

Weaponized Interdependence

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Central argument

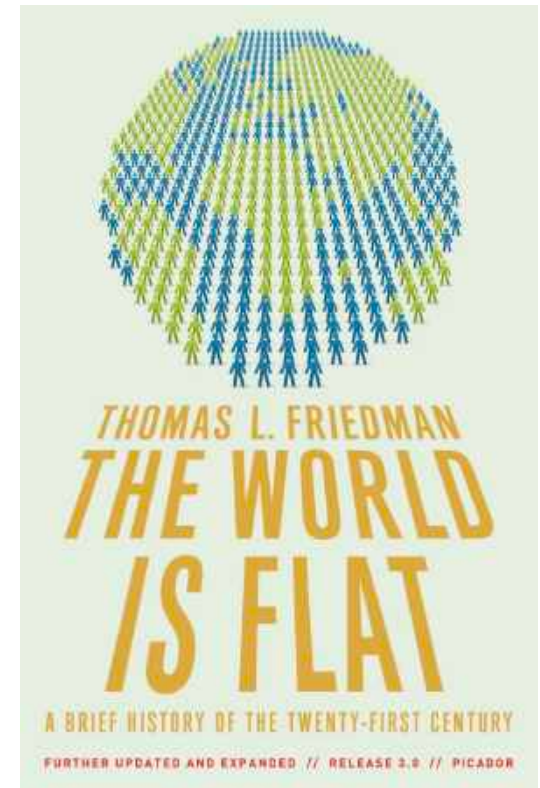
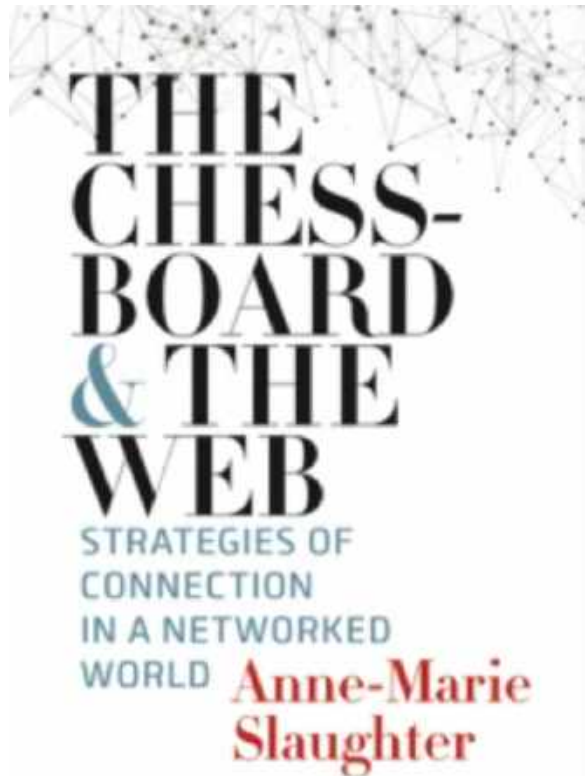
- Economic networks form key hubs that centralize exchange
- This generates new types of coercive power for states
- Deploying this power could produce new political risk for firms and geostrategic consequences for allies

Globalization creates world spanning networks



Why did academics ignore WI –
They misread the map

The liberal take – decentralized and fragmented



Weaponized Interdependence

How Global Economic Networks Shape
State Coercion

*Henry Farrell and
Abraham L. Newman*

In May 2018, Donald Trump announced that the United States was pulling out of the Joint Comprehensive Plan of Action agreement on Iran's nuclear program and re-imposing sanctions. Most notably, many of these penalties apply not to U.S. firms, but to foreign firms that may have no presence in the United States.

In fact, these networks are *asymmetric*

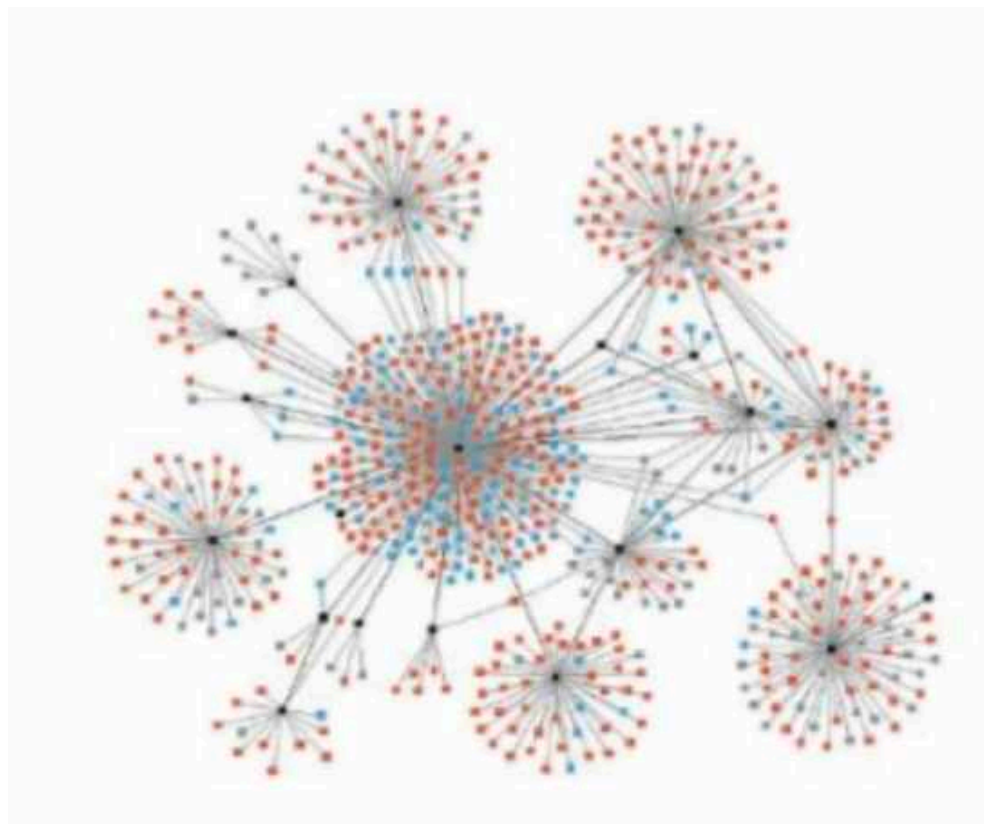
Not all nodes are equal; Some nodes become hubs

- Private actors often centralize to manage complexity



In Network Terminology ...Preferential Attachment

- Network effects, focal points, rich-get-richer...

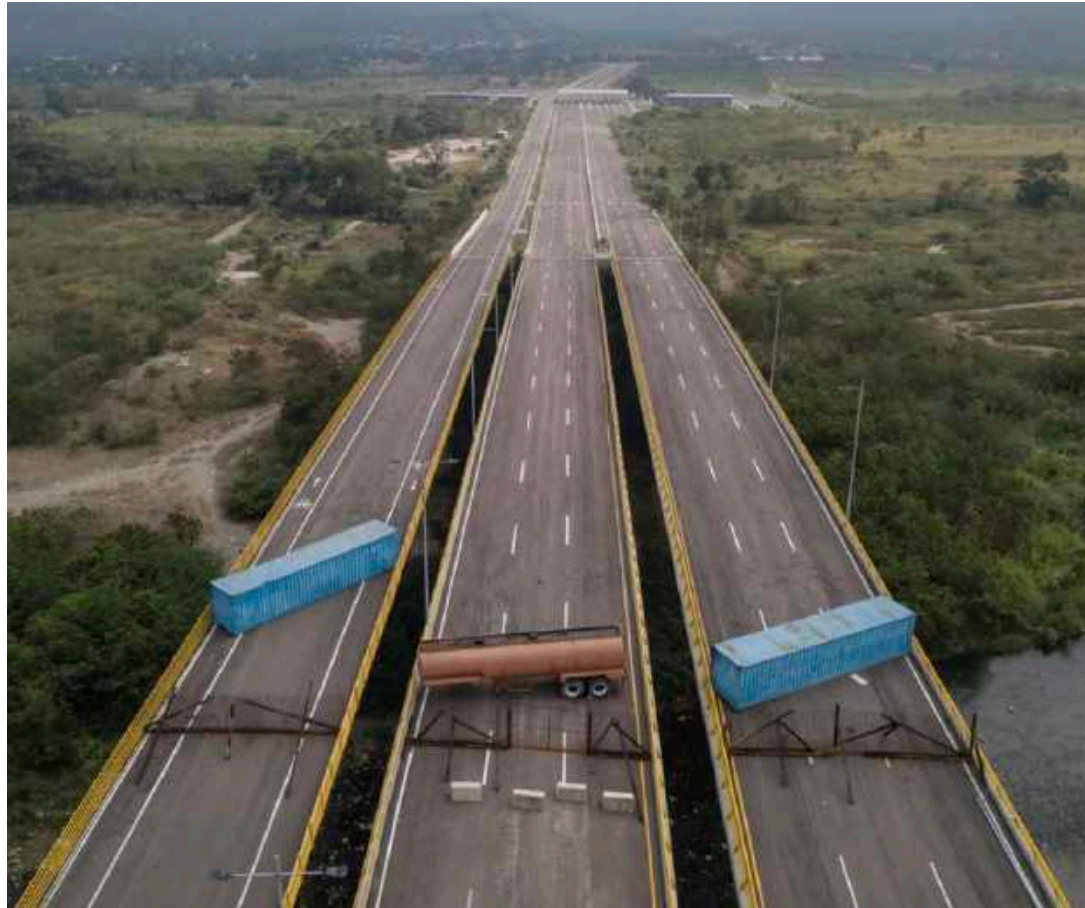


Privileged states use hubs as levers
of coercive power

Panopticon Effect



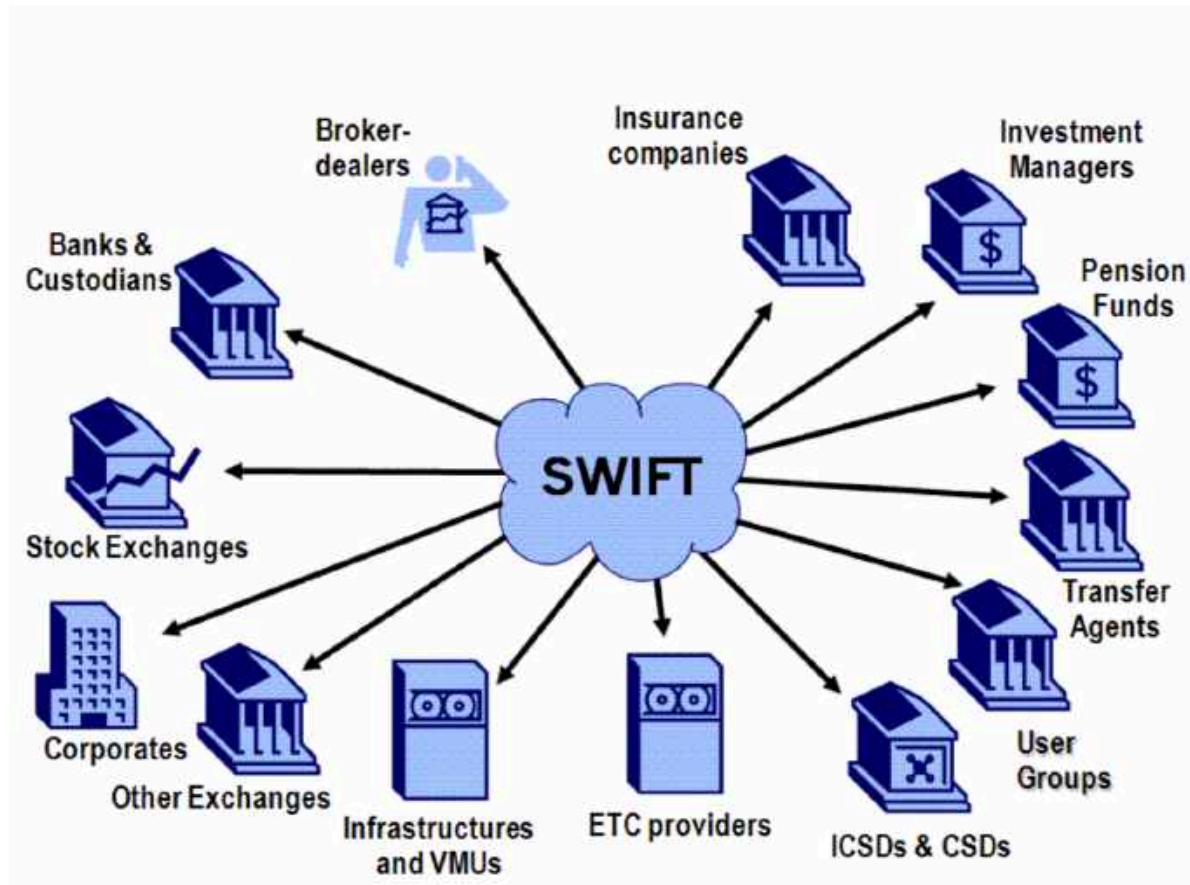
Chokepoint Effect



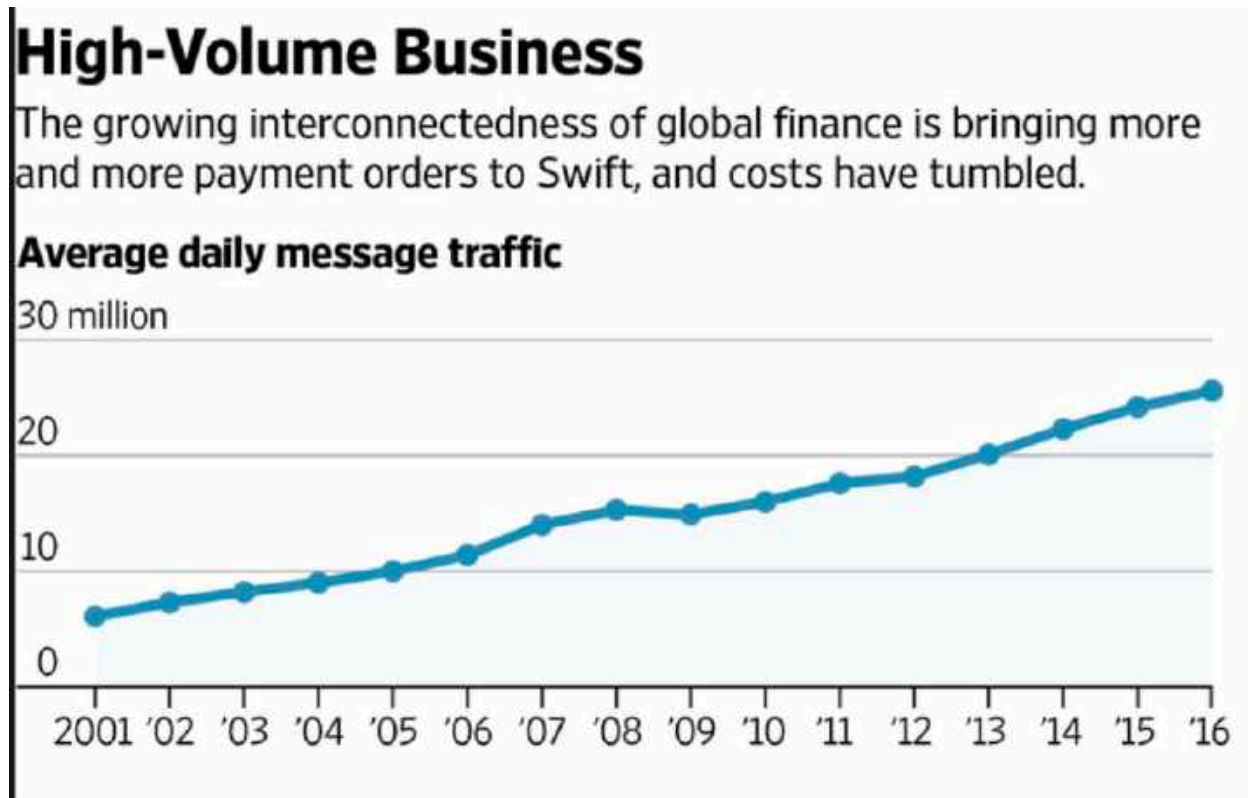
Weaponizing global finance



Hub Creation



Rise in SWIFT Dominance



Wall Street Journal, 2017

Weaponization of the Hub: Panopticon Effect

Panopticon Effect

Juan Zarate, former treasury department official:

Access to SWIFT data would give the US government a method of uncovering never-before-seen financial links, information that could unlock important clues to the next plot or allow an entire support network to be exposed and disrupted (2013: 50).

Panopticon Effect

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WASHINGTON

Bank Data Is Sifted by U.S. in Secret to Block Terror

By ERIC LICHTBLAU and JAMES RISEN JUNE 23, 2006

Chokepoint Effect

Lazaro Campos, former CEO of SWIFT:

Disconnecting banks is an extraordinary and unprecedented step for SWIFT. It is a direct result of international and multilateral action to intensify financial sanctions against Iran (2012)

MIDDLE EAST

Global Network Expels as Many as 30 of Iran's Banks in Move to Isolate Its Economy

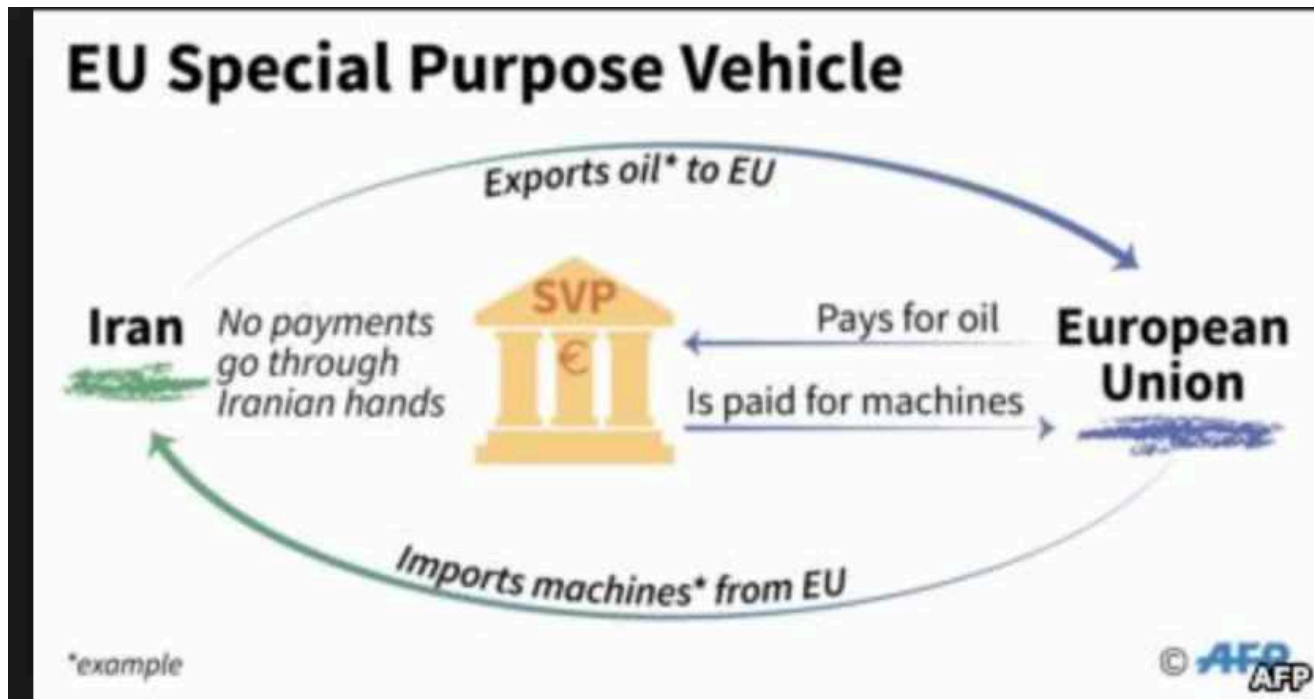
By RICK GLADSTONE and STEPHEN CASTLE MARCH 15, 2012



Resistance

- Russia interest in blockchain
- China's Cross-Border Interbank Payment System (CIPS)
- EU's Special Purpose Vehicle

SPV and its implications




Europeans are unhappy and considering retaliation



Meeting the challenge of
secondary sanctions

Policy Brief

[Ellie Geranmayeh](#)  &

[Manuel Lafont Rapnouil](#) 

25th June, 2019

Threats to US power in finance – Not the dollar but the plumbing

Jack Lew (former Treasury Secretary):

the plumbing is being built and tested to work around the United States. Over time as those tools are perfected, if the United States stays on a path where it is seen as going it alone ... there will increasingly be alternatives that will chip away at the centrality of the United States.

Retaliation/escalation spirals

- Other states employing WI.
- Denial of market access.
- Retaliation against US firms.
- Kinetic escalation.

Mapping cross-sectoral spillovers – tech, finance and trade



Conclusions

- Economic networks generate opportunities for state control
- Vulnerable states seek protection with potentially large market and political consequences
- Policy-makers need a strategic understanding of benefits & drawbacks of weaponized interdependence
- Need for rules of the road to minimize escalation spirals/decoupling/market disruption.