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ABOUT THE JOURNAL

The TAPMI Journal of Economics and Finance is an open-access, peer-reviewed journal from T A Pai Management Institute, Manipal, published biannually. The journal aspires to be a premier platform for fostering intellectual discourse in the fields of economics and finance, creating a dialogue between academicians, practitioners, policymakers, and students. The journal embodies the principles of Thought, Judgement, Economics, and Finance, serving as a cornerstone for generating impactful knowledge and insights.

The journal welcomes original contributions exploring diverse topics within economics and finance. In economics, the journal focuses on macroeconomic and microeconomic policies, behavioral research, and development economics, with a special emphasis on emerging markets and their interplay with geopolitics, trade, and global dynamics. In finance, it covers corporate finance, portfolio management, fintech, sustainable finance, and digital transformation while encouraging interdisciplinary research linking economics and finance to broader sectors like leadership, healthcare, and energy.

The journal examines the unique characteristics of financial systems in emerging markets, including instruments like microfinance and underdeveloped debt markets, and promotes comparative studies with developed economies on market efficiency, corporate governance, and adaptability. It also addresses future-critical issues such as global capital flows, energy trading, sustainability and ESG integration.

It publishes original conceptual studies, empirical research, modeling analyses, case studies, and perspectives on emerging challenges, fostering engagement among academics, practitioners, and policymakers. By addressing critical topics and blending theoretical insights with practical applications, TAPMI Journal of Economics and Finance strives to bridge thought leadership with actionable knowledge, positioning itself as a trusted and influential journal in economics and finance.

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FROM THE EDITORIAL BOARD

The global financial system is undergoing a period of rapid transformation. The dominance of the U.S. dollar, once unquestioned, is being challenged by new technologies, shifting geopolitical alignments, and the growing emphasis on sustainability. Against this backdrop, the theme of this issue, “Beyond the Dollar: Shaping the Future of Global Finance and Investment Strategies,” could not be more timely.

The articles featured in this volume bring forward perspectives that are both analytical and forward-looking. From the Fintech Revolution in China and India to discussions on sanctions, power shifts, and reserve diversification, each contribution examines how the foundations of global finance are being redefined. Pieces such as *Cracks in the Crown* and *How Geopolitics is Reshaping Global Reserves* explore the dollar’s evolving role, while *Navigating Geopolitics, Technology, and Sustainability in a Multipolar Financial Order* presents an integrated view of the forces shaping the financial landscape.

What makes this collection particularly noteworthy is the quality of its contributors. Writers from some of the premier institutions of the country have shared their insights, making this issue both rigorous in its research and rich in perspective. We are grateful to them for their thoughtful work and to our readers for engaging with these ideas.

It is our hope that this edition of TJEF stimulates discussion, challenges established views, and inspires further exploration into the future of finance.

— The Editorial Board
TAPMI Journal of Economics and Finance

**BEYOND THE DOLLAR:
SHAPING THE FUTURE FOR
GLOBAL FINANCE AND
INVESTMENT STRATEGIES**

ARTICLE ONE

THE FINTECH REVOLUTION: EVIDENCE FROM CHINA AND INDIA

Author: Honey Jagdish Dhanecha
(Ahmedabad University)

Introduction

The fintech revolution spanning innovative financial technologies like digital payments, online lending, wealth management and insurtech has profoundly redefined the financial landscape over the past decade. Emerging at the intersection of technology and finance, fintech platforms have democratized access to financial services, lowered transaction costs and enabled new modes of economic participation for households and firms alike. Global investment in fintech soared from \$1 billion in 2008 to \$247 billion in 2022 (Cevik, 2024). This article comprehensively examines how fintech has increased household consumption, boosted GDP growth and positively influenced key macroeconomic indicators, with focused evidence from China and India.

Fintech's Impact on GDP Growth

Fintech is a recognized driver of GDP (Gross Domestic Product) growth by expanding financial inclusion, increasing the efficiency and reach of the credit system and stimulating both household and corporate investments. A cross-country panel of 198 countries (2012-2020) found that an increase in fintech activity, especially digital lending, has a statistically significant and positive effect on real GDP per capita growth (Cevik, 2024). Additionally, a unit increase in the fintech adoption score leads to a 1.092% rise in GDP per capita globally (Satyam, 2025). While the effect is stronger in advanced economies in absolute terms, the statistical significance, i.e., the certainty with which fintech correlates with growth is higher in developing countries, suggesting rapid gains where traditional finance has had limited reach. Higher fintech scores consistently correlate with higher provincial GDP per capita, though effect sizes vary with regional development stages and fintech segments. A study by Song and Appiah-Otoo (2022) conducted across 31 provinces in China found that a 10% increase in fintech activity along with third-party payments, credit, and insurance is associated with increases in China's economic growth by 8%, 4%, 5%, and up to 16%, as shown in Figure 1. Fintech also boosted labor productivity as 10% more fintech activity led to a 1.4% rise in output per worker. Another paper found fintech significantly increased both GDP and housing prices across China (Ji, 2023). The rise of China's fintech sector, anchored by private innovation, big tech and open digital payments demonstrates that fintech-inclusion policies add tangible macroeconomic value.

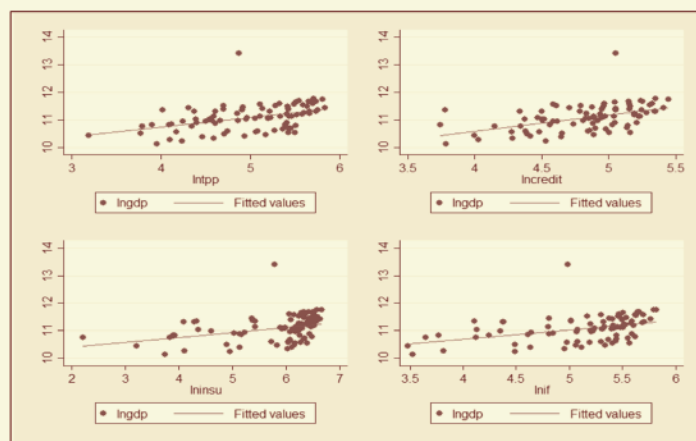


Figure 1: Correlation between third-party payments, credit, insurance and fintech with economic growth (GDP) in China
Source: Song and Appiah-Otoo (2022)

FinTech and Household Consumption

Fintech has dramatically increased household consumption by improving access to financial services, particularly for segments previously excluded from formal credit channels. Empirical research by (Luo et al., 2022) reveals a strong positive correlation between fintech innovation and increased household consumption using data from the China Family Panel Studies (see Figure 2). Specifically, fintech reduces information asymmetry, lowers transaction costs, expands access to consumer credit and alleviates financing constraints, enabling households to smooth consumption patterns and increase spending. Digital lending platforms and alternative credit assessment facilitate borrowing by individuals and households with scant or no formal credit history, leading to increased consumption smoothing and broader economic participation (Yang & Zhang, 2022). In China, fintech platforms such as Alipay and WeChat Pay have enabled mass adoption of cashless payments and personalized credit, sparking a marked rise in everyday consumer spending by fostering both the ability and willingness to spend by making transactions easier, faster, and more secure (Taylor, 2023). Empirical studies from Indonesia reveal how the rollout of key fintech products like mobile banking and e-money increased the average household's consumption by 0.76 million rupiahs, after controlling for income effects. Fintech-enabled payment options drove this increase, suggesting a significantly strong causal relationship between easier payments and higher spending (Saraswati et al., 2022).

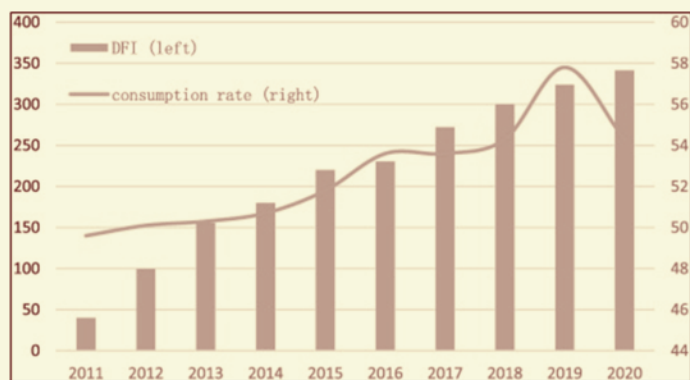


Figure 2: Consumption rate and Digital Inclusive Financial Index in China (2011-2020)

Source: Luo et al. (2022)

Financial Inclusion and Poverty Reduction

China has achieved remarkable progress in financial inclusion over the last 15 years, propelling the country to near parity with other G-20 economies in key metrics. As of 2021, more than 80% of Chinese adults had access to a financial account, up from less than 50% in 2011 (Hall, 2022). The World Bank and People's Bank of China report that China's vast agent banking network and the rapid spread of digital finance have brought formal financial services including payments, savings, credit and insurance to hundreds of millions who were previously excluded from the traditional financial system. The expansion of digital payment platforms such as Alipay and WeChat Pay has had dramatic effects as by 2018, the total value of mobile payments in China reached RMB 277.4 trillion with more than 900 million active users making digital payments each month (Huang et al., 2020). As shown in Figure 3, digital payments usage among rural and low-income groups grew rapidly, narrowing gaps in access between rural and urban populations and between men and women.

Research demonstrates that financial inclusion in China is strongly linked to poverty reduction and narrowing inequality. Large-scale empirical studies matching prefectural digital finance indices with household-level microdata found that for each unit increase in the digital finance index, the probability of absolute poverty among rural households dropped by 10.27%, while relative poverty fell by 18.31%. Both the coverage breadth (expansion of service) and usage depth (active use) of digital financing contributed as every standard deviation increase in coverage or usage reduced poverty rates by over 5-8 percentage points (Chen & Zhao, 2021). These effects are especially pronounced for disadvantaged groups as digital finance benefits elderly and less-educated rural households even more, helping them escape multidimensional poverty.

Key mechanisms include alleviating credit constraints, reducing information asymmetry, expanding social networks and fostering entrepreneurship, which together raise household incomes and resilience. As a result, China's experience demonstrates that digital financial inclusion is not only an economic growth story, but a powerful tool for alleviating rural poverty and supporting social mobility.

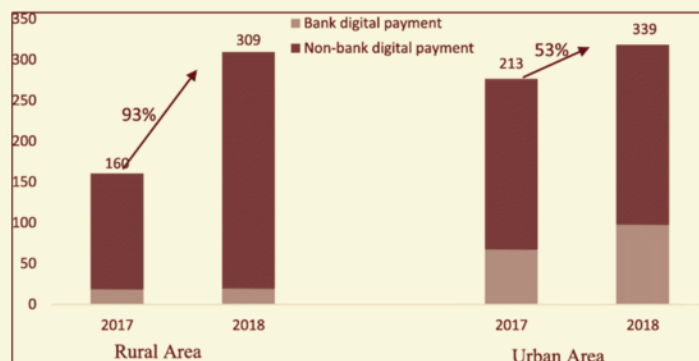


Figure 3: Number of digital payments in Chinese rural and urban areas in billions

Source: Chen and Yuan (2021)

The Scope and Scale of India's Fintech Boom

Similar to Chinese fintech innovations in mobile payments, digital lending, and financial inclusion that fueled GDP growth and consumption, India's fintech journey is defined by rapid advancements in real-time payments (notably UPI), digital lending for MSMEs and growing financial inclusion. In India, the fintech market is set to become a \$1.3 trillion market by 2025, growing at a compound annual growth rate (CAGR) of 31% from 2021 to 2025, making India the world's third-largest fintech ecosystem, as shown in Figure 4 (S. Singh, 2022).

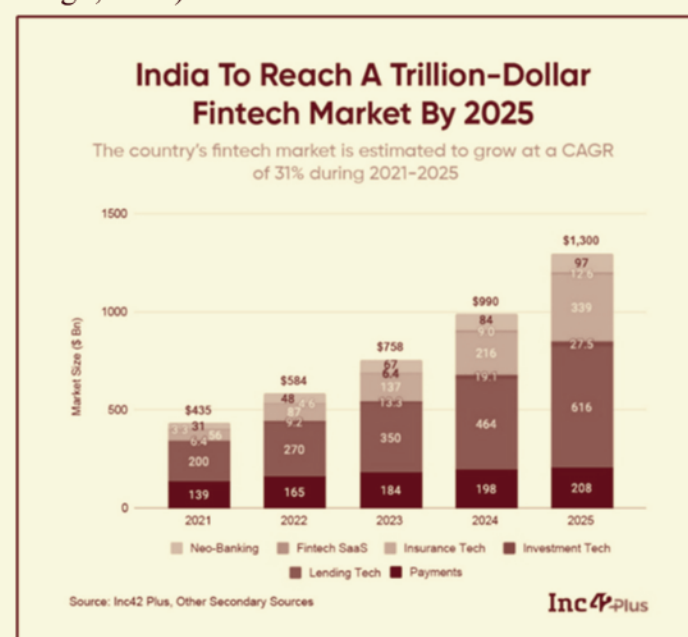


Figure 4: India's Fintech Market (2021-2025)

Source: S. Singh (2022)

Major accelerants of this transformation include advanced digital infrastructure, high smartphone penetration, robust government support and a culture of bold policy innovation, particularly visible through the JAM trinity (Jan Dhan-Aadhaar-Mobile) and pathbreaking systems like the Unified Payments Interface (UPI). These have collectively unlocked financial access for millions and catalyzed growth in payments, credit, insurance and wealth management.

Unified Payments Interface (UPI): The Game-Changer

UPI is perhaps the single most consequential innovation in India's digital finance journey. Launched by the National Payments Corporation of India (NPCI) in 2016, UPI is an open, real-time payment protocol that facilitates seamless, interoperable transactions between any two bank accounts via smartphones. By 2025, UPI transactions are projected to reach 185.9 billion, with the value soaring past ₹26.05 lakh crore, nearly a 240 times surge since 2017. Moreover, India accounts for almost 46% of global digital transactions, with UPI accounting for 80% of total digital payments in India (The Hindu Bureau, 2024). A 2024 study on 276 participants concluded that 74.2% of users report increased spending post-UPI adoption (Kumar, 2024). Urban retailers also report increased sales and larger ticket sizes, as the friction of physical cash has vanished, encouraging more frequent and higher-value transactions (Das, 2024). UPI has thus not only digitized payments but stimulated aggregate consumption, a key driver of GDP growth for India.

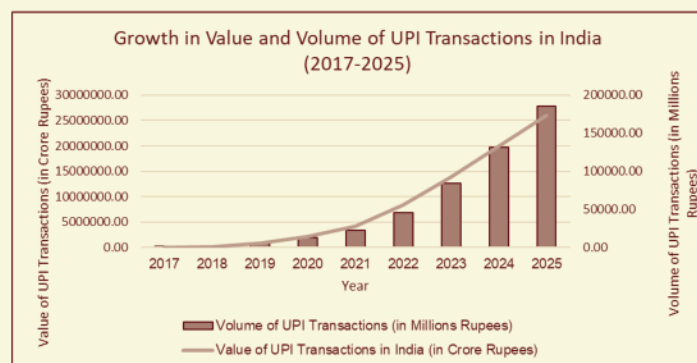


Figure 5: Growth in Value and Volume of UPI Transactions in India (2017-2025)
Source: (NPCI, 2025)

Digital Lending: Revolutionizing Credit for MSMEs and Households in India

Traditional credit systems in India long sidelined new-to-credit and underserved segments, particularly Micro, Small and Medium Enterprises (MSMEs). The fintech lending revolution, spanning digital-first platforms, embedded finance and AI-driven scoring, is directly addressing this

credit gap. With more than 63 million MSMEs accounting for 30% of GDP and nearly half of all exports, digital credit has proven critical for short-term working capital needs, rapid scale-up, and resilience, particularly during economic shocks and disruptions caused by COVID-19 (Dewan, 2025). Embedded finance, where loans are offered directly on commerce platforms, is expected to grow from \$5.75 billion in annual revenue (2024) to \$28.6 billion by 2029, a CAGR of 37.8% (Business Wire, 2024). Fintech integration has dramatically widened the formal credit funnel for India's 63 million + MSMEs. Outstanding credit to MSMEs in India leapt from ₹18.48 lakh crore in March 2020 to ₹31.70 lakh crore by March 2024, a 71.5% surge in a four-year period (Sahu, 2025). Leading digital lenders and banks are now able to approve loans in minutes, relying on alternate data, AI and zero-collateral lending models that serve even micro-entrepreneurs in Tier 2/3 cities. New-to-credit (NTC) borrowers now account for 47% of all fresh MSME loan originations nationwide, underscoring a significant shift in credit access patterns. This trend reflects how fintech-enabled digital lending models leveraging alternative data and technology-driven underwriting are enabling firms previously excluded from formal finance due to insufficient collateral or credit history to access institutional credit and integrate more fully into the formal financial ecosystem. Fintechs and tech-enabled NBFC partnerships now originate nearly half of India's small-ticket MSME loans, carving out space that was almost entirely NBFC-driven just six years earlier (ETtech, 2024).

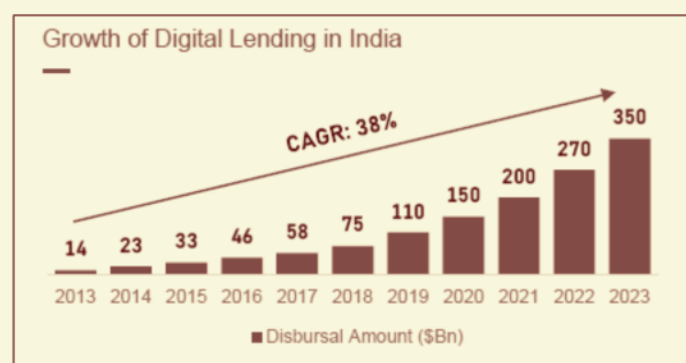


Figure 6: Growth in Disbursal amount in digital lending market in India (2013-2023)
Source: (Beams Fintech Fund & JM Financial, 2024)

Financial Inclusion: Reaching the Last Mile

The impact of fintech in India extends far beyond urban areas, fundamentally transforming access among rural and previously unbanked citizens. India achieved an 80% financial inclusion rate in just six years, a feat that would typically take half a century. Over 500 million Jan Dhan accounts

were opened since 2014, many accessed via biometric Aadhaar authentication and mobile apps. More than 87% of Indians have now used at least one fintech service, a penetration vastly higher than the global average of 67% (Ministry of Finance, 2025). Fintech-enabled services have closed the “last-mile” banking gaps for rural residents, women, and youth, strengthening social and economic participation in India.

Challenges and Opportunities for India

Despite its transformative potential, India’s fintech sector grapples with significant regulatory uncertainty, as evolving compliance norms and periodic policy shifts demand constant adaptation from startups and incumbents alike. Furthermore, cybersecurity threats intensify alongside fintech adoption. As consumers entrust increasingly sensitive data to digital platforms, the industry faces growing risks of fraud, data breaches, and system intrusions, underscoring the urgent need for robust security frameworks and continuous investment in advanced threat-detection technologies to maintain consumer trust and safeguard financial stability.

India’s fintech landscape offers vast opportunities that can drive the next phase of inclusive growth, spawning verticals like WealthTech, InsurTech, and RegTech that promise to reshape the macroeconomic landscape. WealthTech, short for wealth management technology, leverages digital platforms and AI-driven advisory tools to democratize investing, allowing everyday Indians to access sophisticated personal finance and portfolio management services once reserved for the affluent. This is driving broader participation in equity and mutual fund markets, channelling more household savings into productive investments, and ultimately raising the country’s domestic investment rate. Similarly, InsurTech, emerging from fintech’s digitization of insurance, harnesses data analytics, IoT devices and mobile-first solutions to simplify insurance distribution, offer customized micro-insurance products and automate claims processing. RegTech, or regulatory technology, arose to meet the compliance complexities of India’s rapidly digitizing financial system. By applying AI and real-time analytics for automated KYC, AML monitoring, and digital reporting, RegTech is lowering compliance costs for banks and fintechs, streamlining product innovation, and bolstering transparency and trust across the sector. Together, these fintech-powered verticals lay the foundation for more resilient, inclusive, and growth-oriented economic development at a national level.

Conclusion

In sum, the fintech revolution stands as a powerful catalyst for inclusive economic growth, as vividly demonstrated by the trajectories of both China and India. China’s digital finance boom stimulated GDP growth, elevated household consumption, and drove financial inclusion, culminating in significant reductions in poverty, particularly among rural and underserved groups. India, building on these lessons, has rapidly scaled its own fintech ecosystem with innovations like UPI, digital lending platforms for MSMEs, and widespread efforts to bridge the financial inclusion gap. This has translated into record digital payment adoption, expanded credit access for small businesses, and a growing pool of financially empowered citizens. With continued policy support and innovation, fintech can be a cornerstone of sustainable growth and economic resilience in emerging markets.

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ARTICLE TWO

GEOPOLITICAL RISKS& STABILITY

VOLATILITY, POWER SHIFTS, AND THE NEW ECONOMIES OF SANCTION

Authors: Harshit Mittal

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Introduction

Let's get one thing straight — markets hate surprises.

Whether it's a sudden border skirmish, a trade war tweet, or yet another sanctions list from Washington, the global economy tends to react the way most of us do to turbulence at 30,000 feet — tense, jittery, and looking for the nearest seatbelt.

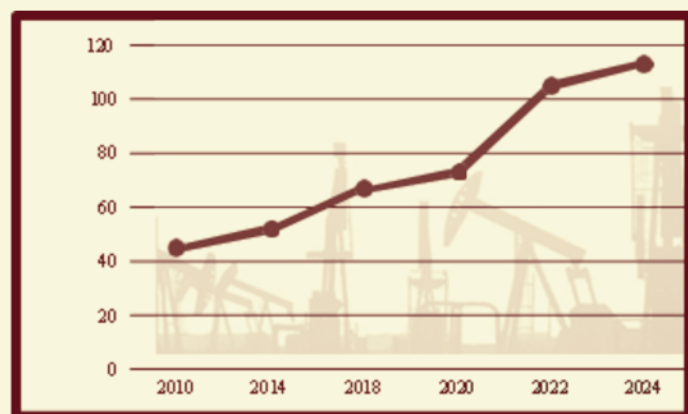
Geopolitical risks aren't just theoretical chessboard moves — they're real-world market shakers. And their effects on volatility, investment patterns, and strategic decision-making are more profound than ever.

Let's break down how shifting power dynamics, sanctions regimes, and the creeping fear of instability are quietly — and sometimes not-so-quietly — redrawing the global business map.

The Sanctions Domino: When Dollar Power Bends the Map

Here's the thing about sanctions: they were once targeted tools. Now, they're regime-shaping instruments.

Western sanctions against Russia after Crimea in 2014 were a warning shot. But post-2022? The gloves came off. Over \$300 billion in Russian central bank assets were frozen. SWIFT access was cut. Airbus and Boeing pulled out. Even McDonald's, that odd barometer of globalism, closed shop.

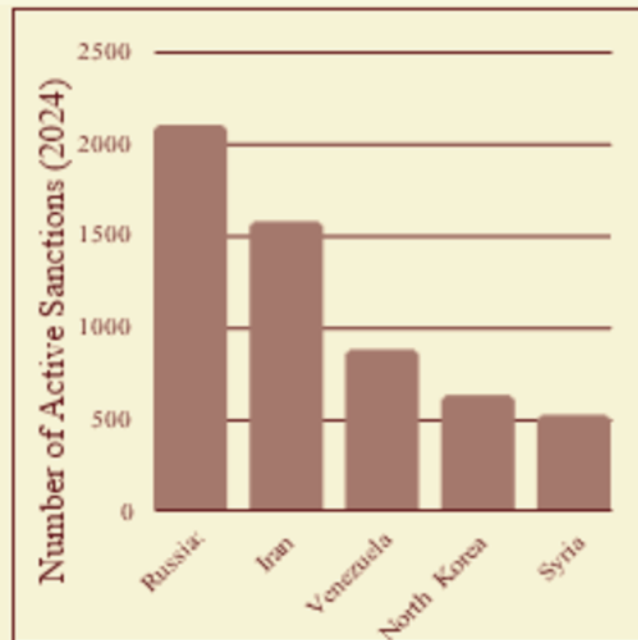


Graph 1: Global Sanctions Trend (2010–2024)

Source: Global Sanctions Database (The Dreher et al. GSDB, 2024)

Other countries watched closely. China doubled down on its digital yuan pilot. India revived its rupee-ruble trade mechanism. Saudi Arabia started pricing oil in yuan. Russia pushed “Mir” as an alternative to Visa. The message?

Over-dependence on Western systems = existential risk



Graph 2: Top 5 Countries by Number of Active US Sanctions

Source: U.S. Treasury, OFAC Sanctions List, 2024

One could argue that the West's financial might — especially via the U.S. dollar — proved its teeth. And you'd be right. But sanctions are like gravity: they don't affect just one object.

So, ironically, the more effective sanctions became, the more they fueled financial decoupling. Not because countries suddenly turned anti-West — but because they feared being next.

This matters because the global economy — trade, finance, logistics, IP — runs on shared systems. If those systems fragment under political strain, diversification isn't just a smart move. It's a survival tactic.

Take the Iran nuclear sanctions or the recent curbs on Chinese chipmakers. The diverse effect? Obvious — blocked assets, frozen contracts, and a mad dash for compliance teams. But the real magic (or mess) happens in the second and third-order effects.

Companies reroute trade flows, investors reassess country risk premiums, and alternative payment systems suddenly get interesting. (Looking at you, Russia's SPFS and China's CIPS.)

What's fascinating — and a little unnerving — is how sanctions inadvertently spark innovation. When Visa and Mastercard pulled out of Russia, the country's Mir card system surged. When Huawei lost access to Google services, it doubled down on HarmonyOS. Sanctions, in effect, force diversification — not just of suppliers, but of strategy.

The more sanctions become the go-to weapon of diplomacy, the more the global economy morphs from a single playing field into a patchwork of restricted zones and parallel systems.

Volatility is just the Symptom. The Real Disease is Institutional Erosion

It's tempting to obsess over the numbers — the bond yield spikes, the oil futures, the currency slumps. But those are just symptoms. The real issue is institutional trust — or rather, its erosion. When investors pull out of Turkey, it's not just about inflation — it's about confidence in the central bank's autonomy. When Kenyan startups struggle to attract Series B capital, it's not just VC fatigue — it's political risk priced in.

Markets don't fear risk. They fear unquantifiable risk.

Volatility, then, is not just about external shocks. It's about the perception that rules can change overnight — that contracts might not be honored, that capital controls could be imposed, that access can be revoked with the stroke of a pen.

Private equity flows into Africa have actually risen despite persistent instability in certain regions. Why? Because risk-adjusted returns are often still better than in saturated Western markets. Hedge funds love volatility because it creates arbitrage. Defense tech gets billions during conflict years. LNG players saw record profits when Europe pivoted off Russian gas.

In other words, smart investors don't just avoid geopolitical risks — they learn how to price them. **The key is knowing which risks are manageable and which are existential.**

Graph 3: MNCs Relocating Regional HQs

Source: KPMG Global Business Mobility Report, 2024

Case: OPEC+ Volatility: When Cartels Control the Mood Swings

OPEC (Organization of the Petroleum Exporting Countries), controlled by Saudi Arabia and Russia, which has often and sometimes brutally altered oil production. A sudden reduction of over 1 million barrels per day in April 2023 took traders by surprise and pushed oil prices to a high. Why it matters?

This was not price choreography but a geopolitical theater. With transparent monetary regimes and instant data dominating this age, OPEC's obscurity is its strength. The action reminded the market of the cartel's relevance in a world that is increasingly moving toward energy decentralization, the resilience of U.S. shale, and decarbonization. It reminded the world that as much as the transition to a new energy era is hastening, the old masters still have the mastery to operate the global macroeconomic levers—with strategic vagueness and impeccable timing.

Power Is Shifting And So Are the Rules

Let's address the elephant in the situation room: the post-Cold War world order isn't what it used to be.

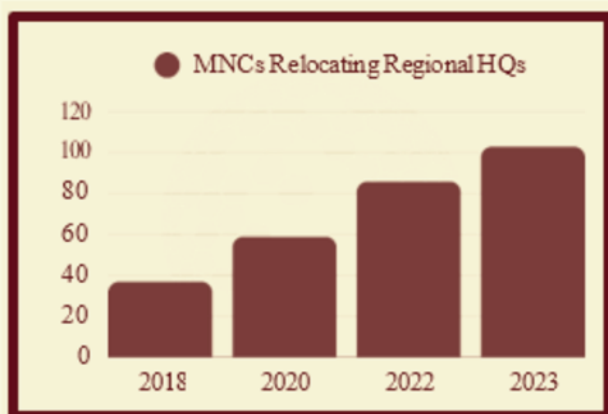
China's rise, America's internal divisions, and the growing assertiveness of middle powers like Turkey, India, and Saudi Arabia are rewriting the rules. **We're moving from a unipolar world to what analysts politely call "multipolarity."**

This shift isn't just academic. Under the old model, aligning with Western rules gave access to the biggest markets and protections. Now? It's a dance. You want to expand in China? Mind the digital sovereignty laws. Setting up shop in India? Be ready for policy whiplash and protectionist zig-zags.

Thinking about Nigeria? Great growth story — until elections spark currency controls.

Risk Isn't Just a Threat — It's a Signal

Let's get this out of the way: geopolitical risk isn't new. What's new is how it's moved from background noise to front-stage strategy. In the past, it was enough to acknowledge risk — maybe a slide buried deep in the quarterly deck. Now?



Risk is your business model's weak spot, your investor's obsession, your HR policy's quiet clause. The shift is subtle but profound. Executives were suddenly asking striking geopolitical questions that even diplomats were struggling to answer. The world isn't more dangerous per se — it's just less predictable. And unpredictability isn't a bug anymore. It's the system.

"We can no longer afford to be dependent on a single supplier for critical technology. Strategic autonomy isn't optional—it's existential."

Ursula von der Leyen,
President, European Commission

Diversification: The Buzzword that Finally Earned Its Salary

For years, diversification was one of those PowerPoint slide words — sounded good, didn't always mean much. Now? It's gospel.

From asset managers to agribusinesses, everyone's recalibrating. That doesn't just mean spreading bets across geographies. It means diversifying payment systems, risk exposure, regulatory regimes, and even PR narratives.

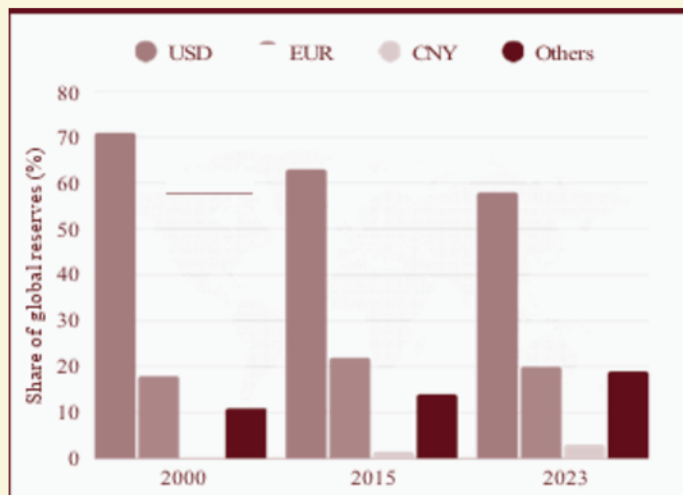
Look at how BlackRock talks about China now versus five years ago. Or how Tesla keeps charming both Washington and Beijing (awkwardly, but effectively). Companies know they can't afford to live in a single sandbox — geopolitics don't allow it.

And that's pushing innovation in odd but exciting ways. Central Bank Digital Currencies (CBDCs), crypto as a hedge in sanctioned markets, and cross-border insurance mechanisms — all of these are no longer niche. They're becoming essential tools in the modern risk manager's kit.

It's Not Paranoia If It's Real

There's a phrase you'll hear whispered on trading desks and in war rooms alike: "Markets climb a wall of worry." That wall just keeps getting taller. Geopolitical risk used to be the realm of diplomats and defense analysts. Now, it's a boardroom conversation. It's product launch timing. It's your next factory location and your FX hedge strategy.

So, if it all feels overwhelming — that's okay. That just means you're paying attention. And in a world where the lines between politics and business blur by the day, paying attention might be the only true hedge you've got.



Graph 4: Currency Diversification in Global FX Reserves

Source: IMF COFER (Currency Composition of Official Foreign Exchange Reserves), 2023

Toward a Resilient Global Order: Realigning in the Age of Risk

In an era defined by contested borders, fractured alliances, and weaponized interdependence, geopolitical risk is no longer a backdrop — it is the stage. Markets do not merely respond to fundamentals; they interpret power, narrative, and intent.

For global businesses and decision-makers, the imperative is clear: treat geopolitical volatility not as episodic noise, but as a strategic variable to be modeled, stress-tested, and actively engaged with. This demands institutional foresight, policy fluency, and organizational architecture built for ambiguity. The winners will not be those who predict the future with precision — but those who prepare for its disruption with discipline.

ARTICLE THREE

NAVIGATING GEOPOLITICS, TECHNOLOGY, AND SUSTAINABILITY IN A MULTIPOLAR FINANCIAL ORDER

Author: Himani Singh Dangi
(IIM Shillong)

Introduction

The global financial system is undergoing its most profound transformation since the end of the Bretton Woods system. The long-held dominance of the U.S. dollar, the bedrock of international trade and finance for nearly a century, is gradually giving way to a more fragmented and multipolar order. This is not a simple story of one currency replacing another, but a complex structural shift driven by a confluence of geopolitical realignment, technological disruption, and a fundamental recalibration of investment and macroeconomic strategy. The "exorbitant privilege" the dollar conferred upon the United States is being challenged, not by a single rival, but by a new ecosystem of competing currencies, payment systems, and economic alliances.

This article explores the key dimensions of this evolving landscape. It examines the primary drivers of de-dollarization, focusing on how geopolitical risks, particularly the use of financial sanctions, have accelerated the search for alternatives. It analyses the future of reserve currencies, assessing the quantitative decline of the dollar and the rise of contenders like the euro, the yuan, and gold. We will delve into the technological innovations, from Central Bank Digital Currencies (CBDCs) and blockchain-based payment rails to AI-driven financial modelling, that are providing the tools to build this new order. Concurrently, we will investigate how these shifts are reshaping investment trends, particularly among sovereign wealth funds, and how the parallel rise of sustainable finance is creating new opportunities and new arenas for competition. Finally, the article will assess the macroeconomic policy responses required to navigate this transition, charting the future of global finance in an increasingly uncertain world.

De-Dollarization and Geopolitical Risk

The move away from the dollar is no longer a theoretical debate but a policy-driven reality for many nations, accelerated by the weaponization of the dollar-centric financial system. The use of economic sanctions, asset freezes, and exclusion from the SWIFT payment network has transformed de-dollarization from an economic preference into a matter of national security for countries wary of U.S. foreign policy. The 2022 decision to freeze hundreds of billions of Russia's central bank reserves was a watershed moment, demonstrating that dollar-denominated assets carry a previously underappreciated political risk.

This has galvanized strategic action, most notably among the expanded BRICS+ bloc of nations, which now represents a significant share of the global economy and population.

- China is actively architecting a parallel financial infrastructure. It promotes the yuan for trade settlement, establishing currency swap deals with partners like Brazil and, significantly, Saudi Arabia for oil purchases. Technologically, its Cross-Border Interbank Payment System (CIPS) serves as a direct alternative to SWIFT for yuan transactions, connecting to over 1,300 institutions globally.
- Russia, facing unprecedented sanctions, has been forced to de-dollarize, replacing its dollar reserves with gold and yuan. Today, over 90% of its trade with China is conducted in local currencies, providing a large-scale proof-of-concept for non-dollar trade.
- Brazil has vocally advocated for using local currencies within BRICS, while Saudi Arabia's willingness to accept yuan for oil sales signals a potential crack in the petrodollar system that has anchored global dollar demand for decades.

These actions, driven by a desire to mitigate geopolitical risk, are creating a more fragmented financial system where political alliances increasingly dictate currency and payment choices.

The Future of Reserve Currencies

The quantitative evidence confirms a slow but steady decline in the dollar's reserve status. Its share of allocated global reserves fell from over 70% in 2001 to around 57-58% by late 2024, a trend projected to continue. However, no single currency is emerging as a direct replacement. Instead, a multipolar currency landscape is taking shape.

The most telling trends are the resurgence of gold and the rise of "non-traditional" reserve currencies. Central banks are prioritizing geopolitical neutrality, diversifying into assets free from the political influence of a single superpower. This shift from a unipolar, dollar-centric model to a more distributed, multipolar portfolio marks a fundamental change in global reserve management.

Currency/Asset	Current Share (approx.)	10-Year Outlook	Key Drivers & Constraints
US Dollar (USD)	58%	Declining to ~52%	Dominant but eroding due to geopolitical risk and
Euro (EUR)	20%	Stable to rising (~22-25%)	Beneficiary of diversification, but lacks a
Chinese Yuan (CNY)	~2.2%	Rising to ~6%	Actively promoted by China, but appeal is limited
Gold	~20%	Increasing	Seen as the ultimate neutral, geopolitically safe
Other Currencies	~10%	Increasing	Currencies like the AUD, CAD, and KRW are

Innovation in Global Finance

Geopolitical will is being matched by technological means. A wave of financial innovation is providing the practical infrastructure for a post-dollar world.

Central Bank Digital Currencies (CBDCs): Governments are exploring digital versions of their fiat currencies to improve payment efficiency and maintain monetary sovereignty. While CBDCs could streamline cross-border payments, they also pose systemic risks, such as facilitating bank runs ("fast disintermediation") during crises. Policymakers are therefore considering design features like holding limits to mitigate these dangers. Privacy is another major concern, as CBDCs could create a "digital trail" of all transactions, posing risks of surveillance and data abuse.

Alternative Payment Systems: The BRICS+ bloc is actively developing alternatives to SWIFT. Initiatives like BRICS Bridge and BRICS Pay aim to use modern technologies like Distributed Ledger Technology

(DLT) to create a decentralized platform for direct, local-currency transactions between member countries. The goal is a system that is faster, cheaper, and immune to unilateral sanctions. While ambitious, these systems face significant hurdles in overcoming the dollar's immense liquidity and network effects.

Blockchain and Tokenized Assets: The private sector is also innovating rapidly. Public blockchains are already facilitating billions of dollars in daily cross-border payments via stable coins. This technology offers near-instant settlement, radically lower costs, and 24/7 availability, presenting a powerful market-driven challenge to traditional banking rails. However, regulatory uncertainty and operational risks remain significant challenges.

AI-Driven Financial Modelling: The increasing complexity of the global financial system demands more powerful analytical tools. AI adoption in financial modelling has surged, with studies showing it can reduce forecast errors and improve accuracy significantly. By processing vast, unstructured datasets, AI models can run thousands of scenarios to provide a more robust assessment of risk and opportunity in this volatile new environment.

Post-Dollar Investment and Sustainable Finance

The transition to a multipolar world is forcing a strategic rethink among the world's largest investors. Geopolitical risk is now a central factor in asset allocation, a trend clearly visible in the actions of Sovereign Wealth Funds (SWFs).

SWFs are pivoting away from passive, market-weighted strategies—which often have heavy, concentrated exposure to the U.S.—and embracing active management to navigate uncertainty. Significant home bias has emerged, with funds deploying more capital domestically to build economic resilience. Investment is flowing into strategic real assets like infrastructure and critical technologies like Artificial Intelligence (AI), reflecting a mandate that is now as much about national industrial policy as it is about financial returns. Some funds are even acquiring soft power assets like professional sports franchises to advance geopolitical goals.

This new investment landscape is converging with the powerful trend of sustainable finance. The market for green bonds, which finance environmentally beneficial projects, has grown to over \$6 trillion.

These instruments are a vital tool for emerging economies seeking to fund their climate transitions, though issuance has faced macroeconomic headwinds in early 2025.

However, far from being a unifying force, ESG (Environmental, Social, and Governance) investing is becoming another arena for geopolitical expression. In the U.S., ESG preferences are sharply polarized along political lines, forcing large asset managers into moderate positions to avoid alienating clients. Globally, this could lead to fragmented sustainability frameworks, with different blocs prioritizing different aspects of ESG based on their values and strategic needs. For example, the definition of a sustainable investment could diverge, with one nation including its domestic defence or energy sector for national security reasons, while another excludes them. This suggests a future of competing green blocs, where access to sustainable capital may become tied to geopolitical alignment.

Macroeconomic Policy Responses

This systemic shift carries profound macroeconomic consequences. For the United States, the erosion of the dollar's exorbitant privilege threatens to impose an external discipline long absent. A structural decline in global demand for U.S. assets could lead to higher domestic borrowing costs, a weaker dollar, and more persistent inflationary pressures. The IMF's July 2025 outlook already warns that U.S. inflation may remain stubbornly above target even as it subsides elsewhere.

For the global economy, the transition creates an environment of divergence and uncertainty. The IMF and World Bank project sluggish global growth for 2025, citing rising trade barriers and policy uncertainty as key drags. Economic performance is diverging sharply, with India projected to grow robustly at 6.4% while the Euro area sees a modest 1% recovery. This divergence makes the kind of coordinated global policy response seen in past crises nearly impossible, likely leading to greater exchange rate volatility and more disruptive capital flows. The primary challenge for central banks is no longer managing an integrated global system but navigating the inherent instability of a fragmented one.

Conclusion

The era of unipolar finance is over. The global system is transitioning "Beyond the Dollar" not to a new hegemon, but to a multipolar, multi-currency, and multi-system reality. This new order is being shaped by the strategic imperatives of geopolitics, the disruptive power of technology,

and the evolving values of sustainable finance. The path forward will be complex and contested.

For policymakers, the focus must shift to building resilience in a more volatile world, requiring greater fiscal discipline and a new form of multi-bloc diplomacy. For investors, traditional diversification is no longer enough; survival and success will demand a deeper diversification across currencies, political systems, and technological platforms, guided by sophisticated geopolitical risk analysis. For financial institutions, strategic and technological agility will be paramount, as business models must adapt to a world with multiple payment rails and competing regulatory frameworks.

The certainties of the post-Bretton Woods era are fading, replaced by the complexities of a fragmented but dynamic new landscape. Success in the 21st-century global financial order will belong to those who can understand, adapt to, and ultimately shape this multipolar future.

HONORARY MENTION-1

CRACKS IN THE CROWN: THE U.S. DOLLAR'S DIMINISHING DOMINANCE AND THE GLOBAL SHIFT TOWARDS RESERVE DIVERSIFICATION

Author: Ayushi Agarwal, Ayushi Sahu
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Introduction: The Unraveling of Dollar Supremacy

As the main reserve currency, the medium of exchange for oil transactions, and the default store of value for central banks and sovereign wealth funds, the U.S. dollar has long occupied a special position in international finance. For decades, the United States has been able to borrow at low rates and retain its economic clout thanks to its dominance. But there are indications of a paradigm shift in 2025. The U.S. Dollar Index (DXY), which gauges the strength of the dollar in relation to other major currencies, has fallen more than 11% in just six months for the first time in more than 50 years. This fall is the worst first-half decline since 1973, as seen in Exhibit 1.

Instead of being an anomaly, such a steep fall is an indication of more significant structural issues.

This sharp decline is a sign of more serious structural problems, such as widening fiscal deficits, ongoing trade imbalances, and a growing sense of political unrest in the US. At the same time, a number of global technological and financial advancements have made room for alternatives. A concerted worldwide reassessment of dollar dependence is the outcome, especially for developing and regional countries.

Central Banks Reallocate: The Rise of the Reserve Mix

Global central banks are reassessing their reserve assets as economic volatility and geopolitical risk rise. Once the indisputable foundation of world reserves, the dollar is currently facing intense competition. The 2025 OMFIF Global Public Investor Report states that 25% of central banks questioned want to decrease their exposure to the dollar in favor of currencies like the euro and Chinese yuan, while 40% of them want to boost their gold holdings.

Exhibit 2 compares the composition of the world's reserve currencies from 2020 to 2025E. The euro and yuan have increased to 22.1% and 5.9%, respectively, while the U.S. dollar's share has dropped from 59% to 52.8%. Additionally, the value-based portion of gold holdings has grown, going from 10.4% to 13.7%

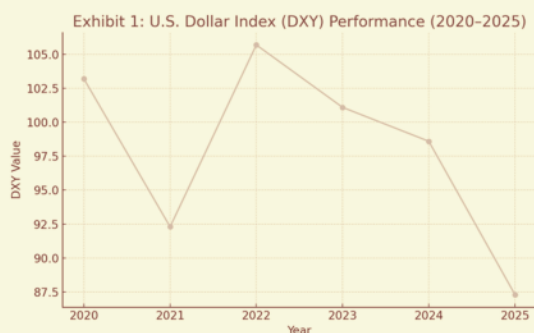


Fig.1: Economic slowdown from Q2 to Q3(1.5%) as compared to Q1 to Q2(2.0%)
SOURCE:Study.com

BRICS and Local Currency Trade: The Foundations of a New Order

A key front in the de-dollarization effort is being led by the BRICS alliance - comprising Brazil, Russia, India, China, and South Africa - now expanded to include Saudi Arabia, Egypt, and Iran. These countries have collectively pushed to restructure global trade away from dollar hegemony. Mechanisms such as BRICS Pay, an interbank real-time settlement platform outside SWIFT, and the BRICS Development Fund, which offers loans in local currencies, are driving this transformation.

As shown in Exhibit 3, local currency trade settlements among BRICS nations have nearly tripled from \$98 billion in 2020 to \$276 billion in 2025. Brazil and China have switched to using yuan invoicing for agricultural commerce, while nations like Russia and India are still settling energy purchases in rupees. These changes are a deliberate geopolitical attempt to reduce dependence

on a dollar-centric system that can be used for sanctions and coercive diplomacy, in addition to the economic benefits.

Central Banks Reallocate: The Rise of the Reserve Mix

AGold has always been seen as a refuge during uncertain times. As central banks increasingly see gold as a neutral, politically untouchable reserve asset, this pattern has significantly reappeared in the 2020s. Central banks purchased 244 metric tons of gold in Q1 2025 alone, the largest quarterly amount ever noted

The most aggressive accumulator is China, whose reserves are said to exceed 2,299 tonnes. Analysts estimate that when unreported holdings and gold imports via Hong Kong and Switzerland are taken into account, this number may be significantly higher. The gold reserves of other central banks have also grown significantly, especially those in Kazakhstan, India, and Turkey.

Exhibit 4 illustrates the global increase in gold purchases by central banks from 2018 to 2025. Purchases have skyrocketed from 273 metric tonnes in 2020 to an estimated 1,250 metric tonnes in 2025. The trend shows a growing desire to own recognisable, tangible assets that are immune to financial restraints, political pressure, and online monitoring.

Digital Currencies: Stablecoins and the CBDC Revolution

The digital realm gives a futuristic vision, while actual gold serves as a hedge. The dollar's online footprint is strengthened by stablecoins like USDT (Tether) and USDC (USD Coin), which presently control decentralized financial transactions worldwide. This dominance is being questioned, though. The European Central Bank recently warned that dollar-based stablecoins could erode eurozone monetary sovereignty. This concern is prompting regulatory responses and parallel innovation.

Central Bank Digital Currencies (CBDCs) are emerging as sovereign alternatives to dollar-clearing systems. The European Union is moving forward with its Digital Euro initiative, China's e-CNY is already in use, and India's Digital Rupee is in retail pilots.

A comparison of CBDC adoption rates and status levels in key economies as of 2025 is provided in Exhibit 5. With a complete rollout and a population acceptance rate of 12.5%, China is in the lead, followed by India with a 4.1% adoption rate. The United States is still in the feasibility study stage, despite its fintech expertise. It is anticipated that these digital currencies will lessen reliance on the dollar by enabling faster, less expensive, and independent international settlements.

Sanctions and Financial Fragmentation: The Push for Autonomy

The perceived overreach of U.S. financial sanctions has been a major geopolitical driver of de-dollarization. Dollar-based sanctions and SWIFT limitations have frozen the reserves of countries like Iran, Russia, and Venezuela and hindered trade. This has spurred several nations to look into other options - not out of disobedience, but out of need.

The result is a wave of financial fragmentation:

- Russia has developed SPFS, a local SWIFT alternative.
 - China's CIPS is gaining traction, particularly among Belt & Road countries.
 - Countries are increasingly relying on bilateral currency swap agreements and even barter systems to avoid exposure to dollar-driven controls.
- The dollar's vulnerability stems not from market rejection, but from trust erosion. Its overuse as a weapon has pushed even allies to explore strategic hedging.

Shifting Investment Strategies: Recalibrating Risk and Return

As reserve managers make changes to their holdings, both individual and institutional investors are reevaluating their exposure to dollar assets. In nations like Singapore, the United Arab Emirates, and Norway, Sovereign Wealth Funds (SWFs) have started shifting their holdings away from U.S. Treasuries and toward gold exchange-traded funds (ETFs), emerging market assets, and bonds denominated in euros and yuan.

Global ESG funds and impact investors are increasingly interested in green bonds issued by non-Western countries; many of these bonds are now offered in local currencies rather than US dollars. BlackRock and Bridgewater, two of the largest asset managers globally, have issued recommendations that highlight the long-term risks associated with an over-reliance on dollar assets.

The implications are clearly visualized in Exhibit 2 and Exhibit 4, which show the corresponding shift in currency reserves and gold allocations. Investors are not abandoning the dollar - but they are planning for a world where it will be one of several anchors in a multipolar reserve system.

Conclusion: Toward Monetary Multipolarity

A more intricate, multipolar financial ecology is progressively replacing the period of uncontested dollar dominance. Financial innovations, the decline of institutional trust, and geopolitical realignments are driving the global economy to actively create alternatives.

Although its monopolistic hold is eroding, the U.S. dollar is not going to completely vanish from the reserve landscape. Countries are diversifying in addition to looking for economic gains in order to ensure their independence, resilience, and continued relevance. This change is not only economically necessary, but also strategically necessary for governments, central bankers, and investors.

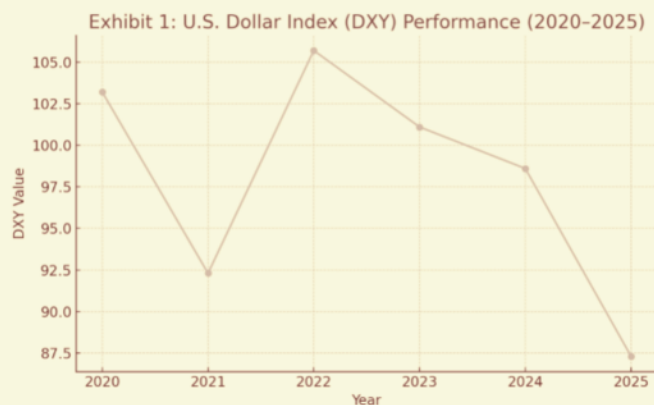


Exhibit 1

Exhibit 2: Reserve Currency Breakdown (2020 vs. 2025E)

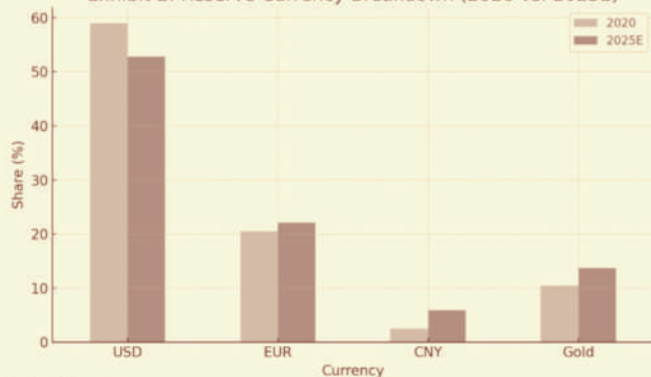


Exhibit 2

Exhibit 3: BRICS Local Currency Trade (2020-2025)

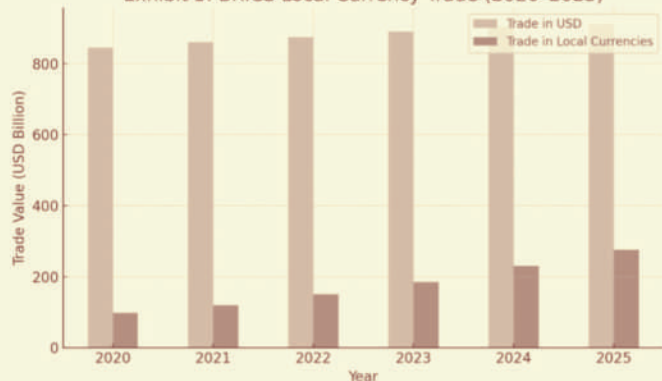


Exhibit 3

Exhibit 4: Central Bank Gold Purchases (2018-2025)

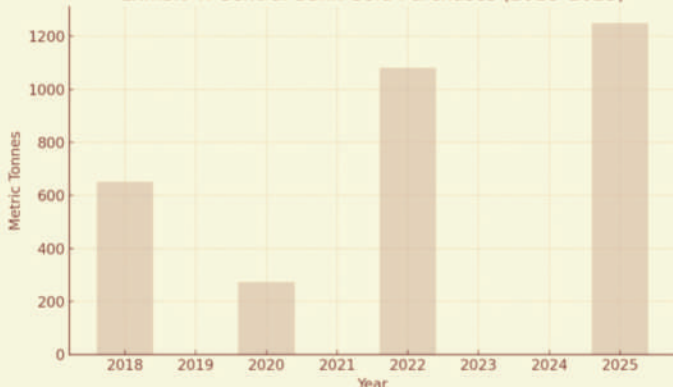


Exhibit 4

Exhibit 5: CBDC Status and Adoption (2025)

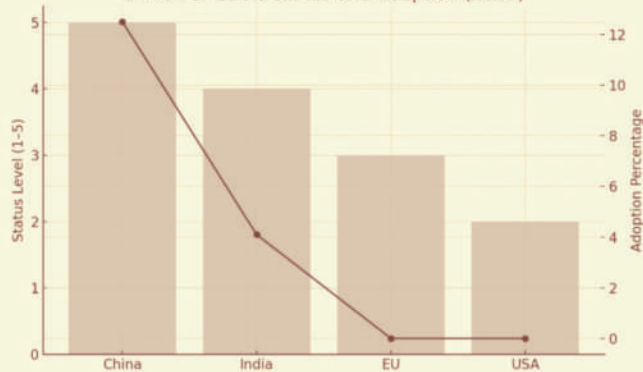


Exhibit 5

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HONORARY MENTION-2

FROM SANCTIONS TO STABILITY: HOW GEOPOLITICS IS RESHAPING GLOBAL RESERVES AND RESERVE CURRENCY FUTURES

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Abstract

The U.S. dollar has traditionally held the position of the world's leading reserve currency, forming the backbone of international trade and cross-border transactions. In recent years, however, this dominance has come under increasing pressure due to intensifying geopolitical conflicts and the reconfiguration of global alliances. A visible shift toward de-dollarization is taking shape—particularly in commodity markets, where a growing volume of energy trade is being conducted in non-dollar currencies. At the same time, the share of the dollar in central bank foreign exchange reserves has fallen to its lowest point in over two decades, and foreign investment in U.S. Treasuries has steadily waned over the past fifteen years. This paper investigates the geopolitical catalysts behind these evolving trends and analyses the future trajectory of global reserve currencies in the context of an emerging multipolar financial landscape.

Introduction

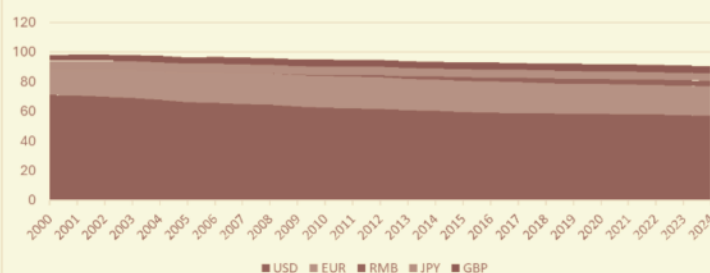
The U.S. dollar has long held an unparalleled position in the global financial system, serving as the dominant reserve currency since the mid-20th century. Underpinned by the Bretton Woods system and later solidified through the petrodollar era, the dollar became the backbone of international trade, investment, and monetary stability.

However, this dominance is increasingly under scrutiny. Geopolitical disruptions—most notably the Russia–Ukraine conflict and intensifying U.S.–China tensions—have accelerated concerns over dollar dependence. U.S.-led economic sanctions have amplified incentives for countries to reduce their exposure to the dollar-based system. As a result, de-dollarization has shifted from theoretical discourse to tangible policy action.

A key signal of this shift is visible in central bank behavior. As shown in Figure 1, the U.S. dollar's share in global foreign exchange reserves has declined from over 70% in 1999 to 57% by 2024, reaching a two-decade low. This trend coincides with a notable drop in foreign ownership of U.S. Treasuries and the expansion of bilateral trade agreements settled in non-dollar currencies.

Figure 1: Composition of Global Foreign Exchange Reserves by Currency (% Share, 2000–2024)

Source: Simulated from IMF COFER Trends



Real-world examples further demonstrate the pace and breadth of these changes. Table 1 presents selected de-dollarization initiatives from 2022 to 2024, including China–Russia energy trade in yuan, India–Russia rupee-based settlements, and ASEAN's local currency framework.

Country/Bloc	Year	Initiative Description	Alternative Currency
China–Russia	2022	Settled oil & gas contracts in RMB;	Chinese Yuan (RMB)
India–Russia	2023	Bilateral settlement in INR–Ruble for	Indian Rupee, Russian Ruble
BRICS	2023	Proposed common BRICS currency	To be decided (under study)
Saudi Arabia–China	2023	Talks to settle oil exports to China in	Chinese Yuan (RMB)
ASEAN Bloc	2022	Launched Local Currency Settlements	Local currencies (e.g., IDR, MYR, THB)

Table 1: Selected Global De-Dollarization Initiatives (2022–2024)

These developments raise an urgent question: if the world is diversifying away from the dollar, what currency or system could emerge to replace or complement it? While no single alternative yet matches the dollar's depth, scale, and global trust, contenders such as the Chinese Yuan, the Euro, and a proposed BRICS reserve asset are gaining traction.

This article explores two interlinked dynamics: the geopolitical drivers of this shift, and the evolving debate over the future of global reserve currencies.

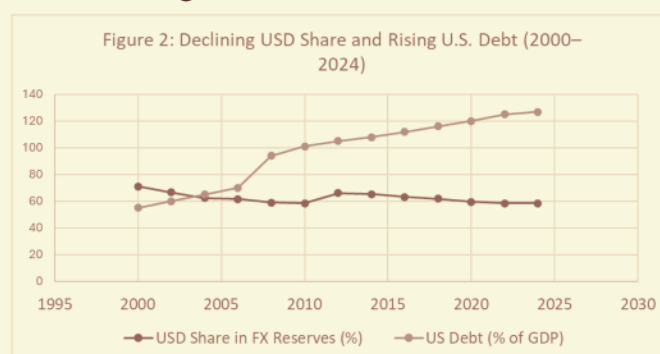
Geopolitics and Foreign Exchange Reserves

Foreign exchange reserves are a cornerstone of national financial security, enabling sovereigns to stabilize their currencies, manage external shocks, and reinforce investor confidence. For much of the post-World War II era, these reserves have been overwhelmingly dollar-denominated, a testament to the U.S. dollar's historical advantages in liquidity, convertibility, and institutional trust. The dollar's central role in global finance was further reinforced by the petrodollar system and the size and depth of U.S. capital markets. However, the geopolitical landscape of the 21st century has disrupted this longstanding structure. In recent years, the United States has increasingly relied on financial sanctions and asset freezes as tools of foreign policy. While effective in pressuring targeted states, this tactic has sent a powerful signal to the wider international community: access to the dollar system is not guaranteed, but conditional. The freezing of nearly \$300 billion in Russian central bank assets in 2022, coupled with Iran and Venezuela's earlier exclusion from SWIFT, has catalyzed a re-evaluation of reserve strategies across many emerging economies.

These actions have underscored the geopolitical risk embedded in overreliance on the dollar. According to the IMF's COFER database, the dollar's share of global FX reserves has declined from over 70 percent in 2000 to just 58.4 percent in 2024, its lowest point in more than two decades (Figure 1). The reaction has been sharpest among countries wary of Western economic coercion. China has aggressively pursued a strategy of "Fortress FX," building substantial gold reserves, increasing cross-border use of the yuan, and establishing alternative financial infrastructure through the Cross-Border Interbank Payment System (CIPS). Russia, following the 2014 Crimea annexation, restructured its reserves away from dollars and into gold, yuan, and euros. Similarly, Turkey, Iran, and ASEAN members have sought to settle trade in local currencies or diversify into non-dollar assets

This shift reflects not only geopolitical resistance but also deepening concerns about the structural soundness of the dollar itself. The United States' public debt has reached unprecedented levels, exceeding \$34 trillion as of 2024. The debt-to-GDP ratio now surpasses 120 percent, far above historical norms and approaching levels typically seen during wartime. Persistent fiscal deficits, political standoffs over debt ceilings, and rising interest costs have led credit agencies to signal long-term risks. For reserve managers, these trends translate into a new dimension of vulnerability: the risk of holding dollar-denominated securities that may lose value or become politically constrained.

As illustrated in Figure 2, there is a visible divergence between the rise of U.S. federal debt and the decline in the dollar's global reserve share. The percentage of U.S. public debt held by foreign governments has fallen from approximately 50 percent in 2008 to under 30 percent in 2024. This reduction is not merely market driven; it reflects deliberate strategic choices. Central banks are increasingly seeking to insulate themselves from geopolitical and fiscal volatility by investing in more neutral assets such as gold, the IMF's Special Drawing Rights (SDRs), and select regional currencies.



These developments raise an urgent question: if the world is diversifying away from the dollar, what currency or system could emerge to replace or complement it? While no single alternative yet matches the dollar's depth, scale, and global trust, contenders such as the Chinese Yuan, the Euro, and a proposed BRICS reserve asset are gaining traction.

This article explores two interlinked dynamics: the geopolitical drivers of this shift, and the evolving debate over the future of global reserve currencies.

These developments have a compounding effect. As more economies seek autonomy from the dollar, network effects begin to shift. If major energy exporters, global manufacturing hubs, or strategic blocs like ASEAN and BRICS reduce their dollar exposure, others may follow not out of ideology but out of necessity. Additionally, the availability of dollar liquidity in crisis scenarios may weaken if U.S. policy becomes more domestically focused due to its own fiscal constraints.

Rising U.S. debt is a ticking time bomb. If triggered, it could leave the global financial system exposed to systemic risk. Inflationary pressures and higher U.S. interest rates have already strained emerging markets with dollar-denominated liabilities. Should a confidence crisis emerge in the U.S. Treasury market, reserve holders may accelerate diversification at a scale that shifts global currency alignments permanently.

The convergence of strategic pressure and fiscal vulnerability is accelerating the shift toward a multipolar reserve structure that seeks both financial resilience and political neutrality. Whether this results in a full transition or merely a new balance of power remains to be seen, but the message from the world's central banks is increasingly clear: the era of unquestioned dollar supremacy is being reconsidered.

1The Future of Global Reserve Currency

he global monetary system is undergoing a period of accelerated transformation. While the U.S. dollar continues to dominate foreign exchange reserves, its singular supremacy is increasingly being questioned. Economic sanctions, rising U.S. debt, geopolitical realignments, and rapid digital innovation are collectively driving central banks to seek alternative forms of stability. The future of global reserves is no longer just a debate over which currency might rival the dollar, but rather how multiple forces are converging to reshape the logic of reserve allocation altogether.

A dominant reserve currency has historically rested on a few critical foundations: deep and liquid financial markets, macroeconomic stability, free capital flows, institutional trust, and wide global acceptance. For decades, the U.S. dollar satisfied all of these requirements, making it the default global store of value. However, in today's evolving multipolar world, these criteria are being reassessed. Countries are no longer evaluating alternatives solely through the lens of economic fundamentals, but also through questions of resilience, autonomy, and technological adaptability.

The shift is already underway. Central banks have begun diversifying their reserves to include not just the euro and the Chinese yuan, but also gold and, increasingly, digital assets. As shown in Table 2, no single contender yet matches the dollar across all traditional indicators. However, the picture is more dynamic than static. The euro continues to hold strength within rule-based institutional frameworks.

Criteri a	USD	EUR	RMB	Gold
Global FX Turnov er Share (%)	880%	310%	70%	N/A
Capital Accou nt Openn ess (Chinn- lto Index)	1.0 (Fully Open)	0.9 (Open)	-0.4 (Closed)	N/A
Inflatio n Rate (2024 est.)	32%	25%	19%	N/A (Non- inflatio nary)
10Y Govern ment Bond Yield	4.2% (Treasu ry)	29%	2.5% (CGBs)	0%
IMF COFER Reserv e Share (%)	584%	199%	27%	~4.3% (WGC est.)
S&P Sovere ign Credit Rating	AA+	AA	A+	Not applica ble
Geopol itical Neutra lity (proxy)	Low (Sancti on use)	Mediu m	Low (Autho ritarian)	High

Table 2: Reserve Currency Suitability — Comparative Indicators (2024)

The yuan, despite capital account restrictions, is gaining momentum via bilateral trade, Belt and Road financing, and growing digital integration. Gold, while limited in functionality, has re-emerged as a neutral hedge amid heightened sanctions risk and currency weaponization.

Still, the most disruptive force reshaping reserve behaviour may not be a currency in the traditional sense — but a shift in infrastructure. Central Bank Digital Currencies (CBDCs) are offering a new mechanism for liquidity, trust, and settlement outside the legacy dollar-based system. China's e-CNY, already in advanced pilot use, allows programmable, real-time cross-border transactions that bypass SWIFT and minimize dependence on dollar-clearing banks. Other countries like the UAE, India, Brazil, and South Africa are also moving toward interoperable CBDC frameworks.

Projects such as BIS's mBridge show how multilateral CBDC platforms can connect countries directly, enabling instantaneous settlement across borders without routing through dollar-based systems. This has profound implications: not only does it reduce transaction time from T+2 to near real-time, but it also insulates countries from the geopolitical leverage embedded in current infrastructure.

The implications go beyond speed and cost. CBDCs open the door to programmable reserves, conditional access, and new forms of liquidity pooling. Figure 4 summarizes the broader strategic and economic benefits CBDCs introduce — benefits that could fundamentally reshape how reserves are chosen, stored, and mobilized. They provide monetary autonomy, improve compliance and transparency, reduce reliance on third-party systems, and allow nations to structure bilateral and multilateral reserves based on shared infrastructure rather than shared currency zones.



Looking forward, several reserve currency futures appear plausible. The most conservative is a diversified dollar-centric model, where central banks hold reduced, but still dominant, dollar allocations alongside the euro, yuan, gold, and digital tokens. Another, increasingly likely, is the emergence of a bifurcated reserve system — one led by the U.S. and its allies, and another rooted in regional cooperation through digital currencies or asset-backed reserve instruments.

This path would be reinforced by geopolitical blocs such as BRICS+, ASEAN, or the SCO settling trade in native or jointly issued digital currencies.

The most transformative scenario envisions the rise of a tokenized global reserve infrastructure, where digital currencies, CBDCs, and commodity-linked tokens reduce the need for traditional fiat dominance altogether. In this model, the key reserve assets would not be defined by their issuing country, but by their credibility, convertibility, interoperability, and access. It would represent a paradigm shift — from currency competition to infrastructure competition.

While the dollar is unlikely to vanish, its role will be increasingly contested in a world where central banks prioritize resilience over habit. The future of reserve currencies will not be about choosing one over another, but about diversifying intelligently across assets, systems, and geographies. The defining feature of this new reserve era will not be unipolarity, but adaptability.

From Dominance to Diversification

The global financial system is no longer anchored to a single axis. While the U.S. dollar continues to dominate as the world's primary reserve currency, that dominance is under increasing pressure from shifting geopolitical alliances, rising fiscal uncertainties, and the growing appeal of alternative frameworks. The trend of de-dollarization, once discussed in theoretical circles, has now taken material shape. It is reflected in the composition of central bank reserves, bilateral trade settlements, and the declining share of U.S. Treasuries held by foreign institutions.

Geopolitical tensions, including the use of financial systems as tools of influence through sanctions, have accelerated the push toward diversification. At the same time, structural challenges like America's expanding debt burden and the politicization of its monetary instruments have introduced new risks for global reserve managers. As explored in this article, central banks are responding not by abandoning the dollar completely, but by building buffers through gold, regional currency arrangements, and incremental shifts in allocation strategies.

The future of reserve currencies will not be shaped by geopolitics alone. Technological change, particularly the rise of Central Bank Digital Currencies, is transforming the way cross-border liquidity is accessed and exchanged. These new instruments allow for real-time settlement, reduce reliance on intermediaries, and offer programmable features that traditional reserves cannot match.

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