



COMMENTS ON ASSESSING THE GEOPOLITICAL THREAT TO
GLOBAL FINANCIAL INFRASTRUCTURE

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Main points of the presentation

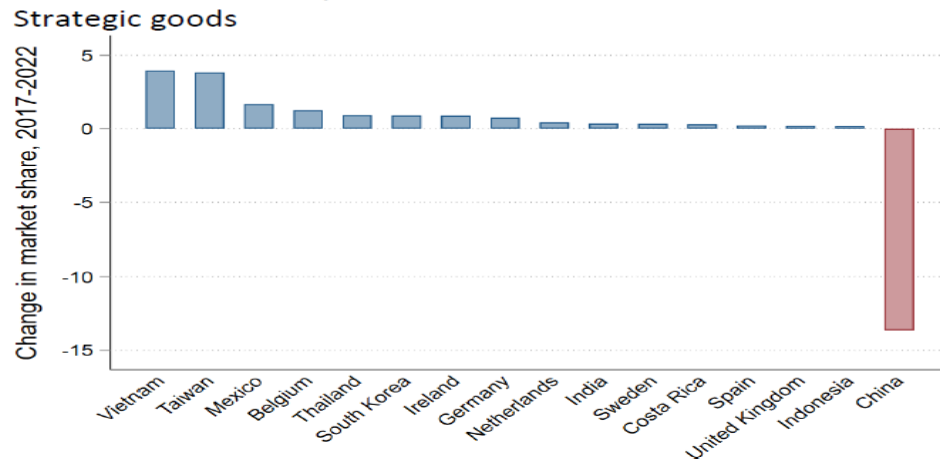
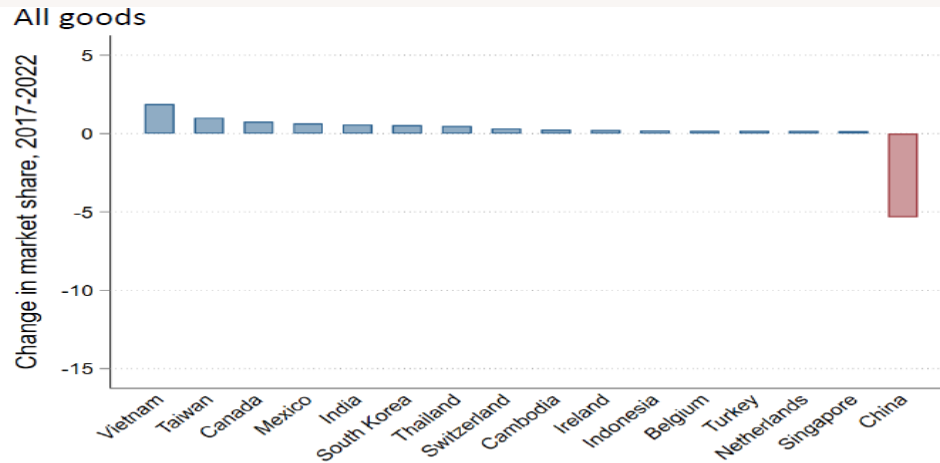
- Evaluates the recent developments in global financial infrastructure
 - Global public institutions are resilient
 - Conflict avoidance: e.g., China
 - Existing infrastructure still valuable: SWIFT
 - Stable dollar-centric monetary order
 - Few cyber disruptions
- Identifies risk factors
 - G7 sanctions overreach
 - Gaps in data sharing
 - Infrastructure fragmentation
 - Ukraine war escalation
 - Chinese unexpected uncooperative shift

How can we assess financial stability and the global financial system after the pandemic?

- ❑ Resilience of the global financial system and banking system
- ❑ High volatility in financial markets (especially, in emerging economies)
 - Spillovers of US interest rate shock/bank failures
- ❑ Increased geopolitical risks
 - Escalation in US–China conflicts
 - Russia–Ukraine war
- ❑ Geo-economic fragmentation
 - Use of economic tools to advance geopolitical objectives
 - Global trade and financial fragmentation in progress
- ❑ Threat from AI and new technologies
- ❑ Limited role of international financial institutions
 - Limited international coordination in macroeconomic/financial policies
 - IMF, World Bank
 - G7, G20

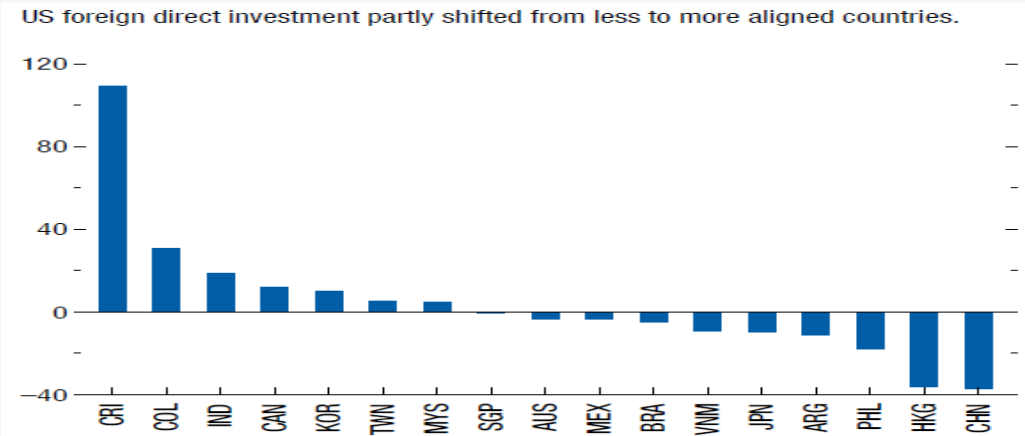
US-led “de-risking” and geoeconomic fragmentation

Change in US import share
2017 vs 2022

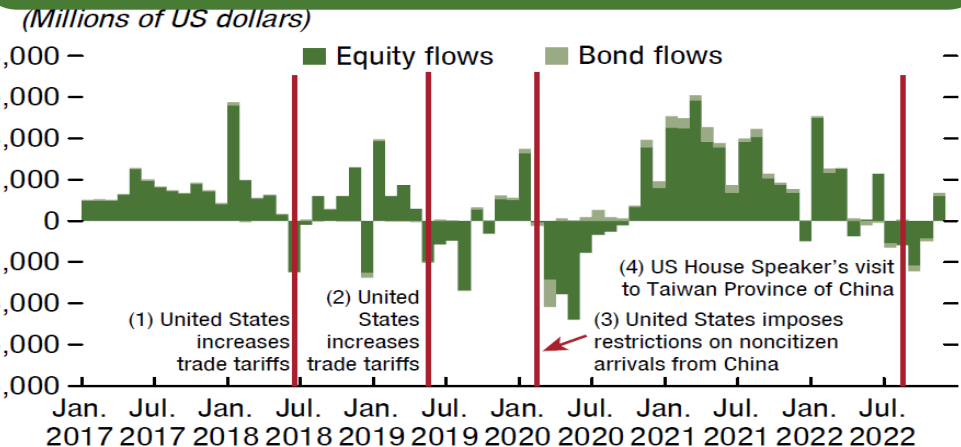


Source: Freund, C., A. Mattoo, A. Mulabdic, and M. Ruta, “Is US Trade Policy Reshaping Global Supply Chains?”, May 2023

Change in outward US FDI (2020:Q2-22:Q4 vs 2015:Q1-20:Q1, % p deviation from aggregate change)



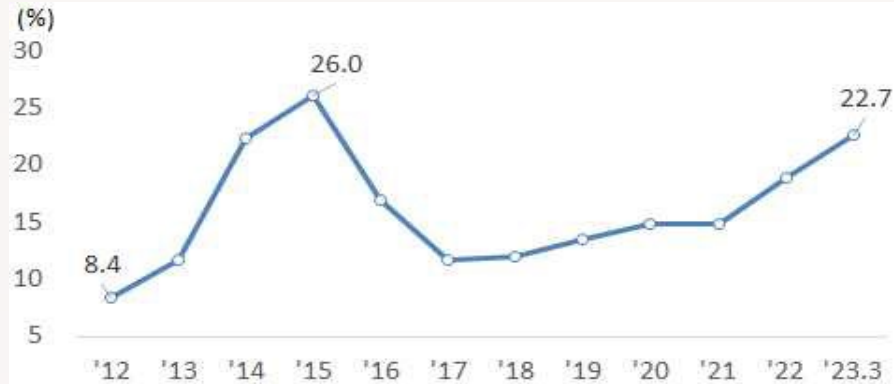
US Investment Funds' Portfolio Investment
Flows to China, 2017-22



Source: IMF, World Economic Outlook, April 2023, Chapter 4; IMF, Global Financial Stability Report, April 2023, Chapter 3

China's responses—What transformation might occur?

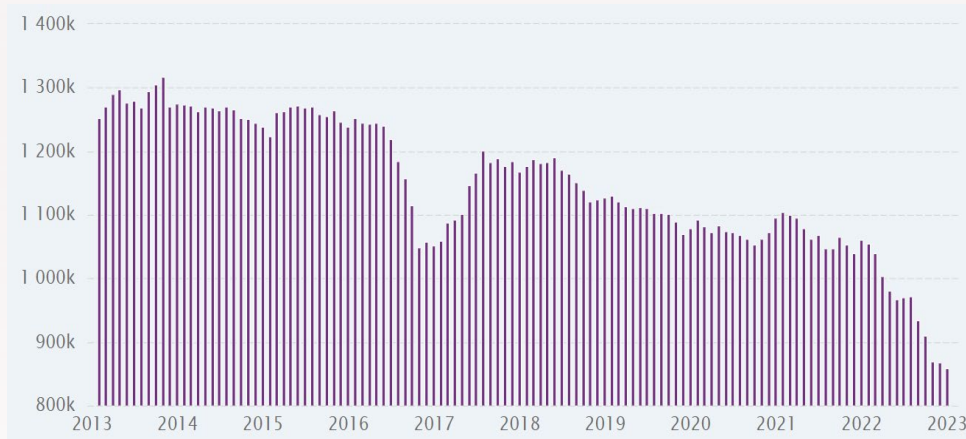
Share of RMB payments in China trade



Digital RMB (e-CNY)

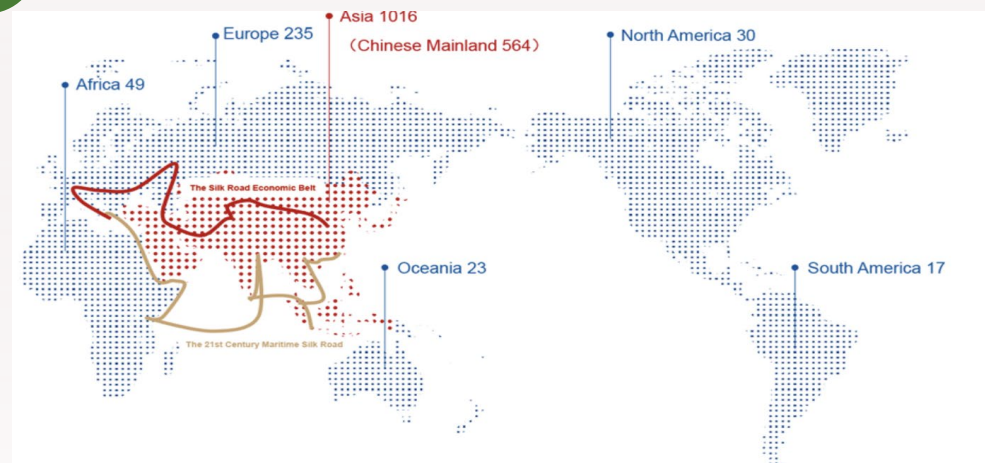


China Holdings of US Treasury Securities (US million dollars)



Source: CEIC

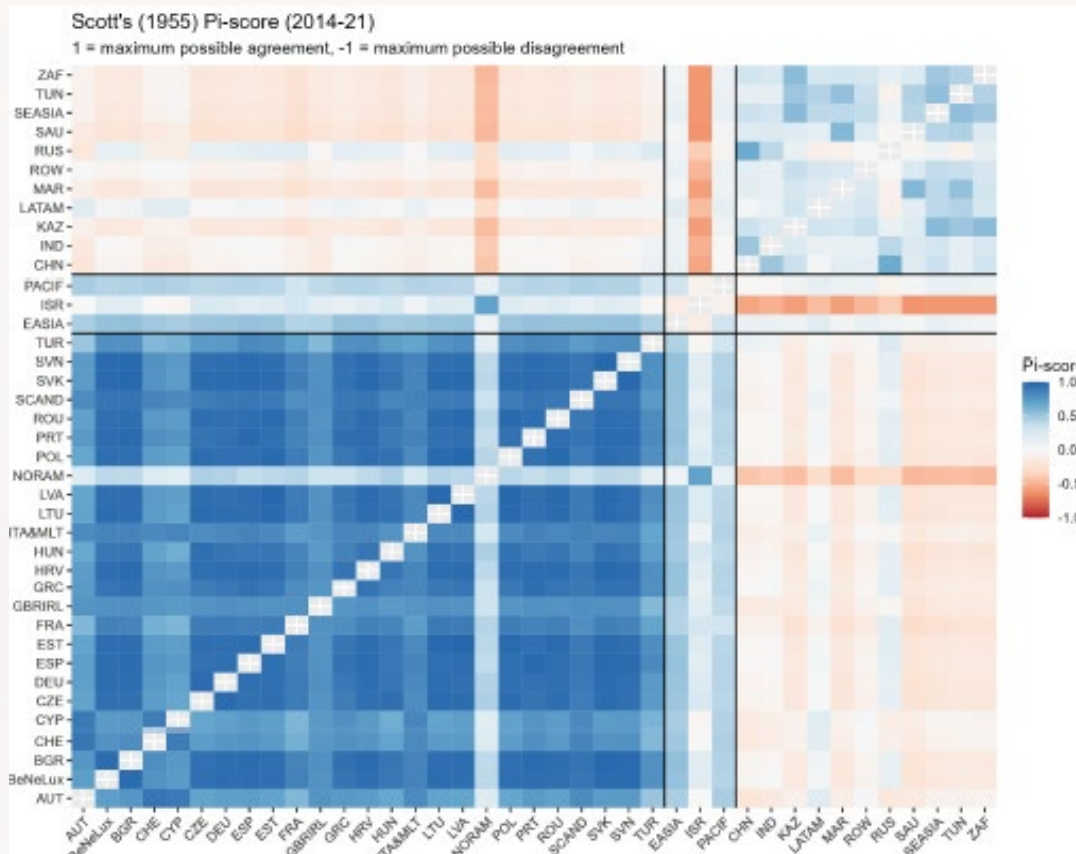
CIPS participants (as of August 2023)



Source: CIPS, CIPS participants announcement No. 88, August 2023

Could 'friend-shoring' lead to further fragmentation?

Political proximity



- Notes:** The score is based on UN General Assembly voting between 2014 and 2021: 1 - maximum possible agreement, -1 - maximum possible disagreement. Economies are ordered alphabetically within their bloc NORTHAM: USA & Canada, EASIA - East Asia: Japan, Republic of Korea & Singapore, SEASIA - Indonesia, Cambodia, Laos, Myanmar, Malaysia, Philippines, Thailand & Vietnam
- Source:** Javorcik, B.S. et al., Economic costs of friend-shoring, May 2023

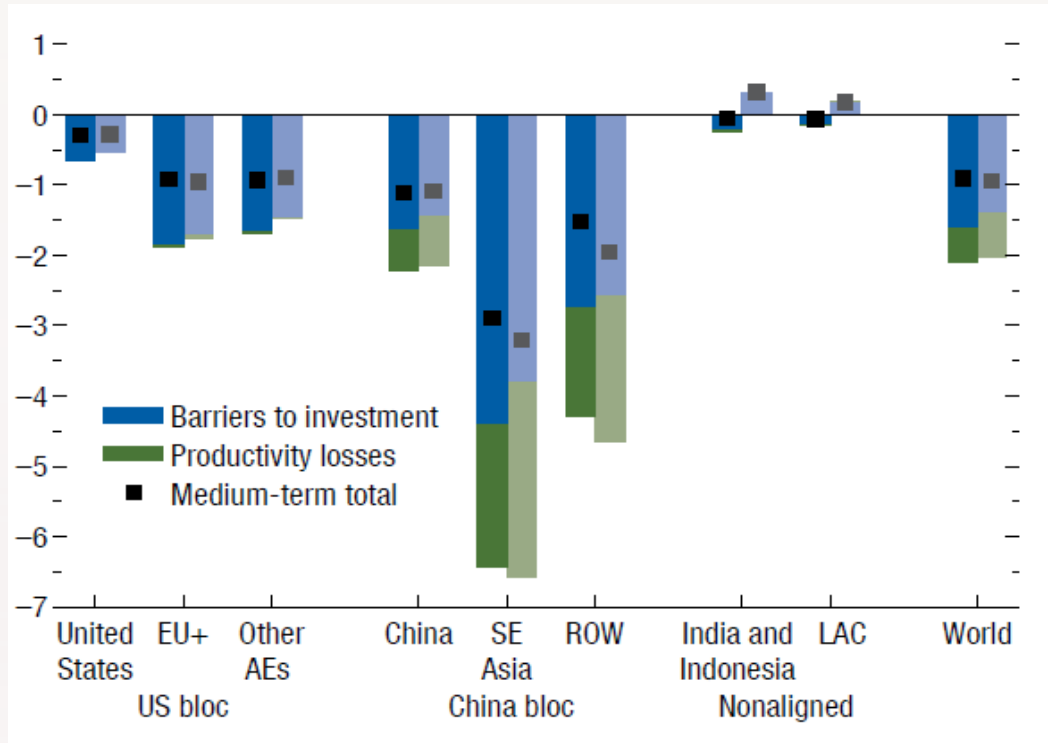
Fragmentation scenarios

Model Region	GDP Share (Percent)	Fragmentation Scenarios			
		Two Blocs + Nonaligned EMDE Regions	Nonaligned EU+	Nonaligned EMDEs Join China Bloc	Nonaligned EMDEs Join US Bloc
United States	16.0	US Bloc			US Bloc
China	17.5	China Bloc		China Bloc	China Bloc
EU+	15.6	US Bloc	Nonaligned	US Bloc	US Bloc
Other AEs	13.8	US Bloc			US Bloc
India and Indonesia	9.6	Nonaligned		China Bloc	US Bloc
Southeast Asia	4.0	China Bloc		China Bloc	China Bloc
LAC	6.5	Nonaligned			US Bloc
ROW	17.0	China Bloc			China Bloc

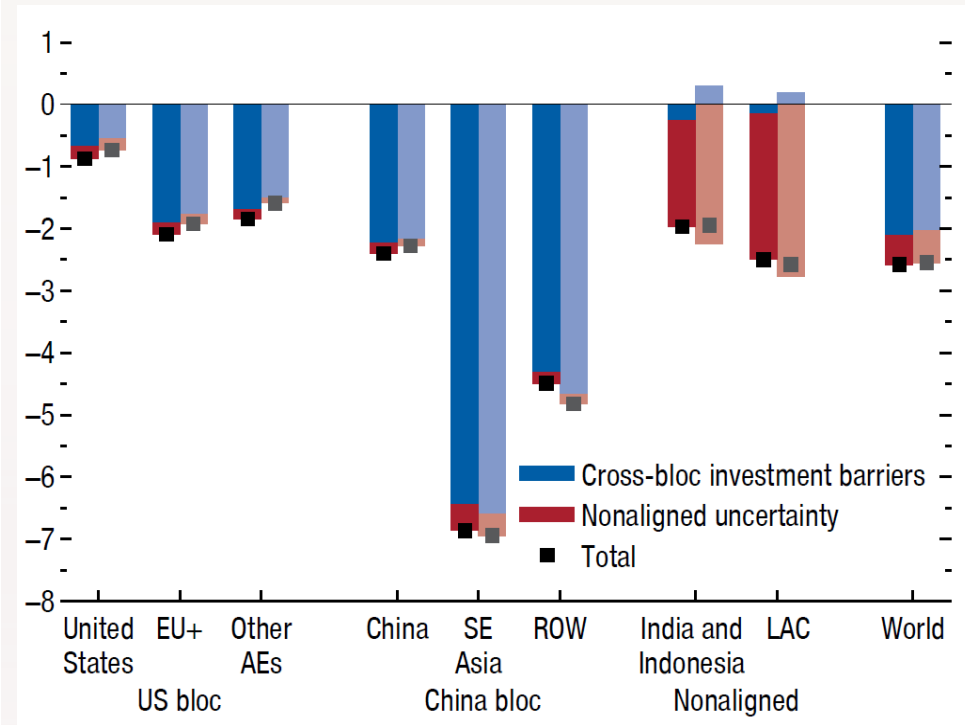
- Source:** IMF, World Economic Outlook, April 2023, Chapter 4

Consequence of fragmentation—everyone can be a loser

Impact of investment flow barriers on GDP (% deviation from no-fragmentation scenario)



GDP losses, with uncertainty for nonaligned economies



Source : IMF, World Economic Outlook, April 2023, Chapter 4

Any roles that Asia as a region can play?

- ❑ Asian economies will continue to emerge as significant global players, thereby transforming the global geopolitical landscape.
- ❑ Asia's rise will also intensify geopolitical risks both in the region and globally in the era of geo-economic fragmentation.
 - The US will maintain its vital role in the region, wielding hard and soft power.
 - The world could see escalating rivalries and tensions among the Asian powers.
- ❑ Despite deepening trade and financial ties within the region, Asia has weak institutions for cooperation.
 - Its major constraints include economic and political diversity, rising nationalism and territorial disputes, and a lack of political leadership and strategy for cooperation.
- ❑ Asian countries should collaborate to strengthen existing institutional frameworks, thereby reducing geo-economic fragmentation and contributing to global and regional financial stability.

To conclude, what steps should we take?

- ❑ The efficiency and resilience of the global financial system still remain highly uncertain and insufficient in the world of geo-economic fragmentation and rapid technological change.
- ❑ World powers should avoid nationalism and geo-economic fragmentation and instead strive for global cooperation.
- ❑ Asian nations need to establish more robust and effective regional cooperation mechanisms.
- ❑ In a volatile and fragmented global economic environment, emerging economies must work to reduce domestic financial vulnerabilities and build effective financial supervisory and crisis management mechanisms.