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**From Diplomacy to Dominance: Analyzing Economic and Political
Effects of Dollar Diplomacy**

**Dissertation Submitted in Partial Fulfillment of the Requirements for
Master's degree in literature and Civilization**

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Dedication

We dedicate this research work to our family members, teachers, friends, and colleagues.

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Abstract

This study examines the evolution of U.S. "Dollar Diplomacy" from its early 20th-century origins into the broader economic statecraft strategies employed today. It explores how tools such as investment, loans, and trade agreements have been used not merely for economic engagement, but as instruments of geopolitical influence and global dominance. Grounded in theories of economic power and hegemony, the research critically assesses the long-term impact of these policies on the economic development and political sovereignty of countries in Latin America, Asia, and beyond. The study adopts a qualitative approach, relying on historical analysis, policy review, and case studies. Data was collected through document analysis of government archives, financial records, and reports from international institutions. Case studies on economic sanctions, development finance, and trade disputes provide concrete examples of contemporary economic statecraft in action. Findings reveal that while U.S. economic diplomacy often aims to promote stability and development, it frequently results in asymmetric dependencies and unintended consequences. In many cases, these strategies have undermined local autonomy and provoked resistance, casting doubt on their long-term effectiveness and ethical standing.

Keywords: Dollar Diplomacy, Dominance, Hegemony, International Economic Relations, Global Political Economy.

List of Abbreviations and Acronyms

BRI	Belt and Road Initiative
CBDC(s)	Central Bank Digital Currency(ies)
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
FDI	Foreign Direct Investment
FTA	Free Trade Agreements
GATT	General Agreements on trade and Tariffs
GATT	General Agreement on Tariffs and Trade
IER	International Economic Relations
IFI(s)	International Financial Institution(s)
IMF	International Monetary Fund
IPR	Intellectual Property Rights
MNEs	Multinational Enterprises
SAPs	Structural Adjustment Programs
USMCA	United States-Mexico-Canada Agreement
USTR	United States Trade Representatives
WTO	World Trade Organization

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General Introduction

1. Background of the Study

The concept of "Dollar Diplomacy" emerged in the early 20th century as a hallmark of U.S. foreign policy under President William Howard Taft. Initially framed as a strategy to advance American commercial interests abroad while promoting political stability, it relied heavily on the use of financial tools, such as investment, loans, and trade agreements to influence foreign governments, particularly in Latin America and East Asia. Over time, this approach evolved beyond its original context into a broader form of economic statecraft that continues to shape global politics.

In today's interconnected world, economic power has become a central tool in securing geopolitical influence. The United States, leveraging its position at the heart of the global financial system and the dominance of the U.S. dollar, continues to use economic diplomacy as a means of securing strategic interests. From sanctions and trade wars to development aid and financial institutions, modern variations of Dollar Diplomacy reflect an enduring blend of economic engagement and political control.

This study situates the evolution of Dollar Diplomacy within the wider discourse of international economic relations and global power dynamics. By tracing its historical roots and analyzing its modern applications, the research seeks to understand how economic tools function not only to build alliances or foster development, but also to assert dominance, often at the expense of other nations' autonomy.

2. Aims of the Study

The primary aim of this study is to explore how U.S. "Dollar Diplomacy" has evolved from a historical foreign policy approach into a modern framework of economic state-

craft. It seeks to uncover the ways in which financial tools, such as investments, loans, and trade agreements have been strategically employed to extend U.S. geopolitical influence across different regions and historical periods. The study also aims to critically assess the long-term consequences of these practices on the political sovereignty and economic development of targeted countries, particularly in the Global South. Additionally, it intends to evaluate the effectiveness and ethical implications of current U.S. economic diplomacy, especially in light of global shifts toward multipolarity, economic equity, and new challenges like climate change and digital transformation. Through this analysis, the research aspires to contribute to broader debates about the role of economic power in shaping international relations today.

3. Significance of the Study

This study is significant because it sheds light on how economic tools have been used not only for development and cooperation, but also as instruments of political influence and control. By tracing the evolution of U.S. Dollar Diplomacy into modern forms of economic statecraft, the research helps us better understand the power dynamics that continue to shape international relations today. In a world facing increasing calls for fairness, sovereignty, and multipolar cooperation, examining the real impacts, both intended and unintended, of U.S. economic diplomacy is more relevant than ever. The study also contributes to critical discussions on global economic equity and challenges the assumption that economic engagement is always neutral or beneficial. Finally, it offers insights that may help policymakers, scholars, and international actors rethink the ethics and effectiveness of using economic power as a foreign policy tool.

4. Statement of the Problem

Despite being framed as a tool for promoting development and stability, U.S. economic diplomacy, rooted in the legacy of Dollar Diplomacy, has often produced complex and contradictory outcomes. While it has opened markets and extended American influence, it has also generated asymmetric relationships that compromise the political and economic sovereignty

of many nations, particularly in the Global South. These practices raise important questions about the true nature and consequences of economic statecraft: Is it a form of cooperative engagement, or a subtle mechanism of control? Moreover, in an increasingly multipolar world grappling with challenges like climate change, financial inequality, and digital transformation, there is a growing need to critically reassess how economic power is used in global affairs. This study addresses the gap in understanding how historical and contemporary forms of Dollar Diplomacy have shaped and continue to shape the global economic and political order.

5. Research Questions

This research work attempts to answer the following key questions:

- 1) - How has U.S. Dollar Diplomacy evolved from its early 20th-century origins into the broader economic strategies used in contemporary foreign policy ?
- 2) - In what ways have U.S. economic tools, such as investments, loans, and sanctions, impacted the political sovereignty and economic development of countries targeted by these policies ?
- 3) - To what extent does modern U.S. economic statecraft promote genuine international cooperation, and where does it risk reinforcing global inequalities and dependence ?

6. Research Hypotheses

Based on the above stated research questions, the study tests the following three hypotheses:

- 1) - U.S. Dollar Diplomacy has evolved from a regionally focused financial strategy into a complex system of global economic statecraft, increasingly integrated with broader geopolitical goals and supported by

International institutions.

2) - U.S. economic tools, such as loans, investments, and sanctions, have often had mixed outcomes, with short-term development gains frequently offset by long-term constraints on political sovereignty and economic self-determination in targeted countries.

3) - While modern U.S. economic diplomacy presents itself as a force for international cooperation, it often reinforces global economic imbalances, creating dependencies that limit the autonomy of less powerful nations and deepen structural inequalities.

7. Research Methodology

This study adopts a qualitative research methodology, as it aims to explore the historical evolution, underlying motives, and real world impacts of U.S. economic diplomacy. Rather than focusing on numerical data, the research emphasizes depth, context, and critical interpretation. To achieve this, a combination of document analysis and case study methods has been used. Key sources include U.S. government archives, official policy documents, financial records, speeches, and reports from international organizations such as the World Bank. Additionally, selected case studies, such as U.S. sanctions, trade agreements, and development aid programs, offer concrete examples that help illustrate how economic tools are used in practice. These cases were chosen for their relevance, regional diversity, and their ability to reflect both the intended outcomes and unintended consequences of U.S. economic statecraft. The methodology allows for a critical understanding of how economic power operates as a foreign policy instrument across different historical and geopolitical contexts.

8. The Structure of the Study

This research is structured into two main chapters. Chapter One provides the theoretical foundation of the study, focusing on the concept of U.S. Dollar Diplomacy, its historical roots, ideological underpinnings, and how it has evolved over time into a broader tool of economic statecraft. This chapter draws on key theories related to economic power, hegemony, and international relations to frame the discussion and offer a deeper understanding of the strategic use of economic tools in U.S. foreign policy.

Chapter Two represents the practical part of the study. It examines the economic and political consequences of Dollar Diplomacy through selected case studies and critical analysis. This chapter explores how U.S. financial influence, through mechanisms such as loans, investments, and sanctions, has shaped the development paths and political autonomy of targeted countries. It also discusses the broader implications for global power dynamics and economic equity. Together, the two chapters offer a comprehensive view of Dollar Diplomacy as both a historical strategy and a contemporary force in international affairs.

CHAPTER ONE THE FOUNDATION AND MECHANISMS

OF DOLLAR DIPLOMACY

Chapter One: The foundation and Mechanisms of Dollar Diplomacy

<u>Introduction</u>	خطأ! الإشارة المرجعية غير معرّفة.
<u>1.Origins and History of Dollar Diplomacy</u>	خطأ! الإشارة المرجعية غير معرّفة.
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Introduction

The concept of Dollar Diplomacy emerged in the early 20th century, primarily during the presidency of William Howard Taft, as a strategy for extending American influence through economic means rather than military intervention. This approach aimed to boost U.S. financial interests abroad while promoting stability in regions deemed vital to national security, particularly in Latin America and East Asia. By leveraging investment and loans, the United States sought to foster political stability in countries susceptible to foreign influence and internal strife, effectively intertwining financial interests with foreign policy. This initial implementation laid the groundwork for future diplomatic strategies, reflecting a paradigm shift that emphasized economic leverage as a diplomatic tool. The historical context surrounding Dollar Diplomacy illustrates a burgeoning recognition of the power of financial investment in shaping global relations, as seen in the evolving strategies that resonate with contemporary practices of cultural diplomacy and international engagement (Margaret C Ayers, 2010), (Mario A Cedrini).

The chapter starts with the historical roots of this strategy, investigating the origins it's goals and objectives at the most fundamental level. It attempts to evaluate the underpinnings of such theories by illustrating how economic elements like investments, loans, and trade were utilized as tools for international politics through a critical approach. The story traces the interplay of diplomatic outreach and economic hegemony, demonstrating how financial resources were used to advance a country's influence beyond the norms of diplomacy. As part of a more complex exploration, this chapter reveals how Dollar Diplomacy sought to project national power in a sophisticated manner, concerning the balance between economic leverage and diplomatic negotiations that transformed international relations during its early years.

1.1 Origins and History of Dollar Diplomacy

This section represents the emergence of dollar diplomacy and its main goals.

1.1.1 Emergence in the Early 20th Century Under President William Howard Taft .

The early 20th century witnessed the emergence of dollar diplomacy during President William Howard Taft's administration, coinciding with America's rise as a global economic power (Taft W.H 1912). Taft's approach leveraged the nation's growing financial resources to advance American interests, particularly in Latin America and East Asia, aiming to reduce military interventions while creating favourable conditions for American commerce (Taft W.H 1912).

Taft's administration implemented several key initiatives to support this diplomatic strategy:

The Payne-Aldrich Tariff Act of 1909 modified import tariff rates to shield domestic industries and boost American exports, demonstrating the administration's commitment to economic tools in foreign policy despite receiving mixed reviews (United States Congress, 1909).

While established under Theodore Roosevelt in 1903, the Department of Commerce and Labour expanded its functions during Taft's presidency. The department oversaw American business activities domestically and internationally, playing a vital role in facilitating American investments in strategically significant regions like Latin America and East Asia.

The Nicaragua Canal Treaty of 1914 represented Taft's efforts to expand American influence in Central America by obtaining rights to construct a canal that would compete with the

Panama Canal. This agreement would have provided the United States substantial control over regional trade routes (Nearing S 1926). Though ultimately abandoned, the treaty illustrated the administration's strategy of using economic means for strategic purposes.

Taft actively promoted American financial institutions and corporations to provide loans and invest in infrastructure throughout Latin America and East Asia (Chen, 2019). This capital influx aimed to stabilize these regions, foster economic development, and create markets for American products. Examples include financing provided to China for railway development and infrastructure projects in Honduras and Nicaragua (Healy. D 2009).

These policies significantly impacted global relations as American financial power was deployed in key regions, allowing the United States to influence political and economic developments (Williams 1955). This approach reduced reliance on military intervention by utilizing economic leverage to pursue American interests and maintain regional stability. Taft's dollar diplomacy established a precedent for future administrations to extend American influence through economic means, becoming a fundamental element of American economic statecraft throughout the 20th century and beyond (Meiser,J.W 2015). Though results were mixed, the strategy's legacy endured as an important component of American foreign policy.

1.1.2 Goals and Objectives of Dollar Diplomacy in Its Early Years

In its nascent stages, dollar diplomacy was driven by several key objectives. Firstly, it aimed to extend American influence and protect its interests abroad by promoting political stability in regions deemed strategically significant . By providing financial support and investments, the United States sought to create an environment that would be favorable to American businesses and foster economic growth. Secondly, dollar diplomacy was employed as a means of countering the influence of rival powers, particularly in regions where European nations had established a

strong presence (Rabe.S. G.2016). By leveraging its economic strength, the United States could assert itself as a dominant player on the global stage and secure its position as a leading world power. Lastly, dollar diplomacy sought to minimize the need for military intervention by addressing potential conflicts through economic means (LefflerM. P. 1922). By promoting stability and fostering goodwill, the United States aimed to reduce the likelihood of resorting to force in order to protect its interests.

The philosophical thought behind dollar diplomacy can be traced to the American tradition of pragmatism and the belief in the power of economic development to bring about political stability and social progress . This approach was rooted in the understanding that a prosperous and stable global environment would benefit American interests and create opportunities for further growth. The strategy also aligned with the broader ethos of American exceptionalism, which held that the United States had a unique role to play in shaping the world order and promoting liberal values such as democracy, free markets, and the rule of law (LaFeber, W 1998).

Dollar diplomacy fit well into the political system of America at the time, as it reflected the country's growing self-confidence and assertiveness on the world stage . As the United States emerged as a global economic power, its leaders sought to capitalize on this newfound strength to advance the nation's interests and extend its influence abroad. Dollar diplomacy provided a means to do so in a way that was consistent with the country's values and strategic objectives, while also mitigating the need for military intervention and its associated costs and risks(Meiser j 2015).

The effects of dollar diplomacy are still felt today, as the strategy has become an integral part of American foreign policy and economic statecraft (Nye J 2004). Over the years, the United

States has continued to use economic tools such as foreign aid, loans, and investments to promote stability, counter the influence of rival powers, and advance its interests around the world. The legacy of dollar diplomacy can also be seen in the formation of institutions like the International Monetary Fund (IMF) and the World Bank, which have played critical roles in shaping the global economic landscape and promoting development in strategically significant regions (Nye J 2004).

Furthermore, the principles of dollar diplomacy have been adapted and adopted by other nations, such as China and Japan, as they too seek to leverage their economic power to achieve their foreign policy objectives (Lordy . N. R.2018). This has led to a complex web of economic interdependence and competition among nations, with countries vying for influence and strategic advantages through the use of economic instruments.

1.2 Theoretical Underpinnings

Dollar diplomacy, a foreign policy approach that leverages economic power to advance geopolitical interests, has evolved significantly since its initial formulation under President William Howard Taft. This strategic use of financial influence has become a cornerstone of American foreign policy, with both theoretical and practical implications that continue to shape international relations today. As Rosenberg (1999) articulates in her seminal work, dollar diplomacy represented "a distinctive blend of economic expansion and cultural evangelism" (p. 3), demonstrating how economic means were deployed to achieve diplomatic ends.

The historical foundation of dollar diplomacy emerges from America's rapid economic expansion at the turn of the 20th century and its growing desire to extend influence beyond traditional boundaries. According to Grandin (2006), this approach "transformed the relationship between capital and territory" (p. 28), enabling the United States to establish dominance without

direct territorial control. This financial strategy provided a more palatable alternative to outright imperialism while accomplishing similar objectives of securing markets and resources.

The theoretical framework of dollar diplomacy intersects with broader theories of international political economy, particularly those addressing hegemonic stability. McCormick (1995) suggests that "financial diplomacy served as the lynchpin in America's strategy to create a world order compatible with its interests" (p. 42). This perspective positions dollar diplomacy not merely as a policy tool but as a systematic attempt to construct an international economic architecture that inherently favors American interests and values.

Critical theorists have challenged conventional understandings of dollar diplomacy by emphasizing its coercive aspects. Panitch and Gindin (2012) argue that "the appearance of mutual benefit in dollar diplomacy often masked deeply asymmetrical power relationships" (p. 67). This critique highlights how financial diplomacy, despite its non-military nature, can function as a form of imperialism that constrains the sovereignty and development options of recipient nations while reinforcing global hierarchies.

The evolving role of international financial institutions provides another theoretical lens through which to understand dollar diplomacy. Helleiner (2014) observes that "the institutionalization of dollar diplomacy through multilateral organizations transformed ad hoc financial intervention into systematic governance" (p. 112). This institutionalization allowed dollar diplomacy to gain legitimacy through collective frameworks while still advancing specific national interests.

The concept of monetary power features prominently in theoretical analyses of dollar diplomacy. Hudson (2003) contends that "control over international monetary mechanisms provides leverage that exceeds traditional forms of power" (p. 76). This perspective emphasizes how the dollar's reserve currency status amplifies American influence, creating dependencies that

extend beyond conventional diplomatic relationships and enabling forms of control that are both subtle and far-reaching.

Constructivist approaches to understanding dollar diplomacy emphasize the ideational dimensions of financial statecraft. Gowan (1999) suggests that "dollar diplomacy succeeded not only through material incentives but through the normalization of specific economic practices and values" (p. 93). This perspective highlights how financial influence operates partly through shaping conceptions of economic development, good governance, and modernization among recipient nations

Regional variations in the application and effects of dollar diplomacy reveal important theoretical insights about the adaptability of this approach. Vitalis (2006) demonstrates how "dollar diplomacy in the Middle East required significant modifications to accommodate the region's distinctive political economy" (p. 124). These variations indicate that dollar diplomacy is not a monolithic strategy but rather a flexible framework that adapts to different contexts while maintaining core objectives.

The relationship between dollar diplomacy and security concerns represents another significant theoretical dimension. According to Rosenberg (1999), "financial levers often served as alternatives to military intervention, though they frequently established conditions that later justified force" (p. 187). This observation highlights the complex interplay between economic and military instruments in American foreign policy, suggesting complementary rather than substitute relationships.

The legitimation of dollar diplomacy through ideological frameworks merits theoretical attention. Grandin (2006) argues that "the promotion of free markets and democratic institutions

provided moral justification for financial intervention" (p. 142). This ideological dimension transformed dollar diplomacy from naked self-interest into a putatively benevolent project of development and democratization, complicating moral and ethical evaluations.

Technological changes have continually reshaped the mechanisms of dollar diplomacy. McCormick (1995) observes that "advancements in global communications and financial technologies dramatically expanded the reach and speed of dollar diplomacy" (p. 203). These technological dimensions suggest that dollar diplomacy is not static but evolves alongside changes in the material infrastructure of global finance and communications.

The enduring relevance of dollar diplomacy in contemporary international relations speaks to its theoretical significance. Panitch and Gindin (2012) conclude that "despite predictions of American decline, dollar diplomacy remains a central pillar of U.S. global influence" (p. 286). This persistence suggests that the theoretical underpinnings of dollar diplomacy capture fundamental dynamics in the international system that transcend particular historical periods, making it an essential concept for understanding both historical and contemporary power relations.

1.3 Key Mechanism of Dollar Diplomacy

Dollar Diplomacy represents a strategic approach to international relations where economic tools are deployed to achieve foreign policy objectives. Originating in the early 20th century during the Taft administration, the term historically referred to U.S. efforts to use private capital to further American interests abroad (Rosenberg, 2019). In contemporary contexts, Dollar Diplomacy has evolved into a more sophisticated set of practices employed by various global powers, though the United States remains a principal practitioner. This section examines three primary mechanisms through which Dollar Diplomacy operates: economic investments, loans, and trade

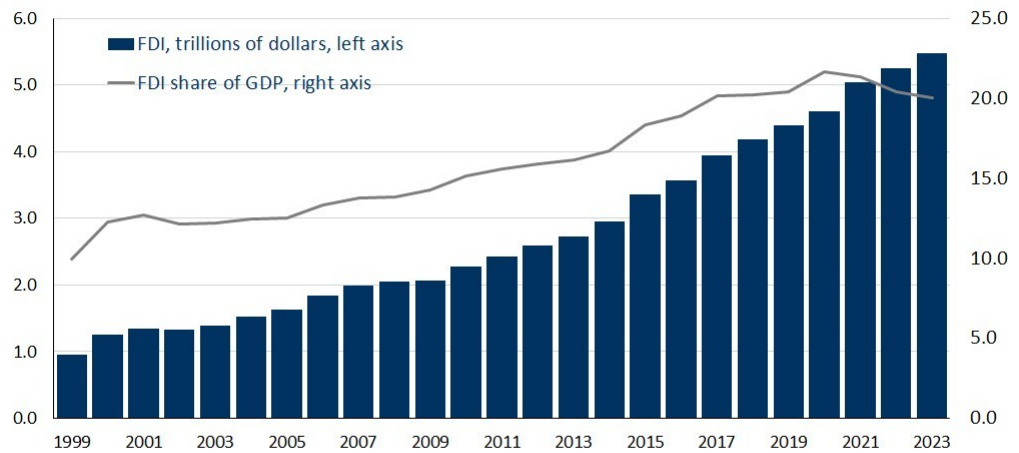
agreements. Each represents a distinct yet interconnected instrument through which states translate economic power into diplomatic influence and strategic advantage.

1.3.1 Economic Investments

Foreign Direct Investment (FDI) has long been utilized as a tool of dollar diplomacy, with governments strategically directing economic power to achieve diplomatic goals while simultaneously promoting economic growth in recipient nations. According to Borensztein et al. (1998), these investments contribute to economic development primarily through several critical mechanisms, including technology transfer, human capital development, and integration of developing economies into global markets. This form of economic statecraft has evolved significantly over time, with investments increasingly structured to complement rather than crowd out domestic investment in recipient countries.

Figure 1.1: Foreign Direct Investment in the U.S., Trillion of Dollars (bars, left axis) and share ofGDP (line, right axis), 1999-2023 (FDI annual Report)

Figure 1: Foreign Direct Investment in the U.S., Trillions of Dollars (bars, left axis) and Share of GDP (line, right axis), 1999-2023



Position data is based on historical cost. GDP in nominal dollars.

U.S. Department of Commerce Office of the Under Secretary for Economic Affairs (OUSEA) analysis of data from the U.S. Bureau of Economic Analysis

The efficiency and effectiveness of dollar diplomacy investments are heavily influenced by the financial infrastructure of target economies. Alfaro et al. (2004) demonstrate that countries with well-developed financial markets gain substantially greater economic benefits from FDI inflows. Their research indicates that functioning banking systems, efficient capital markets, and robust financial regulations that protect foreign investments are prerequisites for maximizing the developmental impact of dollar diplomacy initiatives. This finding suggests that diplomatic investment strategies should consider financial market development as a critical factor when allocating resources.

Beyond direct economic impacts, dollar diplomacy creates significant productivity spillovers through complex supply chain relationships. Javorcik (2004) identifies "backward linkages" as a key mechanism through which foreign investments benefit domestic economies. When foreign firms establish operations in developing countries, they often forge relationships with local suppliers, thereby transferring knowledge, improving production techniques, and elevating quality standards throughout the domestic supply chain. These productivity improvements ex-

tend well beyond the sectors directly receiving investment, creating broader economic benefits that strengthen the diplomatic relationship.

Recent trends in dollar diplomacy reflect evolving global priorities, particularly regarding sustainability and post-pandemic recovery. The UNCTAD World Investment Report (2023) documents shifting patterns in global FDI flows, with increasing emphasis on investments that promote sustainable development alongside traditional economic and diplomatic objectives. This evolution represents a modernization of dollar diplomacy, with investing nations increasingly considering environmental impact and long-term sustainability when structuring their economic diplomacy initiatives.

The regional distribution of dollar diplomacy investments has also shifted significantly in recent years, reflecting changing geopolitical priorities and economic opportunities. According to UNCTAD (2023), investment flows have increasingly targeted emerging markets with strategic resources, digital infrastructure potential, and positioning along critical supply chains. This targeted approach demonstrates how dollar diplomacy has become more sophisticated, with investments precisely calibrated to achieve specific diplomatic and economic objectives rather than broadly distributed.

The effectiveness of dollar diplomacy ultimately depends on aligning economic investments with both diplomatic goals and recipient country development needs. Successful dollar diplomacy creates mutually beneficial relationships where investing nations gain strategic influence while recipient countries experience tangible economic improvements. As Borensztein et al. (1998) and Javorcik (2004) both emphasize, the most successful dollar diplomacy initiatives create sustainable economic partnerships that deliver long-term benefits for all parties involved, establishing economic foundations for enduring diplomatic relationships.

1.3.2 Loans

Foreign lending has emerged as a central instrument in modern dollar diplomacy, enabling creditor nations to extend financial influence while creating complex dependencies with borrowing countries. Eichengreen and Hausmann (2005) highlight the fundamental challenge of "original sin" in international lending, where emerging economies often cannot borrow in their own currencies, creating currency mismatches that expose them to significant exchange rate risks. This structural vulnerability provides powerful lending nations with enhanced leverage, as "the inability to borrow abroad in domestic currency creates financial fragility and increases the costs of international capital" (Eichengreen & Hausmann, 2005, p. 3). These currency mismatches have historically amplified economic distress during crises, transforming financial vulnerabilities into diplomatic pressure points.

Table 1.1 : Currency Distribution of Foreign Exchange Market Turnover (percentage share of dialy transaction in April)

NB. Because every transaction involves two currencies, percentage add up to two hunderedes percent

	1989	1992	1995	1998	2001	2004	2007
Dollar	90	82.0	83.3	87.3	90.3	88.3	86.3
Euro	--	--	--	--	37.6	37.2	37.0
Deutche ma	27	39.6	36.1	30.1	--	--	--

rk							
French	n/a	3.8	7.9	5.1	--	--	--
fra nc							
Other	n/a	11.8	15.7	17.3	--	--	--
E M U Cu rre nci es							
Allother	n/a	62.8	57.0	60.2	72.1	74.1	76..
cur ren cie s							

Source : Bank for International settlements

The cycle of lending, default, and intervention represents a recurring pattern in dollar diplomacy that reinforces power imbalances in the international system. According to Reinhart and Rogoff (2011), "banking crises, both domestic and those emanating from international financial centres, often precede or accompany sovereign debt crises" (p. 1680). Their comprehensive historical analysis demonstrates how financial crashes frequently trigger sovereign debt crises, cre-

ating opportunities for creditor nations to impose conditions or directly intervene in debtor countries' affairs. This pattern illustrates how ostensibly economic lending relationships frequently evolve into mechanisms of political influence and diplomatic leverage.

China's emergence as a major international creditor has reshaped traditional dollar diplomacy lending practices, introducing new approaches to sovereign financing. Horn et al. (2021) document that "China's overseas lending boom is unique in terms of its scale and the opacity of its loans" (p. 103539). Their research reveals that Chinese loans differ substantially from traditional Western lending practices, with distinctive contract terms and conditions that often provide China with significant political and economic leverage. These lending practices represent an evolution of dollar diplomacy, demonstrating how financial resources can be strategically deployed to achieve geopolitical objectives while maintaining plausible economic justifications.

The contractual structure of international lending provides critical insights into how dollar diplomacy operates in practice. Gelpern et al. (2021) conducted an unprecedented analysis of Chinese loan contracts, finding that they "contain unusual confidentiality clauses, collateral arrangements, and cancellation clauses that give Chinese lenders an advantage over other creditors" (p. 2). These contractual mechanisms create opaque financial relationships that frequently circumvent traditional multilateral frameworks and give creditors direct leverage over debtor nations' economic and political decisions. Such lending practices demonstrate how financial agreements can be precisely engineered to maximize diplomatic influence while minimizing international scrutiny.

Debt sustainability concerns have become increasingly central to dollar diplomacy lending, with creditors strategically balancing financial returns against geopolitical objectives. Reinhart and Rogoff (2011) note that "debt thresholds are importantly country-specific and nonlinear; the effect on growth appears to be similar for advanced and emerging economies" (p. 1696). This

finding suggests that lenders engaged in dollar diplomacy must carefully calibrate debt levels to maintain influence without triggering economic collapse in recipient countries. The strategic management of debt sustainability represents a sophisticated evolution of dollar diplomacy, where creditors seek to maintain long-term influence rather than simply maximizing short-term economic returns.

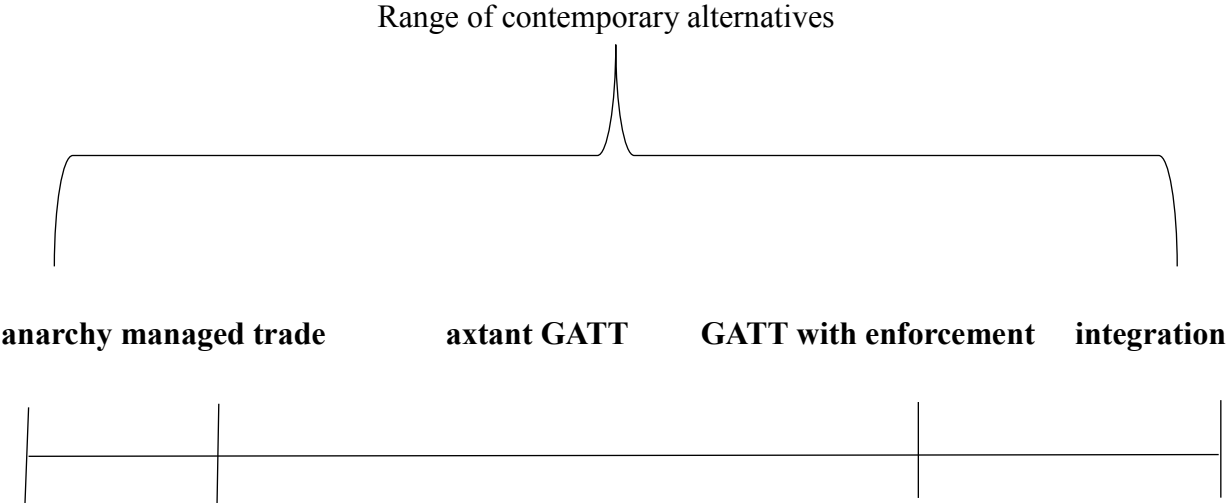
The multilateral response to bilateral dollar diplomacy lending has created complex interactions between different lending models. Horn et al. (2021) observe that "China's state-driven lending strategy has filled a void created by the retrenchment of traditional Western lenders" (p. 103539). This shift has created a competitive lending environment where dollar diplomacy increasingly involves offering alternative financing models with varying degrees of conditionality and transparency. Gelpert et al. (2021) further note that Chinese contracts often contain "cross-default clauses triggered by actions against third parties and cross-cancellation clauses that allow the lender to cancel the contract and demand immediate repayment" (p. 3). These contractual innovations demonstrate how dollar diplomacy lending continues to evolve as creditors develop increasingly sophisticated financial instruments to extend their influence in an increasingly competitive internet.

1.3.3 Trade Agreements

The new priorities at commerce are to strength US engagement in ten Big Emerging Markets (BEMs): China (including Taiwan and Hong Kong), India, Indonesia, Brazil, Mexico, Turkey, South Korea, South Africa, Poland, and Argentina. Those countries alone contain nearly one-half of world's population and consider as the most rapidly economies in the world. They have governments currently committed to trade-led growth and cooperation with the United States (JOHN STREMLAU ,1994). The dollar's global financial dominance stems from a com-

bination of trust in American leadership and the lack of viable alternatives, serving as critical mechanism for promoting free markets and democratic integration. This currency supremacy has been interconnected global economic system, underpinning international financial transactions and geopolitical strategies (Smart, C. 2019). The different trade diplomacy tactics the Asian governments pursued during dispute settlements negotiations United States Trade Representative (USTR). In addition to the fit of between the East Asia political economies and the rules and principles of the General Agreement on Trade and Tariffs (GATT) regime, there are different types of regional trade institutions in the Pacific both multilateral (involving multiple countries) and unilateral (involving a smaller, more focused group of countries) develop and implement mechanisms to address and resolve emerging trade conflicts. These institutional approaches examine various diplomatic, legal, and economic strategies to mediate disputes, assess potential resolutions, and create frameworks that can effectively manage tension between trading partners while maintaining economic stability (Ryan, M. P. 1995).

Figure 1.3 : World Political Economy



Trade agreements have evolved into sophisticated instruments of dollar diplomacy, enabling nations to establish preferential economic relationships that extend beyond mere commercial advantages to include strategic diplomatic objectives. Baier and Bergstrand (2007) provide compelling empirical evidence that "on average, an Free Trade Agreement (FTA) approximately doubles two members' bilateral trade after 10 years" (p. 72). This dramatic increase in economic integration creates powerful incentives for countries to align their diplomatic positions with trading partners, demonstrating how preferential trade access serves as an effective tool of dollar diplomacy by creating tangible economic benefits that can be leveraged for diplomatic influence.

The depth and comprehensiveness of modern trade agreements significantly impact their effectiveness as dollar diplomacy instruments. According to Mattoo et al. (2022), "deeper agreements lead to more trade creation and less trade diversion" (p. 503). Their research demonstrates that agreements covering not only tariffs but also services, investment, competition policy, and intellectual property rights generate substantially larger economic benefits while creating more enduring diplomatic bonds. These findings suggest that nations seeking to maximize their dollar diplomacy impact increasingly favor deep, comprehensive agreements that create multiple channels of influence rather than narrow tariff-focused arrangements with limited diplomatic utility.

Trade agreements function as strategic signaling mechanisms within the broader context of dollar diplomacy. Limão (2016) observes that preferential trade agreements

"can help solve issues of time inconsistency, coordination, and bargaining inefficiencies" (p. 289). By formalizing economic relationships through binding agreements, nations demonstrate credible commitments to their diplomatic partners while establishing predictable frameworks for resolving disputes. This institutional dimension transforms trade agreements from purely economic instruments into diplomatic infrastructure that shapes bilateral relationships and multilateral engagement patterns across multiple domains beyond commerce.

The exclusionary nature of preferential trade arrangements provides a critical mechanism for dollar diplomacy by creating both incentives for cooperation and penalties for non-alignment. Mattoo et al. (2022) note that "trade diversion generates a negative externality on non-members, whose exports to members decline" (p. 504). This asymmetric impact creates a powerful demonstration effect, showing non-participating countries the economic costs of diplomatic non-alignment while incentivizing them to adjust their positions to gain preferential access. The strategic manipulation of these inclusion/exclusion dynamics represents a sophisticated application of dollar diplomacy, using economic instruments to shape diplomatic behaviour through both positive and negative incentives.

Enforcement mechanisms within trade agreements provide essential credibility to dollar diplomacy initiatives. Bown and Keynes (2020) highlight how the World Trade Organization (WTO) dispute settlement system historically served as "the crown jewel of the rules-based multilateral trading system" (p. 800), establishing a framework for peacefully resolving economic conflicts. When functioning effectively, these enforcement mechanisms ensure that dollar diplomacy commitments translate into sustained economic

benefits rather than empty promises. Conversely, the erosion of enforcement capabilities, as witnessed in the "US-induced collapse of the WTO Appellate Body" (Bown & Keynes, 2020, p. 800), can significantly undermine the effectiveness of trade agreements as instruments of dollar diplomacy by reducing their credibility and predictability.

Regional trade architectures represent an increasingly important dimension of dollar diplomacy, allowing nations to establish economic spheres of influence that translate into diplomatic leverage. Limão (2016) notes that "the formation of preferential trade agreements is partly driven by political-economy motives" (p. 310), with nations strategically selecting partners based on both economic complementarity and geopolitical considerations. These regional arrangements create interconnected economic systems that naturally align diplomatic interests among participating countries while potentially excluding rivals. The competition between overlapping regional trade architectures thus represents a sophisticated manifestation of dollar diplomacy, with major powers using economic integration to consolidate diplomatic influence within their preferred regional frameworks.

The relationship between bilateral trade agreements and multilateral economic governance constitutes a critical tension in modern dollar diplomacy. Baier and Bergstrand (2007) observe that while bilateral agreements generate substantial benefits for participants, they can potentially "diminish economic welfare for some or all member countries relative to either free trade or status quo trade policies" (p. 73) when viewed from a global perspective. This dynamic creates a fundamental challenge for dollar diplomacy practitioners, who must balance the targeted influence gained through preferential arrangements against potential systemic costs that might undermine broader economic stability. Navigating this tension requires sophisticated diplomatic strategies that lever-

age bilateral and regional agreements while maintaining fundamental commitments to the rules-based trading system that provides the foundation for global economic prosperity.

1.4 Balance Between Diplomatic Engagement and Economic Dominance

The post-Cold War era has revealed significant tensions in America's global positioning. Despite the fall of the Berlin Wall eight years ago, the United States has only recently begun serious debate about its grand strategy, maintaining its "stra pro tegy of preponderance" rather than reconsidering global commitments following the Soviet Union's collapse (Okano-Heijmans 2011). US leadership has been instrumental in promoting international trade interdependence, fostering unprecedented peace and prosperity worldwide through institutions established from the Bretton Woods System through various GATT rounds, creating governing frameworks that reflect domestic American debates (Rothgeb Jr. 2001). This tension between international obligations and domestic priorities manifested dramatically in the Seattle WTO conference riots, representing the ongoing struggle between protectionists and internationalists for control of American trade policy, which remains complex due to the varied social, political, and economic factors influencing global commerce (Hunt 2007).

Salamon and Siegfried (1977) explore how economic power translates into political influence, addressing a lack of prior empirical research. They identify five key aspects of economic structure firm size, industry size, market concentration, profitability, and geographic dispersion and test their impact on industries' success in influencing public policies, particularly federal corporate income taxes and state excise taxes. Their analysis confirms that **firm size** is a significant factor in political influence across these policy areas. In the complex landscape of international relations, nations continually navigate the delicate interplay between diplomatic engagement and economic dominance. Nye

(2011) argues that this relationship represents a critical strategy for global powers seeking to maintain influence, protect national interests, and foster sustainable international interactions. The intersection of diplomacy and economic power has become increasingly sophisticated, requiring nations to develop multifaceted approaches that balance soft and hard power mechanisms.

Diplomatic engagement serves as a fundamental mechanism for international communication, conflict resolution, and mutual understanding. According to Berridge and Lloyd (2012), traditional diplomatic channels provide nations with opportunities to negotiate, mediate conflicts, and establish collaborative frameworks that extend beyond immediate economic interests. These interactions create essential networks of communication that can mitigate potential tensions and create pathways for constructive international relationships. Diplomacy represents the art of navigating complex international landscapes through dialogue, negotiation, and strategic relationship building.

Economic dominance, conversely, emerges as a powerful tool of global influence. Strange (1988) posits that nations with robust economic capabilities can leverage their financial strength to shape international policies, influence global markets, and create strategic dependencies. This economic power manifests through various mechanisms, including trade agreements, investment strategies, financial aid, and economic sanctions. The ability to manipulate economic resources provides countries with significant leverage in international negotiations and geopolitical maneuvering

The Great Depression and World War II transformed dollar diplomacy into a more institutionalized system of economic statecraft. The Bretton Woods system established American economic dominance within a multilateral framework, creating what Panitch and Gindin (2012) describe as "the political economy of American empire." Through in-

stitutions like the International Monetary Fund and the World Bank, the United States could pursue economic objectives while maintaining a diplomatic narrative focused on mutual benefit and development.

During this period, development aid became a central tool of dollar diplomacy, especially in the context of Cold War competition. As Ekbladh (2010) argues in "The Great American Mission," modernization programs in the developing world represented a form of dollar diplomacy that balanced economic penetration with diplomatic engagement. The Marshall Plan exemplified this approach, using economic assistance to rebuild Western Europe while securing diplomatic allies against Soviet influence (Rauchway, 2006).

The collapse of the Bretton Woods system in the early 1970s increased rather than diminished the dollar's global role, creating what Hudson (2003) terms "super imperialism" - a system where American economic power derived from its control of international financial architecture. As Kirshner (1997) demonstrates in "Currency and Coercion," monetary power became an increasingly important diplomatic tool, with the dollar's reserve currency status providing both economic advantages and diplomatic leverage.

Financial sanctions represent the most direct contemporary expression of this leverage. Through control of dollar clearing systems, the United States can effectively cut targeted countries or entities from the global financial system. However, as Maurer (2013) notes in "The Empire Trap," such coercive economic measures create diplomatic dilemmas, potentially alienating allies and accelerating efforts to develop alternative financial systems that could ultimately undermine American economic dominance.

Contemporary dollar diplomacy also operates through more cooperative mechanisms, particularly development finance initiatives that aim to balance economic interests

with diplomatic relationship-building. As Prasad (2014) observes in "The Dollar Trap," maintaining the dollar's global role requires offering tangible benefits to partner nations, not merely leveraging existing economic power. Development finance initiatives represent attempts to compete with China's infrastructure-focused economic diplomacy while maintaining American emphasis on governance and institutional development.

These initiatives reflect what Rauchway (2006) identifies as a historical pattern in American economic statecraft: the need to present economic self-interest within a framework of mutual benefit and shared values. The effectiveness of such approaches depends on maintaining credibility through genuine diplomatic engagement rather than transparent pursuit of economic advantage (Ekbladh, 2010)

Throughout its evolution, dollar diplomacy has navigated a fundamental tension between extractive economic relationships and constructive diplomatic engagement. As Williams (1972) argued, American rhetoric about promoting democracy and development has often masked policies primarily designed to secure economic advantages. This contradiction has undermined diplomatic objectives when too obviously exposed, creating what Hudson (2003) describes as cycles of resentment and resistance.

However, Veenser (2002) notes that even economically self-interested policies can produce diplomatic benefits when they genuinely create mutual advantages. The most successful instances of dollar diplomacy have occurred when economic interventions aligned with local development priorities, creating partnerships rather than dependency relationships. This suggests that effective economic statecraft requires genuine attention to diplomatic relationship-building, not merely the leveraging of economic power.

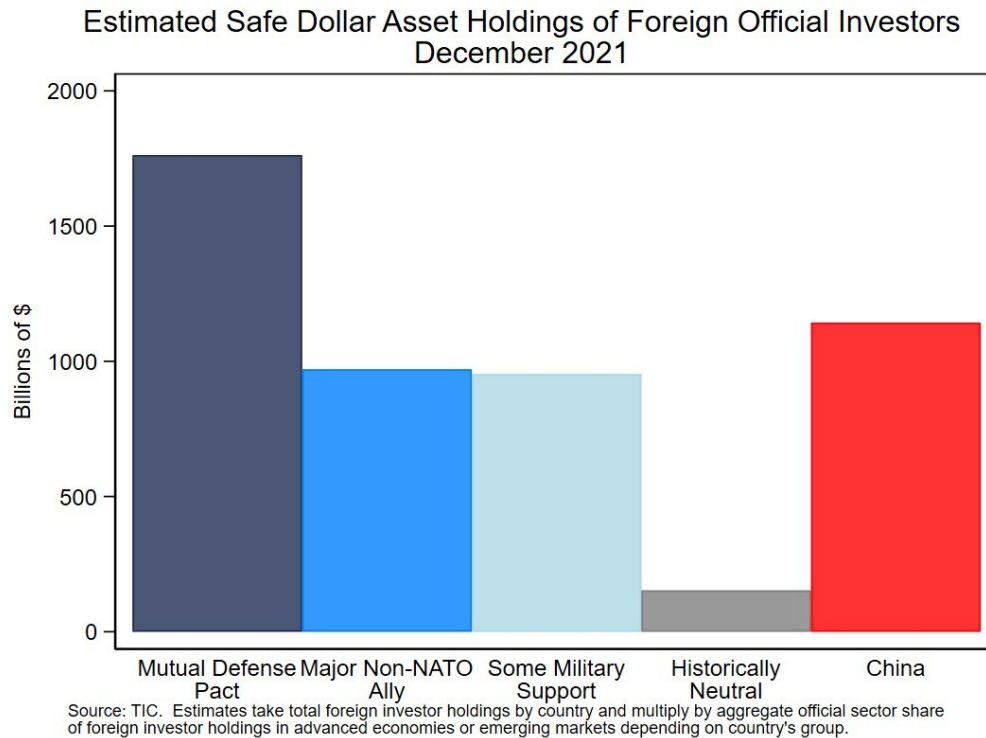
As Panitch and Gindin (2012) argue, American financial dominance creates both economic leverage and diplomatic responsibility. The dollar's central role in the global

economy provides significant advantages, including what Kirshner (1997) terms "monetary autonomy" - the ability to pursue domestic economic policies with less concern for external constraints. However, this privilege comes with expectations that the United States will manage its economy responsibly and consider the international impact of its financial policies.

This dynamic creates what Prasad (2014) describes as the "dollar trap" - a situation where maintaining global economic leadership requires balancing domestic interests with international responsibilities. Effective dollar diplomacy must therefore incorporate both the assertive use of economic power and the responsible stewardship of the international financial system, a balance that requires sophisticated diplomatic engagement alongside economic leverage.

Rosenberg (1999) underscores the historical centrality of dollar diplomacy to U.S. foreign policy, where economic tools were leveraged to sustain global dominance. However, this approach is increasingly challenged in the modern multipolar world. As Veese (2002) highlights, the structural advantages of the dollar, once reinforced by the post-World War II global order, are gradually eroding. Prasad (2014) further elaborates on the rise of competing financial systems and currencies, such as China's yuan and the euro, which are gaining prominence in global trade. Moreover, Maurer (2013) examines the impact of regional economic integration, such as initiatives in Asia and Africa, which prioritize trade through local currencies. Combined, these factors suggest that the U.S. must evolve its economic statecraft to adapt to these transformations, including fostering multilateral alliances and technological innovation.

Figure 1.3: Estimated Safe Dollar Asset Holdings of Foreign Official Investors
December 2021



Future dollar diplomacy will likely require greater emphasis on diplomatic engagement to complement economic leverage, creating what Ekbladh (2010) might term a more "developmental" approach to economic relationships. This suggests that American foreign policy must move beyond the simple leveraging of economic dominance toward a more balanced approach that genuinely incorporates diplomatic objectives alongside economic interests.

As Rauchway (2006) demonstrates, America's historical success in the global economy has always depended on its ability to combine economic power with diplomatic attractiveness. In an era of increasing economic multipolarity, this historical lesson suggests that effective dollar diplomacy must balance dominance with engagement, leveraging economic power while building genuine diplomatic relationships.

Conclusion

In conclusion, the examination of dollar diplomacy reveals a complex interplay between economic influence and international relations, underscoring the strategic use of financial mechanisms to bolster political objectives. The foundations of this approach rely heavily on the United States economic power, mirroring how hegemonic nations historically wield their financial resources to shape geopolitical landscapes. As illustrated in contemporary discussions, such as those highlighted by Jorge Sampaio, effective diplomatic engagement requires not only the deployment of capital but also the understanding of its impact on global health and governance (Sampaio et al., 2007). Furthermore, analyzing the structural frameworks in global finance acknowledges that while dominant powers exert substantial influence, emerging economies like China exhibit limitations in their international financial engagement, reflecting an uneven distribution of structural power (Gao et al., 2018). Therefore, dollar diplomacy remains a critical tool, yet one that requires careful navigation to align economic interests with broader diplomatic goals.

The implementation of Dollar Diplomacy significantly influenced international relations by intertwining economic interests with foreign policy, which continues to resonate in contemporary global interactions. This approach, primarily championed by President William Howard Taft, fostered a framework where financial investments were used to reach regions, thereby promoting U.S. economic goals abroad. The legacy of this strategy can be observed in how multinational enterprises (MNEs) engage with host countries, often influenced by the diplomatic preferences established during the early 20th century. As highlighted in recent scholarship, the increasing dynamism of the international business

environment necessitates a closer examination of the implications of international politics on MNEs' cross-border activities, emphasizing the need for a conceptual framework linking international relations with international business studies (Han et al., 2024). This intersection further elucidates how early diplomatic strategies have shaped modern economic behaviours and legitimacy in a global context (Han et al., 2024).

**CHAPTER TWO: THE ECONOMIC AND POLITICAL
CONSEQUENCES OF DOLLAR DIPLOMACY**

Chapter Two: The Economic and Political Consequences of Dollar Diplomacy

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Introduction

Building on the foundational exploration of Dollar Diplomacy's origins and mechanisms detailed in the previous chapter, this chapter examines the multifaceted economic and political outcomes of this impactful approach to U.S. foreign policy and its evolution over time. While often presented as a tool for fostering stability and economic progress, the deployment of American financial and commercial power abroad has produced a complex legacy, deeply influencing not only the internal development and political autonomy of target nations but also global power dynamics, the structure of international economic relations, and the United States' own global standing.

This chapter offers a critical analysis of these outcomes across several dimensions. It begins by exploring the direct effects on target nations, evaluating the often contradictory implications for economic development and the significant challenges to political sovereignty. The focus then shifts to a broader examination of how U.S. economic statecraft has shaped global power dynamics, particularly its role in consolidating American hegemony and crafting the architecture of international economic systems. The chapter further investigates the modernization of these practices in a globalized era, using case studies to illustrate contemporary tools and assessing their effectiveness. Finally, it addresses international perceptions of these policies, the impact on U.S. foreign policy reputation, debates surrounding global economic equity, and the potential future trajectory of economic statecraft amid evolving global conditions. In sum, this chapter seeks to deliver a comprehensive analysis of the profound and lasting consequences of intertwining financial power with diplomacy, tracing its evolution from influence to dominance.

2.1 Impact on Target Nations of Dollar Diplomacy

Dollar Diplomacy—defined as the strategic use of economic and financial leverage to achieve foreign policy objectives—has yielded a complex and often controversial legacy in the

nations where it has been implemented. Proponents argue its potential to promote economic growth and stability (Tan, n.d.; Rosenberg, 2003), while detractors emphasize its adverse effects, including dependency, distorted economic structures, and compromised political autonomy (Hudson, 2003; LaFeber, 1999). Examining these outcomes requires understanding the diverse experiences of affected nations, spanning early 20th-century U.S. interventions in Latin America and the Caribbean to post-World War II development aid and contemporary dynamics shaped by international financial institutions (IFIs) and geopolitical rivalries (Rosenberg, 2003; Hudson, 2003; Tan, n.d.).

Early justifications for Dollar Diplomacy and subsequent development initiatives frequently centered on economic modernization. U.S. investments, loans, and technical expertise were directed toward infrastructure projects—such as railways, ports, and sanitation systems—to stimulate economic growth and facilitate trade (Rosenberg, 2003, pp. 62–96; Tan, n.d.). Financial missions aimed to stabilize currencies, often tying them to the gold standard, while improving fiscal governance to attract foreign investment (Rosenberg, 2003, pp. 4–30). Programs like the Marshall Plan demonstrated success under specific conditions (Tan, n.d.; Hogan, 1987). Foreign direct investment (FDI), similarly, has been praised for bringing capital, technology, and employment (Tan, n.d.). However, such benefits have been critically scrutinized. Mounting debt remains a key concern, as loans—often tied to austerity measures—can stifle growth and create social strain, evident in cases like Argentina and Greece (Hudson, 2003, p. 4; Tan, n.d.). Critics also argue that aid and investment often prioritize donor nations’ interests, favoring industries that benefit U.S. corporations while neglecting broader local development needs (LaFeber, 1999; Hudson, 2003; Panitch & Gindin, 2004; Vitalis, 2007). Hudson (2003) characterizes this dynamic as fostering dependency under a system of “Super Imperialism,” which undermines self-sufficiency (pp. xi, 25). Contemporary challenges, like Sri Lanka leasing Hambantota Port to China due to debt burdens, highlight ongoing vulnerabilities (Tan, n.d.).

Dollar Diplomacy has often eroded national sovereignty. Early U.S. interventions frequently entailed direct control over foreign finances, as exemplified by customs receiverships in the Dominican Republic—signifying a substantial loss of local autonomy (Rosenberg, 2003, pp. 41–46). These actions were often justified by paternalistic, and sometimes racially charged, assumptions regarding the capacity of local governments (Rosenberg, 2003, pp. 1–3, 31–41). Political interference, backing for compliant regimes, and even military intervention frequently followed when U.S. economic interests were perceived as threatened (LaFeber, 1999; Rosenberg, 2003, pp. 41–46, 77). Although Maurer (2013), reviewed by Bucheli (2015), notes intervention was not always inevitable, its looming presence constrained decision-making. Later, IFI loan conditions played similar roles, shaping domestic policies and limiting national autonomy (Hudson, 2003, pp. x–xi; Tan, n.d.; Moschella, 2015). These mechanisms integrated recipient states into a U.S.-led global order, restructuring governmental functions in some cases (Panitch & Gindin, 2004). Trade agreements on intellectual property or market access have also pressured nations to amend domestic legislation (USTR, 1995; USTR, 2018). While some scholars emphasize instances of mutual benefit, countering simplistic imperial narratives (Davidson, 2021, pp. 2–4), the broader trend reflects power imbalances that curtail political self-determination (Rosenberg, 2003; Hudson, 2003).

2.1.1. Economic Development Effects

A key justification for Dollar Diplomacy—particularly during its early implementation and later through development aid—was the promise of fostering economic growth and stability in recipient nations. Advocates argued that U.S. financial involvement could drive modernization, creating favorable conditions for economic development. Early efforts often directed U.S. investments, loans, and technical assistance into infrastructure projects such as railways, ports, and sanitation systems, which were deemed essential for enhancing trade and integrating these economies into global markets (Rosenberg, 2003, pp. 62–96; Tan, n.d.). Financial missions

sought to stabilize national currencies, often pegging them to the gold standard, while improving fiscal governance to attract additional foreign investment (Rosenberg, 2003, pp. 4–30). Large-scale aid programs like the Marshall Plan are frequently highlighted as successful examples, though the unique circumstances of postwar Europe limit their comparability (Tan, n.d.; Hogan, 1987). Similarly, foreign direct investment (FDI) has been praised for introducing capital, technology transfer, and job opportunities (Tan, n.d.).

However, the actual economic effects of Dollar Diplomacy and its later iterations have frequently faced scrutiny and criticism. One major concern has been the accumulation of unsustainable debt. Loans provided by U.S. banks or international financial institutions (IFIs) like the IMF and World Bank were often tied to strict conditions, including austerity measures that, critics argue, suppressed economic growth, exacerbated inequality, and caused social hardship—as observed in nations such as Argentina and Greece (Hudson, 2003, p. 4; Tan, n.d.). Additionally, critics contend that aid and investments frequently prioritized U.S. strategic and corporate interests over the long-term, equitable development of host countries (LaFeber, 1999; Panitch & Gindin, 2004). Many initiatives focused on resource extraction (Vitalis, 2007) or disproportionately supported sectors tied to U.S. business interests, creating enclave economies that offered limited benefits to the broader population (Hudson, 2003). In his analysis of “Super Imperialism,” Hudson (2003) asserts that the postwar financial system—including IFIs—was structured to maintain U.S. economic dominance and foster dependence rather than promote self-reliant growth. He highlights policies that undermined local food production to increase reliance on U.S. agricultural exports (pp. xi, 25). Recent examples, such as Sri Lanka’s ceding of Hambantota Port to a Chinese company over debt repayment challenges, illustrate the persistent risks associated with externally financed development projects (Tan, n.d.).

Ultimately, while economic development was often cited as a primary rationale for Dollar Diplomacy, the actual outcomes for many recipient nations frequently included escalating debt,

deepening dependency, and development agendas driven more by external interests than by local needs and priorities.

2.1.3 Global Power Development

Dollar Diplomacy, alongside broader strategies of U.S. economic statecraft, has played a pivotal role in shaping global power dynamics, extending its influence far beyond individual recipient nations. These approaches not only facilitated the United States' rise to global hegemony but also helped establish the international economic and political order that dominated much of the twentieth and early twenty-first centuries (LaFeber, 1999; Panitch & Gindin, 2004). During the early 1900s, Dollar Diplomacy projected American influence into regions historically dominated by European powers, contributing to a gradual reconfiguration of global economic authority (Rosenberg, 2003). This trajectory accelerated post-World War II, as American economic and military power consolidated a U.S.-led global system (Kirshner, 2014; Hudson, 2003).

At the core of this system is the privileged status of the U.S. dollar. Under the Bretton Woods framework, the dollar's gold convertibility anchored international finance; even after the system's collapse in 1971, the dollar retained its dominance (Hudson, 2003; Prasad, 2017). This enduring "dollar supremacy"—sometimes termed a "Dollar Trap" (Prasad, 2017) or the "Dollar-Wall Street Regime" (Gowan, 1999, as cited in van der Pijl, 2003?)—granted the United States what has been described as an "exorbitant privilege" (Hudson, 2003, p. ix; Kirshner, 2014). It allowed the U.S. to operate with considerable freedom from the balance-of-payments constraints faced by other nations, facilitating both domestic spending and foreign policy ventures, including military operations, through the global demand for dollars (Hudson, 2003, pp. x, 16–19). Institutions such as the IMF and World Bank, often influenced by U.S. policy, played key roles in per-

petuating this system by promoting norms aligned with the “Washington Consensus” and advancing policies favorable to U.S. interests (Hudson, 2003; Panitch & Gindin, 2004; Tan, n.d.). Even after disruptions like the 2008 financial crisis, the dollar’s dominance paradoxically strengthened, as global markets turned to it as a safe haven during economic uncertainty (Kirshner, 2014; Prasad, 2017; Moschella, 2015).

However, this U.S.-centric global order has had far-reaching and complex implications for global power relations. It fostered economic integration within what some scholars describe as an “informal American empire” (Panitch & Gindin, 2004, p. 4), where many nations experienced reduced autonomy as their domestic systems increasingly aligned with American strategic and economic priorities (Panitch & Gindin, 2004; Hudson, 2003). This asymmetry has generated both dependency and resistance (Rosenberg, 2003; LaFeber, 1999; Tan, n.d.). In recent years, challenges to this U.S.-dominated framework have gained visibility. China’s rise, coupled with growing skepticism toward the U.S.-led model—particularly following the 2008 crisis—has spurred efforts to construct alternative systems. Initiatives like China’s Belt and Road Initiative (BRI) and the internationalization of the Renminbi represent strategic moves to diminish reliance on the dollar and reshape global economic governance (Tan, n.d.; Kirshner, 2014; Prasad, 2017). Consequently, while the United States remains a formidable global force, the international order is increasingly characterized by power diffusion and intensified competition, signaling the decline of the unipolar dominance that defined the post-Cold War era (Kirshner, 2014; Brasioli & Högenauer, 2023).

2.1.4 Influence Hegemony

Dollar Diplomacy, together with later forms of U.S. economic statecraft, has been a central tool for asserting, expanding, and maintaining American influence and hegemony on the

global stage. Influence, in this context, refers to the United States' ability to steer the decisions and behaviors of other states and international actors in alignment with its strategic goals. Hegemony, on the other hand, represents a more entrenched dominance, allowing the U.S. to define and shape the norms, rules, and structures governing the international system (Panitch & Gindin, 2004; Hudson, 2003). From its inception, Dollar Diplomacy aimed to extend American power, particularly in regions like Latin America and East Asia, with the explicit objective of displacing European influence and establishing economic and political zones dominated by U.S. interests (Rosenberg, 2003; LaFeber, 1999).

The United States has employed a variety of mechanisms to translate its economic policies into geopolitical leverage. Direct financial instruments—such as strategically providing or withholding loans and investments—have consistently been used to influence policy shifts in target nations (Rosenberg, 2003; Tan, n.d.). Following World War II, U.S. dominance was further reinforced through the establishment of a dollar-centered international financial system and the creation of institutions like the IMF and World Bank (Hudson, 2003). By controlling dollar liquidity and setting the terms of international lending, the U.S. institutionalized its global hegemony, shaping economic and political developments in numerous countries (Hudson, 2003; Panitch & Gindin, 2004; Tan, n.d.). Trade policy also served as a critical tool of influence, employing mechanisms such as sanctions, tariffs, market access negotiations, and intellectual property enforcement to align other nations with U.S. economic priorities (USTR, 1995; USTR, 2018; LaFeber, 1999).

The character of this influence has been widely debated among scholars. Some describe it as a form of empire—whether framed as “Super Imperialism,” rooted in financial dominance (Hudson, 2003), or as an “informal empire” that governs global capitalism (Panitch & Gindin, 2004). These interpretations highlight the systemic power of U.S.-dominated institutions in constraining the policy autonomy of other states. Others adopt a more nuanced view, acknowledging

both the constraints and unintended consequences of U.S. interventions (Maurer, 2013, as cited in Bucheli, 2015), while also noting examples of reciprocal partnerships during specific historical periods (Davidson, 2021). Nonetheless, economic instruments have remained a cornerstone of American power projection.

This exercise of economic influence is often accompanied by ideological narratives—such as promoting democracy, stability, and modernization—that aim to justify U.S. actions (Rosenberg, 2003; Kane, 2010). Critics, however, argue that these ideals frequently took a backseat to advancing capitalist and strategic interests (LaFeber, 1999). Moreover, U.S. economic statecraft has frequently intersected with its cultural and ideological soft power, at times enhancing international support but at other times undercutting it (Rosenberg, 2003; Ohnesorge, 2020). In summary, Dollar Diplomacy and its successors represent a consistent effort to convert economic strength into global influence, consolidating a hegemonic position that has shaped international politics throughout the “American Century” and continues to inform U.S. engagement in global affairs (LaFeber, 1999; Kirshner, 2014).

2.1.5 International Economic Relations

The concept of using economic power to achieve foreign policy goals, first established during the era of classical Dollar Diplomacy, has evolved significantly over time. Throughout the twentieth and twenty-first centuries, U.S. economic statecraft has been continuously reshaped, adapting its tools, targets, and motivations to match the changing dynamics of global politics, advancements in technology, and shifting geopolitical landscapes. Factors such as the rigid bipolar structure of the Cold War, the rise of neoliberal globalization, economic competition from emerging powers like China, recurring global financial crises, and the growing importance of issues like climate change and digital governance have all influenced the methods and frameworks of economic diplomacy (Tan, n.d.; Kirshner, 2014; Brasioli & Högenauer, 2023). This

section explores these transformations by tracing the modern evolution of economic diplomacy within an increasingly interconnected world, presenting case studies of its current applications, assessing its impact on international relations, and critically analyzing its effectiveness in addressing contemporary global challenges.

2.2 Evolution and Contemporary Applications

The concept of using economic power to achieve foreign policy goals, rooted in the classical era of Dollar Diplomacy, has evolved significantly over time. In the twentieth and twenty-first centuries, U.S. economic statecraft has undergone substantial changes, adapting its methods, targets, and motivations to align with shifting global landscapes, technological advancements, and new geopolitical realities. Influencing factors such as the rigid Cold War bipolarity, the expansion of neoliberal globalization, the emergence of economic rivals like China, recurring global financial crises, and the increasing importance of climate change and digital governance have reshaped how economic influence is conceptualized and applied (Tan, n.d.; Kirshner, 2014; Bra-sioli & Högenauer, 2023). This section explores these transformations, charts the contemporary evolution of economic diplomacy in an interconnected world, examines relevant case studies, assesses its impact on international relations, and evaluates its effectiveness in addressing modern global complexities.

2.2.1 Modern Manifestations in a Globalized Economy

The use of economic tools to achieve foreign policy objectives, a hallmark of early Dollar Diplomacy, continues to be a cornerstone of modern U.S. statecraft. However, the methods and mechanisms have evolved significantly in today's highly interconnected global economy. While overt measures like territorial control or customs receiverships have largely disappeared, contemporary economic diplomacy employs a more sophisticated array of instruments, often inte-

grated into the global financial framework, trade systems, and multilateral organizations (Tan, n.d.; Kirshner, 2014).

International financial institutions (IFIs) such as the IMF and World Bank now play a pivotal role in extending influence. By imposing loan conditionalities and promoting specific policy models—most famously the "Washington Consensus"—these institutions allow the U.S. to shape economic governance in recipient countries while mitigating the political fallout of direct intervention (Hudson, 2003; Tan, n.d.).

A key modern tool is the strategic use of financial sanctions. Leveraging the U.S. dollar's global dominance and America's expansive financial networks, these sanctions can isolate individuals, companies, or even entire economic sectors from international markets, effectively turning financial access into a powerful lever (Prasad, 2017; Kirshner, 2014). This approach, known as the "weaponization of finance," represents a marked departure from the broader trade embargoes of the past (Kirshner, 2014).

Trade policy remains central but has become more nuanced. Beyond traditional tariffs, modern strategies focus on shaping global trade norms through bodies like the WTO, agreements like the USMCA, and bilateral deals designed to safeguard U.S. economic interests (LaFeber, 1999; Tan, n.d.). Tools such as "Special 301," aimed at enforcing intellectual property rights, and Section 301 investigations targeting unfair trade practices, offer additional means of applying pressure—especially in disputes with China (USTR, 1995; USTR, 2018). Addressing non-tariff barriers, including regulatory frameworks and digital trade restrictions like data localization, has also gained prominence in U.S. trade priorities (USTR, 2019; Brasioli & Högenauer, 2023).

2.2.2 Case Studies of Implementation

The progression of economic statecraft becomes more concrete when examined through contemporary case studies that illustrate the deployment of financial and commercial tools to achieve strategic objectives—often resulting in complex and contested outcomes.

One notable example is the use of conditional lending by International Financial Institutions (IFIs), which frequently reflect the policy priorities of influential shareholders such as the United States. During the Eurozone sovereign debt crisis, starting in 2009, nations like Greece received significant financial assistance from the "Troika"—comprising the European Commission, the European Central Bank, and the IMF. These bailouts were linked to stringent austerity conditions, including deep cuts to public expenditure, increased taxes, and structural economic reforms (Tan, n.d.). Proponents argued that these measures were essential for restoring fiscal discipline and reassuring investors, while critics highlighted the associated social and economic hardships, such as extended recession, high unemployment rates, and reduced national sovereignty—bringing to light the challenges of modern financial conditionality (Tan, n.d.; Kaplan, 2013, as cited in Tan, n.d.). Argentina's troubled interactions with the IMF similarly reflect this pattern, with crisis-driven loans often accompanied by austerity requirements that fuel political instability and public opposition (Hudson, 2003; Tan, n.d.).

Another striking example is the strategic application of financial sanctions. U.S. sanctions on Russia, significantly expanded after the 2014 annexation of Crimea, targeted critical industries like finance, energy, and defense, cutting off Russian entities from U.S. capital markets and advanced technologies (Tan, n.d.). Supported by the U.S. dollar's dominance in global finance, these sanctions sought to exert economic pressure on Moscow to change its geopolitical behavior. Despite causing economic strain in Russia, their overall effectiveness remains debated, especially as Russia has pursued counterstrategies and strengthened relationships with alternative

partners such as China (Tan, n.d.). Similar sanctions have been used against Iran, underscoring the pivotal role of financial exclusion as a favored U.S. policy tool (Kirshner, 2014; Tan, n.d.).

Trade conflicts also exemplify contemporary economic statecraft. Since 2018, the U.S.-China trade relationship has grown increasingly contentious, marked by broad tariffs and Section 301 investigations into issues such as intellectual property theft, forced technology transfers, and state subsidies (USTR, 2018; Tan, n.d.). These measures reflect a strategic shift from traditional trade liberalization toward leveraging trade policy in geopolitical and technological rivalries, highlighting the intertwined nature of commerce and national security in the twenty-first century.

Finally, large-scale development finance and infrastructure initiatives demonstrate the evolving dynamics of statecraft. China's Belt and Road Initiative (BRI), encompassing vast international infrastructure projects, is presented as a mechanism for fostering connectivity and economic growth (Tan, n.d.). However, instances like Sri Lanka's Hambantota Port—where unsustainable debt resulted in a 99-year lease to a Chinese state-owned entity—have ignited debates over "debt-trap diplomacy" and the loss of sovereignty in recipient nations (Tan, n.d.). These examples illustrate how financial instruments, development funding, sanctions, and trade strategies remain integral yet increasingly sophisticated tools for exerting influence and shaping global power dynamics.

2.2.3 Impact on International Relations

The evolution and contemporary application of economic statecraft, as discussed above, carry significant consequences that reverberate throughout the broader landscape of international relations. The ways in which states employ economic tools influence not only their bilateral relationships but also alliance structures, patterns of conflict and cooperation, the efficacy of interna-

tional institutions, and the very nature of diplomacy in the twenty-first century. The increased sophistication and prominence of economic instruments have arguably contributed to the rise of "geoeconomics," where economic competition and leverage are central features of geopolitical rivalry (Brasioli & Högenauer, 2023; Kirshner, 2014).

Modern economic diplomacy significantly shapes international alignments. Preferential trade agreements, investment partnerships, and coordinated aid initiatives can serve to solidify alliances and create economic blocs bound by shared interests and dependencies (Tan, n.d.). Conversely, the use of economic tools can also create friction, even among traditional allies. Disputes over trade practices, unilateral sanctions that impact third parties (such as U.S. sanctions on Russia affecting European economies), or disagreements over policies within international financial institutions can strain relationships and complicate diplomatic cooperation (Kirshner, 2014; Tan, n.d.). The U.S.-China relationship, increasingly defined by economic competition over trade, technology, and investment standards, exemplifies how economic statecraft can become the primary arena for major power rivalry (USTR, 2018; Tan, n.d.).

Furthermore, the prevalence of economic statecraft impacts broader patterns of international cooperation and conflict. While the deep economic interdependence fostered during the era of globalization was once thought by some to make major conflict less likely (a core tenet of liberal internationalism), the use of economic tools as weapons—through sanctions, trade wars, or strategic dependency creation—introduces new sources of tension and instability (Kirshner, 2014; Hudson, 2003). This can undermine trust and make cooperation on other global challenges more difficult. The effectiveness and legitimacy of international institutions governing economic relations, such as the WTO or the IMF, are also affected. Unilateral economic actions or disa-

agreements among major powers over institutional policies can weaken these bodies and lead states to seek alternative arrangements (Moschella, 2015; Brasioli & Högenauer, 2023). The norms underpinning international economic relations—related to free trade, capital flows, or intellectual property—are increasingly contested terrain, shaped by the strategic deployment of economic influence (Kirshner, 2014; USTR, 2018). Consequently, the contemporary international system is characterized by complex interactions where economic interdependence coexists with intensifying geoeconomic competition, influencing diplomatic agendas and shaping the global balance of power (Brasioli & Högenauer, 2023).

2.2.4 Critical Analysis of Effectiveness

Evaluating the effectiveness of modern economic statecraft—an evolved form of classic Dollar Diplomacy—poses significant analytical challenges. Success cannot simply be measured by the achievement of policymakers' objectives; it also necessitates thorough consideration of unintended outcomes, the long-term impact on diplomatic ties, and the broader costs incurred by both the targeted nations and the initiators (Tan, n.d.; Kirshner, 2014). While certain tools may produce limited, short-term successes, their capacity to effect meaningful political change or cultivate lasting, constructive relationships is often questionable and constrained.

Numerous case studies illustrate how coercive measures like sanctions often fail to accomplish their primary political objectives, such as driving policy shifts or enabling regime changes in states like Russia, Iran, Cuba, or North Korea (Tan, n.d.). Although sanctions can impose severe economic hardship on targeted populations and industries, resilient regimes frequently adapt by forging new alliances or utilizing nationalist rhetoric to consolidate domestic power. This "rally around the flag" phenomenon can bolster rather than weaken the regime's authority (Tan, n.d.). Furthermore, such measures often exacerbate anti-American sentiment, damaging U.S. soft power and diminishing diplomatic credibility in the long term (LaFeber, 1999;

Ohnesorge, 2020; Rosenberg, 2003). Their unintended effects can be far-reaching, including stronger ties among sanctioned states (such as Russia and China), disruptions in global markets, and detrimental humanitarian consequences (Tan, n.d.).

Similarly, conditional lending by international financial institutions remains a topic of debate. While these arrangements may pressure governments into implementing specified reforms, they frequently provoke domestic unrest and often fail to foster sustainable development, undermining the stability they aim to achieve (Hudson, 2003; Tan, n.d.). Trade enforcement measures may yield short-term gains—such as improved market access or stronger intellectual property protections (USTR, 1995; USTR, 2018)—but they often escalate into prolonged trade disputes, complicating global supply chains and straining international relationships (Kirshner, 2014). Similarly, large-scale development aid or infrastructure projects, while potentially driving economic growth and goodwill, can backfire if executed poorly or shaped by strategic rather than developmental motives, fostering corruption, dependence, or unmet expectations (Tan, n.d.).

At a broader level, some scholars argue that U.S. economic statecraft—through mechanisms like dollar hegemony and influence over global financial institutions—has historically reinforced American dominance and shaped the structure of global capitalism (Hudson, 2003; Panitch & Gindin, 2004). However, the growing intricacies of the global economic system, the rise of rival powers pursuing their own strategies, and increasing recognition of these tools' limitations suggest that their effectiveness is now highly context-specific, conditional, and subject to diminishing returns (Kirshner, 2014; Brasioli & Högenauer, 2023). Ultimately, a critical assessment reveals that while economic statecraft remains an important component of foreign policy, its impact is frequently overstated and comes with significant risks, trade-offs, and constraints in today's complex global environment.

2.3 Global Perceptions and Long-term Implications

The prolonged application of economic statecraft by the United States has left a profound and lasting impact—not only on the nations it has targeted and global power structures, but also on worldwide perceptions and the future direction of the international system. Whether these policies are seen as instruments of development and stability or as tools of coercion and self-serving dominance significantly shapes America's global reputation, the effectiveness of its diplomatic endeavors, and the durability of its international influence (LaFeber, 1999; Rosenberg, 2003; Ohnesorge, 2020). Furthermore, decades of economic statecraft have contributed to shaping global economic equity and will continue to play a pivotal role in steering international relations, particularly in an era characterized by shifting power balances and emerging global challenges (Hudson, 2003; Kirshner, 2014; Brasioli & Högenauer, 2023). This section explores these pivotal dimensions, examining global reactions to U.S. economic policies, assessing their impact on America's foreign policy standing, and considering their implications for global economic equity and the evolving role of Dollar Diplomacy and its modern iterations.

2.3.1 International Reception and Response

The application of U.S. economic statecraft, from the era of Dollar Diplomacy to its contemporary forms, has elicited a wide spectrum of reactions globally, ranging from cooperation and acceptance to outright resentment and opposition. Predictably, policies perceived as intrusive—such as those involving direct financial oversight or coercive conditions—have often provoked nationalist pushback and fostered anti-American sentiment (Rosenberg, 2003; LaFeber, 1999). Early financial missions, marked by paternalistic attitudes, and the social impact of later structural adjustment programs implemented by IFIs, have fueled criticisms of cultural insensitivity and accusations of economic imperialism (Rosenberg, 2003, pp. 1-3; Hudson, 2003). Sanc-

tions, while aimed at specific governments, have frequently engendered widespread resentment among the general population, potentially harming long-term relationships (Tan, n.d.).

That said, the global response has not been uniformly negative. In many instances, U.S. economic initiatives—including investment and aid—have been actively sought after by governments seeking capital, technology, and access to American markets (Tan, n.d.). Political and economic elites in recipient states have sometimes welcomed U.S. involvement as a way to strengthen their positions, gain resources, or ensure stability, even at the expense of some national sovereignty (Rosenberg, 2003, pp. 117-119; Davidson, 2021). Moreover, the U.S.'s role in providing global public goods—such as maintaining open sea lanes or serving as a lender of last resort during financial crises—has earned some measure of acceptance, or at least dependence, within the global economic system (Kirshner, 2014; Prasad, 2017). Smaller states, meanwhile, have often adopted nuanced strategies such as hedging or balancing, seeking to maintain autonomy by engaging with both the U.S. and other powers (Tan, n.d., referencing ASEAN).

Reactions from other countries have varied widely, shaped by their power dynamics, vulnerabilities, and political orientations. Some complied with U.S. demands or IFI-imposed conditions due to limited options or external pressure (Hudson, 2003). Others actively resisted, negotiating more favorable terms, pursuing alternative economic systems, or even nationalizing foreign-owned assets—though such moves often invited stronger U.S. responses (Rosenberg, 2003; Hudson, 2003). Over time, many nations and regional groups have sought to establish alternative institutions and alliances that reduce their reliance on U.S.-dominated frameworks. These efforts include historical initiatives like the Non-Aligned Movement as well as recent developments such as China's Belt and Road Initiative and the creation of new development banks (Tan, n.d.; Kirshner, 2014). Public backlash, such as protests against austerity policies or perceived exploitation, along with sustained intellectual critiques of U.S. economic strategies, have also shaped these dynamics (Panitch & Gindin, 2004; Hudson, 2003). Ultimately, the global reception of

U.S. economic statecraft reveals a multifaceted interplay of attraction, reliance, resentment, and resistance, influencing both bilateral ties and the broader framework of international relations.

2.3.2 Effects on U.S. Foreign Policy Reputation

The United States' use of economic power on the international stage has profoundly shaped its foreign policy reputation and global influence. Though domestically often framed as efforts to promote stability, development, or democratic values, the policies tied to Dollar Diplomacy and its modern adaptations have frequently fostered negative perceptions abroad, harming the U.S.'s image and weakening its ability to lead through attraction and persuasion—a concept referred to as "soft power" (LaFeber, 1999; Rosenberg, 2003; Ohnesorge, 2020).

One of the persistent criticisms is the accusation of imperialism and economic exploitation. Early 20th-century interventions, portrayed as initiatives to provide financial guidance and support, were frequently interpreted locally as acts of dominance and control, provoking nationalist resistance (Rosenberg, 2003). Later policies, such as the stringent conditionalities imposed by international financial institutions (IFIs), were viewed as forcing foreign economic models onto developing nations, often with severe social costs. This reinforced the perception that the U.S. prioritized its own economic and ideological interests above the welfare and sovereignty of others, contributing to characterizations of U.S. influence as "Super Imperialism" (Hudson, 2003) or an "informal empire" (Panitch & Gindin, 2004)—labels that significantly tarnish its reputation.

Compounding this reputational challenge is the gap between America's proclaimed ideals, such as promoting democracy, and its actual foreign policy actions. Supporting authoritarian regimes that align with economic or strategic priorities, defending corporate interests at the ex-

pense of democratic values, or imposing policies that exacerbate inequality have fueled allegations of hypocrisy and skepticism about U.S. intentions (LaFeber, 1999; Tan, n.d.). Additionally, unilateral sanctions or trade measures—though aimed at specific governments—are often perceived globally as coercive or high-handed, further straining goodwill (Tan, n.d.; Kirshner, 2014). While American goods, culture, and innovation remain globally desirable, the negative consequences of its economic statecraft often diminish its broader appeal and complicate diplomatic relationships (Ohnesorge, 2020). Events such as the 2008 financial crisis, originating in the U.S., also harmed perceptions of the American economic model, despite the paradoxical persistence of the dollar's dominance (Kirshner, 2014). Ultimately, while U.S. economic power provides substantial leverage, its application often comes with significant reputational costs, creating obstacles that may impede the achievement of broader foreign policy objectives.

2.3.3 Impact on Global Economic Equity

The extensive use of U.S. economic statecraft, from the era of Dollar Diplomacy to its modern iterations, has faced considerable criticism for its influence on global economic equity, extending beyond the development of individual nations and America's international reputation. Critics argue that U.S. economic policies and structures have frequently exacerbated or failed to address disparities in wealth and opportunities, both globally and domestically. The post-war international economic order—anchored by the U.S. dollar and shaped by American interests through institutions like the IMF and World Bank—is regarded by many scholars as embedding a global hierarchy that disproportionately benefits core economies, particularly the U.S., while disadvantaging peripheral developing nations (Hudson, 2003; Panitch & Gindin, 2004).

Drawing on dependency theory and world-systems analysis, critics emphasize how U.S. economic strategies have perpetuated unequal exchange patterns, wherein developing nations

largely export raw materials and import higher-value manufactured goods, stunting their industrial growth (Kohli syllabus, 2008; LaFeber, 1999). The debt burdens carried by many developing countries—often stemming from loans influenced by U.S. policy or international financial institutions—are identified as a major contributor to sustained inequality (Hudson, 2003). Structural adjustment programs (SAPs), implemented by the IMF and World Bank in return for financial aid, have attracted significant criticism for emphasizing privatization, deregulation, trade liberalization, and severe reductions in public spending, particularly on social services. These policies are argued to disproportionately affect the poor, widen income inequality, and prioritize debt repayments to foreign creditors over domestic socio-economic needs, increasing hardships for vulnerable populations (Hudson, 2003, pp. x-xi, 4; Tan, n.d.; Stiglitz, 2002).

The privileged role of the U.S. dollar as the global reserve currency has also attracted scrutiny for deepening global inequalities. Critics argue that the ability to finance trade and budget deficits by accumulating dollars held by foreign central banks—described as global seigniorage or a "free lunch"—has enabled the U.S. to maintain high levels of consumption and government spending (including military expenditures) while externalizing some associated costs and risks (Hudson, 2003, pp. ix, 16-19; Prasad, 2017; Kirshner, 2014). This asymmetry is said to contribute to persistent global imbalances. Additionally, trade rules advocated by the U.S., such as stringent intellectual property protections and agricultural subsidies, often benefit U.S. sectors but disadvantage developing nations working to establish domestic industries or agricultural systems (LaFeber, 1999; Hudson, 2003). Even within the nations targeted by U.S. policies, economic engagement often disproportionately benefits elites or sectors aligned with American interests, exacerbating internal divisions (Rosenberg, 2003; Hudson, 2003). Consequently, a significant body of research concludes that U.S. economic statecraft has been instrumental in shaping—and frequently amplifying—global economic inequalities.

2.3.4 Future Trajectory of Dollar Diplomacy

Projecting the future trajectory of U.S. economic statecraft—the modern continuation of Dollar Diplomacy—is inherently uncertain. However, current trends and structural changes within the global political economy offer insights into its potential evolution and sustained relevance. While the historical term "Dollar Diplomacy," associated with the Taft administration, is dated, the practice of leveraging economic power for foreign policy objectives is likely to endure, albeit in increasingly adaptive forms (Tan, n.d.; Kirshner, 2014). The enduring prominence of the U.S. economy and the dollar within global finance indicates that the United States will retain significant economic influence for the foreseeable future, even as new challenges emerge (Prasad, 2017; Moschella, 2015).

Several key factors will shape the future of U.S. economic statecraft, including the transition toward a multipolar global order, China's ascendance as a major economic and geopolitical competitor with its own strategies—like the Belt and Road Initiative—and rapid technological advancements, particularly in digital finance and green energy (Kirshner, 2014; Tan, n.d.; Brasioli & Högenauer, 2023). These shifts necessitate strategic adjustments, likely fostering continued emphasis on tools suited to the evolving landscape. These may include targeted financial sanctions, aggressive competition over technological standards and digital governance (such as data flow regulations, AI frameworks, and potentially central bank digital currencies), and trade policy employed not solely for market access but as a mechanism within broader strategic rivalries (Tan, n.d.; USTR, 2018; Brasioli & Högenauer, 2023). Climate change's increasing urgency may also drive innovative approaches to economic statecraft, such as "green" conditions tied to aid or investment, carbon border adjustments, and the promotion of U.S. renewable energy industries (Tan, n.d.).

Nonetheless, the effectiveness and reach of U.S. economic statecraft in the future may face significant constraints. The rise of alternative economic powers and financial systems could gradually weaken the dollar's dominance and diminish the influence of U.S.-led institutions, allowing greater diversification and resistance from other nations (Prasad, 2017; Kirshner, 2014; Tan, n.d.). Additionally, growing global awareness of the adverse effects of coercive economic policies—such as debt traps, inequality, and infringements on sovereignty—may result in heightened pushback or demands for fairer governance structures (Hudson, 2003; Tan, n.d.). Domestic political dynamics in the U.S., including debates over global engagement versus protectionism, will also significantly impact future policy directions (LaFeber, 1999; Kirshner, 2014). Ultimately, while economic tools will remain integral to U.S. foreign policy, their future application will likely require navigating a more contested and complex global landscape, emphasizing multilateral collaboration, addressing equity and sustainability concerns, and carefully weighing reputational costs against short-term strategic gains (Tan, n.d.; Brasioli & Högenauer, 2023).

Conclusion

This chapter has delved into the intricate and often contentious economic and political effects arising from the historical and contemporary application of U.S. economic statecraft, rooted in the principles of Dollar Diplomacy. Several key insights emerged from the analysis. First, regarding the impact on target nations (Section 2.1), the findings reveal mixed outcomes for economic development. While U.S. engagement often brought investment and infrastructure, it frequently resulted in unsustainable debt, economic dependency, distorted structures favoring external interests, and hardships associated with austerity measures. Politically, such policies often eroded national sovereignty, whether through direct oversight, conditional lending by international financial institutions (IFIs), or political interventions safeguarding U.S. interests. Second-

ly, U.S. economic policies have been instrumental in shaping global power structures and international economic relations (Section 2.1), consolidating American hegemony, particularly through the dollar's dominance and U.S. sway over IFIs. However, this arrangement has also entrenched dependencies and global inequities.

Third, the chapter examined the evolution and modern applications of these practices (Section 2.2), noting a shift toward more indirect but highly effective tools, such as financial sanctions, strategic trade agreements, IFI conditionalities, and economic influence extending into areas like digital governance and climate initiatives. Case studies highlighted the implementation of these tools, while a critical evaluation underscored their limited success in achieving fundamental political goals, alongside considerable unintended consequences and costs. Lastly, regarding global perceptions and long-term outcomes (Section 2.3), the findings indicate that U.S. economic statecraft has frequently incited negative reactions, such as accusations of imperialism and resentment, undermining the U.S.'s foreign policy reputation and soft power. Additionally, critical analyses point to its role in perpetuating global economic inequalities. Looking ahead, the adaptation of U.S. economic tools to a multipolar world and new global challenges is anticipated, though their effectiveness and acceptance on the global stage face growing constraints.

General Conclusion

This study has explored the evolution and impact of U.S. Dollar Diplomacy, offering a critical examination of how economic tools have been used to project American influence across different historical and geopolitical contexts. By tracing its origins in the early 20th century to its current manifestations in modern economic statecraft, the research has revealed that Dollar Diplomacy is far more than a historical footnote—it remains a central, though often contested, element of U.S. foreign policy.

The findings confirm the study's three main hypotheses. First, Dollar Diplomacy has evolved significantly over the last century. Originally focused on promoting American financial interests in Latin America and East Asia, it has expanded into a global strategy that leverages international financial institutions, development aid, trade agreements, and sanctions as tools of influence. This confirms the hypothesis that Dollar Diplomacy has grown into a sophisticated and far-reaching form of economic statecraft, now deeply embedded in the mechanisms of the global economy.

Second, the study found that U.S. economic tools, though often framed as vehicles for growth, modernization, and partnership, have frequently produced unintended and sometimes detrimental consequences for recipient nations. Case studies demonstrated how economic interventions have led to long-term dependencies, restricted policy autonomy, and in some cases,

triggered political backlash or instability. These outcomes support the second hypothesis: that U.S. economic measures often compromise the sovereignty and economic development of the countries they target.

Third, the research confirms that modern U.S. economic diplomacy, despite its language of cooperation and shared prosperity, tends to reinforce global power imbalances. While some countries have benefited from U.S. support, others have found themselves locked into unequal arrangements that favor American strategic and economic interests. This supports the third hypothesis: that although economic statecraft can foster international collaboration, it also serves as a subtle means of maintaining dominance and shaping global norms in favor of U.S. priorities.

Importantly, the study underscores a recurring tension between the stated goals of U.S. economic diplomacy, stability, development, and partnership, and its real world outcomes, which often include dependency, resistance, and inequality. These contradictions raise ethical questions about the use of economic power as a foreign policy tool and call for a rethinking of how such strategies are designed and implemented.

However, this study is not without limitations. Its qualitative nature, while suitable for in-depth analysis, does not allow for broad generalizations across all regions or time periods. The reliance on document analysis and case studies, though rich in context, may omit other critical perspectives, particularly from local actors and marginalized voices. Additionally, the study focused primarily on the U.S. perspective and its direct engagements; indirect effects, such as the role of private corporations or multilateral institutions acting on U.S. influence, were only briefly addressed.

Given these limitations, future research could expand in several directions. Comparative studies could examine how other powers, such as China or the European Union, employ similar or contrasting forms of economic diplomacy. Quantitative approaches might help measure the impact of specific policies over time, offering empirical backing to qualitative findings. Furthermore, future studies could explore emerging areas such as digital currency, green finance, and the geopolitical implications of economic strategies related to climate change and technological infrastructure.

In conclusion, this research highlights the enduring relevance of Dollar Diplomacy as both a historical legacy and a living strategy. It demonstrates that economic diplomacy, while often presented as a benign or even benevolent practice, remains deeply intertwined with questions of power, autonomy, and global justice. Understanding its evolution and consequences is essential for anyone seeking to engage critically with the global political economy of the 21st century.

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RESUME

Cette étude examine l'évolution de la "diplomatie du dollar" des États-Unis, depuis ses origines au début du XXe siècle jusqu'aux stratégies plus larges de gouvernance économique mises en œuvre aujourd'hui. Elle explore comment des instruments tels que les investissements, les prêts et les accords commerciaux ont été utilisés non seulement dans une optique de coopération économique, mais aussi comme outils d'influence géopolitique et de domination mondiale. Ancrée dans les théories du pouvoir économique et de l'hégémonie, la recherche évalue de manière critique l'impact à long terme de ces politiques sur le développement économique et la souveraineté politique des pays d'Amérique latine, d'Asie et d'autres régions. L'étude adopte une approche qualitative, reposant sur l'analyse historique, l'examen des politiques et des études de cas. Les données ont été recueillies à partir de l'analyse de documents issus des archives gouvernementales, de dossiers financiers et de rapports d'institutions internationales. Des études de cas sur les sanctions économiques, le financement du développement et les différends commerciaux offrent des exemples concrets de l'exercice contemporain de la diplomatie économique. Les résultats révèlent que, bien que la diplomatie économique américaine vise souvent à promouvoir la stabilité et le développement, elle entraîne fréquemment des dépendances asymétriques et des conséquences imprévues. Dans de nombreux cas, ces stratégies ont sapé l'autonomie locale et suscité des résistances, remettant en question leur efficacité et leur légitimité à long terme.

Mots clés : Diplomatie du dollar, Domination, Hégémonie, Relations économiques internationales, Économie politique mondiale.

ملخص

تتناول الدراسة تطور "دبلوماسية الدولار" الأمريكية منذ بداياتها في أوائل القرن العشرين إلى أن أصبحت جزءاً من استراتيجيات الحكم الاقتصادي الأوسع المستخدمة في الوقت الحاضر. تستكشف كيف استُخدمت أدوات مثل الاستثمارات، والقروض، والاتفاقيات التجارية، ليس فقط بغرض الانخراط الاقتصادي، بل كوسائل للنفوذ الجيوسياسي والهيمنة العالمية. وانطلاقاً من نظريات القوة الاقتصادية والهيمنة، تُقيم الدراسة بشكل نقدي الأثر طويل المدى لهذه السياسات على التنمية الاقتصادية والسيادة السياسية في دول أمريكا اللاتينية وآسيا وغيرها من المناطق.

تعتمد الدراسة على منهجية نوعية، تستند إلى التحليل التاريخي، ومراجعة السياسات، ودراسات الحالة. وقد تم جمع البيانات من خلال تحليل الوثائق، بما في ذلك أرشيفات حكومية، وسجلات مالية، وتقارير صادرة عن مؤسسات دولية. وتوفر دراسات الحالة حول العقوبات الاقتصادية، وتمويل التنمية، والنزاعات التجارية أمثلة ملموسة على ممارسات الحكم الاقتصادي المعاصر.

وتُظهر النتائج أن الدبلوماسية الاقتصادية الأمريكية، رغم سعيها المعلن إلى تعزيز الاستقرار والتنمية، كثيراً ما تؤدي إلى تبعيات غير متكافئة ونتائج غير مقصودة. وفي العديد من الحالات، أدت هذه الاستراتيجيات إلى تفويض الاستقلالية المحلية وإثارة المقاومة، مما يثير تساؤلات حول فعاليتها ومشروعيتها على المدى الطويل.

الكلمات المفتاحية : دبلوماسية الدولار، الهيمنة، السيطرة، العلاقات الاقتصادية الدولية، الاقتصاد السياسي العالمي.

