Currencies and International Order

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INTRODUCTION

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Does great-power politics shape international monetary decision-making? Susan Strange (1971) and Robert Gilpin (1987) certainly thought so. In recent years, however, International Political Economy (IPE) has turned increasingly to models inspired by economic drivers—ranging from market liquidity to global integration.

In their new article, "No Reservations: International Order and Demand for the Renminbi as a Reserve Currency," **Steven Liao** and **Daniel McDowell** reawaken this earlier tradition, turning the spotlight on China and the Renminbi. Their article finds that as states preferences diverge from the United State, they are more likely to hold Renminbi. Monetary policy, then, becomes part of a hedging strategy against American hegemony and possibly support for an alternative international order. The article nicely ties questions of monetary policy to important issues of great-power transitions. Given recent moves by the International Monetary Fund (IMF), which seem to place the Renminbi closer to reserve currency status, as well as the tumult in domestic Chinese monetary policy, this article speaks directly to events on the ground.

To think through these issues, we invited four experts on monetary politics to comment: **Alex Cooley**, **Jonathan Kirshner**, **Kathleen McNamara**, and **David Steinberg**. Their interventions highlight a number of important takeaways, as well as challenges for future research. Importantly, Cooley and Kirshner question the degree to which the adoption of Renminbi holdings signals the emergence of an alternative order with its own normative principles that could challenge those of the US and its allies or is merely a diversification strategy with far more limited consequences. McNamara and Steinberg emphasize the importance of domestic political institutions and politics for the global attractiveness of the Renminbi as a reserve holding. Recent Chinese intervention into foreign exchange markets suggests that domestic politics trumps any ambition of providing an alternative economic order. A common point of concern across the comments is whether such holdings are made by fair-weather-fan's of recent Chinese growth or if they are committed partisans willing to stick out difficult times. Given the high levels of uncertainty plaguing the Chinese domestic economy at the moment, this dynamic should soon become empirically testable. Regardless of how such current events play out, the article makes an important intervention in the power politics of monetary policy.

World Economic order: Its Better to Mix and Match

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"No Reservations" makes important contributions to our understanding of emerging international monetary politics and the debate over China's rise and the sustainability of the liberal economic order. The study provides more evidence of a shifting IPE landscape in the wake of the great financial crisis. In this, it joins the authors' (2014) work on China's signing of a network of bilateral swap agreements (BSAs) with foreign central banks and Erica Downs's (2011) survey of the 2009 loans-for-energy deals concluded between China and six states in Latin America and Eurasia. These highlight how the study of international political economy faces pressing questions about Beijing's emerging role in global governance. It is thus also intimately linked to debates about whether the BRICS New Development Bank and Asian Infrastructure Investment Bank pose a challenge to the Western-led counterparts such as the IMF and World Bank.

A major strength of the article is its clear exposition of the underlying geopolitical logic involved in reserve currency adoption, not least because it addresses critical issues about the relationship between public-goods provision and hegemonic status, and the processes that might undermine the liberal hegemonic order (Barma, Ratner and Weber 2007; Barma et. al. 2009; and Ikenberry 2008). Still, I have some concerns.

Liao and McDowell argue, "Other states in the international system vary in their preferences concerning contemporary international order. While some support the liberal, American-led status quo, others prefer the emerging Chinese alternative." This is an unnecessarily stark way to think about the issue. Certainly, China has developed its own array of mechanisms and institutions to conduct foreign economic relations; it consistently expresses differences regarding the West's norms and values, on issues ranging from human rights to issues of state sovereignty and military intervention. But we are far from a coherent "alternative order." And we see little indication that even the most dependent Chinese political and economic client states actually identify exclusively with any such Chinese-led world order.

This shouldn't be surprising. Why should leaders substitute one order for another? After all, they gain much more from mixing and matching the public goods—currencies, emergency lending, development assistance—on offer from both the West and China? The availability of alternative patrons, parallel rule sets and non-liberal normative frameworks provides many opportunities to states: they can adapt the current liberal order to domestic needs by pushing back against Western political and economic conditions; extract greater geopolitical concessions from the West by invoking exit options; and to play up, for domestic political purposes, their own independence and autonomy (see Cooley and Nexon 2013; Cooley 2015). States may not so much strongly "prefer" a particular liberal American, status quo order or the Chinese alternative, but rather act as opportunistic forum shoppers—tactically shifting their preferences among patrons in order to extract more pledges and benefits.

Briefly consider some of the clusters of cases in the dataset themselves. The early adoption of RMB by Western countries like Norway, France, UK, Lithuania, Austria, Switzerland hardly indicates their embrace of a Chinese-led alternative international order. In fact, Norway has been involved in politically damaging political disputes with China over sensitive issues like Tibet and the awarding of the Nobel Peace Prize to the human rights dissident Liu Xiaobo (Barker 2014). Yet it was the first adopter of RMB and joined the AIIB (BBC 2015). Similarly, Japan, Korea, the Philippines and Australia all acknowledge the critical nature of their relationships with China. They each see the need to manage it with great care and sensitivity. At the same time, though, they are strengthening their alliance and security ties to the United States (Sutter et al. 2013). Perhaps what we can say with greater certainty is that these countries usually prefer to avoid being placed in situations where they publicly have to choose between the West and China. This was precisely why Washington's ultimately unsuccessful public lobbying of its allies not to join the AIIB proved so politically awkward and damaging for it (Titcomb 2015).

It seems to me that RMB adoption, as I interpret Liao and McDowell's findings, follows a similar pattern of geopolitical hedging, not choosing (Cooley 2012a). Space does not permit a full investigation of some of these other cases, but even countries that have the unquestionably close economic relationship with Beijing—such as Pakistan (), Argentina, Angola Kenya, Venezuela (Tiezzi, 2015; Watts 2013; Zhao 2015)—and receive significant Chinese loans and assistance is more about regime survival and international autonomy than acquiescence to Beijing. Tellingly, even President Putin of Russia—perhaps the most openly counterhegemonic of world leaders—openly embraces increased cooperation with China as a calculated geoeconomic shift away from the West, not as a move to lock Moscow into Beijing's regional order (Cooley 2012b).

Moreover, these developments highlight the extent to which Beijing's authority as a global economic governor is still quite fragile, not strong. To follow Avant, Finnemore and Sell (2010), China certainly demonstrates "efficacious authority" and competence on economic issues and as a public goods provider (RMB, developmental assistance, investment), but I would argue it still lacks the principled, institutional and delegated types of authority that more broadly have characterized liberal world order.

In sum, the RMB internationalization trends that the authors invaluably identify are geopolitically important precisely because they play into a much messier, and in my view opportunistic, use of emerging donors and institutions by states in the post-Western landscape. Why join Team USA or Team China, when you can now reap the benefits of selective engagement with both?

International Order and International Monetary Politics

Kathleen R. McNamara
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Liao and McDowell's article (2016)represents a true step forward in the field of the political economy of national security. This is important. For far too long theorists of international political economy have ignored the security implications of market activities. While international relations has had a long and rich history of scholarship on the topic of the interaction of security and economics, over the past few decades scholarship has run on two separate tracks—security, and international political economy—rather than interacting the two.

The article asked why some central banks invest in the Chinese currency while others do not. The authors argue that it is a state's preference for an international order based on China that determines the likelihood of their central bank holding RMBs. In this, they powerfully demonstrates the words of Robert Gilpin that "every monetary order rests on an underlying political order". Gilpin's insight does not only apply to China and the RMB, of course, but can be used also to assess the potential for the euro to replace the American dollar as the international reserve currency of choice. In a 2008 piece, I used Gilpin as my starting point as well, to argue that the European Union was simply not sufficiently developed or constructed as a single actor to project the power needed to attract other countries to hold euros. Partly, this was the result of a structural condition, namely, the lack of a European wide euro bond. However, just as important in my view was the shortcomings of the EU's political union, which was too shallow to project power internationally in the manner needed for the euro to become a true focal point for international monetary order. Simply put, the EU's networked, fragmented political form could not stand up to the demands of the international system for a strong nation-state to anchor the international reserve currency.

China now presents us with the green shoots of a possible alternative to the dollar. We are at the very beginning of the emergence of a new alternative Chinese order, and this article points the way forward in studying China's potential as a rising power. In particular the authors marshal unique empirical information about reserve holdings, information that is normally kept secret. Building on the theoretical literature on international order, balance of power, and the rise of potential hegemons, they do a superlative job in reminding us of the intimate connections between money and power on a global scale.

Some caveats are in order however. First as Liao and McDowell themselves say, the RMB at the moment constitutes only a "tiny fraction" of the global reserves, somewhere in the ascendancy of 1% versus the US's roughly 60% and far lower than even the euro's over 20% share. Nonetheless, the variation across states in their holdings of the Chinese currency provides useful information about the link between China's economic and geopolitical rise. Second, the data was compiled before the recent collapse of the Chinese stock market. Just as Jay-Z and Giselle were promoting euros the Eurozone crisis hit and euros have cooled in pop cultural references. Might the interest in the RMB dissipate now that everyone has been reminded of China's precarious situation? In times of uncertainty, financial markets always have a "flight to quality", which certainly would not suggest investment in China given the shakiness of its regulatory structures and the fragility of its domestic political economy. Finally, the authors stress the need to examine the initial conditions that drive the adoption of new, rival reserve currencies but their account leaves out some potential important elements. In my own work, I stress the importance of focal points and inertia, in addition to Gilpin's emphasis on political order. Surely, the US dollar will be propped up for years to come in part because of the value of focal points in international monetary affairs. Just as the British pound far outlasted British geopolitical power, it is likely that the US dollar will persist as the key currency of the international system, even as American geopolitical dominance fades.

In sum, this article provides a major contribution to the field of international political economy by reminding us of the enduring role for geopolitics-- but the authors still leave room for further analysis. I hope to see that analysis take hold across other studies that bring the big picture of international relations to the study of currencies as effectively as Liao and Daniel McDowell.

Response to "No Reservations"

David A. Steinberg
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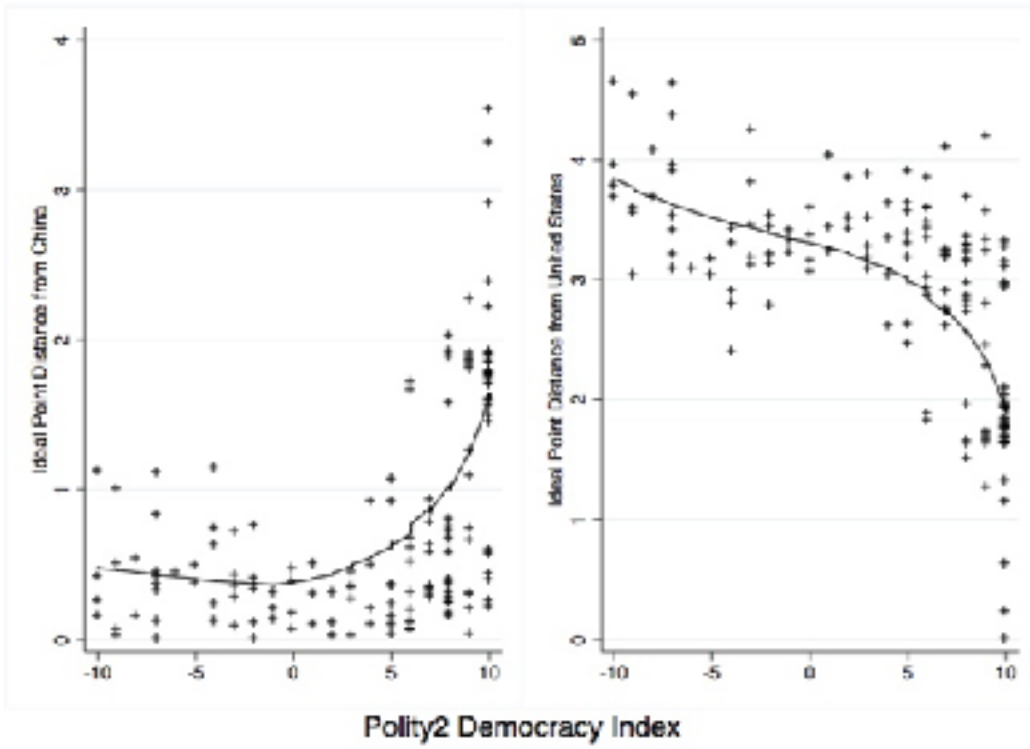
Scholars continue to grapple with China's impact on the international monetary and financial system. According to surveys conducted by the Teaching, Research, and International Policy (TRIP) program, the rising power of China and the decline of the U.S. dollar as a reserve currency are considered two of the most pressing problems facing the United States today. Liao and McDowell's innovative article (2016) greatly furthers our knowledge about how China's rise has influenced the dollar's role as an international reserve currency. Liao and McDowell convincingly show that political considerations influence countries' willingness to hold renminbi (RMB) reserves. Their main finding is that states that are opposed to the U.S.-led liberal international order were more likely to acquire RMB reserves between 2009 and 2014.

More broadly, Liao and McDowell make a compelling case that structural or geopolitical factors have an important influence on the international monetary system. In this post, however, I want to stress some important limitations to structural theories of international monetary relations. A focus on geopolitics alone will not enable one to answer the crucial question of whether the RMB is likely to emerge as an international reserve currency that rivals the dollar. In order to answer this question, it is essential to also pay attention to domestic politics – both within states that are considering holding RMB reserves and within China itself.

First, domestic politics influences a state's willingness to hold RMB reserves. Even if a state's preference for international order directly influences its willingness to purchase RMB, as Liao and McDowell find, it is important to ask the prior question: where do preferences for international order come from? Though this question is quite understandably beyond the scope of Liao and McDowell's article, the authors address this question in passing, where they acknowledge that domestic politics drives preferences for international order (2016:26).

In short, states are investing in RMB reserves because they share basic domestic institutions and norms with China. Domestic political factors are very strongly correlated with the measure of state preferences that Liao and McDowell use, which comes by Bailey, Strezhnev, and Voeten (2015). The figure below illustrates the relationship between state preferences for liberal international order and one important attribute of a country's domestic political system: the degree of democracy, as measured using the 21-point Polity index. The figure uses data from the year 2012, the most recent year in Liao and McDowell's dataset with coverage on both variables. To illuminate this relationship, I present a scatterplot of the data along with a LOESS line of best fit. The left panel of the figure focuses on countries' ideal point distance from China. It shows that highly democratic countries tend to have preferences that are much farther from China's than non-democracies. In the right panel of the figure, we see that there is a strong negative association between democracy and a country's ideal point distance from the United States. The data reveal that dictatorships are typically more sympathetic to China than to the United States, whereas full-fledged democracies tend to be much more in favor of the liberal international order.



To further probe the importance of domestic politics, I ran some simple linear regression models using this cross-sectional data for the year 2012. (All variables were obtained from Liao and McDowell's dataset). I modeled these two measures of state preferences as a function of three domestic political variables: the degree of democracy, which was entered as a quadratic function since the above figures indicate that this functional form is correct; the partisanship of the executive; and a measure of economic development (the logarithm of per capita GDP). These domestic political factors alone explain over half of the variation in countries' ideal point distance with the US (R-squared = 0.51) and they explain 54% of the variation in countries' ideal point distance with China. Preferences for international order are largely determined by domestic politics. This implies that domestic politics also matters greatly for states' willingness to hold RMB.

Second, China's domestic politics also influences the RMB's prospects as a reserve currency. Liao and McDowell recognize that "the RMB's rise is without question dependent on Beijing's continued implementation of monetary and financial reforms" (p. 37). Although China's financial system is more market-oriented today than it was in the past, monetary and financial reforms in China have been quite limited: China's exchange rate remains heavily managed (Wildau 2015) and cross-border capital flows heavily restricted (Bayoumi and Ohnsorge 2013). China has been unwilling to adopt a more market-based financial system for domestic political reasons (Shih 2009; Vermeiren and Dierckx 2012; Steinberg and Shih 2012). As Hongying Wang has pointed out, if "the political foundations of the current model remain in place…it is reasonable to expect minor tinkering to continue without fundamental changes" in Chinese financial policy (Helleiner and Kirshner 2014, p. 125). China's international financial policies are likely to continue to evolve in the direction of greater liberalism and internationalization, but domestic political considerations are likely to hinder major policy changes. Thus, to understand the future of the RMB, we need to pay attention to domestic politics within China. And once domestic politics are taken into account, contrary to many structural theories, the case for the RMB as a reserve currency gets murky.

The idea that domestic politics is important for international monetary relations is not new, nor is it novel to argue that domestic politics shapes state preferences (Eichengreen 2008; Steinberg 2015; Friedberg 2009; Moravcsik 1997). These arguments are also perfectly consistent with Liao and McDowell's article. However, by neglecting the domestic political sources of state preferences for liberal order, Liao and McDowell's article may give readers the impression that domestic politics can be ignored when studying international monetary relations. This would be a mistake. Determining whether the RMB is likely to rival the dollar in the future is a pressing question (Helleiner and Kirshner 2009), and answering it successfully requires attention to the domestic political underpinnings of state preferences and, by turn, the international monetary system.

Bringing it all Back to Bob (Gilpin): The International Politics of International Money

Jonathan Kirshner
Cornell University

It is a pleasure to write this response to Liao and McDowell's carefully argued and well-reasoned paper. This is not because I am largely in agreement with its conclusions (though I am), but it is particularly refreshing to read a mainstream paper of "International Political Economy," that actually emphasizes *politics* – to say nothing of international politics – which is an essential but all-too-vanishing contribution (Kirshner 2010).

I cannot but heartily endorse the paper's Gilpinesque point of departure, ("building on the tradition of Gilpin"), and his essential admonition that "every international monetary regime rests on a particular political order"; and of course I am in fundamental agreement with the paper's contention that "political considerations rather than economic concerns best explain" choices about money (Kirshner 2003) – in this case "emergent demand for the RMB as a reserve currency." As Liao and McDowell note, rightly in my view, the decision to invest in RMB "is not simply an economic choice" but also "a *political* act" that "signals and symbolizes a state's preference for a diminution of American global influence and support for a revised order."

If anything, Liao and McDowell put me in the uncommon position of being outflanked on the politics. In my view, new thinking on *economic* issues that followed the Global Financial Crisis – the de-legitimation of the American financial model, new and novel concerns about the vulnerably of the U.S. economic to financial crisis, and disenchantment with the stewardship of global economic governance by the U.S. and American-dominated international financial institutions—have also contributed importantly to the desire for some diversification away from the dollar and the American way (Kirshner 2014).

Changes to the demand for international reserve currency reflects the more general phenomenon that global monetary and financial arrangements are in flux. The Global Financial Crisis of 2007-08 was a watershed moment in world politics, because in addition to its obvious material effects, it also strongly encouraged new thinking around the world about how to best oversee and organize money and finance, both in the domestic and international realms, suggesting a relative erosion of U.S. power and influence. This observation is too easily caricatured, or misunderstood: the American economy remains colossally large, innovative, rich, and robust; the U.S. is also extraordinarily secure and does not face a peer military competitor. Nevertheless, back of the envelope observations provide an accurate sketch of basic facts that both economic and political power are diffusing in the international system.

Before the crisis, the American model of uninhibited global financial liberalization – aggressively promoted by the U.S. – was largely understood to be the single, legitimate model of financial governance. This has been replaced by what I call a "new heterogeneity of thinking," and this matters, enormously, because when it comes to money and finance, ideas define the contours of the possible (McNamara 1997). New and varied thinking can be observed in policy experiments initiated throughout the world (Gallagher 2015; Grabel 2011).

In China, the crisis elicited "buyer's remorse" about its massive dollar holdings, the result of an economic strategy that was bound so closely to the U.S. economy—and to dollar. The crisis also redoubled the (already robust) wariness of Chinese elites about the risk of too much exposure to the global financial economy. Before the crisis, China had been cautiously moving towards convergence with the American model, if at a pace invariably deemed inadequate by the U.S. Just months before the crisis, Treasury Secretary Paulson was (again) lecturing that "the risks for China are greater in moving too slowly than in moving too quickly" with financial liberalization (Dyer 2007).

This buyer's remorse also has a geopolitical edge, with many in China (and elsewhere) holding the view that the U.S. has routinely used dollar hegemony to pursue its political interests and has shaped international monetary relations to enhance those interests. The Asian Financial Crisis of 1997-98 and other international crises that followed are seen as illustrations of this; especially when combined with the perception of new vulnerabilities and fragilities in the (largely unreformed) U.S. financial sector, dissatisfaction with dollar hegemony and preferences for a more pluralized international monetary system are on the rise.

In the wake of the Global Financial Crisis, Chinese leaders decided to step up the pace of RMB internationalization, promote regional monetary cooperation, and encourage reform of the global monetary management, introducing a number of measures and policies noted by Liao and McDowell. Moreover, to a greater extent than any previous monetary newcomer, "in both words and deeds, the Chinese have appeared to underscore a dissatisfaction with the status quo," Benjamin Cohen has observed. "Beijing appears to be working hard to tilt the global balance of monetary power as much as possible in its favor." (Cohen 2014, see also Chin 2014) Other analysts agree, seeing "a desire to carve out China's own space within a US-dominated global financial system," a process that "accelerated with the outbreak of the global financial crisis" (Kynge and Noble 2014).

Some scholars have expressed skepticism regarding the import of the measures undertaken by Beijing, suggesting that they are largely nascent, symbolic and limited (Jiang 2014). And indeed, as Liao and McDowell note, we are early in this game, and the RMB currently accounts for a "tiny fraction of global reserves." But these steps are consistent with the pre-positioning of an apparatus that would support the emergence of the Yuan as an important international currency. And, crucially, China's willingness to increase the "supply" of international monetary options has coincided, for similar reasons, with greater demand for alternatives to the dollar and to the ideology of unbridled financial globalization as well. As Liao and McDowell's paper illustrates, the emergence of the RMB is not simply a "supply side" story—there is a robust "demand side," a desire by others for diversification, and to have alternatives to the dollar.

Interest in different international monetary possibilities is also on the rise. One manifestation of this – of both disenchantment with the American way and a desire for greater voice – is China's sponsorship of the Asian Infrastructure Investment Bank (AIIB), and of the eagerness of others to sign on. It is all-too-easy to get all-too-worked up about the AIIB (Larry Summers (2015) was particularly hyperbolic: "This past month may be remembered as the moment the United States lost its role as the underwriter of the global economic system"), but on balance the AIIB will enhance China's influence at the expense of the U.S., Japan, and the international institutions that those two countries dominate. And whatever the stakes, it is notable that the U.S. tried, and miserably failed, to undercut the AIIB's emergence. Summers, likely, was fondly recalling his late-1990s role in crushing Japan's proposed Asian Monetary Fund, which was also perceived as a challenge to the leadership of the U.S. But China will more assertively, and more successfully, seek to establish opportunities to promote its voice and its interests—and likely find willing partners.

In sum, the RMB will likely emerge as an important international money, and will be attendant with a continued rise in China's international political power and influence. But it is important to keep these changes in context. Liao and McDowell suggest that China can be "viewed as representing a distinct alternative to the U.S. liberal order." This strikes me as a premature claim. Despite the de-legitimization of the American Way and an appetite for diversification, China has not articulated a clear alternative path (Ferchen 2013), and domestic debates on the trajectory of its development, and the pace (and terminus point) of its liberalization continue. My own view is that China will pursue a strategy that allows the RMB to emerge as an important international currency without embracing the comprehensive financial liberalization that most mainstream western economic observers insist are a prerequisite to such an effort. But (again, despite my own prognostications) whether or not China continues to pursue an alternative path towards RMB internationalization remains to be seen.

In addition, dollar "optimists" correctly point to the extraordinary and unique strengths of the U.S. economy, and the additional advantages of incumbency for the dollar as international money (Drezner 2014, Prasad 2014). And China, of course, faces its own economic challenges. These are good reminders that the dollar is extremely unlikely to "go away," and discussions of its "eclipse" are premature, to say the very least. But its international role *is* very likely to *relatively* diminish over time. And this change in status—even one that leaves the dollar "first among equals," will have significant consequences for American power in particular and world politics more generally.

Symposium Response

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We cannot thank Alexander Cooley, Jonathan Kirshner, Kathleen McNamara, and David Steinberg enough for their comments on our article (Liao and McDowell, 2015). While we cannot reply to every important point they raised, we will offer some thoughts on two key questions that emerged from their contributions.

Does China represent an alternative international order?

At the center of our argument are two assertions. First, state preferences regarding international order influence reserve currency choice. Second, in today's international system, a Chinese order is emerging as an alternative to the U.S. status quo. We argue that states with preferences farther from the U.S. (or closer to China) are more likely to invest in renminbi (RMB)—a claim that our empirical findings support.

In response, the contributors question the extent to which a distinct "Chinese" world order exists. Kirshner suggests our claim is "premature" as China has yet to clearly articulate an alternative. Cooley notes the absence of a "coherent alternative"' as any nascent Chinese order lacks the kind of principled, institutional authority that characterizes the liberal status-quo.

China does not yet preside over a set of established international institutions the way the U.S. does. This is why we are careful to refer to China as representing an "emerging" alternative order in our article. McNamara repeats this point in her own contribution, noting we are "at the very beginning" of a new order's emergence. Yet, China is increasingly associated with a set of policies and principles—such as state-managed capitalism and non-interference (Bremmer 2009; Mills 2012)—that stand in stark contrast with the U.S. order.

Less than two decades ago, it was widely believed that the entire world was converging toward liberal democracy and global capitalism. The American way was the only way. That is no longer the case. China's dramatic rise, based on a set of economic and political principles that contrast sharply with American ideals, has contributed to the obsolescence of ideas like Fukuyama's "end of history" (2006) and Friedman's "golden straitjacket" (2000) of economic liberalism.

Even though China has yet to institutionalize a coherent alternative order, its economic success, growing power, and autonomy from the U.S. model means the "Beijing Consensus" has become a focal point of what an alternative world order could look like. Countries that view the "American way" as contrary to their interests are increasingly looking to China for leadership.

The Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) —examples discussed by both Cooley and Kirshner—suggest that China is growing more willing to respond to pent up demand for an alternative set of global rules, principles, and institutions.

While we view China as an emerging alternative to the U.S., preferences for international order are not purely dichotomous. In our article, we conceptualize U.S. and China as opposite poles of a continuum. Some states lie closer to the U.S. order while others are closer to an emerging Chinese alternative.

Figure 1 illustrates this continuum using [new measures](#) of state's voting distance with the U.S. and China in the UN General Assembly (Bailey et al. 2015). Consistent with our argument, the figure shows that most states holding RMB reserves lie closer to China than the U.S. (bottom right corner). Only a few holders of RMB reserves lie closer to the U.S. (e.g. United Kingdom and France) or in between (e.g. Norway, Austria, Switzerland, South Korea, and Japan).[1] So why have states closer to the U.S. or to the middle diversified into RMB reserves? Following Cooley's argument, it is plausible that these states have more to gain by geopolitical hedging against the U.S. through RMB investments. In contrast, it is more difficult for states already closer to China to extract benefits with the use of RMB investments as a hedging strategy.

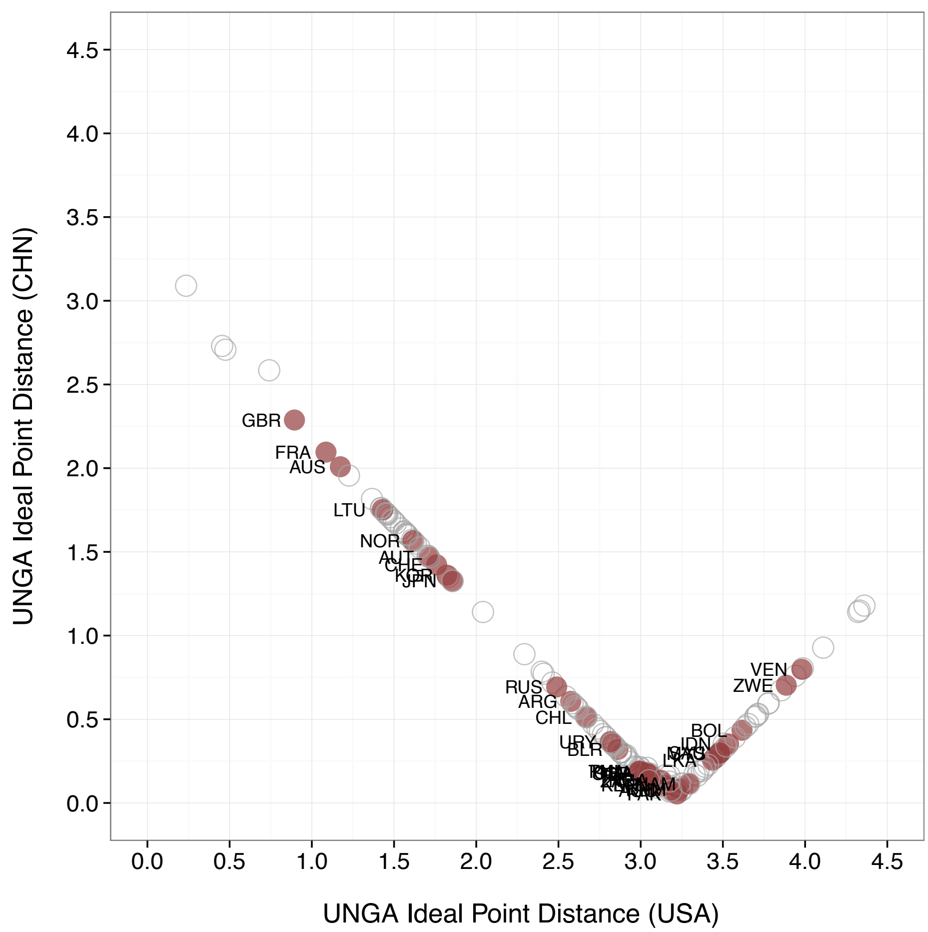

Figure 1. Average Ideal Point Distance in UN General Assembly Voting, 2009-2013. Dark red circles indicate countries reportedly holding RMB reserves and hollow circles otherwise.

[1] In our article, we conduct more systematic analyses accounting for factors such as instrumental calculations and regime type. The results are consistent.

Will the RMB surpass the U.S. dollar as the top global reserve currency?

In our article, we focus primarily on answering one narrow question: Why have some countries added RMB to their reserves while others have not? In general, we were careful not to make bold predictions about the RMB's future status.

Yet, our findings point to at least one important implication: Emergent demand for the RMB is less about economic calculations and more about *political* considerations. Thus, China's autonomy from the U.S. order and its emergence as a potential alternative enhance the currency's attractiveness among a certain segment of sovereigns. Past challengers to the dollar—like the deutschemark, yen, and euro—lacked this appeal as they were backed by political authorities that were fully integrated into the U.S. order.

Ultimately, we believe that the RMB's future as a reserve currency will depend on two main conditions.

First, whether China can sustain its political advantage by further articulating and institutionalizing an alternative international order. This, in turn, largely depends on the strategy of the U.S. On one hand, if the U.S. can successfully incorporate China into the existing order, it may diminish the RMB's political appeal among a subset of states. G. John Ikenberry argues that the U.S. order is designed to accommodate rising powers (2011). The IMF's recent decision to add China's currency to the elite SDR basket is exemplary of this (McDowell 2015). On the other hand, Washington's seemingly hysterical reaction to China's AIIB (Bloomberg 2015) and the refusal by Congress (Huang 2015) to approve IMF voting reform belies Ikenberry's observation, which may in fact strengthen the RMB's political advantage.

Second, whether Beijing can increase the economic attractiveness of the currency through continued reforms. McNamara suggests that the recent financial tumult in Chinese financial markets may give some global investors pause. Indeed, along with crashing equity markets, the accompanying surprise devaluation of the RMB in August was a wake-up call to markets (Inman et al. 2015). The RMB is no longer a "one way bet" against the dollar—something that likely enhanced its attractiveness to prospective reserve holders between 2010 and 2014. As China moves toward a more market driven exchange rate, two-way risk is the new normal. Furthermore, the dollar continues to enjoy the advantages of focal points and inertia in the global monetary system. This adds to the challenges for the RMB when taking on the dollar as McNamara suggests.

Given these challenges, we agree wholeheartedly with Steinberg that the currency's future as a global reserve will depend largely on whether China can fully open its domestic financial markets to global investors and release its grip on the RMB's exchange rate. However, the speed and extent to which these reforms occur will depend on the domestic politics between winners and losers of RMB internationalization in China. Steinberg, who suggests fruitful areas of future research, deftly draws attention to the central role domestic politics will play in determining the future of the RMB.

In sum, our research suggests that the future of the RMB depends on the political interactions between the U.S. and China, the extent to which the two countries pursue incorporation or competition, and China's ability to make its currency a truly attractive global investment currency.

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