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Economic Dominance, Financial Technology, and the Future of U.S. Economic Coercion

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Key Takeaways

- Coercive economic measures, such as sanctions, investment restrictions, trade controls, and tariffs, have become an increasingly important tool of U.S. foreign policy in recent years.
- Recent years have witnessed a strengthening of U.S. coercive economic measures, which are likely to remain powerful in the near and medium term.
- Over the longer term, purely commercial factors are likely to support continued U.S. coercive economic power. However, choices by both U.S. policymakers and foreign governments will be the primary determinant of whether coercive economic measures remain powerful tools of U.S. foreign policy over the longer term.
- Shifts in the nature of U.S. coercive economic power could prompt some shifts in the balance and nature of the type of coercive economic measures the United States deploys.

Coercive economic measures have been a longstanding tool of American foreign policy, dating back to the early 19th century. But since the end of the Cold War, coercive economic measures have become an ever more important instrument of U.S. foreign policy. That trend is likely to continue as the Donald Trump administration and members of both parties in Congress, as well as successor U.S. policy leaders, continue to turn to sanctions, investment restrictions, tariffs, and trade controls to achieve foreign policy aims. At the same time, the expanding use of these measures has antagonized allies and spurred diplomatic backlash.

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America's expanding use of coercive economic measures rests on the major role of the U.S. dollar, the size of the U.S. economy, and the role of U.S. companies abroad. The fundamental strength of the U.S. economy and its large global footprint have enabled the United States to leverage that strength and interconnectedness to use sanctions and other coercive economic measures in pursuit of foreign policy goals. This brief examines the factors that have allowed the expansive U.S. use of coercive economic measures in recent years, as well as how their use may change over the near term and the longer term. It also offers a set of recommendations for U.S. policymakers and other stakeholders to ensure the continued efficacy of coercive economic measures.

The Six Pillars of American Economic Leverage

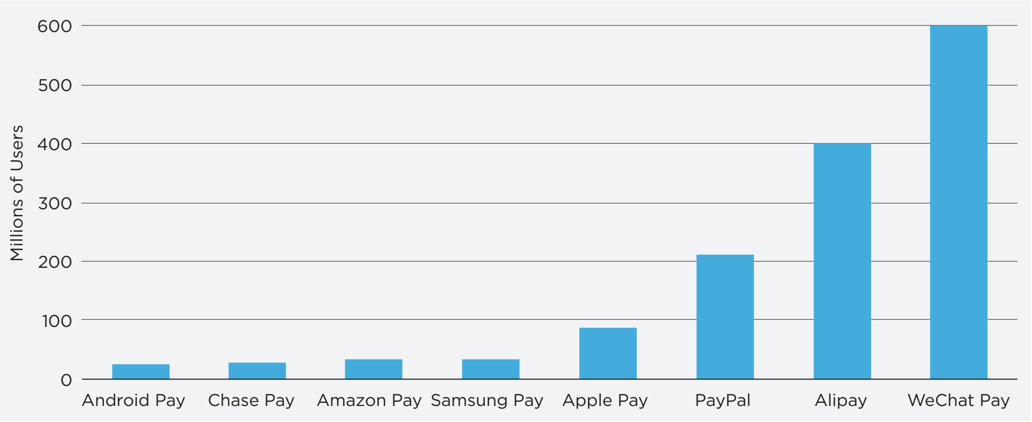
American coercive economic leverage rests on six pillars of economic and financial strength. Combined, these pillars provide the United States with substantial strength in implementing and enforcing sanctions, investment restrictions, trade controls, and other coercive economic measures.

1. THE GLOBAL DOMINANCE OF THE U.S. DOLLAR
2. THE LEADING ROLE OF U.S. FINANCIAL INSTITUTIONS
3. THE SIZE AND ATTRACTIVENESS OF THE U.S. MARKET
4. THE ROLE OF U.S. COMPANIES IN GLOBAL SUPPLY CHAINS
5. THE GLOBAL INVESTMENT FOOTPRINT OF U.S. INVESTMENT FUNDS AND COMPANIES
6. FINANCIAL TRANSPARENCY AND THE U.S. LEGAL REGIME

Over the last several decades economic, technological, and policy trends have enhanced the strength of U.S. coercive economic measures and made them an attractive option for national security policymakers. The global financial crisis, which heavily implicated U.S. banks and U.S. policymakers, actually supported U.S. economic leverage and bolstered the cogency of coercive economic tools. In the near term, U.S. coercive economic measures are highly likely to retain their strength, but in the longer term there are a number of trends that may weaken their effectiveness.

The United States' expansive use of these measures has sparked an increasing backlash both from allies in Europe and Asia and from adversaries seeking to circumvent the U.S.-dominated global financial system. European Union policymakers have increasingly discussed the possibility of increasing the role of the euro and are considering mechanisms or countermeasures in response to U.S. coercive economic measures that target European interests. China's rise will also threaten the strength of U.S. coercive economic measures, as China increasingly develops the capacity to offer an alternative to U.S. financial and economic dominance, and seeks to leverage its economic and financial

Number of Users of Leading Mobile Payment Platforms



Rapid adoption of mobile payments has been a major part of financial technology development, particularly in China. Nevertheless, it is unlikely that new digital payments technologies or cryptocurrencies will provide a meaningful method for evasion of U.S. coercive economic measures in the short-term.

strength in pursuit of its own foreign policy goals. Financial technology developments may help enable these trends as well, as blockchain-based payment systems and other technological advances may eventually support a move away from dollar-based clearing and payments, and also facilitate a greater flow of licit and illicit money outside of traditional financial channels.

Ultimately, government policy choices in both Washington and foreign capitals will be the strongest determinant of the continued strength of U.S. coercive economic measures. These measures are powerful tools now and the United States has inherent strengths that can support its coercive economic power in the future, but poor decisionmaking in Washington, combined with aggressive policy initiatives by foreign governments, could erode U.S. coercive economic measures in the future. Policymakers should take a number of steps to ensure their continued efficacy.

Recommendations for Policymakers

The United States has public policy choices to make that will have an impact on the availability and effectiveness of coercive economic measures for the next five years and beyond. In the long term, many of the most important U.S. decisions will have to do with making sound macroeconomic and financial policy choices that will keep the United States an attractive place to invest and to do business, and ensure that U.S. companies continue to lead key industries globally.

Ultimately, how effective the United States is at stewarding its economy, and continuing to oversee a stable, liquid market and highly convertible currency, as well as serving as a financial technology innovation hub, will have a large impact on how useful its economic policy instruments will be in the future. Judicious and coordinated use of coercive economic instruments will also be critical if the United States is to assure other nations and foreign companies that it is safe to continue relying on the U.S. financial system, the U.S. dollar, and the United States as a destination for investment.

U.S. policymakers can and should take a number of discrete, specific steps to maintain the strength of U.S. coercive economic measures over time. Adopting these recommendations will help the United States preserve its economic leverage, maintain leadership in the development of financial technology, and achieve its foreign policy aims.

1. Gather More Information on Political and Economic Effects
2. Craft a Durable Coercive Economic Statecraft Framework
3. Appropriate Adequate Resources to Deploy, Enforce, and Analyze Measures
4. Maintain Leverage Through Trade and Investment Policy
5. Cultivate a Competitive Edge in Financial Technology
6. Improve Intragovernmental and International Cooperation on Financial Technology
7. Limit Harm to Security Partners
8. Maintain Coercive Economic Leverage Over China

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