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Power in the International Monetary and Financial System: The Geopolitical Limits of the Exorbitant Privilege

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Abstract: This article examines the asymmetries and power dynamics within the international monetary and financial system (IMFS), emphasizing its structural and geopolitical interconnections. The Russian invasion of Ukraine in 2022, followed by United States (USA) sanctions such as the freezing of Russian dollar reserves and the exclusion of banks from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network, demonstrated the capacity of the USA to mobilize monetary and financial instruments for geopolitical purposes. This takes place amid a relative decline in US influence and the rise of alternative powers, notably China, in terms of economic weight, trade, and security. To date, although China meets virtually all theoretical prerequisites for the expansion of its monetary and financial power, this potential has not (yet) materialized into a concrete challenge to the USA-led IMFS. This context brings traditional notions of power in the IMFS into question, revealing the limitations of analyzing the monetary and financial dimensions in isolation. Drawing on the literature on power, economic power, and asymmetries, particularly concerning the dominant role of the dollar, it is argued that the US overuse of its 'exorbitant privilege' in pursuit of geopolitical objectives, particularly via financial sanctions, may ultimately erode its own position.

Keywords: power; economic power; exorbitant privilege; international monetary and financial system; geopolitics.

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Introduction

The escalation of military conflicts, most notably since Russia's invasion of Ukrainian territory in February 2022, has renewed the role of geopolitics in economic affairs (Blackwill and Harris 2016a; Farrell and Newman 2019; Torres Filho 2019; McDowell 2020, 2023; Norrlöf 2023; Gopinath 2024). The freezing of the Russian central bank's dollar reserves and the exclusion of Russian banks from the SWIFT international interbank messaging system have demonstrated the USA's capacity to leverage its monetary and financial dominance in pursuit of geopolitical objectives (Eichengreen 2024; Petry 2024).

Concurrently, the vacuum left by the withdrawal of the dollar from the Russian economy has intersected with China's ambition to internationalize the renminbi and to construct alternative monetary and financial arrangements independent of the USA and its allies. Under the official discourse of strengthening China's financial security and mitigating its vulnerabilities within a dollar-dominated system, the country has expanded its network of bilateral currency swap agreements, consolidated its role as an international creditor through the Belt and Road Initiative, and launched a digital currency, the electronic Chinese yuan (e-CNY) (Prasad 2017; Subacchi 2017; Cohen 2019; Chey 2021; Campbell 2023). Thus far, however, the potential embodied by China has not translated into a tangible challenge to the USA-led IMFS, particularly in relation to the dollar's hegemonic status (Benney & Cohen 2024).

These transformations have exacerbated the existing gap in the literature regarding the asymmetries and power dynamics within the IMFS. First, there is considerable diversity in the taxonomy associated with the subject. Terms such as economic power (Strange 1975), economic statecraft (Baldwin 2020; Drezner 1999, 2019; Blanchard and Ripsman 2008, 2013; Blackwill and Harris 2016b), monetary power (Kirshner 1995; Andrews 2006; Vermeiren 2013a, 2013b; Gallagher 2015; Hardie and Maxfield 2016; Armijo, Tirone and Chey, 2020; Krampf 2019; Hardie and Thompson 2021; Kapadia 2023), currency power (Cohen 2015), currency statecraft (Cohen 2019; Chey 2021), financial power (Chin and Helleiner 2008; Norrlöf 2023), financial statecraft (Armijo and Katada 2014, 2015; Roberts et al. 2018; Armijo, Tirone and Chey, 2020; McDowell 2019), financial influence (Drezner 2009), geoeconomic policies (Blackwill and Harris 2016a), economic foreign policy (Kindleberger 1959; Pastor 1980; Rohrlich 1987), international economic policy (Kindleberger 1970), economic diplomacy (Strange 1971), politics of money (Kirshner 2003) and the international political economy of money (Norrlöf 2017) are among the terminologies employed by the specialized literature to describe the use of economic instruments or tools by states to enhance or exercise power within the international system. These concepts, however, vary in meaning depending on the author utilizing them.

Second, it has become increasingly evident that analyzing the monetary and financial dimensions in isolation from factors related to military projection capabilities and the productive structure of an economy, particularly in the field of technological innovation, has limited explanatory capacity (Blackwill and Harris 2016a; Farrell and Newman

2019; McDowell 2023; Eichengreen 2024; Gopinath 2024). For instance, in the case of the monetary dimension, the traditional 'currency power' perspective, which evaluates the international potential of a currency based on the economic and political capabilities of its issuer (see Cohen 2015), would suggest that the rise of the Chinese currency is imminent, as China fulfils virtually all the theoretical prerequisites to be the issuer of an international currency[1]. However, to date, the Chinese currency accounts for only a very small share of global economic transactions and international reserves (see, for example, Kamin and Sobel 2024; ECB 2024).

Third, it is worth underscoring the persistent debate concerning the future of the dollar, which arguably constitutes one of the clearest illustrations of the theoretical literature's limitations in deciphering the power relations and underlying dynamics of the IMFS (Helleiner and Kirshner 2009; Fichtner 2017; Cohen 2019; Eichengreen et al. 2019). The continued dominance of the dollar, despite the relative decline in the USA's influence over trade and security affairs, challenges conventional theoretical approaches and has increasingly become a source of geopolitical tension in practice (Norrlöf et al. 2020). This is primarily because the international status of the dollar as the central currency of the IMFS affords the USA an 'exorbitant privilege', a term coined by Valéry Giscard d'Estaing, Finance Minister under Charles de Gaulle in the 1960s (Eichengreen 2011). Being the issuer of the currency positioned at the top of the international currency hierarchy entails several advantages, the most significant of which is that the USA is the only country not subject to the external adjustment process, since its sovereign bonds serve as global reserve assets and are therefore in high demand across the rest of the world (Gourinchas et al. 2019; Carneiro and De Conti 2022). This ability to postpone or externalize the costs of balance-of-payments adjustment reflects precisely the notion of 'monetary power' as defined by Cohen (2015).

In light of this, the present article aims to contribute to the debate on asymmetries and power dynamics in the IMFS by emphasizing the intrinsic relationship between its structure and geopolitical considerations. It begins with a review of the literature concerning the concepts of power, economic power and asymmetries of power, particularly in relation to the dominant role of the dollar. It then reconsiders the issue of asymmetry in the current context of intensifying geopolitical tensions, arguing that the USA's excessive reliance on its 'exorbitant privilege' to achieve geopolitical objectives – particularly through the use of financial sanctions — may ultimately prove self-defeating (McDowell 2020; Norrlöf 2023).

Following this introduction, the article is structured into five sections. The next section provides a theoretical review of the different dimensions of power. The third section revisits key concepts related to States' economic power, including economic statecraft, monetary power and financial power. The fourth section addresses the issue of asymmetries within the IMFS, with particular emphasis on the role of the dollar. The fifth section reflects on the use of US economic power in pursuit of geopolitical objectives and the potential implications for the structure and dynamics of the IMFS. The sixth section presents the concluding remarks.

Concept and analysis of power

The study of power occupies a central position in the field of International Political Economy (IPE). Gonçalves (2005: 11, own translation) characterizes IPE as a methodology concerned with 'the dynamics of the international economic system in its various spheres and dimensions, which result from the decisions and actions of national and transnational actors.' From the perspective of IPE as a disciplinary field, Gilpin (1975: 43) and Cohen (2008: 197) respectively define it as 'the reciprocal and dynamic interaction in international relations in the pursuit of wealth and power' and 'the linkages between economic and political activity at the level of international affairs.' All definitions converge on the notion of interrelations among international actors, thus providing analytical space to investigate the raw material that underpins such relations: power.

Defining power remains a significant challenge, as there is no consensus in the literature regarding its meaning. Gilpin (1975) identifies the concept as one of the most problematic within the sphere of International Relations (IR), while Waltz (1979) notes that the definition continues to be contentious. A preliminary approximation suggests that power concerns the relationship between two agents. In this view, agent A causes, or possesses the capacity to cause, an action by agent B that would not have occurred in the absence of A's intervention (Dahl 1957). This conceptualization of power aligns with the realist tradition in IR, wherein power is understood as the capacity of one agent to significantly alter the actions of another. Barnett and Duvall (2005) contend that the field exhibits a conceptual preference for interpreting power through this realist lens (Barnett and Duvall 2005; Baldwin 2013).

In line with realist assumptions, the military domain is often emphasized as a core element in the definition of power, whereby power is measured by a State's capacity for warfare (Cline 1997) and understood as the study of the threat and control of military force (Walt 1991, 2012). Morgenthau (1978) posits that the pursuit of power motivates states to continually seek its maximization, while Mearsheimer (2001) maintains that this pursuit stems from the anarchic nature of the international system, within which states aspire to hegemony as their ultimate objective.

All these definitions, grounded within the realist framework, assume that power constitutes a necessary condition for the survival of states. For this reason, they emphasize both military capabilities and the ability to influence or alter the behavior of other actors within the international arena.

In contrast to the realist perspective, other strands approach the study of power from different approaches. The constructivist school, for instance, contends that no single form of power is foundational to all others. It underscores the relevance of cultural context, transformations in social order and technological change in shaping the interpretation of power (Lasswell and Kaplan 1950). Constructivists therefore argue that the analysis of power must be contextualized and adapted to the specific reality under examination. Additionally, power can be analyzed from an institutionalist perspective, which views power as exercised through the creation and maintenance of institutions. These institutions reflect, constrain, or enable power relations (Martin and Simmons 1998).

Beyond definitional divergences, and as a result of this conceptual heterogeneity, the measurement of power constitutes another fundamental difficulty in the study of the subject (Baldwin 2013). In response to these challenges, scholars have frequently sought to redefine the concept in ways that enable its operationalization. Accordingly, the dominant literature explores three principal approaches to the study of power: power as resources, relational power, and structural power (Strange 1994a; Baldwin 2013; Cohen 2015).

Power as resources represents the most traditional conception within the field of IR. It treats power as a property of states. The combination of population, territory, wealth, and military capacity (army and navy) is considered synonymous with power (Gulick 1955), and these elements were subsequently defined as components of national power (Sprout and Sprout 1945; Morgenthau 1978).

More recently, however, the elements of national power have had their scope expanded. This was mainly due to financial globalization and the greater participation of peripheral countries in the IS, since the concept of 'power as resources' provides a framework also for countries that are not global powers. Peripheral countries may be considered through this lens given their considerable economic scale, territorial extension, and access to natural resources (Armijo and Katada 2014). Furthermore, due to the updating of the concept of 'power as resources', trade relations and global financial flows also began to be considered resources of power.

Relational power, in contrast to power as resources, rejects the notion of power as a mere property of states by conceptualizing it instead as a form of causality (Lasswell and Kaplan 1950). It constitutes an example of a systemic approach to power. This causal logic implies that the behavior of one actor can modify the behavior of another. Power, therefore, emerges from the interaction between two or more actors (Dahl 1957).

Another fundamental distinction between relational and resource-based approaches lies in the former's multidimensional conception of power. Relational power acknowledges that power may be manifested across distinct spheres, whereas the latter adopts a unidimensional view anchored solely in national capabilities. It is thus possible for a state to enhance its power in one domain while simultaneously experiencing setbacks in another, such as in the military, economic, or cultural arenas (Baldwin 2013). For this reason, when adopting a relational perspective, it becomes essential to ask 'power over what' in order to understand how power is actually exercised (Nagel 1975).

Given its causal logic, relational power can be analyzed in terms of domain, weight, and cost. The domain refers to the number of actors over which a given agent exercises, or is capable of exercising, influence. For instance, an actor may wield significant influence within a specific continent while holding negligible sway elsewhere – giving rise to the concept of regional power (Baldwin 2013). The weight of a state's power concerns the likelihood of it affecting the behavior of other actors within the international system (Dahl 1957; Deutsch 1988), which may be classified as either strong or weak potential power. Finally, the costs of power involve two analytical questions: how costly is for one actor to alter the behavior of another, and how costly is to comply with the demands imposed by another's exercise of power (Barry 1976). It follows that the greater the power of an actor, the lower the cost incurred in influencing others.

Despite the analytical contributions of the relational power approach – particularly its departure from the exclusive emphasis on national capabilities – it has been criticized for overlooking structural dimensions of power (Strange 1971; Guzzini 1993). This critique led to the development of a third and more recent conceptualization: structural power. Structural power stands in contrast to relational power precisely because it does not rely upon a causal understanding of influence (Baldwin 2013), although both perspectives share a systemic foundation (Blyth 2009). Structural power posits that power is not reducible to material capabilities or individual agency (Langley 2009).

This approach defines power as the ability to shape and configure the international system within which all other actors operate. In other words, it highlights the capacity of hegemonic states to shape the institutional and normative frameworks that govern global interactions. Susan Strange (1988) argues that while relational power concerns the direct capacity to influence specific actors or decisions, structural power configures the broader environment in which such interactions occur. Structural power, she explains, is not immediately observable in everyday interactions, but is essential for understanding the underlying logic of international relations. This is because structural power determines the parameters and constraints that govern actors' choices and behavior – so much so that the exercise of relational power, whether through bargaining or negotiation, remains largely circumscribed by the structural context in which it unfolds (Strange 1988).

Bargaining, as a manifestation of relational power, operates within the framework determined by structural power. This becomes evident in the formulation of policy decisions and economic agreements, which frequently emerge from negotiations in which actors leverage their relational power. Nevertheless, these negotiations are shaped by structural power, which determines the 'rules of the game.' For example, Strange (1988) asserts that structural power defines which issues are included on the agenda and which solutions are deemed acceptable, thereby indirectly determining the outcomes of negotiations. Thus, even when relational power is actively exercised, it is structural power that delineates the scope and conditions of such interactions, serving as the underlying force that sustains relational dynamics (Strange 1988).

It follows that the concept of power is fundamental to the analysis of relations among actors within the IMFS. Furthermore, financial globalization has intensified interdependence among states, significantly impacting all dimensions of power – resource-based, relational, and structural – while deepening the interconnections between economic, security, and geopolitical considerations (Farrell and Newman 2019). Against this backdrop, the next section turns to the concept of economic power, which will serve as an analytical lens through which to examine the contemporary dynamics of economic relations and power asymmetries within the IMFS.

Economic power: from economic statecraft to the dollar weapon

Having examined power in its various dimensions, this section explores the complexities inherent in economic power, with particular emphasis on the concepts of monetary power and financial power. The purpose of this analysis is to clarify and delineate the key concepts associated with the use of economic instruments or mechanisms by States to expand or exercise influence within the global arena. The literature presents a multitude of terminologies derived from the concept of power, each bearing specific nuances and interpretations that vary according to authorial perspective and theoretical context. This section revisits some of the principal definitions linked to the notion of economic power, which will subsequently inform the discussion on asymmetries in the next section.

Broadly speaking, the study of State power is permeated by questions related to economic aspects. In attempts to measure the economic power of states, scholars commonly rely on national income, typically measured by gross national product (GNP) or GDP, expressed either in current US dollars or in purchasing power parity (PPP) terms. China's GDP, in PPP terms, has already surpassed that of the USA, which is frequently cited as an indicator of its rising power. Other income-related indicators, such as per capita income and growth rates, are likewise employed to capture dimensions of economic power. Furthermore, a State's position in international trade, whether measured by trade volume, network centrality or export complexity, is often viewed as a reflection of economic power. The international use of a State's domestic currency in cross-border transactions, whether by public or private actors, as a unit of account, medium of exchange and store of value, is also considered a vital component of economic power, as is the size and sophistication of its financial markets. Additional indicators include the scope and magnitude of foreign direct investment (FDI), along with the degree of a state's participation in international financial institutions (IFIs), whether regional or multilateral. These serve as further metrics to characterize and assess the economic facets of State power. Nonetheless, the literature does not offer a clear consensus as to which among these elements – income, international trade, international use of domestic currency, domestic financial market development, FDI profile or influence within IFIs – ought to be prioritized in the analysis of economic state power.

In addition, and possibly as a consequence of this lack of consensus regarding the constituents of economic power, there is substantial variation in the taxonomy employed in the literature, as previously noted in the introduction. One noteworthy distinction is between the concepts of power and statecraft. Baldwin (2020: 1) defines statecraft as 'the art of conducting State affairs.' In this sense, statecraft refers to the instruments and techniques used by policymakers in their efforts to exert power. For Baldwin (2020: 22), power is inherently relational, while statecraft constitutes a property of states. Economic statecraft, therefore, is one among several tools available to policymakers, alongside propaganda, diplomacy and military force, that can be employed in the pursuit of state objectives. Importantly, the goals of economic statecraft may be either economic or non-economic in nature. That is, economic statecraft can be directed at achieving economic objectives, but it can also serve broader foreign policy aims. Likewise, economic goals can be pursued via non-economic forms of statecraft.

Echoing the transformations taking place in the international system, the literature on the economic aspects of State power gained momentum in the early 1970s. One element of this discussion was the recognition that, since economies are all connected via balance of payments, they should have to adopt compatible goals in terms of external equilibrium to avoid conflicts, since the deficit of one country is the surplus of another (Kindleberger 1970: 10; Cohen 1977: 28–34). This discussion emerged in response to the gradual erosion of the relative external equilibrium that had prevailed in the post-war period among the USA, Europe and Japan. As European and Japanese economic recoveries placed mounting pressure on the US balance of payments, Washington's earlier emphasis on restoring an open global economic order gave way to increasing domestic concerns. The USA's exercise of power became especially apparent when it refused to bear the domestic political costs of maintaining the dollar–gold parity, opting instead to unilaterally dismantle the Bretton Woods system, thereby exposing its structural power over the international system (Cohen 2014; Kirshner 2014).

In this context, several authors have addressed issues related to the economic power of States, the role of the dollar and the difficulties of the IMFS, but they have done so without the ambition of necessarily advancing in terms of a theoretical formulation. Kindleberger (1970), Strange (1970, 1971) and Cohen (1977) were pioneers in developing a framework to analyze what they termed 'the politics of international economics and the economics of international politics.'[2]

Kindleberger (1970) was arguably the most ambitious in terms of scope, seeking to understand how political and economic disputes between countries affect their foreign policy and their 'international economic policy' (1970: 15–16). His book explores a wide range of political topics through an economic lens, including sovereignty, power, imperialism, war and peacekeeping, and economic topics through a political lens, such as trade, foreign aid, migration, finance, multinational corporations, payments and currency.

Strange's (1971a: 217) contribution is perhaps the most innovative, as she proposed a 'political theory of international currencies.' She was the first to formulate a taxonomy to differentiate national currencies (Top, Master, Passive or Neutral, and Political or Negotiated), which would later inspire Cohen's monetary pyramid (1998 and subsequent works). Strange's theory aimed to understand both the causes and the consequences of a currency's international status: 'first, with the political as well as the economic conditions under which national currencies come to be used beyond national frontiers; and second, with the political as well as the economic consequences that follow for the issuing state when this happens' (1971: 217). In the years that followed, however, Cohen advanced further than Strange in elaborating this theory (Cohen 1998, 2004, 2015, 2019). Beyond her early contributions to the discipline of IPE, Strange's intellectual legacy is primarily associated with her works Casino Capitalism (1986), States and Markets (1988 first edition; 1994b second edition), The Retreat of the State (1996) and Mad Money (1998), which deal less directly with the specific issue of currency and more with the intrinsic relationship between the power of finance and state power.

Strange (1975) defines economic power as the ability of a State or organization to shape global economic rules and norms, thereby influencing trade practices, capital flows and the economic policies of other States. Furthermore, Strange (1971a) also offers a critical perspective on economic power, arguing that policy choices concerning economic affairs are often driven by political objectives rather than by rational assessments of economic costs and benefits. She emphasizes that economic power is inherently political, serving as a tool employed by states to pursue broader political goals. Her analysis highlights how international currencies and economic diplomacy are used to project power and influence, reinforcing the idea that economic power extends beyond mere economic indicators to encompass the capacity to shape the international economic order.

Cohen (1977), in turn, places specific emphasis on the issue of international monetary relations, recognizing that the two central problems of the international monetary order are the adjustment mechanisms for the balance of payments and the creation of international liquidity. He continues to explore this theme in his subsequent works, notably in The Geography of Money (1998) and The Future of Money (2004), further developing the analytical framework to examine the political and economic power associated with currency internationalization, especially in Currency Power (2015) and Currency Statecraft (2019). For Cohen, currency power refers to the position a given currency occupies within the monetary pyramid and the issuing country's ability to project international influence through its currency. Cohen (2015) defines the power of currencies as the capacity of a currency to be widely accepted and used in international transactions, granting the issuing country a range of strategic advantages, both economic and political. Chief among these is the so-called 'exorbitant privilege'.

The exorbitant privilege arises insofar as the issuer of the key currency can issue debt in its own currency, which is eagerly sought as a store of value by the rest of the world. As such, the country can finance its external deficits without facing the same adjustment pressures that confront other nations. This dominant position not only facilitates the maintenance of persistent deficits but also lowers borrowing costs, increases liquidity in domestic financial markets, and strengthens the country's ability to exert global economic influence (Carneiro and De Conti 2022). In this sense, the notion of exorbitant privilege is deeply intertwined with the concept of monetary power, as global confidence in the currency underpins ongoing demand for it. The exorbitant privilege, however, is not solely a matter of monetary power but also of financial power. In the contemporary IMFS, the dominance of the dollar in global financial markets provides the USA with disproportionate influence over international economic and financial conditions, which, as will be discussed, also has geopolitical implications (Eichengreen 2011; Helleiner 2008).

Susan Strange (1971) adds that currency power also functions as a tool of economic diplomacy. She argues that countries with strong currencies can utilize their monetary status to forge alliances, impose economic sanctions and shape the global financial architecture. Moreover, a country's ability to internationalize its currency and employ it in global transactions grants it a significant strategic advantage, enabling it to exert influence over other states. This monetary power is underpinned by global confidence in the country's currency and by the state's capacity to sustain economic and political stability.

Indeed, a fundamental component of economic power is its monetary dimension. In an increasingly globalized world, where trade and financial exchanges transcend borders, a country's ability to manage its currency and conduct effective monetary policy becomes essential to maintaining economic stability and projecting international influence (Baldwin 2013; Cohen 2019; Kindleberger 1970). In discussing a country's monetary capacity, Kindleberger (1970) contends that monetary power is a critical element of state economic power, allowing it to adjust monetary policies in response to crises and thereby safeguard domestic financial stability. Barry Eichengreen (2011) reinforces this interpretation by emphasizing that monetary power is vital for sustaining macroeconomic stability. He observes that countries with strong monetary power can deploy monetary policy to mitigate the effects of external economic shocks, influence exchange rates and control inflation. This internal capacity, in turn, bolsters the country's external position by enabling greater economic flexibility and resilience.

Kapadia (2023) complements the analyses of Kindleberger (1970) and Eichengreen (2011) by proposing a bridge between the concept of monetary power and Minsky's notion of the 'survival constraint', which denotes the necessity for economic units — be they individuals, firms or the state itself — to secure liquidity in order to sustain operations and meet financial obligations. While Kindleberger and Eichengreen underscore the role of monetary power in crisis mitigation and macroeconomic stabilization, Kapadia advances this perspective by arguing that genuine monetary power lies in a State's capacity to modulate this constraint by adjusting access to liquidity and enforcing discipline on the credit system. Such modulation not only reinforces monetary power but also amplifies the State's financial influence, as the interaction between the State and financial interests plays a decisive role in shaping credit conditions within the economy.

This process involves balancing two dimensions: elasticity, which refers to the State's ability to expand credit and liquidity; and discipline, which reflects the constraints imposed by financial markets to ensure stability (Kapadia 2023). The relationship between monetary power and the survival constraint thus reflects not only domestic financial dynamics but also offers a foundation for understanding financial power in an increasingly globalized economy. With the significant rise in cross-border capital flows, the IMFS has become more interconnected and interdependent, such that financial power is now regarded as a fundamental dimension of economic power. Scholars such as Armijo and Katada (2015) examine how financial globalization has expanded the capacity of certain states to exert power through their financial institutions and capital markets. This evolving global dynamic has reinforced the necessity of understanding financial power and the instruments and techniques required to exercise it, as countries with robust financial systems have increased their strategic weight within the IMFS.

Accordingly, financial power may be defined as a State's capacity to influence and control capital flows and international financial conditions through instruments such as monetary policy, financial regulation and exchange rate management (Strange 1988). Furthermore, the depth of the domestic financial sector and a country's position within the global financial network are critical to financial power, as they enable greater influence over international transactions and enhance credibility among international actors (Kahler 2009).

The main conclusions drawn by Chin and Helleiner (2008) and Norrlöf (2023) regarding financial power emphasize the capacity of States to utilize their financial institutions and monetary policy to exert control over global capital flows and to influence international financial conditions. Chin and Helleiner (2008) argue that countries with developed and integrated financial markets possess a significant advantage in attracting and directing international investment, thereby enabling them to shape the global financial system to their benefit. They also highlight that the ability to influence global interest rates and to impose financial sanctions constitutes a powerful instrument of foreign policy. Norrlöf (2023) complements this perspective by emphasizing that control over capital flows not only strengthens the national currency but also advances a country's geopolitical and economic interests.

Norrlöf (2023) further underscores the importance of financial sanctions as an effective means of economically isolating adversarial states, restricting their access to the global financial system and limiting their capacity to sustain economic activity. These conclusions underscore the centrality of financial power in shaping international economic and political relations, and they converge with the conception of financial influence as the ability of a State to shape global financial conditions through its economic policy (Drezner 2009). Armijo and Katada (2015) define the strategic deployment of financial policy by States to pursue geopolitical and economic objectives as financial statecraft. This concept encompasses a range of financial instruments – including loans, investments and sanctions – used to attain political and strategic goals (Armijo, Tirone and Chey 2020; McDowell 2019).

According to Gopinath (2024), the strategic use of economic sanctions by the USA exemplifies how dollar dominance allows the country to project its power beyond the economic sphere. These financial sanctions, made possible by the dollar's pre-eminence, can destabilize other economies within the IMFS, imposing significant costs on governments and societies that challenge US interests. This ability to impose effective sanctions and to manipulate the global financial system illustrates how the dollar's exorbitant privilege extends beyond economics, serving as a central instrument in US geopolitical strategy. The hegemony of the dollar therefore reflects not only the economic power of the USA but also underpins its geopolitical leadership, influencing political and economic decisions at the international level within a power structure aligned with US interests.

In line with the notion that the dollar serves as a geopolitical tool, Torres Filho (2019) introduces the concept of the 'dollar bomb' to describe the overwhelming impact and disproportionate influence exerted by the dollar within the international system. According to Torres Filho, the 'dollar bomb' exacerbates the vulnerabilities of peripheral economies, which rely on the dollar both as a vehicle currency for international transactions and as the primary component of their foreign exchange reserves, given that US Treasury securities represent the principal global reserve asset.

The 'dollar bomb' encapsulates the connection between monetary and financial power, demonstrating how dollar dominance enables the USA not only to exert disproportionate influence over the global economy but also to instrumentalize this dominance in pursuit of geopolitical objectives. This concept further illustrates the interdependence of monetary and financial power, and how these dimensions mutually reinforce the USA's dominant position within the IMFS. The capacity to control global financial flows through the world's reserve currency serves not only US domestic economic interests but also facilitates the operationalization of a global economic order structured around US strategic advantage.

Having examined the notions of monetary and financial power within the broader framework of economic power, the next section addresses the issue of power asymmetries within the IMFS.

Power asymmetries in the IMFS

The IMFS that emerged following the decline of the Bretton Woods system is characterized by three key features: the fiduciary dollar as the main international currency, a floating exchange rate regime, and high capital mobility (De Paula, Fritz and Prates 2017). Moreover, as a consequence of the phenomenon of financialization (Braga 1997; Epstein 2005), the IMFS displays systemic specificities such as an unstable and speculative dynamic (Tavares 1997; Biancareli 2007), the dominance of the financial sphere over the productive sector, and an essentially hierarchical structure (Prates 2005).

Prates (2005) classifies the asymmetries present in the IMFS from three analytical perspectives: financial asymmetry, macroeconomic asymmetry, and monetary asymmetry. These dimensions are interrelated and, to varying degrees, derived from one another. For example, the monetary asymmetry arises directly from the currency hierarchy and in turn generates the other asymmetries. This hierarchy is structured around the dominant key currency, while all other currencies are ranked according to their degree of international convertibility. Non-convertible currencies are typically issued by economies located on the periphery of the system, whereas convertible currencies, occupying higher hierarchical positions, are issued by core economies (Carneiro 1999; Carneiro and De Conti 2022).

The monetary asymmetry becomes particularly evident when, under conditions of unrestricted capital mobility, issuers of peripheral currencies are subject to more severe constraints than those issuing core currencies. The unit used for international financial and monetary transactions is selected based on its liquidity and safety, attributes that vary significantly according to the currency's position within the hierarchy. Consequently, investors demand higher returns when acquiring assets denominated in peripheral currencies, with such demand shaped by the phases of the global liquidity cycle (Prates 2005).

As a result of the monetary asymmetry, countries issuing convertible currencies enjoy greater autonomy in the formulation and execution of domestic policies. These dynamic reveals how monetary asymmetry gives rise to a macroeconomic asymmetry. Interest rate formation provides a clear illustration: to attract capital and prevent capital flight, peripheral currency issuers are compelled to maintain higher interest rates. In contrast, issuers of core currencies are largely exempt from this constraint, benefiting from a persistent inflow of capital. Peripheral economies, therefore, face not only dependency on exogenous determinants for setting interest rates but also a more limited policy space to mitigate the effects of capital flows on the domestic economy (Carneiro and De Conti 2022).

With regard to macroeconomic asymmetries, Ocampo (2001, 2018) argues that economies issuing core currencies determine the direction of financial flows, the pricing of commodities, and global exchange rate cycles, whereas issuers of peripheral currencies are required to adapt to the functioning of the system and adjust their domestic policies to enhance international integration. In this framework, core currency issuers act as both business cycle and policy makers, while peripheral currency issuers function as business cycle and policy takers (Ocampo 2001).

Furthermore, it is possible to identify a direct relationship between macroeconomic asymmetries and the financial sphere, since countries that implement forms of capital flow control tend to achieve greater degrees of macroeconomic autonomy whereas countries with greater degrees of macroeconomic autonomy also result in greater degrees of autonomy in the financial sphere (Ocampo 2001; Prates 2005). This reciprocal relationship introduces the discussion of the third type of asymmetry, thereby illustrating the interconnection between the various spheres: financial asymmetry.

Financial asymmetry primarily concerns the determinants of capital flows to peripheral countries, particularly to emerging economies due to their deeper integration into the international financial architecture (Carrasco and Williams 2012). The functioning of international financial markets and the macroeconomic dynamics of core countries condition both the nature and volume of capital flows to the periphery (Carneiro and De Conti 2022). As a result, peripheral economies, in addition to facing structural constraints, become increasingly vulnerable to global cycles of expansion and recession, owing to their greater exposure through trade, investment, and financial channels (Akyüz 2017; Cerutti, Claessens and Rose 2017).

Given their subordinated position within the IMFS, recipient countries of such capital flows are rendered more dependent on exogenous decisions, shaped by speculative behavior and the evolving liquidity preferences of global investors (Prates 2005; Akyüz 2017). In this regard, both monetary and financial asymmetries are closely interlinked and help to elucidate the volatility of capital flows and the increased external vulnerability experienced by countries outside the system's core.

In summary, the monetary hierarchy divides the currencies circulating within the IMFS into convertible currencies, including the key currency, and non-convertible currencies. The economies that issue these different types of currency operate with varying capacities in the system, giving rise to the first form of asymmetry: the monetary asymmetry, which is shaped by both geoeconomic and geopolitical factors (Fritz, De Paula and Prates 2018, 2022). From this hierarchical structure derive both financial and macroeconomic asymmetries, since a currency's position in the hierarchy conditions the issuing economy's capacity to formulate and implement domestic policies.

Due to the differences in liquidity and demand between convertible and non-convertible currencies; and, consequently, in the degree of power held by the issuing states; international liquidity cycles impact economies within the IMFS in asymmetrical ways. Core economies benefit from greater stability in capital flows, whereas peripheral economies are subject to higher instability, resulting in increased exchange rate volatility and greater constraints on macroeconomic policy (Fritz, De Paula and Prates 2018, 2022). In other words, peripheral countries have lower levels of autonomy in conducting domestic policies and financial decision-making, while core countries are less affected by external factors and operate with greater independence within the IMFS.

The asymmetries characterizing the IMFS have long been a source of dissatisfaction and political tension. However, such tensions have intensified in light of the relative decline in the USA's share of global flows, as well as its waning influence in trade and security affairs. These developments have become particularly evident since the Global Financial Crisis of 2007–2009 (GFC). The GFC produced contradictory effects on the global order by simultaneously deepening the fractures in the liberal international order led by the USA and reinforcing its central role (Grabel 2021). In this context, the crisis served to reveal the obsolescence of multilateral institutions established in the aftermath of the Second World War to uphold a rules-based system in trade, finance, and security relations. These include the World Trade Organization (WTO), the International Monetary Fund, the World Bank, the North Atlantic Treaty Organization (NATO), and the United Nations Security Council. To varying degrees, all these institutions have failed to reform their governance structures in line with the transformations in global economic and political power over the past eight decades, with China standing as the most illustrative case. Consequently, the legitimacy of decisions emanating from this institutional framework has come under increasing scrutiny, and the perception of US leadership has been progressively undermined (Grabel 2021).

Paradoxically, the crisis of the liberal international order and the weakening of multilateralism have also served to reinforce the unilateral power of the USA (Grabel 2021). For example, in response to the liquidity shortages provoked by the GFC, the Federal Reserve opted to establish bilateral swap agreements with selected central banks, rather than channeling support through the IMF's multilateral mechanisms. Through this strategy, the USA ceased to exert its influence indirectly via the Bretton Woods Institutions and began directly deciding which economies would be granted access to dollar liquidity. This course of action was only feasible due to the enduring centrality of the dollar within the IMFS. The next section explores the limitations of US economic statecraft and the so-called 'dollar weapon', while engaging with contemporary debates regarding the possible emergence of an alternative order beyond US leadership.

The geopolitical limits of the exorbitant privilege

After decades of deepening global economic integration, the world is witnessing the prospect of 'geoeconomic fragmentation'[3], a concept that echoes terms such as 'de-globalization' and 'globalization backlash'. These phenomena reflect a response to transformations in the global order, accelerated by an uneven recovery following the GFC, the resurgence of protectionist measures and the increasing influence of isolationist narratives. Events such as Brexit, the Covid-19 pandemic and the intensification of trade tensions between China and the USA have fueled growing skepticism towards globalization. At the same time, economic sanctions such as those imposed on Iran and Cuba have raised concerns about the instrumentalization of the dollar as a tool of political coercion (Norrlöf 2023). These tensions escalated further with the imposition of sanctions on Russia in 2022, which catalyzed de-dollarization initiatives already in motion since the immediate aftermath of the GFC. Russia implemented foreign exchange interventions to prevent the ruble from depreciating and began increasing its use in international transactions, in an attempt to strengthen its currency's position in global trade. (Gopinath 2024). As countries attempt to reduce their dependence on the dollar by adopting alternative payment systems and bilateral swap agreements, new questions emerge regarding the sustainability of the USA's exorbitant privilege.

The increasing frequency and intensity with which the USA has leveraged its dominant position in the IMFS to direct economic policies and pursue strategic geopolitical objectives has prompted widespread criticism of the perceived abuse of this exorbitant privilege. Scholars such as McDowell (2020) and Eichengreen (2024) argue that the repeated use of financial sanctions and the transformation of the dollar into a coercive political instrument undermine global confidence in the US currency and incentivize the search for alternatives.

These dynamics suggest that the USA's strategy of utilizing its monetary power for geopolitical purposes may paradoxically accelerate a reconfiguration of the IMFS (McDowell 2020, 2023; Norrlöf 2023). According to McDowell (2020, 2023), the political exploitation of economic power by the USA could motivate a diversification of reserves driven by political rather than economic considerations, contributing to the fragmentation of the current system. Norrlöf (2023) also highlights that the spread of central bank digital currencies, notably the e-CNY, and the development of alternative payment platforms anticipate a new era of international monetary competition.

In accordance with the literature reviewed above, it may be concluded that US monetary power is directly contingent upon the ability of other economies to access dollar liquidity for trade and reserve purposes (Kapadia 2023). This reliance on the dollar as a global reserve currency allows the USA to define the conditions of international credit and exert direct influence over the financial stability of other countries. Eichengreen (2011) describes this dynamic as a key expression of the exorbitant privilege.

The concept of the 'dollar bomb' illustrates the risk that excessive reliance on the dollar as a tool of geopolitical coercion may generate systemic instability within the global financial system. The monetary power of the USA, amplified by the exorbitant privilege associated with its currency, when exercised for geopolitical purposes, tends to provoke tensions among economies that depend on the dollar for international transactions and reserve accumulation. These economies may pursue alternatives in an attempt to reduce their vulnerability, thereby accelerating de-dollarization processes and fostering the proliferation of digital currencies and bilateral payment arrangements. In this way, the overuse of US monetary power, rather than consolidating its hegemony, may induce a reconfiguration of the IMFS, leading to more intense competition of domestic currencies at the international level and potentially contributing to the fragmentation of the global economy.

Nonetheless, while the sanctions imposed on Russia have contributed to realignments in monetary preferences and the development of alternative systems, the current context of geopolitical instability simultaneously reinforces the centrality of the dollar, since the USA security umbrella remains the most sought after (Norrlöf 2023). The coalition imposing sanctions on Russia accounts for more than 90 percent of global monetary reserves, approximately 80 percent of global investment, and 60 percent of global trade and output (Norrlöf 2023). Even if all countries that refused to sanction Russia, including Brazil, were to organize a collective anti-dollar initiative, this would likely be insufficient to offset US dominance.

The interdependence between monetary and financial power is essential to understanding the continued influence of the USA over the global system, even in the face of geopolitical tensions or ongoing attempts at de-dollarization. The swap network among central banks, highlighted by Mehrling (2015), offers a concrete example of how US financial power, underpinned by dollar hegemony, provides an international liquidity backstop that shapes the economic survival of numerous countries. This network functions as a liquidity support mechanism, reinforcing the dollar's position as the global currency while simultaneously limiting other countries' scope for monetary diversification.

This interdependence between monetary and financial power creates a context in which much of the world remains bound to the US-dominated infrastructure, hindering the establishment of viable alternatives. Thus, although the offensive against the dollar is real, it remains insufficient, at least for now, to challenge US monetary and financial hegemony. China's Cross-Border Interbank Payment System (CIPS), for instance, processes approximately 15,000 transactions per day, totaling around 50 billion US dollars, whereas the USA equivalent, the Clearing House Interbank Payments System (CHIPS), processes 250,000 transactions per day, exceeding 1.5 trillion US dollars (Norrlöf 2023). However, the intensification of geopolitical conflicts may accelerate the adoption of alternatives offered by China and possibly others, especially given that technological advances contribute to more rapid shifts and may facilitate the interoperability of multiple currencies. Nevertheless, it is unlikely that the USA will observe such developments passively.

Final considerations

This article has sought to contribute to the debate on asymmetries and power dynamics within the IMFS, highlighting the intrinsic relationship between its structural configuration and geopolitical dynamics. Particular emphasis has been placed on the interrelation between economic, monetary and financial power and its geopolitical ramifications. The underlying concepts of power and their associated definitions have been explored in order to emphasize that analyses of economic power must necessarily incorporate their interdependence with geopolitical factors.

The structural asymmetries of the IMFS, understood as both asymmetric and hierarchical, have been examined to problematize the instrumentalization of US economic power in pursuit of geopolitical objectives. Measures such as the freezing of Russian reserves and the exclusion of Russian banks from the SWIFT system illustrate the capacity of the USA to deploy its monetary and financial hegemony as a tool of political coercion. These actions underscore the increasing entanglement of economic power and strategic considerations (McDowell 2020, 2023; Petry 2024).

This article argued that the US strategy of leveraging its exorbitant privilege for geopolitical ends may, paradoxically, precipitate a reconfiguration of the IMFS. In other words, the pursuit of enhanced geopolitical influence through the application of economic sanctions and monetary coercion may provoke adverse reactions, stimulating the search for alternatives to the dollar and encouraging the establishment of parallel financial arrangements. This scenario reveals a contradiction inherent to the exorbitant privilege itself: by deploying this privilege intensively, the USA may jeopardize its own dominant position, thereby contributing to a reconfiguration of the IMFS that could undermine its supremacy and reshape the global financial architecture. Nonetheless, it is acknowledged that, to date, de-dollarization efforts and the establishment of institutions independent of US influence remain insufficient to pose a substantive challenge to the IMFS inherited from the Bretton Woods System. Even so, the present context of escalating geopolitical and military tensions reinforces the premise that any comprehensive analysis of economic power must necessarily integrate its geopolitical interdependencies.

Notes

1 Economic aspects typically include a country's economic size (the Gross Domestic Product - GDP), its share in international trade, the scale of its capital markets (including stock market capitalization and bond issuance), and its creditor capacity. Political aspects are generally measured by military capabilities (as reflected, for instance, in defense expenditures), although other elements that are more difficult to quantify, such as strong domestic institutions, are also taken into account in qualitative analyses.

2 This is the title of Kindleberger's book, Power and Money: The Politics of International Economics and the Economics of International Politics.

3 For further details, see the discussion note published by the IMF staff (Aiyar et al. 2023).

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Data Availability

Do not apply.

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Poder no Sistema Monetário e Financeiro Internacional: Os Limites Geopolíticos do Privilégio Exorbitante

Resumo: O presente artigo analisa as assimetrias e dinâmicas de poder no sistema monetário e financeiro internacional (SMFI), destacando a relação intrínseca entre sua estrutura e a geopolítica. A invasão russa à Ucrânia em 2022 e as subsequentes sanções econômicas impostas pelos EUA, como o congelamento das reservas russas em dólares e a exclusão dos bancos russos da rede SWIFT, serviram para evidenciar a capacidade de os EUA usarem seu poder econômico (monetário e financeiro) para fins geopolíticos. Isso ocorre em um momento de declínio relativo da influência americana e de ascensão de potências alternativas, notadamente a China, em termos de peso econômico bem como nas questões de comércio e segurança. Até o momento, embora a China atenda a praticamente todos os pré-requisitos teóricos para o aumento de seu poder monetário e financeiro, essa potencialidade não se materializou (ainda) em termos de uma ameaça real ao SMFI liderado pelos EUA. Tal conjuntura coloca em perspectiva as noções tradicionais sobre poder no SMFI, evidenciando que a discussão isolada das dimensões monetária e financeira é limitada. Partindo de uma revisão da literatura sobre poder, poder econômico e assimetrias de poder, especialmente no que se refere ao papel dominante do dólar, argumenta-se que o abuso do "privilégio exorbitante" por parte dos EUA para atingir seus objetivos geopolíticos (sobretudo via sanções financeiras) pode acabar sendo seu próprio algoz.

Palavras-Chaves: poder; poder econômico; privilégio exorbitante; sistema monetário e financeiro internacional; geopolítica.

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