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**Swap Lines and the  
Weaponization of Finance**

**By**

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**28 May 2026**

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## ***Swap Lines and the Weaponization of Finance***

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### **Executive Summary**

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#### **Swap Lines as Financial Statecraft**

- ✦ Swap lines are increasingly evolving from technical liquidity tools into instruments of geopolitical statecraft tied to monetary hierarchy and strategic alignment.
- ✦ Their growing politicization allows Washington to selectively extend dollar liquidity to allies while excluding rivals, turning access to funding into a tool of geopolitical leverage.
- ✦ The proposed US-UAE swap arrangement reflects this shift: despite the UAE's vast reserves, the debate centers less on immediate liquidity needs and more on strategic positioning within an emerging US-China monetary competition.

#### **Hierarchy of Dollar Liquidity**

- ✦ Federal Reserve swap lines are a central pillar of the global dollar system, supplying emergency dollar liquidity during periods of financial stress.
- ✦ Access to dollar liquidity is highly selective and increasingly reflects geopolitical alignment, with US allies and major holders of US assets more likely to receive support.
- ✦ As a result, swap lines now function not only as stabilization tools, but also as instruments of strategic signaling linking financial infrastructure to broader geopolitical competition.

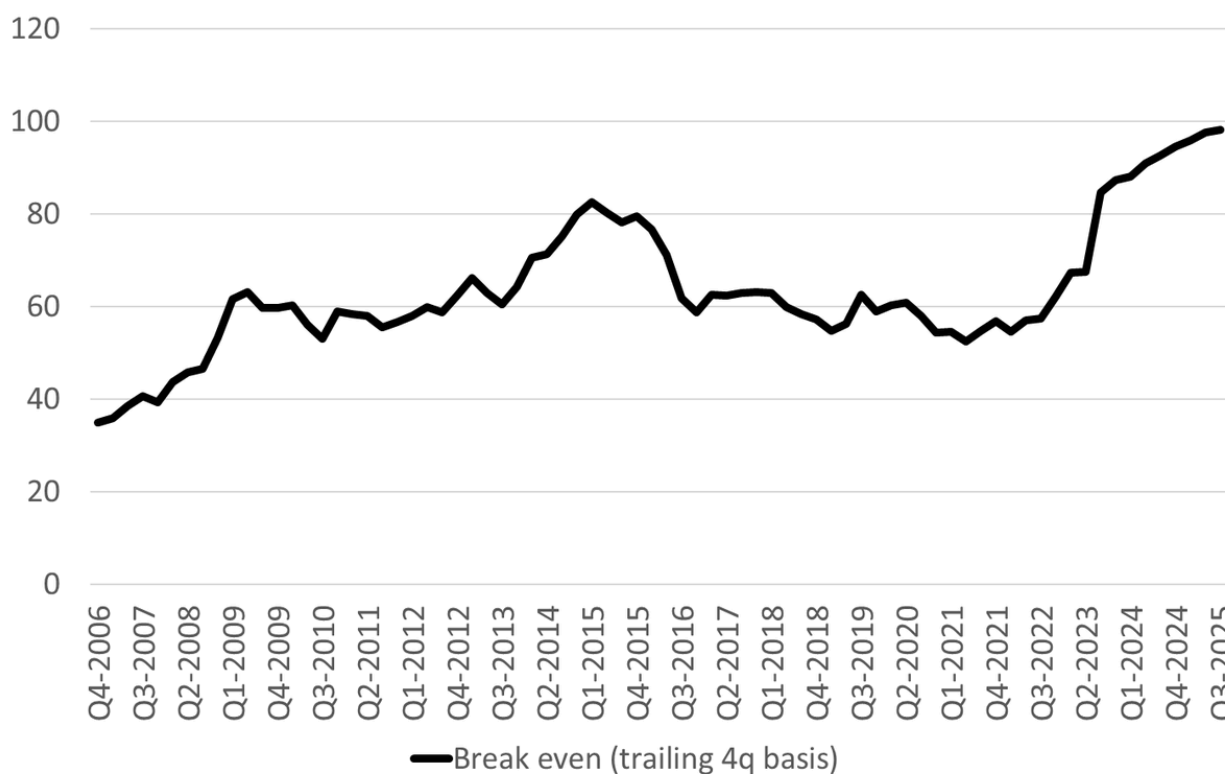
#### **The Gulf and the Future of the Dollar System**

- ✦ The proposed US-UAE swap arrangement reflects the growing geopolitical role of swap lines, as Washington seeks to keep Gulf financial hubs anchored within the dollar system amid rising US-China monetary competition.
- ✦ At the same time, the UAE request may also signal underlying strains within the dollar order itself, as Gulf economies facing regional instability and capital pressures increasingly require dollar liquidity support to avoid forced asset sales and broader financial stress.

#### **China and Fragmentation of Finance**

- ✦ China has developed the world's largest bilateral swap line network, using it to expand renminbi internationalization, Belt and Road financing, trade settlement, and broader geopolitical influence across the Global South.
- ✦ The rise of competing swap networks highlights how global rivalry is increasingly shifting toward control over financial infrastructure and liquidity provision, while the growing use of instruments such as the US Treasury's ESF reflects the increasing politicization and fragmentation of global finance.
- ✦ Despite growing discussions of "de-dollarization," the United States remains structurally dominant due to the depth and liquidity of dollar markets. However, the selective use of dollar liquidity as a geopolitical tool may gradually encourage the emergence of alternative monetary blocs and parallel financial architectures.

**Key Picture: Saudi Arabia's Current Account Break Even Oil Policy, Dollars/Barrel**



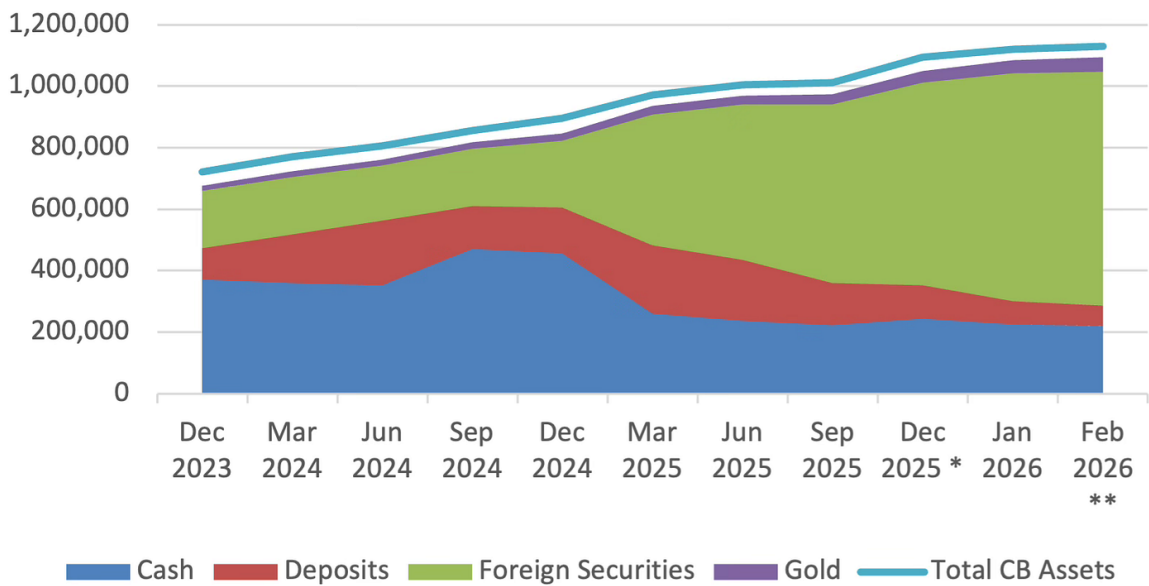
Source: [Brad Setser](#)

**Introduction**

For decades, central bank swap lines were treated as unclear technical instruments of international finance: emergency liquidity mechanisms designed to stabilize markets during periods of financial stress. Yet recent developments suggest that swap lines are evolving into something far more significant: instruments of geopolitical alignment, monetary hierarchy, and financial statecraft. Swap lines are increasingly portrayed as instruments of financial weaponization. Countries aligned with Washington may receive support, while adversaries risk exclusion, sanctions, or financial destabilization. Some scholars argue that this increasingly resembles an international extension of quantitative easing: whereas the Fed previously stabilized domestic asset markets through extraordinary liquidity provision, Washington may now be compelled to support foreign allies and the broader dollar architecture directly. Argentina is presented as an example of explicitly political swap line usage, where Treasury support allegedly helped stabilize [Javier Milei's government before elections](#).

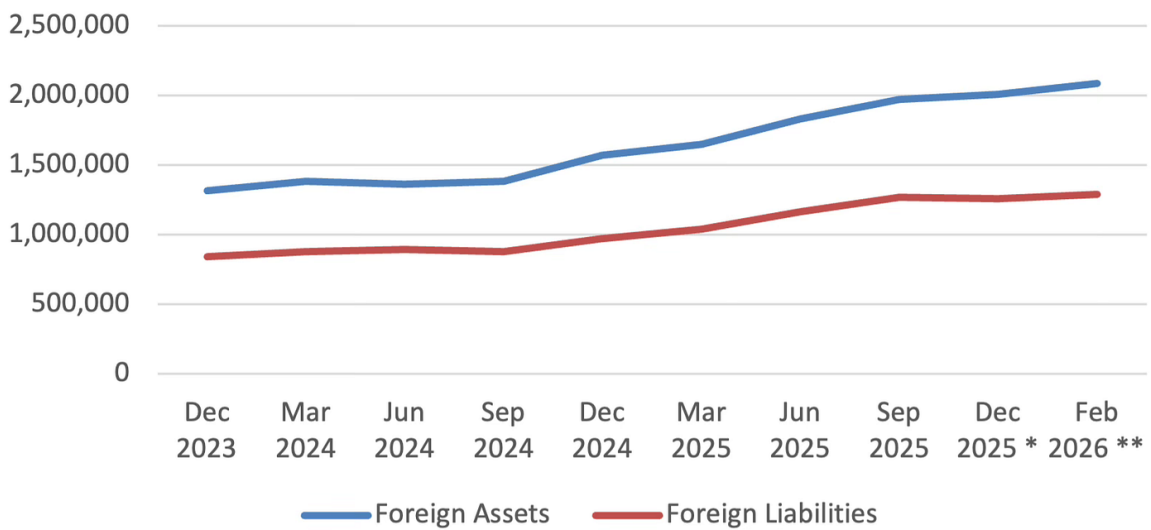
The renewed debate surrounding a potential United States swap arrangement with the United Arab Emirates illustrates this transformation. At first glance, [the idea appears puzzling](#). The UAE possesses vast sovereign wealth assets and substantial foreign exchange reserves ([approximately \\$298bn in official reserves alongside sovereign wealth assets worth several multiples of that amount](#)). It is not a country facing immediate balance-of-payments collapse or systemic dollar shortages. Yet the discussion itself reveals that swap lines are no longer simply about crisis management. Increasingly, they are about strategic positioning within the evolving international monetary order. Europe and other allies may increasingly question reliance on the US financial system if swap lines become politicized under the Trump administration.

**Figure 1: Assets of the UAE CB**



Source: [Weaponized Economy](#)

**Figure 2: UAE Bank Foreign Assets Outstrip Foreign Liabilities**



Source: [Weaponized Economy](#)

**The Hierarchy of the Dollar System**

Swap lines are temporary arrangements between central banks that allow one institution to access foreign currency liquidity from another. In practice, the most important of these are Federal Reserve dollar swap lines, which allow foreign central banks to obtain dollars and distribute them to domestic financial institutions during periods of market stress. Their importance became especially visible during the 2008 global financial crisis and again during the Covid-19 shock in 2020, when global demand for dollars surged and offshore dollar funding markets came under severe pressure.

The significance of these arrangements stems from the central role of the dollar in the global financial system. The international economy remains deeply dependent on dollar-denominated trade, debt, reserves, and financial transactions. Even outside the United States, banks, insurers, corporations, and governments rely heavily on access to dollar liquidity. In moments of panic, investors and institutions scramble for dollars as the ultimate safe asset. As a result, the Federal Reserve effectively acts as the world's lender of last resort.

### Who Gets Access to Dollar Liquidity?

Yet access to this liquidity is far from universal. The geography of swap lines illuminates the hierarchy of the international monetary system. A small group of countries, including the ECB, BoJ, BoE, Swiss National Bank, and Bank of Canada, enjoy permanent standing swap arrangements with the Federal Reserve. Others receive temporary access during crises. Many are excluded altogether.

This selectivity matters because it reveals that the dollar system is not merely a neutral market structure, but a political architecture. Research increasingly suggests that access to swap lines depends not only on economic criteria, but also on geopolitical alignment and strategic importance. Countries with closer political relationships to the United States and larger holdings of US assets are more likely to receive access to dollar liquidity during crises. In this sense, swap lines function as a form of monetary hierarchy embedded within broader geopolitical relationships.

The 2008 crisis highlighted this dynamic clearly. As offshore dollar markets froze, the Federal Reserve extended swap lines not only to major advanced economies, but also to selected emerging markets such as South Korea, Singapore, Brazil, and Mexico. These decisions were officially framed as economic and financial measures designed to preserve market stability. Yet policymakers were also acutely aware of the geopolitical implications of inclusion and exclusion. Access to dollar liquidity became a signal of strategic trust and institutional credibility.

Today, this signaling function has become even more important. In an era of fragmentation and strategic competition, swap lines increasingly resemble geopolitical alliances. The map of who receives access to Federal Reserve liquidity increasingly overlaps with the map of America's strategic partnerships. Financial infrastructure is becoming inseparable from geopolitics.

### China's Alternative Liquidity Architecture

At the same time, China has been constructing its own alternative liquidity architecture. Over the past decade, the People's Bank of China has developed the world's largest network of bilateral swap lines numerically, signing agreements with dozens of countries across Asia, Africa, Latin America, and the Middle East. Unlike Federal Reserve swap lines, however, China's arrangements often serve broader geopolitical and developmental purposes tied to trade settlement, Belt and Road financing, and renminbi internationalization.

This reflects a fundamental distinction between the American and Chinese approaches to monetary power. The Federal Reserve's swap network primarily exists to stabilize global dollar funding markets and preserve the functioning of the existing financial system. China's network, by contrast, is aimed at gradually building an alternative infrastructure for trade and finance outside exclusive reliance on the dollar.

However, the two systems remain profoundly unequal in depth and credibility. China may possess a larger network on paper, but the renminbi still lacks the liquidity, convertibility, institutional trust, and safe-asset ecosystem that underpin dollar dominance. During moments of crisis, global investors continue to seek dollars rather than renminbi. This structural asymmetry explains why discussions of "de-dollarization" often remain

overstated. Despite geopolitical tensions and increasing use of sanctions by Washington, the dollar system continues to provide the deepest and most liquid financial infrastructure in the world.

Nevertheless, China's efforts reveal an important shift in the nature of global competition. Increasingly, great-power rivalry is not only about military alliances or trade flows, but about control over financial plumbing and monetary infrastructure. Swap lines are becoming tools through which states shape dependency, influence, and strategic alignment.

### The Gulf, the UAE, and the Future of Financial Alignment

This is precisely why the UAE case matters. The debate surrounding a potential US-UAE swap arrangement is not fundamentally about immediate liquidity shortages alone. Rather, it concerns the strategic architecture of the future financial system. The Gulf is emerging as an increasingly important intermediary space between Western and Chinese economic spheres. Gulf financial centers are becoming hubs for capital flows, energy transactions, digital finance, and cross-border settlement systems. Ensuring that these hubs remain anchored within the dollar system carries major geopolitical significance for Washington.

Some analysts therefore interpret the potential UAE arrangement not simply as a traditional crisis-response mechanism, but as a form of geopolitical signaling and long-term infrastructural positioning. Under this interpretation, the objective is not only to provide emergency liquidity, but also to reinforce strategic dependence on dollar-based financial networks at a time when China is expanding its own monetary influence across Eurasia and the Global South.

At the same time, the UAE request also reveals underlying strains within the contemporary dollar system itself. Gulf states historically recycled oil revenues back into dollar assets and helped sustain the dollar order. If they now require direct dollar liquidity support, this suggests that capital may increasingly be flowing out of rather than into the system.

The regional context further reinforces these pressures. Gulf economies remain highly leveraged and dependent on oil revenues that are increasingly threatened by geopolitical instability and the Iran conflict. Rather than forcing Gulf states to liquidate US assets at distressed prices, swap arrangements allow Washington to inject temporary dollar liquidity and stabilize financial conditions. In this sense, swap lines function not only as geopolitical instruments, but also as mechanisms for preserving asset values and preventing broader financial stress within the dollar-centered system.

### Fragmentation of Global Finance

The growing use of the US Treasury's Exchange Stabilization Fund (ESF) further illustrates the politicization of liquidity tools. Unlike Federal Reserve swap lines, which are generally framed as technocratic monetary operations, ESF arrangements are more directly tied to executive decision-making and geopolitical objectives. The 2025 US support package for Argentina demonstrated how liquidity mechanisms can increasingly operate alongside broader strategic and political calculations.

The expansion of bilateral liquidity arrangements also poses a growing challenge to the IMF-centered architecture established after Bretton Woods. [Unlike IMF lending](#), swap lines are faster, less transparent, and increasingly tied to geopolitical alignment rather than formal multilateral procedures. Their rise coincides with a broader US shift away from supranational institutions and toward more unilateral and strategically discretionary forms of economic statecraft. As a result, emergency liquidity provision is becoming progressively

fragmented, politicized, and embedded within competing spheres of influence rather than universal institutional frameworks.

As geopolitical fragmentation accelerates, the world may gradually move toward competing regional liquidity blocs. Access to emergency financial support may become increasingly shaped by alliance structures, strategic partnerships, and geopolitical loyalty. In such a system, monetary fragmentation would reinforce broader divisions in trade, technology, and security.

This does not necessarily imply the imminent collapse of dollar dominance. By serving as the provider of ultimate global liquidity, the United States continues to occupy a uniquely central position within the international system. The ability to selectively extend or withhold access to dollar liquidity remains a powerful geopolitical instrument.

At the same time, the growing politicization of liquidity infrastructure also carries risks. Excessive weaponization of financial systems could encourage states to gradually reduce dependence on the dollar over the long term. China's efforts to develop alternative payment systems, regional settlement mechanisms, and renminbi financing channels reflect precisely these concerns. Even if no immediate alternative to the dollar exists, the international system is clearly becoming more contested and strategically fragmented.

### Conclusion

Ultimately, swap lines reveal that modern geopolitics increasingly operates through financial infrastructure rather than solely through military force or formal diplomacy. They expose the hidden architecture of global monetary power: a system in which access to liquidity, rather than merely access to markets, defines hierarchy, influence, and strategic alignment.

The Federal Reserve's swap network remains highly selective and closely tied to America's geopolitical partnerships, while China has developed a parallel RMB liquidity architecture aimed at expanding its financial and strategic reach. As a result, a growing number of middle powers, including the UAE, are attempting to position themselves between these overlapping monetary systems, balancing security ties with Washington against deepening economic links with Beijing.

In this context, swap lines are no longer merely emergency crisis tools. They are increasingly becoming instruments of geopolitical signaling, strategic reassurance, and long-term financial alignment within an increasingly fragmented international order.