

# The Proliferation of Sanction Regimes: Impact on the Global Financial System

by Francesco Giumelli

## ABSTRACT

The proliferation of sanction regimes has reshaped international relations and the global financial landscape. The United Nations rediscovered sanctions with the end of the Cold War and both the United States and the European Union have increasingly resorted to them ever since. Recently, other states such as Russia and China have also started to develop sanctioning policies, including retaliatory sanctions, while striving to set up alternative financial infrastructures to mitigate the impact of Western sanctions. The consequences of the evolving sanction regimes and the related countermeasures extend beyond their immediate targets, significantly influencing the global financial system. The interaction between sanctioned nations and their allies creates complex trade networks, often diluting the intended impact of sanctions and leading to unexpected ramifications for both sanctioning and sanctioned countries.

*Sanctions | Russia | China | Finance*

**keywords**

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by Francesco Giumelli\*

## Introduction

The landscape of international relations is increasingly characterised by the proliferation of sanctions regimes.<sup>1</sup> Sanctions – such as trade restrictions, asset freezes, travel bans, and military boycotts – have become pivotal instruments for states to address security crises, including conflicts and wars, as well as other challenges such as organised crime and human trafficking.<sup>2</sup> For instance, the US decision to ban the sale of semiconductors to China – aimed at maintaining “as large of a lead as possible” in certain technologies<sup>3</sup> – illustrates how sanctions are no longer limited to addressing “threats to international peace and security” as defined by the UN Charter.<sup>4</sup> Since sanctions often target not only states but also individuals and firms, their effective implementation requires strong cooperation with the private sector, which interacts directly with sanctioned entities.<sup>5</sup>

<sup>1</sup> Gabriel Felbermayr et al., “The Global Sanctions Data Base”, in *European Economic Review*, Vol. 129 (October 2020), Article 103561, DOI 10.1016/j.euroecorev.2020.103561; T. Clifton Morgan et al., “Threat and Imposition of Economic Sanctions 1945–2005: Updating the TIES Dataset”, in *Conflict Management and Peace Science*, Vol. 31, No. 5 (November 2014), p. 541-558, DOI 10.1177/0738894213520379.

<sup>2</sup> Enrico Carish, Loraine Rickard-Martin and Shawna R. Meister, *The Evolution of UN Sanctions. From a Tool of Warfare to a Tool of Peace, Security and Human Rights*, Cham, Springer, 2017; Francesco Giumelli, *Coercing, Constraining and Signalling. Explaining UN and EU Sanctions after the Cold War*, Colchester, ECPR Press, 2011.

<sup>3</sup> White House, *Remarks by National Security Advisor Jake Sullivan at the Special Competitive Studies Project Global Emerging Technologies Summit*, 16 September 2022, <https://bidenwhitehouse.archives.gov/briefing-room/speeches-remarks/2022/09/16/remarks-by-national-security-advisor-jake-sullivan-at-the-special-competitive-studies-project-global-emerging-technologies-summit>.

<sup>4</sup> Ana Swanson, “Biden Administration Clamps Down on China’s Access to Chip Technology”, in *The New York Times*, 7 October 2022, <https://www.nytimes.com/2022/10/07/business/economy/biden-chip-technology.html>.

<sup>5</sup> Francesco Giumelli and Michal Onderco, “States, Firms, and Security: How Private Actors Implement Sanctions, Lessons Learned from the Netherlands”, in *European Journal of International Security*, Vol. 6, No. 2 (May 2021), p. 190-209, <https://doi.org/10.1017/eis.2020.21>.

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Furthermore, as sanctions are increasingly being applied extraterritorially – particularly by the United States – and non-Western countries respond by adopting their own sanctions,<sup>6</sup> sanctions regimes have broader consequences that extend beyond their immediate targets and can significantly impact the functioning of international markets.

This paper explores the long-term consequences of sanctions proliferation on the global financial system. The analysis of the proliferation of sanction regimes and the responses by sanctioned countries suggest that sanctions, among other factors, contribute to the potential fragmentation of the global economy. The proliferation of sanctions has increased pressures on financial institutions to enhance due diligence and 'know your customer' policies to minimise the risk to incur in sanctions evasion. At the same time, countries targeted by sanctions have worked towards the creation of alternative infrastructures to the one built around the Bretton Woods Agreement to escape the threats of being sanctioned in the future, such as Russia's Mir card payment system and System for Transfer of Financial Messages (SPFS), which constitutes an incentive to interact with other actors on different and often competing platforms. Overall, the responses to sanctions contribute to the fragmentation of the institutional architecture that facilitated globalisation in the past decades.

This paper proceeds in four steps. First, it illustrates the evolution and utilisation of sanctions since the end of the Cold War. Second, it examines the ways in which targets, especially Russia and China, have responded to sanctions by developing their own instruments. Third, the paper discusses the extent to which the global financial system has been affected. Finally, it offers some considerations regarding the future of sanctions.

## 1. The proliferation of sanctions: When, how often and what types?

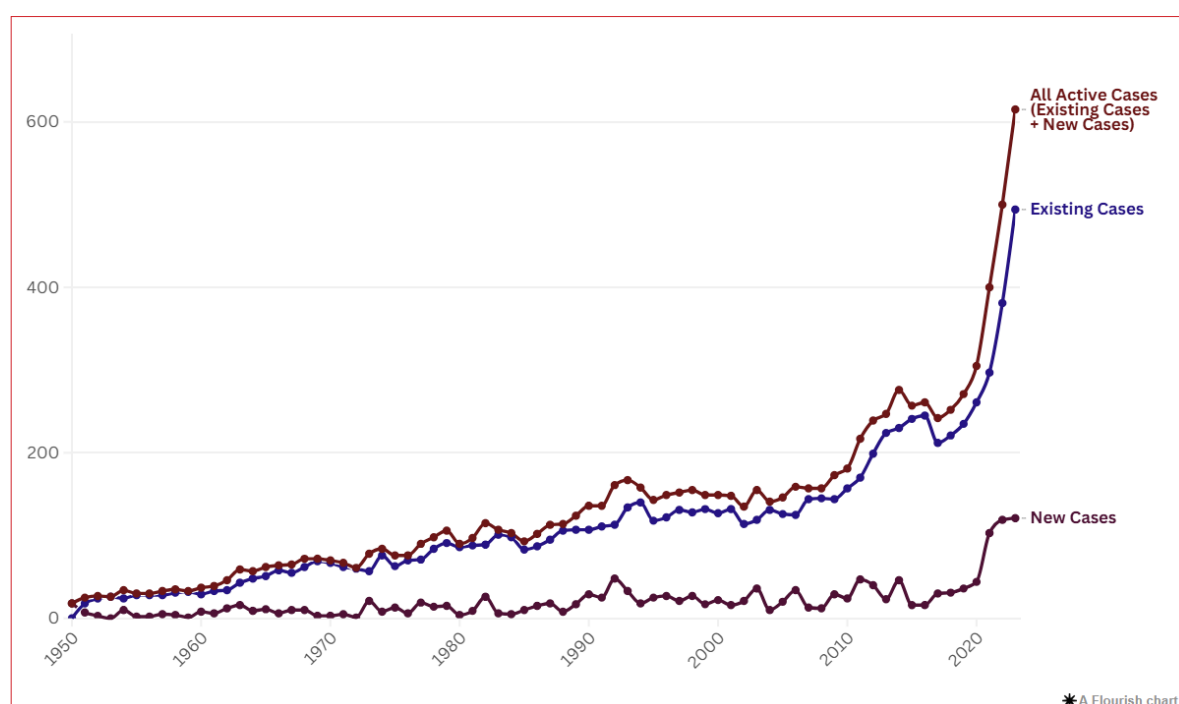
Most states have adopted sanctions legislation, either enacted independently or to transpose decisions of the United Nations Security Council. Virtually every firm either has a compliance office or relies on external consultants to address concerns related to sanctions compliance – whether with sanctions imposed by their own governments or by foreign governments that extend their jurisdiction to transactions occurring outside their territory (extraterritorial sanctions) or involving sanctioned entities (secondary sanctions). Sanctions can be multilateral – imposed by international organisations such as the UN – or unilateral – imposed by individual states. The coexistence of both multilateral and unilateral sanctions contributes significantly to the proliferation of overlapping and sometimes conflicting sanctions regimes. In a nutshell, the simultaneous imposition of

<sup>6</sup> Taehee Whang and Wooyeal Paik, "Economic Sanctions by Non-Democracies: A Study of Cases from China and Russia", in *International Studies Quarterly*, Vol. 67, No. 4 (December 2023), Article sqad093, DOI 10.1093/isq/sqad093.

multiple sanction regimes and their growing complexity have affected nearly everyone. This is due to the expanding range of triggering causes behind their adoption and the increasing scope and variety of sanctions being implemented.

First, the number of sanctions imposed today is much higher than in the previous half century. According to the Global Sanctions Database (GSDB), sanctions have become an increasingly used tool especially since the 2010s, in parallel to deepening globalisation in the post-World War period.<sup>7</sup>

**Figure 1** | Number of sanctions imposed (1950-2023)



Other studies on international organisations observe the same phenomenon from slightly different angles but confirm the main trends. The United Nations is the primary focus of the targeted sanctions database, which includes all measures adopted by the Security Council since its creation.<sup>8</sup> It reveals that only two cases of sanctions were adopted during the Cold War, whereas sanctions proliferated significantly in the 1990s to the point that the last ten years of the twentieth century were dubbed 'the sanctions decade'.<sup>9</sup> The European Union is no exception to this trend. The existing databases of EU restrictive measures, EUSANCT<sup>10</sup> and

<sup>7</sup> See the GSDB website at <https://www.globalsanctionsdatabase.com>.

<sup>8</sup> Thomas J. Biersteker et al., "UN Targeted Sanctions Datasets (1991–2013)", in *Journal of Peace Research*, Vol. 55, No. 3 (May 2018), p. 404–412, DOI 10.1177/0022343317752539.

<sup>9</sup> David Cortright and George A. Lopez, *The Sanctions Decade. Assessing UN Strategies in the 1990s*, Boulder, Lynne Rienner, 2000.

<sup>10</sup> Patrick M. Weber and Gerald Schneider, "Post-Cold War Sanctioning by the EU, the UN, and the US: Introducing the EUSANCT Dataset", in *Conflict Management and Peace Science*, Vol. 39, No. 1 (January 2022), p. 97–114, <https://doi.org/10.1177/0738894220948729>.

the EU Sanctions Database (EUSD),<sup>11</sup> indicate a trend towards more sanctions being adopted and regimes being managed simultaneously by Brussels since the 1990s.

Second, the list of triggering causes partly justifies the proliferation of sanctions regimes. When the Cold War ended, the UN adopted sanctions to address the invasion of Kuwait, the civil wars in the Balkans and the unconstitutional change of government in Haiti. Overtime, human rights violations, peace enforcement, non-proliferation, counter-terrorism as well as democracy promotion have become all reasons to adopt sanctions.<sup>12</sup> The experience of the EU confirms this trend as restrictive measures were mostly adopted to promote democracy, manage crisis as far as protecting EU interests.<sup>13</sup> At the same time, the US adopted sanctions against individuals, such as members of drug networks in Mexico and Colombia,<sup>14</sup> paving the way for sanctions to be adopted also to address crimes, such as corruption, cybercrime, and other transnational criminal activities.<sup>15</sup> Such practice has eventually been adopted also by the UN Security Council which imposed sanctions, for instance, against oil thefts by the Islamic State of Iraq and the Levant (ISIL) and human trafficking in Libya.

Third, the types of sanctions and their targets have evolved overtime, which have made sanctions relevant to a number of actors that had not been affected till then. Literature from the 1990s references travel bans, asset/financial freezes, economic boycotts and financial restrictions. The Global Sanctions Database shows that financial, trade and travel sanctions are the most common ones.

Sanctions have become increasingly complex and sophisticated. For instance, when media report 'sanctions on Russia', the actual legal text identifies the specific codes of the products involved, the various applications that a specific product cannot be sold for and adds several derogations that can be granted based on previous contracts, specific provisions and human rights considerations. These are added, for instance, to other provisions hitting firms owned or controlled by targeted individuals, the so-called targeted sanctions, that are explicitly named and others that are not named, but they can yet be linked to the actors named in the blacklist. Naturally, these evaluations are not supposed to be made by public officials only, but also by any contractual parties that take part in a deal involving, or that may involve, sanctioned products and/or entities. In brief, the increasing

<sup>11</sup> Francesco Giumelli, Fabian Hoffmann and Anna Książczaková, "The When, What, Where and Why of European Union Sanctions", in *European Security*, Vol. 30, No. 1 (2021), p. 1-23, <https://doi.org/10.1080/09662839.2020.1797685>.

<sup>12</sup> Thomas J. Biersteker et al., "UN Targeted Sanctions Datasets (1991–2013)", cit.

<sup>13</sup> Francesco Giumelli, Fabian Hoffmann and Anna Książczaková, "The When, What, Where and Why of European Union Sanctions", cit.

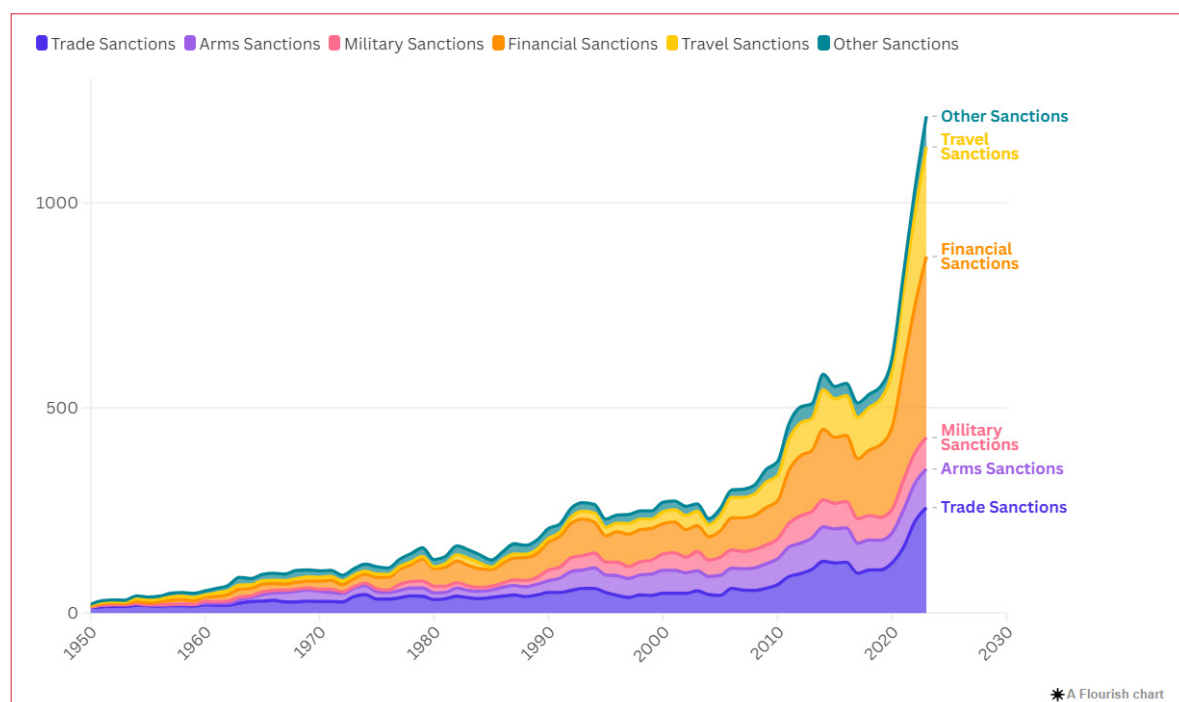
<sup>14</sup> Peter L. Fitzgerald, "Drug Kingpins and Blacklists: Compliance Issues with US Economic Sanctions", in *Journal of Money Laundering Control*, Vol. 4, No. 4 (February 2001), p. 360-383, DOI 10.1108/eb027287.

<sup>15</sup> Anton Moiseienko, "Crime and Sanctions: Beyond Sanctions as a Foreign Policy Tool", in *German Law Journal*, Vol. 25, No. 1 (February 2024), p. 17-47, <https://doi.org/10.1017/glj.2023.103>.



complexity of sanctions affects virtually any market operator across the globe. The intermediaries with the necessary expertise to assist them, such as notaries, accountants and lawyers, also play a central role in the sanctions governance.<sup>16</sup>

**Figure 2** | Type of sanctions in force



The sheer number of adopted sanctions, while impressive, potentially underestimates the true magnitude of effects of sanctions on trade and finance. The decisive multiplier effect is constituted by the extraterritorial application of sanctions.<sup>17</sup> Especially exercised by the US, extraterritorial sanctions are measures that apply beyond a country's borders, targeting conduct occurring outside its territory. Based on factors like nationality, incorporation, or even currency use, they allow authorities to impose penalties on individuals or entities not physically present in the sanctioning country but still deemed to have a jurisdictional link. They are not to be confused with secondary sanctions – primarily used by the United States – that target non-US persons for engaging in certain dealings with sanctioned entities or individuals – even when those non-US persons are not otherwise subject to US jurisdiction. The goal is to deter global business with

<sup>16</sup> Karin Svedberg Helgesson and Ulrika Mörh, "Client Privilege, Compliance and the Rule of Law: Swedish Lawyers and Money Laundering Prevention", in *Crime, Law and Social Change*, Vol. 69, No. 2 (March 2018), p. 227-248, <https://doi.org/10.1007/s10611-017-9753-8>; Karin Svedberg Helgesson and Ulrika Mörh, "Involuntary Public Policy-Making by For-Profit Professionals: European Lawyers on Anti-Money Laundering and Terrorism Financing", in *Journal of Common Market Studies*, Vol. 54, No. 5 (September 2016), p. 1216-1232, DOI 10.1111/jcms.12356.

<sup>17</sup> Arnold Aaron and Daniel Salisbury, "Going It Alone: The Causes and Consequences of U.S. Extraterritorial Counterproliferation Enforcement", in *Contemporary Security Policy*, Vol. 40, No. 4 (2019), p. 435-458, DOI 10.1080/13523260.2019.1595882.

sanctioned parties by threatening access to the US financial system or imposing other penalties. Consequently, the statistics reported in Figure 2 do not account for the fact that also non-sanctioned entities are affected by sanctions.

## 2. The response from China and Russia

Western powers are not the only ones driving the proliferation of sanctions; other countries, such as Russia and China, have also begun to develop their own sanctioning policies.<sup>18</sup> Motivated by their opposition to Western assertiveness in imposing sanctions – and by the fact that they have been targeted themselves – Russia and China have made efforts to build their own sanctions capabilities and to develop alternative financial infrastructures, aiming for greater independence from the existing Western-centric systems.

Russia has responded to the economic sanctions imposed on it following its invasion of Ukraine by implementing a series of countermeasures. It has imposed bans on agricultural imports from countries that enacted sanctions following the annexation of Crimea and the initial clashes in Donbas in the spring of 2014.<sup>19</sup> After 2022, Moscow established a list of “enemy countries” to limit financial transactions with them and implemented a licensing system whereby exports to such countries require governmental approval.<sup>20</sup> Furthermore, Russia targeted C-type bank accounts, typically opened by non-residents and commonly used in import/export activities.<sup>21</sup> These measures serve to protect Russia’s ability to keep foreign-held wealth inside the country while signalling defiance and resilience in the face of economic pressure.

China has also increasingly adopted punitive measures against the United States and the European Union. After Chinese dissident Liu Xiaobo was awarded the Nobel Peace Prize in 2010, China imposed additional import controls on Norwegian salmon, significantly impacting Norway’s seafood exports.<sup>22</sup> In response to US export controls on semiconductors intended to limit China’s technological innovation, Beijing announced a ban on exports of such critical minerals as gallium

<sup>18</sup> Taehee Whang and Wooyeal Paik, “Economic Sanctions by Non-Democracies”, cit.

<sup>19</sup> Matthieu Crozet and Julian Hinz, “Friendly Fire: The Trade Impact of the Russia Sanctions and Counter-Sanctions”, in *Economic Policy*, Vol. 35, No. 101 (January 2020), p. 97-146, DOI 10.1093/epolic/eiaa006.

<sup>20</sup> Georgi Gotev, “Russia Adopts List of ‘Enemy’ Countries to Which It Will Pay Its Debts in Rubles”, in *Euractiv*, 8 March 2022, <https://www.euractiv.com/?p=1724526>.

<sup>21</sup> See questions 22 and 26: European Commission, *Central Securities Depositories, Related Provision: Article 5e, Article 5f of Council Regulation 833/2014. Frequently Asked Questions*, 24 July 2024, [https://finance.ec.europa.eu/node/1097\\_en](https://finance.ec.europa.eu/node/1097_en).

<sup>22</sup> Ivar Kolstad, “Too Big to Fault? Effects of the 2010 Nobel Peace Prize on Norwegian Exports to China and Foreign Policy”, in *International Political Science Review*, Vol. 41, No. 2 (March 2020), p. 207-233, DOI 10.1177/0192512118808610.

and germanium.<sup>23</sup> These materials are essential for semiconductor production and military applications. The Chinese government has accused Washington of “weaponizing” trade and technology under the pretext of national security, arguing that countermeasures were needed to safeguard China’s sovereignty and economic interests. On 22 March 2021, China also imposed sanctions on ten EU individuals and four entities, including members of the European Parliament, as a direct counteraction to sanctions levied by the EU in response to alleged human rights violations in Xinjiang.<sup>24</sup> Furthermore, following Lithuania’s establishment of a “Taiwan Representative Office” (rather than the commonly used Taipei Representative Office) in November 2021, which Beijing denounced as violating the One China principle, the Chinese government employed a series of coercive economic actions, including a blockade of all bilateral trade with Lithuania, alongside informal secondary sanctions aimed at businesses linked to Lithuania, including major foreign firms such as Continental.<sup>25</sup>

This set of actions reflects a broader pattern of economic coercion against other countries, including Australia and Canada; Beijing’s retaliation stems from perceived threats to its territorial sovereignty,<sup>26</sup> but also to the protection of strategic assets. The establishment of a legally grounded framework for implementing targeted measures is essential for Beijing as it seeks to advance its economic interests while counteracting external pressures. This dual strategy of sanctions serves to shield domestic sectors while attempting to undermine the influence of sanctioning nations.

Alongside retaliatory measures, Russia and China have promoted alternative banking and financial infrastructures to shield national economies from the threat of future sanctions. Russia, for instance, has initiated several noteworthy projects, particularly in payment systems such as the Mir card system and the SPFS.<sup>27</sup> These initiatives not only facilitate domestic transactions but also aim to serve as viable alternatives to the SWIFT network, the Brussels-based companies that handles interbank messaging. Moscow has promoted the use of these systems with other

<sup>23</sup> Yu Yu, Daipeng Ma and Yong Wang, “Structural Resilience Evolution and Vulnerability Assessment of Semiconductor Materials Supply Network in the Global Semiconductor Industry”, in *International Journal of Production Economics*, Vol. 270 (April 2024), Article 109172, DOI 10.1016/j.ijpe.2024.109172.

<sup>24</sup> Emilian-Marian Stoica, “Weaponized Interdependence versus Economic Sanctions: The Case of Human Rights Abuses in Xinjiang Uyghur Autonomous Region”, in *CES Working Papers*, Vol. 14, No. 2 (2022), p. 166-186, [https://ceswp.uaic.ro/articles/CESWP2022\\_XIV2\\_STO.pdf](https://ceswp.uaic.ro/articles/CESWP2022_XIV2_STO.pdf).

<sup>25</sup> Konstantinas Andrijauskas and Raigirdas Boruta, “China’s Economic Pressure Campaign against Lithuania: The Novelties and Limits of Chinese Economic Statecraft and Coercion”, in *The International Spectator*, Vol. 60, No. 2 (June 2025), p. 38-55, DOI 10.1080/03932729.2024.2444289.

<sup>26</sup> Matt Ferchen and Mikael Mattlin, “Five Modes of China’s Economic Influence: Rethinking Chinese Economic Statecraft”, in *The Pacific Review*, Vol. 36, No. 5 (2023), p. 978-1004, <https://doi.org/10.1080/09512748.2023.2200029>.

<sup>27</sup> Vasily Tkachev, Vadim Grishchenko and Karl Summanen, “The Russian Financial Sector: Opportunities in an Unstable Environment and Sanctions”, in Duc Khuong Nguyen (ed.), *Handbook of Banking and Finance in Emerging Markets*, Cheltenham/Northampton, Edward Elgar, 2022, p. 763-792, DOI 10.4337/9781800880900.00051.



countries. The Central Bank of Russia has reported that 159 organisations from twenty countries began to rely on such infrastructures in 2023.<sup>28</sup> Even though it is unclear how many organisations are using SPFS, both the US Office of Foreign Assets Control (OFAC) and the EU decided to impose sanctions on whoever decides to use the financial messaging system SPFS.<sup>29</sup> The advancement of the digital ruble is also meant to be a step towards achieving financial sovereignty.

Similarly, China is actively expanding its financial infrastructure through initiatives such as the Digital Currency Electronic Payment (DCEP) system, which aims to bolster the yuan's role in global transactions, particularly in markets seeking to reduce their dependence on the US dollar.<sup>30</sup> Another initiative is the Cross-Border Interbank Payment System (CIPS), introduced in 2015, as an alternative to SWIFT. As of July 2023, CIPS had approximately two thousand participants, reflecting notable growth; however, this figure remains much lower than SWIFT's network, which boasts around eleven thousand participants.<sup>31</sup> China's alternative payment systems complement China's Belt and Road Initiative (BRI), providing a coherent framework for international trade among participating countries. The yuan's growing diplomatic and economic significance has become increasingly critical for China in the shifting geopolitical landscape.

Both China and Russia are also exploring strategic partnerships with countries willing to support their efforts to develop infrastructures outside the boundaries of Western finance. A case in point is Russia's engagement with Islamic financial institutions, which illustrates its desire to attract investments from alternative sources.<sup>32</sup> India, which developed a Unified Payments Interface (UPI) in 2016, has also established partnerships with other countries such as France, the United Arab Emirates and Singapore.<sup>33</sup> BRICS countries as well have declared in the July summit held in Rio the intention of developing an alternative payment system to SWIFT leveraging the role of the New Development Bank (NDB), which had been created in

<sup>28</sup> "Russian Central Bank Plans to Implement Tracking Service as Part of Financial Message Transmission System", in *Interfax*, 5 June 2024, <https://interfax.com/newsroom/top-stories/103040/>.

<sup>29</sup> US Office of Foreign Assets Control (OFAC), "Sanctions Risk for Foreign Financial Institutions that Join Russian Financial Messaging System, System for Transfer of Financial Messages", in *OFAC Alerts*, 21 November 2024, <https://ofac.treasury.gov/media/933656/download?inline>.

<sup>30</sup> Huosong Xia, Yangmei Gao and Justin Zuopeng Zhang, "Understanding the Adoption Context of China's Digital Currency Electronic Payment", in Gang Kou et al. (eds), *Blockchain, Crypto Assets, and Financial Innovation. A Decade of Insights and Advances*, Cham, Springer, 2025, p. 128-161, [https://doi.org/10.1007/978-981-96-6839-7\\_5](https://doi.org/10.1007/978-981-96-6839-7_5).

<sup>31</sup> Barry Eichengreen et al., "Currency Internationalization with Chinese Characteristics: Is Capital-Account Convertibility Required for the Renminbi to Acquire Reserve-Currency Status?", in *International Finance*, Vol. 27, No. 2 (Summer 2024), p. 102-128, DOI 10.1111/inf.12447.

<sup>32</sup> Mersiha Gadzo, "Russia Is Set to Launch Islamic Banking: All You Need to Know", in *Al Jazeera*, 30 August 2023, <https://aje.io/1gzlah>.

<sup>33</sup> Huileng Tan, "Countries from Russia to China Are Building Payments Systems that Could Threaten the Dollar's Global Dominance", in *Business Insider*, 2 September 2024, <https://www.businessinsider.com/dedollarization-countries-national-tech-payments-systems-russia-china-india-swift-2024-8>.

2014 with the aim to fund development projects in the Global South.<sup>34</sup> Even though this is a declaration of intent only, it indicates a trend that might eventually lead to greater coordination among countries to engage in de-dollarisation projects.

Combined, the variety of responses from non-western states, especially China and Russia, to Western sanctions significantly contribute to the reshaping of the global financial landscape.

### 3. The impact on the global financial system

The extensive use of sanctions by Western countries, along with the responses from other nations, have had a multifaceted impact on the global financial system. A decisive push came from the decision of the EU in cooperation with the US, to unplug from the SWIFT network banks from Iran in 2012 and, more recently, from Russia. This weaponisation of interdependence has sent a clear message to all actors that they can either remain vulnerable to western sanctions since SWIFT operates under Belgian laws and it is thought to be sharing data with US authorities,<sup>35</sup> or they need to create alternatives allowing payments to go through in times of sanctions. Although OFAC's enforcement decisions do not appear to depend on SWIFT-collected information, other countries now view SWIFT as an institution that is controlled by Western countries and serves their interests.

In general, investments are hindered by sanctions. Restrictive measures make payments more complicated, due diligence more expensive and can severely disrupt supply chains by targeting products and individuals. To mitigate and contain the risks of investment, some economic operators have divested from countries at odds with their own, a process known as 'friendshoring', where the risk of sanctions is perceived to be lower. Others have adopted a different approach, known as 'nearshoring', which involves shortening supply chain links and investing in countries that are geographically proximate.<sup>36</sup> The combination of these two emerging trends (among others) has contributed to the reconfiguration of the global economy into emerging blocks and towards growing multipolarity.

Sanctions play a significant role because they influence a global system rooted in complex interdependencies. Sanctions can be impactful by restricting access to critical resources – whether raw materials or finished products – for actors who

<sup>34</sup> BRICS, *Leaders' Framework Declaration on Climate Finance*, Rio de Janeiro, 6 July 2025, [https://brics.br/en/documents/presidency-documents/2507\\_brics\\_leaders-framework\\_declaration-on-climate-finance.pdf/@download/file](https://brics.br/en/documents/presidency-documents/2507_brics_leaders-framework_declaration-on-climate-finance.pdf/@download/file).

<sup>35</sup> Eric Lichtblau and James Risen, "Bank Data Is Sifted by U.S. in Secret to Block Terror", in *The New York Times*, 23 June 2006, <https://www.nytimes.com/2006/06/23/washington/23intel.html>.

<sup>36</sup> James J. Nedumpara, "Friendshoring, Nearshoring, Greenshoring and Reshoring: Changing Faces of Global Supply Chains and Its Impact on International Economic Law - Introduction to the Special Issue", in *Global Trade and Customs Journal*, Vol. 19, No. 3 (March 2024), p. 125-128, DOI 10.54648/gtcj2024035.

rely on them.<sup>37</sup> Moreover, the global financial infrastructure, which has evolved over time to support and facilitate these exchanges, enables certain states to monitor and regulate financial transactions.<sup>38</sup> This ability to oversee and control the flow of funds enhances the capacity of those states to implement and enforce sanctions more effectively than others.

A primary source of financial dependency lies in the international role of the US dollar.<sup>39</sup> For decades, the US dollar has been used as the default currency for international contracts due to its perceived long-term stability and trustworthiness. This confidence in the dollar has led numerous governments and central banks to accumulate it as a key component of their foreign reserves, and many firms to use it for commercial transactions. This global reliance on the US dollar has enabled the United States to exert considerable influence when promoting international sanctions.<sup>40</sup> One notable consequence of the increasing use of sanctions is that several countries have begun to divest from the US dollar in favour of alternative currencies. Russia has been a forerunner in this trend, having decided in 2014 to replace a significant portion of its central bank reserves denominated in US dollars with Chinese yuan (Figure 3). While no realistic alternatives to the US dollar currently exist, this trend suggests that the situation could evolve in the future.

IMF data indicates that the US dollar as global reserve currency dropped from 71.5 per cent in 2001 to 57.8 per cent in 2024 (Figure 4).<sup>41</sup> While its role needs to be assessed in relation to individual countries' exposure, Russia's exposure has dramatically decreased since 2014. This suggests that countries non-aligned with the US could be the ones driving what appears to be a process of fragmentation for the global economy.

<sup>37</sup> Robert O. Keohane and Joseph S. Nye, "Power and Interdependence Revisited", in *International Organization*, Vol. 41, No. 4 (Autumn 1987), p. 725-753, DOI 10.1017/S0020818300027661.

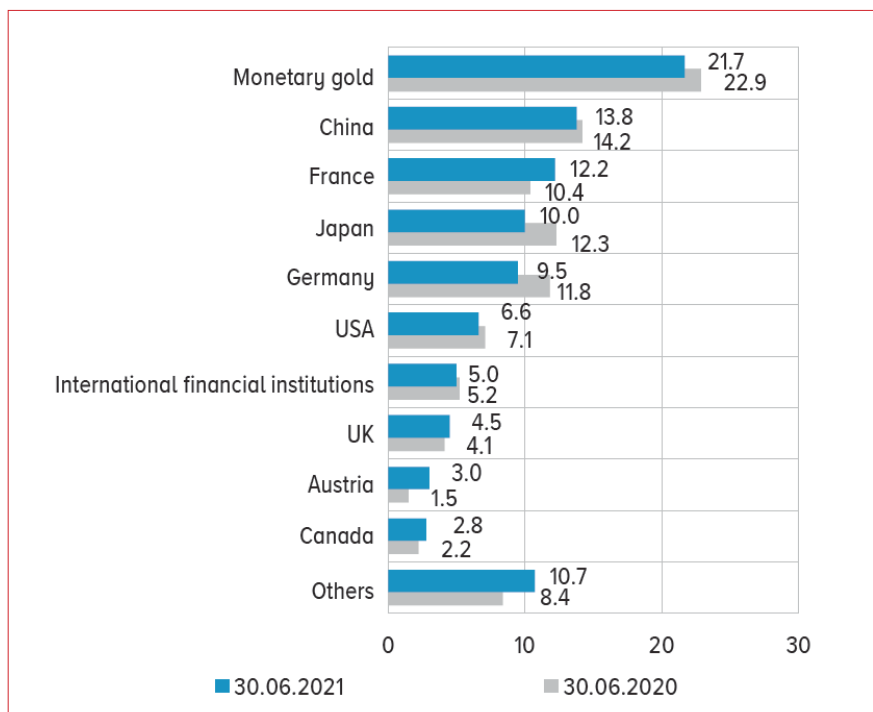
<sup>38</sup> Henry Farrell and Abraham L. Newman, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion", in *International Security*, Vol. 44, No. 1 (Summer 2019), p. 42-79, [https://doi.org/10.1162/isec\\_a\\_00351](https://doi.org/10.1162/isec_a_00351).

<sup>39</sup> Stephan Schulmeister, "Globalization without Global Money: The Double Role of the Dollar as National Currency and World Currency", in *Journal of Post Keynesian Economics*, Vol. 22, No. 3 (2000), p. 365-395, DOI 10.1080/01603477.2000.11490246.

<sup>40</sup> Joshua P. Zoffer, "The Dollar and the United States' Exorbitant Power to Sanction", in *AJIL Unbound*, Vol. 113 (2019), p. 152-156, <https://doi.org/10.1017/aju.2019.19>.

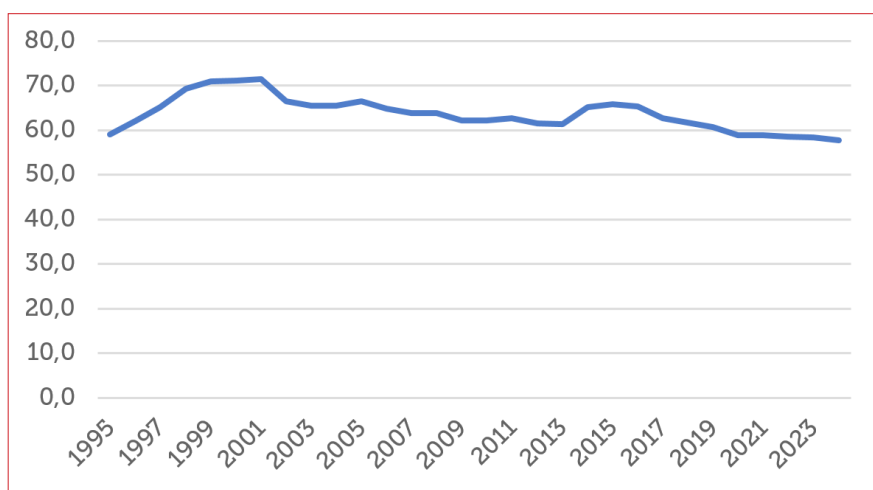
<sup>41</sup> IMF Data: *Currency Composition of Official Foreign Exchange Reserves (COFER)*, [https://data.imf.org/en/Data%20Explorer?datasetUrn=IMF.STA:COFER\(7.0.0\)&dataPresentation=H\\_COFER\\_OFES\\_CURRENCY](https://data.imf.org/en/Data%20Explorer?datasetUrn=IMF.STA:COFER(7.0.0)&dataPresentation=H_COFER_OFES_CURRENCY).

**Figure 3 | Who holds Russia's central bank reserves?**



Source: Bank of Russia, *Bank of Russia Foreign Exchange and Gold Asset Management Report*, No. 1 (2022), p. 6, [http://cbr.ru/Collection/Collection/File/39685/2022-01\\_res\\_en.pdf](http://cbr.ru/Collection/Collection/File/39685/2022-01_res_en.pdf).

**Figure 4 | Share of the US dollar as reserve currency**



Additionally, the extent to which payments are currently conducted in US dollars warrants examination. There is some evidence that certain markets and operators are increasingly opting to carry out transactions in alternative currencies.<sup>42</sup>

<sup>42</sup> Robert Greene, "The Difficult Realities of the BRICS' Dedollarization Efforts—and the Renminbi's Role", in *Carnegie Working Papers*, December 2023, <https://carnegieendowment.org/research/2023/12/>



The US dollar has traditionally been the default currency, yet the assertiveness of OFAC, the Treasury Department office responsible for the enforcement of sanctions, in leveraging the US dollar to extend the territorial reach of US regulations beyond its borders represents a significant incentive for international actors to seek alternatives. These may include trading in non-US dollars or even establishing entire supply chains that operate outside the reach of US jurisdiction. Data shows that US dollar payments in SWIFT have increased only by 3 per cent since 2014, although they were still about half of the total payments in 2024. Moreover, the Chinese yuan has rapidly expanded its role in international trade and investment. While SWIFT reports that transactions in yuan stabilised around 4 per cent – around 7 per cent according to data from the Bank for International Settlements (BIS)<sup>43</sup> – the Chinese yuan accounted for 53 per cent of China's cross-border transactions by late 2023, significantly reducing the dominance of the US dollar. The IMF reports that yuan usage for payments with China among 125 countries rose from 0 in 2014 to 20 per cent in 2021. Notably, 90 per cent of Russia-China trade is now settled in yuan or rubles, bypassing SWIFT. Many of these transactions in yuan are processed through China's CIPS. Since these transactions are not captured by SWIFT data, the yuan's true international usage is likely underreported.<sup>44</sup>

Additionally, evidence from increasing bilateral trade agreements indicates that the share in global payments in US dollars is likely to decrease in the future. For instance, in March 2023 China and Brazil agreed to settle trade using the yuan and the Brazilian real instead of the US dollar, and a Brazilian bank connected to a Chinese state bank joined China's CIPS system.<sup>45</sup> In April 2023, Argentina also decided to pay for Chinese imports in yuan, partly due to its shortage of US dollar reserves.<sup>46</sup>

Finally, the proliferation of cryptocurrencies – due to their decentralised nature – is partially driven by the desire to escape the dollar-dominated system.<sup>47</sup> One example is the project mBridge, a multi-central bank digital currency (CBDC) platform that connects central and commercial banks across China, Hong Kong, Thailand, United Arab Emirates and Saudi Arabia without relying on the US dollar.<sup>48</sup>

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<sup>43</sup> J.P. Morgan, "De-dollarization: Is the US Dollar Losing Its Dominance?", in *J.P. Morgan Insights*, 1 July 2025, <https://www.jpmorgan.com/insights/global-research/currencies/de-dollarization>.

<sup>44</sup> Hung Tran, "The Euro's Share of International Transactions Is Likely Smaller than It Looks", in *Econographics*, 21 May 2024, <https://www.atlanticcouncil.org/?p=766787>.

<sup>45</sup> Jeff Pao, "China and Brazil Reach RMB-based Trade Deal", in *Asia Times*, 31 March 2023, <https://asiatimes.com/?p=735215>.

<sup>46</sup> "Argentina to Pay for Chinese Imports in Yuan Rather than Dollars", in *Reuters*, 27 April 2023, <https://www.reuters.com/world/china/argentina-govt-pay-chinese-imports-yuan-rather-than-dollars-2023-04-26>.

<sup>47</sup> Heike Joeiges, Hansjörg Herr and Christian Kellermann, "Crypto Assets as a Threat to Financial Market Stability", in *Eurasian Economic Review*, Vol. 15, No. 2 (June 2025), p. 473-502, <https://doi.org/10.1007/s40822-025-00311-4>; Steve Kaaru, "Russia Pushing 'Crypto' Payments, SWIFT Alternative as Sanctions Bite", in *CoinGeek*, 8 July 2024, <https://coingeek.com/?p=571674>.

<sup>48</sup> For more information, see BIS Innovation Hub, *Project mBridge Reached Minimum Viable Product*



Even though the US government has adopted crypto-friendly rules (i.e. see Stable and Genius Act), the decentralised nature of the technology plays in favour of those who intend to escape the reach of OFAC.

The global financial system is thus progressively populating itself with alternative infrastructures developed by sanctioned nations. A simple Google search reveals multiple SWIFT alternatives, including the aforementioned SPFS, Mir, CIPS and DCEP.<sup>49</sup> The introduction of these systems not only enables financial operations outside the remit of US sanctions but also encourages the establishment of new economic alliances. This shift poses a potential challenge to the historical dominance of the dollar and the established financial order. While there is no immediate replacement to the US dollar, the creation of an alternative infrastructure is the first step to create the possibility for an alternative to emerge.

At the same time, there are incentives to ensure that resources are not being relocated freely or, at least, beyond the monitoring capacities of states. The transfer of financial activity to less regulated environments – i.e. tax havens – introduces considerable risks, including the proliferation of unmonitored financial products and a potential increase in illicit transactions as entities strive to circumvent formal sanctions.<sup>50</sup> This explains why the role of tax havens has been scrutinised for their roles in facilitating sanctions evasion and, less intuitively, for exposing the financial assets of the economic elite.<sup>51</sup> Indeed, it has become a priority for several Western authorities to obtain the cooperation of well-known tax havens to either support sanctions or ensure they do not facilitate circumvention. Consequently, financial transactions to and from tax havens that were perceived as ‘normal’ in the past are now censured, which can have two consequences. On the one hand, this can further exacerbate the fragmentation of the global financial system pushing capital towards less regulated areas. On the other, however, enhancing the transparency of tax havens may help establish/enforce common rules.

The politicisation of the global financial infrastructure becomes evident when we witness how governments attempt to attract financial resources towards their sphere of influence. For instance, Russia has sought to create incentives for oligarchs to repatriate their financial resources by establishing Special Administrative Regions (SARs) in Russia. SARs specifically located on Oktyabrsky Island and Russky Island were designed as offshore zones aimed at attracting

Stage, updated 11 November 2024, [https://www.bis.org/about/bisih/topics/cbdc/mcbdc\\_bridge.htm](https://www.bis.org/about/bisih/topics/cbdc/mcbdc_bridge.htm).

<sup>49</sup> For instance, see Ermina Ymeraj, “8 Alternatives to SWIFT for Cross-Border Payments”, in *Papaya Global Blog*, 30 July 2025, <https://www.papayaglobal.com/blog/8-alternatives-to-swift-for-cross-border-payments>.

<sup>50</sup> Norman Mugarura, “Tax Havens, Offshore Financial Centres and the Current Sanctions Regimes”, in *Journal of Financial Crime*, Vol. 24, No. 2 (2 May 2017), p. 200-222, DOI 10.1108/JFC-01-2016-0008.

<sup>51</sup> Kerim Can Kavakli, Giovanna Marcolongo and Diego Zambiasi, “Sanction-Busting through Tax Havens”, in *WIDER Working Papers*, No. 55/2023 (April 2023), <https://doi.org/10.35188/UNU-WIDER/2023/363-5>.

foreign companies, particularly Russian businesses operating abroad.<sup>52</sup> These SARs offer a zero-tax regime on dividends and capital gains for companies that relocate and invest a minimum of 50 million rubles in Russian ventures within a six-month period.<sup>53</sup> This initiative, which took shape quietly following the imposition of US sanctions against prominent Russian oligarchs in 2018, is not only aimed at helping sanctioned entities repatriate but also at mitigating the adverse effects of global financial penalties imposed following Russia's aggression against Ukraine.

### Conclusions

As sanctions regimes become more complex and widespread, they are reshaping trade dynamics, financial systems, and geopolitical alliances in significant ways. The proliferation of these regimes – initially driven by Western states through punitive measures – both multilateral and unilateral – is now also fuelled by unilateral sanctions adopted by targeted countries, particularly Russia and China. Unilateral sanctions are often applied extraterritorially, extending their impact to virtually any firm engaged in commercial transactions worldwide. A broad spectrum of commercial transactions can be affected by some sort of restrictions and limitations originating from sanctions.

Sanctions have therefore become relevant to any company navigating the challenges and economic risks of globalisation, as well as to any government seeking to preserve its economic and strategic interests. This is particularly evident in the politicisation of the global financial infrastructure that has underpinned globalisation over the past half-century. The emergence of financial alternatives not only meets the immediate needs of sanctioned nations but also encourages broader economic diversification among states aiming to reduce their reliance on traditional Western financial systems. This trend challenges the historical dominance of the US dollar and the SWIFT network, signalling a potential shift toward a multipolar financial order that could reshape global economic power structures.

Economic fragmentation has resulted from persistent multilateral and unilateral sanctions, which has led to altered banking relationships and the establishment of new financial ecosystems that reduce dependence on Western financial institutions. Such fragmentation introduces significant risks, including the proliferation of unregulated financial products and an increased likelihood of illicit transactions. As countries like Russia and China work to build alternative financial networks, concerns grow about the stability and integrity of the broader

<sup>52</sup> Giacomo Tognini, "Inside Russia's Tax Havens that Help Billionaires Overcome US Sanctions", in *Forbes Middle East*, 3 February 2022, <https://www.forbesmiddleeast.com/billionaires/world-billionaires/inside-the-russian-tax-havens-set-up-by-putin-to-help-sanctioned-billionaires>.

<sup>53</sup> For more information on SARs see the website of the Russian Far East and Arctic Development Corporation: *Special Administrative Region*, <https://erdc.ru/en/about-sar>.

global financial system.

Although the fragmentation of the global economy results from multiple forces, sanctions are certainly one of the key drivers. First, it is often the governments targeted by sanctions that initiate the creation of alternative infrastructures. Second, the proliferation of unilateral sanctions reflects a broader trend: the adoption of US and EU practices by other states. As a result, financial and economic actors must now consider not only traditional risk assessments but also the presence – and potential future imposition – of restrictive measures when engaging in international transactions.

In conclusion, the growing reliance on sanctions as a foreign policy instrument presents a complex array of challenges for international relations, trade and finance. While sanctions can serve as powerful tools for enforcing compliance or signalling disapproval, their broader ramifications – from the emergence of countermeasures by targeted nations to the risk of economic destabilisation – should be carefully weighed. As the global financial system undergoes these transformations, it is essential for policymakers and scholars to reevaluate assumptions about how sanctions function and to adapt to an increasingly multipolar world that may redefine the strategic calculus of states in the years ahead.

*Updated 20 August 2025*

## Acronyms

BIS	Bank for International Settlements
BRI	Belt and Road Initiative
CBDC	Central bank digital currency
CIPS	Cross-Border Interbank Payment System
DCEP	Digital Currency Electronic Payment
EU	European Union
EUSD	EU Sanctions Database
GSDB	Global Sanctions Database
IMF	International Monetary Fund
ISIL	Islamic State of Iraq and the Levant
NDB	New Development Bank
OFAC	Office of Foreign Assets Control
SAR	Special Administrative Region
SPFS	System for Transfer of Financial Messages
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UK	United Kingdom
UN	United Nations
UPI	Unified Payments Interface
US	United States

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