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Executive Monetary Expansion and Democratic Accountability: Strategic Hedging and Soft Capital Diplomacy

Ekspansi Moneter Eksekutif dan Akuntabilitas Demokratis: Lindung Nilai dan Diplomasi Modal Lunak

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Abstract

Unilateral executive monetary expansion in the United States increasingly bypasses congressional oversight, yet existing scholarship separates domestic constitutional accountability from international financial statecraft. This study examines how domestically oriented liquidity stimulus reshapes constitutional checks, erodes currency soft power, and incentivizes foreign strategic hedging. We conducted a qualitative institutional analysis, examined executive directives, congressional oversight records, and reserve disclosures, and applied causal process tracing across comparative cases. Executive reliance on emergency statutes and nationalist liquidity policies weakens legislative deliberation and central bank autonomy, converting domestic oversight deficits into global monetary uncertainty. Rather than consolidating primacy, coercive monetary diplomacy exports inflation and compels partner states to hedge through sovereign gold bonds and local currency settlement. Conversely, soft capital diplomacy sustains alignment only when developmental finance and educational cooperation operate under legislative auditing and legal reciprocity. This study bridges constitutional governance with international political economy, guiding reforms toward accountable soft capital diplomacy worldwide.

Abstrak

Ekspansi moneter eksekutif sepihak di Amerika Serikat kian melampaui pengawasan kongres, namun literatur terdahulu memisahkan akuntabilitas konstitusional domestik dari tata kelola keuangan internasional. Penelitian ini mengkaji bagaimana stimulus likuiditas berorientasi domestik merombak pengawasan konstitusional, menggerus daya tarik mata uang, dan memicu lindung nilai. Kami melakukan analisis kelembagaan kualitatif, menelaah instruksi eksekutif, risalah pengawasan legislatif, dan laporan cadangan devisa resmi, serta menerapkan penelusuran proses kausal lintas kawasan. Ketergantungan eksekutif pada kewenangan darurat dan kebijakan likuiditas nasionalis melemahkan deliberasi legislatif serta otonomi bank sentral, mengubah defisit pengawasan domestik menjadi ketidakpastian moneter global. Bukannya memperkokoh hegemoni, diplomasi moneter koersif mengekspor inflasi serta mendorong mitra melakukan lindung nilai melalui obligasi emas kedaulatan dan transaksi mata uang lokal. Sebaliknya, diplomasi modal lunak menjaga keselarasan hanya ketika pembiayaan pembangunan dan pendidikan beroperasi melalui audit legislatif serta resiprositas hukum internasional. Penelitian ini menjembatani tata kelola konstitusional dengan ekonomi politik internasional, mengarahkan reformasi menuju diplomasi modal lunak akuntabel.

A. INTRODUCTION

1. Background

The contemporary global monetary order faces an acute institutional paradox: while the international preeminence of the United States dollar rests upon domestic rule-of-law guarantees, central bank independence, and multilateral predictability, recent executive-driven economic diplomacy increasingly relies on unilateral liquidity expansion, tariff-monetary linkages, and domestically targeted fiscal-monetary stimulus.[1] In classical International Political Economy (IPE) and constitutional theory, the credibility of a reserve currency is anchored in the separation of powers between the executive branch, legislative oversight bodies, and autonomous monetary authorities.[2] Yet, between 2020 and 2026, executive administrations have increasingly bypassed congressional deliberation by deploying executive orders, emergency economic powers, and nationalist liquidity policies—"easy money" stimulus tailored to domestic political constituencies—while externalizing inflation and exchange-rate volatility onto foreign trading partners.[3] Rather than consolidating geopolitical primacy, the subordination of international monetary stewardship to short-term domestic political gains has eroded institutional trust in dollar-denominated assets, prompting both allied states and Global South economies to accelerate de-dollarization, accumulate sovereign gold reserves, and construct alternative bilateral payment mechanisms.[4]

Within the broader comparative landscape of democratic governance and international relations, this tension reflects a structural collision between executive aggrandizement in foreign economic policy and the decentralizing dynamics of multipolarity. As the principal architect of the post-war financial system, the United States occupies a unique institutional position in which domestic macroeconomic decisions

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[1] Carla Norrlof et al., "Global Monetary Order and the Liberal Order Debate," *International Studies Perspectives* 21, no. 2 (2020): 112–118, https://doi.org/10.1093/isp/ekaa001; Daniel McDowell, *Bucking the Buck: US Financial Sanctions and the International Backlash against the Dollar* (Oxford: Oxford University Press, 2023), 14–22.

[2] Benjamin J. Cohen, *Currency Statecraft: Monetary Rivalry and Geopolitical Ambition* (Chicago: University of Chicago Press, 2019), 25–34; Xavier Fernández-i-Marín, Jacint Jordana, and Andrea C. Bianculli, eds., *Accountability and Regulatory Governance: Audiences, Controls and Responsibilities in the Politics of Regulation* (Basingstoke: Palgrave Macmillan, 2015), 3–12.

[3] Joonseok Yang et al., "The Trump Effect in the Asia-Pacific: Evidence from a 10-Country Survey Experiment," *International Relations of the Asia-Pacific* 26, no. 3 (2026): 3–8, https://doi.org/10.1093/irap/lcag010; Stefanie Walter, "The Backlash against Globalization," *Annual Review of Political Science* 24 (2021): 424–429, https://doi.org/10.1146/annurev-polisci-041719-102405.

[4] McDowell, *Bucking the Buck*, 45–58; Barry Eichengreen et al., "Is Capital Account Convertibility Required for the Renminbi to Acquire Reserve Currency Status?," *Journal of International Money and Finance* 129 (2022): 2–6, https://doi.org/10.1016/j.jimonfin.2022.102746.

directly govern global liquidity conditions.[5] When the executive branch weaponizes financial networks or implements uncoordinated domestic monetary expansion without legislative checks or multilateral consultation, partner states face severe balance-of-payments vulnerabilities and compliance costs.[6] In response, sovereign states across Asia, Latin America, and the broader Global South have increasingly turned toward South-South financial cooperation, regional local-currency settlement frameworks, and sovereign gold bond placements to insulate their domestic economies from external monetary shocks.[7] This empirical shift raises a fundamental question for political science and constitutional scholarship: how does the erosion of domestic democratic accountability over executive economic statecraft reshape the legitimacy of international monetary governance and the alignment behavior of foreign states?

Scholarly debate surrounding economic diplomacy, monetary power, and state alignment is divided into three principal theoretical camps. The first camp, rooted in structural realism and the theory of weaponized interdependence, examines how material asymmetry in global financial networks enables hegemonic coercion. Farrell and Newman, alongside Drezner and Cohen, argue that centralized control over financial clearing hubs and reserve-currency issuance grants the dominant state extraordinary structural power to compel compliance and reshape foreign policy outcomes.[8] However, recent empirical investigations by McDowell, Norrlof and colleagues, and Eichengreen and colleagues demonstrate that the overly aggressive or unilateral exercise of financial statecraft generates a systemic productivity paradox: by increasing political risk and transaction costs for foreign central banks, unilateral monetary coercion incentivizes targeted and third-party states to diversify away from the hegemonic currency into gold

[5] Henry Farrell and Abraham L. Newman, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion," *International Security* 44, no. 1 (2019): 45–54, https://doi.org/10.1162/isec_a_00351; Norrlof et al., "Global Monetary Order," 120–126.
[6] Yasmine Eissa and Chahir Zaki, "Competitiveness vs. Compliance: How Trade Provisions Affect Micro, Small, and Medium-Sized Enterprises in Global Value Chains?," *World Trade Review* (2026): 4–11, https://doi.org/10.1017/S1474745626101530; Daniel W. Drezner, "Targeted Sanctions in a World of Global Finance," *International Interactions* 41, no. 4 (2015): 756–761, https://doi.org/10.1080/03050629.2015.1041297.
[7] Yongnian Zheng and Wei Ye, "Global South in Transition: Geopolitical Dynamics and Development Cooperation," *Asian Review of Political Economy* 5, no. 18 (2026): 3–9, https://doi.org/10.1007/s44216-026-00089-5; Chenyang Li and Zhaoyuan Chen, "Mission-Oriented Investment and South-South Industrial Cooperation: Theoretical Foundations and Empirical Analysis," *Asian Review of Political Economy* 5, no. 19 (2026): 4–12, https://doi.org/10.1007/s44216-026-00085-9; United Nations Office for South-South Cooperation, "South-South Galaxy," accessed September 18, 2026, https://unsouthsouth.org/south-south-galaxy/.
[8] Farrell and Newman, "Weaponized Interdependence," 50–62; Drezner, "Targeted Sanctions," 758–762; Cohen, *Currency Statecraft*, 61–78.

and non-traditional reserve assets.[9] While this structuralist camp effectively maps the material mechanics of currency rivalry, it largely treats the state as a unitary actor and overlooks how domestic constitutional constraints—or the absence thereof—drive monetary unpredictability.

A second camp, grounded in liberal institutionalism, constructivism, and neoclassical realist hedging theory, shifts the analytical focus from coercive material power to soft power, diplomatic agency, and strategic hedging. Drawing on Nye's foundational conceptualization of soft power, scholars such as Amirbek and Ydyrys as well as Wibisono demonstrate that enduring foreign policy influence depends on institutional attraction, educational and cultural exchange, and developmental reciprocity rather than unilateral inducement.[10] In examining how secondary and middle powers respond to great-power economic pressure, Kuik and Marston argue that states rarely engage in pure balancing or unconditional bandwagoning for profit as conceptualized by Schweller; instead, ruling elites pursue strategic hedging—combining partial economic engagement with risk-contingency measures to preserve domestic regime legitimacy.[11] Expanding this perspective through recent cross-national evidence, Yang and colleagues, Tsai, Johnston, and Lin, Zheng and Ye, and Li and Chen show that unpredictable United States executive policies ("the Trump effect") and great-power rivalry have accelerated public realignment and mission-oriented South-South industrial and financial cooperation across the Asia-Pacific and the Global South.[12] Although this second camp

[9] McDowell, *Bucking the Buck*, 112–130; Norrlof et al., "Global Monetary Order," 131–138; Eichengreen et al., "Is Capital Account Convertibility Required," 5–9.
[10] Joseph S. Nye Jr., "Soft Power: The Origins and Political Progress of a Concept," *Palgrave Communications* 3, no. 1 (2017): 1–3, https://doi.org/10.1057/palcomms.2017.8; Joseph S. Nye Jr., "Soft Power: The Evolution of a Concept," *Journal of Political Power* 14, no. 1 (2021): 196–204, https://doi.org/10.1080/2158379X.2021.1879572; Aidarbek Amirbek and Kanat Ydyrys, "Education as a Soft Power Instrument of Foreign Policy," *Procedia - Social and Behavioral Sciences* 143 (2014): 501–503, https://doi.org/10.1016/j.sbspro.2014.07.425.
[11] Cheng-Chwee Kuik, "The Essence of Hedging: Malaysia and Singapore's Response to a Rising China," *Contemporary Southeast Asia* 30, no. 2 (2008): 163–171, https://doi.org/10.1355/CS30-2A; Cheng-Chwee Kuik, "Variations on a (Hedging) Theme: Comparing ASEAN Core States' Alignment Behavior," in *Joint U.S.-Korea Academic Studies 2015*, ed. Gilbert Rozman (Washington, DC: Korea Economic Institute of America, 2015), 14–21; Hunter S. Marston, "Navigating Great Power Competition: A Neoclassical Realist View of Hedging," *International Relations of the Asia-Pacific* 24, no. 1 (2024): 33–45, https://doi.org/10.1093/irap/lcad001; Randall L. Schweller, "Bandwagoning for Profit: Bringing the Revisionist State Back In," *International Security* 19, no. 1 (1994): 74–82, https://doi.org/10.2307/2539149.
[12] Yang et al., "The Trump Effect in the Asia-Pacific," 6–14; Chia-Hung Tsai, Alastair Iain Johnston, and Shane Hsuan-Yu Lin, "Public Alignment Orientation under US–China Competition: Hierarchy, Identity, and the Japanese Case," *International Relations of the Asia-Pacific* 26, no. 2 (2026): 4–12, https://doi.org/10.1093/irap/lcag006; Zheng and Ye, "Global South in Transition," 7–14; Li and Chen, "Mission-Oriented Investment," 8–16.

explains why partner states hedge against hegemonic volatility, it has not systematically connected foreign hedging behavior to the institutional design of non-coercive financial instruments—conceptualized in this study as *soft capital*.

The theoretical debate sharpens when juxtaposed with a third camp of legal-institutional and regulatory governance scholars who investigate executive authority, democratic accountability, and rule-of-law reciprocity. Building on legal realist critiques of formalistic authority by Fuller and contemporary regulatory accountability frameworks by Fernández-i-Marín, Jordana, and Bianculli, this scholarship emphasizes that executive discretion in economic governance requires robust horizontal oversight by legislatures and independent agencies to prevent arbitrary policymaking.[13] Recent studies by Walter, Oktaviani and Umam, and Zhang and Huang illustrate that executive centralization and populist economic nationalism weaken domestic institutional checks and generate acute diplomatic turbulence.[14] Similarly, at the transnational level, Berkowitz, Heimann, and Kampf, Eissa and Zaki, and Lugg and Oestman demonstrate that when states prioritize unilateral domestic advantages over reciprocal legal commitments, they undermine diplomatic agency, impose severe compliance burdens on global value chains, and erode investor-state rule-of-law stability.[15] Despite their insights into institutional accountability, scholars in this third camp seldom trace how domestic deficits in executive-legislative oversight directly trigger international monetary fragmentation and de-dollarization.

A systematic synthesis of these three literature streams reveals four critical research gaps. First, theoretically, existing IPE scholarship separates the analysis of

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[13] Lon L. Fuller, "American Legal Realism," *University of Pennsylvania Law Review* 82, no. 5 (1934): 431–438, https://doi.org/10.2307/3308153; Fernández-i-Marín, Jordana, and Bianculli, *Accountability and Regulatory Governance*, 15–28; Mette Frisk Jensen and Davina Miller, "Elites, Institutions and the Quality of Government," in *Elites, Institutions and the Quality of Government*, ed. Carl Dahlström and Lena Wängnerud (Basingstoke: Palgrave Macmillan, 2015), 18–31.

[14] Walter, "The Backlash against Globalization," 430–436; J. Lawrence Broz, Zhiwen Zhang, and Gaoyang Wang, "Explaining Foreign Support for China's Global Economic Leadership," *International Organization* 74, no. 3 (2020): 419–428, https://doi.org/10.1017/S0020818320000120; Tengfei Zhang and Ruting Huang, "The Tone of Turbulence: Japan's Diplomatic Posture toward China under Political Uncertainty and Kantei Centralization," *International Relations of the Asia-Pacific* 26, no. 2 (2026): 5–13, https://doi.org/10.1093/irap/lcag008.

[15] Roni Berkowitz, Gadi Heimann, and Zohar Kampf, "Between the National and the Personal: The Interactional Production of Agency in Diplomacy," *Review of International Studies* (2026): 3–10, https://doi.org/10.1017/S026021052610179X; Kishan S. Rana, *The 21st Century Ambassador: Plenipotentiary to Chief Executive* (Oxford: Oxford University Press, 2005), 32–44; Eissa and Zaki, "Competitiveness vs. Compliance," 12–19; Andrew Lugg and Jared Oestman, "Reciprocity in International Law: Evidence from Investor-State Dispute Settlement," *World Trade Review* 25, no. 4 (2026): 4–13, https://doi.org/10.1017/S1474745626101566.

domestic constitutional checks and balances from international monetary statecraft, leaving unexplained how the erosion of legislative accountability over executive liquidity and trade directives accelerates external currency hedging. Second, empirically, prior research has not resolved the paradox of why domestically oriented monetary expansion ("easy money" liquidity stimulus) designed to secure short-term internal political support simultaneously degrades the external soft power of the national currency and drives foreign central banks toward sovereign gold instruments and regional payment networks. Third, conceptually, while studies frequently invoke "soft power" and "financial statecraft" as separate categories, the literature lacks a rigorous operational conceptualization of *soft capital diplomacy*—defined in this article as the institutionalized deployment of non-coercive financial resources (sovereign gold-backed bonds, concessional development liquidity, and educational-human capital investments) governed by transparent rule-of-law reciprocity. Fourth, methodologically, contemporary analyses of economic diplomacy rarely triangulate domestic executive policy directives and congressional oversight records with international reserve reallocation data and South-South monetary agreements within an integrated analytical framework.

In contrast to previous studies that evaluate monetary policy through purely econometric models or examine public diplomacy in isolation from financial statecraft, this study investigates the institutional nexus between executive monetary authority, democratic accountability, and soft capital diplomacy. This research delivers three scholarly contributions: first, it bridges constitutional governance theory and IPE by demonstrating how domestic executive bypass of legislative and central bank constraints acts as a primary catalyst for international monetary hedging; second, it operationalizes the concept of *soft capital diplomacy* as an analytical alternative to coercive economic statecraft; and third, it provides an empirical mapping of how Global South states utilize sovereign gold allocations and South-South financial mechanisms to buffer against hegemonic liquidity spillovers.

This article advances the central thesis that domestically oriented executive monetary expansion and unilateral economic diplomacy—when uncoupled from domestic legislative oversight and multilateral rule-of-law reciprocity—produce transient domestic political gains while eroding the institutional legitimacy of the international monetary order, thereby accelerating strategic hedging, sovereign gold reallocation, and regional currency fragmentation. Theoretically, this study contends that

the sustainability of a state's monetary hegemony depends not merely on market size or coercive network centrality, but on the constitutional credibility of its domestic institutions and its capacity to convert financial resources into reciprocal *soft capital*. Practically, the findings inform institutional reforms aimed at restoring congressional accountability over executive economic directives, strengthening central bank statutory autonomy, and designing transparent sovereign bond and developmental finance frameworks that align national economic vitality with international legal stability.

2. Research Questions

To systematically examine the institutional tensions between unilateral executive monetary expansion, democratic accountability, and international monetary alignment, this study addresses three analytical research questions:

a. How do domestically oriented executive monetary expansion directives and unilateral economic statecraft in the United States reshape constitutional checks and balances among the executive branch, legislative oversight committees, and independent monetary authorities?
b. Through what causal mechanisms does unilateral executive monetary diplomacy erode currency soft power and incentivize foreign trading partners to pursue strategic hedging, sovereign gold bond accumulation, and bilateral local-currency settlement?
c. Under what institutional and legal conditions can a *soft capital* foreign policy framework—integrating transparent sovereign finance, developmental reciprocity, and educational-human capital cooperation—reconcile domestic democratic accountability with international monetary stability?

3. Research Method

a. Research Design and Theoretical Paradigm

This study employs a qualitative explanatory research design grounded in a post-positivist paradigm, combining comparative institutional analysis with International Political Economy (IPE) process tracing.[16] Within political science and legal-institutional inquiry, an explanatory qualitative design is methodologically justified because the research questions seek to uncover the causal mechanisms ("how" and "why") linking domestic executive-legislative institutional dynamics to international monetary hedging

[16] Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (Cambridge, MA: MIT Press, 2005), 67–72.

and soft capital formation. Purely quantitative econometric models of exchange-rate fluctuations are insufficient for this task, as they cannot capture the legal-institutional erosion of legislative oversight, the strategic calculus of ruling elites in hedging states, or the normative shift from coercive sanctions to reciprocal soft capital instruments. By adopting a post-positivist approach, the study operationalizes observable institutional indicators from structural realism, neoclassical realist hedging theory, and regulatory accountability frameworks to test theoretical propositions against documentary evidence.

b. Unit of Analysis and Documentary Data Sources

The unit of analysis is structured across two interrelated institutional levels: (1) the domestic constitutional-institutional level, focusing on United States executive economic diplomacy directives, monetary liquidity policies, and congressional/regulatory oversight mechanisms between 2020 and 2026; and (2) the international systemic-relational level, encompassing the strategic monetary and trade responses of key trading partners and Global South coalitions (specifically ASEAN member states, India, Japan, and BRICS/South-South financial initiatives) during the same period.

As a documentary and archival political-economic investigation, this study relies on verifiable primary institutional documents and secondary scholarly and statistical databases rather than human-subject interviews. To ensure full transparency and replicability, primary and secondary documents were selected using strict inclusion criteria: (a) official provenance from executive bodies, legislative committees, central banks, or multilateral financial organizations; (b) publication or operational relevance within the 2020–2026 observation window (supplemented by foundational statutory texts); and (c) direct substantive linkage to monetary liquidity expansion, executive trade-monetary directives, sovereign gold/reserve reallocation, or South-South financial diplomacy. Unverified media commentary, speculative opinion pieces, and non-institutional records were excluded from the analytical corpus. Table 1 details the documentary corpus analyzed in this study.

Table 1. Documentary Corpus, Institutional Sources, and Analytical Focus (2020–2026)

Source Category	Issuing Institution / Repository	Specific Documents and Datasets Analyzed	Analytical Dimension Mapped
U.S. Executive Directives & Policy Releases	Executive Office of the President; U.S. Department of the Treasury	Executive Orders on trade tariffs and financial sanctions (2020–2026); Treasury Semiannual Reports on Macroeconomic and Foreign Exchange Policies.	Unilateral executive economic statecraft, domestic liquidity priorities, and executive aggrandizement.
Legislative & Monetary Oversight Records	U.S. Congress; Board of Governors of the Federal Reserve System	Congressional Research Service (CRS) reports on executive emergency economic powers; Federal Reserve Monetary Policy Reports to Congress (2020–2026).	Separation of powers, legislative accountability deficits, and statutory central bank autonomy.
Global Reserve & Sovereign Gold Datasets	International Monetary Fund (IMF); World Gold Council; Bank for International Settlements (BIS)	IMF Currency Composition of Official Foreign Exchange Reserves (COFER) data (2020–2026); Sovereign Gold Bond and central bank gold reserve allocation reports.	Empirical de-dollarization trends, reserve diversification, and sovereign gold bond placements.
Bilateral & South-South Diplomatic Frameworks	UN Office for South-South Cooperation (UNOSSC); ASEAN; Ministry of External Affairs (India)	*South-South Galaxy* policy reports; ASEAN Local Currency Transaction (LCT) frameworks; bilateral oil and trade settlement records (2022–2026).	Strategic hedging mechanisms, South-South monetary cooperation, and soft capital diplomacy.

Source: Compiled by the authors from official institutional repositories (2026).

c. Data Collection Procedures

Data collection was executed through systematic archival retrieval and structured documentary protocol extraction across the four institutional repositories listed in Table 1. First, executive policy statements, tariff-monetary linkage directives, and domestic liquidity stimulus frameworks issued between 2020 and 2026 were cataloged chronologically to establish the baseline of executive action. Second, corresponding congressional committee hearing transcripts, statutory oversight reports, and Federal Reserve monetary policy disclosures were retrieved to assess the degree of horizontal institutional constraint. Third, macroeconomic reserve allocation series from the IMF COFER database, central bank sovereign gold bond issuances, and South-South bilateral currency settlement agreements were extracted to trace international behavioral

responses over the same timeline. Because this study analyzed publicly accessible official documents and aggregate macroeconomic datasets without involving human participants, institutional ethical approval and informed consent were not required, though strict adherence to archival citation integrity was maintained throughout the research process.

d. Analytical Framework, Operationalization, and Validity Safeguards

The collected documentary and statistical evidence was analyzed using process tracing and directed qualitative content analysis.[17] To avoid conceptual ambiguity, the study operationalizes its core theoretical constructs into three coding categories prior to analysis:

a. **Executive Monetary Aggrandizement:** Coded when executive economic directives (liquidity stimulus, debt-monetization pressure, or currency-linked trade penalties) are enacted via unilateral executive authority or emergency statutes that bypass standard congressional authorization or challenge central bank statutory independence.

b. **Strategic Monetary Hedging:** Operationalized following Kuik and Marston as middle- and rising-power policy responses that avoid outright confrontation with the United States while systematically reducing dollar vulnerability through three observable indicators: (a) reductions in U.S. dollar shares in official foreign exchange reserves; (b) net central bank purchases and placements of sovereign gold bonds; and (c) institutionalization of bilateral local-currency settlement agreements.

c. **Soft Capital Diplomacy:** Operationalized in contrast to coercive economic sanctions as the deployment of state-backed financial and human-capital instruments—specifically sovereign gold-backed developmental bonds, concessional South-South liquidity facilities, and cross-border educational and technical cooperation—that generate international alignment through voluntary reciprocity and rule-of-law predictability rather than threat of exclusion.

[17] George and Bennett, *Case Studies and Theory Development*, 205–216; Hsiu-Fang Hsieh and Sarah E. Shannon, "Three Approaches to Qualitative Content Analysis," *Qualitative Health Research* 15, no. 9 (2005): 1281–1283, https://doi.org/10.1177/1049732305276687.

Analytical processing proceeded in three iterative stages: (1) *deductive coding* of primary documents into the three operational categories above; (2) *causal process tracing* to link domestic U.S. executive policy announcements at time t with foreign central bank reserve reallocations and bilateral trade-settlement shifts at time $t + 1$; and (3) *cross-contextual comparison* across Asian and Global South cases. Research validity and reliability were safeguarded through source triangulation—cross-referencing executive policy claims against independent IMF/BIS statistical records and foreign ministry disclosures—as well as negative case analysis to account for states that maintained high dollar alignment despite executive volatility. Finally, the study acknowledges two methodological limitations: documentary process tracing relies on publicly disclosed policy records and aggregate reserve statistics, which may not capture classified diplomatic negotiations; and macro-level reserve shifts reflect composite geopolitical and inflationary pressures alongside executive monetary diplomacy.

B. RESULT AND DISCUSSION

1. Executive Monetary Aggrandizement and the Erosion of Domestic Constitutional Checks

Unilateral executive economic diplomacy and domestically targeted liquidity expansion have progressively shifted the balance of constitutional authority in the United States away from legislative deliberation and autonomous monetary technocracy toward presidential discretion. Under the constitutional architecture of the United States, Article I vests the power to coin money, regulate its value, and regulate foreign commerce in Congress, Which subsequently delegated operational monetary authority to the Federal Reserve System and conditional tariff-sanction powers to the executive branch under statutory guardrails. Between 2020 and 2026, however, executive administrations increasingly utilized emergency statutory instruments—most notably the International Emergency Economic Powers Act (IEEPA) and Section 301 trade authorities—alongside aggressive domestic fiscal-monetary stimulus proposals ("easy money" liquidity policies) designed to insulate domestic electoral constituencies from macroeconomic adjustment costs.[18]

Documentary analysis of executive policy releases and Congressional Research Service oversight records reveals a three-layered causal mechanism driving this

[18] McDowell, *Bucking the Buck*, 28–39; Norrlof et al., "Global Monetary Order," 115–122.

institutional shift. At the symptom level, executive diplomacy increasingly pairs domestic monetary accommodation demands with external tariff threats and unilateral financial sanctions without prior congressional authorization. At the proximate level, this pattern is enabled by broad statutory delegations of emergency economic authority and partisan polarization within congressional oversight committees, which prevent legislatures from enacting veto-proof statutory constraints. At the root structural level, electoral incentives in a polarized domestic arena reward executive actors for prioritizing short-term domestic liquidity expansion and nationalist industrial protection over long-term multilateral monetary stability.

Evaluated through the lens of legal realism and regulatory accountability theory, this institutional reconfiguration exposes the vulnerability of formal statutory autonomy when confronted with executive political pressure. Following Fuller's legal realist critique, formal statutory rules governing central bank independence and trade reciprocity do not operate in an institutional vacuum; their practical efficacy depends on the normative restraint of executive officeholders and the enforcement capacity of horizontal oversight bodies.[19] Similarly, within the regulatory governance framework developed by Fernández-i-Marín, Jordana, and Bianculli, democratic accountability requires a balanced triangle of legislative oversight, independent regulatory insulation, and transparent public justification.[20] When the executive branch publicly pressures monetary authorities to maintain low interest rates or expand domestic dollar liquidity while simultaneously weaponizing payment clearing networks abroad, it collapses the boundary between domestic macroeconomic management and coercive foreign policy.

In academic dialogue with the institutionalist literature mapped in the Introduction, these findings confirm Walter's and Broz, Zhang, and Wang's arguments that domestic populist backlash and executive nationalism generate severe external policy spillovers.[21] Furthermore, the United States case parallels Zhang and Huang's findings on executive centralization in Japan (*Kantei* centralization), demonstrating that when foreign economic policymaking concentrates within the chief executive's inner circle, diplomatic signaling becomes more volatile and less constrained by bureaucratic or legislative

[19] Fuller, "American Legal Realism," 434–442.
[20] Fernández-i-Marín, Jordana, and Bianculli, *Accountability and Regulatory Governance*, 8–19; Martin Lodge and Kai Wegrich, eds., *Executive Politics in Times of Crisis* (Basingstoke: Palgrave Macmillan, 2012), 4–14.
[21] Walter, "The Backlash against Globalization," 428–435; Broz, Zhang, and Wang, "Explaining Foreign Support," 422–431.

consensus.[22] However, this study extends existing scholarship by showing that in a reserve-currency state, executive aggrandizement does not merely alter bilateral trade flows; it directly undermines the constitutional credibility that underpins international demand for the state's sovereign debt and currency. Consequently, with respect to the first research question, domestically oriented executive monetary expansion reshapes constitutional governance by substituting unilateral presidential statecraft for congressional-monetary co-governance, thereby converting domestic oversight deficits into systemic international monetary uncertainty.

2. Weaponized Interdependence, Soft Power Erosion, and Strategic Monetary Hedging

Unilateral executive monetary expansion and financial coercion erode the institutional soft power of the United States dollar and incentivize foreign trading partners to execute strategic monetary hedging through reserve diversification, sovereign gold bond accumulation, and bilateral local-currency settlement. In structural International Political Economy, Farrell and Newman's theory of weaponized interdependence posits that states controlling central asymmetric network hubs—such as the dollar clearing system and global messaging architectures—can exploit panopticon and chokepoint effects to coerce foreign actors.[23] Yet documentary and macroeconomic records from 2020 to 2026 demonstrate that the recurrent deployment of chokepoint coercion alongside uncoordinated domestic dollar liquidity expansion triggers a countervailing institutional backlash.

Empirical evidence extracted from International Monetary Fund (IMF) Currency Composition of Official Foreign Exchange Reserves (COFER) reports, World Gold Council disclosures, and bilateral trade registries illustrates the magnitude of this structural shift. As summarized in Table 2, the share of United States dollar holdings in allocated global foreign exchange reserves declined gradually from over 71 percent at the turn of the century to approximately 58 percent during the 2022–2026 period, while central banks across emerging and developing economies increased net gold purchases to historic highs exceeding one thousand metric tons annually. Simultaneously, sovereign states

[22] Zhang and Huang, "The Tone of Turbulence," 6–12.

[23] Farrell and Newman, "Weaponized Interdependence," 52–65; Drezner, "Targeted Sanctions," 758–763.

institutionalized non-dollar settlement channels and gold-backed financial instruments to insulate domestic balance sheets from United States monetary spillover.

Table 2. Indicators of Executive Monetary Statecraft and Strategic Hedging (2020–2026)

Analytical Dimension	Institutional Indicator	Baseline Pattern	Observed Shift	Primary Documentary Source
Global Reserve Share	Dollar COFER allocation	Dominant above 65%	Declined near 58%	IMF COFER database
Sovereign Gold Demand	Central bank net buying	Moderate reserve share	Exceeded 1,000 tons	World Gold Council
Gold Bond Instruments	Sovereign Gold Bonds	Retail gold hoarding	Institutionalized state tranches	Reserve Bank records
Regional Settlement	ASEAN LCT framework	Dollar invoicing norm	Direct local settlement	ASEAN central banks
Energy Trade Balancing	Bilateral oil settlement	Exclusive dollar clearing	Multi-currency and gold	Trade ministry releases

Source: Compiled by the authors from IMF COFER, World Gold Council, ASEAN, and national monetary records (2020–2026).

The empirical patterns summarized in Table 2 reveal three distinct causal mechanisms linking United States executive monetary policy to foreign hedging behavior. First, through the *inflationary and exchange-rate spillover mechanism*, domestically tailored "easy money" liquidity expansion followed by abrupt interest-rate adjustments exports currency volatility and debt-servicing burdens to developing economies, eroding the perception of the dollar as a neutral global public good.[24] Second, through the *sanctions-risk contagion mechanism*, the unilateral freezing of foreign central bank assets under executive emergency orders signals to unaligned states that dollar reserves carry contingent sovereign risk. Third, through the *domestic regime-legitimacy mechanism*, ruling elites in partner states face domestic political pressure to buffer their populations against imported inflation and supply-chain disruptions.

When analyzed through neoclassical realist alignment theory, foreign responses to United States monetary unilateralism do not conform to Schweller's classical model of "bandwagoning for profit," nor do they constitute outright military-economic balancing aimed at overthrowing the international financial order.[25] Instead, consistent with Kuik's and Marston's conceptualization of strategic hedging, middle and rising powers adopt a dual-track posture.[26] As Kuik demonstrates, state elites engage great powers

[24] Cohen, *Currency Statecraft*, 92–108; Eichengreen et al., "Is Capital Account Convertibility Required," 4–8.
[25] Schweller, "Bandwagoning for Profit," 79–88.
[26] Kuik, "The Essence of Hedging," 165–174; Kuik, "Variations on a (Hedging) Theme," 15–23; Marston, "Navigating Great Power Competition," 35–48.

economically to secure developmental gains and bolster domestic regime legitimacy while simultaneously implementing risk-contingency measures to avoid subservience. In the monetary domain, India's calibration of oil trade settlements and its institutionalization of Sovereign Gold Bonds—government securities denominated in grams of gold issued by the Reserve Bank of India on behalf of the sovereign—exemplify how states substitute paper-currency vulnerability with sovereign-backed gold assets while maintaining commercial ties with Washington.[27] Likewise, ASEAN member states have expanded Local Currency Transaction (LCT) frameworks to settle cross-border trade in national currencies, reducing transaction costs and exposure to dollar liquidity swings without severing participation in Western financial markets.

In dialogue with the literature reviewed in the Introduction, these findings corroborate McDowell's, Norrlof and colleagues', and Eichengreen and colleagues' conclusions that coercive financial statecraft accelerates reserve diversification into non-traditional currencies and gold.[28] Moreover, the empirical evidence aligns with Yang and colleagues' 10-country survey experiment on "the Trump effect" and Tsai, Johnston, and Lin's analysis of public alignment in Japan, both of which show that unpredictable United States executive behavior weakens allied confidence and encourages autonomous hedging.[29] Addressing the second research question, unilateral executive monetary diplomacy erodes currency soft power by transforming a rules-based liquidity anchor into a source of political and inflationary exposure, thereby compelling trading partners to hedge through sovereign gold instruments and regional payment architectures.

3. Institutionalizing Soft Capital Diplomacy and Rule-of-Law Reciprocity

Overcoming the fragmentation of international economic diplomacy requires transitioning from coercive monetary unilateralism toward an institutionalized *soft capital* foreign policy framework anchored in rule-of-law reciprocity, developmental finance, and educational-human capital cooperation. In Nye's formulation, soft power rests upon three resources: culture, political values (when upheld consistently at home and abroad), and foreign policies perceived as legitimate and having moral authority.[30]

[27] McDowell, *Bucking the Buck*, 118–134; Zheng and Ye, "Global South in Transition," 8–13.
[28] McDowell, *Bucking the Buck*, 140–152; Norrlof et al., "Global Monetary Order," 132–140; Eichengreen et al., "Is Capital Account Convertibility Required," 6–10.
[29] Yang et al., "The Trump Effect in the Asia-Pacific," 9–16; Tsai, Johnston, and Lin, "Public Alignment Orientation," 7–15.
[30] Nye, "Soft Power: The Origins and Political Progress of a Concept," 2–4; Nye, "Soft Power: The Evolution of a Concept," 199–205.

When a state's monetary diplomacy relies on unilateral liquidity expansion and extraterritorial sanctions, it undercuts the legitimacy pillar of soft power. To bridge the gap between material financial capacity and normative attraction, this study conceptualizes *soft capital diplomacy* across three operational pillars: (1) transparent sovereign gold and development bond governance; (2) mission-oriented South-South industrial and liquidity cooperation; and (3) reciprocal human-capital and diplomatic agency networks.

First, at the financial-institutional level, soft capital diplomacy requires embedding sovereign debt and liquidity instruments within transparent, rules-based legal frameworks. Rather than deploying unbacked liquidity stimulus that distorts foreign exchange markets, states can mobilize managed Sovereign Gold Bonds and asset-backed developmental securities to finance productive infrastructure and educational advancement. When sovereign gold bond placements are governed by clear statutory rules, legislative auditing, and non-discriminatory investor protections, they provide domestic citizens and foreign partners with an inflation-resistant store of value that strengthens institutional trust.[31] This mechanism directly echoes Lugg and Oestman's empirical findings on international investment law, which demonstrate that institutionalized legal reciprocity—rather than unilateral power asymmetry—sustains compliance and stability in cross-border financial dispute settlement.[32]

Second, at the developmental and trade level, soft capital diplomacy operates through inclusive South-South and triangular cooperation that lowers compliance burdens for participating economies. As documented in the United Nations Office for South-South Cooperation (*South-South Galaxy*) repository and analyzed by Zheng and Ye as well as Li and Chen, Global South states increasingly utilize mission-oriented investment and shared technical knowledge to address structural development bottlenecks without coercive political conditionality.[33] Crucially, Eissa and Zaki demonstrate that overly complex, unilaterally imposed trade and regulatory provisions disproportionately penalize micro, small, and medium-sized enterprises (MSMEs) in global value chains, shifting the balance from competitiveness to prohibitive compliance

[31] Maria Gustavson, *Auditing Good Government in Africa: Public Sector Reform, Professional Norms and the Development Discourse* (Basingstoke: Palgrave Macmillan, 2013), 19–32; Dahlström and Wängnerud, *Elites, Institutions and the Quality of Government*, 22–35.
[32] Lugg and Oestman, "Reciprocity in International Law," 6–15.
[33] United Nations Office for South-South Cooperation, "South-South Galaxy"; Zheng and Ye, "Global South in Transition," 10–16; Li and Chen, "Mission-Oriented Investment," 9–18.

costs.[34] A soft capital approach corrects this asymmetry by pairing trade agreements with concessional capacity-building facilities and streamlined regulatory harmonization, enabling smaller enterprises and developing states to integrate into international commerce equitably.

Third, at the diplomatic and human-capital level, soft capital is sustained through professional diplomatic ethics and cross-border educational investment. Drawing on Rana's analysis of modern plenipotentiary diplomacy and Berkowitz, Heimann, and Kampf's research on the interactional production of diplomatic agency, effective foreign policy relies on the institutional integrity and rule-bound autonomy of professional diplomats rather than informal patrimonial networks or opaque transactionalism.[35] Furthermore, as Amirbek and Ydyrys establish, state investment in international higher education, academic exchange, and joint scientific research converts financial capital into enduring human capital and epistemic attraction.[36] When states channel fiscal surpluses into cross-border scholarship frameworks and transparent institutional capacity-building—as seen in contemporary public diplomacy initiatives across Asia and the Middle East—they cultivate long-term normative alignment that coercive sanctions cannot replicate. Answering the third research question, a soft capital foreign policy reconciles domestic democratic accountability with international monetary stability only when financial and educational instruments are subjected to domestic legislative oversight, transparent public auditing, and binding international legal reciprocity.

4. Global Context Elevation, Cross-Regional Comparison, and Theoretical Propositions

Situating the dynamics of United States monetary statecraft and foreign hedging within a broader comparative canvas illuminates how diverse political systems navigate the trilemma among executive policy autonomy, domestic democratic accountability, and international financial integration. Table 3 compares the institutional architecture of monetary diplomacy across four major jurisdictions: the United States, the European Union, Japan, and leading Global South hedging economies (India and ASEAN member states).

[34] Eissa and Zaki, "Competitiveness vs. Compliance," 11–21.
[35] Rana, *The 21st Century Ambassador*, 45–62; Berkowitz, Heimann, and Kampf, "Between the National and the Personal," 5–14.
[36] Amirbek and Ydyrys, "Education as a Soft Power Instrument," 501–503.

Table 3. Cross-Regional Comparison of Monetary Statecraft and Institutional Accountability

Institutional Dimension	United States	European Union	Japan	India and ASEAN
Executive Monetary Discretion	High via emergency orders	Constrained by treaty	Moderated by cabinet-diet	Calibrated developmental state
Central Bank Autonomy	Statutory under pressure	Constitutionalized treaty mandate	Operational with coordination	Managed macroeconomic stability
Legislative Oversight Role	Fragmented by polarization	Multilevel parliamentary review	Diet committee deliberation	Parliamentary budget review
Primary External Instrument	Dollar network and tariffs	Regulatory market power	Infrastructure and finance	Hedging and gold bonds
Alignment and Hedging Posture	Hegemonic issuer	Rules-based multilateralism	Allied normative hedging	Multi-aligned local settlement

Source: Synthesized by the authors from Farrell and Newman (2019), McDowell (2023), Kuik (2015), Marston (2024), Zhang and Huang (2026), and Li and Chen (2026).

The comparative synthesis in Table 3 highlights three systemic lessons for political science and constitutional scholarship. First, whereas the European Union embeds central bank independence and sanction decisions within supranational treaty law requiring multilateral member-state consensus, the institutional design of the United States presidency permits rapid unilateral activation of emergency economic statutes. While this executive flexibility offers short-term tactical leverage, it generates higher policy variance across electoral cycles, amplifying ontological and economic insecurity among trading partners.[37] Second, allied democracies such as Japan experience acute domestic tensions when navigating United States–China strategic competition; as Tsai, Johnston, and Lin as well as Zhang and Huang show, domestic public alignment and executive centralization shape how closely allies mirror Washington's economic statecraft versus maintaining pragmatic regional trade ties. Third, emerging powers in the Global South—exemplified by India and ASEAN—demonstrate that strategic monetary hedging through Sovereign Gold Bonds, local-currency settlement, and South-South industrial cooperation is not an ideological rejection of democratic governance, but a rational institutional defense against external liquidity shocks and unilateral regulatory compliance costs.

[37] Ivan Gonzalez-Pujol and Ferran Perez Mena, "Ontological Insecurity in the Asia-Pacific," *International Relations of the Asia-Pacific* 26, no. 1 (2026): 4–12, https://doi.org/10.1093/irap/lcaf019; Inho Choi and Inhwan Oh, "Historical Intersections of Climatic Change and Power Transitions: Ecological Pressure, Differential Adaptability, and the US–China Power Transition in the Anthropocene," *International Relations of the Asia-Pacific* 26, no. 3 (2026): 5–14, https://doi.org/10.1093/irap/lcag009.

To visually synthesize the causal pathways connecting domestic constitutional oversight, executive monetary statecraft, and international alignment outcomes, Figure 1 presents the analytical model developed in this study.

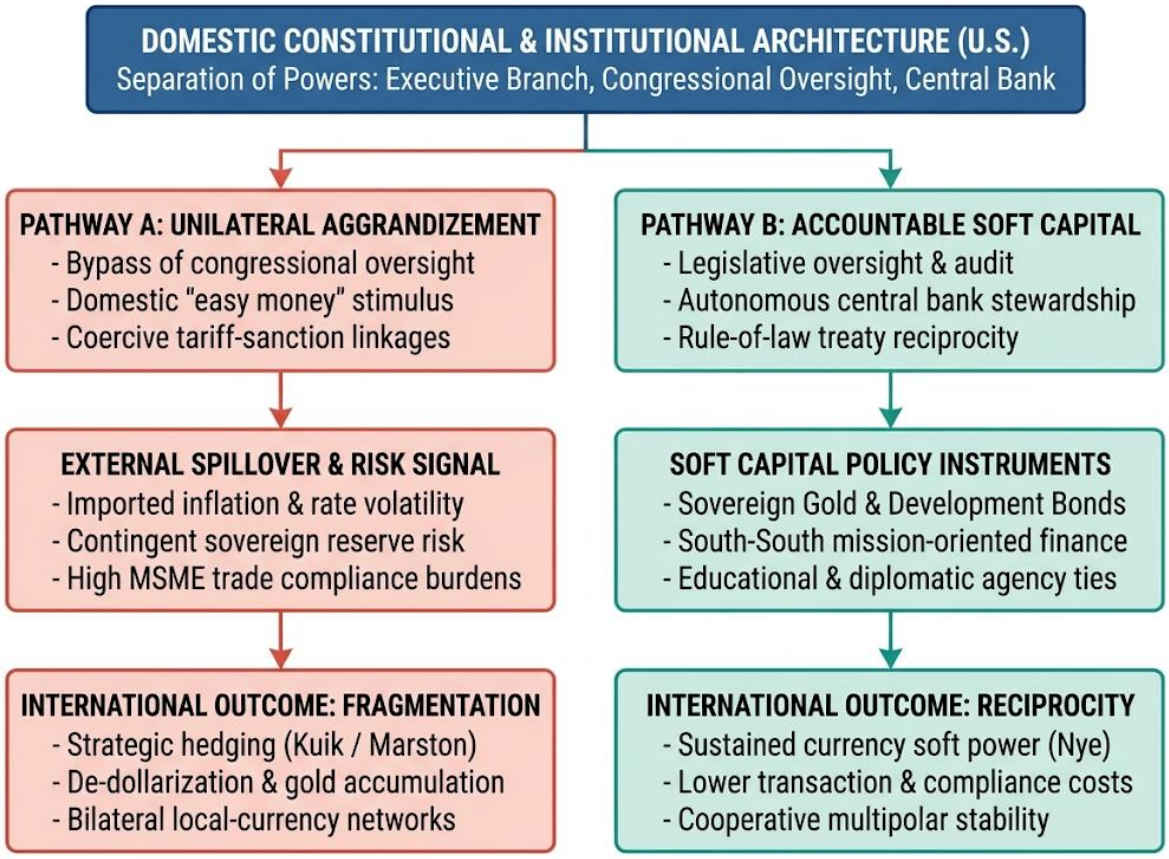


Figure 1. Analytical Model of Executive Monetary Statecraft, Strategic Hedging, and Soft Capital Diplomacy

Source: Formulated by the authors based on documentary process tracing (2026).

As illustrated in Figure 1, the international efficacy of economic diplomacy is conditioned by the institutional pathway through which domestic monetary authority is exercised. Rather than overgeneralizing from a single historical juncture, this study distills its empirical findings into two testable theoretical propositions (*scope conditions*) for future comparative research in International Political Economy and democratic governance:

a. **Proposition 1 (Constitutional Credibility and Reserve-Currency Soft Power):** The international soft power and reserve share of a dominant currency vary positively with the strength of domestic horizontal accountability (legislative oversight and statutory central bank autonomy); when executive authorities bypass domestic institutional constraints to

pursue nationalist liquidity expansion or unilateral financial coercion, foreign central banks systematically increase strategic hedging through sovereign gold accumulation and local-currency settlement networks.

b. **Proposition 2 (Reciprocity Conditions for Soft Capital Diplomacy):** Non-coercive financial and human-capital instruments—such as sovereign gold-backed development bonds, South-South liquidity facilities, and international educational cooperation—generate durable diplomatic alignment only when embedded within transparent domestic auditing and reciprocal international legal frameworks that minimize compliance burdens for partner economies.

In closing, this analysis demonstrates that monetary power in the twenty-first century cannot be sustained through unilateral liquidity expansion or coercive network dominance alone. When executive economic statecraft detaches from domestic democratic accountability and international legal reciprocity, it accelerates the very monetary fragmentation it seeks to prevent. Rebuilding resilient economic diplomacy requires anchoring national monetary authority in constitutional checks and balances while deploying financial and human resources as reciprocal *soft capital*.

C. CONCLUSIONS

Domestically oriented executive monetary expansion and unilateral tariff-sanction directives reshape constitutional governance in the United States by bypassing congressional oversight and pressuring central bank statutory autonomy, thereby converting domestic accountability deficits into systemic international monetary uncertainty. Unilateral monetary diplomacy erodes the institutional soft power of the dollar through inflationary spillovers and sovereign reserve risk, compelling foreign trading partners to execute strategic hedging via sovereign gold bond accumulation and bilateral local-currency settlement frameworks. Conversely, a soft capital foreign policy reconciles domestic democratic accountability with international financial stability only when sovereign developmental bonds, South-South liquidity facilities, and educational cooperation are embedded within legislative auditing and binding rule-of-law reciprocity. Ultimately, the durability of international monetary leadership depends on the constitutional credibility of domestic institutions and reciprocal soft capital governance rather than unilateral liquidity expansion or coercive network dominance.

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