

# Chained to Globalization

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## ABSTRACT (ENGLISH)

In 1999, the columnist Thomas Friedman pronounced the Cold War geopolitical system dead. The world, he wrote, had "gone from a system built around walls to a system increasingly built around networks." As businesses chased efficiency and profits, maneuvering among great powers was falling away. An era of harmony was at hand, in which states' main worries would be how to manage market forces rather than one another.

Friedman was right that a globalized world had arrived but wrong about what that world would look like. Instead of liberating governments and businesses, globalization entangled them. As digital networks, financial flows, and supply chains stretched across the globe, states-especially the United States-started treating them as webs in which to trap one another. Today, the U.S. National Security Agency lurks at the heart of the Internet, listening in on all kinds of communications. The U.S. Department of the Treasury uses the international financial system to punish rogue states and errant financial institutions. In service of its trade war with China, Washington has tied down massive firms and entire national economies by targeting vulnerable points in global supply chains. Other countries are in on the game, too: Japan has used its control over key industrial chemicals to hold South Korea's electronics industry for ransom, and Beijing might eventually be able to infiltrate the world's 5G communications system through its access to the Chinese telecommunications giant Huawei.

Globalization, in short, has proved to be not a force for liberation but a new source of vulnerability, competition, and control; networks have proved to be less paths to freedom than new sets of chains. Governments and societies, however, have come to understand this reality far too late to reverse it. In the past few years, Beijing and Washington have been just the most visible examples of governments recognizing how many dangers come with interdependence and frantically trying to do something about it. But the economies of countries such as China and the United States are too deeply entwined to be separated-or "decoupled"-without causing chaos. States have little or no ability to become economically self-reliant. Hawks in Beijing and Washington may talk about a new Cold War, but there is today no way to split the world into competing blocs. Countries will remain entangled with one another, despite the dangers that their ties produce-bringing a new era of what might be called "chained globalization." Under chained globalization, states will be bound together by interdependence that will tempt them to strangle their competitors through economic coercion and espionage, even as they try to fight off their rivals' attempts to do the same.

## FULL TEXT

### Headnote

Why It's Too Late to Decouple

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In some ways, chained globalization makes the Cold War seem simple. The economies of the Western and Soviet camps shared few points of contact and thus offered few opportunities for economic coercion (and policymakers on both sides came to understand the existential danger of nuclear weapons and developed strategies for limiting it). The situation today is far messier. The world's powers are enmeshed in financial, trade, and information networks that they do not fully understand, raising the risk of blunders that could set off dangerous conflicts.

Accepting and understanding the reality of chained globalization must be the first step toward limiting those risks. Policymakers cannot cling to fantasies of either decoupled isolation or benign integration. Like it or not, the United States is bound to its competitors. Since it cannot break those bonds, it must learn to master them.

#### BOTTLENECKS AND BLOCKAGES

For decades, commentators understood globalization as a natural extension of market freedoms. To the extent that international economic networks would lead to disagreements, the thinking ran, those squabbles would lie largely between the groups that benefited from open markets and those that opposed them. But that line of thinking missed the fact that globalization itself would also allow for a new kind of conflict. As the world's economic and information networks expanded, many of them coalesced around single points of control, and some states learned to wield those hubs as weapons against their competitors.

Among the first networks to undergo such a transformation was the system underpinning international financial transactions. In the 1970s, the Society for Worldwide Interbank Financial Telecommunication (swift) network made it easier to route transactions through banks around the world, and the dollar clearing system allowed those banks to reconcile torrents of payments denominated in U.S. dollars. Once both banks and individuals had accepted this new messaging system, international exchanges became even more dependent on a single currency-the U.S. dollar-granting Washington additional leverage over the global financial system. International supply chains were next. In the 1980s and 1990s, electronics manufacturers began to outsource production to specialized firms such as Foxconn,

creating supply chains with tens or even hundreds of suppliers. Then, in the first decade of this century, cloud computing began to centralize key functions of the Internet in systems maintained by a few large firms, such as Amazon and Microsoft. In each case, money, goods, and information passed through essential economic hubs. A few privileged powers ruled over those hubs, gaining the chance to exclude others or to spy on them.

The United States saw those opportunities before most other countries did, thanks to the fact that so many networks lay within its reach. Since the attacks of September 11, 2001, the Treasury Department has used the world's reliance on the U.S. dollar to turn the global financial system into a machinery of control, freezing out rogue actors such as al Qaeda and North Korea and using the threat of sanctions to terrify banks into advancing its goals. The National Security Agency has transformed the Internet into an apparatus of global surveillance by tapping into the networks of telecommunications providers such as AT&T and Verizon and running clandestine programs that can identify communications chokepoints and exploit them against both adversaries and allies.

Until recently, other states struggled to keep up. China, a latecomer to the globalized economy, could respond to perceived slights only by locking transgressors out of its valuable domestic market. And although the European Union played a significant role in global economic networks, it lacked the kind of centralized institutions, such as the U.S. Treasury Department's Office of Foreign Assets Control, that Washington had been able to convert into instruments of power.

Driven by both fear and opportunism, however, China is now insulating itself from networked attacks and building networks of its own to turn against its rivals. Take Huawei, which seeks to build the world's 5G communications network with the tacit support of Beijing. If Huawei comes to dominate global 5G, the Chinese government could exploit its access to the firm to tap into communications around the world, using its new powers over the network against its rivals. Or to put it another way: China could do to the United States what the United States has already been doing to China.

That explains why Washington has worked so hard to frustrate Huawei's ambitions. The Trump administration has barred Huawei from U.S. markets, lobbied U.S. allies to shun the company's 5G infrastructure, and forbidden U.S. companies from selling to Huawei the sophisticated semiconductors that it cannot easily acquire elsewhere. The Chinese government has responded to those moves by threatening to blacklist U.S. firms such as FedEx and companies based in countries allied with Washington, such as the British bank hsbc. Even if the Trump administration eases up on Huawei as part of a trade deal with Beijing, a bipartisan coalition in Congress will likely try to undermine those concessions.

Europe has also been drawn into a fight over networks, in part as a result of the United States' campaign against Iran. Ever since 2018, when the United States pulled out of the international agreement limiting Iran's nuclear activities, it has used its control of the dollar clearing system to limit Iran's access to global financial resources and has threatened to sanction European firms that do business with Iran.

European governments worry that such measures are a prelude to a wider campaign of U.S. coercion. After all, the economic cost that isolating Iran imposes on European countries pales in comparison to the damage that would follow if the United States used similar tactics to force them to decouple from Russia, by, for example, making it harder for them to obtain Russian natural gas and other raw materials. Some European policymakers are thinking about how to play defense. One option would be to turn the United States' economic ties with Europe against it by withdrawing U.S. companies' rights to operate in the eu if they comply with U.S. sanctions that harm eu members. Smaller powers are also joining the fray. Japan, incensed by rulings from South Korean courts that have criticized Japanese companies for their use of forced labor during World War II, threatened in July to strangle the South Korean technology industry by restricting Japanese exports of the specialized chemicals on which major South Korean firms, such as Samsung, rely. South Korea responded by threatening to stop exporting the heating oil that Japanese homes and businesses count on each winter. The dispute has highlighted the power states can wield when they target a crucial link in transnational supply chains.

#### CHAIN REACTIONS

In this landscape, blunders could set off escalatory spirals, and mutual suspicion could engender hostility. By

targeting a firm with an unexpectedly crucial role in a broader industrial network, for instance, a government could mistakenly generate widespread economic damage-and trigger retaliation from other states in turn. As global networks grow thanks to developments such as the so-called Internet of Things, such dangers will grow, as well. Accordingly, it is not surprising that countries want to free themselves from chained globalization by smashing its links. U.S. commentators speak of a great decoupling from the Chinese economy, only vaguely understanding what such a rupture might involve. China, for its part, is pouring resources into an indigenous semiconductor industry that would protect it from U.S. threats. South Korea has sought to build up its own chemical sector in order to lessen its dependence on Japan. Russia, meanwhile, has embarked on a quixotic project to create what it calls a "sovereign Internet": one that could prevent perceived foreign meddling and let Moscow monitor the communications of its own citizens.

In a few areas, some degree of insulation might be possible. When it comes to defense procurement, for example, countries can increase their autonomy by rerouting parts of their supply chains to minimize the risks of spying and sabotage. The United States has already made changes to limit the ability of China to compromise its military technology; among other things, it has identified companies with connections to the People's Liberation Army and cut them out of its military's supply chains. Other countries will surely follow suit.

Except in the case of total war, however, governments will find it impossible to re-create the separate national economies that prevailed before the advent of globalization. After all, today's states do not simply make use of worldwide financial systems, manufacturing supply chains, and information networks: they rely on them. Washington may be able to reshape its military procurement, but it would set off massive resistance and economic chaos if it tried to remake the consumer economy along similar lines, since that would overturn entire industries and vastly increase prices for ordinary people.

#### THE TIES THAT BIND

Instead of withdrawing from global networks, the United States must learn to live with them. Doing so will give the United States new powers and generate enormous vulnerabilities, and policymakers will need to carefully manage both. U.S. officials must remember that willfully trapping its rivals in U.S.-dominated financial and information systems could provoke a backlash, encouraging other states to enmesh the United States in nets of their own-or encouraging them to slip out of the country's grasp for good.

Washington also has to worry about other kinds of unintended consequences. For example, in April 2018, when the Treasury Department announced that it would impose sanctions on the Russian oligarch Oleg Deripaska and his vast aluminum empire, it apparently failed to realize that doing so would produce chaos in the car and airplane manufacturing supply chains that relied on products made by Deripaska's businesses. (After lobbying by European companies and governments, the Trump administration delayed enforcement of the sanctions and then unwound them entirely.) As less savvy governments seek to bend networks to their own ends, the risks of such blunders will grow.

To avoid such problems, policymakers need to understand not just how the world's networks function but also how each of them connects to the others. And because government agencies, international organizations, and businesses have only incomplete, scattered maps of those relationships, Washington must do the hard work itself. That will require making massive investments in parts of the federal bureaucracy that have withered in recent decades, as neoliberal, pro-market views took hold and regulation and oversight fell out of favor.

The government's broad goal should be to break down the traditional barriers between economic and security concerns. The Commerce Department could be expanded to deal with security issues, for instance, or the Pentagon could take a newfound interest in the private sector outside the defense industry. Congress, for its part, could reestablish its Office of Technology Assessment, which was shut down as a result of partisan disputes in the 1990s, to study emerging technologies and how to manage them. Finally, the government should establish specialized agencies to study threats related to specific networks, such as global supply chains, drawing on information from across the government and the private sector. In the U.S. Cybersecurity and Infrastructure Security Agency, policymakers have a valuable model.

Next, regulators will have to intervene in the economy more deeply than they have in decades. Washington has already taken a useful step in this direction through its reforms to the process run by the Committee on Foreign Investment in the United States, or CFIUS, which examines the security implications of foreign capital flows entering the United States. In 2018, Congress passed bipartisan legislation calling for the Department of Commerce to reevaluate the licensing requirements for firms working in a variety of high-tech fields, including artificial intelligence and machine learning. Congress has also pushed the Trump administration to revive a long-dormant law requiring U.S. officials to identify Chinese military companies and groups operating in the United States. Other governments are following Washington's lead. The EU is rolling out its own process to scrutinize foreign investments, and some EU officials are debating whether to impose restrictions on the bloc's ties with China in sensitive areas, such as defense technology, energy infrastructure, media, and telecommunications.

But scrutinizing foreign investments is not enough. U.S. regulators should also seek to protect sensitive domestic markets from foreign exploitation. In some sectors, Washington will need to restrict access to trusted groups. Policymakers could make it harder for U.S. adversaries to use social media to undermine the country's political system by, for instance, banning on those platforms political advertisements that target narrow demographic groups. In other cases, the government may need to go further. By building redundancies at key points in the country's critical infrastructure—such as its telecommunications, electricity, and water systems—policymakers could help those networks survive outside attacks.

Finally, governments need to learn to talk to one another in new ways. During the Cold War, the Soviet Union and the United States established a shared vocabulary to avoid crises, drawing on the work of scholars in a variety of fields who had developed concepts such as mutual assured destruction and second-strike deterrence. Today, China, the United States, the EU, and other powers need to do something similar. Academics can play an important role in building that new vocabulary, much as they did during the Cold War. But they can do so only if they break out of the confines of their disciplines by homing in on the intersections of economic and security concerns and by working with the specialists who understand the technical underpinnings of global networks. Most national security experts know little about the infrastructure that supports the Internet. If they worked with engineers to understand those systems, protecting them would be easier.

#### EASING THE TENSIONS

A common language should be a first step toward common rules. Developing such rules of the road won't be easy, since networked conflict and its consequences are messy and unpredictable. And whereas the tacit rules of the Cold War were developed mostly by politicians, military leaders, and nuclear physicists, their twenty-first-century equivalents will necessarily involve the participation of a broader and more quarrelsome set of communities, including not just state officials but also businesses and nongovernmental organizations.

Governments should tread carefully around others' network hubs, such as the SWIFT system or the essential focal points of the world's telecommunications architecture. Much like nuclear command-and-control systems, those hubs let the states that control them exercise enormous offensive and defensive power. That is why China's efforts to use Huawei to topple the United States' control over global telecommunications are so provocative.

For its part, the United States needs to recognize that its attempts to weaponize the world's financial and information networks threaten others and moderate its behavior accordingly. Restraint will not just encourage stability; it will also serve the country's own narrow interests. U.S. policymakers should remember that their punitive measures can encourage states to defect to networks beyond Washington's control, stripping the United States of important sources of leverage.

Take President Donald Trump's October 2019 threat to "destroy Turkey's economy" through financial sanctions and tariffs if Turkish forces overstepped in some unspecified way in their invasion of northeastern Syria. At the time, Turkey had already begun to lay the groundwork to insulate some of its international financial transactions from the U.S. dollar and the dollar clearing system by embracing Russia's alternatives to the SWIFT system. Even though Trump's threat was quickly withdrawn, it surely unsettled Turkish leaders, who feared that Congress might press for more substantial and long-lasting sanctions. And although Turkey or other midsize powers will probably not cut themselves

off from the U.S.-dominated financial system, they certainly could persuade their banks to make greater use of networks that are beyond Washington's grasp. The United States should not use such tactics against China, Russia, or other major powers except under extraordinary circumstances, since those countries might respond to economically crippling attacks not just with economic measures but also with military force.

States should work to make their decisions transparent and predictable. Today, as in the nuclear era, mixed signals could lead to catastrophic consequences. The United States' recent inability to decide whether its sanctions against Iran were meant to change that country's behavior or its regime may have empowered Iranian radicals who were eager to retaliate by threatening regional shipping lanes and U.S. allies. To reduce the chances of mistaken escalations, the United States and other powers should use rules-based structures akin to CFius to decide when to take offensive and defensive steps, and they should broadcast those choices clearly.

The United States must also avoid overreacting to other countries' efforts to make themselves less vulnerable to chained globalization: China's investments in its semiconductor sector, Russia's development of alternatives to global financial networks, eu members' efforts to insulate their firms from U.S. overreach. Just as it did after other countries acquired nuclear weapons without that leading to war, Washington must now recognize that it can benefit when other states take steps to feel secure.

The broader lesson of the nuclear era is that existential dangers do not have to be paralyzing. Indeed, careful planning can help the United States manage the risks of chained globalization, even as Washington reaps its benefits. Failing to do so would plunge the United States into a more dangerous world, one in which the ties of economic interdependence do not just constrain U.S. interests-they choke them.©

Sidebar

For decades, commentators understood globalization as a natural extension of market freedoms. Washington should break down the traditional barriers between economic and security concerns.

DETAILS

Subject:	Cold War; Internet; National security; Globalization; Communications networks; Competition; Public finance; Chemicals; Profits; Financial institutions; Networks; Companies; Interdependence; Espionage; Electronics industry; Geopolitics; International finance; Competitors; Supply; Vulnerability; Telecommunications; Market forces; Walls; Coercion; Sanctions; American dollar; Banking industry; Supply chains; Financial systems
Business indexing term:	Subject: Sanctions International finance American dollar Banking industry Globalization Supply chains
Location:	Beijing China; United States--US; Iran; China; Japan; Europe
Company / organization:	Name: Department of the Treasury; NAICS: 921130; Name: National Security Agency; NAICS: 928110; Name: Huawei Technologies Co Ltd; NAICS: 334111, 334210, 513210, 541511
Publication title:	Foreign Affairs; New York
Volume:	99
Issue:	1
Pages:	70-74,76-80

Publication year:	2020
Publication date:	Jan/Feb 2020
Publisher:	Council on Foreign Relations NY
Place of publication:	New York
Country of publication:	United Kingdom
Publication subject:	Political Science--International Relations
ISSN:	00157120
e-ISSN:	2327-7793
Source type:	Magazine
Language of publication:	English
Document type:	Feature
ProQuest document ID:	2331238833
Document URL:	<a href="https://www.proquest.com/magazines/chained-globalization/docview/2331238833/se-2?accountid=14711">https://www.proquest.com/magazines/chained-globalization/docview/2331238833/se-2?accountid=14711</a>
Copyright:	Copyright Council on Foreign Relations NY Jan/Feb 2020
Last updated:	2024-11-22
Database:	Arts Premium Collection

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