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# International Financial Statecraft: How, Who, and with What Expectations of Success?

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## Introduction and theoretical priors

This volume sets up a dialogue among social scientists from different traditions, each of which employs different frameworks to analyze the connections among states, private financial actors, and global money and credit markets. This introduction clarifies how this chapter fits within this dialogue. Most of the included authors implicitly or explicitly adhere to the theoretical priors of one of three traditions: international financial *subordination*, as most clearly articulated in [Chapter 2](#) by Ilias Alami and the concluding chapter by Ingrid Harvold Kvangraven; international financial *statecraft*, as in this chapter; or political and economic *survival constraints* for the state, as in Anush Kapadia and Fathimath Musthaq's discussion of India. One way to frame the dialogue is to highlight differences in their underlying assumptions. To begin, note that 'the state' has two distinct meanings for included authors. The first definition is incumbent national political leaders (senior policy makers) plus the permanent central government administrative bureaucracy. Thus, one might investigate the degree of independence of 'the state' from private financial capital. The second meaning is independent country, as in 'the structure of the interstate system is determined by the distribution of capabilities among its units, who are sovereign states'.

International financial *subordination* (IFS) researchers begin from the thesis that both international markets and legally sovereign countries are penetrated by, and often subordinated to, the wishes of private financial actors, as the latter are driven to expand their control and their profits. National political incumbents (representatives of 'the state') in each industrial core country

1 mainly interact with private capital based within their own borders, with  
2 senior politicians acting on behalf of private financiers, whether consciously  
3 or not. However, policy makers in these core states (today termed the ‘Global  
4 North’) may be able to deflect many of the most dangerous consequences  
5 of financial actors’ single-minded drive for profits away from their home  
6 countries and toward peripheral countries and peoples. Historically, such  
7 deflection was achieved via overt imperialism, but today redirection toward  
8 developing and emerging economies (DEEs) occurs through more subtle  
9 neo-imperialist predations, for example, being imposed by global economic  
10 governance institutions and ‘neutral’ rules favouring Northern firms and  
11 countries. National political incumbents and their bureaucracies in the  
12 Global South, meanwhile, are doubly vulnerable, once to their own private  
13 financial sector and again to international financial capital, which is closely  
14 entwined with the foreign policies of core states. Given these assumptions,  
15 the essential research question is: ‘How can we identify and expose the  
16 pathways by which international financial actors control and constrain DEE  
17 states and peoples?’

18 In contrast, the international financial *statecraft* (FS) literature begins from  
19 the assumption that state incumbents, in both the Global North and South,  
20 are mostly self-aware decision makers, rationally manipulating national policy  
21 levers to achieve desired outcomes. Private financial actors constitute one  
22 interest group among many, albeit a perennially influential one. Statecraft  
23 occurs when incumbent leaders use national economic levers under their  
24 control – including bank regulations, investment laws, capital controls, taxes,  
25 subsidies, sanctions, and bilateral investment treaties – to achieve goals that  
26 primarily (in the judgement of an outside observer) serve larger foreign  
27 policy ends, such as instigating or avoiding interstate war, or intimidating  
28 foreign leaders, rather than goals that are primarily economic, such as  
29 stimulating national economic growth or maintaining price stability. The  
30 core research question for statecraft researchers is: ‘What types of economic  
31 statecraft instruments have been, or might be, used by sovereign states to  
32 achieve their foreign policy goals – and with what results?’ In other words,  
33 while the subordination researchers implicitly assume that private financial  
34 actors act as puppeteers moving state institutions and incumbents, the  
35 statecraft researchers begin from the reverse assumption: it is the state, with  
36 its monopoly of the legitimate use of force, that ultimately calls the shots.

37 Volume editors Andreas Nölke and Johannes Petry suggest bridging  
38 the two approaches by conceptualizing them as problem and potential  
39 solution. They lament the international financial subordination of DEEs,  
40 yet hope that thoughtful international financial statecraft might reduce such  
41 dependence. They define *state capacity* as high if the central government in  
42 a DEE state can avoid being controlled by private financial capital, whether  
43 local or originating abroad, and low if the state is captured by private finance

1 capital. By framing the debate thus, Nölke and Petry suggest that the degree  
2 of subordination or autonomy in a particular DEE during a specific time  
3 period is a question subject to empirical investigation. The chapter by  
4 Petry comparing stock markets in six major DEE countries responds to this  
5 overarching question most explicitly, suggesting that the openness to foreign  
6 ownership of domestic financial assets is an important variable in explaining  
7 subsequent financialization and subordination.

8 A third broad approach, the *political survival* framing, also lends itself to  
9 empirical research and provides another path for potential dialogue between  
10 competing traditions. Kapadia and Musthaq begin from the standard rational  
11 choice assumption that political incumbents (the ‘state’) want to ‘survive’, a  
12 formulation that can mean either that a dictator wants a lifetime appointment  
13 or simply that a particular set of political institutions, such as parliamentary  
14 democracy, endures over time, while specific political incumbents rotate. In  
15 assuming that the state can be modelled as a unitary rational actor with a set  
16 of concrete goals, the political survival approach approximates the economic  
17 statecraft tradition. At the same time, the political survival approach is less  
18 concerned with how state incumbents might use financial resources as foreign  
19 policy instruments (the major preoccupation of statecraft researchers), instead  
20 focusing on the struggle of state incumbents to pay for all their survival needs  
21 and policy choices, whether through taxes, fees for state services, or public  
22 debt, voluntarily lent by national or international private financial actors, or  
23 sometimes by other sovereign states. The core research question in a political  
24 survival investigation is, ‘How have national political incumbents, in this  
25 country and time period, attempted to secure the funding necessary to pay for  
26 the expenses of the state itself and for execution of their preferred policies?’  
27 This formulation gives private, possibly foreign, bankers and investors a great  
28 deal of potential influence over state policy, which for some DEEs in some  
29 periods may amount to full international financial subordination. At the same  
30 time, private financial capital per se is not necessarily the dominant thread  
31 in a country’s national political economy, for example, if the financial sector  
32 itself is mostly nationalized, or if ample funding for the state’s maintenance  
33 and activities can be raised in some other fashion, from taxing salt to the  
34 sale of public appointments or aristocratic titles to possession of a suddenly  
35 valuable and scarce natural resource such as petroleum.

36 The remainder of this chapter unpacks and illustrates the international  
37 financial statecraft approach. The chapter’s next major section further  
38 examines assumptions, terms, and categories undergirding the FS approach.  
39 The third section examines classic instruments of financial statecraft,  
40 distinguishing between those that are primarily assertive (‘offensive’) and  
41 those usually understood as defensive. Section four proposes that relative  
42 interstate power capabilities strongly condition which instruments of financial  
43 statecraft incumbent leaders might be tempted to employ, setting the stage

1 for the chapter's fifth and sixth sections, which consider the contemporary  
2 financial statecraft options for important states in the Global North and  
3 Global South, respectively. The chapter's conclusions are pragmatic and  
4 cautionary, suggesting that in most cases FS, especially the use of offensive  
5 instruments, will not yield the results policy makers intend.

## 6 7 8 **International financial statecraft: definitions and** 9 **categories**

10 The FS approach uses 'state' in both senses: to mean a country's senior central  
11 government political incumbents and the bureaucracy they command, and  
12 also the country itself, as in the 'interstate system'. The FS approach does  
13 not assume a unique and overwhelmingly important role for private financial  
14 capital: instead, the domestic political support base of incumbent state  
15 leaders is a question for empirical question. The FS approach understands  
16 state capacity as the ability of incumbent political leaders to conceptualize  
17 and implement public policies plausibly related to some desired goal. While  
18 state capacity and the preferences of incumbents' key political support groups  
19 are assumed important, the primary research focus lies with the country's  
20 interactions with the international system.

21 Financial statecraft is a subset of international *economic statecraft*, encompassing  
22 instruments (the means of economic statecraft) such as tariffs, foreign aid,  
23 trade embargoes, preemptive purchases of a scarce commodity, investment  
24 guarantees, direct purchases from the target, and many others (Baldwin, 1985,  
25 pp 58–69 and passim). Significantly, economic statecraft lies on a continuum  
26 of instruments of statecraft ranging from peaceful suasion via diplomacy  
27 to psychological warfare to military attack, as each is a 'branch of political  
28 activity', as famously observed by Prussian General Carl von Clausewitz  
29 (translation of 1976) in the early 19th century (Baldwin, 1985, p 64). That  
30 is, economic statecraft is about the use, by incumbent political leaders, of  
31 their state's economic power capabilities to achieve a wide range of foreign  
32 policy goals. Economic statecraft, including FS, thus may be discussed in  
33 terms of an *actor* or initiating state, its economic *means* or instruments, its  
34 *target* or targets (often but not always another state), and a foreign policy  
35 *goal* or desired outcomes. While the instruments themselves need not be  
36 exclusively international, they are being used by national leaders to influence  
37 international outcomes, including foreign behaviours, international processes,  
38 and perceptions. The foreign policy goals of FS are political, although they  
39 also may include an economic or financial dimension. For example, an import  
40 tariff applied equally to all trading partners for the purpose of raising revenues  
41 or protecting domestic industry is not FS. However, an import tariff applied  
42 only to states considered to be political rivals or as a punishment for the  
43 target state's undesirable behaviour is FS, even if the tariff also raises revenue.

1 The FS actors are always sovereign states, but the targets can be states,  
 2 international institutions, foreign investors, foreign populations, or even  
 3 decentralized global market sentiment (Armijo and Katada, 2014; Katada  
 4 et al, 2017). For example, a creditor state (the actor) may offer (or decline  
 5 to provide) a loan to a recipient country or international organization (the  
 6 target) whose policy choices please (displease) the creditor state. Financial  
 7 statecraft may be offensive, although ‘assertive’ is often a better label, as  
 8 ‘offense’ in international relations often is understood to imply the use or  
 9 threat of military force, which is not meant here, or it may be ‘defensive’.

10 In offensive or *assertive* FS, state A (the actor) attempts to induce, persuade,  
 11 or coerce state B (the target) into taking some action that state B’s leaders  
 12 otherwise would not choose. For example, in 2022 the United States, the  
 13 United Kingdom, the European Union, and other countries (the actors)  
 14 intensified preexisting financial sanctions on Russia (the target) in response  
 15 to Russia’s February invasion of Ukraine, in the stated hopes that these  
 16 financial penalties would cause President Vladimir Putin to order his troops  
 17 to withdraw. Note that Ukraine itself is neither actor nor target in this  
 18 example. Financial statecraft may also be reactive or *defensive*. In the case of  
 19 defensive FS, state A (the actor) is attempting to defend itself from pressure  
 20 coming from state(s) B. For example, the defensive FS reactions of Russia  
 21 (in this example the actor) to the financial sanctions of the US and others  
 22 (now the targets) have included loud assertions that Western (Northern)  
 23 financial sanctions were illegal, while also transferring its official foreign  
 24 exchange reserves out of US dollar-denominated assets and into gold or the  
 25 liquid assets of third countries, such as China.

26 International financial statecraft is often *bilateral*, involving only an actor  
 27 and a target, but may also be *collective*, as when the countries in the BRICS  
 28 club (originally Brazil, Russia, India, and China, plus South Africa from  
 29 late 2010) joined together in 2009 and after to press for certain reforms of  
 30 global financial rules and institutions, such as larger voting shares within the  
 31 International Monetary Fund for countries of the Global South (Roberts  
 32 et al, 2018). Bilateral, and especially collective, FS may be aimed at reforming  
 33 international governance arrangements or influencing global market conditions  
 34 (as by talking down or up a particular currency or investment option).

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36

### 37 **Instruments of financial statecraft**

38 The means, or instruments, through which national policy makers engage in  
 39 FS vary. [Table 3.1](#) lists eight major categories of FS instruments or potential  
 40 instruments, including four conceptualized as primarily assertive, and four  
 41 which are largely defensive. This list is illustrative, not comprehensive.

42 Instruments that incumbent state leaders can employ to exercise assertive  
 43 FS include foreign aid, debt forgiveness, access of others to their home

1 **Table 3.1:** Principal instruments of contemporary financial statecraft

3 <b>Assertive financial statecraft</b>	<b>Examples</b>
4 <i>Foreign aid and public investment</i>	• Provide official development assistance (ODA) (loans, grants), outward foreign direct investment (FDI), and portfolio investment via sovereign wealth funds (SWFs)
8 <i>Debt forgiveness</i>	• Support bilateral and multilateral debt restructuring
9 <i>Financial market access</i>	• Permit foreign accounts and investments in home banks and capital markets • Permit access to financial services, for example lawyers and courts for initial public offerings (IPOs), mergers and acquisitions (M&A), SWIFT • Encourage foreign governments to hold official reserves in one's currency • Extend currency swaps
16 <i>Financial sanctions</i>	• Withdraw components of financial market access, promised loans, and so on
18 <b>Defensive financial statecraft</b>	<b>Examples</b>
19 <i>Capital controls</i>	• Outward capital controls (taxes, quantity limits) • Inward capital controls (taxes, penalties for early repatriation)
22 <i>Diversify foreign financial links</i>	• Accept loans, investment from both China and the Global North
24 <i>Collective voice</i>	• 'Inside options' or pressure for greater influence within existing global governance institutions
26 <i>Collective alternative institution building</i>	• 'Outside options' or creation of new institutions

27 Source: Author's elaboration.

30 financial market, and financial sanctions. First, governments usually present  
 31 their *foreign aid and public investment* as purely altruistic, but it often supports  
 32 informal influence by the aid-giving or investing state.<sup>1</sup> Aid may arrive in  
 33 the form of loans, grants, or subsidized goods or services directed from  
 34 one state (the actor) to another (the target). Such financial assistance may  
 35 be extended bilaterally, or via a multilateral financial institution, such as  
 36 the World Bank or IMF, in which the state exercising FS is able to exert  
 37 significant influence. Official development assistance (ODA) builds up diffuse  
 38 reservoirs of good will, but occasionally, the FS link is more direct. For  
 39 example, state A may vote in favour of a loan to state B, the target country,  
 40 in a multilateral financial institution such as the World Bank in disguised or  
 41 explicit exchange for state B's vote on a United Nations General Assembly  
 42 vote of importance to state A or some other concrete policy shift by state B.<sup>2</sup>  
 43 The early 21st century witnessed the rise of a new financial vehicle known

1 as sovereign wealth funds (SWFs), or state-run investment institutions funded  
2 by excess foreign exchange held by the country's central bank, most often  
3 due to large earnings from fossil fuel exports, but also as a consequence of  
4 persistent current account surpluses resulting from other causes. They often  
5 invest in countries with which the owner of the SWF would like to have  
6 closer political or economic links.<sup>3</sup> Foreign aid and public investment benefit  
7 the initiating state by cementing alliances and strategically winning friends  
8 (and/or imposing the donor state's economic preferences) abroad (Bearce  
9 and Tirone, 2010; Andersen et al, 2024).

10 Second, an important means by which creditor countries have exercised  
11 direct or indirect FS is via *foreign debt forgiveness* and rescheduling. This  
12 can occur through bilateral write-downs or debt cancellations or via state  
13 A employing its votes or influence in multilateral financial institutions or  
14 clubs to support or oppose a loan or a policy exemption sought by state  
15 B. Even when the formal rules are clear, powerful governments can use  
16 their de facto influence over granting exemptions for special circumstances  
17 to reward friends (Armijo and Sood, 2023). This said, multilateral financial  
18 institutions in general will be less biased than national creditors.

19 A third category of historically important and assertive FS is the grant  
20 of *access to a state's home financial markets*. This can take many forms, and a  
21 financially central country may thus gain influence over foreign governments,  
22 banks, non-financial firms, or citizens. Foreign governments in soft  
23 currency countries want to hold their official reserves in safe assets, such as  
24 US Treasury securities. Foreign banks may borrow funds in core country  
25 markets and relend them at home at attractive margins, engaging in the so-  
26 called 'carry trade'. Foreign firms may arrange initial public offerings on  
27 the stock exchanges of Frankfurt or London, or may wish to incorporate in  
28 jurisdictions such as the US state of Delaware, whose courts they trust to be  
29 impartial (or pro-business, see Pistor, 2020). Countries with large and liquid  
30 capital markets also offer foreign citizens and businesses attractive earnings  
31 opportunities via portfolio investments in corporate shares, or corporate  
32 and government bonds. Foreign citizens may wish to open bank accounts  
33 with their hard currency earnings, rather than surrendering them to their  
34 own government's central bank in exchange for a local currency that tends  
35 to lose value vis-à-vis the US dollar or the Euro. Access to each of these  
36 financial services increases the safety and profitability with which foreigners,  
37 including foreign governments, can manage their money. Opening one's  
38 home financial markets, institutions, and services, including the presence of  
39 trusted regulatory oversight, to foreigners is a clear choice by the initiating  
40 state, although seldom one associated with a specific short-term foreign  
41 policy goal. Granting access to domestic financial transactions can cement  
42 alliances and less-formalized friendly relations with foreign governments and  
43 their citizens. An interesting twist is that, in contrast to the transfer of real

1 resources implicit in concessional foreign aid, when an already financially  
2 powerful country opens its home financial markets, it serves to increase the  
3 acting state's centrality in global financial markets. If China, for example,  
4 invests a significant share of its official foreign exchange reserves in US  
5 Treasury assets, then China's future prosperity is tied to the future health of  
6 the US currency and economy.

7 Fourth, the imposition of *financial sanctions* imposes direct, immediate  
8 costs on a target state or states by reversing the grant of access to a country's  
9 home financial markets. An escalating list of financial sanctions begins with  
10 state A, the actor, freezing the bank accounts of top officials and supporters  
11 of state B, the target. The sanctioning country subsequently may decide  
12 to freeze all financial assets owned by state B's government held in state  
13 A, or even to invoke third party sanctions, by which the initiating state  
14 threatens exclusion from state A's home financial markets and services to  
15 any institutions from states C or D who transact financial business with state  
16 B. The US has claimed the right to repossess all US dollar-denominated  
17 deposits owned by 'rogue' states everywhere in the world, although this  
18 is difficult to enforce. Such financial sanctions impose costs on targets.  
19 Meanwhile political leaders in the initiating state receive the political  
20 benefit of looking tough to domestic constituents, while avoiding more  
21 costly foreign policy actions such as initiating a military response to the  
22 target's foreign policy choices.

23 Table 3.1's lower portion lists major instruments of defensive financial  
24 statecraft, including capital controls, diversifying international financial links,  
25 collective action to increase voice, and collective action to establish new,  
26 alternative financial institutions, services, and markets. *Capital controls* slow  
27 or prevent the movement of financial flows (except for limited purposes  
28 such as trade clearing or essential travel) across national borders. Typically,  
29 their economic goal is to prevent the rapid, large-scale inflows or exit of  
30 capital (in the form of hard currency) from the country, which can destabilize  
31 the domestic currency and banking system. Capital controls also may be  
32 employed politically as defensive FS, for example, when only home country  
33 citizens and those from favoured foreign countries may own specific domestic  
34 financial assets. A sixth type of FS, also defensive, is a decision by central  
35 government incumbents to *diversify the foreign sources of official capital*, including  
36 development assistance or other inflows of foreign aid, concessional loans,  
37 or SWF investments. Recognizing that creditor governments often attempt  
38 to gain political influence over debtor governments, borrowing countries  
39 may actively seek to play off one foreign patron against another. This is the  
40 same calculation that leads thoughtful national leaders to attempt to diversify  
41 their trade relations in terms of both partners and products. In the case of  
42 defending against financial sanctions, a country may try to diversify its official  
43 foreign exchange holdings in favour of another hard currency or even gold.

1 A seventh major instrument of defensive FS is the exercise of *collective*  
 2 *voice*, especially by less-influential state actors, within existing global financial  
 3 governance forums, from the IMF and World Bank, to the Financial Stability  
 4 Forum, to influential yet public-private or fully private venues ranging from  
 5 voluntary international financial market standard-setting and regulatory  
 6 bodies to informal yet influential gatherings like the World Economic Forum  
 7 in Davos. This constitutes an ‘inside option’, in that it does not directly  
 8 challenge, nor seek to supplant, existing institutions, but instead aims at  
 9 expanding participation within them.

10 An eighth category of FS instruments is the ‘outside option’ of the  
 11 *collective creation of alternative multilateral institutions* that implicitly or explicitly  
 12 challenge the major institutions of the postwar Western-dominated order  
 13 created in the decade following the Second World War. In the financial  
 14 and monetary sphere among the most important of these new international  
 15 financial institutions may be the New Development Bank (NDB) of the  
 16 BRICS club countries and the Asian Infrastructure Investment Bank (AIIB),  
 17 which now has over 100 member countries but in which China retains a  
 18 controlling interest. In addition to formal institutions, informal clubs of  
 19 countries with common goals for reforms of global or regional financial or  
 20 monetary governance may become an important option.

21

22

### 23 **Assessing national power capabilities**

24 Different categories of states have options to exercise different types of  
 25 international financial statecraft. Basic administrative competence (‘state  
 26 capacity’) is essential to any type of FS. Assuming basic capacity, a state’s  
 27 (country’s) position in the global distribution of power capabilities among  
 28 all countries is the most important dimension shaping its leaders’ FS options.  
 29 International ‘soft power’, or the ability of a country to exercise influence  
 30 through the attractiveness of its culture, language, values, or reputation  
 31 abroad, is relevant and important, but difficult to measure comparatively.  
 32 However, it is possible to assess different countries’ hard power and financial  
 33 power capabilities to understand which types of FS their leaders might be  
 34 tempted to wield.

35 Hard power capabilities are relative and thus necessarily zero-sum in their  
 36 conceptualization. They are best assessed *vis-à-vis* other states within the  
 37 relevant interstate system. While many discussions of relative power simply  
 38 rank countries by the size of their overall economies, this chapter employs  
 39 an index that combines five different empirical measures of national power  
 40 capabilities. The material capabilities index (MCI) from the Global Monetary  
 41 and Financial Powers of States (GMFPS) dataset includes almost all countries,  
 42 and is calculated as the mean of each country’s annual shares of total world  
 43 quantities in five critical dimensions: economic size (as measured by nominal

1 GDP), population, industrial innovativeness (assessed as patents plus industrial  
2 value-added), trade, and military spending (for details see Armijo et al, 2020).

3 In addition to basic state competence and overall hard power capabilities,  
4 finance-specific vulnerabilities or capabilities also matter. Five dimensions  
5 are especially important: external debt buildup, ability to act as a creditor  
6 to other states, currency power, network centrality, and influence in global  
7 financial governance. Countries may vary in terms of their *net external*  
8 *public debt*, measured relative to the size of a country's own economy. In  
9 general, high foreign sovereign debt should impede a state's ability to carry  
10 out any type of consistent, goal-oriented international financial statecraft.  
11 High foreign debt makes a country vulnerable and more likely to lead to  
12 the country becoming a target of domineering FS by others. The only  
13 exception is a dominant reserve currency country, whose money (which  
14 constitutes claims against the reserve currency government) foreign central  
15 banks wish to hold as a hedge against exchange rate movements against their  
16 own currencies. So long as countries B, C, and D wish to invest indefinitely  
17 in country A's government securities or currency, A can accumulate foreign  
18 debt without pain.

19 In contrast, higher scores on another four financial dimensions increase  
20 FS options. These dimensions can, like the MCI, be assessed as shares  
21 of the global total (Armijo et al, 2020). *Creditor capability* represents a  
22 country's ability to send financing abroad in the form of loans, portfolio  
23 investment, and foreign direct investment or donated as foreign aid.  
24 A creditor state, for example, can target its allies to receive more generous  
25 bilateral ODA on a per capita basis than similar target states with whom  
26 the creditor has frosty relations. The potential for creditor capability  
27 can be measured as a country's share of the total surplus of all countries  
28 running a balance of payments (current account) surplus in a year. Actual  
29 creditor capability can be assessed as a stock, for example, by calculating a  
30 country's share in all official foreign exchange holdings each year, or the  
31 country's accumulated share in the total ownership of net financial assets  
32 among all countries with a surplus. The index reported here is a mean of  
33 the latter two components. As with the measure of external public debt,  
34 the key reserve currency country(ies) will have an anomalous share. At  
35 present, because the US dollar remains the dominant reserve currency,  
36 the US central bank need not accumulate large quantities of government  
37 bonds of other hard currency countries as insurance against capital flight  
38 or international financial volatility.

39 *Currency capability* means the dominance of a country's home currency  
40 in global markets, for example, as the currency in which countries hold  
41 their official foreign exchange reserves or in which trade is invoiced or  
42 international corporate bonds are priced. The historical record as well  
43 as political economic theory suggests that currency power tends to be

1 centralized, giving enormous power capabilities to the country at the centre  
2 of a regional or global trading and financial system (Cohen, 2018). Moreover,  
3 as noted, a state at the peak of the global currency hierarchy is largely exempt  
4 from needing to worry about its net foreign indebtedness, as foreigners  
5 choose to hold its currency, nor does the key currency country need to  
6 self-insure via large foreign exchange reserves. For this reason, both the  
7 IFS and the FS approaches pay great attention to global currency hierarchy.

8 *Network capability* is a country's centrality to global financial markets, or  
9 the degree to which its major financial city or cities function as nodes for  
10 cross-border transactions within international financial networks. Network  
11 nodes can be discovered by observing a country's share of global bilateral  
12 trades of financial assets. Like currency dominance, network centrality is  
13 self-reinforcing; the more central a node already is, the more necessary it  
14 is for other global players to be represented there and do business there.  
15 Network centrality requires large, sophisticated, diverse, and well-regulated  
16 home financial markets, the size of which can be mapped as a share of  
17 world totals. The higher a country's network capability, the easier it is to  
18 attract an array of transnational public-private financial service providers,  
19 controlling such essential infrastructure as custodial services for financial  
20 assets such as government bonds, nearly instantaneous price information  
21 flows, secure messaging for financial asset transfers, highly specialized  
22 legal advice, trusted business courts, and access to voice within specialized  
23 regulatory bodies. The network measure reported here is the mean of a  
24 country's share of home financial market size and presence as one party to  
25 all bilateral financial transactions.

26 Finally, *financial governance capability* refers to the influence a country has  
27 in shaping consensual standards for financial regulation, such as the lending  
28 priorities of international financial institutions, the conditions of debt  
29 restructuring following financial crises, or the capital adequacy standards for  
30 guiding the operations of multinational banks. Governance capability can be  
31 measured as a country's share of votes, leadership positions, and any other  
32 globally summable dimension mirroring influence in major global financial  
33 governance institutions. Global financial governance influence is also relevant  
34 to a country's ability to employ most other types of FS instruments. For  
35 example, consider capital controls, quintessentially a defensive weapon of  
36 relatively weak states. IMF strictures on permissible versus disqualifying  
37 capital controls for member states wishing access to IMF benefits, such as  
38 emergency liquidity support, have been the subject of recurrent fights within  
39 the Fund's Executive Board, especially in the runup to and aftermath of the  
40 Asian financial crisis of the late 1990s (Blustein, 2003).

41 The chapter's next two sections link countries' relative power capabilities  
42 to their possible options for employing different instruments of international  
43 financial statecraft.

## 1 **Power capabilities and financial statecraft options of** 2 **the Global North** 3

4 The advanced capitalist democracies of the Global North designed and  
 5 continue to dominate the complex of multilateral global governance  
 6 institutions formed in the aftermath of the Second World War. Among  
 7 the most significant international organizations in terms of their enduring  
 8 influence on global politics are the United Nations (UN), the North Atlantic  
 9 Treaty Organization (NATO), and the two peak international financial  
 10 institutions, the International Monetary Fund (IMF) and World Bank.  
 11 Arguably the most important core countries have been the members of the  
 12 Group of Seven (G7): the United States, Japan, Germany, United Kingdom,  
 13 France, Italy, and Canada. These are the status quo powers, leaders of the  
 14 post-Second World War global order.

15 This set of countries scores high on basic state capacity: their central  
 16 governments articulate and implement reasonably coherent policies across a  
 17 wide range of issue arenas, from infrastructure planning, to national monetary  
 18 policy, to consumer safety regulations. They also score very high on a  
 19 composite measure of hard power, the MCI, and a wide variety of financial  
 20 and monetary power capabilities, which do not all move together: some lead,  
 21 and others lag. As shown in [Table 3.2](#), in the most recent year available for  
 22 this dataset, the G7 accounted for only around 10 per cent of the world's  
 23 population, but 37 per cent of global hard power capabilities, and 28 per  
 24 cent of creditor power. They overwhelmingly dominated the other financial  
 25 capabilities measured, including currency power (93 per cent), network  
 26 power (62 per cent), and influence in global financial governance institutions  
 27 (52 per cent). The table also includes figures for less powerful advanced  
 28 capitalist countries with outsize financial capabilities: South Korea, once a  
 29 DEE but in the 21st century a high-income democracy, Switzerland, and  
 30 Norway. Although [Table 3.2](#) also reveals significant redistribution of power  
 31 capabilities away from the G7 since the beginning of the 21st century, the  
 32 US and its major allies still dominate global power resources. This means that  
 33 this is the set of countries most able to exercise assertive FS. The remainder  
 34 of this section connects each type of financial power capability to related  
 35 instruments of FS.

36 A state needs creditor capability to employ the assertive FS instruments  
 37 of offering a target state *foreign aid and public investment* or forgiving or  
 38 rescheduling its *troubled sovereign debt*. [Table 3.2](#) tracks the G7's total creditor  
 39 capability as falling from about 40 per cent of the global total to 28 per  
 40 cent in the final year measured. Consequently, it is increasingly difficult for  
 41 national leaders in the political West (Global North) to offer large quantities  
 42 of ODA or public loans and investment. And one cannot forgive bilateral  
 43 sovereign debts if the loans were never made. True, the major reserve

**Table 3.2:** The power capabilities of the Global North (as per cent of global totals, ordered by MCI)

Country	Population		Material capabilities		Creditor power		Currency power		Network power		Governance power	
	2000	2019	2000	2019	2000	2013	2000	2013	2000	2011	2000	2013
US	4.3	4.0	24.0	19.3	1.5	0.6	63.4	59.7	29.0	24.7	16.2	14.5
Japan	2.1	1.6	11.2	5.0	28.9	16.8	9.3	3.8	15.3	10.8	9.5	8.4
Germany	1.3	1.1	4.5	3.6	1.5	9.6	17.5	22.4	7.0	5.9	8.3	6.9
UK	0.9	0.9	3.7	3.3	1.0	0.4	1.7	2.5	9.4	9.8	7.9	6.2
France	1.0	0.9	3.3	2.4	5.5	0.2	2.2	2.8	5.3	5.7	7.9	6.2
Italy	0.9	0.8	2.5	1.7	0.7	0.2	0.0	0.0	3.4	3.0	6.8	5.2
Canada	0.5	0.5	1.8	1.4	0.9	0.3	0.1	1.1	2.2	2.2	6.7	4.3
<i>G6 Total</i>	<b>6.7</b>	<b>5.8</b>	<b>27.0</b>	<b>17.4</b>	<b>38.5</b>	<b>27.5</b>	<b>30.8</b>	<b>32.6</b>	<b>42.6</b>	<b>37.4</b>	<b>47.8</b>	<b>37.2</b>
<i>G7 Total</i>	<b>11.0</b>	<b>9.8</b>	<b>51.0</b>	<b>36.7</b>	<b>40.0</b>	<b>28.1</b>	<b>94.2</b>	<b>92.5</b>	<b>71.6</b>	<b>62.1</b>	<b>63.3</b>	<b>51.7</b>
Others with notable hard power or international financial capabilities												
Korea, Rep.	0.8	0.7	2.3	2.8	2.6	1.5	0.0	0.0	0.8	1.2	0.6	1.8
Switzerland	0.1	0.1	0.7	0.7	6.5	4.0	0.1	0.2	2.5	2.0	1.1	1.0
Norway	0.1	0.1	0.4	0.4	1.2	4.0	0.0	0.0	0.4	0.7	0.5	0.5

Notes: All figures are for dates noted, or latest available. For Canada's material capabilities index (MCI), the latest available date is 2017. The MCI in 2019 for other states often caucusing with the Global North was: Spain 1.1, Australia 1.1, Turkey 0.9, and Sweden 0.5.

Source: Armijo et al., 2020.

1 currency countries could expand their domestic money supplies for this  
2 purpose, but they will not. They have been willing to work collectively  
3 to expand credit by modifying some rules within the multilateral financial  
4 institutions (as by easing the constraints on the use of IMF's Special Drawing  
5 Rights quasi-currency, SDRs) or to approve modest collective projects for  
6 debt relief from multilateral banks. Nonetheless, the point holds. Examining  
7 a different measure of creditor capability, the IMF's net international  
8 investment position (NIIP), which calculates absolute figures for country  
9 stocks of net foreign financial assets, leads to similar conclusions about  
10 eroded creditor capabilities in the Global North.<sup>4</sup> For example, among  
11 the G7, only three had significant surpluses in late 2022: Japan (US\$3.2  
12 trillion), Germany (US\$2.9) trillion, and Canada (US\$0.8 trillion).<sup>5</sup> Other  
13 advanced industrial countries with surpluses included South Korea, Norway,  
14 and Switzerland. In contrast, the NIIP positions of the remaining major  
15 Northern powers in [Table 3.2](#) reflect their accumulated international  
16 indebtedness. The US' negative NIIP (that is, its net foreign liabilities) figure  
17 is US\$16.2 trillion. For now, global investors continue to view the US as  
18 a 'safe haven' for footloose global private capital, and foreign governments  
19 acquire its currency for official foreign exchange reserves. At some unknown  
20 future date these accumulated foreign liabilities may become problematic  
21 for the US dollar and US economy. Meanwhile, these large inward capital  
22 flows of foreign investment in US Treasury securities ease US domestic  
23 budget constraints.

24 In place of offering DEEs direct government-to-government funds as  
25 grants or low-cost loans, as in the past, declining creditor capabilities mean  
26 that policy makers in the Global North (or political West) thus increasingly  
27 focus on improving their technical assistance and encouraging private foreign  
28 investment by their transnational firms. For example, in 2023, the G7 club  
29 of major advanced industrial democracies reaffirmed their commitment  
30 to infrastructure financing going to DEEs via their Partnership for Global  
31 Infrastructure Investment (PGII), which promises to 'mobilize' billions of  
32 dollars of investment in high-quality infrastructure, by 'catalyzing' private  
33 investment in 'transformative ecosystems of infrastructure investment' in  
34 sectors such as green energy, digital upgrading, and health care.<sup>6</sup> Decoded,  
35 this means that the PGII-initiating governments wish to play a critical  
36 technical assistance and organizational role in helping low and middle-  
37 income countries use their existing infrastructure more wisely, but the  
38 bulk of investible funds is to come from profit-seeking private investors,  
39 whose participation is voluntary. This shift can be told as one reflecting  
40 'financialization' and the increasing power of private financial interests within  
41 the US and other major advanced capitalist democracies (Gabor, 2021; Gabor  
42 and Sylla, 2023), but it clearly also has been driven by underlying structural  
43 shifts in international creditor capabilities.

1 The Global North's options to use bilateral sovereign debt forgiveness as an  
2 instrument of direct foreign policy also have shrunk, as the management of  
3 financial crises and troubled sovereign debt of DEEs is now largely handled  
4 by multilateral institutions, with the IMF playing a leading role. This said,  
5 the US and other G7 countries continue to hold greater influence in the  
6 status quo international financial institutions such as the IMF and World  
7 Bank than would be predicted by their populations or economic size.  
8 Observers such as Kharas and Linn (2008) argue that the IMF has been  
9 more generous with the peripheral countries of the Global North than  
10 the Global South.

11 The continuing high concentration of currency, network, and  
12 financial governance capabilities in the US and its G7 partners revealed  
13 in [Table 3.2](#) enables these countries to employ access to their home  
14 financial markets, home currency, and even to a host of 'global' financial  
15 institutions necessary to transacting business, such as the SWIFT network  
16 for transnational financial messaging, as a reward or a sanction for other  
17 countries. Currency capability interacts with and bolsters financial  
18 network capability (Perez, 2022). An important FS use for currency  
19 capability is that financial sanctions against foreign countries are readily  
20 enabled if those deposits are held in the issuing countries financial  
21 institutions. The US even imposes sanctions on third country financial  
22 institutions domiciled outside the US that hold US dollar-denominated  
23 deposits for sanctioned individuals and countries. Russia, Iran, Venezuela,  
24 and Cuba have been major targets of Northern/Western financial  
25 sanctions, and China also has felt their bite

26 Dominant currency capabilities also allow the US to remain the most  
27 important issuer of emergency currency swap arrangements, differentially  
28 extended to countries whose stability is important to the global economy –  
29 but also to US friends and allies (Cassetta, 2022).

30 So long as the US' network capabilities remain high, foreign firms need  
31 access to US financial markets and services to launch initial public offerings  
32 (IPOs) or incorporate in predictable, business-friendly jurisdictions.  
33 Recently, the US has begun employing inward capital controls targeted  
34 at Chinese high-tech firms, denying them the opportunity to engage in  
35 foreign direct investment partnerships in the US (Li et al, 2023). Finally, the  
36 overweighting of global financial governance power vis-à-vis underlying hard  
37 power for most of the political West (all except the US and South Korea,  
38 among the countries listed in [Table 3.2](#)) reflects these countries' dominant  
39 role in constructing the complex of postwar global governance institutions.  
40 Overall, the countries of the Global North (or political West) control most  
41 of the underlying international financial power capabilities that enable the  
42 use of assertive FS. However, the secular trend is for a power shift toward  
43 rising powers of the Global South.

**Table 3.3:** Power capabilities of major and selected middle powers caucusing with Global South (as per cent of global total, ordered by MCI)

Country	Population		Material capabilities		Creditor power		Currency power		Network power		Governance power	
	2000	2019	2000	2019	2000	2013	2000	2013	2000	2011	2000	2013
Major powers												
China*	20.7	18.2	6.8	18.4	4.5	16.3	0.0	0.0	2.0	5.8	2.0	4.1
Hong Kong	0.1	0.1	NA	NA	5.7	4.2	0.0	0.0	2.0	1.6	NA	NA
India	17.3	17.8	4.4	5.7	1.0	1.2	0.0	0.0	0.3	1.0	1.6	2.7
Russia	2.4	1.9	1.7	2.3	1.1	2.0	0.0	0.0	0.6	0.9	1.9	2.5
Brazil	2.9	2.8	1.6	1.6	0.9	1.5	0.0	0.0	0.9	2.0	1.2	2.1
Indonesia	3.5	3.5	1.0	1.4	0.8	0.4	0.0	0.0	0.2	0.3	0.6	1.5
Middle powers with notable financial capabilities												
Saudi Arabia	0.3	0.4	1.0	1.3	1.8	5.3	0.0	0.0	0.1	0.2	2.0	2.7
UAE	0.1	0.1	0.4	0.8	5.0	3.4	0.0	0.0	0.2	0.2	0.1	0.1
Singapore	0.1	0.1	0.6	0.8	3.5	3.5	0.0	0.0	0.7	1.1	0.1	0.2
South Africa	0.7	0.8	0.4	0.5	0.2	0.2	0.0	0.0	0.3	0.4	0.6	1.4

Notes: All figures are for dates noted, or earliest or latest available. \* Figures for China exclude Hong Kong.

Source: Armijo et al., 2020

## 1 **Power and financial statecraft options in the** 2 **Global South**

3  
4 What of the Global South? [Table 3.3](#) displays overall hard power and financial  
5 power capabilities for developing and emerging economies countries falling  
6 into two sub-categories. The first sub-category is ‘Southern’ countries  
7 that are clearly major powers. The most significant is China, an aspiring  
8 superpower, followed by India, the world’s most populous democracy and  
9 its third largest economy in purchasing power parity terms, and Russia, a  
10 longtime major power possessed of nuclear weapons and ample fossil fuel  
11 resources. Brazil and Indonesia, although often understood as mere regional  
12 powers, are potential global major powers. Both have been top ten economies  
13 since the 1950s,<sup>7</sup> and Brazil displays rising financial capabilities in the 21st  
14 century, although beginning from low levels. [Table 3.3](#)’s second sub-category  
15 includes four smaller jurisdictions that are not major global powers: Saudi  
16 Arabia, United Arab Emirates (UAE), Singapore, and South Africa. Despite  
17 small populations, each reveals large creditor and/or financial network power  
18 as of the end of the period. Confirming their importance to this discussion,  
19 South Africa, Indonesia, and Saudi Arabia are members of the G20 group  
20 of large economies that collectively proved essential to managing the global  
21 financial crisis of 2008–09, and these three plus the UAE have been invited  
22 to join the expanded BRICS+ group.

23 The previous section’s discussion of the Global North’s FS linked specific  
24 international financial capabilities to types of assertive FS. That framing  
25 worked because the G7 countries are relatively similar in their international  
26 political and financial profiles. However, the Global South is a more disparate  
27 group, even if we limit ourselves to the nine countries profiled in [Table 3.3](#).  
28 Consequently, this section’s discussion primarily is organized by country.

29 *China* is of course in a category by itself. China’s increasing prominence  
30 in the global political economy reflects both its hard power capabilities  
31 (MCI) and its financial capabilities, but especially its enormous creditor  
32 power, which is second only to that of Japan, by either of the measures  
33 referenced here. In terms of the GMFPS dataset referenced in [Tables 3.2](#)  
34 and [3.3](#), China’s creditor capability expanded almost fourfold in a little over  
35 a decade. According to the NIIP, calculated slightly differently and reporting  
36 absolute figures, in September 2022 mainland China had a net surplus of  
37 US\$2.5 trillion, with another US\$1.7 trillion in Hong Kong. China, whose  
38 overseas grants and loans are not included in the ODA statistics, is now the  
39 world’s most important bilateral lender to DEE governments (Gelpern et al,  
40 2021). A Chinese-affiliated think tank recently estimated that financial flows  
41 associated with China’s Belt and Road Initiative (BRI), first announced in  
42 2013 and focusing on funding traditional heavy infrastructure in energy,  
43 transportation, mining, and communications throughout the Global South,

1 had now passed the symbolic US\$1trillion level, including US\$634 billion in  
2 ‘construction contracts’ (or loans tied to the purchase of Chinese equipment  
3 and services) and US\$419 billion in ‘non-financial investments’ (that is, equity  
4 participation by Chinese banks and firms, often ostensibly private, but with  
5 obligatory close ties to the state), with the latter category slated to increase  
6 (Nedopil, 2024, p 7 and passim). The BRI sums for 2022 (US\$75 billion)  
7 and 2023 (US\$92 billion) are only about three quarters of recent bilateral  
8 ODA flows from the political North, but the types of goods provided by  
9 Chinese aid and investment are closer to the dams, roads, and power plants  
10 on which the West (now Global North) concentrated its foreign assistance  
11 from the 1950s through the early 1980s.

12 As noted earlier in this chapter, a country with a large international creditor  
13 presence can exercise the FS instrument of debt forgiveness, sometimes  
14 extracting reciprocal favours. Because the majority of BRI funding has  
15 been via loans, China now is having to deal with the problem of how to  
16 treat defaulting sovereign debtors. Public–private transnational committees  
17 from the Global North, such as the Sovereign Debt Working Group of  
18 the Bretton Woods Committee (2021), worry because China will not join  
19 with them as official and private creditors to DEE governments, but instead  
20 prefers to wield the important FS instrument of sovereign debt restructuring  
21 unilaterally. China also has moved into financial crisis management, becoming  
22 increasingly consequential as a potential global lender of last resort by offering  
23 emergency swap lines and other facilities, including to countries, such as  
24 Argentina, that the US foreign policy establishment continues to view as  
25 its own ‘backyard’ (Bradsher, 2023; Tett, 2023). As of end 2020, China had  
26 bilateral swap arrangements with 31 countries, including several advanced  
27 industrial democracies such as Australia, Canada, Japan, South Korea, and  
28 the United Kingdom (Perks et al, 2021, p 36). Thus far, Chinese swaps  
29 seldom have been used, in contrast to those extended by the US (Perez-Saíz  
30 and Zhang, 2023).

31 In [Table 3.3](#)’s measure, for which unfortunately 2013 is the latest year  
32 available for all countries, neither China nor any other Global South country  
33 profiled has any currency capabilities, yet this is changing. In late 2016, in  
34 a decision that was as much a political calculation as an economic necessity,  
35 the IMF incorporated the yuan (renminbi) into the basket of hard currencies  
36 used to compose its SDRs with an initial weight of just under 11 per  
37 cent.<sup>8</sup> Subsequently, China’s currency capabilities have gradually expanded,  
38 particularly in terms of the yuan’s use as a trade currency in Southeast Asia  
39 and to denominate its swap arrangements with DEEs of political interest  
40 to China’s government. These emergency swap arrangements indirectly  
41 bolster Chinese currency and network capabilities. Nonetheless, China also  
42 continues to employ extensive capital controls as a form of defensive FS, thus  
43 demonstrating considerable reluctance to expand its international financial

1 network role. Despite recent increases in China's financial governance roles  
2 within the global institutions and clubs dominated by the Global North,  
3 its leaders also have experimented with constructing alternative global  
4 financial institutions and clubs, such as the BRICS' New Development  
5 Bank (NDB), its companion stabilization fund, the Contingent Reserve  
6 Association (CRA), and the Asian Infrastructure Investment Bank (AIIB),  
7 all created in 2011–12. More recently, China's focus has been on promoting  
8 its central bank digital currency (CBDC) (McNally, Chapter 7 this volume),  
9 similar to Russia's digital ruble (Ehlke, Salzer, and Westermeier, Chapter 10  
10 this volume), and on the de-dollarization of international transactions more  
11 generally (Peruffo et al, 2024).

12 Table 3.3 also shows the following interesting patterns among the  
13 remaining countries profiled. As a group, these major emerging economies  
14 have increased their creditor capability, although mainly in East Asia and  
15 among natural resource exporters. In addition to China (and Hong Kong),  
16 the IMF's NIIP measure shows late 2022 surpluses for Singapore (US\$0.8  
17 trillion); Saudi Arabia (US\$0.7 trillion); and Russia (US\$0.8), the latter  
18 despite Russia being the subject of financial sanctions from the political  
19 West.<sup>9</sup> Countries with large net external financial liabilities included Brazil  
20 (US\$0.8 trillion), India (US\$0.4 trillion), and Indonesia (US\$0.3 trillion).  
21 Over the period measured, none had any currency power, but all increased  
22 their financial network and governance capabilities.

23 The overall hard power capabilities of *Russia*, a natural resource exporter  
24 and nuclear weapons power, are undervalued by the MCI index employed in  
25 Table 3.3, as neither of these dimensions is included. The original promoter  
26 of the BRICs as a multilateral political club in the first decade of the 21st  
27 century, Russia also has had sufficient creditor and financial governance  
28 capabilities to shield itself from financial sanctions imposed by the West,  
29 beginning in response to the 2014 annexation of Crimea, but vastly expanded  
30 following Russia's February 2022 attack on Ukraine. However, there have  
31 been costs. The knock-on effects of financial sanctions led by the Global  
32 North have impeded Russia's technological modernization, reinforcing its  
33 identity as a natural resource exporter, and now to destinations prominently  
34 including its BRICS partners China, India, and Brazil, each of whom  
35 increased deliveries from Russia (Prokopenko, 2023). Nonetheless, Russia's  
36 considerable creditor power, along with its indefatigable efforts to paint the  
37 Global North as an aggressor and its sanctions as criminal, have enabled the  
38 country to avoid too much direct pain from the sanctions. Russia has keenly  
39 promoted concrete alternatives to the US dollar, including a CBDC, the  
40 digital ruble, which policy makers openly describe as a tool of geopolitical  
41 competition with the West, and the possible option of a BRICS currency,  
42 initially for settling bilateral international balances (Ehlke, Salzer, and  
43 Westermeier, Chapter 10 this volume; Economist, 2024b).

1 *India* is a major power by overall hard power capabilities, but its national  
2 financial profile remains that of a lower-middle income DEE, albeit one  
3 with considerable global financial governance capabilities. Its choices in FS  
4 have been to continue to defend its autonomy via capital controls, extend  
5 very modest foreign assistance in areas of its historic special interest, such  
6 as Anglophone East Africa, and participate in collective FS via the BRICS  
7 (Roberts et al, 2018). This said, the most problematic, even hostile, bilateral  
8 relationship within the five BRICS is the India–China one, so India is  
9 quite reluctant to act in any fashion that would increase its vulnerability  
10 to China.<sup>10</sup> As detailed by Kapadia and Musthaq (Chapter 6, this volume),  
11 India has adopted a policy of encouraging foreign borrowing by its private  
12 sector, on the theory that any future external debt crises might provoke  
13 private bankruptcies but will not destabilize public finances. However, the  
14 experiences of Latin America in the early 1980s and East Asia in the late  
15 1990s suggest that large private bank creditors and institutional investors  
16 based in the G7 in the past have been able to call on their home governments  
17 to force DEE governments to assume the foreign private, non-guaranteed  
18 debts of their banks (Armijo and Sood, 2023). Where the foreign creditors  
19 are dispersed, as in the thousands of Spanish and Italian pensioners and small  
20 funds who purchased Argentine bonds in the 1990s and were subject to  
21 default in late 2001, this did not occur. Power matters.

22 *Brazil's* leaders have used tools of bilateral international financial statecraft  
23 primarily for defensive purposes, having decades of experience with creative  
24 and flexible use of capital controls to cope with the exchange complexities  
25 of a very high-inflation economy, ending only in the mid-1990s. In the  
26 late 1990s, Brazil inaugurated modest foreign aid and technical cooperation  
27 programmes, particularly with Lusophone Africa. In the early 21st century,  
28 Brazil participated enthusiastically in the collective FS projects of the  
29 BRICS and somewhat less enthusiastically with its regional neighbours  
30 in South America (Henderson and Clarkson, 2016; Armijo and Sepehr,  
31 2024). Brazil, which experienced external debt crises in 1982, 1999, and  
32 2002, subsequently followed a defensive FS strategy for minimizing external  
33 vulnerability of substituting domestic debt for international borrowing,  
34 bringing the foreign-to-domestic public debt ratio down from 11 per  
35 cent in 2002 to under 4 per cent in 2020. Domestic financial regulations  
36 encouraged private borrowers to do likewise, halving the foreign-to-domestic  
37 private debt ratio from 63 to 31 per cent from 2003 to 2020. This said,  
38 the ratio of Brazil's total external debt to GDP, which fell from 19 per cent  
39 in 2003 to only 7 per cent in 2008, by 2020 was back at 18 per cent.<sup>11</sup> In  
40 any case, only DEE countries such as Brazil with large and liquid domestic  
41 financial markets, approximated by the financial network capabilities shown  
42 in Tables 3.2 and 3.3, can successfully reorient government and business  
43 borrowing from foreign to domestic sources of credit.<sup>12</sup>

1 *Indonesia*, although the world's fourth largest country by population, lacks  
2 independent financial capabilities, and thus focuses mainly on defensive  
3 actions, such as diversifying the sources of its inward foreign investment.  
4 Indonesia's neighbour, *Singapore*, however, has outsize financial capabilities in  
5 both the creditor and network dimensions. Together with other members of  
6 the original ASEAN-5 (Indonesia, Thailand, Malaysia, and the Philippines)  
7 Singapore and its neighbours have large joint creditor capabilities, totaling  
8 5.5 per cent of the world's financial surplus in 2013 (Armijo et al, 2020).  
9 Their location next to China largely neutralizes their hard power capabilities,  
10 yet the ASEAN-5 have engaged in considerable collective financial  
11 institution-building on behalf of themselves and the five poorer, newer  
12 ASEAN countries, including by pushing forward the Chiang Mai Initiative  
13 Multilateralization (CMIM) regional emergency swap arrangement of all  
14 ten countries plus China, Japan, and South Korea (Katada, 2020), as well  
15 as a new initiative to provide a joint platform for members' sovereign debt  
16 (Rethel, 2021).

17 *Saudi Arabia* is not a major power in overall material capabilities, yet its  
18 leaders, along with neighbouring fossil fuel exporters *UAE* and *Kuwait*, wield  
19 very considerable creditor capabilities. These governments' preferred vehicle  
20 for assertive FS is the sovereign wealth fund (SWF), an often-opaque type  
21 of investment fund operated by national governments, and which frequently  
22 seeks some balance of political influence and profits in its portfolio and  
23 foreign direct investment (FDI) holdings. Of the eleven largest SWFs as of  
24 end 2022, each with at least US\$300 billion in assets under management, four  
25 were from China or Hong Kong, with a total portfolio of US\$3.3 trillion,  
26 five from Persian Gulf petroleum exporters, totalling US\$3.1 trillion, and the  
27 governments of Norway and Singapore owned the remaining two.<sup>13</sup> *South*  
28 *Africa*, the final country in the Global South mentioned here separately,  
29 possesses fewer overall hard power capabilities than a larger country such  
30 as *Nigeria*, yet is notable for being a member of the BRICS and the G20,  
31 and for possessing creditor, financial network, and financial governance  
32 capabilities that are significant for its region. Nonetheless, South Africa's  
33 abilities to initiate bilateral financial statecraft, except possibly vis-à-vis its  
34 immediate subregion, are quite limited.<sup>14</sup>

35 A final (implicit) group consists of all the remaining countries in the Global  
36 South. Most countries in this thoroughly heterogenous group lack both the  
37 hard power and financial power capabilities for assertive FS. They are not  
38 able to extend public sector aid, credit, or investment to their neighbours,  
39 forgive others' foreign debts, offer access to their attractive home financial  
40 markets, or exercise financial sanctions. Even with respect to defensive FS,  
41 most DEEs cannot contemplate individual action, except to erect defensive  
42 capital controls when they fear being destabilized by capital flight, or to take  
43 up opportunities to diversify their sources of external capital. They can, in

1 principle, join in collective FS, for example by pursuing ‘inside options’ such  
 2 as joint campaigns to reallocate votes and quotas within the international  
 3 financial institutions or to free up more emergency lending by the IMF  
 4 through loosening restrictions on the uses of SDRs. Some participate actively  
 5 in collective efforts to reform the treatment of troubled sovereign debt, both  
 6 by participating in debt reduction efforts led by the Global North, such as the  
 7 G20’s Debt Service Suspension Initiative (DSSI) to postpone, but not cancel,  
 8 sovereign debt to official creditors during the height of the global COVID-  
 9 19 pandemic, or the Global South, as in the Bridgetown Initiative led by  
 10 Barbados.<sup>15</sup> A more radical alternative is the pursuit of ‘outside options’ such  
 11 as attempting to diversify away from the US dollar or to promote collective  
 12 financial institutions not controlled by the Global North, such as regional  
 13 development banks that try to operate independently of the major global  
 14 powers, including the ultimately unsuccessful Bank of the South (Armijo  
 15 and Sepehr, 2024).

16  
 17  
 18 **Conclusions: can international financial statecraft in**  
 19 **the name of the Global South mitigate international**  
 20 **financial subordination?**

21 These conclusions circle back to the larger inquiries motivating this collective  
 22 volume, particularly the question of whether thoughtful *international financial*  
 23 *statecraft* (FS) from leaders of countries identifying with the Global South can  
 24 act to mitigate *international financial subordination* (IFS) (Alami et al, 2023, and  
 25 see [Chapter 2](#) and the Afterword in this volume). IFS is both a political and  
 26 an economic concept, coined by a group of scholars attempting to unify  
 27 a large body of work under a common label. IFS is also a social science  
 28 theory, by which is meant a related, mutually consistent set of propositions,  
 29 or hypotheses, about cause-and-effect relationships. Theories may be credible  
 30 or implausible, but they are not easily falsifiable. Unlike the *law* of gravity,  
 31 which always holds on earth except under highly specialized conditions such  
 32 as within a vacuum tube, a causal relationship posited by a social science  
 33 *theory* is almost always only probabilistically true, making efforts to prove or  
 34 disprove it even more difficult.

35 The theory of IFS makes at least two related claims. First, the norms and  
 36 customary procedures within global financial and currency markets, as well as  
 37 the rules and regulations adopted by international organizations tasked with  
 38 global financial governance (collectively, the ‘global financial architecture’)  
 39 operate as a system that is structurally biased against fair treatment for  
 40 DEEs. Moreover, and second, this bias is both deeply embedded and usually  
 41 unperceived, either by its victims or its beneficiaries, who suffer from false  
 42 consciousness. Examples of such systemic bias are not difficult to locate.  
 43 Consider, for example, the difficulties experienced by countries that cannot

1 borrow internationally or pay for imports in their home currencies, but  
2 instead must exchange their national monies for so-called hard currencies,  
3 preeminently the US dollar. This is the so-called problem of currency  
4 ‘original sin’ (Eichengreen et al, 2022; Armijo, 2023).

5 Can the exercise of FS by countries self-identified with the Global South  
6 help? Even assuming that degrees of IFS could be measured or assessed,  
7 even qualitatively, which is not how the existing academic literature reads,  
8 is FS a useful response? This chapter’s investigation suggests four somewhat  
9 sobering conclusions.

10 First, it is by no means clear that the assertive FS increasingly used by  
11 powerful states of the Global North, especially the financial sanctions  
12 imposed on ‘rogue states’ by the US and G7, is a useful strategy, at least in  
13 terms of its stated goals. Financial sanctions seldom achieve their announced  
14 goals of deterring or reversing actions by rogue states, although calibrated  
15 economic sanctions against close allies with lesser hard power capabilities  
16 than the sanctioning state (as in the Suez Crisis of 1956) likely have the  
17 best chance for success. Moreover, financial sanctions directly undercut the  
18 very capabilities on which this FS instrument relies (Farrell and Newman,  
19 2020; McDowell, 2021). Not only countries directly subject to US financial  
20 sanctions – including Iran, Venezuela, and Russia – have suffered from them,  
21 but so have many other states, who find their own financial institutions and  
22 transactions blocked when they wish to remain neutral. For example, India,  
23 historically reliant on Russian petroleum, has also been inconvenienced by  
24 the costs imposed by US-led sanctions (Economist, 2024a). Even core states  
25 of the political West, such as Germany, have experienced large transaction  
26 costs due to US-led financial sanctions. Arguably the main actual benefit  
27 to US and EU politicians of financial sanctions on Russia in 2022–24 over  
28 its attacks on Ukraine has been that of being seen to have acted, without  
29 risking direct military involvement and major power war. Russia has not  
30 been deterred.

31 Second, much FS is bilateral and zero-sum, and developing and emerging  
32 economies at best can anticipate the same ambiguous results as experienced  
33 by the Global North. Individual FS, even relatively generous actions such  
34 as the incumbent leaders of a powerful state resolving to extend foreign aid  
35 or sovereign debt relief, inevitably is characterized by mixed motives, some  
36 of which are positive sum (‘it is in our national interest that our neighbours  
37 and allies are prosperous and peaceful’) while others are zero-sum (‘however,  
38 we don’t wish our allies to become less dependent on us or less willing to  
39 follow our lead on UN votes’). In other words, it is inherent in the definition  
40 of FS that its primary goals are not to improve the efficiency of financial  
41 intermediation or promote regional or global economic growth. Moreover,  
42 overt manipulation by one state invites retaliation and a shrinking and more  
43 politicized global financial and monetary system overall, an unpredictable

1 and undesirable outcome. Sometimes sanctions can be defended as an option  
2 short of war, but they are seldom a first best foreign policy choice, and hardly  
3 ever a sound economic policy.

4 Third, as argued throughout this chapter, a country's options for exercising  
5 FS cannot be divorced from the country's underlying relative power  
6 capabilities: smaller or weaker powers are necessarily disadvantaged when  
7 international relations devolve into sheer power politics. *Ceteris paribus*,  
8 DEEs have every incentive to prefer multilateral cooperation to the spread  
9 of a combative FS perspective.

10 In the end, and fourth, the best opportunities for DEEs to employ  
11 intentional FS to mitigate or ameliorate financial subordination will derive  
12 from their exercise of collective international financial statecraft, directed  
13 at reforms of global financial governance. Such reform coalitions are  
14 challenging to organize. Developing and emerging economies, roughly, the  
15 countries of the Global South, first need to pursue international cooperation  
16 among themselves to achieve greater international voice (Armijo, 2023).  
17 Coordination might occur within a regional neighbourhood, as evidenced  
18 by financial cooperation within ASEAN or the Gulf Cooperation Council,  
19 or via a cross-regional coalition of countries, as within the five BRICS from  
20 2000 to 2019, or, as by the Alliance of Small Island States through which  
21 members advocate for international financing of climate adaptation and  
22 resilience activities.<sup>16</sup>

23 In other words, in the end, FS is ... simply statecraft. Lesser powers  
24 operating in the global space generally have two options: they may  
25 bandwagon with a great or major power, accepting subordinate status in  
26 exchange for concrete benefits, or they may laboriously form a coalition  
27 with other middle or small powers to aggregate their voices around common  
28 goals. Country leaders need not select the same foreign policy partners  
29 across all international issue arenas, incidentally an important thesis of  
30 'active non-alignment' being promoted by norm entrepreneurs from Latin  
31 American middle powers (Fortín et al, 2023). Thus, Brazil or Argentina  
32 might caucus with the self-proclaimed representatives of the Global South  
33 on some issues, but with the political North on others. In the international  
34 issue arena of global financial governance there are many attractive reform  
35 ideas already under discussion including, for example, allowing for Global  
36 North countries to 'share' their SDR allocations, establishing a multilateral  
37 sovereign debt restructuring mechanism (SDRM) or institution, expanding  
38 options for wealthy countries to subsidize environmental and climate  
39 protection via revived 'debt-for-nature' swaps, or for Global South groups  
40 such as the BRICS to innovate new instruments including currencies (Batista  
41 Jr, 2024). Ultimately, the core solutions to IFS are as much or more about  
42 old-fashioned international political cooperation as about the use of national  
43 financial capabilities or FS instruments, per se.

## 1 Notes

2 <sup>1</sup> The US national security establishment, for example, considers Chinese and Russian  
3 loans and investment in Latin America threatening (Kroenig et al, 2024).

4 <sup>2</sup> For example, in early 2021, just days before leaving office, the US Trump administration  
5 arranged a US\$3.5 billion loan to Ecuador, conditioned behind-the-scenes on privatization  
6 and refusing Chinese 5G telecommunications technology (Gallagher and Heine, 2021).

7 <sup>3</sup> Concerns in the Global North around SWFs derive from the fact that most of the largest  
8 are owned by authoritarian countries, including China and Middle Eastern petroleum  
9 exporters. Although blatant examples of political pressure are relatively few, the possibility  
10 clearly exists and has sparked Northern-led efforts at collective self-regulation, as through  
11 the 2008 Santiago Principles (Fry et al, 2011; Carney, 2018). Consider also European SWFs  
12 that pride themselves on investing profitably, prudently, and largely within Europe: these  
13 resources certainly will be tapped during a financial crisis.

14 <sup>4</sup> Country-level NIIP data are available from the IMF's Balance of Payments data portal  
15 (<https://data.imf.org/?sk=7a51304b-6426-40c0-83dd-ca473ca1fd52>, accessed April  
16 2024). The NIIP differs from the GMFPS' creditor capability index in that the latter  
17 is calculated as global percentage shares, not absolute US dollar values. Moreover, the  
18 GMFPS dataset assesses official foreign exchange positions as part of its currency pillar,  
19 not the creditor pillar (Armijo et al, 2020).

20 <sup>5</sup> Canada, with its long, shared border and deeply entwined economy with the US retains  
21 large USD reserves to manage that bilateral relationship. It constitutes a special case, and  
22 seldom employs FS vis-à-vis third parties except in concert with the US.

23 <sup>6</sup> See Moses and Zhu, 2022; US Government, 2023.

24 <sup>7</sup> Using data from Maddison, 2006, 'GDP in 1990 international dollars' and from 1999  
25 forward as per the World Bank's 'World Development Indicators', 'GDP at purchasing  
26 power parity'.

27 <sup>8</sup> See [https://www.imf.org/en/News/Articles/2016/09/29/AM16-NA093016IMF-Adds-  
28 Chinese-Renminbi-to-Special-Drawing-Rights-Basket](https://www.imf.org/en/News/Articles/2016/09/29/AM16-NA093016IMF-Adds-Chinese-Renminbi-to-Special-Drawing-Rights-Basket) [Accessed 10 February 2025].

29 <sup>9</sup> The IMF doesn't calculate NIIP for the UAE, but presumably this number also would  
30 be strongly in surplus.

31 <sup>10</sup> The incorporation of five Middle Eastern fossil fuel exporters and/or Red Sea powers  
32 into a new BRICS+ club in January 2024 was a Chinese preference, initially opposed  
33 by both India and Brazil.

34 <sup>11</sup> See <https://fred.stlouisfed.org> [Accessed 10 February 2025].

35 <sup>12</sup> Machado, de Paula, and Mantoan (Chapter 5, this volume) identify partisan rotation  
36 between developmentalist and neoliberal presidential administrations as a principal source  
37 for macroeconomic and FS outcomes, while Kaltenbrunner, Karaçimen, and Rabinovich  
38 (Chapter 8, this volume) emphasize financial differences between Brazil and Turkey, yet  
39 stress each country's IFS. Armijo (2017) identifies a comparatively competent Brazilian  
40 state with multiple goals for public banks.

41 <sup>13</sup> See [https://www.statista.com/statistics/276617/sovereign-wealth-funds-worldwide-  
42 based-on-assets-under-management/](https://www.statista.com/statistics/276617/sovereign-wealth-funds-worldwide-based-on-assets-under-management/) [Accessed 10 February 2025].

43 <sup>14</sup> Patrick Bond (Chapter 4, this volume) and Johannes Petry (Chapter 9, this volume) agree  
44 that South Africa enjoys scant autonomy in FS, crediting the state's financial subordination  
45 as the main cause.

46 <sup>15</sup> See [https://www.un.org/sustainabledevelopment/blog/2023/04/press-release-with-  
47 clock-ticking-for-the-sdgs-un-chief-and-barbados-prime-minister-call-for-urgent-act-  
48 ion-to-transform-broken-global-financial-system/](https://www.un.org/sustainabledevelopment/blog/2023/04/press-release-with-clock-ticking-for-the-sdgs-un-chief-and-barbados-prime-minister-call-for-urgent-action-to-transform-broken-global-financial-system/) [Accessed 10 February 2025].

49 <sup>16</sup> See [https://www.dlapiper.com/en-us/insights/topics/cop-conference-of-the-parties/  
50 mitigation-adaptation-and-resilience](https://www.dlapiper.com/en-us/insights/topics/cop-conference-of-the-parties/mitigation-adaptation-and-resilience) [Accessed 10 February 2025].

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