FRANKLIN TEMPLETON | Institute

July 2025

Consider This

Weaponising supply chain finance

Kim Catechis
Investment Strategist
Franklin Templeton Institute

> **"After enduring a prolonged and unprecedented series of shocks, the global economy appeared to have stabilised, with steady yet underwhelming growth rates. However, the landscape has changed as governments around the world reorder policy priorities and uncertainties have climbed to new highs. Forecasts for global growth have been revised markedly down compared with the January 2025 World Economic Outlook (WEO) Update, reflecting effective tariff rates at levels not seen in a century and a highly unpredictable environment."**

IMF, World Economic Outlook, 14 April 2025

For decades, global supply chains have driven efficiency and resilience in global trade, benefiting consumers by providing a variety of products at affordable prices. Companies leveraged logistics, capital mobility and trade liberalisation to reduce costs and build economies of scale. However, recent crises like COVID-19, geopolitical conflicts and trade weaponisation have revealed vulnerabilities and dependencies in key sectors.

Policymakers now focus on safeguarding critical supply chains, reducing high-risk dependencies and boosting resilience against external shocks. This shift aims to ensure long-term economic stability and competitiveness in an uncertain global environment.

The physical architecture of supply chains must change, not just to lock in future supplies of raw materials, but also to safeguard the physical and digital integrity of every step of the supply chain, in the name of national security. It seems obvious that foreign direct investment (FDI) will suffer, weakening global capital expenditure.

All these considerations are driving debates in boardrooms and investment companies around the world, with the recognition that prevailing country risk premiums will have to change, along with the mechanisms to determine them, because they do not adequately reflect the outlook.

Franklin Templeton Institute offers five topic papers covering five global supply chains, applying fundamental research with an eye to identifying sources of risk and opportunity in each:

1 Artificial intelligence

2 Critical minerals

3 Industry

4 Shipping

5 Finance

Click to read article

Investors must develop a deep understanding of industry-specific supply chains to be able to pick the winners and avoid the losers in the next decade. It is not just about the country of origin. In a world where everything can be weaponised, the traditional measures of valuation and risk no longer apply.

The 78-year-old global trade architecture is being overturned

At Yalta in 1945, Roosevelt, Churchill and Stalin failed to reach an agreement on how to reconstruct Europe and maintain security on the Continent. The United States and United Kingdom wanted to ensure that democracies would flourish and that disputes would be peacefully resolved through international organisations, while the Soviet Union insisted on managing the internal affairs of the countries they controlled.

As part of the "Truman Doctrine" to contain the Soviet Union, the Western allies created the General Agreement on Tariffs and Trade (GATT), the foundations of the global trading system. Eventually, the World Trade Organisation (WTO) was set up in 1995, and enabled decades of economic growth-enhancing trade flows across the globe. Today, the United States appears to be forcing a radical breakup of the system in favour of an isolationist model, which means reducing imports into the country by way of tariffs and other barriers to trade. We are on the threshold of a new era, with profound consequences for investors.

Investment takeaway

Regardless of the rights and wrongs of this deglobalisation move, this process implies a change in the financial plumbing of the world's trading system, with potentially profound effects on investors.

Efforts to develop new financial plumbing for global trade will intensify

SWIFT (Society for Worldwide Interbank Financial Telecommunications) is the dominant payments system in the world. It was built to create standards for international bank messaging, which facilitates commercial activity and international trade. It serves 11,500 banks in more than 200 countries and processes an average of 44.8 million[1] messages per day. It is a user-owned cooperative with a focus on efficient operations. The actual funds clearance and settlement uses the Federal Reserve-owned CHIPS (Clearing House Interbank Payments System), with an average daily transaction value of US$1.8 trillion.[2]

China set up a competitor in 2014 called Cross-Border Interbank Payment System (CIPS), for the purpose of supporting renminbi (RMB) settlement and making RMB transactions more attractive. The People's Bank of China (PBOC) supervises it and it requires direct members to be under the PBOC's jurisdiction. It serves 77 direct and 1,283[3] indirect participants with an average daily transaction value of nearly US$56 billion.[4] It is estimated that as much as 80%[5] of its transactions rely on SWIFT messaging. Meanwhile, Russia developed its own System for the Transfer of Financial Messages (SPFS in Russian) after the nation was sanctioned for the annexation of Crimea in 2014. It serves domestic Russian banks and around 50 foreign banks, mainly from Central Asia, although there have been announcements of central banks in India,[6] Iran and China also connecting to facilitate payments.

Investment takeaway

The expectation is that in a scenario of an explicitly protectionist United States, the volume of trade overall will probably fall, predominantly trade with the United States. Logically, China and Russia will likely paint this as a crisis in confidence in the United States and redouble their efforts to widen the use of their alternative payment systems.

Who wants to de-dollarise?

The United States has used its strong financial sector to influence other countries. However, rising geopolitical tensions are leading to trade regionalisation. More countries are creating payment systems to reduce reliance on the US dollar (USD) by settling transactions in local currencies through bilateral currency swap lines. While these do not currently threaten USD dominance, they fragment the global payment system, raising efficiency and stability concerns, according to the International Monetary Fund (IMF).[7]

The BRICS+ group is incentivised to develop a non-USD-based financial system, with China, Russia and Iran aiming to hedge against United States and Western sanctions. China's dominance in this group is expected to enhance its global influence through the explicit strategy[8] to internationalise the RMB. The RMB's share in reserves and trade is likely to grow moderately, especially among BRICS+ members, although capital controls may limit this growth in the short to medium term. China is likely to continue to focus on increasing acceptance of its CIPS and Central Bank Digital Currencies (CBDC). It is claimed that intra-BRICS trade is now 65%[9] in their own currencies, relegating the USD to 33%, although that data is hard to verify. What is clear is that there is evidence of the wider use of RMB, as is the case of Saudi Arabia accepting RMB as payment for some oil exports, as per S&P Global.[10]

Russia is motivated to establish a rival to the G7 to bypass Western sanctions and challenge USD hegemony. Despite prioritising geopolitical ambitions over economic diversification, Russia's drive to expand BRICS+ and confront the West is evident. This effort serves both practical and propaganda purposes, demonstrating Russia's leadership in global affairs.

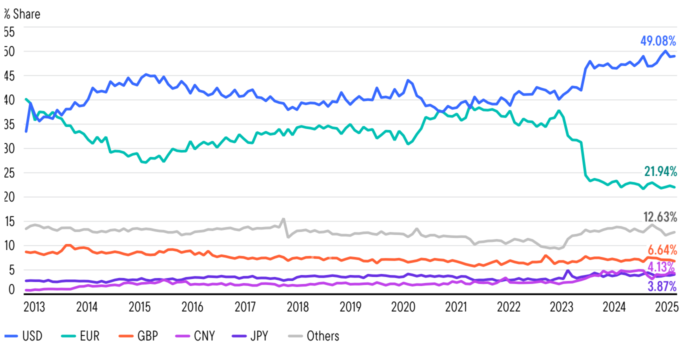
King USD?

Typically, trade is settled in the most liquid currency acceptable to both sides, largely because of the lower transaction costs. This means that for certain less liquid currencies, it is worthwhile to add the USD as the intermediate step. The BRICS have been explicitly incentivising the use of their own currencies as a policy, which suggests a continuous increase in the use of other currencies at the margin. This is a structural change, as the PBOC increases its credit lines for trade in RMB and the United Arab Emirates (UAE) dirham becomes more prevalent in this grouping over time.

Exhibit 1: US Dollar Most Often Used for Global Payments

Currency Used Most Often for Global Payments through SWIFT Systems

As of March 2025



Sources: SWIFT, Macrobond. Note: Based on value.

Investment takeaway

If the United States builds a tariff wall, international trade will decrease, reducing demand for USD. This trend may continue if more countries join trade agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)[11] or the Regional Comprehensive Economic Partnership (RCEP),[12] which represented 45%[13] of global trade in 2024 and excluded the United States. Despite this, the USD still accounts for 49%[14] of global payments.

Digital currencies are advancing at the margin

The definition of money is evolving beyond traditional government-backed fiat currency and alternative mediums of exchange and payment are emerging, like CBDCs. However, progress in cross-border payments has lagged due to high costs, low speed, limited access and insufficient transparency. Efforts to enhance cross-border payments are focused on improving interoperability, upgrading legal frameworks and creating better data messaging standards.[15]

The Atlantic Council reports that 134 countries, accounting for 98% of global gross domestic product, were exploring CBDCs in 2024. Eleven G20 nations have advanced pilot programs. The digital euro is in a two-year preparation phase ending in 2025, with some transactions already tested. Brazil, Japan, India, Australia, South Korea, South Africa, Russia and Türkiye are also conducting pilots. China leads with its digital yuan (e-CNY), which has reached 260 million wallets in 25 cities. In October 2023, PetroChina completed its first international crude oil trade using e-CNY.[16]

As an instrument of trade, CBDCs and their development clearly have a geopolitical element. Reduced transactional friction between certain countries should encourage commerce and the growth of new trading routes. This is likely to strengthen some trading networks but challenge others. Notable examples of developments at this international level in 2024 alone include:

- Project mBridge, a collaboration between the Bank of International Settlements (BIS) Innovation Hub and the central banks of Thailand, the UAE, Hong Kong, China and Saudi Arabia, has reached its minimum viable product phase.[17]
- India and the UAE signed a memorandum of understanding to "jointly conduct proof of concept and pilots of a bilateral CBDC bridge to facilitate cross-border CBDC transactions of remittances and trade."[18]
- The Bank of Russia is ready to test digital currencies for settlement of transactions with China and the countries making up the Eurasian Economic Union—Belarus, Kazakhstan, Armenia and Kyrgyzstan. Russia's finance minister also disclosed that it is looking at CBDC initiatives with the oil-rich Gulf nations and potentially other BRICS nations—Brazil, India and China.[19]

These efforts illustrate how having an ability to plug into the new payment infrastructure may become not just a matter of convenience or efficiency, but a matter of strategic importance to compete in a changing world. For more on this topic, please see The Future of Investing: Future of Money article by Sandy Kaul and Robert Crossley from Franklin Templeton Industry Advisory Services.

Investment takeaway

In a "multipolar" world, there is a generalised move away from using the USD as the dominant currency for trade finance. Since increasing volumes of trade are likely to be completed between countries of the "Global South" who tend to do a lot of government-to-government deals, it seems logical to expect increasing use of CBDCs, rather than traditional currencies.

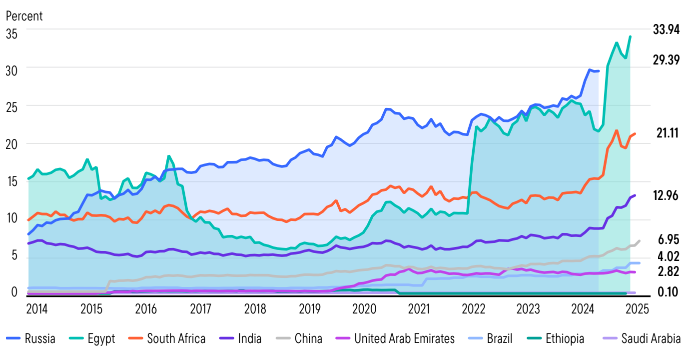
Foreign exchange reserves unaffected for now

The IMF's latest Currency Composition of Official Foreign Exchange Reserves (COFER),[20] shows the value of currencies in foreign reserves is down -4.8% over the last five years, eroded by sustained purchases of gold, which is not captured by COFER. Within COFER, the USD is still the most widely held reserve currency, accounting for 58% of total. The euro is second at 20%, followed by the Japanese yen (5.8%), British pound (4.7%), Canadian dollar (2.8%) and Chinese RMB (2.18%). However, gold has been growing at the BRICS+ central banks, as can be seen in Exhibit 2.

Exhibit 2: Gold Is Increasing its Share of BRICS+ Central Bank Reserves

Gold as a Percent of Total Reserves

As of March 2025 or latest available



Sources: IMF, Macrobond. Note: Data for Iran not available.

Conclusion

The USD and the euro are two major currency blocs that coexist with multiple floating currencies. The USD bloc is the largest, although this could change if Beijing were to "unpeg" its currency from the USD.[21] China's capital controls and history of unilaterally adjusting the effective exchange rate to its advantage reduce the likelihood of a RMB bloc forming soon.

China aims to internationalise the RMB to increase its global influence and protect against potential sanctions. The RMB's share in global reserves and trade will grow, especially with BRICS+ members, though lifting capital controls is unlikely in the near term. Efforts to use CIPS and CBDC for financial transactions will likely continue, aiming to shield countries from future sanctions and reduce reliance on SWIFT and CHIPS.

Increased trade among non-G7 countries may boost CBDC usage. Investors should monitor alternatives like CIPS, RMB acceptance in BRICS+ trade and cross-border CBDC projects like mBridge, as these developments could affect the demand for US Treasury bonds. Despite potential changes, we believe the USD is likely to remain the preferred global reserve currency due to its incumbency, liquidity, efficiency and confidence.

Investors have a fiduciary duty to regularly re-evaluate the possibility that this trajectory could eventually lead to a reduced global appetite for US Treasury bonds, although the likelihood remains low at present, in our view. Key indicators for investors to monitor include the development of alternative financial systems like CIPS, the acceptance level of the RMB in intra-BRICS+ trade and the evolution of cross-border wholesale CBDC projects like mBridge, which connects China, Thailand, the UAE and Hong Kong, and is expected to expand to 11 countries this year. In our opinion, this will be the real test case for a potential replacement of SWIFT in the future.

Ultimately, barring significant changes to institutional strength in the United States (for example, loss of independence of the Federal Reserve) we expect the USD to remain the preferred global reserve currency in the foreseeable future. Even as other currencies increase their participation in foreign reserves, trade invoicing and transactions, incumbency, liquidity, efficiency and confidence in the USD mean there is no obvious single challenger in the medium term.

Contributors

Karolina Kosinska
Analyst
Franklin Templeton Institute

Endnotes

1. Source: Swift Traffic Highlights. swift.com. 2022.
2. Source: The Clearing House. February 2024.
3. Source: "The 2023 RMB Internationalization Report." People's Bank of China. As of 2022.
4. Source: Ibid.
5. Source: "Sanctions, SWIFT and China's Cross-Border International Settlement System." CSIS. 20 May 2022.
6. Source: "India Signs Deal to Adopt Moscow's SPFS System for Banking Payments to Russia: Report." The Wire. 25 April 2023.
7. Source: IMF conference on Geoeconomic Fragmentation. 25 May 2023.
8. Source: "The 2023 RMB Internationalization Report." People's Bank of China. As of 2022.
9. Source: "The BRICS Are Accelerating Their Transition To Local Currencies." Cointribune. 8 May 2025.
10. Source: "Saudi-China ties and renminbi-based oil trade." S&P Global. 20 August 2024.
11. CPTPP is an Asia-Pacific trade bloc made up of 11 countries plus the United Kingdom. The 11 original members are Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.
12. The Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement initially negotiated between the 10 members of ASEAN (Brunei-Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) and six regional countries with which ASEAN has existing free-trade agreements (Australia, China, India, Japan, South Korea and New Zealand).
13. Sources: RCEP Trade Tracker, Asia Global Institute, 19 February 2025; "Key Developments that Shaped Global Trade in 2024," International Economics Consultancy, tradeeconomics.com, December 2024.
14. Sources: SWIFT, Macrobond. As of 2023.
15. Source: "Cross-border Payments." Financial Stability Board. 16 August 2024.
16. Source: Ross, Katherine. "Digital yuan used to settle crude oil trade for Chinese oil company: Report." Blockworks. 23 October 2023.
17. Source: "Project mBridge reaches minimum viable product stage and invites further international participation." Bank of International Settlements. 5 June 2024.
18. Source: Singh, Amitoj. "India and UAE to Collaborate on Developing Digital Currencies." CoinDesk. 15 March 2023.
19. Source: Pessarlay, Wahid. "Russia BRICS Bridge eyed for cross-border payments with China, Gulf countries." CoinGeek. March 2024.
20. Source: Currency Composition of Official Foreign Exchange Reserves (COFER). IMF. 25 April 2025.
21. China has managed its currency against a basket of currencies since 2005, and it would be logical to assume that the USD is a significant proportion of that basket.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Equity securities are subject to price fluctuation and possible loss of principal.

International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**.

The government's participation in the economy is still high and, therefore, investments in **China** will be subject to larger regulatory risk levels compared to many other countries. There are special risks associated with investments in **China, Hong Kong and Taiwan**, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalization, and exchange control regulations and rapid inflation, all of which can negatively impact the fund. Investments in Hong Kong and Taiwan could be adversely affected by its political and economic relationship with China.

An **investment in private securities** (such as private equity or private credit) or vehicles which invest in them, should be viewed as illiquid and may require a long-term commitment with no certainty of return. The value of and return on such investments will vary due to, among other things, changes in market rates of interest, general economic conditions, economic conditions in particular industries, the condition of financial markets and the financial condition of the issuers of the investments. There also can be no assurance that companies will list their securities on a securities exchange, as such, the lack of an established, liquid secondary market for some investments may have an adverse effect on the market value of those investments and on an investor's ability to dispose of them at a favorable time or price.

Investment strategies that incorporate the identification of **thematic investment opportunities,** and their performance, may be negatively impacted if the investment manager does not correctly identify such opportunities or if the theme develops in an unexpected manner. Focusing investments in the information technology- and/or technology-related industries carries much greater risks of adverse developments and price movements in such industries than a strategy that invests in a wider variety of industries.

Any **companies and/or case studies** referenced herein are used solely for illustrative purposes; any investment may or may not be currently held by any portfolio advised by Franklin Templeton. The information provided is not a recommendation or individual investment advice for any particular security, strategy, or investment product and is not an indication of the trading intent of any Franklin Templeton managed portfolio.

IMPORTANT LEGAL INFORMATION

This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice. This material may not be reproduced, distributed or published without prior written permission from Franklin Templeton.

The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as of the publication date and may change without notice. The underlying assumptions and these views are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market. There is no assurance that any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets will be realized. The value of investments and the income from them can go down as well as up and you may not get back the full amount that you invested. **Past performance is not necessarily indicative nor a guarantee of future performance. All investments involve risks, including possible loss of principal.**

Any research and analysis contained in this material has been procured by Franklin Templeton for its own purposes and may be acted upon in that connection and, as such, is provided to you incidentally. Data from third-party sources may have been used in the preparation of this material and Franklin Templeton ("FT") has not independently verified, validated or audited such data. Although information has been obtained from sources that Franklin Templeton believes to be reliable, no guarantee can be given as to its accuracy and such information may be incomplete or condensed and may be subject to change at any time without notice. The mention of any individual securities should neither constitute nor be construed as a recommendation to purchase, hold or sell any securities, and the information provided regarding such individual securities (if any) is not a sufficient basis upon which to make an investment decision. FT accepts no liability whatsoever for any loss arising from use of this information and reliance upon the comments, opinions and analyses in the material is at the sole discretion of the user.

Products, services and information may not be available in all jurisdictions and are offered outside the U.S. by other FT affiliates and/or their distributors as local laws and regulation permits. Please consult your own financial professional or Franklin Templeton institutional contact for further information on availability of products and services in your jurisdiction.

Brazil: Issued by Franklin Templeton Investimentos (Brasil) Ltda., authorized to render investment management services by CVM per Declaratory Act n. 6.534, issued on October 1, 2001. **Canada:** Issued by Franklin Templeton Investments Corp., 200 King Street West, Suite 1500 Toronto, ON, M5H3T4, Fax: (416) 364-1163, (800) 387-0830, www.franklintempleton.ca. **Offshore Americas:** In the US, this publication is made available by Franklin Templeton, One Franklin Parkway, San Mateo, California 94403-1906. Tel: (800) 239-3894 (USA Toll-Free), (877) 389-0076 (Canada Toll-Free), and Fax: (727) 299-8736. **US:** Franklin Templeton, One Franklin Parkway, San Mateo, California 94403-1906, (800) DIAL BEN/342-5236, franklintempleton.com. Investments are not FDIC insured; may lose value; and are not bank guaranteed.

Issued in Europe by: Franklin Templeton International Services S.à r.l. – Supervised by the *Commission de Surveillance du Secteur Financier* – 8A, rue Albert Borschette, L-1246 Luxembourg – Tel: +352-46 66 67-1, Fax: +352-46 66 76. **Poland:** Issued by Templeton Asset Management (Poland) TFI S.A.; Rondo ONZ 1; 00-124 Warsaw. **Saudi Arabia:** Franklin Templeton Financial Company, Unit 209, Rubeen Plaza, Northern Ring Rd, Hittin District 13512, Riyadh, Saudi Arabia. Regulated by CMA. License no. 23265-22. Tel: +966-112542570. All investments entail risks including loss of principal investment amount. **South Africa:** Issued by Franklin Templeton Investments SA (PTY) Ltd, which is an authorized Financial Services Provider. Tel: +27 (21) 831 7400, Fax: +27 (21) 831 7422. **Switzerland:** Issued by Franklin Templeton Switzerland Ltd, Stockerstrasse 38, CH-8002 Zurich. **United Arab Emirates:** Issued by Franklin Templeton Investments (ME) Limited, authorized and regulated by the Dubai Financial Services Authority. **Dubai office:** Franklin Templeton, The Gate, East Wing, Level 2, Dubai International Financial Centre, P.O. Box 506613, Dubai, U.A.E. Tel: +9714-4284100, Fax: +9714-4284140. **UK:** Issued by Franklin Templeton Investment Management Limited (FTIML), registered office: Cannon Place, 78 Cannon Street, London EC4N 6HL. Tel: +44 (0)20 7073 8500. Authorized and regulated in the United Kingdom by the Financial Conduct Authority.

Australia: Issued by Franklin Templeton Australia Limited (ABN 76 004 835 849) (Australian Financial Services License Holder No. 240827), Level 47, 120 Collins Street, Melbourne, Victoria 3000. **Hong Kong:** Issued by Franklin Templeton Investments (Asia) Limited, 62/F, Two IFC, 8 Finance Street, Central, Hong Kong. **Japan:** Issued by Franklin Templeton Investments Japan Limited. **Korea:** Issued by Franklin Templeton Investment Advisors Korea Co., Ltd., 3rd fl., CCMM Building, 101 Yeouigongwon-ro, Yeongdeungpo-gu, Seoul, Korea 07241. **Malaysia:** Issued by Franklin Templeton Asset Management (Malaysia) Sdn. Bhd. & Franklin Templeton GSC Asset Management Sdn. Bhd. This document has not been reviewed by Securities Commission Malaysia. **Singapore:** Issued by Templeton Asset Management Ltd. Registration No. (UEN) 199205211E, 7 Temasek Boulevard, #38-03 Suntec Tower One, 038987, Singapore.

Please visit www.franklinresources.com to be directed to your local Franklin Templeton website.

FRANKLIN TEMPLETON

US-GTM-5689458-5589458
INSCT-SCFIN–0725