

# Weaponised Economics and Restoring Economics in the Global Order

Shiro Armstrong, ANU

RIETI BBL, 27 January 2025



Australian  
National  
University

# Trade a source of conflict or peace?

*Peace is the natural effect of trade*

— Montesquieu, 1748

The commercial peace; Kantian peace; the peace dividend:

Increases the cost of conflict.

Trade as a source of prosperity and security in East Asia.



*Commerce, which ought naturally to be, among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity.*

— Adam Smith, 1776

Weaponised trade a source of vulnerability.



# Depends on the regime

- Depends on the regime within which countries are engaged
  - **Post-war economic order:** confidence in US -led multilateral trading system that mitigated risks
  - **Weakened system:** Companies and countries are having to self -insure with economic security policies of diversification, stockpiling, onshoring and friendshoring
- Prosperity and security can be complements (Montesquieu) or substitutes (Smith)
  - Virtuous cycle or vicious cycle
  - Guns and/or butter



# Post-war economic order

- Forged during the war to avoid beggar thy neighbour protectionism and economic rivalry that fed insecurity and conflict in 1930s
- Bretton Woods: GATT, WB and IMF embedded liberalism and multilateral principles
- Allowed an insulation of trade and economic policy from 'high politics' (Cooper, 1972) → 政經分離



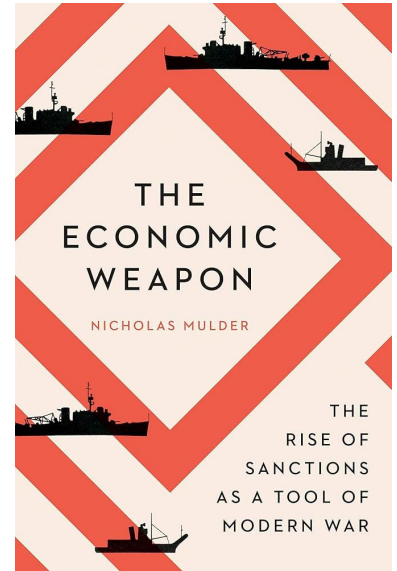
# Open global markets as a source of security

- WTO and multilateral system under threat but not dead: protecting from coercion
- The global economy is large: alternative suppliers and buyers
- Importance most favoured nation and open contestable markets that diffuse economic and political power, blunting the use of economic weapons
- Now? The security imperative vs the economic imperative.



# Weaponised economics

- Geoeconomics: the use of economic tools for strategic purposes (Blackwill and Harris, 2016: War by Other Means: Geoeconomics and Statecraft)
- Trade sanctions, export controls, SWIFT payments system, freezing assets and reserves, blocking investment all in the name of national security
- Weaponised interdependence causes economic interdependence to be seen as a source of vulnerability
  - East Asia (and Europe) show economic interdependence is a source of prosperity and security
- A neutered WTO dispute settlement system and Article XXI GATT Security Exception let loose

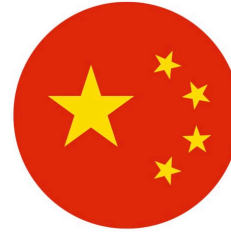


# Great Power strategic competition

- The competition for primacy: relative instead of absolute gains
- Zero-sum: one side's gain is seen as a loss to the other
- Economic competition vs strategic competition
- Forcing countries to choose sides:
  - extra-territorial unilateral sanctions
  - economic coercion
- De-risking without a functioning rules-based system that mitigates risks may leave decoupling as the most rational outcome



# Prisoner's dilemma generalizes to an epic -fail

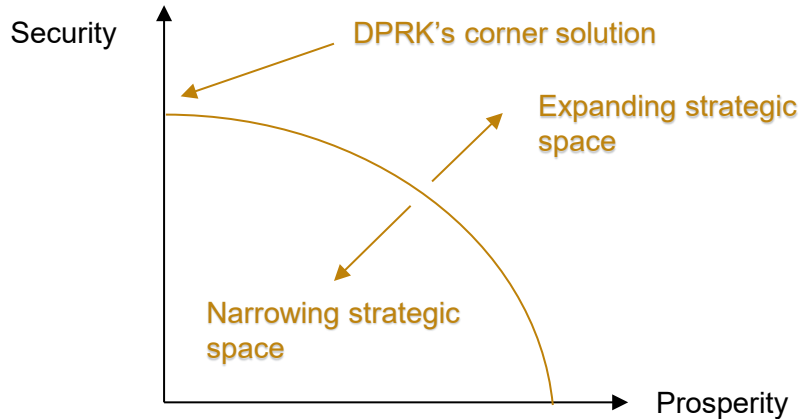


	Cooperate	Contain
Cooperate	(5 , 5)	(-10 , 10)
Contain	(10 , -10)	(-5 , -5)



# Instinct to retreat to a dark corner

- National security risks are existential: assigned an infinite price
- No amount of prosperity is worth catastrophic security outcomes: retreat to the corner solutions
- Need to deal with tail-risks but need not dominate policymaking



Choosing policies towards the corner

Cornering countries

International cooperation

Fragmentation and disorder



# How to respond?

- Diversify trade? Isn't that the opposite of specialization and gains from trade (comparative advantage and economies of scale)
- How to manage concentrated markets?
- Thinking about security differently
  - Collective security and comprehensive security
  - Zero-sum can be limited to territorial disputes and war; not competition for technology supremacy
- The power of economic interdependence
  - China's complex and deep interdependence in global value chains: not falling
  - A Chinese economy and society that's less integrated into the global economy is one with more risks
  - Lessons from Europe's dependence on Russian gas



# Restoring economics in the global order

## System preservation and system reform

- New rules for industrial policy, digital economy and technology
- Appeal to the WTO rules backed by MPIA
- Plug security exception in WTO
  
- Bottom -up rulemaking will need multilateral principles
  - Open accession vs minilaterals of 'like -minded' or 'trusted partners'
  - Incentivise and accommodate Great Power cooperation
  
- Collective action required while US is inactive in the system
- Beware Trump's deals that enable and validate direction of US and contribute to weakening the existing international economic order
  
- Bridgeheads for multilateralism in Asia that lock China in:     Utilise ASEAN-centred arrangements and organising an Asia-Europe-China response



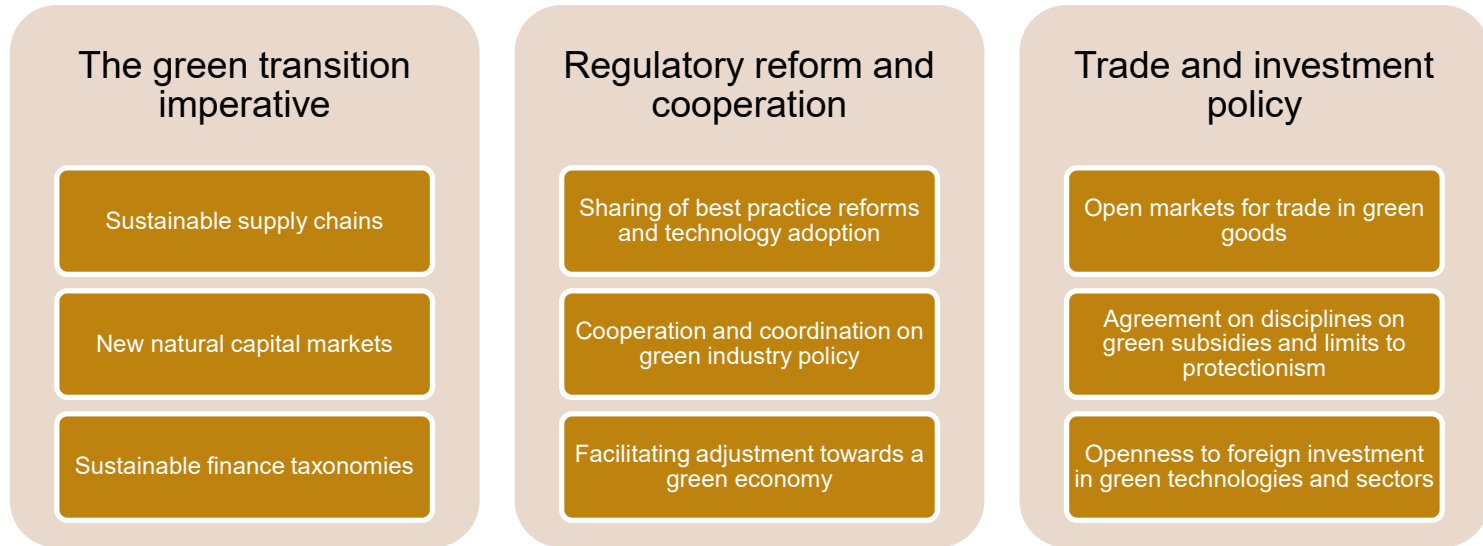
# Forging consensus and building frameworks for cooperation

- Inadvertent cooperation (Quah, 2024)
- Principled plurilateralism (Posen, 2020)
  - Examples: CPTPP and MPIA
- Constructive incrementalism ( Pangestu and Janow, 2023)
- Concerted unilateralism (Drysdale and Garnaut, 1993)
  - Examples: climate mitigation and Bogor Goals
  - Open regionalism and avoiding economic diversion/negative spillovers



# Global existential threat of climate change

Single Green Market as a new organizing goal for concerted unilateral action.



Bogor Goals 2.0 initiative in East Asia

