Unintended Consequences

As described in Volume One of *Fractured: How the Cold War Divided America,* after World War II, the imperialistic nations residing in western Europe had ceased their colonizing. Having wreaked havoc on much of the world for over five centuries, their avarice and greed finally led them to consume one another, starting with WWI and finishing with WWII. In their place? America. The United States rescued the European West from its own geographical gluttony.

But unlike these countries' tragic legacy, America did not invade western Europe's subjugated societies. First, it bootstrapped West Europe into what became affluent, self-sustaining and largely democratic nations. Second, in parallel with rescuing much of Europe, it spent the next several decades building and fostering international institutions.

These organizations were vital in providing the economic and political ties that brought together heretofore competing states. Scores of alliances and trade agreements, formed principally by the United States, benefited the world, and certainly America as well.

The crown for America's efforts was to become the world's most powerful nation, both militarily and economically. Upon the former Soviet Union's dissolution in 1991, America won the Cold War, and with this victory, further cemented itself as the center for international finance.

The American dollar became the basis for doing world-wide business. With this powerful hub, through which most major financial transactions flowed, the United States held sway over the financial levers of many less formidable nations---and even emerging powerhouses, such as Germany and Japan.

Financial Warfare: Weaponization of the Financial System

Even though the Cold War was over, other enemies bit at America's heels; some minor, but others calamitous, such as 9/11. In some of these confrontations, the United States responded with military actions, as recounted in Volume One of *Fractured*.

But increasingly, the US response to other nations' misbehavior has been to use its prodigious economic power. Power in the form of trade embargoes, denying the use of international payment systems, freezing deposits in American banks, as well as imposing sanctions on third parties who might be doing business with a wayward nation.

> Trackable electronic payments, together with the dollar's preponderance in global finance and the centrality of American banks, have granted America's government an unprecedented level of influence. It has gained the ability to cut banks, or entire jurisdictions, out of the financial system. The inevitable result is that many are seeking alternatives to American-controlled levers of finance.[1]

The quote above from *The Economist* needs this amendment: Many have already made this move, with China and other financial outlets providing alternatives for bypassing America's

[1] *The Economist*, May 11, 2024, 5.

banking system. They have rebelled against the US's Treasury Department using the Patriot Act and other US government initiatives to designate foreign banks as illegal money launderers and cutting them off from the world's financial system.

Iran and North Korea have been the principal targets of US-imposed restrictions, as well as Syria and Libya. These constraints have affected many other countries as well, as the non-involved countries can be (and often are) banned from doing business with a nation on America's hit list.

To gain a sense of America's economic impact around the world, consider: By 2009, studies revealed that over half of the large banks around the globe used America's sanctions restraints as their guide for doing or not doing business with other financial institutions.[2]

Slacking Off[3]

Nonetheless, since the turn of the century, the United States has instituted several policies resulting in America giving up roles that have been beneficial to the country.

World Trade Organization (WTO). US lawmakers and Donald Trump (while president), have complained about "hyper-globalization" and China's "economic imperialism." Congress has debated withdrawing from the World Trade Organization (WTO), expressing frustration with the bureaucracy of the WTO and its acting as a roadblock to America's trading interests. The WTO remains under the guns of a Congress that increasingly leans toward making America great again by isolating an already great America from the world.

The Trans-Pacific Partnership (TPP). This trade pact was an agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States. It provided rules for physical and Internet commerce with the goal of the free flow of information (privacy protected) across borders. It placed rules on the use and location of Internet servers. On 23 January 2017, Donald Trump withdrew from the TPP. As he left office his administration did not offer an alternative.

Studies have shown that the TPP would have contributed to US economic growth and kept America inside the tent to advance its interests. One cannot influence events while sitting outside the tent where trade agreements are being forged inside. It has been a signal to member nations and other US allies that America, who had championed the treaty, is withdrawing from international agreements; agreements in which the United States has been the acknowledged leader.

On 30 December 2018, the remaining countries established a new agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). It includes most of the provisions of the TPP. The members of the partnership have combined economies representing 13.4 percent of global gross domestic product (approximately $13.5 trillion), making the CPTPP one of the world's largest free-trade areas. The United States is not a member.

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[2] A study by the consulting firm, Deloitte. *The Economist*, ibid, 6.
[3] This section is from Volume One, Chapter 4 of *Fractured*.

The Regional Comprehensive Economic Partnership (RCEP). China is leading the Regional Comprehensive Economic Partnership (RCEP), a sixteen-nation trade pact in the Asia-Pacific region. It does not include the United States

As part of China's plan, the country has also launched its Belt and Road Initiative (BRI). This huge program, more ambitious than America's post WWII Marshall Plan, consists of many investment and development plans, none including the United States.

China's Other Large Financial Institutions. The United States' success in its national and international finance markets was abetted through many financial institutions, some described in this article. China is taking the same approach, with the intent to compete with these organizations.

In addition, the China Development Bank (CDB) is responsible for raising funds for large-scale infrastructure projects in China, such as the massive Three Gorges Dam project. The bank is integral in the funding of national government's economic development programs. It is the second-largest bond issuer in China after the Ministry of Finance. It is the biggest foreign-currency lender in the nation.

The Export–Import Bank of China is chartered to implement state plans for infrastructure growth and maintenance, and provide aid to developing countries. It is also organized to promote the export of Chinese products and services. Commercial lending is the principal charter of the bank in order to promote foreign investment and trade. Its loans are estimated to exceed those of the World Bank.

Punishing the Obstinate

During these times, the United States has continued to exercise its traditional role as the world's financial policeman. And it must be emphasized again, these actions took place because of mostly well-intentioned motives of America to protect itself and its allies. That said, many arrangements made by the US have been viewed by other countries as self-serving overkill.

Take Iran, for example. Since 2008, American banks have been forbidden from engaging in any US dollar clearance dealings with Iranian banks, even if such transactions do not originate in the United States.

As another example, due to Russia's aggression in Ukraine, the country is now in America's financial crosshairs. President Joe Biden signed an executive order December 23, 2023, which authorizes the Treasury Department to treat Russia in much the same way as other offending nations, identified earlier. The West, led by the US, prevents Russia's larger financial institutions from raising any capital or entering into debt contracts in America and the Western European countries.

That has been an extraordinary assertive action on America's part. But it pales in comparison to Russia's astonishing aggressive action against Ukraine, a neighboring non-threatening nation. (Chapter 17 in Volume One of *Fractured* provides details on the Ukraine-Russia war.)

Russia has also been cut off from using the dominant international payments system, called SWIFT. To gain a sense of the impact such a restriction can have, at least 50 percent of all cross-national-border payments use SWIFT. It connects more than 11,000 banks and other financial organizations in over 200 countries.[4]

In addition, the United States has increased its inspection of incoming investments from abroad pertaining to national security. Recently, it has blocked other countries from acquiring American-owned industries, such as US Steel.

Based on security concerns the US has also stepped-up restrictions on outgoing investments. Biden signed an executive order on August 2023 that directs the government to scrutinize investments in technologies such as artificial intelligence, quantum computing, and advanced computer chips. The target is China.

Other Examples.[5] Here are other examples of US sanctions and resulting fines (some are still not settled and are being contested):

- In 2014, Chinese businessman Li Fangwei, was fined by US authorities for $5 million. He was accused of evading sanctions against Iran's missile programs.
- In 2014, for violating United States sanctions, French bank BNP Paribas was fined $8.9 billion, paid to European authorities. Germany's Commerzbank, France's Credit Agricole and Swiss UBS were also fined.
- In 2015, Germany's Deutsche Bank was fined $258 million for violating U.S. sanctions against Iran, Libya, and Syria.

Long Range Incentive to Go It Alone

What are these countries doing to counter the US actions? They are going around them and America's banking system. Iran's restriction on selling oil, its lifeblood? Secretly selling it to private refineries. For Russia's vital oil industry? China and India are eagerly lapping up its oil, with the effect of negating US imposed restrictions.

The US House of Representatives voted to force the separation of TikTok from its parent company, ByteDance, because of security concerns about ByteDance. Both are Chinese-based. According to the *New York Times*: "TikTok App stores that violate the legislation could be fined based on the number of users of a banned app. The bill establishes fines of $5,000 per user of a banned app. So, in the case of TikTok, Apple and Google could potentially be on the hook for up to $850 billion in fines each."

TikTok has 170 million subscribers in the United States. That is just over one-half the population in the country. Protests are coming from many of them (and the Chinese) that the US is over reacting, once again, to an imaginary security threat. The removal of TikTok from America's commercial apps is not a done deal, as protests grow, yet it is another example of the US's actions because of concerns about national security.

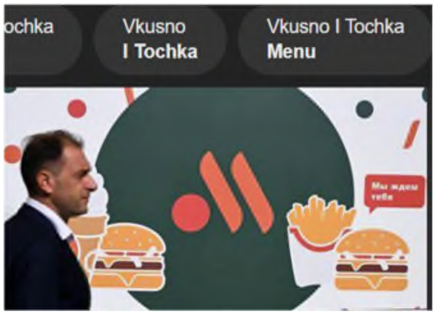
If TikTok is indeed banned, what will 170 million former customers do? They will use another social media product, possibly not one from the US.

In the long run, bans and embargoes encourage countries at the bunt of such restrictions to roll-their-own.

[4] Martin Arnold, "Ripple and Swift Slug it out over Cross-Border Payments," *Financial Times*, June 6, 2018.
[5] Key into your browser: "Examples of United States Sanctions"; "Li Fangwei"; "BNP Paribas fined."

Another perhaps more familiar example is the world-wide fast-food chain, McDonald's. Several years ago, due to US pressure, it closed down its operations in Russia. French Fries can be fried by Russians as well as Americans---even Serbs.

Recently, McDonald's franchise/presence in Russia was purchased by Siberian businessman, Alexander Govor. He now has control over McDonald's former Russian franchise operation.



Siberian French Fries are being cooked under the name "Vkusno & Tochka," meaning in English, "Tasty and that's it." The Golden Arches of McDonald's have been replaced with a new symbol that supposedly resembles the letter "M" made up of two (Siberian) fries and a hamburger patty, as shown in this figure.

To get around 2014 US restrictions on US credit card companies doing business in Russia, the Soviets created Mir, its own card payment system controlled by the Central Bank of Russia.

On and on, US enemies are never going to magically go away. So, America will continue to shoot itself in the financial foot in order to guard against its adversaries from shooting the country in its security ass.

Unintended Consequences?

Scores of countries realize the vulnerability of relying on America's long-standing role of being the world-wide financial hub, especially with the United States drifting into ideologically induced inertia and associated unreliability.

Consider a country that wishes to do petroleum related business with Iran. Uncle Sam's prodigious power likely reaches into the country's relatively modest economy, so America can say no, for any of these reasons (based on US 2006 policy toward Iran):

- Denial of Export-Import Bank assistance.
- Denial of export licenses for exports to the violating company.
- Prohibition on loans or credits from United States financial institutions of over $10 million in any 12-month period.
- Prohibition on designation as a primary dealer for United States government debt instruments.
- Prohibition on serving as an agent of the United States or as a repository for U.S. government funds.
- Denial of United States government procurement opportunities.
- A ban on all or some imports of the violating company.

As described above, as the United States cuts itself away from its vaunted position as the world-wide financial hub, many countries are reducing their reliance on America. Yet from its leadership position---its lofty perch---of the financial world since the ending of WWII, the US did not foresee that it could not continuously dictate the financial fortunes of others---even if America’s actions were motivated to protect itself, its citizens, and often, many others.

If nothing else, thanks largely to the United States, other countries are “catching up,” with increasing wealth, accompanied by an efficient financial infrastructure.

Modern citizens, sophisticated as they may be, are little more than Darwins in Guccis. They are out for survival, whatever the means employed to do so. Consequently, most leaders of nations do not care who controls a world bank, an international monetary fund, or for that matter, trans-Pacific partnerships. Just as long as they are left alone to do business with whomever they wish, they do not care who is the hub of international finance.