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Lawfare Blog (Nov. 19, 2018).

The Geoeconomic World Order

By Anthea Roberts, Henrique Choer Moraes, Victor Ferguson

We appear to be entering into a new geoeconomic world order, characterized by great power rivalry between the United States and China and the clear use of economic tools to achieve strategic goals. This increased convergence of economic and security thinking and strategies is likely to lead to a significant restructuring of the laws and institutions that govern international trade and investment.

In the post-Cold War period, the old international economic world order flourished. It was characterized by a relative separation of the realms of security and economics; a primary focus on maximizing absolute economic gains; and a tendency to treat interdependence as a good that would facilitate the goal of increased economic efficiency. In the new geoeconomic world order, the balance and relationship between economics and security have changed. The new order is characterized by a higher degree of convergence between security and economics; a greater focus on relative economic gains given their implications for security; and increased concern over the security risks posed by interdependence in terms of undermining state control, self-sufficiency and resilience.

In their book "War by Other Means," Robert Blackwill and Jennifer Harris define geoeconomics as the "use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results." The term was originally coined by American strategist Edward Luttwak in 1990 following the fall of the Berlin Wall. Luttwak argued that the triumph of capitalism over communism meant that:

The methods of commerce are displacing military methods – with disposable capital in lieu of firepower, civilian innovation in lieu of military-technical advancement, and market penetration in lieu of garrisons and bases. States … will not disappear but reorient themselves toward "geoeconomics" … the best term I can think of to describe the admixture of the logic of conflict with the methods of commerce.

Luttwak's prediction was not so much wrong as premature. Instead, in the post-Cold War era, national security—or, at least, U.S. national security—and international trade and investment appeared to operate on relatively independent tracks.

On the one hand, trade and investment agreements with compulsory dispute settlement proliferated. In accordance with one strand of liberal international relations theory, economic interdependence was assumed to promote peace and cooperation by increasing the

costs of conflict between states. Increasing economic interdependence and reducing barriers such as tariffs were sold as win-win arrangements that increased economic efficiency and maximized wealth by allowing states to play to their comparative advantages. The proliferation of international economic law agreements, and the legal disputes arising from them, resulted in a vibrant subfield of law with a growing body of highly technically adept legal experts who believed in the "de-politicization" of economic disputes.

Meanwhile, following the first Iraq War in 1991, the 9/11 terrorist attacks and the subsequent invasions of Afghanistan and Iraq, U.S. national security experts focused primarily on topics like terrorism and the use of force in the Middle East, typically with respect to states that were of marginal economic importance to the United States. National security law experts abounded, but they tended to focus on issues such as detention policy and the legality and legitimacy of unilateral humanitarian intervention and drone strikes, rather than the ins and outs of trade and investment treaty policies and provisions or the latest cases to be resolved through WTO dispute resolution and investor-state arbitration.

Of course, economics and security were never completely separate. At the most basic level, a strong economy has always been essential for military defense. However, during the post-Cold War period, the two were treated as relatively insulated domains by many Western states. Security operated as a premise for trade and investment treaties, in the sense that the justification for these agreements was partly based on two rationales: first, that deepening economic interdependence would lessen the chance of war; and second, that incorporating hold-out states such as China and former members of the Soviet Union into the system would socialize them into becoming "responsible stakeholders." Security also operated as an exception, because most trade and investment treaties contained a national or essential security clause, although these were rarely invoked. However, it was economics—with its emphasis on efficiency and thus non-discrimination and anti-protectionism—that was ultimately the rule that was applied by international economic law's technocratic experts.

Yet, beginning in 2008 and crystallizing in 2018, there has been a marked convergence in the way that the United States has come to view economics and security, which is likely to profoundly reshape the international order. The security premise underlying trade and investment treaties came into question, and national security began to be invoked as an exception that increasingly has the potential to swallow the rule. Although multiple factors underlie this structural realignment and increased convergence of economics and security, three stand out in particular.

First, a redistribution in global economic power has given rise to a new era of great power competition. In absolute economic terms, the United States and China both gained tremendously from the old international economic world order. In relative terms, however, China began closing the gap on the United States. This shift became stark in 2008 when the U.S. economy precipitated the global financial crisis, causing a crisis of faith in the Washington Consensus model, while China's economy emerged as the world's second-largest, which emboldened China to seek a stronger role in international economic governance and to flex its military muscles within its region. It also changed U.S. calculations regarding the degree of threat from China and accordingly heightened American anxiety

over losing international predominance, giving rise to increased economic, technological and military competition between the two states.

Second, while equality has risen among states, inequality has risen *within* them. The global financial crisis and its fallout not only highlighted China's relative rise, but it brought into stark relief the gap between the winners and losers from economic globalization, particularly within the United States and other Western states. Rising inequality, job insecurity and a perception that free trade was one of the root causes of these problems has disrupted social cohesion and culminated in a populist backlash against the old international economic world order. This backlash has contributed to the election of populist leaders who blame open exchange with other states for the problems being faced at home (e.g., Trump's statements that China and Mexico were "raping" and "killing" the United States economy and "stealing" its jobs) and thus promise to walk back economic integration ("bring our jobs back home") and get tough on economic competitors that are "cheating."

Third, differences in the economic and political systems of China and the United States both contribute to strategic rivalry and are used by both parties to justify that rivalry. Economically, the United States champions a free market neoliberal ideology, whereas China has adopted a state-led capitalist model. As a result, both states have different strengths and seek to craft and play by different rules. Politically, differences between the democratic U.S. and authoritarian Chinese systems fuel suspicion and misunderstanding, with each perceiving and painting the other as a strategic rival. The United States depicts China as an authoritarian regime that is aggressive abroad and repressive at home. At the same time, China tars the United States as hegemonic and hypocritical, with a track record of interfering in the domestic affairs of other states and being motivated by a desire to hold back China's development.

Some of this suspicion may be justified based on the existence of real—and potentially previously underappreciated—security threats, such as the possibility of supply chains being compromised by foreign espionage (whether American or Chinese) or foreign military officials studying in other states to acquire dual-use knowledge and technology. But some of it is also likely to be the result of a complex process of social construction. Social psychologists have demonstrated the importance of "othering" in identity formation for individuals, and research has shown this process might equally apply to states. Having a clear sense of who is not on their team ("them") helps people to feel closer to those who are on their team ("us"). Indeed, some U.S. scholars have explicitly called on the United States to "other" China for this reason, such as Jeff Colgan and Robert Keohane:

Washington should nurture a uniquely American social identity and a national narrative. That will require othering authoritarian and illiberal countries … such as China and Saudi Arabia. Done properly, that sort of othering could help clarify the American national identity and build solidarity … It might at times constrain commercial relationships. However, a society is more than just an economy, and the benefits of social cohesion would justify a modest economic cost.

Whether good or bad, justified or not, these factors have caused a relative decline of the "economic mindset" predominant in the old international economic world order and a relative rise of a "security mindset" that helps to characterize the Geoeconomic World Order. As described below, the shift is not complete and different actors are pulling in different directions. But an overall recalibration between economic and security interests is taking place, and it is playing out in attempts by the two great powers to walk back international integration in two key areas: the economic realm (with the United States undertaking measures to decouple its economy from China's) and the digital realm (with China promoting a vision of digital governance that is premised on a fragmented internet).

The United States sees vulnerability in the deterioration of its economic power and self-sufficiency and likewise in China's growing technological capacity. As a result, the United States has adopted trade measures to protect the U.S. industrial and manufacturing base, imposing heightened screening requirements on foreign (and particularly Chinese) investments in critical infrastructure and technology, and becoming stricter with respect to export constraints on certain technologies. China sees vulnerability if it does not overcome what Andrew Kennedy and Darren Lim describe as the "innovation imperative"—moving up the economic value chain and closing its technological gap with the United States. It also views maintaining an open internet at home as a risk to regime-stability, cybersecurity and its comparative technological advantage in certain areas.

Some have characterized this U.S.-China rivalry as a new Cold War. But the current standoff is distinct because of three characteristics of contemporary world politics. First, unlike during the Cold War, in which the United States and the Soviet Union had little economic interaction with each other, China and the United States are deeply economically integrated with each other and many other states throughout the world. Second, the global economy is today crisscrossed with many trade and investment treaties, creating complex networks of obligations, many of which are subject to binding international dispute settlement. Third, states have increasingly begun to leverage this combination of deep economic interdependence and complex institutionalization to pursue strategic objectives—that is, they have increasingly engaged in geoeconomic strategies.

It is too early to tell where all of this will head. But we predict that at least four consequences are likely to flow from these shifts, some of which are already playing out in this newly emerging geoeconomic world order.

First, as a matter of substance, China and the United States are likely to seek to protect their core economic and strategic interests through appeals to national security. These attempts will involve both broader definitions of national security (such as "economic security is national security") and increased invocations of the concept. But national security is inherently relative to the nation that is being secured. Each great power will seek to secure its economic and strategic advantages by selectively promoting free trade and investment where doing so would augment its strengths, while protecting its weaknesses under the guise of ensuring its national security. For the United States, this project of protecting weaknesses is taking the form of reining in economic integration through trade tariffs, investment screening and export controls. For China, it is taking the form of accelerating and

broadening state-led initiatives to promote technological advancement and attempts to secure cyber sovereignty through tight control over data and internet-use.

Second, as a matter of procedure, the U.S. and China will likely invoke national security in efforts to shield areas that they consider core to their strategic interests from international review and regulation, aiming to reserve decision-making over these sensitive issues to the national level. Where international economic laws already exist, as for trade in goods or investment protection, this may take the form of invoking national security exceptions and then claiming that those invocations are unreviewable, thereby seeking to move decision-making down from the international to the national level. When international economic laws are yet to be developed, or existing rules are unclear or incomplete—as in digital commerce and data localization—it will result in a standoff between these great powers over whether and how to formulate or revise those multilateral rules. This will involve a failure to successfully move rule-making up from the national to the international level.

Third, as a matter of governance, these shifts are likely to result in a period of reduced and selective multilateralism and the rise of new and autonomous, though competitive, "spheres of influence." Multilateral rules are likely to be agreeable only over select issues that are not considered crucial to the zone of economic and strategic competition between the great powers. Where the great powers cannot agree on a multilateral approach, they are likely to try to develop separate spheres of influence in which they can establish their own approach among a group of like-minded or dependent states. On particular issues, the stronger state may try to establish a "multilateral-minus-one" approach if they can recruit a sufficiently large and diverse group of allies. However, the relative power of China and the United States means that on core areas of concern, neither side is likely to prevail in a truly multilateral sense. Instead, both spheres of influence are likely to operate, leading to greater bifurcation than we have seen to date in the international economic system and cyberspace.

Fourth, although the United States and China are the most important actors in this geoeconomic world order, they are not the only relevant actors. In particular, how this order pans out will depend in significant part on the actions of third states and non-state actors like private corporations and universities. Many third-party states will not want to choose between aligning with one of the world's top two economies and alienating the other. Whether they will be able to mediate between the demands and gravitational pull of these great powers or will increasingly align themselves with one over the other remains to be seen. Similarly, the deep integration of private companies and elite universities in the global flow of students, workers and research and development, will make many (particularly in the West) resistant to calls to engage in what could be called "Patriotic Capitalism." From their perspective, bifurcating the economic or cybersphere would have deep—and problematic—implications for both their financial returns and their future position in global innovation. Geoeconomic measures will thus involve a struggle of interests among states as well as within states.

The international economic order and strategic environment are at an important inflection point that will require states to increasingly navigate what Michael Wesley describes as the "securitisation of economic policy and economisation of strategic policy." We do not take a

normative position supporting or decrying the shift, nor do we assess the legality of Chinese and U.S. claims. Instead, we highlight efforts by the <u>great powers to restructure the rules and institutions that govern international commerce to advance their security preferences</u>. Whatever the ultimate outcome of these moves will be, these shifts seem to portend the dawn of a new age of *economic* lawfare.