

# CHAPTER I

## INTRODUCTION

### **A. Background**

The United States and China build a relation by many ways such as bilateral or multilateral cooperation, especially in international context. The cooperation between the United States and China is very needed to complete basic needs both nations. International relations, between China and the United States, were based on interest. The goal of this cooperation between China and the United States is how to achieve and push their influence of their national interest.

More than 40 years, the National Committee of US was at the forefront in making a foundation of mutual trust and collaboration between the United States and China by conducting exchange rate currency. The cooperation between The United States and China includes policy activities, security, education, economic, media and transnational issues. The National Committee exchange hold conferences, bring together the leaders from both states, promotes the intellectual dialogue to discuss the relation between the United States and China<sup>1</sup>.

The United States House of Representative consists of all members of the countries who are making some direction about the relation between The United States and China make an agreement fair trade both of them. Nowadays, China has become the biggest country in economy investment in the world exceeded the United

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<sup>1</sup> Barnett, A. D., & Reischauer, E. O. (1970). The United States and China: The next decade. New York [http://en.wikipedia.org/wiki/National\\_Committee\\_on\\_United\\_States\\_China\\_Relations](http://en.wikipedia.org/wiki/National_Committee_on_United_States_China_Relations) Internet Accessed on 17 February 2011

States. The United States Statistic Department announced about 15 percent of the United States imports come from China. There are many types of basic need of manufactured products and goods that China exports to the United States such as toys, footwear, electronics, clothing, textiles, small appliances etc. It means that the United States market is controlled by China's products.

At the end of 1970s, the Chinese government formulated the strategy of modernization, which was arranged in three stages: First, *The Gross Domestic Product* (GDP), China should increase economic side twice times in the 1980s so that Chinese people will escape from poverty; Second, *The Economics of Pie*, China has increased the economic four times at the end of 20<sup>th</sup> century so that China will be transformed into a prosperous society.

Finally, the economic model of China brought China into semi-modern country in the middle of the 21th century. In addition, China makes a revolution movement in economic sector to achieve her own goal in international context. In this case China tries to exceed the economics of the United States by making the close relations with the United States. Since 1970, China followed the modernization, in the management of the economy which was based on the principles of capitalism. In 1978, China reformed its economy from Soviet economic style model guided towards market oriented economy by the political system controlled under the Communist Party of China. This economic system was called socialism with Chinese characters and a mixed economic system. The system of capitalism which was used by China

has been decreasing the poverty to 53 percent in 1978, and 8 percent in 2001. It means that capitalism system succeed in decreasing the poverty in China.

The United States imported the goods from other China was the cheapest prices for goods than other countries products. The strict competition among producers has created a chaos. Finally, each producer found the narrowing place for selling their goods and it causes unbalance market happen there. China's product is very competitive because of the goods comply the standard quality and low price. In addition China's product is truly affective product in pulling the buyer because it is cheap and have a good quality. The China's market depends heavily on the United States demand in selling their products. China's economic growth depends on exports side. The government of China has been able to rise 8 percent of GDP (***Gross Domestic Product***) in 2009. The government of China gives administrative service to the domestic industry to struggle their movement by using the government policy actions.

The government of China will struggle to meet this objective in 2010 and succeeding years if demand for its exports in the United States does not pick up.<sup>2</sup> If this condition happens, the continuation of these relations will decrease between the United States and China cooperation. The manner found by both countries, the United States and China, on how to make a balance trade between them in selling their product is the good solution in maintaining their relations.

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<sup>2</sup> Steven Dunaway "*The U.S.-China Economic Relation: Separating Facts from Myths*" <http://www.cfr.org/china/us-china-economic-relation-separating-facts-myths/p20757> Internet Accessed on 17 February 2011

Since the global crisis ended in 1998 China has grown heavily on economic sector by trade surplus of export to the United States. In the other hand, the United States has been deficit in its market. And the unemployment already grew because of the deficit of market around 9,6 percent. The United States felt that the government of China has been creating the undervalued exchange rate of Yuan toward dollar US. According to the case of undervalued of Yuan, the United States government wants to make a rule that can manage the Yuan exchange rate. But, the government of China doesn't want to obey the United States rule about Yuan exchange rate. The Yuan exchange rate is controlled by the People's Bank of China and if The United States wants to control the Yuan currency, it must make a deal with the People's Bank of China.

The United States need some policy in protecting economic imbalance caused by the China's economic development. The China's product has been spread by cheapest price and standard quality than the United States product. Based on this case, if the government of the United States does not make a responsive movement to protect the market its domestic, the China's product will spread massively in the United States market and the United States product itself will be threatened bankruptcy.

The House bill amended the Tariff Act of 1930 in that this version require the president's administration to: (1) determine, based on certain requirements, if the currency exchange rate of a country that exports goods or services to the United States is "fundamentally and actionably undervalued or overvalued" against the

American dollar for an 18 month period; and (2) should there be deemed a violation, the administration should take action in the form of a "countervailing duty or antidumping duty" so as to offset such a misalignment. It also said the currency of a non market economy would be subject to the provisions of the Act.<sup>3</sup>

Timothy Ryan said in his letter to the house leadership *"In an apparent effort to deflect the demands of its trading partners, Beijing announced it was revaluing the RMB a few days before the opening of the G-20 summit in late June. Since that time, however, the RMB has appreciated less than one percent on a nominal basis. China's contravention of established trade laws has imposed significant hardship on American manufacturers and workers and continues to imperil our economic recovery. Economist Paul Krugman has written that China's "is the most distortionary exchange rate policy any major nation has ever followed."*<sup>4</sup> *Fred Bergsten of the Peterson Institute for International Economics believes that resolution of this issue could create as many as 1 million American jobs.*<sup>5</sup> *A report by the Economic Policy Institute concluded that between 2001 and 2008, 2.4 million jobs were lost and thousands of workers were displaced in every U.S. congressional district as a result of China's currency manipulation and unfair trade policies".*

The bill was introduced by Rep. Timothy Ryan on 13 May 2010. It was passed on to the House Ways and Means committee and the Senate Finance committee on 28 September 2010. On the following day it was passed to the House of Representatives by a vote of 348 in agreed, 79 opposed and 6 absent.<sup>6</sup> The bill H.R 2378 is the bill which is proposed by session of congress, in the United States on May 13, 2009. It was passed on to the House Ways and Means committee and the Senate

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<sup>3</sup> *"H.R. 2378 - Summary: Currency Reform for Fair Trade Act (GovTrack.us)"*

[http://en.wikipedia.org/wiki/Currency\\_Reform\\_for\\_Fair\\_Trade\\_Act\\_2010](http://en.wikipedia.org/wiki/Currency_Reform_for_Fair_Trade_Act_2010)

Internet Accessed on 17 February 2011

<sup>4</sup> *"Taking on China"*, New York Times, March 14, 2010.

Internet Accessed on 17 February 2011

<sup>5</sup> *"China's Yuan value hits U.S. economy, two experts say"*, Washington Times, March 15, 2010.

<sup>6</sup> *"GovTrack: House Vote On Passage: H.R. 2378: Currency Reform for Fair Trade Act"*

[http://en.wikipedia.org/wiki/Currency\\_Reform\\_for\\_Fair\\_Trade\\_Act\\_2010](http://en.wikipedia.org/wiki/Currency_Reform_for_Fair_Trade_Act_2010)

Internet Accessed on 17 February 2011

Finance committee on 28 September 2010. The following day it was passed to the House of Representatives by a vote of 348 in favour, 79 opposed and 6 abstentions<sup>7</sup>. The congress was pioneered by a Tim Ryan and Murphy with the aim to protect The United States from Yuan in economic side.

Trough the US Department of Commerce (DOC) agency tasked with enforcing US antidumping (AD) and countervailing duty (CVD) laws, unleashed a proposed “trade law enforcement package,” comprised largely of technical changes in AD/CVD policies and regulations focused on China. If implemented, the proposed AD/CVD-related changes could make it more difficult for Chinese exporters to access and remain in the US market.

As originally drafted, H.R. 2378 would have required the Department of Commerce to adjust its antidumping and countervailing duty calculations to account for an undervalued currency. The revised version, which was voice voted out of the Ways and Means Committee, no longer mandates any such action. The bill does not require any action by the Department of Commerce which would raise serious concerns under U.S. WTO obligations. Instead, the bill would make two changes to the definitions of “export subsidy” and “benefit conferred,” which should have minimal legal effect.

The bill would clarify that the Department of Commerce can make a finding that a country has used an export subsidy (such as an undervalued currency) even if

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<sup>7</sup> [http://en.wikipedia.org/wiki/Currency\\_Reform\\_for\\_Fair\\_Trade\\_Act\\_2010](http://en.wikipedia.org/wiki/Currency_Reform_for_Fair_Trade_Act_2010)  
Internet Accessed on 10 March 2011

the subsidy is not limited exclusively to circumstances of export (when non-exporters may benefit)<sup>8</sup>.

In addition the bill is expected to have two effects on the trade in the United States namely:

1. Export subsidy
2. Benefit conferred

## **B. Research Question**

Based on the introduction above, the research question is “*Why does The United States Implement the Bill Currency Sanctions Policy toward China*”.

## **C. Theoretical Framework**

The researcher would like to propose a theory and a concept, that is theory of foreign policy and the concept of national interest. This theory and concept are trying to answer the research question with a deeper analysis and explanation for the phenomena above.

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<sup>8</sup>Congress of Currency Reform for Fair Trade Act on September 29, 2010 (111th Congress, 2nd Session)  
<http://www.gop.gov/bill/111/2/hr2378>  
Internet Accessed on 10 March 2011

## 1. Theory of Rational Actor

Based on book Mohtar Mas'oe'd "Ilmu Hubungan Internasional, Disiplin dan Metodologi", it is explained that the model of Rational Actor Foreign politics is considered as consequence of rational actors' actions and behaviors, especially for the government created for certain purposes. Decision making process of foreign politic is describad as intellectual process. Government behavior is analogized to common sense and coordinative individual action.

In this analogy, the actor of individual passes the intellectual phases, by considering real reasonable choice toward the available alternatives. The unit of analysis of this decision process model is the alternatives designed by government. In addition, analysis of foreign politic really concern on the examination of national interest and the purposes of a state, the alternatives of policy direction that could be taken by government and calculation of loss and benefit for each of the alternative.<sup>9</sup> Besides that, Graham T. Allison concludes that there are two characteristics of Rational Actor:

1. Governments are treated as the primary actor. Governments play important role in decision making process.
2. The government examines a set of goals, evaluates them according to their utility, and picks the one that has the highest "payoff."<sup>10</sup> The examination

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<sup>9</sup> Mohtar Mas'oe'd (1990) *Ilmu hubungan internasional, disiplin dan metodologi*", Jakarta: LP3S. Page: 234.

<sup>10</sup> *The essence of decision, graham allison*" Retrieved from: [www.ssundaram.com/.../The%20Essence%20of%20Decision.ppt](http://www.ssundaram.com/.../The%20Essence%20of%20Decision.ppt) Accessed on October 16<sup>th</sup>, 2010



of loss and benefit is very important step to determine the policy and meet the national interest.

According to Brown and Marcum, rational actors are simply goal oriented, their goals may involve, for example, increasing individual wealth or improving the welfare of other actors. The decisions made are in accordance to long future orientation. The actors or decision makers need to calculate about the future and consider the consequences that would be risks in the long term period.<sup>11</sup>

Every state is illustrated as rational actor who always acts based on the interest of theirs. Basically, it is to keep the sovereignty and meet national interest. In this model, it could be expressed that decision makers are doing the alternative policies to reach the optimal result. In this theory, the loss and benefit considerations are created and applied by the decision makers upon alternatives provided to be chosen. The table below will give a little description of the alternative related to loss and benefit.

**Table 1: Optional Loss and Benefit**

<b>Options</b>	<b>Loss</b>	<b>Benefit</b>
1. Alternative A	✓	✓
2. Alternative B	✓	✓
3. Alternative C	✓	✓

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<sup>11</sup> Brown N. Jonathan & Marcum S. Anthony, (May 2007) *Changing the linchpin: motivational foundations of rational choice in international relations*”, Retrieved from: [http://www.bsos.umd.edu/GVPT/irworkshop/papers\\_spring07-spring09/Brown\\_Marcum.pdf](http://www.bsos.umd.edu/GVPT/irworkshop/papers_spring07-spring09/Brown_Marcum.pdf). Accessed on 7 August, 2010

The alternatives are going to be low coercion or high coercion, optimal gain or un-optimal attainment for with considerable national interest of the United States. Related to concept of intervention, the writer will draw the table of loss of benefit reached by low coercion and high coercion:

Based on the theory above it can be concluded that the United States decision making process toward its policy in China is supported by the United States economic capability, in which before undertaking a planned initiative, decision makers must analyze the capability or power potentiality of the state within the framework of international system and relative to states directly affected. All of the major elements of state power both tangible and intangible may be involved in determining the feasibility of a policy.<sup>12</sup> In this thesis, the United States analyze the tangible factors such as economic relation to the China.

The Congress capability referring to the proposition that The United States' political goal shape their foreign policy priorities supported by the government of The United States to make a strong national identity. Thus while all states may seek similar goals, their ability to realize them will vary according to their congress capabilities. Moreover, congress capabilities limit a state's range of prudent policy choices; they act as a mediating factor on leaders' national security decisions.<sup>13</sup>

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<sup>12</sup> Jack C. Plano & Roy Olton, "*The International Relations Dictionary*", Holt, Rinehart and Winston Inc, USA, 1969, page 125.

<sup>13</sup> Charles W. Kegley, Jr & Eugene R. Wittkopf, *World Politics: Trend and Transformation*, Seventh Edition, Worth Publishers, Inc, USA, 1999, p 48.

The National Committee on the United States–China Relations was founded in June 1966 by a coalition of academic, civic, religious, and business leaders. Cecil Thomas, who helped found the committee, became its first Executive Director. Their aim was to build a network of accomplished, credible individuals from a broad political spectrum, committed to open discussion and debate and to improving U.S. policy toward China.

The Committee's mission was explicitly to educate the U.S. public, but it quickly had opportunity to offer information and advice to President Lyndon B. Johnson and other political leaders, and by 1972 was in a position to co-host (along with the U.S. Table Tennis Association) the Chinese Ping Pong team's famous tour of the United States, an event that captured world attention and was covered by all the major newspapers and television networks.

Diplomatic ties with China moved to Taiwan when the Communist Party took control of the mainland in 1949. Soon after, the "proxy war" (Korean War) put The United States and China into indirect military conflict. Through the 1950s and into the 1960s, the "China Lobby," staunch anti-Communists said to be funded by the Kuomintang, had the support of many in Congress. An organization called the Committee of One Million actively opposed any U.S. engagement with the PRC<sup>14</sup>.

In addition, the United States House of Representative consists countries which are making some direction about the relation between the United States and

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<sup>14</sup> en.wikipedia.org/wiki/National\_Committee\_on\_United\_States\_-\_China\_Relations  
Internet Accessed on 01 March 2011

China which need a fair trade both of them. The National Committee is a network of Americans from all parts of the country as well as corporations and professional firms. The National Committee's continuity of experience and depth of associations in Greater China and the United States continue to support its ongoing mission. New programs are regularly developed in response to the shifting needs and opportunities, while the National Committee resists to the founders' purpose of helping Americans gain a deeper and more understanding of China in Yuan undervalued currency under trade policy of the United State.

In a Washington Post article, a senior US official lists four conditions for the lifting of the missile proliferation sanctions imposed on China. Discussions in Beijing between the State Department and the Chinese Foreign Ministry in August 2001 failed to resolve these issues. The situation subsequently resulted in the imposition of sanctions. The four conditions for the lifting of sanctions are:

1. China must first put a halt to sensitive exports from the China Metallurgical Equipment Corporation.
2. China must also reaffirm its agreement last November with The United States to refrain from helping other countries develop missiles capable of delivering nuclear weapons.
3. China must drop its argument that missile contracts signed before November are not covered by the accord.

4. As outlined in the November agreement, Beijing must establish a system of export controls to regulate the transfer of sensitive technology in an organized fashion<sup>15</sup>.

Finally, drafted, H.R. 2378 would have required the Department of Commerce to adjust its antidumping and countervailing duty calculations to account for an undervalued currency. The revised version, which was voice voted out of the Ways and Means Committee, no longer mandates any such action. The bill does not require any action by the Department of Commerce which would raise serious concerns under U.S. WTO obligations. Instead, the bill would make two changes to the definitions of “export subsidy” and “benefit conferred,” which should have minimal legal effect.

Whether the Bill H.R 2378 applied or not by the United States toward China will make some consequences to the United States namely:

**Table 2: The Result of H.R 2378**

<b>If implemented</b>	<b>If not implemented</b>
<b>Benefit</b>	<b>Loss</b>
1. Reducing the rate of deficit trade to China	1. Increasing the rate of deficit trade to China
2. Reducing the unemployment in the United States	2. Increasing the unemployment in the United States

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<sup>15</sup> Alan Sipress, U.S. Lists Conditions for Lifting Sanctions, The Washington Post, September 2, 2001

3. Rebuild the companies which were bankrupt in the United States	3. Increasing bankrupt companies
4. Balancing the Yuan currency rate to the US dollar	4. Imbalancing Yuan currency rate to the US dollar
5. Create the fair trade between both countries	5. Create the unfair trade both countries between
6. Make a competitive goods which produce in the United States	6. Make a uncompetitive goods which comes from The United States

## 2. National Interest

National Interest is an element that becomes very important requirement for the country especially in the implementation of a country's foreign policy, national interests always fought for, defended, and even if possible expanded. In the national interest, there are vital elements namely<sup>16</sup>:

1. The survival of the nation and state
2. Independence
3. The territorial integrity
4. The military security
5. The economic welfare

The implementation of the United States trade sanctions bill toward China is influenced by the loss of America's trade which becomes balance toward China each

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<sup>16</sup> Dr. Anak Agung Banyu Berwita dan Dr. Yanyan Mochmamad Yani, *pengantar Ilmu Hubungan Internasional*. <http://about-international-relations.blogspot.com>, Internet Accessed on 2 October 2010

year. And the United States also aims at promoting, protecting and maintaining economic development for the economic welfare in each country.<sup>17</sup>

The concept of national interest according to **Donald E Nuechterlein** consists of 4 basic concepts, that is:

1. Defense Interest, which is the state interest concerning the protection of its citizens and its political system from the threat of other countries in the form of intervention as well as propaganda.
2. Economic Interest, which is the government's interest in improving the country's economy through economic relations with other countries.
3. World Order Interest, which is the state's interest to maintain or achieve the political and economic systems favorable to his country.
4. Ideological Interest, which is the state interest to defend or protect his state from the threat of another state ideology.

The concept of national interests is the basis to describe the behavior of a state overseas. The followers of realist equate the national interest as the country's efforts to catch the power where power is everything that can develop and maintain control over a state toward other state.

National interests are the goals to be achieved that are very needed for a nation or country in relation to the other country. In this case the national interests which are equal among all states or nations are the security and the welfare. National interests are identified with the national goals. For example, economic development

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<sup>17</sup> *Ibid* 7 hal 14

interests, the interests of developing and improving the quality of Human Resources or interests inviting foreign investment to speed up industrialization.<sup>18</sup>

According to Morgenthau:

*” The national interest is the minimum ability to protect the state, and maintain the physical identity, politics, and culture of disruption of other countries. From this thing the country's leaders issued a specific policy towards other countries that are cooperative or conflict”.*

The strategy which is implemented by the United States aims at to emphasizing the strategy to deal with China. The strategy is the Bill HR 2378 trade sanctions toward China by the United States which was passed on 29 September 2010. If this kind of bills implemented to China by the United States, the economy will be free and safe. The United States tries to concern this case because the economic growth of China increases massively<sup>19</sup>.

#### **D. HYPOTHESIS**

Based on the background and theoretical framework mentioned above, the hypothesis of this research is that The United States Implemented Bill Currency Sanctions Policy toward China, because the United States wants to protect the economic welfare by using the balance trade with China, including strengthen the Yuan exchange rate to the US Dollar.

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<sup>18</sup> *Ibid* 7 hal 14

<sup>19</sup> Perkembangan pesat ekonomi dan politik China dan ancaman terhadap Amerika, <http://bulmyeolui.wordpress.com>, Internet Accessed on 2 Oktober 2010



## **E. METHODE OF RESEARCH**

In this type of research, the writer is allowed to analyze the object without direct involvement.<sup>20</sup> The data collection of this research will be the library study using the secondary data such as books, magazines, journals, annual reports, tabloid, surfing and browsing internet.

## **F. RANGE OF RESEARCH**

This research, entitled "*Why did the United States Implement Bill Currency Sanctions Policy toward China*" is limited to the facts that occur in 2005-2010. This instability case makes the currency exchange rates of China because it doesn't follow the international role deciding currency exchange rate. The United Nation foreign policy tried to make a decision on how the manner and strategies balance trade between the United States and China by using balance currency exchange rate between Yuan and Dollar currency. The congress especially focuses in making bill sanction toward China for economic welfare to protect the people of America. This case does not close the possibility that the analysis would not be as the real research applications. However this research will make as relevant as the real incident that happen in this case.

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<sup>20</sup>Earl Babbie and Theodore C. Wagaenaar (1983). *The practice of social research method*, California: Wadsworth. Page: 274

## **G. SYSTEMATIC OF WRITING**

**Bab I** This chapter outlines the background of the research, determines the exact problems to answer, verifies purposes and signification of research, decides theoretical frameworks and methods to be implemented, and establishes the hypothesis as well as the systematic of writing.

**Bab II** This chapter describes the explanation and condition of the United States government relations toward China.

**Bab III** This chapter gives more the effects on explanation and elaboration a specific US trade toward China and affect both of them in their relation.

**Bab IV** This chapter focuses on answering the research question: Why does the United States Implement Bill Currency Sanctions Policy toward China because the United States wants to protect the economic welfare by using the balance trade with China, by using the Bill H.R 2378 sanction toward China. This chapter describes: content of Bill H.R 2378, who is the proclaim of the Bill, what is the H.R 2378 being the Bill sanction.

**Bab V** This last chapter gives the conclusion of the research.