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Obama pushes power of weaponised finance to its limits

Ian Bremmer

Economic penalties punish, but there is little evidence they change behaviour, writes Ian Bremmer

George Washington carried a musket. Franklin Roosevelt sent in heavy bombers. But for President Barack Obama, who must reconcile a weary American public with the demands of an increasingly unstable world, the armament of choice has been a weaponised form of finance.

To hear enthusiasts describe them, economic sanctions are trusty swords. By excluding hostile governments and their senior officials from western financial markets, America and its allies can pursue diplomacy with a streak of coercion. The number of US sanctions programmes has doubled in recent years, and they now target the personal assets of a rogue state’s political and economic elite.

Jack Lew, US Treasury secretary, has called this “a new battlefield for the United States, one that enables us to go after those who wish us harm without putting our troops in harm’s way”. Yet sanctions cannot solve as many problems as their champions appear to believe, and overusing them is risky.

While economic penalties deliver punishment, there is little evidence that they do much to change behaviour. Since Iranian banks were excluded from critical areas of the global financial infrastructure the ayatollahs have despatched negotiators to the nuclear bargaining table — but Iran has not accepted a deal. A defiant Russian President Vladimir Putin continues to enjoy popular support, and has become even more aggressive in Ukraine in recent weeks. The lesson is that these measures tend to be used against states that care less than most about access to US markets because they prioritise other issues over any jolt of economic pain.

Furthermore, there have been excruciating consequences for western companies based in countries that are US allies. Last year, the US fined BNP Paribas nearly $9bn for failing to comply with US sanctions on Sudan, Iran and Cuba — a penalty that provoked outrage in France. American authorities are investigating whether Commerzbank violated US sanctions against Sudan, Iran and Cuba, as well as North Korea and Myanmar. If sanctions are imposed, they must be enforced. But
this stokes anger in Europe, and could make it easier for Mr Putin to drive a wedge between America and the EU.

America’s first foreign policy priority is to manage relations with China. Here, the weaponisation of finance will never be a useful tool. The size of China’s economy makes it impossible to isolate, and Beijing has the means to fight back. China is also more than happy to expand trade and investment ties with partners seeking to protect themselves against punitive US action.

Finally, Washington’s ability to deny others full access to the financial system is valuable mainly because there is no alternative to it. Exclude too many people from it, and you give your rivals an incentive to create one.

Then there is the dollar, which is used in about four-fifths of international trade finance. (The US economy, by contrast, accounts for less than a quarter of world economic output.) This enables America to settle its accounts in a currency it can produce at will. It also allows Washington to tie access to payment systems to compliance with US geopolitical goals. China would dearly like to strip Washington of its ability to use the dollar to impose its will. Many Europeans would like an end to dollar dominance, too. And rogue states such as Russia might respond to the American weaponisation of finance with newly aggressive cyber attacks on US financial institutions.

In short, Washington has good reason to use financial as well as political and military muscle. But there is a clear limit to what it can accomplish, and the cost of using it will only increase.

*The writer is president of Eurasia Group and global research professor at New York University*

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