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Journal

The Capco Institute Journal of Financial Transformation

A new world order

Monetary machinations

Bilateral central bank swap lines and their implications for the global financial order

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KING'S College LONDON

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Journal

Welcome to the 62nd edition of the Capco Journal of Financial Transformation, the second to be published in partnership with King's College London, a world-renowned leader in education and research.

This year marks the Journal's 25th anniversary and the beginning of **Capco30**, our strategic vision as we build towards Capco's landmark 30th anniversary.

At the heart of Capco30 is The Expert Advantage: our commitment to be the trusted partner clients turn to when the stakes are highest. We are proud to have built an exceptional business by obsessing about our deep expertise, our strong client relationships, our innovative culture and our reputation for impact.

The Journal has embodied that ambition since its launch in 2001. Over the past quarter century, it has brought together leading academics and industry practitioners – including Nobel laureates, international regulators and board members of major institutions – to examine the forces shaping financial services and the wider global economy. We are equally proud to see Capco experts sharing their perspectives alongside such distinguished contributors.

As Professor Crawford Spence, our editor from King's College, observes in his introduction, this edition might aptly have been titled 'how to survive and thrive in turbulent times'.

After decades of globalization, firms are both refocusing on local market shifts and new forms of cross-border collaboration. Technology is driving integration as trade barriers rise; financial innovation is accelerating amid monetary realignment and volatile geopolitics; and the green transition is redrawing both energy markets and fiscal priorities.

Edition 62 focuses on the **new world order** emerging from these shifts – and how leaders across financial services and energy are rethinking established assumptions, navigating new risks and identifying opportunities for growth.

The coming decade could bring one of the most consequential reconfigurations of global business and economic systems in generations.

This environment reinforces the importance of expertise, judgement and the ability to turn insight into action. At Capco, we help clients connect vision models and strengthening resilience to reimagining customer experiences and the future of work.

We bring together industry depth, technology and data capabilities, and disciplined execution to help clients navigate the moments that matter most with confidence.

The Journal is one expression of that Expert Advantage: convening leading perspectives, challenging established thinking and helping shape the agendas that will define the future of our industries.

I hope you will find the articles in this edition both thought-provoking and valuable for informing your organization's future vision and strategic decisions.

My sincere thanks and appreciation to our contributors, readers and clients.

Anne-Marie Rowland

Annie Rowland, Capco CEO

2026, Edition 62

Editor's note

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We could equally have labelled this volume of the Journal of Financial Transformation 'how to survive and thrive in turbulent times', given that each of the articles effectively attempts to tackle this issue in their own unique way. Times are indeed turbulent. Recent months and years have borne witness to increased military conflict, heightened economic shocks and the emergence of new political forces.

These disruptions are often captured in popular discourse by reference to, variously, the decline of the rules based international order, the rise of authoritarianism and the re-emergence of nationalism and protectionism as challenges to globalization. While putting clear conceptual parameters around what is a very unsettled geopolitical period is difficult, there is at the very least little doubt that the world is changing and that a new order is emerging. To paraphrase an old political aphorism: the old is dying and the new is struggling to be born.

This geopolitical reshuffling is the backdrop to the current issue of the Journal. Contributors were asked to think about how financial services and energy might respond to, and indeed themselves help reshape, the new global order that is emerging. What they have presented here can be grouped into four conceptual clusters, each of which makes up a distinct sub-theme in this issue of the journal: colliding worlds; monetary risks; strategic pivots; and private markets.

The first group of articles we refer to here as colliding worlds. The worlds that collide here specifically are those of finance and energy. Each of these forces us to zoom out from financial transactions and investments and think about the wider environmental and material basis for these. For example, Ragland's fascinating look at the arms race for computing power shows how the rapid expansion of data centers is at odds with the way in which existing energy infrastructure is built. Those who will be successful in rolling out advanced computing power are those who will be able to finance and build out alternative energy infrastructure at the same time.

This has strong parallels with Xu and Preda's article looking at the infrastructure of bitcoin mining, which demonstrates in some detail how supposedly digital assets have heavy materiality in terms of both the physical infrastructure that supports them and the energy consumption that goes into their mining and processing. Finally, Savignon takes the energy transition head on by exploring the mechanics and possibilities of carbon credits in Brazil, a country which is characterised by a dominance of renewables in its energy mix. Showing real heterogeneity in how carbon credits are deployed in different sectors in Brazil, this article concludes by outlining how those who are able to integrate thinking around finance, data and energy will be able benefit from and contribute to the energy transition in the Brazilian market.

Monetary risks refer to the various ways in which currencies are embroiled with risk at both the national and transnational levels. As the fundamental means via which deals are transacted, it is perhaps no surprise that we find money, in its various guises, to have so many political inflections. Cryptoassets are often heralded as some kind of safe haven ('digital gold') during times of economic and political turmoil and there are many central banks across the globe who are now pursuing digital currency projects of their own. These have significantly lagged the development of private crypto initiatives. One of the reasons for this might be the perceived financial crime risk that is associated with digital currencies in general, something which Tjeransen's article outlines in detail.

Fiat currencies are also deeply imbricated in geopolitical factors. This is the subject of Hou et al's article which draws attention to the ways in which currency risk premia are associated with trade imbalances between nations. Such factors are of increasing importance to, not only forex traders, but any organization engaging in currency hedging. Finally, nowhere is the importance of currency to geopolitics more evident than in Zayim's article looking at how central banks engage in currency swaps with other central banks. Focusing on both China and the US, Zayim shows how each has sought to build up spheres of influence with different counterparties as part of larger attempts to accrue power and minimize geopolitical risk for themselves.

Our third conceptual 'bucket' looks at how individual organizations respond to geopolitical shifts. In other words, these articles look at the various strategic pivots that organizations make in order survive and thrive in turbulent times. These strategic pivots can take different forms depending on the geography and industry in question. For example, Schnyder shows how banks in East Central Europe can mitigate risk in response to rising anti-FDI policies in that region. In Scriven's article the author shows how software delivery needs to be reconfigured in order to overcome increasing regulatory divergence and export controls.

In times of geopolitical uncertainty, capital markets can become less efficient in allocating capital and so firms have to focus more on their internal efficiencies, which is what Gkikopoulos and Stathopoulos illustrate in their article exploring the relationship between firms and banks; such relationships have implications for tax planning and productivity. Political turbulence also impacts hiring strategies, which Nguyen and Sila demonstrate in relation to corporate hiring practices during times of election uncertainty. Finally, Confalone makes a strong case for a strategic pivot towards developing 'enterprise intelligence' in the age of AI, a shift which has governance implications for financial services organizations.

The final sub-theme of the issue reflects an ongoing interest that we have had in private markets. The shift from public to private markets is one of the big secular shifts of modern finance, which was dealt with explicitly in issue 61. In this issue, we build on this with two further articles. One of these, by Phalippou, tackles the shift of private equity towards retail investors, outlining the potential risks in selling private equity products that were designed with institutional investors in mind to a less informed and less powerful constituency. Preda and Chen's article pursues another tack, showing how venture capital funding in Asia and elsewhere has to be cognisant of surrounding government policy imperatives if it is to be successful.

Taken together, these articles argue that financial services are not simply being buffeted by geopolitical change. They are becoming one of the arenas in which that change is negotiated. Through payment systems, liquidity backstops, energy and computing infrastructure, corporate strategy and the evolving boundary between public and private markets, we can see how geopolitical forces manifest themselves and adapt to existing institutional constraints and imperatives.

Professor Crawford Spence
King's College London

Bilateral central bank swap lines

and their implications for the global financial order

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Abstract

Are we moving toward a post-neoliberal global financial order? This article discusses the implications of the rise of China and bilateral central bank swap agreements for global financial governance. It begins by surveying the workings of swap lines and the key role of the U.S. and China in the emergent international swap network. It shows that China's rise as a swap partner has enabled national governments to bypass the IMF and other multilateral institutions of the neoliberal order and pursue policies that diverge from neoliberal orthodoxy. In some cases, China's liquidity support has even enabled authoritarian or illiberal regimes to sustain themselves. I join others in arguing that the rise of illiberalism around the world, including the recent developments in the U.S., suggests a discontinuity with neoliberalism. Nonetheless, it is premature to pronounce neoliberalism dead. On the one hand, China poses a limited threat to U.S. hegemony, given the uncertainty surrounding the long-term sustainability of China's bilateral swap agreements. On the other hand, it is reasonable to expect the U.S. to continue supporting a liberal global financial order, given its long-standing financial interests and the U.S. dollar's continued hegemony.

1. Introduction

Bilateral central bank swap agreements have become the most significant source of emergency liquidity since 2008. According to IMF estimates, the swap network among central banks, excluding those covered under regional financial agreements (RFAs), was worth U.S.$1.4 trillion at the end of 2019. As a key pillar of the "global financial safety net" [IMF (2016)], the lending capacity of swaps has exceeded the volume of short-term financing available through RFAs and the IMF. Although not all swap lines have been utilized since 2008, their role has expanded during the COVID-19 pandemic.

A central bank currency swap refers to a contractual agreement between two central banks. It allows central banks to swap their currencies with a commitment to reverse the transaction at a future date. Unlike long-term project finance provided by the World Bank and multilateral development banks, swaps are a source of short-term liquidity and effectively function as collateralized loans. They provide immediate, short-term access to foreign exchange at high volumes, bypassing lengthy decision making and disbursement processes. When used during emergencies, central bank swaps bolster the capacity of monetary authorities to provide liquidity to their banking systems; therefore, they are critical in calming financial investors' nerves.

In recent years, two economies have emerged as key players in the emergent international swap network: the U.S. and China. The actions of the U.S. are not surprising from a historical perspective. Since the end of World War II, the U.S. has been the leader and guarantor of the "rules-based international liberal order" [Ikenberry (2018)]. As early as the 1960s, the U.S. provided credit unilaterally to select countries in line with its economic and financial interests [McDowell (2017)]. U.S. policymakers have also intervened alongside the IMF, which has been the primary international lender of last resort since World War II, to prevent financial crises from derailing an increasingly globalizing economy [Helleiner (1995)]. For instance, during the 1980s debt crisis, the U.S. spearheaded an emergency lending program involving commercial banks, central banks, and the IMF [Sims and Romero (2013)]. In return for implementing what came to be known as 'Washington Consensus' or 'neoliberal' policies, developing economies received debt rescheduling and loans from the IMF. Similarly, during the 1990s East Asian crisis, the U.S. and the IMF took centerstage in rescuing countries facing currency and balance-of-payments crises. The U.S. Fed arranged a bridge loan for Thailand and persuaded private banks to roll over their short-term debts to South Korea [Carson and Clark (2013)]. The IMF provided around U.S.$35 billion to Thailand, Indonesia, and South Korea, exceeding all other multilateral and bilateral loans combined [IMF (2000)]. After the worst of the East Asian crisis was over, Time magazine (1999) pronounced Fed Chair Greenspan, Treasury Secretary Rubin, and Deputy Secretary Summers "The Committee to Save the World" and the IMF "the Committee's fire brigade."

Those days seem to be gone. In March 2023, the same Time magazine featured an article entitled, How China Became a Global Lender of Last Resort [Rajvanshi (2023)]. Aside from becoming the world's largest official creditor under its Belt and Road Initiative [Horn et al. (2021); Malik et al. (2021)], what has been remarkable is China's increasing role as a source of emergency lending – a role that has traditionally been played by the IMF with support from the U.S. For instance, according to The New York Times, China gave U.S.$40.5 billion to countries in distress in 2021 while the IMF lent U.S.$68.6 billion [Bradsher (2023)]. A significant part of China's emergency lending was disbursed through bilateral swap lines organized by China's central bank, the People's Bank of China (PBoC), with the remaining coming through as loans and deposits from Chinese state-owned banks and commodity enterprises [Horn et al. (2023b)].

This article explores the implications of the rise of China and bilateral swap lines for global financial governance. In particular, it explores whether these shifts suggest the emergence of a post-neoliberal global financial order. Neoliberalism refers to an ideology that upholds the market as "the main arbiter of economic outcomes" [cf. Mudge (2008)]. Spearheaded by Ronald Reagan and Margaret Thatcher in the 1980s, the institutionalization of neoliberalism required restructuring national economies in line with free market principles, thereby giving increasing power and authority to private individuals and institutions to govern market-led economic outcomes. In the Global South, this restructuring often occurred through policy-based lending and interventions imposed by the IMF and World Bank. Neoliberal reforms have led to the global integration of domestic markets, enabling multinational financial and non-financial corporations to expand and their profits to multiply. As private business has become the key driver of economic growth in the neoliberal era, policymakers have increasingly been subject to the discipline of domestic and Western-based foreign investors. This has often presented a paradox. While the gap between the haves and have-nots has widened under financial globalization, governments have had limited room to interfere with the workings of markets to promote social goals, refraining from any policy interventions that challenge private business interests.

The rise of China and the increasing prominence of bilateral swap networks complicate the governance of the neoliberal order in two ways. First, as bilateral agreements, swaps are selective and highly discretionary. They operate alongside the well-established, Western-based international financial institutions and legal infrastructures of the neoliberal order; yet, they diverge from the norms and ideals that underlie this order, such as multilateralism, the rule of law, and inclusive membership [Ruggie (1992)]. Second, swaps offer an alternative source of funding outside the IMF and do not involve ex-post conditionality typically associated with multilateral institutions. This has led some observers to conclude that national economies now enjoy greater policy space to achieve development and social goals that have been ruled out under the neoliberal order [Grabel (2019, p. 49)]. Indeed, China does not require neoliberal conditionalities, such as sound monetary policy and trade liberalization.

Do these developments suggest the decline of neoliberalism and the role of the U.S. as its guarantor? This article joins others in arguing that we increasingly see challenges to the once firm stronghold and legitimacy of the neoliberal order. The rise of China as a swap partner, for instance, has allowed national governments to bypass the IMF and other multilateral institutions and to escape their neoliberal conditionalities. In some cases, China's liquidity support has even enabled authoritarian or illiberal regimes to sustain themselves. In that sense, the rise of China has relaxed constraints on implementing policies and practices that diverge from neoliberalism. Nonetheless, questions remain around the long-term sustainability of China's bilateral swap agreements. Coupled with the continued U.S. dollar hegemony, this article views China as a limited threat to the U.S. in its role as a hegemon and guarantor of the global financial system. It claims that it is premature to pronounce the death of neoliberalism and the emergence of a post-neoliberal order.

2. U.S. swap lines and 'virtual apartheid'

To better understand the implications of the rise of China as a source of emergency lending, a brief overview of the U.S. Federal Reserve's swap network is helpful.

The U.S. Fed is a key player in the international swap network. Scholars and policymakers highlight the Fed swap lines as a significant mechanism to backstop the dollar-based international monetary order [Mehrling (2015); Tooze (2018); McDowell (2019a); Bordo (2021)] and argue that the Fed had become the world's de facto international lender of last resort since 2008 [McDowell (2012); Helleiner (2014); Bordo et al. (2015); Broz (2015); Duran (2015); Destais (2016)]. During the 2008 crisis, the Fed established swap lines with 14 central banks to resolve liquidity shortages in offshore markets and to stabilize the global banking system [Bahaj and Reis (2022)]. The Fed's swap partners included the central banks of ten advanced and four emerging economies (Brazil, Mexico, Singapore, and South Korea). The Fed provided liquidity amounting to U.S.$288 billion in September 2008, U.S.$534 billion in October, and a peak of U.S.$554 billion at the end of December, accounting for over 25% of the Fed's total assets [Bertaut and Pounder (2009)]. When the COVID-19 pandemic hit, the Fed resorted to swap lines again. The Fed provided unlimited funding to five central banks through its standing lines (Bank of Canada, Bank of England, Bank of Japan, European Central Bank, and Swiss National Bank) and established temporary swap lines to nine other central banks (central banks of Australia, Brazil, Denmark, South Korea, Mexico, New Zealand, Norway, Singapore, and Sweden). In May 2020, swap usage reached U.S.$449 billion [Choi et al. (2022)]. During both periods, Fed liquidity promoted the stability of the global financial system by alleviating funding pressure, reducing dollar borrowing costs and shortages, and bolstering confidence among market participants [Bahaj and Reis (2020); Eren et al. (2020); Bordo (2021); Bahaj and Reis (2022)].

Although benefiting the global economy, it is important to note that Fed swap lines have primarily been geared to shield the U.S. economy and monetary policy from adverse developments [McDowell (2012); Helleiner (2014); Hardie and Maxfield (2016); McDowell (2017); Hardie and Thompson (2021); Aizenman et al. (2022); Cassetta (2022); Pape (2022)]. As such, U.S. policymakers have been highly selective, leading to vast inequalities in the allocation of U.S. dollar liquidity. While the Fed has prioritized systemically important European economies with financial linkages to the U.S., only a handful of developing economies were allocated swap lines during both crises, and when it did, the allocation more often reflected the U.S.'s strategic and political concerns [Chey (2012); Destais (2016); Sahasrabuddhe (2019); Bordo (2021)]. In 2017, the governor of the Reserve Bank of India starkly described the situation as a "virtual apartheid" whereby "systemic central banks protect themselves and their self-interest" while emerging economies are "systematically denied access" [Patel (2017)].

Murau et al. (2022) propose a three-layered international monetary hierarchy based on the mechanisms by which other central banks access emergency dollar liquidity. These mechanisms are swaps with the Fed, the FIMA (Foreign and International Monetary Authorities) repo facility established in March 2020, and the Special Drawing Rights system administered by the IMF. For a privileged group of advanced economies that host financial institutions with deep financial interlinkages to the U.S., swaps confer unlimited credit and spending power from the Fed. The FIMA facility limits a country's borrowing capacity to its stock of U.S. Treasuries and cannot instill the same level of confidence among investors as swaps do. However, especially constrained are those economies without access to swaps or sufficient collateral. These economies are severely constrained in ameliorating financial distress since the IMF's current quota system and lending practices limit borrowers' room to maneuver during financial crises [Gallagher and Kozul-Wright (2022)].

3. China's swap lines at the service of debt repayment

Given persistent difficulties in accessing dollar liquidity, several emerging economies have turned to China. China has built an extensive swap network since 2008. In 2020, it had 31 bilateral swap lines out of 91 lines globally [Perks et al. (2021)]. This number increased to 38 in 2022, amounting to around 4 trillion renminbi (RMB) [Perez-Saiz and Zhang (2023)]. China's swap partners include several emerging economies, such as Brazil, Indonesia, Thailand, and Turkey, as well as a few advanced economies, such as Canada, the U.K., and the E.U. While many of these swap agreements were signed as early as 2009, several remained inactive until 2015.

According to the AidData dataset on China's emergency lending, the PBoC has provided U.S.$185 billion between 2000 and 2021 to 17 countries [Horn et al. (2023c, 2023b)]. This figure includes 'rollovers' whereby short-term swap loans, with de jure maturities of three to twelve months, are "extended again and again" to refinance maturing debts, "resulting in a de facto maturity of more than three years, on average" [Horn et al. (2023b, pp. 3 and 9)]. In addition to swaps, China has provided other forms of rescue lending, including short- and medium-term loans from Chinese state-owned banks and large cash payments from Chinese state-owned oil and gas companies. These rescue payments have amounted to U.S.$70 billion, less than half of the total bilateral swap drawings [Horn et al. (2023b)].

China's bilateral swaps are often viewed as a tool of "financial statecraft" [Armijo and Katada (2015)] whereby China employs swap lines strategically to achieve its foreign policy objectives [McDowell (2019b)], most significantly, to promote RMB internationalization [Prasad (2016); Eichengreen et al. (2018)]. Bilateral swaps also serve China's economic and financial interests. Specifically, Horn et al. (2023b) find that most recipients of PBoC swap liquidity (13 out of 17 central banks) have resorted to swap lines during periods of economic and financial distress, such as balance-of-payments crises or imminent sovereign defaults on external debt. These countries are heavily indebted to China under its Belt and Road Initiative (BRI) [Horn et al., (2021); Wooley (2023)], and they have drawn on U.S.$170 billion in emergency liquidity from the PBoC [Horn et al. (2023b)]. Although these debts have remained largely 'hidden' because of the secrecy surrounding the Chinese government's lending arrangements [Horn et al. (2021); Malik et al. (2021); Gelpern et al. (2023)], developing economies have increasingly faced payment difficulties since 2019 [Mosley and Rosendorff (2023)].

China's response to what has been called 'hidden defaults' has been twofold [Horn et al. (2022); Horn et al. (2023a)]. On the one hand, China has rolled back its expansive lending strategy, limiting new lending by Chinese banks and enterprises [Horn et al. (2023a)]. On the other hand, China has restructured the outstanding debt of low-income countries and offered emergency liquidity to middle-income countries to avoid any potential defaults. Middle-income countries account for 80% of China's total overseas loans; thus, their repayment difficulties or defaults pose significant balance sheet risks to Chinese banks [Horn et al. (2023a)]. To ensure that these economies are "sufficiently liquid to continue servicing their outstanding debts" [Horn et al. (2023a, p. p113)], China has provided bilateral swaps and other types of emergency loans. As Carmen Reinhart argues, "Beijing is ultimately trying to rescue its own banks. That's why it has gotten into the risky business of international bailout lending" [quoted in Wooley (2023)]. In this regard, China is similar to the U.S. in defending its economic and financial interests. However, unlike Fed swaps, which have targeted temporary liquidity shortages, PBoC swaps are repeatedly used for protracted balance of payments problems, making them similar to IMF bailouts [Horn et al. (2023b, p11-13)].

It is critical to highlight that because China's role as a lender of last resort is closely tied to its BRI lending, it is uncertain whether China will play a similar role in the future. China's lending to governments in the Global South has turned negative for the first time during 2019-2021 [Horn et al. (2023a)]. As current recipients gradually service their existing debts and new lending to emerging economies remains negative, the financial risks to Chinese banks would dissipate, which has been the main driver of Chinese rescue lending [Horn et al. (2023a)]. Therefore, China might no longer act as a lender of last resort.

4. Rise of China and illiberal regimes

While China's future role as a source of emergency lending remains uncertain, there is enough data on the effects of Chinese lending. Using Turkey as an example, this section shows how China's rise as a lender of last resort has enabled governments to bypass Western-led multilateral institutions of the neoliberal order and even created opportunities for illiberal regimes to sustain themselves.

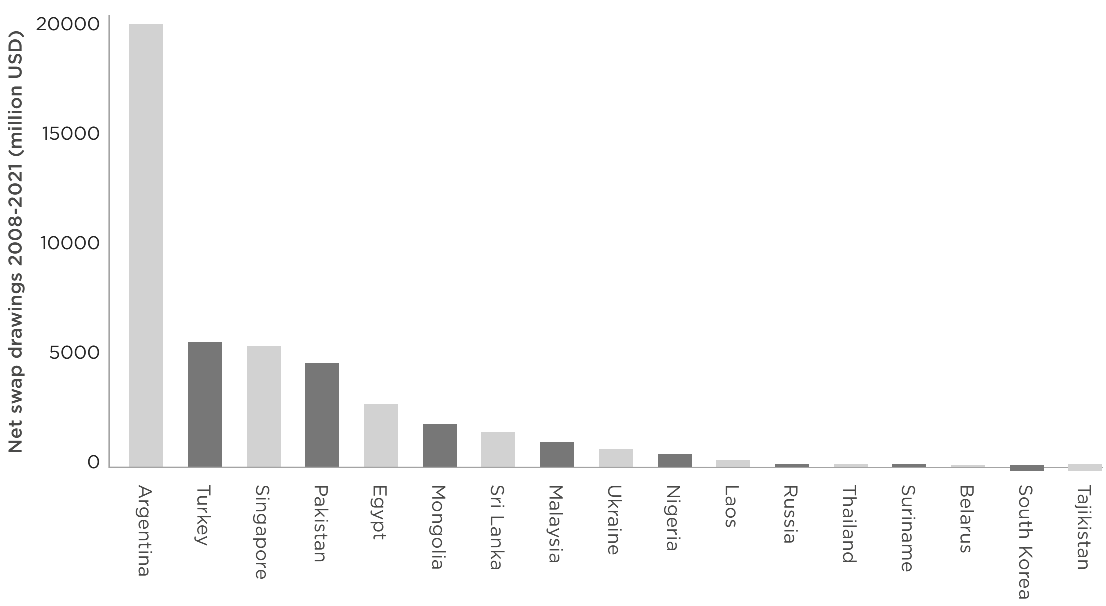
4.1 Buying time: Erdogan's reliance on PBoC swaps

China is one of Turkey's key swap partners, alongside Qatar, South Korea, and the United Arab Emirates. Turkey and China signed the first bilateral swap agreement in 2012 for 10 billion RMB (3 billion Turkish lira, TRY) [PBoC (2021)]. The agreement was then renewed in 2015 and 2019 [PBoC (2021)], and its funding capacity was increased to 35 billion RMB in June 2021 (approximately 46 billion TRY, equivalent to U.S.$5.5 billion) [PBoC (2021)].

Based on the AidData dataset, Turkey ranked second during 2008-2021 in terms of net PBoC swap drawings, which excludes rollovers (see Figure 1). In addition to swap liquidity, Turkey has received investment under China's Belt and Road Initiative since 2015. BRI investments have increased rapidly since 2017, accompanying Turkish President Erdogan's calls for building a strong economic and political relationship with China, amidst the growing anti-E.U. and anti-U.S. public sentiment after the coup attempt in 2016 [Chen (2020); Kutlay and Öniş (2021)].

Based on publicly available data, Turkey has drawn on its swap line with China during at least two periods of financial distress: November 2016 and June 2021. Both periods were marked by currency depreciation, declining central bank reserves, and a looming balance-of-payments crisis. The first drawing in November 2016 occurred amid portfolio outflows driven by heightened economic and political risks, following the coup attempt in July and credit rating downgrades. Capital flight caused significant distress for domestic banks

Figure 1: Total net PBoC swap drawings, 2008-2021 (U.S.$ million)



> *China cannot be relied upon to provide emergency lending to countries that are not indebted to its banks and enterprises, or whose financial instability does not adversely or directly affect Chinese creditors.*

and non-financial corporations with high levels of foreign-currency-denominated debt and heightened the risk of a balance-of-payments crisis, given already low foreign-currency reserves. The second drawing came in June 2021, amid Turkey's mounting economic problems stemming from Erdogan's growing control over the economy. Equipped with new powers and facing few checks and balances following Turkey's shift from a parliamentary to a heavily centralized presidential system in 2017, Erdogan gradually established control over Turkey's formally independent central bank. Between 2019 and 2022, Erdogan changed the central bank governor three times, pressuring the central bank to lower interest rates at all costs. A commitment to low interest rates was not only ideological. It supported Erdogan's macroeconomic populism and the political party AKP's clientelistic relationships; thus, it was critical to Erdogan's political survival. Erdogan's interventions fueled inflation and currency depreciation. To combat the depreciation of the lira without raising interest rates, policymakers resorted to different measures, including foreign exchange interventions, attracting foreign investment, and securing external finance through swap lines. As one Istanbul-based economist described to me, an "unsustainable economic system" was only "possible thanks to help from Qatar, Russia, and this and that" (interview, March 2023, Istanbul).

The limitations of publicly available data do not allow us to discern exactly how the Turkish central bank used the local currencies received through its swap agreements. However, as revealed during my interviews with financiers in 2023, the widespread conviction was that the Turkish central bank used the swap liquidity to boost its foreign exchange reserves, which was hoped would instill confidence in the economy and ensure against capital flight and financial instability. The Turkish central bank's gross reserves increased from around U.S.$87 billion in March to U.S.$111 billion in December 2021 [World Bank (2022)]. Erdogan commented on the rising reserves in September 2022, saying, "Many friendly countries are supporting us. Their lending strengthens our central bank" [Yenicag (2022)]. However, the net reserves – assets minus liabilities – remained well below U.S.$50 billion, and when swaps were excluded, they remained persistently negative throughout 2020 and 2021 [World Bank (2022)]. This raised concerns within the financial community.

Turkey's swap drawings, including the one with China, should be seen as part of a broader government effort to cushion the lira and avert a balance-of-payments crisis. Swaps have accompanied several other measures during this period to limit the lira's depreciation, most notably, various regulations that restricted access to foreign exchange for domestic financial and non-financial corporations. These regulations effectively served as "backdoor capital controls," in the words of one interviewee. To the extent that swap agreements have been successful in containing the collapse of the lira, it is reasonable to assume that they have helped Turkey's creditors. This includes China's banks and enterprises. At the same time, though, they have helped Erdogan's authoritarian regime stay in power, which, unsurprisingly, has been a reliable partner of the Chinese government since the mid-2010s. Erdogan was able to avoid turning to the IMF despite the economic turmoil over the past few years. The IMF not only represents Western dominance for Erdogan. More critically, the IMF involvement would likely bring intrusive conditionalities, undercutting extensive clientelistic relations between the AKP and its supporters and exposing the government to greater criticism from the public [Dreher et al. (2022); Cormier (2023)]. Instead of going to the IMF, Erdogan has grasped every financial opportunity to stabilize the economy. These 'non-Western' funding sources, including bilateral swaps, have expanded Erdogan's room to maneuver by easing Turkey's funding constraints. They have, therefore, helped prolong his populist authoritarian rule.

5. Implications for a post-neoliberal order

Examining the implications of the rise of China and bilateral swap lines for global financial governance, we can discern two clear dynamics:

1. The shift from multilateral to bilateral arrangements reflects that the rules by which the global financial system is governed are becoming more opaque, fragmented, and contested. The neoliberal order was governed by multilateral financial institutions and arrangements (IMF, World Bank, WTO). While these institutions unequivocally reflected the geopolitical and economic interests of their main shareholders, especially the U.S., they often upheld a set of rigid rules and regulations that prioritized the market in economic governance and restructured national economies according to its logic. By contrast, bilateral swap agreements are highly discretionary, and there is a lack of transparency regarding any tacit conditions that might be attached to them.
2. PBoC swaps have provided an alternative to IMF funding. To the extent that China's swap network allows governments to escape IMF conditionality, it has increased emerging economies' room to maneuver and their capacity to diverge from neoliberal orthodoxy through policies such as capital controls, government subsidies, and tariffs. While policymakers can use this emerging policy space to pursue development goals, it can also strengthen and prolong the rule of illiberal or authoritarian leaders. In either case, these experiments diverge from the neoliberal order, challenging its multilateral, rule-based, free market principles. When viewed in light of the recent developments in the U.S., it clearly amounts to a discontinuity with the neoliberal order.

Does this rupture imply the decline of U.S. hegemony? Not necessarily. The first issue relates to the long-term sustainability of China's bilateral swap agreements. As mentioned earlier, China cannot be relied upon to provide emergency lending to countries that are not indebted to its banks and enterprises, or whose financial instability does not adversely or directly affect Chinese creditors. In that sense, the PBoC is similar to the Fed in that its emergency lending is shaped by the financial interests of its domestic economy. The second issue relates to the continued U.S. dollar hegemony. Despite China's economic gains in the global economy and its efforts to internationalize the RMB, U.S. dollar hegemony has not (yet) been eroded. This limits the usefulness of PBoC swaps for their recipients. Unless there are agreements in place allowing local currencies to be converted into U.S. dollars, recipients are limited in terms of their ability to pay their debts or intervene in foreign exchange markets.

Where does this leave us? Despite the recent disruptions to the neoliberal order, including the rise of illiberalism in the U.S., the U.S. has historically had an interest in constructing and maintaining a liberal financial order. This was, in large part, informed by its foreign financing needs since the 1970s. Given its long-standing financial interests and the U.S. dollar's continued hegemony, it is reasonable to expect the U.S. to maintain support for a liberal global financial order in the near future. In this context, a major restructuring of the IMF's lending arrangements, including the issuance of new Special Drawing Rights, may strengthen the IMF's role as a lender of last resort. These efforts will be bolstered by the continued support of the U.S. financial sector and those of other European economies for financial liberalism. Until U.S. policymakers change course, though, the financial sector will have to develop strategies to deal with current illiberalism. Unless we see careful, coherent, and consistent actions to institute a post-neoliberal order, it seems premature to pronounce neoliberalism dead.

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