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

Leslie Elliott Armijo, Simon Fraser University

November 15, 2024

Forthcoming in *Between Subordination and Statecraft: State, Capitalism, and Finance in Emerging Markets*, eds, Andreas Nölke and Johannes Petry. Bristol: Bristol University Press.

Abstract: This chapter explores the concept of international financial statecraft (FS)– the attempt, by incumbent national political leaders of a sovereign state, to employ financial or monetary resources controlled or influenced by the central government to achieve larger foreign policy ends. A country's ability to exercise financial statecraft depends on sufficient central government competence ('state capacity') to articulate and execute such statecraft, as well as on the country's relative international power capabilities–-including both overall hard power resources and financial and monetary capabilities such as creditor or currency power. The chapter indentifies typical instruments of FS, links FS instruments to national power capabilities, and profiles the power and thus FS capabilities of influential countries in the global North and South. However, the chapter also highlights the risks of financial statecraft. For most developing and emerging economies (DEEs) bilateral, defensive FS may be a necessary evil, but imposes costs on the user, while assertive FS is impossible. The largest returns for most DEEs likely derive from collective pursuit of reforms to global financial governance, which is also these countries' best hope for combatting international financial subordination.

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 the introductory and concluding chapters by Ilias Alami and 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 policymakers) 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 ('states') located in the advanced industrial core mainly interact with private capital based within their own borders, with senior politicians acting on behalf of private

financiers, whether consciously or not. However, policymakers in these core states (today termed the 'global North') may be able to deflect many of the most dangerous consequences of financial actors' single-minded drive for profits away from their home countries and toward peripheral countries and peoples. Historically, such deflection was achieved via overt imperialism, but today redirection toward developing and emerging economies (DEEs) occurs through more subtle neo-imperialist predations, for example, being imposed by global economic governance institutions and 'neutral' rules favoring Norther firms and countries. National political incumbents and their bureaucracies in the global South, meanwhile, are doubly vulnerable, once to their own private financial sector and again to international financial capital, which is closely entwined with the foreign policies of core states. Given these assumptions, the essential research question is: 'How can we identify and expose the pathways by which international financial actors control and constrain DEE states and peoples?'

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

Volume editors Andreas Nölke and Johannes Petry suggest bridging the two approaches by conceptualizing them as problem and potential solution. They lament the international financial subordination of DEEs, yet hope that thoughtful international financial statecraft might reduce such dependence. They define *state capacity* as high if the central government in a DEE state can avoid being controlled by private financial capital, whether local or originating abroad, and low if the state is captured by private finance capital. By framing the debate thus, Nölke and Petry suggest that the degree of subordination or autonomy in a particular DEE during a specific time period is a question subject to empirical investigation. The chapter by Petry comparing stock markets in six major DEE countries responds to this overarching question most explicitly, suggesting that the openness to foreign ownership of domestic financial assets is an important variable in explaining subsequent financialization and subordination.

A third broad approach, the *political survival* framing, also lends itself to empirical research and provides another path for potential dialogue between competing traditions. Kapadia and Musthaq begin from the standard rational choice assumption that political incumbents (the 'state') want to 'survive,' a formulation that can mean either that a dictator wants a lifetime appointment or simply that a particular set of political institutions, such as parliamentary democracy, endures over time,

while specific political incumbents rotate. In assuming that the state can be modeled as a unitary rational actor with a set of concrete goals, the political survival approach approximates the economic statecraft tradition. At the same time, the political survival approach is less concerned with how state incumbents might use financial resources as foreign policy instruments (the major preoccupation of statecraft researchers), instead focusing on the struggle of state incumbents to pay for all their survival needs and policy choices, whether through taxes, fees for state services, or public debt, voluntarily lent by national or international private financial actors, or sometimes by other sovereign states. The core research question in a political survival investigation is 'How have national political incumbents, in this country and time period, attempted to secure the funding necessary to pay for the expenses of the state itself and for execution of their preferred policies?'

This formulation gives private, possibly foreign, bankers and investors a great deal of potential influence over state policy, which for some DEEs in some periods may amount to full international financial subordination. At the same time, private financial capital per se is not necessarily the dominant thread in a country's national political economy, for example, if the financial sector itself is mostly nationalized, or if ample funding for the state's maintenance and activities can be raised in some other fashion, from taxing salt to the sale of public appointments or aristocratic titles to possession of a suddenly valuable and scarce natural resource such as petroleum.

The remainder of this chapter unpacks and illustrates the international financial statecraft approach. The chapter's next major section further examines assumptions, terms, and categories undergirding the FS approach. The third section examines classic instruments of financial statecraft, distinguishing between those that are primarily assertive ('offensive') and those usually understood as defensive. Section four proposes that relative interstate power capabilities strongly condition which instruments of financial statecraft incumbent leaders might be tempted to employ, setting the stage for the chapter's fifth and sixth sections, which consider the contemporary financial statecraft options for important states in the global North and global South, respectively. The chapter's conclusions are pragmatic and cautionary, suggesting that in most cases FS, especially the use of offensive instruments, will not yield the results policymakers intend.

International Financial Statecraft: definitions and categories

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

Financial statecraft is a subset of international *economic statecraft*, encompassing instruments (the means of economic statecraft) such as tariffs, foreign aid, trade embargoes, preemptive purchases of a scarce commodity, investment guarantees, direct purchases from the target, and many others (Baldwin, 1985, pp 58–69 and passim). Significantly, economic statecraft lies on a continuum of

instruments of statecraft ranging from peaceful suasion via diplomacy to psychological warfare to military attack, as each is a "branch of political activity," as famously observed by Prussian General Carl von Clausewitz (translation of 1976) in the early 19th century (Baldwin, 1985, p 64).

That is, economic statecraft is about the use, by incumbent political leaders, of their state's economic power capabilities to achieve a wide range of foreign policy goals. Economic statecraft, including FS, thus may be discussed in terms of an *actor* or initiating state, its economic *means* or instruments, its *target* or targets (often but not always another state), and a foreign policy *goal* or desired outcomes. While the instruments themselves need not be exclusively international, they are being used by national leaders to influence international outcomes, including foreign behaviors, international processes, and perceptions. The foreign policy goals of FS are political, although they also may include an economic or financial dimension. For example, an import tariff applied equally to all trading partners for the purpose of raising revenues or protecting domestic industry is not FS. However, an import tariff applied only to states considered to be political rivals or as a punishment for the target state's undesirable behavior is FS, even if the tariff also raises revenue.

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

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

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

Instruments of Financial Statecraft

The means, or instruments, through which national policymakers engage in FS vary. Table 3.1 lists eight major categories of FS instruments or potential instruments, including four conceptualized as primarily assertive, and four which are largely defensive. This list is illustrative, not comprehensive.

Table 3.1: Principal Instruments of Contemporary Financial Statecraft

Assertive Financial Statecraft	**Examples**
Foreign Aid and Public Investment	Provide ODA (loans, grants), outward FDI, & portfolio investment via SWFs
Debt Forgiveness	Support bilateral & multilateral debt restructuring
Financial Market Access	Permit foreign accounts & investments in home banks and capital markets Permit access to financial services, e.g. lawyers & courts for IPOs, M&A's, SWIFT… Encourage foreign governments to hold official reserves in one's currency Extend currency swaps
Financial Sanctions	Withdraw components of financial market access, promised loans, etcetera
Defensive Financial Statecraft	**Examples**
Capital Controls	Outward capital controls (taxes, quantity limits) Inward capital controls (taxes, penalties for early repatriation)
Diversify Foreign Financial Links	Accept loans, investment from both China & global North
Collective Voice	'Inside options' or pressure for greater influence within existing global governance institutions
Collective Alternative Institution Building	'Outside options' or creation of new institutions

Source: Author's elaboration.

Instruments that incumbent state leaders can employ to exercise assertive FS include foreign aid, debt forgiveness, access of others to their home financial market, and financial sanctions. Governments usually present their *foreign aid and public investment* as purely altruistic, but it often supports informal influence by the aid-giving or investing state.[1] Aid may arrive in the form of loans, grants, or subsidized goods or services directed from one state (the actor) to another (the target). Such financial assistance may be extended bilaterally, or via a multilateral financial institution, such as the World Bank or IMF, in which the state exercising FS is able to exert significant influence. Official development assistance (ODA) builds up diffuse reservoirs of good will, but occasionally, the FS link is more direct. For example, state A may vote in favor of a loan to state B, the target country, in a multilateral financial institution such as the World Bank in disguised or explicit exchange for state B's vote on a United Nations General Assembly vote of

[1] The US national security establishment, for example, considers Chinese and Russian loans and investment in Latin America threatening (Kroenig et al, 2024).

importance to state A or some other concrete policy shift by state B.[2] The early 21st century witnessed the rise of a new financial vehicle known as sovereign wealth funds (SWFs), or state-run investment institutions funded by excess foreign exchange held by the country's central bank, most often due to large earnings from fossil fuel exports, but also as a consequence of persistent current account surpluses resulting from other causes. They often invest in countries with which the owner of the SWF would like to have closer political or economic links.[3] Foreign aid and public investment benefit the initiating state by cementing alliances and strategically winning friends (and/or imposing the donor state's economic preferences) abroad (Bearce & Tirone, 2010; Andersen et al, 2024).

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

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

---

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

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

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

Fourth, the imposition of *financial sanctions* imposes direct, immediate costs on a target state or states by reversing the grant of access to a country's home financial markets. An escalating list of financial sanctions begins with state A, the actor, freezing the bank accounts of top officials and supporters of state B, the target. The sanctioning country subsequently may decide to freeze all financial assets owned by state B's government held in state A, or even to invoke third party sanctions, by which the initiating state threatens exclusion from state A's home financial markets and services to any institutions from states C or D who transact financial business with state B.

The United States has claimed the right to repossess all US dollar-denominated deposits owned by 'rogue' states everywhere in the world, although this is difficult to enforce. Such financial sanctions impose costs on targets. Meanwhile political leaders in the initiating state receive the political benefit of looking tough to domestic constituents, while avoiding more costly foreign policy actions such as initiating a military response to the target's foreign policy choices.

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

A seventh major instrument of FS is the exercise of *collective voice*, especially by less-influential state actors, within existing global financial governance forums, from the IMF and World Bank, to the Financial Stability Forum, to influential yet public-private or fully private venues ranging from voluntary international financial market standard-setting and regulatory bodies to informal yet influential gatherings like the World Economic Forum in Davos. This constitutes an 'inside option,' in that it does not directly challenge, nor seek to supplant, existing institutions, but instead aims at expanding participation within them.
An eighth category of FS instruments is the 'outside option' of the *collective creation of alternative multilateral institutions* that implicitly or explicitly challenge the major institutions of the postwar

Western-dominated order created in the decade following the Second World War. In the financial and monetary sphere among the most important of these new international financial institutions may be the New Development Bank (NDB) of the BRICS club countries and the Asian Infrastructure Investment Bank (AIIB), which now has over 100 member countries but in which China retains a controlling interest. In addition to formal institutions, informal clubs of countries with common goals for reforms of global or regional financial or monetary governance may become an important option.

Assessing National Power Capabilities

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

Hard power capabilities are relative and thus necessarily zero-sum in their conceptualization. They are best assessed vis-à-vis other states within the relevant interstate system. While many discussions of relative power simply rank countries by the size of their overall economies, this chapter employs an index that combines five different empirical measures of national power capabilities. The material capabilities index (MCI) from the Global Monetary and Financial Powers of States (GMFPS) dataset includes almost all countries, and is calculated as the mean of each country's annual shares of total world quantities in five critical dimensions: economic size (as measured by nominal gross domestic product, GDP), population, industrial innovativeness (assessed as patents plus industrial value-added), trade, and military spending (for details see Armijo et al, 2020).

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

In contrast, higher scores on another four financial dimensions increase FS options. These dimensions can, like the MCI, be assessed as shares of the global total (Armijo et al, 2020).

Creditor capability represents a country's ability to send financing abroad in the form of loans, portfolio investment, and foreign direct investment or donated as foreign aid. A creditor state, for example, can target its allies to receive more generous bilateral ODA on a per capita basis than similar target states with whom the creditor has frosty relations. The potential for creditor capability can be measured as a country's share of the total surplus of all countries running a balance of payments (current account) surplus in a year. Actual creditor capability can be assessed as a stock, for example, by calculating a country's share in all official foreign exchange holdings each year, or the country's accumulated share in the total ownership of net financial assets among all countries with a surplus. The index reported here is a mean of the latter two components. As with the measure of external public debt, the key reserve currency country(ies) will have an anomalous share. At present, because the US dollar remains the dominant reserve currency, the US central bank need not accumulate large quantities of government bonds of other hard currency countries as insurance against capital flight or international financial volatility.

Currency capability means the dominance of a country's home currency in global markets, for example, as the currency in which countries hold their official foreign exchange reserves or in which trade is invoiced or international corporate bonds are priced. The historical record as well as political economic theory suggests that currency power tends to be centralized, giving enormous power capabilities to the country at the center of a regional or global trading and financial system (Cohen, 2018). Moreover, as noted, a state at the peak of the global currency hierarchy is largely exempt from needing to worry about its net foreign indebtedness, as foreigners choose to hold its currency, nor does the key currency country need to self-insure via large foreign exchange reserves. For this reason, both the IFS and the FS approaches pay great attention to global currency hierarchy.

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

Finally, *financial governance capability* refers to the influence a country has in shaping consensual standards for financial regulation, such as the lending priorities of international financial institutions, the conditions of debt restructuring following financial crises, or the capital adequacy standards for guiding the operations of multinational banks. Governance capability can be measured as a country's share of votes, leadership positions, and any other globally-summable dimension mirroring influence in major global financial governance institutions. Global financial

governance influence also is relevant to a country's ability to employ most other types of FS instruments. For example, consider capital controls, quintessentially a defensive weapon of relatively weak states. IMF strictures on permissible versus disqualifying capital controls for member states wishing access to IMF benefits, such as emergency liquidity support, have been the subject of recurrent fights within the Fund's Executive Board, especially in the runup to and aftermath of the Asian financial crisis of the late 1990s (Blustein, 2003).

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

Power Capabilities and Financial Statecraft Options of the Global North

The advanced capitalist democracies of the global North designed and continue to dominate the complex of multilateral global governance institutions formed in the aftermath of the Second World War. Among the most significant in terms of their enduring influence on international relations are the United Nations (UN), the North Atlantic Treaty Organization (NATO), and the two peak international financial institutions, the International Monetary Fund (IMF) and World Bank. Arguably the most important globally are the members of the Group of Seven (G7): the United States, Japan, Germany, United Kingdom, France, Italy, and Canada. These are the status quo powers, leaders of the post-Second World War global order.

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

Table 3.2: The Power Capabilities of the Global North (as percent of global totals, ordered by decreasing 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**
U.S.	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
U.K.	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
G6 Total	***6.7***	***5.8***	***27.0***	***17.4***	***38.5***	***27.5***	***30.8***	***32.6***	***42.6***	***37.4***	***47.8***	***37.2***
G7 Total	***11.0***	***9.8***	***51.0***	***36.7***	***40.0***	***28.1***	***94.2***	***92.5***	***71.6***	***62.1***	***63.3***	***51.7***
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

Source: Armijo et al, 2020. Note: 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.

A state needs creditor capability to employ the assertive FS instruments of offering a target state *foreign aid and public investment* or forgiving or rescheduling its *troubled sovereign debt*. Table 3.2 tracks the G7's total creditor capability as falling from about 40 percent of the global total to 28 percent in the final year measured. Consequently, it is increasingly difficult for national leaders in the political West (global North) to offer large quantities of ODA or public loans and investment. And one cannot forgive bilateral sovereign debts if the loans were never made. True, the major reserve currency countries could expand their domestic money supplies for this purpose, but they will not. They have been willing to work collectively to expand credit by modifying some rules within the multilateral financial institutions (as by easing the constraints on the use of IMF's Special Drawing Rights quasi-currency, SDRs) or to approve modest collective projects for debt relief from multilateral banks. Nonetheless, the point holds. Examining a different measure of creditor capability, the IMF's net international investment position (NIIP), which calculates absolute figures for country stocks of net foreign financial assets, leads to similar conclusions about eroded creditor capabilities in the global North.[4] For example, among the G7, only three had significant surpluses in late 2022: Japan (US$3.2 trillion), Germany (US$2.9) trillion, and Canada

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

(US$0.8 trillion).[5] Other advanced industrial countries with surpluses included South Korea, Norway, and Switzerland. In contrast, the NIIP positions of the remaining major Northern powers in Table 3.2 reflect their accumulated international indebtedness. The US' negative NIIP (that is, net foreign liabilities) figure is US$16.2 trillion. For now, global investors continue to view the US as a 'safe haven' for footloose global private capital, and foreign governments acquire its currency foofficial foreign exchange reserves. At some unknown future date these accumulated foreign liabilities may become problematic for the US dollar and US economy. Meanwhile, these large inward capital flows of foreign investment in US Treasury securities ease US domestic budget constraints.

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

The global North's options to use bilateral sovereign debt forgiveness as an instrument of direct foreign policy also have shrunk, as the management of financial crises and troubled sovereign debt of DEEs is now largely handled by multilateral institutions, with the IMF playing a leading role. This said, the US and other G7 countries continue to hold greater influence in the status quo international financial institutions such as the IMF and World Bank than would be predicted by their populations or economic size. Observers such as Kharas and Linn (2016) argue that the IMF has been more generous with the peripheral countries of the global North than the global South.
The continuing high concentration of currency, network, and financial governance capabilities in the US and its G7 partners revealed in Table 3.2 enables these countries to employ access to their home financial markets, home currency, and even to a host of 'global' financial institutions necessary to transacting business, such as the SWIFT network for transnational financial messaging, as a reward or a sanction for other countries. Currency capability interacts with and bolsters financial network capability (Perez, 2022). An important FS use for currency capability is that financial sanctions against foreign countries are readily enabled if those deposits are held in the issuing countries financial institutions. The United States even imposes sanctions on third

[5] Canada, with its long, shared border and deeply-entwined economy with the United States retains large USD reserves to manage that bilateral relationship. It constitutes a special case, and seldom employs FS vis-à-vis third parties except in concert with the United States.
[6] See Moses & Zyu, 2022; US Government, 2023.

country financial institutions domiciled outside the US that hold US dollar-denominated deposits for sanctioned individuals and countries. Russia, Iran, Venezuela, and Cuba have been major targets of Northern/Western financial sanctions, and China also has felt their bite

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

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

Power and Financial Statecraft Options in the Global South

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

The previous section's discussion of the global North's FS linked specific international financial capabilities to types of assertive FS. That framing worked because the G7 countries are relatively similar in their international political and financial profiles. However, the global South is a more disparate group, even if we limit ourselves to the nine countries profiled in Table 3.3. Consequently, this section's discussion primarily is organized by country.

---

[7] Using data from Maddison 2006, 'GDP in 1990 international dollars' and from 1999 forward as per the World Bank's 'World Development Indicators,' 'GDP at purchasing power parity.'

Table 3.3: Power Capabilities: Major & Selected Middle Powers Caucusing with Global South (as percent of global total, displayed by descending 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

Source: Armijo et al, 2020. Note: All figures are for dates noted, or earliest or latest available.
* Figures for China exclude Hong Kong.

China is of course in a category by itself. China's increasing prominence in the global political economy reflects both its hard power capabilities (MCI) and its financial capabilities, but especially its enormous creditor power, which is second only to that of Japan, by either of the measures referenced here. In terms of the GMFPS dataset referenced in Tables 3.2 and 3.3, China's creditor capability expanded almost fourfold in a little over a decade. According to the NIIP, which calculated slightly differently and reporting absolute figures, in September 2022 mainland China had a net surplus of US$2.5 trillion, with another US$1.7 trillion in Hong Kong. China, whose overseas grants and loans are not included in the ODA statistics, is now the world's most important bilateral lender to DEE governments (Gelpern et al, 2021). A Chinese-affiliated think tank recently estimated that financial flows associated with China's Belt and Road Initiative (BRI), first announced in 2013 and focusing on funding traditional heavy infrastructure in energy, transportation, mining, and communications throughout the global South, had now passed the symbolic US$1trillion level, including US$634 billion in "construction contracts" (or loans tied to the purchase of Chinese equipment and services) and US$419 billion in "non-financial investments" (that is, equity participation by Chinese banks and firms, often ostensibly private, but with obligatory close ties to the state), with the latter category slated to increase (Nedopil, 2024, p 7 and passim). The BRI sums for 2022 (US$75 billion) and 2023 (US$92 billion) are about ¾ of recent bilateral ODA flows from the political North, but the types of goods provided by Chinese aid and investment are closer to the dams, roads, and power plants on which the West (now global North) concentrated its foreign assistance from the 1950s through the early 1980s.

As noted earlier in this chapter, a country with a large international creditor presence can exercise the FS instrument of debt forgiveness, sometimes extracting reciprocal favors. Because the majority of BRI funding has been via loans, China now is having to deal with the problem of how to treat defaulting sovereign debtors. Public-private transnational committees from the global North, such as the Sovereign Debt Working Group of the Bretton Woods Committee (2022), worry because China will not join with them as official and private creditors to DEE governments, but instead prefers to wield the important FS instrument of sovereign debt restructuring unilaterally. China also has moved into financial crisis management, becoming increasingly consequential as a potential global lender of last resort by offering emergency swap lines and other facilities, including to countries, such as Argentina, that the US foreign policy establishment continues to view as its own "backyard" (Bradsher, 2023; Tett, 2023). As of end 2020, China had bilateral swap arrangements with 31 countries, including several advanced industrial democracies such as Australia, Canada, Japan, South Korea, and the United Kingdom (Perks et al, 2021, p 36). Thus far, Chinese swaps seldom have been used, in contrast to those extended by the United States (Perez-Saíz & Zhang, 2023).

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

Despite recent increases in China's financial governance roles within the global institutions and clubs dominated by the global North, its leaders also have experimented with constructing alternative global financial institutions and clubs, such as the BRICS' New Development Bank (NDB), its companion stabilization fund, the Contingent Reserve Association (CRA), and the Asian Infrastructure Investment Bank (AIIB), all created in 2011–12. More recently, China's focus has been on promoting its central bank digital currency (CBDC) (McNally, this volume) and in comparative perspective with Russia's digital ruble (Ehlke, Salzer, and Westermeier, this volume), and in de-dollarization of international transactions more generally (Peruffo et al. forthcoming).
Table 3.3 also shows the following interesting patterns among the remaining countries profiled. As a group, these major emerging economies have increased their creditor capability, although mainly in East Asia and among natural resource exporters. In addition to China (and Hong Kong), the IMF's NIIP measure shows late 2022 surpluses for Singapore (US$0.8 trillion); Saudi Arabia (US$0.7 trillion); and Russia (US$0.8), the latter despite Russia being the subject of financial sanctions from the political West.[9] Countries with large net external financial liabilities included Brazil (US$0.8 trillion), India (US$0.4 trillion), and Indonesia (US$0.3 trillion). Over the period

---

[8] See https://www.imf.org/en/News/Articles/2016/09/29/AM16-NA093016IMF-Adds-Chinese-Renminbi-to-Special-Drawing-Rights-Basket
[9] The IMF doesn't calculate NIIP for the UAE, but presumably this number also would be strongly in surplus.

measured, none had any currency power, but all increased their financial network and governance capabilities.

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

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

Brazil's leaders have used tools of bilateral international financial statecraft primarily for defensive purposes, having decades of experience with creative and flexible use of capital controls to cope with the exchange complexities of a very high-inflation economy, ending only in the mid-1990s. In the late 1990s, Brazil inaugurated modest foreign aid and technical cooperation programs, particularly with Lusophone Africa. In the early 21st century, Brazil participated enthusiastically in the collective FS projects of the BRICS and somewhat less enthusiastically with its regional

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

neighbors in South America (Henderson & Clarkson, 2016; Armijo & Sepehr, 2024). Brazil, which experienced external debt crises in 1982, 1999, and 2002, subsequently followed a defensive FS strategy for minimizing external vulnerability of substituting domestic debt for international borrowing, bringing the foreign-to-domestic public debt ratio down from 11 percent in 2002 to under 4 percent in 2020). Domestic financial regulations encouraged private borrowers to do likewise, halving the foreign-to-domestic private debt ratio from 63 to 31 percent from 2003 to 2020. This said, the ratio of Brazil's total external debt to GDP, which fell from 19 percent in 2003 to only 7 percent in 2008, by 2020 was back at 18 percent.[11] In any case, only DEE countries such as Brazil with large and liquid domestic financial markets, approximated by the financial network capabilities shown in Tables 3.2 and 3.3, can successfully reorient government and business borrowing from foreign to domestic sources of credit.[12]

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

Saudi Arabia is not a major power in overall material capabilities, yet its leaders, along with neighboring fossil fuel exporters *UAE* and Kuwait, wield very considerable creditor capabilities. These governments' preferred vehicle for assertive FS is the sovereign wealth fund (SWF), an often-opaque type of investment fund operated by national governments, and which frequently seeks some balance of political influence and profits in its portfolio and FDI holdings. Of the eleven largest SWFs as of end 2022, each with at least US$300 billion in assets under management, four were from China or Hong Kong, with a total portfolio of US$3.3 trillion, five from Persian Gulf petroleum exporters, totaling US$3.1 trillion, and the governments of Norway and Singapore owned the remaining two.[13] *South Africa,* the final country in the global South mentioned here separately, possesses fewer overall hard power capabilities than a larger country such as Nigeria, yet is notable for being a member of the BRICS and the G20, and for possessing creditor, financial network, and financial governance capabilities that are significant for its region. Nonetheless,

[11] See www.fred.stlouisfed.org.

[12] Machado, de Paula, and Mantoan (this volume) identify partisan rotation between developmentalist and neoliberal presidential administrations as a principal source for macroeconomic and FS outcomes, while Kaltenbrunner, Karaçimen, and Rabinovich (this volume) emphasize financial differences between Brazil and Turkey, yet stress each country's IFS. Armijo (2017) identifies a comparatively competent Brazilian state with multiple goals for public banks.

[13] See https://www.statista.com/statistics/276617/sovereign-wealth-funds-worldwide-based-on-assets-under-management/.

South Africa's abilities to initiate bilateral financial statecraft, except possibly vis-à-vis its immediate subregion, are quite limited.[14]

A final group consists of all the remaining countries in the global South. Most countries in this thoroughly heterogenous group lack both the hard power and financial power capabilities for assertive FS. They are not able to extend public sector aid, credit, or investment to their neighbors, forgive others' foreign debts, offer access to their attractive home financial markets, or exercise financial sanctions. Even with respect to defensive FS, most DEEs cannot contemplate individual action, except to erect defensive capital controls when they fear being destabilized by capital flight, or to take up opportunities to diversify their sources of external capital. They can, in principle, join in collective FS, for example by pursuing 'inside options' such as joint campaigns to reallocate votes and quotas within the international financial institutions or to free up more emergency lending by the IMF through loosening restrictions on the uses of special drawing rights (SDRs). Some participate actively in collective efforts to reform the treatment of troubled sovereign debt, both by participating in debt reduction efforts led by the global North, such as the G20's Debt Service Suspension Initiative (DSSI) to postpone, but not cancel, sovereign debt to official creditors during the height of the global Covid-19 pandemic, or the global South, as in the Bridgetown Initiative led by Barbados.[15] A more radical alternative is pursuit of 'outside options' such as attempting to diversify away from the US dollar or to promote collective financial institutions not controlled by the global North, such as regional development banks that try to operate independently of the major global powers, including the ultimately unsuccessful Bank of the South (Armijo & Sepehr, 2024).

Conclusions: can international financial statecraft in the name of the global South mitigate international financial subordination?

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

The theory of IFS makes at least two related claims. First, the norms and customary procedures within global financial and currency markets, as well as the rules and regulations adopted by international organizations tasked with global financial governance (collectively, the 'global financial architecture') operate as a system that is structurally biased against fair treatment for

[14] Patrick Bond (this volume) and Johannes Petry (this volume) agree that South Africa enjoys scant autonomy in FS, crediting the state's financial subordination as the main cause.

[15] 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/.

DEEs. Moreover, and second, this bias is both deeply-embedded and usually unperceived, either by its victims or its beneficiaries, who suffer from false consciousness. Examples of such systemic bias are not difficult to locate. Consider, for example, the difficulties experienced by countries that cannot borrow internationally or pay for imports in their home currencies, but instead must exchange their national monies for so-called hard currencies, preeminently the US dollar. This is the so-called problem of currency 'original sin' (Eichengreen et al, 2022; Armijo, 2023).

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

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

Second, much FS is bilateral and zero-sum, and developing and emerging economies at best can anticipate the same ambiguous results as experienced by the global North. Individual FS, even relatively generous actions such as the incumbent leaders of a powerful state resolving to extend foreign aid or sovereign debt relief, inevitably is characterized by mixed motives, some of which are positive sum ('it is in our national interest that our neighbors and allies are prosperous and peaceful') while others are zero-sum ('however, we don't wish our allies to become less dependent on us or less willing to follow our lead on UN votes'). In other words, it is inherent in the definition of FS that its primary goals are not to improve the efficiency of financial intermediation or promote regional or global economic growth. Moreover, overt manipulation by one state invites retaliation and a shrinking and more politicized global financial and monetary system overall, an unpredictable and undesirable outcome. Sometimes sanctions can be defended as an option short of war, but they are seldom a first best foreign policy choice, and hardly ever a sound economic policy.

Third, as argued throughout this chapter, a country's options for exercising FS cannot be divorced from the country's underlying relative power capabilities: smaller or weaker powers are necessarily disadvantaged when international relations devolve into sheer power politics. Ceteris

paribus, DEEs have every incentive to prefer multilateral cooperation to the spread of a combative FS perspective.

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

In other words, in the end, FS is…simply statecraft. Lesser powers operating in the global space generally have two options: they may bandwagon with a great or major power, accepting subordinate status in exchange for concrete benefits, or they may laboriously form a coalition with other middle or small powers to aggregate their voices around common goals. Country leaders need not select the same foreign policy option across all international issue arenas, incidentally an important thesis of 'active non-alignment,' being promoted by norm entrepreneurs from Latin American middle powers (Fortín et al, 2022). Thus, Brazil or Argentina might caucus with the self-proclaimed representatives of the global South on some issues, but with the political North on others. In the international issue arena of global financial governance there are many attractive reform ideas already under discussion including, for example, allowing for global North countries to 'share' their SDR allocations, establishing a multilateral sovereign debt restructuring mechanism (SDRM) or institution, expanding options for wealthy countries to subsidize environmental and climate protection via revived 'debt-for-nature,' swaps, or for global South groups such as the BRICS to innovate new instruments including currencies (Batista Jr. 2024). Ultimately, the core solutions to IFS are as much or more about old-fashioned international political cooperation as about the use of national financial capabilities or FS instruments, per se.

References

Alami, I., Alves, C., Bonizzi, B., Kaltenbrunner, A., Koddenbrock, K., Kvangraven, I., et al (2023) 'International financial subordination: a critical research agenda', *Review of International Political Economy*, 30(4): 1360–86.

Andersen, M.S., Cooley, A. and Nexon, D.H. (eds) (2024) *Undermining American Hegemony: Goods Substitution in World Politics*, Cambridge: Cambridge University Press.

Armijo, L.E. (2017) "The Public Bank Trilemma: The BNDES and Brazil's New Developmentalism." In Peter Kingstone and Timothy Power, eds., *Democratic Brazil Divided.* Pittsburgh: University of Pittsburgh Press, pp. 230-247.

Armijo, L.E. (2023) 'Regionalism, Multilateralism, and Sovereign Debt: Observations from a Latin Americanist,' *Global Perspectives*, 4(1): 57547.

[16] https://www.dlapiper.com/en-us/insights/topics/cop-conference-of-the-parties/mitigation-adaptation-and-resilience.

Armijo, L.E. and S.N. Katada, eds. (2014) *The Financial Statecraft of Emerging Powers: Shield and Sword in Asia and Latin America*. New York: Palgrave Macmillan.

Armijo, L.E. and Sood, P. (2023) 'Voice at the Point of Sovereign Default', *Ethics and International Affairs*, 37(1).

Armijo, L.E. and Sepehr, V.R. (2024) 'Long-Term Finance: The Challenging International Politics of Regional Development Banks' in L.E. Armijo, M. Fraundorfer and S.D. Rhodes (eds) *South American Policy Regionalism: Drivers and Barriers to International Problem Solving*, London: Routledge.

Armijo, L.E., Tirone, D.C. and Chey, K. (2020) 'The Monetary and Financial Powers of States: Theory, Dataset, and Observations on the Trajectory of American Dominance', *New Political Economy* 25(2): 174–94.

Baldwin, D.A. (1985) *Economic Statecraft*, Princeton: Princeton University Press.

Batista Jr., Paulo Noguiera (2024) 'BRICS: How to Arrive at a New International Reserve Currency,' October 18. Blogpost at: https://red.org.br/noticia/brics-como-chegar-a-uma-nova-moeda-de-reserva-internacional/

Bearce, D.H. and Tirone, D.C. (2010) 'Foreign Aid Effectiveness and the Strategic Goals of Donor Governments', *The Journal of Politics* 72(3): 837–71.

Blustein, P. (2003) *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF,* New York: PublicAffairs,

Bradsher, K. (2023) 'After Doling Out Huge Loans, China is Now Bailing Out Countries', *New York Times,* [online] 27 March, Available at https://www.nytimes.com/2023/03/27/business/china-loans-bailouts-debt.html [Accessed 7 May 2024].

Carney, R. W. (2018) *Authoritarian Capitalism: Sovereign Wealth Funds and State-Owned Enterprises in East Asia and Beyond*, Cambridge: Cambridge University Press.

Cassetta, J.M. (2022) 'The Geopolitics of Swap Lines', *M-RCBG Working Paper Series 181*, Cambridge, MA: Harvard University.

Cohen, B.J. (2018) *Currency Power: Understanding Monetary Rivalry.* Princeton: Princeton University Press.

Economist (April 11, 2024) 'How India's Imports of Russian Oil Have Lubricated Global Markets', *Economist*, , At https://www.economist.com/asia/2024/04/11/how-indias-imports-of-russian-oil-have-lubricated-global-markets..

Economist (October 20, 2024). 'Putin's Plan to Dethrone the Dollar,' *Economist.* at: https://www.economist.com/international/2024/10/20/putins-plan-to-dethrone-the-dollar

Eichengreen, B., Hausmann, R. and Panizzi, U. (2022) 'Yet Still It Endures: The Persistence of Original Sin', *CEPR Discussion Paper DP17691*, London: Centre for Economic Policy Research.

Farrell, H. and Newman, A. (2020) 'The Twilight of America's Financial Empire: Washington's Economic Bullying Will Erode Its Power', *Foreign Affairs*, [online] 24 January, Available at https://www.foreignaffairs.com/united-states/twilight-americas-financial-empire [Accessed 7 May 2024].

Fortín, C., Ominami, C. and Heine, J. (eds) (2023) *Latin American Foreign Policies in the New World Order: The Active Non-Alignment Option*, London: Anthem Press.

Fry, R.A., McKibbin, W.J. and O'Brien, J. (eds) (2011) *Sovereign Wealth: The Role of State Capital in the New Financial Order*, London: Imperial College Press.

Gabor, D. (2021) 'The Wall Street Consensus', *Development and Change* 52(3): 429–59.

Gabor, D. and Sylla, N.S. (2023) *Development and Change* 54(5): 1169–96

Gallagher, K.P. and Heine, J. (2021) ‘Biden needs to reverse Trump’s Economic Policy in Ecuador’, *The Hill,* [online] 26 January, Available at https://thehill.com/opinion/international/535838-biden-needs-to-reverse-trumps-crony-capitalism-in-ecuador/ [Accessed 7 May 2024].

Gelpern, A., Horn, S., Morris, S., Parks, B. and Trebesch, C. (2021) ‘How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments’, Williamsburg, VA.

Henderson, J. and Clarkson, S. (2016) ‘International Public Finance and the Rise of Brazil: Comparing Brazil’s Use of Regionalism with Its Unilateralism and Bilateralism’, *Latin American Research Review* 51(4): 43–61.

Katada, S.N. (2020) *Japan’s New Regional Reality: Geoeconomic Strategy in the Asia-Pacific.* New York: Columbia University Press.

Katada, S.N., Roberts, C. and Armijo, L.E. (2017) ‘The Varieties of Collective Financial Statecraft: The BRICS and China’, *Political Science Quarterly* 132(3): 403–33.

Kharas, H. and Linn, J.F. (2016) ‘Hypocrisy in financial crisis response: East Asia 1998 versus the USA 2008’, *Brookings Institution*, [online], Available at https://www.brookings.edu/articles/hypocrisy-in-financial-crisis-response-east-asia-1998-versus-the-usa-2008/ [Accessed 7 May 2024].

Kroenig, M., Marczak, J. and Cimmino, J. (2024) ‘A Strategy to Counter Malign Chinese and Russian Influence in Latin America and the Caribbean’, *Atlantic Council*, [online] 12 February, Available at https://www.atlanticcouncil.org/content-series/atlantic-council-strategy-paper-series/a-strategy-to-counter-malign-chinese-and-russian-influence-in-latin-america-and-the-caribbean/ [Accessed 7 May 2024].

Li, J., Shapiro, D. and Ufimtseva. A. (2023) ‘Regulating inbound foreign direct investment in a world of hegemonic rivalry: the evolution and diffusion of US policy’, *Journal of International Business Policy*.

Maddison, A. 2006. *The World Economy.* Paris: Development Centre, Organisation for Economic Co-operation and Development (OECD). At: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.stat.berkeley.edu/~aldous/157/Papers/world_economy.pdf

McDowell, D. (2021) ‘Financial sanctions and currency risk in the international financial system’, *Review of International Political Economy* (28)3: 635–61.

Moses, O. and Zhu, K. (2022) ‘The Belt and Road Initiative and the Partnership for Global Infrastructure and Investment’, *GCI Working Paper 026*, Boston: Boston University.

Nedophil, C. (2024) *China Belt and Road Initiative (BRI) Investment Report 2023*, Brisbane: Griffith Asia Institute.

Perez, C. (2022) ‘What Does Russia’s Removal from SWIFT Mean for the Future of Global Commerce?’ *Foreign Policy*, [online] 8 March, Available at https://foreignpolicy.com/2022/03/08/swift-sanctions-ukraine-russia-nato-putin-war-global-finance/ [Accessed 7 May 2024].

Perez-Saíz, H. and Zhang, L. (2023) ‘Renminbi Usage in Cross-Border Payments: Regional Patterns and the Role of Swaps Lines and Offshore Clearing Banks’, *IMF Working Papers 2023/77*, Washington, DC: IMF.

Perks, M., Rao, Y., Shin, J. and Tokuoka, K. (2021) ‘Evolution of Bilateral Swap Lines’, *IMF Working Paper 21/210*, Washington, DC: IMF.

Peruffo, L., Cunha, A. M., Haines, A. F. H. (forthcoming 2024) 'Moving away from a Dollar Dominated International Monetary and Financial System? The BRICS Grouping as an Arena to Promote the e-CNY.' In Li, Y., Leandro, F. J. B. S., Silva, J. T., and Rodrigues C. (eds.), *The Palgrave Handbook on China-Europe-Africa Relations*. Singapore: Palgrave Macmillan.

Pistor, K. (2020) *The Code of Capital: How the Law Creates Wealth and Inequality*, Princeton: Princeton University Press.

Prokopenko, A. (2023) *How Sanctions Have Changed Russian Economic Policy*, Washington, DC: Carnegie Endowment for International Peace.

Rethel, L. (2021) 'State-State and State-Market Alliances in the Forging of the ASEAN Economic Community: The Case of Capital Markets', Unpublished manuscript. Warwick: University of Warwick.

Roberts, C., Katada, S.N. and Armijo, L.E. (2018) *The BRICS and Collective Financial Statecraft*, New York: Oxford University Press.

Tett, G. (2023) 'Argentina's IMF Deal Should be a Wake-up Call on Emerging Market Debt', *Financial Times,* [online] February 3, Available at https://www.ft.com/content/c4aee76a-0415-47ed-b1ab-285bdc2baa4e [Accessed 7 May 2024].

Tooze, A. (2024) 'The IMF is an anchor adrift in a changing world economy', *Financial Times,* 26 January 2024.

US Government (2023) 'Fact Sheet: Partnership for Global Infrastructure and Investment at the G7 Summit', Press Briefing, 20 May 2024.