



DOI: 10.22363/2313-0660-2025-25-1-56-66


EDN: JPTSOK

Research article / Научная статья

## Fragmentation of the Global Monetary and Financial System in the Context of Rising Geopolitical Tensions

Aleksei V. Kuznetsov  

Financial University under the Government of the Russian Federation, Moscow, Russian Federation

 [kuznetsov0572@mail.ru](mailto:kuznetsov0572@mail.ru)

**Abstract.** The global monetary and financial system, as a form of organization of international monetary and financial relations, is designed to provide framework conditions for the unimpeded exchange of goods, services and capital between countries, in order to maintain sustainable economic growth. Currently, the functionality of the international currency standard is exposed to the influence of disintegration processes in the global economy and global finance, which are caused by the growth of geopolitical tensions. The purpose of the article is to identify and characterize the main institutional aspects of the fragmentation of the global monetary and financial system, taking into account their impact on the transformation of the global financial architecture. It is demonstrated that the geopolitical rivalry between the United States and China is caused by the desire to overcome their interdependence in the areas of global supply chains and the production of new-generation semiconductors, respectively. The article discusses the main trends that are currently characterizing the fragmentation of the global monetary and financial system, such as institutional dysfunctionality, the bloc confrontation between mature and emerging financial and economic centers, de-dollarization of international reserves and digitalization of international settlements. The article substantiates the influence of these trends on the transformation of the global financial architecture, which is manifested in the crisis of the institutional foundations of the global monetary and financial system and the chaotic reorganization of international monetary and financial relations under the influence of digitalization processes. The article identifies the reasons for the institutional dysfunctionality of the global monetary and financial system, including the decline in the role of the International Monetary Fund (IMF) as a lender of last resort and the loss of state control over the growth of the money supply in the global economy. It also examines the factors explaining the motivation of central banks to diversify the structure of official foreign exchange reserves. Particular attention is paid to the problem of introducing central bank digital currencies as a method of counteracting the asymmetric use of the US dollar at the international level and as a way of improving international financial stability. It is concluded that changing the position of the US dollar in the global financial architecture, as a key international liquidity, depends on the efforts of the world's majority countries in creating a systemic alternative to the current international monetary order based on advanced financial technologies.

**Key words:** geopolitics, global economy, global finance, global financial architecture, financial technologies, digital currencies

**Conflicts of interest.** The author declares no conflicts of interest.

**Acknowledgements.** The research was supported by the Russian Science Foundation (project No. 24-18-00443, <https://rscf.ru/project/24-18-00443/>).

**For citation:** Kuznetsov, A. V. (2025). Fragmentation of the global monetary and financial system in the context of rising geopolitical tensions. *Vestnik RUDN. International Relations*, 25(1), 56–66. <https://doi.org/10.22363/2313-0660-2025-25-1-56-66>

---

© Kuznetsov A.V., 2025




This work is licensed under a Creative Commons Attribution 4.0 International License

<https://creativecommons.org/licenses/by-nc/4.0/legalcode>

## Фрагментация мировой валютно-финансовой системы в условиях роста геополитической напряженности

А.В. Кузнецов  

Финансовый университет при Правительстве Российской Федерации, Москва, Российская Федерация  
kuznetsov0572@mail.ru

**Аннотация.** Мировая валютно-финансовая система как форма организации международных валютно-финансовых отношений призвана обеспечивать рамочные условия для беспрепятственного обмена между странами товарами, услугами и капиталами с целью поддержания устойчивого экономического роста. В настоящее время функциональность международного валютного стандарта подвержена воздействию обусловленных ростом геополитической напряженности дезинтеграционных процессов в мировой экономике и мировых финансах. Цель исследования — выявить и охарактеризовать основные институциональные аспекты фрагментации мировой валютно-финансовой системы с учетом их влияния на трансформацию мировой финансовой архитектуры. Методологически исследование опирается на историко-логический и системный подходы, позволившие установить, что текущий кризис международных отношений — это форма проявления глобального противоборства между действующим и потенциальным лидером мировой экономики за контроль над основными сферами корпоративного бизнеса в условиях современных технологических трансформаций. Обсуждаются такие основные тенденции, характеризующие фрагментацию мировой валютно-финансовой системы, как институциональная дисфункциональность, блоковое противостояние между текущим и формирующимся финансово-экономическими центрами, дедолларизация международных резервов и цифровизация международных расчетов. Обосновано влияние этих тенденций на трансформацию мировой финансовой архитектуры, которая проявляется в кризисе институциональных основ мировой валютно-финансовой системы и хаотичной реорганизации международных валютно-финансовых отношений под влиянием процессов цифровизации. Определены такие причины институциональной дисфункциональности мировой валютно-финансовой системы, как снижение роли Международного валютного фонда (МВФ) в качестве кредитора последней инстанции и утрата государственного контроля над ростом денежной массы в мировой экономике. Рассмотрены факторы, объясняющие мотивацию центральных банков в диверсификации структуры официальных валютных резервов. Особое внимание уделено проблеме введения цифровых валют центральных банков как метода противодействия асимметричному использованию доллара США на международном уровне и способа повышения международной финансовой стабильности. Сделан вывод, что изменение в мировой финансовой архитектуре позиций доллара США как ключевой международной ликвидности зависит от усилий стран мирового большинства в создании системной альтернативы действующему международному валютному порядку на основе передовых финансовых технологий.

**Ключевые слова:** геополитика, мировая экономика, мировые финансы, мировая финансовая архитектура, финансовые технологии, цифровые валюты

**Заявление о конфликте интересов.** Автор заявляет об отсутствии конфликта интересов.

**Благодарности.** Исследование выполнено за счет гранта Российского научного фонда № 24-18-00443, <https://rscf.ru/project/24-18-00443/>

**Для цитирования:** Кузнецов А. В. Фрагментация мировой валютно-финансовой системы в условиях роста геополитической напряженности // Вестник Российского университета дружбы народов. Серия: Международные отношения. 2025. Т. 25, № 1. С. 56–66. <https://doi.org/10.22363/2313-0660-2025-25-1-56-66>

### Introduction

The breakdown of financial and economic cooperation between the United States and China (Eichengreen, 2024), the growth of economic sanctions and the use of reserve currencies as a financial weapon (Syropoulos et al., 2024) are the key characteristics of modern

global development. Obviously, the origins of the current crisis go back to the desire of the hegemonic country of the world economy to destabilize the processes of global development in such a way as to prevent the growth of the influence of competitors (Sakwa, 2024). At the present stage, the USA is trying to contain its

competitors by maintaining American control over the main international monetary and financial institutions, a policy which consistently reduces the efficiency of their functioning (Kuznetsov, 2023).

The current configuration of the US dollar as the central element of the global monetary and financial system (GMFS) has caused instability, uncertainty, inequity and insufficient aggregate demand, which has negatively affected the development of the global economy (Ponsot, 2016). To resolve the balance of payments deficit, developing countries are forced to pursue austerity policies and reduce domestic costs. As a result, the United States 'import deflation' by purchasing foreign goods at relatively low prices (Inozemtsev\*, 2021, p. 9).

The ongoing geopolitical confrontation has led to a reversal of globalization trends, a return of countries to economic nationalism and a redirection of the international trade and investment flows towards geopolitical allies (Bratersky, 2024). An obvious way to resolve these contradictions is to create a more decentralized multipolar monetary and financial system as a method of defusing international tensions and smoothing out socio-economic imbalances (Balyuk & Balyuk, 2024).

Meanwhile, the experience of the functioning of the single European currency area has proved to be insufficient to use this model for the regionalization of the GMFS. Within the current institutional framework of the European Economic and Monetary Union, the above mentioned problems could hardly be solved without its further worsening. This was evident in the aftermath of the global financial crisis, when the United States provided financial support to European countries. The US dollar loans enabled European banks to prevent insolvency and to recover from the recession (Abbassi et al., 2022; Alogoskoufis, Gravas & Jacque, 2023).

## Methodology

Despite the abundance of scientific papers examining the problems of GMFS fragmentation, the academic literature still lacks studies on the institutional aspects of this process. In their publications, the authors mainly focus on examining the trends of GMFS fragmentation in various sectors (McCauley et al., 2019; Arkhipov, 2023; Arnold, 2024) or regions of the world economy,<sup>1</sup> while a comprehensive analysis of the causes of this phenomenon still does not receive due attention.<sup>2</sup> This paper aims to fill this academic gap to some extent. The author employs historical-logical and systemic approaches to clarify the categories of concepts used and to identify and characterize the main institutional aspects of the fragmentation of the global monetary and financial system, taking into account their implications for the transformation of the global financial architecture.

### Global Monetary and Financial System: Essence and Modern Concept

The global monetary and financial system is a set of rules and agreements, mechanisms and institutions that facilitate international

---

\* V.L. Inozemtsev entered into the register of foreign agents of the Ministry of Justice of the Russian Federation (Order of the Russian Ministry of Justice dated 05/26/2023).

<sup>1</sup> Bolhuis M. A., Mighri H., Rawlings H., Reyes I., Zhang Qianqian. How Vulnerable Is Sub-Saharan Africa to Geoeconomic Fragmentation? // IMF Working Papers. 2024 (April 5). No. 2024/083. URL: <https://www.imf.org/en/Publications/WP/Issues/2024/04/05/How-Vulnerable-is-Sub-Saharan-Africa-to-Geoeconomic-Fragmentation-546346#:~:text=We%20find%20that%20under%20GEF,the%20rest%20of%20the%20world> (accessed: 09.09.2024). See also: (Candelon, Luisi & Roccazzella, 2022).

<sup>2</sup> Ayar Sh., Chen J., Ebeke Ch. E., Garcia-Saltos R., Gudmundsson T. et al. Geoeconomic Fragmentation and the Future of Multilateralism // International Monetary Fund Staff Discussion Notes. 2023 (January). SDN/2023/001. URL: <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2023/01/11/Geo-Economic-Fragmentation-and-the-Future-of-Multilateralism-527266> (accessed: 10.09.2024).

trade and investment.<sup>3</sup> A robust GMFS is comprised of the following elements: an effective international payment system, a stable global reserve currency configuration, and robust crisis mitigation and resolution mechanisms.<sup>4</sup>

It is important to acknowledge that the current GMFS standard does not fully meet the imperatives of its reliable functioning. The dominant role of the US dollar and US banks in global finance gives the United States an unprecedented level of financial power, the regular abuse of which destabilizes the development of the world economy<sup>5</sup> by disconnecting individual banks and entire countries from the GMFS through the freezing of official foreign exchange reserves, prohibiting the attraction of international debt and equity financing, impeding investments and transactions with sanctioned countries by introducing secondary sanctions against financial institutions of third countries in all regions of the world.<sup>6</sup>

Since the end of World War II, both intergovernmental organizations and private institutions have been conducive to the US monetary and financial dominance. For 80

years, the International Monetary Fund (IMF) has been the institutional foundation of the modern GMFS. Since its establishment in 1944, it has provided geopolitical cover for the implementation of the US global agenda (Steil, 2013, p. 135). This is evidenced by the fact that the IMF did not play a major role in the world economy until the late 1950s. The US State Department blocked the international settlement system created at the Bretton Woods Conference in order to create the most favorable conditions for the internationalization of the dollar (Steil, 2023, p. 388).

The IMF's current role as a lender of last resort is becoming less and less noticeable. Despite a threefold increase in capital and debt financing after the global financial crisis, over the next 15 years, on average, about 80% of the Fund's available financial resources remained unclaimed.<sup>7</sup> The reason for the 'idleness' of IMF credit resources is related to their high cost, the rigidity of the debt servicing schedule and the impossibility of its extension (Navoy, 2022, pp. 33–34). The IMF reform carried out in 2010–2015 proved ineffective in addressing the existing problems.<sup>8</sup>

Another aspect of the institutional dysfunction of the GMFS is its offshore nature, which has led to the loss of control of central banks over the growth of the money supply on a global scale (Shaxson, 2018, p. 97). For example, in Russia, the share of cash of the Central Bank and non-cash money of commercial banks ranges from 16 to 84%,<sup>9</sup> in the UK from 3 to 97% (Bjerg, 2023, p. 190). In conducting settlements through the global

<sup>3</sup> Strengthening the International Monetary System — A Stocktaking // International Monetary Fund Policy Papers. February 22, 2016. URL: <https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Strengthening-the-International-Monetary-System-A-Stocktaking-PP5023> (accessed: 03.08.2024).

<sup>4</sup> Aiyar S., Ilyina A. Geo-Economic Fragmentation: Implications for the International Monetary System // CEPR. March 28, 2023. URL: <https://cepr.org/voxeu/columns/geo-economic-fragmentation-implications-international-monetary-system> (accessed: 03.08.2024).

<sup>5</sup> How Crises Reshaped the World Financial System // The Economist. May 3, 2024. URL: <https://www.economist.com/special-report/2024/05/03/how-crises-reshaped-the-world-financial-system> (accessed: 11.07.2024).

<sup>6</sup> As Russia Completes Transition to a Full War Economy, Treasury Takes Sweeping Aim at Foundational Financial Infrastructure and Access to Third Country Support // U.S. Department of the Treasury. June 12, 2024. URL: <https://home.treasury.gov/news/press-releases/jy2404> (accessed: 10.09.2024).

<sup>7</sup> IMF Finances // International Monetary Fund. URL: <https://www.imf.org/en/Data/IMF-Finances#gi> (accessed: 03.08.2024).

<sup>8</sup> Eichengreen B. Unlocking IMF Reform // Project Syndicate. July 17, 2024. URL: <https://www.project-syndicate.org/commentary/imf-reform-requires-governance-overhaul-and-focus-on-core-mandate-by-barry-eichengreen-2024-07> (accessed: 03.08.2024).

<sup>9</sup> Statistical Bulletin of the Bank of Russia // Bank of Russia. 2024. No. 6. P. 22–23. (In Russian). URL: <https://www.cbr.ru/Collection/Collection/File/49287/Bbs2406r.pdf> (accessed: 03.08.2024).

interbank communications system SWIFT, only money of commercial banks is used, not central banks.

The largest and most liquid offshore segment of the GMFS is the global foreign exchange market, where the US dollar and US banks have an advantage.<sup>10</sup> In particular, interbank foreign exchange daily turnover was 7.5 trillion USD in April 2022, with USD share 88 and 70% settlements carried out through Continuous Linked Settlement — the currency conversion system, which is serviced by the US clearing bank CLS Bank.<sup>11</sup>

### **Bloc Confrontation as a Sign of GMFS Fragmentation**

The biggest winners from the functioning of the offshore GMFS were corporations of developed countries. Thus, over the three decades from 1990 to 2020, the assets of foreign affiliates of multinational companies increased by 21 times (5.5 times faster than the growth of global GDP).<sup>12</sup> In 2003, in the ranking of the 500 largest companies in the world by revenue, 197 companies were of US origin, the rest of the G7 countries accounted for another 217 companies, and only 18 companies belonged to the BRIC countries, of which only 11 were Chinese.<sup>13</sup> However, after the transformation of the PRC into a major ‘global manufacturer,’ the corporate balance of power also began to shift in favor of China. By 2023, the number of

Chinese enterprises among the 500 largest companies in the world had increased to 135, compared to 136 US enterprises.<sup>14</sup>

According to US business circles, the expansion of Chinese capital is incompatible with the doctrine of market fundamentalism, since most Chinese global corporations, including banks, are state-owned and rely on government direct support. From the point of view of official Washington, multilateral institutions such as the World Trade Organization (WTO) are no longer able to defend the market paradigm and protect US interests in the global economic arena, since they allow unfair competition from China (Zagashvili, 2019, p. 8). Such arguments serve as a reason for the U.S. to continue blocking the activities of the main WTO institutions — the negotiating committees, the General Council, and the Appellate Body for the settlement of disputes (Drabek, 2024).

To cover the significant negative trade balance with China, the U.S. is forced to regularly increase the size of its national debt by selling their treasury securities to China. In addition, US manufacturers are becoming increasingly dependent on global supply chains involving Chinese companies.<sup>15</sup>

However, China’s share of US imports of goods and services declined from 22% in 2018 to 14% in 2023 due to the aggressive introduction of US trade restrictions.<sup>16</sup> It is noteworthy that after leaving the US markets, the presence of Chinese companies in the

---

<sup>10</sup> FX Survey 2022: Press Release // Euromoney. 2022. URL: <https://assets.euromoneydigital.com/aa/29/5600f1634d7cbef9210e9685e899/euromoney-foreign-exchange-survey-2022-results-press-release.pdf> (accessed: 03.08.2024).

<sup>11</sup> Triennial Central Bank Survey of Foreign Exchange and Over-The-Counter (OTC) Derivatives Markets in 2022 // Bank for International Settlements. 2022. URL: <https://www.bis.org/statistics/rpfx22.htm> (accessed: 03.08.2024).

<sup>12</sup> 2024 World Investment Report: Investment facilitation and Digital Government // UNCTAD. 2024. URL: [https://unctad.org/system/files/official-document/wir2024\\_en.pdf](https://unctad.org/system/files/official-document/wir2024_en.pdf) (accessed: 03.08.2024).

<sup>13</sup> Fortune Global 500 // Fortune. URL: <https://fortune.com/ranking/global500/> (accessed: 03.08.2024).

---

<sup>14</sup> Hyam B. Most Profitable Companies: U.S. vs. Rest of the World, 2023 // Grow & Convert. November 29, 2023. URL: <https://www.growandconvert.com/research/most-profitable-fortune-500-companies-in-2023/> (accessed: 03.08.2024).

<sup>15</sup> Baldwin R., Freeman R., Theodorakopoulos A. Hidden Exposure: Measuring US Supply Chain Reliance // National Bureau of Economic Research Working Papers. 2023 (October). No. 31820. P. 18–19. URL: <http://www.nber.org/papers/w31820> (accessed: 03.08.2024).

<sup>16</sup> International Trade & Investment // U.S. Department of Commerce. Bureau of Economic Analysis. URL: <https://www.bea.gov/data/intl-trade-investment> (accessed: 03.08.2024).

supply chains of Southeast Asian countries is becoming increasingly pronounced. In particular, owing to this expansion exports of Cambodia and Vietnam to the U.S. have been steadily increasing.<sup>17</sup> Since the start of the armed conflict in Ukraine, trade flows and the number of announced investment projects between US- and China-centered geopolitical blocs have decreased by 12 and 20% respectively compared to trade and investment between countries within the same bloc.<sup>18</sup> Against the backdrop of negative inter-bloc dynamics, there has been an increase in trade and investment flows — China's exports and the US's imports, respectively — with third countries, primarily Mexico, Canada, Vietnam, Taiwan, and India. The implication is that the U.S. and China remain linked to each other indirectly through these third countries (Eichengreen, 2024). The relocation of Chinese production and investment to Asian countries gives the United States grounds to introduce secondary trade restrictions on these countries as well.

Meanwhile, the main arena of rivalry between US and Chinese corporations is unfolding in the high-tech sector, an area that until recently was almost completely monopolized by American business. In 2022, key American players — *Intel* and *AMD* — controlled 70.77 and 19.84% of the global microprocessor market, respectively.<sup>19</sup> The

share of the American company *Nvidia* in the global graphics processor market was 88%,<sup>20</sup> and in the Chinese market it reached 95%.<sup>21</sup> For a long time, no country could challenge the US dominance in the development of software for automated electronic design. Thus, at present, American platforms such as *Amazon Web Services*, *Microsoft Azure* and *Google Cloud* own 66% of the global cloud computing market.<sup>22</sup>

The need for China to overcome its dependence on the United States in the high-tech sector was defined in the government strategy “Made in China 2025,” which set ambitious goals for China to become a leader in the production of the most advanced semiconductors and in the field of next-generation artificial intelligence by 2030. Beijing has already overtaken Washington in terms of investment in the development of quantum technologies and cloud computing and has taken first place in the world in the number of supercomputers (173 systems compared with 127 in the U.S.).<sup>23</sup>

Since late 2022, the United States has been deploying a targeted strategy to curb

---

<https://www.counterpointresearch.com/insights/data-center-cpu-market-amd-surpasses-intel-share-growth/> (accessed: 03.08.2024).

<sup>20</sup> Dow R. Shipments of Graphics Add-In Boards Decline in Q1 of 24 as the Market Experiences a Return to Seasonality // Jon Peddie Research. June 6, 2024. URL: <https://www.jonpeddie.com/news/shipments-of-graphics-add-in-boards-decline-in-q1-of-24-as-the-market-experiences-a-return-to-seasonality/> (accessed: 03.08.2024).

<sup>21</sup> Wu D., King I., Savov V. US Deals Heavy Blow to China Tech Ambitions with Nvidia Chip Ban // CSET. September 2, 2022. URL: <https://cset.georgetown.edu/article/us-deals-heavy-blow-to-china-tech-ambitions-with-nvidia-chip-ban/> (accessed: 03.08.2024).

<sup>22</sup> Lu M. The World's Biggest Cloud Computing Service Providers // Visual Capitalist. March 22, 2024. URL: <https://www.visualcapitalist.com/worlds-biggest-cloud-computing-service-providers/> (accessed: 03.08.2024).

<sup>23</sup> Tolstukhina A. US Technology Policy amid Rivalry with China // Russian International Affairs Council. December 5, 2023. URL: <https://russiancouncil.ru/en/analytics-and-comments/analytics/us-technology-policy-amid-rivalry-with-china/> (accessed: 03.08.2024).

---

<sup>17</sup> 2023 Report to Congress of the U.S. — China Economic and Security Review Commission. One Hundred Eighteenth Congress. First Session. November 2023 / U.S. — China Economic and Security Review Commission. Washington: U.S. Government Publishing Office, 2023. P. 53–54. URL: [https://www.uscc.gov/sites/default/files/2023-11/2023\\_Annual\\_Report\\_to\\_Congress.pdf](https://www.uscc.gov/sites/default/files/2023-11/2023_Annual_Report_to_Congress.pdf) (accessed: 03.08.2024).

<sup>18</sup> Gopinath G., Gourinchas P.-O., Presbitero A. F., Topalova P. Changing Global Linkages: A New Cold War? // IMF Working Papers. 2024 (April 5). No. 2024/076. URL: <https://www.imf.org/en/Publications/WP/Issues/2024/04/05/Changing-Global-Linkages-A-New-Cold-War-547357> (accessed: 11.07.2024).

<sup>19</sup> Data Center CPU Market: AMD Surpasses Intel in Share Growth // Counterpoint. February 27, 2023. URL:

China's advances in critical technologies. To limit China's access to advanced semiconductor technology the United States, with the support of Japan and the Netherlands, has implemented an unprecedented export control regime.<sup>24</sup> Further restrictions on American direct investment in China's artificial intelligence industries, quantum and advanced semiconductor technologies took place by the Joseph Biden administration in August 2023.<sup>25</sup>

The reorientation of China's trade and investment flows to Asia and, more broadly, to Eurasia may mean a more active yuanization of supply chains in the future, especially given the further development of transnational financial infrastructure involving Chinese banks and high-tech companies. The promotion of the digital yuan as a reserve currency in the long term has the potential to weaken the peg of China's foreign trade to the US dollar and settlements via SWIFT.<sup>26</sup> Consequently, the ongoing bloc confrontation between the U.S. and China potentially increases the risk of GMFS fragmentation.

---

<sup>24</sup> Allen G. C., Benson E., Putnam M. Japan and the Netherlands Announce Plans for New Export Controls on Semiconductor Equipment // CSIS. April 10, 2023. URL: <https://web.archive.org/web/20240304155336/https://www.csis.org/analysis/japan-and-netherlands-announce-plans-new-export-controls-semiconductor-equipment> (accessed: 03.08.2024).

<sup>25</sup> Benson E., Allen G. C. A New National Security Instrument: The Executive Order on Outbound Investment // CSIS. August 10, 2023. URL: <https://web.archive.org/web/20240622231611/https://www.csis.org/analysis/new-national-security-instrument-executive-order-outbound-investment> (accessed: 03.08.2024).

<sup>26</sup> See: Carney M. The Growing Challenges for Monetary Policy in the Current International Monetary and Financial System // BIS. August 27, 2019. URL: <https://www.bis.org/review/r190827b.htm> (accessed: 09.09.2024); Wolf M. A New World of Currency Disorder Looms // Financial Times. March 29, 2022. URL: <https://www.ft.com/content/f18cf835-02a0-44ff-875f-7de7facba54e> (accessed: 11.07.2024).

## De-dollarization of International Reserves

The US dollar has historically held an unparalleled position within the global monetary and financial hierarchy. The US national currency has dominated all spheres of international collaboration — development finance, reserve asset accumulation, global public and corporate borrowing and international invoicing. The dominant status of the US dollar in international relations is based on a global systemic infrastructure that requires emerging economies to transact in US dollars (Kuehnlenz, Orsi & Kaltenbrunner, 2023). Meanwhile, over the past two decades, the dollar's share of central bank foreign exchange reserves has gradually declined, from 78.4% in 2000 to 57.39% in the third quarter of 2024.<sup>27</sup> The main drivers of this change have been investments in non-traditional reserve currencies such as the Canadian, Singaporean and Australian dollars, the South Korean won and the Chinese yuan.<sup>28</sup> While investments in non-traditional currencies are made to generate returns, the Big Four currencies are used as liquidity to finance interventions in foreign exchange markets, debt servicing and repayment and current deficits. The share of official reserves in non-traditional currencies is at least 5% in 46 countries. The most active 'diversifying countries' include Russia, China, Malaysia, Indonesia, Poland, the Czech Republic, Singapore, the United Kingdom, Switzerland, India, and Brazil (Arslanalp, Eichengreen & Simpson-Bell, 2022).

---

<sup>27</sup> Currency Composition of Official Foreign Exchange Reserves // International Monetary Fund. June 28, 2024. URL: <https://data.imf.org/?sk=e6a5f467-c14b-4aa8-9f6d-5a09ec4e62a4> (accessed: 11.07.2024).

<sup>28</sup> Arslanalp S., Eichengreen B., Simpson-Bell Ch. Dollar Dominance in the International Reserve System: An Update // IMF Blog. June 11, 2024. URL: <https://www.imf.org/en/Blogs/Articles/2024/06/11/dollar-dominance-in-the-international-reserve-system-an-update> (accessed: 10.09.2024).

The weakening role of the US dollar as a reserve asset is most clearly manifested in the decline in Chinese investments in US Treasury bonds, the main reserve asset of the People's Bank of China. In October 2024, China's investments in US government debt obligations decreased to USD 760 billion from USD 1,034 billion in January 2022.<sup>29</sup> The decrease in the Chinese regulator's demand for US securities is due to the intensification of the US-Chinese trade and investment confrontation, as well as the freezing of Russian foreign exchange reserves, as an indicator of the unreliability of investments in American assets, which can be transformed into an instrument of sanctions pressure on the investor country (Petrov, 2024, p. 18).

It is noteworthy that the freezing of the seventh largest official foreign exchange reserves of Russia — the world's fourth largest economy by gross domestic product based on purchasing power parity (GDP, PPP) — returns the world to the original logic of the creation of the IMF, as a mechanism for settlements between countries in their own currencies. Evidence of this is the increasingly active use of the ruble and the yuan in international settlements. Thus, in March 2024, the share of the ruble in foreign trade settlements between Russia and Europe reached 58.5%.<sup>30</sup> In servicing Russian-Chinese trade, the share of the ruble and the yuan exceeded 90%.<sup>31</sup>

<sup>29</sup> Treasury International Capital (TIC) System // U.S. Department of the Treasury. URL: <https://home.treasury.gov/data/treasury-international-capital-tic-system> (accessed: 10.09.2024).

<sup>30</sup> Linnik M. Central Bank: The Share of the Ruble in Settlements Between Russia and Europe Reached a Record 58.5 Percent // *Rossiyskaya Gazeta*. June 9, 2024. (In Russian). URL: <https://rg.ru/2024/06/09/cb-dolia-rublia-v-raschetah-rossii-i-evropy-dostigla-rekordnyh-585-procenta.html> (accessed: 10.09.2024).

<sup>31</sup> Putin Said That the Share of the Ruble and Yuan in Russian-Chinese Transactions Exceeded 90% // TASS. May 16, 2024. (In Russian). URL: <https://tass.ru/ekonomika/20813665?ysclid=m794d2xib1703788068> (accessed: 10.09.2024).

A further indicator of declining confidence in the US dollar as a reserve asset is the growing demand for monetary gold.<sup>32</sup> Consequently, the de-dollarization of international reserves is a significant factor in the fragmentation of the GMFS. Meanwhile, the main impulses in this regard may come from the ambitions of central banks to introduce digital currencies into the sphere of international settlements.

According to some forecasts (Kravchenko, 2024), the dollar will retain its dominant position in the GMFS until at least 2060. However, the dynamics of changes in the positions of other currencies in the global monetary and financial hierarchy will obviously depend entirely on the success of the world's majority countries in creating systemic alternatives to the US dollar as international liquidity. Ultimately, it is precisely such alternatives that can protect emerging market and developing countries from the risks of destabilization of the global financial environment, thereby ensuring the conditions for catch-up development.

### **Risks of Digital Fragmentation of GMFS**

The use of innovative technologies in international payments does not necessarily imply a radical breakdown of the current international reserve system. Nevertheless, an increasing number of sovereign states are exploring the possibility of issuing their own digital financial assets in order to reduce exchange rate and sanctions risks by unifying standards, technologies, legal and regulatory frameworks for international payments. As of July 2024, 134 countries and monetary unions, representing 98% of the world's GDP, were

<sup>32</sup> Arslanalp S., Eichengreen B. J., Simpson-Bell Ch. Gold as International Reserves: A Barbarous Relic No More? // IMF Working Papers. 2923 (January 27). No. 2023/014. URL: <https://www.imf.org/en/Publications/WP/Issues/2023/01/27/Gold-as-International-Reserves-A-Barbarous-Relic-No-More-528089> (accessed: 09.09.2024).



exploring the possibility of creating a central bank digital currency (CBDC).<sup>33</sup> In addition to national digital currencies, preparations are underway to launch CBDCs for international settlements on a multi-platform basis. With the help of multi-CBDC platforms, international payments between participating jurisdictions can be carried out using national currencies, ensuring the implementation of the concept of multiple reserve assets.

At the same time, the introduction of a CBDC is not sufficient to resolve the asymmetries in the current GMFS. The key role of the US dollar is determined by its dominance in the settlement of international financial obligations, the invoicing of international trade and the conduct of financial market transactions. Deep trust in US financial market institutions and regulation are main preconditions for the steady international demand for the US dollar. Another factor is the ability and willingness of the US Federal Reserve to act as a global lender of last resort. Thus, a de-dollarized global financial infrastructure requires a three-dimensional approach that simultaneously addresses the issue in the areas of payments infrastructure, international trade, and financial markets (Kuehnlentz, Orsi & Kaltenbrunner, 2023).

Meanwhile, the growing interest of the majority of countries in introducing their own digital currencies requires global regulation of digital currency and financial relations, which increases the risks of digital fragmentation of the GMFS (Maslov & Shvandar, 2023; Krylova, 2024). The fact is that, according to the established historical tradition, Washington has a negative attitude towards supporting any initiatives to introduce global rules for regulating the international currency and financial sphere that are not controlled by

the United States.<sup>34</sup> Therefore, it is possible that in the process of digital adaptation of the GMFS, the clash of geopolitical interests in the near future may shift to the sphere of legal regulation of international financial settlements and transactions in financial markets using digital financial assets.

## Conclusion

The modern GMFS is subject to the risks of fragmentation, which are associated with its growing institutional dysfunctionality, due to the contradiction between the national origin and international use of the US dollar, structural shifts in the world economy related to the transition to a new technological basis, a change in the balance of power between the world's economic and financial centers and the formation of a new political and economic model of the world order that contradicts with the geopolitical interests and strategies of the leading developed countries of the West.

The preservation of the US control over the international payment and settlement infrastructure and institutions of the global financial market is largely due to the desire of the United States to maintain its dominant position in the new technological order and to prevent China and other emerging economic and financial centers from setting the rules for the redistribution of global financial resources.

The possibility of expanding the access of the majority of countries to international liquidity is being considered through the introduction of digital currencies of central banks and their subsequent use for international settlements, including through digital multiplatforms. At the same time, the US ambitions to maintain unilateral control over the GMFS create risks of its subsequent fragmentation.

<sup>33</sup> Today's Central Bank Digital Currencies Status // CBDC Tracker. November 2024. URL: <https://cbdctracker.org/> (accessed: 10.11.2024).

<sup>34</sup> UK — US Financial Innovation: Digital Payments // TheCityUK. July 2021. URL: <https://www.thecityuk.com/media/suylm3ij/uk-us-financial-innovation-digital-payments.pdf> (accessed: 10.09.2024).

Today, sovereign states are increasing protectionist measures for reasons of national security and in order to protect their economies from the negative consequences of the geopolitical confrontation between the world's largest economies. If the policy of isolationism spreads to the digital sphere as a result of increased competition between high-tech companies, this could have a negative impact on international cooperation in the joint development of strategic technologies.

Received / Поступила в редакцию: 05.08.2024

Revised / Доработана после рецензирования: 11.10.2024

Accepted / Принята к публикации: 24.12.2024

## References

- Abbassi, P., Bräuning, F., Fecht, F., & Peydró, J.-L. (2022). Cross-border interbank liquidity, crises, and monetary policy. *Journal of International Economics*, 139, 103657. <https://doi.org/10.1016/j.jinteco.2022.103657>; EDN: MHBFQF
- Alogoskoufis, G., Gravas, K., & Jacque, L. (2023). Asymmetries in post-war monetary arrangements in Europe: From Bretton Woods to the Euro area. *The Journal of Economic Asymmetries*, 28, e00320. <https://doi.org/10.1016/j.jeca.2023.e00320>; EDN: UAHWBF
- Arkipov, A. (2023). Fragmentation of the world financial system: Evidence from stock markets. *Procedia Computer Science*, 221, 1099–1101. <https://doi.org/10.1016/j.procs.2023.08.093>; EDN: DGRVJN
- Arnold, I. J. M. (2024). The effect of fragmentation risk on monetary conditions in the euro area. *Journal of International Money and Finance*, 146, 103109. <https://doi.org/10.1016/j.jimonfin.2024.103109>; EDN: WQAHVO
- Arslanalp, S., Eichengreen, B., & Simpson-Bell, C. (2022). The stealth erosion of dollar dominance and the rise of nontraditional reserve currencies. *Journal of International Economics*, 138, 103656. <https://doi.org/10.1016/j.jinteco.2022.103656>; EDN: AKNBST
- Balyuk, I. A., & Balyuk, M. A. (2024). Bretton Woods 2.0: Towards a new global financial architecture. *World Economy and International Relations*, 68(3), 5–14. (In Russian). <https://doi.org/10.20542/0131-2227-2024-68-3-5-14>; EDN: XJSTQX
- Bjerg, O. (2023). *Making money. The philosophy of crisis capitalism*. Moscow: Ad Marginem publ. (In Russian).
- Bratersky, M. V. (2024). The world of fragmentation is changing the world of globalization. *Current Problems of Europe*, (1), 18–41. (In Russian). <https://doi.org/10.31249/ape/2024.01.02>; EDN: CWVAHG
- Candelon, B., Luisi, A., & Roccazzella, F. (2022). Fragmentation in the European Monetary Union: Is it really over? *Journal of International Money and Finance*, 122, 102545. <https://doi.org/10.1016/j.jimonfin.2021.102545>; EDN: QMYAQW
- Drabek, Z. (2024). Is the WTO terminally ill? Threats to the international trading system. *Asia and the Global Economy*, 4(1), 100078. <https://doi.org/10.1016/j.aglobe.2024.100078>; EDN: QREEOH
- Eichengreen, B. (2024). Geopolitics and the global economy. *Journal of International Money and Finance*, 146, 103124. <https://doi.org/10.1016/j.jimonfin.2024.103124>; EDN: MJSDXN
- Inozemtsev, V. L. (2021). *Economics without dogmas: How the United States is creating a new economic order*. Moscow: Al'pina Publisher publ. (In Russian).
- Kravchenko, Yu. B. (2024). Fragmentation processes and positions of the U.S. dollar in the global monetary and financial system. *The World Economics*, (4), 249–258. (In Russian). <https://doi.org/10.33920/vne-04-2404-02>; EDN: AZKVVM
- Krylova, L. V. (2024). Central banks' digital currency platforms as a factor of fragmentation of the global monetary system. *Ekonomika. Nalogi. Pravo*, 17(2), 40–50. (In Russian). EDN: ONWYNA
- Kuehnlitz, S., Orsi, B., & Kaltbrunner, A. (2023). Central bank digital currencies and the international payment system: The demise of the US dollar? *Research in International Business and Finance*, 64, 101834. <https://doi.org/10.1016/j.ribaf.2022.101834>; EDN: OHBEXT
- Kuznetsov, A. V. (2023). Eastern vector of transformation of the world monetary system. *World Economy and International Relations*, 67(7), 22–32. (In Russian). <https://doi.org/10.20542/0131-2227-2023-67-7-22-32>; EDN: IYZETZ

- Maslov, A. V., & Shvandar, K. V. (2023). New international projects on the use of central bank digital currencies in transforming cross-border settlements. *Financial Journal*, 15(2), 47–58. (In Russian). <https://doi.org/10.31107/2075-1990-2023-2-47-58>; EDN: LVINPJ
- McCauley, R. N., Bénétrix, A. S., McGuire, P. M., & von Peter, G. (2019). Financial deglobalisation in banking? *Journal of International Money and Finance*, 94, 116–131. <https://doi.org/10.1016/j.jimonfin.2019.01.011>
- Navoy, A. V. (2022). Transformation of approaches to building a system of anti-crisis functioning of main international financial institutions in the context of new geopolitical challenges. *Outlines of Global Transformations: Politics, Economics, Law*, 15(6), 28–45. (In Russian). <https://doi.org/10.31249/kgf/2022.06.02>; EDN: DVBEUA
- Petrov, M. V. (2024). The impact of geopolitical tensions on international capital flows. *Financial Journal*, 16(3), 8–22. (In Russian). <https://doi.org/10.31107/2075-1990-2024-3-8-22>; EDN: IGCBRM
- Ponsot, J.-F. (2016). The “four I’s” of the international monetary system and the international role of the euro. *Research in International Business and Finance*, 37, 299–308. <https://doi.org/10.1016/j.ribaf.2016.01.004>
- Sakwa, R. (2024). Great destruction. *Rossia v Global'noj Politike*, 22(4), 37–53. (In Russian). <https://doi.org/10.31278/1810-6439-2024-22-4-37-53>; EDN: SFFTBN
- Shaxson, N. (2018). *The finance curse: How global finance is making us all poorer*. London: The Bodley Head.
- Steil, B. (2013). *The battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the making of a new world order*. Princeton: Princeton University Press. <https://doi.org/10.2307/j.ctt1r2dxv>
- Steil, B. (2023). *The Marshall plan: Dawn of the Cold War*. Moscow: Izd-vo Instituta Gaidara publ. (In Russian).
- Syropoulos, C., Felbermayr, G., Kirilakha, A., Yalcin, E., & Yotov, Y. V. (2024). The global sanctions data base—release 3: COVID-19, Russia, and multilateral sanctions. *Review of International Economics*, 32(1), 12–48. <https://doi.org/10.1111/roie.12691>; EDN: SALPUY
- Zagashvili, V. S. (2019). WTO crisis as manifestation of globalization crisis. *World Economy and International Relations*, 63(6), 5–12. (In Russian). <https://doi.org/10.20542/0131-2227-2019-63-6-5-12>; EDN: ZSWFSO

**About the author:**

*Kuznetsov Aleksei Vladimirovich* — Dr. of Sc. (Economics), Senior Researcher, Professor, Chair of World Economy and World Finance, Financial University under the Government of the Russian Federation; eLibrary SPIN-code: 3219-0542; ORCID: 0000-0003-3669-0667; e-mail: kuznetsov0572@mail.ru