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Financial Statecraft: No Longer Limited to the Incumbent Powers

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Abstract:
Traditional analyses of financial statecraft typically assume the term refers to major powers exercising influence over weaker states by such means as foreign aid blandishments or banking system sanctions. Newer scholarship highlights the subtler political influence advanced capitalist democracies also wield through their centrality to global monetary and financial markets and governance networks. Not surprisingly, rising powers are keen to expand the venues through which they too can support their larger foreign policy visions through tapping into state levers of control over cross-border currency, credit, and investment flows, as well as tilting international regulatory reforms toward their preferences. The article concludes with a comparison of United States' and China's financial statecraft capabilities and recent actions.

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Leslie Elliott Armijo researches the international economic relations of emerging powers, especially those from South America and South Asia. An Associate Professor of International Studies at Simon Fraser University, she has recently published *The BRICS and Collective Financial Statecraft* (with C. Roberts and S. Katada, Oxford, 2018) and *Unexpected Outcomes: How Emerging Economies Survived the Global Financial Crisis* (ed., with C. Wise and S. Katada, Brookings Institution, 2015).

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Financial Statecraft: No Longer Limited to the Incumbent Powers

Traditionally, “financial statecraft” (FS) has been understood to mean the use by a powerful state or coalition of states of its control of currency or credit to coerce a less powerful rival or client state into altering or ceasing some action that the sanctioning states’ leaders have found objectionable (Biersteker, Eckert, and Tourinho 2014; Steil and Litan 2006). It is thus a subset of “economic statecraft,” also understood as a tool of foreign policy pressure (Baldwin 1985; Cortright and Lopez 2002; Hirschman 1945; Hufbauer et al. 2009). FS therefore implies that a major state or states are acting to police the international system, correcting undesirable (“rogue”) behavior by a misbehaving country, or occasionally offering a financial incentive for diplomatic cooperation. However, new scholarship suggests expanding this traditional conceptualization in two directions. First, the scope of FS is broader than coercion or inducement with a specific behavioral goal for the target. Financial statecraft includes not only freezing banking assets linked to terrorism, but also state-directed foreign investment and loans, currency wars, and international financial crisis management (Andrews 2006; Cohen 2015; Helleiner and Kirschner 2014; Kirschner 2014; Armijo and Katada 2014). Powerful states employ financial and monetary levers to create, constitute, and govern interstate economic relations, as well as the shape of global markets. Second, this is an era in which financial power and influence are diffusing from the advanced industrial countries, the West plus Japan, to emerging economies (Kahler 2016; Zakaria 2012). Rising powers, including China and the other BRICS countries (Brazil, Russia, India, and South Africa), as well as Saudi Arabia, have actively employed financial statecraft in the hopes of reshaping international institutions, markets, and the choices of other states. The universe of cooperating, but also competing, players at the global level is increasingly multipolar.

Section one of this essay[1] summarizes the traditional view of international FS and proposes an alternative: conceptualizing financial sanctions and global monetary and financial governance not as separate activities—the one punitive and discrete, the other high-minded and

[1] Thanks to John Harriss for his thoughtful comments on this manuscript.

on-going--but rather as a continuum. Sections two and three analyze the differing goals, orientations, and instruments through which the United States and China currently practice FS and briefly meditate on the ways in which underlying financial power resources shape state options and actions. The essay's fourth section looks to the future.

The Meaning of Financial Statecraft

Financial statecraft is here defined as "the use, by the governments of sovereign states, of national levers of direct and indirect influence over financial assets, markets, and actors for the purpose of achieving larger foreign policy objectives" (see also Armijo and Katada 2014; Roberts, Armijo, and Katada 2017). The scope of the term encompasses *intentional* state actions, employing *financial or monetary* resources, and aimed toward influencing either *other states* or important *conditions of the international system*. The term also may include defense against the use of aggressive FS by rival states. Intentionality is crucial. If the United States Federal Reserve Bank lowers interest rates ("quantitative easing") for the purpose of maintaining domestic economic growth following a financial and banking crisis, then this is not FS, even if lower financial returns in the United States constitute a factor pushing mobile investors abroad. Although foreign capital may flood into Latin America as a result of this policy, we cannot label it financial statecraft in the absence of evidence that American policymakers reduced U.S. interest rates with the goal of influencing capital flows to Mexico or Argentina. Political leaders' actions that are primarily oriented toward achieving domestic goals thus fall outside of the scope of international FS.[2] Of course, operationalizing intentionality is never straightforward, raising inevitable questions of exactly how one knows what a policymakers' goals—let alone the goals of a sovereign state—are, but the analytical distinction between domestic and foreign policy goals is clear. This definition of FS rests on basic rational choice assumptions: states wish to survive and prosper economically; they will cooperate for mutual gain, but only if mechanisms such as institutions and shared norms exist to assist their leaders in trusting one another; and in an environment of international mistrust, state players are more likely to assume and pursue zero-sum courses of action. Crucially, this framing of state intentionality by no means excludes a

[2] Thanks to Eric Werker for obliging me to clarify this point.

significant role for ideas, perceptions, and beliefs in shaping the preferences and assumptions of incumbent leaders of sovereign states about how to prosper, whom to trust, and the causal links among actions and results (Finnemore 1996:1-33). The definition merely posits that state leaders rationally will pursue their perceptions of state interests.

In other respects, new scholarship suggests modest reconceptualization, summarized in the table below, based on Roberts, Armijo, and Katada (2017: 68). A traditional understanding assumes that the initiating state (the agent or actor) is either a major power or a coalition led by a major power. In an expanded conceptualization, weaker states such as rising or intermediate powers also may be active agents, acting alone or in concert. They may not be sufficiently powerful to coerce another state, yet often can exercise a critical voice or even constitutive power, especially when they are able to join coalitions or coordinate with others.

The table's second row compares categories of targets. Where a traditional conceptualization focuses on direct influence over another state, an alternative approach also identifies as financial statecraft the conscious effort of a state or states to employ levers of credit, currency, and regulatory powers to shape the rules, procedures, and culture of global governance institutions. Thus in early 2009 the BRICs[3] made clear to their fellow members of the Group of 20 (G20), which had been convened as a world leaders' summit to sort out the global financial crisis of 2007-09, that the expanded financial contributions of these emerging powers to the International Monetary Fund (IMF) would be made in the form of interest-bearing bonds, and that they anticipated being rewarded with enlarged voting shares (Roberts, Armijo, and Katada 2017:81-82). Intentional national government efforts to influence international currency and financial markets also qualify as conscious statecraft. For example, disguising the central bank's exchange rate interventions, which almost all states attempt to do, or promoting the enhanced international use of one's own currency, an option realistically open only to a few, both constitute efforts at altering the reality of global currency markets.

The table's third row highlights the instruments and techniques of financial statecraft, traditionally including the incumbent national government's authority over its home currency,

[3] In 2009 South Africa was not yet a member of the BRICs.

credit, and financial regulations to sanction or reward another state, for example, by freezing the bank accounts of the target's government officials or, more potently, by denying financial institutions from third party jurisdictions access to the sanctioning state's markets if these institutions also transacted with the target state's institutions or persons. Financial inducements

Table 1. The Dimensions of Financial Statecraft

	Traditional Conception	**Expanded Conception Adds**
Actor	A major power Coalition led by a major power	Rising powers, alone or in concert
Target	A rival sovereign state	Global governance institutions International markets
Instruments & techniques	State influence over its home country currency, credit, & regulation of banks & financial markets	State exercise or pursuit of voice within global financial governance State activities to influence international currency & capital financial markets
Exercise of state power via:	Offense/coercion Cooptation by inducements	Defense/autonomy Exercise of structural power such as agenda-setting

also may fit traditional understandings of FS. Most sovereign to sovereign loans, for example, typically arrive with explicit or implicit political strings. Credits may also be offered as an explicit or implicit quid pro quo for desired behavior, such as voting with one's benefactor at the United Nations or accepting a foreign military base on one's national territory. A country with a stronger currency may offer beneficial swap arrangements to political allies whose currencies confront challenges. The right hand column's expanded conceptualization also includes as FS the constitutive and on-going foreign policies underlying a country's efforts, for example, to achieve an enlarged quota at the World Bank, coordinate exchange rate interventions or reserve currency choices, or found a new multilateral bank with a different set of countries in charge.

A fourth dimension in the table highlights the power orientation of a state's financial statecraft efforts. The left hand column includes bilateral efforts by an agent state to influence a target state to change its behavior, by either coercion or inducements. The right hand column recognizes that financial statecraft also may be essentially defensive, involving a state's efforts to preserve its financial or monetary autonomy. Thus a debtor state may lobby fiercely to be exempted from IMF conditionality, or to have its special circumstances recognized by non-standard and less onerous loan terms. Finally, a state also might engage in FS via its exercise of structural power, employing its favored positions in existing institutions or global networks to set agendas or veto innovations (Strange 1998; Oatley et al. 2013). Those state actors involved in initially constituting the rules, procedures, and legitimacy formula for an international governmental organization very often continue to be advantaged by the specific routines and rules even long after the era of the institution's founding (Germain 1997; Gruber 2000; Stone 2011). In other words, path dependence and other insights of the historical-institutionalist approach in comparative politics (Thelen and Steinmo 1992) are also valid for the study of global governance regimes.

Armed with this expanded conception, the essay reviews several ways in which governments in both the United States and the People's Republic of China have sought to achieve larger foreign policy goals by employing FS.

The United States: The Financial Statecraft of the Incumbent Hegemon

By the end of the Second World War, the United States was indisputably the world's financial hegemon, as well as its military one.[4] American foreign policymakers employed the country's strong current account surplus and deep credit resources to shape global governance institutions and fund an international military presence to contain the Soviet Union. The three global economic governance institutions created at the 1944 Bretton Woods conference—a multilateral trade organization, the World Bank, and the International Monetary Fund (IMF)—resulted from American and Allied financial statecraft (Frieden 2006: 254-263, 278-300; Helleiner 1994).

The Bretton Woods trio have been so successful that many observers only dimly perceive the scaffolding that these institutions continue to provide for international economic interactions. In the financial realm, the IMF had the mission of providing emergency loans to countries with

[4] The discussion in this section and the next draws on ideas and data developed in Armijo, Tirone, and Chey 2017.

short-term yet systemically-disruptive liquidity problems. The International Bank for Reconstruction and Development (IBRD, or World Bank) stood ready to make long-term loans from “the world” to countries needing to build or rebuild infrastructure and heavy industry. The Bretton Woods regime was conceived, promoted, and largely funded by the United States and to a lesser extent Britain, and would not have come into being had they not possessed both the vision and the financial resources. The United States also employed its resources as the world’s major creditor state to push both its defeated enemies and its allies toward positions they did not eagerly embrace, for example, providing irresistible incentives and persuasion to bitter enemies France and Germany to integrate their economies through the European Coal and Steel Community, precursor of the European Union. These actions defined the postwar world.

Another pillar of postwar American financial statecraft was the U.S. dollar-exchange international monetary standard. During the 1920s and early 1930s major countries, especially Britain, had attempted to reinstate the gold standard, in which national currencies would be quoted in and convertible to gold. The limited amount of gold in the world meant that any such regime was often harshly deflationary in its effects on domestic populations. Alternatively, policymakers in weak governments simply gave up, concluding that their only alternative for public finance was inflationary spending. Subsequently, postwar leaders blamed volatile and punishing prewar macroeconomic conditions for the receptiveness of European populations to extremist and belligerent political ideologies. By this logic, stabilizing the global trade and payments systems and supporting well-functioning national economies was an urgent postwar political imperative. From the 1950s onward, the liquidity necessary to support the dramatic expansion of international trade and global growth derived from the combination of American government spending worldwide and the willingness of the central banks and firms of other countries to hold U.S. dollars as a store of value. The United States government therefore could expand the money supply at a rate exceeding the needs of the domestic economy, receiving additional seigniorage and consumption benefits. The U.S. dollar was the global reserve, transactions, and accounting currency.

The United States lost its formerly robust merchandise trade surplus in the early 1970s, provoking a shift in American financial statecraft. U.S. policymakers abruptly announced that the dollar was no longer convertible into gold and implemented a temporary yet across-all-goods tariff of 10 percent, effective immediately (Frieden 2006:339-360; Block 1978). Other major countries were obliged to accept these dramatic shifts in the global payments regime. Subsequently, in the mid-1970s, the United States instigated the informal yet extremely consequential steering group for the global economy, the Group of Seven (G7), composed of finance ministers and central bank governors from the largest advanced capitalist democracies: Britain, Canada, France, Germany, Italy, Japan, and the United States (Bergsten and Henning 1996). Throughout the late twentieth century, as key regulatory and normative components of the Bretton Woods system—including the major power consensus on the desirability of fixed exchange rates and significant controls on international capital movements—came to be seen by the most senior United States economic policymakers as impediments to American growth, the United States broke the rules of the old system and innovated ones more to its liking. In the absence of alternative viable leadership, other countries grumbled but went along.

Global financial governance leadership by the United States and its major allies among the industrialized democracies has provided the backdrop to international political relations from then until now, with American leaders on key occasions exerting their leadership even vis-à-vis their closest collaborators. In the midst of the Asian financial crisis of the late 1990s, senior United States policymakers resisted Japan's attempts to play a more active role (Laurence 2002). As the acute phase wound down, the European major powers sought to institutionalize greater international coordination and oversight of national banking regulations, creating the Financial Stability Forum (FSF). Presciently, the U.S. complained of the lack of members from emerging economies, as the FSF had only Singapore and Hong Kong, and convened the G20 (which included most of the larger emerging powers as members, as well as the EU) with the wider but vaguer mandate of debating reforms of the global financial architecture (Armijo 2002; Blecker 1999). In practice, the G20 lacked the clout to pursue significant reforms of the global financial architecture once the issue dropped off the United States' core foreign policy agenda, as happened fairly quickly. However, the G20 was suddenly elevated to high salience once U.S. President George W. Bush and his advisors decided in October 2008 that a more representative body than the G7 was needed—in this instance to provide a leadership forum for collective management of spreading ripples from the United States' subprime mortgage-lending crisis, which was rapidly becoming the global financial crisis of 2008-09 (Kirshner 2014).

Of course, American FS also has included the more obvious categories of bilateral grants and subsidized credits (foreign assistance), as well as banking and financial sanctions. Overseas loans and grants for both military and development purposes represented over 1 percent of the American economy from the end of the Second World War through the mid-1950s, peaking at about $65 billion, in constant 2015 U.S. dollars, in 1950. With the end of the Cold War in the early 1990s, foreign aid fell to only about 0.2 percent United States GDP, rising to around 0.4 percent since the World Trade Center bombing in September 2001, mainly corresponding to operations in Iraq and Afghanistan, clearly related to U.S. foreign policy priorities rather than development or poverty-reduction (Tarnoff and Larsen 2016:16). Although the United States continues to top the list of reporting donors, mainly advanced industrial democracies, in terms of absolute amounts of official development assistance (ODA) extended, it is not among the top ten donors when aid is calculated as a share of its national economy.[5]

The United States has continued to use financial sanctions, recently against Iran and Russia. The U.S.-organized collective sanctions between the mid-1990s and 2015 on Iran were intended to pressure that country to allow full external inspections of its nuclear energy development program to ensure that it had only civilian goals.[6] In 2014, other Western countries joined the United States in freezing the bank accounts of Russian individuals, firms, and state entities in response to Russia's occupation and annexation of Crimea. These actions led the BRICS group to unite in support of Russian resistance to Western financial sanctions, despite the discomfort of the other four governments with Russian revanchism (Roberts, Armijo, and Katada 2017:88-92). Recently, U.S. policymakers also have become more active users of defensive varieties of financial statecraft, for example, in 2017 blocking the sale of a chipmaker to China on national security grounds (Donnan and Hook 2017).

[5] https://www.weforum.org/agenda/2016/08/foreign-aid-these-countries-are-the-most-generous/

[6] Although collective Western sanctions associated with Iran's nuclear program were lifted in 2015, United States President Trump has frequently threatened to reimpose them, leading many foreign investors to continue to shun Iran. Haass 2017.

American leadership in all of these instances involved conscious government employment of the country's capabilities for the larger foreign policy aim of constructing a stable postwar world and ensuring the United States' central position within it. Over time, the dominant forms of American financial statecraft have shifted. In the mid-twentieth century U.S. policymakers articulated a grand vision of postwar reconstruction and the spread of democracy to societies ravaged by extremist ideologies. Under recent presidential administrations from Bill Clinton (inaugurated January 1993) through Barak Obama (left office January 2017), United States innovation in global financial governance was crisis-driven and quickly discontinued once the acute stage had passed, rather than visionary and sustained. Their successor, Donald Trump, has been openly contemptuous of global governance institutions. The United States presence in foreign assistance has shrunk relative to earlier periods and to that of other governments. In the early twenty-first century, however, the United States was active in imposing financial sanctions, which employ the power resources of a country with large and liquid home financial markets and globally-dominant financial institutions, but unlike foreign aid do not require budgetary resources. Restricting foreign access to American capital markets is relatively costless in the short run, although it does stimulate foreigners to switch to alternative jurisdictions, with potentially heavy costs to the American financial services industry over the medium run.

China: The Financial Statecraft of the Emerging Challenger

China has pursued different varieties of international financial statecraft than the United States. During the 1980s and 1990s, policymakers were mainly concerned to defend the country against dangers originating in the global economy. Policymakers steadily increased the share of trade in China's economy, but without liberalizing capital flows. Inward foreign direct investment flows continue to be carefully monitored by Beijing, with a great many sectors and locales proscribed, and portfolio capital flows are even more restricted. China largely escaped direct effects from the Asian financial crisis of the late 1990s, largely because its corporate sector (dominated by state-owned yet increasingly independently-managed banks and firms) was forbidden to engage in the so-called carry trade, by which banks and firms borrowed internationally at cheaper interest rates than could be found at home. Elsewhere in East Asia corporations and banks contracted loans abroad more freely, but frequently did so without adequately insuring themselves against their foreign exchange risk, creating aggregate vulnerabilities for the economy as a whole in neighbors such as Thailand, Indonesia, the Philippines, and South Korea, Like virtually all of Asia, China had a mostly fixed exchange rate, pegged to the U.S. dollar, yet due to the greater control the People's Bank of China (PBC) maintained over capital flows, the contagion effects from the Asian financial crisis of the late 1990s also were subdued within China. Nonetheless, the lesson taken in Beijing was that foreign exchange reserves needed to be increased. The PBC thus expanded its holdings of U.S. Treasury securities, and in 2009 China surpassed Japan as the largest foreign owner of the United States public debt.

Larger foreign exchange holdings by the central bank exacerbated two problems for Chinese policymakers, however. First, the tradeoff made by foreign sovereign investors such as the PBC for the safety and liquidity of U.S. Treasury bonds was an extremely low rate of return. China's initial response to this problem was to create sovereign wealth funds (SWFs) to invest some portion of central government holdings of foreign currency in more lucrative assets abroad, including via foreign direct investment (FDI) in advanced industrial country markets. Although liquidity for SWF assets necessarily was lower than with U.S. Treasury holdings, earnings would be higher. In the United States and elsewhere, however, Chinese FDI inflows in the early twenty-first century proved even more controversial than Japanese FDI inflows had been in the 1980s (for example, Cohen 2008).[7] A second problem for Chinese policymakers that follows from China's buildup of foreign exchange reserves has been that higher USD holdings by the Chinese government rub salt in the already wounded U.S.-China relationship. Increased demand in China and elsewhere to hold dollars strengthens the dollar and exerts downward pressure on the Chinese yuan (also known as the renminbi, RMB). This worsens the American trade deficit with China, which the Americans blame on deliberate exchange rate undervaluation by China and the Chinese on uncompetitive U.S. products.

Here the comparison of the trajectory of Chinese as contrasted to American FS becomes more complex, with the categories in need of careful specification. The foreign investment

[7] Chinese flight capital invested in Western countries is also huge, but doesn't constitute Chinese FS, as these are not government-managed capital flows. The Asia Society estimated that China was the leading foreign real estate investor in the US, with a cumulative $350 billion invested through 2015. Bullough 2017.

decisions of American private firms and banks are not directed by the United States government. Only when those firms tip into conflicts abroad, as when their factories face nationalization or their sovereign lending suffers a default, do they call on the state to assert itself on their behalf. Thus the 1970s expansion in lending to developing countries in Latin America and Eastern Europe by Western and Japanese banks was not financial statecraft, but the involvement of senior government financial officials in forming multilateral creditor negotiating committees, and preventing creation of what was denounced as a "debtor cartel" by Latin American borrowing countries, was FS (Biersteker 1993). In contrast, at present most long-term Chinese investment capital sent abroad through public channels arrives via government banks and firms. Often paired with an implicit or explicit political quid pro quo, it is appropriately considered financial statecraft, although its foreign policy goals generally are more diffuse and longer-term than is the case with financial sanctions.

Given increasing political resistance from advanced industrial destinations including North America, Western Europe, and Australia, it has been politically easier for China to direct its investible funds to the global South, and increasingly these destinations have been chosen. Summing official development assistance and other official credits such as commercial credits from public sector banks, but excluding military aid, the total of Chinese bilateral credits from 2000-2014 was $354 billion (in constant 2016 USD), close to the cumulative U.S. total of all government-allocated foreign grants and credits of $395 billion. Since 2009, China's annual total has exceeded or matched that of the United States, suggesting an increasing trend in future.[8] China's concessional finance mainly targets Cuba and sub-Saharan Africa, while the commercial credits principally go to middle income commodity producers, including Russia, throughout the global South and in transition economies. However, and unlike the United States, China cannot at present employ its home country capital markets--which remain small, opaque, and poorly regulated—to impose financial sanctions on other states.

In the first decade of the twenty-first century, the upswing in the international commodity price cycle led China to increase capital flows dramatically to producers of commodities, including bulk foodstuffs such as soya, wheat, and meat, as well as the fossil fuels and minerals

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[8] Dreher, et al. 2017.

essential to sophisticated industrial production. Most of these loans and FDI went to South America and Sub-Saharan Africa (EIU 2016; Irwin and Gallagher 2014). By the second decade the focus of China's outward flows was shifting. In 2013 China announced the Belt and Road Initiative (BRI), an enormous portfolio of infrastructure projects for Eurasia, composed of six "roads" radiating from China to the North, West, and South, as well as a mostly maritime corridor from Southeast Asia to Northeast Africa. These mostly bilateral projects (China and a neighbor) come with an enticing chunk of Chinese financing, and embody Chinese priorities, which include both improved commercial access and frequent national security quid pro quos, such as new military bases and the right for the Chinese Navy to dock at commercial ports built through the initiative. The *Economist* (2017) writes, "This is the kind of leadership America has not shown since the post-war days of the Marshall Plan in Western Europe (which was considerably smaller)."

Moreover, China today is increasingly interested in pursuing structural power in the global political economy (Gracie 2017; Helleiner and Kirshner 2014; Roberts, Armijo, and Katada 2017; Rudd 2017). In concert with its fellow members of the BRICS countries, China has used collective financial statecraft to pursue reforms of the voting and appointments processes and embodied economic ideologies within the IMF and World Bank. China also may be expected to become more assertive within other multilateral forums such as the Financial Stability Board (successor to the FSF) and G20. Alone or with partners, China has created new Southern-dominated multilateral financial institutions, including the New Development Bank, Contingent Reserve Agreement, and Asian Infrastructure Investment Bank, all in 2015-2016. The other BRICS have supported China's push to internationalize the RMB and jointly promoted the inclusion of the RMB as only the fifth currency in the basket composing the IMF's quasi-currency, the Special Drawing Rights (SDRs), used for denominating IMF loans.

Shifts in Financial Statecraft in the Twenty-First Century?

While some have understood "financial statecraft" as a subset of coercive economic statecraft, this chapter proposes applying the term to embrace the full range of foreign policy goals that may be pursued by a sovereign state via an incumbent government's manipulation of the credit, currency, financial institutions, and financial regulatory regimes that come under its legal jurisdiction or de facto reach. Such statecraft may be bilateral or collective, have immediate or longer term aims, and may be pursued by means as varied as foreign aid, banking sanctions, exchange rate manipulation, attempts to shift other countries' reserve currency preferences, or participation in the design or execution of global financial governance.

The set of major players engaged in financial statecraft has evolved, as have the types of globally-relevant financial resources on which these major states can draw. During the Cold War, financial statecraft was overwhelmingly dominated by the United States and its G7 allies. However, since the early 2000s significant new players, notably China, have joined this game. The material basis underlying the FS of the existing hegemon, the United States, is the breadth, sophistication, and liquidity of its home financial markets, a financial power resource that continues to support the considerable path dependence in a global economy founded on a U.S. dollar-exchange currency regime. But America now lacks the deep pockets that it did in the mid-twentieth century, and is no longer the world's creditor. The advantage from having a large investible surplus, as measured by either domestic savings or foreign exchange reserves, now lies with China. China has become a major creditor state, while America is the largest debtor state, only partially due to its reputation as a "safe haven" for mobile capital from nervous investors and governments worldwide. To the extent that constructing future global financial governance regimes requires commitment of real resources, in the future China will play a larger role and the United States a smaller one.

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