

Interview with Henry Farrell, SNF Agora Professor of International Affairs at the Johns Hopkins School of Advanced International Studies

Weaponized Interdependence – an Inconvenient Truth of Globalization

By Japan SPOTLIGHT

Interdependence has been a main part of the positive story of globalization told by so many economists. It results in win-win relations among nations through trade and investment. However, in the globalized world today, we increasingly notice that big powers tend to coerce smaller powers to obey their preferences by using their network advantages over the rest of the world. Small countries are thus exploited by big powers through interdependence. Prof. Henry Farrell, co-editor of the book *The Uses and Abuses of Weaponized Interdependence* (2021, Brookings Institution Press) tells us about this other side to globalization.

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What Is Weaponized Interdependence?

JS: Some big countries have started to use interdependence as a weapon in the globalized world. Is it the case that well-established information and financial networks with hub and spokes are the main factors behind this phenomenon?

Farrell: Yes, that is correct and that is our argument in the book on *The Uses and Abuses of Weaponized Interdependence* and other work. Abraham Newman and I have a new book, *Underground Empire: How America Weaponized the World Economy*, coming out next year. It will be translated into Japanese and published by Nikkei. That will explain our arguments in much greater detail, and also talk about the history behind this – which we don't talk about as much in *The Uses and Abuses of Weaponized Interdependence*. Our argument is that we see weaponized interdependence happening when we see these networks emerging with hub and spoke characteristics and when we see a great power noticing that more than one of these hubs of the network are within their power and within their influence. Then they can use it to exert influence on the global economy more generally and on everybody who depends upon these networks.

We argue in our initial work that this has resulted in two different kinds of power. One we call the panopticon effect, which is the power of the central state, the state that has the control of the hub, to see what everybody is saying to each other. This can be



Prof. Henry Farrell

extraordinarily valuable for the central state, and allows it to keep track of communications among its allies and adversaries. The second is what we call the choke point effect which is where we see the hub being used effectively to cut off a business or an individual or perhaps even an entire country from key networks that run the global economy. When you are talking about networks such as the dollar clearing system or such as SWIFT, this can have some very serious consequences indeed as we've seen most recently with respect to Russia.

JS: Even before this hub and spoke network emerged, some sort of asymmetric dependence such as Japanese dependence upon

Chinese natural resources seems to be one element behind this weaponized statecraft. Would you concur that this is the background to weaponized interdependence or not?

Farrell: It's something that we try to distinguish from weaponized interdependence proper. In general, we try to restrict weaponized interdependence to situations where a great power has control over a choke point – that is something that you simply cannot get anywhere else very easily – and not apply it in situations where a great power does not have that kind of control. And looking at Japan and China, although I'm not an expert on the Japanese economy, across many areas it would be highly inconvenient for Japan to try and find certain kinds of resources elsewhere – but it would be possible for it to do

that. Similarly you could think about China's dependence upon outside energy sources such as coal from Australia. If Australia denied it access to coal this would be something that would cause some unhappiness in China but it would be able to find the coal elsewhere on world markets. Businesses would become very angry because they have to pay more for their resources but they would adapt.

So we restrict the term weaponized interdependence to situations where you really are being cut off, because you have no very good alternatives to what is being denied to you. Here I think the dollar clearing system, which is the foundation of US financial sanctions power, is a very good example. If you are a global bank that is cut off from the dollar clearing system then you are no longer a global bank. By definition you are not in the business of global banking. So, we are talking about networks where a power has control over hubs which allow it to make threats and when there is no other plausible supplier.

There are intermediate situations and one of these is the Chinese dominance of so-called rare earth minerals. China used to dominate the production of these rare earth minerals and while that is not so much the case anymore it still dominates the processing of these rare earth minerals and this gives China a certain amount of power to make some threats in the global economy. But equally, it is not impossible for other actors to find their own ways of processing rare earth minerals; China has a near monopoly, not because it is super difficult to process rare earths, but because it is really messy, environmentally hazardous and dangerous.

If we were in a world where China sought to deliver too strongly on that threat you would see other actors moving very quickly to find other ways to process these rare earths. One other example here that is relevant is the relationship between Japan and South Korea over certain chemicals which are necessary for the production of high-end electronics. When there was a fight a couple of years ago concerning litigation in South Korea over "comfort women", we saw Japan responding by threatening effectively to withhold supply of the chemicals that were necessary to South Korea's electronics industry. That certainly got South Korea's attention. But equally it was clear that South Korea would be able to find or create an alternative source of supply if it really wanted to. So weaponized interdependence is really about situations where you have no other real choices but to be part of this network if you want to be part of the global economy, and where some other actors have control of the hub. When those things go together then you get weaponized interdependence, and when they don't, you are probably talking about more traditional forms of hard-edged bargaining and coercion.

JS: The second type of weaponized interdependence that would seem to have happened in the global pandemic is the issue of the WTO addressing export restrictions on personal protective equipment (PPE).

Farrell: I think it's a very interesting and complicated story. The story of masks is not a story of simple coercion. So we did not see China saying, "If you do not provide us with this or that concession, we will not give you masks, we will cut you off from this critical supply." Instead what we saw was China hoarding masks for itself. China decided that its domestic interests trumped the interests of other countries.

This was a huge problem for other countries but I equally suspect that if they had been producers of the masks then we would have seen a very similar pattern. Because we saw that happening in the European Union where for a brief period of time early in the pandemic, different member states of the EU were fighting each other over masks and other kinds of key equipment such as ventilators. They were blocking and restricting exports to each other. In the end the EU decided it would handle it at the EU level, but still reserving the right to place restrictions on exports to the rest of the world.

If China had said to other countries, "You need to stop recognizing Taiwan or we will deny you access to these masks", then perhaps that would have been weaponized interdependence. Equally it would have been a difficult strategy for China to have pulled off because it's a very short-term thing. Once you have the equipment for blowing out the masks and the "melt" that makes the masks, you can probably make masks for yourself. So withholding masks would be a threat in the short term but in the longer term others could have easily outmaneuvered it. So even if China had tried to weaponize interdependence in this way it would have been a tactic that would have had a very short shelf life.

Big Nations Have Choke Points

JS: Your book also mentions that the US has some choke points, in particular information infrastructures, to cause its allies to obey their preferences. Would you agree that big countries such as China and Russia also have some unique choke points?

Farrell: I would put it even more strongly than that. I would say that choke points are not unique to the US but that the US has control over far more of them than anywhere else. And this is a product of history. China globalized very recently in historical terms; its internationally oriented economy got going in Shenzhen Province during the 1990s and things really took off after China joined the WTO. So by the time that China had become part of the game, really all of the important networks of globalization had been created and were in place. So China managed to move up the supply chain very quickly in many areas and then it found that when it comes to, for example, global finance and global information networks, it was in a disadvantaged position. China started to seek to make its own information network and to cut itself off from the Internet through

the great firewall of China, which was somewhat successful. But China is not yet creating its own separate network of the Internet to try and share with other countries.

Similarly, you see that China is not capable so far in getting other countries to really adopt its equivalent to SWIFT. China does not have any equivalent to the dollar clearing system, so at the moment it is very disadvantaged when it comes to these networks. If you look at China in raw economic terms as a market it is very definitely a world power, but when you look at it in terms of these networks it is not a particularly big contender.

It could be that China is able to improve its position in the future by changing the way the world economy works – certainly one of the reasons why the US went after Huawei so hard was its belief that this was an effort to try and create a global network that China would have control over. As we move towards digital currencies and green technology, it may be that China can create new global networks with itself at the center. Equally I think it's going to be much harder for China to do this, as one of the reasons why it happened so easily back in the 2000s was that nobody was really thinking about the strategic and security implications of these networks. Now, however, people are paying attention to how these networks can give their creators global power control and coercive power, and so I think achieving this kind of dominance will be to be much harder to do in future. China may probably need to settle for regional power and regional networks rather than global networks.

JS: In that sense, if China invades Taiwan and all countries impose economic sanctions as in the case of Ukraine, they would not suffer so much because, as you said, the US network is more robust than the Chinese network and so financial sanctions could be much more detrimental to China and might work well in such an instance.

Farrell: I think there is something to that. And certainly you see after Russia that China is worried about how the US and the EU were able to effectively freeze Russia's control of central bank assets. This has caused huge consternation in China. There have been reports in the *Financial Times* and elsewhere of conferences where the Chinese government has got together with experts who basically told them there is not much that they can do about this and that China currently does not have any protections against this. So I think this is absolutely right.

Meanwhile, during the Russia crisis, the US discovered that these tools which it used to think were costless can actually be pretty costly. For example, if you look at the current rise in oil prices, it has a lot to do with the fact that Russia has been cut off from the global economy. Clearly not completely but partly, and that has led to an increase in oil prices and that is something that the US doesn't like because US voters look to the price of petrol when they are filling up their car in order to decide who to vote for.

It's very clear that the administration of President Joe Biden has looked at that and decided it doesn't like it and so is trying to figure out whether it can impose this kind of oil cap on oil from Russia as an alternative, which would be less economically harmful. So I think the lesson for China is there are many ways in which China remains fundamentally vulnerable to the global economy and clearly it is trying to protect itself through the policy of dual circulation. Equally, the US is discovering that these measures are not necessarily as easy and costless as it thought and the bigger the country that it looks to target, then the more likely it is that unexpected things will happen.

Sectors or Technologies Vulnerable to Weaponized Interdependence

JS: What sectors of the economy or what kind of technologies are more vulnerable to weaponized interdependence by taking advantage of choke points? Maybe you would say financial information networks?

Farrell: I would say those are the easiest and most obvious because we are able to see how they scale and how they become centralized. If we look at supply chains which are a major topic of concern right now, they have become incredibly complex over the last 20 or 30 years and so this may be resulting in hidden vulnerabilities where there are perhaps choke points in supply chains that nobody is particularly paying attention to. But if someone stumbles upon the vulnerabilities and uses them, they could have significant consequences for sectors or even an entire country. We probably aren't going to see other sectors that are as centralized as finance but we don't know for certain. We simply do not have a map of the global networks that hold the world economy together and that means there may be other potential dangers lurking in there that we simply have not discovered yet and we may only discover in very unpleasant ways when it is too late.

JS: You mentioned that the energy sector and transportation sector may not be ones so vulnerable to choke points right.

Farrell: That's right and we're seeing some interesting testing of that proposition thanks to Russia. Russian gas supplies to Europe look like a very clear choke point. We're talking about a very substantial economic change happening as Europe suddenly realizes that Russian control of gas is a threat to it. But equally, it's more possible for Europe to find alternative supplies by procuring liquid natural gas in tankers and so on.

Of course there are all these secondary negative consequences because Europe starts buying up the excess capacity on global markets. Prices skyrocket so that other countries aren't able to buy

anymore and they have energy problems as a result. The simple gas pipeline choke point story about weaponized interdependence is certainly not as clear as it seems. President Vladimir Putin believed Europe would be forced very quickly to come to the bargaining table but that has not been the case. This is something that people in energy markets have been saying for a long while; for example, Llewellyn Hughes at the Australian National University has argued that it's hard to target oil because oil is a fungible resource. That is, if you get blocked by one supplier there are probably other suppliers out there. It is a relatively liquid market even if some people were a little optimistic when they forecast no disruption. It's clear that there is more that can be done with oil than people expected, such as using secondary features such as insurance shipping markets – which is what the US and Europe have tried to do to Russia. Equally it's also clear that it's much harder to use these as a source of pressure. The oil weapon is much more unwieldy than the financial weapon when it is used as a means of coercion against global adversaries.

Where Weaponized Interdependence Is Adopted for Allies & Not Adversaries

JS: In the case of 5G, the US uses a coercive strategy not only toward its adversaries but also its allies. Its allies could react negatively to that kind of coercion statecraft which would then complicate the political picture.

Farrell: I would begin by saying I know much less about US relations with Japan over issues such as 5G than I know about US issues with Europe over 5G. When it comes to Huawei I think the US uses coercion against its allies, but in a somewhat less immediately effective way than it does with other issues that are more directly financial. For example, we saw the US threatening the United Kingdom's access to intelligence under the so-called Five Eyes agreement. We also saw a lot of political pressure being applied, but it was not as easy for the US to get countries to comply because it didn't have a toolkit developed until it started developing export controls and what could be done with those.

So I think the export control story is a haphazard one where weirdly weaponized independence seems to play an important role. The US starts going after Huawei but the US administration is not clear exactly why it is doing it. There are some people in the US administration, such as John Bolton, who are very convinced that China is a threat and they want to destroy it. There are other people, including probably Donald Trump himself, who just want to make a deal with China over trade and view this as a bargaining chip. They are thinking about giving back Huawei its role in the world in exchange for a trade deal, which Trump can bring home and use to support his boast that he is the best deal maker of all time. But then they start to think about what they want to do with Huawei and they

start using export controls against Huawei which are these rules effectively saying that if you have stuff which has more than 25% of US intellectual property in it you can't export this to Huawei without a specific license – and they use this to target the export of advanced semiconductors to Huawei.

But that isn't very effective because it punishes the US firms and some other businesses that have strong links to the US. Meanwhile, it doesn't prevent other firms from providing advanced semiconductor technology to Huawei and so they come up with this new version of the so-called Foreign-Produced Direct Product (FDP) Rule, and then extend this much further. We think that the US needs to constrain its use of weaponized interdependence, but Trump people considered it “a beautiful thing”. So if you are a business that relies on semiconductor equipment in some way or materials that are made in the US, you have little choice but to implement these rules. We have seen effective controls being applied against Huawei which were adapted and used against Russia. Most recently the FDP Rule was the basis of the most recent measures that the US has taken against China's technology industry. This effectively mandates that you are not allowed to export high-end semiconductors to China as a general rule unless you have a special license, and good luck in getting that license.

Avoiding Increased Economic Inefficiency

JS: As you said, private businesses have to be involved in these cases and that can mean abuses of core coercive statecraft, which could then increase economic costs and perhaps result in a loss in economic welfare. Do you see this as a trend in a high-risk geopolitical world?

Farrell: I think these are really important questions. For several decades we saw that private business was effectively the agenda setter for global economic policy. It established the general sense that we're moving towards a world in which private business would have much more control over more sectors of policymaking. Now we are seeing a very different world in which the story of today is not one of globalization, it is a story of national security. For example, Martin Wolf in the *Financial Times* this morning has a piece where he more or less says this is possibly going to result in a disaster.

Some private businesses are looking to take advantage of this new world. One interesting story here is Intel which is very clearly enthusiastic for the US government to support semiconductor production, building hubs at home that advantage Intel at the expense of foreign competitors such as TSMC. So we are seeing more and more businesses rushing to their home governments and demanding that they introduce subsidies, protecting security but in ways that are advantageous to them rather than to foreign competitors. So I think we're going to see more and more of that kind of world developing and this is clearly going to result in some

economic inefficiencies. But the question is – and I think it’s still a very open question – to what extent will this create a race to the bottom where everybody congeals their economy around their own national champions? To what extent is it possible for governments to come together to figure out how to deal with some of the risks in ways that don’t completely damage and harm their national economies?

JS: Coercive statecraft can be used increasingly from now on as geopolitical risks increase. But we need rules to constrain coercive measures. Would you agree that without such rules we cannot achieve a balance between economic security and economic efficiency.

Farrell: I think that’s right and there are different ways in which we can think about this. One is building up state capacity, and even before you get to the question of setting rules you need to have some better understanding of the economy and of how the economy works. In some ways Japan has been ahead of the US in thinking clearly about this and in building economic security into its decision-making at the national governmental level. This is something that the US has difficulty with for a variety of internal reasons – the biggest one being this is not how the US government has been organized in the past. It has largely separated security and commerce and not had much intersection between the two because of worries about protectionism.

Today the US is less worried about protectionism than it used to be but it does not have the traditions in the civil service or the institutions in the civil service that allow it to do this well. So it is trying as best as it can to come up with this. Adam Tooze has been talking about the “Polycrisis” which is the word he uses for a world in which there are multiple different crises happening that intersect in complicated ways which no one can understand. I also like the British TV series called “The Thick of It” which coined the word “omnishambles”, which is a description of a situation in which nobody knows what they’re doing in government and everybody is pursuing these short-term shortsighted goals and creating a colossal mess. So I think that you could combine the Polycrisis and the omnishambles to say that we live in a world of “polyshambles”: a world in which there are incredibly complicated things going on in the economy but nobody can completely understand them.

There are two different places you could start to build international rules. First, I think we’re seeing some movement in making rules among allies. There is some recognition in the US that it needs to consult more with allies about this need to create a *modus vivendi*. The US still often expects its allies to take whatever nasty medicine the US provides and to shut up. So, for example, the somewhat protectionist way in which the US introduced measures under the CHIPS and Science Act or when we talk about green technology under the new Inflation Reduction Act – these clearly are not good

for US allies and the US has not been nearly as sympathetic towards its allies as it ought to be.

Nonetheless, the US is trying to create forums in which allies can talk and coordinate and perhaps create some common rules about export technologies and so on. This could be a forum in which countries such as Japan can express its interests and push harder for them, and perhaps the EU as well. Finally, I see no publicly visible discussion between the US and adversaries such as China. During the Cold War the US and the Soviet Union had talked about nuclear weapons and they figured out rules of the road for how to deal with them – they figured out all of these mutual arms reduction treaties and so on. I think the US and China need to start talking about what are the rules of the road when it comes to these new forms of economic coercion because if they don’t have some sort of conversation then bad things can begin to happen and spirals of distrust can start to develop. I think this is something that the US has yet to accept in public – perhaps there are conversations happening in private that I am not aware of.

Rules on Security

JS: So you think that in a post-Ukraine crisis world there would be such discussions and conversations to explore some sort of regime or rules on security between authoritarian countries and democratic countries?

Farrell: As far as I know we have not got to the point of discussions about creating those kind of rules. One of the big problems is that there is no precedent for this. We have pure security organizations such as NATO, and in a different way the US created bilateral arrangements with Japan and South Korea and its Asian allies. We have security arrangements among adversaries such as the treaties between the US and the Soviet Union and we have multilateral economic organizations such as the WTO. These new issues are right in the middle of all of these spaces. There’s got to be some room for alliance politics, but also room for conversations between adversaries and states with different political systems on areas of mutual interest. There has to be some room for everyone to think about the economic and security consequences of this new world but we don’t have any very obvious settings or forums that can be adapted to be the place where these rules are created. That again is another big challenge – how do you start creating some sort of informal set of discussions? Do you try to do this in the United Nations system or elsewhere? I just don’t know and I’ve not seen any discussion or speculation about this so far but I think it’s a very important set of questions that we need to start engaging with.

JS: Would China’s Belt and Road Initiative be another type of weaponized interdependence encouraged by this initiative?

Farrell: I'm not a China expert but the China experts I have talked to seemed very divided about Belt and Road. Some of them think it's been a grand master plan to create infrastructure and to lock countries into relationships that are going to have long-term consequences, while others see it as being an opportunity for the Chinese government to hand out money to well-connected construction companies which are running out of stuff to do in China. Big construction is linked to the state sector in China and it's an opportunity to hand out goodies to well-connected companies.

Of course, the truth is probably a mixture but I would think there's a bigger question that lurks behind this which is the following one. If you look at US policy back in the late 1990s and early 2000s, clearly it was trying to create a world economy which was built upon US values. If you think about the way the Internet was governed, the way the US pushes the interests of the financial sector globally, it is trying to make a world that is safe for American business. It was not trying to make this into an instrument of great power projection. The US simply wasn't thinking about weaponized interdependence when it started putting globalization in place. Much of the globalization was led by business rather than by the US policy infrastructure or by the US government.

But then it turns out all of these networks have security consequences suddenly, once you get into a different political age. Post-September 11 the US government is able to use all these networks because they are centered on the US. So when I look at these questions I am probably less worried or less concerned about whether the Chinese government is planning it this way or not. I think that may be relevant to specifics but equally we know that the Chinese government can be really terribly wasteful and inept when it tries to plan the economy. For example, look at the huge amounts of money it has wasted on trying to get advanced semiconductor production up and running and the con artists who have managed to make off with billions by persuading this or that provincial government that they were the people who would set up the thing that would bring fame, fortune and prosperity, etc.

So I'm less worried about government intent. The question I think people ought to be looking at is what the practical consequences of these networks are being built out and will they become long-term sources of influence. If you think about Chinese companies that are exporting surveillance technologies to other parts of the world now – they may be doing this because the Chinese government is telling them to do it, but they may equally just be doing it to make money. The question is what kind of network results from that, and that is where we want to pay attention to much more than intent and centralized government effort. As I said, I think it's going to be far harder to do this on a global scale than it was for the US because people are thinking about these networks in a different way – everybody is paying attention to whether or not the networks can be weaponized.

Human Rights & Coercive Statecraft

JS: Finally, human rights play a critical role in supply chains today. Could this be used as weaponized interdependence or a source of coercive statecraft?

Farrell: I think we're going to see an increased focus on this and I think we could see human rights issues being used as a justification for weaponized interdependence-type measures. For example, perhaps when you look at the production of advanced photovoltaics in the Xinjiang region of China, it's a focus for both human rights fears but also security worries by US policymakers who are concerned that the US may not be able to catch up if China gets too far out in the lead on producing solar panels and similar types of technologies. So I think we're going to see increased use of human rights as a justification for measures that also have security and economic consequences. Will we see weaponized interdependence used as a tool for human rights more generally? I'm less certain about that. I think we're probably instead going to see a continuation of something which is a little like weaponized interdependence but also quite different – which is activists and others looking to see where the choke points are. The choke points very often are big companies such as Nike and so activists are going to target them along with consumers if they don't change the labor practices of their suppliers. That's not weaponized interdependence but it's somewhat similar – here it is private activists looking to target the choke points. I think the limits to this are clear; very often these companies like Nike may not even know how their supply chains work. There is also a lot of whitewashing of supply chains through various forms of dubious certifications.

I don't know if this will happen over the longer term but we may see people trying to use weaponized interdependence to target the aspects of the global financial system that enable and facilitate corruption. Governments may go after the international and financial institutions which facilitate corruption much more strongly and also start to think about green climate change and so on. For example, when the EU introduced these cross-border carbon tariffs, they were telling companies in other countries if you produce your steel in high carbon intensity ways you will have a hard time exporting into the EU. The US did not treat this as protectionism, but instead saw it as something that it could get on board with. So you could see a combination of more traditional trade tools such as what the EU is doing and weaponized interdependence perhaps in the future. But that depends, of course, on a lot of political factors in the US, such as who wins in 2024 and what the relationship between the president and Congress is going to be – all of those questions which I don't know the answers to and which keep me up late at night worrying!

JS

Written with the cooperation of Joel Challender who is a translator, interpreter, researcher and writer specializing in Japanese disaster preparedness.