CNAS EVENT: “THE FUTURE OF U.S. COERCIVE ECONOMIC MEASURES”

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ROSENBERG: Morning, everyone, and welcome to this event on the future of U.S. coercive economic measures. I'm Liz Rosenberg and I direct the energy economics and security program here at the Center for New American Security. We're very glad to have you with us this morning.

Over the next hour and a half, we'll be discussing some of the key coercive economic tools that the United States uses to advance security and foreign policy interests. And by this, I'm referring to tariffs, investment restrictions, trade control sanctions--you know, the type of instrument to which I'm referring. These have become central to U.S. administration and congressional foreign policy-making over most of the last decade, and certainly over the last several years in particular. And during this time, our policy leaders have also come to use them in somewhat more of a unilateral fashion against some bigger targets and to address many more kinds of security threats and commercial concerns.

Our primary goal today will be to consider the economic and political implications of these expanding uses and will focus specifically on how economic trends and evolving financial technology will be enablers or detractors from the U.S. use of coercive economic tools. So how will economic trends and FinTech developments influence the strength and the availability of these economic instruments? And in turn, what will this mean for the strength and the security, the prosperity of the United States?

Today, CNS is releasing a major report on these topics. You may have seen it as you've come in, it is entitled *Economic Dominance, Financial Technology and the Future of U.S. Economic Coercion*. I hope that both today's conversation and this report will be resources for you all and that they will spur lively debate amongst economic and national security policymakers.

So regarding the program for today, in a moment, I'll hand over the floor to our distinguished keynote speaker for some remarks on the topic and we'll have time for some questions and then we'll move directly into a panel discussion.

We are deeply honored and delighted to host today as our keynote speaker, Secretary Jack Lew, who was the 76th Secretary of the U.S. Treasury from 2013 to 2017. Secretary Lew served formerly as the White House Chief of Staff under President Obama, and Head of the Office of Management and Budget for the Obama and Clinton administrations. As well as Deputy Secretary of State under the Obama administration.

Earlier in his career, he worked in the legislative branch of government, including as a policy advisor to House Speaker Tip--Tip O'Neill. He's held distinguished senior roles in academia, including at my alma mater, NYU, and in the financial sector at Citi Group, and now at Lindsay Goldberg.

Our projects team, the ones of us that got together to put together this report, is indebted to Secretary Lew for inspiring and guiding us on several of the questions we sought to answer in our report. Secretary Lew, thank you so much for joining us, the floor is yours.

(APPLAUSE)

LEW: Well, thank you very much, Liz and to CNS for hosting this event. It's a pleasure to be here with you today and congratulations to Peter, Liz, and the advisory team on the release of what I think is a thoughtful and thorough report that makes an important contribution on a timely issue, the future of U.S. economic coercion.

Economic statecraft is a crucial pillar of U.S. foreign policy, and it's one that's grown ever more important in a globalized economy with the United States at the financial center. Economic sanctions, for example, give policymakers a unique capability to exert pressure beyond diplomacy but short of military force to achieve foreign policy goals. And augmenting diplomacy this way helps accomplish vital national security objectives while preserving force an option of last resort. Today, we know how to tailor sanctions precisely to pressure another nation to change its own policy. But this has not always been the case.

Not long ago, sanctions were a blunt instrument and often an embargo would harm bystanders as much as targets and sanctions could be in place for decades. With growing economic consequence but little ability to compel another sovereign to change its behavior. Over the past decade, policymakers including members of the advisory panel, finely hone these tools. We now can marshal abroad international cooperation to surgically target pressure on bad actors. And to ramp up the level of economic pain and circles of impact as needed, while limiting spillover effects that could undermine cooperation of like-minded countries.

The aim is to use economic pressure to achieve a clearly stated policy goal by limiting unintended impacts on innocent parties. In short, economic pressure is not an end in itself, but a way to open the window for diplomacy to produce desired policy outcomes.

During the Obama administration, we used sanctions forcefully and effectively. Working with allies in Europe, tough and targeted U.S. sanctions were a key element of the international response to Russian aggression in Ukraine. And with a combination of strong multilateral and unilateral economic measures, we forced Iran to the table to negotiate an agreement to put its nuclear program under tight restrictions with intrusive monitoring.

We use sanctions to combat terrorism, nuclear proliferation, and human rights abuses, and to respond to foreign interference in U.S. elections and cyber attacks. At the same time, we recognize that economic pressure could not solve every foreign policy challenge. That powerful weapons must be deployed with great care. And that to be truly effective, we had to be able to turn sanctions off as we did with Myanmar, Cuba, and Iran as part of negotiated arrangements.

Whether new or inherited from previous administrations, U.S. sanctions today, target malign behavior from narcotics trafficking to cyber attacks and from human rights violations to terrorism and nuclear proliferation. But while sanctions continue to be a powerful expression of us statecraft, the nature of their use is changed. Raising new questions.

Can overuse and increasingly unilateral action undermine the efficacy of sanctions over time? And in the extreme is the singular role of the United States in the global economy, which is the source of this power, at jeopardy of being diminished?

Against that background, today's report is important. It contributes to our understanding of foundational principles and assesses the outlook and challenges ahead. I'll touch on some key points the report raises and then offer a few comments and some worries about the current U.S. approach.

As discussed in the report, U.S. economic statecraft has long benefited from the centrality of our financial system, the strength of the dollar and the attractiveness of our export market, which together gives U.S. sanctions significant extraterritorial reach. Foreign companies and banks comply with U.S. sanctions because they see continued access to our market, currency and financial architecture.

U.S. dominance arose from the post World War II economy and deepened with the end of the Cold War. And after three-quarters of a century, the U.S. position remains unrivaled. Vibrant growth and other economies, however, will naturally start to erode this preeminence. A process that could evolve slowly over many decades. While there's no immediate challenge to the dollar's dominance is a global reserve currency.

Looking ahead, it would not be prudent to assume that the status quo will endure forever. And while a transition is not on the horizon, when it comes there may not be much warning, Sterling was the world reserve currency until the Great Depression and World War II, and then quite quickly, it was not. And there are some signs that demand for dollars may trend down.

For example, as a country like China transitions from current account surplus to deficit and stabilizes or draws down its foreign reserves, and other reserve-holding nations diversify their exposure to a wider basket of currencies. The U.S. should continue to use economic power to achieve important policy objectives while at the same time protecting this unique capability for the future. I fear from fiscal policy to specific trade and sanctions actions, we're doing the opposite and accelerating the world search for an alternative.

Our fiscal and trade policies work across purposes. While the current administration declares that reducing trade imbalances is a top priority it's pursuing a fiscal policy that goes in the opposite direction. Deficit finance tax cuts are increasing our need to borrow from other countries, which will drive up trade imbalances as we continue to consume more than we produce.

At the same time, we're stressing our relationships around the world with friends and foes alike by pursuing aggressive and ill-founded tariffs in the name of reducing trade imbalances. An approach is not strong, regardless of the rhetoric, if it weakens U.S. leadership and undermines global economic and geopolitical stability. And as the report highlights these policy decisions and how they're enacted, threaten to dilute the force of course of tools available to U.S. policy-makers.

In terms of sanctions, a U.S. push to reemphasize unilateral action is strengthening our strategic competitors and driving a search for ways to do business outside of the dollar and U.S. supply chains. After the Trump administration withdrew from the Joint Comprehensive Plan of Action, Iranian leaders made their first two foreign visits to Beijing and Moscow. And we see new lines of cooperation emerging.

Perhaps more unsettling, our European allies united to establish a special purpose vehicle to facilitate trade with Iran beyond the reach of the U.S. financial system. None of this suggests that the volume and activity will offset the immediate pressure of U.S. sanctions on Iran, or that another currency will supplant the dollar anytime soon. But it is disturbing evidence that things are moving in the wrong direction driven by unforced errors, and that the mechanisms are being tested to work around the United States.

The report correctly raises the risk that our current trade policy of sustained could diminish U.S. economic power. While we must demand fair trade practices, brute force and a trade war that hurts our economy and our consumers, as much as it does the intended targets is unlikely to produce broad and durable progress. And it comes at significant cost in terms of international leadership. For three-quarters of a century, a tremendous source of U.S. power was that the rest of the world wanted to be more like us and said our example today leaves us open to criticism that we do not even honor the rules we helped to create.

Whether trade policy or sanctions, economic statecraft is not executed in a vacuum. And policymakers should consider broad and long term ramifications for free trade as the--as well as the ability of nations to rely on the U.S. as a stable source of goods and services. And as a reliable partner to address transnational policy issues from security to climate change. Today, the U.S. is absent in areas where for so long, we were leaders and with a return to more traditional statecraft, we will again need to balance competing priorities.

Sanctions are a tool to achieve a diplomatic goal not just to impose economic pain and to change the behavior of another country requires clear standards. Sanctions are most effective when the goal is clear and three conditions are present, broad international support, a reliable expectation of relief when behavior changes, and rigorous and highly principled execution.

Building international support intensifies pressure on the target and reduces the likelihood of leakage and avoidance. A multilateral approach requires compromise which can be laborious and frustrating. But it also tends to build pressure that's needed to force the desired policy change. Unless the country can rely on sanctions being lifted, it's not likely to change its policy and sanctions become a simple punishment and not a means for forcing a policy change.

Credibility that promises will be kept as vital for sanctions to be effective in the future. And one needs to implement the sanctions regime effectively which means finding violators and holding them accountable in a process that can withstand global scrutiny. Even the most formidable domestic effort also needs international cooperation, which broadens our reach for both information gathering and enforcement.

In an increasingly multipolar world, we cannot take for granted the exclusive and dominant U.S. economic role and treating it as infinite and permanent, could easily weaken it. For example, if we overuse--you know, overuse unilateral measures, international cooperation will be at the minimum level needed to avoid immediate economic or legal consequences. And it will accelerate the process of looking for ways to work around the United States in the future. Actions to date like the SPV are testing the plumbing for future use.

I want to briefly touch on several worrisome trends, ambiguous diplomatic objectives, growing unpredictability, increased unilateral action, use of enforcement actions as bargaining chips, and finally a narrowed focus on isolated policies with less regard for the broader context.

First, it's not clear in the case of Iran if the Trump administration is using sanctions in conjunction with diplomatic engagement or whether they're simply becoming a form of economic punishment. Sanctions are not an effective tool for regime change, and imposing economic hardship without a path to clear diplomatic goals may trigger a nationals backlash that strengthens rather than weakens a failing and maligned regime at home. It certainly will produce animosity towards the U.S. in nations with which we previously partnered. Endless sanctions without effective diplomacy becomes a form of economic war and history suggest from the half-century-long Cuba embargo, not a very effective approach.

Second, by walking away from one international agreement after another and engaging in other erratic behavior, the administration sends a signal for other countries to reconsider their own ability to reliably predict U.S. policy. From JCPOA withdrawal to a confused romance with a North Korean dictator, other nations now must wonder if sanctions relief will come after they comply with the demand for policy change, or from an impulsive gesture.

If our adversaries conclude that they no longer have a rational basis to predict U.S. action, it would be more difficult for sanctions to persuade another sovereign to bend to our will. This also encourages them to offer half-measures that secure ephemeral public relations wins rather than serious durable steps to address national security interest.

In the case of JCPOA, the agreement reflected Iran's calculated decision to curtail its increasingly capable nuclear program to gain relief from sanctions. And the agreement shut down Iran's path to developing a nuclear weapon. Then is now. There's every reason to demand that Iran end its other malign practices, and we left in place sanctions against terrorism and other policies that violate broadly held values.

But the nuclear deal reduced the single most dangerous existential threat that Iran posed, which is why rolling back nuclear sanctions at the time was the right thing to do creating space that should have been used to pursue diplomatic progress to address our remaining concerns. The U.S. decision to withdraw from the JCPOA and re-impose sanctions without evidence that Iran broke the nuclear deal now leaves the world point their finger at the U.S. as the deal breaker and our closest European allies looking for ways to circumvent the dollar based financial system.

This increases the risk that Iran will resume a nuclear weapons program with little prospect of progress on the broader array of challenges. Iran presents and at the same time reduces the likelihood that--the--the broader array of challenges that Iran presents and at the same time reduces the likelihood that Iran or other malign governments will change their policy in response to sanctions.

Third, unilateral actions come in many forms. And the recent decision to end waivers that permit several countries to continue oil imports from Iran at a reduced level is the latest example. This action will test the ability of the U.S. to maintain a unilateral sanctions regime as it causes economic hardship in countries whose cooperation we need. The sanctions that brought Iran to the table were effective because the country is affected by the oil restrictions cooperated and substantially reduced their imports.

Their cooperation required intensive ongoing diplomacy and was only sustain because our waivers mitigated the detriment to their own economies without--without alternate and affordable sources of oil, this new policy will create growing tension with close allies heightened tension with adversaries. And of course, it's worth noting that none of this was necessary to reduce Iran's ability to access freely its oil revenues, which were required to be secured in escrow accounts in any event.

Another troubling trend is the current administration's willingness to use pending enforcement actions as bargaining chips. ZTE for example, to resolve an unrelated trade dispute the U.S.

reversed course and dropped penalties for what had been found to be a violation of a settlement agreement. And in the case of Huawei, there is now the prospect that a case for extraditing a senior executive may also be commingled with transactional demands in another trade negotiation.

With legal and quasi-judicial matters are politicized it undermines the system and the work of strong career staffs at the Department of Justice, OFAC and other enforcement agencies. If the administration transparently inserts politics into enforcement actions, especially when it has little credibility on specific matters like Russia sanctions, it raises questions about the legitimacy and fairness of our whole system.

I also worry that using enforcement actions as leverage in policy negotiations undermines future cooperation. For example, if an extradition from Canada is seen as a bilateral bargaining chip in U.S. trade talks with China, why should other allies cooperate with future requests for cooperation that might be highly challenging for them? Conversely, will countries engaged in future trade negotiations with the U.S. seek to bring in extradition or other criminal enforcement related matters?

Confusing opportunistic negotiating leverage with fair enforcement based on the rule of law sets a dangerous example for the world. There's always room for prosecutorial discretion. And sometimes it can and should be used in deference to national security goals. But if you decide to prosecute them prosecute. If the grounds are not strong, or the resources not worth the likely outcome, then do not. Once a matter is in the legal system, injecting political influence in a judicial or quasi-judicial proceeding sends a very troubling signal.

Finally, economic tools are never used in isolation, and always need to be balanced in a world of competing priorities. The current administration's highly aggressive and singular focus on trade leaves little bandwidth to cooperate on other pressing concerns like increasing pressure on North Korea to reduce its nuclear threat. In the Obama administration, we negotiated hard with China and trade and succeeded in ending unfair exchange rate policies that hurt American businesses and workers.

At the same time, we worked together and made progress on the Paris Climate Agreement and sanctions to force Iran to end its pursuit of nuclear weapons. In sharp contrast with single-minded focus on trade negotiations, we hear little today about the U.S. and China cooperating on sanctions to determine North Korea's nuclear weapons program. The challenge of juggling multiple priorities at the same time is a test of leadership.

The current trajectory of U.S. economic statecraft is troubling. And it seems unlikely that the current administration will deviate from its aggressive unilateralism. Ultimately, economic leverage is a function of our leadership in the world, both economic and moral. The U.S. must protect its right to act alone, but you do so only when truly necessary. And with a full understanding of the consequences.

We've not yet reached a point of no return and no other nation is currently prepared to assume the mantle of U.S. global economic leadership. But if we continue down this path, I worry we will hasten the shift. To ensure the power of economic statecraft for years to come, we must use it judiciously. This requires an honest accounting of the limitations as well as the scope of American power. And the CNET's report today is an important contribution towards that goal. Thank you very much. And I look forward to your questions in the conversation with Peter.

(APPLAUSE)

HARRELL: Why don't you sit in the middle there.

Well, thank you very, very much, Secretary Lew, for those remarks. And thanks to all of you for coming out today. I'm Peter Harrell with the Center for New American Security. I have just a couple of questions, I was going to ask you to kick off discussion and then we'll take a couple of questions from the audience if that works for you.

LEW: Sure.

HARRELL: I know you covered many of the things I was hoping to ask you about in your remarks. And maybe I'll drill down a little bit more onto a couple of the topics you so thoughtfully raised. And the first one I want to ask you about are these nascent efforts we're seeing by foreign governments to try to you get themselves out from under U.S. coercive power, you mentioned the special purpose vehicle in--in Europe, I think we're also seeing steps the Chinese are taking to try to insulate themselves from U.S. coercive economic power.

And you and your remarks said this was sort of testing the waters by these--these other governments? Well, I think that if you look at these today--you know, what these governments are finding is the waters are pretty chilly. You know, we're not seeing, as you mentioned, in your remark--remarks, a lot of immediate uptake of the SPV. And I think that the governments that are working to set these up--you know, are finding some operational challenges, which makes sense, these are complicated things to set up.

If you're looking at the--the--the potential development of these kinds of systems over the next couple of years, however, what do you think are the--the signals the U.S. should be looking for that these are going to move beyond--you know, sort of pretty small scale things that don't really challenge U.S. coercive economic power, to something that actually we would need to take very, very seriously as a challenge to our ability to use sanctions and other tools to achieve our--our strategic hands and what sort of the tipping point you should be looking for?

LEW: Well, I don't think we should wait for a tipping point, I actually think that--the--the extraordinary advantage the United States gets from its unequal position economically in the world, is as important as our military power and--and--and diplomacy. It's--it's--it's part of a triad of--of sources of power.

So I guess I wouldn't wait for a tipping point. I think when your closest allies feel that they need to tell your adversary, Iran, that we're coming up with a structure where theoretically you can work around the United States, that's not a good sign. I didn't expect it to be highly effective. I mean, a European--you know, business that has enormous reliance on U.S. sales or financial relations that have to touch the U.S. is going to still be careful.

But if you start to build these pipelines, to special purpose, financial vehicles, companies that do business in one, but not all geographical areas, cut out kinds of businesses, you can start to build the capability where if provoked, the impact could be greater. Will it ever be at a point where it shuts the U.S. out? We're one of the two largest economies of the world, even if China continues to grow and will remain one of the two largest economies in the world. It is a rich market, that will be an attractive market. So I don't think it's an on-off switch.

Does it pose a threat to our ability to--to insist on our terms without any consent on the part of other countries? Yeah, I think over time, it does. If you look at the--the oil action--you know, if--if two months from now, there's evidence that--you know, not just China, but India, North Korea, Japan--you know, that all of the countries that are affected feel that it's in their interest to unite and say we're just not going along with this. Does the U.S. then shut down the global economy to make its point?

That's not that's--that--that's misgauging what I mean, it was not fun to run around the world for years negotiating 20 percent reductions in oil imports in those countries, or something approaching 20 percent reductions. But that was what put the pressure on Iran to come to the table and JCPOA away.

It may be that they'll all cooperate. But that's only going to be, as I said in my remarks if they have access to affordable and available alternate supplies. Now maybe we're negotiating that in channels that I don't see. Or maybe it will mean looking the other way on some of the cheating,

Our view was that you ought not to put in rules and only work if you tolerate cheating. It was better to have an express policy of what level of reduction was needed to put it on enough pressure for a country like Iran, to--to bend to your will. And--you know, the role of the United

States and driving a process, which is the role we've played for so many decades, has a lot to do with our moral leadership.

If we, if--if--if we ignore things like the increased trading of oil in RMB, and the creation of special purpose vehicles, I think we're missing the point. Because the point is, and are they today a threat to U.S. dominance? But do they reflect the rejection of the U.S. role in the world? And the need for our closest allies in Europe to say the U.S. broke the deal, Iran didn't, That's not a good thing.

HARRELL: Now, very, very good point. So one more question for you for me, and then we'll take just a couple of questions from the audience. You spoke during your remarks about the importance of embedding sanctions in a diplomatic strategy, and the importance of being able to use them as a negotiating tool in order to seek realistic change from a--from a target.

But there are obviously cases where change by the target may not be realistic. I mean, Russia, for example, I don't think is getting out of Crimea--you know, anytime and in my lifetime anyway. But I think we would all agree--you know, none the less might be important to send an important--you know, economic message, that they're going to be costs to taking that kind of action, even if there's not going to be a diplomatic resolution.

How do you think policymakers should be thinking about that? You know, hopefully, a small minority of cases where--you know, we are going to be using sanctions, even when we don't think there will be any realistic chance of a diplomatic resolution.

LEW: I might take a different view on whether or not the sanctions on Russia had an impact, I actually think that they were central to the ability to have a Minsk Accord, which ultimately, may still be the only way to have any kind of a diplomatic resolution of Russia's--you know, seizing so much of Ukraine's territory. While Crimea may not ever be returned, I think it's broadly seen that--you know, Russian occupation in eastern Ukraine is not as permanent.

And I think the sanctions are part of that and maintaining the credibility of the sanctions. And the cooperation of the Europeans has been critical. I think the administration taking actions that had a spillover effects that were damaging to European allies, you know, we cannot strengthen that effort, we were very careful to make sure that we wouldn't lose support from Europeans. And we wouldn't have to lessen pressure. Because one of the ways that sanctions work is you show willingness to do more if you need to, not kind of backing away, because you can't take the side effects.

You know, the--the--there are many times when sanctions are used more symbolically than they are to drive an outcome. You know, when there's human rights violation in a country where you're--you're freezing the assets of someone who is never going to set foot in the United States or may not have any assets in the United States, you're making a policy statement.

I have mixed feelings about that as the use of sanctions. On the one hand, there's a part of me that wants to do whatever I can to just lash out and say, "If you're a human rights abuser, we're going to label you appropriately and treat you appropriately." On the other hand, I've never been a big advocate of using sanctions for purely symbolic reasons, because you want their power to be at the maximum when they're driving a diplomatic process.

I think the actual consequence of that kind of a symbolic use is very different from using sanctions against an adversary with whom you do have economic impact, that's real. Where the possibility of affecting outcomes is real, and where your determination to drive forward until a change is made, actually can make a difference.

So I think threatening do things and not doing them is a bad thing. It doesn't strengthen you. There ought to be the perception, with a Russia, that if they do the wrong thing, there will be worse consequences, not lessening of consequences. And with Iran, I think the signal that we reached a nuclear agreement, and we backed away--you know, I am 100 percent, in agreement that the world should come together and put pressure on Iran to stop supporting terrorism. I don't think that the U.S. breaking the nuclear deal makes that more likely, I think it makes it less likely.

I think that you need for countries that are the subject of sanctions, to desperately want relief to know that they're going to get the relief and not to think of it as just something that's symbolic. So if sanctions are going to work, I think it will--it will be in cases like before the JCPOA where the world comes together, where it is increasingly clear that the future is going to get worse and worse. And the country says I'm going to change what I'm doing to get the relief that I need. Now, a lot of countries are willing to endure incredible amounts of pain and the worse and more maligned the government, the more likely they are to be willing to punish their own people. That's been true in North Korea. It's true in Syria. It's true in Iran. So it's a hard business, which is why I have misgivings about turning sanctions into things that are more symbolic than real.

HARRELL: Well, thank you very much. We have just a couple of minutes left before we're going to bring our panel up for Secretary Lew to just take two or three questions. Let me take two questions simultaneously. And then you can answer them both at once. We have a mic runner coming around.

Sam, why don't we come first up here and then we'll go to right here.

Please, identifiers.

QUESTION: Yeah. Thank you so much, Secretary Lew. I'm Jae Geun (SP) Kim, a reporter from Radio Free Asia. My question is about your experience dealing with North Korea. So how do you evaluate the effectiveness of our economic sanction as a tool to change the behavior? Well, North Korea government on the nuclear issue? And second question is a former Secretary of Treasury what would you advise on Trump administrations economic sanctions on North Korea?

HARRELL: Come to right here too.

QUESTION: Carolina Shimi (SP) from the EU delegation. Thank you for your speech there, where--was music to our ears.

(LAUGHTER)

But I want you to ask you something that you didn't refrain from as Obama administration, and which I think is one of your--your sort of sharpest tools, and which we believe is illegal. And that's the secondary sanctions. The EU is absolutely contrary to the secondary sanctions and because it affects our companies and our banks and our financial system, when the U.S. chooses to punish some somebody, and as we have seen, we cannot trust the American people to choose benevolent President and others--we cannot trust European populations to choose the right leaders either.

But the fact that he was and you were talking about trade, the fact that the U.S. is much less exposed to--the U.S. economy is much less open than the European economy is because you are less dependent. You have a bigger home market, you're less dependent on foreign trade. Could you comment on the secondary sanctions?

LEW: Sure. So starting with North Korea.

I think the--you know, the--the almost non-existent economic relationship between the U.S. and North Korea makes it very difficult for U.S. sanctions to directly put the kind of pressure on North Korea that would change their calculus. And the reality has always been that the principal economic relationship that mattered to North Korea was with China, which is why it a US-China issue as much as it is as a US-North Korea issue.

Here we were very attentive and put a lot of pressure on China to limit its economic dealings with North Korea. We work together at the UN to put a round of multilateral sanctions in place. China has a very strong view that sanctions should not be unilateral, they should be multilateral. And we consider it a real progress to get China to take a first step.

In the final months of our administration, when we saw very alarming signs that the North Korean nuclear program was progressing more quickly than had previously been understood. We even in our final months, heightened the pressure on--on China, and sent delegations that did put in place a round of tighter agreed upon mutual sanctions.

Now, if the change in North Korea's capabilities, late 2016, early 2017, or at least our understanding of North Korea's capabilities, change the situation. And I believe if our administration or any administration had been in place in 2017, you would have seen a continuation of the ratcheting up of pressure that was happening in the fourth quarter of 2016. I think the style of the ratcheting up in--you know, in 2017, under President Trump was something that nobody would have predicted because it's a style that has broken all molds in terms of how a president talks and acts.

Now, I would say that early on--you know, the kind of personal going and talking about the Rocket Man, and he struck me as being counterproductive. In an odd way, it got the whole world's attention and opened the door for US-China cooperation that I thought was constructive. So even though the tactic was one that I wasn't going to particularly embrace, it looked to me for a period of time, like there was an opening for the U.S. and China to deal with a common thread. And maybe because of the very odd behavior of the United States, it kind of shook things up a little bit.

Then you kind of went through this--you know, odd engagement between--you know, the United States and the DPRK. The DPRK came to my mind got out of that engagement--you know, its dream, recognition of its leader, on par with the President of the United States. Recognition of its country, amongst the company of nations of the world, as opposed to being this kind of outlier hostile state.

Nothing has come out of those talks of any great substance, except maybe the U.S. ratcheting down its strategic cooperation with our traditional allies in the region, which I worry about. And I now am in a place where I'm kind of back where I started, this is no way to engage in diplomacy. And I don't know how countries are supposed to figure what the real U.S. plan here is. So I don't have any particular specific advice, because this is not a--a--a mode of engagement that I would have either planned or predicted to be of great success.

Though, I do think the U.S. needs to concentrate on the U.S.-China relationship and use the U.S.-China relationship to demonstrate the ability to work together towards common objectives and controlling North Korea's access to nuclear weapons ought to be a common objective. It is not something where the U.S. and China should have cross purposes. And I have heard very little about conversations on that in recent months. So I guess my advice would be to focus on that, not just on--on--on with the month to month trade balances are.

On the question of secondary sanctions, I think the U.S. has a legal right to implement secondary sanctions. We have done it and I think we've done it with effect. My point is not whether or not it's legal. My point is whether or not it ought to be used lightly and whether or not it ought to be reserved for very extraordinary circumstances.

Even in a case where you use secondary sanctions, I think it makes a difference, if you're doing it in pursuit of--even in a case where the U.S. and Europe may disagree on the legitimacy of secondary sanctions, if we're working together to put pressure on Iran, there's going to be more of a willingness to allow those sanctions to be honored voluntarily. Then if it's in a case where we're at loggerheads of the purposes.

So even when you're using secondary sanctions, it doesn't take away the need for international cooperation. I think the reality is that with the centrality of U.S. financial markets and the U.S. dollar, it gives us extraordinary power that ought to be used with extraordinary care and discretion. So I don't think it's a question of legality.

Now, I will say this about the European financial institutions. You know, there was a moment when they wanted the world to believe that somehow the United States had kind of risen up out of nowhere to use this extraordinary power. It didn't come out of nowhere, it came out of repeated European Bank violations of either sanctions programs or tax laws, after warnings, after preliminary actions, it was not the first time that behavior was detected and responded to. And I don't think that it's right for European governments to give comfort to that kind of behavior by European banks. So I think there's a certain amount of responsibility that goes in both directions. The amount of settlements that came out, of course, was a bit eye-popping.

I understood that there were questions about what it meant to the viability of some very important financial institutions in domestic economies. But that was the end of the story, not the beginning of the story. And I think it goes back to why it's so important for the United States to have moral leadership. Your ability to bring other countries both at the leader level, the finance ministry, the Foreign Ministry level, in to go back into your own communities, and say, "You got to take this seriously. You got to do the right thing. You can't be--you know, cheating on--you know, selling things in countries that are off limits and selling things that are illegal, and setting up tax systems that are--you know, transparently fraudulent."

So that those are the facts on all the enforcement actions. And so I think it's unfair to accuse the United States of having to use secondary sanctions in anything approaching an arbitrary way then. I am very worried that it will become a tool that's used more lightly. And if you couldn't make the kinds of statements that I just made, I would have a problem.

HARRELL: Well, Secretary Lew, thank you so much. You've been very generous with your time and very thoughtful with your remarks. We appreciate it. If all of you would please stay seated. We're going to bring up our panel discussion right now. In the meantime, please, thank me--join me in thanking Secretary Lew.

(APPLAUSE)

ROSENBERG: Panel here, the folks who joined myself and Peter in preparing this--in this report, our project. Before I introduce you, and we jump right into conversation, I just want to say one or two things about the report itself. I won't summarize it for you, you may all read it if you like it, or just listen to our conversation today.

But by way of background, the project that led us to the preparation of the support and the conversation that we're having today, was born out of questions we had about some of the prospects for these critical economic tools Secretary Lew was discussing and that will speak about further in this panel. These questions are informed by experiences of this panel--people that--we come from different agencies of government--under and having served under different administrations. This group has helped us steward trade and investment policies, sanctions, cybersecurity policies, a range of different economic policies in this area.

And I think I'm safe in saying that we're all dedicated to the idea that the suite of tools of U.S. economic statecraft, particularly these coercive economic tools, should remain strong and readily available to help U.S. leaders sustainably manage competition and confrontation faced today and in the future.

So what is it that us policymakers should know? What should they do? How do we try and preserve these tools, as Secretary Lew was discussing, for the future? Briefly, in this report, we've done four things, four basic things. First, we framed the basis, we've called them Six Key Pillars of U.S. Economic Leverage. Indeed, the basis and the strength for the various tools that the United States uses in this domain. Number two, how different economic trends will influence the availability and the strength of these tools.

SINGH: Leverage, you can see this in relative growth rates, you can see it in the use of the dollar, you can see it in the strength of the dollar. Almost every shock since the crisis, whether it's our debt ceiling brinkmanship, or the European sovereign crises, or Brexit, or the confrontation with China, in each instance, the dollar is strengthened, capital has flown into the U.S.. Whereas in most other currencies, they weaken and capital has left.

If I look ahead, I see serious risks, as Secretary Lew does, for--for challenges to that privacy.

We have--if we think about what--what were the conditions that gave us primacy in the first place? Strong and independent institutions like the Fed, rule of law, checks and balances, an open system for trading and for the flow of people and capital. Trust that what's good for the US. What will perceive is what's good for the U.S. is good for the world. And a story that attracts ideas and talent.

The fact that we can even ask questions about whether those conditions will be in place in 10 years, that's a problem. Because the dollar system is just a--it's a network. Networks have tipping points. We can't predict with any accuracy, what those tipping points are in advance. But I feel as though we're moving in the wrong direction.

You can--you can--you can't see this in the data. The history of looking at networks and how they fail, whether it's biology or technology or finance, or a seventh-grade lunch table.

(LAUGHTER)

They--the network loses its value very slowly, and then very suddenly. So by the time we see it in the data, it's probably going to be too late.

ROSENBERG: Okay.

(LAUGHTER)

Now, let's talk about the politics. So David, let's move to you on that. So Daleep pointed out that the strength underlying the ability to use these measures has been increasing, notwithstanding where it's going. Hold on that for the moment. And it has become, as we've seen, a much more popular tool. Now, this has elicited a diplomatic backlash and a lot of anti--frustration, concerns, some antagonism from allies, as Miss Fachini (SP) pointed out in her question from the last session.

But to be perfectly blunt, does that matter for the United States? And isn't it possible that the United States can live in this scenario, live in this environment, and even thrive in it? Frankly, what's the check--

COHEN: --Right.--

ROSENBERG: --on this kind of aggressive activity?

COHEN: So first of all, thanks for including me in the--in the advisory panel on this report. I think the report is great. You all should read it, even though it's a little bit lengthy.

(LAUGHTER)

Yes, it is. It's actually chock full of really interesting things. So the answer, I think, is that it matters enormously. How we use our economic leverage, because I think the--the critical points to bear in mind, I think Secretary Lew made this point in his remarks, is that these tools that we have, whether it's sanctions or tariffs, or inbound investment restrictions, or what have you, exists as part of a broader suite of tools that the U.S. has to advance its foreign policy and national security interests.

And those tools work much better, whether its economic tools or other tools if we have others around the world who join us in what we're pursuing. And so in part, it's our moral authority. And in part, it is our persuasive power to use these tools and other tools to achieve ends that--that others around the world agree with us. And the--being able to use diplomacy, the moral persuasion of the United States is--is critical in the use of these tools, as well as--as other tools.

And to pick up on the seventh-grade lunch table analogy, which I think is important here. The I think the--the U.S. national security equivalent of the seventh-grade lunch table is the sit room where everybody gets together. And--and debates these--these issues of foreign policy and national security/ That's actually critical to ensure that as we use our tools of economic statecraft that it is embedded in broader considerations of what U.S. foreign policy is, what the ramifications will be around the world and how we--how we can bring others around the world along with us in what we're doing. And like a seventh-grade lunch table, there's--you know, there is the equivalent of food fights around this table, around the sit room table. But it produces policy that helps us use our tools in a more effective manner. And--and--you know, in large part that means understanding how the use of these tools affect our--our allies around the world.

ROSENBERG: Okay, I just want to push a little bit further on this point. I can't help it. So we can work carefully to bring allies along. But what if we just drag them? And think just take--we've had a bunch of conversation so far this morning about the Iran policy specifically. So there's an upcoming deadline in May, by which many importers of Iranian oil will have to cease purchasing that oil. How likely is it that they will unhappily be dragged along in compliance? Or that we could see in that scenario where others are kind of collective bargaining on their part or resistance? That seems to most people unlikely in the near future.

COHEN: So I would say, so two things, let me take care of the oil non-waiver issue second. I think, for our economic tools, generally, so not the really dramatic ones, like the oil sanctions, it is enormously important that we have others around the world amplifying what we're doing and not frustrating what we're doing at the--at the margins, it makes a huge difference whether you have other countries who are sending out the message to their domestic industry that these sanctions matter that they're legitimate, and they need to be complied with.

On the oil sanctions. I--I think the--the issue isn't, I think, so much the availability of alternate supply at the right price. I think the issue here is policy. Right? The issue is do these countries China, Japan, South Korea, Turkey, India, agree with the policy that the U.S. is pursuing? And if they don't, they will find ways to frustrate our effort to drive their imports to--to zero and Iranian exports to zero. Whether it is a facial challenge, what I sort of tournament is the what you're going to do about a big boy approach. Right? Which is to say to the US, "You know, we're going to continue to buy oil from Iran. We're going to use the Bank of China, for instance, as the vehicle through which we're going to make these payments. Are you really going to cut off the Bank of China--

ROSENBERG: --So we dare you to disrupt the entire global financial system?--

COHEN: Yeah. Right.

ROSENBERG: Right.

COHEN: And I think--so I don't know whether they--you know, as a collective matter, or, frankly--you know, China on its own, takes that sort of facial challenge to the US. I wouldn't put it out of--out of consideration, in part because of what we are asking China to do in--in other dimensions. And let me just finish this point and move on.

We are saying to China go to zero on your Iranian oil imports. We are also presumably saying to China, "Put pressure on North Korea as part of the maximum pressure strategy we have on North Korea." We're also saying to China, "Don't buy oil from Venezuela. Don't provide financial support to Venezuela," as part of our maximum pressure strategy on Venezuela. We're also saying to China, "You know, give us concessions on trade."

You know, trying to do all of this at once with China and with--you know, other countries around the world, as well, I think is a recipe for failure in the use of these tools.

ROSENBERG: Right, which is to say nothing about Five-G and Huawei, but--but now--

COHEN: --Yeah. Right, right. I should have kept on going. Right.--

ROSENBERG: --But now it's back on track.--

COHEN: Right.

ROSENBERG: Thank you, David. So, Gary, let's turn to you, I want to ask you some questions about FinTech developments. And in fairness to audiences of national security and foreign policy people, there's some learning in this community about whether FinTech is outside of the conventional financial system. Is it inside the financial system?

So we'll, in the course of your response to the question I'm about to ask you, maybe you can hit that point. So specifically, though, I want to ask you about AI and machine learning developments that can offer a way for the United States to use these various instruments to better identify and get after things like sanctions evasion or enforcement of trade controls. And in what way that could occur?

As well as the ways in which these various technologic FinTech developments or developments as with regard to FinTech may enable violators or evaders to get even better at the job they're trying to do to duck these measures.

SHIFFMAN: Great. Thanks for that--that massive question.

(LAUGHTER)

ROSENBERG: Sorry. Just keep it brief. Yeah.

SHIFFMAN: Minute? You want that in about a minute.

ROSENBERG: Yeah. That's great, thanks. Yeah.

SHIFFMAN: Okay. And--you know, I've really loved being a part of this project. Thank you for the invitation to be a part of this team. It's been great. And--and I think my thinking has evolved along the way. I do want to say that I do feel tricked. Liz told me that everybody would be wearing blue socks today on the stage. And--you know, and I believed that.

(LAUGHTER)

So just to--you know, to quote the--the current, very popular philosopher, Cersei Lannister,

(LAUGHTER)

"Power is power." And--and I think we have the United States has power in the world because--because we have the largest economy in the world, because the U.S. dollar is the safest currency in the world. And that's where we derive our power, and I don't think we should lose sight of that. So things that we do, I think--I think diplomacy and military power are, along with the financial power are important, as the Secretary said, but really, this positive, or maybe the most important of those is, is our economic power. It's the dollar, it's the size of our market, it's our investment dollars. It's the supply chain. And that's really the source of U.S. power in the world today.

And I think one of the things that--that we concluded in the report is that--that we don't see a change to that in the very short term. So then the question is, well how does this FinTech thing maybe change those dynamics and some orthogonal way in which we're not traditionally thinking about it?

And yeah, so my--my conclusion, in that sense, is also that I don't--I don't see any sort of cliff in front of us in which FinTech is going to change the source of economic power. And we started this--this investigation, we started this report. We--we didn't--that wasn't a foregone conclusion at the start. And I think that's a very interesting aspect of this report, is that we don't see FinTech we don't see cryptocurrency we don't see machine learning as fundamentally changing U.S. power in the world, in the--in the short term.

So here's the way I--I would suggest thinking about FinTech to get more specifically to your question, Liz.

So technology is changing every aspect of our lives. We're walking around with these smartphones that are machine learning and artificial intelligence-enabled. It changes the way we shop, it changes the way we do almost everything. And I think it'd be crazy to think it's not going to change the ways in which we interact with our banks. If--you'd be crazy to think it's not going to change the way we interact with money.

But, this is moving more slowly than other aspect of our lives because it’s highly regulated; because banks don’t know how to deal with fintech. Their regulators don’t know how to deal with fintech, so we’re seeing rapid advancements in the commercial sector--in Amazon and Google and Facebook--and all of that is radically transformed in ways we didn’t predict. And banking is not there yet because it’s so highly regulated.

So, look to other aspects of our lives and the economy that have changed and that’s what’s going to happen in the banking world, right? Don’t put your head in the sand, realize that machine learning, artificial intelligence will change the nature of your relationship with money, your relationship with your bank, your relationship with your credit card. All of that is going to change in ways that we don’t totally understand right now.

It’s--that’s not necessarily dispositive of a change in the U.S. power in the world, but if the U.S. dollar is no longer important in a--in a world in which all of our--our financial transactions are electronic, maybe it does. Maybe it does start to erode U.S. power. If the pillars that we identified in the report are U.S. power--are the size of our economy and the strength of the U.S. dollar, and if people don't need the U.S. dollar, well, that absolutely erodes.

So back to this idea of power as far as--we have to have something that the world wants in order to deny that, right? A sanction is saying you're not going to have access to something you want, right? If they--if the world doesn't want the U.S. dollar, we can't deny them access to the U.S. dollar and expect a change of behavior, right?

So, I'll pause there, but that's kind of the framing I would suggest.

ROSENBERG: No, that's--that's the perfect set up for another question I want to ask to you and to Adam, to you both.

So, in our--I see you. There's a couple of people here who have joined us here today who are crypto and block chain experts. Thank you. So, this is where I want to go in the next question.

And so, thinking about imagine a scenario--this is a bit of a theoretical question, thought experiment, so join me on this. Looking forward to say a couple of decades in the future, some people theorize that it will be possible to--using block chain--transfer value in ways that completely exist outside of the dollar, outside of the--outside of U.S. jurisdiction. This is a theory.

That makes a lot of assumptions about, frankly, what happens in the United States with the development of these technologies and the extent to which they are necessarily nodes and that network are necessarily tied to an actual bank, a U.S. bank in particular. I want to ask you to comment about that scenario. Does that seem realistic?

So, both--two things, hold on. Give me one second, Adam, because there's a piece--there's a specific piece for you.

So, the first one, Gary, can you comment--

SHIFFMAN: --Yes--

ROSENBERG: --About that scenario? Does that seem realistic, that bitcoin, its successor, and block chain networks that exist outside U.S. jurisdiction can succeed as a way for people who want to get out of the U.S. system and evade our various controls that we've been talking about to be successful?

And, Adam, what I hoped that you might comment on is can you see a world of that, that really does manage to get away from U.S. jurisdiction?

Okay, go ahead. Thank you.

SHIFFMAN: Really interesting and important question. So, crypto currency currently is an alternative to the U.S. dollar and it's really not getting widespread adoption, and there's a reason for that and it's not because we've made great speeches about anything. It's because it's not as convenient. It's not as easy, it's not as valuable. There's more friction, right?

So--so what's gonna change that? I--I believe that current Know Your Customer anti-money-laundering regulations and enforcement of KYC and AML in U.S. banks is not that good. And because it's not that good, if you're a criminal of any certain level of sophistication, you're just going to go ahead and keep using the bank because it easier than using crypto currency.

When we raise the bar, when we get really good at KYC and AML in a sophisticated way and we can address sophisticated criminal networks and terrorist networks and sanctions evaders, then we're going to open up the opportunity for them to look for an alternative means, in which case crypto currencies might become more appealing. But my assessment right now is there's just not enough need for them to run away from the regulated banks because we're not that good at identifying it in the first place and they can get away with it, because they've been getting away with it, right?

I think machine learning, artificial intelligence will improve our enforcement in banking. I think FinCEN, I think OCC, I think the U.S. government is going to get much, much better at identifying money laundering and drug trafficking and human trafficking and terror financing because of machine learning, because of artificial intelligence. When we do that, now we're going to change the dynamics, I think. And then, if you were running an illicit market, now you have to think about I have to get out of the regulated banking world and I have to look for something synonymous such as a crypto or a block chain solution.

SZUBIN: Thank you very much for having me here and for allowing me to take part in the panel, the report. One of the things that I've most enjoyed about it is you and Peter asking tough, incisive questions and not being willing to allow, you know, normal boilerplate DC talk to suffice. Which is great, until you're on a panel with Liz asking the questions.

I'm--I'm not a futurist so I'm not especially good at predicting where this is going, but when you're saying decades, I do find it hard to imagine that things look like they do now, especially with respect to something like foreign exchange. The world of foreign exchange, where if somebody wants to send a transaction from India to Brazil, it has to go through a U.S. bank and the U.S. dollar because that's how those two currencies speak to each other is highly antiquated. It--it's difficult for me to imagine that in decades it will still look like it does now with a hub-and-spoke system that feels pretty 19th century.

So, I think it is worth disaggregating the question and there's fintech for addressing fiat currencies and government control over the value of currencies. Then there's fintech solutions for currency-to-currency value transfer, there's cross-border transfers, there's domestic transfer aspects. And so, I could imagine fintech making real inroads in some spaces and not in others.

Your question to me: Does that pose a threat to U.S. leverage? I come back to something that both Daleep and Gary spoke to, which is our leverage here is just that people want to trade with us. They want to invest here, they want to do business with Americans, they want to purchase things from Americans, the supply chain. They want to sell things to Americans. If we're still the biggest or the second-biggest economy in the world in several decades, then we still have that leverage. It might not be financial sanctions anymore. It might be a variant of trade sanctions or it might be a variant of cyber sanctions, where you're denying people access to the strength and power of the U.S. economy or the U.S. as an investment destination or a consumption power.

And we'll be able to trade on that for as long as that exists, except that one, of course, affects the other. And that's, as Secretary Lew was discussing, the more you stress that system, the more you try to weaponize those strengths, the more you're encouraging people to look for alternatives.

I think that it's not that difficult to imagine an ugly scenario where things go back in time about two centuries and you have these networks of more local power, where there's U.S. partners trading with the U.S. in our currency or in our sanctioned methods. Sorry, sanctioned here I mean allowed methods. That's a really problematic thing that somebody ought to clear up.

(LAUGHTER)

ROSENBERG: Not in this crowd.

(LAUGHTER)

Don't do that.

SZUBIN: And China has its Belt and Road partners and allies, and then you have a network of pirate traders who are able to money, value, and goods across the networks. I really hope that's not the direction things are going, but the more we tax these advantages and the more we demonstrate to other countries how to be unilateralist and be successful at it, the more we're encouraging that trend.

ROSENBERG: Daleep, I wanted to give you the chance to speak to this question, too.

SINGH: Sure. I mean, I'm not a futurist either, but since I'm in the trenches of financial markets, I kind of have to think about how currency trading might change and I can guess at the sequence.

I think the first movers away from the dollar, if they move, it will be in the payment sphere, because, to my mind, that's the least risky commitment. I receive cash in exchange for a good or service and then I might be out of your life.

But when it comes to the use of a currency to borrow money or to store your wealth, that's a longer commitment. That involves a series of cash flows. I would want to know how are you going to manage your economic policies to keep the value stable? Can I access that currency when I need it? Am I going to distort the value of the currency based on political considerations?

So, I think those will likely be lagging indicators and I think the payments area is where we'll see the first movement.

ROSENBERG: Thank you. I have a question I want to ask to all of you for crisp answers and then I'm going to take some questions from the audience.

And that question is--and, Peter, I'm going to pull you into this one, too--of the alternatives that are arising to the dollar and whatever fashion that may look like over time, right, and to the U.S. financial system, as well as to trade with the United States. So, what I have heard, for example, David Lipton of the IMF, called the formation of clubs of trade or alternative supply chains. This is the fragmentation that many people are watching and, in this case, in the trading sphere.

Of these various alternatives or nascent experiments that are in process right now or that we might anticipate, which are the--what's the one that concerns you the most and briefly just why that is the case?

So, Daleep, I'm going to start with you.

SINGH: Oh, I'm sorry. I'm sorry--

(LAUGHTER)

ROSENBERG: --I volunteer you, go ahead. Yes.

SINGH: No, I think clubs of trade surrounding China and a state-run economic model worry me the most. I'll stop there so others can speak.

ROSENBERG: Okay, what a teaser. Go ahead. So, David, up to you.

COHEN: I'm going to be contrarian and say none of it bothers me, because I--because I think it's fanciful to think that the world today can return to what Adam was describing of the world several centuries ago. I think there's too much interrelatedness, too much interconnectedness, too much interdependency in the world for any set of countries to retreat and think that they can sort of hermetically seal themselves off from the rest of the world.

So, I think that's not a--I mean I think, you know, there's--that--some of that will happen, some of that is obviously happening already. But as a--but as a sort of broad trend that then leaves the United States and a couple of our trading allies on an island separate from China and its allies or India and its allies, I just I don't see it happening.

ROSENBERG: Goods. Okay. So, Gary.

SHIFFMAN: So, what--what concerns me--I'm going to answer that orthogonally. What concerns me is the question of identity, right?

So, in a dollar-denominated economy, if I walk in and hand you a dollar, you know you got your dollar, right? In a fintech world, I don't know who you are and I don't know the value of what you gave me.

And the--and the one, I think, take away that I would--I would want to leave with everybody is look at the evolution of this question of identity over the next 12 months as it relates to what we're talking about, because that's the key to any progress or any big vulnerabilities. The--when you look at the newspaper this falls under the title of cyber security, right? It's really all about identity. It's all about, you know, are you who you say you are?

ROSENBERG: Can we say identity anonymity? Identity anonymity--right--

SHIFFMAN: Yeah, it's--yeah, it's related, right--

ROSENBERG: --Right--

SHIFFMAN: --Or stealing identities--

ROSENBERG: --Right--

SHIFFMAN: --You know, data theft. The idea that your biographic information--your name your date of birth, your social security number, your last five addresses--is all for sale right now online, so there is no biographic security to your identity. So, if you're not actually transacting in front of me face-to-face and giving me a U.S. dollar, how do I know it's you? And I think that's the biggest threat and challenge that we need to think about that's going to enable the current--the--the--continue the evolution of what we're seeing today.

ROSENBERG: Thank you. Adam and then Peter.

SZUBIN: I'll answer a little orthogonally also, although I'll confess that I don't know what orthogonally means.

(LAUGHTER)

But I'm using it.

COHEN: Future-y.

(LAUGHTER)

SZUBIN: The use of the tool itself concerns me. So, you're talking about how could the weaponization of our financial system encourage responses and which of those responses concerns me the most.

I don't have much to add to what was said, but I think it bears noting that there isn't only a pragmatist view of this. There's also the view of is it right, is it moral for the U.S. to use the leverage that we've obtained through being a rule-of-law country, a country of openness to trade, to flows of people? Is it wrong to weaponize that in the first place?

And it's worth keeping in mind, the U.S. didn't invent secondary sanctions over Iran. The Arab League had used secondary sanctions against Israel decades earlier, it's just that we all thought it was a very ugly thing. And it wasn't secondary sanctions then. It was called an Israel boycott. And if you were a soft drink company and you sold to Israel, you couldn't sell to any of the Arab League countries.

It wasn't terribly effective, but what it was doing from a messaging standpoint was this country, Israel in that case, was--is noxious to us and you pick, it's either us or them. That us-or-them statement, there’s something that I think troubles me about it in all but the most extreme cases where you have a country that poses a true international threat to the world order. And that gets back to what Secretary Lew was talking about--what’s the threshold for using this tool? Is it just will it work? Because it’ll work in every situation. It’ll work in Venezuela right now. It’ll work in Russia right now, if we choose to use it aggressively. But that can’t be our only test.

ROSENBERG: Okay. Hold, please. Peter, to you.

Well, I--I--no--

SZUBIN: --Go ahead.

ROSENBERG: We’ll catch you on the next round.

HARRELL: Let me just make a brief remark. Actually, picking up, David, where you were--

ROSENBERG: --Can you all hear?

HARRELL: I--is this mic on--

ROSENBERG: --Yeah, yeah.

HARRELL: Okay. I agree with you, David, that I don’t think we are actually going to see a world of sort of broad bifurcation trading systems--

ROSENBERG: --Turn it off.

HARRELL: --Turn it off?

I don’t think we’re going to see a world of broad bifurcation in trading systems. We will see it in select areas: you know, telecommunications technology; 5G, probably. But, you know, broadly if you look at the trading--broadly if you look at the trading trends, you know it just seems implausible to me that the world where Apple sells more iPhones in China than the U.S. and where the second- or third-most downloaded app so far this year, TikTok, in the United States is Chinese made, we’re just not going to see some broad bifurcation.

Which brings me to sort of, Adam, your point, so there’s gonna be continued leverage. It might not be dollar leverage. It might be trade leverage or technology leverage or what have you, but we’re going to have the continued leverage. The question in my mind from a financial--from a sanction’s perspective is kind of do we understand how to use that leverage effectively. Ideally, with allies and partners.

I mean Gary, you said you don't think banks know who their customers are. I assure you technology companies don't know who their customers are. They do no due diligence at all kind of across-the-board. So, if we're going to rely more on other kinds of leverage as Americans a decade from now than on the sort of banking and dollar system, we're going to have to radically rethink the kind of due diligence information gathering that those companies engage in if we want there to be effectiveness from use of those tools with those kinds of sectors.

ROSENBERG: Which comes to Gary's point about identity.

So, now we'll have the chance for a couple of questions. We are running short on time so what I'm going to do is take several at once and then give our panel the option to respond. So, we have--the option, right. Yeah.

(LAUGHTER)

So, we'll have Ian in the back, then we'll come to John. I thought I saw another hand over here. We'll do these--these three here. Go ahead, thank you.

QUESTION: I'm just trying to sort out--

ROSENBERG: --And do tell us who you are--

QUESTION: --Which of the 30--

ROSENBERG: --Ian, tell us who you are--

QUESTION: --Questions I want to say. Sorry, Ian Talley, Wall Street Journal--.

ROSENBERG: --Thank you, thank you.

QUESTION: Perhaps I'll just choose this one. First of all, I would challenge the concept that there has been a increased pressure to diverse away from--diversify away from the dollar. The SDRM concept has been around for a long time and the G20 was pushing for sort of a non-dollar during the Obama administration. And only like, what, 1 percent of Reserve's currencies are in oil--I'm sorry, RMB. The trade in oils (INAUDIBLE).

So, push back against that concept, based on the fact that something that you all said is what is the preservation of value in the US? What keeps the value here? And I would say, as Daleep said, it is institutional, right? That is the strong institutions, the rule of law, property rights protected because people feel safe about keeping their assets and using their assets, right?

And so then cyber security--or, sorry, the development of crypto currency and the dollarization of that or moved--it's all about regulation of that cross-border value transaction, right? I wonder if--and--if the key here is determining that regulation, right, and data transparency--cross-border data transferring, personal data transparency--and then premiumizing, if I will, that transparency or lack thereof as a risk.

ROSENBERG: Thanks. Okay, to John. One moment. Yeah.

QUESTION: I couldn't help--after seeing the panel and the gurus of the Russia sanctions policy against Ukraine and the Obama administration, I couldn't help asking the question about the recommendations for today on election interference.

The world has changed. The Obama administration imposed some relatively light sanctions on election interference in the waning weeks of the administration, but the EU member state governments have changed as well, so the good old days of cooperation on getting additional sanctions may be gone. So, what's the--what's the solution, especially if it is working so closely with allies to change behavior, but you actually do want to change behavior on election interference?

ROSENBERG: Thank you. Let's have responses from you all. We're going to start with David. And then to end the--to end the--to end this panel I'm going to ask one final question for your final word after you respond to these questions.

COHEN: So, I'm going to pick up a little bit on Adam's point about the moral dimension of sanctions, because I think it's right for secondary sections, I think it's right for primary sanctions, I think it's right for sanctions as a general matter. And I think there is a--I have not fully thought through this, but I've toyed with it. There is a just war theory of sanctions that I think brings in the concept of proportionality and it is, I think, appropriate to use sanctions, primary sanctions, secondary sanctions, that have--that necessarily have collateral impacts on populations, on others, and even on, obviously, on U.S. businesses as well, if you are pursuing a sufficiently important goal.

So, to get to your question about election interference, I think the answer to what is an ongoing Russian interference effort and, undoubtedly, efforts by others in the upcoming election because the playbook is now out there, the effectiveness is clear. The administration is not doing nearly enough to deal with it.

The answer is, I think, in part this is so fundamental to American democracy that a proportionate response is a very significant sanctions response. But not only a sanctions response. I think we need to also think about other ways in which to impose costs and to now--I would urge every candidate running for president right now to be very clear as to deter election interference about what will become of a country that interferes or attempts to interfere in our election.

To hell with the Europeans, if they're not with us. This is something that is deeply essential to this country and in this just-war theory, we should feel free to layer on primary and secondary sanctions on whoever screws with us. So, anyway.

ROSENBERG: So, on the--thank you. So, on the question of cross-border--regulation of cross-border value and creating a premium on transparency, what I might add to that, if you don't mind, Ian, on rule of law or following rules as they are defined.

We'll just--

SHIFFMAN: An anecdote: I was at a fintech conference last month in San Francisco. The CEO of TD Bank--and this was on the record--CEO of TD Bank has a daughter going to school in the United States. He says the easiest way for him to get money to his daughter is to put it in a suitcase, get on an airplane, and bring it to her in the United States, right.

So, to Adam's point, to think the system is going to stay the way it is ridiculous. He's the president of a bank and he's bringing cash in for his daughter. Yeah.

So, I think--I think that on this idea--I want to just go back to this question of identity. This whole system breaks down in the absence of identity and election meddling is facilitated by the absence of identity, right. So, it's really so fundamental that we have--we have identity and audit of people's behaviors and activities, and in the absence of that, you're going to have fraud, corruption, and election meddling.

ROSENBERG: My last question that I want to ask to all of you, and to you, too, Peter--and actually it's a question for all of you, people who think about these issues and who think about them so much that they bothered to come and join us here today for this conversation. And that is in this whole landscape of challenges that we have now elaborately discussed or admired over the last hour and half and yet the need for these instruments of U.S. power to be strong in order to help address myriad challenges, now and in the future.

Small, incremental policy adaptations and changes are good and they are insufficient. So, please offer a big idea for something that would truly help to ensure the sustainability and availability of these instruments in this dynamic world we've just been discussing.

Can I start with you, Peter?

HARRELL: Sure, go ahead and put me on the spot. I mean, you know, I take David's point. I agree with David, we should always reserve the right to act unilaterally if the Russians come at us, and that's absolutely critical.

That said, I mean an idea I have thought about to sort of improve our allied coordination would be to actually set up an allied mechanism where there'd be sort of an automatic reciprocity on both certain sanctions and licensing issues. You know, if we have a listing, the Europeans are automatically added. Conversely, would flow through to the U.S. If we're offering a license to the U.S., it would flow through to the European Union. You have to come up with some parameters to make sure that works and to reserve our right independently, but I think we need to be thinking more about formal structures and not just kind of endless ad hoc talking groups.

ROSENBERG: Thank you. Should we go in this reverse order?

SZUBIN: Definitely.

You know, I think there's a reckoning coming. China's line for years now has been, we don't accept the legitimacy of unilateral sanctions. Sanctions are only legitimate if they're done under the umbrella of a UN Security Council where, helpfully, China has veto power. So, if the U.S. is going it alone or going it with a coalition of the willing, that's not legitimate. Now, they may see to it in practice, but they don't recognize the legitimacy of it.

I think, with China's growing economic might, they're going to come to use and like these authorities very much. They've already used them on the trade side in very unilateral ways, but they're going to increasingly have financial and technological leverage as well.

And it's very hard to see any way of reversing that absent sort of that moment that creates the WTO, where you have countries dumping at one another and then there's a recognition that this is actually not in our own interest anymore. There's so much arms spread around the world that we ourselves are paying for that we do better if we agree to a rules of the road, which gets to Peter's point about what would a rules of the road international agreement look like. What would we, as the United States, be willing to sign up for? Could it have a national security carve out, which the WTO has, and still mean anything from a financial sanction's standpoint?

SHIFFMAN: The richest companies in the world right now were not the companies we all thought of 10 years ago and they made their money off of data. It's all about data. Amazon is worth a trillion dollars, not because they deliver books overnight, but because they know the shopping pattern of every person in this room. It's all about the data.

We need to embrace this. We need to think about opportunity missed and lost right now with, say, a FinCEN. Like, what can we be doing to understand patterns of behavior better for OFAC, for sanctions, for anti-money laundering? We need to not be afraid of it, embrace it the way rest of the world is.

And related to that is thinking about--thinking about how the commanding heights of the economy have changed because of data. The second thing that is worth thinking about today that I don't know what's going to play out is in terms of the hardware. So, 5G and devices, mobile devices and how that is all outside the United States and not inside the United States, and does that further complicate the commanding heights which are so important to our conversations today.

ROSENBERG: So, Gary is building a new arsenal of coercive tools around data? Got it. David.

COHEN: So, I'm going to agree entirely--actually I agree entirely with everybody, but just want to build off of Gary's point. I do think that the--the future of coercive tools is dependent on understanding how the future of economic activity is going to occur and modifying our regulatory structure to deal with it.

We are today--Gary sort of made this point--trying to import a regulatory structure in the anti-money-laundering sanctions regime that was built for a world in which the money moved by SWIFT, and we had lots of brick-and-mortar institutions and they knew their customers and you could do that. That's not--I don't know if it's two years, five years, 15 years, that's not going to be the world we're in. And our regulatory structure today just needs to be rejiggered--not just at the margins, but fundamentally redone--to address how value is going to move in the future. Value being both money, data, information.

ROSENBERG: Tokenized assets around all of that.

COHEN: Yeah.

ROSENBERG: Yeah. Go ahead.

SINGH: I think if we lose our primacy it's not going to be for lack of tools, it'll be a failure from within. Global markets are begging us to borrow for free for over 10 years, let's use it to create a sovereign wealth fund. Let's use that fund to address our key economic and our key political vulnerability on economics. Let’s have a national innovation strategy on politics. Let’s deal with wealth and income inequality.

ROSENBERG: Thank you. And I hope you will all share your big ideas with us. Let’s put them out there into the public discussion.

Thank you very much for coming. Please help me in thanking our panel with a round of applause.

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