

**THE WEAPONIZATION OF ECONOMIC INTERDEPENDENCE:
SANCTIONS, FINANCIAL STATECRAFT, AND THE
FRAGMENTATION OF THE GLOBAL ECONOMIC ORDER**

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ABSTRACT

Systematic weaponization of economic interdependence in the form of sanctions, financial statecraft, export controls, supply chain securitization is fostering the fragmentation of the global economic order. This paper posits that the coercive leverage as exposed in the use of unprecedented measures has spurred active fragmentation best qualified by strategic diversification away from dollar reserves, by utilization of parallel payment systems, by friend-shored industrial ecosystems and by an alternative trade corridor. Rather than power being further consolidated behind the sender, instead agency is redistributed back to “swing states” that are skilled at hedging between the blocs, and to hit states who develop advanced practices of evasion and capacity for withstanding consequences. The subsequent multiplication of centers creates systemic susceptibility to cascading shocks, and hinders collective responses to climate and pandemics, as well as embeds inflationary dysfunctions. The more assertive resistance of the Global South to extraterritorial coercion, and demand for governance reform, also modifies the terrain of struggle. The weaponization wager trades group stability for relative power, requiring statecraft focused on mutual dialogue and moderation to manage common planetary dangers.

Keywords: Geoeconomic Rivalry, Financial Statecraft, Swing States, Adaptive Governance, Collective Action Crisis, Institutional Multipolarity

1.0 INTRODUCTION

For decades, the very foundation of the post-Cold War liberal international order was a belief that increasing economic interdependence was a powerful force for stability and peace. Complex networks of trade, finance and supply chains, the argument ran, rendered the costs of conflict prohibitively high, which drove cooperation and constrained states within a rules-based order (Keohane & Nye 1977). This was the logic behind the architecture and expansion of multilateral institutions and the phase of hyper-globalization. But in the 2020s, the world looks quite different: Economic interdependence is no longer just a good stabilizer; it has become a major weapon in the great powers’ arsenals, used more frequently, and with greater force. The range and degree of advanced sanctions, mechanisms of financial exclusion, export controls, investment restrictions (above all since the full-scale invasion of Ukraine itself by Russia in February 2022) is a distinct and risky departure. This article contends that systematic weaponization of economic interconnectedness is currently the key concomitant accelerating the breakdown of the global economic order, in turn leading to the emergence of parallel

systems, the rise of secondary powers and swing states and the effective evisceration of the very stability it was previously believed to underwrite.

The notion of "weaponized interdependency" – whereby states exploit their geopolitical centrality in global networks to compel others – existed before the Ukraine war (Farrell & Newman 2019). But the scale, breadth and collaboration underlying the sanctions on Russia are on an entirely different scale, amounting to a paradigm shift in financial statecraft. Freezing about half of Russia's \$640 billion in central bank reserves, expelling major Russian banks from the SWIFT financial messaging system, and the imposition of sweeping sectoral sanctions against energy, technology, and finance indicated a willingness to impose huge and immediate economic pain on a major economy that had been well-integrated into world markets (Drezner 2022; Evenett & Pisani 2023). Importantly, it did not happen just once. What continued use of "maximum pressure" against Iran and Venezuela, far-reaching extraterritorial sanctions, aggressive use of export controls over advanced semiconductors vis-à-vis China, and securitization of foreign investment screening worldwide speaks to is a pattern that at once broadens (Pape 2022; Lindsay 2023). As Ripsman et al. (2023: 15) note, "The toolkit of coercion has grown enormously, stretching far beyond the traditional embargo of trade into the heart of the international financial system and intricate supply chains." This is evidence of a deep transformation in the direction of statecraft: instead of regarding interdependence as a risk that needs to be managed, the interconnectedness is more and more seen as a source of strategic power that can be used.

Importantly, this fragmentation is not simply passively suffered, but actively constructed by a variety of actors, not least many states in the Global South. Their agency is pivotal. Extraterritorial sanctions and the instrumentalization of economic networks are widely regarded with great suspicion as sovereign-rights violations and new forms of neo-imperial power (Stuenkel 2023). This has led to severe pushback to aligning with Western-led sanctions regimes, both by way of direct opposition (India, Turkey, and more maintaining Russian energy imports; South Africa's perceived neutrality) and vocal opposition to secondary sanctions (African Union 2023; G20 Chair 2023). Even more importantly, states in Africa, Asia, and Latin America are also hedging more and more sophisticatedly, using 'geopolitical spoiling power' to extract concessions, win investment (by playing BRI off against Global Gateway/PGII), and assert more autonomy (Carmody 2024; Mohan and Kumar 2023). This is often articulated in demands for genuine reform of the structures of global economic governance (the IMF, World Bank, WTO) which are perceived as insufficiently representative and too easily captured by the geopolitical designs of great powers (Narlikar & Vickers 2023). Their reactions are far from passively reactive; they are enormous accelerants of cleavage.

This article argues that knowing more about the weaponization-fragmentation nexus is important for making sense of the increasingly polycentric and less predictable global economy. It proceeds as follows. Section 2 sketches out the broad range of weaponized interdependence that is currently considered, from financial exclusion all the way to weaponization of supply chains and uses the development of Russia sanctions as one example. Section 3 looks at the factors motivating this trend, from escalating geopolitical competition to domestic political considerations. Sections 4 analyze the implications: Section 4.1 exhibits the process of active fragmentation (de-dollarization, parallel systems, resilience), and Section 4.2 covers systemic risks and power shifts, such as swing state empowerment and the necessity to

"sanction-proof." Section 5 privileges the agency and perspectives of the Global South, examining resistance, resentment, adaptation and calls for reform. Finally, Section 6 considers the policy implications reviewing critically potential paths for managing fragmentation, reconceptualizing the effectiveness of sanctions, and agenda for institutional reform, laying down potential guardrails and roles for various stakeholders. The final discussion considers the profound nature of this dismembered future for global security and cooperation. The story is unmistakable: the weaponization of interdependence, a statecraft tool that is cleaving apart the integrated system it hijacked, with profound consequences for the global order.

2.0 THE ARSENAL OF WEAPONIZED INTERDEPENDENCE: MECHANISM AND EVOLUTION

Today, the landscape of economic statecraft is a complex and ever-changing toolkit, in which linked global networks, long channels of mutual gain, are consciously diverted to serve as vehicles of coercion. This is a transformation that goes far beyond the blunt tool of traditional comprehensive sanctions that were imposed on entire economies, were not politically sustainable, and had a heavy humanitarian toll. The game-changer is the creation and use of highly specific weapons, rather than a bludgeon against vulnerability nodes. Such precision permits sender states to inflict much pain on the adversary while minimizing immediate backlash and international sanction (even if such collateral effects and systemic responses are not small in general) (Biersteker 2024). The modern arsenal rests on financial statecraft through the centralization of Western, and particularly US-administered, financial systems (ECB 2023).

In parallel to financial overlordship trade interdependencies have emerged as one of the most important instruments of coercive leverage, transcending ordinary tariffs and becoming highly strategic export controls and import restrictions. The rationale is to withhold enemies from crucial commodities and technologies that they require for military might, economic growth or maintaining legitimacy at home. US-initiated export controls on advanced semiconductors and chip production equipment that are to be transferred to China, which has by now been systematically broadened steadily since October 2023, make the intention behind this move extremely clear (Feldstein 2023). These controls are designed to not only limit particular military end-uses, but to weaken China's ability to innovate state-of-the-art technology for civilian and military use, leveraging its dependence on foreign know-how and machinery (Garcia-Herrero 2024).

Likewise, energy import sanctions, for example the process of phasing out Russian oil and gas imports by the EU, weaponize consumer markets in order to cut off an exporter from crucial flow of revenues, even if this comes with major transition costs in the sending economies themselves (Tagliapietra & Zachmann 2023). This approach is further nuanced as "supply chain weaponization." In doing so, they can also apply pressure in an outsized manner – they can threaten to cripple whole industrial ecosystems within adversarial countries by isolating and dominating the chokepoints within complex global production networks - for rare earths refining, precision tooling making, or important chemical precursors, for example (Hille & White 2024). This is a transition from sanctioning final products to punishing the base of industry and technology, with profound implications for the future of global production disarticulation.

Securities tools, applied toward both finance and trade, are complemented by securitization of investment flows and production location visions and constructs, including the idea of “friend-shoring” and “de-risking.” These are not simply market-driven adjustments but instead intentional policy measures designed to rewire economic geography for security aims. Heightened FDI screening, considerably toughened in the EU, US, UK, and other developed economies since the late 2010s and subject to continuous improvement, explicitly casts inbound investment, especially in critical infrastructure and sensitive technology, as a possible national security risk that may justify government intervention in the form of a veto (Meunier & Nicolaïdis 2024). One such tool is the comparatively recent area of outbound investment screening at the United States' Executive Order on sensitive technologies stands out as an example “which focuses on ensuring that domestic capital and expertise do not unwittingly serve to enhance military and/or surveillance capabilities of strategic rivals, with a particular emphasis on China (Moran & Oldenski 2023).

And, importantly, it amounted to highly unprecedented coordination between G7 member states and outside partners like Australia and South Korea, where the members showed a shared commitment to using collective economic mass to achieve geopolitical objectives. (Bauerle Danzman & Meunier 2023). But that same extent and sophistication also reinforced countervailing escape-velocity and dis-integration. Russia’s swift turn to alternative trade routes (through Türkiye, Central Asia, the Caucasus), energy-driven exports to India and China (despite pricing caps) and hopes for parallel financial transfer paths underline the dynamic relationship between weaponization and adaptation by the target, ironically, reinforcing the global economic order’s fragmentation, which the integrated system depends on (Kaczmarek 2024; Chellaney 2023). The arsenal's power is fearsome but the continuous and universal reliance on it is constructing the very interconnected system that the arsenal is based on, uprooting targets and bystanders alike as they and we reconstruct alternative structure and alliances and regroup bases of global economic interaction.

3.0 DRIVERS OF THE WEAPONIZATION TREND

The trend towards reducing the use of economic force as a tool or arm of statecraft is not just happenstance but driven by a combination of formidable structural, strategic, and domestic forces that are reconfiguring international politics. Primary among them is the growth in systemic geopolitical rivalry, especially the zero-sum rivalry between the United States and China. That contest, increasingly couched in existential terms across technology, military and ideology, provides a powerful incentive for states to push every available lever of power at their disposal. With traditional military advantages diminished and the potential cost of direct conflict rising, economic measures seem like a lower-cost, high-return option to impose costs, hobble enemies, and demonstrate will (Allison & Schmidt, 2024).

The widely-felt imperative to “compete to win” in this new age informs the creation and application of advanced financial sanctions, export controls and investment proscriptions to obstruct the progress on our competitors in areas like dual-use technology where future economic leadership and military supremacy will be determined (Medeiros, 2023). Russia’s war in Ukraine accelerated this trend, leading Western countries to view authoritarian states as revisionist threats to be contained not only through lethal assistance, but also through holistic economic pressure aimed at eroding long-term war-fighting capability (Hill & Lo, 2023). This

geopolitical context generates a security dilemma dynamic in the economic domain, whereby action by one power to reduce its apparent vulnerabilities (e.g., friend-shoring chips) is viewed by rivals as aggressive containment, leading to counter-actions (e.g., the Chinese tightening exports of critical minerals) and ratcheting up a cycle of weaponization (Posen, 2024).

Advances in technology have, in very real ways, facilitated the precision and scale of contemporary economic coercion. The world of finance is going digital and exposing comprehensive cross-border flows of capital. Advanced analytics provide the capability for states to map compels supply chains in granular detail to locate choke points and vulnerabilities in an adversary's industrial ecosystem (Farrell & Newman, 2023). Improved surveillance and exchange of information at the international level (e.g. FINTRAC, Europol) have made it more difficult (albeit, not impossible) to evade sanctions on a macro scale to conduct evasion. Emergence of digital networks and electronic payment systems has also opened new channels for evasion such as cryptocurrencies but has also extended to senders the possibility to track and obstruct financial flows worldwide (Biersteker & Eckert, 2024). These are the technologies that turn vague concepts of interdependence into targetable nodes, and enable states to move beyond broad, indiscriminate embargoes toward refined forms of pressure targeted at particular sectors, enterprises, or even individuals. This illusion of enhanced precision strengthens the political allure of sanctions, creating the false impression that their costs can be effectively limited and targeted exclusively at adversarial actors.

Moreover, powerful industry associations often push for sanctions or measures that protect domestic sectors (with a thin veil of national security predicated) from competition, thereby reinforcing the use of economic instruments for geopolitical purposes (Hufbauer & Moran, 2024). Sanctions implementation is relatively opaque compared to military deployment, which means governments have more freedom in crafting narratives at home, downplaying, for example, initial costs (such as to inflation or market access of domestic firms and consumers) (Early & Schulzke, 2024). That domestic political logic sometimes values a symbolic show of strength over a hard-headed calculation of strategic effectiveness in the long term and unintended negative consequences.

Beneath these drivers lies a lingering mirage of the effects of short-term efficacy versus long-term strategic price. The immediate, disruptive jolt of the harsh sanctions — capital flight, currency crash, supply chain confusion — begets a potent impression of effectiveness. "Crippling" the economy of an adversary is a story often repeated by both policymakers and publics (Evenett, 2024). But this immediate effect often overlooks the ability of the targeted states to adjust, engage in creative thinking and innovation, and create counter-strategies. Russia's with numerous opportunities to reroute its energy exports, create parallel import channels for vital products, and to promote domestic production in some sectors in the wake of wide-reaching sanctions on which this resilience was based (Connolly & Sendstad, 2023).

Further, when attendees focus on short-term coercive leverage, these medium- and long-term outcomes are sidelined, and in so doing they consider neither the erosion of trust in Western financial institutions nor the driving force of de-dollarization and alternative system-building, nor the fracturing of global markets, nor the capacity of secondary states who court both rival blocs (Jones & Hameiri, 2024). Therefore, the weaponization of interdependence, propelled by the interaction of geopolitical exigency, technological potential, domestic clamour for action,

and the temptations of perceived quick wins, risks becoming a self-defeating strategy, systematically dismantling the very integrated economic order that furnishes the basis for its capacity to coerce. This inherent friction sets the scene for the deep fragmentation examined in the following sections.

4.0 THE CONSEQUENCES:

4.1 The Active Fragmentation of the Global Economic Order

The all-pervasive instrumentalization of economic interdependence is not just an end in itself, rather a dynamic driver of the fundamental reshaping of the terms of global economic intercourse. This reorganization takes the form of active fragmentation – a conscious, strategic rewiring of economic linkages that move those linkages not only away from universal integrated systems, but towards compartmentalized, parallel or regionalized systems that are characterized by geopolitical alignment or strategic hedging. The most notable expression of this trend is a rapid strategic diversification of reserve assets and payment systems, prompted by a desire to minimize the risks of future financial coercion. The freezing of Russian central bank reserves had a catalytic effect in 2022, and caused a seismic shift in perceptions of the safety and neutrality of G7 jurisdiction asset holdings. Although the dollar continues to dominate, its proportion of those reserves has been declining steadily and had fallen to around 58% by the end of 2024 – its lowest level in decades – as central banks, especially those in emerging economies and resource-exporting countries, ramp up holdings of alternative currencies like the euro, yen and renminbi, as well as gold and even commodities (BIS 2024; Eichengreen 2024).

This is not just portfolio rebalancing but a deliberate attempt to shield national economies from extraterritorial financial sanctions. At the same time, there is an intensified effort to create and enlarge non-Western financial infrastructure. Use of China's Cross-Border Interbank Payment System (CIPS) has expanded substantially, especially for renminbi trade settlements, providing an alternative messaging channel to SWIFT albeit one still reliant on correspondent banking relationships that may touch the dollar system (Huang and Zhang 2024). The System for Transfer of Financial Messages (SPFS) of Russia, smaller and beset with technological difficulties, has managed to attract membership from countries similarly wary of Western control over finance, including the members of the Eurasian Economic Union and parts of Central Asia (Sutelya 2024). Again, initiatives such as the experimentation and piloting of Central Bank Digital Currencies (CBDCs) for cross-border payments, such as those of the project mBridge – involving China, Thailand, UAE and Hong Kong SAR – serve to establish end-to-end, sanction-averse payment corridors that bypass the traditional correspondent banking network (Auer et al. 2024). These are small steps in the direction of parallel monetary worlds that make vulnerable the reliance on the dollar-sphere and its infrastructure for weaponization.

Outside of the financial sphere, supply chains are facing a fundamental rewiring, decisively shifting from efficiency seeking globalization to resilient security-driven regionalization, or “bloc-alignment”. This effort, referred to variously as “friend-shoring”, “de-risking” and “supply chain security” (including supply chain source “resilience”), sees states and firms working to move or replicate stages of production of pivotal goods – semiconductors,

pharmaceuticals, batteries and critical minerals – within perceived geopolitical blocs or partner networks they trust. The US CHIPS and Science Act and the European Chips Act provide huge subsidies conditional on domestic (or “allied”) production, with reducing reliance on East Asian manufacturing concentrated in Taiwan and South Korea — both widely perceived as potentially susceptible to Chinese coercion (Donnan & Clapp 2024) — as an explicit goal. Equally, policies support for “critical minerals partnerships” (e.g., the US-dominated Minerals Security Partnership) that aim to guarantee access to materials necessary for green and digital transitions by encouraging extraction and processing within friendly countries to major suppliers such as China and Russia (Lee & Bazilian 2024).

This is reflected in trading patterns: trade within the two blocs (e.g., between US-aligned economies; within global production networks centred on the PRC) is growing faster than cross-bloc trade, and investment is increasingly following geopolitical faultlines, firms facing explicit pressure or incentives to align their footprint with national security priorities (Evenett & Fritz 2024; UNCTAD 2024). The consequence is an industry that is becoming ever more balkanized, with unnecessary duplication, excessive costs, diminishing economies of scale and cost inflation — but on paper more secure from supply disruptions caused by geopolitical disputes or weaponized trade entanglements. This fragmentation is sharpest in high-tech industries, where export controls on advanced semiconductors and manufacturing equipment have produced a de facto bifurcation of global innovation and production chains, requiring firms to establish different technology roadmaps and production footprints for different geopolitical geographies (Miller 2024).

The effort to reduce exposure also leads to the establishment of parallel trade corridors and logistics networks ranging from the Inter-fuel Suppliers Agreement with Russia (a “Trans-Saharan “axis) to the Asian aspect of the Maritime Silk Road, in order to bypass conventional choke points or paths considered prone to Western intervention. For example, Russia’s eastward turn after western sanctions is a case in point. Oil exports had massively redirected eastwards through enhanced pipeline and tanker access to China and has increased sea shipments to India, transported by a ‘shadow fleet’ of ageing tankers that are not compliant with Western insurance and shipping rules, albeit with much greater expense and environmental risk (Henderson & Grushevenko 2024). Alternate overland routes avoiding Russia, such as the Middle Corridor (Trans-Caspian International Transport Route) from China to Europe through Central Asia and the Caucasus, have received considerable investment and witnessed increased traffic, as shippers have looked for alternatives susceptible to fewer geopolitical pressures, albeit constrained by infrastructure capacity (Mogilevskii 2024).

This activist splintering undercuts severely the authority and effectiveness of incumbent multilateral economic organizations, hastening their decline and stimulating calls for new forms of governance. The WTO, which is currently hamstrung by US refusal to fill Appellate Body vacancies, has been ill-equipped to adjudicate disputes over the national security rationale, an exception to trade disciplines that is increasingly cited for export controls, investment screening, and subsidies (Hoekman & Nelson 2024). Its dispute settlement system can no longer function, and its inability to write substantial new trade rules is emblematic of the more general loss of legitimacy and meaning in a world in which economic security trumps multilateral rules. The use of the dollarized financial system and organizations, such as SWIFT, as instruments of power has similarly undermined confidence in the neutrality of the Bretton

Woods institutions. This adds impetus to alternative governance systems and institutions seen as being more responsive to the concerns of non-Western states. The enlargement of the BRICS club in 2024 (Egypt, Ethiopia, Iran, Saudi Arabia, and the UAE) substantially enhances its economic clout and geographical spread, amplifying the role it can play as a platform for alternative financial messaging systems, trade settlements carried out in local currencies, and development finance less attached to Western conditionalities (Abdenur & Folly 2024).

The combined effect of this multi-layered fragmentation – financial, industrial, logistical, institutional – is the advent of a "multiplex" or "polycentric" global economic system. This emerging order is not one of a unitary alternative to the post-Cold War liberal system, but one of partial, overlapping subsystem alternatives. States and firms more and more function in a variety of, at times incommensurable, networks: trading in Western financial markets and interacting via CIPS or SPFS; providing to US-allied blocs markets while producing or selling in China-governed networks; adhering to some WTO terms and, at the same time, pursuing regional trade agreements or living on geopolitical exemptions (Acharya 2024). This multiplexity requires sophisticated navigational agency, especially from “swing states” in the Global South and developing world. These countries are so called ‘swing states’ caught in the middle, able to exploit their intermediary position to extract economic and political privileges, to attract investment (including to play China’s BRI off the US-led PGII/Global Gateway) and declare a larger strategic independence (Beeson & Li 2024).

Market liquidity has declined and fragmentation of capital markets has intensified with higher cost of capital -particularly for developing economies. Coherence and predictability, the foundation of efficient world commerce are shattered, replaced with increased uncertainty and geopolitical risk premiums in every deal. Furthermore, this fragmentation severely hinders global collective action problems. Combating worldwide threats like climate change, pandemics or financial solvency demands a scale of international cooperation, information sharing and coordinated policy response that the world has never really mustered before. A cracked system also tore apart along geopolitical lines between conflicting institutions and diminished trust does little to help the ability to deliver collective responses (Held & Roger 2024).

4.2 Systemic Risks and Shifting Power Dynamics

The active disintegration of the global economic order through the weaponization of interdependence creates systemic peril along with the redistribution of geopolitical leverage that complicates global stability even further. The first and most direct effect is the increase in systemic exposure to contagion. All such intentional rewiring of supply chains in the name of resiliency, and as a way to mitigate particular types of geopolitical risk, tends to introduce other, less visible fragilities. A relocated focus of production for critical items, into smaller, “trusted,” blocs enhance exposure to localized black swans such as natural disasters, labor strikes, or regional conflicts, that could ripple through compartmentalized systems with amplified velocity (Helble & Shepherd 20204).

This vulnerability is highlighted by the enormous delays in the production of electric vehicles and wind turbines worldwide that followed a 2024 disruption in processing of rare earths in Malaysia, a strategic node in US-friendly “friend-shored” supply chains (Overholt 2024).

Financial fragmentation compounds this instability. A large operational disruption or cyberattack against one of these embryonic systems could lead to intensive, localized financial panic with unknowable contagion outcomes, particularly as they become more enmeshed with international trade finance (Carney 2024). " The combined system, flawed though it may be, acted like a shock absorber by inventing diversifying counterfactuals and building deep liquidity pools; the fragmented system replaces it with fragile, siloed networks vulnerable to localized breakdowns that can rapidly spread (Gaspar & Gopinath 2024).

Such a high-stakes environment would provide an environment conducive to the rise of "swing states" and opportunistic players. States with added weight in the world economy, strategic geographical position, or control over vital resources stand in a position to extract high diplomatic and economic rents with their room to maneuver between rival camps. Türkiye provides a case in point, successfully engaging in trade and finances with Russia (subverting general sanctions for certain goods) versus NATO members at the same time, simultaneously benefitting from reduced oil imports and becoming a necessary intermediary and logistics circus (Tol 2024).

Saran and Pant (2024) argue that Because of power asymmetry, states can resist demands for full alignment, undermine the effectiveness of unilateral sanctions programs, and influence regional outcomes at odds with the interests of the traditional great powers. They are no longer passive objects of great power competition, but sizable shapers of the disaggregated order and thus seek more recognition and input within international institutions.

At the same time, states that are being targeted by sanctions are also becoming more skilled, through a process of "sanctions-proofing," at developing adaptation strategies that attenuate the intended coercive effects while also promoting fragmentation. The lesson is plain in Russia's own turnaround since 2022. Far from mere redirection of energy exports, this has spawned a giant ecosystem of shadow imports – using brokers in Türkiye, Central Asia, the Caucasus and the UAE to obtain embargoed western technology and parts, often through intricate reshipment and shells of end users. The idea is to develop domestic MIR systems and to promote local currency bilateral settlements (CLSS) (e.g. with China and India) to reduce dollar clearing exposure. Most important, Russia and China have intensified efforts to create alternative financial and technological ecosystems that are not as vulnerable to Western blackmail (Connolly 2024).

The fragmentation inherently leads toward a muddling of the boundaries between established categories of economic statecraft and important global challenges, in particular the struggle against climate change and sustainable development. The rush for control of these key minerals of the green transition (lithium, cobalt, nickel, rare earths) epitomizes this collision. Efforts such as the US Minerals Security Partnership or the EU Critical Raw Materials Act, which aim to establish 'friendly' supply chains and decrease reliance on preeminent processors such as China, become in effect the weaponization of access to these resources and an emphasis on securitizing them (Bazilian & Lee 2024). Those risks are increasing dividing global green technology supply chains, slowing global deployment of renewable energy and electric vehicles as a result of inefficiency and higher cost, and may preclude resource-endowed developing countries from capturing value chains unless they are aligned geopolitically (IRENA 2024).

The loss of capacity for collective action could be the most debilitating systemic risk. Emerging threats like pandemics, financial instability, cyberwarfare and climate change demand an unprecedented level of international coordination, data sharing, and policy harmonization. That is a power much diminished when the global order is fragmented, with competing blocs and eroded trust, incompatible technical standards and weakened multilateral institutions. The inability to create a viable and integrated global architecture for a post-COVID pandemic preparedness and response despite the unmistakable lessons learned offers a poignant reminder of the difficulty in achieving global governance (Fidler 2024). Such divergent ways of governing AI or cyberspace—motivated by geopolitics rather than a shared understanding of risk—leave dangerous lacunae and pathways for malevolent actors (Cath et al. 2024).

Financial fragmentation impairs efficient crisis management since cross-border liquidity provision and regulatory co-operation are now more complicated and politically more challenging. The dynamic of weaponization-fragmentation thus becomes self-torbid: the tools for addressing geopolitical rivalry itself undermine the international community's capacity to address the very systemic risks that are intensified by the rivalry. This governance gap is more likely to result in crises that become unmanaged runaway crises at costs larger than the immediate purposes of economic coercion. Thus, weaponized interdependence as a route to relative advantage undermines the potential of collective security and prosperity in a world that is more interconnected and divided at the same time, the supreme systemic riskage produced by this broken order.

5.0 THE GLOBAL SOUTH PERSPECTIVE: AGENCY, RESENTMENT, AND ADAPTATION

Economic interdependence is being weaponized, and the fragmentation of the global order is not just something experienced by states outside the core rivalrous blocs. States throughout the Global South — a highly heterogeneous category that includes emerging and smaller developing states — are actively interpreting, resisting, adapting to, and strategically exploiting these patterns, exercising clear agency and determining the trajectory of the cracked system. An underlying aspect that is central to this view is an abiding antipathy to extraterritorial coercion and neo-colonial imposition. In particular, the broad use of such unilateral sanctions (such as secondary sanctions against third countries for their relations with targeted countries, such as Russia or Iran) which limit sovereignty and interfere in the legitimate prerogatives of States to conduct independent foreign and economic policies. This was succinctly captured in the African Union's 2023 pronouncement condemning unilateral sanctions on Zimbabwe as "illegal" and against regional developmental imperatives - an expression of a wider continental resistance to what it sees as Western overreaction (AU PSC 2023).

Likewise, the G20 Chair's Summary under India's presidency in 2023 subtly underscored the "importance to avoid fragmentation of the global economy" and to preserve "resilient and diversified global value chains," implying a critique of coercive dynamics that lead to fragmentation but also a claim of the right to diversified partnerships (G20 India 2023). It comes from a long historical memory that great powers have a tendency to ignore the rules when it is inconvenient and to use the rules-based order as a cudgel to achieve their own objectives, rather as a neutral framework for mutual advantage.

And this resentment is the source both of active opposition to alignment, and also of a refusal to participate in certain sanctions regimes that are understood as furthering only particularistic geopolitical goals rather than universal principles. The lack of support from key Global South players such as India, Türkiye, South Africa and Brazil in terms of its total convergence on Western sanctions against Russia, especially on the question of energy exports, indicates how this strategic autonomy is to be read. India's and Russia's decision, as a significant part of the financing for the former's Russia hydrocarbon imports, could be such Russian credit in rupee-denominated trade, signed under the U.S. sanctions foreign-policy due to the Ukraine Annexation Dispute.²⁵ India has contemplated paying Russia in rupees as well as seeking Chinese assistance with oil purchases boosted by credit. Türkiye's role as a key transit state for Russia-West trade vis-à-vis non-sanctioned goods, combined with its increasing economic interdependence with Moscow, also highlights how states maneuver sanctions regimes to their benefit, tapping into their geopolitical position (Akgüngör & Öniş 2024).

South Africa's demonstration of neutrality, contrary to the hopes of the West and the tension created through joint military exercises it conducted with Russia and China as well as its position on the Ukraine conflict in multilateral bodies, signaled its resistance to imposed bipolarity and a re-assertion of an independent foreign policy consistent with the non-alignment tradition (Landsberg & Masters 2024). This resistance is not uniform – states vary in their resistance depending on their particular dependencies, vulnerabilities, and gains – but it collectively undermines the effectiveness and legitimacy of unilateral sanctions, thereby compelling senders to make concessions or turn a blind eye to evasion.

But more even than resistance, Global South states are engaged in a highly nuanced form of strategic hedging driven by their desire to carve out as much space and opportunity as possible in a divided international order. It means, consciously nurturing diverse economic and strategic relationships across rival blocs so as not to become irrevocably dependent on any one power, and to extract the strongest possible concessions. Saudi Arabia, as well as the UAE, exemplifies it, not only deepening its security ties with the US and at the same time, expanding huge economic and technological investments with China (“Saudi Arabia may be forced to ally with China against the US” 2024), but also resisting Western pressure to isolate Russia in return for advanced technology transfers, massive investment inflows and improved regional influences (Kamrava 2024). Indonesia's role as chair of ASEAN in 2023 actively advanced the bloc's centrality and the “ASEAN Outlook on the Indo-Pacific,” and presented itself as an unavoidable partner for all major powers and rejected pressure to openly choose sides in the US-China duel, attracting infrastructure investment from both PGII/Global Gateway and BRI (Anwar 2024).

Commodity nationalism Rich in resources, some African and Latin American states are using the control of the strategic minerals that are at the heart of the green and digital transitions (cobalt in DRC, lithium in Chile and Argentina, copper in Zambia) to bargain for better terms, local value added and greater sovereignty (Carmody & Moyo 2024) with both Western and Chinese investors. That's a step up from passively taking prices to actively making deals, acknowledging clout gained in a fragmented, resource-hungry world.

However, the assertive posture of the developing world is not only over trade, but also about reform of the global governance bodies, which are perceived to be structurally biased and

immune to their developmental requirements and contemporary economic clout. The ousting of the African Union from the membership of G-20 during the tenure of the presidency of India was an important win and a signal of the demand for representation at the high table of global governance (Acharya 2024). But the demands, which go well beyond symbolism and into matters of voice and reform of operations, continue. The Bridgetown Initiative, advanced by Barbados and other low-lying climate-vulnerable states, squarely confronts the failure of the current multilateral developmental institutions (MDIs) and international financing institutions (IFIs) to address the crises of debt, climate, and development financing, why it also tends to specify such mechanisms as SDR rechanneling and climate-contingent debt clauses (Bynoe & Griffith-Jones 2024).

This expansion of BRICS+ into 2024 of major energy producers and regional powers from the Global South (Egypt, Ethiopia, Iran, Saudi Arabia, UAE) is an explicit attempt to build a counterweight forum for moving alternative financial arrangements, stimulating local currency trade, and dispensing development finance that is less political-conditioned than Western-dependent ones (Alden & Wu 2024). Although internal coherence within BRICS+ continues to be elusive, the very existence of the initiative is evidence of a deep frustration with the current order and also of readiness to test out parallel structures of governance.

Global South states are also framing themselves more and more as indispensable partners – even leaders – in confronting global challenges and using fragmentation to insist on fairer terms. Small Island Developing States (SIDS), which are extremely vulnerable to climate change and economic shocks, have managed through moral suasion and coalition building to have “loss and damage” established as a key principle of climate finance, with the establishment of a fund at COP28, even if the funds committed are far from being sufficient (Mace & Verheyen, 2024). At the same time, the UAE Consensus, based on the COP28 in Dubai, was an attempt by the host to mediate Global North-South divides, with a focus on finance and adaptation in addition to mitigation, illustrating the potential of non-traditional actors as actors to shape global climate agendas (Luomi & Al Suwaidi 2024).

(African) countries are increasingly seeking to shape climate action and energy transition around "just transition" principles, which place heavy demands on financial support and technology transfer to prevent them from being locked into fossil fuel dependency or experiencing premature deindustrialization, and enable them to assert their developmental rights in global environmental negotiations (Kareem & Roberts 2024). The proactive approach to global issues mentioned above further indicates that the perspective of the Global South is not reactive or defensive only but also includes a positive vision for a more just and representative multilateral order. Their adaptability and agency are key dynamics driving the contours of the emerging fragmented and contested global system; making it impossible for the next order, however fragmented, to be merely construed as the outcome of traditional great power rivalries on its own.

6.0 IMPLEMENTATION AND PATHWAYS FORWARD

The premeditated militarization of economic interdependence and its accelerating fragmentation of the worldwide system necessitates fundamentally rethinking statecraft. Reversing this decay is likely impossible; the most pressing task is prudently administering its

effects and tempering its most destabilizing impacts. This necessitates progressing past instinctive coercion towards pragmatic, versatile strategies concentrated on resilience, selective teamwork, and institutional restoration.

First, a rigorous reassessment of sanctions productivity is long overdue. Policymakers must relinquish dreams of swift strategic success through solely economic pressure. Sanction's structure demands stricter cost-benefit examination, incorporating long-term systemic repercussions like de-dollarization and parallel system growth. Steps should be proportionate, with clear humanitarian exemptions and characterized exit ramps connected to achievable aims, avoiding open-ended "maximum pressure" campaigns that fuel resentment and adaptation.

Second, reshaping global organizations, despite politically complex, remains essential. Revitalizing the WTO necessitates compromise, potentially accepting constrained "national security" carve-outs while restoring its binding dispute mechanism. The IMF and World Bank require governance shifts reflecting contemporary economic weight and amplified capital to address debt and climate finance. Realistically, this may involve coexisting with complementary institutions like the NDB or AIIB, fostering healthy competition while upholding core standards.

Third, cultivating "coalitions of the impacted" offers a viable pathway. Middle powers and Global South states, bearing significant fragmentation costs, can drive initiatives for stability. This could involve developing buffering mechanisms – pooled reserves or swap lines among non-aligned states to cushion financial volatility, or plurilateral critical mineral agreements ensuring equitable access and value addition for producer nations, mitigating zero-sum scrambles.

Fourth, establishing minimal safeguards regarding the weaponization of trade is imperative. While prohibiting financial pressure outright is unrealistic, constrained multilateral accords may shield vital shared resources from intentional disruption. This could involve social norms discouraging targeting core climate infrastructure, medical supply chains, or undersea data cables during disputes, or mutual commitments to exempt basic sustenance and fertilizers from sweeping sanctions. However, constructing such fragile understanding necessitates constant diplomatic engagement, potentially facilitated by neutral parties.

Fifth, cultivating true resilience without damaging isolation is imperative. Widening providers and strategically stockpiling enhances safeguarding, however plans must avoid dictating inefficient full-scale repatriation. Public-private alliances are essential: governments should offer strategic steering and risk-reduction tools such as investment guarantees and furnishing supply chain mapping, while businesses actualize diversification founded on functional viability. The CHIPS Act model, blending subsidies with international alliances, indicates this hybrid approach. The private sector's role is irreplaceable yet multifaceted. Multinational corporations confront tremendous pressure to navigate competing regulatory regimes, sanctions risks, and splintered markets. Clearer governmental direction on compliance boundaries and enhanced mechanisms for public-private intelligence sharing on emerging risks like secondary sanctions and critical chokepoints are critical.

6.0 CONCLUSION

The deliberate embrace of economic fragmentation serves not the purposes of dominance but the catalysis of systemic unravelling. This report argues that the systematic deployment of sanctions, financial isolation, export controls and investment restrictions - exemplified by unprecedented actions against Russia yet spanning much further - functions not solely as statecraft but as the prime mover accelerating the dissolution of the integrated, rules-based order defining the post-Cold War period. The freezing of Russian central bank reserves triggered a shock revealing inherent vulnerabilities in profound financial interconnectedness and initiated a cascade of defensive and strategic replies. The consequence is not a reversion to autarky but a mindful construction of parallel economic ecosystems: competing channels for financial messaging, supply chains reoriented by geopolitical allegiance, substitute trade routes bypassing traditional hubs, and emerging institutional counterweights to Western-led multilateralism. This fragmentation manifests as a multiplex arrangement where states and corporations navigate overlapping, sometimes incompatible, subsystems.

The effects extend far beyond the intended targets of coercion. Fragmentation inherently heightens systemic vulnerability, generating brittle networks susceptible to spreading shocks while imposing significant efficiency costs through duplication and diminished economies of scale. It fundamentally redistributes geopolitical power, empowering "swing states" of the Global South leveraging their position between opposing blocs to extract concessions, resist alignment, and assert greater autonomy. Their resentment of extra-territorial coercion and demands for meaningful institutional reform underscore a rejection of a Western-dominated status perceived as inequitable. Simultaneously, targeted states engage in sophisticated "sanctions-proofing," fostering resilience and deepening ties within alternative networks, further entrenching division. Critically, this process collides catastrophically with global collective action imperatives. The compartmentalization of finance, technology, and governance severely undermines the cooperation essential to address transnational threats like climate change, pandemics, and financial instability, turning shared vulnerabilities into arenas of competition.

Managing this fragmented reality, not reversing it, is the imperative. As explored, pathways exist: rigorously reassessing the long-term efficacy and systemic costs of sanctions; pursuing pragmatic, incremental reform of global institutions while acknowledging complementary alternatives; building coalitions among those most affected to develop buffering mechanisms and critical resource governance; establishing minimal safeguards to shield essential global commons from weaponization; and fostering genuine resilience through diversification and public-private partnerships without succumbing to inefficient autarky. Success hinges on recognizing that enduring security in this polycentric world stems not from coercive dominance but from calculated restraint, adaptive institutions, and inclusive dialogue.

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