Bank & Finance
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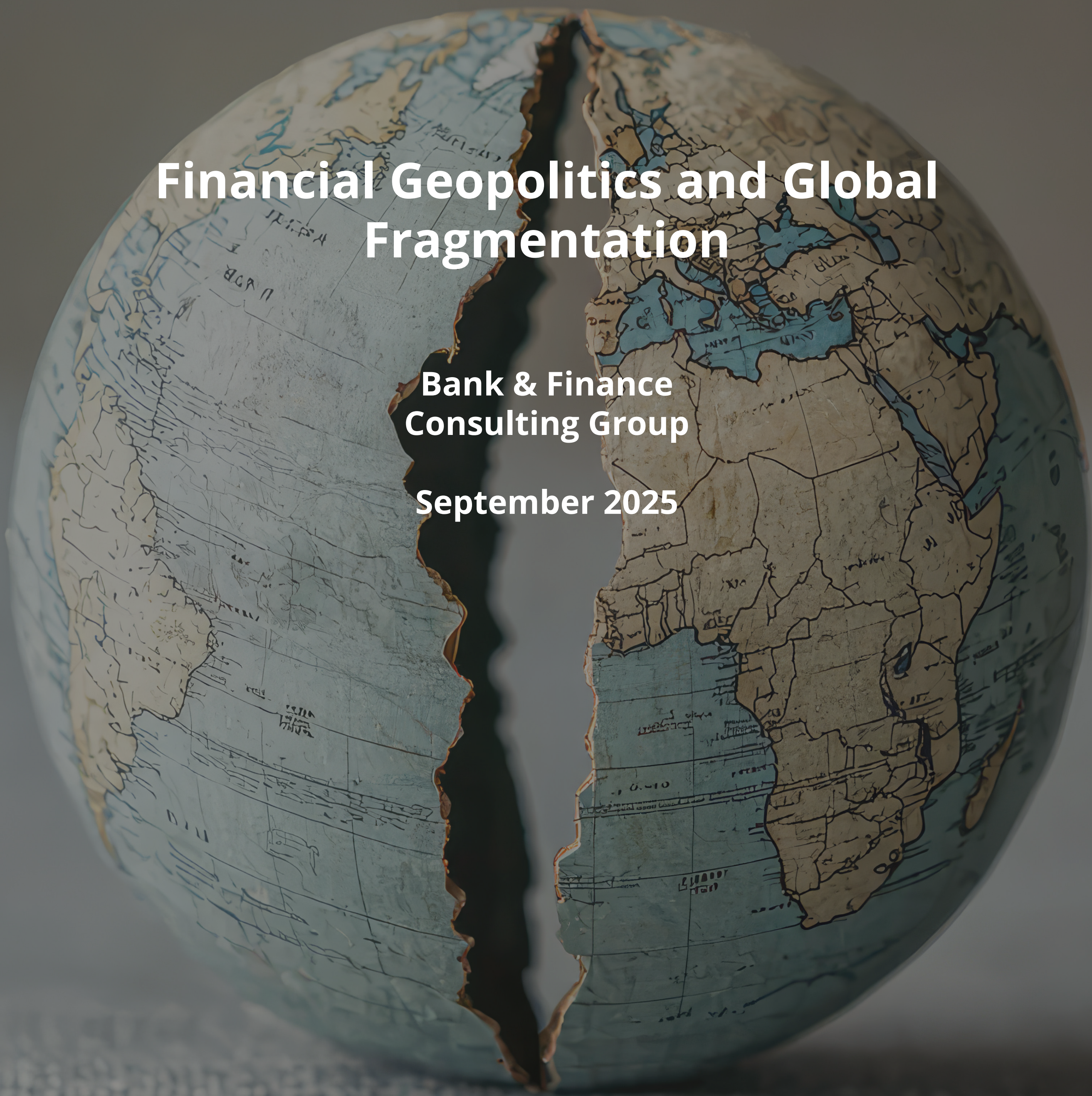
Financial Geopolitics and Global Fragmentation



Bank & Finance Consulting Group

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Preface

This report, *Financial Geopolitics and Global Fragmentation*, is part of the Bank & Finance Deep-Dive Series. The series provides forward-looking analysis on the strategic, financial, and policy implications of emerging global trends, with a focus on the challenges and opportunities facing institutional investors, regulators, and financial market participants.

Geopolitics is no longer an external backdrop to finance. Strategic rivalry between the United States and China, the weaponization of sanctions, and technological bifurcation in payments and infrastructures are reshaping capital flows, reserve management, and systemic stability. Unlike past episodes of compartmentalization, today's pressures unfold in a deeply interconnected world — producing fragmentation that is partial, contested, and costly.

This study integrates theory, history, and contemporary evidence to assess how geopolitical forces transmit into financial risks. It reviews historical precedents of financial fracture, analyzes the geopolitics of capital flows and reserve competition, examines the systemic role of sanctions, maps the fragmentation of payments and digital infrastructures, and develops forward-looking scenarios. The report concludes with policy pathways to strengthen resilience and strategic responses for sovereigns, financial institutions, and regulators.

The report is intended for public authorities (finance ministries, central banks, regulators, and supervisors), multilateral institutions, and market participants seeking to incorporate geopolitical diagnostics into macro-financial surveillance, risk management, and investment strategy.

This publication extends the Bank & Finance Deep-Dive Series, which includes:

1. Financing Infrastructure with Private Participation
2. Artificial Intelligence Industry Deep-Dive Report: Investment Implications and Strategic Outlook 2025 – 2030
3. Unveiling the Future of Digital Currency Infrastructure: Navigating the Transformation of Finance in a Tokenized World
4. Demographic Change: Challenges and Opportunities in the Age of Low Fertility and Aging Populations
5. Climate Change and Financial Risks: Navigating the Transition and Managing Physical Exposure
6. Global Financial Stability in Transition: Structural Risks, Regulatory Challenges, and Strategic Pathways
7. Open Finance: Unleashing the Next Wave of Financial Innovation
8. The Future of Payments and Cross-Border Finance: Navigating Transformation Amid Risk and Opportunity
9. Cyber Resilience in Finance: From Risk Mitigation to Competitive Advantage
10. Ponzi Games: Anatomy, Evolution, and Containment Strategies
11. The Value of Truth: Information Integrity in Global Finance
12. Sovereign Debt and Global Financial Stability: A Market-Oriented Lens on Risks, Restructurings, and Opportunities
13. Navigating the Financial Stability Risks of Inequality, Polarization, and Eroding Trust

As part of the expanded series, we are adding new volumes: (14) *Financial Geopolitics and Global Fragmentation* (this report); (15) *Biodiversity, Natural Resources, and Financial Risks*; (16) *Capital Markets and Risks of Non-Bank Financial Institutions*; and (17) *Quantum Technology and the Future of Financial Security*. These will culminate in (18) *Navigating Risks and Opportunities in the Global Financial Ecosystem*, a synthesis of lessons across the series.

We hope this report helps financial institutions, regulators, and policymakers better understand how geopolitical dynamics intersect with finance, and supports the design of strategies that strengthen resilience while enabling stability and sustainable growth.

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List of Acronyms

AIIB – Asian Infrastructure Investment Bank

AML – Anti-Money Laundering

BIS – Bank for International Settlements

BRICS – Brazil, Russia, India, China, and South Africa

CBDC – Central Bank Digital Currency

CCPA – California Consumer Privacy Act

CIPS – Cross-Border Interbank Payment System

CMEA – Council for Mutual Economic Assistance (Soviet-era bloc)

CNY – Chinese Yuan (Renminbi)

COFER – Currency Composition of Official Foreign Exchange Reserves (IMF database)

DSA – Debt Sustainability Analysis

ECB – European Central Bank

EME – Emerging Market Economy

EU – European Union

FDI – Foreign Direct Investment

FSB – Financial Stability Board

GDPR – General Data Protection Regulation (EU)

GFC – Global Financial Crisis (2007–2009)

GRA – General Resources Account (IMF lending window)

IMF – International Monetary Fund

KYC – Know Your Customer

MAS – Monetary Authority of Singapore

OECD – Organisation for Economic Co-operation and Development

OFAC – Office of Foreign Assets Control (U.S. Treasury)

PBOC – People's Bank of China

RTGS – Real-Time Gross Settlement

SDR – Special Drawing Right

SPFS – System for Transfer of Financial Messages (Russia)

SWIFT – Society for Worldwide Interbank Financial Telecommunication

TIPS – Target Instant Payment Settlement (European Central Bank system)

Executive Summary

Geopolitics has become a structural driver of global finance. Strategic rivalry between the United States and China, the weaponization of sanctions, and the politicization of payment infrastructures are reshaping capital flows, reserve management, and systemic stability. What were once episodic shocks now interact to produce sustained pressures toward financial fragmentation.

Unlike the Cold War's clear blocs, today's world remains deeply interconnected. Fragmentation is partial but persistent: the U.S. dollar still dominates, yet diversification into gold and the renminbi is accelerating. Infrastructures are no longer neutral: payments, CBDCs, and data standards increasingly reflect geopolitical choices. And sanctions have become systemic shocks, influencing not only targets but also bystanders, especially emerging markets.

These dynamics carry strategic implications. Sovereigns need credible debt practices, diversified reserves, and adaptable infrastructures. Regulators must coordinate to contain crises in a fragmented system. Investors require scenario-based strategies that incorporate alignment risk, legal uncertainty, and the emergence of parallel liquidity pools.

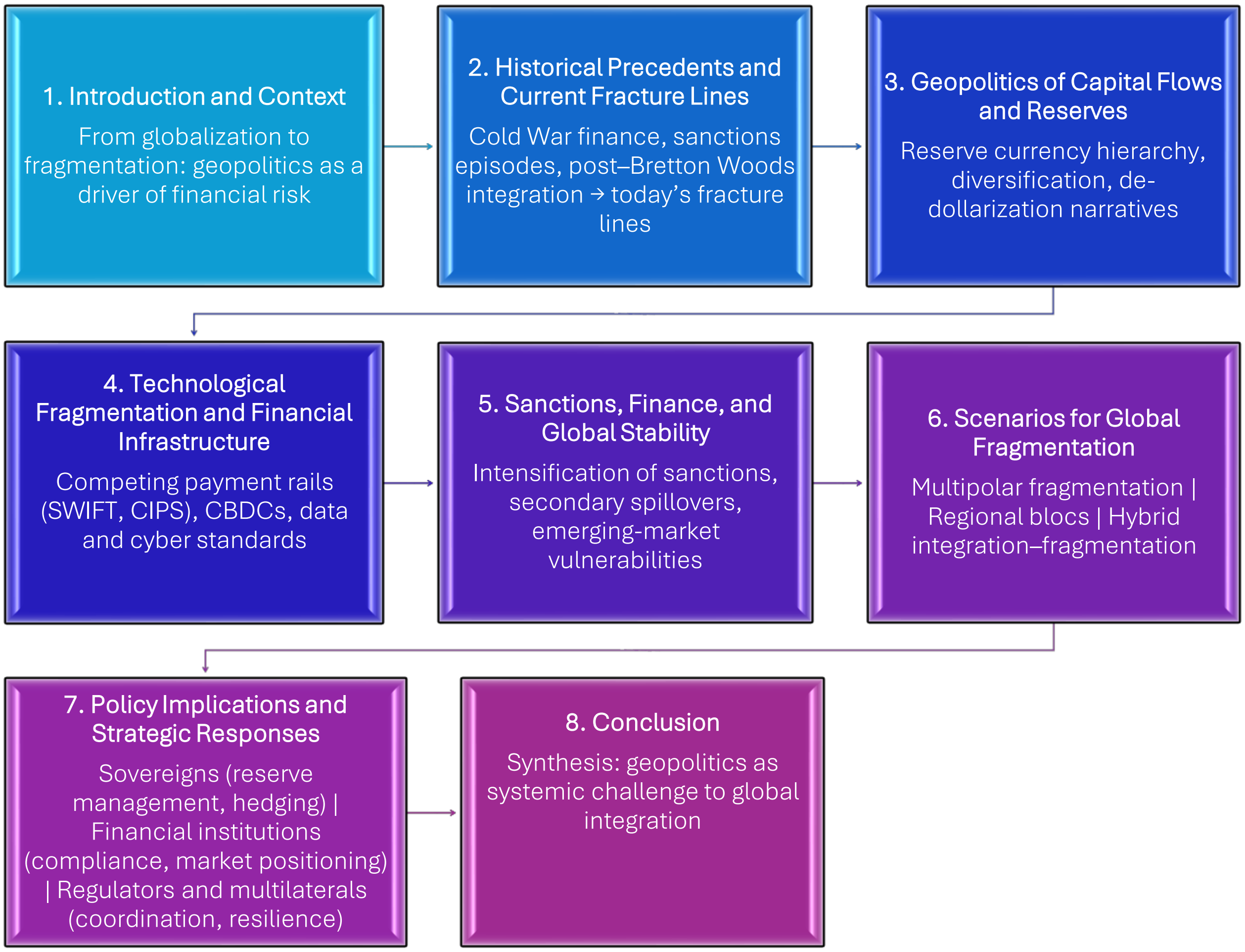
Figure 1 highlights the report's key findings. Figure 2 outlines the roadmap.

Figure 1 – Key Highlights of the Report

U.S.–China rivalry and sanctions are reshaping global capital flows and reserve strategies.	**Fragmentation is partial, not total**: the dollar remains central but diversification accelerates.	**Financial infrastructures are politicized**: SWIFT, CIPS, CBDCs, and data regimes diverge.
Sanctions are systemic shocks, with global spillovers and asymmetric burdens on EMs.	**Three scenarios** frame possible futures: multipolarity, bloc fragmentation, hybrid integration.	**Policy responses**: transparency, resilience, and regional buffers to adapt in a fractured order.

Source: Bank & Finance.

Figure 2 – Report Roadmap



Source: *Bank & Finance*.

1. Introduction and Context

Global finance has long rested on an assumption of ever-deeper integration. The expansion of cross-border trade, capital flows, and financial infrastructure over the past four decades created a system where the U.S. dollar served as the anchor of international reserves, global payment networks underpinned commerce, and investors benefited from a broadening menu of opportunities. Today, however, this equilibrium is under mounting pressure.

The forces reshaping finance are increasingly geopolitical. Rivalry between the United States and China, the growing use of sanctions as an instrument of statecraft, and the emergence of competing technological and institutional frameworks are fragmenting the connective tissue of the global financial system. Fragmentation is no longer a hypothetical risk—it is manifest in the redirection of capital flows, the diversification of reserves away from politically exposed assets, and the bifurcation of payment and data infrastructures.

These developments unfold against a backdrop of structural megatrends explored in earlier reports of this series: digital innovation, demographic change, climate transition, and the reconfiguration of global stability. Yet geopolitics introduces a new layer of complexity. It operates not only through markets but also through the rules and infrastructures that govern financial integration. In this sense, financial geopolitics belongs squarely to the Integration Layer of our ecosystem framework: the set of cross-border linkages that bind national systems into a global whole. When integration weakens, systemic risks multiply.

The Trump administration's renewed emphasis on tariffs, national-security conditionality, and reserve-currency strategy illustrates the scale of this shift. Building on arguments such as those advanced by Stephen Miran in *A User's Guide to Restructuring the Global Trading System*, these policies frame persistent trade deficits and the dollar's global role as vulnerabilities to be corrected through a mix of tariffs, currency tools, and reindustrialization strategies. Critics, including Paul Krugman and other prominent economists, counter that such measures risk reinforcing dollar strength, provoking retaliation, and destabilizing financial markets without addressing the underlying drivers of imbalances. This debate exemplifies the broader question: how do state-driven strategies, when applied through financial channels, reshape stability in a multipolar world?

To address this question, this report examines the channels of fragmentation through which geopolitics alters global finance. We analyze flows and reserves; infrastructures; sanctions; and scenarios with policy responses.

Our approach combines historical perspective, theoretical insight, and empirical evidence. We place today's dynamics in the context of past episodes of financial geopolitics—from Cold War alignments to post-Bretton Woods globalization—and assess plausible scenarios for the decades ahead.

2. Historical Precedents and Current Fracture Lines

Financial geopolitics has shaped the global economy for more than a century. From the collapse of the gold standard to Cold War bloc finance, from the liberalization of the 1980s to the reserve accumulation after the Global Financial Crisis (GFC), the relationship between markets and power has repeatedly redefined the architecture of global integration. What makes the 2020s distinctive is not that geopolitics has entered finance, but that it does so in a world of deep interdependence—where capital, information, and payments move faster and at greater scale than in any earlier era.

To frame today's dynamics, it is useful to first examine earlier episodes of financial fragmentation and integration. **Table 1** presents historical episodes of financial geopolitics.

Table 1 – Historical Episodes of Financial Geopolitics

Period	Defining Features	Financial Implications	Sources
Interwar (1919–1939)	Collapse of the gold standard; competitive devaluations; rising protectionism	Fragmented capital markets; unstable exchange rates; global depression deepened by financial nationalism	Eichengreen (1992), Kindleberger (1973)
Cold War (1945–1989)	Bipolar geopolitics; U.S. dollar anchors Western bloc; CMEA clearing in Soviet bloc	Segmented capital flows; little cross-bloc integration; Bretton Woods institutions consolidate Western finance	Tooze (2019), IMF (2020)
Post–Bretton Woods Globalization (1980s–2007)	Liberalization, deregulation, IT-driven financial innovation	Surge in cross-border banking; deepening dollar dominance; exponential growth in reserves	Obstfeld and Taylor (2004), BIS (2007)
Post–GFC Rebalancing (2008–2019)	Skepticism toward unrestrained integration; rise of EM institutions (AIIB, BRICS Bank)	Expansion of reserves as buffers; increased use of financial sanctions; regionalization of flows	Gopinath (2015), BIS (2019)
Current Era (2020s–)	U.S.–China rivalry; systemic sanctions; technological bifurcation (payments, data, CBDCs)	Reserve diversification; risk repricing of capital flows; fragmentation of global infrastructures	IMF (2023), BIS (2023), Miran (2024)

Source: Bank & Finance analysis, based on Eichengreen (1992), Kindleberger (1973), Tooze (2019), Obstfeld and Taylor (2004), Miran (2024), BIS (2007, 2019, 2023), IMF (2020, 2023).

2.1 Lessons from Earlier Episodes

The interwar period illustrates the dangers of fragmentation without effective cooperation. The collapse of the gold standard, competitive devaluations, and the rise of protectionist tariffs fractured the global system. Capital markets became segmented, exchange rates unstable, and the Great Depression deepened (Eichengreen, 1992; Kindleberger, 1973).

The Cold War produced a starkly segmented financial landscape. The U.S. dollar and Bretton Woods institutions anchored the Western bloc, while the Soviet Union and its allies operated through non-convertible currencies and bilateral clearing arrangements under the Council for Mutual Economic Assistance (CMEA). Cross-bloc flows were minimal, reinforcing geopolitical divides (Tooze, 2019; IMF, 2020).

The post–Bretton Woods globalization surge of the 1980s to the mid–2000s marked the opposite extreme. Deregulation, liberalization of capital accounts, and technological innovation created an era of rapid cross-border banking, rising capital mobility, and unprecedented reserve accumulation. The dollar's dominance deepened, but so too did systemic vulnerabilities, exposed by the GFC (Obstfeld and Taylor, 2004; BIS, 2007).

The post-crisis rebalancing (2008–2019) ushered in a more cautious form of integration. Emerging markets built massive reserve buffers to insure against volatility, new multilateral institutions emerged (AIIB, BRICS Bank), and the use of financial sanctions expanded. The seeds of today's fragmentation—regionalization, sanctions, and reserve diversification—were already visible (Gopinath, 2015; BIS, 2019).

2.2 Today's Fragmentation Era

The 2020s mark a qualitative shift. Three dynamics distinguish the current moment.

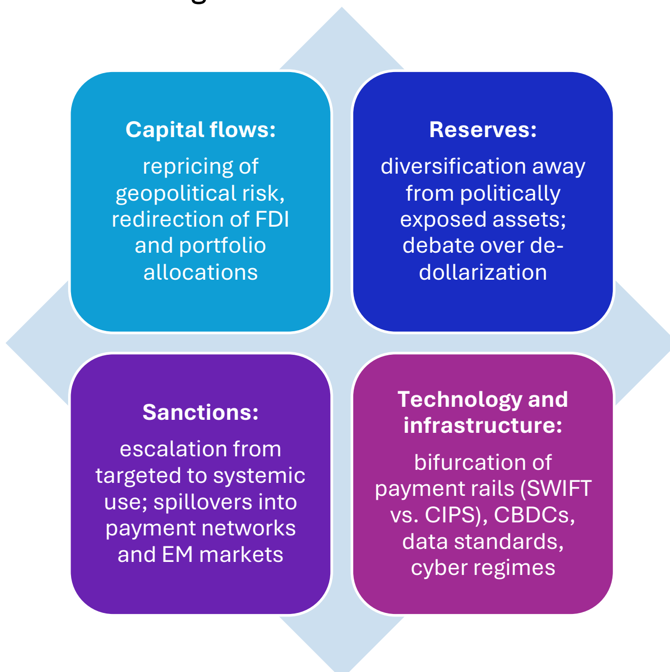
First, the weaponization of interdependence has transformed sanctions from targeted instruments into systemic tools. The freezing of Russian central-bank reserves in 2022 underscored the risks of holding politically exposed assets and accelerated diversification among sovereigns (IMF, 2023).

Second, technological bifurcation has emerged as a central fault line. Parallel infrastructures for payments (SWIFT vs. CIPS), digital currencies (e-CNY pilots vs. FedNow/Project Cedar), and data governance regimes signal a world where interoperability can no longer be assumed (BIS, 2023).

Third, the securitization of trade and investment has blurred the line between economic and defense policy. Tariffs, export controls, industrial subsidies, and investment screening are increasingly justified on national-security grounds, embedding finance into geopolitical strategies (Miran, 2024).

While history provides perspective, the current era requires a conceptual map of how fragmentation works in practice. In **Figure 3**, we identify four principal channels through which geopolitics now reshapes global finance.

Figure 3 – Channels of Financial Fragmentation



Source: Bank & Finance analysis, drawing on IMF (2023), BIS (2023), and official central-bank data.

Figure 3 illustrates that fragmentation is not a single phenomenon but a multi-channel process. Geopolitical actions in one domain—for example, sanctions—often reverberate across others, such as reserves diversification or the design of new payment rails.

2.3 Current Data and Policy Trends

The effects of these dynamics are to an increasing extent visible in data. The U.S. dollar is still the most prominent form of reserves, but central banks have expanded gold holdings to multi-decade highs and tested diversification into renminbi and other currencies. Geopolitical shocks—such as sanctions or export controls—now drive as much volatility in capital flows as traditional macroeconomic fundamentals (BIS, 2023). Meanwhile, global coordination remains formally active through the G20, IMF, and FSB, but divergent standards on privacy, data governance, and digital currencies highlight a widening regulatory fragmentation.

2.4 Synthesis

Table 1 and Figure 3 together show that fragmentation is not new, but its context has fundamentally changed. Unlike the Cold War's compartmentalized blocs or the globalization surge of the 1990s, today's financial order combines deep interdependence with mounting coercion. Finance cannot decouple cleanly, yet openness can no longer be taken for granted. This paradox—simultaneous reliance on global linkages and suspicion of their vulnerabilities—defines the challenge of financial geopolitics today and sets the stage for the analysis of capital flows and reserve competition in Section 3.

3. Geopolitics of Capital Flows and Reserves

Capital flows and international reserves have long been the lifeblood of the global financial system. They finance trade, stabilize currencies, and provide buffers against shocks. Yet they are also deeply exposed to geopolitics. The ability of sovereigns to attract, deploy, or protect capital depends not only on macroeconomic fundamentals but also on their positioning within an increasingly fragmented international order.

3.1 The Reserve Currency Hierarchy under Strain

For decades, the U.S. dollar has been unrivalled as the dominant reserve asset. It accounts for around 58 percent of allocated reserves according to IMF COFER, but less than 50 percent when gold holdings are included in the denominator (Table 2). The euro and yen play secondary roles, while the renminbi's share has grown slowly despite China's prominence in global trade. Geopolitics is reshaping this hierarchy: the freezing of Russian reserves in 2022 underscored the vulnerability of assets held in politically exposed jurisdictions, prompting incremental diversification into gold, renminbi, and other options. Yet the dollar's unmatched liquidity, network depth, and institutional protections continue to provide resilience. **Table 2** summarizes these trends.

Table 2 – Global Reserve Composition Including Gold, 2000–2024 (% of total reserves)

Year	U.S. Dollar	Euro	Japanese Yen	Chinese Renminbi	Other Currencies	Gold
2000	63.5	16.1	5.4	–	4.5	10.5
2010	54.9	23.0	3.5	–	7.1	11.5
2015	56.6	17.4	3.9	0.9	8.3	13.0
2020	50.4	18.0	5.1	1.7	10.3	14.5
2024e	49.0	16.9	4.6	2.5	11.4	15.5

Source: Bank & Finance analysis based on IMF COFER database (2023) and World Gold Council (2024).
Note: Currency shares are normalized to include gold in the total reserve denominator; therefore, currency shares are lower than in COFER's currency-only allocations.

Table 2 highlights the paradox of reserve geopolitics. The dollar's liquidity and institutional depth preserve its centrality, but diversification into gold and, to a lesser extent, the renminbi shows a desire to hedge against vulnerability. The hierarchy is not collapsing but evolving toward a fractured structure: still dollar-dominated, yet progressively marked by partial diversification into both alternative currencies and non-sovereign assets.

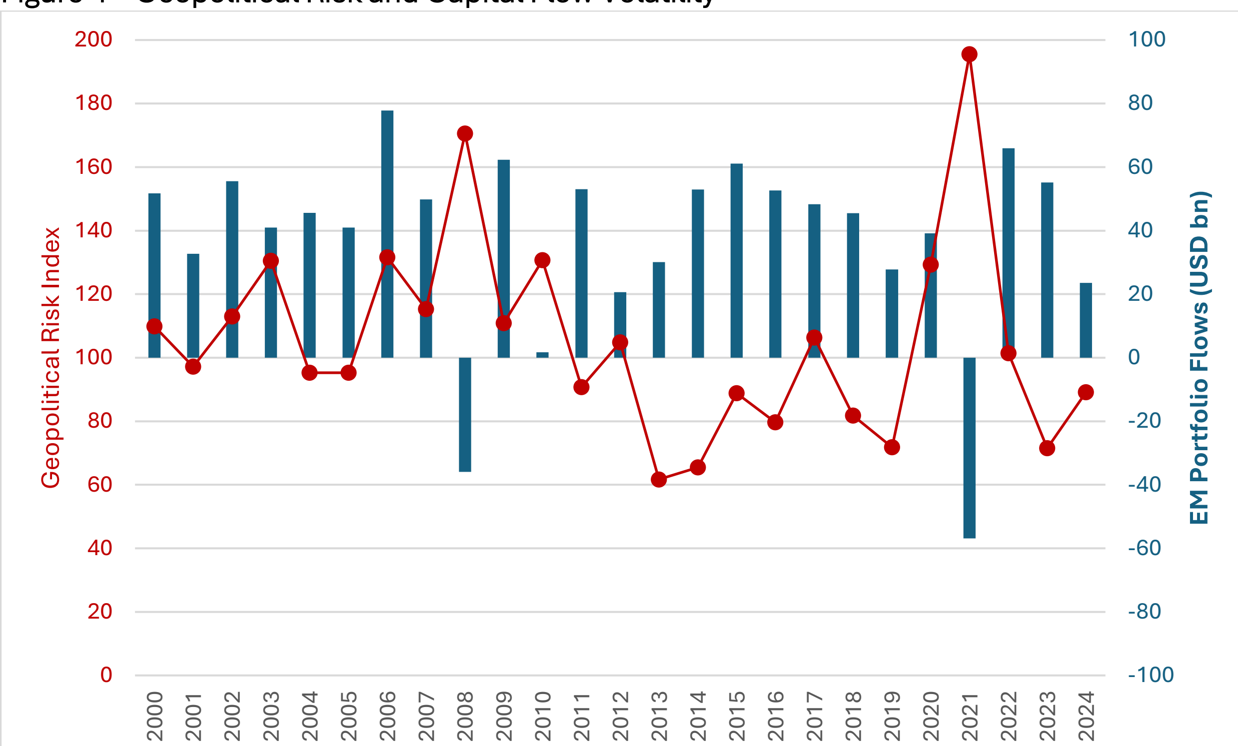
3.2 Capital Flows and Geopolitical Risk Premia

Cross-border capital flows are no longer driven solely by macroeconomic fundamentals such as growth prospects, interest-rate differentials, or inflation dynamics. Geopolitical considerations now shape both the volume and direction of flows. Governments increasingly screen foreign direct investment (FDI) on national-security grounds, while portfolio investors demand higher risk premia in jurisdictions exposed to sanctions or strategic rivalry. Episodes such as U.S.–China tariff escalations and technology export controls have triggered measurable portfolio outflows even when underlying fundamentals remained broadly sound (BIS, 2023).

Emerging markets are particularly exposed. Countries perceived as "swing states" in the geopolitical order often face volatile access to global capital, higher borrowing costs, and greater reliance on domestic or regional financing arrangements. For these economies, political alignment can weigh as heavily as fiscal credibility in shaping market access.

Figure 4 illustrates this shift. Spikes in the Geopolitical Risk Index correspond closely with reversals in emerging-market portfolio flows, underscoring that capital mobility in the 2020s responds as much to political shocks as to macroeconomic signals. Elevated risk scores are consistently associated with reduced inflows or outright reversals, highlighting the rise of "alignment risk" as a priced variable.

Figure 4 – Geopolitical Risk and Capital Flow Volatility



Source: Bank & Finance analysis based on IMF (2023), Global Financial Stability Report (GFSR) and Caldara and Iacoviello (2022) Geopolitical Risk Index.

For sovereigns, this implies that resilience requires not only sound macroeconomic policies and buffers but also strategies for navigating geopolitical risk premia. For investors, it reinforces the need to integrate political shocks into portfolio allocation decisions alongside traditional financial indicators.

3.3 Hedging and Reserve Diversification Strategies

Faced with heightened uncertainty, sovereigns are adapting their reserve management. Diversification into gold has reached its highest levels in decades, with gold now representing over 15 percent of global reserves (World Gold Council, 2024). The renminbi has seen incremental uptake, especially among commodity exporters with close trade ties to China, but still accounts for less than 3 percent of reserves (IMF, 2023). Regional financial safety nets—such as the Chiang Mai Initiative in Asia—also reflect efforts to hedge against exposure to dollar-centric sanctions.

Beyond the gradual shifts in capital flows and reserve diversification, political strategies themselves have become central to the debate. Few have been more controversial than the proposals advanced during Donald Trump's presidency and in Stephen Miran's influential paper *A User's Guide to Restructuring the Global Trading System* (2024). These ideas—linking tariffs, currency policy, and reserve-currency dominance—have sparked vigorous debate among economists and policymakers. Box 1 reviews this debate and its implications.

Box 1 – The "Trump Reserve Strategy": Miran vs. Critics

Argument: Persistent U.S. trade deficits, he contends, reflect the dollar's structural overvaluation as the world's reserve currency. To correct this imbalance, the U.S. should deploy tariffs and currency tools to force global burden-sharing, while using national-security conditionality to justify selective restrictions. A stronger manufacturing base, he argues, is essential for U.S. security resilience (Miran, 2024).

Mechanics: Tariffs would be applied incrementally and differentially by country, with increases conditioned on improvements in market access and intellectual property practices. Currency interventions—whether multilateral concerted or unilateral exchange-rate arrangements —would complement tariffs to reduce overvaluation.

Critiques: Critics argue that trade imbalances are not necessarily distortions but can result from productivity differences and capital flows. Tariffs, rather than depreciating the dollar, often strengthen it by boosting domestic demand. Retaliation is likely, and incidence varies by elasticity: in many cases, U.S. consumers—not foreign exporters—bear the costs. Moreover, tariffs rarely foster reindustrialization; targeted subsidies are a more efficient tool (Krugman, 2024).

Financial stability risks: Even if implemented gradually, tariff-and-currency strategies risk undermining credibility. Markets may react with volatility if communication is inconsistent. The experience of 2018–19 showed how tariff announcements alone moved global financial markets and raised uncertainty premiums.

Source: *Bank & Finance analysis adapted from Miran (2024), Ortiz Bolaños (2025), Krugman (2024), IMF (2023).*

Box 1 illustrates how political strategies around reserves and trade can become flashpoints in financial geopolitics. Whether one views the dollar's reserve role as a burden or a privilege, attempts to recalibrate it through tariffs and currency tools underscore the entanglement of domestic policy, international stability, and financial market confidence. For investors and policymakers alike, the debate is less about whether the dollar remains central—it does—but about the costs, risks, and volatility associated with efforts to challenge or reinforce its role.

3.4 Synthesis

Table 2 highlights the paradox of reserve geopolitics. The dollar remains the dominant reserve currency, but its share is now below 50 percent once gold is included. Incremental diversification into gold and, to a lesser extent, the renminbi, reflects a desire by sovereigns to hedge against vulnerability. The result is not a collapse of the dollar system but an evolving fractured reserve structure—still dollar-centered, yet increasingly surrounded by partial alternatives.

Figure 4 shows that capital flows, once shaped primarily by macroeconomic fundamentals, are now strongly conditioned by geopolitical shocks. Elevated geopolitical risk scores consistently align with weaker inflows or sudden outflows from emerging markets, underscoring that geopolitical alignment is becoming as important as fiscal and monetary credibility in determining access to international capital.

Box 1 illustrates the contested policy strategies that surround this evolution. Proposals such as Miran's "reserve strategy," which advocates tariffs and currency tools to force burden-sharing, reflect growing political unease with the dollar's role. Yet critics highlight the risks of retaliation, dollar appreciation, and heightened volatility. The debate itself underscores how reserve status is no longer seen as an unquestioned privilege but also as a potential vulnerability when geopolitics dominates.

Taken together, these dynamics reveal that the geopolitics of capital flows and reserves is less about abrupt replacement and more about gradual fragmentation. Sovereigns diversify, investors reprice risks, and policymakers experiment with strategies that test the boundaries of financial integration. This process raises costs, erodes liquidity, and amplifies uncertainty—laying the groundwork for the technological and infrastructural fragmentation examined in Section 4.

4. Technological Fragmentation and Financial Infrastructure

If capital flows and reserves are the lifeblood of the global financial system, then financial infrastructures are its circulatory system. They provide the rails through which payments, settlement, and data flow across borders. Historically, these infrastructures have expanded through interoperability and standardization, lowering costs and reinforcing integration. Today, however, they are becoming a frontline of fragmentation. Rival powers are promoting competing systems for payments, digital currencies, data governance, and cyber resilience.

The implications are profound. Fragmented infrastructures can increase transaction costs, raise liquidity premia, and limit the reach of crisis-management tools. They can also embed geopolitical divisions into the daily plumbing of finance, creating systemic inefficiencies that are hard to reverse.

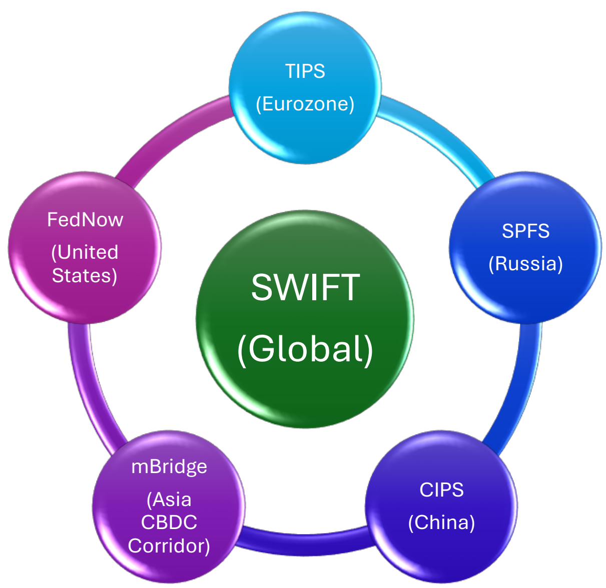
4.1 Payment Systems and Settlement Networks

For decades, the backbone of global payments combined SWIFT for secure messaging with central-bank-operated RTGS systems for settlement. These infrastructures provided cross-border interoperability and underpinned the dominance of dollar invoicing.

Geopolitical rivalry is now fragmenting this model. China has expanded its Cross-Border Interbank Payment System (CIPS), Russia promotes the System for Transfer of Financial Messages (SPFS), and several regions are piloting instant-payment platforms. Meanwhile, the U.S. and its allies increasingly leverage SWIFT access as a sanctions tool, reinforcing perceptions of vulnerability.

The result is a politicized and more complex network. Instead of converging on common standards, infrastructures are diverging: SWIFT remains central, but alternatives such as CIPS and SPFS are gaining ground, while regional systems like FedNow (U.S.), TIPS (EU), and Project mBridge (Asia) add further layers.

Figure 5 – Global Payment Infrastructures and Emerging Alternatives



Source: *Bank & Finance analysis based on BIS (2023), IMF (2023), Atlantic Council CBDC Tracker (2024).*

Figure 5 maps this emerging landscape, showing the coexistence of global, regional, and national platforms. Rather than a uniform backbone, the payments system is becoming a patchwork—raising costs, complicating compliance, and embedding geopolitical divisions into the financial plumbing of the world economy.

4.2 Central Bank Digital Currencies and Tokenized Money

A second layer of fragmentation emerges from the rapid rise of central bank digital currencies (CBDCs) and tokenized private instruments. More than 130 jurisdictions are exploring CBDCs, but their design choices reflect national priorities: the e-CNY emphasizes programmability and control, the digital euro stresses privacy safeguards, and U.S. discussions remain limited to wholesale experiments.

Stablecoins and tokenized deposits, meanwhile, add complexity. While they promise efficiency, they also risk creating parallel rails not always interoperable with sovereign systems. Absent coordination, the future could see multiple non-fungible payment instruments coexisting, raising the costs of conversion and compliance.

Table 3 – Selected CBDC and Tokenized Money Initiatives

Instrument	Example(s)	Key Features	Geopolitical Dimension	Sources
e-CNY (China)	Pilots in >25 cities	Programmability, retail focus, cross-border pilots via mBridge	Positions CYN as alternative to USD in trade settlement	PBOC (2023), BIS (2023)
Digital Euro (ECB)	Pilot phase	Privacy, offline payments, complement to cash	Reinforces euro sovereignty, cautious cross-border scope	ECB (2024)
FedNow / Project Cedar (U.S.)	Live (FedNow); wholesale pilot (Cedar)	Domestic instant settlement, exploratory DLT	Preserves USD centrality, stresses resilience over international use	Federal Reserve (2023)
Stablecoins (USDT, USDC)	Private issuers	Pegged to fiat, settlement in crypto exchanges and DeFi	USD dominance is reinforced through private rails; regulatory pushback	CoinMarketCap (2024), FSB (2023)
Tokenized Deposits	JPMorgan, MAS pilots	Bank deposits on DLT ledgers	Bridges between bank money and blockchain rails	BIS (2023), MAS (2024)

Source: *Bank & Finance analysis based on BIS (2023), ECB (2024), PBOC (2023), Federal Reserve (2023), FSB (2023), MAS (2024), CoinMarketCap (2024).*

Digital money initiatives are multiplying worldwide, but design choices differ sharply by jurisdiction. **Table 3** compares selected CBDC and tokenized money projects, highlighting both their functional features and their geopolitical dimensions. It shows that the fragmentation of money is as much about governance as about technology. CBDCs, stablecoins, and tokenized deposits may coexist, but absent coordination, they risk reinforcing geopolitical divisions rather than enhancing global interoperability.

4.3 Data Governance and Cybersecurity Standards

Fragmentation is not only monetary but also digital and regulatory. The EU's General Data Protection Regulation (GDPR), China's Data Security Law, and U.S. sectoral approaches create incompatible frameworks for cross-border data flows. Financial firms must progressively maintain parallel compliance structures, raising costs and complicating analytics.

Cybersecurity standards show a similar divide. Western frameworks emphasize resilience testing and third-party oversight, while China and Russia emphasize sovereignty and localization. These divergences risk undermining global incident-response coordination at a time of rising cyber threats to financial infrastructures.

Fragmentation is not limited to payments and money. It extends to data governance and cyber standards, which underpin the integrity of financial infrastructures. **Box 2** highlights the operational and systemic risks posed by divergent regulatory frameworks.

Box 2 – Cyber Fragmentation as a Financial Risk

Cyber fragmentation is emerging as a critical dimension of financial geopolitics. Major jurisdictions are advancing divergent frameworks: the European Union through the General Data Protection Regulation (GDPR), the United States through state-level rules such as the California Consumer Privacy Act (CCPA), and China through its Data Security Law and related measures.

For global financial institutions, this divergence translates into significant operational implications. Firms must maintain parallel compliance systems across jurisdictions, raising costs and reducing efficiency in cross-border operations.

The systemic risks are equally concerning. Fragmented standards slow collective responses to cyber incidents and create blind spots for cross-border contagion. A cyberattack that propagates across jurisdictions with incompatible disclosure and incident-response rules could undermine trust in critical financial infrastructures.

The financial costs are tangible. Banks and market infrastructures face higher capital charges for operational risk, rising costs of cyber insurance, and more fragmented reporting regimes. The result is a financial system that is both more expensive to defend and less resilient to shocks.

Source: *Bank & Finance analysis based on FSB (2022), BIS (2023), OECD (2023).*

Box 2 illustrates how data and cyber fragmentation create hidden costs for financial institutions and systemic risks for markets. Unlike physical sanctions or reserve diversification, these risks unfold silently—until a major incident exposes the weaknesses of fragmented oversight.

4.4 Synthesis

Technological fragmentation embeds geopolitics into the daily functioning of finance. Payment infrastructures are diverging between SWIFT and alternative rails; CBDCs and tokenized money threaten interoperability without strong governance; and data standards are splitting along geopolitical lines

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Figure 5 shows the emerging patchwork of payment infrastructures, Table 3 highlights the divergent trajectories of CBDCs and tokenized instruments, and Box 2 illustrates the systemic risks of cyber fragmentation. Together, they underscore that the plumbing of finance is no longer neutral: it is a contested arena of power.

The implications are clear. Fragmentation raises costs and uncertainty for firms and sovereigns, undermines the efficiency of cross-border flows, and complicates global crisis management. As with capital flows and reserves, the challenge is not abrupt collapse but gradual erosion of interoperability, with geopolitics setting the terms of participation. If interoperability continues to erode, liquidity premia and cross-border risk pricing will more and more reflect geopolitical divides. This raises the prospect of parallel financial architectures—partially connected but strategically decoupled.

This sets the stage for Section 5, which turns to the intensification of sanctions as a tool of financial statecraft and their systemic consequences.

5. Sanctions, Finance, and Global Stability

Sanctions have become the most visible expression of financial geopolitics. Once limited to targeted measures against specific individuals or firms, they are now deployed at a systemic level, affecting entire economies and reshaping global market structures. The freezing of Russian central bank reserves in 2022 marked a turning point: it demonstrated the coercive power of sanctions but also revealed the vulnerabilities they create for the international financial system.

Sanctions are not just diplomatic instruments — they are market events. They redirect flows, alter reserve management strategies, and affect the functioning of global infrastructures such as correspondent banking and payment networks. Understanding their role requires examining their evolution, systemic consequences, and spillovers to global stability.

5.1. Evolution of Financial Sanctions

Sanctions as a financial instrument have evolved considerably over the past decades, moving from narrow and largely symbolic restrictions to systemic measures capable of reshaping global markets.

In the pre–2000s, most sanctions took the form of targeted trade restrictions or asset freezes, with limited systemic impact and largely symbolic outcomes (Hufbauer et al., 2007). After 9/11, the U.S. and its allies integrated financial sanctions into counter-terrorism frameworks, embedding them within compliance obligations for banks. This era saw the rapid expansion of KYC/AML regimes, widening the scope of due diligence (Drezner, 2015; OFAC, 2004).

The 2010s marked a step-change. Iran's exclusion from SWIFT highlighted how access to financial infrastructures could be weaponized to isolate an economy. The use of secondary sanctions extended the reach of U.S. measures well beyond its borders, discouraging even non-U.S. firms and banks from engagement (Katzman, 2017; BIS, 2019).

In the 2020s, the freezing of Russia's central bank reserves and the imposition of energy sanctions marked an unprecedented application of sanctions against a G20 economy. This systemic turn forced sovereigns and investors to reconsider exposure to politically vulnerable assets and accelerated diversification strategies (IMF, 2023; BIS, 2023).

Table 4 – Evolution of Financial Sanctions

Phase	Key Features	Financial Implications	Sources
Pre–2000s	Targeted trade and asset restrictions	Limited systemic impact; mostly symbolic	Hufbauer et al. (2007)
Post–9/11	Counter-terrorism finance, compliance regimes	Banks enhanced KYC/AML frameworks; broader screening obligations	Drezner (2015), OFAC (2004)
2010s	Iran sanctions, secondary sanctions	Exclusion from SWIFT; chilling effects on global banks; EM spillovers	Katzman (2017), BIS (2019)
2020s	Russia reserve freeze, energy sanctions	Sovereigns reassess reserve composition; accelerated diversification; fragmentation of payment networks	IMF (2023), BIS (2023).

Source: *Bank & Finance analysis based on Hufbauer et al. (2007), Drezner (2015), Katzman (2017), IMF (2023), BIS (2019, 2023).*

Table 4 signals how sanctions have evolved from symbolic measures into systemic interventions in global finance. Their growing use raises questions about the neutrality of financial infrastructures and the long-term stability of the reserve system.

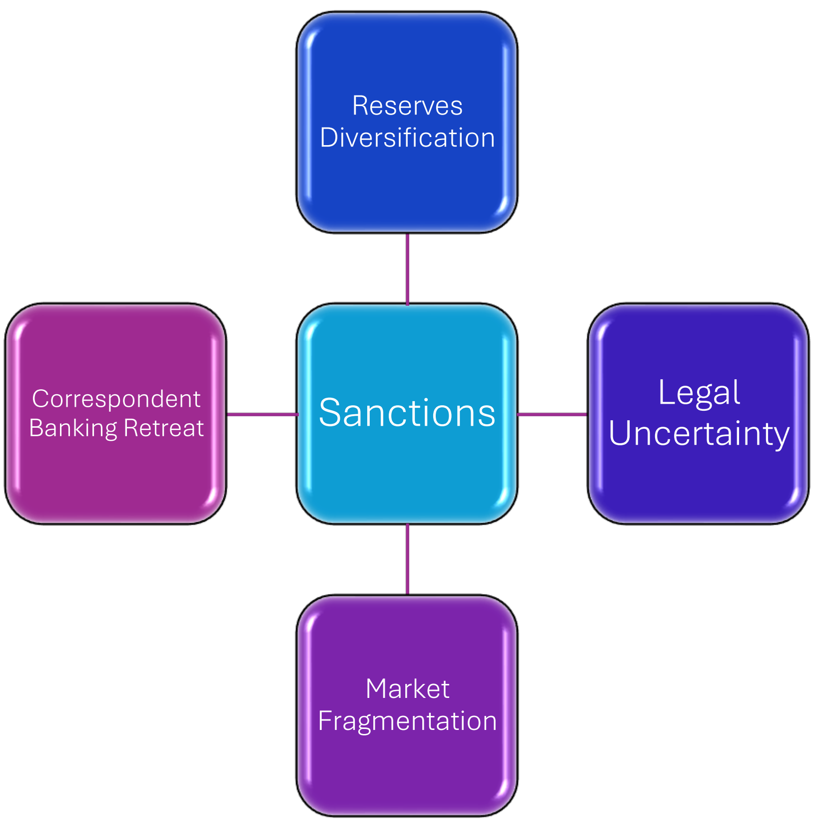
5.2 Systemic Consequences for Global Finance

Sanctions that once targeted specific actors now operate at a systemic scale, reshaping the behavior of central banks, financial institutions, and markets worldwide. Their impact propagates through four main channels.

First, reserve management: sovereigns exposed to potential sanctions diversify away from politically vulnerable assets, increasing allocations to gold, renminbi, and other non-dollar instruments. Second, correspondent banking: global banks retreat from higher-risk jurisdictions to avoid penalties, reducing financial inclusion and cross-border payment access. Third, market segmentation: energy, commodities, and derivatives markets are continuously more organized along geopolitical lines, complicating price discovery and liquidity. Finally, legal uncertainty: investors face the risk of asset freezes, contract disputes, and prolonged regulatory overhangs, raising risk premia and complicating allocation decisions.

Figure 6 summarizes these spillover pathways. It highlights how sanctions now function less as targeted measures and more as structural shocks, prompting diversification, fragmenting markets, and embedding political risk into the everyday workings of global finance. Their systemic use signals a shift: financial coercion is no longer peripheral but a mainstream instrument of statecraft.

Figure 6 – Channels of Systemic Sanction Spillovers



Source: Bank & Finance analysis based on IMF (2023), BIS (2023), OFAC (2023).

5.3 Spillovers to Emerging Markets

Sanctions affect not only their intended targets but also a wide circle of bystanders. Emerging and frontier markets are particularly exposed because their access to international capital, correspondent banking, and global value chains is highly sensitive to changes in compliance costs and investor perceptions. The result is a set of spillovers that reshape incentives far beyond sanctioned economies.

The most immediate impact is on risk premia. Investors now price sovereign and corporate debt not only on fiscal and monetary fundamentals but also on geopolitical alignment. Countries perceived as "swing states" or close trading partners of sanctioned economies often face higher borrowing costs and reduced capital access.

A second channel is the risk of sudden stops. Global banks, wary of penalties, tend to over-comply with sanctions, scaling back correspondent relationships or withdrawing from higher-risk jurisdictions. This reduces access to cross-border payments and heightens the fragility of domestic systems.

Finally, sanctions induce trade and supply-chain redirection pressures. Economies linked to sanctioned partners must reconfigure trading patterns, often at higher cost. For smaller frontier economies, with limited buffers and shallow markets, these adjustments amplify vulnerabilities.

Box 3 illustrates how these dynamics disproportionately burden emerging and frontier economies.

Box 3 – Sanctions and Emerging-Market Spillovers

The sanctions imposed on Russia in 2022 underscored the reach of financial coercion well beyond its immediate target. Capital outflows were not confined to Russia; neighboring markets perceived as geopolitically exposed also suffered sharp reversals, as investors reassessed alignment risk. Similar patterns had already been evident during the Iran sanctions of the 2010s, when the extension of secondary measures discouraged banks from engaging with Middle Eastern and South Asian economies, even in the absence of direct restrictions.

For emerging and frontier markets, the implications extend far beyond lost trade revenues. Sanctions reduce access to correspondent banking services, disrupt cross-border payments, and raise the cost of external borrowing. Governments and firms alike face higher risk premia, complicating integration into global value chains and limiting opportunities to diversify financing sources.

For investors, these dynamics translate into heightened volatility and a premium on geopolitical risk assessment. Markets are to an increasing extent priced not only on fundamentals such as fiscal discipline or growth prospects, but also on political alignment with sanctioning powers. This dynamic risks a two-tier system in which emerging markets bear disproportionate costs.

Source: Bank & Finance analysis based on IMF (2023), World Bank (2023), BIS (2023).

Box 3 shows that sanctions reshape incentives not only for their targets but also for bystanders. For emerging markets, the consequences include higher borrowing costs, sudden stops in capital flows, and reduced access to payment and banking infrastructures. These spillovers deepen inequalities between advanced and developing economies, embedding geopolitical alignment into the terms of market access. In this way, sanctions accelerate the very fragmentation of global finance they are intended to exploit.

5.4. Synthesis

Sanctions exemplify the double-edged nature of financial geopolitics. They can be powerful tools of coercion, but their systemic use carries risks of fragmentation and instability. Table 4 shows their evolution from symbolic measures to systemic interventions. Figure 6 illustrates their transmission channels through reserves, banking, markets, and legal regimes. Box 3 highlights their unintended consequences for emerging economies.

Taken together, these dynamics show that sanctions are no longer marginal policy tools but recurring financial shocks with global spillovers. They are reshaping the architecture of global finance by accelerating reserve diversification, fragmenting infrastructures, and increasing inequality in market access.

For policymakers, the challenge is to weigh the short-term leverage of sanctions against the long-term costs of eroding trust in the neutrality of the international financial system. For investors, sanctions now represent a structural risk factor — a variable that must be integrated into portfolio allocation and risk-management strategies.

This sets the stage for Section 6, which examines alternative scenarios for the future of global fragmentation.

6. Scenarios for Global Fragmentation

The trajectory of financial geopolitics is not predetermined. While rivalry, sanctions, and technological bifurcation are intensifying, the outcomes will depend on how sovereigns, institutions, and markets adapt. To capture the spectrum of possibilities, we develop three scenarios: Managed Multipolarity, Bloc Fragmentation, and Hybrid Integration. These are not forecasts but analytical lenses designed to illuminate trade-offs and strategic choices.

6.1 Scenario 1: Managed Multipolarity

In a world of managed multipolarity, fragmentation pressures are moderated by pragmatic cooperation. The United States, China, and the European Union remain strategic rivals, yet avoid outright financial decoupling. Multilateral institutions such as the IMF, BIS, and FSB retain relevance by offering minimum-viable platforms for dialogue and coordination.

Under this scenario, global capital flows remain diversified but are progressively hedged to account for geopolitical risk. The U.S. dollar continues to serve as the primary reserve currency, with incremental diversification into the euro, renminbi, and gold. Payment infrastructures such as SWIFT, CIPS, and regional instant-payment systems coexist, supported by interoperability agreements that prevent hard bifurcation. Systemic risks are elevated relative to the past, but liquidity remains broadly integrated, and crisis-management mechanisms remain functional.

6.2 Scenario 2: Bloc Fragmentation

Bloc fragmentation represents the most destabilizing outcome. In this world, rivalry escalates into hardened financial blocs, sanctions become entrenched, and infrastructures evolve into exclusive domains. Sovereigns are more and more pressured to align with either a U.S./allies bloc or a China-led bloc, leaving little room for neutrality.

Capital flows across blocs collapse as investment screens and alignment risks dominate portfolio decisions. Reserve holdings become bifurcated, with the dollar still prominent in advanced economies but renminbi and gold gaining prominence among non-aligned states. Payment networks fragment sharply: SWIFT remains restricted to U.S./EU allies, while CIPS and regional CBDC corridors consolidate in Asia. The systemic consequences are severe: liquidity pools are segmented, coordination capacity in crises is weakened, and emerging markets are forced into volatile and costly realignments.

6.3 Scenario 3: Hybrid Integration

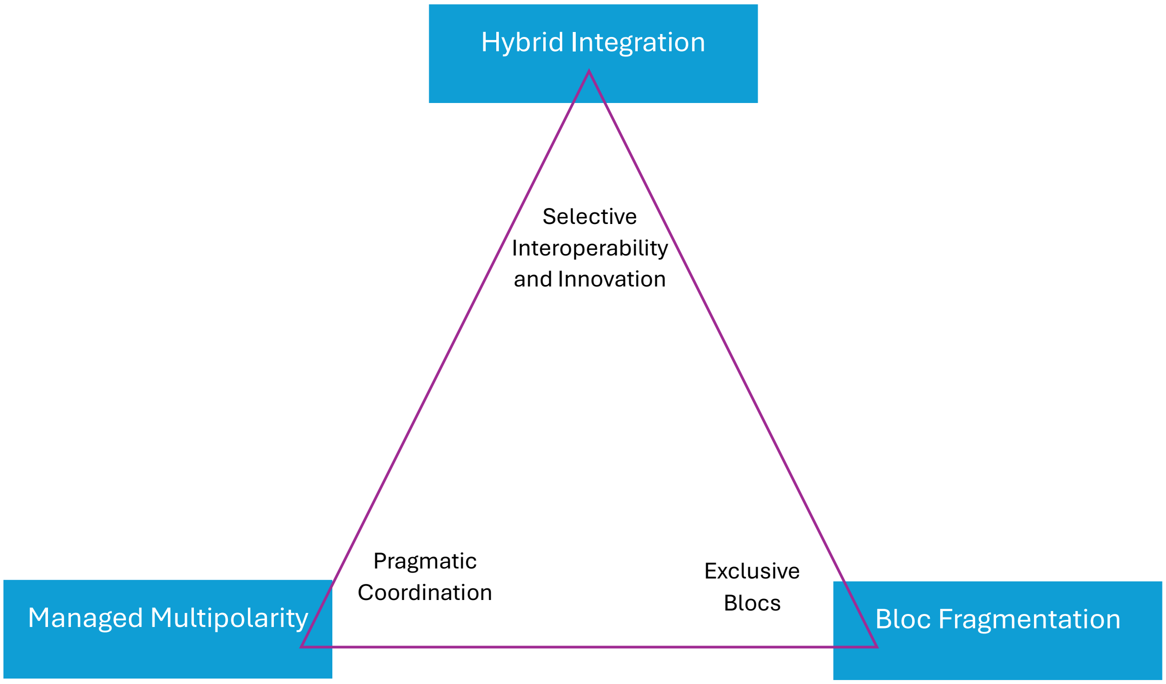
Hybrid integration reflects a fragmented yet interconnected world. Rival blocs compete for influence, but firms, investors, and some regulators innovate to maintain selective connectivity. This world is marked by bridges — dual-use infrastructures, neutral payment platforms, and experimental instruments such as digital SDRs or tokenized assets that enable partial interoperability.

Capital flows are fragmented at the margins, but global investors exploit opportunities for arbitrage across blocs. Reserve diversification continues incrementally, with no single challenger displacing the dollar; hybrid assets gain importance in niche contexts. Infrastructures evolve into parallel systems, but interconnection is preserved through neutral hubs and private sector innovations. The risk environment remains volatile, yet resilience improves because redundancy and selective interoperability buffer shocks.

6.4 Exhibits

The three scenarios can be visualized as distinct but related pathways in the future of global finance. **Figure 7** maps these alternatives, showing how each scenario differs in its balance between rivalry and cooperation, and in its implications for flows, reserves, infrastructures, and systemic risk.

Figure 7 – Scenarios for Global Fragmentation



Source: *Bank & Finance analysis.*

Figure 7 illustrates that global finance is unlikely to converge toward a single equilibrium. Instead, the world is navigating a strategic triangle in which managed cooperation, hardened blocs, and hybrid bridges coexist as competing futures. The position of each sovereign, investor, or institution will depend on how they balance the benefits of openness with the risks of alignment.

While scenarios are inherently qualitative, their comparative features can be distilled into four dimensions: capital flows, reserves, infrastructures, and systemic risk. Table 5 summarizes how these dimensions evolve under each scenario, providing a practical framework for stress-testing strategies.

Table 5 – Comparative Features of Fragmentation Scenarios

Dimension	Managed Multipolarity	Bloc Fragmentation	Hybrid Integration
Capital Flows	Global but hedged	Collapse across blocs	Selectively integrated
Reserves	Dollar central, gradual diversification	Two reserve spheres (USD vs CYN/gold)	Dollar persists, hybrids gain ground
Infrastructures	Interoperable rails	Parallel and exclusive	Coexisting with bridges
Risk Profile	Elevated but manageable	Severe and asymmetric	Volatile but buffered

Source: *Bank & Finance analysis.*

Table 5 highlights that fragmentation is not a binary process but a spectrum of outcomes. Each scenario carries different costs and opportunities, with bloc fragmentation representing the greatest systemic risk and hybrid integration the most adaptive balance. For policymakers and investors, the table provides a comparative baseline for scenario planning and portfolio stress-testing.

6.5 Synthesis

The scenarios developed here highlight the range of plausible trajectories for financial geopolitics. Managed multipolarity offers stability at the cost of persistent risk premia; bloc fragmentation poses the gravest risks of liquidity segmentation and systemic volatility; hybrid integration represents the most likely middle path, marked by selective interoperability and innovation.

For policymakers, the key lesson is that resilience requires adaptation: strengthening reserves, diversifying market access, and investing in infrastructures that can operate across multiple regimes. For investors, the implication is that scenario-based strategies are no longer optional — they are essential for navigating a future where geopolitical alignment continuously more shapes financial outcomes.

This sets the stage for **Section 7**, which examines the policy implications and strategic responses available to sovereigns, financial institutions, and regulators in a fragmented global system.

7. Policy Implications and Strategic Responses

The scenarios of financial fragmentation highlight not only risks but also opportunities for strategic adaptation. Policymakers, regulators, and financial institutions cannot prevent the geopolitical forces reshaping global finance, but they can manage exposure, hedge vulnerabilities, and shape resilience.

This section outlines the main policy levers available, organized under three headings: strengthening transparency and debt sustainability, building resilient infrastructures, and deepening domestic and regional markets.

7.1 Transparency and Debt Sustainability

Fragmentation increases the cost of capital, particularly for emerging markets. Transparent debt practices and credible fiscal frameworks are therefore essential to maintain investor confidence under heightened geopolitical risk. Strengthening debt sustainability frameworks —

whether through IMF programs, regional arrangements, or market-oriented innovations — reduces vulnerability to sudden stops and sanctions-induced spillovers.

Debt transparency is not just a technocratic concern; in an era of financial geopolitics it is a strategic buffer. When debt terms are hidden, investors and creditors price uncertainty with higher risk premia, while rival powers can exploit opacity to advance their influence. Box 4 illustrates how transparency can reduce geopolitical vulnerabilities and bolster market confidence.

Box 4 – Debt Transparency as a Geopolitical Buffer

Debt transparency has long been associated with lower borrowing costs and better fiscal management. But in a fragmented world, it also serves as a shield against geopolitical risks. Countries that publish comprehensive debt statistics, disclose loan terms, and participate in credible restructuring frameworks often retain market access even under adverse shocks. For example, Uruguay's transparent handling of its 2003 debt exchange helped preserve investor confidence, avoiding a deeper crisis, while Ghana's 2023 transparency steps improved creditor coordination.

By contrast, opaque debt arrangements can magnify vulnerabilities. The hidden accumulation of bilateral loans in several African economies in the 2010s raised risk premia once uncovered, exposing them to both market volatility and geopolitical bargaining pressure. Lack of clarity over terms also complicated restructuring negotiations, prolonging uncertainty and increasing costs.

Transparency therefore plays a dual role: it enhances economic credibility and strengthens geopolitical resilience. In a world where sanctions and alignment risks can suddenly shift market access, countries with transparent debt frameworks are better positioned to negotiate with creditors, reassure investors, and withstand financial fragmentation.

Source: *Bank & Finance analysis based on IMF (2023), World Bank (2023), Reinhart and Rogoff (2010), Gelpern et al. (2021).*

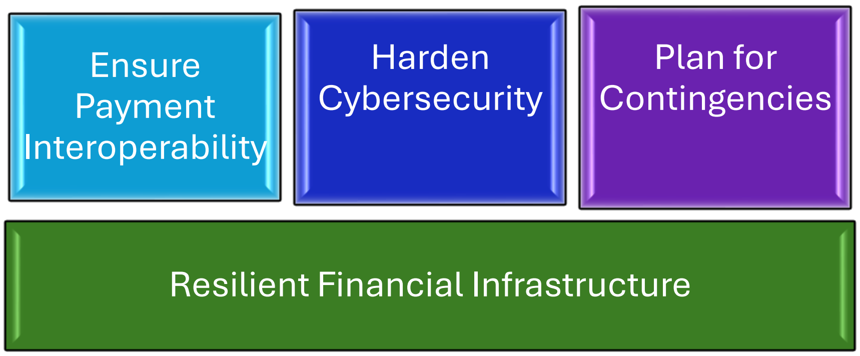
Box 4 demonstrates that transparency is more than good governance — it is a strategic asset. By reducing uncertainty, it helps countries lower financing costs, resist coercive leverage, and manage systemic spillovers in times of geopolitical stress.

7.2 Building Resilient Infrastructures

Technological bifurcation demands infrastructures that can operate across multiple regimes. Central banks and regulators must invest in systems that ensure continuity under stress, including interoperable payment rails, robust cybersecurity standards, and contingency arrangements for sanctions or cyberattacks.

Resilient infrastructures are the backbone of financial stability in an era of fragmentation. They ensure that payment, settlement, and information systems continue to function even under sanctions, cyberattacks, or geopolitical disruptions. **Figure 8** summarizes three pillars of resilience — interoperability, cybersecurity, and contingency planning — that can help safeguard continuity in global finance.

Figure 8 – Building Resilience Across Financial Infrastructures



Source: *Bank & Finance analysis based on BIS (2023), FSB (2022), OECD (2023).*

Figure 8 shows that resilient infrastructures cannot be built in isolation. They require coordination across regulators, central banks, and private actors. Interoperability prevents fragmentation from hardening, cybersecurity defends against asymmetric threats, and contingency planning ensures continuity when disruptions occur. Together, these pillars strengthen the financial system's ability to absorb shocks without systemic breakdown.

7.3 Deepening Domestic and Regional Markets

Domestic and regional markets can provide crucial buffers when access to global liquidity is disrupted. Stronger local bond markets reduce reliance on volatile cross-border flows, while regional initiatives—such as swap lines, reserve pooling, or coordinated bond market development—offer collective insurance against geopolitical shocks. For many frontier economies, these arrangements can spell the difference between resilience and crisis.

Table 6 organizes the policy levers available to manage fragmentation, grouping them into three domains and linking each to its practical instruments and geopolitical benefits.

Table 6 – Policy Levers for Managing Fragmentation

Policy Area	Example Instruments	Geopolitical Benefit
Transparency and Debt Sustainability	Debt disclosure, DSAs, restructuring frameworks	Lower risk premia, improved credibility
Infrastructure Resilience	Payment interoperability, cyber standards, contingency plans	Maintains continuity under sanctions or cyber shocks
Domestic and Regional Markets	Local bond markets, swap lines, reserve pooling	Reduces reliance on volatile cross-border flows

Source: *Bank & Finance analysis based on IMF (2023), BIS (2023), World Bank (2023).*

Table 6 highlights that no single measure suffices. Taken together, these levers help governments and institutions reduce exposure to geopolitical shocks, maintain access to finance, and preserve systemic resilience.

7.4 Synthesis

Policy responses to financial fragmentation are not about reversing geopolitics but about managing its consequences. Transparency in debt practices helps maintain credibility; resilient infrastructures reduce vulnerability to systemic shocks; and deeper domestic and regional markets provide alternative anchors of stability.

Figure 8 and Table 6 summarize these levers, while Box 4 illustrates how transparency functions as a geopolitical buffer. Together, they suggest that resilience is not passive: it must be built deliberately through credible governance, adaptive infrastructures, and diversified financing strategies.

8. Conclusion

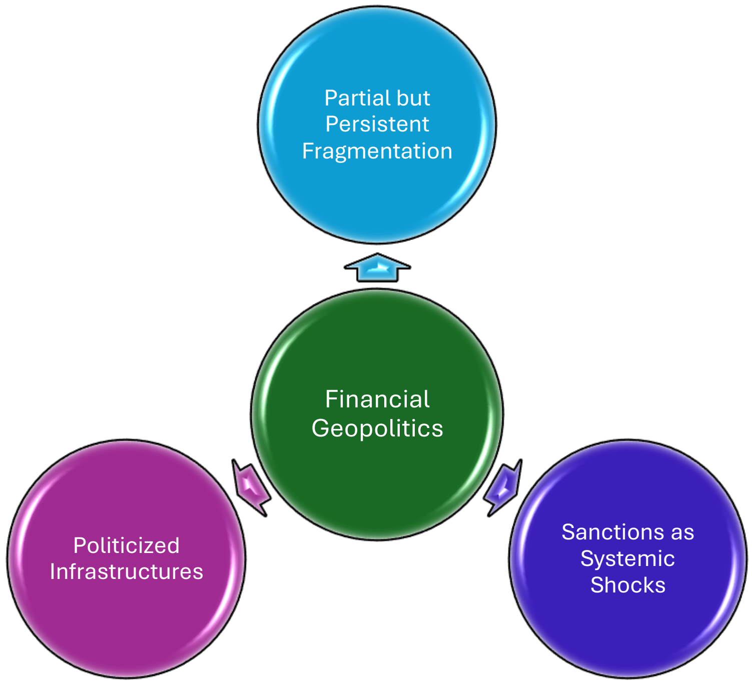
Financial geopolitics has moved from the margins to the core of global finance. It now shapes capital flows, reserve choices, payment infrastructures, and the use of sanctions as instruments of statecraft. What once appeared episodic has become a structural driver of fragmentation.

This report highlights three enduring lessons: fragmentation is partial but persistent, with diversification into gold and alternative currencies; infrastructures are no longer neutral, as payments, CBDCs, and data standards become politicized; and sanctions have become systemic shocks, reverberating well beyond their intended targets.

These dynamics carry strategic implications. For sovereigns, resilience requires credible debt practices, diversified reserves, and adaptable infrastructures. For regulators, cooperation remains essential to prevent crises from cascading across fragmented systems. For investors, portfolio strategies must account for alignment risks, legal uncertainty, and the rise of parallel liquidity pools.

Figure 9 synthesizes these lessons, showing how fragmentation, politicized infrastructures, and systemic sanctions interact to generate risks that demand proactive responses. Financial geopolitics is not a transient disruption but a structural reality. The task is not to reverse fragmentation but to manage it—by building resilience, adapting institutions, and adopting scenario planning as standard practice.

Figure 9 – Key Lessons from Financial Geopolitics



Strategic Responses: resilience, adaptation, and scenario planning

Source: Bank & Finance analysis.

Global finance is unlikely to return to the seamless globalization of the 1990s, yet full decoupling would impose severe costs. The most plausible path is hybrid integration: partial connectivity, selective interoperability, and greater volatility.

By positioning financial geopolitics within the Integration layer of the Bank & Finance ecosystem, this report complements earlier deep-dives on inequality, truth, technology, and climate. Together, these insights will feed into the forthcoming synthesis volume — *Navigating Risks and Opportunities in the Global Financial Ecosystem* — which will bring the lessons of the series into a single roadmap for policymakers and investors.

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10. Appendices

The appendices provide supporting material that complements the core analysis of this report. They document the methodology and data sources used, clarify technical terms and acronyms, and map each exhibit to its primary references. Together, these annexes ensure transparency, facilitate further research by readers, and reinforce the analytical rigor of the report.

A. Methodology and Data Sources

This report combines historical analysis, empirical data, and scenario-based methods to evaluate the intersection of geopolitics and global finance. Three main approaches were used:

1. Archival and Scholarly Literature

- Historical works on monetary orders and financial crises (e.g., Eichengreen 1992; Kindleberger 1973; Obstfeld and Taylor 2004; Tooze 2019).

- Contemporary analyses of sanctions, global reserves, and fragmentation (e.g., Hufbauer et al. 2007; Drezner 2015; Katzman 2017; Krugman 2024; Miran 2024).

2. Empirical Data Sources

- **Reserves and currency composition:** IMF's *COFER* database (2023), World Gold Council (2024).

- **Geopolitical risk:** Caldara and Iacoviello (2022) *Geopolitical Risk Index*.

- **Capital flows:** IMF *GRA data*, World Bank statistics, and Federal Reserve (2023) *Financial Stability Report*.

- **Sanctions and policy measures:** OFAC, EU, OECD, FSB (2022, 2023).

- **Payments and digital finance:** BIS *Annual Economic Report* (2007, 2019, 2023), ECB (2024 TIPS), PBOC (2023 RMB Internationalization Report), Atlantic Council CBDC Tracker (2024), MAS (2024 Financial Stability Review).

- **Cryptocurrency markets:** CoinMarketCap (2024).

3. Analytical Techniques

- **Comparative historical analysis** of fragmentation episodes (interwar, Cold War, globalization, post–GFC).

- **Scenario building** to develop three plausible futures: Managed Multipolarity, Bloc Fragmentation, and Hybrid Integration.

- **Cross-exhibit synthesis** linking data, literature, and policy sources to ensure transparency and replicability.

Limitations: All forecasts and scenarios are illustrative and contingent on geopolitical developments. Data limitations (e.g., opacity in reserve diversification, incomplete reporting in sanctions spillovers) were addressed through triangulation of multiple sources.

B. Glossary of Terms

This appendix provides definitions of key concepts and a list of acronyms used throughout the report, ensuring clarity and accessibility for a diverse readership.

Bloc Fragmentation – A geopolitical scenario in which the world divides into rival financial and trading blocs, with limited interoperability between systems.

California Consumer Privacy Act (CCPA) – A U.S. state law (effective 2020) that enhances consumer data privacy rights and regulates how businesses handle personal information. Mentioned in the report as part of diverging global data protection frameworks

Central Bank Digital Currency (CBDC) – A digital form of sovereign currency issued by a central bank, with legal tender status.

Correspondent Banking – Cross-border banking relationships that enable international payments and liquidity access.

Debt Sustainability Analysis (DSA) – Framework for assessing whether a country can meet its current and future debt obligations.

Financial Fragmentation – The process by which global financial markets, reserves, and infrastructures become segmented along geopolitical lines.

Geopolitical Risk Index (GPR Index) – An index developed by Caldara and Iacoviello measuring geopolitical tensions through media coverage.

Hybrid Integration – A scenario where fragmented blocs coexist but maintain selective interoperability via neutral infrastructures or private innovations.

Interoperability – The technical capacity of different financial systems or infrastructures to operate seamlessly together.

Managed Multipolarity – A geopolitical scenario in which rivalry persists but coordination mechanisms prevent outright decoupling.

Project mBridge – A collaboration between central banks and monetary authorities to explore a shared platform for instant and low-cost cross-border payments using CBDCs.

Reserve Diversification – The practice of central banks diversifying holdings across currencies and gold to reduce exposure to geopolitical risks.

Sanctions Spillovers – The unintended consequences of sanctions affecting economies not directly targeted, often through financial channels.

Special Drawing Right (SDR) – An international reserve asset created by the International Monetary Fund (IMF), based on a basket of major currencies. SDRs supplement official reserves and are used in IMF transactions between member countries.

Systemic Sanctions – Large-scale sanctions that affect entire economies, reserve assets, or infrastructures rather than individuals or firms.

C. Source–Exhibit Matrix

This appendix maps each figure, table, and box in the report to its primary sources, ensuring transparency and facilitating further reference.

Exhibit	Title	Section	Primary Sources
Figure 1	Key Highlights of the Report	Executive Summary	Bank & Finance analysis
Figure 2	Report Roadmap	Executive Summary	Bank & Finance analysis
Table 1	Historical Precedents of Financial Fragmentation	Section 2	Eichengreen (1992), Kindleberger (1973), Obstfeld and Taylor (2004), Tooze (2019), Miran (2024).
Figure 3	Channels of Financial Fragmentation	Section 2	Bank & Finance analysis
Table 2	Global Reserve Composition (2000–2024e)	Section 3	IMF COFER (2023), WGC (2024), Bank & Finance calculations
Figure 4	Geopolitical Risk and Capital Flow Volatility	Section 3	IMF (2023) Global Financial Stability Report (GFSR) and, Caldara and Iacoviello (2022)
Box 1	The "Trump Reserve Strategy": Miran vs. Critics	Section 3	IMF (2023), World Bank (2023), BIS (2023)
Figure 5	Technological Fragmentation in Payments	Section 4	BIS (2023), ECB (2024), PBOC (2023), Atlantic Council CBDC Tracker (2024), MAS (2024)
Table 3	Comparative Infrastructures	Section 4	BIS (2023), OECD (2023)
Box 2	Cyber Fragmentation as a Financial Risk	Section 4	FSB (2022), BIS (2023), OECD (2023)
Table 4	Evolution of Financial Sanctions	Section 5	Hufbauer et al. (2007), Drezner (2015), Katzman (2017), IMF (2023), BIS (2019, 2023)
Figure 6	Channels of Systemic Sanction Spillovers	Section 5	IMF (2023), BIS (2023), OFAC (2023)
Box 3	Sanctions and Emerging-Market Spillovers	Section 5	IMF (2023), World Bank (2023), BIS (2023)
Figure 7	Scenarios for Global Fragmentation	Section 6	Bank & Finance analysis
Table 5	Comparative Features of Fragmentation Scenarios	Section 6	Bank & Finance analysis
Figure 8	Building Resilience Across Financial Infrastructures	Section 7	BIS (2023), FSB (2022), OECD (2023)
Box 4	Debt Transparency as a Geopolitical Buffer	Section 7	IMF (2023), World Bank (2023), Reinhart and Rogoff (2010), Gelpern et al. (2021)
Table 6	Policy Levers for Managing Fragmentation	Section 7	IMF (2023), BIS (2023), World Bank (2023)
Figure 9	Key Lessons from Financial Geopolitics	Section 8	Bank & Finance analysis