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Currency Power in International Political Economy: From International Monetary Power to Currency Statecraft

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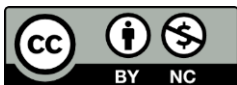
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ABSTRACT

Currency power – the capacity of an international-currency issuer to derive autonomy, influence, and coercive leverage from non-resident use of its currency – is a central but conceptually unstable category in international political economy (IPE), oscillating between identification with foreign-exchange policy instruments, a residual descriptor of a currency's weight in global finance, and an undifferentiated label for monetary state agency. The indeterminacy has become operationally consequential under three concurrent conditions: the weaponization of financial interdependence, the empirical re-mapping of the dollar's roles after the 2020–2022 shocks, and renewed structuralist debates on hierarchy in the international monetary system. The article constructs a layered conceptual map in which currency power is derived sequentially from the generic concept of power, through economic, monetary, and international monetary power, to currency power as a relational effect of international currency use. The study employs a critical conceptual reconstruction of canonical and recent IPE and international macro-finance literatures, combined with analytical disaggregation of the functions of international currency and parsimonious reference to BIS Triennial, IMF COFER, and ECB indicators. Three principal results are obtained. Firstly, currency power materializes when non-residents come to depend on the issuer's currency for payment, denomination, anchoring, reserves, or financial-asset issuance, and is sustained by four self-reinforcing mechanisms – dominant-currency invoicing, banking–trade complementarity, the safe-asset convenience yield, and infrastructural sunk costs – that generate the hysteresis explaining why aggregate metrics resist displacement under stress. Secondly, currency power is a species of international monetary power, but the converse does not hold: the demarcation explains why reserve diversification can affect international monetary power without dislodging currency power. Thirdly, currency dependence, currency hierarchy, currency statecraft, and legitimation are positioned as the user-side correlate, structural crystallization, deliberate strategic mode, and normative stabilization condition of currency power. The framework supplies a precise vocabulary for assessing dollar leverage, sanctions architectures, and de-dollarization scenarios.

KEYWORDS

currency power, monetary power, currency internationalisation, currency statecraft, currency hierarchy, weaponized interdependence, dominant currency paradigm.




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Валютна влада в міжнародній політичній економії: від міжнародної монетарної влади до валютної державницької стратегії

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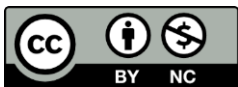
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У статті сформовано багаторівневу концептуальну карту, у межах якої категорію валютної влади системно виведено з родового поняття влади через послідовні аналітичні рівні: економічну владу, монетарну владу та міжнародну монетарну владу. Метою дослідження є подолання концептуальної невизначеності поняття «валютна влада» в міжнародній політичній економії, де воно нерідко ототожнюється з інструментами монетарної політики або редукується до загальних характеристик держави-емітента. Окрему увагу приділено системній демаркації валютної влади від суміжних категорій: міжнародної монетарної влади, валютної залежності, валютної ієрархії, валютної державницької стратегії та легітимації. Актуальність дослідження зумовлена трьома взаємопов'язаними процесами останніх років: інструменталізацією фінансової взаємозалежності, емпіричним переокресленням міжнародних ролей долара США після шоків 2020–2022 років та відновленням структуралістської дискусії щодо ієрархічної організації міжнародної валютної системи. На основі критичної концептуальної реконструкції та аналітичної дезагрегації функцій міжнародної валюти доведено, що валютна влада не є інструментом монетарної політики. Вона постає як реляційний ефект, що виникає тоді, коли нерезиденти стають залежними від функцій валюти емітента: платіжної, ціноутворювальної, якірної, резервної та фінансової. У статті обґрунтовано, що чотири взаємопідсилювальні механізми – виставлення рахунків у домінуючій валюті, банківсько-торговельна комплементарність, премія за зручність безпечних активів та інфраструктурна вкоріненість – трансформують міжнародне використання валюти у структурну валютну владу й породжують гістерезис, який пояснює стійкість агрегованих показників валютної інтернаціоналізації в умовах стресу. Водночас проведено чітке розмежування між валютною владою та міжнародною монетарною владою: перша є підвидом другої, однак не вичерпує її змісту. Такий поділ дає змогу пояснити, чому диверсифікація міжнародних резервів може змінювати конфігурацію міжнародної монетарної влади, не обов'язково підриваючи валютну владу. Валютну залежність у дослідженні визначено як корелятивний наслідок з боку користувача валюти; валютну ієрархію – як структурну кристалізацію асиметричного розподілу валютних функцій; валютну державницьку стратегію – як свідому політику інструменталізації валютних можливостей; легітимацію – як нормативну умову стабілізації валютної асиметрії.

КЛЮЧОВІ СЛОВА

валютна влада; монетарна влада; валютна інтернаціоналізація; валютна державницька стратегія; валютна ієрархія; інструменталізована взаємозалежність; парадигма домінуючої валюти.



1. Introduction

Currency-related leverage occupies an analytically central but conceptually unstable position in international political economy (IPE), and the instability is not merely a residue of terminological imprecision but a function of an unresolved *ontological* question concerning what kind of object currency power actually is – a relation, a property, a capacity, a structural effect, or some compound of these – that the literature has rarely posed in those terms. The term *currency power* (CP) is routinely deployed in incompatible registers – as a synonym for foreign-exchange policy, as a residual descriptor of a currency's weight in global finance, and as a generic label for any monetary agency of a state – without a derivation that would discipline its scope, and without an *epistemological* reckoning with the conditions under which any of these registers could be tested, falsified, or compared. The indeterminacy has become operationally consequential under three concurrent conditions: the weaponization of financial interdependence [39; 40; 31]; the empirical re-mapping of the dollar's roles after the global financial crisis and the 2020–2022 shocks [45; 21; 38]; and the renewed structuralist debate on hierarchy in the international monetary system [14; 42; 74].

These conditions have elevated the stakes of conceptual precision: debates about weaponization, de-dollarisation, and currency multipolarity regularly conflate phenomena that operate at distinct analytical levels, producing cross-talk that impedes both theoretical advance and policy assessment. The indeterminacy these conditions reveal is not merely terminological but *ontological*: it concerns the categorial status of currency power itself, which has not been adequately distinguished – at the level of ontology rather than of nomenclature alone – from the cognate categories with which it is routinely conflated. The corresponding *gnoseological* problem – how analysts come to know currency power as a determinate object of inquiry, and through which categorial grids that knowledge is constituted – is, on the present argument, inseparable from the ontological one, since the choice of constitutive categories (instrument, capacity, relation, structural effect) determines in advance what the empirical record can be made to confirm or disconfirm. Recent inflections – the post-February 2022 immobilisation of Russian central-bank reserves, the cumulative ninefold rise in financial sanctions designations between 2000 and 2021 [32], the operational expansion of the Cross-Border Interbank Payment System (CIPS), and the contested governance of multilateral CBDC pilots – have intensified the demand for analytic clarity. Without a derivation that specifies from what currency power descends and how it differs from related categories, such debates cannot distinguish between structural features of the international monetary system and deliberate strategic choices by specific actors.

The article's contribution is to construct an analytically rigorous conceptual map in which CP appears not as an inaugural category but as the terminal result of a chain of derivations, and to populate the map's remaining nodes – international monetary power, currency dependence, currency hierarchy, currency statecraft, legitimation – in systematic relation to CP rather than as a heterogeneous inventory. The exercise is at once economically scientific and economically philosophical: it operates within the empirical and modelling traditions of international macro-finance and IPE while reconstructing, at a deeper layer, the ontological commitments and epistemological scaffolding that those traditions have left implicit; the resulting map is intended to be operationally useful precisely because, and not despite, the philosophical labour that underwrites it.

2. Literature Review

The scholarly pedigree of currency power runs from Strange's [81] structural power framework – which identified finance, alongside security, production, and knowledge, as a primary structure of the international political economy – through Cohen's sustained programme on monetary geography and currency rivalry [24; 25; 26; 27]. Cohen's [26] most systematic treatment insists on disaggregating currency internationalisation into specific monetary roles and demonstrates that not every form of cross-border use translates into power for the issuer, with central-bank reserve holdings, financial-market use, and trade roles carrying the heaviest weight. Cohen [27] subsequently extended the argument to the deliberate political instrumentalization of these roles under the rubric of *currency statecraft*. Helleiner and Kirshner [54] had earlier reframed the politics of an emerging international currency around comparable questions of choice and strategy, and Norrlof [75; 76] located dollar

primacy within a broader theory of cooperative hegemony that generates structural advantages for the dominant currency issuer.

Recent macro-finance research has, in parallel, supplied a finer empirical map of the channels through which the dollar operates. The Dominant Currency Paradigm of Gopinath et al. [45] demonstrates that most international trade is invoiced in a small number of dominant currencies, irrespective of trading partners' identities, with asymmetric macro implications that represent a structural form of currency power. Boz et al. [17] and the updated 2025 panel evidence [18] confirm that USD invoicing remains globally stable while the cross-correlation between invoicing-currency choice and geopolitical distance has become measurably negative since 2021. Maggiori, Neiman and Schreger [67] document that the share of dollar-denominated cross-border holdings of corporate debt rose from approximately 50% in 2004 to about 70% in 2016, with currency bias dominating home bias. The exorbitant-privilege/exorbitant-duty duality, formalised by Gourinchas and Rey [48] and revisited by Gourinchas, Rey and Govillot [49] and Gourinchas [47], shows how reserve-currency status generates chronic structural rents alongside systemic provisioning obligations. The global financial cycle literature [78; 76; 71] demonstrates that U.S. monetary policy radiates asymmetric externalities through capital flows. Bahaj and Reis [7] provide rigorous evidence on the lender-of-last-resort properties of Federal Reserve swap lines, while Farrell and Newman [39; 40] theorise the weaponization of network topologies under the rubric of weaponised interdependence; McDowell [68] documents the empirical record of dollar-centric financial sanctions and their de-dollarisation feedback effects; and the Clayton–Maggiori–Schreger geoeconomics trilogy [21; 22] supplies the formal microfoundation of coercion through coordinated suspension of financial and trade relationships. The post-Keynesian and structuralist literature on currency hierarchy [14; 15; 42; 59; 73; 2] argues that the international monetary system reproduces stratified positions that systematically constrain the policy space of peripheral economies.

Across these otherwise heterogeneous literatures, however, a common philosophical-conceptual deficit obtains: the *ontology* of currency power is rarely thematised, and the *gnoseology* through which the empirical traditions claim to know it is taken as transparent. The IPE pedigree from Strange [81] through Cohen [24; 25; 26; 27] to Norrlof [75; 76] operates predominantly at the level of *phenomenology* in the loose, methodological sense – describing how dollar primacy appears in observable indicators of cross-border use, hierarchy, and rivalry – without consistently distinguishing the *phenomena* (the appearances available to analysts via aggregate metrics, market reports, and policy declarations) from the underlying *ontic* structure (the relational architecture that makes those appearances possible). The macro-finance tradition, for its part, achieves remarkable empirical precision but typically treats currency power as if it were an emergent statistical regularity to be modelled rather than a relational object whose categorial boundaries require independent specification; the result is that two literatures, ostensibly addressing the same phenomenon, do so through incommensurable conceptual grammars. The post-Keynesian and structuralist programme on currency hierarchy [14; 15; 59; 42] partially redresses this by articulating subordination and hierarchy as structural concepts in their own right, but its ontological claims and its empirical apparatus remain only loosely coupled. The present article reads these three traditions not as competitors but as partial perspectives on a single conceptual object whose ontology – its mode of being as a relational effect, neither reducible to instrument nor identifiable with structure – has not yet been systematically reconstructed.

Three problems remain analytically unresolved across this literature. The *derivation problem*: existing accounts begin from monetary or financial power and proceed by direct typology, without articulating why CP is not simply another instrument of monetary policy, and without specifying the ontological relation that obtains between the two. The *demarkation problem*: the distinction between CP and international monetary power (IMP) – acknowledged by Andrews [4], Cohen [25; 26], and Norrlof [75; 76] – is rarely codified by a criterion, and rarely grounded in an explicit account of what makes CP a distinct *kind* of object rather than a graduated quantity of IMP. The *correlative problem*: the converse experience of users – currency dependence – is not theorised in systematic symmetry with CP, and its aggregation into currency hierarchy is treated as either self-evident or as a separate, parallel framework, leaving the ontological unity of CP, dependence, and hierarchy as one structural pattern viewed from three vantage points unarticulated.

3. Problem Statement

The derivation problem matters because conflating CP with monetary policy instruments leads analysts to attribute currency power to any state with a functioning central bank, diluting the concept to uselessness; the implicit ontology in such accounts treats power as a property of the issuer rather than as a relation between issuer and non-resident users, and the consequent epistemology takes the existence of CP for granted wherever a central bank operates, foreclosing the very question the article seeks to keep open. The demarcation problem matters because the IMP/CP distinction explains otherwise puzzling empirical cases: China exercises substantial IMP through its reserve accumulation and balance-of-payments management while renminbi CP remains limited, a pattern unintelligible if the two categories are treated as synonymous; the demarcation is thus not a stylistic preference but an ontological necessity, since IMP and CP designate categorially different *kinds* of object – the former a capacity exercised through monetary policy and reserve management, the latter a relational effect crystallised in the dependencies of non-resident users. The correlative problem matters because currency dependence, currency hierarchy, and legitimation are not forms of CP but structurally related categories that constitute the same analytical object from different vantage points; treating them as parallel and independent lists produces conceptual redundancy and obscures causal mechanisms, and at the gnoseological level, it foregoes the explanatory traction that a properly unified ontology of the relational effect would supply.

The article's objective is therefore threefold: (i) to reconstruct the derivation chain from generic power to CP, paying attention not only to the substantive content of each tier but also to the ontological transitions that distinguish one tier from the next; (ii) to demarcate CP from IMP by criterion, and to ground that criterion in an explicit account of why CP is a distinct kind of object rather than a graduated quantity of IMP; and (iii) to map the cognate categories – currency dependence, currency hierarchy, currency statecraft, legitimation – in systematic relation to CP within a single, internally consistent conceptual architecture, recognising these as multiple vantage points on a single underlying ontic structure rather than as parallel objects in an inventory.

4. Methods and Materials

The methodology is conceptual and analytical, and is best understood as a *gnoseological* enterprise in the strict sense: it inquires not merely into the empirical contents of currency power but into the conditions under which currency power becomes intelligible as an object of knowledge in the first place. It combines (i) critical reconstruction of canonical and recent IPE and international macro-finance literatures, with the dual purpose of identifying established claims and mapping the unresolved problems that the article addresses, and with attention to the *implicit* ontological commitments – about whether CP is a property, a capacity, a relation, or a structural effect – that those literatures encode without typically thematising; (ii) logical derivation of category boundaries through specification of the necessary and sufficient conditions that distinguish each category from adjacent ones, an exercise that operates at the meta-level of conceptual ontology rather than at the object-level of empirical content; and (iii) parsimonious mapping of analytical claims onto established empirical indicators to discipline conceptual claims rather than to supply an empirical contribution, since the article's purpose is to clarify the *categorical grid* through which empirical evidence is to be read, not to produce new evidence of the kind the existing macro-finance literature already produces in abundance.

This three-pronged method is reconstructive in the Habermasian sense – recovering and rendering explicit the rational structure presupposed by competent analytical practice – and phenomenological in the loose methodological sense that it works back from the appearances of currency power in the literature toward the underlying ontology that would make those appearances coherent. It is not, however, anti-empirical: the article's commitment is that a properly reconstructed ontology of CP renders the existing empirical literature *more* tractable, not less, because the categorial grid it supplies sharpens the kinds of questions that empirical work can be asked to answer. Primary empirical anchors include the BIS Triennial Central Bank Survey, in both its 2022 [12] and 2025 [13] editions, for FX turnover and market structure data; the IMF Currency Composition of Official Foreign Exchange Reserves (COFER) [57] for reserve composition; the ECB annual reports on the International Role of the Euro for 2023 [33] and 2025 [34] for multi-currency function data; the Federal Reserve's

annual *International Role of the U.S. Dollar* notes [9; 10] for cross-functional dollar metrics; and the Ilzetki–Reinhart–Rogoff classification of exchange-rate arrangements [56] for anchor-regime data. These sources supply the quantitative benchmarks against which the conceptual claims about specific forms of currency power are evaluated. The article’s primary contribution is theoretical; empirical evidence functions as a disciplining device.

5. Results and Discussion

A rigorous derivation of CP requires a category of power broad enough to encompass structural and ideational forms, yet sufficiently demarcated to avoid dissolution into the residual notion of *influence*; and that requirement is at root an ontological one, since the question of how widely the category of power should extend is a question about the *kinds of being* it must encompass – events, capacities, structures, relations, dispositions, ideational regimes – and not merely a question about which empirical phenomena it should label. The behaviouralist formula of Dahl [29] – A has power over B insofar as A can induce B to act otherwise than B would have acted – supplies a precise but limiting baseline capturing only the first of the three faces of power identified in subsequent debate, and its limitation is precisely ontological: it treats power as if it inhered in discrete causally efficacious episodes between identifiable agents, foreclosing the possibility that power might also obtain at the level of unobserved structural conditions that shape what episodes can take place at all. Bachrach and Baratz [5] added a second face, agenda-control, which already presupposes a richer ontology in which the *non-occurrence* of certain decisions is itself a manifestation of power; and Lukes [66] a third, the shaping of preferences and the very categories of normality, which extends the ontology further to include the constitutive conditions under which agents come to recognise themselves as wanting what they want. The Weberian [83] definition of *Macht* as any chance of imposing one’s will in a social relation against resistance, irrespective of basis, lifts the discussion from legality to social efficacy and places power firmly within an ontology of social *relations* rather than of individual capacities. The third face is decisive for IPE: an institution capable of defining which currencies count as safe, reserve-grade, or convertible exercises power not by coercion but by constituting the categorical grid through which monetary risk is perceived [41; 28], and the claim is unintelligible without an ontology in which categories themselves are part of the furniture of the social world rather than mere mental shortcuts laid over a pre-given reality. The Heideggerian distinction between the *ontic* – the level at which particular entities are described, counted, and classified – and the *ontological* – the level at which the conditions of possibility for any such description are themselves at stake – proves illuminating here: the empirical macro-finance literature operates at the ontic level of dollar shares, invoicing patterns, and reserve composition, while the present analysis operates at the ontological level of what kind of object currency power must be for those ontic regularities to be intelligible at all.

Barnett and Duvall [8] define power as the production, in social relations, of effects that shape actors’ capacities to determine their circumstances, and cross-tabulate two axes – type of relation and specificity – yielding four mechanisms: *compulsory*, *institutional*, *structural*, and *productive* power; their typology is, in effect, an ontological pluralism, since each of the four mechanisms picks out a distinct mode in which power can be said to *be* in social relations. Strange [81] had earlier articulated structural power through four structures of the world political economy: security, production, finance, and knowledge. These mechanisms cut across the substantive spheres of power in IPE, which can be partitioned into four: the *security-coercive* sphere (physical force, vulnerability management); the *economic* sphere (production, exchange, finance, money); the *legal-institutional* sphere (rules, treaties, regulatory regimes, adjudication [1; 30]); and the *knowledge-ideational* sphere (expertise, technical standards, legitimating frames). The contemporary geoeconomics literature [21; 22; 72] has reactivated this map by recasting the security-coercive sphere through the lens of coordinated economic coercion, where coordination across spheres – financial sanctions implemented through legal-institutional architectures and rationalised in knowledge-ideational categories – is the operative mode rather than the exception. The present article takes the economic sphere as its descent path without implying that the other spheres are silent on currency matters: sanctions architectures re-enter through the security-coercive sphere; IMF surveillance and Financial Action Task Force regimes through the legal-institutional sphere; and credit ratings, safe-asset classifications, and macroeconomic orthodoxies through the knowledge-ideational sphere. The choice to descend through the economic sphere is

therefore not an ontological reduction but a methodological selection of the most direct path to the explanandum, on the understanding that a complete account of CP would eventually require triangulation across all four spheres.

For this article, the working definition is: *Power is the capacity of an actor, institution, or structure to shape the space of the possible – for itself and for others: actions, rules, alternatives, costs, expectations, dependencies, and the categories through which the normal is recognised.* The formulation accommodates behaviouralist, structuralist, and productive registers in a single analytical frame, and it does so by adopting a stratified ontology – broadly compatible with the critical-realist position associated with Bhaskar – in which actual events, real causal mechanisms, and their underlying structural conditions occupy distinct ontological strata that are not reducible to one another. On this view, currency power is not exhausted by what *happens* in foreign-exchange markets on any given day; it inheres in the deeper relational mechanisms that make those happenings possible and that persist even when they do not actualise.

Economic power is not a singular faculty but a composite of four analytically distinct *channels*, each with its own object, mechanism, and consequence-type. *Productive-resource power* operates through positional advantage in critical inputs, technologies, and value-chain choke-points [23; 39]. *Trade-market power* operates through control of market access and terms of exchange [55]. *Financial power* operates over capital, credit, and risk through banks, capital markets, rating agencies, and risk-pricing infrastructures [51; 79]. *Monetary power* operates over the conditions of creation, circulation, valuation, liquidity, acceptance, and final settlement of money – that is, over the monetary form of economic relations as such [26; 74]. Monetary power has a distinct object – money in its three classical functions (unit of account, medium of exchange, store of value) – and is therefore irreducible to the other three channels.

Within monetary power, an internal/external bifurcation is analytically necessary. *Domestic monetary power* concerns control over money conditions within a jurisdiction – issuance, the policy rate, credit conditions, internal liquidity, access to the payment system – and is largely a normal attribute of monetary sovereignty. By contrast, *international monetary power* (IMP) emerges where monetary decisions in one jurisdiction shape the conditions of action of others elsewhere. Cohen [25; 26] anchors IMP in two dimensions: *autonomy* (freedom from external monetary constraints) and *influence* (capacity to shape monetary conditions for others); Andrews [4] and Norrlof [75] reinforce the formulation. The post-2020 macro-finance literature has converged on a stronger empirical claim: a single global factor identified through the Federal Reserve's stance accounts for a substantial share of the variation in risky asset prices worldwide [71], and the asymmetry of cross-border dollar funding pressures during stress episodes (2008, 2020, 2022–23) has been documented in granular detail [71; 10]. Crucially, IMP is not coterminous with CP. A state may exercise considerable IMP – through the size of its reserves, its weight in IMF governance, or its discretionary capital-flow management – without its currency attaining international status. China's accumulation of approximately three trillion U.S. dollars in reserves and active balance-of-payments management have conferred substantial IMP for two decades, yet the renminbi accounted for only about 8.5% of global FX turnover in April 2025 [13] and 2.12% of allocated official reserves in mid-2025 [57]. CP requires a further condition – those non-residents come to use the currency itself.

The decisive analytical move is to recognise CP as a *relational effect*, not a discrete instrument; expressed in ontological terms, CP belongs to the category of relations rather than to the category of properties or capacities, and the relation in question is not a contingent association between two pre-given entities but a *constitutive* relation that brings its relata into being as the kinds of agents they are. The state that issues an international currency does not wield CP in the way it deploys the policy rate or the foreign-exchange position; rather, CP arises only insofar as non-residents come to rely on the issuer's currency for their own purposes – payments, denomination, anchoring, reserve composition, asset issuance – and that reliance is itself the ontological substrate of CP, not merely an external sign of its presence. Kenen [60] articulated the threshold condition: an international currency is one used and held outside the issuer's jurisdiction *between non-residents* – not merely in transactions with the issuer; the threshold is significant in ontic terms because it specifies the empirical condition under which a currency comes to exist as an international object, but it is also significant in ontological terms because it marks the point at which the very kind of object the currency *is* changes – from a national medium subordinated to its issuer's domestic policy frame to an international infrastructure constituted by, and

constitutive of, a network of non-resident dependencies. The transition from ordinary national money to international monetary infrastructure occurs when a currency mediates exchanges in which the issuer is absent as a party, and that absence is precisely the phenomenological signature that identifies the new mode of being.

Empirically, the threshold is met for the U.S. dollar in essentially every dimension. The 2025 BIS Triennial Survey records the dollar on one side of 89.2% of all FX trades (up from 88.4% in 2022), with daily turnover reaching \$9.6 trillion in April 2025 – a 28% rise from the previous Triennial [13]. The Federal Reserve’s annual review confirms that the dollar accounts for approximately 60% of international banking liabilities, 70% of foreign-currency international debt securities, and around 58% of allocated official reserves, with the cumulative composite international-usage index “far exceeding the U.S. share of global GDP and trade” [10]. Dollar-anchored exchange-rate arrangements continue to cover well over half of the global economy [56]. The derivation can be stated as a sequence: *domestic monetary power* → *international use by non-residents* → *international currency status* → *non-resident dependence on functions of that currency* → *increment in the issuer’s autonomy, influence, status, and access leverage* → *currency power*. Figure 1 below sets out the full derivation chain in eight stacked tiers, together with the side-arrow correlative path through which user-side dependence aggregates into currency hierarchy, and the legitimization overlay that conditions the stability of currency power and currency statecraft.

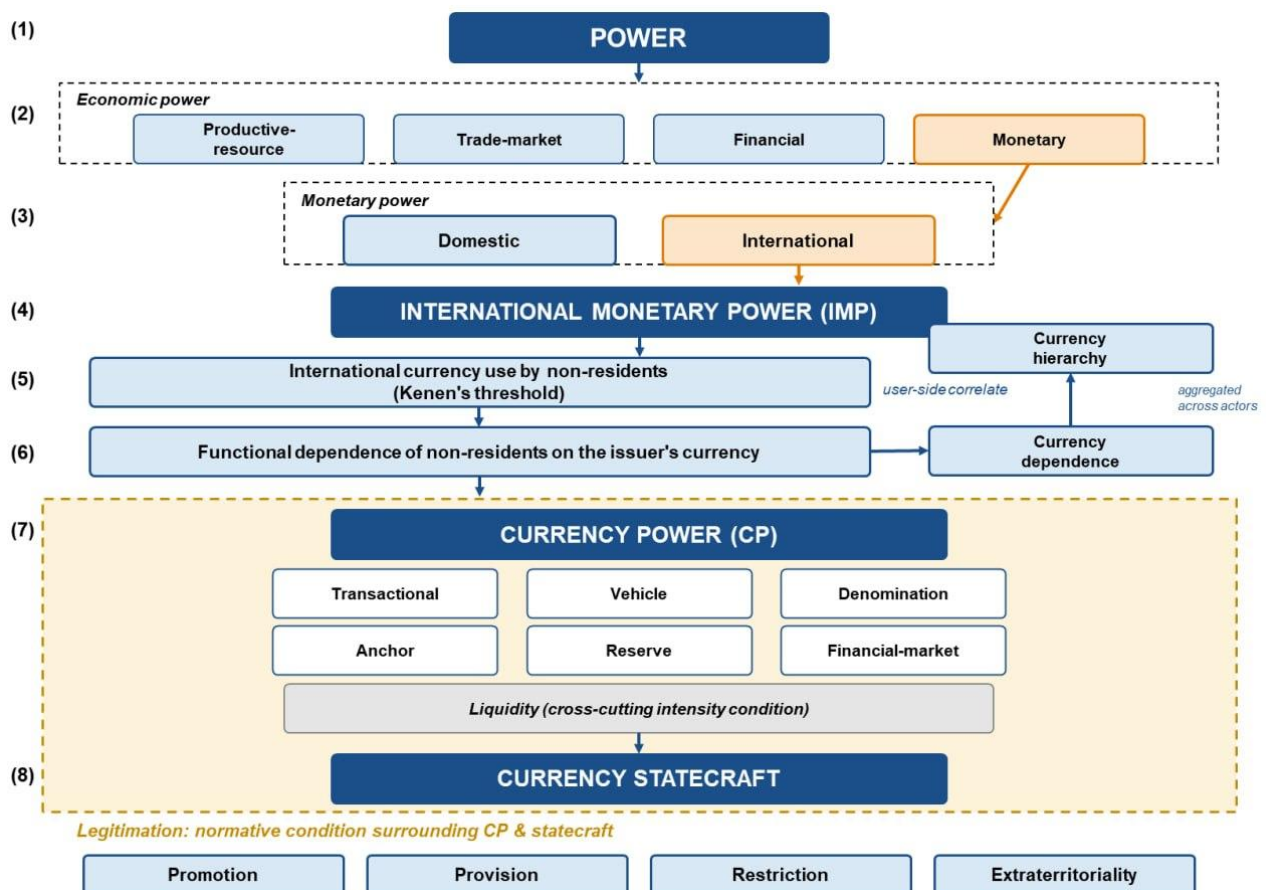


Figure 1. Conceptual derivation and functional architecture of currency power

Source: Author’s development.

Four analytical mechanisms transform raw international use into structural CP, and their post-2020 formalisation considerably deepens the derivation. The first is *dominant-currency invoicing*: Gopinath et al. [45] demonstrate that exchange-rate movements against the dollar transmit asymmetrically into trade volumes globally, irrespective of the bilateral identity of trading partners, and Boz et al. [18] show that this pattern remains stable even as invoicing-currency choices have begun to correlate negatively with geopolitical distance since 2021. The second mechanism is *banking-trade complementarity*: Gopinath and Stein [46] formalise the self-reinforcing loop in which firms that invoice in the dollar borrow in the dollar, banks that lend in the dollar fund in the dollar, and the resulting

infrastructure deepens dollar dependence in both directions. The third is the *safe-asset / convenience-yield logic*: Krishnamurthy and Vissing-Jorgensen [63] document the persistent yield discount on U.S. Treasuries attributable to safety and liquidity, and Jiang, Krishnamurthy and Lustig [58] tie this convenience yield directly to the global financial cycle, showing that dollar-safety pricing co-moves with cross-border capital flows in a manner unique to the dollar. Hassan et al. [50] develop the first general-equilibrium model in which the dollar's safe-haven premium is endogenous to U.S. trade openness, with calibrated thresholds suggesting that sufficiently severe disruptions to U.S. tariff policy could precipitate a phase-transition in which small economies optimally re-peg to the euro – a result that supplies, for the first time, a *quantifiable* boundary for CP rather than a qualitative one. The fourth mechanism is *infrastructural power* in Mannian terms: Schwartz [79] argues that the dollar functions as global quasi-state money through embedded settlement, clearing, and regulatory infrastructures (CHIPS, the New York Federal Reserve depository chain, the OFAC compliance perimeter), so that dollar centrality is an *infrastructural* fact and not merely a market equilibrium.

Two clarifications follow. First, internationalisation is not power: Cohen [26] is emphatic that only certain roles of an international currency reliably translate into CP, while others – sporadic substitution, peripheral invoicing – may have weak or null distributive effects. Equating the two confuses precondition with outcome. Maggiori et al. [67] portfolio evidence sharpens this distinction by documenting that the cross-border holdings of *corporate* dollar debt rose from roughly 50% in 2004 to about 70% in 2016, even as several other indicators stagnated, suggesting that financial-market roles compound over time in ways that trade and reserve roles do not. Second, the international choice of currency responds to network effects, market liquidity, and inertia [64; 82; 38] rather than to juridical decree, so CP arises from accumulated, partially self-reinforcing decisions of non-residents rather than from any single act of the issuer.

It follows that CP is a *species* of IMP – specifically, the species that arises through international currency use – but the converse does not hold: CP entails IMP, IMP does not entail CP. This relation explains why de-dollarisation strategies that affect IMP without dislodging the currency itself leave much CP intact, and why even modest gains in alternative currencies can erode CP without altering the broader IMP balance [68; 35]. CP is also *resource-like*: it accumulates over decades, exhibits hysteresis, and is held passively even when not actively wielded [37]. The dollar's exorbitant privilege – Giscard d'Estaing's coinage, formalised by Gourinchas and Rey [48] and revisited by Gourinchas, Rey and Govillot [49] and Gourinchas [47] – is best understood as a chronic structural rent rather than an episodic policy outcome. The four mechanisms above explain how that rent is generated and maintained: through invoicing complementarities that lock firms into the dollar, banking complementarities that lock financial intermediaries into the dollar, convenience-yield premia that lock investors into dollar safe assets, and infrastructural sunk costs that lock the entire payment system into the dollar's settlement architecture. The aggregate effect is that CP is *stickier than its underlying IMP determinants would suggest in any cross-section*, which is why episodes of intensified statecraft typically produce distributed re-composition rather than aggregate displacement.

The forms CP can take are derivable from the functions of international money. Tavlas [82] organises the international roles of money as the cross-classification of the three monetary functions – medium of exchange, unit of account, store of value – with the public/private distinction; the European Central Bank [33; 34] applies this matrix systematically in its annual monitoring of the international role of the euro. Each of the resulting six cells corresponds to a distinct form of CP, since each cell describes a specific dependence of non-residents on the issuer's monetary infrastructure. Three composite forms of CP follow naturally from the row-wise reading of the matrix (Table 1): *Transactional and Vehicle CP* arise from the medium-of-exchange function, in its private (vehicle currency for FX trade) and official (foreign-exchange intervention) variants respectively; *Denomination and Anchor CP* from the unit-of-account function, in its private (trade and financial invoicing) and official (exchange-rate anchor and parity choices) variants; and *Financial-market and Reserve CP* from the store-of-value function, in its private (portfolios, deposits, bonds) and official (foreign-exchange reserves) variants.

Within this matrix, *transactional CP* arises from international payment use: stable demand for the currency, easier external-deficit financing, and gatekeeping leverage over payment infrastructure. *Vehicle CP* is qualitatively stronger: when a currency mediates exchanges between third currencies – between actors who have no bilateral need for it – it becomes the system's general equivalent. The dollar's presence on 89.2% of FX transactions in April 2025, against the euro's 28.9% and the renminbi's

8.5% [13], is precisely a vehicle phenomenon, and the rise in renminbi turnover from 7.0% in 2022 to 8.5% in 2025 – overtaking the pound for the first time – measures incremental progress without remotely approaching displacement. *Denomination CP* arises when international prices, contracts, debts, and balance sheets are expressed in the issuer’s currency. The Dominant Currency Paradigm [45] shows that exchange-rate movements against the dollar transmit asymmetrically into trade volumes, and that issuer monetary policy radiates globally through a price channel – a structural form of CP not reducible to issuer policy intentions. Boz et al. [18] updated 2025 panel reveals a pattern of *bifurcated invoicing*: USD use is stable in aggregate, but the cross-correlation between invoicing-currency choice and geopolitical distance has turned increasingly negative since 2021, suggesting that politically aligned economies are anchoring more tightly to the dollar even as politically distant ones experiment with alternatives. *Anchor CP* is the official extension of denomination: when other states reference their exchange-rate regime to the issuer’s currency [56], they import its monetary stance and forfeit a corresponding portion of policy autonomy.

Table 1. International currency functions and the forms of currency power

Function of money	Private use	Official use	Form of currency power
Medium of exchange	Vehicle currency for FX and third-party trade	Foreign-exchange intervention	Transactional & Vehicle CP
Unit of account	Trade and financial invoicing	Exchange-rate anchor and parity choice	Denomination & Anchor CP
Store of value	Private portfolios, deposits, and bonds	Official foreign-exchange reserves	Financial-market & Reserve CP

Source: Author’s adaptation based on Tavlas [82]; ECB [34]; Cohen [27]; Gopinath et al. [45].

Reserve CP arises when central banks hold official assets in the issuer’s currency, generating steady demand for its sovereign liabilities, contributing to a convenience yield [63; 58], and rendering their monetary positions partially hostage to the issuer’s policies. The IMF COFER series shows the dollar share of allocated reserves at approximately 56.3% in mid-2025, against 21.1% for the euro and 2.1% for the renminbi [57; 44]; the renminbi share peaked at 2.83% in 2022 and has trended downward since, even as Chinese trade and payment shares have risen – a divergence that Clayton et al. [21] explain as the deliberate sequencing of capital-account opening to manage outflow risk. *Financial-market CP* arises when private financial markets – deposits, bonds, syndicated loans, derivatives, repo collateral, portfolio holdings – are denominated in the issuer’s currency. Cohen [26] singles this role out as one of the principal channels; recent work on global dollar funding and the offshore dollar system underlines its centrality [16; 3; 46; 69].

Liquidity is not a parallel form of CP but a *cross-cutting intensity condition* of all six cells of the matrix: the deeper and lower-cost the markets in the issuer’s currency, the more potent each form. The dollar’s enduring primacy is less a matter of any single function than of the depth of dollar markets – Treasuries, repo, FX, derivatives – that makes substitution costly [38; 46]. The relational logic of CP also operates negatively: where the issuer can withdraw, or condition access to its currency and payment infrastructure, what was a passive structural benefit becomes an instrument of compulsory power. Farrell and Newman [39] describe this as weaponised interdependence – the asymmetric topology of global financial networks creates panopticon and chokepoint effects exploitable by the network-central jurisdiction. Cipriani, Goldberg and La Spada [19] supply the architectural specifics: SWIFT processes approximately 44 million messages per day across 11,500-plus institutions in over 200 countries, with the System for Transfer of Financial Messages (SPFS) reaching about 400 banks (largely Russian and CIS) and the Cross-Border Interbank Payment System (CIPS) integrating 1,629 users across 119 countries by end-2024 [20] – a non-trivial parallel infrastructure that has nevertheless not displaced SWIFT in cross-border message volumes.

The functional disaggregation Table 1 makes operational has direct consequences for how analysts interpret movement in the system. Aggregate dollar metrics – the COFER share, the FX-turnover share, the international banking share – have been remarkably stable or even rising since 2022; yet *distributed* indicators tell a more nuanced story, with central-bank gold purchases above 1,000 tonnes for three consecutive years through 2024, CIPS volumes rising 43% year-on-year in 2024, and a small number of strategically motivated jurisdictions migrating bilateral trade settlement to local currencies.

The six-cell taxonomy explains why this configuration is internally consistent: each substitute reaches only the cell it functionally addresses – gold for the official store-of-value cell, CIPS and SPFS for the medium-of-exchange cells, bilateral settlement for the unit-of-account cells in particular country pairs – leaving vehicle CP and the wider liquidity premium structurally intact. The pattern is therefore not aggregate displacement but *distributed re-composition*, a joint equilibrium that the conceptual map renders intelligible without resorting to either backlash or unchanged hegemony narratives.

CP, as established, is partly a passive structural property: it accrues to the issuer of an international currency by the network of non-resident dependencies. Its deliberate instrumentalization is what Cohen [27] terms *currency statecraft* – the question of what an issuer chooses to do when its currency has acquired international attractiveness, and conversely what a non-issuer may attempt in order to alter its systemic position. The transition from CP to currency statecraft is not an empirical scaling-up but an ontological and phenomenological shift in mode of being: CP is impersonal, accumulative, and tendentially passive in its structural register, whereas currency statecraft is intentional in the strict phenomenological sense, in that it presupposes an issuer that comes to recognise its own structural position *as* a resource that can be directed at chosen ends – and only on the basis of that recognition can the structural property be reflexively converted into deliberate action. Helleiner [52] and Helleiner and Kirshner [54] had previously distinguished structural conditions for currency internationalisation from the political choice to promote, restrain, or instrumentalise it; that distinction can now be read as marking the threshold between two ontologically distinct strata of monetary agency rather than as a continuum of policy intensity. The post-2020 literature has supplied this framing with formal microfoundations. Clayton, Maggiori and Schreger [21] develop a theory of economic coercion in which hegemonic powers exert influence on other countries by threatening the suspension or alteration of financial and trade relationships, with the central analytical result that *power is nonlinear*: it rises sharply as the hegemon approaches monopoly control of a given input but can be eroded with limited diversification. Their companion paper [22] supplies the corresponding political-economy result: mature democracies face tighter domestic constraints than autocracies in coercing private firms but gain *dynamic commitment* power – the ability to credibly precommit to future restraint – those autocracies lack. Both results bear directly on how CP is converted into statecraft and on the kinds of statecraft that are stable in equilibrium.

Four operative modes can be distinguished. *Promotion* covers measures that broaden non-resident use: bilateral local-currency settlement agreements; currency-swap lines (the People's Bank of China has signed agreements with around forty counterparties since 2009 [65; 6]); official infrastructure such as CIPS and the BIS Innovation Hub's mBridge multi-CBDC project; and panda-bond frameworks [37]. *Provision* covers liquidity-of-last-resort functions performed for non-residents – most consequentially the Federal Reserve's swap-line network, which during the 2008 and 2020 episodes constituted a discretionary global lender-of-last-resort apparatus [69; 7]; the selectivity of access – standing lines for five major central banks, ad hoc lines for select others, exclusion for many – is itself an exercise of CP. *Restriction* covers measures that turn structural advantage into compulsory power: primary and secondary sanctions, asset freezes, blocking of correspondent-banking access, and curtailment of dollar infrastructure clearing [84; 31; 32]. The cumulative use of sanctions has increased more than ninefold between 2000 and 2021 [32], and the implementation architecture has become deeply embedded in private-sector compliance practice. *Regulatory extraterritoriality* covers the projection of issuer-state legal norms through dollar-clearing chokepoints, *de facto* extending legal jurisdiction wherever a dollar leg is present in a transaction [39; 40].

A conceptual implication deserves explicit statement: currency statecraft *consumes* CP. Each visible instrumentalisation – particularly through restriction – accelerates the search for alternatives, alters the *ex ante* calculus of non-residents, and may, over long horizons, erode the structural conditions of CP itself [68]. Bianchi and Sosa-Padilla [11] formalise this *anticipation channel*: even before any actual freeze, the perceived probability of a future sanction reduces the dollar's convenience yield in equilibrium and lowers central banks' steady-state holdings of dollar reserves; in their welfare analysis, both the sanctioner and the sanctioned can be left worse off. In the macro-finance vocabulary of Gourinchas, Rey and Govillot [49], the exorbitant privilege and the exorbitant duty are jointly produced: currency statecraft is not a free instrument but a tax on the CP stock, and the elasticity of that tax – together with the nonlinearity result of paragraph one – defines the equilibrium ceiling of how aggressively CP can be deployed without triggering structural erosion.

CP has a correlative – *currency dependence* – and a structural crystallisation – *currency hierarchy*. Dependence is not a form of CP but its mirror image from the user’s side; hierarchy is not an instance of CP but the systemic pattern these dependencies form when aggregated.

The user-side logic intensifies through a sequence: *functional dependence* (reliance on a foreign currency for one or more roles – payments, debt, reserves, anchoring) → *asymmetric dependence* (the issuer enjoys better outside options) → *vulnerability* (substitution is technically, financially, or reputationally costly) → *subordination* (dependence stabilises as a position in a stratified system) → *potential domination* (the issuer or system can impose costs without effective accountability). This progression generalises the asymmetric-interdependence argument of Keohane and Nye [61] and aligns with the macro-finance literature on original sin and balance-sheet currency mismatches [36] and with the Dominant Currency Paradigm findings on exchange-rate pass-through in emerging-market and developing economies [45; 18].

Currency hierarchy – a stratified pattern in which currencies occupy unequal positions with respect to liquidity, acceptability, reserve quality, and capacity to discharge international monetary functions [24; 59; 14; 42] – is the systemic crystallisation of these individual dependencies. The post-Keynesian and structuralist literature treats this hierarchy as an enduring feature with implications for the policy space of peripheral economies: a country whose currency carries low international liquidity premia must offer higher interest-rate spreads and absorb larger shares of global-cycle externalities [78; 71]. The contemporary update of this literature [2; 15; 73] reframes the mechanism through three mutually reinforcing channels. The International Financial Subordination research programme [2] argues that subordination is a *structural* rather than positional concept, mediated by currency hierarchy, value transfer, and agency constraints on peripheral central banks and fiscal authorities. Bonizzi and Kaltenbrunner [15] add the asset-manager-capitalism mechanism: the global concentration of fiduciary asset management in a small number of firms, anchored to dollar-denominated benchmark indices, produces a structural bias in cross-border capital allocation that reproduces hierarchy through index inclusion criteria rather than through exchange-rate volatility alone. Murau, Pape and Pforr [73] connect hierarchy to the Mehrling money-view by emphasising that the Federal Reserve is the only central bank empirically capable of creating new emergency dollar liquidity without quantitative limits, while attributing a structurally subordinate role to the IMF and other multilateral lenders – a hierarchy of *issuance capacity* that frames the IMP–CP architecture as a public-good delivery system with a single privileged provider. This argument is not equivalent to Kindleberger’s [62] hegemonic-stability thesis, in which the key-currency provider is functional to the supply of international monetary public goods; the hierarchy literature emphasises the distributive consequences of that very functionality. Both perspectives are compatible with the conceptual map: the same structural pattern that, on the issuer’s side, condenses into CP, on the user’s side, condenses into currency dependence, and at the systemic level into currency hierarchy.

Legitimation is not a form of CP but a normative regime that conditions its stability, and that regime occupies a distinctive ontological position in the architecture: it is neither a property of the currency, nor a relation between issuer and user, nor a structural pattern, but the *ideational* and *categorical* layer through which the structural pattern itself becomes intelligible to those who participate in it as something that has the right to be as it is. The Weberian distinction between legality and legitimacy [83] is here conjoined with the Coxian/neo-Gramscian thesis that hegemonic orders endure not by coercion alone but through the production of consent – the presentation of a particular order as natural, efficient, or generically beneficial [28; 43] – and at a deeper philosophical layer with the Foucauldian insight, through which the third face of power passes, that the categories which carve up the field of monetary risk are themselves productive of the field they purport merely to describe. In monetary affairs, this operates through categorical statuses (safe asset, reserve currency, investment grade) [80], through the technical-economic rationalisation of dollar primacy [70; 74], and through institutional self-narratives by issuers and the international financial institutions aligned with them [53]; each of these mechanisms operates by constituting the gnoseological conditions under which market participants can recognise certain claims, certain currencies, and certain institutional arrangements as bearers of the relevant categorical status. Prasad [77] develops the institutional-trust dimension explicitly, arguing that the durability of dollar primacy derives less from the absence of alternatives than from the difficulty challengers face in matching the institutional credibility of U.S. legal and monetary infrastructure – a credibility which is ratified, in his view, even by the recent stress tests

of weaponization rather than undermined by them; and his argument can be rendered in the philosophical vocabulary deployed throughout this article as the claim that the legitimation regime supplies the categorial scaffolding without which the structural mechanisms identified in §5.3 – invoicing, banking, convenience yield, infrastructure – could not crystallise into the stable patterns the macro-finance literature documents.

Legitimation matters operationally because CP becomes more contestable as its legitimacy erodes. Episodes of overt instrumentalization – secondary sanctions, asset freezes, extraterritorial enforcement – strain this legitimacy and, by feedback, accelerate the search for alternatives [68; 9]. The Clayton–Maggiori–Schreger [22] dynamic-commitment result supplies a formal microfoundation for Prasad’s [77] institutional-trust intuition: the legitimation premium accrues precisely to those issuers that can credibly precommit to *not* using their structural power for short-term political advantage. Legitimation thus enters the conceptual map as the condition under which CP can be exercised without provoking proportionate counter-mobilisation against it; and the central empirical question for the contemporary system is whether the post-2022 pattern of selective instrumentalization has crossed, or merely approached, the legitimation threshold beyond which incremental structural drift becomes regime-level reorganisation. The question is not amenable to direct measurement, because legitimacy is by its nature a categorial rather than a quantitative property; but it is amenable to indirect indicators – gold accumulation, parallel-infrastructure adoption, shifts in invoicing behaviour conditional on geopolitical alignment – which together constitute the empirical surface through which the underlying ideational regime can be observed in the act of changing.

6. Conclusions

The article has constructed a layered conceptual map in which currency power is derived rather than postulated, and the derivation has been undertaken at two intersecting registers: the *ontic* register of empirical channels and forms – invoicing, banking, convenience yield, infrastructure, and the six functional cells that follow from the cross-classification of the three monetary functions with the public/private distinction – and the *ontological* register of categorial transitions that distinguish one tier of the chain from the next. Power, defined as the capacity of an actor, institution, or structure to shape the space of the possible, descends into economic power along four distinct channels (productive-resource, trade-market, financial, monetary). Monetary power bifurcates into domestic and international registers; international monetary power is broader than currency power, comprising any cross-border or systemic exercise of monetary authority. Currency power is the species of international monetary power that materialises when non-residents come to depend on the issuer’s currency for one or more international roles – and only then. Its forms are mapped to the functions of international currency – transactional, vehicle, denomination, anchor, reserve, and financial-market CP – each modulated in intensity by the cross-cutting condition of liquidity and undergirded by four self-reinforcing mechanisms (dominant-currency invoicing, banking–trade complementarity, the safe-asset convenience yield, and infrastructural sunk costs). Currency statecraft is the deliberate, intentionally directed instrumentalization of this stock and consumes it with each overt exercise; currency dependence is its user-side phenomenological correlate; currency hierarchy is the systemic pattern of these correlates, reproduced through asset-manager intermediation, emergency-liquidity asymmetries, and embedded benchmark architectures; and legitimation is the ideational and categorial regime under which the configuration stabilises.

Three principal contributions follow. *Analytically*, the map disposes of the conflation that have eroded the usefulness of currency power as a category, and provides explicit criteria – non-resident use, function-specific dependence, demarcation from international monetary power – that render claims about CP testable and falsifiable. *Empirically*, it organises a heterogeneous evidence base (FX shares, invoicing patterns, reserve composition, exchange-rate anchoring, financial-market denomination, swap-line topology, central-bank gold, parallel payment infrastructures) under a single mapping, allowing analysts to track changes in CP function-by-function rather than through aggregate indices alone. *Politically*, it disciplines debates about weaponization, de-dollarisation, and currency multipolarity by separating phenomena that operate at the international-monetary-power level from those that operate at the currency-power level, and by identifying legitimation as a measurable, contestable condition. *Philosophically*, and underwriting the three preceding contributions, the article

reconstructs the implicit ontology of currency power that the IPE and macro-finance literatures have left tacit – establishing CP as a relational effect rather than a property or capacity, distinguishing the ontic level of empirical regularities from the ontological level of categorial conditions of possibility, and articulating legitimation as the ideational regime through which the structural mechanisms become intelligible to the agents whose behaviour they shape.

Three lines of further research follow. First, *operationalisation*: each cell of the CP map can be paired with quantitative indicators – the Boz et al. [18] invoicing dataset, IMF COFER for reserves, BIS Locational Banking Statistics for cross-border banking, the Ilzetzki–Reinhart–Rogoff classification for anchoring [56], and the World Gold Council central-bank survey for the gold-reserve substitution channel – yielding a multi-dimensional CP dashboard that improves on existing aggregate indices. Second, *dynamic modelling*: the exorbitant-privilege/exorbitant-duty trade-off can be formalised as an inter-temporal optimisation by the issuer with non-resident substitution as the constraint, building on Hassan et al. [50], Bianchi and Sosa-Padilla [11], Clayton, Maggiori and Schreger [21; 22], Gourinchas [47], and Jiang, Krishnamurthy and Lustig [58]. Third, *applied case studies*: the framework can be applied to the post-2022 Russia reserve-immobilisation episode, the renminbi internationalisation strategy [35; 65; 85], cross-border CBDC interoperability projects, and prospective scenarios for the international roles of the euro and the major emerging-market currencies [34; 35; 7]. Underlying all three is a fourth, more philosophical line of inquiry: a sustained reflection on the gnoseology of monetary power – on the categorial grids, indicators, and inferential practices through which analysts come to know the international monetary system as the structured object the present article has reconstructed – would deepen the conceptual map’s foundations and supply an explicit account of the conditions under which empirical claims about currency power can themselves be evaluated as knowledge claims rather than as mere descriptions.

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