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LEADING FOREIGN COUNTRIES EXPERIENCE IN BUILDING GEO-ECONOMIC COOPERATION

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Only international cooperation can address urgent global issues such as food and other product shortages, removing barriers to growth, and saving our climate.

Russia's invasion of **Ukraine** has exacerbated the Covid-19 pandemic, causing devastation, slowing growth, and raising inflation. High food and energy prices are putting a strain on households all over the world. Tightening financial conditions are putting additional strain on highly indebted nations, businesses, and families. In the face of persistent disruptions, countries and businesses are rethinking global supply chains. Add to this the sharp increase in financial market volatility and the ongoing threat of climate change, and we have a potential confluence of disasters.

For **Australian** and **US** policymakers, policy issues at the intersection of international security and international economics are becoming increasingly important. The use of economic policy instruments to further geopolitical, foreign policy, and security objectives is known as geo-economic statecraft. A shift in alliance strategy toward China has reframed international and domestic economic policy settings in light of the security concerns raised by China's growing power and influence.

The use of geoeconomic policy instruments by China has become a major source of concern for Australian policymakers and a focal point for Australian foreign policy. Recent bilateral meetings between Australian ministers and counterparts in **Japan, Singapore, India, France, South Korea, New Zealand**, and the United States all highlighted economic coercion as a shared concern. China's restrictions on Australian exports in 2020 resulted in a 23% decrease in exports, excluding iron ore, at a cost of between A$6.6 and A$12 billion in export earnings.

At the same time, iron ore trade with China contributed roughly half of Australia's recent record trade surpluses. While iron ore and liquefied natural gas (LNG) exports to China have not been affected, China's actions to date indicate the possibility of additional economic costs being imposed. These costs are almost certainly meant to send a message to other countries, including US alliance partners, as well as the Australian government. However, China's geoeconomic statecraft has largely failed to advance its geopolitical interests. Australia and the United States have increased their geoeconomic policy cooperation, most notably in the defense industry, technology, and critical minerals. The new enhanced trilateral security partnership (AUKUS) between Australia, the **United Kingdom**, and the United States shows that the United States values cooperation with its allies in these areas.

The European Union has proposed the establishment of a «anti-coercion instrument» The instrument is intended to deter EU and individual member state coercion by allowing the Commission to take swift, proportionate, targeted, and temporary economic measures to force the coercing party to withdraw its measures. The tool's primary function is to deter; retaliation is only used if deterrence fails. According to the proposal, the Commission is tasked with developing retaliatory measures that are low-cost but effective from the perspective of both the

EU and individual member states. The triggers for retaliation are intended to be broad enough to include informal coercion, such as consumer boycotts.

While delegation to the Commission would mitigate this risk, it would also significantly reduce member states' influence over policies. Before delegating power, the German government should carefully consider the scope within which the Commission should be authorized to formulate policy, including the definition of triggers, the scope and type of retaliatory measures, and escalation strategies. Delegation within broad parameters would help to increase the effectiveness and credibility of EU geoeconomic deterrence, allowing the Commission to use the new deterrence instrument with great flexibility. However, a broad mandate could lead to increased geoeconomic conflict. This necessitates careful calibration. If retaliation against economic coercion becomes necessary, some damage to the EU and its member states is unavoidable. Delegating decision-making authority to the Commission would limit individual member states' ability to influence the distribution of such costs.

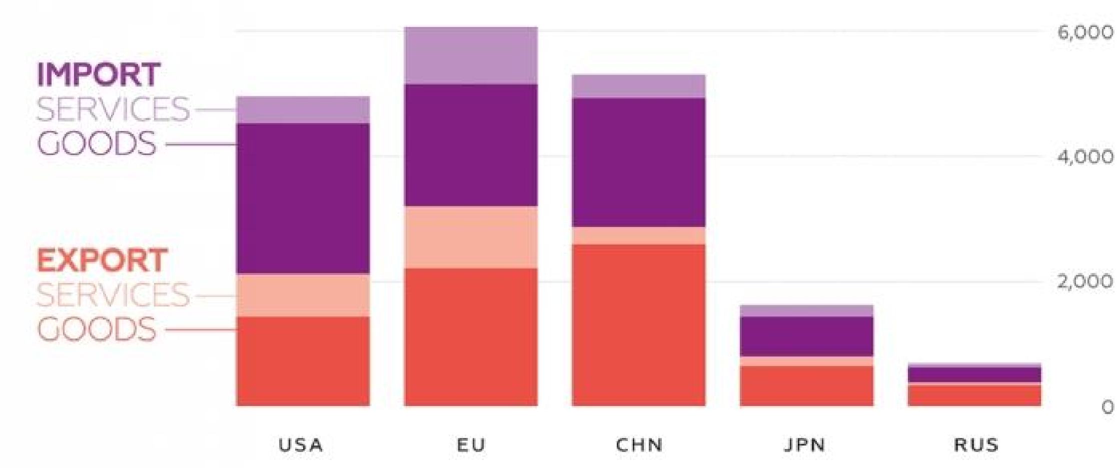

Figure 1. Big three Geo-economic powers (exports and imports of Goods and Services, USD, 2021)

One solution would be to establish a compensation mechanism that is jointly funded (or Economic Deterrence Fund). Such a mechanism would allow for a more equitable allocation of the costs of EU retaliation measures, as well as some reassurance to the more trade-dependent members that geoeconomic conflict will not be fought on their backs. While successful deterrence benefits all EU members, the economically more outward-looking members bear a disproportionate share of the costs if it fails. For example, if the EU becomes embroiled in a geoeconomic tug-of-war over China's coercion of Lithuania, Germany will bear a disproportionate share of the cost, not least because Lithuania's exports to China are small in both absolute and relative terms. Finally, more evenly sharing the burden of retaliation would help align member states' interests more closely.

Geo-economics is the use of economic instruments to achieve foreign policy objectives. Following the Cold War's end, foreign economic policy was largely focused on cooperation and the pursuit of what International Relations scholars refer to as absolute economic gains. Today, the United States and China are engaged in an intensifying great power competition in the context of economic interdependence. As a result, geo-economic policies are more prominent and diverse than they were, say, during the Cold War.

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Energy links between the United States and Europe are just one strand of a remarkably robust and vibrant transatlantic economy. According to the most recent data, US-EU trade in goods and services is expected to reach an all-time high of $1.3 trillion in 2021, which is 42% more than the EU's trade with China. US foreign direct investment (FDI) to Europe reached an all-time high of $253 billion, with US companies based in Europe earning a record-breaking $300 billion. European firms in the United States earned a record $162 billion, and European FDI flows into the United States reached an estimated $235 billion, the highest level since 2017.

In an emerging multipolar context, **Canada** finds itself in a new world order shaped by geopolitical great-power rivalry. With the relative decline of US power and technological conditions that have unleashed geo-economic competition to dominate new general-purpose technologies based on big data, machine learning (ML), and artificial intelligence, a new world order has emerged (AI).

Canada is not a geoeconomic player because it is a small, open economy that is vulnerable to the weaponization of interdependence. It prefers a rules-based multilateral system in which large and small economies play by the same set of rules.

«The Belt and Road» is a joint effort by all countries to enhance understanding and trust, promote all-round practical cooperation, and create a community of interests, destiny and responsibility with mutual political trust, economic integration and cultural tolerance. For example, the China-Pakistan Economic Corridor is jointly promoted by China and Pakistan; the Bangladesh-China-India-Myanmar Economic Corridor involves Bangladesh, China, India and Myanmar; the China-Mongolia-Russia Economic Corridor is a group of geo-economic entities consisting of China, Mongolia and Russia; the New Asia-Europe Continental Bridge Economic Corridor is a geo-economic entity consisting of China, Kazakhstan, Russia and Germany, as well as Belarus and Poland; the China-Central Asia -West Asia Economic Corridor is by the China-Hong Kong-Turkey-Taurus, Turkey, Israel, Saudi Arabia, Iran and other countries together to form a geo-economic body; China - South China Peninsula Economic Corridor is by the China-Myanmar-Thailand-Vietnam-Lao-Cambodia, Malaysia, Singapore and other countries together to form a group of geo-economic body to promote the construction. It can be seen that «The Belt and Road» is not a single country alone, but a group of countries driven by common interests, common responsibilities and common security, to establish a cooperation mechanism to participate in the world economy.