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Chinese Strategic Intentions: A Deep Dive into China's Worldwide Activities

A Strategic Multilayer Assessment (SMA) White Paper

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Chapter 23. First Principles of Great Power Competition

Avoid Allowing Opponents to "Beat America at its Own Game": Ensuring US Financial and Currency Power

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Introduction

Like war, the practice of great power competition reveals information that surprises rival states, upends prevailing strategies, and necessitates course corrections to avoid major setbacks or even defeat. Private information limits the ability of competitors and potential combatants to rationally evaluate their respective strengths and address deficiencies or potentially strike bargains that reflect a more accurate distribution of power and thereby avoid war (Fearon, 1995). Already some central US strategic assumptions about the capabilities, ambitions, and partnerships of America's leading opponents, China and Russia, have been proven wrong. So far, these miscalculations and attempted policy changes have been in the political, economic, and military domains.

- First, when the Cold War ended and the Soviet Union collapsed, the United States expected no peer competitors to rise and persistently discounted the scale, speed, and fungibility of China's spectacular economic growth.
- Second, the United States underestimated the resurgence of Russian military power and Moscow's will to restore great power status and influence while demonstrating it could manage macroeconomic policy through major shocks, including sanctions.
- Third, Washington ignored the incentives for Sino-Russian collaboration and the ease with which China and Russia could develop a deepening partnership based on a strong common aversion to American hegemony.
- Fourth, in contrast to the Cold War when the US gained an advantage through cost-imposing offset strategies against the Soviet Union, China has proved to be a more formidable competitor and, more so than Russia, is developing asymmetrical capabilities and concepts that US strategists fear are "beating the Americans at their own game" (Work & Grant, 2019). Barriers and offsets can work against an economically inferior adversary like the Soviet Union, but are significantly more challenging against an opponent whose economic output is on the path to displacing the US as the world's top economy [1] and is speeding toward technological leadership in key dual-use sectors, such as artificial intelligence (AI) and robotics.

US Financial Supremacy and Dollar Dominance

Perhaps the only material domain where the United States still reigns indisputably supreme is in financial power, which rests on the dominance of the US dollar and the centrality of the American economic and financial system to international commerce. Of particular significance to major power

[1] China surpassed the US in 2014 measured in purchasing power parity (PPP).

competition is that the relative capability advantages of the United States are greater financially than economically, which means that assessments of global economic power shifts tend to underestimate the structural and network effects of US primacy (Roberts, Armijo, & Katada, 2018). Most international trade is settled in US dollars, the United States has the largest financial markets and clearinghouse banks, and, of course, the US dollar is the dominant global reserve currency. The US dollar accounts for more than 60% of total global sovereign reserves, while the next highest, the euro, has slipped from 27 to 20%. Further, half of the total global debt is issued in US dollars because dollar-denominated debt markets are deep, liquid, and rule-governed. Although Chinese banks hold the top four slots in the ranks of the world's largest banks by assets (while only two in the top 10 are American banks), and China's combined government and corporate bond market more than doubled in size to become the world's third largest after the US and Japan, international investors hold less than 2% of the $13 trillion in bonds outstanding.

The US dollar is the preferred currency for payments in approximately 40% of cross-border financial transactions. Most trade in international commodities, such as oil, is also typically priced in US dollars. Of the 70 major raw material price series tracked by the International Monetary Fund (IMF), only five are not denominated in US dollars. Some 53% of international bank borrowing is financed in US dollars (Roberts et al., 2018, pp. 60-61). In short, multinational companies and foreign central and commercial banks need access to the US dollar, US or offshore dollar-clearing centers, US banks, and US regulatory and judicial systems to reliably manage their transactions and operate their businesses. Thus, the centrality of the US financial system is amplified by network effects in the world of international business.

The United States has successfully leveraged its structural and network financial power so as to assert its dominance in new disruptive ways, despite its declining share of the world economy (Roberts et al., 2018, pp. 1-64). International banks cannot presently survive if they are unable to operate in US dollars in the global financial system. Most importantly, Washington treats access to the American financial system through the global banking system as a set of proprietary nodes, leaving other countries potentially vulnerable to interruption of such access (Zarate, 2013). With such clever retooling, the United States has successfully weaponized its unique economic and financial capabilities and is able to impose punishing sanctions that disrupt access of opponents and their supporters through America's proprietary nodes to the global banking system. Moreover, through the far-reaching system of "secondary sanctions," the US can cut off the access of foreign financial institutions or individuals to the dollar clearing system if they engage in proscribed conduct with a sanctioned entity, even if none of that activity touches the United States directly (Zarate, 2013). The number of people, firms, and other targets sanctioned has been on an annual upward trend since 2001, and in 2018 alone, nearly 1,200 individuals and entities were added to US sanctions lists (Gibson Dunn, 2018; Harrell & Rosenberg, 2019).

This paper identifies two concerns regarding the extension of great power competition to America's currently unrivalled dominance in financial power. First, aggressive overuse of financial instruments as extra-territorial instruments of coercion and punishment is incentivizing opponents, and even US allies, to find workarounds and defenses to limit their vulnerabilities and increase their autonomy for independent foreign policy. Although these initiatives still fall short as a genuine alternative to the US dollar, let alone the seed of structural power, the United States should not be complacent or assume that inertia and incumbency will keep the dollar as king forever. A second concern is that the weaponization of finance creates not only negative blowback effects that may impose greater future costs on senders (Drezner, 2015) but also the risk of a security dilemma spiral and inadvertent escalation.

Increases in US Coercive Financial Leverage Incentivize Other Powers to Find Escapes and Alternative Institutions

Aggressive overuse of financial instruments as extra-territorial instruments of coercion and punishment is incentivizing China, Russia, and even US allies to find workarounds and defenses to limit their vulnerability to American coercion. The financial domain is becoming contested as potential alternatives to the US dollar and financial system start to proliferate. These include expanding the international roles of the Chinese currency; constructing alternatives to existing international payments systems and the main global financial messaging system, the Society for Worldwide Interbank Financial Telecommunication (SWIFT); and the development of next generation digital currencies and payments systems that potentially could operate beyond the reach of the US government. Former Treasury Secretary Jacob Lew warned that "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 alone… there will increasingly be alternatives that will chip away at the centrality of the United States" (Lew, 2019).

In great power competition, China does not need to equal the United States in every domain to be able to achieve many of its goals, increase its influence, and deny certain outcomes preferred by the United States and its allies. In the financial domain, just as in the realm of military technologies (Work & Grant, 2019), Beijing can create offsets to erode American advantages and also develop "financial coalitions of the willing," including not only Russia, but also the European Union (EU), to experiment with alternative payment institutions that bypass the US (Setser, 2016; Roberts et al., 2018). For example, China works with the EU and Russia to buffer Iran from US sanctions if it remains in the 2015 nuclear deal and with other BRICS countries to create parallel financial institutions, such as new multilateral development banks and a contingent reserve arrangement (Roberts et al., 2018). These offsets could eventually erode America's singular instrument of national power as well as the important role the United States plays in assuring the collective goods of international financial stability and economic growth.

The dilemma of many countries, not just authoritarian competitors, is that they would like to have alternatives to the US dollar, but they do not want the value of their dollar holdings to fall, for that would reduce the value of their own dollar-denominated assets. This predicament explains why China cannot simply threaten to dump US dollars or abruptly unload its US agency assets to coerce the United States. In addition, as the quantitative easing by the Federal Reserve Bank during the financial crisis showed, the US can buy as much of its own debt as needed. In 2012, in accordance with that year's National Defense Authorization Act, the U.S. Department of Defense issued a report with essentially the same findings, noting that "attempting to use U.S. Treasury securities as a coercive tool would have limited effect and likely would do more harm to China than to the United States. As the threat is not credible… it does not offer China deterrence options, whether in the diplomatic, military, or economic realms, and this would remain true both in peacetime and in scenarios of crisis or war" (Morrison & Labonte, 2013, p. 15).

China, which had accumulated massive foreign exchange reserves and dollar-denominated assets in the past, faced the "dollar trap" and uncertainty about US monetary policy. According to the U.S. Treasury monthly report on "Major Foreign Holders of Treasury Securities," China slightly edged out Japan as the largest holder of $1,110.2 billion in May 2019. According to the State Administration of Foreign Exchange (SAFE), US dollar assets accounted for 58% of China's total reserves at the end of 2014—down from 79% in 2005—as China increasing diversified, even more so than the international average of 65% share of assets in US currency. China's holdings of U.S. Treasuries fell to a 15-month low in September 2018 as the country intervened to support the yuan, which had been depreciating against the US dollar amid the ongoing trade war. Then, in August 2019, China allowed market forces to marginally depreciate the yuan past the symbolic renminbi (RMB) 7 per dollar mark, partly as a signal to the Trump administration, which announced 10% tariffs on the final $300 billion of imports from China. Although the US Treasury promptly labeled China a "currency manipulator" and referred the case to the IMF, it is widely recognized that China had been intervening to prevent a more significant downward correction until the escalation in the trade war. Beijing faces competing demands, namely to protect its economy during the trade war, but also to maintain a strong currency to cover outstanding US dollar debts of many firms, to continue the transition to a consumption economy, and to keep capital outflows in check. People's Bank of China (PBOC) governor Yi Gang insisted that China "has the experience, confidence and capacity to keep the renminbi exchange rate fundamentally stable at a reasonable and balanced level" and will "not engage in competitive devaluation" ("China will not use yuan", 2019).

Likewise, Russia increased its holdings of US debt by more than 1600% between 2006 and 2011, with a peak in 2010 of $176 billion, thanks to surging commodity prices for its oil and gas. After S&P Global's AAA rating downgrade to AA+ sparked a global selloff in August 2011, then–Prime Minister Putin complained that the United States "is living beyond its means and… acting… as a parasite on the global economy and its dollar monopoly position." But strikingly, Russia's Deputy Finance Minister Sergei Storchak joined the chorus of US debt holders voicing support for the dollar, insisting that Russia doesn't expect "any alternative whatsoever" to its holdings of US sovereign debt in the next five years. In justifying his stance, Storchak gave the standard explanation: "The US debt market is still the most liquid, dependable, and safe."

As a petro state, Russia needs hard currency reserves to protect against currency and budget crises generated by oil price fluctuations. When Russia shifted to a free-floating currency in 2014, the silver lining of the declining ruble during the crisis was that it cushioned plunging oil prices. Oil production costs and government expenditures were denominated in devalued rubles, while oil profits in US dollars account for roughly 40-50% of Russia's annual federal budget revenue.

Russia still wants to diversify, but good alternatives have been lacking. Nonetheless, to escape the reach of the US government sanctions, in 2018, Russia sold $101 billion of its reserves—about 45%—of its U.S. Treasury holdings, investing 15% in RMB and a portion in euros and yen, and offshoring the rest to Belgium and the Cayman Islands (Steil & Rocca, 2018; Fleming, 2019). Meanwhile, Russia edged out Saudi Arabia as the top crude exporter to China by agreeing to accept RMB for payment despite the downside in currency valuations. Both China and Russia are also trying to attract interest in their own fledgling oil futures markets in national currencies, a venture that Russia has attempted for over a decade without success.

Renminbi as a Global Currency?

Another side to this issue is the natural increase in the role of RMB in functions of money other than as a reserve currency, particularly as China's economic rise transformed global trade patterns. As Barry Eichengreen argues, "It is not obvious why the dollar, the currency of an economy that no longer accounts for a majority of the world's industrial production, should be used to invoice and settle a majority of the world's international transactions"(Eichengreen, 2011, p. 61). The US dollar is used for 43% of cross-border payments on the SWIFT network and 86% of trade finance, even though the US economy is only involved in less than 15% of global trade flows.

Creating more distance from the US dollar, Beijing aims to promote the enhanced use of the RMB for international transactions. However, there is still a large gap between the RMB, accounting in August 2015 for a high of 2.79% of global payments, and other major currencies. Only in Asia does SWIFT report the RMB as the top-ranked currency. Eventually, such developments could diminish the dominance of the US dollar, particularly in two of the three important functions of money: as a medium of exchange and a unit of account.

Three institutional bases for wider international use of the RMB are the introduction of a new Chinese international payments system, the expansion and reform of quotas for investing in China's local-currency equity market (i.e., the RQFII quota), and the Belt and Road Initiative, although the last requires liberalizing capital controls to gain widespread acceptance of RMB use. In October 2015, China launched a phased roll-in of its own international payment system—the Cross-border Interbank Payment System (CIPS). This system is substantially in accordance with international standards but run by state authorities, in contrast to similar systems operated by private actors. CIPS can act as the middleman between SWIFT and the China National Advanced Payment System (CNAPS), the latter of which does not support international payments. CIPS is modelled on the US dollar payments network, the Clearing House International Payment System (CHIPS), which supports about $1.5 trillion in payments each day. The system will also allow offshore banks to participate, enabling offshore-to-offshore renminbi payments, as well as those in and out of China. But this is not just an efficiency development. China (and Russia) are not only unsettled by the ability of Western countries to shut countries like Iran out of SWIFT, but also because SWIFT is highly susceptible to being accessed by intelligence agencies from the US (Wildau, 2015).

Nobel laureate Robert Mundell once wrote, "Great powers have great currencies." Although none of America's competitors boasts a top currency, China is "a major emerging financial power" (Helleiner & Wang, 2019, p. 214) that could internationalize the renminbi, claim the mantle of "a position of prominence in the hierarchy of currencies" (Cohen, 2003, p. 22), and simultaneously limit its vulnerability to US coercion. A step in this direction was when the IMF incorporated the RMB into its currency basket as China agreed to phase in regulatory reforms over two years.

Officials at the Chinese central bank who are proponents of greater liberalization and openness evidently have long appreciated that it may be easier to couch their policy arguments for market-driven RMB internationalization in the context of the high-priority Belt and Road Initiative and the global prestige that comes from a top currency. Thus, for example, the Deputy Governor of the People's Bank of China, Pan Gongsheng, published an article in July 2019, stating that PBOC would work to promote global investors' confidence in the Chinese currency through market-driven efforts, giving a new opportunity to boost its global status amid rising trade conflicts.

Finally, China is a leader of the world's largest financial technology (fintech) system, dominated by Alibaba spinoff Ant Financial's Alipay and Tencent's WeChat Pay. Advances in this sector potentially could help the country diversify from dollar dominance through digital currencies and blockchain technologies. China is driving rapid growth in fintech and has home country dominance. China's fintech boom has been largely unregulated, which facilitated growth but also led to fraud and problematic standards. Since 2014, PBOC has been investigating building its own centrally-controlled cryptocurrency, which would allow it to record transactions in real time and collect a data pool significantly larger than even the data accumulated by Alipay and WeChat Pay. However, to circumvent Western payment systems, China would also need cross-border payment functions, which are still dominated by US firms, such as MasterCard and Visa. Meanwhile, despite legitimate concerns about adopting and regulating digital currencies like Bitcoin and Facebook's proposed Libra coin, Western firms may still use their advantages to jump ahead of China. Although it is still early in the process, Facebook already has 27 interested partners, including Visa, PayPal, and Lyft. Another variant, strikingly proposed by Bank of England Governor Mark Carney in August 2019, could exploit blockchain technology to develop a network of central bank digital currencies whose aim would be to create a replacement reserve currency and diversified multipolar financial system. Leaving aside consideration of feasibility, it is noteworthy that proposals to reduce the dominance of the US dollar originate with both great power competitors and US allies.

Defending the Global Financial Order: Avoid Overuse of Offense When It Undercuts American Financial Dominance

As competitive great power politics intensify, nationalist, protectionist coalitions gain more traction, and security concerns weigh heavily on trade and wealth-enhancing agendas. The United States has serious legitimate objections to China's violations of World Trade Organization (WTO) rules and the scope of Party-state direction of commercial power. However, Washington should be careful not to exaggerate China's autocratic modernization strategy as an existential threat or assume that China is following a linear trajectory based on a civilizational identity or ideological program.

As scholars have shown, Xi Jinping is not looking to "import" a foreign development model or "export" a China model. China's general principle is "pragmatism and a willingness to experiment," not a particular economic orthodoxy (Weiss, 2019; Tsai, 2015). China's economic miracle involved the introduction of markets and competition, and it also showed that development does not require democracy. Over the longer run, China faces more than just regression to the mean in economic growth rates and strong pushback from competitors unwilling to be subjected to unfair trade, loss of comparative advantage, and theft of intellectual property. Developing countries need to constantly upgrade the quality of their institutions for each level of development. This suggests that, in China, if institutions (such as rule of law and property rights) do not keep up as incomes rise, then growth will slow (Roberts et al., 2018, pp. 170-177).

Despite China's economic weaknesses (i.e., its debt, demographics, and dictatorship, as well as its capital misallocation), conventional gross domestic product (GDP) indicators are not wholly a fiction given evidence of real modernization and greater prosperity. Possessing the world's largest middle class, China is becoming a consumption economy and a valued export market for advanced economies. As Lardy (2014) shows, during China's 30 years of growth, the share of state-owned enterprises (SOEs) in industrial output declined from 78% in 1978 to 26% in 2011, as the vibrant private sector of the economy steadily expanded, accounting for 70% of China's output and China's most successful technology companies, such as Alibaba, Baidu, and Tencent. Although it is true that in 2012, Xi shifted to a more statist approach with greater economic and political control (Lardy, 2019), slowing growth could encourage another reversal down the road and return to market reforms since material success is an important source of regime legitimacy. Wholesale decoupling from trade with China not only would harm US private sector profits, but also remove external incentives for greater liberalization while reinforcing the state sector and nationalists.

One area where US soft power can have a positive effect is on China's financial markets, which are opening up to global investors. Thus, Chinese A-shares RMB-denominated stocks traded on the mainland were included in the MSCI Emerging Markets Index in 2018. "Connect" programs allow investors to buy certain shares and bonds through Hong Kong's stock market, and, as of April 2019, a portion of China's $13 trillion of onshore bonds were included in global indices. China's capital markets are gradually finding their place in the global investment mainstream, which should strengthen the hand of reformers as the foreign investor community becomes an increasingly significant stakeholder in China's financial system. At the same time, as financial interdependence grows, there is an important role for strong US government oversight and accountability. According to the US-China Economic and Security Review Commission, 156 Chinese companies, valued in total at $1.2 trillion, are listed on the top three US exchanges, including 11 Chinese state-owned firms. Draft Congressional legislation appropriately insists on the transparency of audits of Chinese firms and disclosure requirements, pushing China to comply with international norms, just as it has conformed to many IMF regulations, implemented the global Basel III rules on bank capital adequacy, and other Financial Stability Board requirements.

Weaponization of Finance: Risks of Escalation

As discussed above, Washington's increased wielding of its financial swords—particularly against Iran and Russia, as well as North Korea—is unsettling China and encouraging competitors to diversify away from the dollar and attempt to bypass the US financial system. Extreme sanctions raise a second concern about destabilizing negative blowback effects. In particular, the weaponization of finance, although "a powerful alternative to military engagement" (Lew, 2016), creates the risk of inadvertent escalation.

A rational strategist should consider the risk that economic tensions may spiral to a tipping point beyond which the wielding of financial weapons could boomerang, unintentionally escalating into a Pearl Harbor scenario where coercive punishment used as an instrument to bring the opponent to capitulate is instead deemed intolerable by the target state and prompts it to take even more excessive risks. One may recall that the Roosevelt administration imposed a series of increasingly stringent economic sanctions on Japan in the two years before the Japanese attack, restricting the export of essential defense materials, and in July 1941, freezing Japanese assets in the United States and embargoing oil, recognizing that Japan imported 90% of its oil, 75-80% from the US.

Roberts et al. (2018, pp. 91-92, 132-133) recount the escalatory dynamics inherent in the signaling over possible extreme use of extreme financial sanctions against Russia following the start of its aggressive intervention against Ukraine in 2014 and its annexation of Crimea. Some senior officials in the Obama administration contend that sanctions (including the four executive orders the President introduced in 2014) and especially the threats to escalate them deterred Russian President Vladimir Putin from gambling that he could take Kiev in two weeks and instead pushed him to the negotiating table. In March 2014, after the annexation of Crimea, President Barack Obama conceded in an interview that the sanctions he threatened against Russian economic sectors could have worldwide impacts. But, he added, "If Russia continues to escalate the situation, *we need to be prepared to impose a greater cost*" (emphasis added).

In particular, the United States and the European Union signaled they might turn off Russia's access to the SWIFT financial messaging system—an action taken against Iran in 2012. Some US officials also sought to target the issuance of sovereign debt and the full range of derivative products, threats repeatedly made by a bipartisan coalition in Congress which now proposes legislation along these lines to deter Russia from meddling in US elections, following on the 2017 Countering America's Adversaries Through Sanctions Act (CAATSA).

In the Ukraine conflict, almost immediately, the Russians responded to Western warnings with public counter-threats. Prime Minister Dmitri Medvedev and other officials warned of severe retaliation and escalation, stating that any cutoff from SWIFT would be met with a response "without limits." Andrei

Kostin, the head of Russia's second-largest bank, remarked that "excluding Russia from the global SWIFT banking transactions system could mean "war." In a meeting with foreign experts, Putin underscored the certain blowback that would result, asserting that, at a minimum, sanctions are reinforcing the inclination of many countries to become "less dependent on the dollar" and to set up alternative financial and payments systems and reserve currencies, partly in coordination with China. Putin insisted that the United States does not have a monopoly on financial statecraft, warning "I think that our American partners are quite simply cutting the branch they are sitting on" (citations in Roberts, et al., p. 133).

US coercive diplomacy over Russian aggression against Ukraine, which has lessons for US policy towards China, initially resembled Thomas Schelling's risk strategy of imposing significant punishment while threatening much higher costs so that submission appears the best option. However, in the confrontation with Russia over Ukraine, President Obama, supported by Treasury Secretary Jacob Lew and other senior officials, temporarily switched from compellence to deterrence, focusing on Schelling's "threat that leaves something to chance." In this domain, the coercive demand is not to provoke escalation but to prevent it, and reflects the insight that coercion may succeed when threatened, not when sanctions or other forms of punishment are implemented (Drezner, 2003, p. 655; Sechser, 2018). As Schelling put it, "successful threats are those that do not have to be carried out," meaning Moscow should understand the costs and refrain from invading all of Ukraine. US resolve also seems to have been influenced by the relative "issues at stake" (Danilovic, 2001), which involved demonstrating unwavering commitment to vulnerable East European members of NATO and warning Russia that it should not test the boundaries of its aggression against Ukraine.

It is unclear whether an escalation spiral was averted in this case because of immediate Russian counter-threats and assertions of escalation dominance, because of Washington's switch to deterrent threats and greater concern about the reaction of global financial markets, or some combination of these or other factors. In a frank interview, President Obama later remarked, "The fact is that Ukraine, which is a non-NATO country, is going to be vulnerable to military domination by Russia no matter what we do." Russia's stakes are higher and thus has escalation dominance (Goldberg, 2016). Obama insisted that "we have to be very clear about what our core interests are and what we are willing to go to war for" although "there's always going to be some ambiguity" (Goldberg, 2016). To make sure that the US learns this reality, in March 2015, a year after the annexation of Crimea, Putin signaled during a television broadcast that he had been ready to raise the alert level of Russian nuclear forces to ensure the West did not intervene. Even discounting for Putin's loose talk about nuclear signaling, Russia has plausible horizontal escalation options, including cyber attacks on critical civilian infrastructure or against the US financial sector.

The fact that Russia did not invade and seize all of Ukraine is not necessarily in response to US coercive threats. New information as the conflict progressed appears to have an impact on Russian calculations. Putin learned from the improvised operation in the east that the predominantly Russian speaking third of the country from Donbas to Odessa in Eastern and Southern Ukraine—initially proclaimed to be part of the project to promote Novorossiya—were not en masse prepared to fight alongside the Russian-supported separatists to join Russia (Kofman, Migacheva, Nichiporuk, Radin, & Oberholtzer, 2017). Moreover, the Kremlin is not unconstrained domestically; it would face popular opposition if the use of force resulted in high casualties. Additionally, Russia could not rule out that the US and other NATO countries would not support Ukraine covertly in the event of a wider war.

Recent continuation of the conflict into the Sea of Azov, where both Kiev and Moscow have core strategic interests, shows the two sides are still far from reaching a mutually-acceptable settlement. Meanwhile, Moscow uses every opportunity to try to persuade European governments to abandon sanctions and renew economic ties. Significantly, Russia, China, and the EU together are attempting to develop a payments facility that would bypass the US to allow oil companies and businesses to continue trading with Iran since the Trump administration's withdrawal from the 2015 nuclear deal with Iran and tightening of sanctions on Iranian oil exports. Although this "special purpose vehicle," known as the Instrument in Support of Trade Exchanges (INSTEX), falls short in achieving its objectives, the incentives for both America's competitors and allies to collaborate to find a way to bypass US coercive controls over international finance should give sanctions hawks in Washington pause.

Conclusion

International financial instruments are important weapons in peacetime for great power economic competition. Although all three contemporary great powers possess robust nuclear forces to deter war—with ongoing major expansions of programs in Russia and China (Ashley, 2019)—only the United States possesses a unique economic and financial arsenal of capabilities, thanks to the dominance of the US dollar and the centrality of the US economic and financial system to international commerce.

Managing great power competition over the long term requires recognition that opposing actions will naturally evolve. Prudent strategic adjustment is essential to ensure that imposing costs on US opponents does not lead to unintended consequences like viruses that impair America's strengths or provoke costly inadvertent escalation.

At the same time, it's important to keep in mind that competitive great power politics are occasionally cooperative and plus sum, sometimes zero sum with the risk of war, and mostly in the domain of relative gains and losses, which involves positional struggles, relational power, and shifts in the balance of power. Nuclear great powers have a major stake in avoiding negative sum outcomes where everyone loses, such as global financial crises, economic depression, and crises and conflicts that may escalate to all-out war. Over the long haul, the United States must avoid losing at its own game and instead create winning strategies that outcompete rivals, while discouraging miscalculations and averting worst case outcomes.

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