

Geoeconomic Brief #1 — Context and Concepts

- The world has entered a new geoeconomic order, in which the previously distinct policy domains of economic and security are being blurred, particularly with respect to investment, trade and technology.
- The new geoeconomic era calls for new ways of understanding the strategies that other countries are pursuing, and then formulating the best policy response for our own interests.
- The “geoeconomic toolkit” can be used both for coercive and beneficial effects – geoeconomics provides a useful framework for policy analysis without presupposing a zero-sum policy objective.

A new world order is emerging — a geoeconomic world order — in which the rules, norms and institutions that govern international engagement are being re-shaped. As a result of significant and rapid shifts in the geopolitical, economic and technological landscape, new thinking about how to manage the risks and leverage the opportunities is required in order to maximise opportunities for prosperity and peace.

The aim of this policy brief is to present a framework for addressing these crucial issues, anchored in the concept of “geoeconomics”. This will lay the groundwork for considering ways in which the Australian government can adopt policies that help Australian society and economy in the future. It serves as a starting point for conversation, rather than an end point of concrete policy proposals.

The Context

The new geoeconomic world order is being shaped above all by rising tensions between China and the United States, which reflects the emergence of China as a peer-competitor of the United States. This rising tension has led to a blurring of the previously more discrete policy domains of national security and international economic policy. National security justifications are increasingly driving policy formulation in the economic sphere, while economic policy is increasingly seen as a domain of strategic competition.

Beijing and Washington — as well as other capitals — are now engaged in an increasingly competitive, and at times antagonistic, great power competition. For decades the process of globalisation — with the adoption of global institutions that fostered economic interdependence — was thought to be a driver of both peace and prosperity, at least within the capitalist world. But this economic interdependence is increasingly seen by security analysts as sources of vulnerability and insecurity. What economic theory frames as voluntary and positive-sum gains from trade is being reframed by security analysts as coercive, “zero sum” of foreign influence and dependency.

The relationship between the US and China is being reframed in Washington as strategic competition requiring an “all of government” (or even “whole-of-society”) response, with calls for unwinding the global economic network or technological ecosystem (“decoupling”) and for international partners and allies like Australia to “pick a lane”. Meanwhile, China’s political trajectory has not aligned with the hopes or expectations held by some in the West (and some in China as well) that four decades of “reform and opening up” would result in a market economy and a far more liberal democratic government.

Australian policymakers will need to consider how to respond to the calls for Australia to support decoupling and/or to “pick a lane”. Keeping Australia’s security and economic interests separate is becoming increasingly difficult. For example, responding to requests from the US or China in one domain will likely cause frictions in the other domain. This potential for frictions necessitates more coordination between Australia’s different interests.

What is Geoeconomics?

Robert Blackwill and Jennifer Harris in their 2016 book *War by Other Means: Geoeconomics and Statecraft*, define “geoeconomics” as follows:

The use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results; and the effects of another nation's economic actions on a country's geopolitical goals.

This definition is a useful starting point for conceptualising geoeconomics. Examples of economic instruments (or tools) include trade and investment policies, sanctions, aid and development assistance, and higher education, research and technology policies. Economic actions by governments can be analysed through a geoeconomic framework when they are pursued at least partially to achieve a strategic (non-economic) objective, or when they affect the geopolitical interests of other states. One example would be when a new tariff is implemented on national security grounds, rather than (purely) for domestic industry protection. Likewise, foreign aid may be allocated to a particular country with twin objectives: to stimulate economic development as well as to strengthen democratic processes and build influence.

There are various geopolitical outcomes that a national government could pursue with the use of economic tools. These include maintaining (or gaining) global primacy in technological capabilities, acquiring or strengthening alliances, weakening the alliances of other states, changing the economic or political systems of other states, promoting one’s own ideology or values, and reducing (domestic and global) threats. Most broadly, the objective of maximising national power falls within this set.

The goal of governments in the international arena is to pursue national interest, which can be understood as a mix of security, prosperity and values. These broad objectives can come into conflict, and policies must manage these trade-offs.

The new era has seen greater emphasis on security, as prosperity and security have become increasingly complex functions of one another. This contrasts with the last three decades under a unipolar international system, when the weighting on prosperity (for example, “jobs and growth”) was a lot higher than security (in terms of inter-state competition among great powers). Our objective is to shed light on the many factors shaping optimal policy making in this context.

What’s new and what’s not

The term geoeconomics was first coined by US strategist Edward Luttwak in 1990, during a period in which some in the US worried that Japan would challenge its global primacy by economic rather than military means. While much of Luttwak’s writings are highly relevant today, we identify five new global trends manifesting at the intersection of politics, economics, technology and society that have given rise to this new order:

1. Growing strategic rivalry between the US and China, sparked by China’s rapid emergence as a major power utilising a model of political order and economic organisation that is starkly different to that of the United States.

2. The trajectory of the PRC government's domestic policies, and its international engagement and influence strategies, including its Belt and Road Initiative.
3. The expansion of national security concerns to cover more and more policy domains, including in international trade and investment.
4. The weakening of the rules-based order that emerged under US leadership in the post-war period, both because of challenges posed by China and other non-Western states, and challenges from a loss of legitimacy in the eyes of Western publics.
5. Unprecedented levels of global interdependence, including flows of people, knowledge, goods and capital, as well as connectivity in cyber space.

Of course, governments have used economic tools for strategic purposes since antiquity. Some strands of 19th century neo-mercantilist thinking, such as by Alexander Hamilton and Fredrich List, argued that the possibility of political conflict between states made departures from free trade orthodoxy a necessary security response. By the mid-20th century, Albert Hirschman, in *National Power and the Structure of Foreign Trade*, specifically recognised economic interdependence as a source of vulnerability, having studied Nazi Germany's pre-war economic statecraft. Many of these ideas are taken up by David Baldwin in his 1985 book *Economic Statecraft*, which highlights at least two points that are useful today:

1. Any assessment of whether a tool of economic statecraft is effective or not must account for the costs and benefits in comparison to what other forms of statecraft (propaganda, diplomacy and military) may have achieved in its place.
2. Alongside negative sanctions and tools of coercion and leverage, there are several positive sanctions (aid, subsidies, tax incentives, most-favoured nation treatment, granting licenses, free trade agreements) that are equally valid.

This Time is Different

What is different is that this is the first time that the world's hegemon, the United States, has simultaneously faced an economic and strategic competitor in one and the same state (China). This is happening amidst a period in which information and communication technology has created a new frontier that enables new forms of statecraft. The shift from a unipolar international system back to a multipolar system suggests we will see more conflict emerge. The expansion of the physical into cyber domains means that some of that conflict will take previously unknown forms. For these reasons, we will see states experiment with an expanded geoeconomic toolkit over the coming years.

This brief has outlined some of those practices and theories, identifying some key concepts and providing the current context that we believe define a "new era" of geoeconomics.

A key point is that geoeconomics, at least as described here, need not be a "dirty word" that implies zero sum outcomes. What we now call geoeconomic strategies as practiced by all great powers in the past have delivered positive outcomes for the many countries that have reaped the economic *and* security benefits of these strategies. Geoeconomics provides a "toolkit" that can be used to analyse and pursue different ends — whether these are framed in zero-sum, mixed-sum or positive-sum terms.

This brief was prepared by Prof Jane Golley (ANU Australian Centre for China in the World — CIW), Ms Yun Jiang (CIW), Dr Darren Lim (ANU School of Politics and International Relations) and Prof Anthea Roberts (ANU School of Regulation and Global Governance). We thank Dr Paul Hubbard (Visiting Fellow, ANU Crawford School of Public Policy) for his comments, and the ANU Public Policy and Societal Impact Hub for funding our ongoing work on geoeconomics with the Australian Government, and workshop participants for providing further insights and testing ideas.