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Show Me the Money: How Currency Manipulation Promotes Chinese Modernization

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Show Me the Money: How Chinese Currency Manipulation Fosters Modernization

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ABSTRACT

This study provides an answer to the complex question of why China manipulates its currency. The research attempts to explain how currency manipulation used as one of many tools can help propel a country toward modernization, but may correct for the negative effects of rapid development as well. The primary purpose of this study is to examine the effect of currency manipulation as one of many policy prescriptions for China's economic development. A second purpose of this study is to show how currency manipulation is a viable policy for China under current international law. China's currency manipulation strategy is studied from 1981-2011. Data was collected from the World Bank on a number of development indicators for China: Net development assistance received including ODA and UN assistance, trade exports, unemployment, and manufacturing as a percent of GDP, and gross national income. My model seeks to test my argument about Chinese modernization and offers empirical support for the contention that China manipulates to fund its modernization. My findings confirm my thesis: China manipulates its currency in order to rapidly modernize and it is not prohibited from doing so under international law. These results are consistent with previous findings on export-led growth and currency manipulation.

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Chapter 1. Introduction

From the late 1970s to the present day China has overcome economic barriers to change and jumpstarted a rapid path toward modernization. During this same time period China has also followed an export growth model of development which has led to the accumulation of US dollar reserves and a large trade surplus with many countries. Subsequently, the large amount of US dollar reserves have artificially lowered the overall value of the Chinese currency. This has allowed China to maintain a competitive advantage in labor and production costs which has increased foreign investment in the country. Unfortunately many countries over the past twenty years from 1992-2012 have viewed China as a currency manipulator with the largest critic being the United States. In fact, many arguments exist that claim China purposefully maintains a cheap currency in order to cause economic damage to other nations, maintain its advantage in export led growth, and keep some form of leverage over the United States. However, this cannot be the path China would take when it has achieved so much since normalizing relations with the world since the 1980s. Therefore, China must manipulate its currency for a reason other than a malevolent intention to inflict harm on other nations. I argue China manipulates its currency to propel it on a path of economic modernization.

1.1 Research Motivation

Central banks may intervene under orders from the government to assist in stimulating exports by devaluing the domestic currency. In the last decade this relatively simple statement has forced debates within legislative bodies to reexamine their trade policies. In September 2010, the former finance minister of Brazil Guido Mantega claimed the world entered into a global currency war whereby countries manipulate their exchange rates in order to create a competitive advantage over others. One outspoken critic of currency manipulation has been the United States. In fact, a recent study by Scott (2014) suggests China is to blame for the recent job loss during the Great Recession of 2008 and Congress must pass legislation to limit China's ability to manipulate it currency, the Renminbi also known as the Yuan. Ramirez (2013) shows that U.S. policymakers receive more in political action committee donations when they claim China is a currency manipulator. Herrman (2010) and Staiger and Sykes (2010) have claimed that China's currency manipulation is impermissible and must be dealt with through the World Trade Organization (WTO) and International Monetary Fund (IMF). Even during the 2012 presidential election campaign, Mitt Romney vowed that as president he would label China a currency manipulator, and would levy punitive tariffs as recompense for lost manufacturing jobs.

Significantly, the U.S. Treasury Department has the authority to annually examine the exchange rate policies of countries and initiate negotiations if they are found to manipulate their currencies. The Treasury Department has labeled only three countries as manipulators: China from 1992 to 1994, Taiwan in 1988, and Japan in 1988 (Keating, 2012). Gagnon (2012) lists nine countries in Asia that manipulate their currencies for explicit trade advantages: Hong Kong, Japan, Korea, Singapore, Taiwan, China, Thailand, Malaysia, and the Philippines. Bergsten and Gagnon (2012) also show that currency manipulation occurs not only on a local scale between two countries, but on a global scale. Unfortunately they do not explore why countries choose to manipulate. Navarro (2012) claims the U.S. cannot only blame China for its economic misfortunes, but instead it must focus on the aggregate of countries that manipulate their currencies. Overall, these previous studies make claims about currency manipulation, but provide little substantial empirical evidence to support their argument. Other than for the sake of trade protectionism and an export dependent model of growth, there must be other reasons why countries in Asia manipulate their currencies.

Therefore, to explore what motivates exchange rate politics in Asia, this study will examine the justification of government intervention into the Chinese currency market. The question surrounds a complex issue: is there evidence that China manipulates its currency as a tool of economic policy, which at the current time has led to cries of a currency war? In order to answer this question this paper provides evidence of its existence. First, this research seeks an understanding the use of monetary policy in a competitive devaluation environment by examining the recent literature. Next I examine the economic and political justifications for China's leaders to choose currency manipulation as a policy tool. Finally, I explore international law to provide a legal context for why China gets away with currency manipulation. To restate the argument simply, China employs currency manipulation because it is motivated by three factors: internal economic problems, modernization and a lack of international law. However, before analyzing the internal problems of China an understanding of how countries use central bank policy as a tool warrants a discussion.

1.2 Layout of Study

This paper will lay out the reasons for China's devaluation campaign and current currency manipulation. Previous literature will show how China devalued its currency and the ways in which it has manipulated its currency the Renminbi. However, these past studies do not explain the internal reasoning for China choosing a policy of currency manipulation. Therefore, this paper remedies the situation by explaining what forces drove the Chinese toward manipulation. Chapter two explores the economic basis for a currency manipulation policy. Then chapter three presents the theoretical framework and structural problems the Chinese government faces such as high unemployment, a large educated population, and the fear of unrest. In order for the Chinese government to maintain legitimacy it must provide its people with jobs. To accomplish that task it chose a devaluation policy to attract foreign investment in its export sector. Past literature on the subject of Chinese manipulation and international law highlights the ability of China, and any country in general, to manipulate its exchange rates. Chapter four will analyze the current literature on Chinese currency manipulation and provide evidence for why it would choose such a policy. Next, chapter five empirically analyzes the effects of currency manipulation on a number of domestic economic and political variables. Finally, chapter six will discuss the overall findings as well as limitations of the study and future work.

Chapter 2. Economic Theory Background

2.1 Understanding Foreign Exchange

An exchange rate is defined as the act of trading or holding foreign currency (Pugel 2009). There are two types of exchange rate systems discussed throughout this paper: floating and fixed. Under a floating exchange rate the domestic currency may see appreciation, a rise in the exchange rate value or depreciation, a fall in the exchange rate value. A purely floating exchange works without intervention from a central bank or government mandate. To provide a simple example, when one country exports goods the importing country purchases the exporting country's currency, which will cause an appreciation of the exporter's currency and a depreciation of the importer's currency.

However, market forces do not always explain the differences in exchange rates. The other main exchange rate system is a fixed rate regime. Under this regime, government and central bank officials attempt to keep their value of their currencies fixed (pegged) to a foreign currency. The government will mandate a narrow band in which the currency may fluctuate, but if the currency moves too high or low, the central bank intervenes. The official reduction of a nation's currency by the central bank or government mandate is referred to as a devaluation; revaluation refers to the official increase in the value of a currency (Pugel 2009). These devaluation and revaluation policies are commonly cited as currency manipulation.

Kirshner (1995) explains currency manipulation as the simplest form of monetary policy that has the greatest degree of flexibility and number of applications. Although for currency manipulation to be successful, a country that devalues its currency must not be manipulated against. Overall states have used currency manipulation to deal with economic problems such as high unemployment, low Gross Domestic Product (GDP) growth, the legitimacy of government institutions and “the psychology of currency values” (Kirshner 1995, 8). The psychology of currency values means nations over time have pushed for a stronger currency value for other than strictly economic reasons. In particular, the value of a country’s currency may be linked with a government’s legitimacy. For example, Margaret Thatcher argued that a strong pound for Great Britain would increase its prestige.

2.2 Tools of Central Banks

When a country establishes a central bank the governing authority will issue a mandate to follow certain policy measures such as maintaining a stable rate of inflation, operating the economy at full employment, or price stability. To successfully maintain these mandates a central bank operates with three distinct policy tools. First, the central bank may raise or lower the base interest rate. As interest rates fall they will provide an incentive for investors to find other sources of income in the form of treasury bonds. International capital flows depend on interest rates. A higher interest rate will attract capital inflows, conversely; a lower domestic interest rate will move capital to foreign countries, provided that domestic interest rates are not offset by higher or lower foreign interest rates (Pugel 2009).

Second, the central bank has the power to raise or lower the money supply. The bank accomplishes this through open market operations, whereby the central bank purchases or sells government debt instruments through the financial markets of a country. These operations are used to change short term interest rates and to raise or lower the money supply. For example if the U.S. Federal Reserve purchases U.S. government securities, it does so through the Federal Reserve bank account, which credits the proceeds of the purchases to the seller’s account at the Federal Reserve. These private banks now have additional money reserves to lend out, thereby increasing the money supply. Countries will have different targets, but operate with the same basic policy tools.

Finally, intervention purchases assist governments when they attempt to control the foreign exchange market. This intervention is sometimes referred to as "currency pegs, bends, and crawls". This type of intervention can also involve capital controls, a restraint in cross border financial transactions, when a government wishes to maintain a fixed exchange rate. To provide an illustration, the domestic government purchases foreign currency at a fixed price, thereby increasing the value of the foreign currency and devaluing the domestic currency (Feenstra and Taylor 2008).

2.3 Recent Examples of Asian Manipulation

Japan's Prime minister, Shinzo Abe, promised to revive the country's economy when he took office in December 2012. He called for a renewed monetary easing to reverse the effects of deflation Japan has suffered for the past two decades. Japan's central bank aimed at a two percent inflation target in two years and promised to keep the printing press rolling until the bank meets that target. However, for Japan to reach this goal it would take a twenty five percent drop in the value of the Japanese Yen. The devaluation of the Yen would lower the price of Japanese exports and increase Japanese net exports (Coy 2013). In 1994, China pegged the Renminbi (RMB) to the U.S. dollar until 2005. Although the currency appreciated against the dollar, China maintained a managed float with a basket of currencies including the U.S. dollar. The Renminbi has appreciated from 8.28/1 to about 6/1 per US dollar. However, China still pegs its currency to the U.S. dollar and allows fluctuations within a narrow 1 percent band. The cheaper RMB gives China's export market a competitive edge in the global market place. Although in the past the

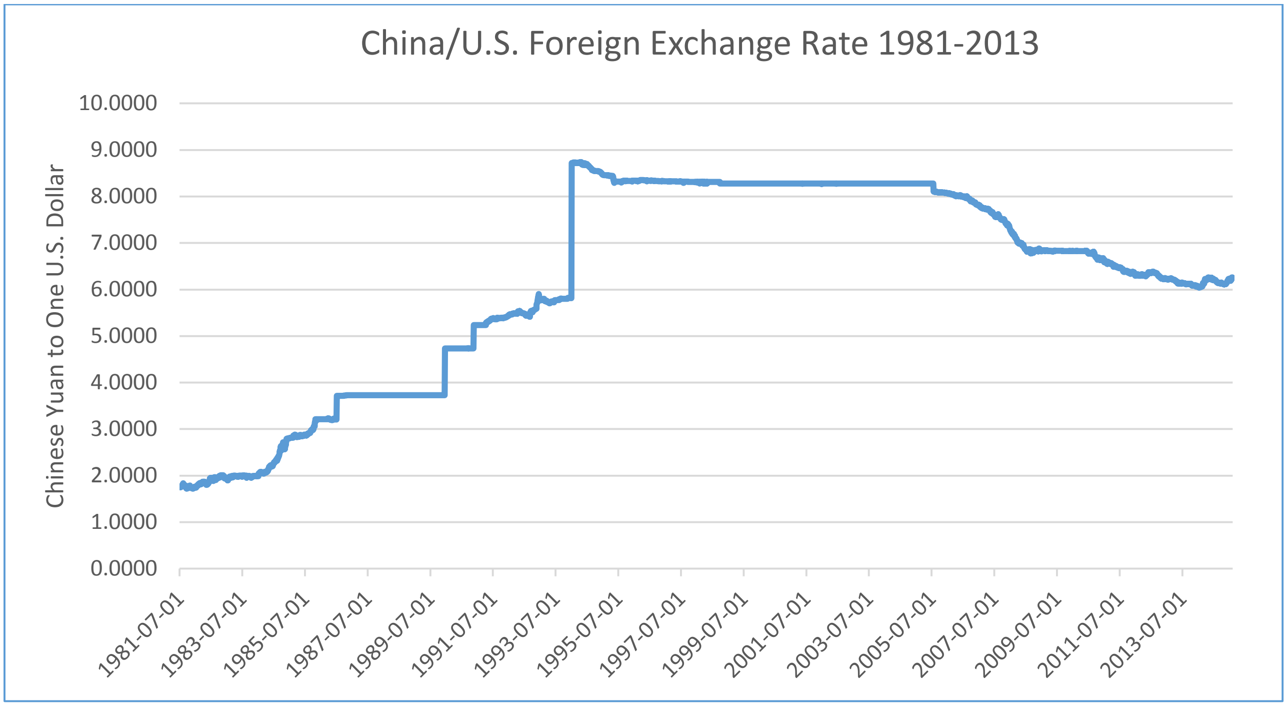
RMB appreciated against the dollar, Goldstein and Lardy (2008) and Highfill and Wojcikewych (2011) believe the Renminbi is still undervalued.

The easiest way for China and Japan to devalue their currencies is by purchasing U.S. treasury securities. Since 2012, China has maintained its holdings of U.S. securities while Japan has steadily increased its holdings of treasury securities. Table-1 shows the major foreign holders of U.S. securities from the Treasury Department. Also the relationship of the Renminbi/U.S. dollar and Yen/U.S. dollar are shown in graphs one and two respectively. The Charts provide visual illustrations of both the largest holders of US. Securities and the sharp pegs of China.

Table 1 Major Holders of US Treasury Securities. (Amount in US $ Billion)

Year	**China**	**Japan**
2014	1244.3	1230.9
2013	1270.1	1182.5
2012	1220.4	1111.2
2011	1151.9	1058.1
2010	1160.1	882.3
2009	894.8	765.7
2008	727.4	626.0
2007	477.6	581.2
2006	396.9	622.9
2005	310.0	670.0
2004	222.9	689.9
2003	159.0	550.8
2002	118.4	378.1
2001	78.6	317.9
2000	60.3	317.7
Source: See U.S. Treasury April 3, 2015.		

Graph 1 China/US foreign exchange rate. *Source: Board of Governors*



Over the past decade China has become the world largest holder of US securities. However, to place this policy into action would give a reason for China's currency policy. Therefore, China must operate by some form of constraint or have an underlying motivation for this action. The next chapter will shift through the contending theories of international relations research to find the best framework to analyze Chinese policy.

Chapter 3. Contending Theoretical Frame Works

As discussed in the previous chapter there seem to be competing theories for why China would pursue a strategy of currency manipulation. Three perspectives emerge as potentially useful for analyzing the use of Chinese monetary policy: realism, constructivism, and modernization. This section will address the relevance of realism, constructivism, and modernization theory as it applies to Chinese currency manipulation. It will establish the frameworks of each theory as well as the appropriate perspective to analyze China's economic development. Then covariation will be used to develop a testable hypothesis regarding the relationship between currency manipulation and the effects on China's economic problems as the country modernized.

3.1 Modernization Theory with Globalist Perspective

Modernization theory is defined as the social, political, and economic change arising from the development of industrialization and technological development. The state maintains control over the use of nature which makes possible the improvements in transportation, communication, and mass consumption. However, the concept of national autonomy has become difficult as economic activities cross borders. Domestic and foreign policy become one and the same and economic and foreign policy become political; for example, devaluation of currency to save jobs and rescue industries is criticized by nations that are affected by this policy that will take action in the form of trade sanctions or other financial threats. Modernization theorists believe in a cobweb image that depicts a much more complex system that defies national boundaries.

Modernization is viewed in a trajectory fashion as economic, cultural and political changes go together in patterns. For example as a nation industrializes it brings increased migration and urbanization; it allows for workers to begin specializing in a trade and requires higher levels of formal education. However, along with this trajectory, modernization brings with it a series of problems such as mass political participation, unemployment, and a change in cultural values. Although modernization theorists cannot predict the effects in each country or the response of political leaders to specific problems, what they claim is that these problems encountered through modernization and the reaction by government play a decisive role in promoting policy prescriptions.

Modernization theory will explain China's rapid growth with an influence from a globalist perspective. As mentioned in the previous chapter, as China began to modernize its economy, Beijing encountered structural problems such as unemployment, mass migration, and inflation. Therefore, as China modernizes the government has made it a priority to minimize the damage felt to its citizens. Although the theory has been addressed at length on a historical basis of political development in China, it lacks the strong theoretical backing and quantitative approach for a discussion on its currency policy. When Deng Xiaoping opened up China his primary goal was to make modernization his top priority (*fazhan shi yingdaoli)*. However, to achieve modernization the Chinese wanted to see their country transform into an economic power.

However, Peng (2009) argues modernization may occur along different paths, but all proceed in a general direction. In fact, the four modernizations instituted by Deng would fall into a category that holds modernization as a historical process by which less developed countries catch up to the advanced economies through the revolution in the framework of international relations after the implementation of capitalism. In fact, if China relied on Western theories of economic growth it would only lead to discussions of abstract models. Meaning

Western concepts do not apply to China's economic and political development unless they take into account the different way of life in China which comprises a communist government, Confucian way of life, and dependency on the family unit not the individual. Also, there have been so many theories that have come out of the fields of economics, political science, and history to discuss modernization, and instead of contradicting each other they only complement the other fields which leads to a broad multi-layered process.

Fangjun (2009) believes that as China passes through certain stages of modernization, the Chinese will continue to uphold the communist government and maintain an economy that has three unique Chinese characteristics. First, the economy is not guided by capitalist impulses, but rather by socialist characteristics. For Chinese modernization to proceed smoothly China must uphold its Marxist ideology, because modernization is crucial in creating a socialist China. Second, China emphasizes internal harmony; this means the government wishes to base its economy on an all-around development of spiritual, political, and economic forces. Third, Chinese traditions makes the government focus on the people and society instead of the individual. In the people's view so long as the government and its policies do no harm to the general will, the people will continue to support Beijing. For China to facilitate this type of modernization with Chinese characteristics, its government understands that it must keep the people satisfied. In China this means finding sources of investment that can provide jobs, upward mobility, force the advancement of educational attainment, and generate societal wealth for all people. A currency manipulation strategy will provide China with this route as businesses will invest more when the exchange rate risk has been reduced.

Wang and Junxiang (2009) would agree with this argument as they claim modernization is China's main goal. Modernization assures the Chinese government and people: national independence, as well as changes for their economic industries, culture, and society. It allows for the development of productive forces as the main driver in the economy which gives the communist government the legitimacy it desires while at the same time implementing socialist policies to stop any harm that may arise from these forces. The authors argue that historically the many revolutions China experienced from 1840 to 1949 were meant to accomplish these goals. However, a revolution was not seen as the end goal, China needed to modernize its economy for any revolution to be complete.

Overall, China has modernized its economy in recent years. Although the theoretical literature touches briefly on the effects of modernization on Chinese policy prescriptions, some predictions can be drawn from the limited information. First, China obviously places modernization of its economy and social system first. This was recognized by Deng when he launched the four modernizations after assuming the Chairman position of the Communist Party. Second, China has not followed a traditional model of development as found in Western political and economic theory. Instead China has found its own system of development which is highly centered on protecting the general welfare of the people and securing the legitimacy of the communist party. Finally, for China to achieve such rapid modernization, it must have followed an alternative prescriptive model, because since 1994 China has maintained a pegged or floating peg to the dollar.

Knowing the Chinese modernization and currency prescription benefits the people, a question remains how is this shown? Chang's (2008) book, *Factory Girls: From Village to City in a Changing China*, shows the daily lives of migrant workers who come from a rural life to find work in a city. Chang takes the reader into a bird's eye view of factory life, the changing family relationships, how the migrant workers sleep and eat, and how there are other various jobs migrant workers perform such as prostitution. Chang's main argument rests on the idea that mass immigration from villages to city life is changing Chinese society by providing jobs to the rural immigrants.

As Chang says, "In factories, restaurants, construction sites, elevators, delivery services, housecleaning, child-raising, garbage-collecting, barbershops, and brothels, almost every worker is an immigrant" (Chang 2008, 12). Most surveys asked the migrants why they left home, and many responded with: "there was nothing to do at home so I went out." Chang describes how migrants fell prey to cons, and as a consequence, with minimal information they made decisions to leave or join a factory. Overall Chang's presents a vivid account of the Chinese response to globalization. Most other industrialized nations like France had a hard time adjusting to the changing nature of economic conditions, but migrant workers in China embrace them as a challenge.

The People's Republic of China held a Marxist philosophy like its neighbor in Russia when discussing the evils of capitalism. However, the Chinese workers today, according the Chang do not mirror the workers in the Marxist narrative of development. Although the workers on the assembly line cannot afford the goods they produce, they are not alienated from other people or their lives. In fact, when Chang described how the worker's favorite day was payday it reminds one of Marx' cash nexus, "it has pitilessly torn asunder the motely feudal ties that bound man to his natural superiors, and has left remaining no naked self-interest, than callous cask payment. It has resolved personal worth into exchange value, and in the place of the numberless indefeasible chartered freedoms, has set up that singe, unconscionable freedom-free trade" (Marx 1848, 211). However, there must be some way to examine the economic effects of modernization on the Chinese state. Instead of a Marxist approach to modernization theory I follow a globalist perspective.

The Globalist perspective posits economic issues allow for an understanding of state actions - domestic and international. The importance of economic factors helps explain the evolution and function of the contemporary world system. Globalists argue that in order to explain the behavior of a state at any level of analysis-individual, societal, and between states-one must first grasp the overall structure of the global system within which such behavior takes place. Also, international relations are viewed from a historical perspective of the development of capitalism at this level of analysis. An appreciation of the historical evolution of the capitalist system allows for a complete understanding of the current international structure. Finally, globalists argue that there is some mechanism of domination that exists to keep some states from developing. Essentially, globalists argue four points; first, economic issues are most important; second, to know the current structure of the state one must recognize how capitalism developed within the country; third, there is a mechanism of domination that exists between states that prevent poorer states from developing; and fourth, it is necessary to identify the global context in which states interact-the actions of actors are explained by a system that provides opportunities and constraints (Viotti and Kauppi 1999).

Taken together both theory and perspective will allow for the research question about why China devalues its currency, to fit into what is already known in the literature review. The literature review establishes arguments that fit into the modernization theoretical framework. First, examining China's exchange rate policy clearly showed that in the 1930s when China began to join the modern industrialized economies it followed the same formula as its Western counterparts and helped its the economy recover from 1935-1937. Also, Wang (2003) claims

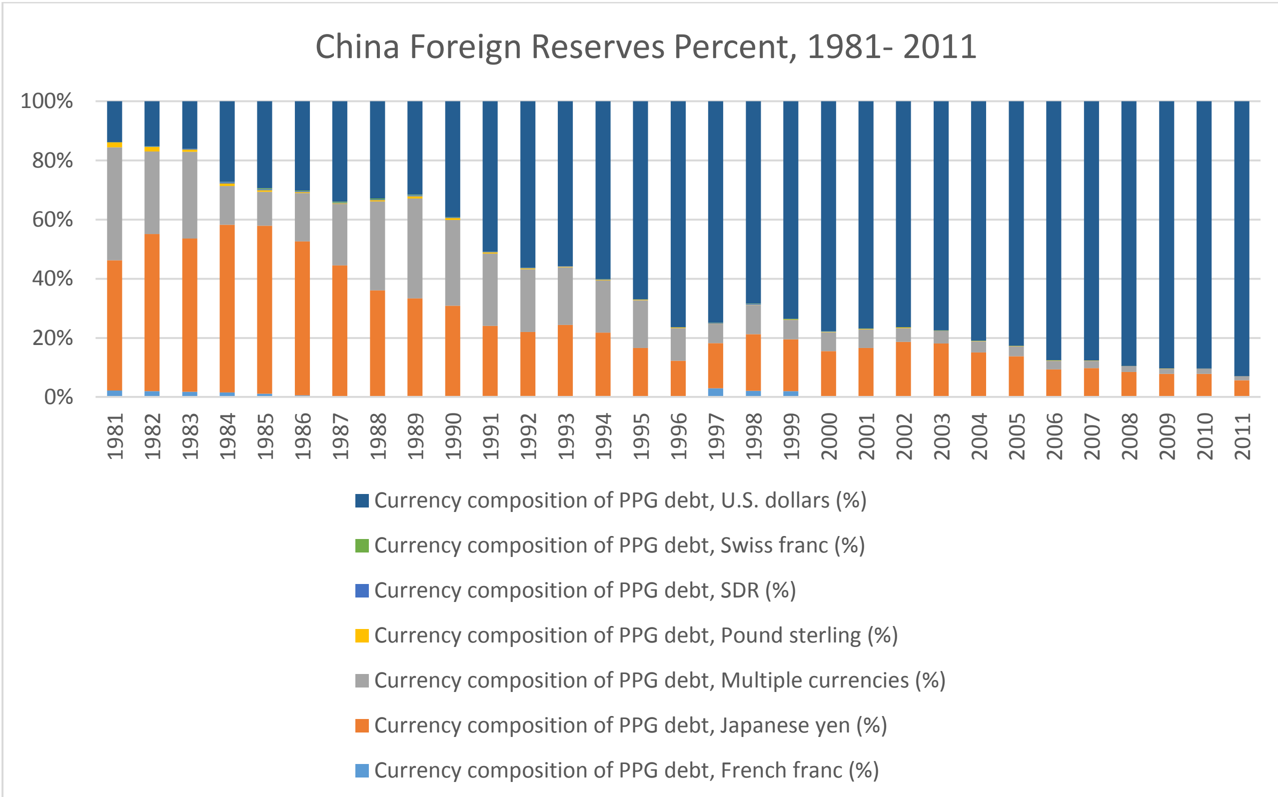
China's development will be shaped by factors including political events and world prestige and as Kirshner (2003) states, nations will follow policies that go against economic logic for the continued dominance of political legitimacy. Finally, Zhao and Liu (2010) further the argument that China must constantly change its policy as it experiences interdependence with the rest of the world change as well. Changing economic policy often involves a shift in diplomatic policy as well.

In the second part of the review it was discovered China has a high number of unemployed people from the countryside who migrate into the cities but cannot find work. Therefore, the government actively finds the unemployed migrants work to increase its legitimacy and standing among the people. Finally, in the third section, although international law lays a framework against currency manipulation, China has not been brought to court due to the fact that international law lacks enforcement mechanisms and the Chinese claim they have the right to further their interests through manipulation. Therefore, according to the previous scholars mentioned on Chinese modernization, an especially important theoretical framework for analyzing Chinese economic and political factors is modernization theory. This theory is furthered by analyzing a country with a globalist outlook.

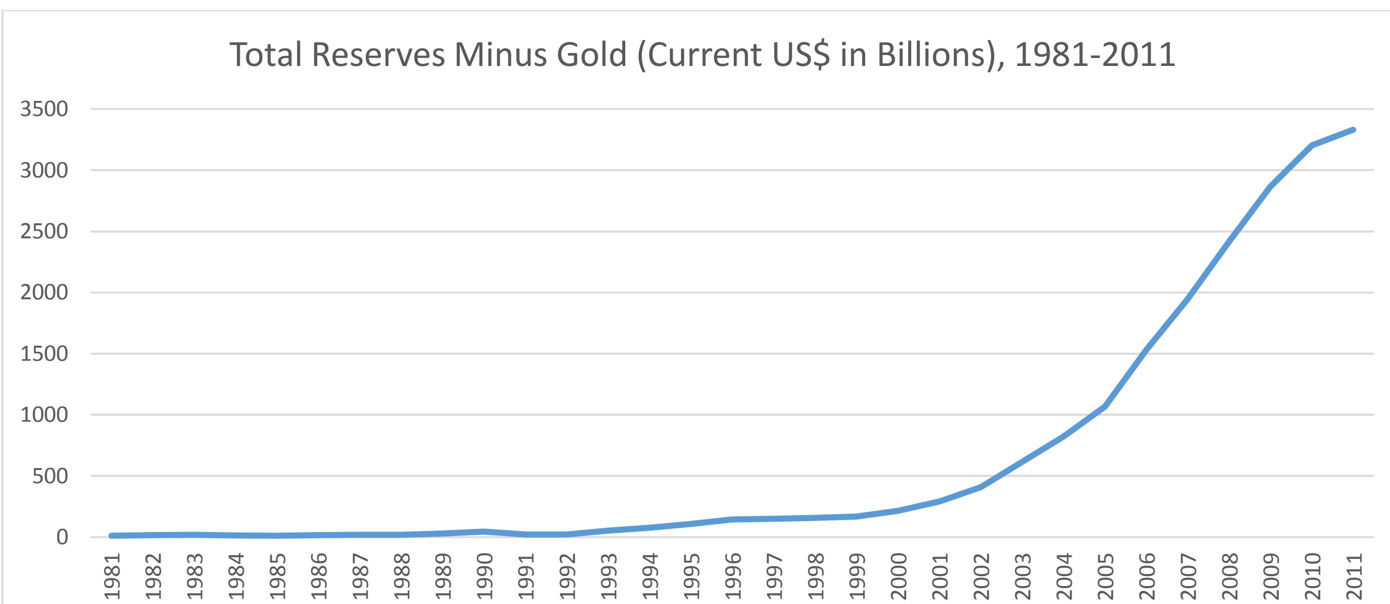
An argument one could make is that China's rise to power follows the realist perspective. Realism's central argument holds that human affairs are governed by four factors: 1) egoism, states and people are self-interested utility maximizing units; 2) anarchy, an absence of a higher power to keep states in check; 3) Groupism, whereby politics takes place between groups such as states; and 4) power centrism, where international relations concerns itself with power and security. These factors make politics confrontational unless a higher power is established to keep them in check. Without any such authority-anarchy- to enforce agreements, states resort to force to obtain their wants and desires. Even if states believe no other nation will retaliate today the states remain uncertain about the future. Although any state might have the capability to strike back they remain in constant fear of each other and therefore arm themselves. When states obtain the capabilities to attack and defend politics and negotiations take on a different cast. Disagreements that would normally resolve themselves peacefully now become conflictual (Wohlforth 2008).

More specifically, the branch of realism that best defines Chinese monetary policy given the findings from the literature review is neorealism. The main difference between traditional realism and neorealism comes from how neorealists view conflict. The neorealists posit that conflicts generate themselves through anarchy. In the case of China, the lack of international law regarding currency manipulation and a lack of enforcement mechanism allow China to manipulate its currency. Unlike the other scholars, neorealists hold states as functionally similar units, such as billiard balls on a pool table. However, the key to understanding the security dilemma of states, comes from an idea that if one state gains an advantages all others lose in a zero-sum game situation. Therefore, since states remain uncertain of the future and of gains other states may obtain, many inherently build up arms. In our case, as China builds up a war chest of foreign reserves which allows for currency manipulation, other states see this as a threat to their national security, like the United States, who cannot turn to a higher government power and pass domestic legislation to try and limit their losses. As states may use its newly obtained capabilities to change the balance of power. The graph shows the makeup of Chinese reserves as well as the total amount. Ironically, because the Chinese purchase U.S. government debt, they are able to fund our budget deficit which allows the U.S. to continue to follow its foreign policy objectives.

Graph-2 Composition of Chinese Foreign Reserves. *Source World Bank*



Graph-3 Total Reserves in Billions of Dollars. *Source World Bank*



China is purposefully manipulating its currency for the sole purpose of power projection into the global economy. As suggested by realists Scott (2014), Bergsten and Gagnon (2012), Herrmann (2010), and Gagnon (2012), who argue that as China continues to acquire a large amount of foreign reserves, the surplus could provide China with other investments that encourage economic growth such as increasing military capabilities. However to date there is no link between the two that would cause this monocasual factor and it only exists in theoretical arguments. The trade imbalance has allowed China to train and maintain a large military force. From this increased military might the Chinese can "bully" anyone in its Asian theater, especially in the Tibet and the Xinjiang Uyghur region where China has been accused of violating human rights. China has also clashed with Japan over islands and sea territory. While these territorial issues with Japan have deep historical roots, the Chinese behavior with neighboring countries led some scholars such as Mearsheimer (2002) to wonder if China will try to become a regional or global hegemon as to maximize its prospects of survival. Moreover, the growing Chinese military power compared to shrinking American power causes some to worry that the US might indeed lose its hegemonic status to China. The importance here rests on the assumption by realists that although China manipulates its currency it only does so for the increased military capabilities and for power projection. This realist argument does not view currency manipulation as a problem but rather as an unintended consequence of a rising power that must be accepted by all.

Also, Mearsheimer (2014) analyzed the rise of China and questioned whether China could rise peacefully. Mearsheimer has two concerns regarding China; the first comes from the phrase, never forget national humiliation (*wuwang guochi)*, which has led China to evolve from nationalism into hyper-nationalism whereby the Chinese are constantly reminded of the defeats by Western countries, the constant warring states, and collapsed governments from the 1800s until the 1860s. Mearsheimer points out the United States and China are not as economically interdependent as other scholars believe and if China or the United States needed to find any reason to attack each other, they would turn toward a policy of economic containment, which would be costly to both sides. Overall both states would allow it because states in general value security over prosperity. Although Mersheimer didn't mention the phrase in his article, Deng Xiaoping said,: "Observe calmly, secure our position, cope with fears calmly, hide our capabilities and bide our time; be good at maintaining a low profile; and never claim leadership" (*Leng jing guan cha, zhan wen jiao gen, chen zhuo ying fu, tao guang yang hui, shan yu shou zhuo, jue bu dang tou*) (US Government Printing Office 2009). In fact, this quote provides the realists with a solid backing for their point of view of power projection. However, realists do not equate the concept of currency manipulation as a strategy, but rather as an externality.

Unfortunately realism cannot explain why China would pursue a currency manipulation strategy. First, realism does not take into account the different cultures of different states. For example democracies do not go to war with one another and are more likely to cooperate; the same can be said for states that hold the same religion. Realism takes into account only military capabilities and not the advantages of economic capabilities as in its view without security there can be no prosperity. Also, trade has taken on a more useful role for development and conflict than military capabilities. For one nation to propose a subsidy or quota would start a trade war and violate the World Trade Organization (WTO) laws. If one nation wanted to destroy another, the interconnection from trade would turn into a self-defeating prophecy. Although realism might explain why China has developed a large military force and perhaps shed light on factors behind the large buildup of foreign reserves, it cannot explain why China would pursue a policy of currency manipulation for reasons other than conflict prevention and power projection. In fact, if China's policy led to conflict then somewhere between the sharp devaluation in 1994 and today there would be some form of conflict whether militarily or trade related. However, at the present time such a conflict has not come to fruition and only exists in the minds of realists.

However some scholars such as Womack (2012) and Zhao and Liu (2010) believe China may follow a constructivist approach to its exchange rate policy. The Constructivist school places an emphasis on the social creation of interests, the connection between a structure and agent, and it believes in different levels of anarchy. Unlike realism which believes states respond to material concerns, constructivists believe national interests consist of a social and relational construction of their needs. More generally, they intend that there are social meanings attached to objects and practices. Constructivists understand that ideas hold symbolic meanings, which remain in the collective memories of people, the processes of government, the curriculum in schools and educational systems, and in the intent of state affairs. Constructivism believes that material forces are only understood through social concepts that define the meaning of human actions (Hurd, 2008). Wendt (1992) explains constructivism as the actions people have toward objects and other people are based on conceptual meanings of these objects. In essence the world is understood through an individual's defined meaning of people, places, and things. For example from an American viewpoint, five North Korean nuclear warheads are more dangerous than the five hundred British nuclear weapons (Wendt 1995). Here it clearly shows the American viewpoints are constructed by their understood meanings to both North Korea and Great Britain. This statement is also a rejection of realist logic which would state Britain is more dangerous than North Korea based on its military capabilities.

Constructivism rests upon four premises. First, it is viewed as an alternative to materialism denoted as people's actions take on a different web of meanings and these ideas can change over time. Second, state interests are constructed through the collective memories of those in charge of government and statecraft. In fact, foreign policy goals and objectives are only shaped by the perceived dominant ideas of a society. Third, there remains a construction of state actors and institutions. A state's action or response to another will contribute to an overall understanding of how two countries will interact in the future. Norms and institutions only exist to influence states into accepting the dominant norms of international life. Finally fourth, constructivists believe in different concepts of anarchy. As Wendt (1992) titled it, *anarchy is what states make of it*. Constructivism believes that if a nation holds itself to a norm or binding enforcement of an international structure, then anarchy does not exist as realist believe because it would not be in a nation's best interest to follow such ideas. In fact, constructivists only believe anarchy is an explanatory variable in the equation of realists in that the actions of states originate from how they interact with each other. In effect, anarchy just explains how some states behave toward others.

From constructivist theory it can be learned that states are motived by their collective wills that may see the world differently than a competitor. Constructivists have given international relations theory the ability to view that status, prestige, hegemony, and reputation all come from a shared understanding of the global community. In fact, Wang (2003), Kirshner (2003), Womack (2013), and Zhao and Liu (2010) believe China's currency policy reflects an aspiration to become a "responsible great power" and as a rising power the need for international prestige increases as well. Also, how China views itself as a great power will differ from other nations' viewpoints of great powers. Already in the collective minds of the populace in China are the words “Never forget national humiliation: Recreate the Glory” (*Wuwang guochi: zaichuang huihuang)* (Callahan 2006, 126). This simple quote explains how the Chinese will interact with the rest of the world. They will not forget the humiliation of the opium wars and the social revolution and will rebuild the glorious empire of old with modern technology. China might believe that a currency policy which could increase trade and make China the envy of the world might be in its best interests.

However, constructivism has limitations when looking at the Chinese case. First, if anarchy is what states make of it, there may remain different levels of constructivism or even different levels of abstraction when analyzing cases. Also with so much attention paid to the emphasis on materialism, the perspective misses out on the development of the state. If a state develops through foreign investment the question becomes the following: do material interests motivate the country to change or does another country motivate China to change against its will? Also constructivism does not pay attention to policy needs on how to solve domestic problems. Rather the theory only provides research with a description of how the country operates and responds, but not how to solve domestic or foreign problem. Therefore, a theory to describe Chinese policy must take into account some form of prescriptive policy as opposed to a descriptive theory on how China behaves.

For China’s monetary policy to operate on the level of a constructivist viewpoint, then somewhere along its past history the country would have viewed monetary policy as irrelevant or as merely a useful tool. To analyze China’s monetary policy from a constructivist viewpoint would miss out on its past and modern history influencing the government decision to manipulate its currency. Also, it would miss out on the influence of other countries and their viewpoints on China's manipulation strategy since currency manipulation in constructivist theory would be regarded as how states hold symbolic meaning to their currency values.

3.2 A Multi-Level Analysis

To look at China, one cannot rely on only one level of analysis. For China development was spurred by capitalist tendencies during the late 1800s from Western civilization. This means to analyze China one must look at elements within the country as well as international elements. From here on China began to modernize through foreign exploitation. Additionally, China experienced foreign exploitation until the communist government took control in 1949. Only in the 1980's after relations were normalized with the rest of the world did China essentially resume the same model of growth, an export oriented economy through foreign exploitation of workers. However, China encountered a number of domestic problems such as unemployment and migration. However to fix these problems China turned outward to rely on foreign investment in the form of building factories and infrastructure through foreign investment which it borrowed from Japan. For China to continue this policy of reliance on foreign aid it needed a policy to maintain a competitive advantage over its rivals. China chose a currency policy that would lower the cost of labor and give investors lower risk because they could better predict profits with an explicit pegged currency. Of course international law has not prevented China from conducting these operations, yet they rely on the capitalist system as it has developed in China over the past two hundred years to fix its domestic problems. To understand why China would pursue a currency manipulation policy, one must recognize that China relies not only on domestic politics, but on the international system as well. Therefore, the mixture of modernization theory with a globalist perspective is appealing when analyzing China.

Correspondingly, there remain some limitations when using one analytical perspective over another. Klein et al. (1994) discuss some limitations when using different levels of analysis. The theoretical framework of analysis may arouse confusion and controversy as scholars may discuss problems and solutions at different meanings from abstract to very specific and concrete; however, these analyses also offers insight into how states behave. In fact, the nature of states is multilevel in today's interdependent world. Within a state resides individuals who in turn form group coalitions, who then use these group ideas to interact with other likeminded groups. These groups may be domestic or foreign like a state, corporation, or nongovernmental organization. There is in fact no way for a group or individual to be insulated from different levels of organization.

3.3 Understanding Unit-Level and Systemic Analysis

To further illustrate why this study warrants a multi-level analysis, both unit-level and systemic level analysis needs to be discussed. States are actors who not only seek domination over land, goods, and other states directly, but they seek to construct a framework of institutions that will allow them to reach their objectives. The primary unit of international relations focuses on states whether it is to dissect the internal units of a country or to examine its relationship with others. States also face problems both internationally and domestically; however when finding solutions for both international and domestic problems the lines between foreign and domestic policy become blurred as explained with modernization theory. Taken separately unit level and systemic level analysis cannot provide a complete answer but combined they can provide a myriad of answers.

For an explanation of the two levels of analysis Keohane (1984) provides an overview. Systemic analysis allows for an description of an outside-in approach, where state behavior is determined by the attributes of the system. Unit-level analysis on the other hand looks into a country to locate the source of behavior to the economic system, attitudes of political leaders, and the culture of the people. Of course, Keohane points out any theory "will take into account the distinctive characteristic of actors as well as of the system itself" (Keohane 1984, 25). However the systemic level regards the attributes of a country as constant rather than as variable. Unfortunately for systemic level observers the characteristic of a country may change over time. For example if China had unemployment, migration, and inflation under control, would it pursue the same policy? Of course a unit level of analysis leads a researcher to miss the "context of action: the pressure exerted on all states by competition among them" (Keohane 1984, 25). Again if currency manipulation only cured domestic problems then why would China concern itself with keeping a competitive advantage over other countries or agreeing to international standards? Furthermore, a multi-layered analysis provides an answer to China's behavior when change in the conditions of the system bring effects down to the unit-level. When the financial crisis of 2008 had an impact on China it not only altered its export market, but also its internal factors such as migration. Likewise, mass migration caused unemployment which led the government to seek investments in new factories and to hire new workers, but it was unable to due to the systemic change. To separate changes at the systemic and unit levels leaves out details that could more parsimoniously explain a situation.

What distinguishes my argument from traditional approaches to analyzing political and economic events in China are the effects of both international norms and domestic issues on state behavior. Compared to the realist and constructivist assumptions, this approach will focus on the interaction between powers, global image, domestic concerns, and international norms, as they all play an integral part in explaining why a country would adopt a policy prescription that would fix both foreign and domestic concerns. Modernization theory captures these interactions and is combined with a globalist outlook which claims the actions taken by China are explained by the economic system in which they operate. In fact according to Rousseau (1985), a multilevel analysis will “specify patterns of relationships replicated across levels of analysis” (Rousseau, 1985, 25). Finally, other scholars of Chinese development will argue that mixing a globalist outlook with modernization theory will lead to complementary results as studies of modernization tend to encompass studies of globalization and vice versa (Jiafeng, 2009).

3.4 Theory of Chinese Historical Modernization with a Policy Prescription

To understand why Chinese modernization theory does requires different analysis, one must first learn how China developed and why it chose an export oriented trade policy which would make currency manipulation as a policy prescription to achieve a number of development goals more likely. Scholars on Chinese modernization such as: Wang (2003), Wang and Junxiang (2009), Fangjun (2009), and Peng (2009) agree that a Western idea of modernization, with a one size fits all progressive stages, does not apply to China. As discussed in the section on Chinese modernization theory, China followed its own path to modernization in order to seek overall harmony, putting people first, and giving legitimacy to the communist government with its socialist policies for economic growth. Also, it was argued China has followed the one direction toward a modernized society, but has found there are multiple paths to achieve this goal. In fact a Chinese modernization theorist Luo Rongqu made famous the thesis statement of “one direction with multiple paths in history” (*yiyuan duoxian lishiguan)* (Jiafeng 2009, 72).

Overall, the argument made at the beginning of the paper holds that China uses currency manipulation as a policy prescription to enable rapid modernization, but to also correct for negative spillover effects such as unemployment, inflation, and lack of investment. In the literature review it summarized the theories surrounding China's modernization. To restate the other important arguments as it applies to the case presented in this paper. First, China is not following a currency manipulation strategy for export competiveness alone, but for other factors such as prestige, employment, and government legitimacy. Second, currency manipulation is designed to achieve not only modernization, but an overall increase in the quality of the life of citizens which will improve Chinese society overall. An increased demand for jobs arising from increased foreign investment will create a demand for higher level work that only an educated person can fulfill. Third, modernization theory in China, must be understood through the historical context of Chinese development which shows that political and social revolutions in China were only meant to advance its economy.

Finally, the lens of globalization helps to explain Chinese modernization. Globalization will stress the importance of economic development while modernization will address how China came to its place in the world and what steps it took to reach it. Also, while China modernized its society it took steps to become more Westernized than some scholars would like to agree on. China is a member of the United Nations (UN) and WTO, which means China also abides by the rules of the International Monetary Fund (IMF). Therefore China is using currency manipulation in despite of joining international organizations that prohibit any form of manipulation. However, China has chosen a policy prescription that defies economy logic and international constraints. At this stage in China's policy it is expected to see the downward spiral of beggar-thy-neighbor and rapid inflation with the enormous loss of purchasing power; however these negative effects are not visible today. In essence for China to accomplish its goal of economic, political, and societal development within the constraints of the global trading system, currency manipulation is the only viable option.

To conclude this section an analysis of Chinese historical development from 1840-present, placed within the theory of modernization and a globalist perspective will explain why currency manipulation is the only viable policy. China's historical economic development will shed light on why it chose a devaluation policy to modernize rapidly and as the globalists posit this will help to explain its economic relationship with other countries, in this case the United States. Cohen (2010) traces Chinese development using modernization theory with a globalist perspective. Cohen's structures his thesis around major events that took place in China and how the U.S. responded to those events. In the early years of Chinese modernization 1840-1860, Cohen pays particular attention to the Chinese unequal treatment of the treaty system for opening up China to Western trade. As China was humiliated in its two opium wars and other battles in between 1839 and 1949, China felt it had embarrassed itself and future generations, as the Western nations forced China to abandon its traditional world view of the middle kingdom and adopt new Western ideas. The idea of this embarrassment continues through today and will provide information on the current relationship between U.S. and China, as China is focused on: "never forget national humiliation" (*wuwang guochi)*. In these early years, 1860-1890, the Sino-U.S. relationship was perceived by the United States that using China would give it an advantage over other countries in international manufacturing. Also, as the U.S. found it relatively easy to cooperate with the European powers on negotiating trade deals, China also found it stress-free to follow a path of cooperation as it provided the country with much needed investment. The United States influence in East Asia at this time cannot be overstressed. As the United States emerged as an industrial power it believed the modernization of China was in its best interests. This would lead to U.S. commercial interests lobbying the government for involvement in East Asian affairs, and it would open a new market and increase U.S. growth.

This time from 1840-1930 may be referred to as Western imperialism which blanketed all activities in China such as cultural, economic, and political activates.. However, this term used as a perspective for China becomes meaningless as it does not stress the fact that the Chinese traditional economy focuses on agriculture and is hostile to merchants, this is especially true when combined with the internal problems that limited the economic development and growth potential of China. In fact, this imperialism should be viewed as a jump starting force that propelled China toward modernization and now many Western nations were dedicated to the overall welfare of China (Vohra 1992).

Ever since the 1860's the Chinese people devoted themselves to modernization through numerous leaders, experiments, and ideas. The U.S. at the same time became an Asian power and informed the other Western nations the U.S. had an equal role in the exploitation of China through America's open door policy. Even in these early negotiations, the U.S. followed a realist viewpoint and yielded to commercial impulses to secure China as an economic opportunity. From the exploitation of China a number of reforms took place especially among the military and education spheres. The Chinese military adopted Western technologies, tactics, and military academics, along with a new modern army which became a symbol of national patriotism and nationalism. In education policy the government from 1895-1911 created a hierarchy of schools at the primary, middle, and university levels. Also the new reforms established courses in Western modern subjects as well as classical subjects. Thanks to these reforms China's trade increased 350 percent from 1900-1930 (Vohra 1992, 116). In fact, China's overall trade changed from importing opium to now importing raw commodities for refinement and development like cotton, paper, machinery, and electrical supplies, telecommunication, and scientific technology. These imports reflected the trend that China was moving toward a modern economy. Also, the country experienced changes in export policy as well which clearly showed that China was at the transition stage between a traditional economy and a modern one. The old traditional methods of production by handwork had lost to production by machinery and modern techniques. Similarly, China's industry began to extract more materials and from 1912-1929 industry grew at 13.8 percent per year, mostly with help by foreign investors. By 1933, the industrial sector which consisted of factories employed 73 percent of the labor force (Vohra 1992, 117). Of course the U.S. had changing viewpoints on how to accommodate China into its overall Asian strategy. Cohen (2010) states three president's viewpoints during the first part of the twentieth century, Roosevelt followed a militarism style of leadership towards China, and Taft believed in dollar diplomacy by providing loans to develop Chinese industries. Roosevelt and Taft differed however, from Wilson's view of no cooperation with the imperialists in China.

From 1928-1937 China rapidly developed along the modernization path. Of course, the lifestyle was a blend of a similarly Western culture in the urban areas and the traditional life in the rural areas which encompassed the majority of the population. However, in the cities the natives spoke English, dressed in Western clothing, and used modern devices like bathtubs, telecommunications, and conducted business with Western banks. However, a problem remained that people in the developed cities were tied to the West, but in the countryside the villages still clung to a traditional lifestyle that would have major implications in the next decade. Despite the positive gains from modernization the two separate lifestyles led to slow growth because it was only the costal port cities that were tied to trade and governmental policies only benefited those who lived in those urban areas. The Nationalist Government did not focus on the problems of rural China, which eventually led to its downfall. In summary China during this process of modernization lacked a balanced system needed to bring the people into a modern society. Unfortunately from the 1930s onwards the U.S. only maintained minimal investment in China and started to invest in Japan which emerged as the economic superpower of the region.

From here the U.S. supported the Chinese nationals only after diplomacy failed between the Nationalists and Communists. When Mao Zedong took power and founded the People's Republic of China in 1949, he believed China should follow its own path to modernization. Mao believed that since agriculture was the foundation of the economy, it should serve as the base for a modern economy. The peasants were given their own plots of land, but they were usually so small that neither agricultural growth nor modernization succeeded (Vohra 1992, 194-195). In fact, under Mao a number of measures were enforced to persecute, exile, and kill the "brain workers" of China; anyone who disagreed with the communist government or ideals were singled out from schools, intellectuals, doctors, writers, and artists. Unfortunately, attaching too much emphasis to agriculture led to disruptions in the PRC coupled with a strict communist lifestyle of equal wages for all propelled this modernization to ruin and ended up costing China a series of revolutions. Of course, that's not to say China failed miserably at attempting to modernize. It did receive help from the Soviet Republic which paid out a five year plan with an emphasis on industry and transportations/communications. In fact, as China followed a path toward agriculture modernization and Russia invested in a China for industrial modernization it led to a contradiction in policy formation.

When the U.S. realized communist China had received support from the Soviet Union, it began to follow a policy of containment. Which launched the U.S. into wars with Korea and Vietnam for protection for its territories. The U.S. policy turned to "the goal of American policy should be to prevent the Soviet domination of China for strategic ends" (Cohen 2010, 180).

Eisenhower built military bases because Cohen points out "Having promised in the Republican Party platform of 1952 that he would end the neglect in the Far East" (Cohen 2010, 199). In essence, the Americans opposed China as a proxy to fight the Soviet Union. In fact, Cohen points out that perceptions and misperceptions of Soviet involvement in China provided the majority of U.S. responses to China. However, on February 21, 1972 under the advice of his Secretary of State, Henry Kissinger, President Nixon visited China to meet Mao Zedong in order to restore relations and try to win back its long time economic partner from the Soviet Union. Unfortunately, Mao died in 1976 and would never see the normalization of relations between China and the United States.

From 1976 to 1978, China went through two leaders before Deng Xiaoping took power over the Peoples Republic of China, although he was not elected to party chair or premier on the State council. One of Deng's first orders of business was to bring the country together and so he ended the exile of "brain workers" to help in the modernization of China. Also, foreign culture, movies, books, and music began being imported into the PRC. Many foreigners, particularly Americans, were interested to see the Chinese mainland and the tourism industry of China began to develop which led to an increase the numbers of Chinese who would learn the English language to find a job. After Deng's successes on mainland China for domestic issues, the people began to see him as the leader of the country. However, Deng was also concerned with international affairs from the time he took office. He knew that China must modernize if it wanted to play a significant role in international affairs.

For Deng to realize his goal of Chinese modernization, Beijing began to make efforts to secure foreign loans, technology, machinery, and foreign businesses and investors to grow Chinese economic enterprises. China also sent students and scholars to Western schools to gain scientific, mathematic, engineering, technology, and managerial skills. Deng and the economic reformers of China pledged to allow market forces to control the production, planning, and pricing of commodities, except for energy and steel which Beijing believed were of national interest. Of course this left China in the hands of extremists who wanted to dismantle the state control and party system in order to replace it with a Western modernized model.

Understanding the mistakes of the past hundred years, the Chinese reformers began to modernize the rural areas as well since the majority of the population still lived in villages. The government contracted out areas of land, water, and forests for the villagers to become specialized units of production. The average agricultural output grew at a rate of 6.2 percent from 1979-1988 which translated into an increase from 170 billion Renminbi to 587 billion Renminbi (Vohra 1992, 263). This major overhaul of village life led to rural areas developing light service and industries which ended up absorbing the surplus rural labor that could not find work in the urban areas. The success from 1979-1990 encouraged China's economic liberalization and government officials knew China had to keep reforming. As China begin to modernize it was faced with the disaster at Tiananmen Square, the controversy of Taiwan, and the growth in Chinese military and economic power. The Chinese even turned to the U.S. as a counterweight toward the Soviet Union, an example of realist behavior displayed by the Chinese. In the 1990s China gained the capabilities to play a game of tit-for-tat with the United States. Cohen claims, "Giving China's great capacity for jeopardizing American interests around the world, it was essential to develop a good working relationship, for the two governments to be able to accept their differences, cooperate when possible, and avoid confrontation" (Cohen 2010, 257).

Today, China enters a world governed by economic policy. China formats its agenda to maintain its image of a trusted partner in trade and military relations. However, China has become very modernized in the past thirty years. One only needs to look at the special economic zone of Shenzhen to clearly understand the rapid modernization. Shenzhen was an experiment conducted by the Communist Party on a liberalized market. This small town turned into a manufacturing hub for China and in terms of development it is equal to Hong Kong. However, the question remains how did China accomplish this task and keep a rapid growth rate? Currency manipulation provides the answer. I argue that China not only manipulated its currency to achieve export growth, but to also propel itself to a modernized economy. From 1981-1994 China kept a slow devaluation of its currency, while it at the same time experienced rapid inflation. To counteract this it followed a monetarist policy that kept in tune with its reform movement of moving government out of the market. Under the new monetary policy form 1994-2005 China devalued its currency and maintained a sharp peg against the dollar at roughly 8.3 RMB/dollar. From 2005-presnt China has allowed for its currency to revalue to roughly 6 RMB/Dollar. I believe this purposeful devaluation was not only meant to increase exports as some scholars have argued, but instead to continue to modernize the Chinese economy and ameliorate the negative effects of rapid growth such as unemployment, inflation, and migration.

Chapter 4. Review of Related Literature

This review analyzes previous investigations into Chinese monetary policy decisions among three areas; China's exchange rate policy, Chinese domestic problems, and international law. This literature review summarizes devaluation within the concept of Chinese image of a responsible great power and how the Chinese perceive its situation with the rest of the world. I will observe China's exchange rate policy from 1980 to the present. By, exploring how China views itself in relation to the global economy it will allow for an appreciation of why China might or might not choose a devaluation policy. Finally, an investigation of international law will show how the IMF and WTO discourage currency manipulation.

4.1. China's Exchange Rate Policy

First, an analysis of competitive devaluation will explain why China may choose a manipulation strategy to continue its economic growth. Ahamed (2011) makes a reference to the 1930s depression and subsequent currency devaluations and what is perceived as today's currency war between China and the United States. Frieden (2006) provides a historical background on the 1930's devaluations showing the negative outcomes associated with a global currency war. Both identify the reasons a country would pursue a manipulation strategy. Also, a managed currency not attached to any agreement makes monetary policy an effective tool for combating inflation and maintaining price stability. Both authors stress the need for government leaders to fix its economies first as to avoid uncertainty. From 1929 to 1934 a total of 37 national banking crisis occurred in the industrialized economies. In June 1933 sixty six countries sent representatives to fix the international financial system during the World Economic Conference. However, when the new U.S. president Franklin Roosevelt assumed office, he made it clear he would get the U.S. economy growing again and international relations would come second (Ahamed 2011).

President Roosevelt in 1934 followed Great Britain which went of the gold standard in 1931. This seemed as if America and the rest of the developed world entered into a beggar-thy-neighbor strategy. The term “beggar-thy neighbor” refers to Adam Smith’s (1776:2012) interpretations of mercantilist economies which taught nations that “their interests consisted in beggaring all their neighbors” and “Each nation has been made to look with an invidious eye upon the prosperity of all other nations with which it trades, and to consider their gain its own loss” (Smith 2012, 484).

Overall, the concept of beggar-thy-neighbor means that trade through which the liberals would consider as a sign of friendship turns into hostility as each nation attempts to gain advantages over each other for a potential monopoly in trade goods. Both Great Britain and the United States paved the way for price increases, tariffs, and a reversal of globalization. In fact, Roosevelt economic advisors strongly believed in a devaluation policy, as a middle ground solution between self-containment and philanthropic internationalism. According to Rosen (2005, 24), internationalism allowed a country to focus on domestic worries because it understood national problems as “the consequences of skewed relationships among various sections, classes, and economic groups, agriculture and industry.” Although internationalism focused on trade with industrialized nations, during an economic crisis, trade must concede itself to domestic concerns: “A return to international priorities could be achieved only after each nation attainted internal recovery, a position reinforced by John Maynard Keynes” (Rosen 2005, 24). This new policy advocated returning to international agreements only if they aided the country in strengthening its economy. Rosen (2005) discovered England for the past 100 years practiced internationalism and this had been a British idea to control the British economy. Roosevelt even denounced the idea of currency stabilization as the "old fetishes of so-called international bankers" (Ahamed, 2011).

Fortunately, Roosevelt's rejection for international cooperation and his decision to devalue the dollar turned out as one of the few policy solutions that began to end the Great Depression by giving U.S. goods a competitive advantage in exports at the expense of other countries. This devaluation allowed the Federal Reserve Bank to inject liquidity into the U.S. banking system thereby loosening credit. This led to a reverse in deflationary pressures and increases in spending by households and businesses. Worldwide each country continued to gain advantages over others by devaluing its currency after leaving the gold standard. This expansion of the money supply was designed to boost prices, inflation, and spending, even while the U.S. endured accusations of currency manipulation. The question remains as to whether the international financial system experiences the same devaluation today. There seem to be many resemblances between the devaluations of the 1930s and today's accusations of a currency war. However, Ahamed (2011) believes China is not following the same pattern of devaluation policy after the 2008 crisis. The response to China's further devaluation would have heard cries from other countries accusing the Peoples Republic of stealing jobs. Even Zhao and Liu (2010) make the claim the world is more interdependent today than in the 1930s. Therefore, the idea of a zero-sum game and beggar-thy-neighbor policies would only lead to a crisis in China and other countries if they attempted the scale of devaluation to match the Great Depression.

However, the first example of Sino-American devaluation occurred during the 1930's. China experienced a rapid modernization trend for an emerging economy. With the growth of infrastructure and industry, Japan invaded, seeking resources to fight World War Two. Kirshner

(1995) investigates the role of Sino-American cooperation of currency manipulation in the form of a devaluation. In fact, the same concept of devaluation as described by Frieden (2006) was employed by China during its war with Japan with the aid of the U.S. and Great Britain. His China case provides an explicit example of currency warfare. The main actors mirror today's current case: China and the United States. In 1931, Japan invaded China's Manchurian province instigating a war that lasted until 1945. Japan knew the only way to win against China was to make the Chinese currency seem illegitimate. China based its currency on the silver standard, but unfortunately the 1934 "American Silver Purchases Act" placed pressure on the Chinese's monetary system. As the price of silver rose, the Chinese people quickly converted their currency into silver and subsequently into gold which resulted in a currency shortage. As a result China left the silver standard in 1935 opting for paper notes which was in a managed float between the U.S. dollar and British pound. To accomplish this float, the Chinese needed a stabilization fund in order to intervene during daily operations. The Chinese Finance minister H.H. Kung believed, "a stable exchange rate and sound uniform currency throughout China would provide an important stabilizing influence on the political situation. The slide of China's silver resources appeared to be the only way to raise the exchange necessary to operate such a fund" (Kirshner 1995, 52). Therefore, China entered into an agreement with the U.S. whereby under Treasury Secretary Henry Morgenthau Jr. the U.S. would purchase Chinese silver. This policy effectively devaluated the Chinese Renminbi, expanded credit, and increased U.S. influence over China's economy. After World War II the Nationalist government was an active participant in the Bretton Woods agreement. However, China would be engulfed by civil war between the Communist and Nationalist and from here until 1979, the U.S. did not engage with China regarding monetary policy.

Deng Xiaoping introduced the four modernizations into the Chinese economy in the late 1970s. China moved from a central planning commission to socialism with Chinese characteristics. A combination of market forces and planning would allow the government to better control economic activity. Chinese policy today follows a concept of a "responsible great power" (*fu zeren de daguo*). For China to act as a responsible country would allow it to elevate its status to a great power. This will place pressure on Chinese officials to follow international norms and become a cooperative player in the international system. In fact Wang (2003) argues China's future monetary policy decisions will be shaped by political factors, prestige, and reputation with the rest of the world. As a responsible great power, Chinese officials would follow policies that might not be in their best interests or in response to economic logic.

Economic logic only shows that China followed a devaluation strategy to increase exports. However, it doesn't support the conclusion that politics plays an important role. Without politics it seems as if economic theory only equates to policy prescriptions. However, economic theory explains little about China's chosen policy of export led growth. As Kirshner (2003) states, "The indeterminacy of economic theory as a guide to policy goes much deeper than issues relating to the international use of money-it reaches down to the very core of macroeconomics, to the management and control of money" (Kirshner 2003, 7). Investigating China's political concerns will show the numerous policy problems devaluation could solve such as unemployment. Chinese leaders in favor of undervaluing the RMB are driven by political calculations: "Since states have concerns for power and autonomy, the choice of one policy over another is likely to be driven by political rather than economic calculation" (Kirshner 2003, 12). In fact, these policy prescriptions come from constructed national interests such as having the continued need for a strong currency. As Kirshner continues to point out, when beliefs become an ideology that resist change even with a preponderance of evidence to the contrary, it will change the ways in which policy makers respond to a problem. Second, an understating of acceptable behavior within the international community will constrain a state's ability to formulate policy. Finally, if a prescription works it creates a self-conforming ideology that the winners are correct on grounds of theoretical soundness, however the distributional effects make these prescriptions "political in origin and effect" (Kirshner 2003, 15).

Therefore following this logic there might be certain underlying factors that would cause Chinese leaders to change a policy prescription to fix their political problems. Fixing a number of issues, fears of recession, reduction in trade competitiveness, and inflation as described by Hurst and Sorace (2011) and Nair and Sinnakkannu (2010), would give the government legitimacy and authority to solve future problems. Also, if China wants to act as a benevolent power it must not take actions that would harm other nations. Economic theory claims China's devaluation is part of a beggar-thy-neighbor policy solution. This policy holds a country will follow a dangerous path to a zero sum game outcome. However, why would China follow such a path if it meant tarnishing its reputation among the international community? In past economic dialogues with China, former Treasury Secretary Timothy Geithner claimed that Chinese currency manipulation was a "dangerous dynamic of competitive non-appreciation which will lead to serious disasters in the world market." The Chinese trade ministers responded to all accusations as "Nonsense, this is a purely market driven investment behavior that could be beneficial to us both" (Copelovitch and Pevehouse 2010).

Womack (2013) argues China is following a win-win economic policy strategy. As China began to modernize its economy, policymakers had to adjust their domestic development policy to accept the changes brought about by economic globalization. However, maintaining

China's policy of a responsible great power meant increasing its overall prestige within the global community. Womack's overall argument claims, "the current era of global economic uncertainty, combined with the remarkable increase in China's relative capacities, make credible reassurance from China more important to its partners for their mutual benefit" (Womack 2003, 912). China's fear of uncertainty comes from the financial crisis of 2008, which was the first crisis of the globalized world. Since the 1980s most crises were regionally contained to one or a few local countries; however, these past crises did not harm the stability of the global system. Today, "caution becomes the global watchword" (Womack 2003, 916). The 2008 crisis showed the limits of China's ability to control its political and economic sustainability. As the global economy slows down so does China's growth which places pressures on the government to alleviate any problems arising from any future crisis.

An undervalued currency will help alleviate these problems by increasing Chinese exports relative to other industrialized countries (Nair and Sinnakkannu 2010). For any state to maintain its legitimacy it must have a given level of certainty concerning its economic well-being. In fact, from 2007 to 2010 China experienced a high level of export uncertainty. From 2007-2008 exports rose from $1.38 trillion to $1.62 trillion, but decreased from 2008 -2009 with exports totaling $1.35 trillion a loss of two years of growth. However, Chinas exports increased to $1.75 trillion in 2010, a total gain of $370 billion over four years (UN Comtrade 2015). As a result of economic uncertainty the Chinese fear capital flight which could divert resources away from development and reduce the effect of monetary policy. This uncertainty could contribute to negative outcomes if China attempts to liberalize its markets too quickly. Therefore, with the changing nature of the global economy, uncertainty will continue to be a problem for China to overcome (Cheung and Qian 2010).

Zhao and Liu (2010) further the argument that China must constantly change its policy as its interdependence with the rest of the world evolves as well. Shifting economic policy often involves a transformation in diplomatic policy as well. In fact, ties with the United States have evolved over the last thirty years prompting an adjustment in Chinese economic policy as it sees new economic concerns. Also, former Secretary of the Treasury Henry Paulson stated, "the challenge for Washington is to understand China's perception of self-interest, identify opportunities to persuade China that its interest and those of the United States are often the same and narrow the real differences whenever possible" (Paulson 2010, 90). China has joined the WTO, and the ASEAN-China free trade agreement, signed the U.S.-China Strategic Economic Dialogue, signed a $400 billion gas deal with Russia, and has agreed to numerous UN conventions. However, even though China has opened up to the outside in a number of ways, its economy is still at risk for global shocks. In 2010, China launched a stimulus program of roughly $586 billion intended to encourage its then slowing economy which would provide infrastructure investment (Zhao and Liu 2010). With China increasing its interdependence with the rest of the world, some scholars such as Wang (2003) and Womack (2013) will argue their monetary and exchange rate policies should not be viewed as harmful to other countries, but rather as a mutually cooperative venture.

This literature discusses China as a cooperative international player in the global system. Although China is known to devalue its currency, its policy prescription is not to cause harm to other nations at the expense of its well-earned prestige. If China's currency manipulation solves a variety of domestic problems, then China devalues its currency for domestic concerns and government legitimacy. These cases identified by the literature make the question of why would

China pursue a devaluation policy as suggested by its domestic economic concerns and political welfare.

4.2 China as a harmful presence to the global system

Although China's actions derive its source from political not economic logic in keeping with its benevolent great power, some scholars still believe China's devaluation harms the global economy. It is suggested that U.S. policy makers purposefully describe China as a harmful manipulator of its currency.

In fact, Ramirez (2012) points out some U.S. Congress members get higher political campaign contributions from mentioning China as a manipulator of currency. This "currency bashing" as he calls it has become more salient throughout Congress in the last decade. Congress blames China's currency manipulation for the loss of US jobs and competitiveness. PAC contributions to Congress members have some effect in shaping legislative voting behavior as some interest groups are positively impacted by a low RMB, and there are those who benefit from a high RMB. When Ramirez tested for PAC contributions influencing how much a member of congress bashed currency manipulation, he found an additional $5000 in PAC contributions would increase bashing by 1.35, and therefore, PAC contributions are associated with higher levels of Congressional China bashing (Ramirez 2012). Ramirez also tested to see if "currency manipulation" bashing changes the nominal RMB/$ exchange rate. His findings indicate that bashing slows down rather than accelerates the rate at which the RMB appreciates against the dollar. The result suggests that bashing China may actually be counterproductive. This article summarizes the effect that interest groups have in encouraging certain legislation that would bring economic benefits to their members.

These interest groups in America consist of manufacturing and export servicing firms who wish to increase their profitability and state businesses who engage in international trade. This thought is important to how China may respond with its currency policy. If China knows the US or other countries will respond in a negative way, then it may limit the extent of a devaluation or increase the likelihood of a revaluation. Even President Obama stated in 2008, argued China's trade surplus reflects its currency value (Staiger and Sykes 2010). However, Goldstein and Lardy (2007) point out that debates around China's currency manipulation began around 2005, when China announced a new currency exchange rate policy of a managed float. Conversely Mundell (2004) believes China does not have a correct exchange rate equilibrium and should not have to appreciate because its current fixed exchange rate policy has been the cause of enormous economic growth. Too much of an appreciation could lead to a negative outcome.

The U.S. realizing this negative effect of currency manipulation by other countries has sought to seek reform in its domestic trade policy. The U.S. Senate introduced the Currency Exchange Rate Oversight Reform Act of 2013 to challenge currency manipulators. This bill if passed would allow the Treasury Secretary to analyze the exchange rates of foreign countries, determine if a currency is misaligned, and devise a course of set policies if the country continues this misaligned currency strategy. Of course these bills are nothing new to Congress, as it has tried numerous attempts in the past to legislate change in the Chinese exchange rate. Hufbauer and Brunel (2007) explain former Treasury Secretaries John Snow and Henry Paulson have met with Chinese officials to convince Beijing a flexible exchange rate not only benefits China and the United States, but the world economy as well. In 2007, the U.S. Congress began to consider bills that would affect US-China trade: the Ryan-Hunter (House): Currency Reform for Fair

Trade Act of 2007 (HR 2942), Schumer-Grassley-Graham-Baucus (Senate Finance): Currency Exchange Rate Oversight Reform Act of 2007 (S 1607), and Dodd-Shelby (Senate Banking): Currency Reform and Financial Market Access Act of 2007 (S 1677).

Other studies such as Bergsten and Gagnon (2012) and Gagnon (2012) find China as one of the biggest currency manipulators that has the greatest effect on world trade. Also, China has built up the largest amount of foreign reserves; by 2014 it had reached the four trillion dollar mark. China regularly purchased one billion dollars per day from 2008 to 2011 and "halted Renminbi appreciation between 2008 and 2010" (Bergsten and Gagnon 2012, 5). However, Cohen (2008), understands the stock piling of reserves by Beijing as a means of increasing its influence in foreign affairs or threaten the stability of the dollar. If China were to use its reserves to threaten the dollar any deprecation would impose costs on China. Cohen (2010) claims, "For every 10 percent depreciation of the greenback, therefore, China would lose something in excess of 3 percent of GDP." (Cohen 2010, 462) The value of Chinese reserves would decline as well. Overall, this form of currency manipulation will end up costing China more than doing any good and should not be feared by the global community. Nair and Sinnakkannu (2010) find from 2005 to 2009 the People's Bank of China strongly intervened via exchange reserves to keep the RMB undervalued compared to other major currencies such as the USD and EUR. In fact, a de-pegging of the RMB in 2005 did not change the effects seen by U.S. policy makers in lost production and unemployment rate.

One interesting aspect of the Nair and Sinnakkannu study finds China's exports evolved from low technology products such as clothing to high technology manufactures such as computers. This shift has given China a competitive position in the global market. A major concern of industrial powers is that China will continue to move toward an export oriented economy of high technology equipment which has been the traditional export of Western economies (Van Assche et al. 2008).

Also, during the East Asian Financial Crisis China proved to be an economically peaceful country and an aid to the global economic system. During the crisis, there were many structural weaknesses within the Asian economies at the time. These countries could not effectively respond to capital flights, the financial sectors did not grow along with economic performance and excessive government involvement and corruption contributed to a growing breakdown of capital flows in East Asia. These problems were further worsened by poor policy decisions that made the Chinese government slow in any response to a crisis (Noland et al. 1998). China had been relatively unaffected by the crisis; however, at early stages of the crisis China had two options: devalue or not devalue. Noland perfectly explains: "The Chinese officials knew a devaluation would cause another round of competitive devaluations" (Noland et al. 1998, 28). Therefore, China had to develop alternative tools for macroeconomic management. Wang (2003) also claims China sought to act like a responsible power and that intangible concept led to a no devaluation strategy. Finally, Bahamani et al. (2013), find that countries which engage in a devaluation technique to improve their overall trade position find the policy is less effective and, in fact, the countries should consider other macroeconomic policies.

4.3 Chinese Unemployment Complications

According to the research discussed in Chapter two, three important factors of Chinese currency policy are established. First, it has been the growth of bureaucrats concerns such as inflation and unemployment, but these officials will act with respect to the rest of the world when deciding policy prescriptions. Second, China feels a devaluation strategy would best suit its economic needs and without threat of international law it is free to pursue the best prescription for its needs. Finally, although the US claims China is an extreme manipulator of currency, no formal legislation has been brought against China.

The Chinese experienced political and social change during and after the 2007-2008 crisis. The Chinese launched a massive stimulus program which consisted of large scale infrastructure projects and numerous incentives to increase consumption and investment in the economy as a whole. The main problem faced by the Chinese government was the massive influx of workers from the rural areas to the cities, drawn by the prospects of higher wages and opportunities, which China has encouraged over the past decades. Migrant unemployment became a significant political issue in China because the factories were employing fewer workers to maintain their competitive advantage over foreign firms. Since many migrants couldn't find work, many returned home. Therefore, the state focused efforts on relieving employment pressures on returning migrants and stemming the long tide of labor outflows from rural to cities. The government improved rural job training and education, with an emphasis on developing township and villages enterprises. The estimates of labor outflows between cities and towns have been as high as 130 million migrants.

These unemployed (or under-employed) migrant workers created social instability. In some places the workers rioted because they had lower wages and hours, and the employment prospects were more diminished than they had anticipated. These riot groups were met with brutal police repression since the government fears these protests will undermine its authority. However, these riots forced the state to start re-employment projects which consisted of a range of programs such as effective job training and placement centers. The major union in China, the All-China Federation of Trade Unions (ACFTU), became heavily involved and expanded its services beyond union member to urban and rural areas who were not members. Also the state and the ACFTU emphasized workers' rights. This is seen in non-state owned enterprises and firms from US and Japan. The Chinese government has sided with the workers on many issues. Due to state protection, China has been insulated from the damaging forces of the 2007-2008 recession (Hurst & Sorace 2011).

There are some initial studies that contribute to an overall understanding of the problems of Chinese unemployment. Wu (2003) shows unemployment has been an issue in China empirically claiming provincial and youth joblessness are higher than aggregate unemployment. Also, the Western provinces have the highest unemployment rates compared to total unemployment rate. Wu (2003) points out the state and collective sector of the economy tolerate prolonged regional joblessness as it relies on the private sector to cure the out of work people in China. The growth of the private sector in China has acted to reduce prolonged unemployment. Rosefielde (2011) claims China's currency policy implicitly subsidizes export goods to the US and EU. This viewpoint is furthered by the government's stockpile of precautionary currency reserves. This policy allows for government control of its foreign trade and will allow it to better project future projects, employment opportunities, and growth.

These fears by the government were realized during the 2008 financial crisis. Many migrants moved to the cities in search of higher incomes and increased social mobility. However, in 2009 the Chinese Ministry of Agriculture announced twenty million migrants had lost their jobs. Chinese media focused on the newly jobless migrant workers which led to rioting and violent incidents. Hurst and Sorace (2011) finds the recession affected the migrants more than workers in state owned enterprises. The state owned enterprise remains under the control of the Communist Party and its labor unions can better manage rather than represent worker's grievances regarding working conditions and pay. Overall the general feel of worker's dissatisfaction elicited state responses by the Chinese government to halt the rise in unemployment. These responses were in the form of re-employment projects for laid off workers in state-owned enterprises and the government manipulated its currency to keep a competitive exchange rate in its exports to allow for a rapid re-employment of workers.

Inflation fears have plagued Chinese officials since the reforms of the 1970s. Huang et al. (2010) claim inflation contributed to political instability in 1988, 1989, 1994, 2004, 2007, and again in 2010, making inflation a heavily debated policy issue. Huang et al. (2010) provide a number of factors that determine China's inflation rate. Their variables included: excess liquidity, output gap, asset prices (housing and stock prices), and policy instruments (interest rates and exchange rate). They advised the central bank to monitor these four areas to mitigate the risk of spillovers that would lead to inflation. Chow (1987) argued the monetary policy of China causes rampant inflation in China. Nevertheless, it is important to know that inflation plays a big part in China's central bank policy making process. In fact China knows its past history with unrest and will not repeat its past mistakes by following a policy that would damage its people. Furthermore, the fact that Beijing has partnered with its unemployed citizens to provide better job training shows the responsiveness of the government in dealing with pressing matters; inflation in China is a pressing issue.

4.4 International Law

The legal texts of the IMF and WTO provide little recourse against a country accused of currency manipulation. A state's control of its currency has been seen since the inception of international organizations as a sovereign right. Therefore, any attempts to regulate a country's currency regime is a challenge to international law. Barack Obama and George Bush each have met with Chinese officials about exchange rate politics; however, each president was careful not to publically claim that China was in violation of IMF rules.

Currency manipulation as it relates to international law operates within a system of anarchy. There isn't a higher power that enforces the supporting or prevention of manipulation, nor does it provide a prescription to aid in response to this policy. Currency manipulation laws fall under the IMF's Articles of Agreement, more specifically under Article IV "Obligations Regarding Exchange Arrangements." (International Monetary Fund 2015). Section I (iii), requires all members to maintain stable exchange rates and each member, "Avoid manipulating exchange rates or the international monetary system in order to prevent effective balance-of-payments adjustment or to gain an unfair competitive advantage over other member countries." Also, under Article IV, Section III (a) and (b), the IMF is directed to: Oversee the international monetary system and ensures its effective operation, also it oversees that each member complies with their obligations Section 1. The Fund exercises rigorous observation over the exchange rate policies of its members and creates specific principles for each member to follow. Furthermore, each member must provide the Fund with any information regarding its exchange rate for surveillance purposes, and, "when requested by Art. IV, Sec. 2–3IV. Obligations Regarding Exchange Arrangements the Fund, shall consult with it on the member's exchange rate policies" (International Monetary Fund, 2015).

Also all principles implemented by the Fund shall be "consistent with cooperative arrangements by which members maintain the value their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and Section 1 of this Article" (International Monetary Fund 2015). The principles agreed to by members will respect "the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members" (International Monetary Fund 2015).

Article IV clearly places important obligations and restrictions relating to exchange rate polices. Members must avoid manipulating exchange rates or the international monetary system in order to gain an unfair competitive advantage over other members and the IMF must oversee the compliance of each member with this obligation and it exercises firm surveillance over the exchange rate policies of members. It seems under these rules currency manipulation doesn't exist as the IMF would force the country to cease such action. However, the IMF lacks any enforcement power to perform such action. Furthermore, it is well known that China manipulates its currency without any restraint.

The World Trade Organization dispute settlement system provides one of the most effective tribunals for trade disputes (Jung 2012). The WTO has compulsory jurisdiction over all its member trade relations and the automatic adoption of its panel or the Appellate Body decisions. Therefore a currency manipulation case brought before the WTO would end such action, as with the IMF rules. However, only Article XV GATT explicitly addresses exchange rate arrangements and exchange action, but not exchange policies. According to Article XV, also known as the frustration article, members cannot use exchange rates to frustrate (violate) the intents of any provision in GATT or frustrate the provisions of the Articles of Agreement of the IMF.

Staiger and Sykes (2010) viewed currency manipulation as it relates to the laws GATT incorporated into World Trade Organization law and IMF agreements. They find the IMF and WTO never intended to stop nations from pursuing macroeconomic and development policies that were beneficial to all nations. However, the question remain: do if China's policies violate the WTO and IMF rules which depend on the Beijing's motivation for currency manipulation as a policy for increased exports or for macroeconomic development? Essentially, there is no difference between the two policies China would argue it pursues. The IMF finds that states engage in exchange rate intervention for numerous reasons and the crucial argument to this rests on how other governments respond to intervention. If a currency maintains an undervalued and overvalued rate, it will have effects that remain reliant on a variety of considerations. It is highly misleading as Staiger and Sykes (2010) claim to equate currency undervaluation to the effects "in isolation of tariff increases and export subsidies". Staiger and Sykes provides an overview to the WTO laws and IMF agreements in answering questions related to China's perceived currency manipulation. However, these authors seem to forget that China isn't the only currency manipulator, but that there are numerous countries they could easily fit this analysis of currency manipulation as it applies to international law.

However, Jung (2012) points out in articles 1 and 2(1) of the 1974 Charter of Economic Rights and Duties of States, that the United Nations General Assembly resolved every state exercises sovereignty over its natural capital, resources, and wealth. Consequently monetary sovereignty is also included and states have enjoyed the exclusive right to regulate their own use and value of currency. The concept of a national currency, which includes, money that is distinct and exclusive to the territory of a state, constitutes the formation of a modern nation state. Money consists of three faces today: a symbol of national independence, integration, and identity (Herrmann, 2010). Although a state has an inherent right to control the value of its currency, this right can be waived by accepting an international obligation limiting its inherent rights. Examples of this are; joining a trading or economic bloc with a single currency such as the Euro, and, accepting another nation's currency as its own, called dollarization, which is seen in South

America and in North Africa with the Euro. However, with the "relatively short history of international economic law, only rudimentary level of customary law has been developed in the field of international economic relations and most multilateral economic obligations are proved under the treaty laws of the IMF and WTO" (Jung 2012).

Herrmann claims that public international law has maintained a general acceptance of the state power over money. Through a decision by the Permanent Court of international Justice in 1929, that a generally accepted principle derived from this *jus cudendae monetae* (the right to coin money) is of key legal significance and the *lex monetae"* (the state chooses what currency to use) (Herrmann, 2010). This right of monetary sovereignty doesn't only include the right to coin money or what currency to use, but rather affords the state complete monetary sovereignty to choose from a number of policy tools between exchange rate manipulation to controlling capital flows.

4.5 IMF Law

The purpose of the IMF includes promoting exchange rate stability, maintaining orderly exchange rate arrangements among members, and avoiding competitive exchange depreciation Art. 1 (iii). This is an explicit and hard prohibition of exchange rate manipulation. According to this provision each member shall avoid manipulating exchange rates or the international monetary system in order to prevent the effects of a balance of payments adjustments to gain an unfair competitive advantage over other members (Art (4) sec 1 (iii). This system law is complicated by Article 4 Sec 1 (ii) which obliges members to seek to promote stability by fostering a monetary system that does not tend to produce erratic disruptions (Herrmann 2010). The question becomes when does an intervention by a monetary authority go from legal and legitimate policy to illegal and illegitimate manipulation? The IMF has never found even a single member to be in breach of Article (4) sec 1(iii). To show a member is in breach of Art 4:1(iii) is not only complex but politically delicate. Article 4:1(iii) requires showing that exchange rate manipulation has been undertaken with the motivation to gain an unfair advantage over a member. This key provisions renders the IMF code of conduct essentially defective (Zimmerman 2014). Although the IMF Agreement is the most important and probably the only source of international law directly restricting a state's monetary sovereignty, the IMF does not possess an effective tribunal to adjudicate the alleged violation of the IMF Agreement by its member states.

4.6 IMF Surveillance

Art. 4 Sec. 3 (a) of the Articles of Agreement maintains the IMF to "oversee the international monetary system in order to ensure its effective operation and the compliance of each member with its obligation under Section 1 of this Article. Paragraph (b) empowers the IMF to exercise firm surveillance over the exchange rate policies of its members and to adopt specific principles for the guidance of all members with respect to those policies (Herrmann, 2010). It is on this basis the IMF established, in 1977, its bilateral surveillance mechanism, which underwent reforms in 2007 in a broad effort to maintain international monetary stability (Zimmerman 2011). The IMF has adopted the following principles for its bilateral surveillance mechanism in order to guide members on how to conduct exchange rate policies. First, a member shall avoid manipulating exchange rates or the international monetary system. Second, a member should intervene in the exchange market if necessary to counter disorderly conditions, which can disrupt short term movements. Third, members should take into account their inventionist policies and the interest of other members whose currencies they intervene. Finally, a member should avoid exchange rate policies that result in external instability (Zimmerman, 2011). This surveillance mechanism merely restates IMF Article 4:1 (iii).

However if a member is found to be in violation of these principles that would require looking at the annex which repeats a member is in violation if it secures a misaligned exchange rate, determined by the IMF, and this misalignment increases net exports. Nevertheless the IMF gives most nations the benefit of the doubt. Herrmann, found that China's exchange rate policy violates most of the principles, but under the IMF rules it would fail the test required by Art 4:1 (iii). The IMF believes most nations, China in particular, may have a greater set of reasons for its exchange rate policy than export expansion and the macroeconomic effects of its exchange rate policy are more complicated than presumed, and Art 4:3 (b) the IMF directs the mechanism to have due regard to possible domestic policy choices by the state in question (Herrmann 2010).

Even though the IMF has guidelines in place to find currency manipulation, it rarely does because it gives states the benefit of the doubt. It is no surprise that the IMF has not found any nation to have violated of Art4:1 (iii). Even if it did declare a nation in violation, without a dispute mechanism there is no way for the IMF to curtail the nation's current policy. The IMF's only resources are to suspend their voting rights, expel a nation from the IMF, or use peer pressure to force the nation back into alignment.

4.7 Summary of Literature

The literature lays out salient points regarding Chinese economic and political policies. China does not seem to manipulate its currency relying the usual economic justifications concerning trade advantages, but rather more political points of prestige and legitimacy of its government. However, it does not explain why China manipulates its currency. If China does not follow economic logic then what factors are left? These factors could include:

unemployment, inflation, government prestige which encompasses its power in the UN and other international committees, asset prices, modernization, and the lack of an international legal framework.

Chapter 5. Methodology

This chapter provides the methodology of the thesis. First, the created equation to test for currency manipulations effect on modernization is introduced. Then the variables are introduced followed by an explanation of their equations. Finally, the variables are described and related to the overall thesis.

From the literature review it was quite evident that scholars cannot find an answer to why China performs currency manipulation. However, it seems that Beijing performs such actions for three reasons: to rapidly modernize its economy, to assist in mitigating the spillover effects of modernization such as unemployment, and lastly to increase the amount of overall investment received from foreign actors to ameliorate the imbalances of rapid growth in a few sectors of its economy.

5.1 Model

I argue China manipulates its currency to receive advantages in six areas which creates an equation as currency manipulation is a function of: (i) Net Development Assistance Received (*NDAR),* (ii) increases in trade exports *(Trade),* (iii) a reduction in unemployment (*Unemployment),* (iv) increases in manufacturing (*Manufacturing),* (v) inflation reduction *(Inflation),* and (vi) an increase in Gross National Income (*GNI).* The relationship expressed in equation defines the connection:

Manipulation = f (NDAR, TRADE, UNEMPLOYMENT, MANUFACTURING, INFLATION, GNI).

To understand the equation in theoretical terms, as China manipulates its currency, it should expect to see increases in foreign investment because a manipulated currency is usually pegged to the dollar within a narrow band, making profits of international companies easier to forecast, thereby reducing risk. Also, as the value of currency decreases in value compared to the reserve currency, any amount of aid will increase the overall amount of aid given to China NADR. Included in the NADR are net official inflows from UN agencies as well. For example, if China's currency falls in value and the UN gives more aid in dollars to China, the country receives more currency for investment all else being equal. As investment increases in China there should be a relative increase in the levels of national income and trade exports. This in turn decreases unemployment as workers find jobs in manufacturing plants which increases the exports of merchandise goods.

5.2 Explanation of Variables

First an explanation of each variable before the empirical investigation in the next section is necessary. Some of the cases mentioned in the theoretical equation were combined to bring depth to the analysis.

First, the Net Official Development Assistance (ODA) received in current U.S. dollars. Which consists of Net ODA disbursements of loans made on concessional terms, repayment of loan, and grants made by the agencies of the Development Assistance Committee (DAC), multilateral institutions, and non-DAC counties to promote economic growth and development. The data is shown in table 4 (appendix).

Also included in Net ODA comes Net official flows from UN agencies in U.S. dollars. Total Official Flows are the sum of ODA or other official flows (OOF) and represents the total disbursements by the official sector at large to the recipient country. There are three main classes of transactions included here: official export credits, official sector equity and portfolio investment, and debt reorganizing undertaken by the official sector on non-concessional terms.

The UN agencies included in the analysis are the United Nations Children Fund (UNICEF), the United Nations Development Programme (UNDP), the International Fund for Agricultural Development (IFAD), the United Nations Population Fund (UNFPA), the United Nations Refugee Agency (UNHCR), the United Nations Regular Programme for Technical Assistance (UNTA), and the World Food Programme (WFP). The data is in currency U.S. dollars and found in table 5 (appendix).

Second, merchandise trade as a share of GDP is the sum of merchandise exports and imports divided by the value of GDP, all in current U.S. dollars.

Third, unemployment as a percent of labor force under national estimate. This refers to the share of the labor force that is without work but available for and seeking employment.

Fourth, the percent of value added to the manufacturing sector, as a percent of GDP. Which is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources.

Finally, GNI per capita is the gross national income divided by midyear population. GNI (formerly GNP) is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. Data are in the current local currency. For a complete list of the data set see the appendix for Table-Macroeconomic Factors and Table-Development Aid

Chapter 6. Empirical Analysis

This study does not seek to provide a compressive analysis for all the determinants of China's currency manipulation. Rather it investigates the connection among ten particular variables. It uses conventional theory testing methodology to examine the relationship among these variables at the macro level. The data was received from the World Bank Data Catalogue of development indicators (World Bank 2015). All the variables are measured annually from 1981-2011.

Before testing the equation an examination of logical soundness for analyzing the effects of international law on Chinese currency manipulation warrants a discussion. Referring back to the research question, China manipulates its currency because no international structure prevents it from doing so. When China began to modernize its economy it did so under an international system that had recently broken free from an international monetary standard under the Bretton Woods agreement. Also, during the 1970s-1980s other countries especially the Europeans found it difficult to make concessions for other countries to grow economically. There was a tradeoff between job winners and job losers, and China had to maintain a job winner status. Alongside this development of job competition the international community started to deal with fluctuating exchange rates and external shocks from the commodity market, which made adhering to international norms difficult to achieve. The fall of Bretton Woods triggered a response against inflation and unemployment as countries struggled to find solutions. The Philips curve explains the tradeoff many countries including China had to face when emerging from the Bretton Woods era. Most countries responded by following a supply side economy also known as monetarism whereby central bank intervention will cure the economic ills of unemployment and inflation without the need for government intervention.

The tradeoff means that countries can see high inflation with low employment or high employment with high inflation. China knowing this had to make the trade off, but could not decide between the two as both have caused unrest in the past and led to changes in its modernization potential. Beijing knew it would come under scrutiny from currency manipulation because it developed under an international system with regimes that consisted of the WTO, IMF, World Bank, UN, and the end of the Cold War. China followed suit with the rest of the world agreeing to the UN, IMF, and WTO. It is quite obvious China followed a form monetarism policy which included inflation, unemployment, and growth as parts of that policy.

Although China signed on to many agreements to not manipulate its exchange rates under the IMF and WTO, it still followed its version of monetary policy that manipulated exchange rates in the face of economic law. International economic law governs two main areas: the economic relations among states and regulating international trade among states. For example, how a state chooses to regulate its financial sector or its interest rates, resides with the state even if it may have negative effects on others. Also, international economic law tries to establish common standards and rules which can include the environment and human rights. Attention is given to the already mentioned areas of GATT, WTO, IMF, and Bretton Woods. Normally most areas of law focus on the GATT/WTO areas. One major development of international economic law that the international community has learned from the 2008 recession was that leaving economic regulation to the individual states and market forces generates too much risk and has now shown the serious implications the global economy will face during a crisis.

China understands its welfare is closely tied with the rest of the world and took precautions to mitigate the damages felt from external economic and currency shocks. Pegging its currency to the dollar allowed for a stable currency regime and a safer reserve to invest in than other assets; the acceptability of the dollar globally allows for China to prepare itself against crises. Normally, developing countries are at a greater risk to encounter financial crisis and pegging its currency is a reasonable defense. The other reason for China pegging its currency to the dollar and the effects of doing so are outlined and mentioned in the previous sections, repeating them again here seems redundant. China pegging its currency to the dollar is not considered *per se* illegal by any standard. Also, China setting an inflation target of 2.1 percent is not *per se* illegal as well. Currently about seventy members of the IMF have adopted pegging its currency to other exchange rates, see table-7 Monetary Policy Framework in the appendix for a detailed list. In fact, the majority of members in the IMF have adopted some form of currency manipulation to best suit each member's needs. The Monetary Policy Framework table Shows 126 members of the IMF maintain some form of currency manipulation against the U.S. dollar, Euro, or composite amount.

Finally, analyzing the intent of China's currency manipulation demonstrations how international law cannot even dictate its policy. A key provision of Article XV must find evidence if the actions of China frustrate the intent of GATT and IMF provisions, which means China must have the motivation to manipulate its currency in order to harm another nation. What many countries, especially the United States complain about, is not the peg China maintains, but rather it is the prolonged form of a peg to the U.S. dollar. Determining the intent of such action is hard to accomplish without the knowledge of China's leaders intentions. Some countries would argue the intent of China's action constitutes a subsidy, as an undervalued exchange rate would impose a theoretical tax upon an importer and a subsidy to an exporter. However, this argument does not make sense as the factories that employee the workers do not make products from Chinese companies, but rather foreign companies. Also, without an effective enforcement mechanism it seems as if the IMF articles of agreement encourage currency manipulation.

6.1 Regression

Using hypothesis testing I determine if currency manipulation is employed to influence other areas of the Chinese economy. I predicted in my theoretical analysis that China relies upon manipulation to propel it toward a modernized economy. To accomplish this it must seek investment and aid, raise incomes, and increase trade exports. A regression analysis seeks to explain a relationship between variables. Here I seek to find the relationship between the annual changes in China's exchange rate pegged to the U.S. dollar and the effects on aid, unemployment, national income, and trade. The summary is found in table 2 and the actual results are found in the appendix.

Table 2

Variable	*Coefficients*	*Standard Error*	*t Stat*	*P-value*
NODA	1.115	3.004	2.092	0.048*
UNDP	-6.235	2.453	3.713	0.001**
UNFPA	-1.557	4.018	-2.540	0.019*
UNHCR	1.425	9.454	-3.876	0.000**
UNICEF	9.984	4.607	1.507	0.146
TRADE	0.035	0.016	2.167	0.041*
UN	0.860	0.346	2.110	0.046*
MANVALUE	-0.302	0.144	2.484	0.021*
GNI	-3.653	1.863	-2.099	0.063
Notes	*P<.05	**P<.01	R^2=.961	

As table-2 shows currency manipulation accounts for 96 percent of the variation in the dependent variables. Of the nine variables tested, only two proved not to be statistically significant: UNICEF and gross national income. At the .05 level, net official development assistance, UNFPA, trade as a percent of GDP, unemployment rate, and the value added by manufacturing were all significant. At the .01 level UNDP and UNHCR were significant. The results were not surprising given the logical soundness of the theoretical framework; however the direction needs an explanation.

The main problem lies in the effects of modernization on exchange rate level which is a limitation that will be discussed shortly. First, as China manipulates its currency it moves toward a devaluation policy from 1981-2005, but begins to appreciate in a narrow fixed band. Of course, the purpose of this study was to analyze currency manipulate to the present date where data is available, 2011. Along with that fact, it would make sense that as China revalues its currency it would receive less overall aid, but UN aid still arrives to solve a number of specific issues. As China propels itself on a modernization track the overall amount of aid would decrease over time; however this empirically proves that currency manipulation is tied directly to currency values. Second, as China manipulates its currency we expect its overall exports as a percentage of GDP to increase as they devalue and decrease as the currency appreciates. Again this is shown here were devaluation adds only a marginal benefit to its overall exports. Also the level value manufacturing adds to GDP should begin to decrease as China reassesses its currency situation.

The unemployment rate needs further analysis. It can best be explained by understanding that modernization fuels migration which then in turn leads to more people becoming unemployed as they actively search for work in the cites, but cannot find any. Also even if China furthered devalued its currency the effect on employment would not be noticed as it seems if China might be in the transition between industrial society and modern society. Finally, gross national income turned out as expected. As the exchange rate decreases, there should be an inverse effect on wages. For China to revalue its currency, GNI must maintain a steady increase, or otherwise it would jeopardize the gains made in its economy. Therefore as China begins to revalue its currency gross national income increases as people find higher level jobs other than manufacturing and agriculture. In fact, to prove this explanation, running correlations from 1981-2004 show how devaluations in the Chinese RMB led to increases in aid, income, and trade. Table 3 shows this result.

Table 3 1981-2004

Variable	Correlation
NODA	0.631
TRADE	0.838
UN	0.751
MANVALUE	-0.815
GNI	0.857

Chapter 7. Conclusion and Discussion

My thesis contends that China purses currency manipulation as one of its many policy tools in order to achieve rapid modernization. However, while modernizing its economy China encountered a number of problems such as inflation, unemployment, and migration. Currency manipulation helps to alleviate these problems associated with modernization. Also, China is able to accomplish this form of policy prescription because no higher force prevents it from continuing this policy. My model results support the argument about Chinese modernization and supports the contention that currency manipulation is an aspect of Chinese development policy.

Developments in China's economic history from 1840-1980 have pushed toward a rapid modernization approach that stresses outside investment to develop its infrastructure in China's rural and urban areas. This finding concurs with others such as Womack (2013), Wang (2003), and Zhao and Liu (2010) who find China has aspirations to become a responsible great modern power and must change its policies as its interdependence with the rest of the world changes as well. Conversely most work including Bergsten and Gagnon (2012), Herrmann (2010), and Gagnon (2012) on Chinese monetary policy accuse China of only pursuing currency manipulation in order to gain trade advantages. However, I prove that China has manipulated its currency for a number of reasons that do not concern trade advantages.

This research does provide a framework for future studies. By adding more variables such as one for political legitimacy and international law cases, I will then be able to empirically prove my point without the need for a section on logical soundness. Also, this framework could apply to other countries as well and even develop a theory to understand modernization in Asia by currency manipulation. Also, reviving the theory of modernization will allow for new studies in developing countries that can focus on other areas such as the environment, social change, and education. It would also be interesting to apply this model to developed nations like the United States, Great Briton, and France to see if they historically followed the same path of development or if China is a deviant case.

However, there are some limitations from this case study. The most critical case against my study would argue that currency manipulation is a monocausal variable and one explanation would not lead China on the rapid path of modernization while at the same time alleviating domestic problems. This critique is correct, however, I do not make mention that currency manipulation alone will solve China's problems and provide a stable path for economic growth, rather I take into account that currency manipulation was one of many policy tools China used for modernization. Furthermore, this study places a heavy emphasis on Sino-American relations and it does neglect the influence of other countries who are affected by China's currency manipulation such as Turkey and some European Union members. Further investigation into these cases will reveal a greater insight into how China's currency manipulation affects more than the United States. Finally this study does not determine if the modernization effects from Chinese currency manipulation solely benefit China, or if this model of growth can be exported to other countries. I will argue on this point that China's unique makeup of a different civil society that stresses the benefit of community coupled with its communist government and quasi-socialist/capitalist tendencies may only be a model for China. In other countries the civil societies would not allow a country to follow a currency policy that would bring down the country's prestige or affect different interest groups such as business coalitions that relied on imports. However, further investigation is needed to create an argument for this critique and it goes beyond the scope of this research.

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Appendix

Table 4 Macroeconomic Factors

Date	FDI % of GDP	GDP	Trade % of GDP	Unemployment	Inflation
1981	0.211634	2.48E+11	15.12309	3.2	-0.21056
1982	0.278393	2.75E+11	14.54509	2.3	1.04317
1983	0.488676	3.17E+11	17.25997	1.9	4.958204
1984	0.540976	3.6E+11	22.44794	1.8	10.23799
1985	0.629551	3.91E+11	22.43189	2	4.703154
1986	0.855856	4.37E+11	24.09179	2	5.17414
1987	1.03191	4.86E+11	23.72492	2	12.10178
1988	0.986412	5.06E+11	22.28936	2.6	8.549073
1989	0.976922	5.25E+11	26.67145	2.5	5.798718
1990	1.150556	5.73E+11	29.3718	2.3	6.869863
1991	2.63947	6.55E+11	31.26536	2.3	8.19881
1992	6.246294	7.47E+11	30.15261	2.6	15.1574
1993	6.041763	8.44E+11	41.21632	2.8	20.62781
1994	4.92429	9.37E+11	38.81082	2.9	13.7108
1995	4.693461	1.03E+12	38.05745	3	6.427061
1996	4.643558	1.13E+12	39.01268	3.1	1.515712
1997	4.291577	1.21E+12	36.3927	3.1	-0.88891
1998	3.577381	1.31E+12	37.96687	3.1	-1.27325
1999	3.204014	1.42E+12	44.24362	3.1	2.032721
2000	3.33943	1.53E+12	43.0802	3.6	2.052582
2001	3.391597	1.67E+12	47.69501	4	0.600733
2002	3.0139	1.84E+12	56.93216	4.3	2.587877
2003	3.215294	2.03E+12	65.51084	4.2	6.927345
2004	4.92756	2.26E+12	68.63965	4.2	3.920381
2005	4.912457	2.54E+12	70.56824	4.1	3.807164
2006	4.847943	2.9E+12	68.01186	4	7.637415
2007	4.131019	3.18E+12	62.27481	4.2	7.763764
2008	3.347956	3.48E+12	49.02122	4.3	-0.60627
2009	4.603093	3.84E+12	55.04069	4.1	6.63872
2010	4.528771	4.2E+12	54.59919	4.1	7.804669
2011	3.592271	4.52E+12	51.82407	4.1	1.995158

Table 5 Macroeconomic Factors continued

Date	Net Merchandise Exports	Manufacturing Value added % of GDP	GNI per capita		
1981	3036000000	37.1259	528.4843		
1982	836000000	36.37514	584.9207		
1983	-1271000000	35.28787	698.6475		
1984	-14902000000	34.73166	860.1706		
1985	-11962000000	34.97848	963.1117		
1986	-3779000000	34.45449	1111.644		
1987	-7752000000	34.60293	1364.961		
1988	-6604000000	34.30442	1519.771		
1989	8746000000	32.6592	1648.923		
1990	8119000000	32.48726	1896.644		
1991	4355000000	32.73655	2312.272		
1992	-12215000000	33.97007	2992.093		
1993	5391000000	33.62806	4036.503		
1994	16696000000	33.654	4964.127		
1995	12215000000	33.5117	5760.954		
1996	40422000000	33.18285	6346.024		
1997	43475000000	31.84114	6685.079		
1998	29232000000	31.59165	7062.879		
1999	24109000000	32.11893	7761.523		
2000	22545000000	31.63581	8496.93		
2001	30426000000	31.41512	9301.443		
2002	25468000000	32.84855	10476.33		
2003	32097000000	32.36743	12302.81		
2004	1.02E+11	32.50721	14084.11		
2005	1.77517E+11	32.92101	16468.43		
2006	2.6434E+11	32.90503	20215.88		
2007	2.98126E+11	32.65117	23857.56		
2008	1.95689E+11	32.30202	25563.75		
2009	1.81507E+11	32.45849	29883.98		
2010	1.54897E+11	31.83172	34859.9		
2011	2.30309E+11	31.83172	38366.53		

Table 6 Development Aid

DATE	Net ODA in U.S. Dollars	UN Inflows IFAD in current U.S. Dollars	UNDP in current U.S. Dollars	UNFPA in current U.S. Dollars	UNHCR in current U.S. Dollars	UNICEF in current U.S. Dollars
1981	475900000	400000	15540000	15520000	9490000	2480000
1982	523380000	3450000	18300000	11030000	10930000	4070000
1983	668800000	2980000	20660000	9150000	6530000	6130000
1984	797480000	10330000	15370000	5650000	4130000	5160000
1985	938750000	19710000	14420000	11670000	3600000	6660000
1986	1095220000	22960000	17330000	9150000	4750000	16730000
1987	1377940000	32980000	27720000	9560000	4640000	16960000
1988	1919060000	10710000	31240000	12010000	4000000	14490000
1989	2070830000	6730000	30560000	13060000	4110000	16700000
1990	2032370000	17490000	39830000	4580000	4080000	14640000
1991	1932580000	13700000	35760000	13560000	7580000	16080000
1992	2993630000	12480000	35480000	10410000	4070000	21850000
1993	3206880000	14210000	30760000	10320000	3230000	17650000
1994	3138610000	10810000	25170000	6720000	2520000	22490000
1995	3470670000	10320000	28860000	7750000	2650000	20030000
1996	2640040000	17940000	22430000	0	3000000	18340000
1997	2047390000	26470000	26760000	50000	3030000	18750000
1998	2438570000	12670000	14380000	1330000	2810000	17500000
1999	2379250000	12690000	15540000	5460000	2070000	14790000
2000	1711750000	6550000	12730000	3500000	1650000	18100000
2001	1549030000	11230000	8880000	3630000	2090000	12530000
2002	1496780000	3830000	9650000	4570000	2720000	11360000
2003	1358550000	4360000	8600000	4870000	2810000	12020000
2004	1715750000	5500000	8960000	4640000	0	12340000
2005	1814300000	11750000	9350000	4510000	1480000	14390000
2006	1247870000	14670000	8460000	3650000	260000	11140000
2007	1487940000	26790000	9820000	4140000	9490000	13330000
2008	1479510000	11390000	7740000	6500000	10930000	11960000
2009	1129470000	15720000	7680000	3570000	6530000	10540000
2010	646110000	13710000	6260000	3440000	4130000	11000000
2011	702820000	22920000	5820000	2380000	3600000	10190000

Table 5 Development Aid Continued

DATE	UNTA in current U.S. Dollars	WFP in current U.S. Dollars			
1981	1230000	6910000			
1982	800000	15370000			
1983	3000000	24950000			
1984	1620000	79680000			
1985	4540000	67880000			
1986	3180000	84510000			
1987	5420000	86470000			
1988	2580000	101460000			
1989	5510000	23940000			
1990	6590000	8650000			
1991	4730000	21620000			
1992	3990000	28120000			
1993	6750000	23780000			
1994	3190000	24850000			
1995	10830000	21210000			
1996	4110000	16300000			
1997	6330000	18890000			
1998	3890000	10490000			
1999	6320000	6500000			
2000	5460000	7530000			
2001	7040000	10990000			
2002	5700000	12060000			
2003	6800000	10790000			
2004	6100000	6340000			
2005	8910000	8000000			
2006	4380000	0			
2007	7790000	0			
2008	2170000	0			
2009	0	0			
2010	0	0			
2011	0	0			

Table 6-
Regression
SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.980549499
R Square	0.961477321
Adjusted R Square	0.944967601
Standard Error	0.560402239
Observations	31

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	9	164.6044516	18.28938352	58.23704682	7.84971E-13
Residual	21	6.595064049	0.314050669		
Total	30	171.1995157			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*
Intercept	10.82630546	5.174870698	2.092091976	0.048759958	0.064572716	21.58803821	0.064572716
C	1.11591E-09	3.00495E-10	3.713571479	0.001285967	4.90996E-10	1.74082E-09	4.90996E-10
E	-6.23521E-08	2.45397E-08	-2.540871915	0.019017359	-1.13385E-07	-1.13191E-08	-1.13385E-07
F	-1.5578E-07	4.01882E-08	-3.876252206	0.00087301	-2.39356E-07	-7.22037E-08	-2.39356E-07
G	1.42511E-07	9.45468E-08	1.507305901	0.146629102	-5.41099E-08	3.39132E-07	-5.41099E-08
H	9.98485E-08	4.60716E-08	2.167244444	0.041860278	4.03728E-09	1.9566E-07	4.03728E-09
L	0.035729329	0.016930487	2.110354497	0.046994961	0.000520454	0.070938203	0.000520454
M	0.860587629	0.346369771	2.484592193	0.02148078	0.140272258	1.580903001	0.140272258
N	-0.302982719	0.144328134	-2.099263047	0.048059907	-0.603129505	-0.002835933	-0.603129505
Q	-3.65321E-05	1.8638E-05	-1.960090802	0.063388387	-7.52919E-05	2.22767E-06	-7.52919E-05

Table 7 Monetary Policy Framework

	Monetary Policy Framework-Source: International Monetary Fund, April 1, 2015						
		Exchange rate anchor					
Exchange rate arrangement (number of countries)	U.S. dollar (44)	Euro (27)	Composite (13)	Other (8)	Monetary aggregate target (26)	Inflation targeting framework (34)	Other (39)
No separate legal tender (13)	Ecuador El Salvador Marshall Islands Micronesia Palau Panama Timor-Leste Zimbabwe	Kosovo Montenegro San Marino		Kiribati Tuvalu			
Currency board (12)	ECCU Antigua and Barbuda Dominica Grenada St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines Djibouti Hong Kong SAR	Bosnia and Herzegovina Bulgaria Lithuania		Brunei Darussalam			
Conventional peg (45)	Aruba The Bahamas Bahrain Barbados	Cape Verde Comoros Denmark Latvia São	Fiji Kuwait Libya	Bhutan Lesotho			Solomon Islands

	Belize Curaçao and Sint Maarten Eritrea Jordan Oman Qatar Saudi Arabia South Sudan Turkmenistan United Arab Emirates Venezuela	Tomé and Príncipe WAEMU Benin Burkina Faso Côte d'Ivoire Guinea-Bissau Mali Niger Senegal Togo CAEMC Cameroon Central African Rep. Chad Congo, Rep. of Equatorial Guinea Gabon	Morocco4 Samoa	Namibia Nepal Swaziland			
Stabilized arrangement (19)	Cambodia Guyana Honduras Iraq Lebanon Maldives Suriname Trinidad and Tobago	Macedonia	Vietnam		Congo, Dem. Rep. of the (01/12) Tajikistan7 Ukraine7 Yemen7 (06/12)	Georgia (06/11)	Angola Azerbaijan Costa Rica (04/12) Lao P.D.R. Bolivia (11/11)
Crawling peg (2)	Nicaragua		Botswana				
Crawl-like arrangement (15)	Ethiopia Honduras Jamaica Kazakhstan	Croatia	Singapore (11/11)		Argentina China Rwanda Uzbekistan	Dominican Rep. Indonesia (06/12)	Egypt (11/11) Haiti7 Tunisia
Pegged exchange rate within horizontal bands (1)			Tonga				
Other managed arrangement (19)	Liberia		Algeria Iran Syria Vanuatu		Bangladesh Burundi Guinea Kyrgyz Rep. Malawi Nigeria	Paraguay	Belarus Malaysia Mauritania Myanmar Russia Sudan Switzerland

							(01/13)