More than Cheap Talk: U.S. Campaign Rhetoric and China's Currency Reform

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Is China-bashing on the campaign trail more than just “cheap talk”? If campaign appeals are reliable indicators of future legislative activity, then democratic signals may be less noisy than cynics complain, adding micro-level evidence of democratic credibility in international politics. While not the intended audience of campaign ads, Chinese policymakers may overhear and draw inferences about U.S. policy. We show that when challengers attacked on the campaign trail during the 2010 midterm elections, successful challengers and victorious incumbents were subsequently more likely to sponsor anti-China legislation. Moreover, China recognized that Congressional attention to China’s exchange rate put pressure on the White House as the election approached, affecting the timing of Chinese revaluation to prevent an international confrontation. Using time series data over the 110th-112th sessions of Congress, we show that increases in congressional activity were associated with increases in the Chinese exchange rate.
“Red-China-baiting hasn’t reached such rhetorical splendor since, perhaps, 1882, when Congress passed the first American law to bar a group based on its national origin—The Chinese Exclusion Act—after anti-Chinese riots against the ‘yellow peril’” (Osnos 2010).

U.S. candidates from both sides of the aisle have increasingly gone “negative” by criticizing their opponents for being soft on China. Whereas less than one-half of one percent of congressional campaign ads aired between 2000 and 2008 referenced East Asia, China made the top-10 list of issues mentioned in Democratic ads in 2010, exceeding generic appeals about the economy (Fowler and Ridout 2010). In the 2012 presidential election, more than 60 percent of Mitt Romney’s September ads accused President Obama of failing to get tough on China’s “cheating” (Giroux 2012). And China once again made the top list of issues discussed during the 2012 congressional elections, where the country was mentioned more frequently than Social Security, education, or the military in Republican ads (Fowler and Ridout 2012).

Is China-bashing on the American campaign trail just cheap talk, or do these public attacks have foreign policy consequences?\(^1\) In the wake of the 2010 midterm elections, some commentators argued that political ads, while calculated to generate an emotional response among voters, would be the “leading indicator of the next set of policies” (Pomfret 2010). Yet others claimed that this tough campaign talk would give way to moderation after the candidates took office (see e.g. Horsley 2011). Scholars have also debated whether politicians are beholden to past rhetoric, ranging from campaign appeals to international threats and commitments. Whether candidates follow through on campaign attacks, leaving aside whether China’s behavior warrants these criticisms.

\(^1\) We use the term “China-bashing” to connote the electoral motivations and negative valence of campaign attacks, leaving aside whether China’s behavior warrants these criticisms.
rhetoric affects not only the quality of representation but also whether democracies have advantages in revealing preferences and making credible demands in international relations.

Democratic politics have often been decried as a hindrance to rational and coherent diplomacy (Tocqueville 1945). Noisy political debates and conflicting voices are sometimes said to confuse foreign observers (Finel and Lord 1999). Yet many scholars now argue that electoral competition gives democracies a diplomatic advantage, with legislative participation in foreign policymaking said to increase the credibility of democratic signals and commitments (Putnam 1988; Milner 1997; Martin 2000). When incumbents and their opponents endorse a similar course of foreign policy action, the consistency of domestic rhetoric sends a stronger signal of resolve and makes it easier to obtain foreign concessions (Schultz 1998, 2001; Ramsay 2004). If campaign appeals are reliable indicators of future legislative activity, then democratic signals may be less noisy than cynics complain, adding micro-level evidence of democratic credibility in international politics. But if campaign attacks do not translate into legislative activity after the election, then scholars may need to define more carefully what kinds of democratic signals are credible.

China may not be an intended audience of campaign appeals, but foreigners may nonetheless “overhear” these domestic debates and draw inferences about U.S. policy. If Chinese officials anticipate that tough talk and legislative pressure will translate into an unyielding American stance down the line, Beijing may be more willing to make concessions to avoid punitive measures and a potential trade war. Election-season scapegoating and legislative pandering may provide bargaining advantages, just as potential targets of “wag-the-dog” policies may act with restraint to avoid a diversionary conflict (Smith 1996; Leeds and Davis 1997). Yet this potential bargaining advantage is undermined if democratic signals are unreliable or inaccurately interpreted abroad. If Chinese leaders believe that U.S. politicians are simply posturing and will abandon their tough rhetoric after the
election,\(^2\) even bipartisan unity on the campaign trail may have no effect on Chinese behavior. Chinese leaders may dismiss campaign rhetoric as cheap talk and stand firm, setting themselves up for an unhappy surprise and confrontation if rhetoric translates into policy. Conversely, if campaign ads are cheap talk but “Chinese don’t necessarily understand that these [ads] aren’t policy,” as a former NSC official noted, then campaign ads may backfire as they “feed into conspiracy views among Chinese conservatives that the U.S. is trying to keep China down.”\(^3\)

Analyzing all China-related campaign advertisements during the 2010 midterm elections and the sponsorship and cosponsorship of China-related bills and resolutions in the following Congress, we find that when challengers attack on the campaign trail, both successful challengers and victorious incumbents are subsequently more likely to sponsor anti-China legislation. More than just cheap talk, campaign rhetoric can indeed be a credible signal of the direction in which legislators are likely to take policy. Tracing China’s response to congressional pressure over the value of the renminbi (RMB), the central economic issue in US-China relations in 2010, we find that Chinese observers recognized that Congress and the White House faced domestic pressures to take action against China in an election year. While expecting U.S. policy to moderate after the election (see appendix), China timed its revaluations to head off U.S.-led multilateral pressure as the election approached. Furthermore, the effect of U.S. pressure was not limited to the 2010 campaign season. Utilizing time series data over three sessions of Congress (110\(^{th}\)-112\(^{th}\)), we find that increases in congressional activity on China trade policy were associated with increases in the RMB exchange rate.

\(^2\) As President Obama told Russian President Medvedev, “After my election, I have more flexibility.”


\(^3\) Interview, Beijing, June 20, 2011.
The Credibility of Democratic Signals and Campaign Appeals

The New York Times predicted that “anti-China sentiment—in Congress, as well as on the campaign trail and during Mr. Obama’s travels—could have damaging consequences for the relationship between the two countries, regardless of who wins the White House” (Landler 2011). Yet the Times also argued that “domestic politics are playing to Mr. Obama’s diplomatic advantage, allowing him to project to China the picture of a country united in its resolve” (Landler 2011). Whether tough talk on China harms or helps U.S. diplomatic objectives depends on whether campaign attacks translate into policy pressure and how China responds.

On the one hand, what candidates say on the campaign trail may credibly signal the issues they will pursue once in office (Sulkin 2011) and communicate legislative priorities (Sulkin and Swigger 2008). In monetary and opportunity costs, campaign advertisements are not costless, potentially signaling a candidate’s willingness to confront China.4 In addition to “sinking costs”, campaign rhetoric may also “tie the hands” of successful candidates (Fearon 1997) by raising the likelihood that audiences will punish them later for failing to take a tough legislative stance on China (Fearon 1994). Although attack ads on China rarely contain specific threats or policy promises that might box in legislators once they take office (such as tariffs on Chinese goods), campaign ad images may still shape public perceptions of China. By raising the salience of competition with China, attack ads may exacerbate voters’ fears about job security (Margalit 2011) and potentially inflame ethnocentric sentiment and out-group bias (Kam and Kinder 2007; Mansfield and Mutz 2009), making it more difficult for legislators to pursue a nonconfrontational approach.

Even if a candidate does not go “negative” on China, an opponent’s attacks on the campaign trail may reveal political vulnerabilities and constituent concerns that legislators must address to defuse

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4 CMAG estimates that $824,140 was spent on China ads in the 2010 campaign season.
the threat from future challengers (Arnold 1992; Sulkin 2005). Candidates may worry enough about their opponents activating constituents’ latent preferences to act as if public opinion matters (Arnold 1992). Indeed, between 2006 and 2010, members of Congress mentioned China in 3,807 press releases. In one such press release, Dale Kildee (D-MI) trumpeted his “original co-sponsorship” of H.R. 2378, the Currency Reform for Fair Trade Act: “In my hometown of Flint, China's currency manipulation has contributed to an unemployment rate of more than 25 percent….The Currency Reform for Fair Trade Act will help address this issue by making currency manipulation a factor when the Commerce Department awards export subsidies.”

On the other hand, most campaign attacks mentioning China appear to be little more than opportunistic fear mongering, designed to increase voter interest by eliciting an emotional response (Brader 2006). Republican ads attacked Democratic incumbents for voting for a “failed stimulus bill that created jobs in China,” while Democratic ads included the standard jeremiad about Republicans supporting “tax breaks for corporations that ship jobs overseas” to China. Believing that voters harbor deep suspicion and animosity toward China (Page and Xie 2010), political elites may link domestic issues like the stimulus bill or even an environmental issue like the Keystone XL pipeline to fears of economic competition with China. As Sulkin (2009) finds that legislators are less likely to follow through with campaign promises made in attack ads, campaign ads on China may bear little relationship to legislative action on China. We might also expect variation in the credibility of ads as

5 Thanks to Justin Grimmer for this data. See Grimmer 2013.


7 Legislators may also defer to party elites and the president on trade policy more than on domestic issues (Milner and Tingley 2011).
harbingers of legislative pressure on China. Incumbent attack ads typically seek to discredit the challenger by depicting him as having business ties or policy positions that will compromise U.S. interests vis-à-vis China. By contrast, ads aired by challengers are typically critical of the incumbent’s past choices and the status quo, raising expectations of policy change.

Scholars are also divided about whether democratic signals are reliably interpreted by foreign audiences. Recent critics of democratic audience costs have suggested that authoritarian leaders may not be able to distinguish informative signals from background noise (Snyder and Borghard 2011). Yet few studies have systematically assessed how a foreign government like China weighs the variety of democratic signals, including campaign rhetoric and legislative activity. Although many China-related bills and resolutions may not pass, “the significance of these bills depends less on their fate on the floor and more on the political signals they send out.” (Xie 2009, 52) Over the last decade, members of Congress have accused China of maintaining an artificially low exchange rate to make Chinese exports more competitive, costing millions of U.S. jobs. Although the U.S. Treasury has not designated any country a currency “manipulator” since 1994, members of Congress have introduced bills making it easier for the executive branch to identify “fundamentally misaligned currencies” and mandating duties, sanctions, and investigations if China does not reform its currency practices. Four currency bills were introduced in the 110th, four in the 111th, and five in the 112th. Only H.R. 2378 (111th) passed the House, and only S. 1619 (112th) passed the Senate. Yet the death of these bills does not necessarily reflect a dearth of congressional influence. The RMB has appreciated substantially since 2005, prompting speculation that congressional pressure has been effective (Morrison and Labonte 2008).

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From the Campaign Trail to the Halls of Congress: China-Bashing as a Noisy but Informative Signal

Before tracing Chinese reactions to U.S. rhetoric and legislative activity during the 2010 midterm election campaign, we first evaluate whether China attack ads were good predictors of whether members later pursued legislation critical of China. This analysis requires no more than a bivariate analysis of the correspondence between campaign appeals and legislative activity. As Sulkin notes: “demonstrating that a high level of correspondence exists between the issues candidates prioritize in campaigns and those they pursue in office is enough to answer the normative question about whether promise keeping occurs. It is not necessary to establish that appeals are somehow exogenous, causing this behavior” (2009, 1096). We look at whether members’ rhetoric on China was consistent with their legislative activity on US-China policy as well as whether members responded to their challengers’ attacks.

This piece of our analysis requires information on (1) ads mentioning China aired during the 2010 midterm elections and (2) subsequent China-specific legislative activity in the 112th Congress. We obtained data from Kantar Media’s Campaign Media Analysis Group (CMAG) on all campaign ads that mentioned China. Cross-referencing a list compiled by the USC U.S.-China Institute, we added the few spots missing from the CMAG list. In total, China-related ads aired in 43 districts in the 2010 midterm elections – a year where only 40 congressional races were rated by The Cook Political

9 Controls are also unnecessary since what we want to know is whether voters (or, for that matter, foreign observers) can make an inference about a legislator’s activities in office from watching her campaign appeals (see Sulkin 2009).

Report as “toss-ups.”\textsuperscript{11} With a weak economy and political rancor over rising budget deficits, China was an easy scapegoat in the 2010 midterm elections.\textsuperscript{12}

Legislative activity is measured by the number of bills a member sponsored and cosponsored related to US-China policy. Although many bills never have a chance of being enacted into law, members see bill sponsorship as a valuable position-taking opportunity (Box-Steffensmeier and Grant 1999; Anderson et al. 2003; Esterling 2007; Rocca and Gordeon 2010; Wawro 2001; Weissert 1991). Although bill introductions offer members greater discretion in crafting a legislative record, writing bills, sitting in committees, and securing legislative support can take valuable time away from the district and the campaign trail (Schiller 1995). It is not surprising then that freshman and more vulnerable members tend to sponsor fewer bills (Garand and Burke 2006; Lazarus 2010), and that sponsorship on many issues tends to be low (Sulkin 2009). As such, we also include the comparatively easier task of cosponsoring legislation, which requires little more than responding to a “Dear Colleague” letter. Although cosponsorship is less costly, it is not costless, as shown by the substantial variation in rates of cosponsorship across members and issues (Koger 2003; Harward and Moffett 2010).\textsuperscript{13}

Data on China-specific bills introduced in the 112\textsuperscript{th} Congress come from the US-China Business Council, which tracks legislation that would in any way affect US-China relations, including

\textsuperscript{11} Another 52 races were rated as “leaning” toward one of the two major parties. Data available at http://cookpolitical.com/charts/house/competitive_2010-10-11_15-22-53.php.

\textsuperscript{12} Voters living in districts with a larger manufacturing sector were more likely to see an anti-China ad in 2010. The incumbent’s previous legislative interest in US-China policy, however, does not predict where such ads aired. Results are available in the appendix.

\textsuperscript{13} Although we collapse sponsorship and cosponsorship into a single category, our substantive findings remain largely the same if we separate cosponsorships from introductions.
business and trade between the two countries.\footnote{See https://www.uschina.org/public/documents/2012/congress-china-legislation.pdf.} We use this list as a starting point but only code a bill as “China-specific” if it or the sponsoring member of Congress mentions China in conjunction with the bill in a press release.\footnote{Including bills as well as resolutions.} In cases where China is not mentioned specifically, we count a bill as “China-specific” if it proposes retaliation against foreign companies for practices that are often associated with China in the press, such as dumping. We do not count a bill as “China-specific” if it proposes penalties on American companies for outsourcing jobs or laying off American workers generically, or creates incentives for American companies to create jobs domestically.

Consider two bills on the US-China Business Council’s list: H.R. 1031 and H.R. 2423. H.R. 1031 amends the tax code to provide an incentive to reinvest foreign shipping earnings in the United States. Press releases about this piece of legislation made no mention of China, and it is not clear that this legislation was targeted specifically at U.S. business in China. In contrast, H.R. 2423—the “Buy American Enhancement Act”—requires that at least 75 percent of each good or material purchased by the federal government be made in the United States. The bill’s sponsor, Representative Maurice Hinchey (D-NY), argued in his press release: “It’s a basic principle: American tax dollars should not be spent to create jobs in Beijing when they can be spent to create jobs right here in America.” We code H.R. 2423 as “China-specific” but not H.R. 1031. We also include the number of “China-specific” amendments sponsored and cosponsored by members, drawn from a keyword search on the Library of Congress’s THOMAS website. In the 112th Congress, House members sponsored or cosponsored an average of two pieces of anti-China legislation (SD=1.4, min=0, max=12).

We also code bills by issue area, grouping China-specific legislation into four categories: (1) economic (mean=1.41, SD=1.50); (2) national security (mean=.27, SD=.61); (3) human rights
(mean=.08, SD=.46); and (4) other (mean=.01, SD=.07). Economic bills range from strengthening U.S. authority to enforce trade laws more aggressively against Chinese imports to withdrawing normal trade relations treatment for products coming from China. National security bills include several aimed at strengthening US-Taiwan relations, such as H.R. 2992, which would provide U.S. fighter aircraft to strengthen Taiwan’s “self-defense capability against the increasing military threat from China.”

Human rights bills include legislation that would prohibit U.S. companies from helping China use the internet as a “tool of censorship and surveillance.” Other bills include a few miscellaneous bills, e.g. prohibiting campaign contributions by political committees controlled by foreign-owned companies.

Figure 1 presents the results of a bivariate analysis, examining the relationship between China-bashing on the campaign trail in the 2010 midterm elections and China-specific legislative activity in the 112th Congress. Overall, we find a negligible difference between China-bashing on the campaign trail and legislative activity on US-China policy in the subsequent session of Congress (Δ=0.4, p=.13).

[Figure 1 about here]

The correspondence between rhetoric and action, however, looks very different when we separate victorious incumbents from successful challengers. First consider victorious incumbents. Although several incumbents sponsored an attack ad mentioning China, such campaign appeals appear unrelated to their support for China-specific legislation after the election. In contrast, we find suggestive evidence that incumbents reacted to the criticisms leveled against them during the campaign. Incumbents who were attacked by their opponents (or their surrogates) for being “pro-China” supported, on average, nearly one additional piece of legislation critical of China once in office (p<0.10). The reverse holds for challengers. New members who sponsored an attack ad mentioning China were more likely to cosponsor anti-China legislation (no freshman sponsored legislation) once
elected into office (Δ=0.78, p<.10); however, being attacked on China bore no relationship to their position-taking on China policy after the election.

Our results suggest that campaign rhetoric on China in the 2010 midterm elections provided a partially credible signal of how actively a member would pursue China-specific legislation after the election. Those incumbents who were attacked for being “pro-China” during the campaign appear to have responded to such criticisms after escaping electoral defeat. In contrast, we find evidence that successful challengers keep the “promises” implied by their campaign ads, perhaps suggesting that new representatives (who lack strong reputations with their constituents) have a greater incentive to show consistency between campaign appeals and legislative action. This difference between incumbents and challengers could also reflect the content of their attacks, since challengers’ ads tended to criticize incumbents’ legislative positions, possibly raising expectations of policy change.

Although campaign appeals appear to translate into greater legislative attention after the election, such correspondence might reflect other factors that explain both anti-China rhetoric on the campaign trail and anti-China position-taking in Congress. To address this possibility, we replicated this analysis using non-parametric matching to balance background conditions, such as the share of the district employed in manufacturing and the pre-election ratings of the competitiveness of the race, to better estimate the relationship between China campaign appeals and China-related legislative action in absence of random assignment of a China attack ad. The results using the matched data remain largely the same and are presented in the appendix.

Consistency between campaign appeals and subsequent legislation action may differ dramatically across our four issue areas, particularly since anti-China ads tended to emphasize American economic weakness in competition with China. Figure 2 separates the results by issue area.  

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16 Our “other” category included too few bills to draw any substantive or statistical inferences.
First consider economic bills. Across all districts we find that House members representing districts where an anti-China ad aired were more likely to sponsor and/or cosponsor such legislation compared to those House members representing districts where no such ads aired (p<.10).

The results are even more pronounced when we separate victorious incumbents from successful challengers. As shown in Figure 2, the main results are largely driven by the subsequent legislative behavior of incumbents who were attacked on the campaign trail for being soft on China (Δ=1.14, p<.05). Successful challengers who faced similar attack ads from their opponents, however, were more likely to cosponsor legislation condemning China for its human rights record (Δ=.31, p<.05). We also find that successful challengers who sponsored anti-China attack ads were more likely to cosponsor national security-related legislation than their newly elected colleagues who did not emphasize China during the campaign (Δ=.46, p<.05).

Although we are unable to test whether these patterns reflect differences in position-taking strategies between victorious incumbents and successful challengers or whether they are explained by differences in partisanship, the latter seems more likely than the former. Successful challengers in 2010 were almost uniformly Republicans (Democrats only picked up three seats from Republicans). And whereas the Democratic House leadership in the 111th Congress passed a currency reform bill that would have imposed tariffs on Chinese imports, the Republican House leadership in the 112th Congress was much less open to such legislation. However, our results suggest that while the Republican leadership may have been less willing to pursue legislation labeling China a currency manipulator, its membership found other legislative opportunities to criticize China: successful challengers were more

17 In 2011, House Speaker John Boehner (R-OH) noted that “it’s pretty dangerous [for Congress to crack down on Chinese currency manipulation.” (Sherman 2011)
likely to follow up their tough talk on China by pursuing security-related legislation, and those attacked for being soft on China were more likely to cosponsor legislation criticizing China’s human rights record.

**Signal Received? Negotiations over China’s “Currency Manipulation”**

To evaluate China’s response to U.S. campaign rhetoric and legislative pressure, we examine China’s exchange rate policy, which became the central issue in U.S.-China economic relations during the 2010 election season. Many Chinese observers paid close attention to U.S. campaign rhetoric and legislative activity, pointing to the pressure Congressional activity put on the president in an election year with high unemployment and a slow economic recovery. While many Chinese observers doubted that China-related bills would pass after the election—recognizing the difficulty of passing legislation when the executive is reluctant and control of Congress is divided—Congressional activity in the lead-up to the election played a nontrivial role in influencing the timing of China’s currency revaluation.\(^{18}\)

While Congressional rhetoric and legislative position-taking were not sufficient to force Chinese concessions, these signals helped give credibility to efforts by the Obama administration to gather international pressure on China.

In May 2009, H.R. 2378 and S.1027 (Currency Reform for Fair Trade Act) were introduced, seeking to allow the United States to impose countervailing duties on imports from countries with misaligned currencies. Chinese media reported that members of Congress sought to use the legislation to pressure China (Xinhua, 5/14/2009). However, Xinhua noted that the Obama administration, like that of previous presidents, had taken a softer stance towards China after taking office. Obama’s campaign website had criticized China’s “manipulation of the value of its currency,” and his pick for

\(^{18}\) Since Chinese observers may be biased and/or inclined to discount American pressure, evidence that Chinese observers take Congressional activity seriously is even more striking.
Treasury Secretary, Timothy Geithner, had stated that China was manipulating its currency in his written remarks to Congress.\textsuperscript{19} But Xinhua emphasized the White House’s clarification that Geithner had simply repeated Obama’s “campaign language,”\textsuperscript{20} perhaps to secure Senate confirmation (Xinhua, 1/23/2009). A Xinhua article expressed confidence that Congress and manufacturing groups would not succeed in pressuring the Obama administration to “realize its campaign promise” and label China a “currency manipulator”, since doing so would risk a trade war (Xinhua, 10/14/2009).

Yet Chinese media remained concerned that the midterm elections would increase congressional activity, pressuring Obama to help embattled Democrats by taking a tougher stance on the currency issue. Although previous currency bills had failed, Xinhua suggested the U.S. recession would likely increase congressional support (Xinhua, 5/14/2009). After Obama told several senators that it was important “to make sure our goods are not artificially inflated in price and their goods are not artificially deflated in price,” (NYT, 2/4/2010) Senator Charles Schumer introduced the Senate Currency Exchange Rate Oversight Reform Act of 2010. A bipartisan group of 130 representatives also called for Geithner and Ambassador Gary Locke to take a tougher stance on China’s currency practices (NYT, 3/16/2010). Xinhua attributed the increased Congressional activity to “the pressure of the election year and high unemployment rate” (Xinhua, 3/25/2010).

Chinese official media rejected the notion that currency reform would take place under U.S. pressure. Accusing U.S. politicians of “playing the game of politicizing China’s RMB,” a Xinhua editorial argued that “pressing China for a sharp appreciation of the yuan will bring benefit to no-one,”


\textsuperscript{20} Xie, R. Renmin Ribao. “环球瞭望：希拉里会与中国为敌吗?” February 16, 2009.
while a stable RMB would benefit the world (Xinhua, 3/18/2010). Xinhua reported doubts within Congress, citing questions from Kevin Brady (R-TX) at a House hearing in March about whether the proposed legislation would run afoul of U.S. WTO obligations (Xinhua, 3/25/2010). Xinhua quoted a Chinese researcher saying that Treasury’s delayed currency report showed that the United States had realized that pressuring China on the RMB will not make China yield (Xinhua, 4/6/2010).

Although official commentary presented an image of China steadfast against a United States riven with domestic divisions, Chinese analysts conveyed a more nuanced view. On the cautiously optimistic side, a senior research fellow at Tsinghua University stated that RMB-bashing before elections is common practice, citing Senator Schumer’s 2005 currency bill and the 2006 midterm election. Chinese media noted that many candidates had aired advertisements criticizing China, including Senator Harry Reid against his Republican competitor Sharron Angle for being “friends of foreign workers” and similar ads by Congressman Zack Space. Even though H.R.2378 passed the House in September, one Chinese newspaper cited a CATO analyst as saying the House currency bill is “a dog that barks but doesn’t bite” because it was unlikely to pass the Senate and the President.

Other commentators concurred that China would no longer be the scapegoat for America’s high unemployment rate after the election, when “everything would return to normal.”

Others were more pessimistic, citing the passage of the House currency bill as one reason for the growing strain in U.S.-China relations and expressing concern that China-bashing created greater


uncertainties rather than functioning as a “safety valve” to release tension.\textsuperscript{25} One Tsinghua University professor said that because attacking China is domestically costless and even beneficial, Obama’s foreign policy had become the political victim of Democrats scrambling to defend themselves from constituents’ concerns and the Tea Party, “exacerbating the irresponsible trend in Congress and the White House’s policies toward China.”\textsuperscript{26} Many reports suggested that congressional pressure might force the White House to take a tougher stance: “with the U.S. midterm election approaching, the Obama administration may have no alternative but to change its position in the U.S.-China currency dispute due to election pressure on the Democrats.”\textsuperscript{27} Cui Lei, a Foreign Ministry-affiliated researcher, commented that the U.S. had used a “combination punch” (\textit{zuhequan}) to pressure China on the currency issue. The Obama administration plays the kind type that is willing to negotiate, while the Congress plays the mean type to pressure for RMB revaluation through legislation.\textsuperscript{28} Even Xinhua quoted Larry Summers, economic advisor to President Obama, as welcoming the delayed Treasury currency report so that the United States could strengthen its negotiations with China in subsequent meetings, including the G20 meeting of finance ministers and central bank governors in April, the bilateral Strategic and Economic Dialogue in May, and the G20 summit in June (Xinhua, 4/6/2010).


\textsuperscript{26} \textbf{Zhao, K.} October 15, 2010. “美国茶党风暴可能波及中国,” 国防时报, p. 20.

\textsuperscript{27} \textbf{Xiong, M.} \textit{21世纪经济报道}. September 10, 2010.

\textsuperscript{28} \textbf{Cui, L.} “中美汇率问题再较量,” 瞭望, September 26, 2010..
China announced on June 19, 2010 that it would allow flexibility in the exchange rate, effectively abandoning the RMB-USD peg established during the global financial crisis.\(^{29}\) By the end of July, the RMB had appreciated nearly 1% against the USD.\(^ {30}\) Some Chinese experts linked the timing to U.S.-led pressure. Lang Xianping, an influential Chinese economist, stated that China had sought to dodge multilateral pressure under U.S. leadership by slowly appreciating the RMB before the G20 summit at the end of June.\(^ {31}\) In July, Treasury declined to label China a “currency manipulator” in its currency report to Congress. But fluctuations in the RMB exchange rate and the slow pace of appreciation did not satisfy U.S. critics in the House and Senate, who accused China of backsliding. Chinese official media reported that U.S. pressure continued to grow, with the Obama administration taking a more active role in raising the currency issue and mobilizing international support.\(^ {32}\) Testifying before the Senate, Geithner indicated that he would use the upcoming G20 summit to mobilize multilateral pressure on China (Reuters, 9/16/2010). The RMB began to appreciate more rapidly in late September, leading observers to speculate that China was again trying to allay mounting

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\(^{30}\) Lang, X. November 17, 2010. “郎咸平：中美汇率战让中国赔了夫人又折兵,” 凤凰网财经.

\(^{31}\) Li and Zan 2010.

\(^{32}\) Chinese media noted that a senior delegation of Obama administration officials also increased private pressure on China in September. Lv, T. “美高官密集访华 人民币升值压力增大,” 南方日报, September 9, 2010.
pressure. In early October, Dominique Strauss-Khan, head of the IMF, urged China to revalue its “substantially undervalued” currency (NYT, 10/7/2010). Michigan Democrat Sander Levin, who amended H.R. 2378 to clarify its compatibility with the WTO, stated that Congress acted “because nobody else was,” warning that “the I.M.F. should step up to the plate” or the currency issue “will be acted upon unilaterally.”

When Treasury again delayed its currency report in October, Guo Xiangang, deputy director of the Foreign Ministry-affiliated CIIS stated that the decision reflected a “delaying tactic” to gather international support to pressure China. On October 20, Geithner sent a written proposal to the G20 finance ministers and central bank governors (Morrison and Labonte 2011). A People’s Daily article stated that the U.S. government sought to divert attention before the midterm election and blame China for high U.S. unemployment. The two tactics to force RMB revaluation were the House currency bill and U.S. attempts to unite other countries through the G20 and other international organizations.

Chinese officials continued to deny that China would revalue under U.S. pressure. However, with the Federal Reserve considering a second round of quantitative easing, the People’s Daily warned that dollar depreciation could trigger a global “currency war,” stating that China should “take the moral

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33 As Crédit Agricole’s Dariusz Kowalczyk stated: “it’s obvious that RMB’s appreciation in late September and early October was aimed at not giving excuse for America to label China as ‘currency manipulator.’” Cookson, R. “中国：用人民币升值抗击通胀,” FT Chinese, October 26, 2010.

34 Ibid.


high ground” and let the RMB appreciate against the dollar “to avoid conflict with countries other than the United States,” suggesting a willingness to revalue the RMB while maintaining a principled stand against U.S. pressure. The RMB appreciated rapidly in early November, coinciding with the eve of the G20 summit and the Fed’s decision to purchase up to $600 billion bonds to revive the U.S. economy. At the November G20 summit in Seoul, leaders agreed to “move toward market-determined exchange-rate systems,” a deal forged under what the New York Times called “heavy American pressure,” though it fell short of setting a timetable due to Chinese opposition (NYT, 11/13/2010).

China defended its reasons for allowing the RMB to appreciate gradually, rejecting U.S. pressure and accusing the G20 of trying to “manipulate” China’s currency by setting a timetable, as Vice Foreign Minister Cui Tiankai put it. Yet many analysts saw international pressure, along with the Fed’s efforts to stimulate the U.S. economy with quantitative easing, as an important cause of the timing of RMB appreciation against the dollar in 2010. By December 24, the RMB had appreciated 2.9% against the dollar since June 21 (Morrison and Labonte 2011). Although an alternative explanation for China's revaluation could have been domestic inflation, Barry Naughton notes that China adopted a “wait and see” attitude on inflation throughout 2010. Even after China’s leaders began trying to fight inflation in April 2011, they did not rely primarily on the exchange rate to do so (Naughton 2011).

Taking stock, Chinese observers paid attention to a variety of U.S. signals, including campaign ads, bill introductions, congressional hearings, and executive activity. While doubting that China-related bills would become law, Chinese observers understood that in an election year, congressional activity pressured the executive to be more assertive—even and perhaps especially under unified party


government, with the executive seeking to help fellow party members. Coupled with international efforts, U.S. pressure on China to revalue the RMB had some effect in 2010, though it is difficult to estimate how much given the dollar’s depreciation with quantitative easing.

The effect of U.S. pressure was not limited to the 2010 campaign season. Using time-series data from the start of the 109th Congress (January 2005) to the end of the 111th Congress (December 2010), we consider the relationship between China’s exchange rate and a variety of U.S. signals. U.S. congressional activity is measured by the monthly share of bills introduced in the House that focus on US-China trade policy (mean=.55%, SD=.82%).41 The real exchange rate, which controls for the difference in American and Chinese inflation rates, comes from the International Monetary Fund.42 To measure presidential attention, we use the number of times the president (Bush or Obama) referenced the currency issue in public messages, statements, speeches, and news conference remarks. These data come from the American Presidency Project and range from zero to six mentions per month (mean=0.46, SD=1.03).43 We also use a monthly measure of U.S. trade remedy actions against Chinese imports, including anti-dumping, countervailing duty, and China-specific safeguard

41 This measure is drawn from our earlier measure of economic-related anti-China bills and includes bills introduced in the 110th and 111th congresses tracked by the US-China Business Council. We apply the same coding procedure to bills in the 110th Congress.

42 On Secretary Geithner’s discussion of the real exchange rate in U.S.-China negotiations, see Bader (2012, 124). Data were obtained from the IMF International Financial Statistics at http://elibrary-data.imf.org/.

43 Data were obtained using a keyword search (“China” and “currency”) from The American Presidency Project at http://www.presidency.uchsb.edu/ws/ (last accessed July 12, 2013).
investigations, as well as WTO filings against China (mean=1.08, SD=1.53).\footnote{Data were obtained from the Temporary Trade Barriers Database and WTO Disputes Database at http://econ.worldbank.org/ttbd/. Because most trade investigations are initiated by industry petitions, this latter measure is subject to less executive discretion. Nevertheless, China may be more likely to pay attention to trade remedy actions, which directly affect Chinese manufacturers, than to public pronouncements of U.S. concern.} Data are aggregated by month, for a total of 72 months. Figure A3 in the appendix presents the time-series for each of our variables of interest.

We use vector autoregression (VAR) to examine the over-time dynamics among congressional attention, presidential attention, trade remedy actions, and the real exchange rate. VAR models treat all variables as endogenous by regressing each of the variables in the system on the past lags of those variables and on the past lags of all the remaining variables (Freeman, Williams and Lin 1989).\footnote{We selected lag length in the VAR model by comparing several information criterion procedures. Too many lags in the model can increase the error in the forecasts, while too few can leave out relevant information. The SBIC and HQIC suggest a lag length of one, while the AIC suggests a lag length of three. Ivanov and Kilian (2001) find that the AIC tends to be more accurate with monthly data. As such, we present results using a lag length of seven.} To control for changes in economic fundamentals, we include the \textit{trade balance} between the U.S. and China as an exogenous variable.\footnote{Data on the US-China trade balance come from the FRED Economic Database maintained by the Federal Reserve Bank of St. Louis. Trade balance is defined the differences between exports and imports (in millions of dollars).}
One key consideration in a VAR model is the persistence of each series and its response to shocks. A series has no long-term memory when external shocks die out quickly and completely as soon as the shock is over and permanent memory when the effects of a shock last forever. Many political science series are fractionally integrated, exhibiting both persistent and transient memories (Lebo, Walker, and Clarke 2000). We examine the order of integration (d) for each of our series using an autoregressive fractionally integrated moving average, or ARFIMA, model (Box-Steffensmeier, DeBoef, and Lin 2004), the results of which show that all except presidential statements are fractionally integrated. Following Box-Steffensmeier, Darmofal, and Farrell (2009), we “prewhiten” those series that are fractionally integrated to purge autocorrelation and ensure stationarity before proceeding with our multivariate analysis. We then consider the direction of causality among the variables by performing a Granger causality test, which allows us to examine whether congressional and executive activity explain subsequent changes in the real exchange rate.

Table 1 presents the results of the Granger causality tests. The columns list the dependent variable in the equation (column 1), the excluded series (column 2), the chi-square statistic (column 3), and the p-value that indicates whether the coefficients are jointly zero, and thus, that \( x \) Granger causes \( y \) (column 4). Controlling for the trade balance between the US and China, congressional attention, presidential attention, and currency appreciation all Granger cause one another, with p values <.05 for each relationship. The statistical evidence with respect to the influence of trade remedy actions on congressional and presidential attention is more mixed. Overall, the results suggest mutual causation in the long-run among our key variables of interest.

[Table 1 about here]

Interpreting the substantive effect of the coefficients in a VAR model is difficult given the high collinearity among the lagged variables in the system. Instead we present a simulation using the
moving average response to give insight into the magnitude of the relationship among our variables of interest. The orthogonalized impulse-response functions, along with the 95 percent confidence interval, are shown in Figure 3. The impulse-response function describes how a one-deviation shock to one variable affects another variable after a given number of periods, orthogonalized using the Cholesky decomposition to transform the correlated residuals into contemporaneous effects (Freeman, Williams, and Lin 1989). The causal order of the variables used in the innovation accounting—in which only antecedent variables are allowed to exert immediate effects on the subsequent variables in the chain—reflects our expectations and the results of the Granger tests above. We find that a one-deviation shock to congressional activity on U.S.-China trade policy is associated with just over a tenth of a standard deviation increase in the real exchange rate three months later. A similar shock to presidential attention is associated with a tenth of a standard deviation increase in the real exchange rate four months out.

[Figure 3 about here]

As noted above, the Granger causality tests point to mutual causation in the long-run. As such, we also reversed the causal chain used in the innovation accounting to examine the effect of a one-deviation shock in the real exchange rate to each of the other three endogenous variables in the VAR model. We find that changes in congressional and presidential attention had a much larger and more sustained effect on currency appreciation than the other way around. Currency appreciation, however,

\footnote{The VAR estimates meet the stability condition required for impulse-response functions to have a known interpretation. To improve the precision of the error bands, we constrain all coefficients not statistically different from zero to zero (see e.g. Box-Steppensmeier, Darmofal, and Farrell 2009).}

\footnote{The causal chain from first to late is: trade remedy actions, congressional attention, presidential attention, real exchange rate.}
appears to have a larger impact on trade remedy actions the U.S. seeks against Chinese imports (see Figure A4 in the appendix).

Conclusion

We find that China attack ads on the campaign trail in 2010 were more than “cheap talk”, heralding an increase in anti-China legislative activity after the election and strengthening the credibility of U.S. efforts to pressure China to revalue the RMB. Our findings join a growing literature that suggests that campaigns “matter,” providing a noisy but also informative signal of the issues candidates take up after the election. Overall, we find that campaign rhetoric revealed more about potential vulnerabilities that targeted candidates sought to address after the election and less about candidates’ own legislative priorities. Incumbents who were attacked for being “pro-China” during their bid for reelection sponsored and/or cosponsored more China-specific legislation after the election than their House colleagues who faced no such criticism. Likewise, anti-China ads sponsored by challengers (but not incumbents) provided a credible signal of how critical they would be of China as legislators, although not necessarily on trade or economic issues. On a multidimensional issue like China, “promise keeping” may take different forms. One potential area of further research would be to follow this freshman class to see if their anti-China rhetoric continues to shape their legislative agendas.

Moreover, we find that campaign ads and legislative activity can provide foreign observers with credible information about domestic pressures on foreign policy, even though most bills and resolutions never reach the floor. In short, at least one authoritarian regime understands democratic politics quite well, including incentives to scapegoat foreign targets in an election year with high unemployment. Amid the cacophony of signals sent by Congress and the executive branch, Chinese observers recognized that Congressional attention during the 2010 campaign season put pressure on the executive to take tougher action before the midterm elections. While publicly denying the influence of
international factors, China’s revaluation appears to have been timed to coincide with high-profile summits at which China would have faced U.S.-led multilateral pressure. Yet it would be premature to conclude that because China was willing to assuage U.S. pressure on the currency issue between 2005 and 2010, as our VAR analysis suggests, the future will necessarily be as smooth. The *Washington Post* noted that “More than a spasm of political season piling-on, the ads underscore a broader shift in American society toward a more fearful view of China. Inspired by China's rise and a perceived fall in the standing of the United States, the ads have historical parallels to the American reaction to Japan in the 1980s and to the Soviet threat” (Pomfret 2010). As campaign attacks and popular fears of China increase, Chinese policymakers may become unable or unwilling to accommodate U.S. demands. Particularly if economic scapegoating continues to spill over into issues that are less easily resolved and more likely to provoke a nationalist backlash in China, such as Taiwan and national security, U.S. position-taking may exacerbate rather than alleviate conflicts in U.S.-China relations.
Figure 1:

Were Candidates More Legislatively Active on China if Anti-China Ad Aired in 2010 Midterm Elections?

Note: Average number of China-specific bills sponsored and co-sponsored. Whiskers and bars reflect 95% and 90% confidence intervals respectively.
Figure 2:

Estimated Differences in Legislative Activity by Issue

Note: Estimated difference in the number of bills sponsored and/or cosponsored depending on whether anti-China ads aired. Whiskers and bars reflect 90% and 95% confidence intervals respectively.
Table 1: Granger Causality Tests for VAR Model of Currency Appreciation

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Figure 3: Impulse Response Functions for Effects *on* Currency Appreciation

A. Congressional Attention

B. Presidential Attention

C. Trade Remedy Actions
References


[Last accessed November 26, 2012].


Appendix

1. Detail on matching analysis

2. Figure A1: Estimated differences in legislative activity where anti-China ad aired, matched vs. unmatched data

3. Figure A2: Background characteristics before and after matching

4. Additional case study details

5. Figure A3: U.S. Attention and Currency Appreciation, 2005-2010

6. Figure A4: Impulse Response Functions for Effects of Currency Appreciation
Detail on Matching Analysis

We replicated the analysis presented in Figure 1 using matching methods to balance background characteristics between districts where anti-China ads aired and where they did not. To do so we use genetic matching (Sekhon 2011; Diamond and Sekhon 2012), which uses an evolutionary search algorithm to determine the weight given to each baseline covariate. We match on the share of the constituency employed in manufacturing, the one-year change in the unemployment rate, % college educated, % Chinese, district exports to China, the incumbent’s previous legislative activity in the first session of the 111th Congress on US-China policy, and the competitiveness of the 2010 race as measured by pre-election ratings provided by The Cook Political Report. We then compare legislative activity as before, using a simple difference-in-means test between the two groups. This matching analysis allows us to test for differences between comparable districts, at least with respect to a set of particular, observed characteristics of the districts. Figure A1 presents the results using the matched data as well as our original results reported in the paper (Figure 1). Figure A2 shows the differences in background characteristics between these two sets of districts before and after matching.

References


Figure A1
Estimated Differences in Legislative Activity where anti-China ad aired, matched vs. unmatched data

Note: Estimated difference in the number of bills sponsored and/or cosponsored depending on whether anti-China ads aired, with 90% confidence intervals shown.
Figure A2
Background Characteristics before and after matching

Note: Dots reflect the standardized mean difference between districts where ads aired and where they did not.
**Additional Case Study Details**

Due to space constraints, the case study focuses on the mechanisms linking congressional pressure (legislative activity) to RMB revaluation. As to whether China believed that election rhetoric would translate into policy *after* the election, we found evidence of debate within China. Although some Chinese commentators correctly anticipated that Republicans would be less likely to sign onto currency legislation, others feared the populist trend in American politics amid a slow economic recovery would sustain pressure on the Chinese currency and introduce uncertainty in U.S. China policy.

On the one hand, many Chinese commentators became less concerned about Congressional activity following the midterm elections, taking pains to explain the difficulty of passing legislation when control of Congress is split. Chinese media also noted the State Department’s clarification that the anti-China ads (*pihua guanggao*) would not harm US-China relations. In the lame duck Congress, the *21st Century Business Herald* reported that the Senate was unlikely to take up consideration of H.R. 2378 because of its preoccupation with tax cuts and the budget, noting that members of the Congress who had been active on the currency issue were “oddly quiet,” including Senator Max Baucus and Senator Schumer. Cui Lei, who had warned of America’s “combination punch” during the 2010 campaign season, expected successful Republican challengers to be less interested in passing legislation on the currency


issue in the 112th Congress.51 After the Democrat-controlled Senate passed the currency bill in October 2011, Chinese media reported that the Republican-controlled House was unlikely to pass the bill, given the objections from several Republican leaders, including House Speaker John Boehner.52 Whereas President Obama had neither endorsed nor opposed H.R.2378 in the 111th Congress, Chinese media reported that the Obama administration had voiced concerns about whether the Senate currency bill in the 112th Congress would violate international trade agreements.53 A popular television program featured Ambassador Locke, who stated that a bill’s passage in the Senate alone does not make it law, and that the Senate and House may never reach a compromise.54

However, others were not convinced that China could ignore Congressional pressure. Bai Ming, deputy director of the Department of International Market Research under the Ministry of Commerce, argued that while the bill was unlikely to pass, it would be “like a sword hanging


overhead, putting considerable pressure on the RMB” and giving Obama the opportunity to trade the presidential veto for Chinese concessions. Several participants at a Chinese Academy of Social Sciences symposium on US-China relations after the midterm elections underscored the “increase in complexity and uncertainty” due to changes in U.S. domestic politics. Others suggested that U.S. pressure on the RMB and trade deficit would become “regular” since both Democrats and Republicans are concerned for different reasons about China’s trade policies.56


Figure A3. U.S. Attention and Currency Appreciation, 2005-2010
Figure A4: Impulse Response Functions for Effects of Currency Appreciation

A. Congressional Attention

B. Presidential Attention

C. Trade Remedy Actions