
CHINA. CONNECTING PEOPLE

Integrating an Empire through Infrastructure, Finance, and Currency

Introduction and Reading Guide

This paper includes excerpts from my PhD dissertation and is not a cohesive piece on its own. My PhD project as a whole studies contemporary China and Chinese foreign policy through an ideal type of empires.¹ Taking an analyticist methodological position relying on more interpretivist approaches, I compare empirical phenomena to an ideal type to paint a picture of the political and economic relationship between China and its periphery assessing the degree to which it shares dynamics with other historical empires. The ideal-typical method is a way to pose new questions and assess empirical phenomena in a new theoretical structure. The dissertation will also study different drivers of and impediments to imperial expansion (metro- and pericentric, economic and political) and assess whether these apply to contemporary China.

The first part included here is introduction to my theory chapter, which outlines the three attributes of my ideal type of an empire. The second of these attributes, “A rimless hub-and-spokes structure”, is the focus of this paper. Page 3-10 consist of the part of my theory chapter that concerns this aspect. Finally, page 11 and onwards consist of my preliminary empirical analysis based on this theoretical aspect. The analysis consists of three components, physical infrastructure, financing, and currency. Only the currency part is fully written out, the first two are merely bullet point dispositions for the analyses I intend to do.

I am very interested in comments and ideas regarding the theoretical element but especially the subsequent analysis. I would also like suggestions for literature on the political role of financial relations, which I may incorporate into my theory chapter. I apologize for the incomplete and somewhat chaotic nature of parts of the paper.

Nikolaj

¹ The empire ideal type is adapted from: Michael W. Doyle, *Empires* (Ithaca, N.Y.: Cornell University Press, 1986); Herfried Münkler, *Empires : The Logic of World Domination from Ancient Rome to the United States* (Cambridge: Polity, 2007); Alexander J. Motyl, *Revolutions, Nations, Empires : Conceptual Limits and Theoretical Possibilities* (New York: Columbia University Press, 1999); Daniel H. Nexon and Thomas Wright, "What's at Stake in the American Empire Debate," *American Political Science Review* 101, no. 2 (2007).

2. Theory

2.1 Introduction

An empire is a relationship between two or more polities characterized by three attributes: (1) A hierarchy of power between core and periphery, (2) a rimless hub-and-spoke structure, and (3) military penetration of the periphery by the core. These three have been present in all historical empires, though as ideal-typical characteristics their historical manifestations may have varied greatly from one empire to another.

The term *empire* applies to the entire relationship of core and periphery or peripheries, not just the core. For that reason, this chapter will say less about what empires ‘do’ and more about the behavior of the core vis-à-vis the periphery and about the relations of power and connectivity between the two. Put differently, in the present terminology an empire is not an actor but a specific structure of international relations between polities in an asymmetric power relationship. It is a “composite polity linked to a central power.”² This leads to the second central term, *polity*. Empires have consisted of many different forms of political units throughout history, including states, countries, nations, nation-states, city-states, tribes, and more, all of which may be defined in a myriad of ways.³ What is important is not the specific type of units enmeshed in imperial relations, but the relationships between these units, namely between the imperial core and the weaker peripheries. I use the term *polity*, as defined by Ferguson and Mansbach: “A Polity (or political authority) has a distinct identity; a capacity to mobilize persons and their resources for political purposes, that is, for value satisfaction; and a degree of institutionalization and hierarchy (leaders and constituents).”⁴ Polities are not unitary actors, but consist of a number of sub-entities. They may nonetheless act in unison and it is meaningful to speak of their interests and behavior in terms such as foreign policy and national interest.

Defining Attributes of an Empire:

1. A power hierarchy between core and periphery
2. A rimless hub-and-spoke structure ← The focus of this paper
3. Military penetration of the periphery by the core

² Charles Tilly. "How Empires End." In *After Empire : Multiethnic Societies and Nation-building : The Soviet Union and the Russian, Ottoman and Habsburg Empires*, edited by Karen Barkey and Mark Von Hagen. pp. 1-11. Boulder, Colo.: Westview, 1997.

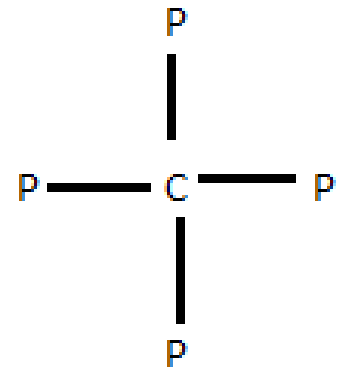
³ Benjamin J. Cohen, *The Question of Imperialism : The Political Economy of Dominance and Dependence* (New York: Basic Books, 1973), pp. 13-16.

⁴ Yale H. Ferguson and Richard W. Mansbach, *Polities : Authority, Identities, and Change* (Columbia, S.C.: University of South Carolina Press, 1996), p. 34.

2.3 Rimless Hub-and-spokes Structure

If we only look at power disparities and asymmetric dependence, we could perhaps be content studying empires through power transition theory and realism, supplemented by the literature on economic statecraft and interdependence. But this would miss a central attribute of empires: their internal structure. The ideal type of empire here presented does not only describe a distribution of power capabilities and how it is reflected in bilateral power relations, it also describes the way core and periphery are connected.

An empire is built as a rimless hub-and-spokes or an “incomplete wheel.”⁵ It has three defining characteristics: First, the establishment of connecting links between the core (“hub” or “C”) and the different peripheries (“spokes” or “P”). Second, the absence of links connecting the peripheries to each other. Third, the absence of links between peripheries and other competing cores. This means that the mode of exchange in empires is predominantly bilateral, between core and individual periphery, which ensures a persistent power asymmetry favoring the imperial core.



Like the distribution of power and asymmetric dependence, the connectivity structure of the international system provides a framework in which both core and periphery operate. It enables relationships and exchange between some units, while discouraging connection between others. It nudges the periphery into behaving in a way that centers their attention on the core rather than other periphery societies by making such behavior easier and more profitable. Physical infrastructure may represent the simplest form of the relationship. If all roads lead to Rome, it is a lot easier to travel to and from the imperial center, than it is to journey from one periphery to another.

Any society with some degree centralization has a political core; a capital metropole or a chieftain’s hut where decisions are made and from where control is exercised. What characterizes empires is the transposition of this structure from the domestic sphere to multiple societies, creating an international hub of power, interaction and exchange and a number of spokes. This section argues that being the hub of the international system provides the imperial core with a number of advantages over the periphery in terms of economic benefits and the ability to exercise control and it ensures the unequal bargaining position of the core vis-à-vis the periphery by limiting the ability of the periphery societies to form a coalition against the core.

Central to the hub-and-spoke structure is the lack of rims between peripheries, resulting in a preponderance of bilateralism over multilateralism.⁶ The absence of these links is important to imperial rule for a number of reasons. First, it underscores the hub’s economic centrality in terms of trade and investments, earning it asymmetric

⁵ Motyl, *Revolutions, Nations, Empires*, pp. 120-124. See also, Johan Galtung, "A Structural Theory of Imperialism," *Journal of Peace Research* 8, no. 2 (1971); Nexon and Wright, "What's at Stake in the American Empire Debate."

⁶ G. John Ikenberry, *Liberal Leviathan : The Origins, Crisis, and Transformation of the American World Order* (Princeton, N.J.: Princeton University Press, 2012), pp. 66-75.

benefits of taxation, tariffs, information.⁷ Second, it provides imperial forces with a strategic edge by making their movement across the empire faster than any invading or rebellious force can move from periphery to periphery, since movement is easiest to and from the core.

Finally, the absence of inter-peripheral links, namely political connections, limits the ability of periphery societies to form coalitions against the core.⁸ In this way, the hub-and-spokes is also a “divide-and-rule” system, where localized resistance in the periphery has limited chance of spreading to or organizing with other parts of the empire. The imperial core prefers to negotiate with each periphery individually rather than as a collective, multilateral block, since it improves its ability to shape the outcomes of such negotiations. The relationships between the hub and each individual spoke varies a great deal because of differences to the respective bilateral relations, leading to what Nexon and Wright call “heterogeneous contracting”⁹. For an example hereof, one need only compare the relationships between Britain and its colonies in America, India and Ireland.¹⁰ One historically familiar outcome of this bilateral system of bargaining was the unequal trade agreements struck between core and periphery. Such arrangements would have been much more difficult to make for the imperial core if it had to negotiate with concerted colonies.

2.3.0.1 *Four types of international systems*

The nature of the hub-and-spokes system appears more clearly when compared to other forms of international order. Nexon and Wright describes the imperial order (hub-and-spokes) as one of four possible, the others being “Unipolar Anarchy”, “Hegemonic Order”, and “Constitutional Order.”¹¹ In a unipolar anarchy, as understood in structural-realist theory and depicted in the analogy of billiard balls, the actors in the system are fundamentally separate and independent, and anarchy makes cooperation difficult.¹² The hegemonic order draws more on theories of power transition¹³ and on hegemonic stability.¹⁴ It claims that the existence of a predominant power may help mitigate the negative effects of international anarchy on international cooperation, as the hegemon may function as rule creator and enforcer in the international system. In such a system, the hegemon exercises asymmetric influence over the weaker actors in the system, while at the same time enabling peaceful exchange between other powers, great or small. Accordingly, this system only survives as long as the hegemon can maintain its position of power preponderance.

Nexon and Wright’s third configuration, the constitutional order, is a further development of the hegemonic order. Here the predominant power institutionalizes the rules promoted in a number of international regimes

⁷ The connection between empire and asymmetry of information as described in theories of network analysis is made by Nexon and Wright, "What's at Stake in the American Empire Debate," p. 260.

⁸ Ibid., pp. 261-263.

⁹ See also Tilly, "How Empires End," p. 3.

¹⁰ Nexon and Wright, "What's at Stake in the American Empire Debate," p. 259.

¹¹ Ibid., pp. 255-258.

¹² Kenneth N. Waltz, *Theory of International Politics* (New York: McGraw-Hill, 1979), p. 93; Arnold Wolfers, *Discord and Collaboration: Essays on International Politics* (Baltimore: The Johns Hopkins Press, 1962), p. 19.

¹³ A. F. K. Organski, *World Politics* (New York: Knopf, 1958); Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981).

¹⁴ Charles P. Kindleberger, *The World in Depression, 1929-1939* (London: Allen Lane, Penguin, 1973).

and institutions, which enable multilateral negotiations, information sharing, collective action, monitoring.¹⁵ Again, this order facilitates cooperation among all actors in the system. All are affected by the institutions created, even if the predominant power enjoys a greater say in the running of these institutions. The central difference between the constitutional and the hegemonic order is thus the establishment of a new unit besides the state actors, which influences the behavior of all actors. Furthermore, by incarnating the hegemonic order in a body outside the hegemon itself, the order may be able to survive the eventual decline of the hegemon itself, since the order remains beneficial to its members. In this way, while the institutionalization of international rules may reduce the legitimate autonomy of the hegemon who has to abide largely by the same rules as everyone else, it also functions as an insurance that safeguards the hegemon's interests after a power has shifted away from it.¹⁶

Unlike in unipolar anarchy, the imperial order of hub-and-spokes breaks with the independence and absolute separation of units by connecting all periphery societies to the predominant power and by the penetration of the imperial core into the periphery societies, where it rules through local intermediaries. Unlike the hegemonic order, the imperial order does not facilitate cooperation between all units in the system but only between periphery and the core. Unlike the constitutional order, the predominant power in the imperial order does not establish separate institutions to bind itself, but rules through bilateral links to the periphery units. In Ikenberry's terminology, empires rule through relationships rather than rule through rules.¹⁷ Where participation in the constitutional order is also generally voluntary, the imperial system relies more on coercion and the imposition of rules.¹⁸ For this reason, the imperial order only survives as long as the empire does. If the hub disappears, no international links remain.

Compared to most other conceptualizations of the imperial hub-and-spokes structure, my study places greater emphasis on physical infrastructure and on economic relations between core and periphery. Galtung, Motyl, Nexon and Wright predominantly focus on the political power structure of empires and on how the core exercises its control over peripheral societies. In contrast, I begin my study by looking at the concrete and tangible hub-and-spokes of roads and railways for economic exchange, which is more easily identified empirically, and then move to political structure connected to and emerging from it.

Improved connectivity between core and periphery has historically been both cause and effect of imperial expansion.¹⁹ As the attribute of military penetration elaborates below, empire building was often a response to the presence of private actors operating in the periphery well before there were any military boots on the ground. European commercial ports and trade ties to Asia and Africa had been in place for centuries, before modern European

¹⁵ Robert O. Keohane, *After Hegemony : Cooperation and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984), ch. 5-6.

¹⁶ Ikenberry, *Liberal Leviathan*, pp. 107-108; Keohane, *After Hegemony*, pp. 31-32.

¹⁷ Ikenberry, *Liberal Leviathan*, pp. 82-91.

¹⁸ *Ibid.*, pp. 66-75.

¹⁹ Daniel R. Headrick, *The Tentacles of Progress : Technology Transfer in the Age of Imperialism, 1850-1940* (New York: Oxford University Press, 1988).

imperial expansion took off in the late 18th and 19th century.²⁰ These links were usually strengthened in the effort to bolster the empire as a whole.

The vague term “link” is used purposefully to signal the varied manifestations of the ideal type of hub-and-spokes dynamic. A link is anything that connects to units in the system. When speaking of societies, the most obvious links are physical infrastructure that eases the transport of goods, people and information between the two. Hence, much empire building has taken the form of roads, ports, railroads, canals, telegraphs lines (over land and submarine), and airports. We may also speak of institutional infrastructure that eases exchange, by enhancing the ability of states to cooperate. Finally, a shared currency imperial currency can ease economic exchange within the empire. The following pages describes these three types of links – physical infrastructure, institutions, and currency – that will make up my empirical analysis of hub-and-spokes.

2.3.1 Physical Infrastructure

Linking core and periphery improves the foundation for both economic and military exchanges. Furthermore, infrastructure building in the periphery often has an ideological component, since it “elevates” periphery societies through technology transfer and manifests imperial cultural dominance.²¹ On the economic side, the most direct effect of transportation infrastructure such as roads and railways is to reduce transaction costs of exchange (namely time) between two geographically separated areas. This eases tax collection, benefits individual travelling merchants as well as big corporations, who can move larger amounts of goods at reduced costs, and it may open remote geographic areas or resources for extraction.

In hub-and-spokes systems, all roads link spokes to the hub. In territorially cohesive empires like ancient Persia, Rome and ancient China, this meant a concentration of roads around the capitals rather than along the outer borders.²² In maritime, colonial empire, railroads in Africa and Qing China usually went from mines in the hinterlands to a trading port from which resources could be shipped to the European hub, often bypassing major cities.²³ The point of colonial infrastructure was not to help goods flow within a colony but to help them flow from the colonies to the imperial core and avoid it flowing to competing empires.²⁴ As a whole, the economic effect of the hub-and-spoke structure is to cement the centrality of the core and provide it with flows of trade and resources from the periphery. When all roads lead to Rome or Constantinople or London, these cities will also be the natural meeting place for merchants from all corners of the empire.

²⁰ J. C. Sharman, *Empires of the Weak; The Real Story of European Expansion and the Creation of the New World Order* (Princeton: Princeton University Press, 2019).

²¹ Münkler, *Empires*, ch. 4; Headrick, *The Tentacles of Progress*, p. 59; Charles S. Maier, *Among Empires : American Ascendancy and its Predecessors* (Cambridge, Mass.: Harvard University Press, 2006), p. 65.

²² Dominic Lieven, *Empire : The Russian Empire and its Rivals* (London: John Murray, 2000), p. 27; Jane Burbank and Frederick Cooper, *Empires in World History : Power and the Politics of Difference* (Princeton: Princeton University Press, 2010), p. 49.

²³ Headrick, *The Tentacles of Progress*, p. 50.

²⁴ Lieven, *Empire*, p. 100.

Whether imperial infrastructure also benefitted the local economies in the periphery varies across historical cases. Doyle and Münkler argues that classical empires such as the Roman and the Chinese had to cross an “Augustan Threshold” where both political and economic power is dispersed from core to periphery in order to ensure the increase the legitimacy of imperial rule and the survivability of the empire as a whole.²⁵ Other empires, such as the Assyrian, were of a more extractive nature and survived only as long as resources could be channeled from periphery to core.²⁶ The argument here presented makes no claims about the positive or negative consequences of imperial infrastructure to the peripheral societies. Instead, I focus on the system of connectivity and whether this system takes on an imperial form, hence underwriting the power of the core of the periphery.

Merchants were not the only travelers on the Roman roads. On the military side, keeping control and stability in the vast geographic empire required Roman forces to be mobile and paved roads played a crucial part here. While sailing was the fastest way of transportation, the Mediterranean was virtually inaccessible from November to March, forcing troops on overland routes.²⁷ As described earlier, first century Roman legions would be stationed in the inner parts of the empire (the formal provinces) and would move outward to the periphery to oppose invading hordes or destroy local uprisings, the latter being the most common threat.²⁸ The hub-and-spoke structure of roads suited this kind of deployment as troops were usually moving back and forth between inner and outer areas of the empire rather than along the periphery. The perhaps most important enabling factor of the British empire was also its well developed system of ships and ports, defended by the Royal British Navy, which allowed a relatively small army to maintain control over an empire sprawled over the entire globe. Here, military capability and infrastructure converged, as the power of the fleet provided the maritime stability required for global linkages to prosper.²⁹

The hub-and-spokes infrastructure is as such a strategy of territorial defense from enemies abroad and a bulwark against domestic unrest. This was seen with the large investments in railroads in India, following the Great Mutiny of 1857-58 to reinforce imperial control.³⁰ The point was simply to be able to get soldiers across the subcontinent in a hurry, which had the additional benefit of leaving fewer troops required to control larger areas.³¹ Improved transportation infrastructure goes hand in hand with improved communications, which drastically reduces the time between the outbreak of a rebellion or an enemy incursion begins and the response of the imperial authority. The royal roads of Achaemenid Persia were famous for their effective relay system, where messengers carrying officially sealed documents had access to provisions and fresh horses all the way from the outskirts to Persepolis.³² This serves as a

²⁵ Doyle, *Empires*, pp. 93-97; Münkler, *Empires*, pp. 70-79.

²⁶ *Empires*, pp. 52-54.

²⁷ Edward N. Luttwak, *The Grand Strategy of the Roman Empire: From the First Century A. D. to the Third* (Baltimore: Johns Hopkins University Press, 1976), p. 81; Adrian Goldsworthy, *How Rome Fell: Death of a Superpower* (New Haven, Conn.: Yale University Press, 2009), p. 47.

²⁸ Luttwak, *The Grand Strategy of the Roman Empire*, ch. 1.

²⁹ John Darwin, *Unfinished Empire: The Global Expansion of Britain* (New York: Bloomsbury, 2012), ch. 10; Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Vintage Books, 1989), pp. 154, 203; Lieven, *Empire*, pp.104-108.

³⁰ Headrick, *The Tentacles of Progress*, ch. 3; Burbank and Cooper, *Empires in World History*, p. 310.

³¹ Christian Wolmar, *Railways & the Raj: How the Age of Steam Transformed India* (London: Atlantic Books, 2017), pp. 11-12.

³² Matthew W. Waters, *Ancient Persia: A Concise History of the Achaemenid Empire, 550-330 BCE* (New York: Cambridge University Press, 2014), pp. 111-113.

strong deterrent against foreign enemies and local rebellion. If military force works at its best when it is not used at all,³³ closer infrastructure links between core and periphery may make the imperial forces much more effective. Rebels as well as invaders will think twice before mobilizing, when the enemy is, if not omnipresent, then at least just over the horizon.

2.3.2 International Financing

Within a capitalist system, banks play an important part in establishing imperial relations, as was the case in European and American imperialism. Financial flows make up a central link between societies and polities, linking economies through loans and investments. In imperial structures, these financial arteries flow to and from the imperial hub in concentrated streams rather than as a multitude of smaller flows between spokes and other hubs.

Three aspects of financial links are of relevance here. First, the strength of the link between hub and spoke. The stronger the core is linked to the periphery, the more likely it will have an imperial dimension. Second, the absence of a multilateral regime that links hub and multiple spokes in the system. Empires rely on bilateralism. Finally, just like the hub will avoid connecting spokes with each other so it will avoid linking itself or the spokes with competing hubs.

One type of international ties that will be investigated in my analysis of contemporary China is the role of multilateral development bank (MDB) compared to national banks. MDB's foster international cooperation by spreading the risk of development loans to a larger number of creditor countries while at the same time offering a professional staff to manage and monitor the loan and its associated development project. Monitoring is especially relevant when MDB's require environmental, labor, and other standards to be met by the supported project. In many ways, MDBs are poster-institutions of a constitutional order as they enable economic cooperation together with economic development of poorer countries, perhaps even with a number of sustainability standards attached.

In general, the bilateral preference of empires should lead them to prefer bilateral economic arrangements over multilateral, relying on national banks for loan giving rather than multilateral institutions. If an empire should chose to engage in or perhaps even found an MDB, we would expect the control over that bank to rest in the hands of the imperial core, with other creditors as junior partners at best. Further, we would not expect the bank to promote standards that deviate from the ones practiced in the empire itself, since this would likely be to the disadvantage of economic actors from the empire. Unlike in a constitutional order, we would not expect the empire to allow itself to be bound by rules it was not following anyway.

³³ Thomas C. Schelling, *Arms and Influence* (New Haven: Yale University Press, 1966). Luttwak argues, the same logic of deterrence guided the deployment of Roman legions, *The Grand Strategy of the Roman Empire*, pp. 2-4.

2.3.3 Imperial Currency

Monetary policy is another topic that have preoccupied the greatest of powers. Some of the first empire to build large and lasting empires were able to do so because of their established coinage, which enabled them to “store value and to reward, motivate and exploit subjects.”³⁴ Empires also promote the internationalization of a currency to periphery societies to establish and maintain its position at the top of the contemporary pyramid of competing currencies.³⁵ Cases hereof include “the silver drachma of early Athens, the gold solidus of the Byzantine Empire, [...] the Dutch guilder in the seventeenth century, the Spanish-Mexican silver peso of the eighteenth century, the pound sterling of the nineteenth century, and the US dollar in the twentieth and (so far) twenty-first centuries”³⁶ and more. An empire enjoys several benefits of a having widely used currency. Cohen lists reduced transaction costs, international seigniorage, macroeconomic flexibility, political leverage, and reputation.³⁷ While I will not go into great detail with the macro- and microeconomic dynamics herein, sufficient to say that the first three benefits—reduced transaction costs, international seigniorage, and macroeconomic flexibility—provide a number of economic advantages to the issuer of the currency, while the final two—political leverage and reputation—are of a more political nature. The currency issuer can present other states with the threat of limiting their access to the currency in question, which, if the currency is widely used for international transactions, may limit the ability of that state to engage in international commerce. Likewise, the issuer may promise easier access to the currency as an inducement. The ability to wield such monetary sticks and carrots provides the issuer with significant political leverage over others. This power has been wielded by the United States on multiple occasions to both reward and punish the behavior of other states.³⁸ Finally, having a widely used currency adds to the prestige of the issuer.³⁹

Internationalization also carries with it a number of risks to the issuer, namely the risk of currency appreciation hurting exports, external constraints resulting from great volumes of foreign held debt, and the policy responsibility for regional financial exchange an issuer may have to take upon himself to accommodate systemic needs and fragilities.⁴⁰ Currency issuers evaluate the benefits and risks of internationalization differently and conduct different policies accordingly.⁴¹ Yet, the internationalization of a currency seems a hallmark of empires through history.

³⁴ Keith Hopkins. "The Political Economy of the Roman Empire." Chap. 5 In *The Dynamics of Ancient Empires : State Power from Assyria to Byzantium*, edited by Ian Morris and Walter Scheidel. pp. 178-204. New York: Oxford University Press, 2009.

³⁵ The concept of a “currency hierarchy” was introduced in Benjamin J. Cohen, *The Geography of Money* (Ithaca, N.Y.: Cornell University Press, 1998); *The Future of Money* (Princeton, N.J.: Princeton University Press, 2004). For an assessment of the monetary pyramid in 2019, see *Currency Statecraft: Monetary Rivalry and Geopolitical Ambition* (Chicago: University of Chicago Press, 2019), pp. 18-20.

³⁶ *Currency Power : Understanding Monetary Rivalry* (Princeton, New Jersey: Princeton University Press, 2015), p. 2.

³⁷ *Ibid.*, pp. 19-23; *Currency Statecraft*, pp. 50-52.

³⁸ *Currency Statecraft*, pp. 109-122; see also Jonathan Kirshner, *Currency and Coercion: The Political Economy of International Monetary Power* (Princeton, NJ: Princeton University Press, 1995).

³⁹ Michael Mastanduno. "Order and Change in World Politics: The Financial Crisis and the Breakdown of the US-China Grand Bargain." In *Power, Order, and Change in World Politics*, edited by G. John Ikenberry. pp. 162-191. Cambridge: Cambridge University Press, 2014.

⁴⁰ Cohen, *Currency Power*, pp. 23-25.

⁴¹ Cohen distinguishes between three different kinds of policies towards internationalization—favoring, opposing, passive—and situates them in three different stages of the internationalization process of any currency—youth, maturity, decline—producing a 3x3 matrix capturing the different kinds of currency statecraft *Currency Statecraft*, p. 46.

An internationalized currency will always have a hub in the form of an issuer. The issuer decides the policies governing the currency and wields more influence over its value than any other state. The degree to which the monetary exchange of an international system resembles a hub-and-spokes is therefore reflected primarily in whether the core promotes the use of its own currency and dissuades the use of other currencies, particularly those issued by competing empires.

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In summary, the second attribute of empires speak to the structure of international exchange in an imperial international system. A hub-and-spokes mean that imperial core is connected to the different peripheries, who in turn are disconnected from one another and from other competing imperial cores. This section has focused on the physical infrastructural, financial, and monetary kinds of links connecting polities, not because these are the only types of links relevant in core-periphery relations, but because they are historically important, because they are undertheorized in the literature on empires, and because they are relevant to studies of twenty-first century empire-building.

One might be tempted to criticize the notion of a hub-and-spokes structure for being simply what any great power would seek to create if able. This criticism is misguided for two reasons. First, it is factually inaccurate. While the American empire has surely displayed some imperial traits, e.g. its hub-and-spokes system of alliances in East Asia following the Second World War, its policy for European reconstruction does not fit the pattern.⁴² True, the Marshall Plan boosted trade across the Atlantic, but it was also a way of integrating Europe more closely with itself – not just tie it to the United States. Further, the post-war system was more institutionalized with multilateral bodies having great impact on interstate diplomacy and economics. Other examples of powers behaving unlike empires are post-war West Germany and Japan before the 1990s, both of which have actually tried to avoid the internationalization of the Deutsche Mark and Yen respectively even in the face of demand from abroad.⁴³ These powers could have tried to establish a monetary hub-and-spoke in their region as their power position in the international system improved but preferred not to.

Second, that point that imperial behavior is common to great powers actually underscore on of the central points of this study: that great powers tend to behave more like empires as they reach the apex of power. Yet, the concept of “empire” as opposed to “great power” and “hegemon” maintains its relevance because it describes a qualitatively different and more specific pattern of behavior than is provided by the predominantly realist literature.

⁴² Ikenberry, *Liberal Leviathan*, ch. 5.

⁴³ Cohen, *Currency Statecraft*, pp. 67-73.

Analysis - A Rimless Hub-and-spokes Structure

Introduction

A central attribute of an empire is its hub-and-spokes structure. Core-periphery relations are characterized by bilateralism and the absence of interperipheral links and links between periphery and other cores. In the theory chapter, I suggested how this would look within the realms of physical infrastructure, international financing, and, currency policy. This chapter engages these three topics to discern the degree to which Asia resembles a hub-and-spokes with China at its center.

Part 1 - Physical Infrastructure

The first empirical phenomenon to be compared with the hub-and-spokes ideal construction is China's investments in physical infrastructure in Asia. At the theoretical level, infrastructure is an obvious object of study, since its purpose is exactly to connect geographically disparate places, reducing transportation time and easing communication. Roads, railroads, and ports are probably the clearest manifestations of inter-societal links imaginable and they are furthermore a persistent theme in empire building throughout history as discussed in [chapter X](#). At the level of contemporary political debate, China's Belt and Road Initiative (BRI) has been one of the most hotly debated elements of Xi Jinping's foreign policy, provoking a range of interpretations.

Taking the hub-and-spokes structure as my theoretical point of departure, this section assess whether (1) China is improving connectivity between itself and its periphery, (2) whether China is improving connectivity between peripheral societies, and (3) whether China is improving connectivity between peripheral societies and other hubs than China. The greater degree with which I can answer the first question affirmatively, while answering the second and third questions in the negative, the more China's infrastructure building will follow an imperial hub-and-spokes pattern. This part focuses only on the infrastructure itself rather than its financing, which is saved for the following section.

The Asian Development Bank (ADB) assessed in February 2017 that "developing Asia will need to invest \$1.7 trillion per year in infrastructure until 2030 to maintain its growth momentum, tackle poverty, and respond to climate change."⁴⁴ This staggering figure reflects the demand side of the question of infrastructure in Asia. There clearly is a market for infrastructure in Asia for investors and contractors willing to take on the risk. In this light, China's reinvigorated focus on infrastructure is a welcome development for many countries in the region. The central question here is then what kind of connectivity structure is being created not whether the overall level of infrastructure is improving (which it indubitably is).

Infrastructure investments have become an inseparable part of Xi Jinping's political program since the announcement of the "New Silk Road" or "Silk Road Economic Belt" and the "Maritime Silk Road" in the Fall of

⁴⁴ <https://www.adb.org/publications/asia-infrastructure-needs>

2013.⁴⁵ The two were united under the banner of “One Belt, One Road” (OBOR), subsequently renamed the Belt and Road Initiative (BRI) in 2015 and included in the constitution of the Chinese Communist Party at the 19th Party Congress in October 2017 as a component of “Xi Jinping Thought.” But while infrastructure has taken center stage in recent years, it is important to note that the BRI is a continuation of previous policies and to some extent built on the rebranding of several projects launched under both Jiang Zemin and Hu Jintao. Indeed most of the infrastructure projects launched after the inception of the BRI were still under the negotiation or construction phase by mid-2018.⁴⁶ For this reason, my study of Chinese infrastructure investments are not limited to those launched after the BRI, though these will figure more prominently due to the attention paid them in the literature.

The Belt and Road Blueprint

- Official strategy (or lack thereof). Official maps and illustrations. What do they say they do.
- Still quite fuzzy (for strategic reasons). No complete plan over projects, locations and routes.⁴⁷

The Big Picture

- Data access – very little official data. I rely on two datasets: *AidData*⁴⁸ and *China Global Investment Tracker*⁴⁹
- The numbers: How much money goes into construction compared to other forms of investment?
- More money is spent on energy infrastructure than transportation – what does that mean? BRI is about a lot more than just old fashion connectivity.

Central Transportation Projects

Use data from *China Global Investment Tracker*, select only “Construction Contracts” within “Transport” sector. Look at geographical connection of the most expensive 10-30 projects.

Small case studies - What do the largest construction projects actually connect? (See Appendix 1)

- Periphery to China?
- Periphery to periphery linking to China (e.g. Addis Ababa → Djibouti → China)
- Periphery to periphery

⁴⁵ Kerry Brown, *China's World* (London: I. B. Tauris & Co., 2017), pp. 113-114; Elizabeth C. Economy, *The Third Revolution: Xi Jinping and the New Chinese State* (New York: Oxford University Press, 2018), pp. 190-191; Joel Wuthnow, "China's Belt and Road: One Initiative, Three Strategies." In *Strategic Asia 2019: China's Expanding Strategic Ambitions*, edited by Ashley J. Tellis, Alison Szalwinski, and Michael Wills. pp. 210-245. Seattle / Washington DC: National Bureau of Asian Research, 2019.

⁴⁶ "China's Belt and Road," pp. 213-214, 223-225.

⁴⁷ *Ibid.*, pp. 215-217.

⁴⁸ A. Dreher et al., "Aid, China, and Growth: Evidence from a New Global Development Finance Dataset.," in *AidData Working Paper #46* (Williamsburg, VA: AidData, 2017).

⁴⁹ <https://www.aci.org/china-global-investment-tracker/>

Part 2 - Financing

- Introduction - International financing as ties connecting polities
- Types of financing. Foreign Direct Investment (FDI), Official Development Assistance (ODA), Other Financial Flows (OFF)
- Money leaving China – where does it go.
 - The vast majority of FDI goes to Europe and North America, investments and acquisitions.
 - Focus here is on development financing.
 - Is ODA and OOF increasing?
- Money to developing countries most interesting. Is it increasing?
- The big question: How does the money flow? Multilateral or bilateral?
 - Far greater bilateral investments than multilateral.
 - Why bother with the multilateral banks then?
- How much does China invest compared with others?
- Conclusion – financial ties are more bilateral than multilateral. The new multilateral banks are somewhat enigmatic in this sense – but they may be more about learning than financing.

Part 3 - Currency

International currency usage is an important part of economic relations and one, which may also take the form of a hub-and-spokes. As noted in the theory chapter, having an internationalized currency provides the issuer with a number of economic benefits (reduced transaction costs, international seigniorage, and macroeconomic flexibility) and political benefits (political leverage and reputation) but also comes with significant risks (changes to exchange rates, constraints resulting from foreign held debt, and policy responsibility).⁵⁰ Being the issuer of the dollar clearly situates the United States in the heart of the international economy today, providing immense macroeconomic flexibility (the so-called “exorbitant privilege”⁵¹) to Washington and making all other states attentive to the United States’ monetary policies. Avoiding the dollar is simply not an option for any state wishing to engage in international commerce. For that reason, the United States can meaningfully be presented as a global hub in terms of currency. The big question for this dissertation is whether China can meaningfully be described as a monetary hub as well.

In terms of the three elements of a hub-and-spokes system—(1) links between hub and spokes, (2) the absence of links between spokes, and (3) absence of links between spokes and other hubs—this study focuses on the first and the third. Since the currency being used in most international exchanges is the dollar, issued by a competing hub, promoting an alternative currency would not reduce intra-peripheral exchanges but at the most shift it from one foreign currency to another. However, if monetary dominance shifted from one hub to another, that would strengthen ties between currency users and the issuer of the now dominant currency at the expense of the former. By this logic, monetary rivalry is a zero-sum game, since trade and investment is usually made in a single currency. I argue that China’s currency internationalization is indeed following this imperial blueprint, albeit in the shadow of the globally dominant American dollar.

Another imperial aspect we will investigate is whether China’s monetary strategy is guided by bilateralism or multilateralism. If China is pursuing currency internationalization, is it relying on a number of bilateral deals with individual countries or is it setting up a broader, perhaps institutionalized, regime of shared rules? I argue that this is also the case, and that the most multilateral aspects of China’s monetary policy—the role of multilateral development banks in renminbi internationalization—is also the most insignificant of the internationalization instruments currently employed.

This analysis is structured in the following way. I first look at different measures of the use of the renminbi (RMB)⁵² today to assess its status, asserting that China is in the unprecedented situation of having a world leading economy in terms of size but no truly global currency. I also provide a cursory view at some explanations for this unusual state of affairs. Afterwards, I look at what Chinese officials are *saying* (official documents and strategies) and *doing* (concrete deals and new initiatives) about renminbi internationalization. Finally, I provide an assessment of the prospects of internationalization of the renminbi and the degree to which resembles the hub-and-spokes pattern.

⁵⁰ Cohen, *Currency Power*, pp. 19-25; *Currency Statecraft*, pp. 50-52.

⁵¹ *Currency Power*, p. 22.

⁵² “Renminbi” (literally: “people’s money”) is the official name of the currency of the People’s Republic of China. “Yuan” is the unit of the renminbi.

A Great Power with a Dwarf Currency

China's economy is one of world's largest but the global use of the China's currency remains small. This is a highly unusual state of affairs.⁵³ Although the renminbi was formally recognized as a global currency in 2015, when it was admitted into the IMF's special drawing right reserve (SDR), its use remains far below that of the other SDR currencies, the United States' dollar (henceforth simply referred to as "the dollar"), the euro, the yen, and the British pound. The renminbi only makes up 1.95% of the official global foreign exchange reserves in the first quarter of 2019, coming in on a fifth place behind the dollar (61.82%), the euro (20.24%), the yen (5.25%), and the pound (4.54%) – only slightly ahead of the Canadian dollar (1.92%).⁵⁴ While its share has more than doubled in only two years, this number remains low.

Turning to currency as a medium for exchange, the renminbi was on one side of 4.3% of the foreign exchange turnover in April 2019, ranking it as the eighth most used currency for foreign exchange.⁵⁵ This list is also dominated by the dollar (88.3%), the euro (32.3%), the yen (16.8%) and the pound (12.8%), but the renminbi even remains behind the Australian dollar (6.8%), the Canadian dollar (5.0%), and the Swiss Franc (5.0%).⁵⁶ The use of the renminbi for foreign exchange increased dramatically (in relative terms) from 0.1% or 29th place in 2004 to 4.0% and eighth place in 2016, but has remained relatively stable from 2016 to 2019, its absolute growth only following the aggregate growth of the market.⁵⁷ In terms of trade, the renminbi is used to "settle more than 20 percent of China's trade" but only 2% of global payments, compared to 45% for the dollar and 27% for the euro.⁵⁸ Further, compared to the trade figure, the renminbi may be used far less as a pricing instrument even when payment is made in that currency.

While the above figures may indicate a very limited *global* role for the renminbi, the bilateral trade figure of 20% could hint at a *regional* role for the renminbi. In July 2015, it was used for 33% of payments between China (including Hong Kong) and the Asia-Pacific region, and it is the most used currency for payments between Singapore, Taiwan, and South Korea and China.⁵⁹ Of twenty-six countries in the region, only nine use the renminbi for less than 10% of their transactions with China. Furthermore, the currencies of seven out of ten countries in the region track the renminbi more closely than the dollar, an indicator of the central role taken by the Chinese economy.⁶⁰ As Subacchi

⁵³ This section draws heavily on Yang Jiang. "The Limits of China's Monetary Diplomacy." In *The Great Wall of Money: Power and Politics in China's International Monetary Relations*, edited by Eric Helleiner and Jonathan Kirshner. pp. 156-183. Ithaca: Cornell University Press, 2014; Paola Subacchi, *The People's Money: How China is Building a Global Currency* (New York: Columbia University Press, 2017); Cohen, *Currency Statecraft*, pp. 76-80, 149-170.

⁵⁴ International Monetary Fund, "Currency Composition of Official Foreign Exchange Reserves (COFER)," <http://data.imf.org/regular.aspx?key=41175>. [Visited 20 September 2019]

⁵⁵ Bank for International Settlements, "Triennial Central Bank Survey: Foreign Exchange Turnover in April 2019," (Basel: Bank for International Settlements, 2019), p. 10.

⁵⁶ Since every exchange involves two currencies, the sum of all exchanges equals 200%. Arthur R. Kroeber, *China's Economy: What Everyone Needs to Know* (New York: Oxford University Press, 2016), p. 145.

⁵⁷ Settlements, "Triennial Central Bank Survey, 2019," p. 4. The Bank of International Settlements conducts surveys of foreign exchange in April every third year.

⁵⁸ Subacchi, *The People's Money*, p. 175.

⁵⁹ *Ibid.*, p. 176.

⁶⁰ *Ibid.*, p. 147; Eric Helleiner and Jonathan Kirshner, *The Great Wall of Money: Power and Politics in China's International Monetary Relations* (Ithaca: Cornell University Press, 2014), s. 7.

concludes, the renminbi is “fundamentally a regional currency rather than an international currency.”⁶¹ The renminbi is being used in international exchange, but it remains in bilateral relations with China and predominantly regional. As a store of value, a key role for an internationalized currency, the renminbi remains marginal.⁶²

Why has the renminbi not internationalized parallel with the growth of the Chinese economy? After all, even countries who actively opposed the internationalization of their currencies during periods of economic growth (such as post-war, pre-1990s Japan and West Germany) were not always able to avoid it.⁶³ A number of reasons present themselves. **First, the dominance of dollar, second, China’s policy of financial repression to maintain state control [to be expanded].**

Towards Internationalization

The renminbi may not play a grand international role today but this may not remain the case. The following first examines official statements by Chinese officials about their ambitions for the renminbi. I then move on to investigate some of the internationalization initiatives put into place already.

Subacchi argues that Chinese authorities have made very few official statements about the internationalization of the renminbi, publishing no formal documents or internationalization strategy.⁶⁴ This is noteworthy and surprising when compared to the openness with which Chinese officials express the political and economic ambitions of China. On closer investigation, one observes a few hints at an official stance. Cohen points to a report entitled “The Timing, Path, and Strategies of RMB Internationalization” produced in 2006 by People’s Bank of China (PBOC) study group.⁶⁵ This piece argued explicitly for active promotion of the renminbi as an international currency and it is probably the first of its kind. Scholars⁶⁶ identify the article “Reflection on Reforming the International Monetary System” by PBOC governor Zhou Xiaochuan⁶⁷ in 2009 as the first explicit statement of the ambition of the Chinese leadership to push for change to the international monetary system. Though Governor Zhou’s argument revolves around the role of the IMF and the SDR,—he does not mention the renminbi—his piece does reflect a new tendency in the opinion of Chinese officials (or at least its explication) regarding international monetary relations after the financial crisis of 2008.⁶⁸ Nonetheless, the lack of an officially formulated internationalization strategy may be

⁶¹ Subacchi, *The People's Money*, p. 177; see also Gregory Chin. "True Revisionist: China and the Global Monetary System." In *China's Global Engagement: Cooperation, Competition, and Influence in the 21st Century*, edited by Jacques DeLisle and Avery Goldstein. pp. 35-66. Washington, D.C.: Brookings Institution Press, 2017.

⁶² Subacchi, *The People's Money*; a conclusion shared by Cohen, *Currency Statecraft*, pp. 156-158; Robert D. Blackwill and Jennifer M. Harris, *War by Other Means : Geoeconomics and Statecraft* (Cambridge, Mass: The Belknap Press, 2016), pp. 141-142.

⁶³ Cohen, *Currency Statecraft*, pp. 46, 91-94.

⁶⁴ Subacchi, *The People's Money*, p. 107.

⁶⁵ Cohen, *Currency Statecraft*, p. 76.

⁶⁶ Ming Zhang, "China's New International Financial Strategy amid the Global Financial Crisis," *China & World Economy* 17, no. 5 (2009): p. 32; Gregory Chin. "China's Rising Monetary Power." In *The Great Wall of Money: Power and Politics in China's International Monetary Relations*, edited by Eric Helleiner and Jonathan Kirshner. pp. 184-212. Ithaca: Cornell University Press, 2014.

⁶⁷ Xiaochuan Zhou, "Zhou Xiaochuan: Reform the international monetary system," 23 March (2009), <https://www.bis.org/review/r090402c.pdf>.

⁶⁸ Zhang, "China's New International Financial Strategy amid the Global Financial Crisis," pp. 32-33; Cohen, *Currency Statecraft*, p. 77.

attributed especially two factors. First, by not presenting a strategy, Chinese officials maintain the possibility of backtracking on initiatives and trying different instruments.⁶⁹ Currency internationalization is a complex process and Chinese policy makers maximize their political flexibility by not presenting an elaborate and official plan. This explanation also fits the gradualist approach taken by China towards international monetary system. China is pushing for a transition towards a more diversified monetary system, not an overnight revolution against the dollar.⁷⁰ Second, the absence of a coherent strategy represents the domestically divided nature of Chinese politics, where conservatives and reform-minded liberals disagree on the proper approach to internationalization. In this perspective, Yang argues that Zhou represented a more liberal side of the Chinese domestic scene, which was not representative of the whole spectrum of Chinese opinion.⁷¹

While Chinese officials may be tight lipped about the future of the renminbi, scholars agree that China has made a practical turn towards promoting the internationalization of the renminbi since the late 2000s.⁷² First, in April 2009, China launched a trade settlement pilot scheme to allow for the use of the renminbi for settling international trade transactions with ASEAN countries, which provided formal channels of acquiring renminbi in countries such as Laos and Vietnam, where the renminbi was already frequently in use albeit by informal structures.⁷³ The schema was expanded in 2010, 2011 and 2012, increasing its geographic scope (within China and beyond ASEAN) and allowing FDI to be denominated in renminbi. This scheme has primarily affected regional trade partners and eased some of the transactions that were already done in renminbi, by providing formalized and legitimate ways of obtaining the currency, as opposed to the existing informal markets in many of China's neighboring countries.

Second, a monetary offshore markets has been created, functioning as a parallel system to the restricted mainland economy. In practice, this system relies on its own currency, the convertible renminbi (CNH) as opposed to the onshore nonconvertible renminbi (CNY).⁷⁴ The CNH moves in and out of China through controlled channels, namely the Hong Kong foreign-exchange market, and thus provides the Chinese government with some degree of monetary control while providing a way for nonresidents to invest renminbi obtained through trade in so-called dim sum bonds.⁷⁵ These bonds were initially made available for selected mainland banks in 2007 and later more broadly. Furthermore, since 2014 dim sum bonds have also been sold in international finance centers outside Hong Kong.⁷⁶ The creation of the offshore market has been an attempt at internationalizing the renminbi as an instrument of finance and not just of trade. It has also put Hong Kong in the somewhat awkward position as the gateway to mainland China's financial markets, handling 60% of China's inbound FDI, 80% of total renminbi cross-border trade settlement and 80%

⁶⁹ Subacchi, *The People's Money*, pp. 107-108.

⁷⁰ Jiang, "The Limits of China's Monetary Diplomacy," p. 178; Chin, "True Revisionist.,"; Cohen, *Currency Statecraft*, pp. 158-160.

⁷¹ Jiang, "The Limits of China's Monetary Diplomacy," p. 177.

⁷² Ibid., p. 178; Cohen, *Currency Power*, pp. 216-221; Kroeber, *China's Economy*, pp. 144-146; Chin, "True Revisionist," p. 46; Subacchi, *The People's Money*, p. 100; Yulu Chen. "Introduction." In *Internationalization of the RMB: Currency Strategy in the "Belt and Road" Construction*, edited by International Monetary Institute of the RUC. pp. 1-5. London: Routledge, 2019.

⁷³ Jiang, "The Limits of China's Monetary Diplomacy," p. 178; Chin, "True Revisionist," pp. 46-47; Subacchi, *The People's Money*, pp. 108-114.

⁷⁴ *The People's Money*, pp. 114-116.

⁷⁵ Kroeber, *China's Economy*, p. 145; Cohen, *Currency Statecraft*, p. 79.

⁷⁶ *Currency Power*, p. 220.

of global renminbi payments.⁷⁷ Hong Kong may not retain this special position, as new offshore markets and clearing banks have been opened around the globe, predominantly in the Asia-Pacific and Europe.⁷⁸

Third, in order to ensure the liquidity of (i.e. access to) the renminbi, China has settled a number of currency swap agreements with other countries, serving to fend off a renminbi liquidity shortage. These deals do not internationalize the renminbi as such, but work as a sort of failsafe against liquidity shortages, by ensuring other countries access to the renminbi (at least up to the committed amount) in the form of temporary loans. As such, they are primarily a way of bolstering the progress made towards institutionalization in a way that is relatively low-cost, controllable and flexible for China.⁷⁹ According to Subacchi, "Since 2009, more than 3 trillion renminbi have been committed through bilateral currency swap agreements that China has signed with thirty-two countries—most are in Asia, including Thailand, Indonesia, and South Korea, but Britain, New Zealand, Switzerland, and Argentina also have entered into agreements."⁸⁰ Swap agreements have primarily been set up with countries, whom China enjoys strong trade relations with; have current or prospective free trade agreements with, and who have economies of substantial sizes in their own right.⁸¹ This comes as no surprise as a liquidity shortage here would be the most damaging to Chinese exports and the international confidence in the renminbi.

Forth, another way China might boost the international liquidity of the renminbi is by issuing international loans in renminbi through development banks. China's newly establishing multilateral development banks, such as the AIIB and the NDB, could very well become catalysts of renminbi internationalization if they started to issue loans in renminbi to other states in the region.⁸² When loans are related to infrastructure projects, as is often the case, such a shift might not even be that hard to sell to creditors. After all, most of the BRI projects have been carried out by Chinese construction companies who would surely accept payment in renminbi. The signs of this instrument being used are mixed. The NDB issued its first loan in renminbi in April 2016⁸³ and has announced more loans in renminbi, though mostly to recipients in China.⁸⁴ The AIIB has also announced its intentions to issue loans in local currencies (as is also done by other multilateral banks, such as the European Banks for Reconstruction and Development) to mitigate the risk of exchange rate volatility,⁸⁵ but since all AIIB projects save one are situated outside China,⁸⁶ this would not mean renminbi. What it does indicate, is an intention to operate in multiple currencies, which might include the renminbi at

⁷⁷ Subacchi, *The People's Money*, pp. 132-135.

⁷⁸ Ibid., p. 139. lists the following cities: Sydney, Kuala Lumpur, Singapore, Seoul, Taipei, Tokyo, London, Frankfurt, Luxemburg, Paris, Zurich, Toronto, Doha, Qatar, Chile.

⁷⁹ Jiang, "The Limits of China's Monetary Diplomacy," pp. 171-172.

⁸⁰ Subacchi, *The People's Money*, p. 122.

⁸¹ Jiang, "The Limits of China's Monetary Diplomacy," p. 168; Lin Zhitao, Zhan Wenjie, and Yin-Wong Cheung, "China's Bilateral Currency Swap Lines," in *CESifo Working Paper*, no. 5736 (Munich: Center for Economic Studies and Ifo Institute (CESifo), 2016).

⁸² Subacchi, *The People's Money*, p. 123.

⁸³

https://www.rbth.com/business/2015/07/29/new_development_bank_to_issue_first_loan_in_chinese_currency_48071.html

⁸⁴ <https://www.reuters.com/article/china-brics-bank/update-1-brics-development-bank-to-issue-780-million-in-yuan-denominated-bonds-idUSL3N1SZ3SQ>

⁸⁵ http://www.chinadaily.com.cn/global/2019-01/30/content_37433446.htm

<https://asia.nikkei.com/Editor-s-Picks/Interview/China-led-AIIB-to-begin-lending-in-baht-rupee>

⁸⁶ <https://www.aiib.org/en/projects/approved/index.html>

some point. Yet, as noted above in the section on international financing, the vast majority of Chinese loans are still channeled through state-owned banks rather than multilateral banks and these are likely more willing to issue loans in renminbi. The Chinese Development Bank (CDB) in fact states one of its purposes to be, “It facilitates RMB internationalization and actively contributes to the development of the offshore RMB market.”⁸⁷ In short, while international banks loans may be a means of renminbi internationalization, state-owned banks predominantly support Chinese businesses, which in turn sends most of the renminbi back into China, and the jury is still out on the multilateral banks, who may pay a more decisive role in renminbi internationalization in the future, but not yet.

A Renminbi Empire in the making?

While the recent rise of the renminbi has “been nothing short of meteoric,”⁸⁸ its use is still insignificant at a global scale. Particularly as a reserve currency, the renminbi makes up less than 2% of official global foreign exchange reserves.⁸⁹ This dissertation is however not concerned with the global financial order but rather if a hub-and-spokes structure between China and its periphery is materializing. Is renminbi internationalization being used to integrate the economies of Asian countries with China and to reduce their reliance on the dollar, which we may consider an alternative hub?

The evidence confirms this to some extent, as reflected in the substantial volumes of Chinese bilateral trade settled in renminbi and the anchoring of local Asian currencies to the renminbi rather than the dollar. Yet, even if important trade partners like Singapore, South Korea, and Taiwan are settling more and more of their trade with China in renminbi, as Subacchi claims⁹⁰, these countries still use dollar for most of their exchanges. In 2017, imports from China made up 13.8%, 20.5% and 19.1%, respectively, of the total imports of these three, all of whom have China as their largest source of imports.⁹¹ But even if most of the imports from China are settled in renminbi, this still leaves the vast majority of total imports to be settled in other currencies, most likely the dollar. The same applies to the economically smaller countries surrounding and import dependent on China. Even assuming the imports from China of Cambodia (36.8% of total in 2017), Kyrgyzstan (33.4%), Myanmar (31.85), Mongolia (31.1%), Vietnam (28.6%), and Pakistan (26.8%)⁹² were all settled in renminbi, these countries would still be using dollars in most of their international trade.

Subacchi argues that the renminbi has become “Asia’s key regional currency.”⁹³ If this means the most important currency issued in the region, I agree with her assessment. If it means the most important currency used Asia, I strongly disagree. Looking at currency use as an indicator of connectivity between a hub and a spoke, all the Asian countries mentioned above maintain stronger ties to the American hub through their use of dollars than to China. While current developments may signal a shift from dollar to renminbi in bilateral trade with China, the dollar still dominates

⁸⁷ <http://www.cdb.com.cn/English/cpfv/gjyw/dkrz/>

⁸⁸ Cohen, *Currency Statecraft*, p. 154.

⁸⁹ Ibid., p. 157; Subacchi, *The People's Money*, p. 113.

⁹⁰ *The People's Money*, p. 176.

⁹¹ WTO, "Trade Profiles," <http://stat.wto.org/CountryProfile/WSDBCountryPFHome.aspx?Language=E>. Accessed 5 July, 2019. [Visited 8 February 2019]

⁹² Ibid.

⁹³ Subacchi, *The People's Money*, p. 7.

all other forms of exchange. For China to take the place as the dominant monetary hub in Asia, it would have to overtake the dollar's role as the dominating mean for intra-peripheral change also, not just exchanges with China. So while the renminbi will probably see increased use in the future, it is difficult to see why other states should switch from using the dollar in transactions not involving China. In this perspective, China is not headed for the position as monetary hub.

A second angle on hub-and-spokes structure is the choice between bi- and multilateralism. Imperial relations are characterized by bilateralism, since it places the hub in the strongest bargaining position and with the fewest constraints to its autonomy. China has indeed focused on bilateralism in its monetary diplomacy,⁹⁴ maximizing its own political flexibility, and kept its multilateral engagements in the IMF and the Chiang Mai Initiative Multilateralization (CMIM) largely shallow and symbolic.⁹⁵ The most important monetary initiatives are the trade settlement scheme and the currency swap agreements, both of which are bilateral, whereas multilateral schemes, namely policy surveillance through the IMF has been met with resistance from China, reflecting the leaderships' unwillingness to compromise its political autonomy.⁹⁶ In this sense, China's approach to monetary diplomacy has been imperial.

Taken together, this leaves us with the twofold conclusion that China's monetary diplomacy favors bilateralism and the heterogeneous construction of individual ties between hub-and-spokes rather than a shared system for all. At the same time, the result remains meager. The renminbi is still a dwarf currency, primarily used in bilateral trade between China and regional partners, and the dollar remains the dominant currency even for countries in China's immediate periphery. In short, the United States remains a far stronger monetary hub than China, even if China is strengthening the position of the renminbi. A Chinese monetary empire is not in the making, even if Beijing behaves their part. Chinese officials, such as Chairwoman of China's Export-Import (EXIM) Bank Hu Xiaolian,⁹⁷ occasionally do call for a more internationalized role for the renminbi but these advocates face a strong opposition in Chinese conservatives who are not about to liberalize the renminbi at the expense of government control. Furthermore, while we may expect the renminbi to internationalize further because of the relative growth of the Chinese market, it will continue to grow in the shadow of the dollar for the near future. It is simply hard to see, why other states would switch away from the dollar to the renminbi in transactions that do not involve China when the convertibility and fluidity of the dollar will almost surely be much higher and when the Chinese government is unlikely to cease its tight management of the renminbi anytime soon.⁹⁸ It is only countries who fear monetary sanctions from the United States, such as Russia or Iran, who might have an incentive to switch to a competing non-domestic currency for international transactions, even if that currency will have more limited use.⁹⁹ In this light, I argue that monetary order of the world and of Asia

⁹⁴ Yang defines monetary diplomacy as "the use of monetary measures to pursue foreign policy objectives, or the use of diplomacy—intergovernmental talks and arrangements—to pursue monetary objectives." Jiang, "The Limits of China's Monetary Diplomacy," p. 156.

⁹⁵ Ibid., pp. 158, 172-177.

⁹⁶ Andrew Walter. "China's Engagement with International Macroeconomic Policy Surveillance." Ibid., pp. 127-155.

⁹⁷ <https://www.reuters.com/article/us-china-yuan-exim/citing-trade-risks-chinas-exim-bank-chief-urges-faster-yuan-globalization-idUSKCN1U1088>

⁹⁸ Cohen, *Currency Statecraft*, p. 160.

⁹⁹ Blackwill and Harris, *War by Other Means*, p. 143.

specifically will not become renminbi-dominated¹⁰⁰ nor even multipolar¹⁰¹ anytime soon, unless domestic economic shocks to the United States undermines the position of the dollar to a hitherto unprecedented degree.

A Chinese imperial Hub-and-Spokes?

Preliminary conclusion:

1. Physical infrastructure – somewhat yes. If BRI projects are successful, the region will be significantly more linked to China than is currently the case. However, much of this infrastructure can also link peripheries to other cores (e.g. new ports in Africa and railroads to Europe). The pattern is not clear cut.
2. International financing – Yes. The vast majority of development financing is conducted bilaterally rather than multilaterally. The AIIB and NDB (or BRICS bank) still play very minor roles.
3. Monetary policy – No. Despite multiple initiatives to internationalize the renminbi, its use is very limited in everything except bilateral trade with China. Even China's closest trade partners still rely more on the dollar than the renminbi. The trend points toward a stronger role for the BRI but it has a VERY long way to go before it is the dominant currency in Asia (let alone anywhere else).

¹⁰⁰ As argued by Jonathan Kirshner. "Regional Hegemony and an Emerging RMB Zone." In *The Great Wall of Money: Power and Politics in China's International Monetary Relations*, edited by Eric Helleiner and Jonathan Kirshner. pp. 213-240. Ithaca: Cornell University Press, 2014.

¹⁰¹ As argued by Subacchi, *The People's Money*, p. 189.

Appendix 1

Largest 30 Chinese Construction contracts within Transportation Sector not marked as “Troubled transactions.”

Year	Month	Contractor	Quantity in Millions USD	Sector	Subsector	Country	Region	BRI
2016	August	China Railway Construction	\$6,810	Transport	Rail	Nigeria	Sub-Saharan Africa	1
2006	May	CITIC, China Railway Construction	6,250	Transport	Autos	Algeria	Arab Middle East and North Africa	
2011	December	China Railway Construction	5,630	Transport	Rail	Chad	Sub-Saharan Africa	
2015	April	China Railway Construction	3,510	Transport	Rail	Nigeria	Sub-Saharan Africa	1
2015	September	China Energy Engineering	3,500	Transport		Cameroon	Sub-Saharan Africa	1
2017	April	China Railway Engineering	3,190	Transport	Rail	Indonesia	East Asia	1
2018	December	Power Construction Corp	3,020	Transport	Shipping	Saudi Arabia	Arab Middle East and North Africa	1
2015	December	State Construction Engineering	2,890	Transport	Autos	Pakistan	West Asia	1
2013	December	China Railway Construction and China Railway Engineering	2,790	Transport	Rail	Ethiopia	Sub-Saharan Africa	1
2017	December	China Railway Construction, China Railway Engineering	2,690	Transport	Rail	Thailand	East Asia	1
2018	July	China Railway Engineering	2,670	Transport	Rail	Bangladesh	West Asia	1
2012	July	China Communications Construction	2,660	Transport	Rail	Kenya	Sub-Saharan Africa	
2008	February	China Railway Construction	2,600	Transport	Rail	Libya	Arab Middle East and North Africa	
2009	June	China Railway Construction	2,570	Transport	Rail	Algeria	Arab Middle East and North Africa	
2010	July	Sinomach	2,470	Transport	Rail	Argentina	South America	
2011	May	Sinomach	2,370	Transport	Autos	Ukraine	Europe	
2016	February	China Communications Construction	2,300	Transport	Shipping	Congo	Sub-Saharan Africa	1
2016	November	China Railway Construction	2,260	Transport	Rail	Zambia	Sub-Saharan Africa	1
2008	May	State Construction Engineering	2,140	Transport	Autos	Congo	Sub-Saharan Africa	
2018	August	State Construction Engineering	2,130	Transport	Autos	Argentina	South America	0
2016	November	China Railway Construction, China Railway Engineering, and China Communications Construction	2,120	Transport	Rail	Malaysia	East Asia	1
2014	December	Shandong Gaosu	2,100	Transport	Autos	South Sudan	Sub-Saharan Africa	1
2018	January	China Communications Construction	2,080	Transport	Autos	Cambodia	East Asia	1
2017	May	China Communications Construction	2,060	Transport	Rail	Malaysia	East Asia	1
2017	December	China Communications Construction	1,960	Transport	Autos	Australia	Australia	0
2016	October	Power Construction Corp, Shenzhen Yantian, and Rizhao Port	1,910	Transport	Shipping	Malaysia	East Asia	1
2017	May	China Railway Engineering	1,890	Transport	Rail	Kazakhstan	West Asia	1
2016	August	China Railway Construction	1,850	Transport	Rail	Nigeria	Sub-Saharan Africa	1
2007	December	China Railway Construction	1,830	Transport	Rail	Angola	Sub-Saharan Africa	
2016	January	State Construction Engineering, China Communications Construction	1,720	Transport	Shipping	Algeria	Arab Middle East and North Africa	1

Source: <https://www.aci.org/china-global-investment-tracker/>

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