

Fragmentation and Crypto-Currencies

Hélène Rey

London Business School and CEPR

**Economic Policy: Papers on European and Global Issues Conference
Venice 2026**

A Brief Monetary History

Gold Standard

pre-1944

Gold as ultimate settlement. Sterling dominant.

Bretton Woods

1944–1971

USD replaces sterling.
Dollar convertible to gold.
Capital controls.

Fiat Money

1971–today

Constraint shifts to institutional credibility.
US Treasuries safe-asset as backbone. Dollar stays dominant.

Tokenised Money

emerging

Tokenisation reduces payment frictions. **Does it change the financial system? [protectionism and fragmentation]?**

Crypto Instruments

Native Tokens

Examples

Bitcoin, Ether

Market cap

\$1,400 bn

Trust basis

Algorithm (internal)

Intl prospects

Scalability limited

Stablecoins

Examples

Tether, Circle

Market cap

\$300 bn

Trust basis

Credibility of peg + “free ride” on currency attributes (\$)

Intl prospects

Growing?

Tokenised Deposits

Examples

JPM Coin

Market cap

Nascent

Trust basis

Regulated bank + Central bank

Intl prospects

Nascent; design-dependent (interoperability)

Choke-points: how concentration becomes coercive power

A **choke-point** is a node in a global network — in finance, technology, minerals or energy — so concentrated and hard to bypass that whoever controls it can deny others access. Interdependence becomes a weapon.

What turns a node into a choke-point

- 1 Concentration** — few suppliers, routes or rails
- 2 Asymmetric dependence** — others need it more than the controller
- 3 Hard to substitute** — no quick alternative exists

→ *leverage, coercion, sanction power*

Where the choke-points sit today in finance

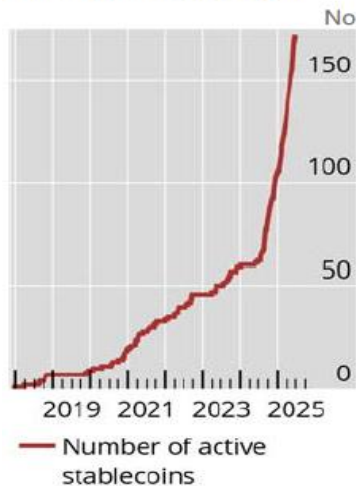
- Dollar payment rails, SWIFT, correspondent banking → sanctions reach

Choke-points turn the map of networks into a map of power. The scramble to build alternatives, drives fragmentation.

USD centrality for crypto finance: payments are a choke point

Stable coins: 98% USD in market cap

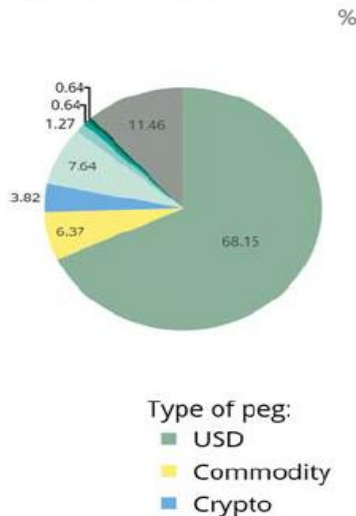
A. The number of stablecoins is soaring...¹



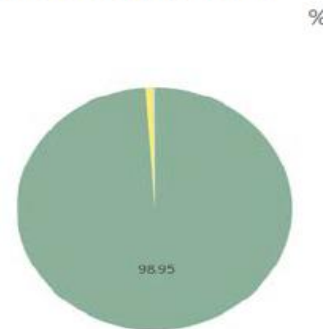
B. ...and so is their market cap, amid concentration



C. Most stablecoins are USD-denominated⁴



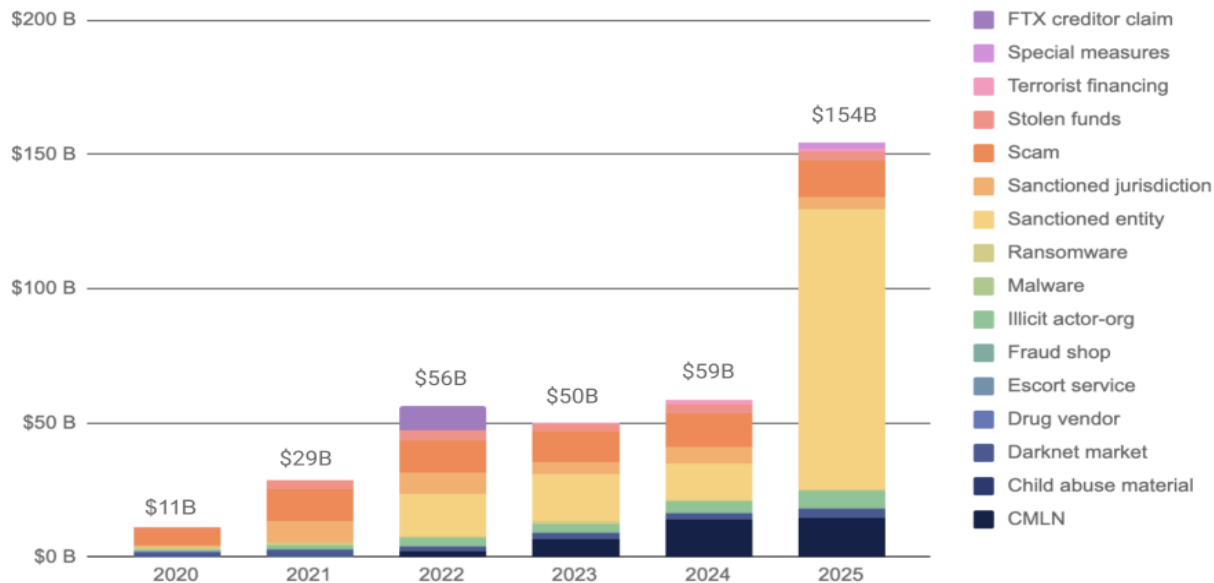
D. Dollar is even stronger in market capitalisation⁴



¹ Based on data availability and the classification by Kosse et al (2023). Active stablecoins are those with a market capitalisation larger than 0. ² As of 30 May 2025. ³ Includes 47 stablecoins. ⁴ As of 10 June 2025. "Other" includes other fiat currencies and a basket of different assets.

New Tool to avoid "Choke Points"

Total cryptocurrency value received by illicit addresses
2020-2025



© 2026 Chainalysis

\$154 bn

received by illicit crypto
addresses in 2025

+162% year-over-year

\$104 bn from sanctioned
entities

Source: Chainalysis Crypto Crime Report (2025).

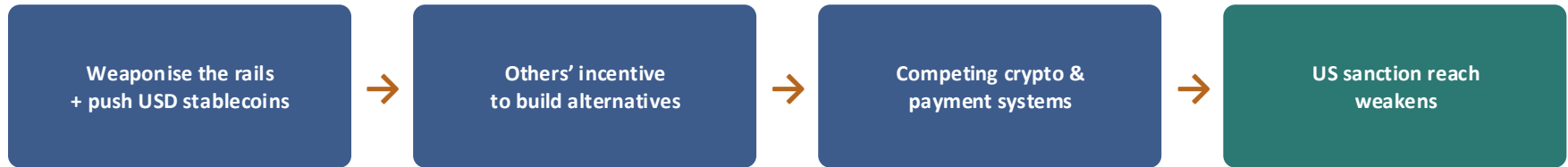
New Tool against "Choke Points"

- USD stablecoins increasingly replace Bitcoin for illegal cross-border flows — more liquid, easier to move
- 'Mixers' obscure the on-chain link between sender and recipient, potent with high-liquidity USDT
- Nation-states have institutionalised crypto: Russia A7A75 token ruble backed (\$90 bn transactions), North Korea (\$2 bn+ stolen), Iran (\$3 bn+)
- Still <1% of total crypto transactions — but strategically important and growing fast

The paradox: higher incentive to by-pass dollar choke-point

The source of the power. US sanction reach rests on the dollar's centrality in global payments: a finance choke-point. Whoever controls the rails can deny access.

The power and its erosion come from the same act: extending and weaponising the dollar's rails.



Short run — entrenches the dollar

Sanction-evasion runs through USD stablecoins (USDT) because they are the most liquid and easiest to move — paradoxically deepening the dollar ecosystem.

Long run — incentivize the escape routes

The same pressure drives non-aligned states to build rails outside the dollar. Each new alternative chips away at the choke-point that gives sanctions their bite.

Source: Digital Money, CEPR Barcelona Report (Cechetti, Niepelt, Rey (2026))

Geopolitics and technological safety are becoming the drivers of currency choice

Geopolitics matters for payments

Payment links are up to 3× less likely between geopolitically distant countries. **Alignments and alliances now shape the rails** (Minesso et al. 2025).

The integrity premium

Safety becomes a decisive feature. The most credible, **quantum-proof and cyber proof rail** can gain share and earn a premium over rivals.

Whether internationalisation is driven by trade or by financial markets, the medium-of-exchange now depends on geopolitics and trust — not just size and liquidity.

Stablecoins, Tokens, and Global Dominance (IMF F&D Rey (2025))

The International Monetary System may re-form along geopolitical lines

The next monetary system may organise along geopolitical lines, not market lines alone.

Scenario A — more dollar dominance

- First-mover advantage of USD stablecoins; big-tech entrenches it
- Cryptodollarisation in emerging markets/infrastructure ecosystem
- Sanction-evasion tools entrench the USD ecosystem short-run
- Tokenised deposits of large US banks deepen global USD liquidity

Scenario B — multipolar & fragmented

- Geopolitics spurs non-USD payment systems; rails link along blocs (UPI↔TIPS)
- Euro- and yuan-anchored ecosystems emerge — more robust via wholesale CBDCs
- Safer, quantum-proof and cyber tech earns the integrity premium
- US sanction power weakens as alternative rails are built

A feedback loop: geopolitics, trade and finance reshape one another

