

# The Limits of Economic Statecraft: China's Bilateral Swap Agreements and the External Security Environment

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# Bilateral currency swaps



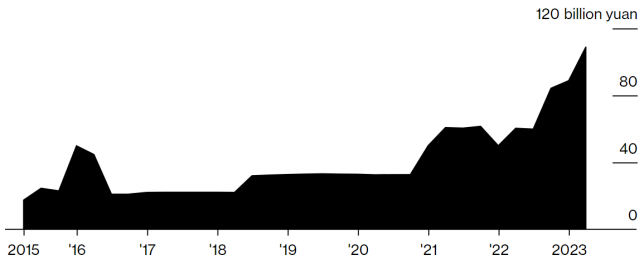
**Figure:** People's Bank of China Bilateral Swap Agreements by Year of Initial Signature, 2009-2020 (data from Mcdowell (2023))

# Benefits to signing RMB swaps

## Global Central Banks' Use of PBOC Swap Lines at A Record

Foreign countries increasingly tapped currency swap to get yuan

■ Outstanding balance of yuan used by foreign central banks



Source: People's Bank of China

**Figure:** Outstanding balance of RMB used by foreign central banks  
(source: Bloomberg)

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**Argument:**

We argue that the costs of cooperation with China are *political*: states are deterred by security considerations, specifically concerns that monetary cooperation with China will send negative signals to the US.

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- Symbolic acknowledgement of China's status in international monetary affairs (Broz, Zhang, and Wang (2019))
- How states weigh their choices depends on:
  - States' positioning in military partnerships and alliances
  - States' geographic distance from China

# China's neighbors

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- US presence and alliances will influence states' decisions on engagement with China
- **US allies** more likely to hedge between the rivals and limit monetary cooperation with China in exchange for US security assurances
- **Non-US allies** more likely to perceive China's regional influence as benign (Shambaugh 2018) and pivot towards China

**Interview evidence:** former central banker in Japan, current Monetary Authority of Singapore (MAS) official, former Ministry of Finance official in Indonesia

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- Will also be attracted to non-dollar alternative
- More likely to diversify their monetary portfolio by joining China's currency initiatives undeterred by US alliance

**Interview evidence:** former governor of the Central Bank of Argentina, UK policymaker



# Summary of Argument

Geopolitical variation in cooperation with China (RMB swap) by US Ally and Distance from China

	US Ally	Non-US Ally
China Neighbor	Contingent and Limited Cooperation	
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	US Ally	Non-US Ally
China Neighbor	Contingent and Limited Cooperation	Cooperation with China (China's regional expansion)
China Distance	Cooperation with US <i>and</i> China	Cooperation with China

# Hypotheses

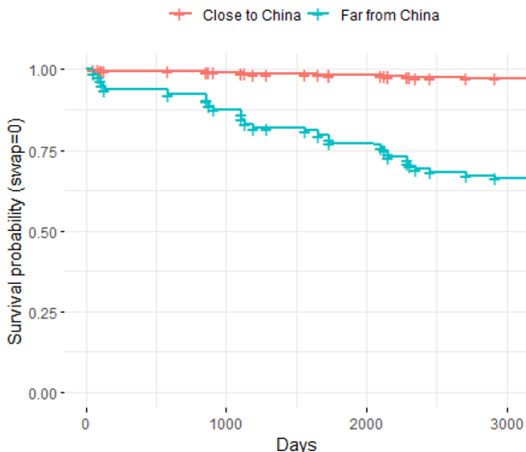
**H1:** United States allies are less likely to sign bilateral swap agreements with China.

**H1A:** The deterrent effect of an alliance with the United States on bilateral swap agreements with China will decrease with distance from China.

**H2A:** States engaged in a territorial dispute with China are less likely to sign bilateral swap agreements with China than other countries.

# Suggestive evidence

**Figure:** US Allies far from China are at higher risk of signing swaps than US allies close to China



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Country-year panel dataset from 2007 to 2018 covering 195 countries

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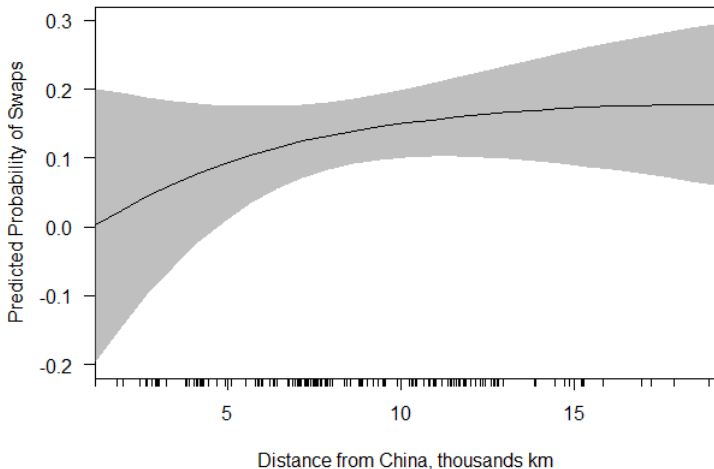
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- Logit models with penalized maximum likelihood estimation to address near-complete separation problem (Firth 1993)
- Time, squared time polynomial, cubic time polynomial to account for time dependence and avoid separation problems (Carter and Signorino 2010)

# Main findings

**Figure:** Predicted probability of US allies signing Chinese currency swap given distance from China



# Explanations of Chinese currency swaps (2007-2018)

	(1)	(2)
US ally	1.700*** (0.299)	-0.244 (0.839)
US ally × Distance from China		0.225** (0.097)
Distance from China	-0.128*** (0.031)	-0.340*** (0.096)
Territorial dispute with China (binary)	-2.502*** (0.454)	-2.495*** (0.449)
SCO membership	0.398 (0.405)	0.450 (0.405)
External debt to China (log)	-0.010 (0.017)	-0.009 (0.017)
Concessional aid from China (log)	0.023 (0.016)	0.024 (0.016)
UN ideal point from China	-1.218*** (0.217)	-1.176*** (0.216)
Trade dependence on China (log)	0.060 (6.475)	0.869 (6.438)
China's trade dependency (log)	3.713*** (1.224)	3.756*** (1.234)
Polity score	0.029 (0.020)	0.041** (0.020)
Additional controls	✓	✓
Observations	1,395	1,395
Log Likelihood	-352.779	-350.429
Akaike Inf. Crit.	743.558	740.857

Note:

\* p&lt;0.1; \*\* p&lt;0.05; \*\*\* p&lt;0.01



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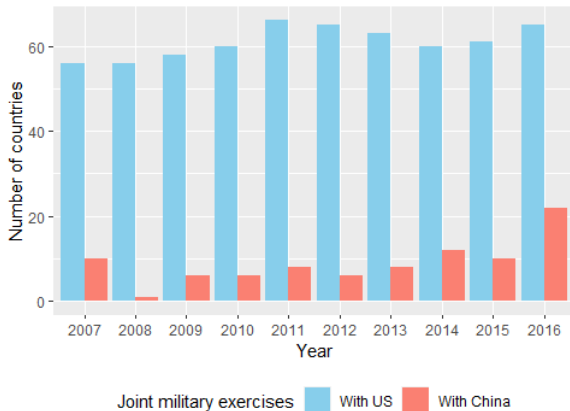
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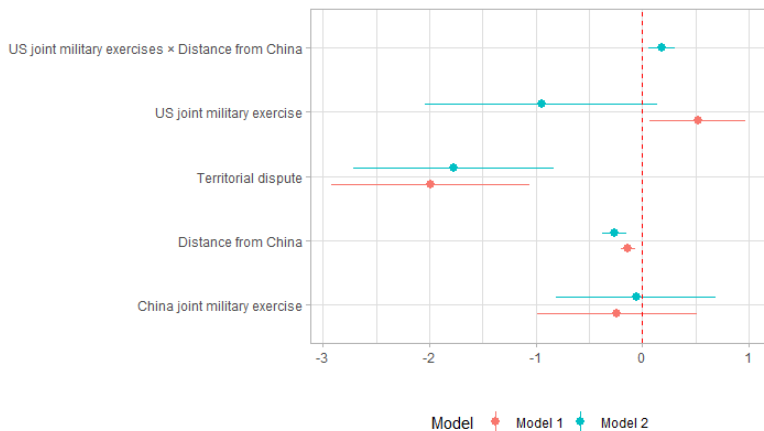
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## Alternative alliance measure: Joint military exercises

From 2007 to 2016, the US engaged in 610 military exercises with countries in our sample and China engaged in 89 (Bernhardt 2021)



# Robustness



# Contributions

Countries' willingness to commit to monetary instruments denominated in RMB vary depending on both distance from China and geopolitical orientation



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- Theorizes on interstate competition in international monetary affairs
- Highlights how secondary powers and small states can influence the scope of China's monetary expansion

**Thank you!**

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Figure: Non-US allied countries signage of swaps

