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Bad Debts: Assessing China's Financial Influence in Great Power Politics

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Abstract

Commentators and policymakers have articulated growing concerns about U.S. dependence on China and other authoritarian capitalist states as a source of credit to fund the United States' trade and budget deficits. What are the security implications of China's creditor status? If Beijing or another sovereign creditor were to flex its financial muscles, would Washington buckle? The answer can be drawn from the existing literature on economic statecraft. An appraisal of the ability of creditor states to convert their financial power into political power suggests that the power of credit has been moderately exaggerated in policy circles. To use the argot of security studies, China's financial power increases its deterrent capabilities, but it has little effect on its compellence capabilities. China can use its financial power to resist U.S. entreaties, but it cannot coerce the United States into changing its policies. Financial power works best when a concert of creditors (or debtors) can be maintained. Two case studies – the contestation over regulating sovereign wealth funds and the protection of Chinese financial investments in the United States – demonstrate the constraints on China's financial power.

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