

Whitepaper

UNIPOLAR VS MULTIPOLAR WORLD ORDER

Strategies For Financial Firms





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The world has consistently oscillated between the periods of multipolar and unipolar world orders continuously influenced by political, cultural, military and economic forces where each period brought with its own set of dynamics and geopolitical challenges. The balance of power between multiple states characterizes multipolarity, while the hegemonic influence of a single superpower, encompassing social, cultural, ideological, economic, and most significantly, military superiority, defines unipolarity. This enormous phenomenon has been observed since the dawn of human civilization. From the ancient civilizations to the medieval empires, and from the early modern period to the contemporary nation-states, the nature of these power dynamics have contributed to the rise and fall of the powerful empires and dominant civilizations.

In the ancient world, multiple powerful civilizations and empires were characterized by multipolar world order. They involved more than one center of power and influenced each other through diplomacy, trade, commerce, warfare and cultural exchange. The most powerful civilizations of the ancient world included Mesopotamian Civilization (4500 BCE - 539 BCE), Egyptian Civilization (3100 BCE - 332 BCE), the Indus Valley Civilization (3300 BCE - 1300 BCE), and Ancient Chinese Civilization (2070 BCE - 220 AD). The most powerful ancient empires included the Persian Empire (550 BCE - 651 CE), the Greek City States (800 BCE - 323 BCE), and the Roman Empire (753 BCE - 1453 AD). The dynamic interplay among these powerful civilizations and empires led to significant advancements creating a complex web of coexistence and a rich tapestry of artistic and intellectual accomplishments.

However, these powerful empires also used trade embargoes as a foreign policy instrument to obtain a military and strategic advantage in the economic and political battlegrounds. Discussed below are history's most famous trade embargoes that sent shockwaves and rocked the geopolitics of those eras.





“ Thucydides

The Spartan-led trade embargo against Athens was a strategic move to cripple the Athenian economy, cutting off essential supplies and weakening their war effort.

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Spartan Embargo on Athenian Allies (431 BC - 404 BC)

The ancient Greek city states of Sparta and Athens waged a 27-year conflict, known as the Peloponnesian War , in a fierce competition for ancient Greece's hegemony. During the conflict, Sparta instituted a trade embargo, or in modern terms economic sanctions, to weaken Athens and its allies and trading partners by cutting off vital supplies and trade channels, threatening Athens' economic stability. As feared, the trade embargo increased the war's economic toll on average Athenian citizens, resulting in internal unrest and discontent, as well as the eventual demise of the Athenian system of governance.

The Continental System by Napoleon Bonaparte (1806-1814)

During the Napoleonic Wars from 1806-1814, one of history's greatest military generals Napoleon Bonaparte ordered all neutral trade with Great Britain to be discontinued in all European territories under his control. This trade embargo, known as the Continental System, aimed to cripple Great Britain economically, if not via direct confrontation. Two years after France's unilateral economic restrictions, Great Britain responded by imposing a trade ban on France, its allies, and the Americas.

The Continental System trade embargo had a huge impact on several European economies, particularly on the common European farmers and merchants. Napoleon's actions resulted in more damage than any political or strategic gain. Some historians analyze that this trade restriction probably had a strong ripple effect on Napoleon's eventual downfall. Napoleon aimed to ruin Britain's economy by isolating it economically and diplomatically from the rest of Europe.

“

Napoleon believed that by halting trade with Great Britain, the Continental System would deplete British resources, cause inflation, and ultimately destabilize the British government.

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The League of Nations Sanctions on Italy (1935-1936)

In response to Italy's invasion of Ethiopia, the League of Nations sought to impose sanctions to pressure Italy to cease its aggression. The sanctions included an embargo on arms sales to Italy and restrictions on certain raw materials. The sanctions were only partially effective and failed to stop Italy's conquest of Ethiopia. The perceived weakness of the League of Nations in enforcing the sanctions contributed to its declining credibility and effectiveness.



Antony Beevor

Despite the League of Nations' imposition of sanctions, Italy's invasion of Ethiopia continued, exposing the League's inability to deter aggression through economic means alone.

Sanctions During the Emergence of Pax Americana

The period of “Pax America” came with the disintegration of the Soviet Union in 1991 which began a new era of the American-dominated unipolar period with the United States possessing unmatched economic, military and cultural dominance around the world. After the Cold War, the global order suddenly shifted from the bipolar to unipolar with the United States becoming the symbol of liberal economic principle - capitalism, democratic principles - representative government, human rights, free and fair elections, political tolerance, separation of powers, accountability of institutions, pluralistic system of political parties and organizations, transparency and so on.



“ Pax Americana marked the transition from old world empires to a new world order dominated by American ideals and institutions. ”

Zbigniew Brzezinski

American dominance in the international stage was further enhanced by the creation of international organizations which were largely funded by the U.S. taxpayers. Imposing sanctions in this unipolar world order where a state breaks international law by declaring unprovoked war as in the case of Russia, or if a country pursues nuclear weapons as in the case of India, Iran, North Korea, Pakistan, Libya and Iraq. Sanctions represent an ever-changing phenomenon of international life.

Even if sanctions are formally imposed in the same way as five or twenty-five years ago, there are a number of signs indicating that they have undergone fundamental changes. In the unipolar world order, the 1990s are marked as the era when the sanctions were primarily used against tiny countries in order to change their political regimes or international behavior, or against transnational drug cartels (for example, the United States' international campaign "La Lista Clinton," began in 1995).



Sanctions in the Post 9/11 Era

Post 9/11 events led to a fierce sanctions war being launched against a new non-state actor in the international stage — international terrorist organizations — via financial sanctions imposed by the Financial Action Task Force (FATF) and US financial intelligence services' access to the SWIFT global interbank financial telecommunications system.

Sanctions were also imposed against rising regional powers in this unipolar setup: India (for nuclear weapons) and China (following the events in Tiananmen Square), but the former were of limited severity, and the latter, imposed concurrently by the US and the EU, were later lifted with the exception of the arms embargo. These fines served primarily as a disciplinary measure rather than a deterrent to a great power.

Iran was the first major player to suffer complete sanctions in 2010, but the practice of imposing sanctions on that country has been around since the 1990s due to the 1979 Islamic Revolution in the country. In the case of Iran, sanctions are not just about trade embargoes but it also means facing international isolation.

The new sanctions were started by the United States, which had already imposed unilateral limitations on Iran for more than two decades. In the 2000s, the grip was tightened even more: the first UN Security Council resolution was enacted in 2006, followed by four more over the next three years, the toughest of which completed the sanctions. Unilateral sanctions, including the most severe, such as disconnection from the international financial system - SWIFT system, expanded their scope, but it wasn't until the US resolution that such a powerful and effective anti-Iranian alliance was formed.

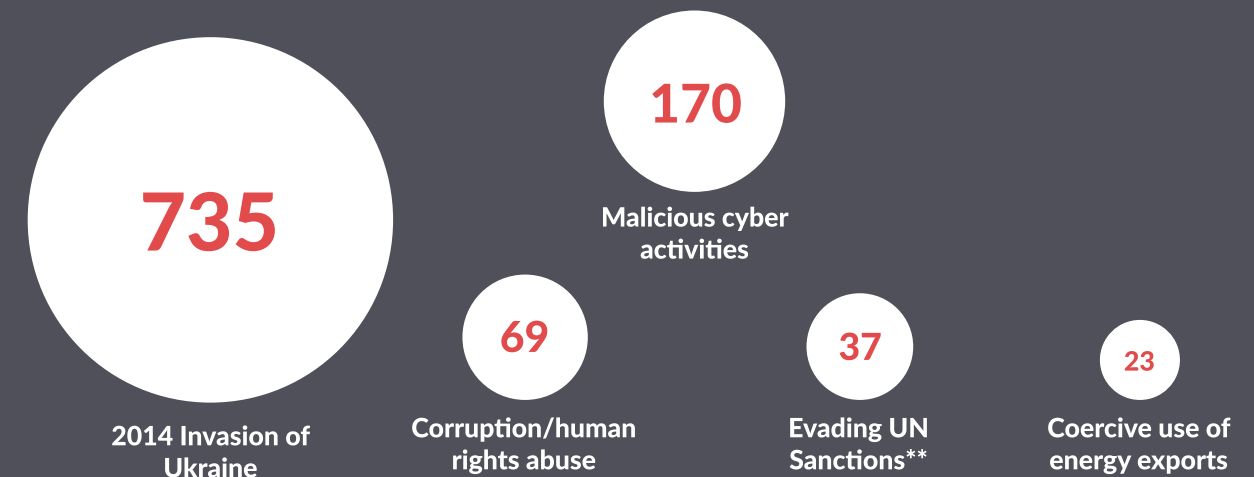
Sanctions After Russian Occupation of Crimea

In 2014, sanctions were placed on Russia, and for the next five years, they changed from being primarily the initial "disciplinary" packages that were established in the spring of 2014 to ones that were systematic and deterrent. Analysts had predicted that China will be the next major nation to come under heavy sanctions. In actuality, since the 1990s, China has already been subject to specific sanctions and an arms embargo.



REASONS BEHIND THE U.S. PAST SANCTIONS ON RUSSIA

*Approximate number of Russian entities subject to U.S. sanctions for the following reasons (as of Sept 1, 2021)**



Source: Congressional Research Service

Sanctions against Russia are now seen as the "new normal" in the realm of international relations, in contrast to 2014, when they were regarded as an exceptional circumstance.

Chinese businesses are subject to sanctions in part because they violate US restrictions against Iran, not because of their "success" or market share. In this way, ZTE faced severe consequences following several alerts about the transfer of forbidden technology to Iran. Similar justifications were provided for the official sanctions against Huawei, despite the fact that the company's the highest executive's arrest as part of these measures was highly unusual (the CEO's daughter and vice president of the company was detained in Canada at the request of the United States) and only helped emphasize the political nature of the Huawei case.

How the Rise of the BRICS Resulted in a New Multipolar World Order?

With the rise of the BRICS economies, the world has transitioned from unipolarity to multipolarity, and the number of countries imposing formal sanctions has grown. Apart from conventional sanctioning powers such as the United States and the European Union, sanctions have extended throughout the Middle East, owing largely to Saudi Arabia's stance, which has pushed four Arab countries to put sanctions on Qatar and employed individual sanctions against Canada.

In other words, we are witnessing the proliferation of formal sanctions, despite the fact that formal sanctions were previously an exclusive foreign policy tool created primarily to assure the inevitability of punishment, which could only be carried out, at least partially, by global actors.

Damage from such sanctions can be either symbolic (for example, the freezing of U.S. dollar assets or denial of entry to individual politicians and civil servants) or comparable with the damage from comprehensive sanctions, if, for example, the central bank of a particular state is disconnected from the SWIFT system .

Just like comprehensive sanctions, sudden isolation of a country from international financial flows directly affects the quality of people's life, but the concept has not been renamed. However, the effectiveness of such sanctions depends on the type of political regime against which they are directed. It is believed that authoritarian regimes are more resistant to comprehensive sanctions, while democratic regimes are more resilient against targeted sanctions.

One of the most significant developments in the world of sanctions involved not the sanctions themselves, but the system of control over their enforcement. The United States Department of Treasury proposed monitoring sanctions compliance by increasing oversight measures through financial systems and their participants.



As a result, individual American banks now have the obligation for monitoring compliance with sanctions laws, rather than the Office for Foreign Assets Control (OFAC). The sanctions program was actively outsourced to the private sector under the threat of severe penalties (up to \$8 billion) or expulsion from the American financial system, as described by Juan Zarate in his book "Treasury's War: The Unleashing of a New Era of Financial Warfare".

The informal criteria for the imposition of sanctions have also been broadened. For example, formal indications of circumventing the requirements of the sanctions, such as through phony payments, are no longer required, as a company can be added to the sanctions list based only on correspondence disclosing its illicit activity.

Due to diversification, sanctions are increasingly less likely to have truly devastating effects on sanctioned economies (if they could ever have them without military support at all, but their deterrent effect on development will continue to be quite tangible. In other words, today states are actively mastering survival strategies, but the preparation of development strategies under sanctions requires a deeper transformation of the established economic and political processes.

On the whole, under the influence of unilateral sanctions (but certainly not only them), the international system will become more dynamic, more mosaicked and more flexible.

As a systemic element of the international agenda, sanctions will stay there for decades because they reflect fundamental transformations in international spheres of influence. This factor should be taken into account when adopting state and interstate decisions, adjusting business strategies, and introducing and promoting new legal practices. Otherwise, sanctions designed to be a means of deterrence may prove quite effective as such.



How Financial Firms Can Navigate the Multipolar World Order?

In a multipolar world order, where countries may have varying sanctions compliance requirements based on their regional interests, businesses and financial institutions need to be flexible and informed. To ensure that they are not unintentionally caught in the crossfire of global politics, they must abide by jurisdiction-specific compliance recommendations that take these variations into consideration. Global compliance and anti-money laundering (AML) initiatives face a complex problem when a corporation is sanctioned in one nation but not in another. Different sanctions policies among nations can put businesses and financial institutions in difficult situations when it comes to international trade and finance.

Regardless of the nation that imposed the sanctions, AML systems are meant to alert all sanctioned individuals, and organizations; however, compliance managers might need further details to evaluate the risk of alert in the context of their company. Since many financial institutions operate internationally and are subject to international legislation and penalties, comprehensive coverage of sanctions watchlists is essential. Thus, a country in the United States may nevertheless need to be aware of sanctions if it operates worldwide or in a jurisdiction where compliance with China sanctions is required, even if the restrictions in one country—let's say those imposed by China—do not directly affect the country.

As nations strive for economic and political hegemony, there has never been as much need for innovative and adaptable technical solutions. The AML Watcher sanction screening tool is strategically designed to address the challenge of the relevance of sanctions compliance. It not only provides lists of sanctioned entities, but it also offers customizable risk levels based on jurisdiction. This feature is essential in a world where geopolitical dynamics are constantly shifting and the relevance of data is just as important as its breadth.



About Us

At **AML Watcher**, we aim to support more than 10,000 businesses in their fight against rising FinCrime by creating a secure and compliant financial world where they can thrive. Supporting 10k+ business partners, Reducing \$10M compliance cost, and saving 50% of screening cost.

AML Watcher maintains such features as 1300+ watchlist databases, over 200+ sanction regimes, 235+ countries while ensuring comprehensive coverage, over 5000 reputed and reliable media sources with global coverage and 80+ languages enabling multilingual reach solving issues of global coverage.

Today, AML Watcher is dedicated to assist you and your compliance team with custom AML Screening capabilities. Our real-time insights and advanced entity-matching algorithms free your searches of false matches. Get everything you need for AML Screening in one place.

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