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Global Monetary Order and the Liberal Order Debate

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Abstract: The recent "liberal international order" (LIO) debate has been vague about the institutions and issue areas that constitute the order. This is likely driven by competing views of "liberal" and, perhaps more importantly, by security scholars dominating the debate. From the perspective of scholars who explore the elements of the global monetary order (reserve currencies, international financial institutions, and central banks), the picture is different. Where security scholars point to a decline in US influence, scholars of global monetary politics see continued US dominance. Moreover, monetary prominence has been a precondition for the viability of great power projects of order building more generally. This symposium offers such a counter narrative. While the security challenges are real, the crises of the last decade have actually reinforced the centrality of the US dollar and American financial power in the international system.

Resumen: El reciente debate sobre el «orden internacional liberal» (Liberal International Order, LIO) se refirió vagamente a las instituciones y las áreas problemáticas que constituyen el orden. Es probable que se guíe por los puntos de vista opuestos de los «liberales» y, quizás lo más importante, por los expertos en seguridad que dominan el debate. Desde la perspectiva de los académicos que exploran los elementos del orden monetario global (monedas de reserva, instituciones financieras internacionales y bancos centrales), el panorama es diferente. Donde los expertos en seguridad apuntan a una disminución en la influencia de los Estados Unidos, los expertos en política monetaria global ven el continuo dominio de los Estados Unidos. Además, la prominencia monetaria ha sido una condición previa para la viabilidad de proyectos de gran poder de construcción de

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orden en general. Este simposio ofrece una narrativa contraria. Si bien los desafíos de seguridad son reales, las crisis de la última década han reforzado la centralidad del dólar estadounidense y el poder financiero estadounidense en el sistema internacional.

Résumé: Le débat récent sur « l'ordre international libéral » ne permet pas de déterminer clairement les institutions et les zones problématiques constituant cet ordre. Cela est probablement dû aux points de vue opposés sur le concept « libéral » et peut-être plus encore par la mainmise des spécialistes en sécurité sur le débat. Du point de vue des spécialistes étudiant les éléments de l'ordre monétaire mondial (monnaies de réserve, institutions financières internationales et banques centrales), le contexte est différent. Alors que les spécialistes en sécurité soulignent un déclin de l'influence des États-Unis, les spécialistes en politique monétaire mondiale constatent la continuité de la domination américaine. Par ailleurs, de manière plus générale, l'importance monétaire est un prérequis pour la viabilité des projets très influents de construction d'ordre. Tel est le discours à contre-courant offert par ce symposium. Bien que les enjeux de sécurité soient réels, les crises de la dernière décennie ont, en réalité, renforcé la centralité du dollar américain et le pouvoir financier américain dans le système international.

Keywords: liberal international order, hegemony, politics of money, international political economy

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Articles in This Forum

Introduction

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> "*The dollar looks like a uniquely rare creature on the global landscape—a currency free of existential fears*" (Goodman 2019).

The American dollar is central to the global economy. Dollars are used worldwide as a medium of exchange, unit of account, and store of value. In addition to the dollar, the euro performs all of these roles. But even the euro's use pales in comparison to the dollar's dominance. For instance, at the end of 2018 the euro was the second-most widely held currency, with approximately 20 percent of allocated global currency reserves. That's impressive, given that the next closet currency, the Japanese Yen, comprised just 5 percent of global currency reserves. But the euro's share was a far cry from the dollar's primacy in the foreign exchange market, comprising more than 60 percent of foreign exchange reserves.[1]

A host of factors placed the United States in this position of monetary power. For economists, these range from the US economic status following World War II; the size of its economy, trade, and financial presence; and the relative stability of US internal and external prices. Political economists have long suspected that political factors also play a role, for example, some key economies—namely Germany and Japan—held dollar reserves as the "price" of US protection during the Cold War (Strange 1976). These features have so ingrained the dollar's status that some scholars claim the dollar's dominance is self-enforcing: the dollar is widely used because it has been widely used (Kindleberger 1967; Eichengreen 2011, 126).

Despite the dollar's centrality in the global economy, it is surprisingly absent (or severely neglected) in the recent debate about the future of the "liberal international order." While the debate has been vague about the institutions and issue areas that constitute the liberal international order, the order is largely viewed as comprising the post–World War II international institutions fostering trade, such as the now replaced North American Free Trade Agreement or the World Trade Organization (WTO), and security, such as the North Atlantic Treaty Organization (NATO) and the United Nations Security Council. This focus on trade and security suggests a decline in US influence in global affairs, marked by the emergence of major competitors to American military power, the rise of US protectionism, the United States being bogged down in two protracted counterinsurgency campaigns, and the possibility of the United States abandoning its commitment to NATO and the WTO.[2]

From the perspective of scholars who explore the elements of the global monetary order (international currencies, international financial institutions, and central banks), the picture is different. It's not that they fail to see sources of financial instability created by the dollar's (perhaps misplaced) safe-haven status (Bernanke et al. 2011) or US military buildups (Oatley 2015), nor is it that they failed to

[1] Data as of Q3 of 2018. Available through International Monetary Fund Currency Composition of Official Foreign Exchange Reserves (COFER) data. Available at http://data.imf.org/?sk=E6A5F467-C14B-4AA8–9F6D-5A09EC4E62A4. Accessed on March 7, 2019.

[2] Contributions to this debate are numerous, but core recent pieces outlining the contours include Deudney and Ikenberry (2018), Lissner and Rapp-Hooper (2018), Porter (2018), and Mearsheimer (2019).

notice how the 2008 global financial crisis raised a "heterogeneity of thinking" about alternative key currencies (Eichengreen 2011; Kirshner 2014, 2). Rather, scholars of global monetary politics emphasize the system's resilience. From their perspective, the situation is one of continued US dominance, with no end in sight. Monetary preeminence grants the United States, or any hegemonic state, a host of advantages. These include enhanced borrowing, buying, and monetary power (Norrlof 2008, 2010); expansive international operations without exacerbating domestic fiscal disputes (Oatley 2015); and nationals and corporations who can increase their international acquisitions and holdings (Norrlof 2010, 90–94; Starrs 2013). Such structural resiliency is why monetary prominence is considered a precondition for the viability of great-power order-building projects more generally (Gilpin 1987; Strange 1987; Sobel 2012).

So great is the advantage of supplying the world's key currency that then–French Finance Minister Valéry Giscard d'Estaing famously labeled the dollar's international dominance as the "exorbitant privilege" of the United States (Eichengreen 2011, 4). American officials have long recognized the benefits that the dollar's role in the global economic system accords the United States. During the Nixon administration, for instance, Secretary of Treasury John Connally epitomized the view from Washington by stating that "the dollar is our currency but your problem" (Cohen 2015, 166). Speaking in 2009, China's chief bank regulator, Luo Ping, said China found itself hostage to US privileges: "Except for US Treasuries, what can you hold? Gold? You don't hold Japanese government bonds or UK bonds . . . We know the dollar is going to depreciate, so we hate you guys but there is nothing much we can do" (Hager 2016, 73).

The purpose of this symposium is to bring together a collection of short contributions elucidating the varied ways in which dollar hegemony is a product of and an enabler for continued American international primacy. In doing so, the symposium seeks to offer a counter narrative to the "declinist" view of the current international order. While the aforementioned security challenges are real, the crises of the last decade have actually reinforced the centrality of the US dollar as the key currency and American financial power in the international system (Norrlof 2010, 2014; McDowell 2012; Oatley et al. 2013; Drezner 2014). It is critical that scholars think carefully about the constitutive elements of the world's monetary order. Doing so, we argue, offers a narrative consistent with the "antideclinist" view of the international monetary and financial system.

The aim of this forum is to bring into sharp focus complex and important issues regarding the monetary order. It does so by highlighting the economic and geopolitical foundations of the dollar order. One critical economic driver of dollar dominance is the historic centrality of US financial institutions in the global system. The centrality of US banks and investment firms is self-perpetuating: network feedback is capable of keeping such "core nodes" at the center of the network long past the point in which their internal attribute advantage has been competed away. Another economic factor is the underappreciated role of the dollar as the top international payments currency. By virtue of global dependence on the dollar as the key payments currency, the United States possesses the ability to deprive foreign governments, corporations, and individuals from accessing and using the currency.

But currency dominance is as much (if not more) about politics than economics. There are a host of potential security drivers of reserve currency support. Certain characteristics of reserve issuers can affect currency support, such as their military power, alliances, or broader security policies. This is indeed evident with the United States and the dollar. One example of this dollar-security link is the US role as an offshore security provider in the Persian Gulf region, which underpins the dollar as the core unit of account for the global oil market. The alliance-oil-dollar nexus has been foundational to American global power since even before the creation of the order following 1945. The collapse of the Bretton Woods system in the early 1970s enhanced this nexus. It endures today.

The economic and political pillars of dollar dominance are brought into sharp relief by considering the growing economic clout of China. For instance, is China's economic rise eroding US dominance? Is it possible for China to gain the financial clout and subsume the global security role of the United States that is required to underpin the renminbi as the new global reserve currency? Is this even in China's interests?

Dollar hegemony matters because the fate of the dollar as the world's first reserve currency is vital for determining continued US economic hegemony. Whether dollar dominance is necessary for global economic leadership or only to the benefit of the United States is not our focus. Instead, our aim is to explore and explain dollar dominance as a matter of fact: What exactly determines whether the dollar will reign supreme and continue to command attention in the coming decades of the twenty-first century? What is the relative role of these various determinants of international currency issuance? In particular, how important are conventional economic determinants as compared to security determinants? We hope this symposium begins to offer guidance for thinking about these critical questions.

The Money Shapes the Order

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American monetary prominence shows no sign of weakening. In fact, by some measures it has strengthened since the global financial crisis (Cohen and Benney 2014). This is due to the unique characteristics of networked international money systems in combination with a strong commitment by American monetary policy-makers to maintain a key position within this structure even during times of crisis. Absent such a commitment, the monetary order might have changed during the global financial crisis, which could have presaged a structural reordering of world politics more generally (Helleiner 2014). But dynamic processes that are endogenous to hierarchical network structures are very powerful forces, capable of keeping core nodes at the center of networks for long periods of time. A qualitative change to the prevailing international order is unlikely without a substantial revision of the international monetary system—a rewiring of the monetary network—yet the conditions under which that could occur appear to be quite far away. Because the monetary system is the bedrock of the international order, we believe that a qualitative order shift is unlikely for the foreseeable future, although we discuss the conditions under which one could occur in the conclusion of this essay.

Such an order shift took place in the first half of the twentieth century, following two world wars and a Great Depression that fragmented the ex ante network of economic (and political) relations. This network fragmentation made possible the postwar reconstruction of global networks—economic, military, political, and cultural—around a new core. The United States was best suited to occupy that position due to its attributes, in particular its wealth and size (including its large domestic market). The transfer of financial predominance from London to New York and displacement of the pound by the dollar as the benchmark currency—codified in the Bretton Woods agreement—thus signified the beginnings of American hegemony and played a significant role in underwriting other aspects of the US order-building project. The fundamental structure of the world order has not changed since, although the network has "thickened" as broad-based economic development has integrated more of the world into this system, particularly in the post–Cold War era, and institutionalization (regionally and globally) has progressed. This persistence is despite a number of crises in world politics and the global economy in the years since 1945. Thus, there is reason to think that international orders in the era of global capitalism cannot fundamentally change (representing as, e.g., a shift to multipolarity, apolarity, or Chinese hegemony) unless the organizational structure of the global monetary system changes first.

Monetary prominence has allowed the United States to extend its order far past its post–World War II moment of global dominance and even beyond the "unipolar moment" at the end of the Cold War, because the benefits of dollar centrality are not strictly economic. As Kirshner (2003) put it, "Money Is Politics," and international money is international politics. States have long used currency power as an instrument for coercion in pursuit of security goals (Kirshner 1995). Without controlling the world's most-used currency, the United States would have greater difficulty debt-financing its security projects and expansive military budget (Oatley 2015; Poast 2015; Shea and Poast 2018). It also insulates the United States from any pressure debt-holding foreign major powers might wish to impose (Drezner 2009). The global importance of the dollar, and the unique relationship between American financial institutions and the Federal Reserve, gives US firms easy access to finance, which it uses to capture greater global market share, generate excess profit, employ American workers, and fund the state (Starrs 2013; Schwartz 2019). Monetary policy-makers respond to these developments, then private actors respond again, in a recursive loop. Thus, the monetary and financial systems are inextricably linked as coevolving systems, and both constitute an enormous basis of American public and private power, which it uses to extend and protect the prevailing global order.[3]

We argue that previous conceptions of hegemonic orders suffer from excess focus on the characteristics of the leading state (or states) and too little on the organizational structure of the rest of the system. Hegemonic powers gain influence through their structural prominence, and this is a function not only of their attributes but also of their connections to the rest of the system. The distribution of structural prominence at time *t* is a partial function of the prior distribution at time *t–1*; the network contains positive feedback, so even a redistribution of national attributes may not generate a major redistribution of network prominence. Hegemonic powers are those at the core of a system of interdependence, and the order that emerges from network integration is characterized by the actions and interests of the core nodes, as those diffuse through network connections into the rest of the system, in combination with the reactions and adaptations of others in the system. Hegemonic change thus involves a shift from one highly prominent country in the system to another, which occurs through a process of reassignment of global linkages; it is a fundamental reorganization of the architecture of global networks. An order shift therefore requires a substantive change to global networks, beginning with the monetary system, and this tends not to occur gradually but through system collapse during crisis periods. Even the financial shock of 2008–2009 did not generate a power transition because policy-makers were willing (and able) to intervene to prevent such a rewiring (Drezner 2014; Helleiner 2014). Thus, it is likely a necessary condition for reordering that policy-makers in the core are unwilling to preserve the structural integrity of the system.

Money and Order

We conceive of international orders as overlapping, multidimensional sets of durable arrangements that can be theorized about, and measured, as a multilayer network.[4] That is, order is characterized by interdependence among state and nonstate actors, whose behavior cannot be understood without knowledge of the structural context within which they operate, but which is nevertheless structurally sound (Keohane 2009; Keohane and Victor 2011; Winecoff 2017; Oatley 2019). Orders

[3] An author later in this forum discusses China's rise in the global financial system in detail.

[4] A multilayer network is a network with more than one "layer" (i.e., a "network of networks").

emerge when this structure is stable over the medium run or longer, so that the network not only persists indefinitely but retains its basic structure, which is reinforced as connections between actors grow over time.[5] Orders change when the network reorganizes, usually (at least historically) in the context of calamity: major power wars (Ikenberry 2001), severe economic disruption (and the decline in the provision of global public goods as emphasized by Kindleberger [1973]), and/or the bankruptcy of the ideational—and/or relational—basis of the *status quo ante* (Nexon 2009). We view orders as networks in part because such an analytical lens allows us to consider the extent and durability of international relations, that is, the extremity of anarchy in the international system; denser networks denote stronger relations, which could constitute the basis of an international society even under the anarchical condition (Bull 1977).[6]

This observation has led many to claim that order is generally a function of hegemonic influence (Gilpin 1981). Indeed, durable orders have historically contained a small number of entities at their core. Since 1945, the international system has developed around the United States across the subsystems of trade, security, finance, and knowledge-generation (Strange 1987; Winecoff 2019). This has remained the case despite profound and often rapid subsystem changes. Those changes include the end of European colonialism and the reconstruction (and rehabilitation) of the combatants in World War II; the heightening of the Cold War and then its cessation; numerous wars involving leading states and the second and third waves of democratization; the creation and strengthening of the European Union and other regional organizations; substantial alterations to the institutional architecture of world politics and the global economy; and the growth and integration of significant portions of the developing world (including a potential hegemonic challenger in China).

Thus, it is no surprise that speculation regarding a potential power transition occurred following the financial crisis that began on Wall Street in 2007 (Helleiner and Kirshner 2009; Helleiner 2010); it was a moment when *status quo* economic linkages were fracturing rapidly, with no guarantee that they would be reformed around the previous core entities. This was even more plausible given the rapid economic growth of emerging markets such as China in preceding decades, whose growth remained high even as advanced economies struggled with the Great Recession fallout from the financial crisis (Cohen and DeLong 2010; Subramanian 2011a, 2011b). Some even predicted an imminent shift from the US dollar to Chinese renminbi as the preeminent global currency (Subramanian 2011c). If there was to be a major reorganization of the system then the critical components seemed to be in place: a rising power, a major crisis in the central *status quo* power, and a perceived delegitimation of the *ex ante* order.

Instead, the US dollar appreciated sharply during the crisis, as foreign capital poured into the United States in a "flight to safety," despite the US government's flirtation with a sovereign default—due to partisan gridlock rather than economic incapacity—and serious weakness in the private sector. Instead of the normal crisis interaction between pressures on the banking system, currency values, and sovereign debt, the US government could borrow at negative interest rates that allowed it to intervene without cost to preserve the structure of the global financial network. Needless to say, this is not the normal experience of countries experiencing serious financial crisis and political dysfunction, but as a result no global monetary transition took place. And because no monetary transition took place, no general collapse of the relations ordering the international system took place, so no order shift took place.

[5] We use the term "indefinitely" in its strictly literal sense: lasting for an unknown length of time.

[6] The current state-of-the-art scholarship on hegemony and orders is found in a recent *Security Studies* special issue, introduced by Ikenberry and Nexon (2019).

The current international system remains quite hierarchical across domains and has been for some time (Strange 1987; Winecoff 2019). Such networks, the ideal type of which is "scale free," often contain positive-feedback mechanisms such as "preferential attachment."[7] Preferential attachment occurs when the future distribution of links in a network is a function of the prior distribution. For example, if the probability that international trade is cleared in American dollars today is related to the dollar's use in international trade yesterday, then that may be evidence of preferential attachment. Why is this important? Because preferential attachment is a purely endogenous structural process. It does not depend on the soundness of the dollar, the solvency of the American financial sector, the ideology of particular governments in the system, or any other factor. If it is present, then it may be sufficiently powerful for keeping the dollar at the core of the international monetary system for the foreseeable future. While more research on the specific question is needed, there is at least some evidence (discussed below) that preferential attachment does exist. And if preferential attachment is guiding the growth of the international monetary system, then that may provide the necessary infrastructure for the persistence of the American-led order more generally.

The Monetary Basis of the US-Centered System

Not only did American monetary prominence persist post–Bretton Woods, contrary to expectations (Triffin 1960, 1978), it broadened and deepened as the world system developed toward the "unipolar moment," and remains present today (Strange 1987; Norrlof 2010, 2014). Thus, continuing dollar dominance in the monetary system does not appear to depend on the persistence of any specific international institutional arrangement, such as Bretton Woods, but is closely related to the American hegemonic project more broadly. This was also true of previous hegemonic projects (Kirshner 1995; Sobel 2012; Winecoff 2014).

That the international monetary system is dollar-centric is not in dispute. More than 80 percent of foreign exchange transactions involve the dollar, a level that has been consistent across decades (Cohen and Benney 2014). More than 60 percent of reported currency reserves are also in dollars, and this is almost surely an understatement of the true percentage since non- (and partial-) reporting countries (especially emerging markets) are known to disproportionately hold dollars.[8] Using a highly conservative measure, Gopinath (2016) finds that more than 40 percent of international trade—when including intra-eurozone trade in the denominator—is indexed in dollars, nearly five times the US share of global exports and imports; counting intra-euro trade as domestic transactions would increase that number sharply, as would including a broader set of economies.[9] Moreover, the dollar is the basis of the global exchange rate system to a remarkable extent: around 60 percent of countries pursue policies to anchor their currencies to the greenback, and the percentage of global GDP that is anchored to the dollar has never been higher (Ilzetzki, Reinhart, and Rogoff 2019).[10] As a result, when the dollar's value changes, the volume of global trade is affected, even among non-US-trading partners, to an almost shocking degree: a 1 percent appreciation of the dollar is associated with a 0.6–0.8 percent decline in total global trade (Boz, Gopinath, and Plagborg-Moller 2018).

[7] The mathematical definition of this mechanism is found in Bianconi and Barabási (2001), while Oatley et al. (2013) introduce it to the international political economy of finance literature.

[8] See the International Monetary Fund's Currency Composition of Official Foreign Exchange Reserves (COFER) database: http://data.imf.org/?sk=E6A5F467-C14B-4AA8–9F6D-5A09EC4E62A4. Accessed February 18, 2019.

[9] Notably, China and most oil exporters are not in her data, but conduct the majority of their trade in dollars. This is a general bias in the data, as Gopinath (2016, 10–11) notes.

[10] Ilzetzki, Reinhart, and Rogoff (2019) also note that two-thirds of developing country debt is denominated in US dollars.

All of these empirics have been remarkably durable over time, according to the best data available, and they are so powerful that only one conclusion is possible: we still live under a "dollar standard." Unlike under the Bretton Woods arrangement, which institutionalized the dollar at the center of a pegged exchange rate regime, the post-1973 monetary "nonsystem" is emergent and unplanned, but nevertheless still sufficiently resembles the market structure of Bretton Woods to be dubbed "Bretton Woods II" (Dooley, Folkerts-Landau, and Garber 2004, 2009).[11] *Plus ça change.*

The leading theoretical framework understands dollar preeminence as a function of particular internal aspects of the United States that supposedly generate confidence in the American market, at least relative to its potential rivals. Those aspects are the large, open, and stable American domestic economy; its deep and liquid financial system; its transparent and predictable political system; and its willingness to provide security guarantees within its sphere of influence. According to this view, a lack of deficiencies in these attributes gave the United States greater policy-making credibility—and economic capability—than the European Union (or the separate European countries prior to 1999), Japan, China, or any others.

According to this view, American provision of global liquidity, stability of the value of the dollar, safety of the dollar itself as a financial asset, the relative openness of the US market to foreign trade and investment, and the global acceptance of dollars as an exchange device have all contributed to the maintenance of a dollar-centric monetary system. While such perceptions of American superiority may be less convincing in the era after the global financial crisis began on Wall Street and the election of Donald Trump as President on an anti-"globalist" platform (a point we return to below), the demerits of others have not necessarily diminished (Cohen 2012). This is the case despite precrisis expectations and postcrisis predictions that they might (Chinn and Frankel 2008; Cohen and DeLong 2010; Kirshner 2014).

An alternative perspective argues that the monetary system is governed by positive feedback mechanisms (such as preferential attachment) that is endogenous to network structure, which has helped keep the dollar in a core global position despite the erosion of US advantages in monadic attributes such as share of global GDP (Winecoff 2018). The legacy of Bretton Woods was surely an important driver of the initiation of the hierarchical monetary network, but in the half century since Bretton Woods was abandoned, preferential attachment has been powerful enough for the dollar to persist at the core of the monetary network. Regardless of the specific mechanism, American monetary superiority appears to be a persistent condition, at least for now.

How valuable is it to occupy a central position in the monetary system? Some economists argue that the economic benefits are relatively small, amounting to (perhaps) $20 billion in seigniorage each year (Bernanke 2015, 40). But this overlooks the substantial political economy benefits that accrue to the United States from its international influence in both the monetary and financial systems. This has both domestic and international components. Domestically, dollar primacy insulates the American political economy from many external pressures, particularly with respect to fiscal management and the theorized constraints of the macroeconomic "Trilemma" (Winecoff 2014). The Trilemma, according to the open economy framework, is that governments of open economies must choose only two of three policies that might all be desirable: stable exchange rates, domestic monetary policy-making autonomy, and an open capital market (Mundell 1960, 1963; Fleming 1962). This choice is a matter of high salience that mobilizes partisan politics, even if the economic constraints are not so severe as commonly imagined (Oatley 1999;

[11] See Corden (1983, 59) and Ocampo (2017).

Broz and Frieden 2001; Bearce 2007).[12] Moreover, Rodrik (2011) has noted that the economic Trilemma generates a macropolitical corollary: societies may choose two but not all three of deep economic integration into the world market, democratic responsiveness, and national sovereignty.

Dollar primacy allows the United States to avoid these tradeoffs, and realize all of these options, in a manner enjoyed by no other countries. How? If other countries manage their currencies relative to the dollar, as many dozens do either formally or informally, or accept the dollar as payment in international transactions, then the United States can enjoy currency price stability without sacrificing either of the other two macroeconomic goals of financial openness and monetary flexibility. This allows the United States to embed itself into the global economy without sacrificing national sovereignty or its ability to respond to internal political demands from the citizenry. The United States will not face the hard, political choices that most other economies face so long as it controls the world's most-used currency. The budget constraints, debt discipline, exchange rate volatility, and austerian macroeconomic policies pursued by others to stabilize their economies are alien to the American political economy. This is an extraordinary privilege indeed, and one that no other economy shares.

Internationally, monetary prominence gives the United States broad and deep influence over the global economy and the financial means to project both hard and soft power across domains. It is the bedrock of US hegemonic initiatives and a key principle of the contemporary order. Thus, the substantial US influence in the international money system is a form of structural power that emerges less from domestic attributes than from global positioning. In international political economy, the concept of structural power was most fully developed by Strange (1988), who contrasted it with power-as-compellence conceptualizations in the Dahlian tradition (e.g., the ability of A to influence B to do something she otherwise would not do). This form of power is about influencing systems and controlling opportunities in a broad sense: "Structural prominence, in short, confers the power to decide how things shall be done, the power to shape frameworks within which states relate to each other, relate to people, or relate to corporate enterprises" (Strange 1988, 24–25; see also May 1986; Strange 1987, 1989).

Scholars have noted a wide range of areas in which the United States has used its structural prominence in money and finance to achieve its preferred outcomes. For example, it has used its dollar contributions to, and thus veto power within, the International Monetary Fund in order to reward those who integrate into its order while punishing those who resist (particularly during the Cold War) (Oatley and Yackee 2004; Pop-Eleches 2008; Stone 2008).[13] The United States has used its control of the dollar-centric financial market to push its preferred regulatory policies onto foreign economies (Oatley and Nabors 1998; Oatley and Winecoff 2012). It has used its control over transnational financial payments to "weaponize interdependence" by targeting illicit actors and tax evaders (Emmenegger 2015; Farrell and Newman 2019). The United States uses control of the financial market to facilitate the US-centric alliance network (Gilpin 2001), provide the mechanism to compensate other nations for allowing the generation of an expansive military basing network (Cooley and Nexon 2013), and provide indefinite external subsidies to (literally) purchase peace for its allies (Arena and Pechenkina 2016). And, US control of the dollar-centric financial market is used for accumulating substantial profit through control of corporate structures, expansive financial markets, and intellectual property rights (Starrs 2013; Winecoff 2015; Fichtner 2017; Maxfield, Winecoff,

[12] Rey (2015) argues that the dollar's dominance renders the theoretical macroeconomic "Trilemma" moot in practice.

[13] Copelovitch (2010) offers a more nuanced view, but even in his account the United States (and several other major powers) wield much influence in the International Monetary Fund.

and Young 2017; Schwartz 2019). While other countries may be able to engage in partial forms of these actions, no others are able to pursue them all simultaneously to the same extent. This is the stuff of the US-centric order—the return to structural power—and it follows first and foremost from monetary superiority.

So monetary prominence is not only part of the American order, it is the basis of it (Oatley 2015). This order is characterized by ever-deepening interdependence, yet this is organized around the United States. When innovations occur at the core of an interdependent system, the result can be the generation of system stability or instability that spreads through the network connections. Having one key actor at the core of the global economy can provide the capacity for engaging in Kindlebergian hegemonic provision of global public goods at sufficient scale (Kindleberger 1973). But, it also creates opportunities for disorder in two ways: first, it incentivizes occasional belligerence from the central node, in this case the United States, because it is highly insulated from the effects of its actions (Monteiro 2011). Second, even when American leaders do not intend to leverage US position to threaten others, the asymmetric interdependence that exists in this system can spread instability from the United States to others when the US experiences domestic weakness. Oatley et al. (2013) thus refer to hierarchical interdependence via network connectivity as "robust but fragile": it is robust to shocks in the periphery, but fragile to shocks in the core. This instability-inducing shock could result by accident, negligence, or intention, but if it occurs at the core of the network it does not remain localized.

Inertia and Dollar Centrality

The foreign policy and international relations communities have resumed their regular preoccupation with the question of order transformation in world politics. The discussion above suggests that the potential for an order transition depends critically on whether there is qualitative change to the global monetary system. Previous challenges to US dollar dominance—by Japan and the European Union—were unsuccessful. But China's rise represents another challenge, perhaps the greatest yet. The argument above suggests that, at minimum, a shift from dollar primacy to a new monetary system organized around the renminbi is a prerequisite for this to occur. Such a shift is not on the immediate horizon[14] and, if it occurs, will likely be chaotic. There are some political and economic reasons why some states may wish to shift (at least in part) from the dollar to the renminbi (Liao and McDowell 2015, 2016), and Chinese policy-makers have begun building some monetary infrastructure that could presage a future challenge (Green and Gruin 2018). Nevertheless, so far China's rise has not caused much reordering in the monetary system, particularly by comparison with the significant recent changes to the institutions and practices of global trade.

The question of what conditions are required for a monetary transformation is as important as it is difficult to answer. It is important because our expectations about the monetary future should condition our expectations about everything else: trade, security, wealth accumulation, and the distribution of power in world politics. It is difficult to answer because we have experienced only one change in monetary hegemony during the era of globalized industrial capitalism, and it involved extreme calamity due, in part, to malign neglect.[15] Hopefully we are not doomed to a future that is similar to that past; thankfully, there are reasons to think that we are not.

[14] As others in this volume persuasively argue.

[15] Even then, the United Kingdom may have preserved sterling supremacy for some time longer had it not taken the disastrous decision to reimplement the gold standard during the interwar years.

Payments Power: The Overlooked Role of the Dollar as the Top International Payments Currency

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When people think of the dollar's dominance, its position as a reserve currency receives the bulk of the attention. On the one hand, this is sensible. It gives the issuing state immense political power, primarily by delaying the need for economic adjustment in the face of sustained external deficits (e.g., Kirshner 2008, 420; Norrlof 2010; Cohen 2015, 94). On the other hand, focusing on the dollar's role as a reserve currency misses a key element of the dollar's power. The dollar is also the most widely used currency for international payments: dollars aren't just held, they are used. This contribution to the forum considers the role of the US dollar as the top international payments currency and how dominance in this arena is an important power resource for the United States. It will also consider how—perhaps paradoxically—use of this power may chip away at the dollar's supremacy in payments.

The dollar's central role in global payments greatly enhances the United States' ability to practice financial statecraft: "the intentional use, by national governments, of domestic or international monetary or financial capabilities for the purpose of achieving ongoing foreign policy goals, whether political, economic, or financial" (Armijo and Katada 2015, 43). By virtue of the global dependence on its currency for international payments, the United States can employ financial sanctions to cut foreign governments, corporations, and individuals off from the global dollar-based financial system—a system upon which much of the world's trade and investment markets depend. Consistent with Farrell and Newman's (2019) concept of "weaponized interdependence," global dependence on the dollar in payments gives the United States enormous power to coerce and punish its enemies.

Yet, despite the power the United States derives from its currency's role in cross-border payments, overuse of this capability may lead to its erosion. In its efforts to combat the illicit financing of terrorism and rogue regimes, the United States has sharpened its financial sanctions capabilities over the past two decades. As evidence of US financial power has grown, so too has a view that reliance on the dollar is becoming fraught with *political risk.* States adversely affected by US policies have sought out ways to reduce their exposure to such risk by attempting to limit their dependence on the dollar as a payments vehicle. Steps taken by Russia, China, and the European Union aimed at creating alternatives to the dollar-based payments system illustrate this point.

International Payments and the Dollar

Economic exchange requires the transfer of value between individuals, firms, or other entities. Cash is the simplest way that value can be transferred, but it has obvious limitations—typically requiring that both parties to an exchange be present in the same physical location. This is not realistic for international transactions. In lieu of cash, value is transferred via payments systems where parties exchange claims on banks. Mechanisms for such exchanges include things like checks, credit cards, and wire transfers. The last of these—electronic wire transfers—are the most common way international payments are executed, enabling firms and financial institutions to move large sums of money at high frequency (Carter and Farha 2013, 905).

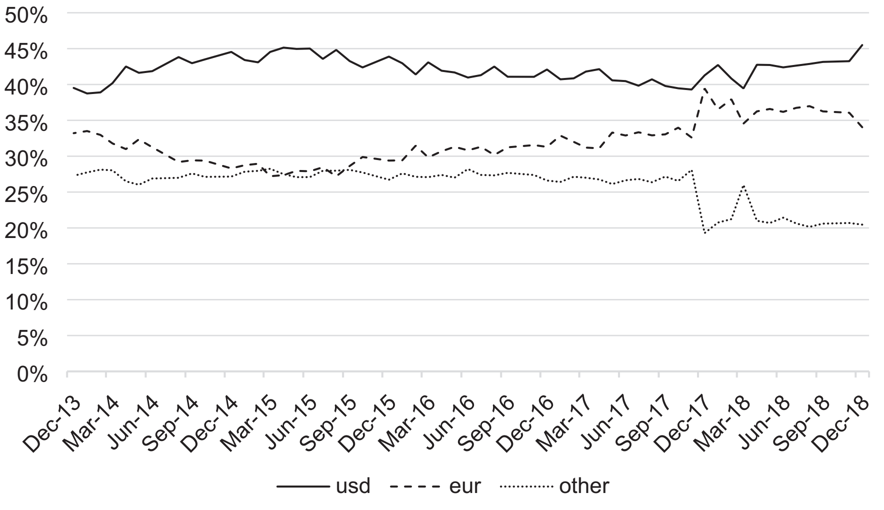

Figure 1. Cross-border payments by currency.
Note: Data were collected from documents available on SWIFT's renminbi tracker website: https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/rmb-tracker.

The very existence of a world economy depends on a functioning international payments system. Cross-border investment requires effective payments solutions where investors can transfer funds in exchange for foreign assets. Similarly, international debt markets depend upon debtors' ability to transfer money from their own accounts to their foreign creditors' accounts on a timely basis. Some 80 to 90 percent of international trade depends on a form of trade finance, where financial institutions play a critical role in ensuring that secure payments are made between importers and exporters (Auboin 2009, 1).

The global payments system is built on three basic components: a communication system, a medium of exchange, and a mechanism for clearing/settlement. Farrell and Newman (2019, 58–59) adeptly explain the communication component: "Businesses and banks depend on . . . reliable and secure communication between financial institutions regarding the multitude of transactions that occur globally on a given day." The Society for Worldwide Interbank Financial Telecommunication (Swift) provides the telecommunications network through which payment instructions are sent from one financial institution to another in today's world economy.[16]

Second, the global payments system is built on a select few currencies that operate as international mediums of exchange. The elevation of a small number of national monies to international payments currency status results from network effects: the more that other market actors make or accept payment in one currency, the more valuable it is for any single market actor to do the same. As Figure 1 reports, from 2014 through 2018, the US dollar accounted for roughly 40–45 percent of all international payments. The only other currency that comes close is the euro, hovering between 27 and 36 percent. The remaining share of international payments—between 20 and 30 percent—is divided among nearly 20 other currencies.

Though the dollar is the most widely used payments currency, most of these transfers do not directly involve a US individual or firm as either the originator (the entity requesting that a payment be made) or beneficiary (the entity receiving the payment). By way of example, while the US share of world trade is only about

[16] See Farrell and Newman (2019) for a more detailed discussion of Swift's role in the international payments system.

10 percent, roughly *half* of international trade is settled in dollars (SWIFT 2015, 6).[17] In the same way that English has emerged as the dominant language in science, even for nonnative English speakers, the dollar is the dominant currency for cross-border payments, even for non-US individuals and firms.

The third component of the global payments system is a mechanism through which international payments can be cleared/settled. While Swift can send payment instructions, it cannot wire money from one account to another. Payments today are cleared through what are called correspondent banking relationships. A brief example will help illustrate the process.[18]

Imagine that the Argentine Widget Corp. (the originator of the transaction) wishes to transfer $100,000 in funds from its account at Banco Patagonia to the account of Midwest Industrial LLC (the beneficiary of the transaction) at Intrust Bank, in Wichita, Kansas. Because Banco Patagonia and Intrust Bank hold no accounts with each other, there is no direct way to wire funds between the two. However, if both banks hold correspondent accounts with a third-party institution—say, J.P. Morgan Chase in New York City—that third-party bank can act as an intermediary between the smaller institutions. After receiving instructions via Swift, J.P. Morgan can debit Banco Patagonia's account $100,000 and credit Intrust's account the same amount.

When it comes to payments in US dollars, nearly all (about 95 percent) are cleared through "Chips," the Clearing House Interbank Payments System (Federal Reserve 2002). There are roughly 50 banks that participate in Chips as correspondent banks. In much the same way that a handful of major airports "hubs" connect thousands of smaller airports with one another, this small number of major global banks facilitate nearly all international dollar payments through their role as Chips correspondent institutions.

Dominance in Payments as a Power Resource

The preeminence of the dollar in cross-border payments enhances the pressure that the United States can apply through the application of financial sanctions—measures designed to influence a targeted individual's, firm's, or government's behavior by restricting access to the financial system. As noted above, some 40 to 45 percent of all cross-border payments involve the US dollar. Ninety-six percent of these cross-border dollar-denominated payments involve a Chips participant institution as an intermediary between the banks representing the originator and beneficiary of the transfer. While not all Chips participants are US banks, they are all required to have a presence in the US market, meaning they operate a branch office within the United States (US Treasury 2006, 62). Thus, this small group of Chips correspondent banks, which effectively facilitate the clearing of all dollar payments in the global financial system, are subject to US law.

Oversight and enforcement of US financial sanctions generally falls to the Office of Foreign Assets Control (OFAC) at the US Treasury. The most important tool in the OFAC toolbox is the Specially Designated Nationals (SDN) list. It contains the names of individuals, firms, or any other entity that the United States wishes to cut off from the global financial system.[19] No financial institution subject to US law is permitted to transact with a Specially Designated National. Individuals found liable of participating in a transaction that violates OFAC rules face steep penalties, including up to 30 years in prison and fines as high as US $20 million (Carter and

[17] For instance, because oil and many other commodities are priced in dollars, trade in these goods is almost exclusively settled in dollars.

[18] See US Treasury (2006, 55–69) for a detailed description of how correspondent banking relationships work.

[19] Often, these targeted entities are part of a broader sanctions program targeting the behavior of a regime.

Farha 2013, 905). Financial institutions can also be fined for violations with penalties often in the billions of dollars.

The severity of the penalties is no accident; they are designed to encourage self-monitoring and self-reporting by the private sector. As Carter and Farha (2013, 908) explain, if a bank under US legal jurisdiction receives a payment instruction where the originator or beneficiary is a Specially Designated National, the institution is required to freeze the funds associated with the payment instruction and notify the Office of Foreign Assets Control of the full details of the actions taken and individuals involved. Most banks today use specialized software to screen all payment orders for SDN violations to avoid running afoul of OFAC rules. Loeffler (2009) refers to this as a "public-private feedback loop" where Treasury effectively mobilizes the financial sector, by threat of penalty, to enforce the laws on its own.

In recent years, Treasury has increased regulations on banks in order to enhance its ability to enforce financial sanctions and identify new leads regarding the illegal movement of funds. For instance, prior to 2010, all financial institutions were required to keep detailed records regarding all money transfers at or above a $3,000 threshold. These records were available to Treasury at its request. Since 2010, new rules require that banks collect *and* report, in real time, information about all such payments requests to Treasury (Scott 2010).[20]

Additionally, more recent rule changes put the onus on financial institutions to "obtain, verify, and record the identities" of the *ultimate beneficial owners* of any entity involved in a payments transaction (US Treasury 2016, 2). A beneficial owner is defined as any individual who holds a 25 percent equity stake in any entity as well as any individual with "significant responsibility to control, manage, or direct a legal entity customer," such as a chief executive officer, a chief financial officer, and so on (US Treasury 2016, 3). By way of example, it is not enough for a bank under US jurisdiction to record and report that the Argentine Widget Co. is involved as an originator in a payments request. It must verify and report that neither the firm nor any "beneficial owner" therein is a Specially Designated National.

Recall that nearly all cross-border dollar payments are cleared by a small number of Chips participants. These institutions are careful to monitor all transfer requests for violations and strictly enforce US law. Thus, any entity on the SDN list will be blocked from making or receiving any payments in the world's most widely used payments currency. These measures, though, are not enough to completely cut a targeted entity out of the international financial system. First, a small share of dollar payments is cleared outside of US legal jurisdiction where these rules do not directly apply.[21] Second, despite the dollar's dominance in payments, Specially Designated Nationals could seek safe haven by transacting in alternative currencies such as the euro or pound sterling. Yet, Treasury has developed effective ways to plug these loopholes.

Following the attacks of September 11, 2001, the United States reached agreement with Swift and the European Union that Treasury can access its payments' communication records (Farrell and Newman 2019).[22] This gives Treasury the ability to identify whether a Specially Designated National is making or receiving payments in dollars or other currencies outside of US control. While Swift provides the information, secondary sanctions provide an extraterritorial means of punishment.

[20] This information would include the name, address, and account numbers of the originator, the amount and currency of the funds, the date of the transfer, the originator's financial institution, the beneficiary's financial institution, as well as the name, address, and account number of the beneficiary.

[21] There are four (legitimate) offshore dollar-clearing centers: Hong Kong, Manila, Singapore, and Tokyo. In these locations, dollar transfers can be settled outside of US legal jurisdiction through the Clearing House Automated Transfer System (Chats).

[22] Swift is headquartered in Brussels, Belgium.

When applied, secondary sanctions prohibit banks operating in the United States, under threat of severe penalty, from maintaining correspondent banking accounts with foreign institutions found to be doing business with Specially Designated Nationals.[23]

Recall that correspondent banking—especially Chips—is a fundamental component of the global payments system. The message this sends to foreign banks is clear: help enforce US sanctions or find yourself cut off from the dollar-based financial system. It should come as no surprise that foreign banks are quick to comply with these demands.[24] Thus, while primary sanctions cut off a target's access to the dollar, secondary sanctions allow Treasury to curtail its access to nondollar payments as well by threatening to cut off third parties from the dollar. The cumulative effect of these measures is near total financial isolation of the Specially Designated National.

Political Risk and the Growing Dollar Backlash

In a 2016 speech, then–Treasury Secretary Jack Lew (2016) warned of what he called "sanctions overreach." While financial sanctions are a powerful tool of US foreign policy made possible by the dollar's dominance, he explained, it was important to be cautious about their use. Overuse, Lew warned, could weaken Treasury's ability to use them effectively: "The more we condition use of the dollar and our financial system on adherence to US foreign policy, the more the risk of migration to other currencies and other financial systems in the medium-term grows" (Lew 2016).

Lew was pointing out that the use of financial sanctions has the effect of increasing the *political risk* associated with international use of the dollar. Typically, the term political risk is used in the context of international investment, defined as the risk that a political decision might affect the value of a financial asset. Yet, the concept can be expanded to noninvestment forms of economic activity as well. In this context, political risk is understood to mean *the risk that a political decision will affect the economic attractiveness of using a specific currency for cross-border transactions.* In the same way that a government's decision to expropriate a foreign firm's property will affect the future risk calculus and investment decisions of multinational corporations, financial sanctions will impact the risk calculus and future decisions of entities involved in cross-border payments activities. Despite real economic benefits of using the dollar for international transactions, sanctions have a countervailing effect by raising the *political* costs associated with the using currency.

The effect of secondary sanctions on calculations of political risk should be especially strong. Because they are viewed as being extraterritorial in nature, secondary sanctions "often prove to be politically problematic" by provoking strong blowback from affected firms, financial institutions, and governments in third-party countries (Meyer 2009, 930). Indeed, Lew (2016) directly addressed this point, noting that because of such objections "secondary sanctions should be used only in the most exceptional circumstances."

In recent years, elements of US sanctions policy have provoked just the kind of reactions against the dollar about which Lew warned. For example, US financial sanctions imposed on Russia in response to its unlawful annexation of Crimea and the Trump administration reimposition of sanctions on Iran have intensified antipathy toward dollar dominance in the targeted countries. At a 2017 meeting with Russian President Vladimir Putin, Iran's Supreme Leader Ayatolla Khameni asserted, "we can render US sanctions null by using methods such as eliminating the dollar and

[23] One method the United States can employ to impose such penalties is Section 311 of the USA Patriot Act.

[24] See Loeffler (2009).

replacing national currencies in bilateral or multilateral economic deals" (Financial Tribune 2017). Following the imposition of US financial sanctions targeting the Maduro regime, Russia assisted Venezuela in the launching of a cryptocurrency dubbed the *petro* (Schuster 2018). While there is little evidence to suggest the petro has proven successful, this example highlights the potential for cryptocurrencies—that rely on blockchain technology rather than correspondent banking relationship to transfer value—to undermine the effectiveness of US sanctions.

Meanwhile, influential voices in China have been paying close attention to the rising angst over dollar dependence. Former People's Bank of China Governor Zhou Xioachuan recently suggested that US financial sanctions would hurt the dollar's role in international payments. He added that this might present an opportunity to speed up the international use of China's currency, the yuan (Harney 2018). In a similar vein, influential Chinese economist Yu Yongding has argued that US sanctions against Russia and Iran "[allow] for us to move ahead with the yuan's internationalization," adding that Beijing should "seize the opportunity" to promote the use of the yuan in trade settlement with targeted countries (Global Times 2018).

Beijing's interest in a nondollar based cross-border payments platform also reflects its own experience with US sanctions. In late 2017, Treasury enforced secondary sanctions against North Korea by barring all US banks from maintaining correspondent accounts with the Bank of Dandong, a Chinese financial institution believed to be laundering money for Pyongyang (US Treasury 2017). This action closely resembles those taken by Treasury against another Chinese bank—Banco Delta Asia—in 2005 for the same reasons (Loeffler 2009). In both cases, the Chinese government complained about the reach of US financial power.

While a specific strategy is difficult to pin down at this point, China has taken several steps in recent years that suggest it is carefully exploring its options when it comes to developing alternative payment channels that do not involve the dollar. For instance, China has started to explore the possibility of paying for its oil imports using its own currency (Chatterjee and Meng 2018). China has also been in discussions with Russia about setting up a system in which the two countries can settle cross-border trade in yuan, rather than dollars (Yeung 2018). In 2015, Beijing launched the Cross-Border Inter-Bank Payments System (CIPS) as its own answer to Swift messaging and Chips clearing. While this system is far from being a challenger to global dollar-clearing, it represents a starting point for yuan-based payments that could, in theory, provide rogue regimes refuge from US financial statecraft.

Perhaps most troubling for the dollar has been the European reaction to recent US financial sanctions targeting the Iranian regime. Fewer than two years after multilateral sanctions were lifted as part of the 2015 Iran nuclear deal, the Trump administration pulled out of the agreement. This decision resulted in the reimposition of US financial sanctions, including secondary measures. European financial institutions weighing involvement in financial and commercial exchange between Iranian and European companies could now be cut off from Chips if they transacted with an Iranian Specially Designated National.

Disgust with US policy has resulted in several prominent figures, including European Commission President Jean-Claude Junker and German Foreign Minister Heiko Maas, issuing calls for the European Union to take steps to promote cross-border payments in euros rather than dollars. In an op-ed on the subject, Maas (2018) argued "it is . . . essential that we strengthen European autonomy by setting up payment channels independent of the [United States]." While it is unclear what European Union's next steps will be, the continent has clearly woken up to the political risk embedded in a dollar-dominated global payments system.

The Enduring Value of Payment Power

Scholars of international political economy have rightly focused on the power that states derive from issuing the top global reserve currency. Yet, the focus on this one important role has left others overlooked. This essay has made the case that possessing the top payments currency is also an important power resource for the issuing state. By virtue of the dollar's central role in the cross-border transfer of value, the United States can exert great pressure through employing financial sanctions to cut off targeted entities from access to the global payments system.

Yet, as the examples cited here indicate, the use of this power may result, paradoxically, in its erosion. As the United States has sharpened its financial sanctions capabilities, it has raised the specter of political risk in the dollar payments system. Targeted states (and those that worry they may be targeted) are discussing ways they might conduct cross-border business outside of the dominant dollar-based payments platform. Moreover, the use of secondary sanctions has spread the discontent to third-party governments such as China and the European Union—both of whom are looking into promoting payments in their respective currencies.

Of course, talk is one thing, successful action and implementation is another. All these efforts may be doomed to failure. It is difficult to upend entrenched market behavior. Yet, the trend should not be lost on US policy-makers. If they wish to preserve US financial power, the best choice in some circumstances may be not to use it at all.

The Security Foundations of Dollar Primacy

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Dollar hegemony is the linchpin of US monetary and financial hegemony and has defined the liberal international order in the postwar era. Dollars are used worldwide for transaction purposes, for invoicing, for wealth and risk management, and for less significant roles such as tourism. Out of the existing 180 currencies in the world, the dollar and the euro are in a league of their own. They are used to a much greater extent than other currencies. What is the relative role of the various determinants of international currency issuance? In particular, how important are conventional economic determinants compared to security determinants? Do US military power, alliances, and broader security policies play a role in deciding whether the dollar will reign supreme and continue to command attention in the coming decades of the twenty-first century?

The economic determinants of a currency's international use are familiar: the size of a country's economy, its trade and financial markets, and internal and external price stability. While all governments can encourage broader use of their currencies, not all governments are generally capable of offering a global currency. Only countries with significant economic and political size can offer liquidity similar to what the United States offers through dollar provision. A substantial source of private demand is generated through investment and trade (i.e., demand for a country's assets and goods). Government demand for reserves is motivated primarily by attempts to prevent currency crises and financial crises and to promote exports. Whenever governments intervene in foreign exchange markets, they do so in the currency with the greatest amount of potential buyers and sellers. By using the currency most frequently traded, central banks ensure that purchases and sales generalize quickly and widely. Countries who comprise a large share of the world's capital and commercial markets are attractive to private investors as well as to official investors who use the currency to settle payments, to intervene in foreign exchange markets as well as to track asset, product, and currency prices and store value. The bigger the country, the greater the demand for the currency as a medium of exchange and unit of account, and if the currency is to be used on any significant scale as a store of value, countries with deep and liquid markets capable of offering a wide range of assets to satisfy different time and risk preferences are more likely to emerge as global currency providers.

Causes and Consequences of Security-Driven Dollar Hegemony

But what about political factors, or more precisely, security factors? Early on, theorists of international currencies, whether political economists such as Strange (1971b, 18; 1971a), as well as economists such as Mundell (1998), cited military power and alliances as essential for reserve currency status. For Kindleberger (1973) and Gilpin (1987), monetary systems ultimately depended on a particular configuration of power and political system. More generally, the literature makes a number of claims connecting security considerations with currency-issuing countries. Only strong military powers can become currency issuers since this requires extending large-scale loans—and potentially recuperating loans by threatening or using force. Military capability raises the perceived safety of international currencies. Members of security alliances are more likely to hold each other's currencies out of relative gains considerations and/or as a quid pro quo for military protection. Political affinity raises a currency's appeal. The security policies of currency-issuing countries can also affect demand for its currency. Yet, to the extent that political factors play a role, we know relatively little about how these political mechanisms work, and there is little empirical evidence to corroborate existing claims.

There are far-reaching consequences for the stability of the global monetary order if indeed security impacts international currency issuance over and above economic factors. Both historical and contemporary evidence suggests international currency choice may indeed be security-driven. For example, sterling continued to be the primary international currency despite the United Kingdom's relative economic decline. More recently, President Donald Trump has called into question US alliances and long-standing security policies. While it is well acknowledged that these developments pose an unprecedented threat to US power and leadership, as well as the international liberal order itself, we know very little about what effect this pivot might have on the dollar's international role.

To be sure, some empirical work examines the international currency implications of security variables. The most robust empirical evidence we have is Zimmermann's (2003) detailed case study of the quid pro quo between Germany and the United States, exchanging money for troops, as well as Li's (2003) quantitative study of security-driven pegging choices within alliances. Liao and McDowell (2016) also have studied how political proximity, more broadly speaking, shapes preferences for the Chinese yuan as a reserve currency. Yet apart from these articles, we have no robust empirical evidence relevant for understanding how military strength, security provision, or security alliances affect reserve currency status or international currency provision more generally.[25]

Renewed interest in the link between economics and security preceded the election of Donald Trump, partly as fears of US decline were (re)introduced in the third millennium. Growing current account deficits, the 9/11 attacks, the Iraq and Afghanistan wars, and the 2007 financial crisis all played out in the context of China's rise, and amplified European cooperation in monetary and security affairs before the sovereign debt crisis set in. As worries spread about whether the United

[25] There is a recent piece by Eichengreen, Mehl, and Chiţu (2018) using a dataset of currency holdings from more than 100 years ago. But the very limited size of the data they employ and the tentative nature of the empirical findings mean that the study is, at best, suggestive of a security-money link.

States had the means to fund its military power and security commitments, and whether it had the wherewithal to secure the global economic order, old questions concerning the relationship between economics and security began to reappear. As Trump made his bid for office, and eventually won the presidency, long-standing questions took on a whole new meaning. His disruptive security policies and questioning of established US alliances caused consternation about their economic effects, including the possibilities these developments present for emerging currencies such as the Chinese yuan and the resulting implications for the dollar as the world's leading currency.

For quite some time, I have worked on distilling a number of propositions concerning the conceptual link between currency reserves and various security variables as well as on designing a quantitative test of these claims. The challenges posed by working with the available data makes the dearth of empirical statements on this important topic unsurprising. The data hurdles are significant in several respects. Reserve currency data is temporally limited and some of the obvious variables one might include in the regression show little variation. Data composition poses additional challenges. Whereas dyadic data over which country pegs to which currency exists (what allows Li to explore the association between bilateral defense alliances and bilateral pegging arrangements; Li 2003), no dyadic data exists over which country holds which reserve currency and in which proportion. These are just some aspects complicating regression analysis. Elsewhere, I propose a number of ways to manage these obstacles. Here I concentrate on the key mechanisms and theories that inform the intuition that security impacts a currency's international appeal.

Three Security Determinants of Dollar Hegemony

I will focus on three aspects of how security affects reserve currency issuance and the dollar-centered monetary system: military power, security provision and defense commitments, and political affinity.

US Military Power as a Determinant of Dollar Hegemony

Are militarily strong states more successful reserve issuers? If so, why are states more attracted to the currency issued by states with a potent military force? Some scholars have claimed that military capability is necessary to enforce repayment of large-scale foreign lending (Donnelly 2000; Mundell 2002; Finnemore 2003). This mechanism applies to the late nineteenth and early twentieth centuries when European powers practiced gunboat diplomacy to enforce use of their currency as an international medium of exchange. Even so the historical record is disputed, and today there is widespread agreement that countries no longer enforce monetary claims militarily (Bulow and Rogoff 1989; Tomz 2007). Instead, existing accounts emphasize the role of military power in creating a sense of financial security (Bergsten 1975; Helleiner 2008; McNamara 2008; Norrlof 2010). Governments prefer to store value in safe (and liquid) currencies that will not drastically diminish in value. Reserve-issuing countries capable of defending their borders provide a good place to store value during times of international conflict. Social expectations play a role in shaping confidence in a currency, and these expectations are not merely formed on the basis of economic indicators but on other forms of strength, including geopolitical strength, which partly determines whether a particular currency will emerge and reemerge as a focal point for investors (McNamara 2008). Theoretically, however, these propositions are underdeveloped and it remains unclear whether the propositions that have been put forth are supported by the available evidence.

Security Provision and Defense Commitments as Determinants of Dollar Hegemony

Does a state's demand for security raise demand for the currency issued by the security provider? If so, why do states hold currencies for security reasons? Two main explanations exist. First, as with other state interactions whereby states seek to restrict economic benefits to alliance partners, states could have incentives to support the currency issued by countries within an alliance out of relative gains concerns.[26] Economic exchange seeks to confer increased benefits on parties to the exchange and may allow partners to grow faster. Unless economic gains are limited to friendly nations, states could effectively be enabling security rivals thus jeopardizing their own survival (Grieco 1988; Gowa 1994; Copeland 1996).

Second, states may enter into a dollar-for-security burden-sharing arrangement. This is a long-standing argument in the literature on international currencies, which can be traced back to Strange (1971b, 18):

> A state does not usually become a reserve-currency state unless it is a world or regional power and exceptionally wealthy. As such, it will need and be able to afford exceptionally strong military forces . . . [T]he coincidence of close monetary and close military relations is sufficiently common that it is odd how little it has been remarked upon, either by economists or political commentators . . . [A] state needing to protect its Negotiated Currency finds it natural and common to offer a military guarantee of the currency-holder's physical security and political integrity.

The most comprehensive case study of the quid pro quo argument is by Zimmermann (2002, 2003). He shows how America's stationing of 200,000 troops in West Germany resulted in US expectations about German dollar support for heading off balance of payments difficulties under the dollar-exchange standard. Initially, German dollar deposits in the US Federal Reserve met these expectations. These mutual security-dollar favors between the United States and Germany were known as the "offset agreement" because German monetary payments to the United States offset US troop deployments in Germany (see especially, Zimmermann 2002, 121–61; see also Gavin 2003). Following this offset, many scholars assumed that countries support the currency issued by their alliance partner, particularly if the alliance partner protects them militarily. For example, Posen (2008) observes that if the BRIC countries and Japan held reserves based on their commercial ties with the Eurozone, their reserve portfolios would consist of a much higher proportion of euros (raising the euro's overall proportion in world currency reserves). He says the euro continues to trail the dollar because alliances determine reserve currency holdings. Thus, according to the literature, both of these mechanisms—the relative gains argument and the quid pro quo argument—have the effect of boosting a currency's appeal. If defense commitments shape currency preferences, they are unlikely to have a uniform effect, but rather matter in a broader strategic context and against the background of other security policies. In the case of the unprecedented US security network, it is not clear whether it is the defense commitment per se, which is important, or, for instance, whether countries "liking" the United States politically is what triggers currency support.

Political Affinity as a Determinant of Dollar Hegemony

There is some evidence that quite beyond alliance ties political affinity induces trust in a currency. Sharing the same views on a host of political questions unrelated to security issues could shape preferences for a currency in so far that countries try

[26] See Li (2003) for how this works with regard to currency pegging.

to promote currency-issuing countries with whom they align politically. According to Liao and McDowell (2016), countries are more (less) likely to hold Chinese reserves the closer they are politically to the Chinese (US) government. They use country distance to General Assembly positions adopted by the United States and China as proxies for political affinity. Liao and McDowell (2016) invoke Gilpin's (1987, 119) insight that "every international monetary regime rests on a particular political order." Thus, they argue, currency preferences reflect efforts to preserve or overturn the current US-centric international monetary order and, in so doing, to preserve, or overturn, the US-centric political order writ large. This is an interesting finding, although arguing that preferences within a monetary order shape the political order while suggesting that preferences within a political order determine the monetary order introduces some cyclicality.

US Security Policies as Determinants of Dollar Hegemony

This brings us to the question of just how sensitive international currency status is to shifts in security policies and context. If there is a security-currency connection whereby currency preferences are partly determined by alliance ties (the relative gains argument), by security guarantees (the quid pro quo), or by political affinity, there are potentially disconcerting consequences for global monetary order. As long as alliance ties remain strong, or security guarantees are systemically relevant and/or forthcoming, and as long as political affinities are relatively stable over time, security considerations will not unsettle the international currency hierarchy. But if there is uncertainty over alliance ties or security guarantees, or if political sympathies and proclivities start to shift, currency holders may start to diversify their reserve portfolios and a new international currency pyramid could begin to emerge. In the current environment—where the United States, the leading currency issuer, has cast doubt on its alliance commitments, questioned its willingness to project power and militarily defend allies, and taken a host of other controversial political positions—security-induced reserve currency support may grind to a halt.

Ironically, however, the US policies that made allies too secure sometimes is said to have detrimental effects on dollar dominance. Changes in the structure of the international system, specifically the shift from a bipolar to a unipolar structure, caused alarm in some quarters. Scholars saw the end of the Cold War as auguring a time of dollar-reckoning, as allies grew less dependent on US security provision, removing a vital source of dollar support (Kirshner 2006; Helleiner 2008; Mastanduno 2009). However, it remains an open question whether this narrative is borne out by the evidence. As shown in Figure 2, the share of reserves held in US dollars actually increased immediately after the Cold War. Notably, five years after the Cold War and onward the dollar figured more prominently in world reserves than during the full decade before the end of the Cold War. Thus, despite the wars in Iraq and Afghanistan, the 2007 financial crisis, and the Trump presidency, the proportion of dollars held in world reserves remained above levels seen during a significant portion of the Cold War. But, the fact that the dollar's share in world reserves increased rather than diminished after the Cold War does not settle the question regarding the impact of defensive alliances on reserve currency status. For example, it could be that security considerations do not determine reserve currency status in any significant way and that what really matters for propping up reserve currency status are economic fundamentals. Alternatively, it could be that as new security threats emerged—the rise of China and Russia, the proliferation of nuclear weapons and chemical weapons, and terrorism—allies continued to depend on the United States for security provision despite the end of the Cold War. The dollar's share in world reserves did dwindle as new alternatives to the dollar, particularly the euro, emerged after 1999, but it is possible that what sent governments scrambling for new sources of currency diversification had nothing to do with security but was rather driven by

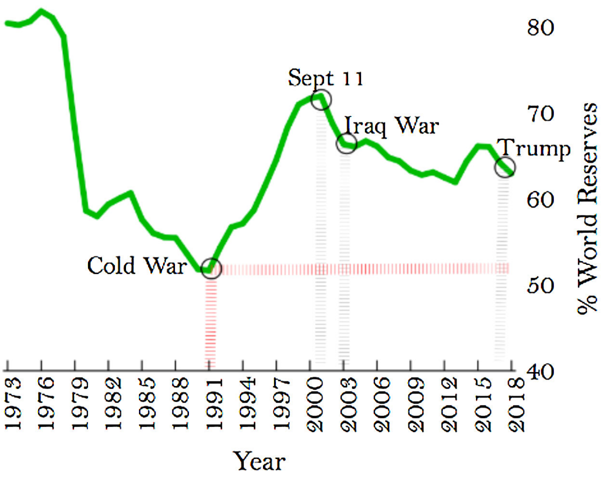

Figure 2. Cold War implications of US dollar's reserve currency status.
Source: Author's calculations based on IFS.

the deficit scares at the time or the long-term capital management financial crisis. So, while the shift from bipolarity to unipolarity did not trigger the dollar's demise as the world's first reserve currency, the evidence does not settle whether, and how, reduced dependence on US security provision affects reserve holdings.

Security provision can have pernicious effects on a country's reserve currency status. For example, as a result of US attempts to thwart Iran's bid for regional hegemony in the Middle East, particularly Iran's development of a nuclear weapons and missile program, the United States has imposed secondary sanctions on countries dealing with Iran. The aim is to deter other countries including stalwart US allies from interacting economically with Iran in areas such as energy, especially oil, shipping, banking, and insurance. Before the Trump administration decided to target Iran, other US presidents imposed similar sanctions for other reasons. A bank regulator in New York temporarily banned BNP Paribas from clearing transactions in energy exchange during 2015 in what was clearly a riposte against the French bank for violating US sanctions against Sudan, Cuba, and Iran. BNP Paribas was fined some US $9 billion (Ax et al. 2014). These measures go beyond traditional forms of financial sanction, such as the US refusal to extend financial support to defend the British pound unless the British government agreed to a ceasefire during the 1956 Suez crisis.

What makes these sanctions potentially effective is the dollar's role in international payments, particularly for trading commodities such as oil. Goods and service transactions priced in dollars pass through US clearing houses, primarily CHIPS and FedWire, which allow foreign companies to make and/or receive payments to/from dollar suppliers or to perform transactions with US-based customers. Therefore, the United States knows who is attempting to violate its sanctions against Iran, or any other country. Incentives therefore exist to develop solutions raised by security-driven problems associated with the dollar's unit of account role for commercial transactions.

Herein lies a financial statecraft paradox for dollar diplomacy. Ultimately, currency status depends on currency use. When the US government makes it more difficult and less desirable for states to *use* the dollar, they are effectively diminishing the dollar's rank order in the overall currency hierarchy.[27] In response,

[27] On financial statecraft see Steil and Litan (2006) and Armijo and Katada (2015). On how currency status depends on currency use and the currency-issuing country's capacity to mobilize power in different ways, see Norrlof (2014).

governments have floated proposals for pricing essential merchandise, such as oil, in euros, and for creating a rival international payments system.

Enduring Allies and Dollar Endurance

Dollar hegemony has persisted throughout the postwar era and is an instrument and symbol of American power. The economic factors shaping dollar hegemony, and the currency hierarchy more generally, are understood well enough, although even here we still do not know the relative importance of commercial and financial prowess in determining international currency status. Yet, our understanding of which nonpecuniary factors influence the rank order of international currencies is far less mature—and could turn out to have serious implications. If military power, political affinity, security provision, and alliances affect a currency's international standing then America's commitment to security provision and allied approval of US security policies can serve as a stabilizing factor for the dollar's special role within the international monetary order. The implication is that if the United States disengages from the world or tries to make allies uncertain about US support in an effort to induce them to increase military investments, or if fissures over how to manage security threats arise, the dollar-centered international monetary order will face unappreciated sources of instability with potentially dire consequences. Even if empirical estimates of the dollar's security contingency turn out to be substantively small, the total effect of cascading reserve portfolio adjustments could be devastating, dethroning the dollar from its perch as king currency. If the United States loses its grip on the international monetary order, the US economic future will be uncertain and its status as primus inter pares in the international system could unravel.

Dollars for Oil

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A single word captures a crucial pillar of the dollar's dominance: oil. The US dollar's entrenched status in the global oil market feeds the dollar's hegemonic position in global financial markets; dollars are desired because they can purchase oil. As a financial columnist writes, "[t]his phenomenon is known as dollar hegemony, which is created by the geopolitically constructed peculiarity that critical commodities, most notably oil, are denominated in dollars. Everyone accepts dollars because dollars can buy oil" (Liu 2002).

The pricing of oil in US dollars for much of the early twentieth century was quite sensible: the United States was the world's dominant oil producer. But a switch occurred during the late 1960s and early 1970s, when Saudi Arabia emerged as the leading global oil producer (Yergin 1991, 594). This is clearly shown in Figure 3. Starting in the early 1970s, Saudi Arabia and the United States have alternated between being the leading or second leading producers of oil. With the United States no longer holding the leading position in the global oil market, maintaining the dollar's status within that market was not a given. Because this could threaten the dollar's entrenched position as the global reserve currency, maintaining the dollar as the unit of account in the global oil market became a concerted policy pursuit. How was this accomplished? As we explain in this essay, keeping the dollar at the center of the oil market resulted from the perceived common strategic basis of the US-Saudi security relationship: Saudi Arabia needs US security assistance; the United States needs Saudi Arabia to maintain the dollar's dominant position in the global oil market.

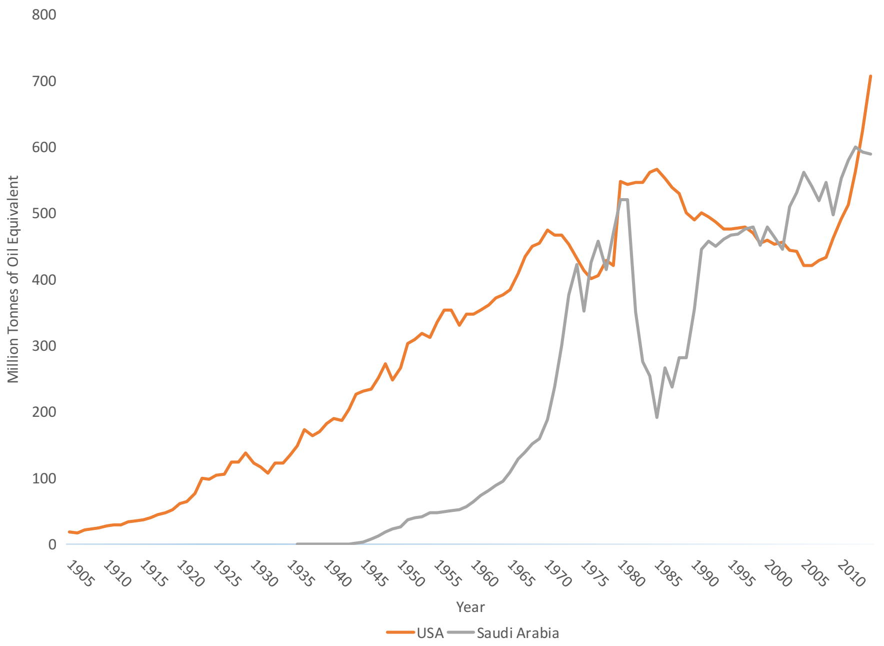

Figure 3. USA and Saudi Arabia oil production 1900 to 2014.
Source: Etemad and Luciani (1900–1980); US EIA Historical Statistics (1981–2010). Data available at the Shift Project data portal. Accessed February 10, 2019. http://www.tsp-data-portal.org/Energy-Production-Statistics.

Issue Linkage: Trading Security for Influence

As discussed in this forum's previous essay, a key feature of the liberal order is the United States taking concerted efforts to offer security cooperation in exchange for dollar support. The US-Saudi relationship is a specific instance of this phenomenon; indeed, it might be the core example of this phenomenon. Like Germany and Japan, Saudi Arabia's central bank's primary reserve holding is the dollar. But unlike Germany and Japan, Saudi Arabia is an oil exporter. Because Germany and Japan are oil-importing countries, their investment in the dollar did not help in the 1970s to balance the dollar against the surplus of the oil-exporting countries: "Germany and Japan have come out ahead since 1973 as buyers of oil at prices denominated in depreciated dollars, making them 'cheap energy' countries" (FRUS 1977–1980, Vol III, Document 217). Investment from oil exporters then and now is required to help stabilize the dollar and balance out the investments by importers. This is where Saudi Arabia has played a critical role to ensure that the US dollar remains the numeraire for the global oil market.

Conceptually, the dollar's maintenance as the dominant currency of the oil market following the shift to Saudi oil dominance epitomizes the broader phenomenon of "issue linkage" within an asymmetric alliance relationship (Morrow 1991; Poast 2012, 2013). Alliances, like any codified relationship, are the product of a diplomatic process and vigorous negotiations: the terms of the alliance must be set (Poast 2019). However, while initial agreement might be secured via a recognition of shared security interests—perhaps the countering of a specific threat or the need to stabilize a given region—ensuring the alliance's continuance often requires that all parties view and continue to view the alliance as beneficial. When a negotiation is between a minor power and a major power, this identification of mutual benefit can be straightforward: the minor power requires the protection of the major power and, in order to achieve it, is willing to grant concessions to the major power (Morrow 1991). These concessions, in turn, bolster the willingness of the major power to remain committed to the security of the minor power, even when the minor power is in a difficult security environment (Poast 2013).

In the specific case of the US-Saudi relationship, security was granted by the defender (United States) to the protege (Saudi Arabia) in exchange for the autonomy-enhancing benefit of supporting the dollar's position as a global reserve currency. While the relationship's roots date to the granting of an oil exploration concession to Standard Oil Company of California in 1933, the two nations' strategic alignment truly began with the meeting between US President Franklin Roosevelt and Saudi King Ibn Saud in 1945 aboard the *USS Quincy* (Oren 2007, 469). As then–Secretary of State Cordell Hull remarked to the secretary of the interior in 1943, "the oil of Saudi Arabia constitutes one of the world's greatest prizes, and that it is extremely shortsighted to take any step [that] would tend to discredit the American interest therein, whether that interest be of a public or private character" (Secretary Hull to Secretary Ickles, *FRUS 1943* Volume IV, Document 1006). Since that time, Saudi Arabia remained a critical US ally in ensuring stability in a region vital to US oil corporations and to the health of the global economy. Indeed, the relationship not only continued but it strengthened during the turmoil of the 1970s. How this happened sheds insights into the efforts taken by the US government to ensure continued US influence in the region and, by extension, a dominant role for the US dollar in the global oil market.

Maintaining the Dollar's Dominance: Oil-Dollar Nexus within the Liberal Order

Protection of oil supplies has been a critical feature of US foreign and defense policy writ large, not just toward Saudi Arabia. In 1980, then–Secretary of Defense Harold Brown remarked that, "oil is the lifeblood of modern industrial societies," and, therefore, "Soviet control [of the Persian Gulf] would make economic vassals of much of both the industrialized world and the less developed worlds" (quoted in Leffler 1983, 246). When pressed on why the United States had geopolitical interests in the Persian Gulf region, then–Secretary of State James Baker responded, "[t]he economic lifeline of the industrial world runs from the gulf . . . To bring it down to the level of the average American citizen, let me say that means jobs. If you want to sum it up in one word, it's jobs" (Friedman 1990).

From the Saudi perspective, the United States offers security protection. By 1971, the British had entirely withdrawn from the region. At this point, the United States was the sole external source of security in the Persian Gulf, from real and perceived threats. With a small population, valuable resource deposits, an underdeveloped security infrastructure, and stronger, potentially hostile neighbors, Saudi Arabia existed in constant fear of encirclement. It feared Iran as a religious and economic rival and Egypt as secular leader in the Arab world, as well as the ongoing potential for Soviet intrusion. Starting in the Eisenhower administration, the Saudis made overtures to the United States for arms and military training as they began to fear Soviet weapons coming into Yemen through Egypt.[28] In a 1957 conversation with US officials, the King admitted bluntly that "Saudi Arabia's only aim was that it be armed by the [United States]" (*FRUS 1955–1957* Volume XIII, Document 267). The United States fulfilled as many of these requests as possible because, as National Security Council staff member Robert W. Komer reported to President Lyndon Johnson in 1965, the US goal remained to "keep our oil-rich Saudi friends happy and to

[28] "Memorandum of a Conversation, Department of State, Washington, February 7 1957, 3:30–7:30 p.m.," *Foreign Relations of the United States* 1955–1957, Near East: Jordan-Yemen, Volume XIII, Document 271. 7 February 1957. See also: "Editorial Note," *Foreign Relations of the United States* 1955–1957, Near East: Jordan-Yemen, Volume XIII, Document 267.

insure that if they finally do buy anything we get the sale" (*FRUS 1964–1968* Volume XXI Document 248). Due to Saudi Arabian security needs—equipment, personnel, and modern military experience—Saudi Arabia remain consistently conscious of the fact that it could not defend itself, was entirely dependent on the United States for protection from any threat, and therefore could not break relations with the United States (Yetiv 2004; see also Hart 1998; Kechichian 1999).

There were limits to the extent that the United States could simply rely on the offer of protection to prod Saudi Arabia's cooperation. The Saudi government was well aware of the geopolitical importance of its oil reserves and its use of its surplus to invest in the dollar. Though geopolitical realities had led it to align with the United States for military protection, the United States feared that Saudi Arabia could walk away, create a similar arrangement with another power, or just take a more neutral stance. Thus, the United States continually sought to emphasize its indispensibility to Saudi Arabia in security terms. As one intelligence memorandum prepared by the CIA warned, "[i]f the Saudis consider the US response to their security concerns inadequate, they will probably move toward a more nonaligned political posture, and show less willingness to accommodate US interests" (*FRUS 1977–1980* Volume XVIII Document 181).[29]

From the US perspective, Saudi Arabia enabled access to and pricing of a key resource. While Saudi oil constituted less than one-third of US oil imports at the time, it was the main oil supplier of the Western European allies.[30] Additionally, Saudi Arabia's large production capacity accorded it a strong hold over decision-making with the Organization of Petroleum Exporting Countries (OPEC), including on the pricing of oil.[31] For instance, in a memorandum to US President Gerald Ford, Brent Scowcroft reported, "Saudi Arabia's position on oil prices has been consistently more moderate and responsible than that of the other oil producers. They singlehandedly blocked the last attempt [by OPEC] at increase by walking out" (*FRUS 1969–1976* Volume XXXVII Document 106). Similarly, a state department briefing from around the same time remarks, "Saudi Arabia has been strongly supportive of our objective of minimizing oil price increases. As world demand for oil grows, we must look to Saudi Arabia for additional production if pressures for future sharp increases are to be eased" (*FRUS 1977–1980* Volume XVIII Document 143). Saudi actions were ultimately self-focused, but they align with US interests.

Consider Saudi Arabia's role during the 1973 oil embargo. When the Western reaction to the 1973 Arab-Israeli war favored the Israelis, Saudi Arabia and the other Arab petroleum exporting states demonstrated their economic weight by enacting an oil embargo. Prior to the embargo, Saudi Petroleum Minister Ahmad Zaki Yamani remarked publicly that the Saudi government wanted to find a solution that would benefit both the United States and Saudi Arabia: "We'll go out of our way to help you. [But] we expect you to reciprocate" (Ottaway and Koven 1973). More precisely, Yamani told US Secretary of State Henry Kissinger that, while Saudi Arabia hoped that it could continue oil production beyond its own needs, Saudi Arabia was "lonely" due to "heavy pressure from the rest of the Arab world" (*FRUS*

[29] Neutrality, rather than a complete "flip" to the Soviet camp was the larger concern for the United States because the communist ideology promoted atheism, which was unacceptable to the strongly Wahhabi Islamic Saudi monarchy. "Memorandum of a Conversation, White House, Washington, January 30 1957, 4 p.m." *Foreign Relations of the United States 1*955–1957, Near East: Jordan-Yemen, Volume XIII, Document 260. "The King said that dating back into his father's reign, the Arab policy had been to trust the British and to work with them in the advancement of their own country. He said this policy was practically forced upon them because the only alternative was to seek help from the Soviet Government; and they have always been anti-Communistic." And "Paper prepared in the Department of State." *Foreign Relations of the United States 1*964–1968, Volume XXI, Near East Region; Arabian Peninsula, Document 287. "The Saudis have turned a deaf ear to repeated Soviet overtures for diplomatic and trade relations and have staunchly opposed Communist penetration of the Peninsula."

[30] Briefing paper prepared in the Department of State: *Foreign Relations of the United States* 1977–1980, Volume XVIII, Middle East Region; Arabian Peninsula, Document 143.

[31] Ibid.

1969–1976 Volume XXXVI Document 176). Sensing that the United States was taking its relationship with Saudi Arabia for granted by not cutting off aid and arms to Israel, the Saudi government authorized large cuts in oil production. The resulting negative shock on the economies of the United States and other Western countries demonstrated not only the strength of Saudi Arabia's economic influence, but its willingness to use it. The United States could no longer take its Saudi allies for granted; it would be forced to reassess both its relationship and its alliance with the small desert kingdom, adjusting to the reality that it no longer maintained complete economic and military dominance in the relationship. At the same time, however, the Saudi government reached out to the United States to find a way out of the "uncomfortable confrontation" created by the imposition of the embargo (Graf 2012, 196). In short, despite the need to appease its regional allies, the Saudi government did not want to jeopardize its relationship with the United States.

While Saudi Arabia's influence on oil prices is important, there is a second benefit to the United States: Saudi Arabia uses its massive oil surpluses to invest in the dollar, contributing to the stabilization of the US dollar. In a December 1978 report by the US ambassador to Saudi Arabia, he noted, "[o]n the economic side, Saudi support for the dollar has been one of the most satisfying aspects of our relationship in the past year" (*FRUS 1977–1980* Volume XVIII Document 176). In his outlook for 1979, the ambassador outlined the basic goals of US policy toward Saudi Arabia: "Insuring continued support for the dollar to include: (a) [r]ejection of any attempts to change from the dollar as currency for payment of oil; (b) [r]etention of Saudi monetary reserves in dollar assets; (c) [i]nsuring, at the minimum, that there are no further oil price increases regardless of fluctuations of dollar" (*FRUS 1977–1980* Volume XVIII Document 176). The US treasury secretary and the Saudi minister of finance announced a 1974 agreement establishing an annual Joint Commission on Economic Cooperation (Spiro 1999, 88). Unlike other similar commissions, this one was not assigned to the department of state or commerce, but rather directly to the treasury. The commission had three objectives: establish a close political tie through economic cooperation, facilitate Saudi industrialization and development with petrodollar recycling, and facilitate the flow of American goods and technology to Saudi Arabia (Spiro 1999, 90).

Through this commission, the United States would persuade Saudi Arabia to invest large amounts of its surplus into US government obligations and keep oil priced in dollars, thus ensuring that the United States could balance its current account with Saudi Arabia's (Spiro 1999, 91). By the end of 1976, 40 percent of the Saudi-controlled portfolio was invested directly in the United States and 80 percent was invested in American dollars (Spiro 1999, 60). After a few years of investment in the dollar, including the creation of special securities just for Saudi investment (Spiro 1999 110–111), Saudi Arabia had a vested interest in maintaining dollar pricing for oil so as to not diminish its own reserves.

Critical to Saudi participation in this arrangement was its informality (Sulzberger 1979). According to the *New York Times*, special commitments regarding financial confidentiality were made to Saudi Arabia (and potentially other OPEC countries) in order to persuade them to purchase US government securities (Sulzberger 1979). Meanwhile, the treasury and commerce departments denied any such agreement, insisting that "normal statistical and legal requirements" were the reason for confidentiality (Sulzberger 1979). But a February 1975 memorandum from the US House Committee on Government Operations outlined approval of a "special arrangement" defining the terms of Saudi investment in US government securities and treasury obligations (Spiro 1999, 111–112).[32] In this document, Saudi demand for confidentiality is explicitly stated, and the United States has "assured them [the

[32] Memorandum to the Department of State. Reprinted in US Congress, House, Committee on Government Operations, *Federal Response to OPEC*, part 1, 467–468. As cited in Spiro (1999).

Saudis] that we will do everything in our power to comply with their desires" (Spiro 1999, 111–112). The confidentiality of these agreements allowed both governments to save face against outside accusations and build trust on a key issue.

The Persistence of Dollar Oil Hegemony and the US-Saudi "Special Relationship"

By strengthening a mutually beneficial economic relationship and continuing an oil-for-security exchange, the United States ensures the success of the US-Saudi alignment and the hegemony of the US dollar in the global oil market. Both the US-Saudi alignment and dollar oil-market hegemony are likely to continue. Potential competitor economies, whether the euro-zone economies or China, cannot match either the United States or Saudi Arabia in terms of oil production. Moreover, the United States recently regained its position as the world's leading major oil producer. According to data from the Joint Organizations Data Initiative (JODI), in November 2019 oil production was 13.3 million barrels/day for the United States, 9.9 million barrels/day for Saudi Arabia, and 10.6 million barrels/day for Russia. China's production was 3.8 million barrels/day. The two largest Western European oil producers, neither of which are in the euro-zone, are Norway (1.7 million barrels/day) and the United Kingdom (1.0 million barrels/day).[33]

Moreover, even when strains arise, the relationship continues. US-Saudi relations have experienced previous nadirs, from the aforementioned 1973 war, to the dominance of Saudi nationals among the 9/11 terrorist attacks in Washington, DC, and New York City. The year 2018 also tested the US-Saudi relationship. The Saudi-led intervention into the Yemen civil war raised US congressional concerns over the fomenting of a humanitarian crisis (Walsh 2018). There were also strong suspicions of Saudi-government involvement in the killing of *Washington Post* journalist Jamal Khashoggi. Some worried that the relationship was again at a breaking point (Ward 2018). But the relationship has endured.

At some point, the oil age will end. An adage often attributed to Saudi oil minister Sheikh Zaki Yamani is that "[t]he stone age did not end for lack of stones, and the oil age will end long before the world runs out of oil" (Fagan 2000). Will the same fate face the US-Saudi relationship? Will it endure the end of the oil age or dissolve well before that point? Relatedly, will dollar hegemony endure if a critical commodity priced in dollars is no longer central to the functioning of the global economy? As the other essays in this forum make clear, oil pricing is not the sole basis for dollar dominance, but it is a critical basis, one that shows no sign of ending soon.

China and the International Financial System: Challenging the United States or the Liberal Order?

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Many who are concerned about the fate of the so-called liberal international order see a clear and imminent threat in China, a rising power coming from outside the liberal democratic cluster of countries. In the last few years, the growing economic clout of China has been accompanied by tighter political control at home and more assertive posturing abroad, increasing the anxiety that China is seeking to overturn the liberal international order. However, this perspective suffers from

[33] Data available at https://www.jodidata.org/oil/ (accessed January 28, 2020). Figure for China is of October 2019.

a lack of conceptual clarity. As Johnston (2019, 11–12) points out, "given the lack of operationalization of key concepts such as order, compliance, challenge, and revisionism, it is very difficult to answer the question about how much a challenge China poses to the US-led liberal international order."

Moreover, the concern of China's challenge to the liberal order is often conflated with China's challenge of the dominance of the United States. More often than not, scholars and policy pundits equate the liberal international order with a US-led international order. This essay seeks to untangle the two. Through a brief examination of four aspects of the international financial system—capital control, currency internationalization, credit-rating regime, and regional crisis-financing arrangements—this essay illustrates the distinction between China's potential challenge to the liberal order and to US dominance. It highlights the need for a more nuanced understanding of the ongoing transition of the international system.

Before we delve into the specific cases, it is useful to consider the meaning of the liberal international order. While this term has been used frequently in the literature and policy discourse on international relations in recent years, it is not often well-defined. An early effort to develop a theory of liberal international order equates it with a Western political order consisting of security cobinding, penetrated hegemony, semisovereignty, partial great powers, economic openness, civic identity, and community (Deudney and Ikenberry 1999). A more recent article on the crisis of the liberal order portrays it as the post–World War II order "organized around economic openness, multilateral institutions, security cooperation, and democratic solidarity" (Ikenberry 2018, 7). Clearly the post–World War II liberal international order is not one monolithic order. Johnston (2019) proposes that there are at least eight simultaneously existing orders in different issues areas: constitutional, military, political development, social development, trade, financial, environmental, and information. He argues that "some of these are dominated by liberal institutions and rules; some are not inherently liberal" (Johnston 2019, 25).

This complexity applies to international finance as well. As Helleiner's (1994) work demonstrates, in the early years of the post–World War II era, policy-makers in the United States and other Western countries explicitly opposed a liberal financial order. While advocating a free trade system, they imposed significant restrictions on international financial flows. In fact, they saw the latter as a necessary condition for the former. Echoing Gilpin, Helleiner observes that "different elements of a liberal international economic order are not necessarily compatible" (Helleiner 1994, 5; see Gilpin 1987, 367). He warns that "IPE scholars must be very cautious in using the term 'liberal international economic order' to describe the structure of the entire political economy at any given moment" (Helleiner 1994, 209). This is an important point to keep in mind as we explore China's challenge to the liberal order and/or to US dominance.

Capital Control

Capital control was part of the Bretton Woods system created after World War II. It was practiced by Western industrialized countries as well as the developing countries. However, by the 1980s and 1990s, financial liberalization spread throughout the OECD region, bringing a reemergence of global finance the world had not seen since the 1920s (Helleiner 1994). In time, capital account openness became synonymous with the liberal international order, while capital control came to be seen as heresy (Ghosh and Qureshi 2016). Since the global financial crisis, many policy-makers and major international financial institutions, including the International Monetary Fund, have modified their view, recognizing the potential usefulness and legitimacy of capital control under certain circumstances (IMF 2012; Gallagher 2018). But by and large there is still a widely held belief that the free flow of capital is good for improving efficiency and the market disciplining of policy-makers.

The US position regarding free capital flow evolved over time. In the late nineteenth century and early twentieth, capital import greatly facilitated American industrialization. After World War I, the United States turned from the largest debtor to the largest creditor in the world. As a major beneficiary of an open financial system, the United States strongly supported it. However, the Great Depression left American policy-makers deeply suspicious of a liberal financial order, which they saw as having contributed to the economic chaos of the 1930s. After World War II, although the US financial community tried to push for a return to the more open international financial system, they failed to dictate the official government policy. The United States favored and helped implement capital controls abroad in the 1940s and 1950s. This began to change in the 1960s, as the United States (and the United Kingdom) decided not to curtail the growing Eurodollar market, which seriously undermined restrictions on international financial flows. Since the 1980s, with the erosion of "embedded liberalism" and the turn toward neoliberalism, the United States has been a staunch advocate of capital account openness. Conveniently, such a position serves the interest of American financial institutions and markets, which have long held dominant positions in the world (Helleiner 1994).

Following its rapid and sustained economic growth, China in recent years has become an increasingly important player in the international financial system with its financial policy under growing international scrutiny. In 1996, China fulfilled its obligation as a member of the International Monetary Fund and liberalized its current account, but the ensuing Asian financial crisis halted its move toward capital account liberalization. Since then, the Chinese government has taken a cautious approach to capital flows. After 2003, China began to loosen restrictions on incoming and outgoing foreign direct investment, permitting qualified foreign institutional investors to invest in China, and allow qualified domestic institutional investors to invest abroad. The process slowed down in response to the global financial crisis in 2008, but resumed later. Around 2015, the Chinese government engaged in an intense effort get the Chinese currency into the IMF Special Drawing Right basket. Partially to allow the renminbi to meet the criteria of being "widely used" and "freely usable," China further reduced capital controls (Wang 2015). In his speech at the International Monetary Fund, the Chinese central bank governor stated, "[a]ccording to the IMF's classification of capital account transactions, 35 out of the 40 items are fully or partly convertible in China, and only five items remain inconvertible" (Zhou 2015). However, the remaining control was quite significant, involving "individual cross-border investment and the issuance of shares and other financial instruments by nonresidents on domestic markets" (Zhou 2015). According to the International Monetary Fund, China's capital account liberalization lags behind the industrialized countries and other large emerging economies. Furthermore, since mid-2016 Chinese authorities have tightened control of capital flows by stepping up enforcement of existing rules and introducing new ones (IMF 2017a).

China's capital control policy simultaneously defies the prevailing liberal (neoliberal, to be more precise) principle of free capital flow and hinders US financial interests. However, thus far Chinese policy has not posed a significant challenge to either. The global financial crisis led to more tolerance of capital control among international organizations and opinion leaders, but that tolerance only applies to short-term measures. As the International Monetary Fund puts it, "in certain circumstances, capital flow management measures can be useful. They should not however substitute for warranted macroeconomic adjustment" (IMF 2012, 2). In its recent assessment of the Chinese situation, the International Monetary Fund specifically points out that "a tightening in CFMs [capital flow management measures] is a possible policy response to capital outflows. Nonetheless, macroeconomic policies should play a more central role in managing outflows and structural reforms should be accelerated" (IMF 2017a, 43–44). China's lack of impact in this area is due to its policy ambivalence and limited financial power. While the Chinese government has maintained significant *de facto* restrictions on capital flow in and out of China, its rhetoric has often expressed a commitment to further liberalization under the right circumstances. Although China has accumulated considerable financial assets overseas, the underdevelopment of its financial institutions and markets constrains its international financial influence.

Currency Internationalization

The post-WWII international financial order has coincided with a dollar-dominated international currency system. Until the early 1970s, the dollar was literally as good as gold. With the closing of the gold window in 1971, when the US government terminated the conversion of the dollar to gold at a fixed exchange rate, this aspect of the Bretton Woods system collapsed. However, the end of the fixed exchange regime did not end the predominant position of the dollar in the world. The dollar has continued to be by far the most-used currency in international trade and investment, although a number of other currencies have gained some ground as international currencies, including, at various points, the deutsche mark, the Japanese yen, the British pound, and—later—the euro.

Since 2009, the Chinese government has actively pursued a policy of internationalizing the Chinese currency. Chinese policy analysts began to advocate renminbi internationalization in the early 2000s, but the global financial crisis accelerated its adoption as an official government policy. Chinese leaders expressed their concern about the cost of the "dollar trap" for China and the systemic risk of relying on one national currency—the US dollar—as the world's reserve currency (e.g., Aderlini 2009; Zhou 2009). In less than a decade, the Chinese currency emerged as a secondary contender in the international currency system, far behind the dollar and the euro but gradually catching up with the other international currencies. According to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), as of mid-2015, the renminbi ranked second in international trade settlement, fourth in global payment, and sixth in foreign exchange turnover. Since then the Chinese currency has retreated slightly, falling to sixth place in global payments, behind the Japanese yen and the Canadian dollar (UBS 2018).

The growing international profile of the Chinese currency is no doubt a *potential* challenge to the dominant position of the US currency and indirectly US influence in other issue areas. But the challenge is only a potential one. The rapid growth of the international use of the Chinese currency has not made it a threat to the dollar for the foreseeable future. As of December 2019, renminbi accounted for less than 2 percent of cross border payment worldwide, in contrast to more than 42 percent for the dollar (SWIFT 2020). As of mid-2018, the dollar made up 62.5 percent of the total foreign reserves in the world, whereas the renminbi only constituted 1.4 percent (Leong 2018). In his assessment in 2012, the head of the Federal Reserve in Dallas stated, "I do not claim that it will necessarily take more than 50 years for the renminbi to arise as a major global currency . . . I think it safe to say that such a change will not happen overnight or even within the next decade" (Fisher 2012). The partial reversal of renminbi internationalization since 2016 can only have reinforced that assessment. Thus far, the US government has not expressed much concern about any competition from the Chinese currency.

Meanwhile, there is hardly any reason to see renminbi internationalization as a threat to the liberal international order. Although the dollar system coincided with the post–World War II economic order and played an important role in facilitating international trade and—later capital—liberalization, it is not inherently a liberal institution. Indeed, the rise of other international currencies, including the renminbi, contributes to a more pluralistic currency system, which is more consistent with the liberal principle of greater openness and competitiveness. The decentralization of currency power from the United States is not necessarily a challenge to the liberal order.

Credit Rating

Credit rating is an important pillar of the modern international financial order. Credit-rating agencies provide assessments of how likely debt issuers will pay back their debt. By far the most influential credit-rating agencies are Moody's and Standard and Poor's (S&P), followed by Fitch, all of which are headquartered in the United States. With the acceleration of the globalization of financial markets after the 1980s, the big credit-rating agencies assumed increasingly important international roles as their ratings influenced both investors and debt issuers around the world. They started to expand into many countries, including through the establishment of subsidiaries and joint ventures with local credit-rating agencies. Their global influence was also strengthened by the growing use of credit ratings within international financial regulations (Bruner and Abdelal 2005; Kruck 2016).

In recent years, China—along with other emerging economies—has expressed discontent toward the existing credit-rating regime, particularly the dominance of the US-based big three (named above). For instance, the Chinese government reacted strongly when the big three cut China's sovereign credit rating in 2017 (China Daily 2017a, 2017b). Meanwhile, China's own credit-rating agencies, which first emerged in the mid-1980s, have grown rapidly with the development of the domestic bond market. Some of them have been vocal in criticizing the existing credit-rating regime and the role of the big US agencies. For instance, the head of Dagong—a major Chinese credit-rating agency—argues, "[t]he three dominating agencies' credit-rating criteria are formed based on US values and ideology. When they measure the whole world's credit risks with one single country's values and ideology, they will surely yield incorrect and biased results" (Beijing Review 2011). In 2013, Dagong launched a Universal Credit Rating Group in cooperation with a Russian credit-rating agency and a small American agency. Meanwhile, Golden Credit Rating International, another Chinese agency, has called for the Chinese government to support China's own national credit-rating agencies in order to compete against US-based agencies (Golden Credit Rating International n.d.).

These complaints notwithstanding, China has thus far played an ironic role in supporting US dominance in credit rating and in opposing a more liberal order. Although the Chinese government and some Chinese credit-rating agencies have criticized US agencies, they have embraced each other rhetorically. Most of the major Chinese rating agencies have actively cooperated with the big three. For instance, China Chengxin established a joint venture with Moody's, while China Lianhe created one with Fitch. In both cases, the US agencies were minority shareholders. Shanghai Brilliance has built a strategic partnership with S&P. In 2018, the Chinese government agreed to open credit-rating business to foreign entities. Moody's has established two wholly owned entities in China, though Fitch has sold its stake in the joint venture. S&P is also said to be preparing to launch solo operations in China. Moreover, Chinese officials obviously place great value on good ratings by the big US-based credit-rating agencies. For instance, Jin Liqun, president of the China-led Asian Infrastructure Investment Bank worked hard to obtain top ratings for the bank (Reuters 2015). In any case, even if China intends to challenge the United States in this area, it faces serious limitations, including the structural power of the US government as the gatekeeper to the world's largest capital market and US credit-rating agencies with their global reach (Helleiner and Wang 2018).

China's policy thus far is largely compliant with a US-dominated credit-rating regime. However, this does not constitute compliance with a liberal economic order. Indeed, the existing credit-rating regime is another illiberal component of the

US-dominated financial system, which contradicts the liberal principle of economic openness. First, the industry is clearly oligopolistic in nature. At the end of 2013, the big three's share of the all bond ratings outstanding was 96.6 percent and of all government securities was 99.1 percent (Humphrey 2015, 3). Second, the issuer-pay model inherently involves conflicts of interest and often undermines the efficient allocation of capital. Critics of these illiberal characteristics of the credit-rating regime can be found in the United States, Europe, and Japan, as well as in developing countries (Sinclair 2005). The tacit cooperation of the Chinese government and Chinese credit-rating agencies with the big three helps reinforce the status quo and could hinder the move toward a more liberal international order.

Regional Crisis Financing

In the postwar period, the International Monetary Fund was the main international institution responsible for assisting countries in balance of payment crisis. It played an important role in maintaining international financial stability and thus fostering an open trade—and later financial—order. However, its poor handling of the Asian financial crisis of 1997–1998 led to deep discontent in the region. In 2000, China joined the Association of Southeast Asian Nations (ASEAN), Japan, and Korea (ASEAN+3) in creating the Chiang Mai Initiative, a series of bilateral currency swaps to provide support for countries facing liquidity problems. Later, China played an important role in expanding the Chiang Mai Initiative, turning the bilateral swaps into a multilateral arrangement known as Chiang Mai Initiative Multilateralization. Since its establishment in 2010, the Chiang Mai Initiative Multilateralization (CMIM) has grown to be a regional pool of foreign reserves of US $240 billion. In 2014, China and other members of the BRICS (Brazil, Russia, India, and South Africa) formed a contingency reserve arrangement, a reserve pool of US $100 billion designed to help members deal with short-term balance of payment pressures.

China's growing financial resources, especially its enormous foreign reserves, which reached a peak of about US $4 trillion in 2014, made China's prominent role in these regional financial arrangements possible. In the CMIM program, China (and Hong Kong) and Japan are the largest lenders, each committing 32 percent of the total funds. Under the contingency reserve arrangement, China accounts for 41 percent of the funds, far exceeding the other members. So far, China's leadership or co-leadership position in these regional financial arrangements has not generated a great deal of concern from the US government or the International Monetary Fund; it does not constitute a challenge for either the United States or the liberal international order.

This may be somewhat surprising given how the United States and the International Monetary Fund reacted to an earlier attempt at regional financial cooperation led by Japan. At the time of the Asian financial crisis, the Japanese government proposed an Asian Monetary Fund. Both the United States and the International Monetary Fund rejected it forcefully and swiftly. They feared that such an arrangement would reduce American influence in Asia, dilute the resources and authority of the International Monetary Fund, and encourage an economic development model featuring strong state intervention (Lipscy 2003; Henning 2009; Chey 2009). Ironically, when the Chiang Mai Initiative came into being, neither the US government nor the International Monetary Fund expressed the same level of anxiety. In fact, the IMF has shown a positive attitude toward working with these Chinese arrangements as well as other regional financial arrangements (IMF 2017b).

The nonthreatening nature of the Chiang Mai Initiative Multilateralization lies in its relationship with the US-led International Monetary Fund. From the beginning, ASEAN+3 described the new arrangement as a supplement to the existing system of crisis financing. Member countries could only draw 10 percent of their

Table 1. Summary

Chinese policies	*Challenging liberal principles*	*Not challenging liberal principles*
Challenging the United States	Capital control	Currency internationalization
Not challenging the United States	Credit-rating regime	Regional crisis financing

borrowing quota without obtaining an IMF program. Later, the threshold went up to 30 percent, meaning 70 percent of the lending to countries facing liquidity problems remains linked to IMF lending with the attendant terms and conditions. It is questionable how useful the non-IMF linked portions of the fund can be. In fact, during the global financial crisis, Asian countries in need of liquidity support did not resort to the CMI/CMIM fund, but sought assistance through bilateral swaps with the United States and other countries (Helleiner 2014). The more recently created contingency reserve arrangement has adopted the same IMF link. Its operations are also untested. China's willingness to work closely with the International Monetary Fund is not a matter of appeasement. Now that China has become a major international creditor making loans to other countries in the world, it finds its interest well aligned with other international creditors. Contrary to widely shared IMF criticism, the Chinese government favors the Fund's conditionality as a way to discipline countries borrowing internationally (see, e.g., Zhou 2012).

The Inconclusive Relationship between China's Rise and Dollar Dominance

To summarize, this cursory examination of four dimensions of the international financial system illustrates the complex consequences of the rise of China. In particular, it highlights the importance of disentangling the implications of a rising China for the liberal international order and for US dominance. The US-led international financial order has both liberal and illiberal elements. A rising China has had different implications for US dominance and the liberal order (see Table 1). In some cases, Chinese policy challenges both (e.g., on the issue of capital control), in other cases it undermines one or the other (e.g., currency internationalization and credit-rating regime), and in still others, Chinese policy reinforces both the liberal international order and US dominance (e.g., regional crisis financing).

Moreover, although the US played a major role in bringing about the postwar international order and continues to defend certain aspects of the order, it is no longer tenable to equate the United States with that order. Under the Trump administration, the United States has abandoned many liberal components of that order, engaging in trade wars, tightening investment restrictions, weakening Western alliances, and turning away refugees and immigrants. In this context, challenging US dominance is becoming more and more divergent from challenging the liberal order.

As the introduction to this forum points out, scholars who focus on security and military issues tend to see US influence as declining whereas those studying monetary issues see a world of continued US dominance. Norloff and Poast (this forum) argue that, "while security challenges are real, the crises of the last decade have actually reinforced the centrality of the US dollar as the key currency and American financial power in the international system," and they urge scholars to "think carefully about the constitutive elements of the liberal order, especially the world's monetary order." This essay echoes the same call by showing that in the international financial system there are far too many inconsistencies for generalizations about the fate of the liberal order. The rise of China can variably weaken or strengthen US dominance and—quite separately—weaken or strengthen the liberal international order.

Reflections on Liberal and Monetary Orders

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This forum begins with a paradox. On the one hand, we have what appears to be a steady decay of US geopolitical influence together with a concomitant erosion of the long-standing liberal international order. On the other hand we have the persistent dominance of the US dollar at the heart of the global monetary order. In the words of the forum's introduction, "recent debate about the future of the 'liberal international order' . . . suggests a decline in US influence in global affairs . . . [Yet] from the perspective of scholars who explore the elements of the global monetary order . . . the situation one of continued US dominance, with no end in sight." (Norloff and Poast, this forum). The divergence of the two trends seems puzzling. If the United States is fading as a world power, how is the dollar able to retain its decades-old supremacy in financial affairs? Conversely, if the greenback still dominates the global monetary order, why should US power and the liberal international order be in decline?

The paradox has rarely been formally addressed by scholars of either security or money. This forum rightfully draws our attention to the need for better understanding of the relationship between the liberal international order and the global monetary order and how that relationship evolved over time. The contributions are by no means in agreement on all aspects of this core issue; there is no unified vision here. But taken together the five essays do perform a highly useful service, raising questions that are vital to the future of both the liberal order and the monetary order. The value of the forum lies in the marker it lays down for further research. This will be the starting point for many future debates. The agenda for inquiry may be defined in terms of three assumptions and four questions.

Three key assumptions appear to drive the forum. First, it is assumed that dollar dominance brings additional power to the United States. This assumption is uncontroversial, though much room remains for discussion of precisely how currency power works and what are its practical limits. Second, with the exception of Wang's essay, it is assumed that the liberal international order is synonymous with US geopolitical dominance. Wang rightly questions this link, largely by pondering whether the concept "liberal international order" is well-defined.

Third, it is assumed that dollar dominance in the global monetary order will continue. This is perhaps the most controversial of the assumptions. Until recently, I would have concurred. But since the election of Donald Trump and his aggressive use of financial sanctions—not only against adversaries such as North Korea or Iran but also against friends and allies who want to do business with America's enemies—alternatives to the dollar are increasingly being sought. McDowell examines how overuse of US financial power may lead to its erosion—a "growing dollar backlash." For Norrlof, this presents a "financial statecraft paradox," encouraging alternative pricing standards and payments systems. Khanna and Winecoff hedge their bets, conceding that American monetary hegemony could be compromised by "deeply misguided" policies or "egregious leadership." Today the greenback's perch at the peak of the global currency hierarchy is looking increasingly precarious.

Is it possible that the end of dollar hegemony is nearer than assumed? The issue is hotly debated among monetary specialists. It is true, of course, that there appears to be no single rival currency today ready and able to rise to the top anytime soon. The euro is plagued by grave issues of sovereign debt and divided leadership. Japan's yen is burdened by prolonged economic stagnation and a shrinking population. Wang is undoubtedly correct that it could be decades before the renminbi can make a serious bid for parity with, let alone supremacy over, the dollar. But, this does not mean that America's money is unchallenged. At the margins, diversification is accelerating into a variety of substitutes for the greenback. Europe would like to implement an independent payments system to bypass US sanctions on Iran. China is actively promoting use of the renminbi to pay for its oil imports. And many central banks are now buying gold to bolster the security of their reserves. The risk to the dollar is not a quick collapse but rather a more slow-moving process akin to bleeding from a thousand cuts. The threat is not a wolf at the door but more like termites in the woodwork.

Given these three key assumptions, there does indeed appear to be a puzzle. For the last three-quarters of a century, both the liberal international order and the global monetary order have undeniably been dominated by the United States. Both orders have served US interests. Both have supported US power. The relationship between the liberal order and the monetary order has been essentially symbiotic—a sort of virtuous circle of mutual endogeneity. Dollar supremacy has reinforced US influence in the liberal order; US dominance of the liberal order has reinforced the centrality of the greenback in the global monetary order. In the words of the forum's introduction, "dollar hegemony is a *product of* and an *enabler for* continued American international primacy" (emphasis added). Thus it does indeed seem paradoxical to now observe a growing divergence between the two orders—a gradually weakening liberal order alongside persistent dollar strength. A closer look at the relationship between the liberal international order and the global monetary order does seem warranted. Inquiry naturally decomposes into four distinct questions.

First, was dollar supremacy a precondition for the rise of the US-dominated liberal order? For several of the contributors, there is no doubt on this point. According to the forum's introduction, "monetary prominence has been a precondition for the viability of great-power order-building projects more generally." Khanna and Winecoff summarize pithily: "money shapes the order." The logic is familiar. The issuer of a dominant international currency is largely freed from a balance-of-payments constraint. Effectively, external deficits can be paid for by simply printing more of the nation's money. Hence diplomatic and security-related initiatives, up to and including costly foreign wars, can be pursued abroad that might otherwise be unaffordable. France's Valéry Giscard d'Estaing knew what he was talking about decades ago when he called this America's "exorbitant privilege."

Familiarity, however, does not necessarily make the logic incontrovertible. It is obvious, of course, that for an aspiring order-builder, the exorbitant privilege helps. But is it *necessary*? A glance at history suggests otherwise. The nineteenth-century Concert of Europe dominated by the United Kingdom emerged decades before the pound sterling took center stage in global finance. Likewise, America's later rise to great-power status began well before the birth of the dollar standard in the years between the two world wars. In neither instance can it be claimed that it was money specifically what shaped the political order. Far more influential, arguably, were such key factors as manufacturing capacity or sea power. The claim that monetary prominence is a precondition for a world order's rise rests on shaky foundations.

Second, was the liberal international order a precondition for the emergence of dollar supremacy? Perhaps it was the other way around. Much more persuasive is an argument that it is not money that initially shapes the global order but rather the global order that helps shape the use of money. At issue is the capacity of the dominant power to promote its own currency. In previous publications, I myself have made the case for the importance of national security considerations—especially foreign policy ties and military reach—in molding currency preferences (see, for example, Cohen 2015, 102–134). In this forum, the geopolitics of currencies is discussed by Norrlof and by Croteau and Poast. As Norrlof puts it, "[b]oth historical and contemporary evidence suggests international currency choice may indeed be security-driven." Both focus on today's dollar standard.

Norrlof concentrates on three key political mechanisms that would seem to play a role in determining a currency's broad international appeal. These are military power, security provision and defense commitments, and political affinity. Her analysis suggests that all three factors are important, though she underscores that robust empirical evidence is mostly lacking. Croteau and Poast, by contrast, focus on one illustrative case—America's relationship with Saudi Arabia. In this relationship, they stress, "maintaining the dollar's status . . . became a concerted policy pursuit." Since as far back as the 1970s, following the first global oil shock, Washington has extended broad security guarantees to the Saudis in exchange for continued Saudi support for the dollar.

Security considerations may very well matter when governments decide on the currency composition of their reserves. But as Norrlof acknowledges, private demand, not just reserve currency demand, matters. Spotlighting the reserve role alone "misses a key element"—namely, use of international currencies at the market level for either commercial payments or portfolio investment—as McDowell reminds us. For market actors, geopolitics is apt to be of rather less salience. For exporters and importers, the "gravitational pull" of a money's issuer—the size of its economy and its rank in world trade—will matter more. Likewise, for international investors, the sophistication and openness of each issuer's financial markets are most likely to prove pivotal. At the market level, it is not the political order but rather more mundane economic considerations that tend to determine currency preferences.

Third, could the US-dominated liberal international order endure without dollar supremacy? Is it the case that, without the exorbitant privilege, US power would be significantly compromised? On the one hand, Norrlof summarizes: "If the United States loses its grip on the international monetary order . . . its status as primus inter pares in the international system could unravel." On the other hand, Wang's piece holds that "[a]lthough the dollar system coincided with the post–World War II economic order . . . the decentralization of currency power from the United States is not necessarily a challenge to the liberal international order." It may simply mean displacement of the dollar at the peak of the order by one or several rivals, with no significant change in the essence of the order itself.

Finally, could the dollar remain dominant without the liberal international order? I have already suggested that there is reason to suspect that the end of today's dollar hegemony may not be so far in the future as widely thought. It may well be that what appears to be a paradox is actually little more than a behavioral lag due to the well-known influence of inertia in international currency choice. We know that high switching costs can act to slow down processes of monetary adaptation. Khanna and Winecoff add the impact of what they call "endogenous network processes"—the idea that the monetary system is governed by positive feedback mechanisms that are endogenous to network structure, which has helped to keep the dollar in a core global position despite the erosion of America's advantages. On this account, dollar supremacy may follow the LIO into decline—just not right away.

That was certainly the pattern in the case of the pound sterling, which remained a top international money long after Britain's geopolitical position began its painful descent from global empire. The same, in time, could happen to the greenback, as some of the forum's contributors explicitly acknowledge. Khanna and Winecoff hedge their bets, conceding that network endogeneity could eventually be overcome if the erosion of America's advantages becomes severe enough. Norrlof calls attention to the dire risks for the dollar posed by contemporary trends in the liberal international order for different reasons. "[I]f there is uncertainty over alliance ties, or security guarantees, or if political sympathies and proclivities start to shift, currency holders may start to diversify their reserve portfolios . . . [S]ecurity-induced reserve currency support may grind to a halt . . . [T]he total effect of cascading reserve portfolio adjustments could be devastating, dethroning the dollar from its perch as king currency." That is certainly a danger worth exploring.

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