

CAPCO

JOURNAL

The Capco Institute Journal of Financial Transformation

Value dynamics

Disruptive forces reshaping
financial services

Structural challenges

Europe at a crossroads: East-West
financial networks in a context
of geopolitical polarization

Adam Leaver
Daniel Tischler

#61 SEPTEMBER 2025

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The Capco Institute Journal of Financial Transformation

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2025, Edition 61

JOURNAL

Value dynamics

Welcome to the 61st edition of the Journal of Financial Transformation.

I am delighted to announce our new partnership with King's College London, a world-renowned leader in education and research, marking a new chapter in the Journal's long and distinguished history.

In this edition focusing on Value Dynamics, we explore a critical – and ever more pressing – challenge: how institutions across financial services create, distribute and sustain value.

As Professor Crawford Spence, our editor from King's College highlights in his own introduction, the forces shaping value dynamics across financial services are myriad, encompassing technological transformations, secular shifts, political and social structures.

As a firm that has been at the cutting edge of innovation for over 25 years, these value drivers intersect directly with the work Capco does every day, helping our clients around the globe transform their businesses for sustained growth.

The integration of innovative new technologies including generative and agentic AI models, the digitalization of currencies and payments infrastructures, the reimagining of customer experiences, the relentless evolution of market ecosystems, the vital role of culture as a value driver: these imperatives are where we see – first-hand – clear opportunities for our clients' future growth, competitive differentiation and success.

We are excited to share the perspectives and insights of many distinguished contributors drawn from across academia and the financial services industry, in addition to showcasing the practical experiences from Capco's industry, consulting, and technology SMEs.

It is an immense source of pride that Capco continues to champion a creative and entrepreneurial culture, one that draws on the deep domain and capability expertise of thousands of talented individuals around the world.

We do not take our hard-earned status as a trusted advisor lightly, nor our responsibility to make a genuine difference for our clients and customers every single day – placing excellence and integrity at the forefront of everything we do.

I hope the articles in this edition help guide your own organization's journey as you navigate the many complexities and opportunities ahead.

As ever, my greatest thanks and appreciation to our contributors, readers, clients, and teams.



A handwritten signature in black ink that reads "Annie Rowland". The signature is fluid and cursive, with a long, sweeping underline.

Annie Rowland, Capco CEO

2025, Edition 61

Editor's note



**KING'S
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This 61st edition of the Journal of Financial Transformation is the first with a new editorial team in place, and is the product of a formalized collaboration between Capco and King's College London. This collaboration – a leading financial services consultancy and a prestigious academic institution – embodies the Journal's ethos: a balance between academic rigor and practical accessibility.

Traditional academic journals often deal with more prosaic conceptual matters. Even when they focus on more practical concerns, the timelines and mechanics of double-blind peer review processes can mean that the insights that they offer risk being out of date by the time they are published. Conversely, traditional op-ed articles in the financial press are all too often heavy on opinion and pre-conceived ideas and can lack the heft that comes with thoroughly researched pieces of work.

The Journal we've published strikes a vital balance between these two approaches.

This edition has an overarching focus of Value Dynamics. Specifically, the various articles look at how value is created, distributed and sustained across financial services. In turn, the submissions are grouped into three broad themes.

Technological transformations are explored in terms of how these can bolster or hinder value dynamics if not managed effectively. A number of secular shifts are also discussed – these being long-term changes that are impacting value dynamics in the sector. Finally, structural challenges are highlighted that emphasize the importance of sticky, tricky social and behavioral issues that surround the execution of financial services.

Overall, these themes highlight challenges and opportunities in the sector and encourage us to think differently.

It has been a pleasure working on this issue with such a fantastic and diverse array of different contributors.

A handwritten signature in black ink, appearing to read "C. W. Spence".

Professor Crawford Spence

King's College London

Europe at a crossroads:

East-West financial networks in a context of geopolitical polarization

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Abstract

The case of Evergrande – a Chinese property developer – received much business press attention when Western investors in its corporate bonds lost billions of dollars as it went into liquidation and was eventually delisted. The case illustrated the strong financial relationship that has evolved between Eastern debt markets and Western investors. However, the Evergrande example highlights a less well understood issue: that Western firms have also been centrally involved in the structuring and marketing of Chinese debt securities, effectively enabling the globalization of Chinese finance. Using social network analysis, drawing on data extracted from legal documents (offering circulars), our paper shows the roles played by Chinese, European and North American financial institutions in the construction of Evergrande's debt securities. Evergrande therefore provides a window on our entwined economies. But it also illuminates an unknown: how these historic relations may change as geopolitical tensions grow. We reflect on the unanticipated outcomes that may arise from U.S.-China political polarization, in a context where European states seek to steer their financial centers towards domestic geopolitical priorities, but are also responsive to their financial interests. One possible outcome is that a more isolationist and recalcitrant U.S. partner may drive European financial actors towards the pursuit of their historic business interests in China, while being less mindful of U.S. foreign policy interests.

1. Introduction

China Evergrande Group, established in 1996 by Hui Ka Yan and headquartered in Shenzhen, was one of the largest real estate conglomerates in China. The company played a significant role in the country's rapid urbanization by developing large-scale residential and commercial projects across numerous cities. Leveraging an expansionist strategy, Evergrande diversified its

business portfolio beyond real estate, investing in sectors such as finance, healthcare, electric vehicles, and entertainment.

Evergrande's growth strategy was heavily reliant on extensive debt financing, making it one of the most indebted property developers globally. At its peak, the company had accumulated liabilities exceeding U.S.\$300 billion, consisting of various forms of debt, including bank loans,

corporate bonds, trust loans, and commercial paper issued to suppliers and contractors [Sutter and Sutherland (2024)]. Evergrande also issued offshore U.S. dollar bonds, making it one of the largest issuers of high-yield bonds in Asia. This debt was pitched towards foreign investors and sold on international markets. Consequently their structuration and sale contained a mix of Chinese and Western organizations.

The company encountered a severe liquidity crisis in 2021, primarily due to this unsustainable debt burden, leading to concerns about financial contagion within Chinese and global markets. Evergrande's defaults triggered a sector-wide crisis that saw both a spike of bond defaults by Chinese real estate firms and a collapse of bond issuance since [ICMA (2024); Chang and Li (2024)]. Real estate firms' defaults peaked at a collective U.S.\$64 billion in 2022 affecting nearly 28% of offshore (U.S.\$) debt, representing virtually all default events in Chinese offshore debt during the 2021-23 period [Chang and Li (2024), p. 7].

In January 2024, a Hong Kong court ordered the liquidation of Evergrande, marking a significant turning point in the company's prolonged financial crisis [Reuters (2025)]. The ruling came after Evergrande failed to present a viable restructuring plan for its liabilities, including substantial offshore bond obligations. While Evergrande's domestic operations, including its ongoing housing projects, are likely to be handled under Chinese regulatory oversight, offshore creditors face significant uncertainty regarding debt recovery, as China has historically prioritized domestic stability over foreign investor claims. In August 2025, Evergrande was officially delisted from Hong Kong's stock exchange.

The liquidation of Evergrande has shone a light on broader challenges in China's real estate sector, where several major developers continue to struggle under high debt burdens, weakening demand, and strict regulatory measures aimed at

curbing speculative lending. It also revealed the deep interpenetration of Western and Chinese financial markets, as buyers of Evergrande's shares and debt, including BlackRock, HSBC and UBS took substantial hits on their investments [Randall (2021)]. Indeed, Evergrande was even incorporated in the Cayman Islands, a British Overseas Territory, precisely in order to access international capital markets and allow it to restructure under U.S. bankruptcy law [Sutter and Sutherland (2024)]. Outside of these market relations, there are, however, deeper and more extensive ties which are less well understood. These ties relate to Western involvement in how Chinese debt securities are assembled. The globalization of Evergrande's debt securities has historically required considerable Western firm involvement, raising important policy questions about what happens to these relations going forward and how they may get bound up in, or indeed foster, wider shifts in geopolitics.

2. Chinese debt securities: an East-West assembly network

The role of Western financial actors in the globalization of Chinese debt goes back to the return of Hong Kong (HK) to China in 1997. Hong Kong has historically had strong ties to the West, and became an important financial center for China after 1997, facilitating East-West cooperation and the globalization of Chinese finance [Fang et al. (2023); Hall (2018, 2021); Heritier and Schoeller (2020); Wójcik and Camilleri (2015)]. Hong Kong is a financial entrepot – an offshore financial center providing restricted access for mainland Chinese financial actors – yet China also retains political control over it, effectively onshoring it [Yue (2021)]. Hong Kong performs a brokerage function between Western and Chinese financial market activities [Fang et al. (2023)], operating as a gateway between mainland China's debt markets and global capital, allowing those debt products to become investable internationally by conforming to global expectations. Recent policy

initiatives – Stock Connect and Bond Connect – aim to reinforce the role of Hong Kong in the internationalization of China's capital markets by extending it privileges not afforded to other Chinese financial centers and by opening up new channels to direct flows from mainland Chinese exchanges through Hong Kong [Lau (2022)].

The rise of Hong Kong as the international market place for mainland China was a strategic choice. Hong Kong's historic legal and regulatory alignment with Western financial markets and established technical financial expertise provided the foundation for China's strategic aim to globalize its financial market interests while lacking international experience [Fang et al. (2023); Petry (2021)]. China's international integration via Hong Kong generated an opportunity to access expertise developed by Western financial institutions and advanced business services (FABS) to facilitate debt issuance and enhance the reputation of the offering by "lending their reputation" [Heritier and Schoeller (2020), footnote 10]. Doing so also enabled Chinese firms to become more globally recognized by gaining expertise and enhancing their reputation. These developments created an intertwined system that binds geographies, forming lasting corporate, spatial, and social network structures. Western FABS, traditionally active in Hong Kong via subsidiary undertakings, have maintained their central brokerage roles for Chinese firms to access global financial markets.

There is little public recognition of this, outside sporadic discussion of this involvement in the mainstream business press. For example, the Financial Times noted the involvement of organizations like PWC in the auditing of Evergrande [Financial Times (2021a, 2021b)] and the role of Credit Suisse as a former underwriter of Evergrande's U.S.\$-denominated bonds [Financial Times (2021b)]. However, it is possible

to get a more systematic understanding of these relations through the legal documentation selling firms produce when marketing debt securities [Beaverstock et al. (2023)]. Because most securities are sold on a buyer beware basis, this means that a vast amount of information is provided to buyers so that they are fully aware of the return and risks of any prospective securities purchased.

While these documents are generally used by legal advisors of securities investors, it also provides a rich source of data through which to analyze the corporate and spatial networks of financial activities involved in the assemblage of Evergrande's international debt. We will now explain how we used documents and the basis of our social network analysis in our methodology section before presenting findings. We hope to stimulate debate amongst academic and non-academics and encourage additional research into the globalization of Chinese corporate debt more broadly.

3. Method and data

We use legal documents – Offering Circulars – to trace the spatial footprint of Evergrande's offshore debt issuance [Tischer et al. (2019)]. By focusing on actors who structure securities, rather than buy them, our approach provides a more complete picture of East-West collaboration and coordination. This brings into view a whole range of new actors, including those in the professions of law, accounting, auditing but also in financial advanced business services (FABS) [Lai (2018)].

From the offering circulars, we extract data provided on actor role, organization and domicility to analyze the network structure and positions of individual actors using standard social network analytic tools in UCINET [Borgatti et al. (2013); see also Beaverstock et al. (2023)]. The results of our descriptive analysis offer insights into

Table 1: Overview of Evergrand (and subsidiaries) international debt issuances 2010-2020

	Type	Total	Matured	Outstanding	Interest range	Dates
China Evergrande and Evergrande Real Estate Group Limited		U.S.\$bn				
10 new issuances	Senior Notes	14.1	4.8	9.3	6.25%-13%	2010-2020
2 Consolidations Senior Notes	Senior Notes	4	3	1	6.25%-8.75%	2013; 2019
1 new issuance in HK\$	Secured and Guaranteed Convertible Bonds	-2.3	0	-2.3	4.25%	2018
1 new issuance in RMB (U.S. Settled)	Senior Notes	-1.5	-1.5	0	7.5%-9.25%	2011
Scenery Journey Limited (Hengda Real Estate Group)						
3 new issuances	Senior Notes	6.4	1.2	5.2	9%-13.75%	2018-2020
1 Consolidation	Senior Notes	1	1	0	11%	2018
Total Values		29.3	11.5	17.8		

the organization of the structuration focused on core actors and legal jurisdictions from which actors operate.

In total, our dataset comprises 18 large-scale debt issues by Evergrande and Evergrande subsidiaries. We have included all products for which information is available, including new issuance as well as consolidations, hence the overall value of included products is higher than reported in the media. In addition to U.S.\$-denominated bonds we have also included one offering in HK\$ and one in RMB, the latter of which is settled in U.S.\$. Whilst many of the debt tranches have matured, these products were included to provide a longitudinal account of change in network terms.

3.1 Data overview and detail

We collected data on all actors – banks and FABS – involved in the structuration of these debt products, as well as other information – including type of debt, volume, interest rates and maturity dates – for each of the debt products. These are summarized in Table 1. We have complete data for

13 of 18 products. The remaining five products may be missing information on certain functions, such as administration, legal advisors and auditors. As a result some analysis will have to account for missing data. Where this is the case, this will be made explicit.

4. Findings

Our analysis offers insights into three structural and positional aspects of Evergrande's debt structuration network that we will discuss in turn.

First, in geographical terms, the network centers around Hong Kong as a financial center in which most of the subsidiaries of Chinese and Western firms are based (Figure 1). 24 out of 37 actors participating in the assemblage of Evergrande debt are based in Hong Kong, mainly managers and bookrunners (i.e., 16 Western and Chinese investment bank subsidiaries), five international legal advisers, Tianji Holding¹, as well as the main auditor (PWC) and trustee (Citicorp International). This finding illustrates the

significance of Hong Kong as acting as a switchboard connecting mainland Chinese firms with international debt markets.

In addition to Hong Kong we also find other on- and off-shore financial centers within the network: London, which hosts Citibank N.A. in

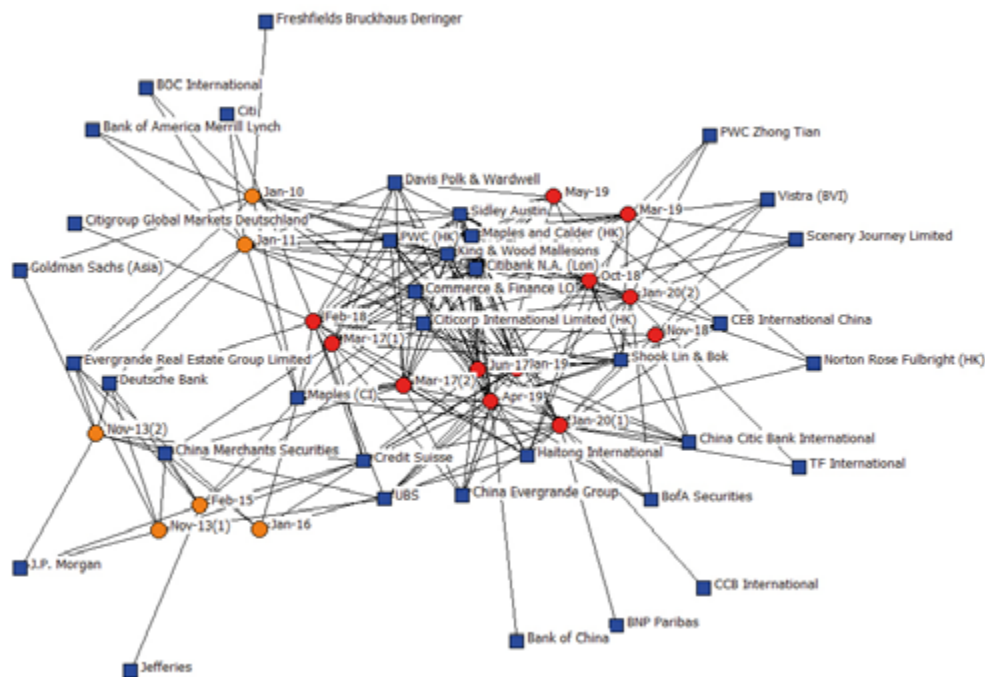
the capacity of paying and transfer agent and registrar as well as the Cayman and British Virgin Islands in which issuers are based. The expansion into offshore jurisdictions is a response to China's restrictions on Chinese onshore companies to raise foreign debt capital directly. As a result, "Chinese borrowers use a variety of offshore financing structures ... often incorporated in a tax-efficient jurisdiction" [Kidd and Warboys (2016)].

Figure 1: Geographical mapping of actors participating in Evergrande's debt issuance

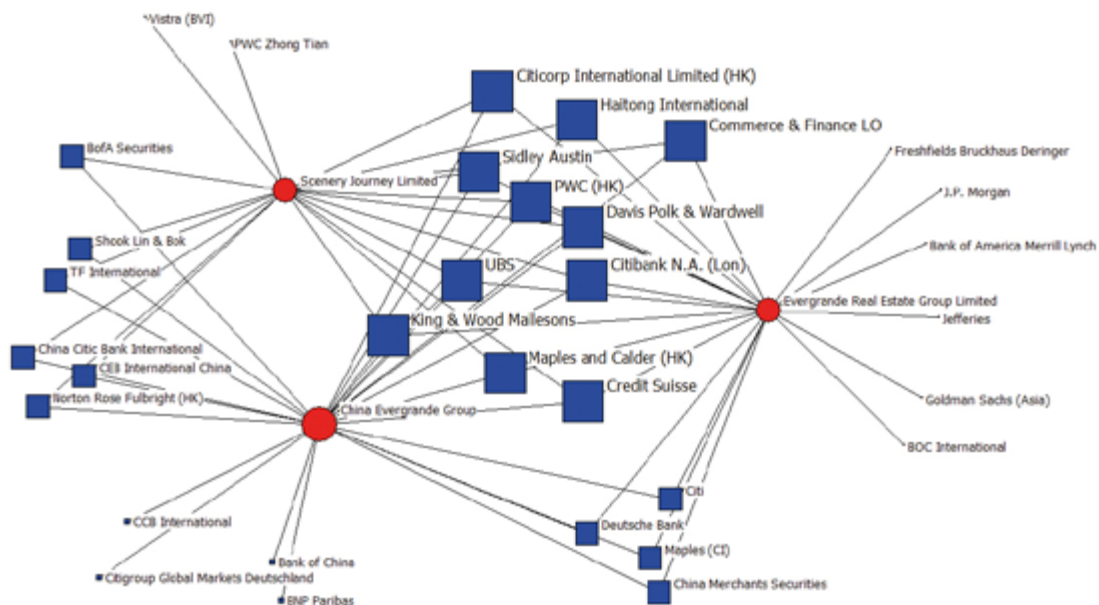


Second, an examination of the network structure itself highlights the centrality of a group of actors involved in the structuration of multiple Evergrande bonds. Early bonds issued before 2017 (orange) are separate from the core network to the right of the main cluster (red) (Figure 2). The nodes in the center of the core network are of key interest as they show the actors repeatedly involved in the structuration of Evergrande bonds in recent years (Figure 3). This network highlights the international character of debt origination via Hong Kong; the most central actors are

Figure 2: Structuration network for Evergrande bonds by date of issuance (n=18)



¹ The sole overseas financing platform for Hengda Real Estate, a subsidiary of Evergrande

Figure 3: Structuration network for Evergrande bonds by issuing subsidiary (n=18)

subsidiaries of international banks, legal representatives and various law firms advising the various parties involved with respect to the various legal jurisdictions involved (Cayman/BVI, U.S./HK, and PRC). Only two firms headquartered in China are also represented in the core network – Haitong International (through its HK subsidiary) and Commerce & Finance Law Offices (via Beijing and Shanghai).

Third, the analysis of degree centrality (Table 2), which measures the importance of a node by quantifying the number of connections it has to other nodes in the network, confirms the existence of a core network with highly concentrated administration and trustee, legal and audit functions. PWC (HK), Citibank N.A. (London/Dublin), Citicorp International (HK) and various law firms are involved in the 15 debt products for which we have complete data. The overseas issuer and auditors show some variation that is determined by the incorporation of the entity that issued the debt – China Evergrande is incorporated in the Cayman Islands, while Scenery

Journey is incorporated in the British Virgin Isles – which also impacts the involvement of specific auditing entities (PWC's Hong Kong office and PWC Zhong Tian – its PRC undertaking is based in Guangzhou).

The only function that shows more variability is that of the managers (see Figure 4) – a consortium of banks who coordinate and manage the debt issuance. Here Credit Suisse takes a leading role and is involved in arranging 12 of the 15 debt products with a total value of ~U.S.\$10 billion – a number much higher than, for example, the U.S.\$4.6 billion reported by the FT in 2021². Haitong and UBS follow with nine and eight involvements each. Other banks participate less frequently and across different periods. For example, while JP Morgan and Goldman Sachs were involved in early debt issuances (up to 2015), China Citic and CEB International only engage from 2017 onwards. Credit Suisse co-arranges most debt products (Figure 5) with UBS (7), followed by Haitong International (6) and China Citic (5).

² <https://www.ft.com/content/490c34fd-bc22-47b3-9e1c-b33caf826ece>

Table 2: Concentration of top three actors by degree centrality (complete networks only; n=15)

Managers and bookrunners		Administration		Overseas issuer		Legal		Audit	
Credit Suisse (HK)	12	Citibank N.A. (U.K./IRE)	15	Maples (CI)	12	Commerce & Finance (PRC)	15	PWC (HK)	15
Haitong International (HK)	9	Citicorp International (HK)	15	Vistra (BVI)	3	King & Wood Mallesons (PRC)	15	PWC Zhong Tian (PRC)	3
UBS (HK)	8					Maples and Calder (HK)	15		

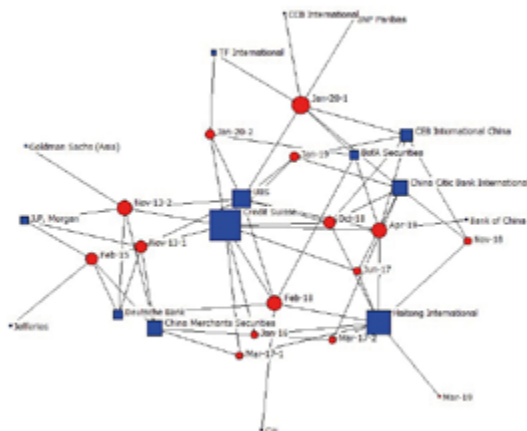
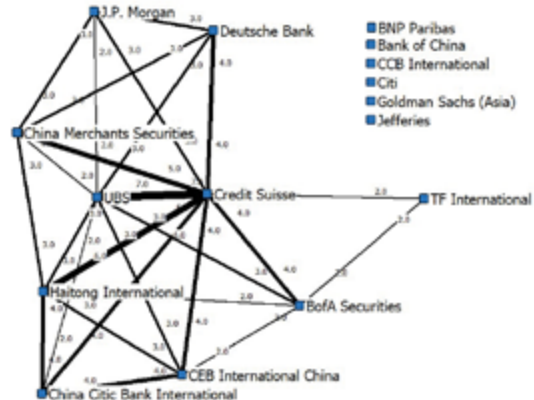
Our analysis therefore reveals the centrality of U.S. and European organizations in the globalization of Chinese financial securities. Overall, our findings show little variability in the network positions of legal, issuing and administrative actors, but also highlights close relationships between managers/bookrunners and Evergrande and its subsidiaries through repeat interactions. The interrelations between East and West are typical of long-standing, trust relations built slowly over time rather than impersonal market forces that chop and change regularly.

5. Discussion

This study shows that Western financial actors have been deeply embedded in the globalization of Chinese finance. The Evergrande saga is a case in point: major Western investors – including BlackRock, HSBC, and UBS – were among the largest buyers of Evergrande's international bonds, while Western institutions helped Evergrande construct and sell those securities. These entanglements underscore how intertwined East and West have become. Recent geopolitical tensions, however, threaten to unravel these ties. In the wake of rising U.S.–China friction, policymakers have voiced fears of a fragmenting global financial market. Successive U.S. administrations (Trump, Biden, and now

Trump again) have employed both hard and soft power levers to discourage investment in China, reflecting a more confrontational stance. China has responded in kind – tightening controls on outbound investment into U.S. assets and steering more financial activity from Hong Kong to onshore hubs like Shanghai and Shenzhen. Notably, Beijing's efforts to centralize finance (and ongoing political tensions in Hong Kong) have already prompted some Chinese market activities to relocate to alternative Asian centers such as Singapore. These moves on both sides point to a potential bifurcation of global finance along East–West lines, heightening polarization risks [Hale et al. (2024); JP Morgan (2024)].

European international financial centers (IFCs), meanwhile, find themselves pulled in two directions. On one hand, their historic linkages with Hong Kong and active roles in structuring Chinese offshore securities position them to capitalize on lucrative business opportunities in China. Indeed, there is evidence that some European financial hubs are quietly competing for Chinese deals – even lobbying for greater latitude to engage Chinese markets despite U.S. strategic reservations. On the other hand, European states are under pressure to align with Western foreign-policy priorities. They are now weighing a delicate choice: tighten financial controls in solidarity

Figure 4: Banks' participation in Evergrande debt products**Figure 5:** Banks' joint participation in Evergrande debt products

with U.S. efforts to isolate China (at the risk of driving banks and investors to more permissive jurisdictions), or liberalize engagement to pursue growth in Chinese markets (at the risk of straining transatlantic relations). The outcome of these centrifugal forces will depend on each nation's ability (and willingness) to steer its domestic financial sector in line with geopolitical goals. History suggests this will not be easy – financial actors are notoriously adept at innovating around restrictions to preserve their interests [Leaver and Martin (2021)]. Even states inclined to support U.S. strategy may find their private sector pushing back if profitable Chinese opportunities are foregone. In short, market forces and national interests may diverge, complicating any unified Western stance.

In this context, a more isolationist or uncompromising U.S. approach could prove counterproductive. Aggressive trade measures, threats against allies' industries, and departures from cooperative norms have already begun to chip away at the decades-long goodwill between the U.S. and Europe. If Washington's pressure on

its allies becomes too unilateral, European officials may increasingly heed the voices of their own financial industries (which have long-cultivated ties with China) over calls for decoupling. Our findings suggest that Sino-European financial networks – the very networks illustrated by cases like Evergrande – could become a pivotal channel that reshapes geopolitical incentives in Europe. Should these networks deepen and endure, Europe's collective sense of obligation to U.S. policy will likely dwindle, weakening the U.S. ability to rally allies in isolating China. In essence, the transatlantic alliance faces an inflection point: long-standing financial interdependencies are tugging against emerging political fault lines. Whether global finance splinters into rival blocs or adapts through new alignments will hinge on decisions made in the coming years.

6. Strategic recommendations for key actors

In light of these tensions, our analysis points to several potential developments that may determine the future shape of global finance.



By proactively managing risk and engagement, Europe's financial centers may remain competitive bridgebuilders in global finance rather than becoming casualties of a new freeze in global financial relations.

- European financial centers may balance engagement and security. European IFCs (e.g., London, Frankfurt, Luxembourg) may calibrate their China strategies to safeguard both geopolitical and market interests. This may mean pursuing a dual approach: remaining compliant with allied security imperatives (for instance, performing enhanced due diligence on Chinese deals and honoring international sanctions), while diplomatically securing continued access to Chinese markets for their firms. Financial hubs in Europe are encouraged to work with policymakers on clear guidelines or special frameworks (such as narrowly-targeted licenses, cooperation agreements, or regulatory “sandboxes”) that allow sustainable East-West financial activity without undermining domestic oversight. These centers may diversify their portfolios – deepening links with other emerging markets and sectors – so that they are not overly reliant on either U.S. or Chinese business. Finally, European regulators and industry leaders may strengthen risk management for any China-related exposures, learning from the Evergrande collapse to ensure that foreign investment structures are transparent and shock-resistant. By proactively managing risk and engagement, Europe's financial centers may remain competitive bridge-

builders in global finance rather than becoming casualties of a new freeze in global financial relations risk and engagement, Europe's financial centers may remain competitive bridge builders in global finance rather than becoming casualties of a new freeze in global financial relations.

- Hong Kong firms may adapt and reposition in a changing landscape. Hong Kong's financial institutions and service providers face the challenge of preserving Hong Kong's role as a gateway amid shifting currents. Firms in Hong Kong may benefit from a strategic realignment that hedges against both Beijing's internal consolidation and Western disengagement. Practically, this could involve expanding partnerships with mainland Chinese financial markets (to align with China's integration efforts) and nurturing ties with alternative international investors (for example, in Southeast Asia, the Middle East or Europe) to compensate for any decline in U.S. participation. Hong Kong firms could continue to emphasize their world-class regulatory standards and expertise as a value proposition – positioning the city as an indispensable hub for complex financial services (asset management, insurance, fintech) that complement mainland markets rather than compete with them. At the same time, investing in compliance and transparency will be crucial to maintain global investor confidence. By innovating in products (such as offshore RMB instruments or green finance where Hong Kong has a lead) and demonstrating agility, Hong Kong's financial sector may try to underscore its relevance. Their goal is to remain a key broker in East-West finance even if the political center of gravity shifts: Hong Kong firms can do this by being connectors and problem solvers, helping channel capital in ways that meet both Chinese regulatory expectations and international norms.

- Cross-border financial regulators may attempt to enhance cooperation and oversight. Regulators overseeing cross-border finance (from European and Asian securities commissions to transnational standard setters) may collaboratively fortify the global financial system against fracturing. This may involve a number of steps. A first step could be to revive and strengthen dialogues – for example, E.U.–China financial forums or international working groups – to ensure mutual transparency about regulatory changes. Joint frameworks could be developed to handle cases like Evergrande’s default, so that when a large multinational debtor fails, there are agreed protocols to manage creditor claims across jurisdictions. Regulators should also push for harmonized disclosure standards for offshore bond issuance: when firms from one market sell debt to foreign investors, the offering documents and risk assessments need to be fully credible and accessible (a lesson reinforced by the opacity surrounding Evergrande’s liabilities). Greater data sharing between regulatory bodies would help monitor systemic risks that span markets. Crucially, cross-border regulators ought to prepare contingency plans for a scenario of financial decoupling – for instance, coordinating on capital flow safeguards or parallel market infrastructure – so that if political mandates restrict East-West investment, it can be done in a way that minimizes market shocks. While respecting their respective mandates, regulators collectively have a responsibility to prevent needless fragmentation: by identifying common ground (such as maintaining financial stability and investor protection), they can keep channels open for dialogue even as geopolitical tensions rise.
- North American industry practitioners may focus on strategic foresight and agility. Banks, asset managers, and other finance practitioners in the U.S. and Canada could actively develop strategies for a more polarized financial world. On the one hand, North American firms need to rigorously evaluate their exposures to Chinese markets under different scenarios – ranging from business-as-usual to severe capital market restrictions. Incorporating geopolitical risk into investment decisions is now essential; for example, debt or equity positions in Chinese companies (or funds heavily invested in China) should be stress-tested against potential policy shocks. On the other hand, industry practitioners can seek alternative growth avenues to compensate for any lost opportunities in China. This might mean deepening involvement in India, Southeast Asia, Africa, or Latin America – regions where demand for capital is rising and geopolitical alignments may be less restrictive. North American firms are also encouraged to engage constructively with regulators and policymakers at home: by sharing on-the-ground insights, they can help shape balanced policies that address security concerns without unduly hampering global market access. Importantly, industry leaders should remain adaptable – ready to pivot business models if a bifurcated global system emerges. This could entail developing new products tailored for allied markets (in line with “friend-shoring” trends) or leveraging technology to connect with overseas clients in compliant ways. With prudent planning, North American practitioners can sustain their competitive edge and global reach, even as the rules of international finance are being redrawn.

7. Conclusion

Europe stands at a crossroads. Our findings highlight how Europe's financial centers, long instrumental in bridging East and West, are now confronted with a defining strategic choice that will reverberate across the global political economy. In one direction lies closer alignment with a U.S.-led stance of financial containment of China – potentially reinforcing a bifurcated world of rival financial systems. In another direction lies a more independent path, where European interests continue to engage with Chinese finance, fostering a multipolar network of capital flows. This decision is not merely about economics; it is about the future architecture of global finance and Europe's place within it. A cautious reading of the evidence suggests that if the U.S. maintains a hard line while Chinese markets remain attractive, European actors may pragmatically lean toward their historic business ties in China, thereby softening the edges of an intended East-West divide. The “so what?” is clear: the actions of European financial hubs could determine whether global finance fragments into antagonistic blocs or adapts into a more complex, interdependent equilibrium.

Looking forward, we offer a broader strategic foresight on the implications for the United States and the wider international system. If U.S.-China polarization continues unabated, the world may see the emergence of two semi-integrated financial spheres. In such a scenario, Washington would dominate one sphere (comprising North America and like-minded allies), and Beijing the other (anchored in Asia), with Europe as the swing player that interacts with both. This outcome would test the foundations of U.S. financial hegemony. The U.S. dollar's role as the unrivaled global currency could come under gradual challenge if, for instance, Sino-European financial

flows deepen through direct RMB channels or new digital payment systems outside U.S. influence. American policymakers will need to weigh the security gains of a hard decoupling against the economic costs of forfeiting deep global financial integration, which has historically benefited U.S. markets and firms. From an internal political economy perspective, a retreat from global finance might encourage the U.S. to refocus on domestic industrial revitalization and tighter knit trade-finance blocs with allies. However, it could also mean reduced foreign capital inflows and fewer avenues for global portfolio diversification, factors that might raise funding costs or volatility in U.S. financial markets over the longer term. The strategic trade-off for the U.S. is therefore profound: pushing allies to choose sides may secure short-term geopolitical advantage, but it risks diminishing American influence in the very financial networks that have underpinned its power for decades. A more farsighted U.S. approach would be to reaffirm collaborative leadership – working with Europe and other partners on fair standards for engagement with China, rather than imposing strict bifurcation. Such an approach could sustain Western unity and global financial stability, ensuring the U.S. remains at the center of an open (albeit recalibrated) world economy.

For China, the trajectory of Europe's choice will also carry significant consequences. Successful outreach to European financial centers could secure China continued access to global capital and expertise despite U.S. pressure, enabling Beijing to internationalize its financial system on its own terms. This may embolden China's state-capitalist model [Petry (2021)] while softening the blow of U.S. sanctions or investment restrictions. Conversely, if Europe sides firmly with the U.S., China would likely double-down on building self-reliant financial infrastructures and alternative

alliances (as seen in projects like the BRICS Bank or regional payment systems), accelerating the advent of a de facto bifurcated order. In either case, the global financial landscape is poised to become more heterogeneous. We may witness the rise of new funding hubs, currency arrangements, and legal norms as each bloc seeks to buttress its financial autonomy [Schindler et al. (2023)]. Yet, it is also possible that pragmatism will prevail over polarization: mutual self-interest can still motivate cooperation on issues like financial stability, climate finance, and debt resolution for developing countries, even if strategic rivalry endures.

In conclusion, the evolving East-West financial nexus exemplified by Evergrande provides a window into a world in flux. Rather than a simple decoupling, we are likely entering a period of selective realignment – a nuanced reorganization of global finance where alliances and networks are redrawn but not completely severed. Europe's financial centers, firms in Hong Kong, regulators, and industry practitioners all have agency in shaping this future. By heeding the recommendations outlined above – balancing interests, staying engaged but vigilant, and prioritizing collaborative governance – these actors can help steer the system toward a stable and open outcome, even amid great power tensions. The stakes are high: global finance is at a delicate tipping point where decisions



Rather than a simple decoupling, we are likely entering a period of selective realignment – a nuanced reorganization of global finance.

made in London, Brussels, New York, Hong Kong, and Beijing will collectively determine whether the coming decades are defined by heightened financial polarization or adaptive integration. Our analysis urges cautious optimism – with informed, strategic action, the worst outcomes of fragmentation can be avoided. In navigating this crossroads, stakeholders must remain alert to both the dangers and the opportunities presented by a rapidly changing geo-financial landscape. Ultimately, maintaining a workable balance between national security and global market integration will be the key to sustaining prosperity and peace in the international political economy.

Note: The diagrams were created using specialised statistical software focused on analytical precision. As such, their visual style may differ from the Journal's standard design language.

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