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Asymmetric Network Centrality, Monetary Hierarchies, and Hegemonic Persistence: A Structural Theory of US Dollar Weaponization in Sino–American Strategic Competition

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Abstract

This paper proposes a structural theory of monetary hegemony, drawing on network analysis, institutional political economy, and international relations to account for the enduring dominance of the US dollar despite escalating Sino–American rivalry. I contend that the dollar's supremacy rests less on raw economic output or military strength than on three interlocking mechanisms: first, an asymmetric centrality within global payment and information architectures; second, a hierarchical position in a tiered monetary system defined by unequal capacities for liquidity creation and safe asset provision; and third, deep-seated institutional lock-in effects that impose prohibitive exit costs on would-be challengers. Crucially, the argument posits that the weaponization of finance is not merely a discretionary policy tool but an emergent feature of network topology. Consequently, China's efforts to internationalize the renminbi face structural hurdles embedded in correspondent banking, messaging systems, and capital markets—barriers that mere economic expansion or bilateral swap lines cannot easily dismantle. By treating monetary hierarchies as both coordination mechanisms and instruments of geopolitical power, this analysis highlights the self-reinforcing dynamics that insulate incumbent currencies. This structural framework improves upon conventional hegemonic stability theory by showing how the financial architecture itself, rather than just the hegemon's choices, generates coercive leverage and asymmetric vulnerability. The findings suggest that because power is micro-founded in these network structures, de-dollarization is unlikely to occur through a sudden rupture, but will instead be a slow, fragmented process where economic rise does not automatically translate into monetary influence.

Keywords: monetary hierarchy; network centrality; dollar weaponization; financial sanctions; Sino-American relations; hegemonic stability; structural power; currency internationalization

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1. Introduction

The durability of the United States dollar as the anchor of global finance presents a resilient paradox. While the Bretton Woods era is long past, and the People's Republic of China has emerged as a peer competitor with GDP figures rivaling the US, the expected monetary transition has not materialized. Beijing has made explicit attempts to reduce its dependence on the dollar (Cohen, 2015; Eichengreen, 2011), yet the data regarding global reserves, trade invoicing, and transaction volume reveal a persistent, overwhelming preference for the greenback (Gopinath & Stein, 2021; Ilzetzki et al., 2019). We are left with a significant disconnect between the distribution of material economic capabilities and the hierarchy of the international monetary system.

Existing frameworks provide necessary, though insufficient, scaffolding to understand this stasis. Hegemonic stability theory has long linked currency status to the liquidity and stability provided by a preponderant state (Kindleberger, 1973; Gilpin, 1987). Others point to the structural advantages conferred by deep financial markets and the rule of law (Strange, 1988), or more recently,

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the coercive leverage derived from centrality in payment networks—what Farrell and Newman (2019) term "weaponized interdependence." However, these distinct approaches do not fully explain how the mechanics of financial infrastructure interact with state competition to harden the status quo against challengers.

This article proposes an integrated structural theory, synthesizing insights from network analysis, institutional economics, and international relations. I argue that monetary dominance is less a function of aggregate economic weight than a result of asymmetric centrality within layered financial infrastructures. The global monetary order relies on specific payment systems, correspondent banking chains, and clearing mechanisms characterized by high fixed costs and network externalities. When these network effects intersect with a stratified international system—where few currencies offer genuine safe assets—they create a path dependency that makes defection prohibitively expensive.

The utility of this framework is threefold. First, it offers microfoundations for monetary power, showing how the topology of payment and clearing networks translates into structural advantage. Rather than treating financial power as a byproduct of GDP, we see how the architecture of the system generates specific vulnerabilities. Second, it contextualizes the strategic logic of "dollar weaponization." US foreign policy increasingly leverages this infrastructure for coercion because the network structure amplifies targeted sanctions into systemic shocks, though this simultaneously incentivizes the search for alternatives. Finally, by viewing China's ambitions through this structural lens, we can identify precise architectural barriers to RMB internationalization that go beyond standard critiques of capital controls.

The discussion unfolds by first revisiting the limitations of current scholarship on currency internationalization. I then outline the theoretical framework, focusing on the interplay between network centrality and monetary hierarchy. Subsequent sections examine the mechanics of dollar weaponization and apply these concepts to the Chinese case, before concluding with implications for the future of systemic financial competition.

2. Theoretical Foundations: Monetary Power in International Political Economy

2.1. Hegemonic Stability Theory and Currency Dominance

Classical hegemonic stability theory, as articulated by Kindleberger (1973) and later developed by Gilpin (1987) and Keohane (1984), holds that stable international economic arrangements depend on a leading state both willing and capable of supplying public goods such as a reserve currency, accessible markets, and emergency liquidity during crises. Currency dominance, in this view, reflects the hegemon's structural position and its willingness to shoulder adjustment burdens when instability strikes. The dollar's rise following the Second World War fits this pattern closely: the United States commanded exceptional productive resources, maintained liquid capital markets, and credibly committed to currency convertibility, making dollar assets appealing to governments and private holders alike (Eichengreen, 2011).

This framework highlights important preconditions for currency internationalization. It rightly notes that network effects and increasing returns to scale in currency usage erect formidable obstacles for potential challengers—what scholars have called "inertia" in monetary systems (Krugman, 1980; Eichengreen & Flandreau, 2009). Historical transitions between dominant currencies, such as sterling's slow retreat before the dollar during the first half of the twentieth century, show that these shifts demand prolonged economic superiority and typically unfold across decades (Eichengreen, 2011).

Yet hegemonic stability theory proves less effective in addressing current monetary realities. For one, it has difficulty explaining why the dollar continues to dominate even as US economic weight has diminished. American output represented roughly 40% of world GDP in 1960 but stands near 24% today, while the dollar still accounts for more than 58% of global reserves (IMF, 2023). This gap indicates that currency leadership cannot be reduced to simple measures of economic scale.

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Moreover, the theory does not adequately clarify how hegemons actually wield monetary power. By framing currency provision mainly as a public service, it neglects the ways financial infrastructure can serve coercive ends—a dynamic now visible in American sanctions practice (Farrell & Newman, 2019; Zarate, 2013). Finally, the framework offers little detail on the strategies open to challengers or the particular hurdles they confront beyond aggregate size.

2.2. Structural Power and Financial Architecture

Susan Strange's (1988) notion of structural power provides a richer account by stressing how command over financial structures constrains the options available to other players. Unlike relational power, which functions through direct pressure or inducements, structural power operates by setting "the framework of the global political economy within which states relate to each other" (Strange, 1988, p. 25). In monetary matters, structural power stems from authority over credit generation, payment networks, and the regulatory institutions that govern cross-border finance.

This lens brings into focus institutional characteristics that confer lasting benefits on established currencies. Cohen (2015) shows that "currency statecraft" involves more than sound macroeconomic policy—it requires nurturing deep and liquid financial markets, building credible legal and regulatory systems, and embedding national currencies within global payment and settlement arrangements. The dollar draws strength from the unmatched liquidity of US Treasury securities, which serve as the premier safe asset and collateral globally; from the sophistication of American financial institutions and their regulatory environment; and from dense correspondent banking ties running through New York (Prasad, 2014; Gourinchas & Rey, 2007).

Recent work has broadened structural power analysis to underscore the role of international financial centers (IFCs) as hubs of infrastructural authority (Green & Gruin, 2021). IFCs do more than process transactions—they actively establish the conditions under which global finance operates through legal harmonization, market design, and concentrations of technical knowledge. The preeminence of London and New York as IFCs bolsters the use of sterling and the dollar respectively, producing cumulative agglomeration advantages. States aiming to internationalize their currencies face a stark choice: integrate into prevailing IFC networks and accept existing norms and oversight, or construct rival financial centers with similar depth and functionality—an undertaking that may span several decades (Green & Gruin, 2021).

Although structural power theory considerably sharpens our grasp of monetary dominance, it leaves important questions unresolved. Specifically, how do deep markets or strong institutions convert into instruments of geopolitical influence? When can these structural advantages be deliberately mobilized, and what limits constrain their deployment? Answering these questions calls for closer examination of the network characteristics inherent in financial systems.

2.3. Weaponized Interdependence and Network Centrality

Farrell and Newman's (2019) theory of weaponized interdependence offers important insights by examining how the topology of global infrastructure networks creates asymmetric vulnerabilities that states can exploit for strategic ends. Their argument is that globalization has produced networks with what they call "panopticon" and "chokepoint" effects: centralized nodes allow both surveillance (gathering information) and exclusion (blocking access). When states control these critical junctions, they can turn interdependence into a weapon by threatening denial of access or exploiting information advantages.

The theory highlights several mechanisms. First, hub-and-spoke network structures funnel information through central nodes, giving them surveillance capacities that peripheral participants cannot replicate. The SWIFT messaging system exemplifies this pattern: as the dominant platform for international payment instructions, SWIFT handles the overwhelming majority of cross-border financial transactions, granting the United States and European Union exceptional visibility into global financial activity (Farrell & Newman, 2019). Second, centralized clearing and settlement infrastructures create bottlenecks where exclusion imposes heavy costs on targets while demanding

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little effort from those doing the excluding. Dollar clearing through New York banks illustrates the logic: since most international dollar transactions eventually settle through correspondent accounts at a handful of major US banks, the US Treasury can effectively shut actors out of the dollar system by targeting these bottlenecks (Zarate, 2013).

Empirical work applying weaponized interdependence theory has traced its operation across various domains. US financial sanctions now depend more on exclusion from dollar clearing and SWIFT messaging than on conventional trade embargoes (Drezner, 2021). The extraterritorial scope of US sanctions—where third-party firms face penalties for dealing with sanctioned entities even when no US persons or territory are involved—stems from their reliance on dollar clearing facilities under US control (Nephew, 2018). This has sparked considerable geopolitical friction, including European attempts to create alternative payment channels for Iran trade (INSTEX) and China's development of the Cross-Border Interbank Payment System (CIPS) as a possible SWIFT substitute (Norrlof, 2020).

For all its analytical value, weaponized interdependence theory has limits when applied to monetary hierarchies. First, it concentrates mainly on coercive uses of network centrality rather than the wider structural benefits that centrality confers in routine, non-coercive settings. Network centrality lowers transaction costs for all participants, generating positive externalities that sustain dominance even when coercion is not being exercised (Kahn & Roberds, 2009). Second, the theory does not fully explain how network structures intersect with other dimensions of monetary power, especially the provision of safe assets and liquidity emphasized by structural power scholars. Third, weaponized interdependence theory says relatively little about when challengers can successfully construct alternative networks or when targeted actors can work around chokepoints.

2.4. Synthesis and Theoretical Gaps

These three theoretical traditions—hegemonic stability theory, structural power analysis, and weaponized interdependence—each shed light on different aspects of monetary dominance. Hegemonic stability theory rightly points to network effects and scale economies in currency use; structural power theory underscores institutional depth and market architecture; weaponized interdependence shows how network topology enables coercion. Still, important theoretical gaps persist.

First, existing theories do not adequately specify how these mechanisms connect and strengthen one another. Network centrality, market depth, and institutional sophistication are not separate variables but mutually constitutive: central network positions draw liquidity, which deepens markets, which strengthens institutions, which further cements network centrality. Grasping this feedback dynamic is crucial for explaining why hegemony persists.

Second, current scholarship offers limited analysis of the microfoundations of monetary power—the specific channels through which architectural features become strategic advantages. What precisely are the switching costs that lock users into established currencies? How do correspondent banking ties create path dependencies? What role do legal and regulatory structures play in amplifying network effects?

Third, existing theories provide insufficient guidance on the strategies open to challengers and the conditions under which they might prevail. If monetary hierarchies rest on network structures and institutional depth, what investments must challengers make to weaken incumbent advantages? Can regional currency arrangements serve as pathways to global currency status, or do they actually reinforce rather than challenge existing hierarchies?

The next section develops a synthetic framework that addresses these gaps by detailing how asymmetric network centrality, hierarchical monetary structures, and path-dependent institutional lock-in combine to produce unusual durability in currency dominance.

3. A Structural Theory of Monetary Hegemony

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3.1. Core Theoretical Claims

This paper puts forward a structural theory of monetary hegemony organized around three related propositions:

Proposition 1 (Network Asymmetry): International monetary systems take the form of hub-and-spoke networks in which central currencies hold privileged positions across payment, clearing, and information infrastructures. Centrality yields asymmetric advantages in several ways: (a) users of the central currency face lower transaction costs; (b) those who control key network nodes gain informational advantages by observing global financial flows; and (c) control over critical nodes translates into exclusionary power.

Proposition 2 (Hierarchical Structure): The international monetary system functions as a hierarchy, not a competitive market among equals. Currencies occupy distinct tiers depending on their ability to supply globally accepted safe assets and deep liquidity. Top-tier currencies benefit from mutually reinforcing dynamics: safe asset status draws reserve holdings, which deepens markets, which enhances liquidity, which in turn strengthens the currency's safe asset credentials.

Proposition 3 (Path Dependence and Lock-In): Network externalities, switching costs, and institutional complementarities generate strong path dependencies that keep users tied to incumbent currencies and payment systems. Lock-in operates through: (a) coordination benefits from using widely accepted currencies; (b) sunk costs in currency-specific infrastructure and expertise; and (c) legal and regulatory frameworks designed around incumbent currencies.

These mechanisms together account for the remarkable durability of monetary hierarchies. Challengers face the simultaneous task of building network centrality, establishing safe asset credentials, and overcoming path dependencies—a coordination problem of immense difficulty. The theory anticipates that when monetary transitions do occur, they will unfold gradually and unevenly, concentrating in particular geographic regions or functional domains rather than reshaping the system wholesale.

3.2. Network Centrality and Asymmetric Advantage

The network structure of international finance displays distinctive topological features that produce asymmetric distributions of power. Unlike decentralized networks where nodes connect directly to one another, international payments typically route through correspondent banking relationships arranged in hierarchical tiers (Aldasoro & Ehlers, 2018). Large international banks maintain correspondent accounts both with each other and with smaller regional banks, creating a hub-and-spoke architecture in which a handful of "money center" banks—clustered in New York, London, and other major financial centers—function as critical intermediaries for cross-border transactions (McGuire & von Peter, 2009).

Several forms of asymmetric advantage flow from this architecture. First, centrality lowers transaction costs through economies of scale and scope. Banks with extensive correspondent networks route payments more efficiently, offer better exchange rates, and provide more reliable settlement than peripheral institutions. These cost advantages attract further correspondent relationships, reinforcing centrality through positive feedback (Kahn & Roberds, 2009). Second, central nodes accumulate information advantages. Payment instructions flowing through correspondent accounts give central banks detailed knowledge of global financial flows—information useful for both commercial strategy and regulatory surveillance (Farrell & Newman, 2019). Third, centrality confers exclusionary power. Peripheral actors who depend on access to central nodes for international transactions face severe costs if excluded, costs disproportionate to the effort required to impose them (Drezner, 2021).

Dollar dominance in international payments both reflects and reinforces this network structure. Roughly 88% of foreign exchange transactions involve the dollar, far exceeding the US share of global trade or output (BIS, 2022). This dominance stems partly from the dollar's role as a vehicle currency: rather than exchanging directly between less liquid currency pairs, market participants typically trade through dollars, which concentrates liquidity and lowers transaction costs (Goldberg & Tille, 2008). Vehicle currency status creates powerful network effects since each additional user raises the value of the network for all participants—a dynamic that strongly favors incumbents (Krugman, 1980).

Payment messaging systems show even sharper centralization. SWIFT, the dominant platform for international payment instructions, processes over 40 million messages daily representing trillions of dollars in transactions (SWIFT, 2023). Though SWIFT itself is a cooperative owned by member banks, its centrality creates a de facto chokepoint: exclusion from SWIFT severely limits an entity's capacity to conduct international transactions, as Iranian banks learned after being disconnected in 2012 (Nephew, 2018). The technical and institutional barriers to building alternative messaging networks are substantial, requiring not just software platforms but also legal frameworks, standardized protocols, and widespread adoption—classic coordination problems that favor incumbents (Farrell & Newman, 2019).

Network centrality in clearing and settlement reinforces these patterns. Most international dollar transactions ultimately settle through correspondent accounts at a small number of New York banks, which serve as the final clearing layer for the global dollar system (McGuire & von Peter, 2009). This concentration means US authorities can effectively control access to dollar liquidity by regulating these chokepoints, a power exercised through sanctions designations, anti-money laundering enforcement, and regulatory pressure (Zarate, 2013). The extraterritorial reach of US financial regulation flows largely from this structural position: foreign banks seeking access to dollar clearing must comply with US regulatory requirements even for transactions with no direct US connection (Brummer & Yadav, 2019).

3.3. Monetary Hierarchy and Safe Asset Provision

Monetary dominance involves more than network topology alone—it also reflects a country's position within a tiered international monetary system marked by unequal abilities to supply globally acceptable safe assets and liquid markets. Though distinct from network centrality in their operation, these hierarchical features interact with network advantages to produce mutually reinforcing effects.

Cohen (2015) and Kirshner (1995) advance the notion of monetary hierarchy by emphasizing that currencies occupy different rungs in a prestige order determined by their acceptability, liquidity, and stability. At the apex sit top-tier currencies—presently the US dollar alone, with the euro occupying an uncertain second position—that fulfill all three traditional functions of money (medium of exchange, unit of account, store of value) on a global scale. Second-tier currencies operate within particular regions or specific market segments but lack worldwide reach. Third-tier currencies remain confined largely to domestic use, with minimal international role.

Hierarchies persist because of fundamental asymmetries in the provision of safe assets. A safe asset is a financial instrument that reliably holds its value, stays liquid under all market conditions, and enjoys broad acceptance as collateral (Caballero et al., 2017). US Treasury securities meet these criteria at a scale unmatched by any rival: they offer extraordinary depth (over $25 trillion outstanding), liquidity (daily trading volumes reaching hundreds of billions), and safety (backed by the full faith and credit of the US government and issued in the world's preeminent currency) (Gourinchas & Rey, 2007; Pozsar, 2022). No other sovereign debt market comes close to replicating these attributes.

The provision of safe assets generates self-perpetuating dynamics that cement hierarchy. Reserve managers seeking secure stores of value concentrate their holdings in Treasury securities, which deepens markets and enhances liquidity. Greater liquidity draws additional investors—including private actors who use Treasuries for collateral and cash management. Deeper markets lower transaction costs and dampen price volatility, making Treasuries even more appealing as safe havens. This feedback loop—where safe asset status attracts demand, demand deepens markets, and deeper markets reinforce safe asset credentials—erects formidable barriers for would-be challengers (Caballero et al., 2017).

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Hierarchy extends well beyond government securities to encompass entire financial ecosystems. Dollar dominance means global banks hold dollar liquidity buffers, corporations maintain dollar deposits, and financial contracts are written in dollars even when no American party is involved (Gopinath & Stein, 2021). This produces a "dollar funding gap" in which non-US banks accumulate dollar assets that exceed their dollar liabilities, necessitating continuous access to dollar funding markets (Shin, 2012). When stress hits, this gap creates acute demand for dollar liquidity that only the Federal Reserve can ultimately satisfy through swap lines or emergency facilities—a capability that reinforces dollar centrality (Bahaj & Reis, 2020).

China faces steep obstacles in challenging this hierarchy. Though large in absolute terms, the Chinese government bond market lacks the depth, liquidity, and legal safeguards that global investors require (Prasad, 2021). Capital controls restrict foreign access, reducing liquidity and preventing full integration into international portfolios. Legal uncertainties around property rights and contract enforcement deter reserve managers, who demand absolute confidence in asset safety (Setser & Gelpern, 2006). Even if China were to liberalize capital flows and strengthen legal institutions, constructing the surrounding ecosystem—repo facilities, derivatives for hedging, settlement infrastructure—would demand years of sustained development (Green & Gruin, 2021).

3.4. Path Dependence and Institutional Lock-In

Network centrality and hierarchical positioning generate powerful path dependencies that lock users into incumbent currencies and impose prohibitive switching costs on potential defectors. Lock-in effects operate through multiple, overlapping channels that create formidable transition barriers.

Coordination benefits from currency use exhibit strong network externalities. A currency's utility as a medium of exchange rises with the number of counterparties willing to accept it—a classic network effect (Kiyotaki & Wright, 1989). Because the dollar already enjoys widespread use, adopting it for international transactions minimizes exchange rate risk and search costs compared to less common alternatives. This creates a coordination dilemma for potential defectors: switching to an alternative currency imposes costs unless a critical mass of trading partners makes the same move simultaneously (Dowd & Greenaway, 1993). Historical currency transitions suggest that overcoming this coordination problem demands sustained economic dominance by the challenger and often requires external shocks that disrupt prevailing patterns (Eichengreen & Flandreau, 2009).

Sunk costs in currency-specific infrastructure and expertise erect additional switching barriers. Firms engaged in international business develop specialized capabilities for managing particular currencies: treasury operations for hedging currency risk, banking relationships for accessing currency markets, and expertise in relevant regulatory frameworks. These capabilities represent sunk investments that would need duplication for alternative currencies (Goldberg & Tille, 2008). Financial institutions similarly invest in currency-specific infrastructure—trading systems, risk management models, compliance frameworks—that cannot be costlessly redeployed (Cohen, 2015).

Legal and regulatory frameworks privilege incumbent currencies through multiple mechanisms. International contracts typically specify governing law and dispute resolution forums, with New York and English law dominating financial transactions (Winn, 2016). This legal infrastructure embeds dollar and pound sterling usage into contractual relationships that endure for decades. Regulatory frameworks similarly favor incumbents: Basel banking standards, for instance, treat major currency holdings as more liquid than emerging market currencies, creating regulatory incentives to concentrate holdings in dollars and euros (BCBS, 2013). Accounting standards, tax codes, and financial regulations all incorporate assumptions about currency usage that tilt toward established currencies.

Institutional complementarities create interdependencies between currency usage and other economic structures. Dollar dominance interacts with the structure of global commodity markets (most commodities are priced in dollars), the organization of international production networks (which often involve dollar-denominated trade credit), and the architecture of financial regulation (which assumes dollar centrality) (Gopinath et al., 2020). These complementarities mean that moving

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away from the dollar would require coordinated changes across multiple domains—a collective action problem of extraordinary complexity.

Path dependence theory predicts that lock-in effects produce hysteresis in currency usage: temporary shocks or policy changes have limited long-run effects because users revert to established patterns once disturbances subside (David, 1985). Only sustained, large-scale disruptions can overcome path dependencies and enable systemic transitions. This helps explain why dollar dominance has persisted despite relative US economic decline, periodic crises in American financial markets, and deliberate efforts by rivals to promote alternative currencies.

3.5. Synthesis: The Durability of Monetary Hierarchies

Bringing together these three mechanisms—network centrality, hierarchical structure, and path dependence—clarifies why monetary hierarchies prove so durable. Each mechanism creates barriers to entry for challengers, and their interaction produces multiplicative rather than merely additive effects.

Network centrality and safe asset provision reinforce one another: central network positions attract liquidity, which deepens markets and enhances safe asset credentials, which attracts additional reserve holdings, which further entrenches network centrality. Path dependencies lock in these advantages by raising switching costs and creating coordination problems for potential defectors. What emerges is a system with strong equilibrium properties: absent extraordinary shocks, users rationally maintain incumbent currency usage even when alternatives might offer marginal advantages.

This structural account provides superior explanatory power compared to conventional theories. Unlike hegemonic stability theory, it explains persistence despite relative decline by demonstrating how architectural features generate advantages independent of aggregate economic size. Unlike pure structural power theory, it specifies the microfoundations of monetary power in network topology and market structure. Unlike weaponized interdependence theory alone, it reveals how coercive capacity derives from broader structural advantages rather than simply strategic deployment.

The theory yields several testable predictions. Currency transitions should unfold gradually and unevenly, concentrated initially in specific geographic regions or functional domains where network effects are weaker. Challengers should find it easier to gain currency usage in bilateral trade relationships than in multilateral financial transactions, which exhibit stronger network effects. Successful currency internationalization should require simultaneous progress across multiple dimensions—network building, safe asset development, and institutional reform—rather than success in any single domain. External shocks that disrupt existing networks (such as financial crises or geopolitical ruptures) should create windows of opportunity for challengers, though path dependencies will limit the extent of transition absent sustained follow-through.

The sections that follow apply this theoretical framework to analyze dollar weaponization and China's challenge to monetary hegemony.

4. Dollar Weaponization: Mechanisms and Limits

4.1. The Rise of Financial Sanctions

Over roughly the past twenty years, the strategic use of financial infrastructure for coercive ends—what is now widely described as dollar weaponization—has moved to the center of US foreign policy practice. The Treasury Department's Office of Foreign Assets Control (OFAC) has steadily widened its sanctions net, going from fewer than 1,000 designated entities in 2001 to more than 9,000 by 2023 (US Treasury, 2023). Rather than relying primarily on broad trade embargoes, contemporary sanctions increasingly work through exclusion from dollar clearing and key payment messaging systems, marking a shift from "smart sanctions" aimed at specific actors to a more systemic form of "financial warfare" that leverages the backbone of global finance (Zarate, 2013; Drezner, 2021).

The structural perspective developed in the previous sections helps explain why these tools have become so prominent. Concentrated centrality in payment and clearing networks creates chokepoints where exclusion can be extremely costly for targets yet relatively easy to implement for US authorities. Because a large share of cross-border transactions ultimately runs through a limited set of correspondent banks in New York, Washington can effectively cut off targeted entities from much of the global financial system by constraining access to these nodes (Farrell & Newman, 2019). The extraterritorial bite of such measures—where non-US firms face penalties even in the absence of a direct US nexus—stems from their need to tap dollar clearing arrangements that fall under US jurisdiction (Brummer & Yadav, 2019).

Several prominent episodes illustrate how this works in practice. The 2012 removal of Iranian banks from SWIFT and from dollar clearing channels imposed acute economic strain and was widely seen as a factor pushing Tehran toward the Joint Comprehensive Plan of Action (Nephew, 2018). Sanctions on Russian banks and sovereign debt after the 2014 annexation of Crimea showed the reach of dollar-based financial pressure, although Russia's subsequent efforts to reroute payments and increase the use of non-dollar currencies also exposed important limits (Connolly, 2018). The sweeping measures imposed after Russia's full-scale invasion of Ukraine in 2022—including the freezing of central bank reserves and the exclusion of major Russian banks from SWIFT—marked an unprecedented use of financial infrastructure as a strategic instrument (McDowell, 2023).

4.2. Mechanisms of Coercive Leverage

Within this structural setting, three distinct mechanisms of coercive leverage can be identified, each operating at a different layer of the financial system.

Primary sanctions apply directly to listed individuals, firms, or institutions by forbidding US persons from dealing with them and freezing any assets under US jurisdiction. On paper, these measures appear narrowly targeted. In practice, dollar centrality magnifies their impact: because so many international transactions involve dollar payments or settlement through US correspondent banks, primary sanctions often restrict a target's ability to operate globally, even in transactions where neither party is American (Zarate, 2013). The bite of these sanctions varies with the target's reliance on dollar-denominated trade and finance.

Secondary sanctions extend this logic by threatening penalties against third parties that transact with designated entities, even when there is no direct US link. They hinge on correspondent banking relationships. Foreign banks that continue to serve sanctioned clients risk losing access to their US correspondent accounts, which would mean losing the ability to clear in dollars (Brummer & Yadav, 2019). Since dollar clearing remains essential for most international banks, the vast majority of institutions comply with secondary sanctions despite their extraterritorial character. This dynamic shows how network centrality can be converted into coercive leverage: control over crucial nodes allows the United States to impose costs on actors far removed from its own jurisdiction.

Systemic sanctions operate at the level of the infrastructure itself, with exclusion from SWIFT as the clearest example. Although SWIFT is formally a Belgian cooperative rather than a US agency, US and European political pressure led to the disconnection of Iranian banks in 2012 and selected Russian institutions in 2022 (Farrell & Newman, 2019; McDowell, 2023). Being cut off from SWIFT severely impairs a bank's capacity to conduct international business because alternative messaging systems lack its reach, standardization, and network effects. This configuration produces a kind of "panopticon" effect: centralized infrastructure enables surveillance and control over global financial flows to a degree that would be difficult to achieve through bilateral ties alone.

4.3. Structural Limits and Blowback Effects

The same structural features that make dollar weaponization effective also impose limits and generate potential blowback that may, over time, weaken the foundations of US monetary dominance.

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To begin with, sanctions work best where targets are heavily dependent on dollar-denominated transactions and lack credible alternatives. More sophisticated states and firms can take steps to reduce this exposure. Common strategies include building bilateral currency arrangements that bypass dollar clearing—as in parts of China–Russia energy trade—accumulating reserves in other major currencies to lessen reliance on dollar liquidity, and developing alternative payment channels (Connolly, 2018). The success of these measures depends on the size and openness of the targeted economy, its trade structure, and its tolerance for the efficiency losses associated with less liquid currencies and thinner markets.

A second limit arises from the incentives for systemic circumvention that follow from frequent sanctions use. The European Union's attempt to establish INSTEX (Instrument in Support of Trade Exchanges) to facilitate non-dollar trade with Iran—ultimately modest in its effects—was nonetheless a clear signal of European unease with US sanctions overreach (Geranmayeh & Lafont Rapnouil, 2019). China's development of the Cross-Border Interbank Payment System (CIPS) and broader push for renminbi internationalization similarly reflects a desire to reduce vulnerability to dollar-based pressure (Norrlof, 2020). These initiatives confront the substantial structural advantages enjoyed by the dollar, but they point toward long-term efforts to chip away at US centrality.

Third, the politicized use of financial infrastructure can erode the perception of the dollar as a neutral safe asset. Central banks that hold US dollar reserves do so on the assumption that these assets are secure and can be mobilized in times of stress. The 2022 freezing of Russian central bank reserves—although grounded in existing sanctions law—demonstrated that even sovereign holdings are not immune from political decisions (McDowell, 2023). This episode is likely to reinforce diversification strategies among other reserve holders, particularly in parts of the Global South that have been recurrent targets of US sanctions (Drezner, 2021).

Finally, the network effects that underpin dollar weaponization depend on maintaining broad participation in dollar-centered systems. If the perceived overuse of sanctions pushes major actors to exit or to build viable alternatives, the leverage derived from network centrality will gradually shrink. This creates a tension between maximizing short-term coercive impact and preserving the long-term foundations of monetary primacy—a trade-off often described as a "weaponization dilemma" (Norrlof, 2020).

4.4. Implications for Sino–American Competition

The reach and limits of dollar weaponization matter directly for how strategic rivalry between the United States and China unfolds. Because Chinese banks and firms rely heavily on dollar clearing and the SWIFT network, Washington holds considerable coercive leverage over them. Broad financial sanctions on leading Chinese banks would sharply disrupt China's trade and investment flows, since much of this activity is invoiced in dollars or passes through correspondent links with US institutions (Setser, 2020).

Using this leverage at scale, however, would entail very high costs for both sides and for the wider global economy. China is deeply embedded in transnational production networks, so cutting Chinese firms off from dollar funding would send shock waves through supply chains worldwide. At the same time, dense bilateral financial ties—including China's holdings of more than 800 billion US dollars in Treasury securities and substantial US corporate exposure in China—create a web of interdependence that tempers the aggressive use of financial sanctions (Setser & Gelpern, 2006).

These mutual exposures have shaped both governments' approaches. Washington has so far concentrated on targeted measures against particular Chinese firms, such as Huawei and ZTE, and selected individuals, while steering clear of sweeping sanctions that could destabilize the broader system (Harrell et al., 2018). Beijing, in turn, has stepped up efforts to curb dollar dependence through renminbi internationalization, alternative payment infrastructures, and bilateral currency arrangements, yet has avoided highly confrontational steps that might trigger an abrupt financial crisis (Prasad, 2021).

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From the perspective developed here, this configuration points to a pattern of gradual and uneven de-dollarization rather than a sudden break. China is likely to notch incremental gains in specific niches—bilateral trade settlement, regional payment schemes, and digital currency projects—while the dollar continues to dominate in multilateral finance, where network effects are most entrenched. The speed and scope of any shift hinge on the structural factors examined in the next section.

5. China's Challenge: Structural Barriers to Monetary Transition

5.1. The RMB Internationalization Project

Since 2009, Beijing has actively sought to elevate the Renminbi (RMB) from a purely domestic unit to an international currency. This strategy began with the authorization of trade settlements and the systematic establishment of bilateral currency swap lines (Yu, 2014). On the surface, the campaign has yielded measurable results. By 2023, the RMB accounted for roughly 3.2% of global payments, securing its position as the fifth most active currency. Furthermore, the Cross-Border Interbank Payment System (CIPS) now processes an annual volume exceeding $12 trillion, and more than 30 central banks have incorporated RMB into their reserves (SWIFT, 2023; People's Bank of China, 2023). In the technological domain, the People's Bank of China has moved aggressively on the digital yuan, seeking a first-mover advantage in central bank digital currency infrastructure (Prasad, 2021).

Yet, these advances have not significantly eroded the dollar's hegemonic status. The disparity is stark: the dollar comprises 58.4% of global reserves against the RMB's 2.7%. Similarly, while greenback-denominated invoicing covers over 80% of trade, RMB invoicing struggles to breach the 5% threshold (IMF, 2023; Gopinath & Stein, 2021). The persistence of this gap—despite China's status as the world's leading trading nation and second-largest economy—highlights the difference between economic weight and monetary authority.

5.2. Network Barriers and Path Dependencies

Structural analysis suggests that network externalities create a high barrier to entry for challenger currencies. The most immediate obstacle lies in the path dependence of correspondent banking. Global financial institutions have spent decades integrating dollar-based operations into their risk management and settlement architectures. Shifting these deeply embedded systems to accommodate the RMB involves significant sunk costs and uncertain utility, particularly given the currency's comparative lack of liquidity and the friction of capital controls (Green & Gruin, 2021).

Payment systems exhibit similar inertia. The dominance of SWIFT is not necessarily a product of technical superiority, but of universal adoption. It functions as a hub where connectivity begets further connectivity. CIPS, conversely, faces a coordination problem. Banks have little incentive to join a platform their counterparties do not use (Norrlof, 2020). Without the ability to impose regulatory mandates outside its own borders, China struggles to generate the critical mass required to overcome these switching costs.

Furthermore, the dollar's role as a vehicle currency creates a self-reinforcing liquidity loop. In foreign exchange markets, the dollar acts as the standard intermediary—facilitating trades between pairs like the Thai baht and Brazilian real—because it offers the tightest spreads and lowest transaction costs (Goldberg & Tille, 2008). This efficiency attracts volume, which in turn deepens liquidity, making the dollar even more efficient. For the RMB to disrupt this cycle, it would need to offer comparable liquidity across all major currency pairs, a scenario currently precluded by the immaturity of China's financial markets.

5.3. Safe Asset Deficits and Market Depth

Beyond the mechanics of exchange, the RMB is constrained by a deficit in safe asset provision. While the Chinese government bond market exceeds $20 trillion, it does not function as a global safe haven (Caballero et al., 2017). Foreign participation is capped by capital controls, limiting the liquidity depth necessary for large-scale institutional investment. More critically, the legal and institutional frameworks governing these assets do not yet offer the absolute predictability regarding property rights and regulatory stability that reserve managers demand (Prasad, 2021).

Even in a hypothetical scenario of capital account liberalization—which Beijing resists to maintain policy autonomy—credibility is not instantaneous. The status of a safe asset is historical; it is accrued through long durations of stability rather than announced by decree (Gourinchas & Rey, 2007). US Treasuries underpin the global system because of a multi-decade track record of open markets and reliable debt service.

This issue of depth applies to the broader financial ecosystem. The dollar's utility is amplified by vast private markets in corporate bonds, commercial paper, and derivatives, which allow investors to tailor risk and return profiles (Pozsar, 2022). China's financial system, though expanding, lacks this institutional thickness. Developing the necessary regulatory sophistication and legal protections to support such complex markets is a slow, evolutionary process that cannot be easily accelerated (Green & Gruin, 2021).

5.4. Political and Institutional Constraints

The internationalization of the RMB faces profound checks from domestic political imperatives and institutional realities. At the core lies the retention of capital controls, a mechanism Beijing employs to safeguard financial stability and maintain autonomy over monetary policy. This reflects the classic "trilemma" of international finance: the impossibility of simultaneously securing a fixed exchange rate, free capital movement, and independent monetary policy (Obstfeld et al., 2005). China's strategic preference has consistently favored exchange rate management and policy independence over the unrestricted mobility of capital—a prioritization that inherently caps the global utility of its currency.

Any move toward full capital account liberalization would leave China vulnerable to the volatility that often plagues emerging markets, such as sudden capital stops or flight and currency crises (Rey, 2015). Given the domestic context—characterized by substantial debt loads, a sprawling shadow banking sector, and a state-centric financial apparatus—authorities have valid reasons to fear that premature opening could precipitate systemic instability. Consequently, a fundamental tension persists: while currency internationalization demands openness, the associated risks to stability are currently too high for Chinese leadership to countenance.

Institutional architecture provides a second layer of constraint. The credibility of a global currency is typically anchored in central bank independence, policy transparency, and the rule of law—features investors generally ascribe to developed democracies (Broz, 2002). The Chinese political model, where the Communist Party retains oversight of key institutions including the People's Bank of China, inevitably raises questions regarding policy predictability and the sanctity of property rights. Despite notable progress in regulatory frameworks, international investors retain a degree of skepticism about asset security in a system where political authority can supersede legal protections (Prasad, 2021).

5.5. Strategic Alternatives and Incremental Progress

Cognizant of these structural hurdles, Beijing has adopted strategies designed to circumvent, rather than directly confront, American financial hegemony. By establishing bilateral currency swap lines, China reduces reliance on the dollar for specific trade corridors, sidestepping the coordination difficulties inherent in a wholesale currency transition (Yu, 2014). Similarly, regional frameworks—such as the Asian Infrastructure Investment Bank and financing mechanisms attached to the Belt and Road Initiative—are fostering pockets of RMB usage without necessitating immediate global adoption (Prasad, 2021).

The development of the digital yuan (e-CNY) represents a distinct, technological front in this effort. Digital currency offers tangible benefits for cross-border settlements, including lower transaction costs and increased speed, alongside the state's interest in enhanced monitoring (Prasad, 2021). If adoption scales, this infrastructure could theoretically bypass traditional correspondent banking networks, thereby eroding the centrality of the dollar system. Yet, the e-CNY is not immune to network effects or coordination challenges; furthermore, apprehensions regarding privacy and state surveillance may severely dampen its appeal outside of China's immediate sphere of influence.

Viewed through the lens of structural theory, these maneuvers suggest a trajectory of gradual, fragmented progress rather than a rapid systemic shift. We can expect China to cultivate RMB usage in specific geographic zones—primarily Asia—and functional areas, such as commodity trade with sanctioned states like Russia or Iran, where political motivations to de-dollarize are acute. However, supplanting the dollar in multilateral financial transactions remains unlikely. In that domain, where network effects are most potent and the demand for safe assets is highest, the RMB will likely remain a secondary player absent deep reforms to capital account openness and legal institutions.

6. Conclusions: Theoretical Implications and Future Trajectories

6.1. Theoretical Contributions

The structural theory of monetary hegemony advanced here offers a synthesis of network analysis, institutional economics, and international relations to account for the persistence of dollar dominance. By moving beyond conventional explanations that treat monetary power as a mere derivative of aggregate economic size or military capability, this framework isolates the specific architectural features of financial systems that generate asymmetric advantages.

Crucially, this approach specifies the microfoundations of monetary power. It demonstrates that network topology and hierarchical market structures are not neutral backgrounds but active drivers of coercion and influence. The dominance of the dollar is sustained not just by policy, but by the interaction of correspondent banking networks, payment system structures, and the provision of safe assets. These elements create a web of path-dependent institutions that lock in advantages independent of immediate hegemon choices, even if they are often strategically leveraged for statecraft.

Furthermore, the exceptional durability of these monetary hierarchies stems from mutually reinforcing feedback loops. Network centrality naturally attracts liquidity, which deepens markets and enhances the credentialing of safe assets; this subsequently attracts reserve holdings, further entrenching the initial centrality. These multiplicative interactions create an equilibrium that is highly resistant to change. Consequently, the system creates coordination problems and high switching costs for potential defectors, allowing the status quo to survive even amidst shifts in relative economic power.

This perspective also clarifies the logic and limitations of dollar weaponization in contemporary US foreign policy. Coercive leverage is a structural byproduct of network centrality and the lack of viable alternatives for targets. Yet, this creates a distinct trade-off: extensive weaponization accelerates incentives for circumvention and introduces political risk into the currency's safe asset status. There is a fundamental tension between the short-term effectiveness of coercion and the long-term preservation of the structural dominance that makes such coercion possible.

Finally, this structural account explains the formidable obstacles facing China's challenge to the status quo. The barriers to RMB internationalization are not merely issues of capital controls or financial underdevelopment, but are deeply rooted in network effects and path dependencies. These are structural hurdles that cannot be cleared simply through economic growth or isolated policy reforms. We should therefore anticipate a pattern of gradual, uneven progress in specific functional domains rather than a rapid or systemic monetary transition.

6.2. Policy Implications

These theoretical insights bear directly on current debates regarding monetary statecraft and the international financial architecture.

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For the United States, the analysis underscores the tension between tactical sanctioning and strategic hegemony. The aggressive use of financial sanctions encourages rivals to develop alternative payment rails, potentially eroding the network advantages that underpin American power. To preserve long-term centrality, policymakers must weigh the immediate utility of sanctions against the cumulative degradation of the dollar's universality. The theory implies that a restrained, targeted application of sanctions is more likely to preserve coercive capacity than comprehensive financial warfare, which ultimately fosters systemic circumvention.

For Beijing, the structural reality suggests that a frontal assault on dollar dominance is unlikely to succeed given the current institutional lock-in. A more viable strategy involves cultivating RMB usage in distinct niches—such as bilateral trade settlements, regional financial arrangements, or digital currency initiatives—where network effects are less overwhelming and switching costs are manageable. However, achieving genuine monetary parity would require deep domestic reforms in legal institutions and capital account openness, steps that leadership has so far been hesitant to take due to stability concerns.

At the systemic level, these dynamics point toward a risk of monetary fragmentation. If Sino-American competition results in partially decoupled financial spheres, the global economy faces the loss of significant network efficiencies. While regional currency blocs or alternative payment systems may offer states greater strategic autonomy and reduced vulnerability to weaponization, this security comes at the price of reduced economies of scale and higher transaction costs. The emerging landscape will likely be defined by this difficult trade-off between financial efficiency and strategic sovereignty.

6.3. Limitations and Avenues for Inquiry

While a structural approach provides considerable leverage in explaining currency dominance, acknowledging its boundaries helps clarify where future scholarship might expand the debate. First, by privileging systemic factors—such as network topology and institutional stickiness—the theory inevitably downplays the role of agency. It treats states largely as actors reacting to constraints rather than strategists who might actively reshape them. Subsequent research needs to unpack how statecraft interacts with these structural realities. We need to better understand the conditions under which determined policy choices can erode, rather than merely accommodate, the barriers of an entrenched monetary order.

Furthermore, empirical reliance on the contemporary Sino-American dyad limits generalizability. To stress-test the framework, we must apply it to other historical transitions, most notably the interwar shift from Sterling to the Dollar or the consolidation of the Eurozone. Comparative historical analysis would clarify whether the mechanisms identified here are universal features of monetary competition or specific to the current era of financialization. It could also illuminate the role of external shocks—wars or systemic crises—in accelerating transitions that structural inertia would otherwise arrest.

The treatment of technology as an exogenous variable also warrants critique. Financial innovation is rapidly altering the architecture of exchange. We cannot assume that blockchain applications and decentralized finance will simply replicate existing correspondent banking networks; they may fundamentally reconfigure the topology of payments. Future inquiries should examine whether these technologies actually lower the barriers to entry for challenger currencies or if they merely transpose old network effects into new digital environments.

Relatedly, the analysis restricts itself to state-issued money, yet the proliferation of private digital assets, including stablecoins, introduces non-state actors into the hierarchy. It remains an open question whether private instruments face the same hurdles of legitimacy and liquidity as sovereign currencies, or if they can bypass state-centric bottlenecks entirely. The reaction of central banks to these private challengers will likely become a defining feature of the evolving monetary landscape.

Finally, a purely materialist account risks overlooking the ideational dimensions of money. Currency adoption is rarely a matter of cold economic calculation alone; it involves questions of political alignment and perceived fairness. Future work should integrate these normative factors, exploring how challengers might utilize appeals to sovereignty or anti-hegemonic sentiment to offset their structural disadvantages.

6.4. Concluding Reflections

The international monetary system is currently navigating a period of significant friction, yet the data suggests continuity rather than immediate rupture. The United States maintains a formidable position, anchored not merely by GDP but by the deep plumbing of global finance—centrality in payment networks, the unparalleled depth of its asset markets, and institutional inertia. Consequently, China's efforts to internationalize the RMB face structural headwinds that cannot be neutralized simply through trade expansion or political will. We are likely witnessing a slow fragmentation in specific sectors rather than a wholesale displacement of the incumbent.

This durability of the status quo has profound implications for the distribution of power in the international system. Monetary hierarchy dictates who bears the burden of adjustment and who enjoys the autonomy of policy independence. As long as the dollar retains its centrality, the United States holds a unique form of structural power. However, this capacity is finite. The aggressive use of financial channels for coercive statecraft creates a paradox: overuse of the weapon incentivizes the very diversification that American policymakers hope to prevent.

Ultimately, understanding these dynamics requires us to abandon the simplistic equation of aggregate economic size with currency dominance. As the structural theory demonstrates, monetary power is embedded in the complex architecture of market infrastructures and network dependencies. Recognizing these path-dependent mechanisms is essential for grasping why the current order remains so resilient and what specific, high-cost barriers any challenger must dismantle to alter the system.

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