUYING TIME xii (Patrick Camiller trans., Verso 2014) (2013).

[97] KRIPPNER, *supra* note 56, at 102.

[98] HELLEINER, *supra* note 73, at 113.

[99] *Id.*

[100] *Id.* at 114.

[101] BENJAMIN J. COHEN, CURRENCY STATECRAFT 163 (2019).

[102] *See id.* at 130.

[103] *Id.* at 103.

[104] *Id.* at 130; *see also id.* at 109 (discussing how the United States has used the dollar's power as a tool of international economic policy).

dominant player in international financial organizations,[105] the United States is "at the pinnacle of a network of institutional connections that it has done much to constitute and from which it is the primary beneficiary."[106] Created under American leadership, institutions such as the IMF, the World Bank, and the WTO "sought to reconstruct the world . . . in the image of the United States,"[107] pressuring other states to abdicate their own autonomy while creating questionable legal precedents.[108]

The U.S. Congress has also empowered the executive branch to wield this structural power by regularly monitoring other countries' exchange rates. The Omnibus Trade and Competitiveness Act of 1988[109] and the Trade Facilitation and Trade Enforcement Act of 2015[110] direct the U.S. Treasury to evaluate major U.S. trading partners every six months.[111] Pursuant to these Acts, the Treasury submits semiannual reports to Congress.[112] If a country shows indicia of possible currency manipulation — as demonstrated by "a significant bilateral trade surplus with the United States,"[113] "a material current account surplus,"[114] and "persistent one-sided intervention in the foreign exchange market"[115] — Congress directs the Treasury to "commence enhanced bilateral engagement with [that] country."[116]

Despite U.S. preeminence, the current ad hoc monetary arrangement means that countries enjoy vast leeway in formulating exchange rate policies and are free to prioritize domestic considerations. Under international law, currency regulations and exchange controls "fall within the domestic jurisdiction of the State concerned."[117] While a currency's

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105 Vladimir Popov & Kwame Sundaram Jomo, *Exchange Rate Undervaluation and Growth in China*, 63 DEVELOPMENT 120, 122 (2020).

106 Konings, *supra* note 79, at 38; *see also* TOM ENGELHARDT, SHADOW GOVERNMENT 92 (2014) (describing the United States's unprecedented global power after the end of the Cold War); RUSKOLA, *supra* note 13, at 205 ("Importantly, the promotion of democracy globally does not mean the promotion of *global democracy*: the United States continues to insist on its exceptional status as an international leader.").

107 RUSKOLA, *supra* note 13, at 205.

108 China's accession protocols to the WTO, for example, gave rise to a demand that violated the WTO's "*own* constitutional rules" by imposing "an international legal obligation [on China] to convert to a market economy — an extraordinary surrender of China's freedom to structure its political economy." *Id.* at 206.

109 Pub. L. No. 100-418, 102 Stat. 1107 (codified in scattered sections of the U.S. Code).

110 Pub. L. No. 114-125, 130 Stat. 122 (2016) (codified in scattered sections of 15 and 19 U.S.C.).

111 Omnibus Trade and Competitiveness Act § 3005, 102 Stat. at 1374–75 (codified at 22 U.S.C. § 5305); Trade Facilitation and Trade Enforcement Act § 701, 130 Stat. at 195–98 (codified at 19 U.S.C. § 4421); *see, e.g.*, Press Release, U.S. Dep't of the Treasury, Treasury Releases Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States (Dec. 3, 2021), https://home.treasury.gov/news/press-releases/jy0513 [https://perma.cc/5LXM-D9JK].

112 Press Release, U.S. Dep't of the Treasury, *supra* note 111.

113 Trade Facilitation and Trade Enforcement Act, 19 U.S.C. § 4421(a)(2)(A)(ii)(I).

114 *Id.* § 4421(a)(2)(A)(ii)(II).

115 *Id.* § 4421(a)(2)(A)(ii)(III).

116 *Id.* § 4421(b)(1).

117 Charles Proctor, *USA v China and the Revaluation of the Renminbi: Exchange Rate Pegs and International Law*, 17 EUR. BUS. L. REV. 1333, 1336 (2006).

value may affect other countries, this "does not negate the sovereignty of a nation to adopt its own exchange rate policies."[118]

III. RMB EXCHANGE RATE: DEBATES AND DETERMINANTS

The RMB-USD peg in 1994 ended the previous multi–exchange rate regime,[119] and in July 2005, China moved to a managed peg system to allow gradual RMB appreciation.[120] After halting appreciation during the 2008 financial crisis, the RMB continued its upward trend in June 2010.[121] With an eye toward maintaining financial stability[122] and balancing various domestic macroeconomic interests, China has gradually made its exchange rate system more flexible, emphasizing export expansion rather than import substitution.[123]

The country's "policy of gradual and limited liberalization of foreign exchange controls" has proved "a resounding success,"[124] helping to sustain growth in exports and inward foreign direct investment while avoiding significant foreign exchange crises.[125] Ultimately, "the world has to adapt to China's growth and its dramatic transformation, welcoming the reduction of Chinese poverty and enjoying the improved terms of trade that incidentally China has . . . bestowed on many of its trading partners."[126] While China's policies undoubtedly pose risks, "these are China's risks to accept and manage."[127]

A. *Determining the RMB Exchange Rate*

Despite foreign pressure, the RMB exchange rate derives largely from an ongoing and complicated set of domestic institutional debates.[128] China's exchange rate policy primarily strives to maintain

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[118] Mercurio & Leung, *supra* note 65, at 1299.

[119] LIEW & WU, *supra* note 55, at 124.

[120] MORRISON & LABONTE, *supra* note 7, at summary.

[121] *Id.* at 3–4.

[122] David Dollar, *Poverty, Inequality and Social Disparities During China's Economic Reform* 14 (World Bank Pol'y Rsch. Working Paper, Paper No. 4253, 2007).

[123] CORDEN, *supra* note 53, at 116.

[124] Hall, *supra* note 4, at 477.

[125] *Id.* at 477–78; *see also id.* at 435 ("The ongoing reform of China's foreign exchange regime should provide an illuminating example of China's characteristic development path. Moreover, the relative success of China's gradualist approach to foreign exchange and exchange rate liberalization allows it to serve as a model for other transitional or developing economies.").

[126] CORDEN, *supra* note 53, at 116.

[127] Stephen S. Roach, Comment, *The Politics of Trade Frictions*, *in* DEBATING CHINA'S EXCHANGE RATE POLICY, *supra* note 5, at 234, 238.

[128] *See, e.g.*, Guan Tao (管涛), *Huobi Zhengce "Yi Wo Wei Zhu" Shi Zong Jidiao* (货币政策 "以我为主"是总基调) [*"Me First" Is the Main Theme of Monetary Policy*], DIYI CAIJING (第一财经) [FIRST FIN.] (Feb. 17, 2022, 2:50 PM) (China), https://yicai.com/news/101320013.html [https://perma.cc/FK65-JNEV].

employment,[129] protect its burgeoning financial system, and remain receptive to public opinion.[130] "[W]hatever other nations . . . may like to think of their own capacity to pressure China into compliance," China makes exchange rate decisions based on policymakers' perceptions of national self-interest, giving rise to continuous, "dynamic interplay between national priorities and the interests of institutional and non-institutional actors."[131]

The 1996 Forex Regulations lay the foundations of China's foreign exchange regime, serving as a basis for further reforms.[132] Three government bodies — the PBC, the State Administration of Foreign Exchange (SAFE), and the State Council[133] — play the most prominent roles in designing and implementing the foreign exchange regime,[134] with the PBC largely leading the process. The PBC, as the "formulator of monetary policy and chief regulator of the financial sector," oversees the "foreign exchange business conducted by financial institutions, including issuing and monitoring permits to conduct forex business, regulation of forex asset quality and risk management, [and] establishing working balances for members of the foreign exchange interbank market."[135] It also intervenes when necessary in the foreign exchange market and manages foreign currency reserves.[136] SAFE, for its part, contributes to overall policymaking by conducting research and making policy suggestions to the PBC, maintaining "significant leeway in interpreting and executing policies approved" by the central bank.[137]

In practice, major monetary policy decisions arise out of continuous conversations between government bodies[138] and policymakers. They balance various factors in designing exchange rate policies while remaining highly responsive to societal preferences and institutional expertise.[139] Nongovernmental organizations, private businesses, and think tanks regularly provide input regarding economic decisions.[140]

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[129] As Professor Fan Gang remarks, Chinese domestic politics affects significantly more people than its American counterpart does. Fan Gang, Comment, *Renminbi Revaluation and US Dollar Depreciation*, *in* DEBATING CHINA'S EXCHANGE RATE POLICY, *supra* note 5, at 70, 71. From 1995 to 2002, a period when the RMB appreciated in real average terms by 4.1%, China lost fifteen million manufacturing jobs, while the United States lost two million. Ping Hua, *Real Exchange Rate and Manufacturing Employment in China*, 18 CHINA ECON. REV. 335, 336 (2007).

[130] CORDEN, *supra* note 53, at 109.

[131] LIEW & WU, *supra* note 55, at 213.

[132] Hall, *supra* note 4, at 446, 456.

[133] *See generally China's State Organizational Structure*, CONG.-EXEC. COMM'N ON CHINA, https://www.cecc.gov/chinas-state-organizational-structure [https://perma.cc/VW83-DK8Z].

[134] Hall, *supra* note 4, at 452.

[135] *Id.* at 454.

[136] *Id.*

[137] *Id.* at 453.

[138] *Id.*

[139] *See* DAVID A. STEINBERG, DEMANDING DEVALUATION: EXCHANGE RATE POLITICS IN THE DEVELOPING WORLD 81 (2015).

[140] *Id.*

Apart from the three main institutions, policymakers also receive suggestions from other governmental organs, including the Ministry of Commerce (MOFCOM) and the National Development and Reform Commission (NDRC).[141] Institutional positions frequently diverge, such as when the PBC supported "a more flexible exchange rate for greater monetary autonomy," while MOFCOM argued that "exchange rate stability was crucial for China's growth and employment."[142] The PBC also clashed with the NDRC over monetary policies in 2003, leading the latter to "concede considerable authority to the PBC" regarding macroeconomic management.[143]

Over time, the PBC has been gaining influence in exchange rate deliberations.[144] Prior to the 2005 reforms, the PBC held staff seminars on macroeconomic management, invited leading global economists to present their views, and sent officials abroad to observe other central bank practices.[145] In 2004, the PBC organized a symposium on the exchange rate, consisting of IMF officials and prominent American economists, where it both heeded international concerns and emphasized its own autonomy.[146] After the PBC widened the RMB's daily trading band with the dollar in 2012, the IMF noted that the move "underline[d] China's commitment to rebalance its economy toward domestic consumption and allow market forces to play a greater role in determining the level of exchange rates."[147] As the PBC garners independence and political heft, it will likely continue to accelerate capital account liberalization and exchange rate reform.[148]

B. The RMB's Growing Pains

As the United States seeks to influence China's exchange rate policymaking through international organizations and its own governmental organs,[149] moral arguments undergird the narrative. In international forums, the United States has accused China of manipulating its currency to gain an unfair advantage in international trade.[150] Since the turn of the twenty-first century, Congress has advocated for sharp

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[141] *Id.*

[142] Zhaohui Wang, *China's Exchange Rate Policy Making: International Pressures Meet Domestic Politics*, 41 ASIAN STUD. REV. 20, 32–33 (2017).

[143] STEPHEN BELL & HUI FENG, THE RISE OF THE PEOPLE'S BANK OF CHINA 241 (2013).

[144] *Id.* at 209–10.

[145] *Id.* at 242–43.

[146] *See id.* at 243.

[147] *Id.* at 249 (quoting Press Release, Christine Lagarde, Managing Dir., Int'l Monetary Fund, Statement by IMF Managing Director Christine Lagarde on the People's Bank of China Exchange Rate Action (Apr. 14, 2012), https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr12133 [https://perma.cc/JN7A-HR4T]).

[148] *Id.* at 260–61.

[149] Wang, *supra* note 142, at 27.

[150] *See* Popov & Jomo, *supra* note 105, at 123.

appreciation of the RMB.[151] In the face of growing U.S. deficits, then–Treasury Secretary Henry Paulson stated bluntly in 2007 that China's monetary policy was harming the U.S. economy.[152] In 2019, the Treasury named China a currency manipulator, even though only one of the criteria of the 2015 Act had been met three months prior.[153] The Treasury removed the label less than six months later, suggesting that the shaming tool served as leverage for trade negotiations instead of a reaction to underlying economic concerns.[154]

U.S. attention to the RMB exchange rate serves as a crude proxy for concern over China's current account surplus[155] and the U.S. deficit. By influencing global prices, exchange rates exert a significant influence on the current account.[156] Members of Congress routinely contend that China's currency policy makes Chinese exports less expensive and Chinese imports more expensive than would be the case if the RMB were more flexible.[157] This argument reasons that RMB undervaluation has given rise to the decline in American manufacturing employment and to the large U.S. trade deficits with China.[158]

However, without an accepted methodology to determine "equilibrium" exchange rates[159] and with China remaining a developing country

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[151] Gary Clyde Hufbauer & Claire Brunel, *The US Congress and the Chinese Renminbi*, *in* DEBATING CHINA'S EXCHANGE RATE POLICY, *supra* note 5, at 219, 219; *see* Roach, *supra* note 127, at 234–36.

[152] *See* Wang Lijun & Zhou Shijian, *The Appreciation of RMB: A Panacea for the U.S. Trade Deficit?*, CHINA INT'L STUD., Summer 2007, at 27, 30.

[153] *See* Ana Swanson, *The U.S. Labeled China a Currency Manipulator. Here's What It Means*, N.Y. TIMES (Aug. 6, 2019), https://www.nytimes.com/2019/08/06/business/economy/china-currency-manipulator.html [https://perma.cc/6FRD-DYUA].

[154] *See* Alan Rappeport, *U.S. Says China Is No Longer a Currency Manipulator*, N.Y. TIMES (Jan. 13, 2020), https://www.nytimes.com/2020/01/13/us/politics/treasury-china-currency-manipulator-trade.html [https://perma.cc/9T3Z-ME92]. There are signs the current Administration is backing away from the "manipulator" title and shifting its criticism to China's alleged lack of transparency in its currency policy. *See* OFF. OF INT'L AFFS., U.S. DEP'T OF THE TREASURY, REPORT TO CONGRESS: MACROECONOMIC AND FOREIGN EXCHANGE POLICIES OF MAJOR TRADING PARTNERS OF THE UNITED STATES 20–22 (2022), https://home.treasury.gov/system/files/136/FINAL_Spring_2022_FXR.pdf [https://perma.cc/6HRE-AA6A].

[155] *See* Mercurio & Leung, *supra* note 65, at 1267.

[156] Alicia Tuovila, *Current Account: Definition and What Influences It,* INVESTOPEDIA (June 21, 2022), https://www.investopedia.com/terms/c/currentaccount.asp [https://perma.cc/2A3R-BF8B]. A country's current account consists of the value of its exports minus the value of its imports and can also be measured by the difference between savings and investment. Atish Ghosh & Uma Ramakrishnan, *Current Account Deficits: Is There a Problem?*, INT'L MONETARY FUND (Feb. 24, 2020), https://www.imf.org/external/pubs/ft/fandd/basics/current.htm [https://perma.cc/7LKR-XMC4]. A current account surplus means a country is earning more than it spends, while a deficit means it is spending more than it earns. Kimberly Amadeo, *Current Account and Its Four Components*, THE BALANCE (Dec. 31, 2021), https://www.thebalance.com/current-account-definition-and-4-components-3306265 [https://perma.cc/JB6J-K5RG].

[157] MORRISON & LABONTE, *supra* note 7, at summary.

[158] *Id.*; MCKINNON, *supra* note 42, at 95; Mercurio & Leung, *supra* note 65, at 1258–59.

[159] MORRISON & LABONTE, *supra* note 7, at 24. Because "[t]here is no universally accepted methodology," many analysts are wary of real exchange rate determinations and "question their usefulness to policymakers." *Id.*

undergoing substantial transformations, it is "next to impossible" to determine the RMB's equilibrium exchange rate.[160] Among those who agree that the RMB is "undervalued and insufficiently flexible," there is little consensus "on the size of the undervaluation or on how the existing misalignment should be corrected."[161] In 2009, for example, four separate studies "concluded that the RMB was undervalued against the dollar by rates of 12%, 25%, 40%, and 50%, respectively."[162]

While the real exchange rate of the RMB was "undoubtedly low" during the 1980s and 1990s, "there is little evidence that this was due to a deliberate policy to keep the exchange rate undervalued."[163] Economists note that since "[p]oor-country currencies are normally undervalued compared to their purchasing power parity values[,] . . . part of the undervaluation ascribed to China's currency results from market forces that make non-traded goods relatively cheap in poor countries, rather than from deliberate currency manipulation."[164]

Moreover, non-China factors are greater contributors to American job losses than China's currency policy,[165] and a country's exchange rate regime is not indicative of the state of its current account.[166] Given China's high savings rate and the United States's low one, it is unsurprising for the former to run a surplus while the latter runs a deficit.[167] The United States has maintained a current account deficit since

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[160] LIEW & WU, *supra* note 55, at 125 (quoting PATRICK HIGGINS & OWEN F. HUMPAGE, FED. RSRV. BANK OF CLEVELAND, THE CHINESE RENMINBI: WHAT'S REAL, WHAT'S NOT (2005)); *see also* William R. Cline & John Williamson, *Estimates of the Equilibrium Exchange Rate of the Renminbi: Is There a Consensus and if Not, Why Not?*, *in* DEBATING CHINA'S EXCHANGE RATE POLICY, *supra* note 5, at 131, 131; *see also* Gang, *supra* note 129, at 72 ("[G]iven the fast changes in the structure of the world economy and . . . turmoil in global financial markets, which is associated with global overliquidity with oversupplied US dollars, any exchange rate equilibrium for the RMB may be very short-lived . . . .").

[161] Morris Goldstein & Nicholas R. Lardy, *China's Exchange Rate Policy: An Overview of Some Key Issues*, *in* DEBATING CHINA'S EXCHANGE RATE POLICY, *supra* note 5, at 1, 17 n.18.

[162] MORRISON & LABONTE, *supra* note 7, at 21 (footnotes omitted); *see also* LIEW & WU, *supra* note 55, at 124–25.

[163] Popov & Jomo, *supra* note 105, at 122.

[164] Christopher Garroway et al., *The Renminbi and Poor-Country Growth*, 35 WORLD ECON. 273, 275 (2012).

[165] *See, e.g.*, Wing Thye Woo, *Understanding the Sources of Friction in U.S.-China Trade Relations: The Exchange Rate Debate Diverts Attention from Optimum Adjustment*, 7 ASIAN ECON. PAPERS 61, 75, 78–79 (2008) (pointing out that inadequate social security and health coverage in the United States give rise to job insecurity, even when the average unemployment rate of 4.9% from 1998 to 2006 was lower than the average unemployment rates from 1980 to 1997); Claire Cain Miller, *The Long-Term Jobs Killer Is Not China. It's Automation.*, N.Y. TIMES (Dec. 21, 2016), https://www.nytimes.com/2016/12/21/upshot/the-long-term-jobs-killer-is-not-china-its-automation.html [https://perma.cc/5QS4-RST3].

[166] Singapore, for instance, has a managed floating exchange rate system and also runs a sizeable current account surplus. *See* Khor Hoe Ee et al., *Managed Floating and Intermediate Exchange Rate Systems: The Singapore Experience* 1–2, 21 (Monetary Auth. of Sing., Staff Paper No. 37, 2004); *see also id.* at i (noting that Singapore's exchange rate policy has the "primary objective of promoting price stability as a sound basis for sustainable economic growth").

[167] MORRISON & LABONTE, *supra* note 7, at 37.

1982,[168] and it became the world's largest debtor country in 1985.[169] Global imbalances resulted partly from government and private-sector spending, and these imbalances led to a negative savings rate before the 2008 crisis.[170] The U.S. current account deficit widened to $822 billion in 2021.[171] China, on the other hand, typically runs a current account surplus. The surplus reached 11.1% of gross domestic product (GDP) by the end of 2006,[172] though it has declined in recent years and represented only 0.06% of GDP in 2018.[173]

The dollar's experience, with other currencies as well as the RMB, confirms that RMB appreciation alone will resolve neither global nor bilateral imbalances.[174] "The United States ran a current account deficit before China's integration in the world economy,"[175] and it "has had significant trade deficits with China since 1975," two decades before the introduction of the fixed exchange rate regime.[176] From 1985 to 1988, when the average Yen-USD exchange rate fell from 239 to 128, "the U.S. global current account deficit only fell from 2.1 percent to 1.7 percent of GDP."[177] When the dollar depreciated by 35% against the euro between 2000 and 2006, the U.S. bilateral deficit with the Eurozone doubled.[178] When the RMB appreciated by around 21.4% against the dollar between 2005 and 2008, the United States's bilateral deficit with China increased by over 30%.[179]

The Congressional Research Service concedes that the current account imbalance will "persist as long as underlying macroeconomic

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168 BUREAU OF ECON. ANALYSIS, U.S. DEP'T OF COM., U.S. CURRENT ACCOUNT BALANCE (2021), https://www.bea.gov/sites/default/files/2021-03/trans420-annual-current-account-balance.pdf [https://perma.cc/BE9G-MNMD] (showing that, since 1982, only 1991 saw a current account surplus, which was $2.9 billion); OCAMPO, *supra* note 15, at 31 ("The fairly permanent current account deficits of the United States have . . . been a striking feature of the global economy since the 1980s.").

169 *U.S. Becomes the World's Largest Debtor Country*, L.A. TIMES (June 24, 1986), https://www.latimes.com/archives/la-xpm-1986-06-24-mn-21190-story.html [https://perma.cc/WM5J-ZVSV]; *see* LIEW & WU, *supra* note 55, at 10.

170 YUEH, *supra* note 53, at 270.

171 Press Release, Bureau of Econ. Analysis, U.S. Dep't of Com., U.S. International Transactions, Fourth Quarter and Year 2021 (Mar. 24, 2022), https://www.bea.gov/news/2022/us-international-transactions-fourth-quarter-and-year-2021 [https://perma.cc/R2KN-TJRX].

172 *China Current Account Balance: % of GDP*, CEIC DATA, https://www.ceicdata.com/en/indicator/china/current-account-balance--of-nominal-gdp [https://perma.cc/R9QW-TM7S].

173 Pragyan Deb et al., *The Drivers, Implications and Outlook for China's Shrinking Current Account Surplus* 20 (Int'l Monetary Fund, IMF Working Paper No. WP/19/244, 2019). While domestic policies worked to support the decline, they have come "at the expense of internal imbalances." *Id.* at 15.

174 MCKINNON, *supra* note 42, at 170–73; Hong (Helen) Qiao, *Exchange Rates and Trade Balances Under the Dollar Standard*, *in* MCKINNON, *supra* note 42, at 100, 100–01.

175 YUEH, *supra* note 53, at 282.

176 Proctor, *supra* note 117, at 1335.

177 Woo, *supra* note 165, at 61; *see also* Qiao, *supra* note 174, at 123.

178 LIEW & WU, *supra* note 55, at 190.

179 Leong H. Liew, *US Trade Deficits and Sino-US Relations*, 40 J. CONTEMP. ASIA 656, 666 (2010).

imbalances persist."[180] In other words, while "China's use of an exchange rate peg and capital controls may have contributed to its high saving rate, . . . it is unlikely that movement to a floating exchange rate would eliminate the large disparity between U.S. and Chinese saving rates."[181] As a "fundamental cause of a trade deficit is an imbalance between a country's savings and investment rates,"[182] America's own savings and investment decisions — at both the government[183] and household level[184] — drive the state of the trade balance.[185] Thus, even if the RMB rose in value and flexibility, the United States would likely continue to be a net debtor and China a net creditor.[186]

Further, it is not at all clear that the United States would reap a net benefit from an appreciated RMB.[187] Apart from increasing interest rates, appreciation would only benefit certain sectors — export firms in the United States and their workers — while negatively affecting others — consumers and firms using Chinese-made components.[188] Absent "an increase in American savings, [RMB] appreciation will only switch some [U.S.] import demand away from China to . . . other countries."[189]

C. China's Reforms

China's "living miracle of economic development" is "based primarily on a steadfast commitment to market-based reforms."[190] Among the

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[180] MORRISON & LABONTE, *supra* note 7, at 37.

[181] *Id.* at 27.

[182] James McBride & Andrew Chatzky, *The U.S. Trade Deficit: How Much Does It Matter?*, COUNCIL ON FOREIGN RELS. (Mar. 8, 2019, 7:00 AM), https://www.cfr.org/backgrounder/us-trade-deficit-how-much-does-it-matter [https://perma.cc/CYS8-ZM9M].

[183] *Id.* ("[A] larger federal budget deficit[] reduces the national savings rate and raises the trade deficit."); *see also* Lawrence Summers & Chris Carroll, *Why Is U.S. National Saving So Low?*, 2 BROOKINGS PAPERS ON ECON. ACTIVITY 607, 608 (1987).

[184] Martin Feldstein, *Inconvenient Truths About the US Trade Deficit*, PROJECT SYNDICATE (Apr. 25, 2017), https://www.project-syndicate.org/commentary/america-trade-deficit-inconvenient-truth-by-martin-feldstein-2017-04 [https://perma.cc/WX36-2Q7V]; *see also* MEHRSA BARADARAN, HOW THE OTHER HALF BANKS 110 (2015).

[185] Liew, *supra* note 179, at 665; Joseph E. Stiglitz, *The US Is at Risk of Losing a Trade War with China*, PROJECT SYNDICATE (July 30, 2018), https://www.project-syndicate.org/commentary/trump-loses-trade-war-with-china-by-joseph-e--stiglitz-2018-07 [https://perma.cc/5VAW-2UEF]; *see also* LIEW & WU, *supra* note 55, at 19.

[186] MORRISON & LABONTE, *supra* note 7, at 27.

[187] *See id.* at 29–32.

[188] *Id.* at 2.

[189] LIEW & WU, *supra* note 55, at 190; *see also* Brian Reinbold & Yi Wen, *Understanding the Roots of the U.S. Trade Deficit*, FED. RSRV. BANK OF ST. LOUIS (Oct. 9, 2018), https://www.stlouisfed.org/publications/regional-economist/third-quarter-2018/understanding-roots-trade-deficit [https://perma.cc/9UFF-HYEB] ("[T]he rise of China since the late 1980s . . . has not increased the total share of Asia's contribution to the U.S. trade imbalance; China simply substituted out other Asian economies by taking their positions.").

[190] Roach, *supra* note 127, at 237; *see also* Lawrence H. Summers, Commentary, *in* DEBATING CHINA'S EXCHANGE RATE POLICY, *supra* note 5, at 349, 352 ("[O]ne does need to exercise

plethora of ongoing reforms, two are particularly relevant here: promoting domestic consumption and instituting a more flexible exchange rate policy. While conforming ostensibly to foreign interests, policymakers are largely motivated by the potential of these policies to serve long-term domestic interests, rather than by a desire to be viewed by external discourse as a "moral" actor. More flexible RMB policies align with China's domestic goals and threaten American structural power based on the greenback, particularly as the United States shifts its concern away from budget deficits[191] and China pushes for RMB internationalization.

China is taking "dead aim at the imperatives of a consumer-led growth dynamic" as part of its focus on domestic interests.[192] In the Twelfth Five-Year Program, covering 2010 to 2015, the government designated domestic consumption — which "itself was to be more equitable" — as "the primary driver of economic growth."[193] Under a "dual circulation" strategy, the government aims for consumer spending to gain more prominence in the future.[194] In 2021, the government prepared "a series of policies to boost private consumption in big cities like Shanghai and Beijing, in rural areas[,] and in the catering sector."[195]

At the same time, China continues to increase RMB flexibility, a key contributor to putting its "financial system on a more market-based footing."[196] The PBC has emphasized both the stability of the RMB in the short term and the trend toward market-determination in the long run.[197] The RMB is now largely where it should be: the IMF's External Sector Report in 2015 assessed the RMB to "no longer be undervalued,"[198] and the Fund found the RMB in 2017 to be "broadly [in] line with fundamentals and desirable policies."[199] Professor Stephen Roach shares that RMB offshore internationalization, "a more open capital account, and significantly wider currency trading bands leave little doubt

caution, as a policymaker who was very proud to be part of a period when his economy had grown at 3 1/2 percent, about lecturing policymakers in countries that have maintained 10 or 11 percent growth for decades about what their appropriate policies should be.").

191 *See, e.g.*, Annie Lowrey, *Stop Worrying About Budget Deficits*, THE ATLANTIC (Dec. 13, 2020), https://www.theatlantic.com/ideas/archive/2020/12/fiscal-responsibility-doesnt-mean-what-it-used-to/617365 [https://perma.cc/TA8E-EXTA].

192 Roach, *supra* note 127, at 238.

193 TONY SAICH, FROM REBEL TO RULER: ONE HUNDRED YEARS OF THE CHINESE COMMUNIST PARTY 381 (2021).

194 Cyril Ip, *China Consumption: How Important Is It to the World's No 2 Economy?*, S. CHINA MORNING POST (Oct. 30, 2021, 2:30 AM), https://www.scmp.com/economy/china-economy/article/3154119/china-consumption-how-important-it-worlds-no-2-economy [https://perma.cc/9EYY-QB4D].

195 Orange Wang, *China Outlines Strategy to Meet Economic Challenges, From Power Crisis to Evergrande Woes*, S. CHINA MORNING POST (Oct. 26, 2021, 12:00 AM), https://www.scmp.com/economy/china-economy/article/3153630/china-outlines-strategy-meet-economic-challenges-power-crisis [https://perma.cc/R3E8-363K].

196 Roach, *supra* note 127, at 238.

197 Sonali Das, *China's Evolving Exchange Rate Regime* 14 (Int'l Monetary Fund, IMF Working Paper No. WP/19/50, 2019).

198 *Id.* at 9.

199 *Id.* at 14.

that China is committed to establishing a market-based, fully convertible" currency.[200]

Reforms have successfully reduced the current account imbalance. China's current account surplus "fell by almost one half in 2011 to $155 billion, well below the 4 percent of GDP level considered a benchmark for a balanced external account."[201] Since 2011, China's current account surplus has continued to decline, reaching 0.4% of domestic GDP in 2018 and 1.9% in 2020.[202] From 2008 to 2018, China's current account balance "declined remarkably — one of the most amongst G-20 countries,"[203] reflecting "a gradual and still ongoing normalization of the domestic saving rate."[204] It might even enter negative territory this year.[205]

Although China's exchange rate and broader monetary policies[206] have seemingly applied prescriptions urged upon it by foreign actors,[207] this alignment stems from Chinese policymakers' belief that reform serves China's long-term interests,[208] instead of the need to conform to morally laden critiques. Transitioning to a more consumption-led growth dynamic promotes sustainable growth by creating more jobs, improving income distribution, and mitigating environmental damage.[209] A more flexible exchange rate is an integral part of this process, and reforms to this end highlight both complex institutional dynamics and a growing consensus that liberalization benefits China's growth.

Allowing the PBC greater flexibility in setting exchange rates and thus the domestic interest rate would result in a lower rate of investment,

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[200] *Reviewing the U.S.-China Strategic and Economic Dialogue: Hearing Before the Subcomm. on Sec. & Int'l Trade & Fin. of the S. Comm. on Banking, Hous. & Urb. Affs.*, 112th Cong. 29 (2012) (testimony of Stephen S. Roach, Senior Fellow, Jackson Inst. of Glob. Affs., Yale Univ.).

[201] Stella Dawson, *U.S. Politics Clash with Reality over China Currency*, REUTERS (Apr. 13, 2012, 2:00 PM), https://www.reuters.com/article/us-usa-china-currency/u-s-politics-clash-with-reality-over-china-currency-idUSBRE83C18O20120413 [https://perma.cc/LNJ3-5VGC].

[202] *China Current Account to GDP*, TRADING ECON., https://tradingeconomics.com/china/current-account-to-gdp [https://perma.cc/XT9Y-WXF6].

[203] Deb et al., *supra* note 173, at 3.

[204] *Id.* at 10.

[205] Michael Baltensperger, *Why China's Current Account Balance Approaches Zero*, BRUEGEL: BLOG (Apr. 15, 2019), https://www.bruegel.org/2019/04/why-chinas-current-account-balance-approaches-zero [https://perma.cc/JR3E-B4LX].

[206] Deb et al., *supra* note 173, at 18 (noting that additional reforms include "increas[ing] trade openness; further opening up of the service sector; liberaliz[ing] restrictions to trade and investment regime[s]; and addressing . . . intellectual property enforcement").

[207] MORRISON & LABONTE, *supra* note 7, at 37; *see* WAYNE M. MORRISON, CONG. RSCH. SERV., RL33534, CHINA'S ECONOMIC RISE: HISTORY, TRENDS, CHALLENGES, AND IMPLICATIONS FOR THE UNITED STATES 37 (2019).

[208] Hall, *supra* note 4, at 478 ("[The] consensus among Chinese officials and academics that China must continue to push for complete convertibility of the RMB and eventually adopt a floating exchange rate policy . . . is based on a widely held view that the current restrictions on capital movements and exchange rate fluctuations pose a serious threat to the long-term health, efficiency, and competitiveness of China's economy.").

[209] *See* NICOLAS R. LARDY, INST. FOR INT'L ECON., CHINA: TOWARD A CONSUMPTION-DRIVEN GROWTH PATH 1, 4 (2006).

"a critical component of the . . . transition to a more consumption-driven growth path."[210] More flexibility also allows authorities to respond to unexpected circumstances[211] and the PBC to push for international usage of the RMB.[212] Increased RMB flexibility would presumably lead to fuller integration into the global capital and currency markets,[213] promoting China's "international recognition and acceptance as one of the leading economies of the world, a dream shared by most Chinese."[214]

CONCLUSION

With each country acting to promote domestic interests, the exchange rate narrative should be free of moral undertones. Even as structural power premised on historical hegemony currently affords the United States enormous political and economic autonomy, other sovereign states also prioritize domestic considerations in instituting monetary policies. While both China and the United States have much to gain from cooperation in certain areas,[215] exchange rates might not be on that list. Situated in the modern monetary nonsystem, state power resides primarily in displaying mighty muscles, not brokering agreements. Whether it be through bilateral negotiations or multinational forums, when empires meet,[216] each will ultimately seek to promote and defend its own interests.

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[210] *Id.* at 9.

[211] *See, e.g.*, *China to Maintain Yuan Flexibility, Brace for External Shocks*, REUTERS (Mar. 25, 2022, 7:49 AM), https://www.reuters.com/world/china/china-maintain-yuan-flexibility-prevent-risks-external-shocks-2022-03-25 [https://perma.cc/5GZL-D3CA].

[212] Evelyn Cheng, *Why China's Central Bank Is Shoring Up the Yuan*, CNBC (Sept. 6, 2022, 1:09 AM), https://www.cnbc.com/2022/09/06/why-chinas-central-bank-is-shoring-up-the-yuan.html [https://perma.cc/LB57-CNLA].

[213] In recent years, the RMB's rise as an international currency "has been nothing short of meteoric." COHEN, *supra* note 101, at 154 (noting that the currency "reached fourth place among the world's top payments currencies" and "ranked eighth among the most widely traded moneys in the global foreign exchange market").

[214] Hall, *supra* note 4, at 478.

[215] Such as "peace, expanded markets, accelerated technological progress, the avoidance of a new arms race, progress against COVID-19, a robust global jobs recovery, and a shared effort against climate change." Jeffrey D. Sachs, *Why the US Should Pursue Cooperation with China*, PROJECT SYNDICATE (Feb. 25, 2021), https://www.project-syndicate.org/commentary/biden-administration-should-pursue-cooperation-with-china-by-jeffrey-d-sachs-2021-02 [https://perma.cc/9QR5-NNHQ].

[216] RUSKOLA, *supra* note 13, at 8 ("China and the United States are . . . the last two major empires that remain standing in the beginning of the millennium.").