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Systemic Impacts of Goeconomic and Economic Coercion: How Should States Respond?

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SYNOPSIS

The response to economic and trade competition and the rise of goeconomics and economic coercion have significant systemic implications and global consequences. It is essential to recognise the need for multi-level policy recommendations for governments to address these challenges.

COMMENTARY

Geopolitics is deepening as mutual mistrust and competition among states intensify. This is partly due to the changing power configuration among nations in various dimensions, including economic prowess. On the latter, the rise of emerging markets and economies such as Brazil, China, India, Nigeria, and South Africa exemplifies a significant shift in international power distributions in a post-Cold War era characterised by American supremacy.

Another factor contributing to deepening geopolitics is the absence of an established new world order. Little consensus exists on crucial questions about international governance, such as, "Who will write the rules?" or "What will the sharing of costs and benefits look like?" This absence of agreed-upon governance leaves the world with few effective tools to manage the increasing geopolitics.

The phenomenon fuels goeconomics, which encompasses states' use of economic tools to achieve geopolitical objectives. These tools fall into two main categories: (1) reward (e.g., giving favourable investment deals) and (2) punishment (e.g., imposing trade-restrictive measures). The latter, broadly termed "economic coercion", refers to states' deliberate deployment of economic instruments to penalise other countries to pressure them to change their policies in favour of the coercer.

Geoeconomics and economic coercion can take several forms. They can involve traditional measures such as tariffs, quotas, and export controls. They can also be broad strategies such as friend-shoring and near-shoring. Or they can be incorporated as part of an industrial policy.

While justifiable as a means to boost domestic industries and create jobs, the policy is nonetheless trade-distorting. Their potential misuse lies in the details. For instance, industrial policy can encompass favourable subsidies given to certain foreign companies to establish operations domestically or restrictive investment measures and rigorous investment screening imposed on firms from specific states.

This raises the question of a potential dual-use of industrial policy. In short, it can be deployed to drive the growth of domestic sectors while crafted to block other states' enterprises from making inroads to strategically dominate national markets.

Systemic Implications of Geoeconomics and Economic Coercion

The significance of geoeconomics and economic coercion extends beyond their impact on target states. They create systemic effects that can harm all economies. These practices can exacerbate supply chain bifurcation and erode the multilateral rules-based system vital for global stability.

Singapore Prime Minister Lawrence Wong shared his concerns regarding intensifying geoeconomics in [his interview with the Economist](#) in May 2024,

“ . . . we really have to have a care about how these sorts of economic tools are used for geopolitical purposes. In the military world, the security people are very mindful about collateral damage when you drop a bomb. Because you understand it causes harm on the other side, but you worry about retaliation, escalation and all sorts of consequences and you think very carefully. But when you start thinking about using economic and financial tools for geopolitical purposes, it is not so straightforward to assess the collateral damage and we do not have so much experience with it; if we are not careful, it will have profound implications to the global economy but worse still, for global stability”.

PM Wong's remarks warned about the risk of using economic instruments for geopolitical ends. They also cautioned that these measures could create serious effects on the global economy and international stability.

Such systemic risk was evident in historical examples such as the Great Depression of the 1930s. That period was marked by beggar-thy-neighbour policies such as the US Smoot-Hawley Act 1930 (a protectionist law), retaliatory tariffs, and competitive devaluations to gain trade competitiveness. These practices led to a collapse of the international economic system, making all economies worse off.

A system collapse today would have more severe and widespread consequences than that witnessed in the 1930s. This is mainly due to the increased interconnectedness of economies through networks of trade and investment ties. It is, therefore, vitally important and urgent to address geoeconomics and economic coercion to prevent history from repeating itself.

Addressing Geoeconomics and Economic Coercion

States can take action at three levels to tackle these issues: individual, regional, and global.

Individual Level

At the individual level, governments should prioritise economic diversification by seeking alternative markets and suppliers. This will enhance their economic resilience and help cushion some of the effects of geoeconomics and economic coercion.

Governments should also create channels for domestic firms to report actions taken by other countries that are not economically grounded but inflict damage on their businesses. Doing so will keep the governments updated on the evolving nature of geoeconomics and economic coercion as new instruments will likely emerge in the future.

Furthermore, governments should provide assistance to the negatively affected industries to help them weather challenges generated by geoeconomics and economic coercion. Assistance such as facilitating new business matching or offering financial aid would be crucial to supporting businesses during difficult times.

Regional Level

Regional cooperation can lessen the problems of geoeconomics and economic coercion. Regional states should advance and strengthen their economic integration initiatives in line with the principle of multilateralism, such as the ASEAN Economic Community. As these schemes eliminate or lower trade and investment barriers facilitating the growth of regional markets, they provide firms with more business opportunities.

The deepened integration will also reduce these states' reliance on non-regional players, making them less vulnerable to the latter's measures, such as import and export restrictions and financial flows.

Regional states should also collectively "name and shame" countries whose beggar-thy-neighbour policies damage the international economic order. They should call out publicly, such as in joint statements or at press conferences, even when they are not the direct victims. By emphasising the collateral damage they suffer and the danger posed to the multilateral system, regional states can make a strong case without worrying about being viewed as choosing sides.

Global Level

At the global level, geoeconomics and economic coercion issues can be discussed on various platforms. States across different regions can work together to put these matters on the agendas of international organisations, depending on their issue areas.

Trade coercion practices can be raised and discussed at the World Trade Organization (WTO) Trade Policy Review Mechanism, which undertakes periodic assessments of

the members' conduct of national trade policies. Regarding currency manipulation, countries can jointly raise this matter at the International Monetary Fund (IMF)'s gatherings. Bringing up this issue calls attention to the systemic impact of certain nations' practices on the international financial system that puts international financial instability at risk. Doing so can also facilitate the IMF's enforcement of its guidelines on currency manipulation.

In addition, geoeconomics and economic coercion should be incorporated into the conversations at international events, such as the WTO's Public Forum and IMF's Curtain Raiser Forum. Such inclusion will enhance government officials and the general public's knowledge and understanding of these matters and the challenges they pose. Increasingly, non-governmental platforms such as the Davos World Economic Forum (WEF) and Nikkei Forum Future of Asia are used to alert policy makers on the challenges posed by geoeconomics and economic coercion. The important point is to re-evaluate the need for more robust international cooperation and policy formulation to tackle increased economic competition and diversification of production and trade.

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