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Financialization Without Borders: How Digital Finance Redefines Sovereignty, Regulation, and Risk

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Abstract

The rapid expansion of digital finance is transforming the architecture of global financial systems, challenging traditional notions of economic sovereignty, regulatory authority, and systemic risk. Financialization, once primarily embedded within national banking systems and capital markets, is increasingly driven by cross-border digital platforms, fintech ecosystems, decentralized finance (DeFi), and algorithmic governance mechanisms. These developments enable capital to move instantaneously across jurisdictions, often beyond the effective reach of state-based regulatory frameworks.

This paper examines how digital finance reconfigures the relationship between markets and states by weakening the capacity of national authorities to control monetary flows, enforce financial regulation, and safeguard macroeconomic stability. It argues that digital financialization produces new forms of regulatory fragmentation, where global platforms operate in legal gray zones while exploiting asymmetries between jurisdictions. At the same time, digital finance intensifies financial inclusion narratives, masking deeper structural inequalities related to data ownership, access to capital, and technological power.

The study adopts a political economy perspective, integrating insights from international finance, regulatory economics, and institutional theory. It explores three interrelated dimensions: (1) the erosion and transformation of financial sovereignty under platform-based and decentralized financial systems; (2) the emergence of hybrid regulatory regimes combining national rules, soft law, and private governance; and (3) the redefinition of financial risk, including cyber risk, algorithmic opacity, and systemic contagion transmitted through digital networks rather than traditional balance sheets.

By highlighting the tensions between innovation, regulation, and democratic accountability, the paper contributes to debates on the future of global financial governance. It concludes by outlining policy implications for regulators, central banks, and international institutions seeking to balance financial innovation with systemic stability, fairness, and economic sovereignty in an increasingly borderless digital economy.

Keywords: Financialization; Digital Finance; FinTech; Decentralized Finance (DeFi); Economic Sovereignty; Financial Regulation; Global Financial Governance; Systemic Risk; Platform Economies; Algorithmic Governance