Economic defence alliances may help deter economic warfare

*The world is entering a new era of economic warfare, but current international institutions are not right to deal with the problem. **Anthony Vinci** proposes the creation of multilateral economic defence alliances as a way for countries to defend themselves. Companies and investors will also need to consider how to protect their own interests in this new world. This is the second in a series of blog posts summarising the new report 'Protect, Constrain, Contest', by LSE IDEAS, the foreign policy think tank at LSE.*

The world is entering a period of rapid evolution in economic statecraft driven by the rise of China, economic devastation from COVID-19 and geopolitical flux within the US, EU, UK, and other nations. Such evolution is driving new offensive approaches and in turn this must drive the development of defensive measures by democratic states.

There is widespread recognition that the current national security competition with China is as much economic as military. Chinese economic threats range across a spectrum from traditional economic competition, such as Made in China 2025, to geopolitical power plays like the Belt and Road Initiative (BRI) to outright systematic theft of intellectual property.

China is also using its economic power to achieve geopolitical ends through the threat and execution of unilateral, punitive tariffs and other coercive methods. This has been amply demonstrated through its recent interactions with Australia, for example, in which the Chinese government used tariffs and other economic weapons on key Australian exports like beef, barley, and wine to punish the nation for its investigation of China's role in the spread of COVID-19. Similar coercive measures have been pursued against Sweden, Germany, and other nations.

Nor is it just China that uses economic power in such a fashion. Russia regularly uses its control over the flow of oil and natural gas -and more recently vaccines – to neighbouring countries like Ukraine to further its geopolitical goals.

Economic statecraft has always been a part of international relations, but in recent years China has begun using economic coercion in new and more threatening ways. Such use of economic coercion differs significantly from the traditional use of sanctions by the US and other nations, which are generally multilateral and based on international law. Rather, the unilateral use of economic power for geopolitical purposes by China opens up a wholly new avenue for international conflict in which punitive measures are used to execute diplomatic goals. At its most extreme, this is a form of economic warfare.

Economic warfare can be seen as the continuation of politics by other means, but in this case through the use of economic force rather than military force. In other words, it is coercion derived from the use of threatened or real economic destruction. The difference between military destruction of economic assets, such as bombing factories, and economic warfare is that economic warfare does not usually physically destroy economic assets. Though economic warfare may create the same effect, for example, a factory may be shut down and left to rot.

As in traditional military warfare, economic warfare attempts to compel an adversary to change its actions through increasing the costs to a point where it now makes more sense to comply than to not. As in military warfare, in most instances economic warfare is executed through the threat of force.

Democratic countries require a means of mutual aid to defend against such economic coercion. Ideally mutual aid would prevent, rather than respond to, economic attacks, since economic warfare undermines value for all sides involved and could very easily escalate into more aggressive measures or even into armed conflict. American trade restrictions on Japan in the late 1930s, which led to the attack on Pearl Harbor, are a case in point.

Unfortunately, the WTO and other current international institutions are not right for helping in this situation. These organizations, including NATO and the UN, were not set up for economic warfare, they don't have the mandate nor the tools to react. The inadequacy of these institutions is self-evident in that neither Australia nor any other nation affected by Chinese economic attacks has received any support.

A better means to defend against unilateral economic attacks and economic warfare is the use of multilateral economic defence alliances. Such alliances provide a means to not only respond to economic attacks but to prevent them. An economic alliance could be formed with the limited but express purpose of defence against economic coercion and attacks. Like a political alliance, an economic alliance would require agreement between the parties to support each other during a predefined event, e.g., an economic attack. The means of such defence would be in the form of mutual aid. It would in effect be a form of collective defence against economic warfare as NATO is today a form of collective defence against military warfare.

There are several tools available for economic alliances including: the use of tariffs and counter-tariffs; subsidisation of targeted economies, which might look something like an IMF to loan money to those under attack; strategic imports and exports to defuse economic coercion; strategic reserves of key materials such as rare earths and joint policies and enforcement around adversarial investments and M&A. In all cases, the goal of mutual aid should be its use as a defensive measure and ultimately as a deterrent.

The world is entering a new era of economic statecraft. Nations will need to develop new means to defend themselves and to deter harmful economic attacks. One final note is that it will also be easy for companies and investors to get caught up as collateral damage in such economic warfare. Just as states will need to learn how to defend themselves, companies and investors will also need to consider how to protect their own interests in this new world.

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Notes:

- *This is the second in a series of blog posts based on the new LSE IDEAS report 'Protect, Constrain, Contest'.*
- *The post expresses the views of its author(s), not the position of LSE Business Review or the London School of Economics.*
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