

Economic Power in the Age of Geopolitical Competition: CBDCs, Sanctions and Global Power

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ABSTRACT

As we look to the future of intensifying geopolitical competition, economic power has become an increasingly important tool which states are starting to use in order to pursue strategic objectives. Along with the widespread use of economic sanctions, the emergence of Central Bank Digital Currencies (CBDCs) has the potential to transform the global financial system and alter existing power dynamics. This study adopts a qualitative research approach which draws on a comprehensive review of academic literature, reports from international organizations, government publications and policy analyses. It looks into the relationship between CBDCs, sanctions and the international financial system through the lens of economics and international relations while linking these to recent geopolitical developments. The findings of the study suggest that even though sanctions remain one of the ,past influential tools of economic statecraft, the development of CBDCs may gradually reduce their effectiveness by providing alternative payment mechanisms that bypass traditional financial networks. However, the true extent of this change depends on the global adoption of CBDCs, interoperability between digital currencies and the geopolitical influence of the issuing states. Overall, the study concludes that CBDCs do have the potential to reshape the global financial order but their impact will be gradual and contingent upon international cooperation, regulatory frameworks and evolving geopolitical relationships. These findings contribute to a deeper understanding of the intersection between finance, technology and global power in the twenty-first century.

1. Introduction

Today, the dollar dominates financial markets and is the main currency that we use for international trade. However, more than ever, the dollar is at potential of losing some of the influence it has spent decades building. Sovereign currency and geopolitics intersect in order for nations to use their financial systems as tools of statecraft, economic defense and power projects. It includes currency weaponization and reverse diversification(*The Geopolitical Relevance of*

Central Bank Digital Currencies, 2021). This is exactly what the United States used in order to help the dollar reach the dominance it possesses today. Dollar hegemony is the global dominance of the dollar as the main international reserve currency and allows the US economic and political power by allowing it to borrow cheaply and influence international law due to its job as the main currency used for international trade(Thibaut Bidet-Mayer, 2026). Due to the deep liquidity and financial stability of the financial markets of the United States, this makes lots of countries peg their currency to the dollar. By pegging their currency, countries can stabilize exchange rates and prevent investment value changes while also preventing supply chain disruptions. By pegging their currency to the dollar, countries are able to price their exports competitively(Ganti, 2019). For example, most international oil trade is priced and performed in dollars. This allows for there to be a permanent demand for the dollar as all countries must keep some of the currency in order to buy oil. Furthermore, it enhances the economic power of the US in financial markets and allows them geopolitical leverage in global affairs. In order to trade like this, countries often use SWIFT (Society for Worldwide Interbank Financial Telecommunications) to communicate which is exactly what the US leverages in order to keep the dominance of the dollar stable. The United States is able to issue secondary sanctions which is where they can cut banks off from the US financial system entirely which means that they are no longer able to trade in the dollar. This leaves SWIFT with no other option but to remove the bank that has been targeted from the network in order to make sure their other members don't suffer the consequences too(*What Is SWIFT, and Could Sanctions Impact the U.S. Dollar's Dominance?*, n.d.). By facing sanctions from the US, countries could face grave consequences when it comes to their economy but also their standing in the global political landscape. In order to avoid these sanctions and influence of the US, countries are evaluating new ways to create new unregulated financial networks and pathways in order to trade. The main one that is being explored today is Central Bank Digital Currencies (CBDCs). CBDCs are digital forms of a country's currency that are issued and regulated by a nation's central bank. The reason they are considered so safe is because they carry the direct backing of the government and are not privately owned(Seth, 2024). Currently, China is expanding the use of their CBDC which is the digital yuan and it is being used in the country's domestic economy and in international trade. By doing this, China is actively able to avoid sanctions from the US by eliminating the middle man and trading directly with countries. With the growing popularity of CBDCs, we face the question of how this could change international trade and reduce the dominance of the dollar. Consequently, it leads us to reflect on if this could reduce the political influence of the United States.

Statement or problems

- CBDCs will change global power because they will allow countries to trade directly with each other using digital money.

- CBDCs will change the way that countries communicate in financial markets by creating unregulated networks in which countries can evade sanctions.

Research questions

- How do cross border CBDCs bypass traditional western regulated payment networks like Swift by eliminating the middle man?
- How will the rise of unsanctionable digital trade networks impact global power dynamics between developed western nations and emerging economies?
- To what extent will the proliferation of alternative digital networks such as China's digital Yuan and M bridge project protect nations from the impacts of unilateral economic sanctions?

Hypothesis

- It is reasonable to hypothesize that in today's era, if multi central bank digital currency platforms become widely adopted for international trade, then cross border transactions through western clearing networks will decrease due to the ability to evade unilateral economic sanctions and by allowing for an elimination of the middle man which will allow increased communication and reduced costs.
- Another reasonable hypothesis is that if a nation is heavily targeted by sanctions, then the financial disruption caused by asset freezes and transaction blockages will be minimized as countries will be able to use unregulated networks without facing the consequences of using alternative networks.
- Finally, it would make sense to assume that if global financial systems fragment into competing technological networks like the US dollar against CBDCs then unilateral economic coercion will decline leading to multi polar distribution of global power and reducing the influence of the United States on financial markets.

Significance of the study

There is a great number of people who would be able to benefit from the content of this study. For example, this study will highlight how technology is shifting from conventional military battlefields to digital financial networks through adaptations and advancements in financial technology. This study will also provide information on how the decline of US dollar dominance will alter the balance of global power if CBDCs are able to reduce the influence of this influential sovereign currency. In addition, this study will be very useful in aiding policy makers. This study will help policy makers understand why sanctions are losing their importance in the 21st century by identifying the different types of alternative networks being used in order to

avoid sanctions. This study will also benefit students by connecting economics and international relations to real world technological advancements currently happening in the world which will be very beneficial.

Scope and delamination

Even though this study is quite thorough and contains many details, it is very hard to find original documents coming from the countries that are using CBDCs so it will have to rely on secondary sources that are available through books and the internet. In addition, many multi CBDC platforms are still expanding so data is not yet available. As well as that, countries utilizing alternative networks to actively bypass sanctions rarely publish ledgers of their trade so it is very difficult to give the exact data and look into official government policy statements. Consequently, data will have to be found from secondary sources and ledgers that governments publish willingly to the internet or in other areas.

Historical Background

The SWIFT network was created in Brussels, Belgium by 239 banks in 15 countries during 1973 and was created in order to replace the Telex system which was used previously. SWIFT had the benefits of offering a standardized, faster and highly secure messaging protocol in order to process international financial transactions(Swift, 2022). By the end of World War II, the US was the owner of a majority of gold in the world and a return to the gold standard became impossible due to countries giving all their reserves to the US countries. This eventually caused the world's currencies to be pegged to the US dollar rather than be linked to gold. This meant most countries kept reserves of the US dollar which made it the dominant currency in the world(Best, 2024). Due to this, most international trade in SWIFT networks occurs using the US dollar which often needs a US bank to allow for the transaction to go through. This allows the United States to sanction countries by excluding them from the market.

Definition of terms

- Dollar Hegemony- The dominance of the US dollar as the world's primary reserve and transaction currency which allows them economic and political advantages
- Economic power - The ability of a state to influence the decision of other states by using economic methods such as sanctions and technology.
- Geopolitical competition - The rivalry between different countries in order to expand political and economic influence on the global political landscape.

- Central bank digital currency - Digital forms of countries sovereign currency issued by its central bank and used instead of cash in trade and transactions.
- Economic sanctions - Restrictions imposed on trade and economic activity in order to influence another state's policies or to influence their behavior without violent methods.
- Global power - The ability of a state to influence international politics and economic institutions through different means.
- Reserve currency - A currency held by central banks and governments in order to invest, trade and keep as foreign exchange reserves.
- Financial sovereignty - The capacity of a country to control its monetary and payment infrastructure as well as financial policies without the help of other foreign institutions.
- International payment system - The network of institutions and technologies that allow cross border financial transactions between institutions and people.
- Cross border payments - Financial transactions performed by parties located in different countries
- Monetary sovereignty - A government's authority to issue and regulate its national currency and conduct monetary policy on its own.
- Geoeconomics - The use of economic instruments in order to advance personal geopolitical goals.
- Financial statecraft - The use of economic tools such as financial policies by governments in order to achieve foreign policy goals.
- Weaponization of finance - The use of financial systems and networks as tools of political pressure and coercion.
- Economic coercion - The use of economic pressure in order to change another country's behavior when it comes to economic or political decisions.
- Multipolar world order - A political landscape in which power is distributed amongst several major states and not dominated by one or two countries.
- De-dollarization - The process in which countries reduce their dependence on the dollar in trade, finance and reserve holdings.

- Strategic autonomy - The ability of a country to pursue its political, economic and security goals independent of external influence.
- Society for Worldwide Interbank Financial Telecommunication (SWIFT) - A global financial messaging network which banks use in order to secure international payment communication.

2. Literature review

Today, we see economic power increase in importance everyday and become more interconnected with international politics. This is due to the wider spread globalization and technological integration of our markets which has caused a shift in the way that nations compete. By using economic statecraft such as sanctions, strategic investments and supply chain dominance states are able to compete without engaging militarily which costs less and is less destructive(Hüther, 2022). As technological advancements appear more and more often in our political and financial markets, we can see an interconnection of CBDCs, sanctions and geopolitical competition. This is due to the fact that these digital currencies cut out the middle man by making it so that a US bank does not have to approve a transaction. This allows for a structural bypass to the western-dominated financial system which consequently renders traditional economic sanctions less effective(Christoph, 2021).

Economic power has developed over the decade as financial markets have changed and adapted to the state of the world. Currently, economic power is widely defined as the ability of an actor to influence the decisions and actions of others, pursue preferable outcomes or control resources. Economic power has a fundamental basis on the dependence of others to use valuable resources and is utilized through wealth control, market dominance and financial leverage(Myburgh & Tamaro, 2013). Over the past decades, we have seen economic power shift from tangible production of goods and services to finance and networks. The extraction of value has moved from making physical to controlling assets, flow of capital and digital ecosystems like digital currency that choose how and where value is assigned(Keenan et al., 2022). This has caused a major shift in why economic power and the way it is defined in political landscapes has changed.

Due to this change in how economic power is defined, we have seen finance become an instrument in order to deliver foreign policy. Today, global financial networks are highly centralized hubs like SWIFT and dollar-clearing systems which states like the US leverage for surveillance and are used in order to deliver choke point sanctions(Farrell & Newman, 2019). This extreme weaponization of finance has been reliant on the extreme centralization and dominance of the dollar(Farrell & Newman, 2019). An example of this is the use of SWIFT by the US in order to deliver secondary sanctions. By cutting off certain states and banks by using

domestic law, the US is able to effectively cut off any bank from making transactions allowing them to force SWIFT to exclude these banks from the networks due to SWIFT's need to protect its other member banks. However, overusing these terms could have effects such as long term fragmentation due to de-dollarization and the potential development of alternative systems which we see occurring with the rapid development of CBDCs.

Central Bank Digital Currencies are turning into national security infrastructure for states that are trying as they have the potential to allow for non western nations to advance de-dollarization and evade western financial sanctions(Farrell & Newman, 2019). By using unified, peer to peer ledgers these systems are able to bypass SWIFT and other dollar clearing systems allowing them to evade sanctions(IMF, 2024). For example, initiatives like Project mBridge and the BRICS Bridge use cryptographic architectures to create decentralized networks that neutralize the "weaponized interdependence" of Western financial power(Farrell & Newman, 2019). The US relies on private stablecoins to maintain dollar hegemony which means the development of these parallel systems permanently degrades the effectiveness of financial warfare, signaling a significant shift in global power dynamics(BIS, 2024).

As the popularity of CBDCs increases, this means that the single, western dominated global financial system can be fragmented into a multipolar monetary landscape(Zhong, 2025). This means that the power possessed by the US can be broken down and shared across multiple relatively large states instead of fully being with the US. By avoiding the underlying financial infrastructure that global money currently exists in, CBDCs are able to bypass legacy banking systems which allow them to directly impact cross-border payments by allowing the two states to directly communicate with each other without the use of SWIFT which could create a shift to the boundaries of digital sovereignty by preventing foreign stablecoins from taking over their local economies(RAMDANI BOUCHRA & AOURAGH MIMOUN, 2025). This allows for a systematic chip away at the dollar's dominance as the medium of exchange in the global market which presents a major structural challenge to global hegemony of the dollar.

The reason why CBDCs are growing in popularity and are being considered by the most dominant countries in the world is due to the fact that these economic sanctions that are placed upon them are being used as foreign policy tools. Economic and financial sanctions allow major states to pursue the decision that favour them without having to pursue military action and having to spend lots of money. The US has been using these sanctions over the past which caused the modern de-dollarization movement. When Western nations freeze the sovereign assets of other states, non western governments realize that their foreign reserves are now vulnerable which causes them to diversify their holdings into gold or localized currencies(Sanusi et al., 2023). Furthermore, when states are cut off from Western networks like SWIFT, this

causes states to try to find alternatives which cause these alternative payment infrastructures to form.

Over the past years, western powers have increasingly used these components of global financial architecture as geopolitical leverage in order to isolate their adversaries and enforce foreign policy without having to struggle against military intervention. Due to the heavy reliance on the dollar and the infrastructure it is associated with, by targeting these, the US has reshaped global risk and inadvertently accelerated the push for alternative systems(*Dollar Decentring, De-Dollarisation, and the UK's Trade and Investment Policy | CITP*, 2025). For example, the US has used SWIFT in order to remove targeted countries from the system, which has disrupted their ability to process cross-border trade(Hayes, 2025). In addition to this, by threatening secondary sanctions, the US gives third-party countries and companies to choose between trading with sanctioned entities or continuing to access the US financial system due to the fact that most international transactions need clearing through US banks(Sen, 2019). Furthermore, foreign exchange reserves being held in dollars grant the US immense geopolitical leverage as they are able to freeze states' central bank reserves.

Since CBDC transactions are settled directly on distributed ledgers or centralized bank platforms, banks won't need to send SWIFT messages in order to coordinate transfers which means that if a country is banned from SWIFT, their CBDC infrastructure will remain fully functional which will mean trade with foreign partners will remain uninterrupted(Bank for International Settlements, 2021). In addition, CBDCs allow two central banks to exchange digital currencies directly which means a transaction using digital currencies will never touch a US bank or a dollar ledger which in turn means that western regulators have no legal mechanism to freeze or seize funds in transit rendering sanctions ineffective(Lawyers, 2022). The ability of CBDCs to create a parallel financial that does not require dollars or western banking aces to survive means a company or state can conduct all its vital trade without the threat of being cut off from the dollar system which means the system loses its coercive power(*Economic Sanctions Are Mainly Used To*, 2026). This is apparent in initiatives like Project mBridge which settles transactions in seconds rather than days and allows the automated and direct exchange of local digital currencies which creates a peer to peer network that operates entirely outside western visibility and control(Watanabe, 2025).

Due to the rapid change in the markets, there are many different arguments on where the future of the global financial order is set. Many believe that the global financial order is bound to transition away from the hegemonic presence of the dollar and to a multi-polar market in which power is shared. This is due to the fact that platforms like mBridge have scaled to unseen levels, achieving tens of billions in transaction volume and due to mBridge having the potential to shift the current architecture away from western correspondent banks. In addition, the value of these

projects is unthinkable due to its ability to create parallel settlement corridors which ensure trade continuity and allow for the value of political neutrality over capital efficiency(Goktug Keskin, 2025). However, many people think that the dollar's demise is exaggerated. The replacement of the liquidity of the dollar requires a massive, deep capital market that the alternative currencies do not possess due to the strict capital controls that exist(Lee, 2025). Furthermore, during major geopolitical or economic crises, central banks view western assets as liquid and legally transparent which are features that other alternatives cannot guarantee.

In conclusion, we have seen economic power change from the value of tangible goods and supply to more technological and asset based power as well as the ability to pursue beneficial decisions. As CBDCs grow and grow in popularity, it is uncertain if they will reshape monetary power but it is possible. The future of sanctions as an important geopolitical instrument will depend on if these CBDCs can reshape monetary power in the next few years and the relationship between CBDCs and sanctions represents one of the newest debates that we see in international political economy.

Critical analysis

There are many different similarities and differences between the different authors that have researched about how CBDCs will affect the future of financial markets. For example, some scholars like Michael P. Dooley, David Folkerts-Landau and Peter Garber believe that sanctions will not change the hegemonic presence of the dollar as it is still the world's principal reserve currency and people still continue to rely on the dollar despite sanctions(Dooley et al., 2022). However, some other scholars like Daniel McDowell, contend that sanctions may cause countries that are targeted and even non-targeted countries to pursue policies that reduce the dependence on the dollar and the vulnerability to the financial influence of the US(McDowell, 2023). This is quite similar to the study of Javier Bianchi and César Sosa-Padilla which shows that the expectation of sanctions can reduce the attractiveness of dollar assets over time(Bianchi & Sosa-Padilla, 2025).

Identifying gaps

However, there are still some existing research gaps in the potential of CBDCs to change the way our financial markets work and operate on a global scale. Today, technology often dominates the conversation while we see the effects of these advancements on geopolitics receiving less integrated analysis. Furthermore, CBDCs and sanctions are examined separately majority of the time instead of being examined together even though they are so interconnected. In addition, there are few studies which combine economics and international relations perspectives on the topic and how the effects of one can cause a butterfly effect on the others.

Finally, there is limited evidence on the long-term geopolitical implications of CBDCs as they have only recently grown in popularity and the long-term effects are not backed with heavy evidence and are more speculative than definitive currently.

Key concepts and theories

Economic Statecraft Theory - A theory that explains how governments use economic instruments to influence the decisions and the behavior of states. Developed by David A. Baldwin.

Hegemonic Stability Theory - This theory argues that the international economic system is the most stable when there is a dominant power which provides a reserve currency and financial stability. Developed by Charles P. Kindleberger and Robert Keohane.

Complex Interdependence Theory - This theory believes that states are connected through multiple economic, financial, technological and institutional relationships making power more diffuse and multidimensional. Developed by Robert O. Keohane and Joseph S. Nye Jr.

Realism - This theory believes that states compete for power and security in the global political landscape in order to maximize their relative position. Developed by Kenneth N. Waltz.

Monetary Power Theory - This theory believes that monetary power is the ability of a country to shape international financial outcomes because its currency plays a central role in the global economy. Developed by Benjamin J. Cohen.

Currency Internationalization Theory - This theory believes that a currency becomes international when it is used widely outside its issuing country for financial actions. Developed by Barry Eichengreen.

3. Research Methodology

In the endeavors associated with gathering data and conducting research on the topic, it required a complex and multifaceted methodology and approach in order to pay respect to the intricacy associated with the topic.

Research design

The data gathered during the period of the study was through the use of qualitative analysis with factors considered and understood in order to support claims and opinions with relevant and credible evidence. Qualitative data analysis frameworks were used by me in order to understand the market and potential claims so that claims were made with relevant evidence. Moreover, I compiled reviews and compared documents which show how financial technology adopted by different countries are directly altering state power and the way in which the market functions on

a day to day basis. I also analyzed the setup of new payment systems and evaluated whether they truly are bypassing the traditional US dollar choke points to see if the CBDCs being used and developed are truly beneficial.

Data collection

In terms of the specific data collection that was conducted during the research of this paper, only secondary data was used as primary data is nearly impossible to find due to the political state of the world at this current point in time. One of the qualitative data records that was used was official central bank papers of countries that are currently developing or using central bank digital currencies. The other type of qualitative data record that was used is geopolitical literature on the topic and on CBDCs. In addition to that, Financial news from credible news outlets was used in order to complete the conduction of the research on the topic. Finally, the last type of data that was used was think tank analysis. All of these data records proved extremely important in the conduction of the research for the research paper.

Ethical considerations

There were a lot of ethical considerations that needed to be performed when doing research on the topic. Firstly, all data was obtained from publicly accessible and published sources which meant no human participants were involved. As well as that, all sources used will be accurately cited and referenced to ensure the authors get proper attribution and no plagiarism will occur. In addition, preference when it comes to data collection will be given to reputable sources such as official bank central publications, peer-reviewed literature, established think tanks and credible financial news outlets. Consequently, researcher bias was attempted to be prevented by comparing evidence from multiple countries and perspectives in order to make not a single viewpoint on its own be used. Documents were also interpreted in their original context, without selectively quoting or misrepresenting findings in order to support a predetermined conclusion. Conclusions were based on available published material so these might reflect institutional or political biases and may change as CBDC developments evolve over time. Also, the differing opinions of scholars regarding CBDCs and their implications on geopolitics were considered to avoid showing a one-sided argument.

4. Facts and Findings

Section 4.1

If we want to answer how cross-border CBDCs bypass traditional western-regulated payment networks like SWIFT by eliminating intermediaries, the research and data provided by the Bank of International settlements is quite useful(*Connecting Economies through CBDC Project*

mBridge Project mBridge: Connecting Economies through CBDC 2 Content, 2022a). On page 10, it is stated that there was 23.5 trillion dollars worth of cross-border transactional flows in 2020 with around 0.5 percent transaction charges. This meant that approximately 120 billion dollars were paid in annual fees for cross-border payments which explains why SWIFT is seen as inefficient due to the high costs associated with it. Then, on pages 19-20, we see that during the six week pilot program conducted between Thailand, Hong Kong, China and UAE there were 20 commercial banks involved and 4 central banks. During this time, 164 cross-border payments and FX transactions were conducted leading to a settlement of over 22.1 million dollars that only required 12.1 million dollars of CBDC liquidity on the platform. This shows how the modest liquidity supported nearly double that value in transactions. In addition, on page 22, we are told that banks participating in the pilot identified several advantages such as speed, transparency, lower costs and the reduction of intermediaries.

Furthermore, we are given more information on this research question in (Progress of Research & Development of E-CNY in China Working Group on E-CNY Research and Development of the People's Bank of China Progress on Research and Development of E-CNY in China, 2021a). The report states on page 13 that as of 30 June 2021, there were over 1.32 million payment scenarios. These included 20.87 million personal wallets with 3.51 million corporate wallets also being involved. In total, there were 70.75 million transactions that occurred with an approximate transaction value of 34.5 billion RMB. These figures demonstrate that the e-CNY structure has already been tested at significant scale and that central bank digital money can operate without traditional correspondent banking infrastructure for domestic settlement. Also, on page 15, it is noted that China intends to cooperate with other central banks and explore interoperability. Furthermore, it provides us with evidence of China's willingness to participate in international discussions on CBDCs. This provides us with proof that cross-border CBDC interoperability was already a strategic objective in 2021. Pages 7-9 tells us about how the e-CNY is a direct liability of the People's Bank of China and uses a two tier operating system which helps us to understand that settlement occurs using central bank money rather than commercial bank balances. This provides evidence that there is a reduction of dependence on multiple correspondent institutions during the settlement.

Reports published by the European Central Bank (Bank, 2025) on a digital euro also can help provide us with information to answer this research question. On pages 7-8, we are told that the ECB had completed a two-year preparation phase for the digital euro between November 2023 and October 2025 which demonstrates to us that the digital euro is much past the conceptual stage. This preparation phase could be seen as the first step towards building an alternative payment infrastructure which could reduce the reliance on intermediaries. Later, on page 15, the ECB states that 70 market participants participated in testing the digital euro through its

innovation platform. This shows the commitment of the ECB to ensure that the system can operate efficiently, securely and at scale so that payments can potentially be processed without relying on multiple correspondent banks. Repeatedly throughout the report, we see an emphasis on strategic autonomy, payment resilience and European control over payment infrastructure which indicates to us there is an emphasis on reducing dependence on payment systems controlled by organisations outside the European Union. This shows the intent of the European Union in giving Europe greater control over its own payment infrastructure.

Design choices that moderate intermediation impact:

Design Feature	Effect on Intermediation	Evidence
Wholesale CBDC	No deposit disintermediation; affects only interbank settlement.	(Lukonga, 2023)
Remunerated retail CBDC	Elevates disintermediation by making CBDC a perfect substitute for all deposit types.	(Lukonga, 2023)
Unremunerated retail CBDC	Still substitutes for non-interest-bearing demand deposits.	(Lukonga, 2023)
Caps on CBDC holdings	Moderates but does not eliminate disintermediation risk.	(Lukonga, 2023)
Two tier distribution via banks	Preserves intermediation if only commercial banks distribute CBDC.	(Tan, 2023)

In conclusion, a CBDC used as a savings vehicle rather than a transaction medium has the chance of nearly doubling the level of disintermediation due to the fact that it competes with savings deposits rather than just transaction deposits. When a CBDC competes closely with deposits, it causes the depression of a bank's credit and output while a cash-like CBDC has a small intermediation impact.

Section 4.2

In order to answer how unsanctionable digital trade networks affect global power, the first document that proves useful is the report published by the International Monetary Fund on cross border CBDCs (RESLOW et al., 2024). Firstly, on page 4, we are told that cross-border CBDCs can make international payments faster, cheaper, and more inclusive which allows it to facilitate international commerce and remittance transfers. From this, we can infer that due to the

reduction of intermediaries, unsanctionable digital trade networks could allow countries and businesses to trade outside the traditional financial system which could reduce the influence of countries that use sanctions as foreign policy. Later, on pages 6-8, we are told there are five elements of cross-border payments: Access, Communication, Currency Conversion, Compliance and settlement. This tells us how unsanctionable networks would likely focus on improving access and settlement while minimizing compliance requirements, which would make sanctions harder to enforce. As well as that, during page 11-13, we are told about the two interlinking models of bilateral links and Hub-and-spoke. This tells us how countries can connect payment systems directly or through a shared hub which show how these models could reduce dependence on a single international payment network which makes it easier for countries to trade even when they are excluded from the traditional systems. Finally, on page 31-33, it is stated that we would require international cooperation in order to avoid fragmentation. The IMF basically recommends common standards and interoperability which tells us that there is a chance of countries developing separate digital trade networks which could cause global financial power to become more fragmented.

Useful, unbiased information is available in an article published in the Carnegie endowment in 2023 on Asia's interest on wholesale CBDCs (Greene, 2023). One of the most important pieces of data we see is under the section What is wholesale CBDC? In this section we are told that 90 percent of financial transactions that are classified as intra-regional in East and Southeast Asia are conducted via the dollar. This statistic allows us to see how truly dominant the US dollar is currently in regional trade and finance. Underneath the same section, we are told that pilot programs for wholesale CBDCs were announced in India, Indonesia and the Philippines during 2022. This conveys to us that these countries had identified improving cross-border payment efficiency as a key objective which tells us that there is increasing international interest in building alternative payment systems. As well as that, when we are told of the four participating jurisdictions of the mBridge pilot, we are informed of multiple countries that have successfully tested an interoperable wholesale CBDC network which tells us that countries are developing infrastructure that could operate independently of western-controlled financial networks.

The third report that proves useful in answering the question is a commentary on design choices for CBDCs that was published in the Brookings Institute(Allen et al., 2020). We are told that 1 in 10 central banks, which is approximately one-fifth of the world's population, expected to issue a CBDC within three years which demonstrates to us that CBDCs are expected to move into real world implementation soon which could further reduce the effectiveness of sanctions. We are also told that even though wholesale CBDCs have been existing for years, the major change is the shift toward retail CBDCs which will be available to individuals and businesses which tells us that due to this broader access, there is an increase in the potential scale of digital trade

networks which could make them more capable of supporting international commerce outside conventional payment systems. However, the commentary also says that we should be designing CBDCs with strong anti-money laundering and counter-terrorism financing compliance. This tells us that there is a belief that CBDCs should comply with existing financial regulations which means that governments could still monitor transactions and apply sanctions.

Architectural Mechanisms for Bypassing Sanctions:

Mechanism	How it functions	Evidence type
Direct settlement	CBDCs allow for central banks to settle transactions without having to use dollar infrastructure and dollar dominated networks.	Conceptual
CIPS integration	e-CNY works with CIPS and mBridge to advance the internationalization of renminbi.	Case study
Hybrid instruments	Ruble stablecoins are combined with digital bills to mask the origin of funds.	Empirical
Transit instruments	Cryptocurrencies serve as temporary intermediaries in fiat exchange under sanctions.	Analytical
Parallel ecosystems	Sanctions catalyze parallel economic ecosystems to avoid regulations which allows for the fragmentation of financial architecture.	Theoretical

Furthermore, according to (Mohammed, 2024), nations facing financial sanctions and those that have substantial offshore bank loans have a greater statistical chance to be more inclined to adopt CBDCs. This is due to their ability to cut out western influence in their transactions and to improve efficiency. In addition to that, countries with low financial stability and restricted financial access tend to adopt CBDCs faster in order to use them as alternative financial systems. This is because it allows them to directly settle transactions without having to deal with regulations and intermediaries. Conventional sanctions also may not consistently achieve their

intended goals but rather prompt nations to seek alternative avenues. This is because sanctions won't cause financial transactions to just simply stop occurring, but rather influence nations to find ways of avoiding them by finding new financial systems.

In addition to that, OFAC sanctions reduced Tornado Cash deposit volume by 71.03%, but attackers still relied on it in 78.33% of Ethereum-related security incidents and only 19.11% of blocks are generated by block producers that actively enforce sanctions, allowing over 1 million ETH to be processed by sanctioned services(Liu et al., 2026). As well as that, according to Zola et al. (2024), sanctions were effective on at least half of sanctioned entities, while others continued moving funds through sanctioned Bitcoin addresses.

Section 4.3

In order to answer the final question of to what extent will China's digital Yuan and mBridge protect countries from unilateral sanctions, we can look to the Reuters coverage of Russia and China in digital payment cooperation(Fabrichnaya & Marrow, 2024). Straight away, we are told that payments which used to take around 1-2 days would now take between 1-3 months due to sanctions and additional compliance checks by banks. This gives us quantitative data on how sanctions have caused major delays which gives us background on why countries are seeking alternatives such as the digital yuan and mBridge. We are also told later on that Qifa was founded in 2013 and expanded in 2024 in order to facilitate bilateral Russia and China trade using digital assets. This allows us to see how digital payment infrastructure is already being used as a practical response to sanctions.

A second report that proves and provides useful data and insight is a report published by the Atlantic Council about the economic statecraft of China during the Taiwan crisis in 2024(Wright et al., 2021). We are told in the report that the mBridge connects more than 20 banks across China, Hong Kong, Thailand and the UAE. This helps us to understand that the project allows for the creation of a cross border payment network that doesn't depend entirely on the usual correspondent banking systems which are very heavily western regulated. Additionally, we are told that in the year of 2023, more than 70 percent of SWIFT messages were in the dollar but no western digital currency platform currently exists. This highlights the lack of a comparable western alternative which means that China's system could attract countries seeking alternatives to dollar-based payment systems. This is further reinforced when we are told that by January 2024, twenty five central banks had joined the mBridge as observing members. This meant that participation expanded beyond the original four jurisdictions which means that mBridge has the potential to become a larger alternative financial network. However, a key flaw pointed out is that mBridge still remains in an experimental stage which means that the system has not yet reached global adoption. As well as that, the four founding mBridge members had 540 billion

dollars in trade volume in 2022, so only five percent shifting to mBridge would equal 27 billion dollars. Even optimistic adoption of CBDCs would represent only a tiny portion of the total trade.

The next paper that can be used to collect data in order to answer the question is the paper published on China's Digital Yuan on the Carnegie Endowment (Bansal & Singh, 2021). By June of 2021, the digital yuan had been used in over 1.2 million scenarios which consisted of 20.87 million personal wallets and 3.51 million corporate wallets. This provides evidence of China having real practical experience with the technology and having a functioning domestic system makes the possibility of international expansion more realistic. In addition to that, the belt and road trade with member countries exceeded 9.27 trillion yuan in 2019 making China the largest trading partner of the 25 countries. The large scale of China's trade network means that there is already a potential user base for digital yuan payments. Due to this, the more countries that adopt it, the greater protection it could provide from sanctions. However, China has only around 2 percent of global foreign exchange reserves even though it is the world's largest trading partner. This shows us how the yuan is still far behind the dollar and countries may still need to access the dollar system which limits how much the digital yuan can protect them from sanctions. China also maintains tight capital controls which restrict the movement of the yuan across borders and a currency can't become a global alternative if money can't move freely. Capital controls reduce trust and make countries less willing to rely on the digital yuan. Large value digital yuan transactions require Know Your Customer verification which means that the anonymity of the transactions are limited. Countries could worry that using the digital yuan could increase the government's oversight of financial activity which could therefore reduce willingness to adopt it as an alternative financial system any time in the near future.

5. Discussion

After the completion of analysis on the data that was collected and the findings that were presented in the different reports relevant to each research question, a varied spectrum of perspectives and positions have been presented. This chapter will present the key interpretations and will highlight verdicts to assess the hypotheses of the study that answer the respective research questions.

Section 5.1

In section 4.1, the report on the mBridge project (*Connecting Economies through CBDC Project mBridge Project mBridge: Connecting Economies through CBDC 2 Content*, 2022a) provided valuable insight in order to answer how cross border CBDCs bypass traditional western regulated payment networks like Swift by eliminating the middle man. In the report, it was stated

that 23.5 trillion dollars worth of cross-border transaction flow occurred with around a 0.5 percent transaction charge which caused 120 billion dollars to be paid in annual fees for cross border payments. The heavy reliance of SWIFT on correspondent banks creates extremely high transaction costs which is demonstrated by the data presented in the previous sentence. These high costs are extremely inefficient for countries when completing large transactions which provide us with evidence on why countries are currently seeking alternative settlement systems as it allows for them to cut off the extreme costs associated with the middle men that are needed in order for a transaction to pass through the SWIFT network. During this report, we were also presented with the fact that 20 commercial banks and 4 central banks participated in the six week pilot program which allowed for 164 cross-border payments and FX transactions to be conducted during this time. In addition to that, 22.1 million dollars worth of transactions were settled which only required 12.1 million dollars worth of CBDC liquidity. These figures demonstrate how due to the reduced correspondent banking, communication between the central and commercial banks weren't hampered which allowed for a reduction of costs and improved the liquidity efficiency during the transactions. This also meant that there was the ability for direct settlement between the banks which allowed for increased communication.

The second report that was presented was the report published on the progress and development of the digital Yuan by the People's bank of China (*Progress of Research & Development of E-CNY in China Working Group on E-CNY Research and Development of the People's Bank of China Progress on Research and Development of E-CNY in China*, 2021a). In the report we are told that the e-CNY is a direct liability of the People's Bank of China and uses a two-tier operating system which means that settlement occurs using central bank money rather than commercial bank balances. This evidence proves to us that China already has evidence that CBDCs are able to work at a national scale and that the use of central bank settlement reduces the dependence on correspondent banking which allows for increased communication. Furthermore, there was an assertion of the intention of China to cooperate with other central banks and explore interoperability which shows their ambitions for cross border transactions in making positive relationships with other countries and governments. The use of 20.87 million personal wallets, 3.51 million corporate wallets and 70.75 million transactions just further reinforces the evidence of China being able to prove that CBDCs already work at a national scale and shows that there is effectively no need for middlemen when large value transactions occur.

In Lukonga (2023), we find out that disintermediation risk is most pronounced in developing and emerging market economies with large poor populations, costly bank account access and banking systems which are dominated by small retail deposits. Furthermore, in countries with universal excess reserves, deposit declines merely reduce excess reserves and the monetary policy impact is muted.

In Gafsi (2025), we see that empirical evidence from CBDC pilots shows deposit declines of up to 5 percent in countries like India and Nigeria within a year of launch while more digitally advanced economies experience stabilization rather than disintermediation. The evidence confirms the fact that CBDCs do have the ability to reduce intermediaries, but the outcome is not deterministic. Rather, it is a function of CBDC design, distribution model, banking sector competitiveness and the economic structure of the issuing country.

The final report from section 4.1 that provided relevant and useful data and information was the report published by the ECB on the digital euro and its preparation (Bank, 2025). In the report, we are told that the ECB had already completed a two year preparation phase with 70 market participants being a part of the testing process. Furthermore, we find out that there was a repeated emphasis on strategic autonomy, payment resilience and European control over payment infrastructure which signals to us that the motivation of the European Union is strategic independence rather than sanctions evasion. The European Union is more inclined to develop CBDCs in order to allow itself control over its payment infrastructure. This highlights how its motivation is more focused in reducing the western influence on its payment infrastructure and its want to reduce the need for SWIFT and other such networks.

In conclusion, the evidence presented largely support the hypothesis stated in Chapter 1 that in today's era, if multi central bank digital currency platforms become widely adopted for international trade, then cross border transactions through western clearing networks will decrease due to the ability to evade unilateral economic sanctions and by allowing for an elimination of the middle man which will allow increased communication and reduced costs. The data presented in the reports provides valuable insights on the ability of countries to avoid sanctions and the benefits created by eliminating middlemen in large value transactions. However, the hypothesis is not fully supported and only largely supported because the data provided in the paragraph above shows that countries' motivation for developing CBDCs could be due to strategic independence which wouldn't necessarily mean there would be an elimination of domestic middlemen.

Section 5.2

In section 4.2, the first document that provides us with useful, valuable data and information in answering how will the rise of unsanctionable digital trade networks impact global power dynamics between developed western nations and emerging economies is the report published by the International Monetary Fund about CBDCs (RESLOW et al., 2024). In the report, it is heavily emphasized that cross-border CBDCs have the ability to make international payments faster, cheaper and more inclusive. These cheaper payments are vital in answering the research question as cheaper payments could encourage the greater international use of CBDCs which would

render sanctions effectively useless as CBDCs would be used instead in order to avoid asset freezes and blockages. The IMF also identifies five payment elements but the most useful is compliance. The sanctions that currently exist depend heavily on the compliance mechanisms that are suited to work effectively in the global trade market that exists today. As CBDCs grow in popularity, the compliance measures that will be put in place in relation to CBDCs will be completely different to the compliance measures that exist in today's market which will again cause sanctions to lose the main effect that it possesses. The report also explains that the two interlinking architectural models of CBDCs are bilateral links and Hub-and-spoke. These different financial systems allow for a reduction on the dependence of a single international payment network which means that even if there is a way that sanctions are able to be delivered in one financial network, the second financial network will be used instead which would cause the effect created by the sanction to reduce as a country would just choose to perform its transaction on a different financial system. Finally, the report gives the advice that international cooperation on CBDCs will be required in order to avoid fragmentation so the IMF recommends common standards and interoperability. Fragmentation would allow for a redistribution of financial power in the market which means that no country would be able to deliver sanctions. Furthermore, the implementation of common standards and interoperability will mean that everyone will be able to input on the development of these regulations meaning that there will be a reduction of reliance on Western rails.

The second document in section 4.2 was the article published in the Carnegie endowment in 2023(Greene, 2023). In the article, we are presented with the statistic that 90 percent of intra-regional financial transactions in East and Southeast Asia are conducted via the US dollar. In addition to that, we are told that wholesale CBDC pilots were announced in India, Indonesia and the Philippines and that the four participating jurisdictions in mBridge were able to successfully test it. This conveys to us how the dollar is still dominant and hegemonic in the global market but countries are actively developing alternatives to reduce its influence on their financial activity in order to make their transactions more efficient.

Finally, the third document that will give us insight in order to answer the question was a commentary posted in the Brookings Institute about design choice of CBDCs(Allen et al., 2020). In the commentary, the statistic presented of one in ten central banks being expected to issue a CBDC proves extremely insightful in addition to the assertion that retail CBDCs expand access. Furthermore, it is recommended that CBDCs should include anti-money laundering and counter-terrorist financing compliance. The repetitive assertion of the need for regulation on CBDCs limits the ability of CBDCs to become completely unsanctionable in the global market.

The table of the architectural mechanisms explain why the effectiveness of financial sanctions can be reduced. Direct settlement allows for a reduction of the dependence on correspondent

banks and dollar-based payment systems which allow central banks to settle transactions directly which reduce the influence of western financial systems. As well as that, CIPS integration supports cross-border renminbi settlements which decrease the reliance on western payment networks and hybrid instruments allow for the combination of stablecoins with digital financial assets and can make the origin of funds more difficult to trace which complicates how sanctions can be enforced. In addition, transit instruments means that cryptocurrencies can act as temporary intermediaries for cross-border transactions when access to traditional banking systems is restricted which reduces the effectiveness of sanctions as there are no longer intermediaries to make sure they stay in place. Finally, financial sanctions encourage the development of alternative payment networks and financial systems, which fragments global financial architecture and disrupts the western influence as they are no longer able to implement financial regulations in these alternative networks.

There are two different case studies. First, the e-CNY faces challenges in cross-border interoperability, legal and regulatory coordination, geopolitical trust, and technological security(Zhang & Bian,2025). Second, in a sanctioned country like Iran, digital currencies are being accepted as a way of rolling out economic sanctions and making commercial payments(Ronaghi, 2022).

Finally, in (Mohammed, 2024), countries facing financial sanctions or limited access to international financial systems are more likely to adopt CBDCs. This is because CBDCs can improve payment efficiency, reduce dependence on Western financial infrastructure, and provide an alternative means of settling cross-border transactions which means that asset freezes and blockages can't happen as there is no dominant figure. The study also suggests that sanctions often encourage countries to develop alternative financial systems rather than completely stopping international financial activity as countries that face sanctions won't just stop running when they face sanctions but rather find ways to avoid these and keep growing.

In conclusion, hypothesis 2 is partially supported by the evidence produced during the conduction of research on the topic. As alternative networks emerge, it will be hard for a single country to dominate and to be able to deliver sanctions as transactions will simply just be switched to a different financial system. CBDCs could weaken some sanction channels by reducing dependence on correspondent banking and SWIFT, but the current evidence supports only a partial reduction in unilateral sanctions leverage under certain conditions, not their disappearance. However, there is a regular emphasis on regulatory compliance and this proves to be a significant constraint. If there are regulations in place, if a majority of countries agree, sanctions will still be able to be delivered making asset freezes and blockages still a very possible outcome.

Section 5.3

In section 4.3, the final section, the data from the Reuters coverage of Russia and China in digital payment cooperation (Fabrichnaya & Marrow, 2024) provides insightful and valuable information. We are told that as time passed, payments that previously took 1-2 days now take 1-3 months due to correspondent banks having to verify transactions. We are also told that Qifa expanded in 2024 in order to facilitate Russia-China trade using digital assets. This provides us with a concrete reason as to why these digital networks are being formed. These sanctions that are being placed on countries through networks like SWIFT have made transactions extremely inefficient which is encouraging countries to seek alternative payment systems like mBridge and China's digital yuan. This could cause major fragmentation which would reduce the influence of the dollar on the market.

The second report that proves and provides useful data and insight in order to answer to what extent will the proliferation of alternative digital networks such as China's digital Yuan and mBridge project protect nations from the impacts of unilateral economic sanctions is a report published by the Atlantic Council about the economic statecraft of China during the Taiwan crisis in 2024 (Wright et al., 2021). In the report, we are told that mBridge connects more than 20 banks across China, Hong Kong, Thailand and the UAE with those four founding members having 540 billion dollars in trade. Furthermore, we are told that 25 banks had joined as observing members. This provides us with concrete data that the interest in CBDCs keeps on increasing. However, we are told that mBridge still remains experimental which means that the adoption of mBridge is still limited so it is unlikely for widespread usage to happen anytime soon. CBDCs are most likely to matter geopolitically under specific conditions: high cross-border adoption, interoperability across jurisdictions, settlement outside dollar-clearing channels, and participating states willing to accept regulatory tradeoffs. However, the paper's own evidence suggests these conditions are only partially present today, because mBridge remains experimental, adoption is still limited, and even optimistic CBDC use would represent a small share of total trade.

Finally, the paper published on China's Digital Yuan on the Carnegie Endowment (Bansal & Singh, 2021) gives us a lot of useful and important information in answering the research question and providing insight into the hypothesis. We are told that digital yuan has a lot of domestic success with it being used in 20.87 million personal wallets, 3.51 million corporate wallets and 1.2 million payment scenarios which means that China has already demonstrated how useful this technology really can be. This provides others with a lot of confidence in technology and means that it has a good chance of being adopted more widely in the global road. Furthermore, we are told that belt and road trade exceeded 9.28 trillion yuan and that China was the largest trading partner for 25 countries. China's existing trade relationships could help to

encourage international digital yuan adoption from its more favorable peers in the financial markets. However, we are told China holds only around 2% of global foreign exchange reserves and has tight capital controls. Also, large-value digital yuan transactions require Know Your Customer (KYC) verification. This shows how the yuan is still far behind the US dollar internationally and that the extreme capital controls discourage the wider international use of the digital yuan. KYC also reduces the perception that the system is outside government insight and these limitations mean that the digital yuan currently only offers partial protection from sanctions as these could still come domestically. CBDCs appear to improve payment autonomy by reducing intermediaries, lowering transaction frictions, and creating alternative settlement channels at the margin. However, evidence does not show a large-scale collapse of dollar dominance, because the paper also notes that the dollar still dominates regional transactions, alternative currencies lack deep capital markets, and the yuan remains a small share of global reserves. The evidence also does not show the end of sanctions, because the paper repeatedly emphasizes compliance design, KYC, and international standards that would keep monitoring and enforcement possible.

In conclusion, hypothesis 3 is partially supported because China's digital yuan and mBridge show clear potential, yet limited global adoption, reserve currency status, and capital controls prevent them from substantially displacing the current dollar-centred financial system.

6. Conclusion

The research conducted in this paper demonstrates how Central Bank Digital Currencies, particularly multi-CBDC platforms such as mBridge and China's digital yuan, have the potential in order to reshape international finance by implementing a reduction of the dependence on traditional correspondent banking and western-controlled payment infrastructure. However, the current evidence on the topic indicates that this transformation remains gradual and will take a substantial amount of time rather than being revolutionary.

In terms of how cross border CBDCs bypass traditional western regulated payment networks like Swift by eliminating the middle man, we can come to the conclusion that CBDCs can reduce the reliance on correspondent banks through the use of direct settlement. This allows for an improvement in the payment efficiency of transactions for nations and allows for transaction costs to be reduced. This means that liquidity management also becomes more efficient and communication between the participating banks improves. However, complete disintermediation will not occur in every country because the outcomes depend on the design of the CBDC, banking structure and regulation. This means that hypothesis 1 was largely supported rather than fully supported in the paper.

After looking into how the rise of unsanctionable digital trade networks impact global power dynamics between developed western nations and emerging economies, we are able to identify that alternative payment networks reduce reliance on the US dollar and traditional western financial infrastructure. They create greater strategic autonomy for participating countries and contribute to a gradual movement toward a more multipolar financial system but the dollar still remains dominant. In addition to that, regulatory cooperation remains important and compliance requirements still limit complete independence. The evidence presented supports the fact that there will be a slow redistribution of financial influence rather than an immediate replacement of the existing system meaning hypothesis two is partially supported.

In answering to what extent will the proliferation of alternative digital networks such as China's digital Yuan and M bridge project protect nations from the impacts of unilateral economic sanctions, we are able to conclude that CBDCs may reduce vulnerability to unilateral sanctions. This means that countries facing sanctions having stronger incentives to adopt alternative payment systems as these alternative settlement networks provide additional payment channels. However, interoperability remains limited while capital controls remain significant. As well as that, KYC and AML regulations continue to permit oversight which means that global adoption remains relatively low. Therefore, hypothesis 3 is partially supported.

Overall, the study demonstrates that CBDCs should be viewed primarily as instruments of strategic financial autonomy rather than complete sanction-avoidance tools while the future international financial system is likely to become more fragmented. Western financial dominance, rather than collapsing, is more likely to decline gradually and the competition between traditional payment systems and emerging CBDC networks will slowly become an increasingly important feature of political economy in the future. In the time to come, governments should continue to invest in CBDC research while ensuring interoperability with international payment systems. As well as that, cooperation with other central banks should remain a priority to minimize unnecessary fragmentation. Central banks should prioritize interoperability, cybersecurity, resilience, liquidity management and regulatory compliance as these factors will determine whether CBDCs will be widely adopted internationally. Policymakers should also recognize that alternative payment infrastructures may gradually reduce the effectiveness of unilateral financial measures and the use of future sanctions policy should therefore place greater emphasis on multilateral cooperation. Institutions such as the IMF, BIS and other international financial organisations should continue developing common technical and regulatory standards for cross-border CBDCs to reduce fragmentation while maintaining financial stability. Finally, commercial banks should prepare for increasing CBDC adoption by continually investing in digital payment infrastructure while adapting their business models in order to accommodate the reduced reliance on correspondent banking.

This study concludes that CBDCs represent one of the most significant technological developments in international finance in the last few years. Even though current evidence doesn't suggest that they will replace the current dollar-centered financial systems in the near future, they are increasingly providing nations with alternative mechanisms for cross-border payments, greater strategic autonomy and reduced dependence on traditional correspondent banking networks. As we see the adoption of these currencies expand and the improvement in interoperability, CBDCs are likely to contribute to a more multipolar international financial system in which economic power is distributed across multiple competing payment infrastructures rather than concentrated within a single dominant network. CBDCs appear to improve cross-border payment autonomy and provide alternative settlement options that could reduce some dependence on dollar-centered networks, but the evidence in this paper does not yet show a large-scale displacement of the dollar or that sanctions will become ineffective.

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