Swaps as Sword? China's Financial Statecraft and the Global Financial Safety Net

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Abstract

Are China's bilateral swap agreements an effective tool to pursue financial statecraft? We evaluate how China's swap program operates within the broader global financial safety net, comprised also of additional bilateral liquidity arrangements, as well as unilateral, multilateral and regional financing options. We find that states that have IMF loan agreements in place, or are in negotiations with the IMF are more likely than other countries to sign BSAs with China. Third Party BSAs and membership in Regional Financing Arrangements are also associated with a higher likelihood of signing China's BSAs. Our findings suggest that China cannot unilaterally play the role of international lender of last resort to enhance its structural power in the global currency and financial governance system. China's pursuit of financial statecraft to alter the US-led international monetary order is limited by its reliance on the combined efforts of US-led institutions. China's monetary initiatives primarily operate alongside and not against US-led institutions such as the IMF, or regional and Third-Party alternatives similarly geared to revise the status quo. Our study adds to expanding knowledge about the fragmentation of the Global Financial Safety Net and the limits of financial statecraft of rising powers.

1 Introduction

The Global Financial Crisis presented a new problem for sovereign crisis management, which triggered a renewed global enthusiasm for bilateral swap agreements (BSAs or swaps) for liquidity provision. These arrangements emerge, in part, to bypass costly multilateral financing options and make up of the inadequacies of the existing global financial safety net (GFSN) (Helleiner 2014; Medhora 2017). While the initial swap network provided by the United States Federal Reserve (the Fed) was selective, today, 91 economies, including around the world can access liquidity through this global BSA network now provided by a number of central banks in advanced and emerging markets (Perks et al. 2021).

The unplanned expansion of the GFSN looks impressive. Since the crisis, the GFSN has proliferated in its size, capacity, and diversity of participants. It has become increasingly fragmented, transforming this system into a system of complex governance (Henning and Pratt 2023; Henning 2023). Through this complex governance system, the critical functions of the international lender of last resort (ILLR) have become increasingly decentralized, comprised of traditional unilateral and multilateral financing options, as well as bilateral, and regional alternatives (Moessner and Allen 2010; Henning 2015; Perks et al. 2021).

This proliferation of swap lines signals the shifting balance of power in international finance towards emerging markets (Horn et al. 2023). Until fairly recently, China and India were predominantly borrowers in the global financial system. Today, they are taking on crucial creditor roles as liquidity *providers*, via BSAs, to their neighbors and economic partners. The People's Bank of China (PBoC) provides the largest number of swaps to both advanced economies and other EMDEs. India provides bilateral assistance to fellow members of the South Asian Association for Regional Cooperation (SAARC). In 2015, the BRICS countries (Brazil, Russia, India, China, and South Africa) a established the Contingent Reserve Arrangement (CRA), to provide liquidity and precautionary support to one another.

These arrangements are often painted as tools of financial statecraft pursued by emerging markets through both defensive and offensive means (Armijo and Katada 2015; Li, Sahasrabuddhe, and Wingo 2024). For China, BSAs are a tool for the defensive financial statecraft, aimed at reducing US structural power in international finance, enhancing RMB-base settlements, and protecting China's policy autonomy within the status quo. China's BSAs also have offensive potential to alter the status quo by enhancing China's structural power in the global currency and monetary system. While China's defensive financial statecraft—"swaps as shield"—has been largely ineffective, McDowell (2019b) suggests that China's *offensive* statecraft—"swaps as sword"—has more potential. This prospects for China's offensive statecraft is contingent on China's willingness to act unilaterally as an ILLR.

Several studies have sought to explain the emergence, proliferation, of China's swap lines as associated with China's trade relations with its partners, or broader geopolitical constraints as limiting the promise of lines (Liao and McDowell 2015; Broz, Wang, and Zhang 2020; Li, Sahasrabuddhe, and Wingo 2024). None, however, evaluate the offensive statecraft potential of China's swap lines, as a *unilateral* ILLR. Indeed, many EMDEs are not well positioned to manage the risks associated with China's BSAs, nor do they enable countries to "borrow credibility" or provide a credible signal to financial markets. Moreover, our present understanding of China's BSA network within the broader GFSN remains limited.

Our paper evaluates the degree to which China's BSAs are an effective tool for offensive financial statecraft. in other words, to what extent does China act *unilaterally* as an ILLR? To answer this question, we contend that we need to understand the proliferation of China's BSAs within the broader context of the fragmented GFSN, including bilateral, regional and multilateral options to meet liquidity and crisis financing needs.

We argue that, to do, China's BSAs remain limited as tools of offensive financial statecraft; China's BSAs so far do not, and cannot unilateral play an ILLR function for its partners. As our qualitative discussion highlights, China relies on its counterparties, especially smaller and more vulnerable economies, to secure additional financing in order to sign or renew BSAs. Moreover, many countries have also signed BSAs with China to meet the collateral demands of regional, multilateral or other bilateral providers. Our quantitative analysis supports these claims that China does not and cannot act alone. We find that countries that already have an IMF loan agreement, or are in negotiations towards securing one, are more likely than others to sign BSAs with China. Moreover, BSAs from China are also positively linked to participation in what we call "Third-Party" BSA—swaps provided by central banks other than the PBoC or the Fed. Finally, membership in regional arrangements also increases the likelihood of signed BSAs with China.

We test our argument using a cross-national panel of all BSAs signed between January 2007 and December 2020, focusing on China's swap lines as the outcome of interest. Employing a penalized negative binomial regression, we find that participation in IMF loans, access to Third-Party BSAs, and RFA membership in the prior month increases the odds of countries acquiring China BSAs in the subsequent month by approximately 3.5 times, 7.3 times, and 1.95 times, respectively. In other words, China's monetary initiatives primarily operate alongside and not against US-led institutions such as the IMF, or regional and Third-Party alternatives similarly geared to revise the status quo.

Our paper makes three main contributions: First, to our knowledge, this is the first systematic study that evaluates how various parts of the GFSN interact and operate together. Rather than focusing on China's BSA network alone, we evaluate the proliferation of RMB swaps alongside unilateral, multilateral, and regional alternatives for sovereign crisis financing. Second, ours is the first study to include Third-Party BSAs and their role in the GFSN alongside China's BSA network. We incorporate this dynamic in our analyses both qualitatively and quantitatively. Third, our study of China's swap lines in the broader GFSN allows us to study the offensive potential of China's financial statecraft. We highlight the limits of of China's efforts to unilaterally provide an alternative to the US-led international monetary governance system. We add new insights to discourse on complex governance and financial fragmentation by incorporating the variable of rising powers' financial statecraft and its limits in the US-led monetary order.

2 Proliferation of the Global Swap Network

Crises trigger institutional contestation and competitive regime creation (Morse and Keohane 2014). Before the GFC, the GFSN comprised a combination of the Bretton Woods twins and regional financing arrangements (Vreeland 2003; Desai and Vreeland 2011; Clark 2022), and the mid-century Fed swap network that lapsed in the late 1990s (Bordo, Humpage, and Schwartz 2015). Some states created regional arrangements in the mid-century era, such as the Arab Monetary Fund (AMF), or the Latin American Reserve Fund (or FLAR) after the 1980s debt crises, and the Chiang Mai Initiative [Multilateralisation] CMIM in response to the 1990s Asian financial crisis. These various regional arrangements provide a diverse set of policy instruments to free states from IMF-dependence.

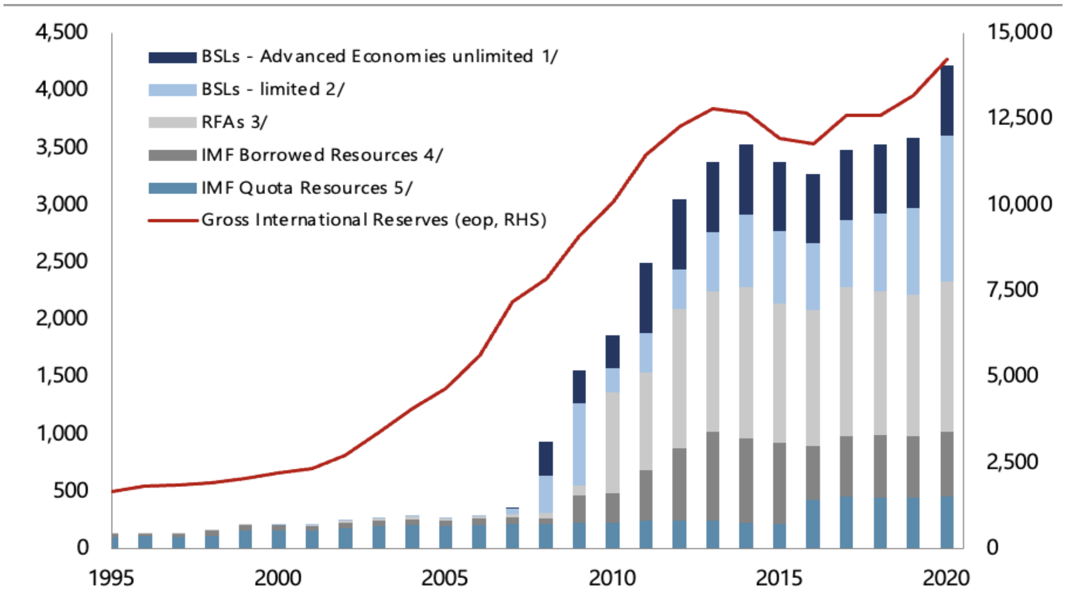
The emergence and ad hoc expansion of the bilateral swap network is a similar contemporary response by central banks during the GFC, some seeking to gain or maintain their independence from the IMF. As the only entity capable of providing unlimited dollars, Fed swap lines are the most coveted and most exclusive arrangements (Prasad 2014). Largely, Fed swap recipients are unlikely to turn to the IMF for assistance at any stage.[1]

The global swap network has since steadily expanded and diversified, both in terms for who provides these lines, as well as who can access them (see Figures 1 and 2). As of 2022, the proliferation of competing BSAs has yielded a global swap network that now comprises 91 countries across the globe. It includes providers from both advanced *and* emerging markets (Perks et al. 2021). Borrowers also include advanced economies and many small and lower income countries. BSAs play an important crisis financing and liquidity provision role

[1]Some EMEs that received Fed swaps have turned to the IMF at other times. And despite the ECB's standing Fed swap, Greece went through IMF structural adjustment in 2012.

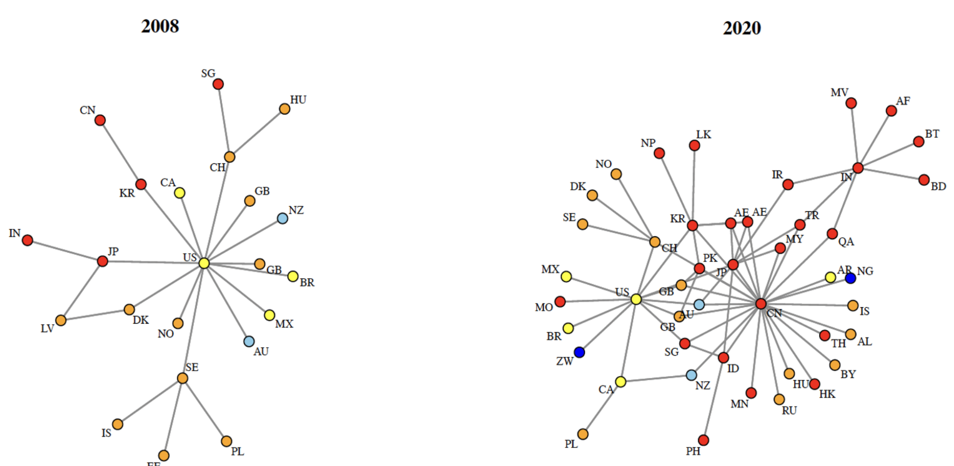
alongside multilateral and regional options (Moessner and Allen 2010; Broz 2015; McDowell 2017; Horn et al. 2023; Mauro and Zettelmeyer 2017).

Figure 1. Evolution of the Global Financial Safety Net, 1995—2020 (billions of U.S. dollars)



Source: Perks et al. (2021).

Figure 2. Evolution of BSA Network, 2008 and 2020



Source: Figures were generated combining data from McDowell (2023) and Horn et al. (2023)

How states choose between these options is less clear. Since 2008, while some states have sought multilateral loans, others turned to alternative monetary partners, many sought multiple options at the same time. India (in 2008) and Indonesia (in 2013), whose swap requests were rejected by the Fed secured BSAs from the Bank of Japan. India received a *dollar* swap; the Reserve Bank of India (RBI) can swap local currency for both the US Dollar or the Japanese Yen (Sahasrabuddhe 2024). This line can be activated '*when an IMF-support program already exists or is expected to be established in the near future.* Nevertheless, up to 20 percent of the maximum amount of drawing could be disbursed without an IMF-support program.'[2] Indonesia's BSA with Japan did not include an IMF stipulation, but was designed to 'align with the recent amendments to the Chiang Mai Initiative [Multilateralisation] (CMIM) Agreement.'

The PBoC is less discriminate than other central banks in who it extends BSAs to. Since 2009, the PBoC has signed 41 swap lines with partner banks between 2009-2023, including nearly all that received swaps BSAs from the Fed. Several studies have shown that that China's motivation to extend swap lines lie primarily on trade facilitation and increasing international use of its currency, the renminbi (RMB) (Prasad 2017; Liao and McDowell 2015; Chin 2014). China's swap partners are differently motivated to enter into these arrangements with the PBoC. For some countries, these lines are essential for meeting debt obligations to China, or creditors such as the IMF (Horn et al. 2023). Geopolitical considerations such as alliances, security cooperation, and disputes also shape who signs China's BSAs (Li, Sahasrabuddhe, and Wingo 2024).

Other countries have also extended currency swap lines with economic partners and neighbouring states, although these lines are smaller both in their size and their expanse. The RBI has made up to $4 billion dollars of its reserves available as standing swap lines with its partners in the South Asian Association for Regional Cooperation (SAARC). The RBI

[2] Bank of Japan. "Signing of the Bilateral Swap Arrangement between Japan and India." June 30, 2008. Emphasis added.

has also entered into a BSA with Sri Lanka (outside SAARC), during Sri Lanka's crisis in 2022. Pakistan, Turkey, and Iran have signed BSAs to facilitate trade.[3] India and the United Arab Emirates have entered into a local currency swap, as have the UAE and Qatar. Trade and oil payments are key to these arrangements, aimed to be settled in local currency rather than in US dollars. In 2023, China and the UAE used their swap line to settle oil payments in yuan. BSAs provided by central banks other than the Fed or the PBOC, these other BSA partnerships pushed by India, Japan, Korea, or UAE, have received almost no scholarly attention, despite their slow, but steady proliferation. These networks are, of course, much smaller, and tend to be geographically concentrated.

3 Financial Fragmentation and Statecraft

The fragmentation of the GFSN is not without its complications, and the post-crisis period has seen an increase in institutional contestation and competition. To start, many smaller economies do not have the privilege of altogether avoiding the conditionality attached IMF loans to mitigate risk. Both Fund and regional options automatically include multiple creditors, and stringent conditions that can serve. Multilateral lenders also often requires debtors to secure bilateral backstops to secure IMF assistance.

We study the influence of this regime complexity on China's BSAs as a tool for offensive financial statecraft—the extent to which it currently plays its ILLR role unilaterally. We therefore evaluate the determinants of states' decisions to enter China's BSAs alongside other options. Most studies on swap lines have also focused predominantly on the Fed and PBoC's BSA networks, and overlook other available BSAs. Others have tended to look primarily at the IMF or RFAs, but do not include the bilateral options that BSAs present states. Studying these arrangements alone cannot explain the offensive potential of China's monetary initiatives to provide an alternative to the US-led monetary order. We build on

[3] Swaps with Iran were briefly disrupted by the lack of banking channels until 2016 due to US sanctions.

the existing literature to evaluate how China's BSAs operate within the fragmented GFSN by looking at multiple channels of liquidity assurance *together*.

Our argument complements the research on complex governance (Aggarwal 1998; Raustiala and Victor 2004; Alter and Meunier 2009; Keohane and Victor 2011; Henning and Pratt 2023), and regime complexity and fragmentation in financial governance (Kahler 2013; Henning 2017; Henning 2019; Henning 2023), as well as debates on financial statecraft and the pursuits of rising powers (Armijo and Katada 2015; Katada, Roberts, and Armijo 2017; McDowell 2019a). The proliferation of the global swap network is a direct result of the GFC, generating increased contestation within the financial governance system (Morse and Keohane 2014), driven by states seeking to increase their economic power using tools of geo-economic statecraft (Blackwill and Harris 2016).

We add to this literature by evaluating China's financial statecraft and the implications of financial fragmentation for China's goals of providing an alternative to the US-led governance order. The emerging swap networks provided by larger EMEs, primarily constituted of China's BSAs, are a manifestation of states' dissatisfaction with the status quo, and their efforts to revise it. BSAs also diverge from traditional multilateral loans, in terms of the types of credit lines available, and the absence of policy conditionality tied to these lines.

In 2022-2023, Pakistan and Ghana faced such dire circumstances that IFI assistance was hard to come by. They thus sought bilateral backstops to meet the IMF's collateral requirements and to help them through strenuous negotiations with the IMF. Regional Financing Arrangements are just that—regional. These pools of money are much smaller than any multilateral or ad hoc bilateral option; on their own, RFAs cannot always meet states' financing needs. Some, such as the CMIM, have not even been used by its members.

Adding to the complexity of this fragmentation, bilateral liquidity providers add similar stipulations to liquidity lines as multilateral lenders. The ECB swap line to Lithuania was used to tie countries over as they seek IMF loans. BSAs provided by China or India have similar strings attached that swaps with some partners, usually lower income and volatile economies, will be renewed on the condition that the borrower makes progress towards an IMF loan. For example, during Sri Lanka's crisis in 2022, India's swap line to Sri Lanka was also conditioned upon progress towards an expanded IMF arrangement. At the same time, the IMF required Sri Lanka to secure a bilateral backstop from a partner central bank before it could access any IMF credit.

While EME arrangements are depicted as an instrument of defensive statecraft (Armijo and Katada 2015; Mauro and Zettelmeyer 2017; McDowell 2019b), for states to gain enhanced autonomy in the US-led order, paradoxically, the BRICS Contingent Reserve Arrangements, manifestation of this goal, requires additional backstops in order to draw on these bilateral arrangements—funds are contingent on the borrower securing IMF assistance as collateral (Henning 2015). Even though most liquidity assurance options rely on alternative arrangements as collateral, non-Fed BSAs have been largely studied in isolation of alternative options. Existing scholarship has largely overlooked the point that states often seek liquidity from multiple providers.

Keohane and Victor (2011) suggest fragmentation could be advantageous to states. In many ways, the crisis heightened the financial and monetary power of states—the US—and international organizations—the IMF—that already enjoyed outside economic leverage over the global economy through bilateral relations as well as international organizations. It also heightened China's influence in the international monetary system and spurred China's economic statecraft to expand its sphere of influence, internationalize its currency, and provide alternatives to the US-led governance system. Larger EMEs such as the BRICS countries hang together by their common aversion to US and dollar dominance, and shared goals of gaining a louder voice in multilateral organizations such as the IMF (Roberts, Armijo, and Katada 2017). Together, they exercise collective financial statecraft to pursue these goals, such as through the creation of the CRA, that contributes to regime complexity.

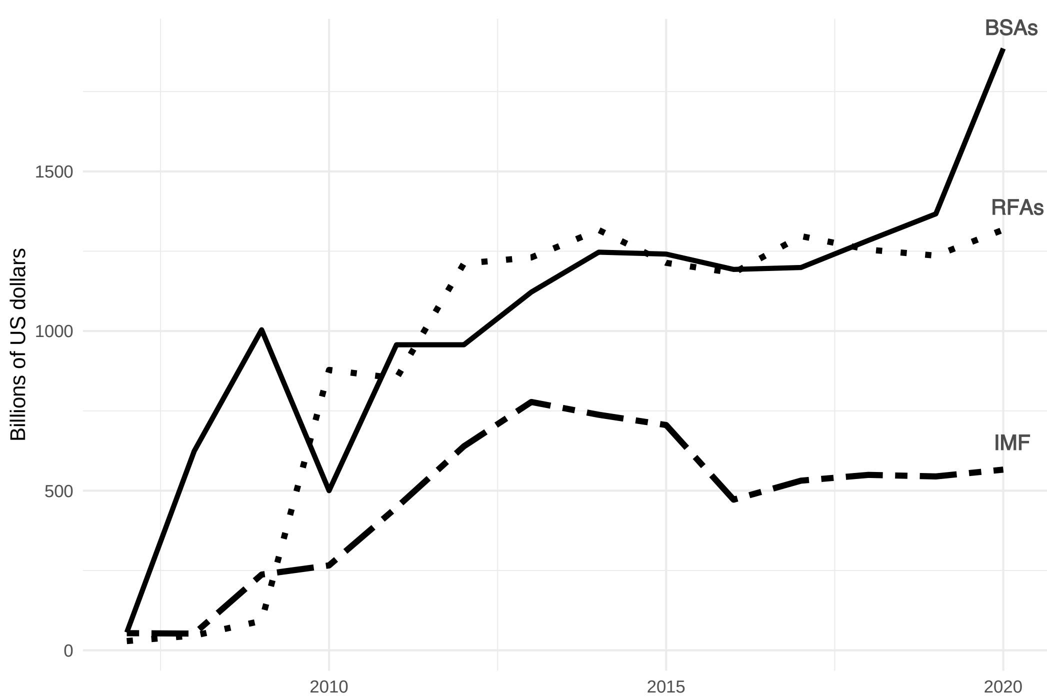
The fragmented GFSN has also proved valuable to states that did not have access to Fed swap, such as Indonesia. In turn, other key economic partners such as China, Japan, and Korea have stepped in to assist, as Indonesia also seeks to avoid returning to the Fund. Fragmentation may help manage hierarchy and power discrepancies in IOs (Pratt 2018). When seeking emergency lending from IOs, states that have exit options can negotiate better terms on multilateral assistance. RFAs can also afford states with a credible exit option to the Fund, allowing them to negotiate better terms (Clark 2022).

At the same time, they also face significant hurdles through their diverging and even competitive interests. Indeed China and India engage in financial statecraft through the creation of of their own regional financial arrangements or development banks, and by extending bilateral liquidity neighbors and economic partners in their spheres of influence. Some suggest that smaller economies such as Sri Lanka or the Maldives are the site of economic contest between the two large regional powers. Competing dynamics of interstate rivalry and collective statecraft, combined, are key drivers of financial fragmentation pushed by large emerging economies.

For other large emerging markets and advanced economies, such as Singapore and South Korea, the decentralization of the GFSN may not have enhanced states' capacities to engage in economic statecraft, but it has opened up a larger set of options for liquidity assurance for states seeking to avoid costly IO conditionality. Indeed, their goal of seeking to avoid the stigma and IMF conditionality after their experience with the Fund in the late 1990s is known to policymakers in institutions such as the Fed (FOMC 2008). Both states have previously received Fed swaps alongside other emerging markets, Brazil and Mexico. They are also party to the PBoC's expanding monetary initiatives, as long as they maintain stable relations with China (Li, Sahasrabuddhe, and Wingo 2024).

Smaller and lower income states cannot navigate this fragmentation as easily and instead may be increasingly vulnerable to the contestation and geoeconomic pursuits of their larger partners such as the BRICS now playing creditor roles as they seek alternatives to the status quo (Kahler 2013; Narlikar 2013). Power asymmetries, and exercising leverage over partner countries also play out in bilateral arrangements. The Fed has used its swap lines to meet its geopolitical goals with economic partners (Sahasrabuddhe 2019). China also uses BSAs as leverage over its swap signatories to manage political and territorial disputes (Li, Sahasrabuddhe, and Wingo 2023; Liu, Pang, and Vreeland 2023). Vulnerable borrowers have become the site of competition among emerging powers, as has been the plight of Sri Lanka in its interactions with India and China. The fragmentation of the GFSN that has emerged as a result of EME creditors seeking to create alternatives and pursue their economic goals may not serve debtors seeking more attractive and less costly financing options. In other words, the benefits of fragmentation ought not to be overstated.

Figure 3. Active loans from the IMF, RFA and China BSA, 2005-2020



As Figure 3 shows, China provides the largest BSA program, with the exception of Fed swaps, by number of counterparts and now outnumber multilateral and regional arrangements. Understanding how China BSAs operate in relation to alternative liquidity assurance options can shed greater light on the possibility of China's financial statecraft. Unlike Fed swaps, the RMB swap network includes borrowers that are more likely to have to turn to IMF assistance. We argue that the interdependence of various liquidity assurance options points to the limits of China's ability to provide an alternative to the US-led GFSN. If China's BSAs are an effective instrument of offensive financial statecraft—to unilaterally act as an ILLR—we should see them present states an exit option to costly IMF loans, or as an alternative to regional arrangements.

3.1 Hypotheses

To evaluate the potential of China's offesnive financial statecraft, we evaluate how bilateral (broken down by China and Third-Party BSAs), multilateral and regional financing arrangements operate alongside one another within the complex structure of the GFSN. Our outcome of interest is the likelihood of entering into BSAs with China, given alternative policy instruments, to identify the extent to which China's BSAs can unilaterally act as an ILLR. Previous studies show that more conventional economic and political factors influence states' decisions to enter into these arrangements separately. However, as our discussion above shows, states' decisions to enter swap lines with emerging market providers such as China are made within a broader set of available alternatives, or even requirements to secure backstops as collateral for multilateral loans. Their considerations in signing BSAs with China would operate differently in the context of the broader GFSN.

We first consider how IMF programs influence states decisions to sign swaps with China. BSAs from various providers, with the exception of the Fed, may carry varying limits and terms. They are also similar to one another in how they are distinct to multilateral and regional arrangements. IMF loans thus tend to carry greater economic, political and sovereignty costs to borrowers, while swaps present countries with a relatively low cost alternative (Moessner and Allen 2010). For many countries that suffered crises and tough structural reforms imposed via IMF packages, turning to the Fund also carries with it a stigma that many states try to avoid (Ito 2012).

While BSAs carry stipulations and limits on usage, they vary from multilateral alternatives in that BSAs carry no policy conditionality in contrast to IMF loans (Dreher, Sturm, and Vreeland 2015). Swaps from China serve purposes for its partners in addition to liquidity provision. States that have an active IMF loan in place are typically subject to conditionality of varying degree of stringency, depending on the type on program in place. As a result, many states seek alternative, low cost options to supplement these programs or strengthen their financial positions in order to avoid returning to extend these lines altogether, or to meet the Fund's collateral requirements. We contend that ultimately, states are not looking to China's BSAs as a unilateral ILLR, but seek them to meet the demands of long-standing US-led international financial institutions.

Hypothesis 1: Countries that have an active loan with the IMF are more likely to acquire BSAs from China than other countries.

BSAs can also be arranged rapidly, with relatively short negotiations, whereas negotiations with the Fund can vary and tend to be longer. Recent crises such as the Covid-19 pandemic, or the economic and financial crises in Sri Lanka and Argentina in 2023 indicate the benefit of ad hoc arrangements such as BSAs to expand liquidity provision in an ad hoc manner, in times of stress. Unlike swap lines, IMF loans tend to take longer to negotiate in varying circumstances (Bearce, Eldredge, and Jolliff 2015). Borrowers that have greater influence in international organizations or are more connected to the financial sectors of major IMF shareholders can secure quicker negotiations (Ferry and Zeitz 2024b). At the same time, countries that have borrowed more from China will experience longer negotiations with the IMF when facing a debt crisis (Ferry and Zeitz 2024a).

Clark (2022) finds that RFAs that compete with the IMF can become credible exit options for IMF member states. These options that allow states to use this external option as leverage in negotiating the conditions of Fund lending. BSAs may similarly present EMDE borrowers with a credible exit option, or at least an alternative when seeking multilateral assistance as leverage to negotiate better loan terms. In addition to the conditionality associated with IMF loans, as we discuss in Part 3, IMF programs also require borrowers to secure a bilateral backstop as collateral for the loans they seek. To meet the collateral requirement stipulated by the IMF, in addition to securing financing to tied states over while states negotiate programs with the IMF, RMB swaps can help states meet their financing needs.

Hypothesis 1a: Countries in negotiations for an IMF loan are more likely to acquire BSAs from China than other countries.

We also consider how China's BSAs operate alongside Third-Party BSAs. Given that larger economies tend to be more embedded in international financial activities, these states will seek similar sources of financing to diversify their reserve portfolios, or accrue various benefits of bilateral arrangements with financial partners (Liao and McDowell 2015; Li, Sahasrabuddhe, and Wingo 2024). South Korea, the United Kingdom, and the European Central Bank (ECB) have the largest swap lines with China. Signing BSAs with China, even though these states have swap lines with the Fed,[4] BSAs with China will bring financial benefits as China's currency, the renminbi (RMB), internationalizes (Li, Sahasrabuddhe, and Wingo 2024). For these states, a key purpose of these lines is to support China's goal of RMB internationalization.

BSAs also have primarily proliferated among EMDEs. Most of these are swaps that have been extended by China. Other EMDEs such as India through SAARC, Turkey, the BRICS countries, Indonesia, Pakistan, and even Iran, have entered into bilateral monetary initiatives with their economic partners and neighbors. India, Indonesia, and Turkey, had previously requested and been denied BSAs from the Fed during the GFC and the mid-2010s following the taper tantrums. Most BSAs, from China and Third-Parties, are limited

[4]South Korea's swap with the Fed is not permanent, but it received a swap in 2008, and again when the Fed swap network was enhanced in 2020.

in their amounts relative to Fed swaps, and drawing capacity. The United Arab Emirates, a high income developing market economy has signed swaps with Korea, India, and China, to increase local currency settlements for oil payments. Essentially, these states seek to augment available financing options by seeking multiple BSAs, from China, and Third-Party providers, rather than China playing this role unilaterally. We therefore expect that states will seek BSAs from China and other providers to meet their policy goals:

Hypothesis 2: Countries that participate in Third-Party BSAs, are more likely to acquire BSAs from China than other countries.

We also expect that regional arrangements operate similarly to Third-Party BSAs. Like Third-Party BSAs, regional arrangements are more limited in their capacity and their reach than multilateral or bilateral options. They also possess more flexibility relative to IMF loans, in that they can be comprised of various types of instruments such as swaps and loans, have multiple sources of funding, and may provide financing in either domestic or foreign currency (Cheng and Lennkh 2020). RFAs may thus be well equipped to facilitate cooperation within a fragmented governance system (Desai and Vreeland 2011), and can serve as meaningful alternatives or afford states leverage in IMF negotiations (Clark 2022). RFA drawing rights may allow states to similarly use regional backstops to negotiate BSAs or provide collateral that BSA providers require. They also offer EMDEs substantial benefits through instrumental collaboration and address their lack of representation in the IMF. In other words, they play a similar role to Third-Party BSAs.

RFAs also play a slightly different role to BSAs in the GFSN. Medium- and longer-term financing requires risk-bearing commitments that call for fiscal backing and policy adjustments, that swaps—that tend to avoid risk—do not (Henning 2023). They play a different crisis financing role in comparison to BSAs which are less frequently and not always automatically, activated. BSAs are limited in their activation and usage, and also by underlying economic and political considerations tied to China's economic and political system. Together with the consideration that RFAs are better equipped to address a broader set of issues compared to BSAs, we expect that countries seeking China's BSAs for liquidity and trade purposes will remain reliant on regional alternatives for sovereign crisis financing. In other words, China's BSAs are also limited in their potential for offensive financial statecraft; they cannot fulfill the function of an ILLR without the support of accompanying RFAs.

Hypothesis 3: Countries that are members of RFAs are more likely to acquire BSAs from China than other countries.

4 Research Design and Data

We conduct a correlational analysis using a novel monthly dataset on the global financial safety net, which provides a comprehensive catalog of IMF lending facilities, bilateral swap agreements including Third-Party BSAs, and access to RFAs. Focusing on a cross-national panel of all BSAs signed between January 2007 and December 2020, we employ a penalized negative binomial regression to estimate three key effects: (1) how a country's participation in IMF loans, (2) Third-Party BSAs, and (3) RFA membership influence the odds of receiving swaps from China. Our dataset, encompassing 190 countries at a year-month level consistent with the IMF membership, allows us to robustly analyze the dynamics between IMF loans and China's BSAs.

4.1 Dependent Variable: China BSAs

Our dataset on China's bilateral swap agreements (China BSA) builds on the comprehensive datasets compiled by McDowell et al. (2023), which covers the period from 2005 to 2020. We enhance this dataset by updating it with BSAs that were either missing or no longer active, drawing on information from additional sources (Perks et al. 2021; Horn et al. 2023; Li, Sahasrabuddhe, and Wingo 2023). Furthermore, we refine the data by reconstructing it at the monthly level, pinpointing the exact month and year in which each China BSA took effect. This enables us to define our dependent variable as a binary indicator representing whether a country established a BSA with China in a specific month-year.[5]

Figure 4. China BSA partners' distribution, 2005-2020

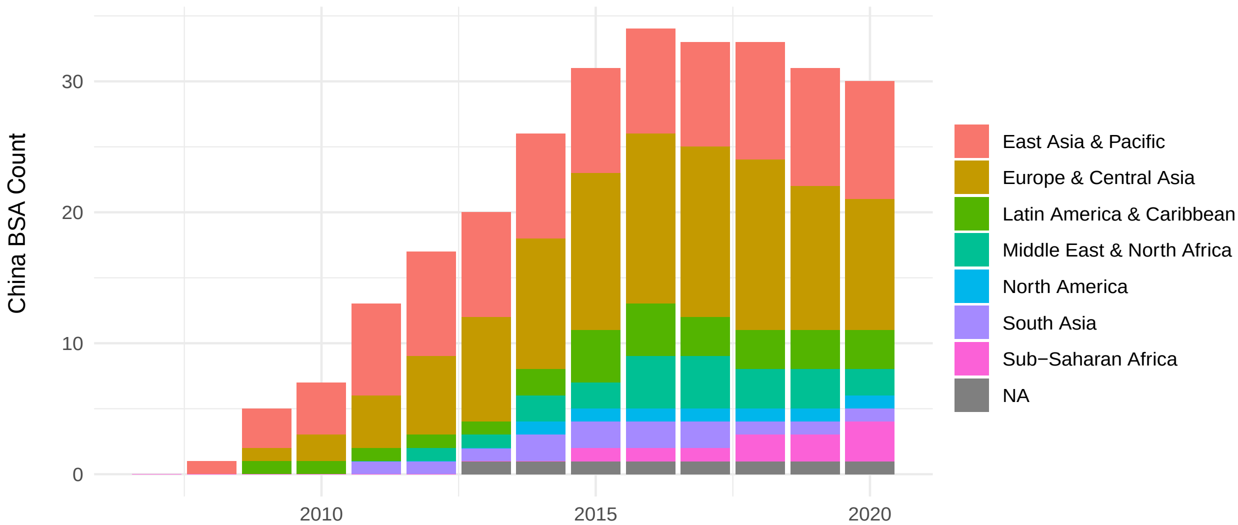


Figure 4 illustrates the distribution of China's BSAs over time, along with the composition of its partner countries.[6] Two observations are noteworthy. First, China's BSAs have experienced exponential growth over the past two decades, resulting in a total of 281 BSAs between 2005 and 2020. The number of BSA agreements increased by approximately 114.6% during the second decade compared to the first.[7] This growth becomes particularly significant when contrasted with a total of only 94 BSAs established by the United States from 2005 to 2020 (see Figure 6). The United States has shown limited expansion in its BSA partnerships since 2010, while China has emerged as a viable alternative provider.

Second, China's BSAs display less discrimination in favor of Global South partnerships compared to IMF loan recipients or Fed BSA partners, which primarily concentrate on Europe and North America and consist of only four emerging economies (Brazil, Mexico, Singapore, and South Korea). In contrast, China's BSA partners exhibit greater diversity

[5]In subsequent analyses, we also examine the financial magnitude of these China BSAs.
[6]For clarity, the figure presents the annual composition of China's BSAs.
[7]There were 89 China BSAs from 2005 to 2014 and 191 China BSAs from 2015-2020

in terms of development status and geographical regions. Figure 4 shows that China's BSA initiative began as a regional financing mechanism, commencing with arrangements in East Asia and the Pacific in 2005, before gradually expanding to encompass partners in Europe, Central Asia, and Latin America, and later extending to the Middle East and Africa. Although the majority of its partners remain concentrated in East and Central Asia, China's outreach has become increasingly global in scope.

4.2 Independent Variables

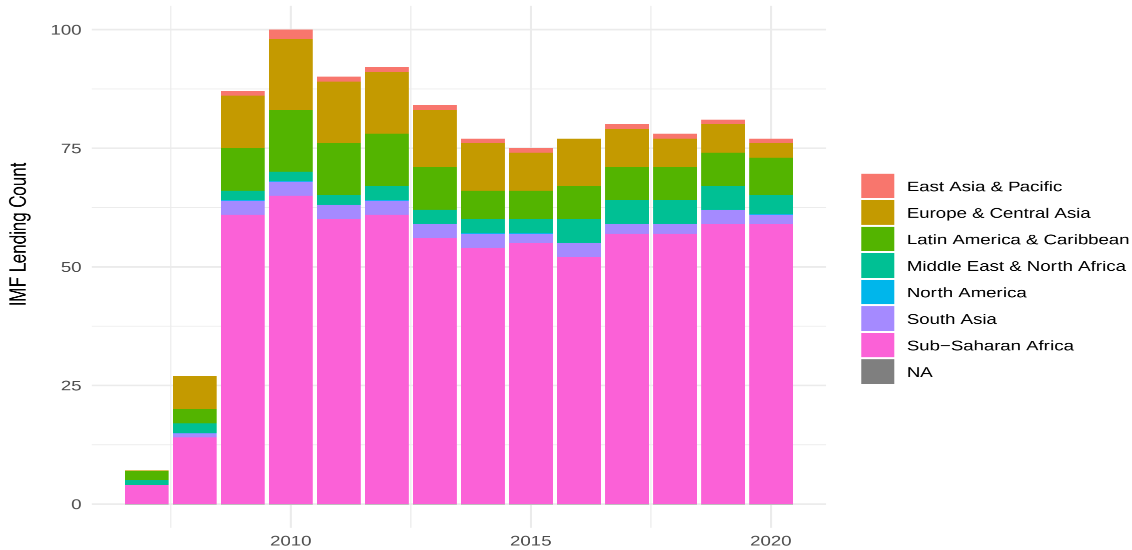
Given the considerable expansion and importance of China's BSAs over time and across regions, our research aims to investigate their relationships with major competing multilateral loans, RFA membership, and Third-Party BSAs.

4.2.1 IMF Lending and Negotiations

Our first set of explanatory variables examines actual IMF lending and IMF negotiations to explore the stage at which IMF loans influence countries' considerations of acquiring a China BSA. For IMF lending data, we rely on Perks et al. (2021), coding IMF lending as a binary variable that indicates whether a country received an IMF loan in a given month-year. Between January 2007 and December 2020, there were 1,067 instances of IMF lending, with a stable annual average of 73 loans since the 2010s. IMF loans exhibit limited geographic diversity, primarily targeting countries in the Sub-Saharan region (see Figure 5).

For negotiations data, we draw on information about IMF missions collected by Ferry and Zeitz (2024b), which captures the initiation of discussions or negotiations for an IMF loan. Using this dataset, we identify the timing of IMF loan negotiations, enabling us to assess whether these negotiations provide any leverage in securing China BSAs.

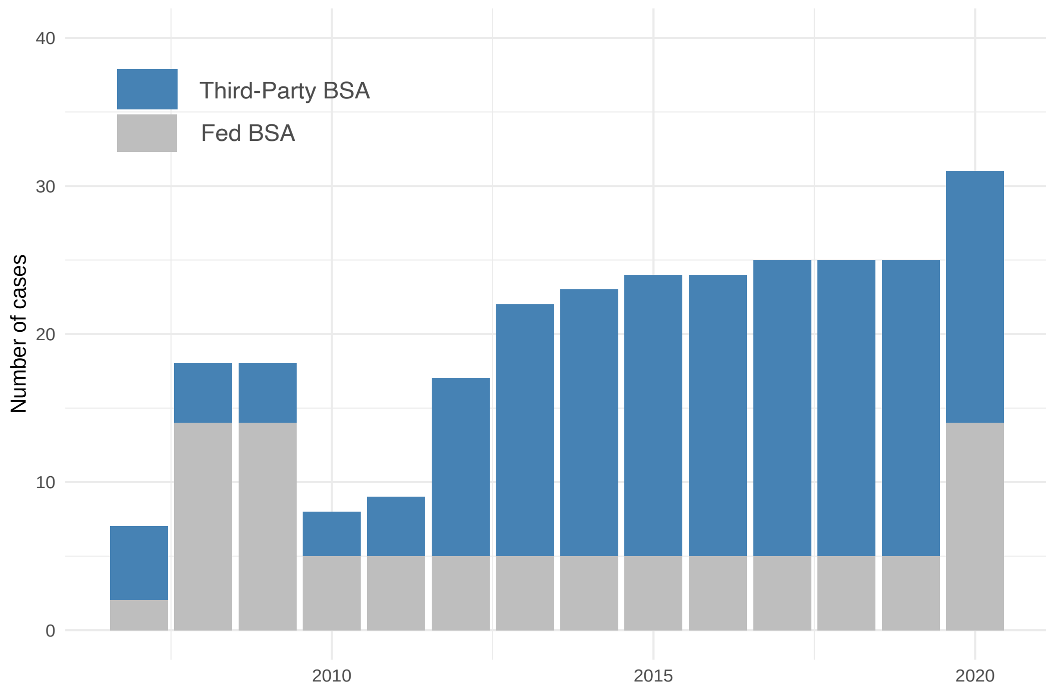
Figure 5. IMF loans distribution, 2005-2020



4.2.2 Third-Party BSAs

Our second explanatory variable Third-Party BSAs (those not provided by the PBoC or the Fed) is derived from our refined BSA dataset, building on the comprehensive work by McDowell et al. (2023). Figure 6 illustrates the emergence and activation of Third-Party BSAs over the past 15 years. While Fed BSAs dominated the non-China BSA landscape before 2010, a significant shift occurred starting in 2012, as Third-Party BSAs emerged as the prevailing form of Third-Party BSAs. Examples of Third-Party BSAs include agreements such as Pakistan and Turkey (2011), Indonesia and Malaysia (2019), and the UAE and Korea (2014). This evolving composition of Third-Party BSAs informs our Hypothesis 2, which examines the complementary nature of Third-Party BSAs in relation to China BSAs.

Figure 6. Third-Party BSA composition, 2005-2020



4.2.3 Regional Financing Arrangements

We include a dummy variable to indicate whether a country has access to any RFAa, using RFA membership data from Clark (2022). This membership may confound the relationship of interest by simultaneously influencing a country's likelihood of receiving both IMF loans and BSAs with China. These RFAs include the Arab Monetary Fund (AMF) created in 1989, the Latin American Reserve Fund (FLAR), the Chiang Mai Initiative [Multilateralization] created in 2000 after the East Asian Financial Crisis, European Union and central European programs created to boost financial stability and liquidity after the euro crisis began in 2010, and the CRA created in 2014 by the BRICS.[8]

[8]Following Clark (Clark 2022), for consistency in coding, we group CRA swaps under RFAs rather than Third Party BSAs, although these arrangements are ultimately a selection of BSAs among CRA members. The CMIM functions similarly as a swap pooling arrangement.

4.2.4 Confounders

In testing the effects of IMF loans, Third-Party BSAs and RFA membership on China BSAs, we test our argument against alternative economic and political explanations for the emergence and expansion of China's swap program. We control for key macroeconomic determinants that increase the likelihood of receiving China BSAs, including exports and imports with China, economic size (measured by GDP) (Liao and McDowell 2015; Prasad 2017), and the occurrence of an economic or financial crisis (Broz, Wang, and Zhang 2020; Horn et al. 2023). Additionally, we account for the influence of security and political factors in shaping monetary affairs and economic cooperation (Kirshner 1995; Norrlof 2020). Specifically, we include political determinants that enhance a country's likelihood of receiving a China BSA, such as affinity with China (measured through joint military exercises with China), territorial disputes, and regime type (Li, Sahasrabuddhe, and Wingo 2024; Liu, Pang, and Vreeland 2023).[9]

Importantly, when states face crisis, in addition to seeking liquidity assurance from their various multilateral, bilateral, and regional options, they also have unilateral options as a first port of call: foreign exchange reserves. Given that states also consider their own self-insurance capacity when seeking sovereign crisis financing, we control for alternative sources of domestic finance, such as currency reserve holdings, which are expected to influence a country's likelihood of acquiring both alternative non-China financing and China BSAs. We use IMF International Reserves and Foreign Currency data for this measure. We also control for access to US dollar liquidity through Fed swaps, as a central source of liquidity in the GFSN, especially to advanced economies.

All right-hand-side variables are lagged by one month, as we find that extending the lag

[9]We use joint military exercises as an alternative measure for alliances and political relationships, as China has only one formal treaty ally, North Korea. We do not directly control for a country's recognition of Taiwan due to a perfect separation problem: China does not provide BSAs to countries that recognize Taiwan. Instead, we use the territorial dispute variable, which, although noisier, enables us to circumvent this issue while also capturing broader political conflicts related to Taiwan.

to multiple months does not yield significant results.[10] This approach is consistent with our theoretical perspective that assessing the the potential of China's offensive financial statecraft through its BSA program in a given year includes the range of financing options to which states already have access. This allows us to evaluate the interaction between pre-existing financing options available to states and their likelihood of subsequently signing BSAs with China, to evaluate whether China can and does play an ILLR unilaterally.

5 Results and Discussion

Our findings reveal a consistent and robust pattern where IMF lending, Third-Party BSAs and RFA membership complement China BSAs. In Models 1 and 2, we analyze data on IMF lending, while in Models 3 and 4, we conduct parallel analyses using IMF negotiation data. Within each set of models, the first model (Models 1 and 3) examines the general relationship between the explanatory and dependent variables, while the second model (Models 2 and 4) incorporates multiple confounders, including Fed BSAs, as well as political and economic control variables.

Across both sets of models, we find strong evidence supporting Hypothesis 1 and Hypothesis 1a, demonstrating that IMF loans and negotiations significantly enhance the odds of a country acquiring a China BSA. Notably, the effect is more pronounced during the negotiation phase of IMF loans. For instance, in Model 2 of Table 1, exponentiating the coefficient for IMF loans (1.256) shows that receiving an IMF loan in the previous month increases the odds of acquiring a China BSA in the following month by approximately 3.51 times (or a 251% increase) when holding other factors constant. Similarly, in Model 4 of Table 1, exponentiating the coefficient for IMF negotiations (1.941) indicates that being in IMF negotiations increases the odds of acquiring a China BSA by approximately 6.96 times (or a 596% increase). These findings underscore the critical role of IMF engagement—both through

[10] Detailed results from models with alternative lag structures are provided in the appendix.

lending and negotiations—in facilitating bilateral swap agreements with China.

This finding carries significant implications, both for its statistical robustness and its substantial effect size, particularly in relation to the key political and economic factors associated with China BSAs. For example, engaging in joint-military exercises with China increases the odds of receiving a China BSA by 273% in the context of IMF loans (Model 2) and by a striking 270% during IMF negotiations (Model 4). While these effects are statistically significant, the coefficients (1.329 and 1.306, respectively) indicate a comparatively lower impact than IMF loans or negotiations, suggesting that IMF-related activities in the prior month exert a stronger influence on the likelihood of signing China BSAs than other political indicators. In the case of exports to China, the statistical significance is comparable to that of IMF loans, though the effect size is more modest. A one-log-unit increase in exports to China raises the odds of acquiring a China BSA by 227% in the IMF loan context (Model 2) and 224% during IMF negotiations (Model 4).[11]

Regarding the effect of Third-Party BSAs on the odds of acquiring China BSAs, we find strong support for Hypothesis 2: countries participating in Third-Party BSAs are significantly more likely to acquire a China BSA. For example, having a BSA from alternative providers in the prior month increases the odds of acquiring a China BSA by approximately 7.31 times (a 631% increase, based on a coefficient of 1.989) in Model 2 and by 7.42 times (a 642% increase, based on a coefficient of 2.004) in Model 4. In stark contrast, Fed BSAs exhibit a significant substitutive rather than complementary effect. Acquiring a Fed BSA in the previous month reduces the odds of securing a China BSA by approximately 89.7% (-2.277) in Model 2 and by 90.4% (-2.346) in Model 4. These results underscore the divergent roles of Third-Party BSAs and Fed BSAs in shaping the likelihood of China BSA agreements, highlighting the complementary effect of Third-Party BSAs and the substitutive impact of Fed BSAs.

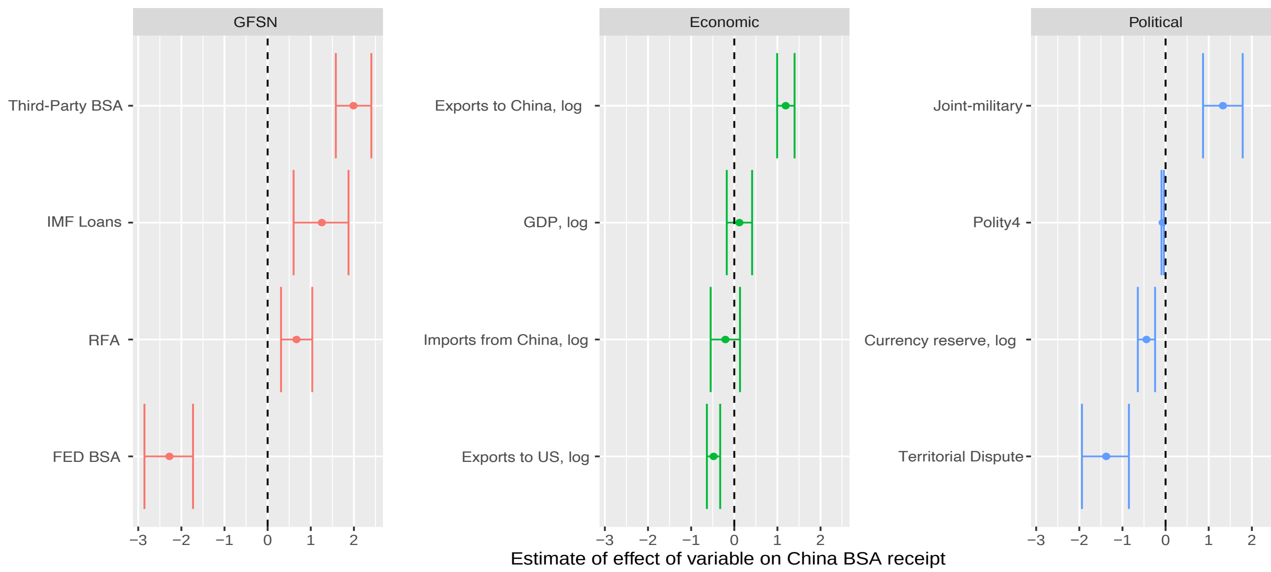
[11] The respective coefficients for exports to China are 1.191 and 1.175.

Table 1. IMF loans and Third-Party BSAs on acquiring China BSAs, 2007-2020

	Dependent variable: China BSA			
	(1)	(2)	(3)	(4)
IMF Loan $_{t-1}$	0.127	1.256***		
	(0.107)	(0.323)		
IMF Negotiation $_{t-1}$			0.158	1.941***
			(0.153)	(0.505)
Third-Party BSA $_{t-1}$	1.376***	1.989***	1.375***	2.004***
	(0.045)	(0.210)	(0.045)	(0.210)
RFA $_{t-1}$	0.206***	0.669***	0.205***	0.733***
	(0.043)	(0.184)	(0.043)	(0.184)
Fed BSA $_{t-1}$		−2.277***		−2.346***
		(0.287)		(0.287)
Polity4 $_{t-1}$		−0.066***		−0.068***
		(0.014)		(0.014)
Joint-military $_{t-1}$		1.329***		1.306***
		(0.234)		(0.234)
Territorial Dispute $_{t-1}$		−1.376***		−1.399***
		(0.277)		(0.278)
Crisis $_{t-1}$		−16.979		−17.049
		(498.250)		(495.690)
Currency Reserve(USD), log $_{t-1}$		−0.443***		−0.457***
		(0.102)		(0.102)
GDP, log $_{t-1}$		0.118		0.194
		(0.150)		(0.150)
Exports to China, log $_{t-1}$		1.191***		1.175***
		(0.103)		(0.103)
Exports to US, log $_{t-1}$		−0.480***		−0.497***
		(0.079)		(0.080)
Imports from China, log $_{t-1}$		−0.206		−0.227
		(0.173)		(0.174)
Constant	−2.832***	−1.395	−2.830***	−2.135
	(0.029)	(2.294)	(0.029)	(2.278)
Observations	33,096	3,138	33,096	3,138
Log Likelihood	−8,805.566	−628.368	−8,805.733	−629.477
Akaike Inf. Crit.	17,619.130	1,284.736	17,619.470	1,286.954
Note:				*p<0.1; **p<0.05; ***p<0.01

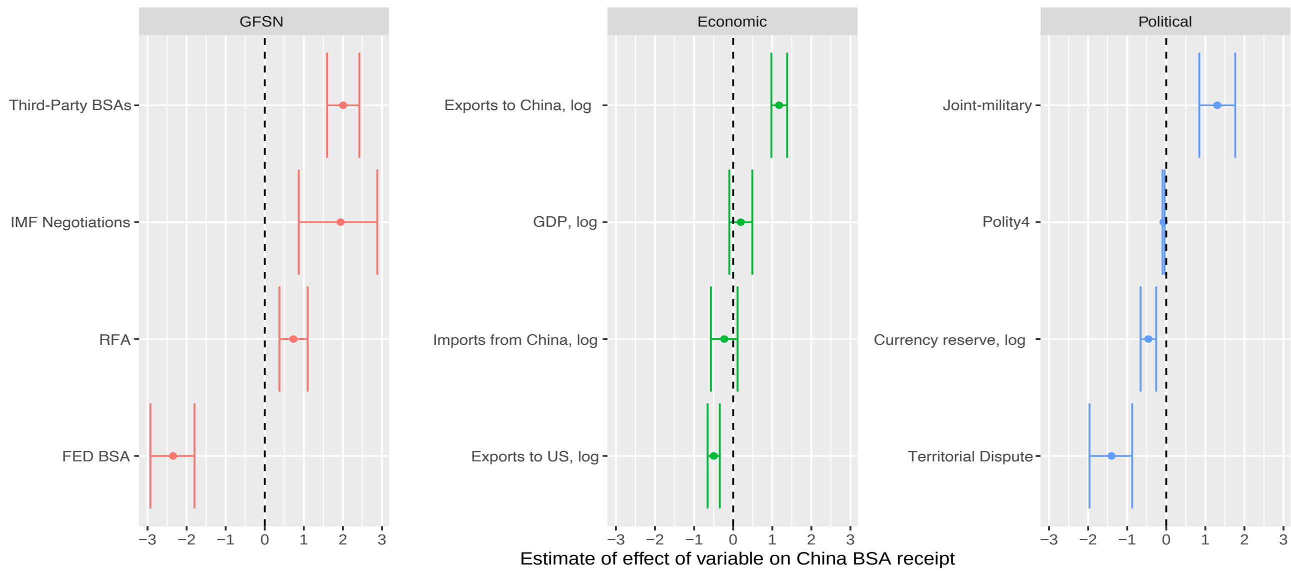
We also find intriguing results regarding the roles of RFAs in relation to China BSAs. Consistent with Hypothesis 3, our findings suggest that members of RFAs are more likley to acqurie BSAs from China. In models 2 and 4, we find that when a country has an ongoing loan with an RFA, the odds of acquiring a China BSA increase by 95% and 108% in Models 2 and 4, respectively.[12]

Figure 7. Coefficient plot by variable type (IMF Loans)



[12]Coefficients of 0.669 and 0.733.

Figure 8. Coefficient plot by variable type (IMF Negotiations)



Furthermore, our analysis reveals that the remaining control variables exhibit the anticipated coefficient directions. While our focus is on how states navigate financing options from alternative sources, our findings also highlight the underlying political and economic factors that shape these dynamics.

First, we observe that countries with alternative domestic sources of finance, such as currency reserves, are less likely to acquire China BSAs. Specifically, for every one-unit increase in the log of currency reserves, the odds of acquiring a China BSA decrease by 36% (-0.443) in Model 2 and by 37% (-0.457) in Model 4.

Second, consistent with prior studies, when controlling for various dyadic confounders, we find that China's security partners—its allies—experience an enhanced likelihood of acquiring China BSAs. However, geopolitical instability, such as territorial disputes with China, undermines the scope of such cooperation. States engaged in territorial disputes with China face a significantly reduced chance of securing China BSAs.

Third, macroeconomic determinants, particularly dyadic economic relations with China, also influence the likelihood of acquiring China BSAs. Higher levels of exports to China are associated with increased odds of obtaining China BSAs, while higher levels of exports to the US decrease these odds. Importantly, the negative effect of exports to the US underscores how smaller states' economic engagement with powerful states can shape their ability to cooperate with rival powers like China.

Overall, these findings underscore the multifaceted nature of state behavior in pursuing bilateral swap agreements with China, shaped by domestic financial capacity, geopolitical stability, and economic ties. While various competing factors significantly influence a country's likelihood of acquiring China BSA, as illustrated in Figure 7 and Figure 8, our theoretical variables of interest – IMF loans, Third-Party BSAs and RFA membership – stand out with some of the most substantial effects compared to other competing explanations. We posit that the noteworthy findings concerning how China's BSA operate alongside the existing US-led system, and new alternatives to the current order in the GFSN are consistent with out theoretical expectations that China, for now, cannot unilaterally act as an ILLR. In other words, in addition to the limits of China's defensive statecraft, it is also constrained in its offensive capacity to provide an alternative system to the US-led monetary and governance system, but rather, relies on its resources to play a complementary role.

6 Conclusion

Recent crises have highlighted the need for a robust and reliable global financial safety net. The swap programs emerged as a vital instrument to fill this gap in the financial governance system. In particular, BSAs provided by central banks in the Global South, such as China and India, as well as bilateral partnerships among several smaller economies emerged to expand access to rapid and flexible liquidity arrangements to countries largely excluded from the Fed swap network. For many EMDEs, these arrangements indicated promising prospects for states seeking to avoid stringent conditions imposed through IMF loans, and larger and more diverse options to augment resources available through regional financial arrangements with their economic partners and neighbors.

Although the number of China and Third-Party BSAs has grown rapidly since 2009, our findings and their implications suggest that perhaps the overall utility and attractiveness of these options are over-estimated. Briefly, we find that while BSAs are slowly increasing to make up a larger part of the GFSN, they are yet to make significant progress to in their use to dislodge traditional institutional instruments that are long-standing elements of the financial governance system. For now, their significance in the GFSN remained conditional upon the availability of resources in formal institutional apparatuses, and secondary to regional arrangements supported by long-standing economic and political partnerships.

Our results suggest then that China's BSAs tend to be arranged in tandem with swaps from Third Party provides. Most EMDEs that have entered swap arrangements with other Global South partners are also signatories of China's BSAs. Our descriptive qualitative overview of the contemporary GFSN, together with our quantitative study further indicate the limits to China's offensive financial statecraft. First, Many states cannot view China's BSAs alone as entirely reliable or even useful. Rather, they tend to seek them out when pursuing IMF loans, or when they already have an IMF loan in place, perhaps to enhance their financial health, or gain greater leverage for multilateral negotiations. These limits to China's unilateral capacity are similarly manifest which evaluating China's swap lines with Third-Party BSAs and membership in RFAs. In short, China's potential to pursue offensive statecraft remains impeded by by the pre-existing GFSN, and cannot credibly offer a unilateral way out of the US-led order.

While China's swaps have largely been presented as attractive alternatives to costly multi- and mini-lateral options from the Fund and RFAs, we find that in fact, China's BSA partners tend to continually rely on the US-led monetary system through the IMF. Borrowers remain more heavily reliant on these formalized programs over these new, seemingly flexible arrangements. As such, despite the massive proliferation of China's monetary programs, most of the world remains beholden to the conditionality and the US-centric monetary order that many are seeking to avoid. The financial safety net then, while expanding, remains rife with gaping holes that remain to be closed.

An important implication of our study then is that despite the expansive proliferation of bilateral, conditionality-free alternatives such as China and Third-Party swaps, emerging and developing economies remain in a bind regardless of these developments aiming to redress the shortcomings of the global financial safety net. Not only is China's offensive statecraft constrained by the status quo order, but these limits similarly apply to more vulnerable states looking to escape the great power grip. Even more, by transferring more power in bilateral economic relationship to powerful rising powers that provide BSAs. Such arrangements may ultimately only serve to expand and decentralize the sources of power imbalances and vulnerability to include not only large international organizations, but also large creditors providing BSAs to the Global South, such as China. They do not provide a way out of these inequities and power imbalances. As BSAs continue to proliferate, we should then observe these developments cautiously, before singing their praises.

Our study raises questions for further research on the implications of the complex governance system of sovereign crisis financing, and adds new insights on rising powers' pursuit of financial statecraft in an increasingly fragmented system. Our study takes us a step closer to understanding better how various financing arrangements interact and operate alongside one another to provide an ILLR mechanism. As states weigh their options and decide to enter into BSAs with China, it is important to how they do so within the evolving GFSN. Given that states are assessing multiple options as they seek financing, evaluating the financial statecraft of rising economies as key players in the system thus cannot overlook the broader landscape of the global financial governance system.

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