



The Case for an Economic NATO

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Abstract: This article examines the need for liberal democracies to respond to the growth of economic bullying, coercion, gunboat diplomacy, and geoeconomic pressure undertaken by Russia and China. The political call for an economic NATO-type international organization is growing louder following Russia's invasion of Ukraine and the resultant constraints imposed on food and energy supply, and China's bullying of the tiny NATO and EU state, Lithuania. This article chronicles examples of Russian and Chinese economic sanctions and the impact of China's geoeconomic diplomacy before identifying and explaining actual and potential western policy responses, especially the establishment of an Economic NATO.

Keywords: economic diplomacy, economic coercion, geoeconomics, economic NATO, Russia, China, geoeconomic threats.

Introduction

The Russia-Ukraine war is, first and foremost, a military catastrophe, but it has also generated seismic economic impacts that have had global consequences. Aside from the huge costs of the war, estimated at up to US \$600bn for Ukraine alone,¹ there are the indirect effects, such as surging energy, fuel, and food prices, created by knock-on disruptions of global supply chains. Thus, if the international rule-based trading system is broken, then the globalization "holy grail" of liberal economics is under threat. The failure of markets to function smoothly because of protectionism and nationalism will cause the World economy to revert to 1930s "beggar-my-neighbor" policies. The beginning of this dangerous trend is evidenced by the nationalistic policies of developing countries, including

¹ Madeline Halpert, "Russia's Invasion Has Cost Ukraine Up to \$600 Billion, Study Suggests," *Forbes*, May 4, 2022, <https://www.forbes.com/sites/madelinehalpert/2022/05/04/russias-invasion-has-cost-ukraine-up-to-600-billion-study-suggests/>.

Argentina, Egypt, India, Indonesia, Tunisia, and Turkey, which have acted to restrict or even halt exports of, respectively, pasta, vegetable oil, wheat, palm oil, vegetables, and beef, ramping up global inflationary pressure.² At the corporate level, building resilience into domestic supply chains is a rational step to minimize risk when international supply is uncertain, but the constrained national scale will further ratchet up prices. Developing nations suffering from rising energy costs and the loss of Ukrainian grain exports will suffer the most from this economic turbulence. Increasingly unable to participate in multilateral trade regimes, the poorer states will be attracted to bilateral trade and financing deals with countries like Russia and China, contributing to the geoeconomic fissures.

Of course, the contemporary international economy is a far cry from Adam Smith's classical theoretical paradigm. Rather than "perfect" markets, the reality is one of trade barriers, product differentiation, and imperfect market structures. Additionally, there are more insidious threats to free and open trade from anti-Western regimes, principally Russia and China. The US has sought to maintain a rule-based international order through efforts to negotiate the aborted US-EU free trade deal and the profoundly important Transatlantic Trade and Investment Partnership (TTIP). However, Washington's efforts have been undermined by its own unwillingness to open up US financial services and government procurement markets. An opportunity was missed because the TTIP was viewed as the chrysalis for what has been termed an economic NATO, enabling the West to continue to set the rules of the global economic game, increasingly threatened by anti-Western nations.³ China, in particular, has been critical of these multilateral efforts, arguing they perpetuate Western domination of international trading flows.

The push for regulatory convergence has also been derailed by recent efforts of Russia and China to "weaponize" energy, food, and commodities to further their military, economic, and ideological goals. This process poses geoeconomic threats to Western interests in parallel with the risk of potential and actual military conflict. In response to these threats, the US Treasury Secretary, Janet Yellen, has proposed "friend-shoring" of supply chains,⁴ and former NATO Secretary General Anders Fogh Rasmussen⁵ and British Foreign Secretary Liz Truss

² Rajendra Jadhar, Maximilian Heath, and Nigel Hunt, "Food Export Bans, from India to Argentina, Risk Fueling Inflation," *Reuters*, June 27, 2022, <https://www.reuters.com/markets/commodities/food-export-bans-india-argentina-risk-fueling-inflation-2022-06-27/>.

³ Simon Nixon, "To Ensure Security and Prosperity of the West, We Need an Economic NATO," *The Times*, June 30, 2022, <https://www.thetimes.co.uk/article/to-ensure-security-and-prosperity-of-the-west-we-need-an-economic-nato-87vqd565j>.

⁴ Janet Yellen, "Remarks by Secretary of the Treasury Janet L. Yellen at the Brussels Economic Forum," *US Department of the Treasury*, May 17, 2022, <https://home.treasury.gov/news/press-releases/jy0788>.

⁵ James Politi, "Former NATO Chief Calls for an Economic Version of Article 5 Defence Pledge," *Financial Times*, June 10, 2022, <https://www.ft.com/content/1831d0f6-8ce0-47e2-9730-e73c0afe6e73>.

have gone further by invigorating calls for an “Economic NATO.”⁶ The speech by the latter politician was particularly instructive, arguing that

the assumption that economic integration drives political change – didn’t work ...We now need a new approach, one that melds hard security and economic security, one that builds stronger global alliances and where free nations are more assertive and self-confident, one that recognises geopolitics is back.

There is thus a recognition that the global rules-based order is crumbling, threatening both the economic security and prosperity of the West. The hallmark of the system is that all countries gain access to resources in an integrated global market protected by international law. NATO has done its job as a defense coalition, but is it the appropriate organization to address the parallel threats of state bullying, trade constraints, and economic diplomacy? This is likely a distraction from its principal military responsibility focused on collective defense, reflected in Article 5. The debate has therefore focused on a complementary trade-based NATO-type organization, possessing an “economic” Article 5, and comprising a broader geographical swathe of member countries that share the same democratic values. While Liz Truss asserts that geopolitics is back, it is rather geoeconomics that characterizes 21st-century diplomacy and statecraft. Accordingly, the purpose of this article is to identify and evaluate the nature of the geoeconomic threats Russia and China pose to the free world. This will be followed by an assessment of the various policy and institutional architectural options available to combat economic coercion and malign diplomacy.

Geoeconomic Threats

Conceptually, economic coercion has been around for generations but has only really entered into the international relations lexicon in the 21st century. It can take several forms, including diplomatic “bullying.” Beijing, in particular, had developed a track record of engaging in this form of coercion, dating back to 2010 when it banned the import of Norwegian salmon after the Nobel peace prize was awarded to Chinese dissident Liu Xiaobo.⁷ China’s bullying again re-emerged in the recent 2020 David and Goliath dispute between Lithuania and China. Lithuania, a tiny Baltic state of just 2.8 mn people, was formerly under the Soviet sphere of influence. Shaped by its experience of repression, it was a proponent of liber-

⁶ Rt Hon. Elizabeth Truss, “The Return of Geopolitics: Foreign Secretary’s Mansion House Speech at the Lord Mayor’s 2022 Easter Banquet,” *Foreign, Commonwealth & Development Office*, April 27, 2022, <https://www.gov.uk/government/speeches/foreign-secretarys-mansion-house-speech-at-the-lord-mayors-easter-banquet-the-return-of-geopolitics>.

⁷ Bill Hayton, “NATO Knows Asia Is Vital to Protecting Global Security,” Report, *Chatham House*, June 28, 2022, <https://www.chathamhouse.org/2022/06/nato-knows-asia-vital-protecting-global-security>.

alism and human rights. Thus, the newly elected government was critical of Beijing's human rights record in Hong Kong and Tibet and expressed support for Taiwan's "freedom fighters." Indeed, in November 2021, the Taiwanese government was allowed to open a representative office in Lithuania's capital, Vilnius. Controversially, the office's nameplate read Taiwan rather than Taipei, a ploy used by other states to avoid offending China. This crossed a red line for Beijing, and its reaction was swift and brutal. Due to rising diplomatic tensions between the two states, China had already stopped operations of direct China-Lithuanian freight trains and closed credit lines for Lithuanian companies selling goods in China. However, now the Chinese Embassy in Vilnius was downgraded to *Charge d'affaires*, and Lithuania was obliged to reciprocate in China. In December 2021, China moved to block Lithuania's imports by delisting it as a country of origin, essentially banning customs clearance. The result was a 90 percent fall in shipments from Lithuania to China compared to December 2020.⁸ Beijing then imposed secondary or indirect economic sanctions by pressurizing multinational companies in Lithuania's global supply chains to stop supplying goods to the Baltic state. In response, Taiwan and the US offered substantial trade credit deals, and the European Commission issued an Anti-Coercion Instrument against China, enabling potential countermeasures. Yet, Europe's reaction has been fragmentary, with German suppliers especially affected and pressuring Lithuania to reverse its stance.⁹

Russia has also recently employed economic coercion, which in this case might aptly be described as gunboat diplomacy. This statecraft tool was used in 19th-century conflicts to blockade enemy ports, depriving opposing forces of food and military resupply in order to force a surrender. Russia's naval blockade of Odesa and other Ukrainian ports on the Black Sea Coast was aimed at preventing grain from leaving the World's "breadbasket," thus cutting off a major source of revenue to bolster Ukraine's ailing economy. Moscow is in a position to exert extreme leverage as Ukraine and Russia's combined cereal exports account for almost one-third of the world's wheat and barley and more than 70 percent of its sunflower oil.¹⁰ Putin's eventual agreement to allow "safe corridors" for these exports was likely due to extreme pressure from international organizations and client states in Africa and the Middle East, suffering badly from hunger and potential political instability due to the effects of global wheat scarcity and associated

⁸ Dominique Patton and Andrius Sytas, "China Suspends Lithuanian Beef, Dairy, Beer Imports as Taiwan Row Grows," *Reuters*, February 10, 2022, www.reuters.com/world/china/china-suspends-lithuanian-beef-imports-taiwan-row-grows-2022-02-10.

⁹ Judy Dempsey, "China's Bullying of Lithuania Spurs European Unity," *Carnegie Europe*, January 18, 2022, <https://carnegieeurope.eu/strategieurope/86208>.

¹⁰ Kelvin Chan and Paul Wiseman, "How the Russia-Ukraine War Triggered a Food Crisis," *National Observer*, June 20, 2022, <https://www.nationalobserver.com/2022/06/18/news/how-russia-ukraine-war-triggered-food-crisis>.

inflationary pressures. It has been estimated that around 400 million people, mostly located in the developing world, rely on Ukrainian food supplies.¹¹

Yet another variant of economic coercion is retaliatory trade controls. These have gained currency over the last decade, having been used extensively by the West against rogue regimes such as Iran, Myanmar, and North Korea. The present sanctions against Russia are unprecedented, suggesting that trade controls are rapidly evolving into a significant method of statecraft to deter unacceptable arms proliferation, human rights abuses, and military adventures. However, sanctions can work both ways. Thus, linked to the Russia-Ukraine war, Moscow appears to be responding to western sanctions by slowing gas flows to Germany through the Nord Stream 1 pipeline. Maintenance work on the 759 miles pipeline is an annual event, but in 2022 it happened in July and then again in early August.¹² Gas flows were reduced by around 40 percent, and with the onset of winter, there is even the threat that Russia will stop gas flows altogether.¹³ It is in a uniquely strong position to inflict serious multi-energy pain on the West. Not only is Russia the world's biggest natural gas exporter, accounting for 34 percent of European supplies of LNG alone, but its exports of coal account for 16 percent of the world's total, its 5 million barrels per day of crude oil represent 12 percent of global trade, and its 2.85 barrels per day of refined oil accounts for 15 percent of global trade.¹⁴

Similarly, China has sought to deter democracies from criticizing and otherwise working against its interests by applying reciprocal sanctions. This was made clear in the starkest terms by a Beijing spokesperson in 2021, who stated that "if [democracies] dare to harm China's sovereignty, security and development interests, they should be aware of their eyes being poked and blinded."¹⁵ China is no longer supine, as evidenced by the recent testy politico-economic confrontation with Canada. In response to Canada's 2018 detention of Chinese citizen Meng Wanzhou, China retaliated by detaining two Canadian citizens just days later. As well as the arrest and trial of these two Canadian businessmen, Western companies, such as H&M, Zara, Burberry, and Nike, experienced boycotts of their goods

¹¹ Chan and Wiseman, "How the Russia-Ukraine War Triggered a Food Crisis."

¹² Kate Connolly, "Germany Braces for 'Nightmare' of Russia Turning off Gas for Good," *The Guardian*, July 10, 2022, <https://www.theguardian.com/world/2022/jul/10/germany-russia-gas-flow-permanent-halt-nord-stream-1-maintenance>; "Nord Stream 1 Pipeline to Shut Briefly in Latest Fuel Blow to Europe," *VOA News*, August 19, 2022, <https://www.voanews.com/a/nord-stream-1-pipeline-to-shut-briefly-in-latest-fuel-blow-to-europe/6709144.html>.

¹³ Connolly, "Germany Braces for 'Nightmare' of Russia."

¹⁴ Anne-Sophie Corbeau, "The Russian Invasion of Ukraine and the Global Energy Market Crisis," *Center on Global Energy Policy*, Columbia University, March 24, 2022, <https://www.energypolicy.columbia.edu/research/qa/qa-russian-invasion-ukraine-and-global-energy-market-crisis>.

¹⁵ Jonas Parelo-Plesner, "An 'Economic Article 5' to Counter China," *Wall Street Journal*, February 11, 2021, <https://www.wsj.com/articles/an-economic-article-5-to-counter-china-11613084046>.

in China.¹⁶ Then, in August 2022, China reacted angrily to the Taiwan visit by Nancy Pelosi, the speaker of the US House of Representatives. Media headlines focused on China's military intimidation, especially its launch of multiple missiles toward Taiwan's North Eastern and South Western waters, including even ballistic missiles over the main island. Moreover, reportedly up to 66 Chinese fighter jets and 14 of its warships provocatively crossed the strategically significant median line in the Taiwan Straits.¹⁷ China's suspension of 2,000 imported items from Taiwan was less publicized, halting mostly food products, such as citrus fruits, fish, and edible oils.¹⁸

A pattern is emerging of retaliatory Chinese trade controls. China's 2020-21 import bans on Australian goods and commodities drew an angry retort from US Secretary of State Antony Blinken, who singled out China's "blatant economic coercion of Australia" as an example of the urgent threats that democratic nations around the world face from increasingly assertive authoritarian regimes.¹⁹ Canberra had irked Beijing not only by its call for an international inquiry into the origins of the coronavirus pandemic but also by its criticism of Beijing's ill-treatment of the Uighurs and its restrictions on democracy in Hong Kong. This then spiraled into a series of spying accusations, including claims of Chinese interference on Australian university campuses and counterclaims by Beijing that Australian universities were discriminating against Chinese students. However, behind the political rhetoric lies the economic leverage that China can exert. Trade disputes between the two countries have proliferated, including Beijing's decision to halt or severely restrict Australian exports, including coal, beef, wine, barley, timber, grapes, and seafood. By some measure, China is Australia's biggest trading partner, accounting for almost 33 percent of the latter's exports.²⁰ In particular, Australia's mining of iron ore is hugely dependent on China's big internal demand for steel production. Canberra, of course, also recognizes that regional strategic considerations impact its economic security and prosperity. It thus

¹⁶ Vanessa Friedman and Elizabeth Paton, "What Is Going on with China, Cotton and All of These Clothing Brands?" *The New York Times*, March 29, 2021, www.nytimes.com/2021/03/29/style/china-cotton-uyghur-hm-nike.html.

¹⁷ Joanna Walters, Martin Belam, and Samantha Lock, "Taiwan Says China Used 66 Planes and 14 Warships in Sunday's Drills – as It Happened," *The Guardian*, August 7, 2022, <https://www.theguardian.com/world/live/2022/aug/07/china-taiwan-news-white-house-calls-chinese-drills-provocative-and-irresponsible-live>.

¹⁸ "China Suspends 2,000 Food Products from Taiwan as Nancy Pelosi Visits," *Financial Times*, August 2, 2022, <https://www.ft.com/content/ff15198f-cdc2-48fa-bed5-4a59bbebf01a>.

¹⁹ Matthew Knott, "China's 'Blatant Coercion' of Australia Is a Lesson for the World, Says Antony Blinken," *The Sydney Morning Herald*, March 25, 2021, www.smh.com.au/world/north-america/china-s-blatant-coercion-of-australia-is-a-lesson-for-the-world-says-antony-blinken-20210325-p57duc.html.

²⁰ Tony Makin, "Whither Australia-China Trade?" *Australian Outlook*, *Australia Institute of International Affairs*, June 16, 2020, www.internationalaffairs.org.au/australian-outlook/whither-australia-china-trade/.

watches with growing alarm China's efforts to spread its influence into Australia's "backyard," even extending to Antarctica. In this regard, Beijing has recently announced plans to build a large all-year-round airport 17 miles from its Zhongshan ice research station, located in East Antarctica within the 42 percent of the continent claimed by Australia.²¹ Undoubtedly, the reported presence of sizable energy and mineral resources acts as a decisive pull factor.

China has also used retaliatory export bans on rare earth minerals, which it regards as a "strategic resource." These minerals are essential for the powerful magnets in electric-vehicle motors and also play a critical role in military systems, such as drones and missiles. Chinese leverage on the market is immense, not least because it possesses around 85% of the world's capacity to process rare earth ores, with the US alarmingly sourcing 80% of its rare-earth imports from China.²² Thus, it is easy to see why Beijing might be tempted to weaponize these minerals if and when appropriate. In fact, it happened in 2010, when tensions arose over the Japanese-administered Senkaku Islands, claimed by China as the Diaoyu Islands, leading to Beijing imposing a trade ban on rare-earth exports to Japan. Similarly, China threatened to suspend rare-earth exports to the US in 2018, linked to the US defense contractor, Lockheed Martin, winning a contract to upgrade Taiwanese air defense systems, with further threats made in 2019 as the trade war between Washington and Beijing escalated. Yet more threats were made in 2022, following Washington's decision, over national security concerns, to intensify the trading ban on Huawei and around 70 of its affiliate enterprises. Only now, the Chinese are potentially seeking to ban not only the trade in exotic minerals but also the technologies that refine and purify the raw materials located upstream in the industry value chain. China is in a strong position to do this, given it controls around 50-60 percent of the mining market and about 90 percent of activities at the intermediate processing stage.²³ Beijing launched a new Export Control Law aimed at strengthening state control over the flow of strategic materials. In parallel, it announced the creation of a new state-owned enterprise, China Rare Earth Group. This newly created "megafirm" now controls 60-70 percent of Chinese rare earth production, which translates into 30-40 percent of the global supply.²⁴ In response to this industrial consolidation, a US Department of Defense official commented that the critical materials sector is a

²¹ Barnard Lagan, "Beijing Challenges Australia for Slice of Antarctic Runways," *The Times*, May 6, 2021, <https://www.thetimes.co.uk/article/cold-war-race-between-australia-and-china-for-all-year-antarctic-runways-s6kbcn8mx>.

²² Reuters Staff, "U.S. Dependence on China's Rare Earth: Trade War Vulnerability," *Reuters*, June 28, 2019, <https://www.reuters.com/article/us-usa-trade-china-rare-earth-explainer-idUSKCN1TS3AQ>.

²³ Shunsuke Tabeta, "China Tightens Rare-Earth Regulations, Policing Entire Supply Chain," *Nikkei Asia*, January 16, 2021, <https://asia.nikkei.com/Business/Markets/Commodities/China-tightens-rare-earth-regulations-policing-entire-supply-chain>.

²⁴ Kristin Vekasi, "Chinese Rare Earth Consolidation a Cause for Concern," *EastAsia-Forum*, March 30, 2022, <https://www.eastasiaforum.org/2022/03/30/chinese-rare-earth-consolidation-a-cause-for-concern/>.

“microcosm of the geopolitical and geo-competitive forces shaping the 21st-century.”²⁵

Coercion through Diplomacy

While economic diplomacy is an acceptable instrument of statecraft, embroiled into the 2013 launch of Beijing’s “Belt and Road Initiative” (BRI)²⁶ is political and financial leverage, disturbingly similar to economic coercion. The BRI is a reincarnation of China’s ancient “silk road” trade route to Asian and Western markets. Yet, the contemporary version has a broader global reach, reflected through digital and other 5G information and maritime tentacles. China’s geoeconomic diplomacy represents a form of international statecraft aimed at satisfying its long-term trade, foreign policy, and strategic ambitions. The strategic thrust is to win the hearts and minds of the international community through politico-economic patronage and strategic influence. However, BRI is often categorized as checkbook diplomacy in the sense of providing non-concessionary financial incentives to support loanee country development goals. It is not *ad hoc* but forms part of a Grand Strategy designed to foster regional and global influence. At the core of this statecraft is an emphasis on non-interference in the internal affairs of recipient states, with an obvious appeal to democratically suspect and diplomatically beleaguered governments. China’s economic diplomacy particularly targets investment into infrastructural sectors, such as ports and docks, having strategic implications.

While China’s geoeconomic strategy has been recognized in the literature,²⁷ analysts have focused solely on the investment and financial aspects, ignoring the BRI’s strategic dimensions. China’s brand of geoeconomic diplomacy is likely to prove more effective than either the long-term intangible benefits of Nye’s soft power or the corrosive nature of hard power, whether via cyberattacks, quasi-military destabilization operations, gunboat diplomacy or, ultimately, the threat or actual use of military force. This perspective is underscored by David Shambaugh, who wrote that “China is constructing an alternative architecture to the postwar western order.”²⁸ Beijing’s geoeconomic diplomacy model is

²⁵ Vekasi, “Chinese Rare Earth Consolidation a Cause for Concern.”

²⁶ Danielle Miller, “North American Critical Minerals Days: Rare Earths Day,” *Adamas Intelligence*, October 19, 2021, <https://www.adamasintel.com/north-american-rare-earths-day-2021-recordings/>.

²⁷ Christian Dargnat, “China’s Shifting Geo-economic Strategy,” *Survival* 58, no. 3 (May 2016): 63-76, <https://doi.org/10.1080/00396338.2016.1186980>; Nicholas Kitchen, ed., *China’s Geoeconomic Strategy*, IDEAS Reports – Special Report SR012 (London: London School of Economics and Political Science, June 2012), www.lse.ac.uk/ideas/Assets/Documents/reports/LSE-IDEAS-Chinas-Geoeconomic-Strategy.pdf.

²⁸ David Shambaugh, “China’s Soft-Power Push: The Search for Respect,” *Foreign Affairs* 94, no. 4 (July/August 2015): 99-107, 100, <http://www.jstor.org/stable/24483821>. The *Sunday Times* mentions that the Chinese government plans to spend US \$1 Trillion on overseas projects over the next 10 years, *Sunday Times* (April 2017).

more targeted and nuanced than its broader soft power approach, more durable than contingents of UN peacekeepers or warships on Gulf peacekeeping operations, and more practical in its impact than Confucius Centers. A historic tectonic geo-strategic shift appears to be underway, with China aiming to replace America as the world's dominant diplomatic power. President Xi hinted as much at Davos in early 2017, with a speech that represented a concerted strategy to achieve China's vision of the future global economic system at a time when the US is turning inward.²⁹

The BRI aims at building roads, railways, ports, and other eco-strategic infrastructure. The scale of investment in the developing world is staggering. For example, there are reportedly 46 African ports where China has financial, construction, and operational involvement.³⁰ By mid-2017, more than 10,000 Chinese-owned companies were operating in Africa.³¹ From a global perspective, in 2022, the BRI touches 147 countries,³² 50 percent of the world's population, and a quarter of its GDP, via a multitude of investments financed through long-term loans.³³ Projecting forward, it has been estimated that by 2027, BRI spending will have reached \$1.3 trillion, with more than 2,600 projects worldwide valued at \$3.7 trillion.³⁴

In Asia, China is pushing Thailand to agree on the construction of a 100 km Kra canal, on the scale of Panama, linking the South China Sea with the Bay of Bengal and thus bypassing the crowded Strait of Malacca. For the West, the Kra canal exemplifies the common danger of the BRI acting as a vehicle for Beijing's potential acquisition of overseas infrastructural assets, contributing to a broadening and deepening of China's strategic influence. Moreover, Chinese asset acquisition comes with the danger of "debt traps." For instance, Beijing has built a new port at Kyaukpyu, Myanmar, and taken a 70 percent controlling stake after the host country defaulted on its repayments.³⁵ China has, therefore, potentially

²⁹ Lawrence Summers, "The US Must Work on Its Economic Relationship with China: Global Cooperation Matters More than Short-Term Gain," *Financial Times*, April 9, 2017, <https://www.ft.com/content/abbe10a-1b85-11e7-a266-12672483791a>.

³⁰ Judd Devermont, Catherine Chiang, and Amelia Cheatham, "Assessing the Risks of Chinese Investments in Sub-Saharan African Ports," *CSIS*, June 5, 2019, <https://reconasia.csis.org/assessing-risks-chinese-investments-sub-saharan-african-ports/>.

³¹ Frank Umbach, "How China's Belt and Road Initiative Is Faring," Report, *GIS*, April 8, 2022, <https://www.gisreportsonline.com/r/belt-road-initiative/>.

³² Christoph Nedopil Wang, "Brief: China Belt and Road Initiative (BRI) Investment Report H1 2022," *Green Finance and Development Center*, July 24, 2022, <https://greenfdc.org/china-belt-and-road-initiative-bri-investment-report-h1-2022/>.

³³ Lily Kuo and Niko Kommenda, "What Is China's Belt and Road Initiative?" *The Guardian*, July 30, 2018, <https://www.theguardian.com/cities/ng-interactive/2018/jul/30/what-china-belt-road-initiative-silk-road-explainer>.

³⁴ Umbach, "How China's Belt and Road Initiative Is Faring."

³⁵ Yimou Lee and Thu Thu Aung, "China to Take 70 Percent Stake in Strategic Port in Myanmar – Official," *Reuters*, October 17, 2017, <https://www.reuters.com/article/china-silkroad-myanmar-port-idUSL4N1MS3UB>.

gained a naval base on the Indian Ocean side of the Malacca Strait chokepoint, projecting power across the Bay of Bengal.

The debtor nations view China's loans as an opportunity to earn high investment returns, but this invariably fails to happen. Sri Lanka's Hambantota Port project attracted huge Chinese investment but generated weak revenue streams. Combined with China's high-interest charges, it inevitably meant that Sri Lanka was forced into a dangerous debt trap. By 2017, the loans proved too costly to sustain, and a loan payment default occurred, obliging Beijing to call in its US\$1.4 billion debt.³⁶ With few cards to play, the Sri Lankan government signed a concessionary agreement for a contractual venture between the China Merchants Port Holdings Company Limited (CMPort), China's state-owned port company, and the Hambantota port. The agreement required the Sri Lankan government to service the debt by leasing the port infrastructure to the Chinese over a 99-year period. Colombo ceded 70 percent control of the Port to CMPort, with the Sri Lanka Ports Authority taking the remaining share.³⁷

Policy Responses

China's expanding geoeconomic influence in Myanmar and Sri Lanka is but a microcosm of a broader trend affecting the Asian region. The massive inflows of Chinese funds have occurred because of an emerging strategic vacuum caused by ambivalent Western diplomacy. Recently, however, liberal democracies have begun to respond by launching essential policy initiatives. Firstly, there is the evolving "Quadrilateral Security Dialogue," comprising Australia, India, Japan, and the US. It is an informal security alignment that commenced in 2007 in response to China's rising strength in the Indo-Pacific Region. Although the Quad initially failed to generate diplomatic momentum, it was rejuvenated at the 2017 ASEAN summit, with the four nations recommitting to strengthening their security response to China. Significantly, at the second Quad Leaders' Summit in Tokyo in May 2022, there was confirmation that while maritime security is vital, Asian economic security is intertwined with defense capability.³⁸ A second policy initiative was launched in 2016 via the establishment of a NATO Asia-Pacific security framework. With Australia, the Republic of Korea, Japan, and New Zealand, NATO unveiled a partnership to defend the rules-based international order,

³⁶ Anjana Pasricha, "As Crisis-Hit Sri Lanka Counts Cost of Chinese Projects, India Moves to Recover Influence," *VOA News*, June 10, 2022, <https://www.voanews.com/a/as-crisis-hit-sri-lanka-counts-cost-of-chinese-projects-india-moves-to-recover-influence/6611703.html>.

³⁷ Lu Hai Liang, "Sri Lanka Hands over Port to China to Pay off Debt," *The National*, September 11, 2018, <https://www.thenationalnews.com/world/asia/sri-lanka-hands-over-port-to-china-to-pay-off-debt-1.684606>.

³⁸ "The 'Quad': Security Cooperation Among the United States, Japan, India, and Australia," *US Congressional Research Service*, updated July 25, 2022, <https://crsreports.congress.gov/product/pdf/IF/IF11678/6>.

forming part of the NATO 2030 Agenda.³⁹ The Asian (A-4) partners are all established democracies, have shared values, and are US Treaty allies, save for New Zealand, which has a close partnership with Washington. Regular discussions are now held by the North Atlantic Council and its A-4 partners. In fact, in April 2022, Finland, Georgia, Sweden, and Ukraine, along with EU representatives, met with the Foreign Ministers of the four Asia-Pacific countries to discuss the global implications of Russia's invasion of Ukraine.⁴⁰ A third initiative commenced in 2017 when Japan and India launched a program directly competitive to the BRI, the Asia-Africa Growth Corridor.⁴¹ Then, in 2021, in a bid to capitalize on the Covid-induced delays affecting China's BRI program,⁴² there was a US-Japan roll-out of an Indo-Pacific digital infrastructure program. This is a substantial 5G infrastructure investment initiative, forming part of a broader ambitious US-led alternative to China's BRI, involving more than 2,000 projects across multiple continents.⁴³

Beijing has angrily responded to the West's strengthening of its Asian economic and military capacities, including the potential expansion and reenergizing of the "Asian NATO" initiatives, reflected by the 'Five' Power Defence Arrangement (Australia, Malaysia, New Zealand, Singapore, UK), 'Four' Quad (US-India-Japan-New Zealand Economic Agreement), 'Three' AUKUS (Australia, UK, US) submarine deal, and 'Two' bilateral alliances (US-South Korea, US-Japan).⁴⁴ The West's coordinated Asian response to China's Grand Strategy is impressive. It suggests the feasibility of consensus at the global level, whereby an international NATO-type body might assume the responsibility for addressing anti-coercion and diplomatic actions against Russia and China. Possibly the first reference to

³⁹ "Relations with Asia-Pacific Partners," *NATO*, July 12, 2022, https://www.nato.int/cps/en/natohq/topics_183254.htm.

⁴⁰ "Opening Remarks by NATO Secretary General Jens Stoltenberg at the Meeting of the North Atlantic Council in Foreign Ministers Session, with the Participation of Partners," *NATO*, April 7, 2022, https://www.nato.int/cps/en/natohq/opinions_194328.htm.

⁴¹ Avinash Nair, "To Counter OBOR, India and Japan Propose Asia-Africa Sea Corridor," *The Indian Express*, May 31, 2017, <https://indianexpress.com/article/explained/to-counter-obor-india-and-japan-propose-asia-africa-sea-corridor-4681749/>.

⁴² "China Says One-Fifth of Belt and Road Projects 'Seriously Affected' by Pandemic," *Reuters*, June 19, 2020, <https://www.reuters.com/article/us-health-coronavirus-china-silkroad-idUSKBN23Q0I1>.

⁴³ Richard Javad Heydarian, "US-Japan Roll out Digital Counter to China's BRI," *Asia Times*, April 20, 2021, <https://asiatimes.com/2021/04/us-japan-roll-out-digital-counter-to-chinas-bri/>.

⁴⁴ Pierre Haroche and Martin Quencez, "NATO Facing China: Responses and Adaptions," *Survival* 64, no. 3 (May 2022): 73-86, <https://doi.org/10.1080/00396338.2022.2078047>; "US Trying to Create Asian NATO with Blocs to 'Suppress' China: FM Wang Yi," *Business Standard*, March 7, 2022, https://www.business-standard.com/article/international/us-trying-to-create-asian-nato-with-blocs-to-suppress-china-fm-wang-yi-122030701343_1.html; Gerry Doyle, "Southeast Asian Defence Pact Can Help Region Manage Tensions, Members Say," *Reuters*, June 11, 2022, <https://www.reuters.com/business/aerospace-defense/southeast-asian-defence-pact-can-help-region-manage-tensions-members-say-2022-06-11/>.

an Economic NATO was made in 1956. Then, a scholarly paper highlighted the significance of economic warfare and the relevance of Article II in NATO's founding Treaty, which commits members to "seek to eliminate conflict in their international economic policies and [to] encourage economic collaboration between any or all of them."⁴⁵ Yet, the first tangible expression of this commitment came not from NATO but rather from the European Union through its 2021 launch of the Anti-Coercion Instrument. This new tool sought to counter third-country economic coercion through tailor-made proportional economic responses.⁴⁶ Then, in 2022, the Rasmussen Report (co-authored by Ivo Daalder), submitted for the June NATO Summit in Spain, looked to revive the idea of an Economic NATO.⁴⁷ The Report raised three salient points: that NATO 'is' the appropriate international organization to manage the "economic guarantee"; that tools in its economic armory should include the full spectrum of options, including direct sanctions, secondary sanctions, import tariffs, and though not mentioned, presumably also banking, financial services, and business investment; and that while such sanctions might lead to negative spill-overs on the countries imposing them, the upside is that this may act to consolidate the supply chains in democratic countries. In this sense, the Rasmussen Report signals that geo-strategic interests dominate economic interests, heralding a retreat on globalization, though more broadly, these two forces are inescapably interlinked.

A plethora of differing proposals to create an appropriate transnational anti-coercion body has begun to emerge, including a NATO for Trade,⁴⁸ a D-10 (G7 countries plus Australia, India, and South Korea) Club of Democracies,⁴⁹ and Germany's suggestion of an "Alliance of Democracies" to include the leading democracies in North America, Europe, and the Indo-Pacific. These regions make up roughly three-quarters of global GDP, the transatlantic partnership provides nearly 80% of official developmental aid worldwide, and the 20 highest-scoring countries in terms of soft-power influence are all democracies.⁵⁰ Their revealed socioeconomic capacities offer the West major leverage in addressing global

⁴⁵ Lincoln Gordon, "Economic Aspects of Economic Diplomacy – The NATO Experience," *International Organization* 10, no. 4 (November 1956): 529-543, 541.

⁴⁶ "EU Strengthens Protection Against Economic Coercion," *European Commission*, December 8, 2021, https://ec.europa.eu/commission/presscorner/detail/en/ip_21_6642.

⁴⁷ Alireza Ahmadi, "Against Russia and China, an 'Economic NATO' Is Not Enough," *The National Interest*, June 10, 2022, <https://nationalinterest.org/feature/against-russia-and-china-%E2%80%98economic-nato%E2%80%99-not-enough-202874>.

⁴⁸ Ahmadi, "Against Russia and China, an 'Economic NATO' is Not Enough."

⁴⁹ Patrick Wintour, "UK Plans Early G7 Virtual Meeting and Presses Ahead with Switch to D10," *The Guardian*, January 15, 2021, www.theguardian.com/world/2021/jan/15/uk-plans-early-g7-virtual-meeting-and-presses-ahead-with-switch-to-d10.

⁵⁰ Ash Jain, Matthew Kroenig, and Jonas Parello-Plesner, "An Alliance of Democracies: From Concept to Reality in an Era of Strategic Competition," *Atlantic Council*, December 7, 2021, <https://www.atlanticcouncil.org/in-depth-research-reports/report/an-alliance-of-democracies-from-concept-to-reality-in-an-era-of-strategic-competition/>.

challenges. Yet, perhaps the most effective and expedient way forward is, as Liz Truss argues, to deploy the G-7,⁵¹ which, with a membership representing half the globe – including the entire EU as a “non-enumerated member,”⁵² is already positioned to defend the West’s prosperity collectively. There is certainly the need for an economic equivalent of Article 5, and the G-7 represents a sound start in moving toward this goal. However, careful thought would need to be given to the following three factors: the nature of hostile actions triggering a collective response; whether the remit for a response would include non-economic considerations, such as human rights; and, finally, the need to ensure pre-determined agreement on escalatory responses.⁵³ At the moment, the G-7 and NATO are working in tandem, and perhaps this is the logical short-term approach to be adopted, with the two organizations coordinating and representing a broad “coalition of the willing” to address global economic and military challenges. As for the long-term, it is likely that the institutional architecture will evolve, especially as President Biden is presently seeking to establish an ambitious global coalition that goes far beyond the G7 and NATO.⁵⁴

NATO is not the only international organization capable of policing China’s economic “grey zone” and hybrid coercion activities, and in the process also strengthening Western deterrence via resilience, denial, and punishment.⁵⁵ Other multilateral bodies, such as the World Trade Organisation and the United Nations, are possible candidates. Yet, their global membership is so large and includes either Russia or China as well as acolyte countries that decisive policy-making would be stymied. Moreover, if the purpose of Western sanctions is to deter or arrest aggressive military activities, then a more focused response might be preferable. What was once described as NATO’s “economic arm,” the Coordinating Committee for Multilateral Export Control (CoCOM), might fulfill this role.⁵⁶ Established in 1949 by the US and major allied states, it was intended to deny the USSR and Warsaw Pact countries access to strategic military components and dual-use technologies. An equivalent organization, called the China

⁵¹ Truss, “The Return of Geopolitics.”

⁵² Bruce Stokes, “The World Needs an Economic NATO,” *Foreign Policy*, May 17, 2022, <https://foreignpolicy.com/2022/05/17/ukraine-war-russia-sanctions-economic-nato-g7/>.

⁵³ Stokes, “The World Needs an Economic NATO.”

⁵⁴ “US Working Towards Global Coalition Far Beyond G7, NATO: White House,” *Business Standard*, June 10, 2022, https://www.business-standard.com/article/international/us-working-towards-global-coalition-far-beyond-g7-nato-white-house-122031500092_1.html.

⁵⁵ Fergus Hunter et al., “Countering China’s Coercive Diplomacy: Prioritising Economic Security, Sovereignty and the Rules-based Order,” Policy Brief Report No. 68 (Australia Strategic Policy Institute, February 22, 2023), <https://www.aspi.org.au/report/countering-chinas-coercive-diplomacy>.

⁵⁶ Richard T. Cupitt and Suzette R. Grillo, “COCOM Is Dead, Long Live COCOM: Persistence and Change in Multilateral Security Institutions,” *British Journal of Political Science* 27, no. 3 (July 1997): 361-389, <https://doi.org/10.1017/S0007123497000185>.

Committee or ChinCom, was established in 1952 to similarly deny China access to strategic technologies. Following the implosion of the Soviet Union and the end of the Cold War, CoCOM was replaced in 1995 by the Wassenaar Arrangement, but its efficacy was hampered by two factors. Firstly, in the post-Cold War era, trade had become the priority, and economic sanctions undermined that goal. Moreover, Wassenaar's purpose was more nuanced than CoCOM, aimed at facilitating responsible trade rather than obstructing it. The second problem was that Russia was a member of Wassenaar.

The Russia-Ukraine war has catalyzed diplomatic momentum to replace CoCOM. Importantly, in April 2022, the US acted to strengthen the present Global Export Controls Coalition of democratic countries, including all EU states and other major players, such as the UK, Australia, and Canada, by imposing stringent technology and software export restrictions on the defense, aerospace, and maritime sectors of Russia and Belarus.⁵⁷ This was followed in May 2022 by a US-EU Trade and Technology Council launched to agree on a policy on limiting technology exports to Russia and thus curb aggressive military intent. Subsequent to these policies, there is now a need to harness and consolidate future efforts, and an integrated G-7 and NATO body is again a possible integrated institutional mechanism for coordinating action on strategic export control that will impact both Russia and China.⁵⁸ Tighter scrutiny of strategic military and dual-use technologies is urgently required, given that Russia's war machine is highly dependent on military systems sourced from Western states. A recent report by the London-based think tank RUSI provides a stark illustration. It found that some 317 of 450 unique microelectronic components in Russian military equipment deployed in Ukraine were manufactured in the US, with the remainder supplied from European and East Asian countries.⁵⁹

Conclusions

The expansion of Russian and Chinese coercion represents a threat to the free world. The possession of scarce resources in the hands of states hostile to liberal democracies needs to be addressed through the creation of an appropriate international institution. As evaluated in the main body of this article, there is an urgent imperative to establish an economic Article 5 framework that will provide

⁵⁷ "Commerce Announces Addition of Iceland, Liechtenstein, Norway, and Switzerland to Global Export Controls Coalition," *US Department of Commerce*, April 8, 2022, <https://www.commerce.gov/news/press-releases/2022/04/commerce-announces-addition-iceland-liechtenstein-norway-and>.

⁵⁸ Chiara Albanese, "EU Analysis Suggests China May Send Tech Hardware to Help Putin," *Bloomberg*, March 25, 2022, <https://www.bloomberg.com/news/articles/2022-03-25/eu-analysis-suggests-china-may-send-tech-hardware-to-help-putin>.

⁵⁹ Andrew Macaskill, "Exclusive: Russian Weapons in Ukraine Powered by Hundreds of Western Parts, Report Says," *Reuters*, August 8, 2022, <https://www.reuters.com/business/aerospace-defense/exclusive-russian-weapons-ukraine-powered-by-hundreds-western-parts-rusi-2022-08-08/>.

a collective and coordinated response to malign Russian and Chinese statecraft. An Economic NATO-type body will be required, whether a newly formed global economic entity or through a formal coordinated policy mechanism between the existing G7 and NATO organizations. The body will need to address two separate but inter-spliced challenges facing the West. Firstly, there is a need to strengthen economic security through policies designed to deter Russian and Chinese trade restrictions on food, energy, investment, and exotic minerals. Secondly, there is a belated recognition among democratic nations for an appropriate geo-economic and strategic framework to effectively engage Chinese economic diplomacy in an era characterized by Great Power Competition. Over recent years, the knee-jerk response in Western capitals has simply been to increase military resources, but that misses the point. A more self-reliant long-term Western strategic, economic, security, and diplomatic posture is required. The poorer but strategically important nations across the world prioritize development and prosperity just as much as defense and independence. Warships and fighters alone will not achieve this goal, so a diplomatic reset is essential. Yet, any new approach that emphasizes economic fundamentals will require diplomatic commitment and economic largesse. This will not be easy in a world increasingly featuring populist political sentiment and distracted by the specter of international recession.

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