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Swap Worthy? The Geopolitical Determinants of Chinese Currency Swaps

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Abstract: This study investigates the geopolitical determinants of Chinese bilateral currency swap agreements (BSAs), focusing not only on why some swaps are signed, but also on why others are expanded or terminated over time. Unlike prior research that centers on swap initiation, this paper provides a comprehensive lifecycle analysis of BSAs—covering their initiation, evolution, and discontinuation—through a novel integration of geopolitical alignment indicators (e.g., UN voting, BRI participation) and economic fundamentals (e.g., GDP size, reserves). Employing a mixed-methods design combining logistic regressions, Prais–Winsten models, and survival analysis, the study uncovers a dual logic behind China’s swap diplomacy: closer geopolitical alignment increases the probability of swap access and durability, while economic strength amplifies the benefits of alignment and cushions the risks of weaker ties. This interactive framework contributes theoretically to the literature on financial statecraft by demonstrating how China fuses diplomatic incentives with liquidity tools. Practically, the findings highlight that for smaller economies, Chinese BSAs offer both financial benefits and potential political dependencies—raising critical questions about autonomy, conditionality, and strategic alignment in a fragmented global monetary system.

Keywords: China; Currency Swaps; Financial Statecraft; Financial Cooperation

1. Introduction

The acute dollar liquidity shortages experienced during the 2008 global financial crisis prompted central banks to establish cooperative insurance mechanisms such as bilateral currency swap agreements (BSAs) (McDowell, 2019a). BSAs are arrangements whereby two central banks agree to exchange their respective currencies (Appendix A.1). Chinese bilateral swap agreements, denominated in Renminbi (RMB) and the currency of the relevant partner central bank, enable the latter to access RMB liquidity for short periods at relatively low interest rates, with its own currency serving as implicit collateral.

Since 2009, the People's Bank of China (PBoC) has emerged as a leading provider of central bank swap arrangements. According to the 2022 RMB Internationalization Report published by the PBoC,

states. These sunk costs may discourage both China and its partners from terminating existing swap agreements.

Most existing studies focus on the initial signing of swaps, leaving open the question of how swaps evolve over time. For example, Sri Lanka's initial BSA with China, signed in 2014 during the pro-China Rajapaksa administration, was not renewed after 2017 following a political shift toward rebalancing foreign relations (Goh, 2016). A new agreement was signed in 2021 when the Rajapaksa government returned to power. Similarly, in Brazil, the existence and expansion of swap lines have corresponded with the periods of leadership by President Lula and his party, known for closer ties with China. Other countries, such as Pakistan, Argentina, Hungary, and Chile, have also seen expansions in their swap arrangements as their geopolitical relations with China deepened after the initial signing.

This paper examines why China has continued, expanded, or terminated certain swap agreements over time. Specifically, it investigates the role of geopolitical alignment and economic performance in shaping these decisions, and how these dynamics differ for large and small economies. It argues that closer political alignment with China increases the likelihood of securing and expanding swap agreements, while deteriorating relations raise the risk of termination. Economic strength amplifies the effect of close political relations and mitigates the risks of weaker ties. By portraying BSAs as a benefit for alignment, China incentivizes broader support for its leadership ambitions, as noted by Subacchi (2010). This study analyzes these patterns using two main geopolitical variables—UN General Assembly voting alignment and Belt and Road Initiative (BRI) membership—while controlling for economic and domestic factors. It also complements quantitative findings with anecdotal evidence from participation in BRI summits, which provide important signals of political alignment.

This study finds that closer geopolitical alignment with China increases the probability that a country is selected as a swap partner, enhances the likelihood of swap line expansion over time, and reduces the probability of termination. Moreover, the economic strength of partner countries amplifies the benefits of close political ties and moderates the risks associated with weaker relations. These findings suggest that while closer relations with China can be advantageous—particularly for smaller economies—they may also influence future policy autonomy as China's political and financial influence grows.

The remainder of this paper is organized as follows. Section 2 reviews the existing literature on the determinants of Chinese BSAs. Section 3 presents the theoretical framework and hypotheses regarding the role of economic and geopolitical factors. Section 4 outlines the data sources and research design. Section 5 discusses the empirical findings, and Section 6 examines the robustness of the results. Section 7 concludes with a discussion of the broader policy implications.

2. Literature Review

The existing literature on swap determinants exhibits two main gaps that this paper addresses. First, no previous studies have quantified the role of geopolitical factors in shaping the status of swap lines

beyond their initial signing. Although McDowell (2019b) provides qualitative examples suggesting that China's swap lines can be used for political influence, systematic evidence remains lacking. Second, prior studies have generally overlooked the interaction between China's economic and political incentives in determining swap line dynamics. This paper addresses these omissions by introducing interaction terms between economic and geopolitical variables.

Previous research has mainly focused on identifying factors that determine whether countries receive a swap line (Liao & McDowell, 2015; McDowell, 2019a; Garcia-Herrero & Xia, 2015; Lin, Zhan, & Cheung, 2016; Li et al., 2023), rather than how swaps evolve over time. The limited temporal scope of these studies also constrains their ability to capture recent geopolitical shifts in which China has played an increasingly central role. This paper contributes by using updated data and incorporating new geopolitical variables into the analysis.

Two studies underscore the geopolitical dimension of swap allocation. Liao and McDowell (2015) find that membership in the Shanghai Cooperation Organisation (SCO) increases the probability of receiving a swap line. Lin et al. (2016) employ a dummy variable for strategic partnerships, although this measure is problematic given the lack of formal criteria or clear definitions for such partnerships (Cowhig, 2021; Ideas, 2023). This study discusses in Section 4 why SCO membership is also no longer a robust proxy for geopolitical alignment.

The economic motivations behind Chinese BSAs are well-established. Liao and McDowell (2015) argue that BSAs offer financial insulation from dollar shortages and reduce transaction costs, benefits that strengthen *de facto* economic interdependence. Trade and investment ties have been shown to significantly increase the probability of a swap agreement (Garcia-Herrero & Xia, 2015; Lin et al., 2016). However, even after controlling for economic drivers, this paper demonstrates that geopolitical factors continue to play an important role in shaping China's swap decisions.

Gravity factors, such as economic size and geographic distance, are often cited as important predictors (Lin et al., 2016). Closer geographic proximity and larger GDP are generally associated with a higher likelihood of receiving a swap. However, exceptions suggest that these factors must be analyzed alongside geopolitical considerations. Recent work by Li et al. (2023) highlights how distance can interact with alliance networks to better explain swap patterns. This study follows a similar approach, interacting economic strength with geopolitical alignment to capture China's dual incentives in swap diplomacy.

Finally, the role of domestic institutional factors remains contested. Lin et al. (2016) and Garcia-Herrero and Xia (2015) examine how factors like sovereign default risk and corruption influence swap allocation, with mixed results. While Garcia-Herrero and Xia (2015) find little impact, Lin et al. (2016) suggest that China is less likely to sign swap agreements with countries that have poor reputations for corruption or histories of default. This study includes these variables to assess their influence on both swap initiation and evolution over time.

3. Argument and Hypotheses

The sustainability of China's bilateral swap agreements (BSAs) depends in part on persistent demand, driven by the broader trend toward de-dollarization. BSAs allow countries to settle trade in their own currencies, at least for transactions with China. Chinese leaders have long expressed concerns that the dominance of the U.S. dollar poses risks to global economic stability (China Power, 2020). Similar concerns have been raised by European and South Korean policymakers and were echoed by President Lula's call to "end the greenback's dominance" (Lockett & Leahy, 2023). These developments suggest enduring international interest in alternatives to dollar-based financial arrangements.

Despite the opacity surrounding official swap deals, there is evidence of demand for Chinese BSAs. He (2015) notes that several agreements were initiated at the request of foreign central banks, including South Korea, Argentina, Malaysia, and Indonesia. This trend was reaffirmed by People's Bank of China Governor Yi Gang in 2018, who highlighted the unexpectedly strong international demand for RMB swap lines (PBoC, 2018).

Nonetheless, several factors may limit the global demand for Chinese swaps. Studies have reported mixed results regarding BSAs' effectiveness in promoting RMB settlements (McDowell, 2019b; Song & Xia, 2020). However, ongoing global geopolitical shifts, such as Russia's growing reliance on the yuan for international transactions (Chen, 2024), may bolster future demand. While proximity to U.S. allies has been found to reduce the probability of a swap (Li et al., 2023), the large pool of non-allied potential recipients and the existence of BSAs with U.S. allies like South Korea and Japan suggest that this limitation is not absolute.

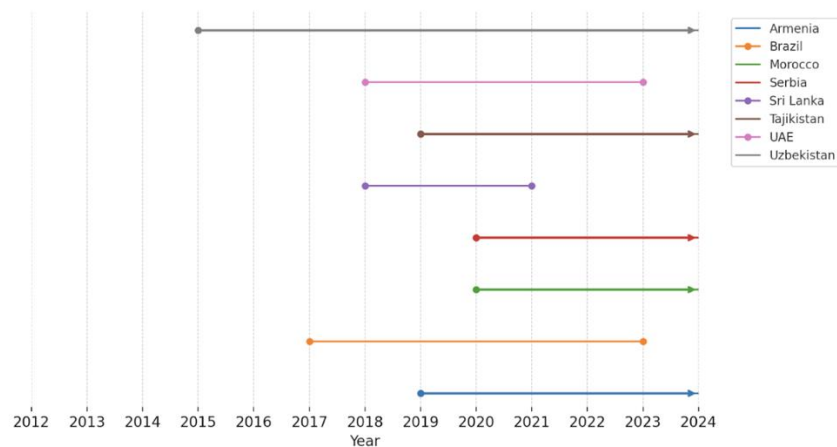
Given China's sovereign control over the use of the RMB and the conditions attached to swap agreements, it retains significant discretion over the terms of usage. Bilateral communications confirm that access to swap funds may be contingent on meeting specific requirements. For example, Sri Lanka's central bank requested discussions with Chinese authorities regarding the release conditions for an existing swap line (Ranasinghe, 2022), and a supplementary agreement between Argentina and China tied swap usage to the continuation of an IMF program (CBA, 2018).

These conditions suggest that China can shape the operational dynamics of BSAs over time. Evidence from swap line expansions (Table 2) and terminations (Figure 2) indicates that changes in swap arrangements correlate with changes in political alignment. As China's global financial role expands, it continues to create incentives for wider RMB usage (Subacchi, 2010). In this framework, BSAs serve not only economic objectives but also diplomatic ones, encouraging countries to align with China's broader leadership ambitions.

Table 2: Swap Line Expansions Over Time

Country	Date of Expansion	% Increase
South Korea	October 2011	100%
South Korea	October 2020	11.1%
Malaysia	February 2012	125%
Mongolia	March 2012	100%
Mongolia	August 2014	50%
Singapore	March 2013	100%
Turkey	September 2015	20%
Turkey	June 2021	191.7%
United Kingdom	October 2015	75%
Pakistan	May 2018	100%
Pakistan	July 2020	50%
Argentina	December 2018	85.7%
Hungary	December 2019	100%
Chile	July 2020	127.3%

Source: Author's compilation based on PBoC data.

Figure 2: Terminated Chinese BSAs²

Following the initial agreement, China continues to evaluate the “swap worthiness” of recipients. This evaluation, summarized in Figure 3, involves rewarding improving relations through swap expansions and, if necessary, reducing access or terminating arrangements when relations deteriorate.

These mechanisms are particularly influential for smaller economies, where the political benefits of swap access may outweigh the economic risks for China. Additionally, the limited availability of alternative liquidity support from other major powers, particularly the U.S. Federal Reserve's restricted swap network, may further incentivize alignment with China.

Figure 3: China's Evaluation of Partner Swap Worthiness



This evaluation is further conditioned by the economic strength of recipient countries. Stronger economies, with lower financial risk and greater potential to promote RMB usage, may receive continued support despite moderate political distance. Conversely, smaller economies are more likely to see their political alignment closely scrutinized. Table 3 summarizes this interaction between economic size and political alignment.

Table 3: Interaction Between China's Economic and Political Incentives

Category	China Aligned	China Non-Aligned
Large Economy	Most Likely (Economic and Political) e.g., Russia	Likely (Economic) e.g., Korea, Japan
Small Economy	Likely (Political) e.g., Sri Lanka, Suriname	Not Likely e.g., Haiti, Guatemala

Source: Author's compilation.

As BSAs are voluntary agreements, China's broader objectives are achieved not through coercion but through offering financial cooperation to partners that support its leadership trajectory. This dynamic leads to the following hypotheses:

- H1A: Closer geopolitical relations with China increase the probability that countries receive Chinese BSAs.
- H1B: Economic strength amplifies (moderates) the effect of closer (distant) geopolitical relations.

After the initial signing, swap lines continue to be contingent upon evolving relations. China may reward improving relations through expansions or reduce swap access when relations weaken. This expectation gives rise to a second set of hypotheses:

- [1]. H2A: Closer geopolitical relations with China increase the probability that existing swap lines are expanded.
- [2]. H2B: Economic strength amplifies (moderates) the effect of closer (distant) geopolitical relations in the intensive margin.
- [3]. H3A: Closer geopolitical relations with China reduce the probability that existing swap lines are terminated.
- [4]. H3B: Economic strength amplifies (moderates) the effect of closer (distant) geopolitical relations in decisions regarding swap terminations.

4. Research Design

4.1 Partner Selection

This study builds on previous research on China's selection of swap partners by reconfirming the importance of geopolitical factors and their interaction with economic variables. While earlier studies have established the significance of geopolitics (Liao & McDowell, 2015; Li et al., 2023), this section seeks to validate and extend those findings using novel variables and interactions. A logistic regression is employed (Equation 1) using a balanced panel of 195 countries from 2008 to 2021. Logistic regressions are standard in the swap determinants literature (Liao & McDowell, 2015; McDowell, 2019a; Garcia-Herrero & Xia, 2015; Lin et al., 2016), predicting a categorical dependent variable. Independent variables are grouped into four categories: Geopolitical Factors, Gravity Factors, Bilateral Economic Factors, and Domestic Macroeconomic Factors. Table 4 summarizes variable descriptions.

Equation 1:

$$\begin{aligned}
 Swap_{\{i,t+1\}} = & \beta_0 + \beta_1 Alignment_{\{i,t\}} + \beta_2 BRI_{\{i,t\}} + \beta_3 SCO_{\{i,t\}} \\
 & + \beta_4 Conflict_{\{i,t\}} + \beta_5 Distance_{\{i,t\}} + \beta_6 \log(GDP_{\{i,t\}}) \\
 & + \beta_7 Trade_{\{i,t\}} + \beta_8 \log(FDI_{\{i,t\}}) + \beta_9 Oil_{\{i,t\}} + \beta_{10} Inflation_{\{i,t\}} \\
 & + \beta_{11} Reserves_{\{i,t\}} + \beta_{12} Corruption_{\{i,t\}} + \beta_{13} Growth_{\{i,t\}} \\
 & + \beta_{14} Polity_{\{i,t\}} + \delta_1 (Alignment_{\{i,t\}} \times \log(GDP)) \\
 & + \delta_2 (BRI_{\{i,t\}} \times \log(GDP)) + \delta_3 (SCO_{\{i,t\}} \times \log(GDP)) \\
 & + \delta_4 (Conflict_{\{i,t\}} \times \log(GDP)) + \varepsilon_i
 \end{aligned}$$

Table 4: Variables and Descriptions for Partner Selection Mode

Variable	Description
Swap	Dummy variable coded 1 if a BSA exists between China and a partner country in a given year, 0 otherwise
Alignment	Negative absolute value of UNGA ideal point distance between partner and China (closer to zero indicates closer political alignment)
BRI	Dummy variable coded 1 if a country is a member of the Belt and Road Initiative, 0 otherwise
SCO	Dummy variable coded 1 if a country is a member of the Shanghai Cooperation Organisation, 0 otherwise
Conflict	Dummy variable coded 1 if China had a territorial dispute with a partner country in the past 20 years, 0 otherwise
Distance	Geographic distance (in km) between Beijing and the partner country's capital city (from CEPII Gravity Dataset)
logGDP	Natural logarithm of partner country's annual GDP (in billions of USD)
Trade	Partner's trade dependency on China (percentage of total trade volume)
logFDI	Natural logarithm of inward FDI flows from China to the partner country (in millions of USD)
Oil	Partner's average daily oil production (in million barrels per day)
Inflation	Annual inflation rate (%) of partner country
Reserves	Partner's foreign exchange reserves in months of imports
Corruption	World Bank Control of Corruption Index (higher values = better governance)
Growth	Partner country's annual GDP growth rate (%)
Polity	Political regime type: 0 = closed autocracy, 1 = electoral autocracy, 2 = electoral democracy, 3 = liberal democracy
Interaction Terms	Interaction of geopolitical variables (Alignment, BRI, SCO, Conflict) with logGDP to test moderating effects of economic size

The dependent variable indicates the presence of a Bilateral Swap Agreement (BSA) between China and a partner country in a given year, coded as 1 if active and 0 otherwise. Although BSAs are typically signed for three years, either party may terminate them at any time; thus, they are treated as independent observations across years. Data on BSAs is sourced from the 2022 RMB Internationalization Report published by the PBoC.

Geopolitical variables are central to this analysis. First, geopolitical alignment is measured through ideal point distances derived from United Nations General Assembly (UNGA) voting patterns (Bailey, Strezhnev, & Voeten, 2017). This approach, widely used in international relations scholarship (Broz et al., 2020; Li et al., 2023), defines alignment as the negative absolute distance between a country's ideal point and China's in a given year. Values closer to zero indicate stronger political alignment.

Second, Belt and Road Initiative (BRI) membership is tested as an indicator of strategic alignment. BRI membership, which expanded rapidly after its 2013 launch, signals acceptance of China's economic and political leadership (Broz et al., 2020). The BRI variable is coded as 1 for BRI members and 0 otherwise. Third, the effect of Shanghai Cooperation Organization (SCO) membership is analyzed. Earlier findings (Liao & McDowell, 2015) suggested SCO membership significantly increased the probability of securing a swap line. However, more recent assessments question the SCO's cohesion and geopolitical significance (Mahbi, 2021). The SCO variable is coded as 1 for members and 0 otherwise.

Fourth, the impact of territorial disputes is captured using the Militarized Interstate Disputes (MIDs) dataset (Version 4.01) from the Correlates of War Project (Maoz et al., 2018). A conflict dummy variable is coded as 1 if China had a territorial dispute with a country in the preceding two decades. Gravity variables control for geographic and economic proximity. Distance is measured as the geographic distance between Beijing and partner capitals, using the CEPII Gravity Database. Economic size is proxied by the log of annual GDP (billions of USD). Larger economies are hypothesized to be more likely swap recipients, either reinforcing close relations or compensating for weaker ties.

Bilateral economic relations are also incorporated. Trade dependence is measured through partners' trade share with China using IMF Direction of Trade Statistics, while investment flows are proxied by inward FDI from China using IMF CDIS data. These variables capture bilateral economic integration, which may promote swap signing independently or alongside political considerations. Several domestic macroeconomic indicators are controlled for. Oil production is included given China's strategic energy interests, although prior studies find no consistent effect (Liao & McDowell, 2015). Inflation rates, growth rates, and reserve levels (in months of imports) are also controlled for, given their importance in assessing macroeconomic stability (Garcia-Herrero & Xia, 2015). Notably, China's condition that Sri Lanka maintain reserves equivalent to three months of imports before accessing its swap line highlights the relevance of reserves.

Finally, political stability is controlled through two measures. The World Bank's Control of Corruption Index accounts for governance quality, with higher values indicating better anti-corruption outcomes (Lin et al., 2016; Garcia-Herrero & Xia, 2015). Political regime type is coded using the Polity IV dataset: closed autocracies (score 0), electoral autocracies (score 1), electoral democracies (score 2), and liberal democracies (score 3), based on data processed by Our World in Data.

4.2 Swap Expansions

Why did some countries receive expanded swap lines over time? To test the hypothesis that China rewards improving bilateral relations with swap expansions, this section examines the relationship between geopolitical alignment and changes in the intensity (amount) of existing swap lines. Two models are specified to test this relationship (Equations 2 and 3). To assess whether geopolitical

alignment affects the absolute amount of a swap line following its initial signing, I estimate the following model:

Equation 2:

$$\begin{aligned} \text{Amount}_{i,t+1} &= \beta_0 + \beta_1 \text{Alignment}_{i,t} + \beta_2 \text{BRI}_{i,t} + \beta_3 \log \text{GDP}_{i,t} + \beta_4 \text{Trade}_{i,t} + \beta_5 \log \text{FDI}_{i,t} \\ &\quad + \beta_6 \text{Reserves}_{i,t} + \beta_7 \text{Corruption}_{i,t} + \beta_8 \text{Growth}_{i,t} + \delta_1 \text{Alignment}_{i,t} \times \log \text{GDP} \\ &\quad + \delta_2 \text{BRI}_{i,t} \times \log \text{GDP} + \delta_3 \text{Alignment}_{i,t} \times \text{Reserves} + \delta_4 \text{BRI}_{i,t} \times \text{Reserves} + \epsilon_i \\ &\quad + \tau_i \text{Amount}_{i,t+1} \\ &= \beta_0 + \beta_1 \text{Alignment}_{i,t} + \beta_2 \text{BRI}_{i,t} + \beta_3 \log \text{GDP}_{i,t} + \beta_4 \text{Trade}_{i,t} + \beta_5 \log \text{FDI}_{i,t} \\ &\quad + \beta_6 \text{Reserves}_{i,t} + \beta_7 \text{Corruption}_{i,t} + \beta_8 \text{Growth}_{i,t} + \delta_1 \text{Alignment}_{i,t} \times \log \text{GDP} \\ &\quad + \delta_2 \text{BRI}_{i,t} \times \log \text{GDP} + \delta_3 \text{Alignment}_{i,t} \times \text{Reserves} + \delta_4 \text{BRI}_{i,t} \times \text{Reserves} + \epsilon_i \\ &\quad + \tau_i \end{aligned}$$

Since the Durbin–Watson test indicates autocorrelation in the dependent variable (swap amount), a Prais–Winsten regression is used. This estimation method addresses first-order serial correlation by iteratively adjusting coefficients, transforming the model into AR(1) form, and preserving OLS efficiency (Cochrane & Orcutt, 1949). To control for unobserved heterogeneity, a country-level fixed effects model is also applied. To test whether improved alignment increases the likelihood of a swap line being expanded, I specify the following binary model:

Equation 3:

$$\begin{aligned} \text{Expansion}_{i,t+1} &= \beta_0 + \beta_1 \text{Alignment}_{i,t} + \beta_2 \text{BRI}_{i,t} + \beta_3 \log \text{GDP}_{i,t} + \beta_4 \text{Trade}_{i,t} \\ &\quad + \beta_5 \log \text{FDI}_{i,t} + \beta_6 \text{Reserves}_{i,t} + \beta_7 \text{Corruption}_{i,t} + \beta_8 \text{Growth}_{i,t} \\ &\quad + \delta_1 \text{Alignment}_{i,t} \times \log \text{GDP} + \delta_2 \text{BRI}_{i,t} \times \log \text{GDP} \\ &\quad + \delta_3 \text{Alignment}_{i,t} \times \text{Reserves} + \delta_4 \text{BRI}_{i,t} \times \text{Reserves} + \epsilon_i + \tau_i \text{Expansion}_{i,t+1} \\ &= \beta_0 + \beta_1 \text{Alignment}_{i,t} + \beta_2 \text{BRI}_{i,t} + \beta_3 \log \text{GDP}_{i,t} + \beta_4 \text{Trade}_{i,t} + \beta_5 \log \text{FDI}_{i,t} \\ &\quad + \beta_6 \text{Reserves}_{i,t} + \beta_7 \text{Corruption}_{i,t} + \beta_8 \text{Growth}_{i,t} + \delta_1 \text{Alignment}_{i,t} \times \log \text{GDP} \\ &\quad + \delta_2 \text{BRI}_{i,t} \times \log \text{GDP} + \delta_3 \text{Alignment}_{i,t} \times \text{Reserves} + \delta_4 \text{BRI}_{i,t} \times \text{Reserves} + \epsilon_i \\ &\quad + \tau_i \end{aligned}$$

Here, the dependent variable is binary: coded 1 if a swap line was expanded in a given year, and 0 otherwise. The model structure is otherwise identical to Equation 2. Both models limit geopolitical variables to alignment and BRI membership, since SCO and conflict status do not vary over time. Three groups of control variables—economic size, trade, and FDI—are maintained from earlier specifications. Additionally, interactions between geopolitical alignment and reserve levels are included to reflect how economic stability may condition the effect of politics on swap expansion decisions, particularly for smaller economies.

Recognizing that BRI membership may not reflect the strength of commitment within the initiative, I include a robustness proxy: summit attendance. This variable is coded 1 if a country's head of state attended either the 2017 or 2019 BRI summits (Broz et al., 2020). Head-of-state attendance involves

political cost and is thus interpreted as a credible signal of alignment with Chinese leadership. This proxy is used to support the interpretation of Equations 2 and 3.

4.3 Swap Terminations

This section analyzes the determinants of China's decision to terminate existing bilateral swap agreements (BSAs). The dependent variable, *Swap Termination*, is coded 1 if a swap line is terminated in a given year, and 0 for years in which it remains in place. To examine the drivers of swap discontinuation, a probit regression is estimated using the following model:

Equation 4:

Termination_{i, t + 1}

$$\begin{aligned}
 &= \beta_0 + \beta_1 \text{Alignment}_{i, t} + \beta_2 \text{BRI}_{i, t} + \beta_3 \log \text{GDP}_{i, t} + \beta_4 \text{Trade}_{i, t} + \beta_5 \log \text{FDI}_{i, t} \\
 &+ \beta_6 \text{Reserves}_{i, t} + \beta_7 \text{Corruption}_{i, t} + \beta_8 \text{Growth}_{i, t} + \delta_1 \text{Alignment}_{i, t} \times \log \text{GDP} \\
 &+ \delta_2 \text{BRI}_{i, t} \times \log \text{GDP} + \delta_3 \text{Alignment}_{i, t} \times \text{Reserves} + \delta_4 \text{BRI}_{i, t} \times \text{Reserves} + \epsilon_i \\
 &+ \tau_i \text{Termination}_{i, t + 1} \\
 &= \beta_0 + \beta_1 \text{Alignment}_{i, t} + \beta_2 \text{BRI}_{i, t} + \beta_3 \log \text{GDP}_{i, t} + \beta_4 \text{Trade}_{i, t} + \beta_5 \log \text{FDI}_{i, t} \\
 &+ \beta_6 \text{Reserves}_{i, t} + \beta_7 \text{Corruption}_{i, t} + \beta_8 \text{Growth}_{i, t} + \delta_1 \text{Alignment}_{i, t} \times \log \text{GDP} \\
 &+ \delta_2 \text{BRI}_{i, t} \times \log \text{GDP} + \delta_3 \text{Alignment}_{i, t} \times \text{Reserves} + \delta_4 \text{BRI}_{i, t} \times \text{Reserves} + \epsilon_i \\
 &+ \tau_i
 \end{aligned}$$

Equation 4 retains the same specification as the expansion models (Equations 2 and 3), differing only in the dependent variable. The model tests whether deteriorating geopolitical alignment or economic fundamentals increase the likelihood of swap line termination. The probit specification is chosen given the binary nature of the dependent variable.

To further assess the durability of BSAs, a complementary survival analysis is conducted using Kaplan–Meier curves. This approach estimates swap line longevity as a function of BRI membership and political alignment, offering an alternative perspective on the conditions under which swap lines persist or are discontinued.

5. Results

5.1 Partner Selection

Table 5 presents the results of the logistic regressions examining the determinants of swap partner selection. Columns (1) and (2) support the hypothesis that geopolitical alignment significantly increases the likelihood of receiving a Chinese BSA. Countries with UNGA ideal points closer to China's were more likely to be selected as swap partners. BRI membership is also positively associated with swap allocation, significant at the 5% level in column (1).

Conflict with China significantly reduces the probability of selection. This suggests that unresolved bilateral tensions act as a deterrent in China's partner decisions. SCO membership, although positive,

is not statistically significant across any of the models. This diverges from earlier findings by Liao and McDowell (2015) and likely reflects the SCO's diminished geopolitical coherence and institutional weakness in recent years (Xue & Makengo, 2021; Mahbi, 2021).

Among control variables, economic size is consistently positive and significant: larger economies are more likely to be selected. Trade and investment flows (logFDI) also show a strong positive effect, indicating that bilateral economic integration plays an important role. Consistent with prior findings, oil production remains an insignificant predictor, suggesting China's swap decisions are not directly influenced by energy considerations.

Table 5: Effect of Geopolitical Factors on China's Swap Partner Selection

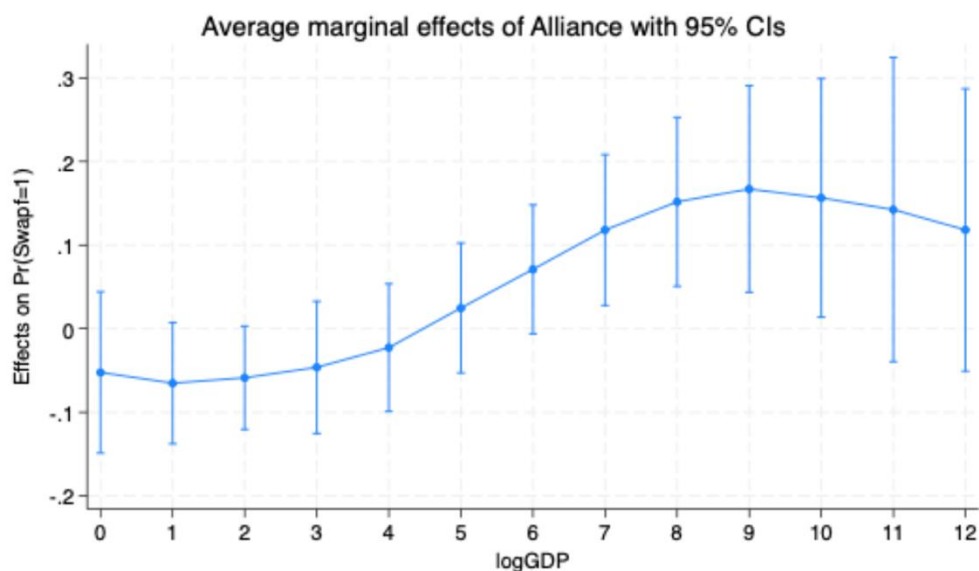
Variable	(1) BSA(t+1)	(2) BSA(t+1)	(3) BSA(t+1)
Alignment	1.112* (1.71)	1.754** (2.14)	-3.700 (-1.54)
BRI	0.990** (2.22)	1.207 (1.25)	3.626 (1.16)
SCO	0.916 (0.26)	5.261 (1.61)	1.809 (0.26)
Conflict	-11.67** (-2.29)	-14.04*** (-3.10)	8.111 (0.42)
Distance	-0.000447* (-1.81)	-0.000598** (-2.55)	-0.000531** (-2.12)
logGDP	2.460*** (4.16)	2.098*** (3.48)	3.000*** (3.79)
Trade	16.94*** (2.59)	16.54* (1.76)	17.07* (1.88)
logFDI	0.384*** (2.96)	0.124 (0.74)	0.128 (0.79)
Oil	0.000469 (0.66)	—	0.000385 (0.46)
Inflation	-0.0132 (-0.48)	—	-0.0119 (-0.44)
Reserves	0.133 (1.38)	—	0.120 (1.29)
Corruption	2.089*** (2.83)	—	2.146*** (2.91)
GDPg	0.214*** (2.81)	—	0.217*** (2.88)
Polity	0.253 (1.61)	—	0.189 (1.17)
Alignment × logGDP	—	—	0.931** (2.20)
BRI × logGDP	—	—	-0.536 (-0.75)
SCO × logGDP	—	—	0.705 (0.50)
Conflict × logGDP	—	—	-3.019 (-1.11)
Constant	-14.30*** (-3.73)	-12.98*** (-3.73)	-17.65*** (-4.03)
Insig2u	3.934*** (12.20)	3.753*** (9.61)	3.475*** (8.17)
N	889	488	488

Notes: t-statistics in parentheses. $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Institutional quality shows mixed results. While previous studies reported no significant effect of corruption (Lin et al., 2016), the results here suggest countries with better control of corruption are more likely to receive BSAs. This implies that governance may matter more than previously assumed. Other macro indicators, including inflation, reserves, and political regime type, are not statistically significant.

Figure 4 visualizes the interaction between alignment and economic size. The marginal effects reveal that political alignment only significantly influences swap decisions for countries within a middle band of economic size. Among very small economies, alignment alone is insufficient to qualify as swap-worthy due to limited financial infrastructure or implementation capacity (e.g., Haiti, Syria). Conversely, for large economies, geopolitical alignment becomes less important as their economic strength alone is sufficient (e.g., Russia, UK, South Korea). These findings align with the theoretical expectation that economic size can either amplify the effects of political alignment or compensate for weak ties.

Figure 4: The Effect of Geopolitical Factors based on Economic Size



Finally, the interaction term between conflict and economic strength is insignificant. One possible explanation is that countries with ongoing disputes—such as Japan and South Korea—still receive swaps due to their economic relevance, suggesting that China is willing to overlook political tensions when the partner country is economically significant.

5.2 Swap Expansions

Table 6 provides statistical evidence that geopolitical alignment and economic strength jointly influence swap expansions. Column (4) shows that BRI membership significantly increases the probability that a swap line will be expanded in the following year, supporting the hypothesis that improving alignment is rewarded. The negative coefficient on reserves confirms that countries with

limited reserve buffers are more likely to receive expanded swap lines, reinforcing the function of BSAs as liquidity backstops. This pattern is evident in countries like Pakistan, Argentina, Mongolia, and Sri Lanka, which have tapped into their swap lines during fiscal distress.

Table 6: Effect of Geopolitical Factors on Swap Expansions Over Time

Variable	(1) Amount (t+1)	(2) Amount (t+1)	(3) Amount (t+1)	(4) Expansion (t+1)	(5) Expansion (t+1)	(6) Expansion (t+1)
Alignment	-1.142 (-1.36)	-10.94 (-1.21)	-30.70* (-1.87)	-1.303 (-1.39)	-6.884** (-1.90)	-4.681* (-1.65)
BRI	-0.356 (-0.48)	17.1*** (4.36)	11.68*** (5.29)	5.735** (2.10)	5.906 (1.47)	-5.906 (-1.47)
logGDP	-10.94 (-1.21)	17.1*** (4.36)	11.68*** (5.29)	-11.47 (-1.77)	-11.74 (-1.77)	-11.47 (-1.77)
logFDI	0.304 (0.55)	2.340 (0.55)	2.340 (0.55)	1.577 (0.68)	1.577 (0.68)	1.577 (0.68)
Trade	2.940 (0.55)	2.940 (0.55)	2.940 (0.55)	-1.633 (-1.24)	-1.683 (-1.24)	-1.683 (-1.24)
Reserves	-2.533** (-2.53)	-2.533** (-2.53)	-2.533** (-2.53)	-0.484 (-1.40)	-0.484 (-1.40)	-0.484 (-1.40)
Corruption	-13.72** (-2.33)	-13.72** (-2.33)	-13.72** (-2.33)	0.326 (1.40)	0.285 (1.40)	0.285 (1.40)
GDPg	-1.177 (-1.23)	-1.177 (-1.23)	-1.177 (-1.23)	—	—	—
Alignment × logGDP	—	-9.013 (-1.33)	-3.171 (-0.75)	—	—	—
BRI × logGDP	—	—	5.181* (1.89)	—	—	—
Alignment × Reserves	—	—	—	1.092 (1.62)	1.493** (2.03)	1.493** (2.03)
BRI × Reserves	—	—	—	1.511*** (2.22)	1.511*** (2.22)	1.511*** (2.22)
Constant	-440.4*** (-4.22)	-276.2*** (-3.88)	-47.79*** (-3.88)	-47.79*** (-3.88)	-40.43*** (-3.42)	-40.43*** (-3.42)
Country FE	YES	YES	YES	YES	YES	YES

	(1)	(2)	(3)	(4)	(5)	(6)
Variable	Amount	Amount	Amount	Expansion	Expansion	Expansion
	(t+1)	(t+1)	(t+1)	(t+1)	(t+1)	(t+1)
N	200	200	200	166	254	254

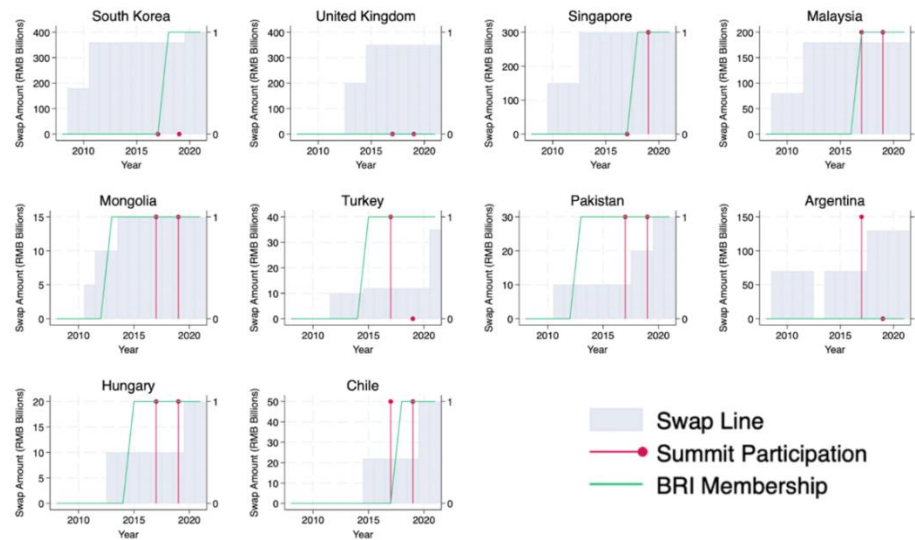
Notes: t-statistics in parentheses. $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Interaction terms indicate that the effects of both alignment and BRI membership are amplified in countries with weaker reserve positions. This suggests that beyond strategic alignment, China is more likely to support partners when they also exhibit economic vulnerability. These results align with the broader argument that China uses swap expansions to reinforce relationships with aligned or strategically important partners who signal financial dependence.

Table 6 further illustrates how swap expansions coincide with reserve pressures. It shows that the marginal effect of alignment increases as reserves decline, underscoring how economic need enhances the political calculus behind swap line adjustments. The positive effect of corruption control on swap amounts also emerges in this section, reinforcing the earlier finding that countries with stronger institutional quality are more likely to benefit from China's swap diplomacy.

The role of corruption control is again notable. Countries with weaker corruption controls appear less likely to receive expanded swap lines, possibly due to the opacity of swap conditions. This may help explain political friction in countries like Nigeria and Argentina, where opaque conditions have sparked legal or political backlash (Olayiwola, 2023; Oluwafemi, 2023). President-elect Milei's reluctance to deepen ties with China has, in part, been attributed to the lack of transparency in BSA terms.

These quantitative results are supported by qualitative evidence presented in Figure 5. The graphs show that countries expanding swap lines often do so following BRI membership or summit participation. This includes advanced non-aligned states like South Korea and Singapore, whose summit participation preceded swap expansion. Mongolia and Turkey expanded their swap lines shortly after joining the BRI, as did Pakistan, Argentina, Hungary, and Chile following summit engagement. Summit participation by heads of state is particularly significant, as it signals a stronger level of commitment. All countries in Figure 5, except South Korea and the UK, had their leaders attend at least one BRI summit. This costly signal reinforces the credibility of alignment and strengthens the observed link between BRI engagement and swap expansion.

Figure 5: BRI Summit participation, BRI Membership and Expansion of Swap Lines

Finally, the case of South Korea illustrates many of these dynamics. Despite being a U.S. ally and a traditional non-aligned country, South Korea has received China's largest swap line—RMB 400 billion—and experienced multiple expansions. The resilience of the South Korea–China swap line reflects both the country's economic weight and evolving financial integration. While not originally aimed at RMB internationalization, the Korean government has increasingly promoted domestic use of the RMB, aligning with Beijing's strategic aims (Chey, 2015). McDowell (2019b) notes that internal debates in Seoul linked future access to China's swap line with political considerations, such as South Korea's decision to host the THAAD missile system. This episode underscores the strategic sensitivity around swap renewals and the implicit leverage China holds, even with advanced economies.

5.3 Swap Terminations

The results from Table 7 provide additional evidence supporting the theoretical expectation that stronger geopolitical ties reduce the likelihood of swap line termination. Although the alignment variable itself is not statistically significant, BRI membership shows a significant negative effect in some specifications, suggesting that BRI participation enhances swap durability. Higher reserves and larger economic size, however, are positively associated with termination, implying that countries with greater financial autonomy are less reliant on swap lines.

Table 7: The Determinants of Chinese BSA Terminations

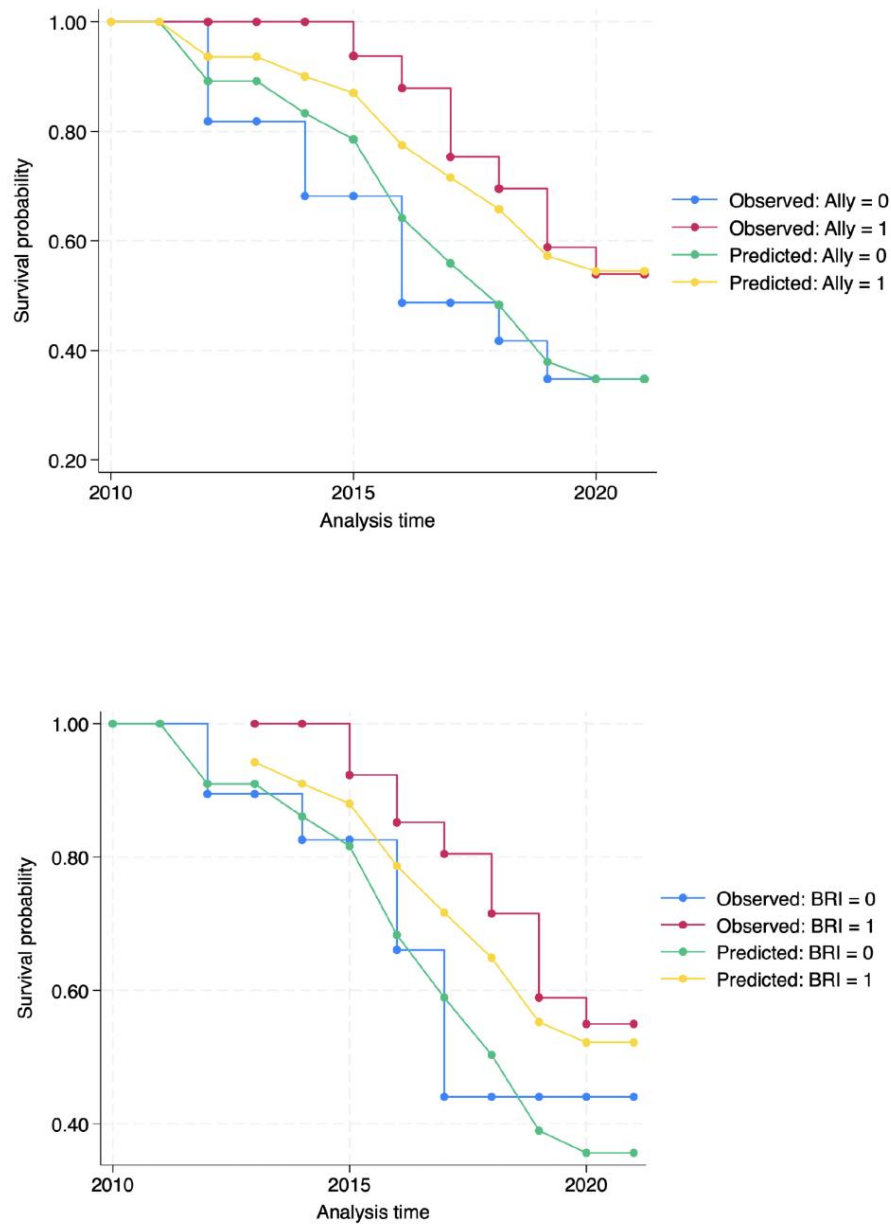
Variable	(1) Terminate(t+1)	(2) Terminate(t+1)	(3) Terminate(t+1)
Alignment	-1.650 (-0.46)	-4.104 (-0.78)	-4.080 (-1.64)

Variable	(1) Terminate(t+1)	(2) Terminate(t+1)	(3) Terminate(t+1)
BRI	-3.271* (-1.66)	-0.938 (-0.39)	1.801 (1.13)
logGDP	35.88** (2.12)	13.92*** (2.94)	—
Trade	-82.95* (-1.84)	—	—
logFDI	1.760 (1.17)	—	—
Reserves	1.634** (2.04)	—	0.458 (1.54)
Corruption	-1.347 (-0.36)	—	—
GDPg	0.308 (1.27)	—	—
Alignment × logGDP	—	0.349 (0.38)	—
BRI × logGDP	—	0.384 (0.68)	—
Alignment × Reserves	—	—	0.118 (0.45)
BRI × Reserves	—	—	-0.203 (-0.62)
Constant	-100.3** (-2.30)	-39.84*** (-3.03)	-8.804** (-2.46)
lnsig2u	-16.12 (-0.21)	-24.41 (-0.02)	-24.25 (-0.00)
Country FE	YES	YES	YES
N	38	82	65

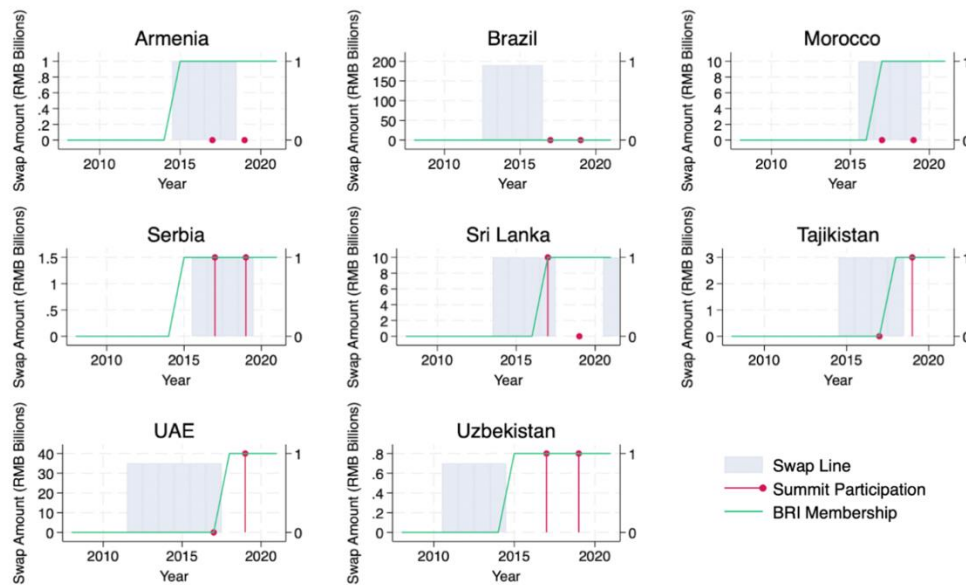
Notes: t-statistics in parentheses. p < 0.10, ** p < 0.05, *** p < 0.01

Figure 6 illustrates these patterns through Kaplan–Meier survival curves. Countries that are more closely aligned with China or are BRI members exhibit a higher probability of maintaining their swap lines over time compared to those that are not. The survival advantage is visually clear, even though the interaction terms in the regression models are not statistically significant—likely due to the small number of observed terminations.

Figure 6: Kaplan–Meier Survival Curve for Chinese Swap Recipients



Further qualitative analysis complements these findings. Figure 7 presents eight countries that failed to send heads of state to either the 2017 or 2019 BRI summits. Among these, Armenia, Morocco, Tajikistan, and the UAE all experienced swap terminations shortly after their summit absences. This pattern reinforces the view that swap renewals are conditioned not merely on formal membership, but also on active, visible participation in China's diplomatic initiatives.

Figure 7: BRI Summit Participation and Termination of Swap Lines

Economic performance factors also play a role. Countries with growing reserves or stronger economies may perceive less need for liquidity backstops and may voluntarily allow swap lines to expire. For instance, the UAE's swap line lapsed but was renegotiated in 2023 as part of broader BRICS-related realignment, suggesting that geopolitical symbolism can motivate new swap agreements beyond narrow financial needs.

Case studies further illustrate the political sensitivity underlying swap terminations. In Sri Lanka, the initial swap line signed under the pro-China Rajapaksa administration in 2014 was not renewed in 2017 following the rise of the Sirisena government, which pursued a more balanced foreign policy. This discontinuation coincided with Sri Lanka's absence from the 2019 BRI Summit and a broader cooling of ties, including the halting of several Chinese investment projects. A new swap agreement was only signed in 2021 after Rajapaksa returned to power, underlining the strong political conditionality attached to swap continuation.

Similarly, Brazil's swap experience tracks political developments. Brazil received its first swap line in 2013 under President Rousseff, who maintained strong relations with China. Following her impeachment, Brazil's position shifted under President Temer, including more neutral stances in international fora such as the WTO. A new swap agreement was only negotiated in 2023 after President Lula's return to power and his active re-engagement with China, including participation in the BRICS initiative and the establishment of yuan-clearing arrangements in Brazil. This trajectory highlights how swap renewals or terminations closely track shifts in bilateral political alignment.

Taken together, the evidence suggests that Chinese BSAs serve not only economic risk management goals but also act as diplomatic instruments. The decision to terminate or renew a swap line appears responsive both to countries' economic fundamentals and, critically, to their ongoing political signaling toward China.

6. Limitations and Robustness Checks

A key limitation of this study lies in the potential endogeneity of the explanatory variables. Specifically, the analysis may suffer from simultaneity bias, where the direction of causality is unclear. For instance, while closer political or economic ties may increase the likelihood of a country receiving or expanding a Chinese BSA, the presence of a swap agreement itself could subsequently strengthen those same political and economic ties. Countries may deepen bilateral trade and investment links or align their foreign policy more closely with China after entering into a swap arrangement, making it difficult to disentangle cause from effect.

To address this concern, I adopt a lagging strategy for the key explanatory variables. By introducing lags of two and three years, I reduce the risk that current-year geopolitical alignment or economic performance is a response to the presence of a swap line. This approach is consistent with prior literature that uses temporal lags to mitigate simultaneity and better approximate causal ordering of variables. Authors such as Broz et al. (2020) and Liao & McDowell (2015) similarly note that reverse causality is a plausible risk in international finance studies involving bilateral arrangements.

Lagged regressions are reported in Appendix A.3 (Tables 7–9), covering the first, second, and third stages of the analysis. While statistical significance of the core variables declines over time, this is expected due to increased temporal distance. However, the lagged results reinforce key findings in two ways. First, they highlight the sensitivity of BSA decisions to recent political shifts—such as China re-signing swap lines with Brazil and the UAE shortly after President Lula's re-election and the UAE's accession to BRICS. Second, the interaction terms become more salient with longer lags. For example, interactions between alignment and economic size, which were insignificant in the baseline model (Table 6), become statistically significant when lagged. This suggests that economic strength moderates the political determinants of swap termination more clearly when reverse causality is mitigated.

Nonetheless, lagging cannot fully resolve the issue of endogeneity. The ideal solution would be the introduction of a valid instrumental variable (IV) that affects the likelihood of swap issuance or expansion but is not itself influenced by future political or economic engagement with China. Such an instrument would help isolate the exogenous component of alignment or trade dependence. However, identifying an appropriate IV has proven challenging. Bilateral financial flows and diplomatic alignments are deeply intertwined, and instruments commonly used in development finance studies—such as colonial legacy, voting alignment with third parties, or geographic spillovers—do not translate cleanly into the context of swap diplomacy.

Despite efforts, no robust IV could be identified for this paper. This remains a limitation and a promising avenue for future research. An ideal instrument might emerge from a discontinuity in Chinese domestic policy, a natural experiment (e.g., sudden leadership turnover in China or recipient countries), or a third-party shock unrelated to bilateral dynamics. Incorporating such a design would allow future studies to more credibly estimate the causal effect of geopolitics on Chinese BSA decisions.

7. Conclusion

This paper explored the evolving role of geopolitical and economic factors in shaping China's decisions to initiate, expand, and terminate bilateral swap agreements (BSAs). Moving beyond existing studies that focus narrowly on initial swap issuance, the findings reveal that the lifecycle of Chinese BSAs—whether expanded, sustained, or discontinued—is closely tied to countries' political alignment and economic performance.

Through robust quantitative analysis and detailed case studies, the results confirm that closer geopolitical relations with China, measured by UN General Assembly ideal point proximity and Belt and Road Initiative (BRI) membership, significantly enhance a country's likelihood of receiving and maintaining a Chinese swap line. Conversely, deterioration in political relations—signaled by summit absences or regime changes—heightens the risk of swap termination. Importantly, economic strength moderates these political dynamics: stronger economies can compensate for weaker alignment, while smaller economies are more dependent on maintaining close political ties.

These findings underscore how China strategically uses BSAs not only to provide liquidity but also as instruments of financial statecraft. By rewarding allies and selectively withdrawing support from less aligned partners, China leverages swap agreements to reinforce its broader geopolitical aims. This dual economic and political logic marks a significant evolution in China's approach to international financial engagement.

At the same time, the analysis highlights important limitations. Endogeneity remains a potential concern, as swap agreements may themselves strengthen bilateral ties, creating simultaneity bias. Although lagging strategies were employed to mitigate this issue, the absence of a definitive instrumental variable leaves causal interpretations cautious. Future research could address this gap by exploiting exogenous shocks or natural experiments to isolate the independent effects of political alignment.

The policy implications of these dynamics are profound. For countries that hold or seek Chinese BSAs, financial engagement increasingly carries implicit political conditions. As the global financial system continues to fragment and diversify, understanding the strategic use of swap lines will become even more critical. China's growing influence over liquidity provision through such tools suggests that financial diplomacy will occupy an ever more central role in shaping patterns of international cooperation and competition.

In sum, this study contributes to a deeper understanding of how major powers like China integrate economic and political objectives in their financial instruments. The strategic deployment of BSAs illustrates how financial ties are not merely economic transactions, but also potent signals of international alignment. As financial globalization becomes more politically contested, the importance of these dynamics will only intensify—making it imperative for scholars and policymakers alike to closely track the intersection of finance, diplomacy, and power.

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Author Contributions

None

Availability of Data and Materials

The data used in this study are available publicly at the sources mentioned in Appendix Table 4.

Conflicts of Interest

The authors declare that they have no conflicts of interest to report regarding the present study.

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