The U.S. Sanctions Offensive: Economic Statecraft and the Transatlantic Relationship

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Abstract

This paper explores the impact of sanctions and other forms of coercive economic diplomacy on the transatlantic relationship. Throughout the past decade European countries have become increasingly exposed to various U.S.-led sanctions regimes, either acquiescing to them, as with joint U.S.-EU sanctions enacted in the wake of Russia's annexation of Crimea in 2014 and invasion of Ukraine in 2022; or caught in the crossfire, as a result of sanctions against Iran following the United States' unilateral withdrawal from the Joint Comprehensive Plan of Action (JCPOA) in May 2018 and sanctions against China's technology firms starting in 2018. In these and other cases, the sanctions and other forms of economic statecraft are highly de-stabilizing and cause significant resultant harm to the economic interests of European (and other) states even as they benefit U.S. economic actors. EU states individually and collectively need to develop alternatives to Washington's economic statecraft and its confrontation strategies towards Russia and China.

The last two decades have seen a dramatic increase in the United States' use of sanctions and other forms coercive economic statecraft. By leveraging the massive power of the U.S. Treasury and the centrality of the dollar as international reserve currency Washington has also broadened the scope of secondary or extraterritorial sanctions, thereby increasing the number of impacted firms and states alongside an expanded range of policy objectives. Between 2000 and 2021 the number of sanctioned individuals and entities increased by a factor of 10 to more than 10,000 (Economist, 2022). The wave of unprecedented sanctions enacted against Russia by the United States and Europe in response to its invasion of Ukraine in February 2022 represents a further substantial increase in their use.

The literature on sanctions has focused primarily on their impact on targeted states and societies. Whereas historically sanctions were enacted primarily in support of political narratives and objectives (Mulder, 2022) their implementation now also increasingly serves economic interests, whether as intended or unintended consequence. This paper focuses on the role played by secondary sanctions and other forms of coercive U.S. economic statecraft in the transatlantic relationship. Throughout the past decade European member states have become increasingly exposed to various U.S.-led sanctions regimes, either acquiescing to them, as with joint U.S.-EU sanctions enacted in the wake of Russia's annexation of Crimea in 2014 and support for the rebellion in the Donbass and the unprecedented sanctions enacted against Russia following its invasion of Ukraine in February, 2022, or caught in the crossfire, as a result of the threat of secondary sanctions following the United States' unilateral withdrawal from the Joint Comprehensive Plan of Action (JCPOA) in May 2018. Notwithstanding questions of ethics and putative effectiveness, U.S. sanctions are often highly de-stabilizing for business relationships. They cause significant harm not only to sanctioned states but also to the economic interests of European and other corporations and allied states while privileging U.S. economic actors.

Resenting U.S. secondary sanctions and other forms of economic statecraft and seeking to minimize the economic cost of compliance—and also to preserve "rules-based," multilateral agreements—EU and

European national leaders have appealed for the construction of a "sovereign Europe" based on a concept of “strategic autonomy” (Borrell 2020). Denouncing Washington’s deployment of secondary sanctions and diplomatic coercion against European companies EU officials have vowed to establish the euro as an international reserve currency and develop means of avoiding the long arm of the U.S. Treasury’s Office of Foreign Asset Control (OFAC) (Cafruny and Kirkham, 2020). These bold statements indicate the strong rhetorical support for greater European autonomy prior to Russia’s invasion of Ukraine. However, extraterritorial sanctions arising from the U.S. withdrawal from the JCPOA, sanctions on Russian oil and gas in response to the invasion of Ukraine, and sanctions as well as other forms of coercive economic statecraft against China’s technology firms have severely impacted European firms and states. European states individually and collectively have become even more subordinated to the United States.

I. Europe, the United States, and the Joint Comprehensive Plan of Action

Since the 1979 Revolution when the U.S. banned Iranian imports and froze $12b of Iranian assets in response to the ‘hostage crisis’, a succession of anti-Iranian sanctions have been carried out by the United States. These had a unilateral character until 2007 when the UN Security Council passed Resolution №1747 ordering the suspension of uranium enrichment by the Iranian government.

At the outset the European states were ‘passive observers’ of the American sanctions and they continued doing ‘business as usual’ with Iran until the risk of secondary sanctions emerged in 2010 (Cronberg 2018). The EU then agreed to ‘targeted’ sanctions on Iran as the result of U.S. pressure. Secondary sanctions were further expanded in 2013, enabling the United States Treasury not only to punish targeted states, but also to harm competitors in global markets. Recognizing these risks, the EU facilitated negotiations within the working of the P5+1 group at the initiative of Barack Obama. This led to agreement in 2015 on the landmark Joint Comprehensive Plan of Action (JCPOA) that secured

Tehran's commitment to halt its nuclear program and open itself to international inspections in return for the lifting of sanctions (Cronberg 2018).

In May 2018, President Trump unilaterally withdrew from the JCPOA, complaining that it did not curtail Tehran's ballistic missile program or prevent Iranian military intervention in Syria, and that it included a sunset clause after which Iran could move quickly towards a nuclear weapons program. By imposing secondary sanctions on countries utilizing the SWIFT payments system to send an receive payment orders to Iran, Iranian banks were effectively disconnected from much of the world trading system while Iran's central bank assets were seized. At the outset, Europe's attempt to sustain the JCPOA against American opposition represented one of the most serious rifts in the transatlantic relationship since World War Two as the EU sought actively to work against the United States—and alongside Russia and China—on an issue of crucial strategic importance. The JCPOA is an emblem of Europe's commitment to multilateralism, and its preservation serves as a fundamental test case of European autonomy and power with respect to global governance. Not only is Iran an important market for numerous European firms, through the JCPOA, but European countries have also sought to reduce political conflict and instability within the Middle East and thereby avoid further refugee flows.

Seeking to preserve the JCPOA, the remaining members of the P5 pressed Iran to continue to abide by its restrictions in order to deny the United States and Israel a pretext for military intervention. At a meeting in New York in September 2018 chaired by EU High Representative Federica Mogherini, China, France, Germany, Russia, and the UK issued a joint statement recognizing that Iran was in full compliance with the JCPOA and reaffirming their continued support for the agreement (EEAS 2018). Noting that "the lifting of sanctions, including the economic dividends arising from it, constitutes an essential part of the JCPOA," the participants called for updating the EU's Blocking Statute and extending the European Investment Bank's external lending mandate to Iran. The statement specifically called for the establishment of a Special Purpose Vehicle (SPV) to replace SWIFT and facilitate payments for Iran's exports and imports, thereby enabling Iran's energy exports. However, U.S. officials responded with fury. Washington imposed the first wave of sanctions in August 2018 with the aim of preventing Iran from gaining access to dollars and blocking its trade in autos, airplanes, steel, and aluminum. The United States implemented a second and more comprehensive round targeting Iran's energy sector in November 2018.

At the outset, the EU3 (along with Russia and China) declared their intention to save the accord and encouraged European firms to continue to trade with Iran. However, European firms were unwilling to risk sanctions and trade with Iran was quickly disrupted as all large corporations pulled out of the Iranian market. As EU-Iran trade diminished Iran gradually reduced its commitments to the JCPOA. The EU then established the Instrument in Support of Trade Exchanges (INSTEX), a special purpose vehicle headquartered in France. Designed to function through barter, INSTEX would theoretically allow Iran to buy and sell to Europe without the use of the dollar, thus shielding European firms from U.S. sanctions.

At the end of 2019 six European countries—Belgium, Denmark, Finland, Netherlands, Norway, and Sweden joined INSTEX. At the beginning of 2020 following the U.S. assassination of Iran's General Soleimani Tehran announced that it would no longer maintain limits on enriching uranium although still allowing inspections and would reverse this decision provided the EU could resume trade. France, Germany, and Britain under strong U.S. pressure triggered the Dispute Resolution Mechanism of the JCPOA, although declaring their intention to save the accord. The United States enacted additional sanctions on 10 January across multiple sectors of the Iranian economy including manufacturing, construction and mining. Finally on 31March INSTEX concluded its first and only transaction, for 500,000 euros of medical aid from Germany, exempt by virtue of humanitarian aid from U.S. sanctions (Deutsche-Welle 2020). Yet, the experience of INSTEX vividly illustrated the limitations of the EU. While at the outset the promise of INSTEX encouraged Iran to observe the agreement, EU-Iran trade declined by 75% in 2019. Iranian exports declined by 94% (Euractiv 2020). As Iran's central bank concluded, "INSTEX was set up to save JCPOA, but it did not work as the European countries have not had enough courage to maintain their economic sovereignty. Furthermore, they have no idea how the channel should be financed. Iran will not shift its resources to INSTEX just to keep it, and import the same goods that are already being supplied from other channels.(Central Bank of Iran, 2021).

While the U.S. withdrawal from the JCPOA and the enactment of harsh sanctions that have intensified the impact of the pandemic on Iran have obvious geopolitical motives there is also an important geo-economic dimension. Simultaneously geopolitical and commercial, the sanctions not only devastated Iran's economy but they also fomented Europe's resentment and charges of "judicial extortion" (JD Supra, 2021). In 2018 sanctions reduced Iran's oil exports to Europe by almost 9 million tons as U.S. exports to Europe increased by almost 14 million tons (Simonov and Grivach, 2020) representing a significant windfall to the fledgling U.S. fracking sector (Jaffe 2018; Arab Weekly 2018; CNBC 2020). As noted above, EU-Iranian trade and investment linkages had increased significantly. By 2018, EU-Iranian trade had increased substantially to more than 20 billion euros (Brüggmann 2018). German companies account for 60% of EU investment and 40% of total industrial equipment in Iran. French oil giant Total and Anglo-Dutch Shell had made significant investments in Iran, including in the LNG sector. Airbus lost 19 billion euros as a result of its inability to deliver more than a hundred planes worth $19b to Iran Air. Unilever, Renault, Henkel, and Peugeot have carried out significant investments in Iran. Daimler was forced to terminate a joint venture with an Iranian car manufacturer. By contrast, Boeing's loss of a $20 billion contract was, by contrast, exceptional (Engelen, Nychay, Tuominen, 2021; Washington Post, 2018). In 2017 U.S.-Iranian trade was just $200 million.

II. Europe, Germany, and Energy Autonomy in the Wake of Russia's invasion of Ukraine

On June 18, 2015 at the St. Petersburg Economic Forum an agreement was signed between Gazprom Russia and a consortium of German (BASF and E.on) , French (ENGIE), Anglo-Dutch (Royal Dutch Shell), and Austrian (OMV) companies on the construction of NordStream-2. The project envisioned a pipeline with a capacity of 55 bcm that would run directly from Russia under the Baltic Sea to Germany, along the same route as the existing (NordStream-1) pipeline. If completed, the project would reduce Ukraine's role as a transit corridor and thereby deprive Kiev of roughly $2 billion in annual transit fees. It would concentrate two-thirds of Russian gas exports to Western Europe in one route, and consolidate the position of Germany as the central hub for distribution and resale of Russian gas imports throughout Europe.

Like its predecessor, NordStream-2 elicited widespread hostility from the European Commission as well as from Poland, Italy, Bulgaria, the Baltic states, Slovakia, and Ukraine, all of which recognized that the pipeline would reinforce their dependency on Germany and, potentially on Russia. Prior to the Russian invasion of Ukraine 40% of Europe's gas consumption and 30% of oil was imported from Russia. In 2021 Germany relied on Russia for 55% of its natural gas. Polish ministers likened both of the Nordstream pipelines to the Molotov-Ribbentrop pact of 1939 (Istrate, 2019; Mesik, 2016) **https://emerging-europe.com/news/polish-minister-compares-nord-stream-2-with-molotov-ribbentrop-pact/** https://www.project-syndicate.org/commentary/nord-stream-russian-gas-german-mistake-by-juraj-mesik-2016-06

In response to a Polish government determination that European consortium partners were violating anti-trust laws through their collaboration with Gazprom, they withdrew from the consortium and Gazprom approved the termination of the shareholders agreement in November, 2016. Nevertheless, the companies declared their continuing support for the project and at the end of 2016 firms from throughout the EU were bidding on the construction project, now entirely financed by Gazprom. Because the pipeline runs along the same route as the original NordStream-1 and connects with a non-member state of the EU, the project arguably did not contravene the anti-monopoly restrictions of the Third Energy Package although the German energy regulator in May, 2020 called this into question (Euractiv 2020). NordStream-2 enjoyed strong support from German industry and the

German state. Any interruption of pipeline gas represents a mortal threat to the German export economy.

U.S. opposition to the NordStream-2 pipeline has certainly reflected geopolitical concerns—a longstanding opposition to European energy dependence on Russia (and independence from the United States) dating back to the 1970s and reprised with the construction of Nordstream-1 in 2011 (de Jong, 2022). However, it also clearly reflects commercial motives that have become increasingly salient during the past decade. Significant technological innovations in the form of hydraulic fracking and horizontal drilling have disrupted longstanding global energy alliances and arrangements, enabling the United States to become the world's largest producer of natural gas, overtaking the combined output of Russia and Saudi Arabia in 2015. In 2013 the United States became the world's largest producer of hydrocarbon petroleum and is projected to achieve energy self-sufficiency by 2030. Aided by the expansion of the Panama Canal, the United States became a net energy exporter by the end of 2017. At the present time 30% of global energy needs are supplied by oil, 28% by coal, and 25% by natural gas. Russia is the world's second largest producer of natural gas and oil, behind the United States. However, in 2020 despite the pandemic the United States surpassed Russia as the leading natural gas exporter and realized the highest natural gas exports on record.

Notwithstanding these developments, the centrality of the German-Russian energy relationship means that the supply of American LNG to Europe is constrained by price as well as by the limited infrastructure on both sides of the Atlantic. In 2015, the United States had no LNG terminals for supply of large volumes of liquefied shale gas to EU. Six terminals for the period from 2016 to 2020 with total export capacity of 118 billion cubic meter of natural gas per year have been commissioned, with an additional 54 such terminals under consideration. At the present time most U.S. LNG is bound for Latin American and Asia. Even if total export capacity and energy consumption in Europe remain the same the United States will not be able to match Gazprom's prices. The United States has also sought to develop European gas resources through exploiting shale reserves and hydrofracking on the European continent. Major U.S. companies have made substantial investments throughout Europe, and especially in Ukraine and Poland, but these have proved disappointing while also provoking popular resistance on environmental grounds.

Thus an important obstacle for US gas exports to Europe has been their relatively low profitability in the context of NS-1 and, potentially, NS-2. The most attractive and fast-growing market for LNG supply has been Asia, in particular Japan, China, and South Korea, where the average price per cubic meter of natural gas is about 100 US dollars higher than in the European market. American producers are eager to secure a presence in the Asian market and many of the new LNG export terminals are reserved for Asia. Therefore, the promotion of US energy supply does not at the present time make economic sense unless favorable political conditions for establishment of EU-US energy partnership can be sustained in order to ensure competitive advantage of US supplies.

The European LNG import infrastructure is also at the developmental stage. By 2016 the countries that had regasification terminals included UK, France, Spain, Italy, Belgium, Portugal and Greece, with limited infrastructure for re-export of surplus natural gas to other EU countries. However, the construction of LNG infrastructure is underway in Poland and the Baltic states. In June, 2016 the first commercial delivery of LNG from Qatar reached Poland's new Swinoujscie terminal on the Baltic Sea. This terminal, together with a proposed pipeline from Norway, would greatly reduce Poland's reliance on Russian natural gas. In October, 2014 the first regasification terminal was opened in Lithuania. Finland and Estonia have entered into agreement on the establishment of joint project relating to construction of terminals in both countries. The three Baltic states have agreed to set up a single gas market which will eventually be linked to Poland and Finland while excluding Kaliningrad, where Gazprom operates a storage facility. Washington has welcomed these new constructions and developments, which constitute as yet the only indirect consequence of promotion of energy dialogue between the United States and the European Union.

The situation with respect to NordStream-2 has thus represented in microcosm the complex balance of intra-European and transatlantic geo-economic relations. Ever since the 1970s the Federal Republic has pursued energy ties with the USSR/Russia, opposed but tolerated by Washington in a context in which U.S. commercial interests were not directly in play. However, the development of fracking in the Permian Basin and other areas greatly increased pressure to impose sanctions on NS-2. "Freedom gas" was proposed as an alternative to Russian supplies, welcomed in eastern European countries which built LNG terminals but resisted in Germany: "The United States is again delivering a form of freedom to the European continent…rather than in the form of young American soldiers it's in the form of LNG." (Euractive, 2019).

Until February 24, 2022 the survival of recently completed NordStream-2 represented a "red line" for German industry, whose competitiveness would be substantially diminished if compelled to import more expensive LNG from the Middle East and United States. Indeed, long-range U.S.-EU plans to phase out Russian gas exports to Europe call into question the fundamental export-led economic developmental project of the Federal Republic. Claudia Kemfert, an energy economist at DIW Berlin, asserts that sanctions are "an aggressive instrument in a fossil energy war." (Handelsblatt, 2021). Markus Krebber, CEO of the energy giant RRW has warned that "…high industrial prices will lead to a creeping de-industrialization" (RWE, 2022). This was confirmed by Berlin's decisive response in 2019 to Emmanuel Macron's threat to bring the project under the Commission's control unless France obtained an increased Eurozone budget (Gotev 2019). Notably, sanctions were not directed against the European companies of the consortium, but only against the Swiss-based pipeline company Allseas Group, which immediately pulled out of the project. Germany and Russia made significant concessions to Washington: Germany agreed to construct LNG terminals although it did not follow through with these until the war in Ukraine. Russia committed to a long-term transit agreement with Kiev. Indeed, prior to the war Washington and Kiev were considering the possibility of storing U.S. LNG exports in Ukraine in the summer until higher prices arrive in the winter (RFERL 2020). Notably, six months into the war Gazprom continues to export gas through Ukraine

As the pipeline neared completion, further sanctions were authorized in December 2020 in the Defense Bill (U.S. Congress, 2020). However, the Biden administration resisted provoking either Moscow or Berlin during most of 2021, recognizing that enacting sanctions would be viewed as an existential challenge to the German state and industry. For its part the EU opposed NS-2, but even more U.S. sanctions. The French power company Engie reportedly withdrew from discussions with U.S. LNG exporters in 2020 after Congress had ramped up NS-2 sanctions.

During Chancellor Olaf Scholz's inaugural visit to Washington prior to the invasion President Biden said of NS-2 that he wanted to "put an end to it." However, immediately following the invasion Scholz conceded that the pipeline should be placed on hold and then eventually accepted that it would be abandoned. Berlin's capitulation under the pressure of global and domestic public support for Ukraine--Scholz's *zeitenwende*-- represented a significant and probably irreversible victory for U.S. oil and gas sector. As the *Wall Street Journal* reported on March 24, "The globe-spanning effort to wean Europe off Russian energy supplies was at the center of President Biden's summit with European Union leaders this week in Brussels. The U.S. aims to ship 50 billion cubic meters of LNG to Europe annually through at least 2030, officials said Friday, making up for about a third of the gas the EU receives from Russia"(Dalton and Legorano, 2022). While Germany—and Western Europe—will continue in the short term to import gas from Russia the termination of NS-2 and U.S.-European plans to sever additional gas and oil linkages appear destined to terminate 50 years of energy cooperation (Taylor, 2022). https://www.euractiv.com/section/energy/news/eu-us-strike-lng-deal-as-europe-seeks-to-ditch-russian-gas/ Germany is projected to become Europe's largest LNG importer by 2028. Notably, the

Biden administration in the name of national security is increasing permits for drilling on public lands, expediting permits for energy infrastructure and eliminating legal and regulatory uncertainty with respect to fossil fuels. In 2021 the Biden administration approved more drilling permits for public lands than the Trump administration during its first year, and in 2022 the number is expected to surge. The U.S. Federal Energy Regulatory Commission (FERC) and presidential climate advisor John Kerry have endorsed natural gas as a potential benefit to the climate. While stock prices of major LNG companies have soared many European countries have experienced massive shortages and price rises. The EU's decision to phase out gas imports from Russia and Moscow's retaliation in the form of restrictions on exports are highly destabilizing and strike at the heart of the German economy and society.

III. Europe in the Tech Crossfire

On December 1, 2018 the United States Department of Justice issued an arrest warrant for Meng Wanzhou, CFO of China's tech giant Huawei. Detained following her arrest in Vancouver airport she was the subject to a provisional extradition request for alleged fraud in relation to circumventing sanctions against Iran. In May, 2019 the United States Department of Commerce banned U.S. exports to Huawei and lobbied allies to ban Huawei from their emergent fifth generation wireless networks. Citing Chinese company law that endows the government with ultimate authority, it asserted that Huawei constitutes a threat to national security and privacy. Given its size and technological leadership, Huawei's expansion represents a grave commercial threat to U.S. technological predominance, regardless of its connections to the CCP.

By 2018 Huawei had become the dominant provider of 5G equipment worldwide and leading smartphone producer. No U.S. company is a close competitor, but U.S. firms control the technology used in the manufacture of semiconductors that are essential to Huawei. In 2021 China produced 50% of the world's computers and mobile phones; the United States produced 6%. China produces four times the number of electrical vehicles as the United States, has 9 times as many 5G base stations. The United States retains a leading position in semiconductor technology but no longer its manufacture, which has been outsourced to *inter alia* Taiwan and South Korea. China is seeking to catch up in fabrication and design, but it is highly constrained by sanctions. Given its size and technological leadership, Huawei's expansion represents a grave commercial threat to U.S. technological predominance, regardless of its connections to the CCP.

The ensuing U.S. project of technological containment initiated by the Trump administration involved unilateral U.S. sanctions on China's major tech giants such as ZTE, Huawei. These sanctions were justified on national security grounds, but they had clear commercial implications. These were followed by extra-territorial or "secondary sanctions" on suppliers. In May, 2019 the United States Department of Commerce banned all U.S. exports to Huawei and lobbied allies to exclude Huawei from their emergent fifth generation wireless networks. Citing Chinese company law that endows the government with ultimate authority, it asserted that Huawei constitutes a threat to national security and privacy.

The imposition of a potentially devastating global embargo on semiconductor supplies to Huawei in order to curtail its leadership over 5G technology has been compared by numerous observers to the U.S.-led embargo and subsequent freezing of Japanese assets in 1941 that precipitated the attack on Pearl Harbor (Kessler, 2020; Allison, 2020), "chips as the new oil." As U.S. Senator Ben Sasse observed, "The United States needs to strangle Huawei. Modern wars are fought with semiconductors." (Swanson, 2020). U.S. military planners have suggested that Taiwan deter a Chinese invasion by threatening to destroy its TSMC semiconductor plants on which China relies (Nikkei, 2021). https://asia.nikkei.com/Politics/International-relations/Indo-Pacific/Taiwan-should-destroy-chip-infrastructure-if-China-invades-paper

Washington's struggle to contain Huawei's growth and penetration into Western markets has reflected both the complexity of global high-technology value chains and the constraints on U.S.

economic power deriving from its deep interdependence on China. Japan and South Korea initially complied with Washington's demands. However, citing a lack of evidence for U.S. allegations of cyber espionage and recognizing the sizeable cost benefits most European countries sought initially to continue doing business with Huawei. When the United Kingdom initially rejected U.S. claims that Huawei represented a security threat and declared its intention to continue allowing Huawei participation in its 5G networks Ren Zhengfei, the company's founder and CEO, compared the decision to the Soviet Union's victory at Stalingrad (Strumf, 2020).

Recognizing the ineffectiveness of existing diplomatic and coercive efforts, in May, 2020 the Trump administration opened up a new and far more provocative offensive in its attempt to contain China's high-tech challenge. Through the State Department's "clean network program" it developed a "exclusionary geopolitical strategy" designed to decouple firms from China and establish a bifurcated digital economy (Mayer, 2020). It tightened its own export controls on Huawei and enacted secondary sanctions on all companies selling computer chips to Huawei if the product has been manufactured or designed using U.S. technologies. Immediately following this announcement Taiwan Semiconductor Manufacturing Company (TSMC), the world's largest chipmaker, halted new orders from Huawei. Prior to the announcement TSMC announced plans to build a $12 billion chip factory in Arizona (Ting-Fang and Li 2020). This "nuclear option" may have far-ranging impact on Huawei and indeed China's technological future. The new U.S. rules "push the world into uncharted territory" (Goldman 2020). In December, 2020 sanctions were also imposed on the Chinese chipmaker SMIC, further tightening the noose on Huawei. China retains the option of retaliating against U.S. companies including Apple, Qualcomm, Boeing, and Cisco as well as European companies, but it has not yet exercised that option.

Europe is "the primary battleground" in the war between Washington and Huawei (Doffman, 2019). Although Nokia and Ericson are Huawei's main rivals, Europe as a whole has been heavily dependent on Huawei, and a ban imposes significant costs (Morris, 2020). No U.S. company is a close competitor, but

U.S. firms, most notably Intel, control the technology used in the manufacture of semiconductors that are essential to Huawei. Reflecting the determination of most member states to continue to allow Huawei to develop their 5G systems the European Commission resisted U.S. pressure to impose a blanket ban. However, as the worldwide economic coercive U.S. campaign intensified, most European countries, including the UK and France, have capitulated by imposing legal or *de facto* exclusions. This is so even as Washington has apparently weaponized its supply chains by extending waivers that allow U.S. corporations to supply Huawei and thus seize market shares from their European counterparts (Yang, 2020). Germany has remained something of an outlier: However, notably it has moved gradually to accommodate the United States while retaining its options by imposing a “dual track” approval process that could allow Germany to circumvent the ban in the face of Chinese retaliation (Morris, 2020).

Even as Huawei’s CFO Meng Wanzhou was released from house arrest in Canada in September, 2021 at the behest of federal prosecutors in the New York Federal Court in what amounted to a prisoner exchange with Beijing, the U.S. campaign on Huawei has taken a huge toll. By the end of 2021 Huawei had fallen to number nine in the smartphone industry, far behind Samsung and Apple, and lost further ground in 2022, largely because of its inability to obtain necessary components amid more generalized semiconductor shortages (Purnell, 2022). https://www.wsj.com/articles/huawei-revenue-profitability-continue-to-slide-amid-u-s-restrictions-11660296605 Its global telecom market share has also decreased significantly. Few observers, however, believe that Huawei will not eventually be able to revive its prospects, driven by the largest home market.

Throughout 2022 the Biden administration further hardened U.S. policies towards China. While it sought initially to move beyond tariffs which have not been counterproductive and alienated U.S. companies (Sayers, 2022), this was abandoned following the tensions arising from House Speaker Nancy Pelosi’s visit to Taiwan. Using Section 301 of the Trade Act, U.S officials are targeting semiconductors, artificial intelligence, 5G wireless, and electric vehicles: in its February report to Congress the U.S. Trade

Representative asserted that “It is apparent that existing trade tools need to be strengthen, and new trade tools need to be forged.” (U.S. Congress, 2022. This involves expanding the list of Chinese technology companies subjected to blacklisting over subsidies, connections to the CCP and PLA, and alleged human rights violations.

Semiconductors, the fourth most traded commodity after crude oil, petroleum products, and automobiles, lie at the heart of global economic rivalry, given greater urgency as a result of the acute shortage of semiconductors during the pandemic (Tkachenko and Wyrch, 2022). 80% of advanced semiconductor manufacturing is based in Taiwan and South Korea. The EU accounts for just 9% of the global microchip market while the United States accounts for 12%. However, no European firms manufacture leading-edge chips while the United States retains a substantial lead in R and D and specialized equipment. U.S. and EU drives for autonomy in this sector have followed a similar pattern: assessment of supply chain vulnerabilities; establishment of legal and regulatory framework for national/regional research, design, and manufacturing; funding and plans for collaboration and ”technological sovereignty.” The US-EU Trade and Technology Council, established in June, 2021, envisioning transatlantic alliance under U.S. leadership (Tkachenko and Wyrsch, 2022). The EU has established a “European Initiative on Processors and Semiconductor Technologies through the European Commission to wean European firms from U.S. technology (Yang, 2020). The Digital Services Act (DSA) and Digital Markets Act (DMA) have been proposed by the Commission to regulate big tech platforms. In February, 2022 the Commission launched a $43 billion “European Chips Act,” expected to be implemented the first half of 2023 (Timmers, 2022). However, it is doubtful that they can spearhead an indigenous European rivals (Economist, 2020). https://www.brookings.edu/techstream/how-europe-aims-to-achieve-strategic-autonomy-for-semiconductors/

In August, 2022 Joe Biden signed a bipartisan $280 billion “Chips and Science Act.” Providing $53 billion in subsidies and tax credits to chip manufacturers to expand or establish factories in the United

States and a further $200 billion for research and accompanied by additional sanctions on China's semiconductor firms, the bill represents an important advance in the strategy of containment through the consolidation of U.S.-dominated supply chains and partial decoupling from China. The provision of subsidies to Taiwanese, Japanese, and South Korean semiconductor producers seeks to bind them to the United States: companies receiving funding to establish manufacturing plants in the United States are prohibited from building plants in China "or any other country of concern." Among these companies with already extensive exposure to China and under increasing pressure to exit China are South Korea's Samsung Electronics and SK Hynix, Foxconn, and Taiwan Semiconductor Manufacturing Company (TSMC), which accounts for 55% of global chip production and 90% of the most advanced chips and is making large investments in the United States.

Notwithstanding the race for national microchip capability, given the complexity of supply chains no country will be able to establish self-sufficiency in this sector. The U.S. strategy is to dominate global supply chains from which China is excluded or accorded a subordinate role. U.S. Treasury Secretary Janet Yellen has proposed the concept of "friendsharing:" We cannot allow countries to use their market position in key raw materials, technologies, or produces to have the power to disrupt our economy or exercise unwanted geopolitical leverage. Let's build on and deepen economic integration….with the countries we know we can count on." (Ting Fang and Li, 2022). https://www.ft.com/content/f76534bf-b501-4cbf-9a46-80be9feb670c

IV. Conclusion

The proliferation of U.S. extraterritorial or secondary sanctions illustrates vividly the formidable structural economic power of the United States based on the dollar supremacy, technology, and military force. Secondary sanctions and other forms of coercive economic statecraft directed against Russia, Iran, and China have nevertheless challenged European commercial interests. With respect to the sanctions on Iran they fomented deep resentment alongside paralysis, perhaps the most clear-cut example of U.S. coercive economic statecraft, although there is no clear distinction between geoeconomic and geopolitical motive. With respect to Nordstream 2, the Trump and Biden administrations both faced trade-offs between geopolitical logic and economic interest. Throughout most of 2021 the Biden administration sought to hold the U.S. oil and gas lobby at bay given its desire to maintain support from its most important European ally. Whether the lobby would have eventually prevailed in the absence of the Russian invasion cannot be known, but the war has greatly strengthened U.S. hegemony in Europe, transforming global energy relations and vastly benefited U.S. energy companies at the expense of Germany and the EU.

file:///C:/Users/acafruny/Documents/Ukraine%20Multipolarity%20and%20the%20Crisis%20of%20Grand%20Strategies.p

Soaring energy prices—appreciating tenfold in the case of gas as—after six months of warfare--are likely to prove socially devastating and politically divisive, perhaps weakening Europe's resolve to support Ukraine. Germany has abandoned longstanding commitments regarding clean energy, abandoning plans to shut down nuclear plants and even re-opening coal mines. As growth slows and Germany experiences its first trade deficit in two decades Olaf Scholz has warned of coming public unrest and "social dynamite." German business leaders have warned against "the worst crisis since the second World War" (Vohra, 2022). https://foreignpolicy.com/2022/08/10/germany-gas-russia-war-ukraine-consumption-energy-eu-deal-targets/

With the failure of the Comprehensive Agreement on Investments (CAI), signed by the EU but not ratified by the European Parliament in 2021 there is no coherent EU policy towards China, and no basis for developing such a policy outside the framework of the U.S. imperium, especially in the aftermath of Russia's invasion of Ukraine. Lacking global heavyweights such as TSMC and Intel, the European Chips

Act, with a provision of less than 10% of that of South Korea, is unlikely to spearhead self-sufficiency but rather attract U.S. investments (Michaels, 2022). Notwithstanding France and Germany's largely symbolic entry into the Indo-Pacific region and French calls for an EU "strategic compass," EU initiatives such as the European Defense Fund (EDF) and Permanent Structured Cooperation on Defense and Security (PESCO) designed to exclude non-European firms and foster the development of an autonomous military industrial complex are very modest, hindered by intra-European divisions and strongly resisted by Washington (Kelly, 2019), which seeks to maintain primacy over an integrated and highly lucrative transatlantic armaments market dominated by American firms. Berlin's 110 billion euro rearmament program resulting from the war in Ukraine is predicated on deepening linkages to and dependency on the U.S. military industrial complex. In August, 2022 the Luftwaffe participated in Operation Pitch Black time in the Indo-Pacific region alongside Australia, Japan, and NATO allies, the largest deployment since World War II. Yet the expansion of NATO operations in the region alongside participation in U.S. sanctions comes in the context of massive economic dependence on China, Germany's largest trading partner, endangering the German and European economies. Audi imports 249 parts from China for its newest autos and is entirely dependent on China for the metals needed to build solar panels, electric cars, and wind turbines (Hesse and Sage, 2022a; 2002b https://www.spiegel.de/wirtschaft/grenzen-der-deglobalisierung-alle-wege-fuehren-nach-china-a-ceb1a212-4ec0-411d-9a88-501abd1f5b34

https://www.spiegel.de/wirtschaft/grenzen-der-deglobalisierung-alle-wege-fuehren-nach-china-a-ceb1a212-4ec0-411d-9a88-501abd1f5b34

All of these factors indicate that the EU states individually and collectively need to develop alternatives to Washington's economic statecraft and its broader strategy of containment of China and Russia.

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