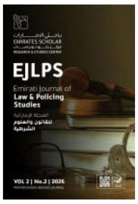

Emirati Journal of Law and Policing Studies
Vol 2 Issue 1 (2026)
Pages 27 - 39
Available at
www.emiratesscholar.com

Banking Sanctions, Financial Intermediation, And Asymmetric Interdependence the United Arab Emirates as an Intermediary Hub in a fragmenting Global Financial Order (2026)

Michele Trifiletti
PhD Student - Department of Social Sciences UCAM – Universidad Católica de Murcia (Spain) - Senior Officer and MLRO at an international financial institution; specialist in anti-money laundering, compliance, and fintech; lecturer and scholar of Islamic Banking and Finance, Spain.

ARTICLE INFO

KEYWORDS
United Arab Emirates; banking sanctions; correspondent banking; CHIPS; SWIFT; AML/CFT; FATF; mBridge; geopolitical risk; global political economy
JEL Codes: F51; F52; F33; G21; G28; P48

HOW TO CITE
Trifiletti, M. (2026). BANKING SANCTIONS, FINANCIAL INTERMEDIATION, AND ASYMMETRIC INTERDEPENDENCE The United Arab Emirates as an Intermediary Hub in a fragmenting Global Financial Order (2026). Emirati Journal of Law and Policing Studies, 2(1), 27-39.
https://doi.org/10.54878/ycjv3h07

ABSTRACT

Objectives: This paper examines how contemporary banking sanctions reshape global finance and evaluates the UAE's role as an intermediary hub under conditions of asymmetric interdependence. The study employs a qualitative historical–institutional design, combining legal analysis of EU and US sanctions authorities with process tracing of compliance mechanisms (correspondent banking, clearing access, AML/CFT risk management). It triangulates publicly available primary sources (legal texts and institutional documents) with credible reporting on 2026 regional shocks affecting energy and trade routes. Banking sanctions operate through layered channels: (i) restrictions on settlement and correspondent access—especially in US dollars—rather than messaging alone; (ii) asset freezes and prohibitions implemented through private banks; and (iii) secondary-risk transmission via reputational and market-access threats. EU sanctions derive from Article 29 TEU and Article 215 TFEU, while US sanctions draw on IEEPA and related statutory authorities enabling expansive enforcement pressure. AML/CFT standards (notably FATF monitoring) act as a multiplier by incentivising de-risking beyond strict legal requirements. The UAE's dual financial architecture and rapid regulatory adaptation—illustrated by FATF grey-listing in 2022 and delisting in 2024—support a model of "stratified compliance" that sustains connectivity across blocs. Banking sanctions rarely eliminate financial activity; they reorganise it geographically and institutionally, fostering hub formation and infrastructure diversification. The UAE exemplifies how intermediary jurisdictions become systemically salient in a more multipolar and fragmented financial order.

Double-blind peer review by independent reviewers.
Received: 30 Jan 2026, Accepted: 23 May 2026, Published: 24 Jun 2026
*Corresponding author: mtrifiletti@alu.ucam.edu

1. INTRODUCTION

The contemporary sanctions landscape is characterised by a shift from broad trade embargoes towards more targeted constraints on financial intermediation, including correspondent banking, settlement access, and compliance obligations. This change is enabled by the architecture of global payments and by the privatised implementation of public measures: banks, rather than customs services, increasingly function as the front line of enforcement.

Conventional sanctions research tends to focus on sanctioning states (typically the United States and the European Union) and targeted states (e.g., Russia, Iran). While essential, this binary framing is incomplete. Modern sanctions systems have produced a third category of crucial actors: intermediary jurisdictions that remain connected to sanctioning infrastructures while also facilitating trade and finance with sanction-affected economies. This paper argues that the United Arab Emirates (UAE) is an archetypal intermediary hub in this new order.

The contribution is threefold. First, it synthesises sanctions scholarship with network-centric political economy, showing how coercion through financial chokepoints generates network resilience via re-routing. Second, it clarifies the technical mechanism of banking sanctions by separating messaging from clearing and settlement, emphasising the role of US dollar clearing systems (including CHIPS) and correspondent relationships. CHIPS is a major US dollar large-value payment system providing "fast and final payments" and liquidity-saving netting. Third, it examines how new infrastructures—especially multi-CBDC experiments such as Project mBridge—could reduce some operational dependencies, though not necessarily the broader enforcement capacity tied to market access and trade services.

The paper asks: How do modern banking sanctions reshape global finance, and what role does the UAE play as an intermediary under asymmetric interdependence?

2. HISTORICAL EVOLUTION: from embargoes to banking-centred coercion

Sanctions history is often narrated as a progression from the bluntness of comprehensive trade embargoes to the precision of "smart" sanctions. The humanitarian and political backlash against 1990s-style comprehensive sanctions helped legitimise a shift towards measures targeting elites, dual-use sectors, and financial channels.

Financial globalisation made this shift operationally feasible. As trade became mediated by banking, insurance, and settlement systems, sanctioning authorities gained leverage by shaping access to those infrastructures rather than blocking goods physically. This form of coercion is particularly potent when a narrow set of currencies and institutions dominate settlement, liquidity, and compliance norms. The result is a sanctions environment in which infrastructure becomes a tool of statecraft.

3. THEORETICAL FRAMEWORK: Weaponised Interdependence and Network Resilience

3.1 Weaponised interdependence and financial chokepoints

Farrell and Newman's "weaponised interdependence" argues that global networks create asymmetric power: actors controlling central nodes can exert coercion over others. In finance, chokepoints include (i) access to US dollar clearing; (ii) correspondent banking and payment settlement; and (iii) compliance gatekeeping embedded in private banks.

3.2 Extending the framework: network resilience and intermediary hubs

This paper adds network resilience: exclusion from a chokepoint does not necessarily eliminate activity; it often triggers migration to secondary nodes and the creation of alternative rails. The relevant question becomes not only "Can the hegemon exclude?" but also "How quickly do networks re-wire, and through which hubs?"

3.3 Asymmetric interdependence in 2026

In 2026, interdependence constraints are heightened by energy and logistics uncertainty in and around the Middle East. Reuters reporting in early January 2026 highlights oil market sensitivity to Iran-related disruption risk amid protests and calls for strikes. Regional insecurity also includes renewed tension around Gaza despite a ceasefire, with sporadic violence reported. Meanwhile, Yemen's internal conflict and UAE–Saudi tensions around southern actors add to regional risk, with Reuters describing clashes involving a UAE-backed separatist group and Saudi-backed forces. These dynamics reinforce the underlying constraint: sanctioning coalitions may pursue financial coercion while simultaneously seeking continuity of supply chains and trade corridors.

4. LEGAL ARCHITECTURE: EU and US foundations of banking sanctions

4.1 European Union: Article 29 TEU and Article 215 TFEU

EU restrictive measures are adopted through CFSP decisions under Article 29 TEU, then implemented via

https://doi.org/10.54878/ycjv3h07

directly applicable regulations under Article 215 TFEU. EU legal summaries and glossaries explain this architecture and the distinction between political decision-making and economic/financial implementation. The European Commission has also emphasised that restrictive measures are adopted on these bases and that Member States must ensure effective penalties for violations.

Although EU sanctions are not framed as broadly extraterritorial, their practical reach extends beyond EU borders through euro clearing relationships, European correspondent banks, and the compliance expectations imposed on international counterparties that depend on EU market access.

4.2 United States: IEEPA, PATRIOT Act leverage, and secondary sanctions

US sanctions capacity is strongly linked to (i) statutory authorities and (ii) the dollar's centrality. IEEPA provides the President authority to address "unusual and extraordinary threat[s]" originating outside the US upon declaration of a national emergency. The Treasury also uses tools derived from the USA PATRIOT Act, including Section 311 "actions" as a flexible instrument for protecting the US financial system from money laundering and terrorist financing risks—an approach that can intensify correspondent pressure. Secondary sanctions frameworks, strengthened through legislation such as CAATSA, raise risks for non-US parties that facilitate "significant" dealings with sanctioned actors.

For globally connected banks—including those in intermediary hubs—these legal foundations translate into a commercial reality: loss of US correspondent access and dollar clearing can be existential.

5. TECHNICAL CHANNELS: messaging vs settlement, correspondent banking, and AML/CFT

5.1 Why SWIFT exclusion is not the same as stopping payments

A critical technical point often misunderstood in policy debate is that SWIFT is primarily a messaging system: it transmits instructions and confirmations but does not itself transfer funds or settle obligations. Settlement occurs through correspondent accounts or clearing systems, meaning that sanctions targeting messaging channels may disrupt operations, increase costs, and slow payments, but coercive power is greatest where settlement and correspondent access are constrained.

5.2 Dollar settlement and CHIPS as a strategic layer

US dollar cross-border payments often rely on correspondent banking and US settlement infrastructure. CHIPS is widely used for large-value USD payments and emphasises finality and liquidity efficiency through netting algorithms. This is central to weaponised interdependence: if banks fear losing access to US settlement rails, they often over-comply, exiting whole customer segments and corridors.

5.3 AML/CFT as a sanction's multiplier: FATF monitoring and de-risking

AML/CFT standards operate as a continuous governance layer that amplifies sanctions. FATF "increased monitoring" (the "grey list") signals strategic deficiencies and triggers heightened scrutiny. FATF's March 2022 list explains the meaning and effect of such monitoring.

The UAE's addition to the grey list in 2022 and removal in February 2024 illustrate the reputational and cost effects of monitoring, as well as the capacity for rapid reform. Major outlets reported the UAE's delisting and noted reforms aimed at strengthening AML/CFT effectiveness.

6. THE UAE'S INSTITUTIONAL DESIGN: "institutional hedging" and stratified compliance

6.1 Dual architecture: onshore banking and international financial centres

The UAE's intermediary capacity is underpinned by deliberate segmentation: a domestic onshore system alongside internationally oriented financial free zone, most notably DIFC and ADGM. The DIFC courts and legal framework are anchored in Dubai laws establishing judicial authority within the DIFC and providing for independent administration of justice. This common-law-style infrastructure increases contractual certainty and supports the UAE's attractiveness to global capital and dispute resolution.

6.2 Federal AML/CFT strengthening as a credibility signal

The UAE's federal AML/CFT framework—centred on Federal Decree-Law No. (20) of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organisations—provides a formal basis for risk-based controls and supervisory enforcement. Regulatory upgrading after FATF monitoring is best understood not as retreat from hub status, but as a strategy to preserve it by restoring correspondent confidence and reducing "country risk" premia.

6.3 Stratified compliance and risk segmentation

This paper characterises UAE practice as stratified compliance: banks segment exposures by settlement currency, corridor, counterparty profile, and services (trade finance vs wealth management; USD-clearing-intensive vs non-USD channels). The goal is not to nullify sanctions but to maintain maximum feasible connectivity while managing "cut-off" risk from US and EU correspondents.

7. UAE ↔ REST OF THE WORLD: brokerage across blocs

7.1 UAE–EU/US: selective alignment under market-access constraints

The UAE's brokerage role is best conceptualised as selective alignment under binding market-access constraints. Formally, the UAE implements UN Security Council sanctions through domestic legal and regulatory channels, while maintaining a more cautious posture towards unilateral regimes. Functionally, however, UAE banks and market intermediaries operate within a global compliance perimeter shaped by EU and US rules because of their reliance on external financial infrastructure, trade services, and correspondent relationships. This produces what may be termed functional extraterritoriality: even without formal incorporation of EU/US sanctions into UAE law, private institutions internalise sanctions risk as a condition of continued access to markets.

EU channel: Article 29 TEU → Article 215 TFEU and privatised implementation. EU restrictive measures are politically adopted under Article 29 TEU and implemented via directly applicable regulations under Article 215 TFEU, ensuring uniform application across Member States. Importantly, implementation is operationally delegated to private actors—particularly banks—through requirements to freeze funds/economic resources, block prohibited services, and report to national competent authorities. This privatised structure increases the EU's practical reach beyond its borders: UAE banks dealing with EU counterparties (or dependent on EU correspondent relationships, euro settlement, or EU market access) face strong incentives to align compliance controls with EU expectations even where legal obligation is indirect.

This indirect reach is strengthened by the EU's enforcement trajectory. The adoption of Directive (EU) 2024/1226 harmonising criminal offences and penalties for violations of EU restrictive measures signals a more punitive enforcement environment, increasing perceived risk for banks and facilitators across sanction-sensitive corridors. In parallel, EU guidance documents (e.g., FAQs on asset freezes) clarify that asset freezes are temporary but impose strict obligations on operators holding frozen assets, reinforcing compliance discipline among financial institutions that interact with EU systems.

US channel: IEEPA-based programmes and correspondent leverage. US sanctions power is anchored in statutory authorities such as the International Emergency Economic Powers Act (IEEPA), which enables wide-ranging restrictions under declared national emergencies. Operationally, the United States converts legal authority into global leverage through (i) the dominance of the US dollar in trade and finance, and (ii) the ability of US authorities to condition access to correspondent banking and US financial infrastructure on compliance expectations. This is reinforced by Treasury's illicit finance toolkit (including "311 actions"), which, even when formally framed as AML tools, affects correspondent willingness to maintain relationships with banks perceived as high risk.

Implication for UAE institutions: compliance is a market-access technology.For UAE banks, "selective alignment" is not simply a geopolitical stance; it is an operating model: to remain globally connected, banks must demonstrate credible sanctions screening, beneficial ownership controls, and escalation procedures that satisfy correspondent expectations. The result is a layered compliance architecture in which UAE institutions may comply with UN sanctions as a legal baseline, while managing EU/US sanctions exposure as a commercial and infrastructural dependency. This does not remove UAE agency; rather, it explains why UAE compliance practice is often stricter than formal legal obligation would imply for specific corridors—particularly those touching USD clearing or EU-based services.

7.2 UAE–Russia: relocation dynamics under post-2014 and post-2022 sanctions

The UAE–Russia corridor illustrates how modern sanctions generate relocation and re-routing rather than elimination of financial activity. Since 2014, Russia-related sanctions have expanded in depth and breadth; after 2022, the scale and speed of measures intensified, especially in finance, dual-use trade, and services. These developments created strong incentives for Russian-linked economic actors to seek jurisdictions offering (i) robust legal infrastructure, (ii) ongoing connectivity to global trade, and (iii) manageable compliance costs.

EU legal spine (2014 → iterative expansion). The EU's sectoral Russia sanctions architecture dates to Council Decision 2014/512/CFSP and its implementing instrument Council Regulation (EU) No 833/2014, which has been repeatedly amended and expanded, including after February 2022. These instruments illustrate the EU's model: a CFSP decision specifies political objectives and scope; Regulation 833/2014 operationalises restrictions on financial services, trade, technology, and related support functions. For intermediary jurisdictions, the practical effect emerges through EU banks' and service providers' risk management: corridors deemed too risky may be exited, and counterparties routed through alternative centres.

US programme logic: OFAC, IEEPA and CAATSA. US sanctions programmes targeting Russia/Ukraine-related activity commonly rely on IEEPA authority and incorporate elements of secondary sanctions risk. OFAC's programme materials and related guidance highlight the compliance obligations and the legal architecture underpinning restrictions. CAATSA is central in the background risk calculus because it strengthens the possibility that non-US actors facilitating "significant" transactions with certain sanctioned parties may face consequences, increasing correspondent sensitivity.

The UAE role: "compliant residual" absorption and corridor restructuring. Against this legal and compliance backdrop, the UAE's role is best described as absorption of compliant residual activity and re-routing into legally available corridors, rather than broad-based evasion. This distinction matters. A brokerage hub can expand business in Russia-linked trade, corporate services, and asset management while still rejecting designated parties and prohibited activities. The mechanism is the UAE's capacity to perform transaction-level triage: enhanced due diligence (EDD), beneficial ownership checks, screening against sanctions lists, and sector/counterparty risk scoring.

The key systemic effect is geographic redistribution of intermediation: activities that become too costly or risky in EU-facing channels may shift to hubs where settlement, trade services, and corporate infrastructure remain available—subject to higher due diligence thresholds. This is precisely the network-resilience response predicted by sanctions under asymmetric interdependence.

7.3 UAE–China: incremental diversification and infrastructure experimentation

The UAE–China corridor is driven less by acute "flight" dynamics and more by incremental diversification: the gradual development of trade, investment, and settlement options that reduce specific dependencies while maintaining selective integration with Western infrastructures. In this pattern, the UAE acts as a bridge jurisdiction: sufficiently connected to global capital and legal standards to be attractive for international business, yet flexible enough to support alternative settlement experiments and regional trade corridors.

mBridge as an analytical pivot (but not a magic bypass). Project mBridge is analytically important because it demonstrates the feasibility of wholesale cross-border settlement on a multi-CBDC platform among participating central banks and commercial banks. BIS Innovation Hub documentation states that mBridge reached minimum viable product (MVP) stage in mid-2024, exploring instant cross-border payments and settlement on distributed ledger technology. HKMA's press release confirms MVP progress and the project's objective of addressing pain points in cross-border payments. The People's Bank of China has also described the collaboration and the participation of the Central Bank of the UAE and other authorities.

The key implication is optionality: for certain use-cases and among participants, multi-CBDC rails can reduce reliance on traditional correspondent pathways. This can matter for the UAE as an intermediary hub because it potentially expands the menu of settlement pathways available for regional trade—especially where parties prefer non-USD settlement for cost, speed, or risk-management reasons.

Governance caveat and enforcement realism. However, the policy implication is not "invisibility" to sanctions enforcement. Reuters reported that the BIS decided to step back from mBridge as it matured and explicitly noted public statements emphasising that the project is not designed as a sanctions-bypass mechanism and is not ready for full operational deployment. This matters for scientific precision: MVP-stage platforms do not automatically remove the enforcement leverage that operates through trade services, insurance, export controls, and market access.

Saudi participation and regional settlement spheres. The Reuters report also notes that Saudi Arabia's central bank joined mBridge in June 2024. This is important for Section 7.5: even amid strategic competition, Gulf monetary authorities may share incentives to explore settlement modernisation and resilience. The UAE–China relationship thus sits within a wider trend towards regional settlement experimentation rather than abrupt de-dollarisation.

7.4 UAE–Africa: de-risking spillovers and trade finance substitution

The UAE–Africa channel illustrates a different mechanism: de-risking spillovers from AML/CFT pressures and sanctions risk management, and partial substitution through intermediary hubs. When global banks perceive heightened compliance risk, they reduce correspondent relationships (CBRs) and trade finance lines, affecting payment corridors even in the absence of direct sanctions.

Evidence base: CBR decline and trade finance vulnerability. World Bank analysis on the decline in correspondent banking relationships highlights that CBR contractions can put trade finance at risk and create negative spillovers for cross-border transactions. Related

World Bank and G20-linked work documents de-risking drivers and the systemic costs for remittances and trade channels.

How the UAE substitutes: corridor finance and commodity/logistics integration. The UAE's capacity to partially substitute is grounded in its integration of (i) logistics infrastructure, (ii) commodity trading and refining hubs, and (iii) financial services for trade and investment. The substitution is not uniform: it is strongest where the UAE can intermediate real-economy flows (commodities, shipping, warehousing, re-export) alongside finance. In practice, this may involve UAE-based banks providing trade finance where European correspondents retreat, or UAE-based commodity intermediaries structuring transactions through corridors that remain viable under risk-based compliance.

African payment-system diversification as context (2025–2026). Reuters reporting on Africa's development of non-dollar payment systems (e.g., PAPSS) shows that de-risking and correspondent cost structures are motivating regional payment innovation. This reinforces the structural argument: when compliance and sanctions pressures increase the cost of traditional correspondent pathways, actors invest in alternatives. The UAE's role is not necessarily to replace African systems, but to function as a connective hub linking African trade to MENA/Asia markets and to global commodity circuits.

Governance concern: substitution can shift risk rather than reduce it. A critical caveat is that substitution through hubs can reallocate compliance risk rather than reduce it. If corridors migrate to jurisdictions with different disclosure norms or supervisory intensity, transparency can fall and monitoring costs rise. From a governance perspective, the relevant question is not whether substitution occurs—it often does—but whether it occurs with robust documentation standards, beneficial ownership transparency, and credible enforcement capacity.

7.5 UAE–Saudi Arabia and regional security externalities (2026)

The UAE's intermediary function depends on stable trade corridors, manageable geopolitical risk, and reliable access to trade services (shipping, insurance, financing). In 2026, regional volatility elevates the value—and the cost—of brokerage.

Iran-related unrest, oil risk, and the Hormuz sensitivity. Reuters reporting in January 2026 describes escalating protests in Iran, concerns about potential supply disruption, and market attention to risks around the Strait of Hormuz. This matters because financial intermediation is tightly coupled to physical flows: disruption risk increases insurance premia, changes trade routing, and creates settlement and credit-risk challenges for banks financing cargoes or energy-linked trade.

Yemen and the UAE–Saudi competitive-cooperative tension. A second risk layer concerns Yemen and the broader UAE–Saudi relationship. Reuters reports in January 2026 describe fragmentation among Yemen's southern separatists and interpret developments as reflecting a Saudi–UAE rift over influence and political outcomes. From a financial intermediation perspective, such tensions can affect corridor security, counterparty risk, and the stability of regional arrangements underpinning trade and finance. Yet the same period also shows that UAE and Saudi institutions may cooperate pragmatically in specific domains (e.g., Saudi participation in mBridge), suggesting a pattern of competitive coexistence rather than pure rivalry.

Conflict spillovers and risk pricing. Reuters reporting on Gaza in January 2026 illustrates continued episodic violence despite a ceasefire, underscoring the persistence of conflict spillovers in the region. These dynamics affect the UAE's hub role through risk pricing: when geopolitical risk rises, global firms value jurisdictions that combine operational continuity (ports, aviation, stable institutions) with compliance and legal predictability. The UAE's advantage is precisely this bundle—though it must absorb the resulting compliance, reputational, and security costs.

Net effect: brokerage value rises with volatility, but so does scrutiny. In a volatile environment, the UAE becomes more systemically important as a broker of trade finance, settlement, and logistics continuity. Simultaneously, scrutiny rises: sanctioning authorities and global banks intensify monitoring of high-risk corridors and intermediary services. The UAE's hub sustainability therefore depends on converting volatility-driven demand into legitimate intermediation while preventing reputational drift towards being viewed as a permissive bypass—an outcome that could trigger correspondent retrenchment and undermine the hub model.

7.6 Mechanisms Summary: channels, instruments, UAE responses, and expected outcomes

Table 1. summarises the paper's core claim: sanctions and AML/CFT pressures work through market access and correspondent dependence, producing corridor segmentation and re-routing; the UAE's hub advantage lies in managing this complexity while preserving access to critical infrastructures.

PRESSURE SOURCE	MAIN INSTRUMENT	UAE "BROKERAGE" RESPONSE	LIKELY OUTCOME
EU sanctions perimeter	Art. 29 TEU + Art. 215 TFEU (bank-led implementation); enforcement tightening (e.g., Directive (EU) 2024/1226)	Selective alignment to keep EU-facing access (screening, documentation)	Residual flows shift to compliant intermediaries; higher compliance costs
US dollar chokepoint	IEEPA/OFAC programmes; correspondent leverage; "311 actions"; secondary risk (CAATSA)	Stratified compliance (segment by currency/corridor/counterparty); protect USD access	Corridor segmentation; concentration of sensitive flows; partial non-USD routing
Messaging vs settlement	SWIFT restrictions (messaging) vs settlement via correspondents/clearing (e.g., CHIPS)	Operational substitution (alternative processes) while prioritising settlement viability	Delays/costs rise; volumes fall mainly when settlement is constrained
AML/CFT multiplier	FATF monitoring (grey list); correspondent de-risking	Regulatory upgrading (BO/UBO, DNFBP supervision, FIU coordination)	Either de-risking if credibility falls, or hub strengthening if confidence returns
Russia corridor shock	EU Reg. 833/2014 (as amended); US Russia programme bases (IEEPA/CAATSA)	Absorb compliant residual activity with EDD and sanctions screening	Geographic reallocation of intermediation to hubs; more complex routing
China diversification / new rails	mBridge MVP (multi-CBDC settlement experimentation)	Provide corridor optionality for participants while maintaining Western-facing compliance	Gradual increase in alternative settlement options for specific use-cases
Africa de-risking spillovers	CBR decline; trade finance constraints; regional payment initiatives	Trade finance substitution + logistics/commodity integration	Intermediation shifts towards hubs; transparency concerns if governance lags
Regional security risk (2026)	Iran unrest/oil risk; Yemen tensions; conflict spillovers	"Continuity bundle": stable logistics + finance + legal predictability	Hub value rises with volatility, but scrutiny and compliance costs rise too

Table 1. UAE brokerage mechanisms under sanctions and compliance fragmentation

8. TECHNOLOGY, DIGITAL RAILS, AND "PROGRAMMABLE COMPLIANCE"

8.1 mBridge as a re-routing layer (with enforcement caveats)

mBridge's MVP status supports a realistic claim: multi-CBDC platforms can reduce friction in cross-border payments among participants and may lessen reliance on correspondent banking for corridors. However, it does not follow that traditional enforcement power disappears. Many sanctions pressures operate through access to trade services, insurance, shipping, capital markets, and the continuing centrality of USD in numerous commodity and investment chains.

8.2 Programmable compliance: ex ante policy constraints

CBDC-based wholesale settlement could enable "programmable compliance" where eligibility, rule sets, and restrictions (e.g., UN sanctions lists) are embedded into access and settlement logic. For intermediary jurisdictions, this creates a pathway to demonstrate alignment with multilateral norms while maintaining legal autonomy from unilateral regimes—provided governance and transparency standards are credible.

9. COMPARATIVE "STYLISED MECHANISMS" (2026): corridors, sectors, and hub functions

Because corridor-level transaction data are often proprietary, this section presents stylised mechanisms rather than claiming comprehensive quantification.

SECTOR	SANCTIONING NODE	SANCTION-AFFECTED NODE	UAE HUB FUNCTION	DOMINANT MECHANISM
ENERGY	EU/US	Russia / Iran risk exposure	Trade finance and settlement brokerage	Currency/settlement segmentation; enhanced due diligence; re-routing via compliant service chains
LOGISTICS/ REGIONAL TRADE	G7 compliance perimeter	MENA / Asia trade	Corridor continuity hub	Bank-led compliance stratification; insurance/transport service substitution
LARGE-VALUE USD PAYMENTS	US financial system	Non-US banks	Connectivity management	Correspondent access and CHIPS/Fedwire dependency shaping over-compliance
WHOLESALE SETTLEMENT EXPERIMENTATION	Multiple blocs	Multiple blocs	Infrastructure experimentation	Multi-CBDC trials (mBridge MVP) offering alternative pathways for participants

Table 1. Mechanisms rather than claiming comprehensive quantification

Oil market commentary at the start of 2026 illustrates the macroeconomic overlay: forecasts of lower average prices due to supply, coupled with short-term geopolitical volatility risk linked to Iran and other producers. This environment incentivises diversified settlement options and intermediary brokerage capacity.

10. POLICY IMPLICATIONS

10.1 Policy Implications for Sanctioning Authorities

The evolution of banking sanctions from relatively discrete "messaging restrictions" to infrastructure-centric coercion requires a recalibration in both design and evaluation. Policymakers should treat intermediary hubs not as exceptions produced by weak enforcement, but as predictable structural outcomes of sanctions applied under asymmetric interdependence. Put differently, the relevant counterfactual is no longer "complete isolation versus failure", but how quickly and at what cost financial activity re-wires, and through which jurisdictions and rails.

(i) Anticipate network re-wiring and design for partial compliance equilibria

Maximalist sanctions calibrated for total economic isolation tend to generate a network resilience response: activity migrates to secondary nodes (jurisdictions, institutions, and trade-service providers) that can maintain connectivity while absorbing compliance complexity. Sanctioning authorities should therefore build policy around partial compliance equilibria—a world where some corridors are constrained, some are rerouted, and enforcement is selective.

Practical design implications include:

mapping re-routing pathways ex ante, including trade finance, shipping insurance, and commodity chains, not merely bank names;

identifying "gateway services" (e.g., insurance, maritime services, commodities clearing) that may be more constraining than messaging bans;

establishing analytic indicators that measure systemic displacement (hub formation, substitution of

https://doi.org/10.54878/ycjv3h07

correspondents, currency segmentation), not only target-country macro outcomes.

(ii) The chokepoint dilemma: coercion versus supply-chain stability

Coercion through US dollar clearing and correspondent access (and, in the EU context, euro settlement and market access) produces a strategic tension: the tighter the financial restriction, the greater the risk of destabilising global supply chains, particularly in energy and logistics. This is acute in 2026 conditions where geopolitical volatility in and around the Middle East can increase insurance premia and disrupt trade routes.

The policy challenge is that sanctions aimed at financial pressure can unintentionally act as a tax on neutral trade, creating incentives for firms to move settlement and trade finance out of the sanctioner's regulatory perimeter. In turn, this can accelerate de-coupling in specific corridors even when policymakers prefer "de-risking" rather than systemic fragmentation.

(iii) Reduce the "over-compliance wedge" with granular, use-case guidance

A persistent driver of unintended consequences is the over-compliance wedge: private banks, facing high penalties and reputational exposure, often apply restrictions broader than legally required, resulting in de-risking and collateral damage to legitimate trade. Because enforcement is functionally privatised, ambiguity is itself a policy instrument—yet it is a costly one.

Sanctioning authorities should therefore:

issue granular guidance distinguishing prohibited activity (e.g., military-linked finance, designated entities, sanctioned services) from compliant residual trade;

provide corridor-level "safe harbours" where possible (time-bound, sector-bound, with documentation standards), which reduces de-risking without conceding core objectives;

standardise expectations around beneficial ownership and documentation, reducing "compliance uncertainty" that drives bank exit.

(iv) Build an enforcement strategy that accounts for intermediaries rather than assuming them away

Intermediary hubs cannot simply be "sanctioned out" without second-order costs. A sustainable strategy is to treat hubs as part of the enforcement environment: the objective shifts from eliminating intermediary functions to containing the highest-risk segments within them. This suggests a pivot towards:

intelligence-led enforcement targeted at the most harmful nodes and services (dual-use procurement, evasive corporate structures), rather than attempting universal interdiction;

structured engagement that aligns hub incentives with multilateral standards (UN sanctions, FATF effectiveness) while recognising divergence on unilateral regimes.

(v) Infrastructure diversification and the erosion of hegemonic oversight (without overclaiming)

Persistent reliance on dollar and correspondent chokepoints can accelerate investment in alternative settlement infrastructures. mBridge (at MVP stage) illustrates how multi-CBDC rails might reduce operational dependencies for specific participants and use-cases. However, "alternative rails" do not automatically eliminate enforcement power: sanctions can still operate through market access, trade services, insurance, export controls, and the continued centrality of USD in many commodities and investment chains.

The policy implication is nuanced: the risk is not immediate "loss of control", but gradual reduction in marginal effectiveness of broad-based financial coercion and a rise in jurisdictional arbitrage. Sanctions strategy should therefore be evaluated on long-run system effects—fragmentation, opacity, and the cost of monitoring—alongside short-run target pressure.

10.2 Policy Implications for the UAE (Regulators and Banks)

The UAE's comparative advantage as an intermediary hub is conditional, not automatic. It depends on sustaining correspondent confidence and preserving access to core clearing and market infrastructures while maintaining the flexibility that makes intermediation commercially valuable. The central policy problem for UAE authorities is therefore a balancing act: maximise connectivity while preventing "country-risk escalation" that could trigger de-risking by global banks.

(i) Sustaining regulatory credibility as a strategic asset

The FATF grey-listing (2022) and delisting (2024) episode demonstrates that hub status is vulnerable to reputational shocks that translate into higher compliance costs and elevated scrutiny. For the UAE, regulatory credibility is not simply a compliance goal but an economic asset: it underpins the viability of the hub model.

A robust strategy includes:

demonstrating enforcement outcomes (investigations, prosecutions, asset recovery), not only legislative reform;

strengthening risk-based supervision in high-risk sectors (DNFBPs, certain commodity trading nodes, complex corporate services);

maintaining rapid responsiveness to external regulatory concerns to avoid prolonged uncertainty that can trigger correspondent pullback.

(ii) Institutionalising transparency: beneficial ownership, corporate vehicles, and high-risk sectors

Because much sanctions evasion and illicit finance relies on corporate opacity, beneficial ownership transparency is central. UAE regulators can mitigate systemic risk by:

improving the usability, completeness, and verification of beneficial ownership registers;

increasing supervisory focus on "enabler sectors" (company formation services, certain real estate segments, cross-border commodity intermediaries);

raising documentation standards for trade finance and commodity-linked payments, where invoice manipulation and complex routing are common.

The emphasis should be on effectiveness, not formal compliance: the standard is whether the system can reliably identify ultimate controllers and suspicious patterns under stress.

(iii) Refining stratified compliance without triggering a "non-USD moral hazard"

"Stratified compliance" is a competitive advantage, but it can create moral hazard if non-USD corridors become perceived as compliance-lite channels. UAE banks should therefore refine segmentation as risk-tiering, not simply currency-tiering:

the riskiest exposures should be tiered by counterparty profile, corporate structure, sector, and corridor, not just the settlement currency;

governance should ensure that non-USD channels do not become pathways that ultimately threaten USD correspondent access (the system's existential dependency for many services).

(iv) Legal infrastructure as a safeguard: certainty, dispute resolution, and enforcement credibility

Maintaining strong legal infrastructure—particularly in the DIFC/ADGM ecosystem—is essential to attracting global capital. For the UAE, legal credibility functions as an insurance mechanism: it reduces contracting risk and stabilises investment flows during geopolitical volatility. The policy implication is to protect:

judicial independence within financial free zones;

predictable enforcement of judgments and arbitration outcomes;

transparency around regulatory decisions to reduce perceived arbitrariness.

(v) A "hub sustainability" strategy: avoid being perceived as a systemic loophole

Finally, the UAE's hub status is most durable when it is perceived internationally as a regulated broker, not a permissive bypass. That requires a communications and governance strategy aligned to multilateral standards (UN sanctions, FATF), and an enforcement posture that is credible enough to deter the highest-risk activity while keeping legitimate intermediation viable.

10.3 Implications for Global Financial Governance

The interaction of banking sanctions, AML/CFT pressures, and emerging digital settlement rails suggests a transition from a relatively centralised hierarchy towards competitive financial pluralism. This does not necessarily imply the end of dominant infrastructures, but it does imply a more complex equilibrium in which multiple rails, hubs, and rule-sets coexist.

(i) Fragmentation of compliance authority and the privatisation of governance

Sanctions and AML/CFT increasingly operate through private implementation. As intermediaries successfully navigate unilateral regimes while aligning to multilateral standards, the authority to set and enforce norms becomes distributed across regulators, correspondents, and hub jurisdictions. Governance outcomes become the product of layered incentives rather than a single sovereign decision.

(ii) Infrastructure diversification: what MVP-stage mBridge implies (and what it does not)

mBridge reaching MVP stage is significant as proof-of-concept: it suggests that, for specific corridors and participants, operational dependence on traditional correspondent banking can be reduced. The governance implications are twofold:

a technical possibility of direct settlement among participants;

a political possibility of creating "regional settlement spheres".

Yet MVP status is not equivalent to global substitution: scaling depends on adoption, interoperability, governance, and the continuing demand for USD liquidity, insurance, and market access. The key implication is optionality—a gradual increase in feasible alternatives.

(iii) The resilience–transparency trade-off

A more multipolar order increases resilience for actors able to operate across regimes, but it can reduce transparency for global regulators and raise monitoring costs. When activity migrates to jurisdictions with different disclosure norms or to new rails with different data architectures, supervisors may face:

reduced visibility at the system level;

increased reliance on cross-border cooperation;

higher risk of regulatory arbitrage.

(iv) Programmable compliance as a governance tool (with institutional prerequisites)

CBDC-based wholesale settlement can, in principle, support programmable compliance—embedding eligibility rules and sanctions constraints into transaction logic. If designed with credible governance, this could reconcile local autonomy with multilateral norms (e.g., UN sanctions). However, the governance prerequisites are substantial: shared rule-sets, auditability, dispute mechanisms, and clarity on data access. Without these, programmable compliance risks becoming programmable opacity.

11. METHODS AND LIMITATIONS

This study employs historical–institutional analysis and legal mapping to explain mechanisms rather than to estimate causal effects econometrically. The method is appropriate because the central question concerns how sanctions operate through infrastructures and private compliance incentives, which are best captured via institutional and legal process tracing.

Sources and triangulation. The analysis triangulates: (i) primary legal texts and official institutional materials (EU legal bases and guidance, US statutory authorities and Treasury materials, FATF documentation, UAE legislation and regulatory frameworks); (ii) technical documentation on payment systems (SWIFT messaging, CHIPS functionality); and (iii) credible reporting on 2026 regional risk that shapes the interdependence constraint.

Limitations. Access to granular transaction data and bank-level correspondent networks is restricted by confidentiality. Accordingly, claims are framed at the level of mechanisms and incentives (e.g., how correspondent dependence translates into over-compliance) rather than as corridor-level causal estimates. A second limitation is that some digital settlement infrastructures are at MVP/pilot stage; analysis therefore treats them as emerging options rather than fully realised substitutes.

Future empirical avenues. The framework can be tested using (i) network data on correspondent relationships where available; (ii) trade finance and shipping-insurance datasets as proxies for enforcement impact; and (iii) event-study designs around regulatory shocks (e.g., FATF listing/delisting) measuring changes in pricing, correspondent availability, and capital flows.

12. CONCLUSION

Modern banking sanctions operate less through messaging restrictions than through settlement access, correspondent banking, and compliance-mediated private enforcement. The EU's legal architecture—anchored in Article 29 TEU and implemented via Article 215 TFEU—creates directly applicable restrictive measures enforced largely through private institutions. The US framework—anchored in IEEPA and reinforced by post-9/11 financial security tools and secondary-sanctions logic—extends coercive power through dollar clearing dependence and the threat of correspondent exclusion.

Under conditions of asymmetric interdependence, these measures tend to reorganise rather than eliminate financial activity. They raise costs, slow transactions, and deter certain relationships; yet they also produce adaptation: activity migrates towards intermediary jurisdictions capable of maintaining connectivity while managing compliance risk. The UAE exemplifies this shift. Its dual institutional architecture (onshore regulation plus international financial centres) upgraded federal AML/CFT framework, and rapid regulatory recalibration after FATF monitoring support a model of stratified compliance that preserves access to critical clearing infrastructures while enabling selective intermediation across blocs.

Technology adds a further layer. Platforms such as Project mBridge, now at MVP stage, demonstrate that alternative settlement rails can reduce operational dependence on traditional correspondent pathways for particular participants and use-cases, even as broader enforcement power linked to trade services, insurance, export controls, and market access persists. In the volatile regional environment of 2026—marked by Iran-related disruption risk, Yemen-linked instability, and ongoing conflict spillovers—the strategic value of an intermediary hub that combines logistical capacity with sophisticated financial governance is further reinforced.

The broader implication is the emergence of competitive financial pluralism: not a sudden end to dominant infrastructures, but a gradual increase in alternative pathways, hubs, and governance arrangements. In this order, intermediary jurisdictions such as the UAE are not peripheral. They are systemically salient brokers whose regulatory credibility and institutional design shape the practical limits—and long-run consequences—of modern sanctions.

Data Availability Statement (EJBESS)

No new quantitative data were created or analysed in this study. All sources are publicly available legal texts, institutional documents, and cited news reports.

AI Use Disclosure (EJBESS)

AI tools were used solely to improve language clarity and structural consistency. No AI system was used to generate data, perform statistical analysis, or formulate empirical results. All content was reviewed and validated by the author(s).

References

Alessa. (2021, August 31). SWIFT wire transfer and payments: What compliance teams need to know. https://alessa.com/blog/swift-wire-transfer-and-payments/

Bottomline. (2025, September 3). How a Swift message works: A beginner's guide. https://www.bottomline.com/learning-center/how-swift-message-works-beginners-guide

Bouguelli, R., & De Conti, B. (2025). Building bridges or competing in a payments arms race? The geopolitics of the mBridge project (Texto para Discussão No. 490). IE/UNICAMP.

BIS Innovation Hub. (2024, November 11). Project mBridge reached minimum viable product stage. Bank for International Settlements. https://www.bis.org/about/bisih/topics/cbdc/mcbdc_bridge.htm

Drezner, D. W. (2011). Sanctions sometimes smart: Targeted sanctions in theory and practice. International Studies Review, 13(1), 96–108. https://doi.org/10.1111/j.1468-2486.2010.01001.x

Dubai International Financial Centre Courts. (n.d.). Legal framework. https://www.difccourts.ae/about/difc-courts

Dubai Law No. 12 of 2004 (as amended). (2004). Law Concerning the Judicial Authorities at the Dubai International Financial Centre (PDF). DIFC Courts.

European Union. (n.d.). General framework for EU sanctions (Summary). EUR-Lex. https://eur-lex.europa.eu/EN/legal-content/summary/general-framework-for-eu-sanctions.html

European Union. (n.d.). Restrictive measures (sanctions) (Glossary). EUR-Lex. https://eur-lex.europa.eu/EN/legal-content/glossary/restrictive-measures-sanctions.html

European Commission. (2022, May 25). Communication on the criminalisation of the violation of Union restrictive measures (PDF).

Farrell, H., & Newman, A. L. (2019). Weaponized interdependence: How global economic networks shape state coercion. International Security, 44(1), 42–79. https://doi.org/10.1162/isec_a_00351

Financial Action Task Force. (2022, March). Jurisdictions under increased monitoring (grey list). https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Increased-monitoring-march-2022.html

FinCEN. (2006). Fundamentals of the funds transfer process (Appendix D) (PDF). U.S. Department of the Treasury.

Hong Kong Monetary Authority. (2024, June 5). Project mBridge reaches MVP stage (Press release). https://www.hkma.gov.hk/eng/news-and-media/press-releases/2024/06/20240605-4/

International Emergency Economic Powers Act, 50 U.S.C. § 1701. (1977). Legal Information Institute, Cornell Law School. https://www.law.cornell.edu/uscode/text/50/1701

Investopedia. (2025, October 14). SWIFT banking system: How it powers global financial transactions. https://www.investopedia.com/articles/personal-finance/050515/how-swift-system-works.asp

Mulder, N. (2022). The economic weapon: The rise of sanctions as a tool of modern war. Yale University Press.

OFAC. (n.d.). Ukraine-/Russia-related sanctions. U.S. Department of the Treasury. https://ofac.treasury.gov/sanctions-programs-and-country-information/ukraine-russia-related-sanctions

People's Bank of China. (n.d.). Project mBridge reaches MVP stage (English site).

Reuters. (2026, January 1). One person killed in Iran protests over economic woes (Report).

Reuters. (2026, January 10). Thousands rally in support of Yemen's main separatist group (Report).

Reuters. (2026, January 11). Israeli fire kills three people in Gaza, three months on from truce (Report).

Reuters. (2026, January 12). Oil edges up as Iran supply risk counters Venezuela export resumption (Report).

Reuters. (2026, January 12). Goldman projects lower oil prices in 2026 as supply swells (Report).

The Clearing House. (n.d.). CHIPS. https://www.theclearinghouse.org/payment-systems/CHIPS

U.S. Department of the Treasury. (n.d.). 311 actions. https://home.treasury.gov/policy-issues/terrorism-and-illicit-finance/311-actions

United Arab Emirates. (2018). Federal Decree-Law No. (20) of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Financing of Illegal Organisations (PDF). Central Bank of the UAE.

United Arab Emirates Ministry of Economy. (n.d.). Federal Decree Law No (20) of 2018… (Legislation page). https://www.moet.gov.ae/en/federal-decree-law-no-20-of-2018-on-anti-money-laundering-and-combating-the-financing-of-terrorism-and-illegal-organisations

United States Congress. (2017). Countering America's Adversaries Through Sanctions Act (Public Law 115–44) (PDF). https://congress.gov/115/plaws/publ44/PLAW-115publ44.pdf