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ORIGINAL ARTICLE

Economic Statecraft in the 21st Century: Implications for the Future of the Global Trade Regime

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Abstract
This article introduces a special issue that examines the effects of strategic competition on the future of the global trade regime. We argue that traditional work in economics and the current set-up of global economic regimes ignores economic statecraft as a key element in understanding trade conflict. Specifically, we outline three examples of contemporary economic statecraft – industrial policy, trade restrictions, and new investment rules – that have been used to block foreign direct investment on the basis of national security claims. Based on this analysis, we explore how the WTO and other economic regimes might address the global economic governance of economic statecraft. In concluding, we outline the theoretical and empirical work in the subsequent case studies that examine the use of economic statecraft in the United States, China, India, Japan, and South Korea.

Keywords: Economic statecraft; World Trade Organization; trade; investment

1. Introduction

'Strategic competition' is once again a salient feature of the international system, with far reaching implications for the stability of the existing security and political and economic order. Amid such challenges, the World Trade Organization (WTO) has increasingly faced pressures. The trade war between the United States and China, protectionist unilateral actions taken by the United States, and the US rejection of the appointment of judges to the Appellate Body are representative of these challenges. Although we are guardedly optimistic that these issues can be addressed, we argue that a longer-term concern is how global economic regimes will cope with the challenges of national industrial policies in the context of this renewed strategic competition. Such policies include both traditional industrial policies as well as new forms of regulation on investment that go beyond the WTO's Agreement on Trade-Related Investment Measure's (TRIMs) mandate. In addition, they include trade measures undertaken by states based on national security considerations and the dual-use nature of new technologies.[1]

This special issue examines the use of economic statecraft across the globe and suggests that the use of these trade measures is emblematic of strategic competition – a subject of increasing importance following the lessons learned from the 2020 Covid-19 outbreak. The articles within the issue outline how states are using these tools and point to the implications of state interaction on the global economy. To this end, Section 2 argues for a renewed focus on economic statecraft given the fact that contemporary industrial policy, trade restrictions, and new legislation designed to impact cross-border investment, mergers, and acquisitions, have become increasingly salient aspects of great power competition between the United States and China. Rather than focusing

[1]For our purposes, dual-use refers to military and civilian uses of the technologies in question.

on economic sanctions and foreign aid, as the existing literature has done, we investigate how changes in the distribution of power across the globe and increasingly contested government–firm relations affect geostrategic competition. Together with the move away from negotiations through the WTO, we argue that understanding the impact of new trends on global economic governance requires us to focus on the rapid evolution in technology markets with dual-use potential.

In Section 3, we turn to three sets of measures that states have been using that may detrimentally affect the ability of the WTO to serve as a brake on their use. First, we examine new trends in industrial policy that go well beyond both classical import substitution industrialization and more recent 'murky protectionism' following the 2008 financial crisis (Baldwin, 1985; Aggarwal and Evenett, 2014). These include national security rationales for new forms of industrial policy, which are particularly likely in new dual-use technologies such as artificial intelligence, quantum computing, and cybersecurity tools. Second, we examine how states are using trade restrictions to protect intellectual property and forced technology transfer. Third, we consider how countries have been utilizing national security claims to block foreign direct investment through new regulatory measures exemplified by the Foreign Investment Risk Review Modernization Act (FIRRMA).[2]

Section 4 outlines how the US–China Phase One trade deal – attempts to address various aspects of economic statecraft. We then discuss the theoretical drivers of international regime formation to suggest how economic statecraft may be addressed in global economic governance regimes in the future.

Section 5 previews the arguments of the articles included in this special issue. As the authors in the special issue show, economic statecraft is not a US or Chinese phenomenon. Rather, it can be found in the interaction between governments and their respective markets in Japan, India, and the European Union among others with widespread effects on trade and investment.

2. Reconceptualizing Economic Statecraft

'Economic statecraft' emerged as a concept from theories of structural power, with Baldwin (1985) arguing that states use economic tools as a means to further their security objectives.[3] Similarly, Gowa and Mansfield (1993) investigate the relationship between trade and military alliances, focusing on gains from trade and the allocation of resources for military development. But while these scholars address concepts of political economy, such as the relationship between military alliances and free trade regimes, the literature on the indirect implications of free trade regimes and other dimensions of economic integration related to geopolitical and strategic concerns has been limited.

More contemporary scholarship concerning economic statecraft examines the implications of economic development in a globalized economy where security, technology, and innovation are highly interdependent (Farrell and Newman, 2019). Although the traditional economic statecraft literature focuses on linking economic tools like sanctions with security objectives, new research extends this concept to security externalities arising from an interconnected economy characterized by rapid technological development (Mowery, 2008; Drezner, 2019). While some argue that the defense technology industry will continue to direct the trajectory of defense innovation, the existing literature points to the necessity of dual-use technology development involving the private sector to sustain innovation in the information age (Dombrowski and Gholz, 2006, 2009; Molas-Gallart, 1997). Our formulation of economic statecraft draws upon the literature on the economics of innovation, but expands its scope by discussing the security of the state through

[2]All three sets of measures reflect empirical examples of what Farrell and Newman theorize as weaponized interdependence: Farrell and Newman (2019).

[3]The grand strategy literature also acknowledges the economic aspects of national policy-making, even if much of the literature remains focused on military capabilities and objectives. Goldstein (2005), for example, describes grand strategy as 'the distinctive combination of military, political, and *economic* means by which a state seeks to ensure its national interests'.

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the framework of national innovation systems (Christensen, 1997; Kennedy and Lim, 2018; Nelson, 1993; Reppy, 2000).[4]

Industrial policy, trade instruments, regulation, foreign aid, and sanctions each represent important tools to maintain the cutting edge of military technology for superpowers including the United States, China, and Russia as well as middle powers maneuvering between competing interests (Brautigam and Tang, 2012; Cai, 1999; Zhang and Keith, 2017). Chinese policies provide a critical example of new economic statecraft as Beijing increasingly uses industrial policy to support and expand industries vital to its national defense innovation system, with civilian–military integration as a cornerstone of industrial policy (Cheung, 2008; Mansfield and Pollins, 2001). Innovation in dual use technology is a key part of Chinese security strategy, with the promotion of human capital, mandating technology transfer, and focusing domestic policy toward indigenous innovation at the forefront of its policy agenda (Kennedy and Lim, 2018).

Although economic statecraft is clearly an essential component of US–Chinese strategic competition, it also extends to governments linking economic externalities with security objectives in both domestic and foreign policy (Molas-Gallart and Sinclair, 1999; Schweitzer, 2000). For example, India uses investment and strategic negotiations in addition to sanctions and trade agreements to maintain its competitive edge against China and Russia (Ahuja and Kapur, 2018; Sinha, 2016). Japan leverages its investment and developmental aid to the Kurile Islands to build support and economic linkages with the locals as Russia jostles for political control (Newnham, 2001). As Prazeres notes in her recent article, governments are increasingly using national security provisions at the WTO to justify barriers to trade and other behaviors (Prazeres, 2020).[5]

In the sections below, we analyze how industrial policy, along with trade and investment rules, represents a critical tool of economic statecraft used by states to pursue competitive advantage.

3. Economic Statecraft in Practice: Industrial Policy, Trade Restrictions, and Investment Rules

This section examines how industrial policy, trade measures, and investment regulation have been key components of economic statecraft. Although many of the instruments have been used in the past, we argue that what distinguishes their use in the contemporary environment is a more systematic focus on seeking advantage in sectors of the economy deemed to be strategically important.

3.1 Industrial Policy

Market failures offer the standard rationale for state intervention in the economy (Harris and Carman, 1983). Beyond market failure, even free market economists accept that governments might need to protect industries for reasons of national security.[6] As noted below, these arguments are often abused, and assessing which industries are truly important for security represents a complex question.

Arguments about the need to promote nascent industries are often tied to the impact of the industry on a host of allied industries (Aggarwal and Reddie, 2018). Recent fears surrounding the consequences of relying upon Chinese suppliers of 5G technology – and the under-supply of domestic alternatives – in Europe and the United States are emblematic of this concern

[4]These scholars also emphasize the systemic processes that facilitate innovation rather than single purpose products with limited civilian applications: Bracken et al. (2005); Cheung (2011).

[5]For the case in question, see Panel Report, *Russia – Measures Concerning Traffic in Transit* (*Russia–Traffic in Transit*), WT/DS512/R.

[6]See the discussion by Mastanduno (1991) who examines arguments about national security and industrial policy in the context of responding to Japan's economic policies.

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(Brake, 2018; Kaska et al., 2019; Kania, 2019). This contributes to a variety of efforts both to proscribe market access to firms that compete with domestic industry as well as incentives to bolster nascent firms in the 5G marketplace. These policy interventions serve as examples of industrial policy in which governments use official policies to bolster the development and growth of their economies, wholly or in part. Such policy interventions take a variety of forms – from regulatory policies to human capital development – and exist on a continuum in terms of intensity.

In early February 2019, for example, the German Minister of Economics, Peter Altmaier – breaking from longstanding German opposition to industrial policies at the federal level – proposed the following in a paper called 'National Industry Policy 2030' (Federal Ministry for Economic Affairs and Energy, 2019). In it, he calls for both a preference for European-wide mergers, including looser rules on mergers, and industrial policies that include a national investment facility to prevent M&A efforts by non-European companies. In particular, he points to the critical importance of national and European capabilities in AI, autonomous driving, automated production, digitalization, and the platform economy. This effort was followed just two weeks later by a joint French–German manifesto on a twenty-first century industrial policy.[7] The manifesto calls for technology funding from the government in collaboration with the private sector, support for high-risk projects in new technologies, cooperation in R&D in AI, consortia, and better financing in general. Specifically, with respect to M&A, without naming countries, it calls for consideration of 'state-control of and subsidies for undertakings with the framework of merger control' and reciprocity in public procurement.

In the cybersecurity industry, too, a number of states have used industrial policy to address the under-provision of cybersecurity goods and services. These efforts include providing venture capital for firms working in the cybersecurity sector, providing government markets for cyber goods, and supporting human capital development for strategic sectors of the economy – even if those trained workers supported by these programs work for private firms.[8] Governments also increasingly use regulation (via import and export controls) to address supply chain vulnerabilities – addressing foreign components and applications on the basis of national security.

It is also worth noting that firms may also lobby the government to secure benefits that may have little to do with market failures or security considerations to avoid competition. In the cybersecurity industry along with a number of high technology industries, given the obvious concerns about export control, the temptation to engage in rent seeking behavior is particularly high (Ho, 2014). Thus, we do not claim that industrial policies guarantee any kind of an optimal outcome. The political and economic dynamics of industrial policy are complex and not our focus in this paper.[9]

3.2 Trade Measures

As well as the industrial policy measures noted above, governments also use various trade measures to manage strategic sectors of their economies. Upon coming into office, it appeared that Trump would slap an across-the-board tariff on Chinese imports as he had threatened to do so as a candidate (Schneider-Petsinger, 2017). Instead, the Trump administration began with a sector-specific approach.[10] Its first action was a Section 201 investigation (part of the Trade Act of 1974 that draws on Article XIX of the GATT as its basis), which allows for restraints on imports if the importing country can show serious injury to an industry.[11] Following a

[7]'A Franco-German Manifesto for a European Industrial Policy Fit for the 21st Century', 2019.

[8]For an in-depth discussion of the use industrial policy by US policy-makers, see Aggarwal and Reddie, 2018.

[9]See Aggarwal and Aggarwal (2016), for an analytical review of the political and economic benefits and costs of industrial policy.

[10]See CRS, 2019, for a detailed discussion of these measures.

[11]There is some ambiguity regarding the provisions in Article XIX with respect to the need to apply safeguards on a Most-Favored Nation basis and the question of compensation (Ginzburg, 1992; Pickard and Kimble, 2007). The Trump administration has chosen the interpretation most favorable to its actions to avoid both MFN and compensation.

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recommendation of the International Trade Commission that concluded that there had indeed been serious injury to US firms as a result of import surges, the Trump administration implemented tariffs in January 2018 on washing machines and solar panels. Both actions used a tariff rate quota on imports that was slated to decline over a three to four year period against almost all countries with a few exceptions. China, S. Korea, and Japan all said they would retaliate, with their tariffs slated to come into effect in 2021, following WTO procedures.

Soon after its use of Section 201, Washington launched a Section 232 action under the auspices of the 1962 Trade Expansion Act of 1962. This article, linked to the national security exception under GATT Article XXI, has rarely been used (CRS, 2019). Following a determination by the Commerce Department, the Trump administration imposed tariffs in March 2018 on aluminum of 10% and steel of 25%, with higher rates for some countries and exemptions for other countries such as Australia, Argentina, Brazil, and South Korea following their agreement to restrict exports. Many countries retaliated against these tariffs immediately while some notified the WTO that they would retaliate.

Under Section 301 of the 1974 Trade Act, the US Trade Representative was instructed to explore China's violation of US intellectual property rights. This Act allows the US to suspend trade concessions or raise tariffs if a 'foreign country violates, or is inconsistent with, the provisions of, or otherwise denies benefits to the United States under, any trade agreement or is unjustifiable and burdens or restricts US commerce' (see CRS, 2019, 201, 232, 301). Although used in the past by the Reagan administration, after the creation of the WTO Dispute Settlement Body, the US had sought WTO approval of its use (CRS, 2019, 9).

In March 2018, following a finding of an 'adverse effect' on the United States, Washington implemented series of tariff measures, and the Chinese retaliated. These measures included 25% US tariffs on $50 billion from China in July 2018, followed by Chinese retaliation with similar tariffs on the same amount of US imports. In September 2018, the US imposed a 10% tariff on $200 billion Chinese imports, slated to increase to 25% on 1 January 2019. China retaliates with 5–10% tariffs on an additional $60 billion of imports; 25% were postponed on 1 March 2019 but increased in May. In May 2019, Trump called for tariffs on $300 billion remaining Chinese imports but held off action. In 1 September 2019, the US did impose 15% tariffs on $125 billion of Chinese imports but 15% on $160 billion slated for 15 December did not go into effect as the US was in negotiations with China. An agreement between the US and China was struck on 15 January 2020, which we discuss below in Section 5 as part of our analysis of the future role of the WTO.

3.3 Investment Regulation

From Washington to Berlin and Brussels to Beijing, governments are increasingly turning to new and enhanced regulations in the name of national security to review and block cross-border mergers and acquisitions (M&A). The consequences of these new merger and investment regimes for regulators, governments, and firms, however, remain under-explored. These new review procedures are likely to change global patterns of Foreign Direct Investment (FDI).

In 2018, the US passed legislation known as the Foreign Investment Risk Review Modernization Act (FIRRMA) to expand the oversight procedures of the existing Committee on Foreign Investment in the United States (CFIUS). The change means that even minority stakes in American companies – including those from venture capital and private equity firms will be subject to scrutiny. Although China passed a new law to address concerns about forced technology transfer in 2019, it still has significant oversight of foreign investment through its 2015 National Security Act, focusing on cybersecurity and critical technology. Germany has also become sharply concerned about Chinese FDI, in particular, and passed an amendment to its existing FDI rules in December 2018 that lowers the threshold to review deals to 10% from the previous 25%. Germany's minister of economics has also proposed both German–French

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cooperation on industrial policy in key industries and supported an EU-wide framework agreement on national security reviews by member states.

The 2018 FIRRMA legislation puts strategic competition in technology high on the agenda. It expands the types of foreign activity in the US market that are subject to oversight. Specifically, FIRRMA lowers the threshold for investigating foreign investment to include any foreign 'non-passive' investment in companies involved in critical technology. The technologies discussed during the floor debate concerning the passage of FIRRMA in the House of Representatives included artificial intelligence, robotics, augmented and virtual reality, new biotechnologies, new financial technologies, and advanced materials. According to Croley et al., FIRRMA changes the jurisdictional framework by extending CFIUS review to 'any investment that relates to a US business owning or maintaining "critical infrastructure" or a business collecting or maintaining "sensitive personal data" of US citizens. The framework also applies if a foreign entity is granted membership or observer rights on any board of the business; or has "any involvement" in the decision-making of the business' (Croley et al., 2018).Importantly, this means that transactions that do not lead to foreign control of a company are still subject to disclosure, review, and investigation.

For some, this is a welcome amendment to the CFIUS review process. The US Department of Defense Innovation Unit (DIU), formerly DIUx, offers a series of reports outlining how Chinese investments have contributed to technology transfer across the Pacific – arguing that the existing CFIUS review process has only been partially effective (Brown and Singh, 2018).

There are clearly significant challenges associated with the new legislation. First, the US Treasury Department and other enforcing agencies face a series of decisions concerning which technologies will be subject to heightened scrutiny and control. There is also the issue of whether some countries – particularly US allies – are to be exempted from the requirements. Second, companies will have to amend their own procedures and auditing processes regarding foreign investment and resulting voluntary declarations to CFIUS review. Both concerns are suggestive of the difficult balance that policymakers and companies must strike related to national security considerations while maintaining an open investment environment in the United States. But the changes we have seen in new legislation, driven in large part by Chinese foreign investment, are hardly restricted to the US.

More recently, the focus of FDI regulations in the name of national security in other countries, as with the US case outlined above, has been driven by Chinese investments. In particular, concerns about core industrial sectors, emerging technologies, and dual-use technologies have all been drivers of new regulations. In 2009, Canada created a national security review process for FDI based on its Investment Canada Act, focusing on a host of sectors, with an emphasis on defense-related industries and data security. Any transaction could be reviewed under this act, but of 4,500 cases since its creation, only 13 transactions faced review, with provisions for divestment or mitigating actions (Foreign Investment Control Heats Up, 2018).

In Europe, the UK has moved forward to strengthen national security reviews of investment, rather than only relying on the existing Competition and Markets Authority (CMA), which is based on a 2002 law that allowed the government to examine mergers based on national security considerations. The new approach, proposed in a July 2018 White Paper, specifies triggering events based on varying levels of shares and assets (Great Britain and Department of Business, 2018). While parties to a transaction are encouraged to voluntarily submit their proposed acquisition to the government, the government also can initiate a review of transactions on its own. In terms of likely impact, the White Paper predicts that approximately 200 cases will be subject to review on a yearly basis, with about 50 requiring some mitigating action on the part of the parties in light of national security concerns.

In continental Europe, France has regulated and blocked FDI since 1966. Its 2004 law expanded the sectors that would be subject to review, from weapons to infrastructure investments such as electricity, gas, oil, and water. Pending approval of the French Senate, the PACTE Law

first proposed in June 2018 will expand its sectoral overview to AI, data, space, cybersecurity, dual-use goods, robotics, and the like. The bill gives the government the right to suspend voting rights and dividend distributions, appoint a trustee in the company to oversee French interests, and sell French assets. Moreover, both acquiring and target companies can seek a review by the Ministry of Economy for their opinion of the investment.

Germany has for the most part been very welcoming with respect to FDI, with few restrictions for national security. Very recently, this has begun to change dramatically. Since 2004, the German Ministry for Economic Affairs and Energy has had the power to review M&A activity in security related industries including military equipment and IT products used for encryption. This review was extended in 2009 to include any M&A activity by non-European investors if a foreign entity acquired more than 25% of voting rights. In 2017, in the aftermath of concerns about a 2016 acquisition effort by a Chinese company of a German industrial robotics company and a proposed chip company acquisition, the scope of review was expanded to include critical infrastructure, cloud computing, telematics, and some key software. The 25% threshold was lowered to 10% for sector-specific acquisitions that might impinge on national security, and the scope was expanded to include the media in December 2018.

The renewed emphasis on the regulation of investments by venture capital and private equity firms in the case of FIRRMA raises an important issue regarding how it will carry out its regulatory function. As we have noted, the prior focus of both the US and other countries' regulations on mergers and acquisitions may have been misplaced. If the goal of other states is to transfer key technologies across borders, there are alternative and more efficient vehicles for doing so, including early stage investment. Over the last 30 years, innovation has been driven by startups backed by seed-stage and follow-up investments by venture capital funds. The new FIRRMA legislation in the US seeks to address this, but it remains an open question whether the opaque origins of investors in many venture capital and private equity firms will prevent technology transfer by foreign countries of critical innovative technologies being developed by Silicon Valley startups.

4. Prospects for Multilateral Management of Economic Statecraft

As we have argued, economic statecraft is becoming a central fact of strategic competition among countries at both the national and subnational level – increasingly impacting the global economy. Can the WTO or other international institutions play a role in managing this relatively new trend? Given the serious problems that the WTO faces with the failure of the Doha Round and rise of unilateralism, bilateralism, and minilateralism, as well as the crisis of the WTO appellate body, seeking a path for the WTO to deal with strategic and political competition may seem naïve at best. Yet, as we argue below, there may well be an opening for the creation of international arrangements to play a role in managing the negotiation of bilateral agreements and unilateral controls that create negative externalities. And if created, how these might fit with existing international institutions is also an interesting question.

Here, we begin with some theoretical arguments about the creation of international regimes and illustrate the arguments with a focus on the creation of the Short Term Arrangement (STA) and Long Term Arrangement (LTA) Regarding International Trade in Cotton as an example of sectoral regime creation.[12] Then we consider whether there might be genuine pressure to create international regimes to manage economic statecraft or whether we will remain in a world of globally unmanaged unilateral controls and bilateral agreements.

[12]Although the Information Technology, Basic Telecom Agreement, and Financial Services Agreements are also examples of sectoral accords under the WTO (Aggarwal and Ravenhill, 2001), the STA/LTA provide better insight into the driving factors for a regime.

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4.1 The Supply and Demand of International Regimes: Theory and an Example

The study of international regimes has a long history, particularly in international political economy. Keohane and Nye defined international regimes vaguely 'as sets of governing arrangements that affect relationships of international interdependence as international regimes … and … networks of rules, norms, and procedures that regularize behavior and control its effects' (Keohane and Nye, 1977). Aggarwal more precisely defined international regimes as 'rules and procedures that regulate the negotiation of bilateral agreements and restrict the use of unilateral national controls' (Aggarwal, 1981, 1983). This definition helps us to think of the creation of international regimes in terms of their supply and demand (Keohane, 1982).

With respect to their supply, regimes have long been seen as being supplied by a hegemon with the capacity to coordinate international policies (Olson, 1965; Kindleberger, 1973; Gilpin, 1975; Krasner, 1976). Olson argues that hegemons perform this function because states that are powerful relative to others have a greater incentive to organize – and benefit from – the provision of collective goods (Olson, 1965). International systems without a hegemon – fragmented systems – suffer from an under-supply of international regimes (Keohane, 1982). On the demand side, political actors generally demand regimes for three reasons. First, regimes reduce transaction costs, particularly the costs of providing information to participants and of negotiating and implementing individual accords (Keohane, 1984). Second, actors may wish to control the behavior of other international – or domestic – actors through rule-based systems rather than through direct coercion (Aggarwal, 1983). In a domestic context, signing an international agreement may bolster politicians' ability to reject demands from interest groups. Third, decision-makers may try to bring lower-level (i.e. more specific) arrangements into conformity with broader institutions. This 'institutional nesting' discourages actors from participating in arrangements that might undermine broader accords because of their more significant concerns with these higher-level institutions (Aggarwal, 1985).

How might these ideas be seen in practice? In the past seven decades, we have seen numerous examples of supply and demand of international regimes play out in the global economy. In the 1950s, increasing imports of Japanese and Hong Kong textiles and clothing spurred the US, UK, and several European countries to impose unilateral restrictions or negotiate bilateral agreements with exporters. The United States successfully persuaded the Japanese to restrain their exports of cotton textiles and clothing, creating the first post World War II voluntary export restraint and putting export 'pressure' on other countries. The UK also managed to have India, Pakistan, and Hong Kong commit to a slower rate of British market penetration. Finally, the continental European countries, by contrast, did not bother with bilateral negotiations: they simply slapped on import quotas against all 'offending' less developed country suppliers. In the case of the US, Hong Kong replaced the Japanese given the Voluntary Export Restraint. Yet when the US government sought to restrict imports from Hong Kong, the negotiations failed as larger and smaller exporters had very different interests making it difficult for the US to get a binding commitment. This problem set the stage for the creation of the STA and its successor, the LTA.

The first step towards an international sector specific regime in textile trade was taken by the Eisenhower Administration in 1959. At that time, the US asked GATT members to work towards developing a system for coping with low-cost imports. On 20 November 1959, GATT participants agreed upon a procedure to deal with 'market disruption', the document setting forth the procedure noting that 'useful experience would be gained by taking up a specific case of market disruption in the near future.'[13] Building on this accord, the outcome of the negotiations among the importing and exporting countries was the STA in 1961 and its successor in 1962, the LTA. This international regime, nested (and housed) within the GATT, proved to be a negotiated outcome that met American goals and constraints. The regime called for guaranteed growth rates in imports of 5% or negotiated bilateral agreements that could allow more.[14]

[13] *New York Times*, 20 November 1959, p. 9.

[14] This international regime morphed in the Multifiber Arrangement in 1974 and was eventually phased as part the Uruguay Round negotiations in 2005.

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The factors noted above on the demand and supply of regimes proved to be critical as this discussion of the problems in textile trade illustrate. From a demand side perspective, the advent of unilateral and bilateral agreements was raising transaction costs. Negotiating with every new importer would an enormously costly undertaking. From a control perspective, the US Government wished to prevent continued lobbying by the textile and apparel industry that would undermine its broader trade goals. In terms of international control, an international regime would allow the Americans to press for further market opening by the UK and Europeans. Finally, the US was promoting the GATT as the mechanism to free up trade, so nesting the textile regime in the GATT would allow it to keep this broader international regime relatively intact, while allowing for an 'organized deviation' from non-discrimination under Article 19.

In terms of supply, while the US was the hegemonic power both with respect to the overall system and trade, bipolar considerations of countering the Soviet Union led it to be more willing to provide concessions to both allies and developing countries that would be affected by the regime. Simply forcing Japanese and Europeans to accept American demands would not suffice.

Does the use of unilateral controls and creation of bilateral agreements that create negative externalities for other countries and for existing international regimes provide a basis for moving toward greater multilateral cooperation? We now explore this question in the current era.

4.2 Managing Economic Statecraft: Unilateral/Bilateral or Multilateral Cooperation?

Our discussion of economic statecraft focusing on industrial policy, trade measures, and new FDI regulation raises the issue of how countries might cooperate on a multilateral basis to address the external impact of such policies. Drawing on insights from international regime theory, we can consider the demand and supply for an international regime (or regimes) to cope with the impact of economic statecraft. Put succinctly, will we remain in a world of unilateral measures and bilateral accords or one in which actors push for the creation of one or more international regimes?

The first scenario is fairly simple. Economic statecraft can be handled as it currently being addressed with unilateral industrial policy, trade restrictions, and the creation of domestic regulations on foreign investment – all in the name of national security. It could also be dealt with on a strictly bilateral basis in which agreements like the US–China Phase One agreements are *sui generis* – mirroring the strategic arms control agreements between the United States and Soviet Union in the Cold War in which additional parties were viewed as unnecessary. Relevant to US concerns about technology and investment, the agreement obliges China to address intellectual property and concerns surrounding technology transfer – particularly in relation to acquisitions, joint ventures, or other investment transactions. This story reflects both a lack of demand for the creation of a regime to address economic statecraft, and a lack of a hegemonic supplier interested in addressing industrial policy, trade restrictions, and discriminatory investment rules.

The second scenario reflects the potential for the development of one or more international regimes to address economic statecraft. One the demand side, existing bilateral and minilateral commitments to address issues of economic statecraft represent transaction costs – in terms of investor–state dispute settlement, for example – that a global regime might address. The impetus to address these costs may increase if aspects of economic statecraft are to be included in the mooted agreement between China and the European Union in which protections for foreign investment and market access represent two key areas of negotiations.

With respect to control, a multilateral accord could offer mechanisms for states party to the regime to control the behavior of international actors to their benefit. Washington, for example, might address forced technology transfer while Beijing could safeguard a market for Huawei and ZTE. A regime may also better regulate the behavior of domestic firms that currently engage in technology transfer that governments often see as detrimental to their interests in return for market access. Currently, for example, the US uses mechanisms such as the Commerce Department's Bureau for International Security (BIS) to regulate trade and outward foreign direct investment.

An international accord would strengthen the hand of the BIS and decrease lobbying by domestic firms. A key part of the US–China agreement, though not focused on only technology, also is creating critical externalities. Of greatest immediate significance is a Chinese commitment to purchase $200 billion of manufactured goods, agricultural products, energy, and services over the next two years, which would naturally come at the expense of exports by other countries. Although from a realist perspective this does not hurt the US, it could raise pressure for an international accord by its allies harmed by such purchases.

In terms of the demand for consistency with higher-level regimes, under the current US administration, it would be an understatement to say that this pressure has dramatically fallen in significance. Currently the United States has blocked the appointment of judges to the Appellate body of the WTO, and a number of trade measures that it has used are clearly a violation of WTO norms, if not rules. The TRIMs and TRIPs agreements also have not been explicitly addressed in the US–China accord.

On the supply side, the situation looks more difficult. Unlike the post-World War II liberal economic order that was led primarily by the US but with some support from the UK, the story of regime creation with two superpower rivals looks more likely to devolve into two spheres of influence with their own institutions as we saw with US–Soviet rivalry. But for now, the current context remains different in that the US and China are highly economically interdependent – a marked difference from the Cold War. Whether Chinese and American firms benefitting from their cross-order economic exchange will be enough of a driving force to promote US–Chinese cooperation in regime creation remains unclear. With the Trump administration promoting decoupling of the US economy from China, and at least some firms looking for alternatives to their high dependence on their Chinese assembly operations, this factor may diminish in importance. The Covid-19 crisis appears to be reinforcing this distancing as well.

Continuing in a scenario vein, what does the integration of economic statecraft into these regimes mean for the broader global economic regime? The institutional design of regimes can vary in terms of a variety of parameters including membership, strength, scope, flexibility (Haas, 1975; Aggarwal, 1985; Rosendorff and Milner, 2001). What are the alternatives for a 'fit' with existing international regimes? (Aggarwal, 1998). Here, we can consider three potential regime types that might address issues of economic statecraft.

The first potential outcome is the modification of the existing WTO to incorporate new issues relating to economic statecraft. At present, as academics have noted, and as US policymakers such as Peter Navarro and Robert Lighthizer under Trump have noted, the WTO has failed to reign in a variety of Chinese industrial policy efforts.[15] How might this be done? One approach would be an expansion of the issue scope of the GATT as was done with services as part of the Uruguay Round negotiations that created the WTO. Indeed, we have already seen the introduction of investment and intellectual property issues into the WTO. Of these, the TRIMs agreement has been less impressive than the TRIPs agreement, with the latter having a very significant impact on issues such as the regulation of access to pharmaceutical drugs. Yet, at present, with the end of Doha Round negotiations, this seems to be an unlikely path for the moment.

Second, one could envisage the creation of sector-specific agreements in investment and intellectual property that would be broken out of the WTO as in the case of the STA/LTA, with a separate modified meta-regime of principles and norms and a different set of rules and procedures. Optimism on this score might come from the successful negotiation of three open sectoral agreements of the Information Technology Agreement, the Financial Services Agreement, and the Basic Telecommunications Agreement (Aggarwal and Ravenhill, 2001). As in the case of the STA/LTA and its successor, the Multi-Fibre Arrangement, this would be an example of nested multilayered regimes. It might also be possible to have the creation of regional approaches as was

[15]For an examination of the problems that the WTO has faced in constraining economic statecraft measures and the need for reforms, see Evenett and Vines, 2012 and Aggarwal and Evenett, 2014.

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underway with the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership, and the conclusion of the Regional Comprehensive Economic Partnership agreement. Here, the fit with the WTO might be looser.

The final candidate is the creation of an international set of regimes to address economic statecraft on a sectoral basis, which would provide a division of labor or horizontal regimes. In this case, we would see concerns over the need to globally manage of 'strategic industries' and 'frontier technologies', but each with its individual characteristics. As a result, it is possible that regimes addressing digital technologies, telecommunications, and biotechnology, for example, might be created that are separated from oversight by the WTO. As an example, the Information Technology Agreement 2 and Basic Telecommunications Agreement among others, could exist – independent of the procedures of the WTO rather than being embedded in them.

5. Case Studies of Economic Statecraft

As the contributors to this special issue show, the trends that we have identified both theoretically and in practice are widespread across markets. Indeed, the authors involved in this special issue examine economic statecraft in the United States, China, Japan, India, and elsewhere.

The special issue begins with an account of how the United States uses tools of economic statecraft to engage in strategic competition. Linda Weiss notes that the United States has renewed its strategic focus on technological superiority following China's recent emergence as a credible geopolitical rival. This has reinvigorated US efforts to sustain high-tech leadership as the basis of its military primacy – and has been reflected in civil–military integration for cutting-edge technologies. At the center of these efforts are the defense and defense-related agencies of the national security state (NSS) whose mission is to dominate the new technological frontiers of military power and achieve future competitive advantage. Alongside the quest for breakthroughs in foundational technologies, NSS agencies are seeking to correct long neglected deficiencies in advanced manufacturing, by rebuilding the industrial ecosystem's supply chains depleted after decades of offshoring. However, unlike its authoritarian rival, Washington faces the challenge of having to balance security imperatives with commercial interests.

Seung-Youn Oh, in turn, examines the global and regional implications of China's revitalized state capitalism model through the sectoral lens of the Chinese automotive industry, which stands at the intersection of both traditional and green industrial policy. Starting as a cautious participant in the WTO, China has moved rapidly along the learning curve to skillfully navigate the system and create spaces for its industrial policy objectives to prop up local and national champions. It shifts policy measures to simply comply with the WTO rulings and to adopt other measures with similar effects that prioritize sectoral development. While China's gaming of the WTO system fostered domestic growth in Chinese companies with protections from fierce foreign competitions, key initiatives like the Belt and Road Initiative link purchasing diplomacy with the opening up of overseas markets to develop Chinese players into global champions. In addition to the use of economic leverage to induce positive behaviors, Beijing is increasingly unafraid of resorting to exclusionary diplomacy. This provides political justifications for discrimination against foreign competitors in the Chinese market while moving forward with the industrial upgrading of domestic players.

When linked together, these factors – all byproducts of China's approach to state-led capitalism – combine to weaponize trade, disrupt global supply chains, and dampen confidence in economic interdependence. Along with authoritarian institutions and assertive nationalism, Beijing is likely to resort to coercive economic measures to advance its strategic goals. The political risks will also increase as Chinese companies catch up with rivals and achieve technological self-sufficiency under Beijing's heavy subsidization and favorable industrial policies. As much as China plays the liberal trading system to its own advantage, it is important to note that China has achieved its large and growing share of global trade because of its participation in the global

economy, not despite it. China's state-led capitalism partly contributed to the global turn toward protectionism and Washington's pivot to unilateralism, but it is the Chinese economy that bleeds significantly due to the clouded prospects of further trade liberalization.

Expanding on the analysis of the United States and a rising China, Kristi Govella examines the question of how middle powers have used economic statecraft to cope with the emergence of strategic competition between the US and China through an analysis of Japanese policy from the end of World War II to the present. By tracing the evolution of three different tools of Japanese economic statecraft – trade arrangements, official development assistance, and dual-use technology – she demonstrates that economic levers have long been important to Japan's attempts to shape its surroundings, particularly due to constitutional constraints on its use of military power.

Govella argues that the rise of China in the 2000s and the escalation of US–China competition in the 2010s have led Japan to respond by adapting its existing use of economic statecraft to simultaneously balance against China and stabilize the international order. First, Japan attempted to maintain continuity by supporting the multilateral trading system and by championing the Comprehensive and Progressive Trans-Pacific Partnership after its abandonment by the United States. Second, Japan has responded to Chinese assertiveness in the region by using its official development assistance to stabilize and build defense capacity in Southeast and South Asian countries to enable them to resist Chinese influence. Third, increasing competition from China in the domain of outer space has led Japan to militarize its substantial suite of dual-use technologies, quietly augmenting its capabilities in ways that have strategic relevance for the country's security in other domains. Govella's case studies highlight the fact that while Japan is employing economic statecraft in some traditional ways, its use of dual-use technology in particular reflects the changing nature of the economic tools at states' disposal, suggesting the need to evaluate the emergence of a new economic statecraft.

Govella demonstrates that while middle powers like Japan may not have the ability to compete in the same manner as great powers, they have significant material and diplomatic resources at their disposal that can be mobilized in response to changes in the international environment. Her findings support existing literature that has shown that middle powers favor multilateral institutions and other diplomatic tools that enable them to mediate the vagaries of great power politics and reduce instability in the international system. Japan's economic statecraft has primarily used its economic tools to positively bolster relationships that serve to counter China, instead of taking punitive or retaliatory actions that undermine liberal economic norms. Importantly, Govella suggests that the economic strategies of middle powers such as Japan must be taken into account in order to fully understand the multiple forces that are struggling to reshape the international order.

Amitendu Palit, similarly, assesses India's ambition of playing a prominent role in regional and global affairs that has been particularly visible since the assumption of office by Prime Minister Narendra Modi in May of 2014.With Modi reelection for a second term in office in 2019, expectations regarding India's prominence in global affairs remain high. Such expectations, though, need to be realistically calibrated in the backdrop of India's external trade policy. Driven by domestic politics, India's trade policy has become conspicuously inward and disengaging, which contrasts with the signals conveyed by its foreign policy.

The progressive and proactive role India wants to play on the global stage demands a strong and engaging foreign policy including commitment to addressing major global concerns. India is seen to be doing so on climate change and sustainable development. But on trade it continues to remain affected by hesitation and cynicism arising from mindsets shaped by resistance to competition. Lack of political support for trade along with unfamiliarity with modern trade issues also contributes to the tendency to disengage.

Palit's article probes factors determining the tendency of India's trade policies to turn inward and disengage from trade negotiations. These include the relative lack of competitiveness of its

domestic industry compared with economies that have made rapid progress in exports and captured large shares of world markets; the absence of influential domestic lobby groups and constituencies that benefit from trade and can pressurize the government to pursue a liberal trade policy agenda; and, finally, a distinct unfamiliarity and discomfort in dealing with modern generation trade agreements that contain several complex issues.

The final two papers consider what might be done to address the challenges faced by the liberal trade regime.

Existing accounts of the Sino-US rivalry often privilege actions and statements by leaders in national capitals. This perspective overlooks the role that sub-national authorities can play, either acting independently or complementing national policies. Drawing from the existing literature, available data sources, and statements by private sector participants, Simon Evenett characterizes and assesses the role that US sub-national agencies have played as subsidizers of firms located in their jurisdictions. Interestingly, and complementing the paper by Oh, Evenett finds that the automobile sector is a frequent recipient of local government largesse in the United States. US criticisms of the lack of transparency of Chinese sub-national subsidy regimes have equal force when American sub-national government comes under scrutiny. The most commonly used form of subsidy used by US cities and states are tax breaks and many jurisdictions are not fulfilling their national obligations to report transparently. Furthermore, while American local subsidization occurs, it is far from clear they are following Washington DC's lead, which is ironic because the same point is made about the relationship between Beijing and its sub-national levels of government. The conclusion that the criticisms of Chinese sub-national regime by the United States also applies at home is difficult to avoid.

Cohen and Rogers, on the other hand, focus on the potential for an intellectual property regime to re-invigorate the existing global economic order. They note that through legislative changes, tariff wars and executive actions, the Trump Administration has injected a new urgency into international technology and supply chain management, particularly between the United States and China. Analytically, the situation invites a perspective that links practical/on-the-ground responses by commercial actors to the politics of technological competition between superpowers. Cohen and Rogers approach the management of supply chain disruption in terms of a key security issue motivating recent changes to the trade environment: the protection of intellectual property. After reviewing critical policy developments on both sides of the Pacific in conjunction with recent trade statistics, they turn to a discussion of the opportunity that intellectual property licensing provides for managing supply chain linkages between the United States and China. Viewing intellectual property as both a driver and a solution of trade difficulties highlights the sorts of cross-jurisdictional nuances that can better inform policy and business decisions in the broader international trade regime.

In doing so, their paper looks to enhance perspectives on solutions to trade tensions in both a bilateral and multilateral context. By noting the IP intensitivity of supply chains, they promote further research on how intellectual property licensing vis-a-vis supply chains could promote a sort of regulatory arbitrage as opportunistic actors look to other markets with robust licensing regimes that go well beyond minimum requirements of the TRIPS Agreement.

Taken together, the articles in this special issue suggest that there is a need to look beyond the existing economic conflagration between Washington and Beijing to understand the intricacies of the challenges faced by the existing international trade regime – and that for the regime to be saved, we might need to consider new answers to both new and old problems.

The analyses in this special issue also suggest that the links between global economic consideration and international security are growing more, rather than less, important. As a result, the special issue provides support for the contention that further work examining the political economy of security is warranted and points to a research agenda that considers the role of firms, governments, and multilateral institutions to address this changing environment.

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