In BNP Paribas Case, an Example of How Mighty the Dollar Is

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Even if you are a bank as gigantic as BNP Paribas, $9 billion is a lot of money. Shareholders of the French bank know that all too well, as that is what they are paying in penalties to the United States for a conspiracy to allow money transfers to Sudan and other blacklisted nations.

The case is remarkable for the size of the penalty, which is a bit more than the bank’s total earnings for 2013. But it may be more interesting for the lesson it teaches about how the United States’ financial power goes hand in hand with its role in foreign affairs.

In short: The dollar is the global reserve currency, the bedrock of the world financial system. And that role gives the United States surprising power over what happens in the world even in spheres that would have little to do with finance.

In the case of BNP Paribas, a French bank was accused of (and has now admitted) facilitating transactions with Sudan, Iran and Cuba. These were engineered out of its Geneva office, which covered up transactions with Sudan.
Yet it is now facing a huge penalty and the forced resignations of 13 executives, who may be banned from the banking industry, because of actions taken by the Justice Department, the Federal Reserve and the New York State financial regulator. In other words, a French bank must comply with United States foreign policy, which set economic sanctions on those nations, or it will pay a very high price.

And for BNP Paribas, or really any bank of any size around the world, there is no choice but to comply. The dollar is by a wide margin the most widely used currency for international trade and for foreign governments, wealthy individuals or corporations looking to park cash.

If you are a bank in Paris or Jakarta or São Paulo, you can’t really serve your clients unless you are able to connect them to the global market for dollars. And you can’t do that unless you are in good standing with United States regulators. And you will very much not be in good standing with them if there is evidence you facilitated financing of terrorism or governments that the United States considers global threats.

That’s one of the important reasons that United States-led economic sanctions against Sudan or Iran carry weight. Those countries cannot easily gain access to the global financial system by going to a bank in a more sympathetic country.

Not surprisingly, this state of affairs does not always go over well overseas. The United States can seem heavy-handed, using its power in the financial sphere as a tool of foreign policy. President François Hollande of France reportedly gave President Obama an earful about the looming BNP Paribas penalty in a recent meeting, and French officials have vaguely threatened reprisals (“If all the U.S. authorities involved in this case do not treat BNP Paribas fairly, France will respond firmly to protect its fundamental interests,” French finance minister Michel Sapin told Les Echos.

This unique form of power the United States possesses won’t necessarily last forever. A century ago, the British pound had the dominant global role now held by the dollar. But the potential rivals for this position have problems of their own. The euro is only a couple of years removed from an existential crisis.

China is pushing to internationalize the renminbi, and while its currency is being used more for trade within Asia, it has a long way to go to become a truly
global currency. (Among other things, China would need to develop a much deeper market for bonds denominated in its currency than now exists, and start allowing the freer transfer of capital into and out of the country.)

But as a practical matter, as long as all roads to the global financial system lead through New York, and the dollar-based payments systems, Americans will have a leg up in international affairs that other countries may not like very much, but can’t really do anything about.

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