Routledge Frontiers of Political Economy

NEW ECONOMIC STATECRAFT

CHINA, THE UNITED STATES AND THE EUROPEAN UNION

Zhang Xiaotong

ROUTLEDGE

New Economic Statecraft

This book provides insights on the art of governing a state and managing its external relations from a wealth-power logic. It looks at "economic statecraft", which consists of wealth production, wealth mobilization, and wealth-power conversion by a state.

This book reconceptualizes what economic statecraft is and proposes a new theory focused on wealth-power conversion. With a long historic perspective, this book goes through the modern history of Western powers practicing economic statecraft since 1500, and presents three case studies, the United States, the European Union, and China, the three biggest users of economic statecraft in the contemporary world.

The book serves as an ideal reference for policy makers, business people, and researchers whose work touch upon either wealth creation, power projection, or the combination of both.

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Routledge
Taylor & Francis Group
LONDON AND NEW YORK

Contents

Acknowledgement

I wrote this book in 2022. The people I met in the course of 2011–2022 are the main sources of inspiration for this book.

I would, first of all, thank David Baldwin. In his classic book *Economic Statecraft* published in 1985, he single-handedly constructed a theoretical framework around this concept. My meeting with him at Princeton University gave me a lot of inspiration.

I would also thank David Lampton and Pieter Bottelier, who kindly hosted me at the School of Advanced International Studies, Johns Hopkins University, during my sabbatical stay in 2014–2015. This visit significantly deepened my understanding of economic statecraft.

I would thank Alexander Lennon, Editor-in-Chief of the *Washington Quarterly,* who published my article "From Wealth to Power: China's New Economic Statecraft" in 2017, which I coauthored with Ambassador James Keith. Jim has great insight about China and US-China relations.

I would also give my thanks to European colleagues, including Sir Nicholas Bayne, Stephen Woolcock and Maaike Okano-Heijmans, who are leading experts on economic diplomacy. Sir Nicholas Bayne is indeed a model who passed on his practitioner's experience as an economic diplomat to future generations through teaching and writing.

I would equally thank my Chinese colleagues. Together, we established the Chinese Society of Economic Diplomacy Research. My thanks go to Wuhan University, where I built a research center for economic diplomacy and gave courses on economic diplomacy and statecraft from 2012 to 2020. I equally appreciate my intellectual exchanges with my colleagues at Fudan University in 2020–2022, where we had a lot of interesting discussions about statecraft and geopolitics.

I would thank Routledge editors, including Yong Ling Lam, Kendrick Loo and Payal Bharti. Their passion, enthusiasm and professionalism gave me tremendous positive energy.

Finally, I give my deepest thanks to my family – my parents, my wife and my two adorable daughters. This book is for them. They give me love and unreserved support.

Zhang Xiaotong
Pudong, Shanghai
February 7, 2023

Tables

Figures

Introduction

Economic statecraft is the practical study of how a country can grow its economy and leverage its economic strengths to become a strong nation and maintain that status in international politics.

In recent years, economic statecraft has become a prominent subject, particularly in the United States, and major US think tanks and universities have launched related research programs and initiatives. For example, the Atlantic Council of the United States launched the Economic Statecraft Research Initiative on December 1, 2021.[1] The Bush School of Government and Public Service at Texas A&M University launched the Economic Statecraft Program in late 2021.[2] The Center for Naval Analysis (CNA) started the China and Indo-Pacific Economic Statecraft Initiative,[3] and the Center for a New American Security (CNAS) initiated the Energy, Economics, and Security (EES) Program (which also focuses on economic statecraft).[4] The United States attaches such high importance to the study of economic statecraft for two main reasons: first, to revive the US economy and maintain its global leadership; and second, to use America's economic might and advanced economic and financial apparatus to serve its diplomatic and military purposes.

Since 2020, economic statecraft has attracted more attention within the European Union (EU). For example, the European Council on Foreign Relations (ECFR) has launched a research program on the topic.[5] The EU's emerging interest in economic statecraft is driven by its growing awareness of the disconnect between its trade, foreign, and security policies. Such awareness has become more acute in the context of the COVID-19 pandemic, the Russia-Ukraine conflict, and intensifying geopolitical rivalries, and has motivated the EU to strengthen the alignment and connection between its economic, foreign, and security policy tools.

In China, economic statecraft remains a novel concept, and systematic study at the theoretical level has not yet begun. However, China has been recognized as an accomplished player in economic statecraft since ancient times and is well grounded in the practice thereof. The research on economic statecraft conducted by Chinese scholars since the start of reform and opening-up in 1978 can be summarized as a three-stage journey of development economics, economic diplomacy, and economic statecraft.

DOI: 10.4324/9781003351382-1

The first stage in this journey was the research and practice of development economics. Development economics has gained popularity in China in the four decades following the start of reform and opening-up, with the main purpose of providing a roadmap for China's economic and social progress. A parallel, but somewhat later, development is the study known as economic diplomacy, which aims to examine the interactions between economic development and diplomacy. From the 1990s (when Chinese economic diplomacy research began to emerge) to 2013 (when the national China Society of Economic Diplomacy was established), a large body of excellent research findings and a number of top-notch, well-trained scholars emerged. Around 2012, there was a new shift in Chinese economic diplomacy research. Some scholars, seeing the paradox of "China's rising economic power versus diminishing diplomatic capital", defined economic diplomacy as "the transformation of wealth and power".[6] They began to study the strategies, tactics, and transformative mechanisms of economic power. This group of scholars either consciously or unconsciously expanded the realm of China's economic diplomacy research. They extended the reach of economic diplomacy from mere diplomacy to all aspects of statecraft and governance focused on the generation of and interactions between a nation's wealth and power. They also examined the relationship between the supply of wealth and the rise and fall of great powers from the broader historical perspective. This pivot to economic statecraft extends and complements traditional economic diplomacy research.

The study of the "transformation of wealth and power" stems from the new domestic and international landscape China has faced since 2013–2014. Starting in 2014, scholars in China began to express concerns about "strategic overdraft"[7] and "strategic indiscretions".[8] Indeed, there is always a contradiction between wealth and power. As a great power rises, its demand for power is strong, so wealth generation must feed into the appetite for power. But wealth is, after all, a scarce resource, and when there is a "strategic overdraft", the rise of a nation will likely be stunted. The key here is to ensure the sustainable supply of wealth. Therefore, compared to the United States, Chinese economic statecraft prioritizes sustainable economic development in the transformation of wealth to power, in contrast to the subject of US economic statecraft research. Current research in the United States focuses on the pathway and avenues of transforming wealth into power, largely thanks to highly developed US legal instruments such as economic sanctions, export controls, and foreign investment reviews.

Why is it particularly important to strengthen research on economic statecraft now and going forward? This is necessitated by the urgent need to keep up with developments throughout the world. Economic statecraft is not the exclusive property of one country, nor is it a type of high-brow "luxury good" for study by a group of scholars cloistered in ivory towers; rather, it is an imperative study that countries around the world have no choice but to pursue in the face of an increasingly congested international landscape. After 2016, great changes accelerated: Brexit, the Trump presidency, the start of the China-US trade war in 2018, the outbreak of the COVID-19 pandemic in 2020, and the Russia-Ukraine war in 2022. These changes have led to increased tensions between countries, rising economic nationalism and antiglobalization sentiment, and heightened risks of "decoupling", a "new cold war", and even nuclear war. The competition between major powers has increasingly spilled over beyond the traditional security field to trade, the high-tech sector, standards, and governance. In this context, competition among countries concerning wealth and power is increasingly aggressive.

Within a country, the tension between the supply of wealth and the demand for power is growing; a lack of wealth has led the major powers to increasingly expand overseas by means of power, thus triggering geopolitical gameplay among the great powers. Following the outbreak of COVID-19 and the Russia-Ukraine war, the world economy has gradually moved towards a major recession, and the tension between wealth and power has largely become a global phenomenon, exerting unprecedented pressure on every government. The centerpiece of the competition among major powers has shifted to competition on governance models. Therefore, it is essential that a new research subject and research agenda of "economic statecraft" be proposed to study the relationship between wealth and power in a systematic, comprehensive, and dialectical manner and to place it in the historical perspective.

Although some scholars and think-tank experts have begun preliminary studies on economic statecraft, current research is still largely based on the specific circumstances of a country. Furthermore, there is a tendency among governments and think tanks to highly instrumentalize such study, with an associated lack of academic theories and historical research on economic statecraft. This book is intended to fill this gap by answering the following questions.

First, what is economic statecraft? "Economic statecraft" is the practical study of how a country can grow its economy and leverage its economic strengths to become and remain a great power. At its core is the conversion between a nation's wealth and power. Economic statecraft seeks to align a nation's economic, political, and diplomatic strategies and to provide a unified and integrated strategic management of economic and power resources. At present, the most familiar economic statecraft is a series of strategies, tactics, and tools for translating wealth into power. In terms of strategy, the Marshall Plan (implemented by the United States to bail out Europe after World War II) and the Belt and Road Initiative (promoted by China since 2013) are both strategy-level economic statecraft. In terms of tactics, the so-called "linkage strategy", which links economic issues with political, human rights, and ideological issues, is tactic-level economic statecraft. Examples include the EU's incorporation of human rights and labor provisions in its foreign aid policies and free trade agreements, the Trump administration's trade war with China, and China's countermeasures. In terms of tools, economic sanctions and the anti-economic coercive mechanisms established by the United States and the EU are all forms of economic statecraft tools. China has also gradually developed its own anti-economic coercive mechanisms.

Second, what is the process of economic statecraft? The implementation of economic statecraft has three steps: wealth generation, wealth extraction, and wealth-power transformation. Wealth generation pertains to a nation's economic growth and sustainable development. Wealth extraction refers to the collection and expenditure of government revenue, as well as the government's role and behavior in economic intervention. Wealth-power transformation refers to the transformation of wealth into global influence, military power, or coercion. The transformation of wealth into power can take a variety of forms, with countries adopting different tools and methodologies at different times in history. For example, during World War I, the UK embargoed Germany, declared the North Sea a war zone, supervised the commerce of neutral countries, and imposed a "commercial starvation blockade", among other means of transforming wealth into power.[9] To a large extent, the power wrestling among great powers is actually a contest of economic statecraft, in which the key is innovation in strategies, tactics, tools, and methodologies of converting wealth into power.

Third, who is the main actor in economic statecraft? The main actor of economic statecraft is the state. However, authority within a country's government is often fragmented and siloed, with different departments sometimes working at cross purposes – without view of the bigger picture or coordinated actions due to functional constraints. Only national leaders, superseding coordinating bodies and senior policy advisors, can have a holistic vision and connect the dots. The ideal actor to implement economic statecraft is a leader who can coordinate with the big picture in mind, first, the head of state and government, and second, the finance minister, economic minister, trade minister, interior minister, etc.

Fourth, what are the main paradigms of economic statecraft? Since modern times, four paradigms of economic statecraft have emerged in the Western world, namely, mercantilism, liberalism, imperialism, and Marxism. Each paradigm has its own variants. For example, under the liberalism paradigm, liberal institutionalism developed in the United States after World War I, and neoliberalism was proposed in the 1980s. After World War II, the new liberal approach to economic statecraft developed in Europe, which achieved European reconciliation through the establishment of the European Coal and Steel Community. This approach creatively and successfully found an institutional framework for solving the problem with Germany under a bipolar system.[10] The practice of European integration is a creative liberal approach to economic statecraft within the framework of the liberalism paradigm. China's economic statecraft, following the launch of its reform and opening-up process, is largely original and differs greatly from the Soviet Union's Stalinist-period directive command economy. To date, it is difficult to attribute Chinese economic statecraft definitively to an established paradigm. It is likely that China is creating an entirely new paradigm of economic statecraft, but for the foreseeable future, it appears that China is merging the classical paradigms of mercantilism, liberalism, and Marxism into a new developmentalist model of economic statecraft.

Fifth, what is the key to the rise of a great power? Throughout history, the rise of a great power has depended on four components. **First, the reinvention of a wealth strategy in economic statecraft.** The fundamental driving force of the paradigm shift of economic statecraft is productivity gains, the progress of science and technology, and industrial revolution. A great power that eventually rises to prominence must have reinvented its wealth strategy, that is, the acquisition of new sources of productivity, a significant gain in production efficiency, and the ability to extract and mobilize economic power more effectively. Mercantilism, as opposed to the medieval feudal system, was a new way of generating and extracting wealth. Liberalism, in turn, eventually replaced mercantilism because of the advances in science and the industrial revolution that began to build momentum in the late 17th century. The feudal dynasties, in general, paid little attention to the strategy of wealth renewal and to keeping with the times, thus being unable to support the political ambitions of the empire. The current strategic competition between China and the United States, for example, is essentially a competition of wealth strategies, and the central tenet is to achieve productivity gains and more resilient supply chains, value chains, and innovation chains.

Let's look at the economic statecraft of three hegemons in modern times: Dutch hegemony in the mid-seventeenth century, British hegemony in the mid-nineteenth century, and US hegemony in the mid-twentieth century. According to the world-system analysis, such hegemonies encompass dominance in economic, political, and ideological spheres of activity, but they are firmly based upon the development of economic supremacy. This has involved three stages. First, the hegemonic state gained primacy in production efficiency over its rivals. Second, this enabled its merchants to build a commercial advantage. Third, the bankers of the state were able to achieve financial dominance of the world economy.[11]

The second component is the reinvention of a power strategy in economic statecraft. A successful rising power must have adopted a new type of power strategy, that is, innovations in the ways, strategies, and processes of converting wealth to power, thus substantially improving the efficiency and outcomes of the conversion. For example, the British constantly sought the least effortful way of pursuing their interests in every part of the world.[12] In the post-World War II era, the United States first established a multilateral political and economic order at the global level through liberal institutionalism, and then won the Cold War through neoliberalism, promoting the Washington Consensus on a global scale. After World War II, Europe rapidly engaged in integration, created the European Economic Community, and mobilized nonmilitary "civilian power" and "normative power". In so doing, the EU rapidly emerged as one pole of the world and achieved peace within its territory. However, the EU is not as efficient in transforming wealth into power as individual nations due to internal attrition and constraints.

The third component is the smooth and efficient transformation between wealth and power. Fareed Zakaria once posed a question – why did the United States, the world's most powerful industrialized nation since the beginning of the 1870s, hew to a relatively isolationist line, with few exceptions, until the 1890s – a highly unusual gap between power and interests, for it lasted some 30 years.[13] Zakaria's puzzle is essential for economic statecraft studies. Here, the key questions are: What is the relationship between wealth and power? What are the factors that restrain the translation from economic strength to power? Under what circumstances can wealth be translated into power in an efficient way? Zakaria developed an analytical framework which he called "state-centered realism", a variation on classical realism.[14] He recognizes that state structure limits the availability of national power. In the first 80 years throughout the 19th century, the US presidents and their secretaries of state tried repeatedly to convert the nation's rising power into influence abroad, but they presided over a federal state structure and a tiny bureaucracy that could not get men or money from the state governments or from society at large. America was an unusual great power – a strong nation but a weak state. This situation did not change until the 1880s and 1890s, which marked the beginnings of the modern American state, emerging primarily to cope with the domestic pressures generated by industrialization. The exigencies of the growing national economy and the collapse of the congressional bid for supremacy gave the federal government a more centralized, less political, and rational structure.[15] The United States' unusual rise to its role as a world power demonstrates that a strong state is the precondition of transformation from wealth to power.

Compared to Western democracies, China has an institutional advantage in making decisions on economic statecraft, as the top-down decision system can prove more efficient.

In terms of decision efficiency, the EU might be a worst case as it is not one sovereign state. However, in practice, the EU has developed a series of economic statecraft tools that can still transform wealth into power. What matters here is that the EU has developed a sophisticated internal coordination mechanism through decades of integration, making it rightfully a great power in terms of economic statecraft.

The fourth component is a sustainable wealth-power strategy, that is, whether the transformation between wealth and power can reach dynamic equilibrium. When the equilibrium is lost, the demand of wealth will outstrip supply, leading to "strategic overdraft" or "strategic adventurism", similar to the Japanese attack on Pearl Harbor. This in turn will lead to a failed attempt at a nation's rise, and the decline of the great power. Such phenomena have occurred throughout history among Spain, Germany, Japan, and the Soviet Union, while the UK and the United States have handled these situations comparatively well. Despite short-term overdrafts, the UK and the United States have been able to reach a state of equilibrium in the medium and long term, thus maintaining their supremacy. The supremacy of the British Empire lasted 160 years, starting in the late 18th century and ending after World War II.

US supremacy has already been more than 100 years in duration, since its ascension in the late 19th century. During World War II, the United States spent more than 40% of its GDP on defense. Instead of a strategic overdraft, the United States overcame the Great Depression of the 1930s through the "Arsenal of Democracy", rising to become the new world superpower. Since 1946, US defense spending (as a share of GDP) has rapidly fallen back to 10%, and a great deal of military technology and capacity has been repurposed for civilian use. In doing so, the United States laid a solid economic foundation and established its capacity for innovation, in contrast with the Soviet Union.

From the perspective of economic statecraft, the main challenge with the United States is not the decline of its supremacy, which is only a superficial phenomenon. The underlying problem lies with the wealth-power structure. For many years, the United States has relied on power to supply wealth, but this constitutes a wealth-power paradox, that is, as power fuels wealth, wealth expands further, demanding more power, resulting in more military expansion and aggression, which requires more wealth. The cycle repeats itself, resulting in a fragile equilibrium of US supremacy, which, once broken, will cause the supremacy to wane. This suggests that the key to economic statecraft is moderation and the sustainable strategic management of wealth and power.

Whether a rising power can become a world-class power depends on whether it can develop a novel, advanced, and spirit-of-the-times form of economic statecraft (including both wealth and power strategies) and whether or not this new form of economic statecraft can achieve sustainable and dynamic equilibrium between wealth and power for decades, or even centuries.

This book consists of six chapters.

Chapter 1 introduces the concepts and a new theory of economic statecraft.

Chapter 2 compares the historical practices of economic statecraft by great powers, from modern times to World War II. The exploration expands from the city-states of Italy to the Netherlands, Britain, Germany, Russia (later the Soviet Union), Japan, and the United States. It also summarizes the four major paradigms of economic statecraft since modern times, namely, mercantilism, liberalism, imperialism, and Marxism.

Chapters 3, 4, and 5 deal with case studies on economic statecraft in the United States, the EU, and China, respectively. Chapter 3 reviews US economic statecraft since its founding. Chapter 4 provides a historical overview on the research and practice of the EU's economic statecraft. Chapter 5 examines the economic statecraft of the People's Republic of China under President Xi Jinping.

Chapter 6 reviews the competition in economic statecraft among the United States, the EU, and China in recent years, attempting to show that their strategic competitive relationships stem from the deterioration of the spirit of the times, and the competing wealth-power systems and wealth-power strategies of the United States, the EU, and China.

Notes

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1 Economic Statecraft – Concepts and Theories

1.1 Economic Statecraft as a Concept

1.1.1 The Origin of Economic Statecraft as a Concept

Economic statecraft has a long intellectual history. Based on a search on Google Scholar, the first appearance of economic statecraft was in Alfred Marshall's *Principles of Economics*. In the book, Marshall commented, "Adam Smith's criticisms on the Mercantilists of his own age may seem harsh. But it is to be remembered that he knew the weaknesses and the corruption of those who were posing as masters of economic statecraft".[1] Here, economic statecraft refers to mercantilism, and the so-called masters of economic statecraft were mercantilists. It is Adam Smith who first invented the concept of "Mercantilism" in his famous book, *The Wealth of Nations*.[2] He posits that, for mercantilists, "the two great engines for enriching the country were restraints upon importation, and encouragements to exportation.[3]

In 1918, William Stephen Sanders, a British politician and scholar, elaborated upon German economic statecraft. Sanders stated,

> An economic statecraft was invented, having for its object the building up of German trade, commerce, and industry in the way best suited to promote the power and prestige of the German nation as a predominantly militarist Power with world-wide ambitions.[4]

He further explained,

> To do this successfully it was necessary not only to encourage, control, and direct the energies of the capitalist and give him a national aim, but also to grant some measure of protection to the workman. This was also imperative for military reasons. As the army remained the first care of the State, it was essential that its potential cannon-fodder should not be allowed to suffer from the effects of unrestricted individualistic capitalism.[5]

DOI: 10.4324/9781003351382-2

Sanders emphasized, "in Germany the State declined to play the secondary role of 'night-watchman.' It assumed a leading part and became the organiser and controller in the economic as well as in the political sphere".[6]

John A. Hobson applied the concept of economic statecraft in his 1922 article, criticizing the British government by saying "Economic statecraft would have avoided at least three fatal blunders. The first is the economic-political dismemberment of Austro-Hungary which left her a rotting carcass in the European system. Second comes the boycott of Russia, accompanied for two years by a squandering of vast sums of money and men by the Western Powers in the work of further injuring the economic resources of that ill-governed and impoverished country. Third comes the fastening upon Germany of an immeasurable load of reparations, instead of a fixed, practicable sum.[7]

James T. Shotwell, president emeritus of the Carnegie Endowment for International Peace, analyzed Wilson's leadership, by saying

> In the preceding sketch of Wilson's tariff policy we have seen the continuity of thought between the domestic issues and world affairs. Yet was this true of the rest of Wilson's economic statecraft? Few figures in world history have been more mercilessly attacked than the chief architect of the Treaty of Versailles, and although the controversies of the 1920's have cooled with the passing years, there is still wide divergence of opinion on the methods as well as the results of the Paris Peace Conference of 1919.[8]

So, for Shotwell, Wilson's economic statecraft included tariff policy and the US demand for German reparation in the Treaty of Versailles.

In 1961, Kenneth K. Kurihari and Kenneth K. Kurihara, the latter a post-Keynesian economist of Japanese origin, discussed "mixed economic statecraft", which was most closely associated with the name of Keynes. For Kurihara, the concept of a mixed economy (which he referred to as "mixed economic statecraft") represents an ingenious combination of the advantages of capitalism (laissez-faire) and socialism without their disadvantages.[9] Mixed economic statecraft is something between a laissez-faire economy and an authoritative planned economy.

In 1960, Sir Douglas Copland concluded his paper presented to the Industrial Development Conference in Wellington with the warning "the assumption upon which economic statecraft in the modern world must be based is growth. Those who fear it, or entertain doubts about the risks involved will be bypassed while the rest of the world goes forward".[10]

By going through the literature of economic statecraft over the past 100 years, we can conclude that economic statecraft as a concept has been employed since the end of the 19th century. Economic statecraft could refer to at least four things: first, mercantilism, as indicated in Alfred Marshall's book *Principles of Economics*; second, a mixed economy in the Keynesian style; third, a state's strategy to increase power and prestige (as indicated in William

Stephen Sanders's German economic statecraft); and fourth, a statecraft using economic means to achieve diplomatic and strategic purposes (as described by John Hobson).

In 1985, a landmark year for the study of economic statecraft, American political scientist David Baldwin published his seminal book, *Economic Statecraft*. Prior to this, the meaning and connotation of economic statecraft were ambiguous and fluid. Baldwin was the first scholar in the Western world to clearly define and theorize economic statecraft. Almost single-handedly, he constructed a theoretical framework around the concept. In Encyclopedia Britannica's entry on the topic, David Baldwin defined the term as "the use of economic means to pursue foreign policy goals".[11] In his book *Economic Statecraft*, he assigned a more academic definition to the concept, referring to, "influence attempts relying on resources which have a reasonable semblance of market price in terms of money".[12]

By the time *Economic Statecraft* was published in 1985, Baldwin had first-hand experience and ample time to consider a series of intermingled political and economic events, such as the oil embargo imposed by the Arab world on the West in the 1970s and the food embargo imposed on the Soviet Union by the United States (in protest of the Soviet invasion of Afghanistan). In these events, economic resources were used as tools and weapons in international political struggles. In Baldwin's definition of "economic statecraft", the economy was regarded as a means and instrument of foreign policy, and the practice of economic statecraft was a one-way transformation of economic resources into diplomatic influence. Since then, US policy makers and the academic community have gradually embraced economic statecraft, rather than economic diplomacy, as an overall concept and an official policy term. The defining moment of this was when Hillary Clinton, then secretary of state, gave a keynote speech on economic statecraft in 2011 and placed economic statecraft at the heart of America's foreign policy agenda. In her speech, Clinton expanded the policy tools and objectives of "economic statecraft". She explained that economic statecraft involved two components: (1) how one harnesses the forces and uses the tools of global economics to strengthen diplomacy and international presence, and (2) how such diplomacy and presence can work to strengthen a domestic economy.[13] Unlike Baldwin, Clinton understood economic statecraft as a two-way transformation between economic and diplomatic influence, a "two-way street" of wealth and power.

1.1.2 "Economic Statecraft" Versus "Economic Diplomacy"

In contrast to the US preference for economic statecraft, China, the EU, and Japan are accustomed to using the term "economic diplomacy" to characterize the interrelationship between economics and diplomacy. What are the reasons for this difference? Some American diplomats argue that "economic statecraft" and "economic diplomacy" can be used interchangeably.[14] In fact, long before Baldwin's book was published, the United States used the term "economic diplomacy" rather than "economic statecraft".[15] Even after the publication of Baldwin's book, the United States continued to use the term "economic diplomacy" in an official capacity.[16] However, after former Secretary of State Hillary Clinton's 2011 policy announcement on "economic statecraft", US officials and think tanks began using the term "economic statecraft" with greater frequency, and made less frequent use of the term "economic diplomacy".[17] According to Maaike Okano-Heijmans, a senior research fellow at the Netherlands Institute for International Relations (Clingendael), there are two main reasons why "economic statecraft" was favored by Secretary Clinton and a significant number of US scholars and officials: (1) The United States was paying more attention to the economic factors in diplomacy. Secretary Clinton elevated economic statecraft to one of the pillars of US foreign policy, proposing that, "Increasingly, economic progress depends on strong diplomatic ties, and diplomatic progress depends on strong economic ties".[18] (2) Those who use the term economic statecraft tend to accentuate the element of power play, which is consciously or unconsciously deemphasized in scholastic and practical references to economic diplomacy.[19]

China and Europe's preference for the term "economic diplomacy" vis-à-vis the United States reflects different perceptions, understandings, and applications of the concept of power among the three. In contrast, the United States places the greatest emphasis on power, and the US strategic community is chiefly concerned with the transformation between economic resources and power in "economic statecraft", which is increasingly becoming an essential building block of US grand strategy. China and European countries (and institutions), however, emphasize the process of diplomatic negotiation and disfavor the use of power. Among the best-known European (including British) figures in the study of economic diplomacy are Sir Nicholas Bayne, former economic director at the British Foreign and Commonwealth Office, and Dr. Stephen Woolcock, of the London School of Economics and Political Science (LSE). With the LSE as their main arena, Sir Nicholas Bayne and Dr. Stephen Woolcock have been offering courses in economic diplomacy since 1999. They define economic diplomacy as "the methods and process of decision-making and negotiation", emphasizing that economic diplomacy is about, "how they make decisions domestically, how they negotiate with each other internationally, and how these two processes interact".[20] It is thus clear that Sir Nicholas Bayne and Dr. Stephen Woolcock, in their study of economic diplomacy, focus primarily on the process and institution of economic diplomacy and less so on the deployment and transformation of power embedded in the negotiation process of economic diplomacy. Clearly, this definition of economic diplomacy is heavily influenced by Robert Putnam's two-level game theory. In fact, Sir Nicholas Bayne and Robert Putnam are good friends, and their friendship has inspired them both and has greatly benefited Putnam's advancement and refinement of his two-level game theory.[21] The two men also worked together on a book on the Group of 7 (G7) Summit, a topic they examined using two-level game theory.[22]

However, economic diplomacy is a niche field of study in the EU, and its development and policy practice have not achieved substantial attention. For example, from 2016 to 2017, the EU tried to launch an EU economic diplomacy strategy, but ultimately, the strategy was aborted for various reasons. On February 24, 2016, the European Political Strategy Centre (EPSC), the European Commission's in-house think tank, organized a conference with the theme of "Economic Diplomacy and Foreign Policy: Friends or Foes?" The conference featured a keynote speech by Jyrki Katainen, the then-Finnish vice-president of the European Commission with a trade policy portfolio, and gathered elite figures from EU politics, business, and academia to discuss how political and economic goals and tools can be combined and how trade-offs between political and economic interests should be made.[23] The conference can be seen as a precursor to the EU's advancement of economic diplomacy from 2016 onwards. In order to advance the economic diplomacy strategy at the EU level, the European External Action Service (EEAS) also created a special ambassadorial-level economic diplomacy advisor role for managing the formulation of an economic diplomacy strategy paper. However, the strategy paper (called "Communication" in the EU jargon) was not released for two reasons: (1) There was disagreement among EU member states concerning the definition of economic diplomacy. Some considered economic diplomacy as trade and investment promotion, which falls under the jurisdiction of member states. Other member states and the EEAS (European External Action Service) believed that the EU needed a unified and coordinated economic diplomacy approach to better employ its economic strengths and means to achieve the EU's foreign policy objectives. Therefore, the EU should have jurisdiction over economic diplomacy matters. (2) Within the European Community, there were different views as to how to align economic and strategic interests. The Directorate for Trade of the European Commission was less inclined to weaponize trade policy instruments, whereas the EEAS (in charge of foreign policy) favored using trade, monetary, and financial instruments to achieve strategic foreign aims. As a result, no EU-level economic diplomacy strategy paper was released.

1.1.3 Analysis and Critique of the Concept of Economic Statecraft

To accurately discern the concept of "economic statecraft", we must first understand what "statecraft" is. The Cambridge Dictionary defines statecraft as "the skill of governing a country".[24] Other dictionaries define it as "the art of government and diplomacy", "the art of conducting public affairs", or "statesmanship".[25] The *Merriam-Webster Dictionary*'s entry reads, "the art of conducting state affairs".[26] In Margaret Thatcher's *Statecraft: Strategies for a Changing World*, "statecraft and statesmanship are, according to the dictionary definition, interchangeable. But the former has a more practical ring to it, emphasising activity rather than rhetoric, strategy not just diplomacy".[27]

Regrettably, there is a lack of scholarly attention to techniques of statecraft among domestic policy analysts in contemporary American political science. In other words, scholars of domestic politics discontinued using the term "statecraft" to discuss domestic affairs in the United States.[28] Among students of foreign policy and international politics, the term "statecraft" is sometimes used to encompass the whole foreign-policy-making process, but more often it refers to the selection of means for the pursuit of foreign policy goals.[29]

Second, we must understand the modifier "economic" in the term "economic statecraft". In the West, the word "economics" comes from statistics, and the word "statistics" begins with "stat", which means the "state". Therefore, "economic statecraft" refers to the study of how a state expands its wealth and administers good governance. In a way, the economics itself is a matter of governance, the objective of which is to improve the strength of the country at the individual and state levels. This is consistent with the meaning of the word "economics" in Chinese history. In the historical Chinese context, "economics" refers to the practical study of how to run the state and improve people's welfare.

In summary, the discourse from US scholars and policymakers on "economic statecraft" involves three characteristics: (1) It emphasizes the state. The main actor in the implementation of economic statecraft is the central or federal government, which includes the president, the secretary of state, the treasury secretary, the secretary of commerce, trade representatives, and other senior cabinet officials. (2) It concerns the use of economic tools to serve foreign policy goals, emphasizing its instrumentality. (3) it underscores the role of authority. However, there are three problems with the current research and application of "economic statecraft". The first problem is that it is too instrumentalized, which limits economic statecraft to the art of deploying tools of economic diplomacy, yet it often fails to elevate economic statecraft to the strategic level. This is particularly evident in Baldwin's book *Economic Statecraft*. In fact, Baldwin attaches the utmost importance to the study of the techniques of "economic diplomacy" rather than strategy. Second, Baldwin largely ignored the domestic dimensions of economic statecraft, a fact that he acknowledged and explained in his book.[30] Third, "economic statecraft" in the US context largely overlooks economic development and the growth of wealth, being understood primarily within the foreign policy framework.

1.1.4 Reconstruction of the Concept of Economic Statecraft

Following the global financial crisis of 2008 and at the confluence of the COVID-19 pandemic and the Russia-Ukraine war, geoeconomic competition has become increasingly fierce. At a time when China has surpassed Japan and the EU as the world's second largest economy and the largest trading state and recipient of foreign direct investment, the pertinent question China faces is how to rise peacefully and avoid the failure to rise. The United States, on the other hand, urgently needs to answer the question of how to maintain its economic competitiveness and international leadership and perpetuate its supremacy for as long as possible. Therefore, the theoretical proposition of "economic statecraft" in this book aims to examine the dialectical relationships between how a nation grows its wealth, converts wealth into power, and manages wealth and power during the rise and fall of great powers. Its essence is the economic dimension of grand strategy and the external economic dimension of governance. Compared with the previous definition of economic statecraft – which is relatively narrow, instrumentalized, and technical – this book intends to elevate and expand the meaning and connotation of economic statecraft. The author contends that four key ideas in the definition of economic statecraft require further clarification so that the definition can better adapt to the latest developments in the global political and economic order and the need for great-power play. These four key ideas are "wealth", "power", "transformation", and "strategic management".

"Wealth" primarily means economic resources. In his definition of economic statecraft, Baldwin believes that influence is mainly derived from resources. He notes that resources can be measured in monetary terms and have a market price. In my view, resources have five characteristics: (1) they can be quantified; (2) they can be transformed; (3) they can be exchanged; (4) they represent a possibility; and (5) according to the *Merriam-Webster Dictionary,* a resource is defined as an ability to meet and handle a situation. In addition to being regarded as an economic resource, wealth also encompasses other factors of production, including land, labor, capital, technology, managerial expertise, and institutions. Taking institutions as an example, institutional innovation can create new wealth. The combination of institutional and traditional factors of production can increase the productivity of wealth generation. Institutional change has a great impact on a nation's wealth. China's experience is "crossing the river by feeling the stones" – a kind of institutional innovation – which has had a major effect on China's economic growth and wealth production.

According to the classical definition from Max Weber, "Power" (*Macht*) is the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests.[31] According to the *Merriam-Webster Dictionary,* power is the "capability of acting or of producing an effect; possession of control, authority, or influence over others".[32] Therefore, power refers to a causal relationship that Party A possesses the ability to force Party B to do something that Party B is originally unwilling to do. In addition to relational power, power can also mean power resources, that is, material power, such as military and economic power. John Mearsheimer distinguishes between potential and actual power.[33] A state's potential power is based on the size of its population and the level of its wealth. These two assets are the main building blocks of military power. Wealthy rivals with large populations can usually build formidable military forces. A state's actual power is embedded mainly in its army and the air and naval forces that directly support it. Armies are the central ingredient of military power, because they are the principal instrument for conquering and controlling territory – the paramount political objective in a world of territorial states. In short, the key component of military might, even in the nuclear age, is land power.

"Transformation" refers to the conversion of wealth into power. As previously defined, power consists of two dimensions: relational power and material power, mainly military power. Baldwin proposed that "power can be defined broadly to include all relationships in which someone gets someone else to do something that he or she would not otherwise do".[34] In other words, Baldwin places emphasis on relational power. This book, however, adopts an eclectic approach, arguing that wealth can be transformed into a result that changes the behavior of the other side, as well as into material power, especially military power.

In his book *The Rise and Fall of Great Powers*, Paul Kennedy discusses, in detail, the "transformation of wealth into power" as the central tenet of economic statecraft. Kennedy argues that economic prosperity does not always and immediately translate into military effectiveness, for that depends upon many other factors, from geography and national morale to generalship and tactical competence. Nevertheless, the fact remains that all of the major shifts in the world's military-power balances have followed alterations in the productive balances; and further, that the rising and falling of the various empires and states in the international system has been confirmed by the outcomes of the major great power wars, where victory has always gone to the side with the greatest material resources.[35] For example, the American Civil War ultimately turned into a war of attrition. Confederate leader Jefferson Davis confessed that the "magnitude" of the war had far exceeded his expectations.

> The enemy have displayed more power and energy and resources than I had attributed to them. Their finances have held out far better than I imagined would be the case . . . a war of the dimensions that this one has assumed, of proportions so gigantic, can be very long protracted. The combatants must be soon exhausted.[36]

In his book *The Tragedy of Great Power Politics*, Mearsheimer compared the wartime economic capacity of Germany and the Soviet Union and found that the Soviet Union's wartime economic capacity far exceeded that of Germany's, even at the beginning of the war when the Soviet Union suffered military setbacks and Germany was on a rampage against the Soviet Union. Even at that time, the Soviet Union was producing more tanks and artillery than Germany.[37] It was this economic transformation capability that established the Soviet Union's military superiority over Germany.

In his book *Freedom's Forge*, Herman emphasizes that the mass production capability was the key for the United States to win World War II.[38] Total economic production in the United States had doubled; wages rose by 70%. American workers were twice as productive as their German counterparts, and four times more productive than the Japanese. What made America productive wasn't the war or government dictates or a supreme sense of national urgency. It was the miracle of mass production, which, once turned loose, could overcome any obstacle or difficulty. In those five years, America's shipyards launched 141 aircraft carriers; eight battleships; 807 cruisers, destroyers, and destroyer escorts; 203 submarines; and, thanks to Henry Kaiser and his colleagues, almost 52 million tons of merchant shipping. Its factories turned out 88,410 tanks and self-propelled guns, 257,000 artillery pieces, 2.4 million trucks, 2.6 million machine guns – and 41 billion rounds of ammunition.

The transformation of wealth to power should avoid strategic overdraft, and it requires strategic management of the wealth-power transformation process. At the heart of "strategic management" is the idea of being holistic and comprehensive and keeping expenditures within the limits of revenue. Strategic management in this context refers to setting clear goals; acquiring resources and the means to achieve such goals; and maintaining a balance among results, approaches, and means. Maintaining this balance requires not only finding ways to achieve goals, but also constantly adjusting the goals to discover the most realistic path to success via feasible means.[39] Implementing strategic management does not mean that strategic overdraft is never permitted. At certain moments in a nation's history, such as national independence, unification, or a major war, a nation can certainly overspend strategically. The top four periods in US history for defense spending as a share of GDP were the Civil War at 11.73% in 1865, the Korean War at 17.4% in 1953, the end of World War I at 21.79% in 1919, and World War II at 41.52% in 1945.[40] However, after overdraft, new resources must be drawn on in time for the nation to recover. Professor Shi Yinhong of Renmin University of China advocates "strategic economy"[41] based on strategic prudence, and Professor Zhang Wenmu of the Center for Strategic Studies at Beijing University of Aeronautics and Astronautics proposes "strategic health preservation",[42] both of which emphasize that a nation must not strategically overspend and must achieve a balance between wealth and power.

In summary, I provide a new definition for economic statecraft that differs from Baldwin's. I define "economic statecraft" as the skill, art, strategy, and process of wealth generation, extraction, mobilization, and the two-way transformation of wealth and power by a state's central government for the purpose of acquiring and maintaining great power status. Its implementation is essentially a nation's strategic management of wealth and power, with a view to a dynamic equilibrium between the two.

There are three types of economic statecraft: (1) the pursuit of power through wealth, (2) the pursuit of wealth through power, and (3) wealth and power both as ends or means.

1.2 The Theoretical Construct of Economic Statecraft

1.2.1 Theoretical Assumptions

When a country conducts economic statecraft, there are three implicit premises: (1) economic resources are relatively sufficient or even unlimited; (2) economic power is fungible and transformable; and (3) the relationship between wealth and power is harmonious, or at least nonconflicting and noncontradictory. However, these three premises are not always present, and thus, three limiting conditions emerge for the implementation of a country's economic statecraft: (1) economic resources are not sufficient, but rather, are scarce; (2) economic power may not always be transformable; and (3) wealth and power are in a relationship of unity of opposites. The neglect or underestimation of these three implicit premises is often key to the failure of economic statecraft. Economic statecraft should examine these three implicit premises that previous studies have overlooked, that is, how to achieve economic growth, extract economic resources, and achieve the two-way transformation of wealth and power.

The first and second limiting conditions for the use of economic statecraft – namely, that economic resources are scarce and that wealth does not always translate into power – imply that the relationship between wealth and power is in fact one of contradiction that does not always match. There exists the contradiction between the scarcity of wealth and the state's infinite quest for power. "Scarcity" refers to a state in which goods are always limited relative to demand, whereas economics is the study of how societies use scarce resources to produce valuable goods and services and distribute them among different individuals.[43] For a nation, wealth is also scarce, so there is a need for "state economics", that is, "economic statecraft", the subject of this book; it aims to bridge economics, diplomacy, and management studies. The so-called "state economics" or "economic statecraft" is required mainly because of the underappreciated role of the state in classical economics. Because international politics is largely in a state of anarchy, there is always competition among states, and as large states are after ambition, glory, and centrality and small states after survival, states are inevitably hungry for power. Classical economics is less concerned with the role of the state; rather, its research focuses on the individual and market levels. From the perspective of Western economics, since Keynes, economics and political science have parted ways. The era of classical political economy is over. Instead, the study of economic statecraft takes an opposite approach. It aims to establish links between economic policy and foreign and security policy and to drive the study of international political economy at the practitioner's level.

The third limiting condition in the implementation of economic statecraft, that is, the dialectical relationship between a nation's wealth and power implies that wealth and power are both contradictory and complementary – they shape and construct one another. As Professor Jacob Viner once said,

> wealth and power are each proper ultimate ends of national policy; there is long-run harmony between these ends, although in particular circumstances it may be necessary for a time to make economic sacrifices in the interest of military security and therefore also of long-run prosperity.[44]

In other words, this contradictory relationship between wealth and power is the object of study in economic statecraft. My theoretical assumption is that there is a contradiction between the relative scarcity of state wealth and the state's unlimited pursuit of power. Likewise, there is a contradiction between the scarcity of state power and the state's unlimited pursuit of wealth. In a political state, wealth is on the supply side and power on the demand side. In an economic (commercial) state, wealth is on the demand side and power on the supply side. The inherent equilibrium between the two is the key to the rise and fall of great powers. For many of the former great powers, their market players had an immense or even unlimited demand for wealth, which drove these powerful states to pursue even greater power. For example, the evolution of the British Empire from nonmilitary imperialism (the Second Empire or "informal empire") to military imperialism was largely the result of a drive by industry and commerce.

1.2.2 The Main Actor of Economic Statecraft

The main actor of economic statecraft is the state. However, a government is often fragmented and siloed, lacking global awareness due to limitation of insights or functional constraints. Only national leaders, superseding coordinating bodies, and senior policy advisors can have a holistic view and connect the dots. The ideal actor to implement economic statecraft is a leader who can coordinate with the big picture in mind – first, the head of state and government, and second, the finance minister, economic minister, trade minister, or interior minister, etc. King Louis XIV of France was adept at economic statecraft, and he relied heavily on capable advisors, such as Comptroller General of Finances Jean-Baptiste Colbert. Helmut Schmidt, who served as minister of economics, minister of defense, and eventually West German chancellor, made skillful use of economic statecraft. The actors of economic statecraft should be strategic thinkers with holistic control. As the Chinese saying goes, "those who do not plan with a holistic view are not fit to plan for a region". When implementing economic statecraft, the main actor must balance breaking down entrenched domestic interests and conducting external negotiations. In addition to the state, we must recognize that the legislature, social classes, large corporations, the media, and other types of interest groups are also players in economic statecraft – they participate in and seek to influence a nation's economic statecraft in their own ways.

1.2.3 Steps and Methods of Implementing Economic Statecraft

The process of economic statecraft consists of wealth production, wealth extraction, and wealth-power transformation.

1.2.3.1 Wealth Production

Wealth production concerns how a nation pursues economic growth in a sustainable manner. Colonization, war, and plunder were the primary means of wealth production in ancient Greece, but Athens and Sparta had very different ways of acquiring wealth. Athens was a maritime empire that relied on overseas colonization. Sparta, on the other hand, was primarily an agrarian civilization. In ancient Rome, the main motivation for Roman armies to go to war was purely economic gain – to plunder spoils and slaves that would support a slaveholding empire. Thus, the expansion and rise of Rome was primarily through military might. As it expanded, it constantly exported troops and plundered wealth.[45] Montesquieu said, "Rome grew great because she had successive wars" (French: *Rome s'était agrandie, parce qu'elle n'avait eu que des guerres successives*).[46] There are many explanations for the decline of the Roman Empire. The ancient Roman historian Appianus (c. 95–c. 165) stated that a very important reason for the fall of the ancient Roman Empire was slavery and the unsustainable economy of large plantations. This economic approach forced the ancient Roman Empire to expand constantly to acquire new territories and slaves to support its slaveholding empire, eventually leading to militarism and extravagance. As hedonism bred internally, the late Roman Empire was forced to rely on large troops of Germanic mercenaries, which eventually led to the empire's demise (at the hands of the Germanic mercenary chiefs). In feudal societies, one of the Pope's wealth-making methods was the sale of the indulgence letter, which eventually led to the Reformation, with Martin Luther's Ninety-Five Theses as the precursor.

For the early mercantilists, wealth was gold and silver. All economic activities of the state served the sole purpose of acquiring more gold and silver. Mercantilism held that there were two sources of wealth: (1) the mining of gold and silver, and (2) the development of external trade. In contrast, Adam Smith, a leading figure in classical liberalism, argued that the so-called national wealth is the sum of commodities produced by a nation, and that the source of wealth is labor in various sectors such as agriculture, industry, and commerce. There are two primary conditions or means to grow wealth: to increase labor productivity, which requires improving the division of labor, and to increase the number of workers, which requires further capital accumulation. Adam Smith opposed mercantilism, believing it to be the most detrimental to the organic growth of wealth.

Nineteenth-century German economist Friedrich List criticized Adam Smith and proposed the "theory of productive power" based on the idea that wealth is generated for causes quite different from wealth itself. List believed that a person may possess wealth, i.e. exchangeable value; if, however, he does not possess the power of producing objects of more value than he consumes, he will become poorer. This applies to individuals, but is still more the case with entire nations (who cannot live out of mere rentals) than with private individuals. Germany has been devastated in every century by pestilence, by famine, or by civil or foreign wars; she has, nevertheless, always retained a great portion of her powers of production, and has thus quickly reattained some degree of prosperity; while rich and mighty but despot- and priest-ridden

Spain, notwithstanding her comparative enjoyment of internal peace, has sunk deeper into poverty and misery. The same sun still shines on the Spaniards, they still possess the same area of territory, their mines are still as rich, they are still the same people as before the discovery of America, and before the introduction of the Inquisition; but that nation has gradually lost her powers of production, and has therefore become poor and miserable.[47] List concluded that "the power of producing wealth is therefore infinitely more important than wealth itself".

List was also a supporter of protective duties. He argues,

> it is true that protective duties at first increase the price of manufactured goods; but it is just as true, and moreover acknowledged by the prevailing economical school, that in the course of time, by the nation being enabled to build up a completely developed manufacturing power of its own, those goods are produced more cheaply at home than the price at which they can be imported from foreign parts.[48]

List's doctrine had a great influence on Germany and the United States during their rises and catch-up phases.

In the history of economic doctrine, economic statecraft has received attention from various economic schools of thought, with varying degrees of importance given to the role of government. The first was the free market school, starting with Adam Smith and continuing through Milton Friedman in the 1960s. The second was the Keynesian school, with its emphasis on government regulation. The third was the school of supply-side economics, which was also derived from Adam Smith; it advocated small government and market-based allocation. Unlike the Keynesian belief of government regulating the market, the school of supply-side economics believed that supply begets the market and demand. The main and most successful application of supply-side economics in the context of economic statecraft was in the early 1980s, when Europe, represented by Thatcher, and the United States, represented by Reagan, solved the problem of "stagflation" through supply-side economic reform. Europe's economic boom in the 1990s and the United States' in the late 1980s (from Bush Sr. through the Clinton years), can be attributed to the foundation laid by Thatcher and Reagan in the 1980s. Thanks to the growing economic strength of the United States and Britain, the United States outlasted the Soviet Union and won the Cold War, while Britain won the Falkland Islands War over Argentina.[49]

1.2.3.2 Wealth Extraction

Wealth extraction refers to the collection and expenditure of government revenues, as well as the function and act of government intervention in the economy, which falls within the scope of the study of public economics or government economics.[50] Wealth extraction has been a core subject in Western finance, and later, public economics research. In 1662, William Petty published *A Treatise of Taxes and Contributions*, which analyzed the reasons for increases in state expenditure, people's objection to taxation and the methods of tax collection, and the ways and means by which the state raised funds. It pioneered the study of Western finance. In *The Wealth of Nations*, Adam Smith also spoke at length about state finance.[51] Historically, wealth was extracted first by rulers to consolidate their reign and later for expansion. For example, in the late Middle Ages, to maintain the broadening functions of the royal throne, it was necessary to find ways to increase taxes. In this age, European monarchs began to collect sales taxes and duties on imports and exports. On the back of thriving commerce and expanding markets, business revenues continued expanding, and the monarchs did not waste this opportunity to collect money.[52] Wealth extraction was a game between the rulers and the ruled, as well as one played among the ruling elite. In the late Middle Ages, with the rapid rise of royal power in England, the nobles had to protect their own interests, so they began to demand that the crown's power be shared. The Magna Carta was introduced to limit the king's personal powers, which set the precedent for the modern bourgeois-democratic revolution. France experienced similar developments. During the Hundred Years' War with England, the French crown was also on the verge of financial and economic exhaustion. The French crown was forced to summon the Estates General and surrender some of its power in exchange for the nobility's support for taxation. In addition to taxation, another important avenue of wealth extraction was borrowing, and borrowing had to be done on good credit.[53] When a country's wealth extraction is insufficient, it must consider international supplementation. Arguably, the Trump administration raised tariffs to make up for the gap in its domestic tax cuts by launching a worldwide trade war. Trump's domestic policies were built on drawing resources from other countries.

The ability to extract wealth matters in the rise and fall of nations. The famous "Reforms of Wang Anshi" in Chinese history largely dealt with the means of wealth extraction. It significantly enriched the state's revenue and empowered its army through the Green Sprouts Law, the Land Survey and Equitable Tax Law, and the Market Exchange Law. However, the failure of Wang Anshi's reforms eventually led to the demise of the Song Dynasty. The Ming Dynasty used up all the silver in its treasury to help the Joseon Empire of Korea resist the Japanese warlord Toyotomi Hideyoshi, so much so that it had nothing left to pay soldiers to defend against Li Zicheng, eventually leading to the end of the dynasty. Ray (Renyu) Huang mentioned that the efficiency of Chinese taxation was highly correlated with the expansion and convergence of the empire.[54] Chen Yun, a key Chinese Marxist economist and leader, once said that the political authority of the Chinese central government should be underpinned by its economic authority. In 1994, China initiated reform towards a tax-sharing system, which significantly increased the country's ability to extract fiscal revenue.[55]

1.2.3.3 Wealth-Power Transformation

David Baldwin's definition of economic statecraft already implied the transformation of wealth into international influence, but he did not explicitly say so. "Transformation" is a key strategy for the realization of economic statecraft, and an integral component of the study of economic statecraft. "Transformation" in the context of economic statecraft refers to the act, art, and process of consciously transforming wealth and power through the strategy, tactics, and institutional design of a country's (central) government in its external relations.[56] The "strategy" here is a plan of action for the actors to mobilize, cultivate, organize, and deploy various existing and potential forces to achieve predetermined goals.[57] The realization of transformation strategy depends on various policy tools. In this regard, Baldwin grouped the tools of economic statecraft into two categories: positive sanctions (e.g., granting most-favored-nation status, providing aid) and negative sanctions (e.g., embargo, boycott).[58] In addition to the economic statecraft mentioned by Baldwin, countries are "inventing" and "reinventing" various types of economic statecraft tools to transform wealth into power – for example, the EU's latest inventions of the International Procurement Instrument (IPI) and the Anti-Coercion Instrument (ACI). The IPI allows the EU to reciprocally close its own government procurement market if a foreign government fails to open its government procurement market to wthe EU, so at its core, it is a system of "negative reciprocity". Under the ACI, the EU can take economic countermeasures when a third country tries to coerce the EU or a member state to act or not to act in certain ways through measures affecting trade or investment. To some extent, the contest of economic statecraft is a contest of ability to develop economic statecraft tools. The development of economic statecraft tools requires balanced consideration of a country's economic strength, domestic affordability, and international reputation, among other considerations.

At the same time, a "transformation" strategy also requires consideration of the efficiency and effectiveness of transformation. In *The Tragedy of Great Power Politics*, John Mearsheimer raised the question, which type of political and economic system (something we can call "wealth-power-system") is most conducive to transformation? After comparing the economic systems of the Soviet Union, the United States, and Germany, Mearsheimer concluded that the Soviet and US economies were far better organized than the German economy for mass-producing weaponry.[59] Huang Qixuan argues that big powers' choice of economic growth model often leads to different international political outcomes. In the late 19th and early 20th centuries, why did the economic growth of the United States not invite a strong confrontation from Britain, while the rise of Germany economically pushed Britain and Germany to war?[60] In fact, an important aspect of the study of economic statecraft is "comparative economic statecraft", that is, the study of whether the political and economic system of a country (wealth-power system) is conducive to more efficient and sustainable transformation of wealth into power.

1.2.4 Academic and Theoretical Standing of Economic Statecraft

According to Gilpin, in the late 19th century, the broad definition of what economists study narrowed considerably. Alfred Marshall, the father of microeconomics, turned his back on the earlier emphasis on the nation as a whole and on the political as important. In his highly influential *Principles of Economics* (1890), Marshall substituted the present-day term "economics" for "political economy" and greatly restricted the domain of economic sciences.[61] The study of economic statecraft has a purpose to the contrary; it is to return to the research ethos and origins of classical political economy and to make new bridges between economics and political science and between international political economy, economic diplomacy, grand strategy, and management studies.

The theoretical roots of economic statecraft are first and foremost the political economy; it is inextricably linked, and in some cases, synonymous with political economy. As John Stuart Mill, the last major classical economist, commented, political economy is the science that teaches a nation how to become rich. Classical economists emphasized the wealth of nations, and the term "political" was as significant as the term "economy".[62] In *The Wealth of Nations*, Adam Smith argued that political economy is, "a branch of the science of a statesman or legislator". It was also a guide to the prudent management of the state economy. Adam Smith regarded economics as a science of the production, distribution, and consumption of wealth.[63] With the publication of Smith's major works and their German translations, a German political economy called "Staatswissenschaft" or "state economics" began to emerge in Germany. The Germans considered "Staatswissenschaft" as a science that systematically studied the measures and instruments that the state should adopt to manage, influence, restrict, and organize industry, commerce, and crafts to maximize the welfare of the people.[64] Economic statecraft looks at the rich and complex dialectical relationships between politics and economics and between wealth and power. This study is meant to serve the state's strategy and policy making. In ancient times, economic statecraft was, for the king, the art of ruling, the way of governing. In contemporary times, economic statecraft is largely about the governance of a country's affairs. Marxist parties pay particular attention to economic statecraft because the Marxist way of thinking is that the economic base determines the superstructure, and economic strategies interact closely with political and diplomatic strategies. However, the current disciplinary divide leaves a gap for an integrated analytical framework to examine and address this issue.

In Chapter Two, we are going to study the four major paradigms of economic statecraft in modern times, namely, mercantilism, liberalism, imperialism, and Marxism.

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2 Paradigm Shifts in Economic Statecraft Over Time

Since modern times, four paradigms of economic statecraft have emerged among the world's major powers: mercantilism, liberalism, imperialism, and Marxism, with a number of variants. The so-called "paradigm" of economic statecraft refers to the wealth-power strategy (WPS) of the dominant state (especially the hegemonic state) over a long historical period.

The WPS in Western history could be a long-duration strategy or short-term tactics. I therefore divide the WPS into three types: long, medium, and short-duration. The first type of WPS was the long duration, covering first the ancient Greco-Roman imperial era, then the Christian feudal era, and last, the nation-state era. For the ancient Roman Empire, economy and empire were closely linked. The survival of ancient Rome depended on the expansion of the empire and the maintenance of its vast territory. Expansion brought in more slaves to serve the slaveholding large plantation economy. The Roman Republic built a Roman Empire across Eurasia through constant expansion and conquest. During Trajan's reigning period (53 AD–117 AD), the Mediterranean Sea became *Mare Nostrum* (Latin: Our Sea) of the Roman Empire. The ancient Roman Empire resisted internal division and external barbarian invasions with its administrative structure and the linked military apparatus. The empire eventually disintegrated when it became too difficult to maintain local loyalty to the center and fight off foreign invaders. The slaveholding large plantation economy led to urban polarization, economic and social inequality, and intensified conflicts within the ancient Roman Empire. This gave rise to Christianity, which became a faith of the lower classes and the poor – and eventually, the state religion.[1]

By the late Middle Ages, monarchs, eager to expand their territories, achieve internal unity, and fortify absolute monarchy, had taken ownership of taxation, a form of political sovereignty. The notion of the supremacy of monarchy and kingship began to emerge, and the notion of mutual restraints and contracts, characteristic of feudalism, was replaced by that of superior power. The pope, the German princes, and the French, Spanish, English, and Scandinavian monarchs ran swiftly toward authoritarianism.[2] In the recent past, the West has experienced mercantilism, liberalism, and imperialism. These were systemic-level, global, and long-lasting paradigms.

DOI: 10.4324/9781003351382-3

The second type of WPS was the medium-duration WPS. It included power strategies (transformation of wealth into power) such as the Marshall Plan proposed by US President Harry S. Truman, the Build Back Better World (B3W) initiative proposed by President Joe Biden, the Global Gateway initiative proposed by the European Commission under the presidency of Ursula von der Leyen, and a series of wealth strategies such as monetarism, Keynesianism, and Ordo-liberalism. These wealth strategies, though expressed in the form of economic policies, have profound political implications.

The third was the short-duration WPS, referring to the two-way transformation of wealth and power in specific negotiations. It is essentially a negotiation strategy and a projection of bargaining power. There are many examples of short-term economic statecraft, such as trade wars, financial wars, and economic sanctions. The global trade war started by President Trump in 2018 was essentially about using the United States' position of strength and economic power to impose economic coercion on other major economies. China, the EU, India, Turkey, and other economies responded to Trump's economic coercion with retaliations, resulting in a global phenomenon of what we can call "competing economic statecrafts". In recent years, interdependence has been increasingly instrumentalized, politicized, and weaponized.

All the WPS of different durations concern the central issue in the study of economic statecraft – the two-way transformation of wealth and power. This chapter focuses on the WPS in the long duration. In the marathon of great power competition, an emerging great power must adopt a novel wealth strategy, that is, it acquires new productivity and enjoys higher labor efficiency. At the same time, this new power must have adopted a more efficient and sustainable WPS. At the end of the day, the strategic competition among great powers is a competition of WPSs. Following is the analysis of the paradigms of economic statecraft of Western hegemonic powers and their catching-up counterparts since modern times, as summarized in Table 2.1.

2.1 The Age of Classical Mercantilism (15th–18th Centuries)

Mercantilism was by far the longest-lasting form of economic statecraft. Jacob Viner summarized five elements of mercantilism:

> (1) policy should be framed and executed in strictly nationalistic terms, that is, national advantage alone is to be given weight; (2) in appraising any relevant element of national policy or of foreign trade, great weight is always to be put on its effect, direct or indirect, on the national stock of the precious metals; (3) in the absence of domestic gold or silver mines, a primary national goal should be the attainment of as large an excess of exports over imports as is practicable, as the sole means whereby the national stock of the precious metals can be augmented; (4) a balance of trade "in favor" of one's country is to be sought through direct promotion by the authorities of exports and restriction of imports

Table 2.1 The Economic Statecraft of Western Hegemonies and Catching-up Counterparts since Modern Times

	Economic Statecraft Paradigm			
	Wealth Strategy	*Wealth-Power Strategy (WPS)*	*Dominant States/ Catching-up States*	*Power Strategy*
15th–18th centuries	Portugal and Spain: Emphasis on gold and silver and Columbus's expedition in 1492; France: Colbertism; England: Navigation Acts (1651–1849); Netherlands: Financial Revolution	Mercantilism	Dominant: Habsburg monarchy/ catching-up state: France	Old colonialism, old imperialism, religious wars; parity, balance of power and Westphalian system; domestically: despotism (from confessional absolutism to courtly absolutism to enlightened despotism)
1846–1870	Classical liberalism: abolition of the Corn Laws and the Navigation Acts; representative thinker: Adam Smith	Liberalism	Hegemon: UK	Victorian era: no longer concerned with balance of power, but emphasized open cooperation and free trade; informal imperialism
1871–1890	Bismarck era: In 1879, Germany abandoned its traditional free trade policy and opted for protectionism; representative thinker: Friedrich List	Developmentalism (mercantilism + liberalism)	Catching-up state: Germany	German national unification; keeping balance of power; domestically: enlightened despotism, opposition to Social Democratic Party (SPD) and restriction of the Central Party
1890–1914	German-Russian Trade Agreement (1890) significantly reduced tariffs on industrial exports; UK insisted on free trade policy, while pivoting to Africa and Asia for new markets (leading to new imperialism)	Imperialism	Hegemon: UK/ catching-up states: Germany, United States	UK: Scramble for Africa, new imperialism, naval arms race (1908–1909, domestic tax increases in the UK and Germany); Germany: World policy; United States: Spanish-American War, Panama Canal, and Open Door policy

1913–1921	The Dawes Plan	Liberal internationalism (derived from liberalism)	United States: Rising to hegemony	Woodrow Wilson's Fourteen Points: open diplomacy, free trade, League of Nations; reliance on international opinion, international law, international organizations; Germany's Weimar Republic came to power
1929–1940	Economic nationalism United States: Smoot-Hawley Tariff Act	Mercantilism	Hegemonic transition from UK to United States/Catching-up states: Germany, Soviet Union	The return of the United States to "isolationism"
1945–1970s	Bretton Woods vs. the Soviet planned economy	Liberal institutionalism (derived from liberalism)	Hegemon: United States/catching-up state: Soviet Union	US hegemony; US-Soviet rivalry; rise of Europe and Japan
1980s–2008	Globalization; regional economic integration; Reaganomics (supply-side school); Clintonomics (strategic trade policy, super-salesman Clinton, World Trade Organization/North American Free Trade Agreement [NAFTA]/Asia-Pacific Economic Cooperation); trade policy emphasizing "positive reciprocity"	Neoliberalism (derived from liberalism)	Hegemon: United States/catching-up: Europe, Japan, China	Liberal democratic expansion strategy; North Atlantic Treaty Organization/EU expansion to the east

(*Continued*)

Table 2.1 (Continued)

	Economic Statecraft Paradigm			
	Wealth Strategy	*Wealth-Power Strategy (WPS)*	*Dominant States/ Catching-up States*	*Power Strategy*
2009–2016	Obama (Trans-Pacific Partnership [TPP]/Transatlantic Trade and Investment Partnership [TTIP])	Shift from neoliberalism to mercantilism + imperialism	Hegemon: United States/catching-up: China, EU	Return of geopolitics; pivot to Asia-Pacific; gradual withdrawal from Iraq
2016–2020	Trump (exit from TPP and TTIP, renegotiation of NAFTA); trade policy emphasizing “negative reciprocity”	Mercantilism + imperialism + liberalism	Hegemon: United States/catching-up: China, EU	US-China trade war and the Indo-Pacific strategy
2021-present	Biden: American Rescue Plan (ARP), American Jobs Plan (AJP), and American Families Plan (AFP) – total budget of US $6 trillion	Mercantilism + liberalism + imperialism	Hegemon: United States/catching-up state: China	Withdraw from Afghanistan; repair transatlantic relations; build the Quadrilateral Security Dialogue (Quad) and the Australia-UK-US (AUKUS) partnership; and propose the Indo-Pacific Economic Cooperation Framework (IPEF)

> or by other measures which will operate indirectly in these directions; (5) economic foreign policy and political foreign policy are to be pursued with constant attention to both plenty and "power" (including security under this latter term) as coordinate and generally mutually supporting national objectives, each capable of being used as a means to the attainment of the other.[3]

The early representatives of mercantilism were the Italian city-states, where capitalism first emerged. Venice was Europe's first full-blown colonial adventure. It provided something of a model to its successors, notably Holland and Britain, as to the ability of small maritime states to gain global reach. It served as a warning, too, of the vulnerabilities of far-flung possessions linked by sea power. The Venetian business model became suddenly obsolete and its supply lines vulnerable. Ultimately the Stato da Mar was as hard to defend as the American colonies were for Britain.[4] In addition to the above-mentioned factors that led to the decline of Venice, German political economist Friedrich List pointed out,

> One thing alone was wanting to Italy to enable her to become what England has become in our days, and because that one thing was wanting to her, every other element of prosperity passed away from her; she lacked national union and the power which springs from it.[5]

With the decline of the Venetian maritime empire came the rise of the Portuguese maritime empire.

However, Portugal lacked a sustainable wealth strategy. The huge colonial revenues were not used to reinvest in production, but rather to squander them. The countryside showed signs of decline, and its secular feudal lords intensified their exploitation of the peasantry. Portugal's geopolitical strategy also had major missteps. Its war fronts were too long and overstretched. In the mid-16th century, as Portugal faced a pronounced religious and political crisis, some began to ponder the future of Portugal. There were proposed plans to conquer China, and others to abandon the East and focus colonial efforts on the west coast of Africa to shorten the voyage and reduce the large overseas garrison, a plan known as "the empire at the gate". In 1578, the young King Sebastião, 24, led an army of 170,000 men to Africa and was killed in the ill-fated battle. Since the young king died without an heir, this led to a succession crisis in Portugal, which was eventually annexed by Spain.

Spain achieved massive wealth by way of geographical discoveries and colonial wars and built a large, worldwide empire. However, Spain, out of religious fanaticism, did not hesitate to launch successive foreign wars. Its wealth strategy was unsustainable, its subjects lived by gold and silver, and its way of making profits led the country and the people down the wrong path. The Spaniards were proud of not producing for themselves, instead, having foreigners produce for them. Production was outsourced to the countries of northwest Europe, especially England and the Netherlands.

The reason why Spain and Portugal in the 16th and 17th centuries were overtaken by emerging powers such as the Netherlands, the UK, and France (which also adopted mercantilism), was largely because Spain's and Portugal's wealth strategy was unfit for their power strategy, or the fit was not as good as that of England and France. On the one hand, Spain and Portugal were involved in religious and territorial disputes, and on the other hand, their wealth supply was insufficient and still based on the feudal system. Their technological and market development also lagged behind other countries. Friedrich List argued that the UK and the United States were much more powerful than Spain from a productivity standpoint. He analyzed,

> The War of Independence of the United States of America cost that nation hundreds of millions, but her powers of production were immeasurably strengthened by gaining independence, and it was for this reason that in the course of a few years after the peace she obtained immeasurably greater riches than she had ever possessed before.[6]

The mercantilism practiced in France was known as "Colbertism". Jean-Baptiste Colbert was a long-time comptroller general of finance and secretary of state for the navy. With a true passion for his work, a clear and steady mind, and a loyal and patriotic spirit, Colbert strove to rebuild the French economic structure and to make the country self-sufficient by increasing its revenues. The core principle of Colbertism was that "the wealth and the economy of France should serve the state". Colbert creatively supported the development of manufacturing, encouraged domestic industry and commerce, and raised tariffs to protect such. He established colonial trading companies and opened state-of-the-art factories through direct government control of economic sectors. Colbert's efforts succeeded in expanding the industrial and trade capacity of France and laid a solid material foundation for Louis XIV's European domination. It's no wonder that Louis XIV's chief minister Mazarin, on his deathbed, nominated Colbert for his position to Louis XIV: "I am acquitting myself of some of that debt [I owe] to Your Majesty in giving you Colbert". Unfortunately, Louis XIV squandered his wealth and was caught in many wars, so that when his son succeeded to the throne, the French treasury was already depleted. Before his death, Louis XIV cautioned his son to avoid war at all cost, but in the end, France became so poor and weak that it lost the Seven Years' War in Europe and Quebec.

The UK also practiced mercantilism from the 17th century through the 1850s, represented by the Navigation Acts (1651–1849), the Corn Laws (1815–1846), and the general protection tariff system. In many ways, however, the UK's wealth strategy was more efficient than that of France or Spain. Douglas North, a Nobel laureate of economics, argued that "Efficient economic organization is the key to growth; the development of an efficient economic organization in Western Europe accounts for the rise of the West".[7] He compared France with England and found that the French institutions were less efficient than the English ones. As a result, the French wealth strategy failed to compete with the English one.

Among the many countries that implemented mercantilist statecraft, Germany is of particular interest because it is a classic case of economic catch-up and national unification accomplished through basic adherence to mercantilist statecraft. Germany's mercantilist policy was largely influenced by the theory of German political economist Friedrich List. Based on extensive studies of Italians, Hanseatic merchants, Dutch, English, Spaniards, Portuguese, French, Germans, Russians, and Americans, List arrived at very important historical lessons:

> History teaches us how nations which have been endowed by Nature with all resources which are requisite for the attainment of the highest grade of wealth and power, may and must – without on that account forfeiting the end in view – modify their systems according to the measure of their own progress.[8]

The centerpiece of List's approach to economic statecraft is not only this, but also his "theory of national productive powers".[9] By List's definition, productive powers are created by both "material capital" and "mental capital", that is, the accumulation of human knowledge. Acting on his proposition around productive forces, List advocated a series of policies to promote productive forces, including the introduction of protective tariffs, the implementation of a patent policy to protect scientific and technological inventions and creations, and the importation of advanced technology management practices from abroad. He stressed the need to develop domestic education, nurture scientific and technological talent, and enact various economic legislation.

Looking back at the three centuries of the rise and fall of mercantilism, its flourishing was closely linked to geographical discoveries, trade, the rise of commercial capital, colonial policies, import bans, and protective tariffs. In the era of mercantilism, the kings were as fervent in their pursuit of wealth as they were of power, and the merchant class also sought out wealth, so there was a natural fit for great cooperation between kings and merchants. As such, the rise of capitalism coincided with the emergence of the modern state. The Renaissance bankers provided loans to the monarchs, and the monarchs became increasingly involved in economic management, establishing customs tariffs code and monopolies and adopting protectionist measures, thus giving economic management a state character. Gradually, however, a rift arose between the kings and the merchants, a conflict between the state's quest for power and the state's quest for wealth. So, eventually bourgeois revolutions took place, overthrowing the despots, first the Glorious Revolution of 1688 in England and then the French Revolution in 1789. The feudal dictatorship was replaced by a capitalist republic. The primary contradiction here was between the two actors of wealth-power – the bourgeoisie and the feudal monarchs. This is also the pair of contradictions inherent in the mercantilist economic statecraft, which largely determined the rise and fall of the great mercantilist states.

2.2 The Age of Classical Liberalism (1846–1870)

Economic liberalism was the second major paradigm of economic statecraft to emerge after mercantilism. Adam Smith first introduced the idea of mercantilism in *The Wealth of Nations* and proposed the theoretical framework of classical liberalism based on a critique of mercantilism. Adam Smith proposed: (1) it is not necessary to pursue the stock of precious metals, (2) there is no need to seek trade surplus, and (3) there is no need to reward exports while restricting imports.

The key components of economic liberalism include (1) free markets; (2) minimal state intervention; (3) individual consumers, firms, or households (rather than the state) form the basis of society; and (4) the primary objective of economic activity or wealth creation is to serve consumers. In Adam Smith's words, the role of government was to act as a "night watchman" to prevent foreign aggression and maintain public security.

Before Britain, the first country to adopt liberal policies was the Netherlands. The Dutch liberal policies, both political and economic, were so thoroughly implemented that they were liberalism on steroids. The Dutch Empire made its name for the skill of one-stroke herring gutting and thrived on the herring trade. At that time, to resist the rule of the Spanish Habsburgs, the Protestant provinces in the northern Netherlands formed the Union of Utrecht to fight for independence, but the southern provinces were long under the Catholic rule of the Spanish Habsburgs. As a result, wealthy and skilled Jews from the south and from Spain and Portugal fled to the north to escape religious persecution, where there was a capitalist republic and freedom of religion, politics, and commerce. This freedom was reflected in scientific research, writing, and many other aspects. The northern Netherlands became a sanctuary for businessmen, scientists, publishers, and freedom seekers. This freedom in religion, politics, commerce, and publishing led to a boom in art, culture, and foreign trade in the Netherlands. In terms of foreign trade, the Netherlands traded with the Middle East, Central Asia, and the Far East. The most important was the spice trade, which led to the establishment of the Dutch East India Company. Thanks to the private capital raised from the Amsterdam Stock Exchange, in less than a century, the Dutch East India Company grew to become the most powerful and wealthy trading company in the world. Amsterdam also became a hub of scientific research, higher education, and commerce in Europe. As for the decline of the Netherlands, it was mainly due to the rise of other great powers such as Britain and France, as the Netherlands lacked an assertive power organ. The decline of the Netherlands was relative. As a small, oppressed country, the Netherlands rose to become a maritime empire of global reach with unique wealth and power strategies, of which, the liberal wealth-power strategy was the most crucial and emblematic.

After the Netherlands, Britain rose to become the new hegemon. Britain was initially mercantilist and later liberal. Prior to Adam Smith, Britain enforced the Navigation Acts, the so-called "entrepôt colonialism". Under the

Navigation Acts, raw materials from the Caribbean and American colonies had to be shipped to Britain first and be carried by British-owned ships, regardless of the final market. Entrepôt colonialism imposed a commercial straitjacket on colonial economies that was deeply resented as an infringement of freedom – by the Protestant Anglo-Irish as well as by planters in Barbados: "Free Trade is the life of all colonies", declared the Barbados governor rebelliously.[10]

In the free trade phase, the British government abandoned trade protection and adopted a policy of free trade, establishing "free trade imperialism". What motivated this change was Britain's increased wealth production capacity. After the Industrial Revolution, Britain became the most competitive country in the world, so in the mid-19th century, the Corn Laws and the Navigation Acts were abolished, and liberalism was introduced. As Britain embarked on the Industrial Revolution, Adam Smith's book *The Wealth of Nations* was published. The book no longer emphasized the state as mercantilism had, but rather, promoted cosmopolitanism, finding that the source of wealth generation was no longer circulation, but the division of labor in the production stage. Smith believed that to increase national wealth, the state must increase the number of workers and labor productivity. An increase in the number of workers requires the accumulation of capital, and the increase in labor productivity is predicated upon the division of labor. The division of labor, in turn, leads to exchange, and exchange leads to a series of economic categories such as value.[11] In Smith's time, England had become a capitalist industrial nation, and agriculture had become capitalist agriculture. The bourgeoisie, as a progressive class, demanded the clearing of obstacles for capitalist development, the elimination of state intervention and mercantilist policies,[12] and the abolition of feudalism.

However, from the perspective of economic statecraft, Britain, which adopted liberal policies, did not actually forego the power strategy of the state. What truly made the British Empire strong was the combination of liberalism, the industrial revolution, and the empire. It was the bourgeoisie that pushed Britain to adopt liberal policies. Therefore, in the liberal era, the bourgeoisie was responsible for implementing both the strategy of wealth and the strategy of power. This transcends the dichotomy between the actors of wealth and power strategies during the mercantilist period (bourgeoisie vs. feudal despot). In the classical liberal period, the state's pursuit of wealth required the supply of state power, and when the general state system failed to deliver, Britain moved toward colonialism and eventually the establishment of an empire. When state power could not satisfy the state's need for wealth, the empire was abandoned. For nations that uphold the liberal doctrine, their states are controlled by merchants and capitalists, and their states seek wealth maximization. To maximize wealth, the state needs a constant supply of power and the appropriate political scale to accommodate wealth maximization, which is why Britain adopted the political form of empire and eventually occupied India. British economic statecraft in the 17th and 18th centuries, essentially, was to flexibly deploy its political and military power to maximize economic gains.

Two historians of Europe's imperialisms, John Gallagher and Ronald Robinson, sketched out Britain's route to world empire after 1815. At the heart of their argument lay two crucial assertions: that the British constantly sought the least effortful way of pursuing their interests in every part of the world, partly because of their system of government with its inbuilt constraint on public expenditure; and that this led them, wherever they could, to rely upon cooperation ("collaboration") with the local elites into whose backyards they strayed. The result was a complex historical pattern. In some parts of the world, the British could secure an open door for their trade by an energetic diplomacy that left local sovereignty more or less intact: this was the Latin American model. In less cooperative regions, a more coercive approach was adopted: if the locals would not open the door, the lock would be forced and the door battered down. Between 1839 and 1842, the British applied this to China, demanding free entry to its markets, and blocking the Yangtze – China's main artery – with their steamers until Beijing gave way.[13] The British power strategy in different places fully illustrates that the acquisition of wealth must be accompanied by different types of power strategies, and the imperial form is nothing but a manifestation of the power strategy.

Different from mercantilist economic statecraft, which seeks power maximization, liberal economic statecraft seeks wealth maximization. The rise and fall of a liberal hegemon depend on the transformation from power to wealth. Again, there exists a wealth-power paradox. The more wealth a liberal state seeks, the more power she needs; the more she expands, the more wealth is needed, leading to a fragile equilibrium of her supremacy. But compared with a mercantilist state, a liberal state is more flexible in managing her internal tensions and adjusting her political scale. A liberal state is a merchant state in which the ruling actors are the same group of people – capitalists – whereas in a mercantilist state, the leading actors are a dichotomy of feudal despot (or authoritarians) and capitalists. That is why mercantilist states (or empires) tend to suffer internal upheaval in a cyclical way, manifested in revolutions and wars.

2.3 The Age of Imperialism (1870–1914)

John A. Hobson was among the first who systematically studied imperialism. In his famous book *Imperialism* (1902), he linked the phenomenon of imperialism with the demands of maturing capitalism for markets, investment opportunities, raw materials, and cheap labor.[14] Inspired by Hobson, Lenin developed a theory arguing that imperialism was the highest and final stage of capitalism. Among Marxist theoreticians, Rosa Luxemburg did not agree with Lenin on this point. She considered imperialism not as a historical stage in the development of capitalism, but rather as a manifestation of the policy of capitalist countries competing for the remaining "non-capitalist spheres" in the world. Luxemburg argued that the inability of capital accumulation to take place within the capitalist system, which led to and prompted the expansion of capitalist aggression abroad, was the most profound root cause of imperialism.[15] She further suggested,

> Though imperialism is the historical method for prolonging the career of capitalism, it is also a sure means of bringing it to a swift conclusion. This is not to say that capitalist development must be actually driven to this extreme: the mere tendency towards imperialism of itself takes forms which make the final phase of capitalism a period of catastrophe.[16]

Lenin and Luxemburg had different perceptions of imperialism because Lenin's definition of imperialism was based on his answers to the problems of world revolutions, especially the Russian revolution, whereas Rosa Luxemburg drew from her study of political economics, which focused on revealing the laws of capital movement. Lenin developed Marx's theory of revolution and identified the motivation for revolution in the age of imperialism, while Luxemburg developed Marx's theory of capitalism and defined the logic of capital in the age of imperialism.

Combining the views of Hobson, Lenin, and Luxemburg on imperialism, we can revisit imperialism from the perspective of economic statecraft. Imperialism emerged because the state's unrestricted pursuit of wealth (capital) demanded the imperial form and motivated inter-imperialist wars. In the age of imperialism, the actor of the wealth strategy was monopoly capital, and the actor of the power strategy was the government controlled by the monopoly capitalists. The imperialist policy was largely an integrated strategy of wealth and power; it was both wealth and power strategies.

Let's first look at Japan's imperialist economic statecraft at the time of its rise. After the Meiji Restoration created the foundation and conditions for Japan's transformation and rise to power, Japan began to rise. Economically, Japan gradually completed the transition to monopoly capitalism. Politically, Japan began to expand after the annexation of Ryukyu, and in 1905, it formally annexed Korea. A war is the most typical event that changes the balance of power. Japan rose to become an internationally recognized power after winning the Sino-Japanese and Russo-Japanese wars. However, Japan's imperialist economic statecraft made it difficult to balance between its wealth and power strategies. In fact, imperialist Japan always worried about its ability to produce wealth. It expanded territory by means of war (power strategy) to gain greater abilities to produce wealth and extract power. The result was militarization and strategic adventurism. The attempt to annex China and the attack on Pearl Harbor both stemmed from the contradiction inherent in Japan's economic statecraft – wealth maximization depended on militarist policy and the need to maintain an ever-expanding empire. This underlying dilemma of economic statecraft has been reflected in varying degrees in all major powers, but Japan was most torn by this "wealth-power dilemma", likely due to the small size of the Japanese island and the strategic anxiety of its political elites. Therefore, the rise and fall of Japan in the first half of the 20th century was more or less concerned with Japanese imperialist economic statecraft.

We will then examine the economic statecraft of tsarist Russia. Why did tsarist Russia finally choose the power strategy of imperialism and the wealth strategy of industrialization? First was the loss of the Crimean War of 1853–1856. In a battle from 1828 to 1829, Russia defeated the Turkish army and tried to establish a protectorate over the increasingly tattered Ottoman Empire. But this expansion threatened the balance of power in Europe and caused a military conflict between the Russian Empire and an alliance that included Britain, France, the Kingdom of Sardinia, and the Ottoman Empire. The Crimean War clearly revealed the weakness of the Russian Empire against the military might of the industrialized nations of Western Europe. In September 1854, the allied forces launched an attack on Russia's Black Sea fleet, the port city of Sevastopol on the Crimean Peninsula. Despite European troops' mediocre command, the Russian army suffered a disgraceful defeat, with heavy losses on its own territory due to its inability to mobilize, equip, and transport soldiers. Russia's economy could not support the tsar's expansionist ambitions, and the Crimean War clearly exposed the vulnerability of an agricultural economy based on an unfettered labor force. The military defeat forced the tsarist government to reassess Russia's social order and implement a sweeping restructuring program. The most crucial elements of Russian social reform were the emancipation of serfs; the establishment of local self-government (zemstvos) in 1864 to manage the local affairs of health, education, and welfare; and industrialization. The chief proponent of industrialization in Russia was Count Witte, minister of finance from 1892 to 1903 and fan of the German economist Friedrich List. In 1893, the objectives of his first budgetary bill were "removing the unfavorable conditions which hamper the economic development of the country", and "kindling a healthy spirit of enterprise". At the heart of his industrial policy was a massive railroad construction project that would link vast areas of the Russian Empire and stimulate the development of other industries. More importantly, the new railroad would cross Siberia, making large-scale settlement, development, and industrialization possible in Siberia. To raise funds for industry domestically, Count Witte reengineered the state banks and encouraged the establishment of savings banks. He supported burgeoning industries with high protective tariffs, while also attempting to fund industrialization with large foreign loans from Western Europe. French and Belgian capital played a pivotal role in the development of the steel and coal industries, while British money supported the boom of the oil industry in the Caucasus region. In terms of power strategy, tsarist Russia embarked on a path of continuous imperial expansion. However, economic crises, coupled with military setbacks in World War I, led to the October Revolution and the collapse of tsarist Russia.

Starting in the late 19th century, the hegemony of the British Empire was challenged on many fronts. Britain's competitiveness declined relative to the rise of Germany, the United States, Japan, and other powers. Competing with European powers in Africa and Asia had gradually exhausted Britain's power. In fact, up to 1914, British opinion still regarded free trade as the vital ingredient of British prosperity. By that time, however, it was widely accepted that free trade was under general attack and that it would be hard for the British to defend their huge stake in a world now all but divided between five Western powers and the cadet power of Japan.[17] The British Empire eventually faltered. As Britain's "free trade imperialism" collapsed, it adopted the approach of closed regionalism by establishing the protectionist "system of imperial preferences" and "sterling area" to extend the life of the British Empire.

2.4 Marxism

The Soviet Union was the first country to adopt Marxism as its prevailing economic statecraft. Following the triumph of the October Revolution, no prior experience with socialism was available, and Lenin had to chart a new path. In response to the problems revealed by the implementation of wartime communism from the second half of 1918 to the spring of 1921, Lenin proposed a new economic policy and made profound changes to the wartime communist policy. After Lenin's death, Stalin gradually developed the singular system of public ownership of the means of production, a top-down command economy system, through the issuance of directives and a highly centralized political system. After the founding of the People's Republic of China in 1949, Mao Zedong also implemented a Marxist economic statecraft in China.

This highly centralized model of state ownership was well suited to wartimes, and China's economic statecraft under Mao Zedong helped China prevail in the Korean War and force an armistice deal with the United States. In 1950, the year after the founding of the Peoples Republic of China, China managed to mobilize and extract resources from a very weak foundation of wealth in a way that was unprecedented in history and efficiently converted such wealth into Chinese military power. It surprisingly forced the United States, which at the time had half of the world's gross domestic product (GDP) and unmatched military power, to stop its advances at the 38th parallel. However, this practice of a command economy subsequently experienced major missteps, leading to the "Great Leap Forward" and the "Cultural Revolution", which caused significant economic and social harm to China. China's economic statecraft only saw meaningful changes after the reform and opening-up in 1978, when it gradually moved toward a socialist market economy. China's diplomatic strategy also saw significant changes, accordingly.

In January 2013, Chinese President Xi Jinping reflected on the Soviet model of economic statecraft, arguing that the Soviet model promoted the rapid economic and social progress of the Soviet Union under specific historical circumstances and played an important role in the victory of the antifascist war by the Soviet army. However, due to the lack of respect for economic laws, its shortcomings grew increasingly pronounced over time and became a serious institutional hurdle to economic and social development. In the 1980s, facing the predicament of economic and social development, the Soviet Union and Eastern European countries tried to make adjustments, but under the strong offensive of powers in the West, such adjustments deviated from the right direction and led to a series of dramatic changes in Eastern European countries in 1989, the disintegration of the Soviet Union, and the dissolution of the Communist Party of the Soviet Union in 1991. Socialism suffered a major setback in the world.[18]

To this day, China remains the largest testing field for the Marxist economic statecraft. Obviously, China's economic statecraft is very different from Stalin's, the most crucial difference being the implementation of a market economy system. This system is called a "socialist market economy system" with "Chinese characteristics". This suggests that China's Marxist economic statecraft is a novel, ongoing experiment of statecraft that may come across various challenges as it advances. The Communist Party of China (CPC) places great emphasis on the "dialectic", which was systematically invented by German philosopher Hegel and later inherited and adapted by Karl Marx. The CPC seems very comfortable with this dialectical process of moving from one contradiction to another and from one problem to another, and it rejoices as these contradictions and problems are resolved. To a large extent, communism, like mercantilism and liberalism, is a philosophy as much as a methodology of economic statecraft.

Notes

1 On February 27, 380 A.D., the Roman Emperor Theodosius I (Eastern Emperor) and Gratian (Western emperor) jointly issued the Edict of Thessalonica, declaring the trinity of Christianity orthodox and the state religion of the Roman Empire.
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17 Darwin, J. (2012). *Unfinished Empire: The Global Expansion of Britain*. New York: Bloombury Press, p. 26.
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3 America's Economic Statecraft

Economic statecraft has been at the heart of US foreign policy since the founding of the republic.[1] This chapter breaks down the history of US economic statecraft into three main historical phases: US economic statecraft in the context of British hegemony (1775–1898), US economic statecraft in the context of US hegemony (1898–2008), and US economic statecraft in the context of the rise of the rest (since 2008).

In breaking down the history of US economic statecraft, I superimpose the long world economic cycle and the hegemonic cycle to form a composite perspective that maps out the contours of US economic statecraft (see Table 3.1). The so-called "long economic cycle" refers to 50–60 years of fluctuations over two stages: phase A (economic growth) and phase B (economic depression), each stage lasting about 20–30 years. The cycle is also called the Kondratieff long wave, named after the Soviet economist Nikolai Kondratieff. How the term came about remains up for debate. According to Joseph Schumpeter, innovation was the main driver, including technological and institutional innovation. The swell and ebb of economic tides has been accompanied by the rise and fall of great powers. In the long world economic cycle, hegemony rises and falls. Since modern times, three hegemonic powers have emerged, namely, the Netherlands (which peaked in the mid-17th century), the UK (which peaked in the mid-19th century), and the United States (which peaked in the mid-20th century). Our discussion of US economic statecraft is also placed in the context of the long economic wave and the rise and fall of hegemonic powers.

In describing each historical stage, I focus on the critical junctures of that stage and analyze the economic statecraft at these critical junctures, such as the Truman Doctrine (economic aid to Greece) on the eve of the Cold War and the Marshall Plan. Given the richness of US economic statecraft, I cannot run a full analysis; I can only select some critical junctures in history to examine, and these junctures often coincided with transitions of different historical stages that can help reveal the underlying reasons behind the paradigm shift and major US economic statecraft decisions.

DOI: 10.4324/9781003351382-4

Table 3.1 Evolution of US Economic Statecraft from the Perspective of the Long World Economic Wave Coupled with the Hegemonic Cycles

Long Economic Cycle (Kondratieff Long Wave)	*Hegemonic Cycle*	*US Economic Statecraft*
Kondratieff long wave I-A (1790/98–1815/25)	The beginning of the British hegemonic cycle: Rise of British hegemony: Glorious Revolution (1688–1689), joining the anti-French Grand Alliance in 1689, loss of American colonies (1783), French Revolution (1789), Napoleonic Wars (1803–1815).	Founding of the nation (1783–1814): Independence, national unification, and forming of nation. Washington's Farewell Address: Development of commercial relations, but nonentanglement with European powers. Second War of Independence (1812–1815).
Kondratieff long wave I-B (1820/25–1848/52)	The triumph of British hegemony: Power parity through "European coordination".	Continental Empire (1815–1850s): Monroe Declaration (1823), Mexican-American War, purchase of Florida, Gadsden Purchase.
Kondratieff long wave II-A (1848/52–1870/75)	Maturity of British hegemony: "High hegemony" and free trade phase, Great Britain as a hegemonic power with establishment of global free trade regime and naval dominance, colonial control of the periphery, American Civil War, unification of Germany and Italy, Russia enters world stage, initial disruption to capitalist world economy, China's tributary system.	Civil War: 1861–1865; purchase of Alaska.
Kondratieff long wave II-B (1870/75–1893/96)	Decline of British hegemony: Decline of Britain, process of challenge to British hegemony from Germany, United States, and Japan following domestic political restructuring; the classical age of imperialism; Western powers scramble for Africa and struggle for supremacy in Europe; Britain and Russia competing for Central Asia ("Great Game") while China and Japan compete for East Asia leadership; Second Industrial Revolution.	Overseas Empire: Reciprocity Treaty of 1875, began to expand into overseas markets, established naval bases and coaling stations, started trading at a surplus from 1874 onward, with surplus lasting 75 years.

(*Continued*)

Table 3.1 (Continued)

Long Economic Cycle (Kondratieff Long Wave)	*Hegemonic Cycle*	*US Economic Statecraft*
Kondratieff long wave III-A (1893/96–1914/20)	Beginning of US hegemony cycle: Rise of US hegemony and end of British hegemony – a world power beyond the Americas, consolidation of US and German economic leadership, arms race, Western powers and Japan scrambling for China and the rest of Asia.	Rise of US hegemony: Spanish-American War, Panama Canal, "Open Door" (1899–1900), New York City became a global financial center, mediation of Russo-Japanese War.
Kondratieff long wave III-B (1914/20–1940/45)	Triumph of US hegemony: Inter-regnum; demise of British hegemony, no immediate takeover of global leadership by the United States, leaving a global power vacuum and the so-called "Kindleberger Trap", imperial competition, beginning of revolts in periphery.	Triumph of US hegemony: Wilson's Fourteen Points; US retreat to isolationism; World War II.
Kondratieff long wave IV-A (1940/45–1967/71)	Maturing of US hegemony: Undisputed leader of the free world, establishment of US hegemony, Cold War, economic growth, new core-periphery relations.	Maturing of US hegemony: Bretton Woods system.
Kondratieff long wave IV-B (1967/71–1989/91)	Decline of US hegemony (competition from Japan and Europe): unraveling of postwar geopolitical world order.	Decline of US hegemony: Bretton Woods collapsed, Nixon's "ice-breaking" trip to China.
Kondratieff long wave V-A (1989/91–2001/08)	A new cycle of great power competition begins: multipolarity, dramatic changes in the Soviet Union, the end of the Cold War, a temporary stay of the decline of US hegemony, rise of the European Union and China.	Globalization, regional economic integration, Reaganomics (supply-side school), Clintonomics (strategic trade policy, super salesman Clinton, World Trade Organization/North American Free Trade Agreement/Asia-Pacific Economic Cooperation), trade policy emphasizing positive reciprocity; liberal democratic expansion strategy, North Atlantic Treaty Organization eastward expansion; geoeconomic strategy.

(*Continued*)

Table 3.1 (Continued)

Long Economic Cycle (Kondratieff Long Wave)	*Hegemonic Cycle*	*US Economic Statecraft*
Kondratieff long wave V-B (2001/08–2025/35?)	New power structure forms: new hegemonic cycle/ multipolarity? China's continued rise, continued decline of US hegemony, "profound changes unseen in a century" (2007 subprime mortgage crisis, Trump's rise to power, US-China trade war, COVID-19 pandemic, Russia-Ukraine conflict), old international order crumbles while the world enters a geopolitical transition, "Kindleberger Trap".	Establishment of the G20 in 2008, pivot to Asia in 2010, populist President Trump came into power in 2016, US-China Trade War in 2018, US troop withdrawal from Afghanistan in 2021, President Biden's "Build Back Better" framework and "Build Back Better World" (B3W) initiative, US-led coalition against Russia's invasion of Ukraine in 2022.

Source: Prepared by the author.

3.1 American Economic Statecraft in the Context of British Hegemony (1775–1898)

British hegemony was on the rise during the historical period in which the British Empire lost the American colonies. In a sense, the loss of the American colonies did not prevent Britain's historic rise on the world stage. In terms of the cadence of the long economic cycle, British hegemony, from its rise to decline, went through two long economic cycles (Kondratieff long waves) from the end of the 18th century until the end of the 19th century, a period of about 100 years (see Figure 3.1). These long 100 years provided the historical background for the founding and rise to prominence of the United States. My observation of American economic statecraft in the 100 years after the founding of the United States also proceeds from this larger background.

3.1.1 Founding of the United States of America

The period from the War of Independence (1775–1783) to the Second War of Independence (1812) constituted the first historical phase of America's economic statecraft.

In the nation's early years, American statecraft was best encapsulated by George Washington's open letter to the people of the United States of America, published in Philadelphia's *Daily American Advertiser* on September 19, 1796. At its core was isolationism and pragmatism based on

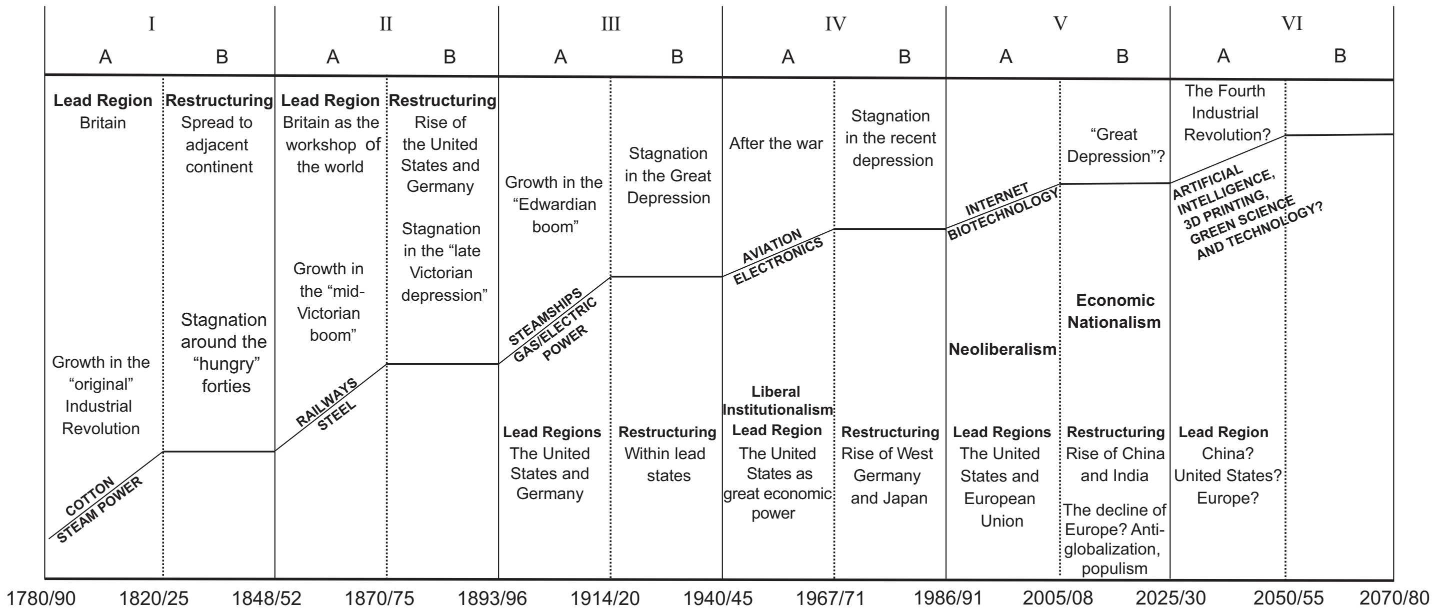

Figure 3.1 The Evolution of the Kondratieff Cycle and Hegemonic Cycle

Source: Xiaotong, Zhang & Flint, Colin. "Why and Whither the US-China Trade War?: Not Realist 'Traps' but Political Geography 'Capture' as Explanation". *Journal of World Trade* 55, no. 2 (2021): 341.[2]

US self-interest. It called for strict US neutrality and independence of US foreign policy from the complexities of European affairs to avoid "entangling alliances" with Europe. George Washington exhorted American people: "the great rule of conduct for us in regard to foreign nations is, in extending our commercial relations, to have with Europe as little political connection as possible".

George Washington told American people,

> Europe has a set of primary interests, which to us have none or a very remote relation. Hence she must be engaged in frequent controversies, the causes of which are essentially foreign to our concerns. Hence therefore it must be unwise in us to implicate ourselves, by artificial ties, in the ordinary vicissitudes of her politics or the ordinary combinations and collisions of her friendships or enmities.

Regarding American foreign policy choice, George Washington suggested,

> Our detached and distant situation invites and enables us to pursue a different course. . . . Why forgo the advantages of so peculiar a situation? Why quit our own to stand upon foreign ground? Why, by interweaving our destiny with that of any part of Europe, entangle our peace and prosperity in the toils of European ambition, rivalship, interest, humor, or caprice? It is our true policy to steer clear of permanent alliances with any portion of the foreign world.[3]

Washington's inveterate realism was rooted in his commitment to control, over himself and over any and all events with the power to determine his fate.[4] Washington adhered to such an axiom: no nation is to be trusted farther than it is bound by its interest.[5]

The most obvious corollary to Washington's view of American national interest was the avoidance of a major war during the gestative phase of national development.[6] This phase can be considered the infancy of the United States (1783–1812). Guided by Washington's isolationist and pragmatic ideology, the founding fathers were able to focus on building national strength, improving national defense, and opening new territories. The priority for the subsequent generations was to consolidate American control over the North American continent and to exclude, at any cost, that which would hinder or deviate from this central task. During this time, there was a century-long struggle between Britain and France for dominance over Europe and the world, which did not end until Napoleon's defeat at Waterloo in 1815. Washington remained level-headed on the situation, and the centerpiece of foreign policy during his presidency was the 1793 Proclamation of Neutrality and the 1794 Jay Treaty. The Proclamation of Neutrality stated that the United States would act only as a witness to the ongoing European conflict. Washington even went so far as to project the likely duration of this active American distance from European politics:

> Twenty years peace with such an increase of population and resources as we have a right to expect; added to our remote situation from the jarring powers, will in all probability enable us in a just cause to bid defiance to any power on earth.

In a sense, it was a fresh application of a strategic lesson he had learned during his tenure as commander-in-chief of the Continental Army. That strategic lesson was to do anything possible to avoid a head-to-head confrontation with a more powerful army until winning becomes possible. Washington's strategy of 20 years of delay proved to be astute in hindsight, and the United States enjoyed exactly 20 years of peace until the outbreak of the Second War of Independence with Great Britain in 1812.

Against the backdrop of the British Empire and other European powers, the newly formed United States of America took a defensive position diplomatically but was economically aggressive. It vigorously developed trade and kept tariffs low. At the same time, it actively expanded westward, incorporating Louisiana (1803) through land purchase. To defend its sovereign independence, the United States also actively used the tools of economic sanctions, such as the Embargo Act of 1807. Washington knew that the future of the United States lay in the western region and its development into a continental empire in the coming century. Washington focused many resources on building canals. For example, the Potomac constituted a direct link to the river system of the interior. Washington knew in his bones that the energy of the American people must flow in that direction.[7]

The Second War of Independence (1812–1815) was the first external war for the United States after independence. This war forced a peace treaty from the British Empire and won the United States international prestige. It also inspired strong patriotism among Americans. In 1812, Thomas Jefferson said,

> The acquisition of Canada this year, as far as the neighborhood of Quebec, will be a mere matter of marching, and will give us experience for the attack of Halifax . . . and the final expulsion of England from the American continent.

The belief that "the U.S. is destined to expand its dominion across the entire North American continent", was later termed "manifest destiny". Thus, even at the outset of the nation's founding, the idea of an empire was already present in the statecraft and diplomatic practices of America's founding fathers. In Washington's mind, the United States was an "empire on the rise".[8]

Among the founding fathers, another figure who had a profound influence on American economic statecraft was Alexander Hamilton, whose ideas on statecraft were best captured in the Federalist Papers and the First Report on

Public Credit. The First Report suggests that the enormous but latent potential of the American economy required more than mere release to achieve its full potential. Hamilton believed that the mobilization of these resources required abiding management and strategic orchestration at the national level. Different from Hamilton, Madison, and to an even greater extent Jefferson, seemed to think that economic policy consisted of getting out of the way to allow the natural laws of economic recovery and growth to proceed. But Hamilton thought the conditions for economic development needed to be created, then enduringly overseen. His model was England, with its national bank, regulated commerce, and powerful finance ministers.[9] So, Hamilton was arguably a mercantilist.

In the First Report on Public Credit, there is the Hamiltonian confidence that the concentration of political and economic power was a dynamic force; it was not a threatening cluster of invasive corruption, but a synergistic fusion of developmental energies.[10] In terms of statecraft, Hamilton differed greatly from Madison. While Madison's frame of reference was instinctively political and idealized the dispersal of power naturally checked by the inherent diversity of diffused interest groups, Hamilton's cast of mind was instinctively economic. He visualized the concentration of capital in the hands of a select few as the essential precondition for commercial investment and economic growth.[11]

3.1.2 Continental Empire (1815–1850s)

Thanks to the gradual increase in national power and the second war of independence that forced Great Britain, the incumbent hegemonic power, into a peace deal, the United States became more assertive and began to build a larger continental empire under the mantra of "manifest destiny" and expansionism. This history extends from the Monroe Doctrine to the Civil War.

On December 2, 1823, US President James Monroe delivered a State of the Union, prepared by John Quincy Adams, to Congress. The diplomacy component of this address was referred to as the Monroe Declaration, which would become known as the Monroe Doctrine. It contained three basic principles: (1) the United States would oppose any further efforts at colonization by European powers in the Americas, (2) "non-intervention", and (3) the "inter-American system".

In terms of territorial expansion, the United States acquired Florida from Spain (1819) and, through the Mexican-American War of 1846–1848, acquired present-day California, Nevada, Utah, Texas, and parts of several other states from Mexico. In 1854, the United States purchased a large portion of land in the southern part of Arizona and New Mexico from Mexico for US $10 million, which became known as the Gadsden Purchase.

The United States also began negotiating a series of foreign trade agreements with countries such as Russia, Spain, Turkey, Britain, Canada, the German Customs Union (Zollverein), and Ceylon. The trade agreement with Ceylon was the first trade deal the United States signed with an Asian nation.

During this period, US tariffs rose significantly in response to both the need to increase government revenues to pay off the debt accumulated during the Second War of Independence and because of domestic protectionist pressures. Tariff acts of 1824, 1828, 1832, 1833, 1842, and 1857 were passed during this period, and the tariffs peaked in 1832 before falling to their lowest levels (during this period) in 1857.

Meanwhile, the United States expanded overseas, including forcing the Qing Empire to sign the unequal Treaty of Wangxia in 1844 and the Perry Expedition of 1853, which opened the gates of Japan.

This stage of history described when the United States strengthened its power, building a continental empire and expanding its territory westward to the Pacific coast (through both land acquisition and warfare) under the mantra of "manifest destiny". The United States would eventually become a bicoastal nation. At the same time, the country began small steps of expansion in Asia. Behind all these actions was the shadow of the British Empire as the world's leading power.

3.1.3 Civil War and Overseas Empire (1860/65–1898)

This period was in the run-up to the rise of US hegemony, a period of transition in American history. During this period, the British Empire reached its apex before its power began to wane.

The Civil War was a watershed moment in American history. In the 1830s through 1850s, Americans believed that the westward expansion movement was guided by manifest destiny, an expansion of American democracy and capitalism witnessed and blessed by God. But the abolition of slavery and the brutality of the Civil War caused President Abraham Lincoln to question why God had allowed the American nation to fight each other to such an extent. The question Abraham Lincoln kept asking is: If the remarkable US expansionism of both territory and a democratic system was manifest destiny, why did it climax in the Civil War?[12]

The answer lay in the model of American economic development. The American nation became increasingly divided. The industrial north desperately needed cheap cotton from abroad to boost its burgeoning textile industry, while the agricultural south desperately needed high tariffs to protect its cotton production. As a result, keeping or abolishing slavery became a key issue in American politics. Only after the Civil War was the American industrial potential fully released.

The United States became the world's largest economy during this period, but it did not immediately embark on a path of expansion until the Spanish-American War in the late 19th century. Fareed Zakaria, an American scholar of international studies and media commentator, asked the question: Why did the United States, the world's most powerful industrialized nation since the beginning of 1870s, hew to a relatively isolationist line, with few exceptions, until the 1890s – a highly unusual gap between power and interests, for it lasted some 30 years.[13] This is a central question in economic statecraft.

Zakaria's answer is the so-called "state-centered realism".[14] The pattern of American foreign policy from the end of the Civil War to the close of Theodore Roosevelt's term as president largely confirms the predictions of state-centered realism: central decision makers, which in the American case means the president and his closest advisers, expanded American influence abroad when they perceived increases in state power. The decades after the Civil War saw the beginning of a long period of growth in the United States' material resources. But this national power lay dormant beneath a weak state, one that was decentralized, diffuse, and divided. Zakaria argues that the presidents and their secretaries of state tried repeatedly to convert the nation's rising power into influence abroad, but they presided over a federal state structure and a tiny bureaucracy that could not get men or money from the state governments or from society at large. During this period, the power of the presidency was at a historic low and the unprecedented national debt after the Civil War fostered a pervasive sense of national bankruptcy and weakness that exacerbated this tension. America was an unusual great power – a strong nation but a weak state. The 1880s and 1890s mark the beginnings of the modern American state, which emerged primarily to cope with the domestic pressures generated by industrialization. The exigencies of the growing national economy and the collapse of the congressional bid for supremacy gave the federal government a more centralized, less political, and rational structure. And as the only nationally elected officer of government, the president emerged with strengthened authority.[15]

Many historians have another theory for the lack of US expansion during this period: the economic difficulties of the 1870s prevented expansion in that era. According to this theory, when the southerners left Washington in 1861, the northerners who now controlled Congress quickly passed a series of laws that created a foundation for the American industrial and financial complexes that soon dominated world affairs.[16] The legislation included, for example, a much higher tariff. Such a tariff had long been opposed by southerners, whose plantation owners wanted access to the cheapest (that is, British) industrial products. Now protected by the ever-rising tariff, northern steel makers such as Andrew Carnegie joined the creators of other new industries, such as John D. Rockefeller's Standard Oil Company, to build an industrial complex that became the world's most productive by 1900. A new overseas economic empire was being developed by the Americans.[17]

In 1867, the United States purchased Alaska from tsarist Russia. The country began to develop its naval forces during this period, establishing naval bases and coaling stations around the world. In 1875, the United States signed a free trade agreement with the Hawaiian Kingdom.

3.2 American Economic Statecraft in the Context of US Hegemony

US hegemony rose to its peak and matured from the late 19th century to the 1960s. It is inseparable from the United States' impressive economic growth during this period.

According to Robert Gordon, an American economic historian, the economic revolution of 1870 to 1970 was unique in human history, unrepeatable because so many of its achievements could happen only once.[18] Gordon finds, with an average annual rate of total factor productivity (TFP) growth of 1.89% per year between 1920 and 1970, in 1970–2014, by contrast, the growth rate was only 0.64% per year, just a third the pace of 1920–70.[19] Gordon argues that the 1920–70 upsurge in TFP growth reflected the importance of the great inventions of the Second Industrial Revolution (IR #2). His interpretation is that the digital Third Industrial Revolution (IR #3), though utterly changing the way Americans obtain information and communicate, did not extend across the full span of human life as did IR #2, with the epochal changes it created in the dimensions of food, clothing, housing and its equipment, transportation, information, communication, entertainment, the curing of diseases and conquest of infant mortality, and the improvement of working conditions on the job and at home.[20] For Gordon, chief among the headwinds that slowed TFP growth since 1970 is the rise of inequality that has steadily directed an ever larger share of the fruits of the American growth machine to the top of the income distribution.[21]

Robert Gordon's findings help us understand why US hegemony rose and matured from the late 19th century to the 1960s, especially after the Great Depression when the United States leapt to world hegemony through World War II and completely shaped the post-World War II international order. However, from 1971 onward, US hegemony entered a period of relative decline, and this decline has continued to this day with a profound underlying wealth rationale, that is, the decline of US growth. The decline of US growth led to the decline of US hegemony.

Next, I will elaborate on American economic statecraft in the order of the rise, victory, maturity, and decline of US hegemony from the Spanish-American War of 1898 through the 2008 global financial crisis.

3.2.1 Rise of US Hegemony (1898–1913)

In the 19th century, thanks to the Industrial Revolution, the United States saw substantial gains in economic productivity and, by 1894, had become the world's top industrial producer. As industrial production far outstripped domestic demand, the United States expanded its territory and market towards the west – guided by "manifest destiny" – from the Atlantic to the Pacific coast. In 1898, the Spanish-American War broke out, and the system of US overseas colonies came into being. Following the Spanish-American War, the occupation of Cuba was the turning point for US policy in Latin America. The Americas became the continents for Americans. With the introduction and implementation of the Open Door policy and the Big Stick policy, the United States used the Philippines and Cuba as bases for its expansion plans towards China and Latin America. China and Latin America quickly became the two major centers of US overseas expansion. Such dynamics took on the nature of global expansion and allowed the United States to grow into a world power.

In terms of the development of the capitalist world economy since 1780, the hegemony of the British Empire has gone through two Kondratieff long waves (see Figure 3.1), that is, long waves I and II. Starting with long wave III, that is, the 1890s, the United States embarked on the path of hegemonic rise. Since the American War of Independence in 1783, it took the United States 100 years to go from being an independent nation to a strong nation. In the next 100 years, it would then complete its ascendence to supremacy.

Walter LaFeber, a distinguished American diplomatic historian, concluded, "the economic foundation for this new empire was laid in the 1860 to 1890s era. Yet the new empire's political structure strikingly appeared on this foundation between the 1890s and 1913".[22] This is an intriguing quote from Professor LaFeber. Indeed Zakaria, in his book *From Wealth to Power: The Unusual Origins of America's World Role*, addressed a similar question. Although the United States had become the world's largest economy in the 1870s, it waited 30 years before embarking on the path of expansion. What was the reason for this 30-year lag between the United States becoming a major economic power and a strong political power? Fareed Zakaria suggested an answer, that it was because the American state was too weak before 1880s. Only when a new strong state appeared in the 1880s and 1890s, could the United States embark on the path of expansion. I would label the years of the 1890s as the gestative stage of a modern economic statecraft, when the United States was finally able to transform wealth to power in a confident manner. And only when the United States was able to practice strong economic statecraft was she able to rise to hegemony, a combination of supreme economic and military strengths.

In April 1898, then-US President William McKinley declared war on Spain. In what then-Secretary of State John Hay described as a "splendid little war", American troops defeated the European power of Spain in less than three months, capturing Cuba, Puerto Rico, and the Philippines. In 1899–1900 John Hay issued two historic Open Door notes that defined the main principles for the new empire. His Open Door notes opposed colonialism and vigorously supported open foreign markets (in which the new American economic dominance could compete successfully against anyone). These two principles dominated US foreign policy into the 21st century.[23]

In 1903, then-US President Theodore Roosevelt aided the Panamanian rebellion, which led to Panama's independence from Colombia and the acquisition of a 10-mile-wide strip of land on both sides of the Panama Canal. With his passion for infrastructure projects, President Roosevelt took over the Panama Canal project, which the British and French had failed to complete, and after 10 years of hard work and mobilization of every economic, military, and diplomatic means available to the United States, the Panama Canal was finally completed and opened in 1914. During 1904–1905, President Roosevelt proposed the famous Roosevelt Corollary, a supplement to the Monroe Doctrine, that stated that the United States has the right to intervene in the affairs of the countries in the Western Hemisphere to avoid "external invasion" that would harm the overall interests of the countries in the Americas. The United States has a responsibility to exercise its role as international police in the Americas.

Theodore Roosevelt's successor, President Taft (1909–1913), inherited Roosevelt's mantle of economic interventionism and vigorously pursued "dollar diplomacy". Both Taft and his secretary of state, Philander Chase Knox, believed that the goal of US foreign economic policy was to create a stable external environment that would facilitate business abroad for American businessmen. They also believed that private capital was conducive to this goal. Guided by this foreign economic policy, they used the US military to protect US investments in South America, Central America, and China, among other places. Taft's approach to economic statecraft can be seen as a two-way transformation of wealth and power, particularly the direction of power to wealth with diplomacy and the military serving economic interests. The United States encouraged American bankers to lend to Haiti, resulting in massive indebtedness for Haiti. At the same time, Taft's "dollar diplomacy" was designed to squeeze European and Japanese capital out of the Western Hemisphere and to make the Americas truly America's Americas. This policy caused a great deal of controversy around the world.

The United States also exerted control over Latin American countries through regional international organizations. The First International Conference of American States, held in Washington, DC, from October 1889 to April 1890, approved the creation of the Organization of American States (OAS). Additionally, a structure of institutions was gradually established to promote cooperation in specific areas: the Pan American Health Organization (1902), which later became the regional office of the World Health Organization; the Inter-American Juridical Committee (1906), the Inter-American Children's Institute (1927), the Inter-American Commission of Women (1928), the Pan American Institute of Geography and History (1928), the American Indian Institute (1940), the Inter-American Institute for Cooperation on Agriculture (1942), the Inter-American Defense Board (1942), the Inter-American Commission on Human Rights, the Inter-American Court of Human Rights, the Inter-American Drug Abuse Control Commission, the Inter-American Telecommunication Commission, the Inter-American Committee on Ports, and the Justice Studies Center of the Americas, etc. By this time, the entire network of regional international institutions – created to strengthen cooperation among American states on a wide range of regional issues – became an instrument of economic statecraft by the United States to exert influence and control over the countries of Latin America.

In 1905, Theodore Roosevelt was awarded the Nobel Peace Prize for mediating the Russo-Japanese War. By this point, the United States had become a major force on the international stage.

3.2.2 Triumph of US Hegemony (1914–1945)

This historical phase began and ended with the First and Second World Wars, when US hegemony gradually reached its pinnacle. However, during this 30-year period, US foreign policy and US external relations underwent a dramatic swing: the United States declared neutrality at the beginning of World War I, but then intervened unexpectedly and sought to lead the world after the war. However, the American public was not interested in the role of world leader, and the Senate refused to ratify the Treaty of Versailles or join the League of Nations. What followed was the Republican government's limited entanglement in international affairs and the abandonment of the collective security principle in the 1920s. By the 1930s, isolationism, which strenuously avoided any international obligations, dominated US foreign policy. After Pearl Harbor, the United States became fully involved in world wars and assumed responsibility for reshaping the international order and leading the world in the postwar era.[24] Professor Wang Lixin of the Department of History at Peking University calls this period of US hegemony (from 1913 to 1945) "hesitant hegemony".[25]

3.2.2.1 Hegemonic Hesitance (1913–1933)

The United States rose to power in the late 19th century. Compared with the old powers, its accumulated economic strength was transformed into power through a path featuring unprecedented institutional shifts and innovation. This was best reflected in the diplomatic philosophy and practice of President Woodrow Wilson.

World War I enabled the United States to break free from the shackles of isolationism. To avoid another war, Wilson's "idealism" came to the forefront and won international discourse for the rise of US hegemony. In his "Fourteen Points", Wilson proposed the establishment of an international organization for the purpose of maintaining world peace and security. Wilson first advocated his plan for a world union in May 1916 and publicly proposed that the United States become a member of the League of Nations in January 1917. At that time, many countries had doubts about establishing the League of Nations themselves, and Wilson was ready to apply pressure on this matter. Soon after the United States entered the war in April 1917, Wilson wrote to his good friend Colonel Edward House, saying: "When the war is over we can force them to our way of thinking, because by that time they will, among other things, be financially in our hands".[26] After the Paris Peace Conference on January 18, 1919, Wilson insisted on discussing the establishment of the League of Nations first and having the Covenant of the League of Nations as a necessary component of the peace treaty with Germany. After 26 revisions, the Covenant of the League of Nations was adopted at the Paris Peace Conference on April 28, 1919. Under the terms of the peace treaty, the League of Nations, the world's first international political organization with sovereign states as members, was established in January 1920. The United States actively spread the idea of free markets for economic development and social progress on a global scale through international organizations and other means. Additionally, its own development story confirmed the enforceability and superiority of the idea and enabled both the further penetration of liberal ideas and a consolidation of US dominance in international discourse.

However, in March 1920, the Republican-controlled US Senate rejected the ratification of the Treaty of Versailles, mainly on the grounds that the Covenant of the League of Nations formed part of the Treaty of Versailles, and that the United States could not accept the control by a supranational power (i.e., the League of Nations would be controlled by Britain and France, which would hinder the expansion of US hegemony). Therefore, Republican leaders within the Senate remained opposed to the creation of the League of Nations. For most of the 120 years since the founding of the United States, the country's foreign policy had followed the nonalignment ideas of Washington and Jefferson, and Wilson's policy of international institutionalism was met with great resistance at home. Faced with such resistance, Wilson began speaking throughout the country to persuade the American public to accept his internationalist philosophy. Unfortunately, he suffered a stroke while in Colorado and lost his ability to speak. After the stroke, Wilson became more determined and unwilling to concede to Republicans. This attitude eventually led to the complete rejection of the Treaty of Versailles by Congress. The United States did not join the League of Nations. This was a major setback for US economic statecraft. As the world's largest economy and the victor of World War I in Europe, the United States had sufficient national power to shape – and had clearly proposed a blueprint – for the postwar order through its own diplomatic practice, but because of domestic constraints and opposition, it ultimately became a lost cause. This major historical event fully illustrates that the transformation from wealth to great power status will never happen overnight or automatically. Whether the domestic public will follow and whether the various domestic forces can unite under a common philosophy are key tests confronting rising powers.

After missing the window of opportunity in 1919, US foreign policy fell into indecision. Regardless, the decade from 1919 to 1929 was a bright spot in the practice of US economic statecraft, and the United States fully wielded its economic power to become a decisive force on the international scene in Europe after World War I. The representative figure was then-US Vice President Charles Dawes, who proposed the Dawes Plan as an economic solution to the geopolitical disputes in Europe. The Paris Peace Conference of 1919 forced Germany to pay huge war reparations, which led to hyperinflation and economic collapse, while France needed to recover lost territories from Germany as the victor of World War I. At a time when the international order in Europe was disintegrating and Germany was in economic crisis, American bankers and exporters knew that Germany was the most important industrial power on the European continent, and they knew that if the German economy collapsed, then Europe would fall into an economic depression. In 1924, Chicago banker and then-Vice President Dawes quickly convened an international conference and proposed a US loan facility to settle German war reparations, injecting a large amount of US private capital to rebuild the German economy, and France backed down from its territorial claims. Order was briefly restored in Europe.

But such stability was short-lived, as the United States began to suffer an economic crisis in 1928–1929. This crisis lasted until 1933, when the US economy was still underwater and unemployment levels had reached a record 25 million. European and Japanese economies were also in downfall. In 1933, Hitler's Nazi regime came to power, and the Japanese militarist government took over. Herbert Hoover (1929–1933), then president of the United States, found himself in a helpless position. To make matters worse, during his term of office, Congress passed the Smoot-Hawley Tariff Act, which sharply increased tariffs. This led to retaliatory tariffs from countries around the world, caused US imports and exports to plummet, and deeply scarred the world economy. Nor could Hoover fundamentally reconsider the foreign policies of the 1920s, which had rested on US economic power and cooperation with Japan and Germany. And so, along with the British and French, he did little as Japan invaded China and as Germany slid downwards into Nazism.[27] Hoover's presidency could be likened to the Waterloo moment of US economic statecraft, as the US government adopted a policy of economic nationalism and implemented "beggar-thy-neighbor" tariffs. Its economic relations with other countries deteriorated seriously. Externally, the United States adopted a policy of disengagement and appeasement toward Germany and Japan. There was a serious divide between the economic power of the United States and its foreign policy. Against the background of the Great Depression at home, US economic power suffered steep losses, and the use of such power lost its goal and bearing. Wealth could not be transformed into power for the United States. In his 1973 book *World in Depression* (1929–1933), Charles Kindleberger reflected on the history of the Great Depression and put forward the hegemonic stability theory. Kindleberger argued that a hegemonic state needs to provide leadership and international institutions so as to keep the stability of the existing international system. Although the United States surpassed Britain and became the world's largest economy, she failed to inherit the British role as the world leader. As a result, the world fell into the so-called "Kindleberger Trap", featuring economic recession, genocide, and world war.[28]

3.2.2.2 Hegemonic Triumph (1933–1945)

The pinnacle of US economic statecraft occurred during the Franklin Delano Roosevelt (FDR) presidency. His tenure (1933–1945) was considered a triumph of US hegemony. In his first term (1933–1937), FDR proposed the New Deal, whose core objectives were the three Rs, namely, (1) relief to help the unemployed and the poor, (2) recovery to restore the economy to normal levels, and (3) reform of the financial system to prevent a repeat depression. The New Deal eased the Great Depression and helped the recovery of the US economy, partially restoring the country's economic strength. During this period, the United States established Pax Americana through a massive transformation of wealth to power. The American economist Robert Gordon suggested that the Great Depression and World War II taken together constitute the major explanation of the sharp jump in total factor productivity that occurred between the 1920s and 1950s.[29]

However, FDR's first term was largely characterized by an isolationist policy that prioritized US domestic affairs. The London Economic Conference of 1933 also failed because the United States refused to assume leadership of the world economy, and the dollar continued to depreciate against gold, from $20.67 to $35 per ounce. However, a major positive change in US trade policy occurred in 1934. The Reciprocal Trade Agreements Act (RTAA), spearheaded by Cordell Hull, the then-US secretary of state, not only opened the US market and fueled America's postwar prosperity, but also became one of the pillars of America's global economic leadership.[30] The RTAA was an important milestone historically, as it ended the US trade protectionist paradigm in effect since 1860 and replaced it with an internationalist approach. This act laid the cornerstone of US free trade policy for the next 70 years. Additionally, in 1936, the United States, Great Britain, and France signed the Tripartite Monetary Agreement, which stabilized exchange rates and ended the currency war of 1931–1936. For the first time in history, the United States played a leading role in international monetary cooperation. All these efforts were precursors to FDR's vigorous advancement of internationalism during his second term.

President Franklin D. Roosevelt's second and third terms (from 1937 to 1945) can be considered the culmination of US economic statecraft. Drawing upon Wilson's experience and lessons, the United States in this period used its economic and military power not only to win World War II, but also to establish an international order that has lasted to this day. As a supporter and believer of President Wilson's international institutionalism, President Franklin D. Roosevelt conceived the idea of a postwar international system as early as the beginning of World War II. On August 14, 1941, FDR and Churchill cosigned the Atlantic Charter, which proposed the establishment of a "wider and permanent system of general security". In the second half of 1943, World War II took a strategic turn in favor of the Allies. President Roosevelt began to conceptualize the postwar world. He believed that cooperation among the major powers was necessary to maintain peace and prevent aggression after the war was over. He proposed the establishment of an international peace organization centered on the United States, Great Britain, the Soviet Union, and China to play the "role of international police" for the great powers. At the Tehran Conference on November 29, 1943, President Roosevelt outlined his idea of the "four policemen" to Stalin. He envisioned the establishment of three bodies: (1) a police council composed of the Big Four, (2) an executive council to address all issues except military ones, and (3) a general assembly in which each country, including small countries, could express their views.[31] In 1944, the Dumbarton Oaks Conference established the framework of the United Nations (UN) Charter, and the UN was formally established in 1945.

The study of economic statecraft is more concerned with how the United States used its economic power to win hegemonic status and build the postwar international economic order. Professor Zhao Ke pointed out that although the main target of US military campaigns was the Axis alliance led by Germany and Japan, in another "smokeless battlefield", the US opponent was precisely its wartime ally, Great Britain. Both sides fiercely competed for the leadership of the postwar world through economic diplomacy. The United States, through its intervention, first dismantled the sterling area and established the central position of the US dollar; later, through the establishment of a multilateral free trade system, the United States gradually dismantled the bilateral trade system carefully crafted by the British based on the imperial system of preferences. The British Empire was thus drained of the last source of vitality and fell into decline.[32]

The United States began by maximizing the depletion of Britain's gold and dollar reserves and eroding the credit base of the pound sterling. To support the financially troubled Britain to continue the war against fascist Germany, Congress passed the Lend-Lease Act in 1941, which allowed the US government to provide supplies to the Allies first, which they could repay and settle after the war was over. This was in contrast to the previous arrangement of "cash and carry" for US supplies. Henry Morgenthau, then-US treasury secretary, understood that the US government had decided to aid Britain, and did everything possible to force Britain to settle its outstanding debts before the Lend-Lease Act came into effect to prevent Britain from using the Lend-Lease Act to delay repayment. Determined to cap the balance of British reserve assets at the minimum level necessary to survive the war, Morgenthau aimed to keep Britain's reserves below $1 billion to ensure that Britain would be financially dependent on the United States going forward and to force Britain to comply with the US-led postwar world order. He demanded that Britain liquidate various cashable assets, especially large profit-making companies. For example, the American Rayon Company, the largest and most profitable US company owned by Britain, was sold to an American bank at half price. Keynes, keenly aware of Morgenthau's intentions, angrily said, "the United States Treasury would prefer us to end the war with exiguous gold and dollar reserves so that they will be in a position to force solutions on us".[33]

The second step taken by the United States was to have the British accept America's design for the postwar international monetary system, that is, the White Plan. Under the plan, the dollar was pegged to gold at a fixed ratio, while other currencies were pegged to the dollar, making the dollar the anchor of the international monetary system. At the same time, the International Monetary Fund (IMF) was established to coordinate national monetary policies and to provide short-term financing for countries with balance of payment deficits. Using the Lend-Lease Act as leverage, the Treasury Department under Morgenthau forced Britain to accept the White Plan and abandon the Keynes Plan because the British understood that it was impossible for Britain to win the war without war supplies from the United States. This was the price that Britain had to pay for "borrowing" US supplies.[34]

In the area of trade, the United States was determined to eradicate the Britain-led "imperial system of preferences". When British Prime Minister Winston Churchill met with President Roosevelt on a warship in the Atlantic Ocean in August 1941, with Assistant Secretary of State Sumner Welles joining as Roosevelt's aide, Roosevelt had intended for the talks to focus on Anglo-American cooperation in resisting fascist aggression. However, Welles seized this opportunity to draft the Atlantic Charter, a bilateral joint declaration to incorporate under the fourth point provisions about access without discrimination and on equal terms. Such language directly targeted the "imperial system of preferences". Welles was firm in his request, saying,

> I said it was not a question of phraseology, but that it was a vital principle which was involved. I said that if the British and the United States governments could not agree to do everything within their power to further after the termination of the present war, a restoration of free and liberal trade policies, they might as well throw in the sponge and realize that one of the greatest factors in creating the present tragic situation in the world was going to be permitted to continue unchecked in the postwar world.

Churchill immediately rejected the request and demanded that "the fourth condition would evidently have to be amended to safeguard our obligations contracted in Ottawa and not prejudice the future of Imperial Preference". To issue the joint declaration as soon as possible and show a united front of Anglo-American cooperation to the outside world, Roosevelt made concessions to Churchill by adding under the fourth point the prerequisite of "with due respect for their existing obligations" (i.e., to keep the imperial system of preferences), while deleting "access without discrimination and on equal terms". As a result, the revised fourth principle completely defeated Welles's intention of committing Britain to abolishing the preference system. Despite this first failure of "head-on confrontation", Welles did not give up. In the Anglo-American Mutual Aid Agreement for the implementation of the Lend-Lease Act negotiations led by the State Department with Britain, the State Department continued to pressure Britain to accept Article VII of the Mutual Aid Agreement, that is, the elimination of all forms of discriminatory treatment in international commerce. Furthermore, the State Department clearly explained that the so-called "discriminatory treatment" referred to Britain's "imperial system of preferences".[35]

The State Department tied the "abolition of the imperial system of preferences" to the Lend-Lease Act, believing it was an essential win for US aid to Britain. During Churchill's visit to the United States in December 1941, Cordell Hull personally asked Churchill to accept Article VII as soon as possible, but Churchill refused. Hull finally persuaded President Roosevelt to urge Churchill personally. In February 1942, Roosevelt sent a telegram to Churchill demanding his acceptance of Article VII. This was at a time when Britain had suffered a major military defeat in Southeast Asia and the Japanese occupied Singapore, which had been under British rule for many years. Churchill bitterly described the fall of Singapore as the "worst disaster and largest capitulation in British history". Under such circumstances, US support and aid became even more vital to Britain, and the British government accepted Article VII on the condition that Roosevelt promised that the United States would also reduce its own tariffs reciprocally. As World War II came to an end, in 1945, Britain and the United States launched meaningful negotiations to establish a postwar international trade system. Hull had already left office as secretary of state, but the State Department's determination to end the imperial system of preferences continued unabated. Concurrently, the British government was negotiating with the United States on the Anglo-American Financial Agreement to secure loans from the United States. Under financial distress, Britain finally reached a consensus with the United States, namely, the "proposals for consideration by an international conference on trade and employment", which contained three provisions against the imperial system of preferences: (1) the existing agreements between Britain and its dominions shall not prevent the adjustment of preferential tariffs; 2) lower and cut preferential tariffs; 3) the level of preference must not be raised, or no new preference must be added under any circumstances. The Americans believed that these three provisions were sufficient to finally dismantle the imperial system of preferences.[36] This was followed by a series of multilateral actions to reduce tariffs among countries through the platform of the General Agreement on Tariffs and Trade (GATT). The imperial system of preferences was inundated by a deluge of free trade and finally ended. The global multilateral system of free trade under US leadership came into being.

3.2.3 Maturing of US Hegemony (1945–1967/73)

After World War II, the United States became the world hegemon with half of the world's GDP. This laid a strong economic foundation whereby the United States could popularize liberal institutionalism at scale. The United States maintained world peace by establishing the United Nations to replace the old colonial empire and free trade on a global scale by establishing the Bretton Woods system (IMF, World Bank, and GATT). The Bretton Woods Conference of 1944 paved the way for a postwar international economic order with the World Bank, IMF, and GATT as the three pillars to ensure the mobility of capital and commodities in the world market under US domination, to squeeze the sphere of influence of old colonialism, and to prevent wars caused by tariff, monetary, and military barriers to redivide the world.

The United States launched two Marshall Plans (in the East and West) to export excess capital to these regions and to aid the reemergence of Western Europe and Japan. In the March 1947 State of the Union Address, President Truman proposed the Truman Doctrine to provide economic and military assistance to Greece and Turkey in an effort to help them suppress popular revolutionary movements. The Marshall Plan, officially implemented in 1948, and the North Atlantic Treaty Organization (NATO), established in 1949, laid the groundwork for US dominance in the political, economic, and military affairs of Western Europe.

US effort to shape the postwar international order, regrettably, did not elicit cooperation from the Soviet Union, which led to the subsequent confrontation between the two powers. George Kennan, a diplomat and designer of the Containment Doctrine, explained in his *Memoirs* the origin of the Containment policy. As deputy chief of mission at the US Embassy in the Soviet Union, George Kennan considered in 1944 whether to provide aid to the Soviet Union. He eventually concluded that the

> Soviet people and regime were bound in a common dialectical relationship, so that you could not help people without helping regime, and you could not harm regime without harming people. In these circumstances it was better, surely, to try neither to help nor to harm, but rather to leave people alone.[37]

This is indeed the origin of George Kennan's thinking about the "containment". He believed that separating the Soviet Union from the rest of the world was the only appropriate choice for American foreign policy. This line of thinking was fully manifested in his famous "Long Telegram" written in mid-February 1946, in which he proposed to the US government the Containment Doctrine. And the immediate trigger for writing the Long Telegram was an inquiry made by the US Department of the Treasury and the State Department – "Why was the Soviet Union unwilling to adhere to the World Bank and International Monetary Fund? What lay behind it?"[38] In contrast to the internationalist thinking of the Treasury, Kennan meticulously analyzed the motivations of Soviet behavior and suggested that the US strategy toward the Soviet Union should be containment. Walter LaFeber, also observed:

> Ominously, the Soviet Union refused to join the World Bank or the IMF in 1945–6. Stalin refused to allow any international organization controlled by the United States to examine Soviet records or try to shape the Russian economy. The dictator's refusal to cooperate with the US policy of an open economic world was also linked to the failure of the Russians and Americans to agree on how the post-war world should be rebuilt politically.[39]

3.2.4 Decline of US Hegemony (1967/73–2001/08)

The "countercultural movement", the oil embargo, the Vietnam War, and domestic inflation since the 1960s seriously depleted US national power, undermined its credibility in the IMF, and weakened its status as a strong economic power and international creditor. The United States continued exporting the dollar inflation problem to other countries within the Bretton Woods system, which intensified grievances from other countries relying on this monetary system. At the same time, more Third World countries became independent and began to form a united front. The significantly intensified North-South confrontation made Congress more reluctant to provide resources for international organizations, which in turn led to these organizations holding more negative opinions toward the United States and waning US influence within such organizations. In this period, US hegemony began to decline.

Unable to overcome the Triffin paradox, the United States had to decouple the dollar from gold in the late 1960s, resulting in the "Nixon Shock". Coupled with the Vietnam War and the oil crisis, this event led to the relative decline of US hegemony, beginning in the late 1960s. In terms of the practice of economic statecraft (transforming wealth into power), Arthur Stein, a US professor of international relations, suggested the so-called "Hegemon's Dilemma" – hegemons may lead, but they need followers, and they must make concessions to gain others' assent. In other words, the liberal trade regimes that emerged in both centuries were founded on asymmetric bargains that permitted discrimination, especially against the hegemon.[40] But when the hegemon refused to offer concessions, his allies' loyalty would be reduced and the hegemonic system start to decline. In the late 1960s and early 1970s, the Bretton Woods system collapsed under the "Nixon Shock". US free trade policy began to be compromised. Section 301, which was invoked by the United States in the 2018 US-China trade war, was derived from laws passed in this period, the Trade Expansion Act of 1962 and the Trade Act of 1974. And at the same time, the prolonged Vietnam War and global oil crisis continued to weigh on the US economy, which was further challenged by Japan and Western Europe. This period witnessed full-scale trade wars between the United States, Japan, and Western Europe. Nonetheless, it is worth pointing out that the United States did not fully abandon a liberal trade order. Instead, the United States practiced the so-called "managed trade", or put another way, a type of protectionism with a certain level of openness. This is mainly because US hegemony was far from in full decline and still capable of maintaining a liberal international trade order.

During this period of the relative decline of US hegemony (from the late 1960s to the late 1980s, before Reagan reinvigorated the US economy), the United States implemented a largely liberal institutionalist approach to economic statecraft, that is, managing the decline of US hegemony within the framework of an international economic system and coordinating economic and security policies with Western Europe, Japan, and other developed economies. The main vehicle of US economic statecraft was the G7. This is an institutional innovation with the tools of economic statecraft. However, the G7 was originally formed as a summit of seven heads of state, and among its founders were not the United States, but French President Giscard d'Estaing and German Chancellor Schmidt. Nicholas Bayne, a senior official at the Foreign and Commonwealth Office, who was involved in the G7 affairs, recalled that "The (G7) summit as first envisaged by Giscard and Schmidt was a personal, anti-bureaucratic instrument. But the Americans, first Henry Kissinger and then Jimmy Carter, wanted to make it an institution. These two concepts persisted side-by-side".[41] This notion of institutionalism was very important during the decline of US hegemony. In summary, the aim was to slow the decline by means of institutional coordination.

The decline of US hegemony slowed considerably in the 1980s after Reagan took office. In the early years of Reagan's presidency, the US economy was struggling. But thanks to Reaganomics, Reagan's economic statecraft, the United States turned its economy around and secured victory in the Cold War. The question worth asking is, how did the United States win the Cold War through its economic statecraft? This question was debated in US policy and academic circles: was Reagan the reason the United States won the Cold War? One school of thought says yes. Proponents of this view believe that Reagan's arms race and his policy of head-to-head confrontation with the Soviet Union by supporting anticommunist guerrilla movements in the Third World eventually forced the Soviet Union to make strategic and political concessions during 1987–1989. Another school of thought sees the end of the Cold War as the fruition of long-standing US policy toward the Soviet Union. According to this viewpoint, although the Reagan doctrine may not have forced the Soviet Union to end the Cold War, the longer-term impact of US policy towards the Soviet Union and international revolution, more generally, posed huge burdens that could only undermine the domestic political and economic legitimacy of the Soviet Union and its allied regimes – thus bearing out Kennan's prognosis in "The Sources of Soviet Conduct"[42] that the United States should contain Soviet power until the domestic problems within the Soviet Union forced political change – particularly through the way in which economic resources were channelled towards maintaining the military-geopolitical balance with the United States.[43] In other words, the United States' winning strategy over the Soviet Union was its combined advantages from the capitalist socioeconomic system, which predetermined US victory in the Cold War.

In the late 1980s and early 1990s, the international landscape underwent tectonic shifts, such as the collapse of the Soviet Union and Eastern Europe. The United States prevailed over the Soviet Union thanks to Reaganomics, supply-side reforms, and President Bush Sr.'s "new world order" strategy. During the Clinton presidency, the United States promoted the dotcom economy. At this stage, relying on its abundant financial resources and optimism about the times, the United States returned to free trade, as evidenced by the establishment of the North American Free Trade Agreement and Asia-Pacific

Economic Cooperation, and vigorously promoted the neoliberal economic statecraft that started with the Reagan administration. The United States began to accept China into the world economic system: China's rejoining of the GATT in 1986 and its 1995 application for accession to the World Trade Organization were both supported by the United States. However, it is worth noting that the free trade practiced under Clinton was a kind of managed and protected free trade, which was very different from the multilateral free trade order established by the United States after World War II and only marginally more open than the practice in the 1970s. Although the United States won the Cold War, US hegemony at this time was far weaker than it had been during the post-World War II period. In hindsight though, the 20 years from Reagan to Clinton could at best amount to a moment of revival in the broader decline of the United States while a more multipolar world was emerging.

A massive transformation of wealth to military power was realized during the first decade of the 21st century when the United States was fighting its wars on terror. After 9/11, the U.S. fought two major wars on terror. U.S. defense spending swelled quickly from USD 294 billion in 2000 to USD 705 billion in 2011.[44] In terms of trade policy, George W. Bush largely inherited the free trade doctrine by launching the Doha round of WTO trade negotiations and driving a series of regional and bilateral free trade agreement (FTA) negotiations.

3.3 US Economic Statecraft in the Context of the Rise of Other Great Powers (2008–2020)

Since the 2008 global financial crisis, US hegemony has entered a new phase of decline. This is considered the second phase of decline of US hegemony. What was the wealth-power strategy of the United States during this phase? Three presidents – Obama, Trump, and Biden – took office during this period. Their economic statecraft is mainly characterized by the following: a significantly larger role of the federal government and a series of massive bailout programs; strategic competition with other major powers; a significant increase in wealth-to-power transformation; and a high priority on national security, including economic security. Under President Trump, the United States implemented broad-based economic statecraft aimed at reshaping the world economic order and maintaining US hegemony. During the Trump presidency, US foreign economic aid reached record highs, including a peak of US $55.59 billion in 2020.[45] This reflected a typical US policy of wealth-to-power transformation. In the first year of the Biden administration, US defense spending reached a staggering $754.85 billion, and foreign economic aid reached $35.38 billion. This suggests, despite the impact of COVID-19 and the "Kabul Moment" (the United States' full withdrawal from Afghanistan in 2021), the United States had not relented its wealth-to-power strategy in the least, but rather, turned on the full horsepower of the state machine to increase wealth supply to meet its power objectives. Biden's demand for and practice of economic statecraft is unprecedented. In the face of the once-in-a-century COVID-19 pandemic, the Biden administration has prioritized domestic affairs, especially wealth creation. The US fiscal budget for 2021 was $10.43 trillion, the highest in the last decade, with healthcare, welfare, and pensions consuming the highest shares. Under the "Build Back Better" vision, the Biden administration has launched the American Rescue Plan, the American Jobs Plan, and the American Families Plan totaling approximately $6 trillion, a number comparable to Roosevelt's New Deal. In 2021, the US government spent 45.79% of its GDP, more than the 45.62% share in 1945 – the last year of World War II.[46]

Comparing the economic statecraft of Presidents Obama, Trump, and Biden, the three presidents each adopted policies with varying degrees of economic nationalism, and all with a foreign policy objective of containing China's rise, especially President Trump. The Trump administration believed that the United States was losing out bilaterally, regionally, and multilaterally, and therefore demanded the realignment and comprehensive renegotiations of US international trade interests, the strengthening of US technological superiority, increased US exports, and improved market access to other countries, with a view to the re-onshoring of manufacturing, the return of jobs and prosperity, and "making America great again" (Trump's campaign slogan). The Trump administration's demands were not fundamentally different than those of the Obama and Biden administrations; they only differed in means. This concerned President Trump's personal style and the mounting pressure on the US economy and society. President Trump's "bullying" negotiating style was in stark contrast to that of Presidents Clinton, Obama, Biden, and other multilateralists. It left most countries, including US allies, uncomfortable and unprepared. In dealing with China, the George W. Bush and Obama administrations focused on rebalancing US-China economic interests through the Strategic Economic Dialogue and the China-US Joint Commission on Commerce and Trade (JCCT), while the Trump administration adopted an antagonistic approach with aggressive punitive tariffs and ideological confrontation. The Biden administration adjusted the Trump-era approach of fighting China alone. It forged alliances, especially an alliance of Western democracies, built the Indo-Pacific Economic Framework, repaired transatlantic relations, advanced the AUKUS (Australia-UK-US) trilateral security partnership, and imposed unprecedented, large-scale economic sanctions on Russia. In terms of trade policy, the Biden administration has largely continued protectionist policies due to pressure from domestic labor groups. On the security front, the greatest challenge to the Biden administration is the Russia-Ukraine war, but the administration has strengthened NATO and the G7 through alliances, achieved NATO's northern expansion by accepting Sweden and Finland as members, and broadened NATO's sphere of influence to the Indo-Pacific region, all in an effort to maintain US hegemony. Arguably, since President Obama took office in 2009, the policy paradigm of US economic statecraft has gradually shifted from its liberal undertone to a mixed palette of mercantilism, imperialism, and liberalism.

3.3.1 US Economic Statecraft Under President Obama (2008–2016)

President Obama's biggest challenge at the beginning of his presidency was managing the global economic crisis. When President Obama came into office, he was told by his economic advisors that there was one chance in three of a 1930s-style depression. If he had not avoided that disaster, all else would have paled.[47] In this context, President Obama introduced the largest economic stimulus package in history. Internationally, the G8 was transformed into the G20. Closely related to his response to the economic crisis, Obama changed the US-China Strategic Economic Dialogue (SED) established under George W. Bush into the Strategic *and* Economic Dialogue (S&ED), adding a strategic track – institutional innovation of US economic statecraft with China. Through the S&ED, the United States could establish a kind of linkage between the economic and strategic tracks, thus contributing to the two-way conversion of wealth and power.

The strategic catchphrase of the Obama years was "smart power". As then-Secretary of State Hillary Clinton put it, "We must use what has been called smart power, the full range of tools at our disposal – diplomatic, economic, military, political, legal, and cultural – picking the right tool or combination of tools for each situation".[48] Joseph Nye also noted that the "smart power" narrative used by the United States for the 21st century was not about maximizing power or preserving hegemony. Rather, it was about finding ways to combine resources in successful strategies in the new context of power diffusion and "the rise of the rest".[49] Smart power and economic statecraft serve similar purposes. Economic statecraft is essentially about the two-way transformation of wealth and power, which requires decision makers to be able to combine resources to achieve the objectives of a grand strategy.

3.3.2 U.S. Economic Statecraft Under President Trump (2016–2020)

After President Trump took office in November 2016, US economic statecraft faced its greatest paradigm shift since World War II, with a gradual shift from a liberal institutionalist base to economic nationalism, for which President Trump was a key driver. The new policy doctrine pursued by President Trump and his staff was "America First". President Trump has long held that American politicians had been negligent in protecting US national interests; they had not done enough, in domestic or foreign affairs.

Under President Trump, the United States announced its withdrawal from UNESCO, the United Nations Human Rights Council (OHCHR), and the Universal Postal Union in quick succession. President Trump also threatened to exit the WTO, arguing that the United States had not been "treated fairly, that the WTO had ruled against the US in many decisions", and that the agreement establishing the body "was the single worst trade deal ever made".[50] If the WTO does not "shape up", President Trump said, the United States would withdraw.[51] President Trump's "exitism" was the greatest existential threat to the global governance system since World War II.

In terms of regional trade, President Trump demanded the renegotiation of NAFTA, which he called an unfair trade deal that "sacrificed our prosperity and shipped away our companies, our jobs, and our nation's wealth".[52] On his first day in office, President Trump announced his withdrawal from the Trans-Pacific Partnership (TPP), saying the agreement would spell disaster for the United States and would be replaced by fairer bilateral FTAs. By the same token, President Trump ceased negotiation with the EU for the Trans-atlantic Trade and Investment Partnership (TTIP). Trump disliked the EU as a regional trade bloc and preferred negotiating bilaterally with member states rather than with the EU as a whole in order to gain an advantage. At the November 2017 APEC summit in Danang, President Trump reiterated his intention of revising multilateral and regional trade agreements into bilateral FTAs, pronouncing that "what we will no longer do is enter into large agreements that tie our hands, surrender our sovereignty, and make meaningful enforcement practically impossible". Rather, he wanted to build a new type of partnership based on the principle of reciprocity.

The Trump administration expressed dissatisfaction with the current international trade order across the board, arguing that the United States was at a disadvantage at the bilateral, regional, and multilateral levels, and therefore demanded realignment and a comprehensive revamp of the international trade order. The administration intended to strengthen US technological superiority, increase US exports, and improve market access to other countries for the return of manufacturing, jobs, and prosperity – and to "make America great again".

President Trump's demand for a readjustment of the international trade order was not entirely unreasonable. After all, it had been 70 years since the international trade order was established, during which time it had been dynamically adjusted. Trump was trying to "bargain" a fairer trade order for the United States. The root of his trade policy "revolution" was the progressive decline of US hegemony and its severely diminished ability and willingness to maintain the current liberal international trade order. The United States under President Trump was increasingly unwilling and unable to preserve this order that it had established after World War II.

In the process of hegemonic decline, there will be decades of repeated struggles and contention between the challengers (more than one) and the hegemonic power. The rise and fall of the hegemon constitute the main thread of the history of international political economy and is also the result of each country's choice of economic statecraft. The free trade order previously established by the British Empire and the United States, coupled with globalization and the spread of democracy, inevitably brought about the diffusion of knowledge and technology, which would allow other countries to catch up. The hegemonic power is thus always in an apprehensive state of mind. This is an iterative yet inevitable historical process. As a hegemon rises and falls, it adapts its trade policy accordingly. As a general principle, a rising power adopts trade prohibitionism, such as the mercantilism adopted by Britain in the 16th to 18th centuries. Then it gradually opens up and adopts protectionism with some degree of openness, such as Britain in the first half of the 19th century and the United States in the 1930s. Finally, it embraces free trade and establishes an international free trade order. For example, in the second half of the 19th century, Britain signed the Cobden-Chevalier Commercial Treaty with France, which ushered in the era of free trade. The United States after World War II started the era of free trade multilateralism by establishing the Bretton Woods system. With the decline of hegemony, trade policies have reverted to protectionism, or even prohibitionism, completing a historical cycle. Like a pendulum, it swings from left to right before eventually returning to the starting point. We must remember that it is not liberalism, but mercantilism that has lasted the longest in international trade since the 1500s. Even the British Empire, known for free trade, practiced mercantilism for 300 years, from the 16th century until the mid-19th century. While we enjoy the boon of free trade, we must understand that free trade is a "luxury" product of the progress of human history that should be cherished.

3.4 Paradigm Shift in US Economic Statecraft: Pendulum Between Liberalism and Mercantilism

Since its founding, the United States has adopted three paradigms of economic statecraft and has developed some variants that fit the American context with American characteristics (such as liberal institutionalism and neoliberalism after World War II, variants of the liberal paradigm). After achieving independence in 1776, the United States first implemented mercantilism to prioritize the development of manufacturing. After the Spanish-American War of 1898, the country practiced imperialism for some time. After World War II, liberal institutionalism took hold, followed by neoliberalism in the 1980s. US economic statecraft after the 2008 global financial crisis was a mix of mercantilism, imperialism, and liberalism. Under President Trump, the United States largely adopted mercantilism that was also known as "economic nationalism".

Economic nationalism is nothing new for American politics. In fact, US policy favored economic nationalism long before World War II. In the early days of American trade policy after the War of Independence, the Congress took action, passing the *Tariff Act* of 1816, which unified America's tariff policy, and doubled the average rates. This further sheltered America's industries from British competition, and truly set the stage for the explosive growth of America's industrial revolution.[53] This tendency was best encapsulated in the Smoot-Hawley Tariff Act of 1930. At that time, a large majority of economists believed the Smoot-Hawley Tariff Act would exacerbate the US recession into a worldwide depression. They warned that the tariff would "inevitably provoke other countries to pay us back in kind against our goods". Economists today, however, hold a different view of the effects of Smoot-Hawley. While economic historians generally believe the tariff was misguided and may have aggravated the economic crisis, the consensus appears to relegate it to a minor status relative to other forces.[54]

This trend was only reversed after Franklin D. Roosevelt was elected president. President Roosevelt's then-Secretary of State Cordell Hull was a staunch supporter of free trade. To repair the damage caused by the Smoot-Hawley Tariff Act, he set about negotiating free trade agreements to lower tariffs between the United States and other signatories. Following the Allied Victory in World War II, the international community at the time generally believed that greater economic integration would help rebuild the postwar economy, and the United States actively promoted the signing of the GATT. In the decades that followed, member countries met many times to negotiate steeper tariff reductions. Lower tariff barriers and closer economic integration were important components of US foreign policy at the time. The US government believed that economic ties and military alliances could help counter Soviet economic statecraft.

During the process, the United States preferred global agreements such as the GATT over trade agreements among smaller groups of countries. However, this preference began to shift in the early 1980s when the United States attempted to launch a new round of GATT negotiations, but failed, while Canada offered to establish a bilateral open trade agreement with the United States. In 1988, the US-Canada FTA was concluded, which soon became NAFTA among the United States, Canada, and Mexico in 1993. But just as the Clinton administration was finalizing NAFTA, opposition grew domestically, arguing that the US strategy of supporting globalization was problematic. The opposition was of the view that FTAs were destroying the foundations of the American middle class by forcing them to compete with cheap foreign labor, which was unfair, and that these agreements valued economic gains at the expense of working people. In 1994, the United States chose to support the creation of the WTO, an organization that was considered the mortal enemy of economic nationalism, in the Uruguay Round of negotiations. The WTO as an international organization sought positive cooperation among its members and inevitably, it required members to sacrifice part of their sovereignty on trade policy. Despite the opposition, the notion of free trade still prevailed at the time. During his presidency, George W. Bush concluded negotiations or signed into force bilateral trade agreements with Jordan, Chile, Singapore, Morocco, Australia, the Dominican Republic-Central America, Bahrain, Oman, Peru, Colombia, Panama, and South Korea. President Obama, who did little on trade in his first term, became an active advocate of TPP in his second term, arguing it was vital for the United States and its partners to set forward-looking rules for the global economy. But in the election year of 2016, political support dwindled, particularly among rank-and-file Republicans, and even among establishment Senate Republicans who held back for a combination of economic and political motives. The two leading GOP presidential contenders were vociferous critics of trade agreements, as was Democratic hopeful Hillary Clinton's challenger, Bernie Sanders. Traditional Republican free-market stalwarts such as House speaker Paul Ryan became increasingly lonely free-trade advocates.

The then-presidential candidate Donald Trump's antitrade position made many conservative Republicans follow his opinion.

The paradigm shift in US economic statecraft from liberalism to mercantilism has been a slow process. Liberal institutionalism, which was implemented globally after World War II, began to lose ground to neoliberalism during the Reagan years. While neoliberalism supports free trade, as US hegemony slowly declined, it became increasingly difficult for the United States to drive free trade on a global scale, and even regional FTAs became increasingly difficult to advance after President Clinton left office. Since NAFTA came into effect on January 1, 1994, until the days of President Joe Biden in 2021–2025, the United States has only concluded the negotiations for the US-Dominican Republic-Central America FTA (CAFTA-DR), whereas the other negotiation processes for regional FTAs such as the Free Trade Area of Americas (FTAA), the US-Middle East FTA (MEFTA), the US-Southern African Customs Union (SACU) FTA, the US-European Transatlantic Trade and Investment Partnership (TTIP), and the Trans-Pacific Partnership (TPP) all failed. This points to three major dilemmas faced in the implementation of US economic statecraft.

3.4.1 The Dilemma of Deglobalization

The current regression of globalization began in the developed Western countries that established the Bretton Woods system. The Trump Doctrine and Brexit were just the tip of the iceberg of this wave of deglobalization. Over the past 30 years since the 1990s, most Americans have seen sluggish income growth, the middle class has contracted, and the United States has gradually shifted from being an advocate of globalization to being a proponent of deglobalization. Prior to Trump's presidency in 2017, the United States was already showing a tendency toward deglobalization, and when Trump was elected president, he took a series of policy actions that attempted decoupling from globalization, including discouraging outsourcing by US manufacturers, imposing tariffs on imports, restricting immigration, and other "withdrawal" actions.

Deglobalization has added economic and political pressures on America. Globalization is a major driver of low inflation and low interest rates, and if this process is reversed, prices and interest rate trends are likely to reverse too. The US government and corporations are far more indebted than any other country. At the same time, increased tariffs and trade frictions would weaken financial globalization, erode US multinational profits and stock market valuation substantially, and reduce foreign demand for US Treasuries significantly. These would be counterproductive to the US agenda of an aggressive economic statecraft. The COVID-19 pandemic has exacerbated the deglobalization dilemma and hampered international cooperation. Deglobalization further fueled protectionism and isolationism among countries and seriously dented their willingness and ability to cooperate internationally.

3.4.2 The Dilemma of US Hegemony

Given the relative decline of its power, the United States finds it increasingly difficult to swallow the mega-regional trade agreements. After World War II, the United States ushered in the era of free trade multilateralism by establishing the Bretton Woods system. With the decline of US hegemony, trade policies have reverted to protectionism, or even prohibitionism, creating a historical cycle. After World War II, when US hegemony was in its prime, the United States established a multilateral trade order and system. When US hegemony declined, it could only return to regionalism. Now with the further decline of US hegemony, the country could barely hold onto the bottom line of open regionalism. The institutional arrangements of US foreign trade are likely moving towards closed regionalism, "small clubs", and bilateral FTA arrangements.

In the evolution of interregional relations following the Cold War, Clinton's policy of regional cooperation was a turning point: Clinton shifted from traditional global multilateralism to regional (NAFTA) and interregional multilateralism. However, this shift was fundamentally motivated by economic interests and served the interest of the United States in relative hegemonic decline. The US-led APEC, FTAA, and the New Transatlantic Agenda (NTA) intensely contradicted the more deeply cooperative regional organizations such as the Southern Common Market (Mercosur), the Association of South-East Asian Nations (ASEAN), and the EU. This is because the United States is not as keen on such a highly integrated form of cooperation as these three regional organizations because such cooperation does not serve US economic interests and would threaten US global hegemony.

George W. Bush attempted to place this unfinished business of interregional cooperation under post-9/11 security considerations in 2001. As a result, US interregional cooperation in this period was largely unfruitful. This confirmed the ultimate failure of Presidents Clinton and Bush Jr.'s attempts to revive declining hegemony and US-led multilateralism through interregional arrangements, whether focused on free trade or security.

3.4.3 The Dilemma of US Domestic Politics

In the aftermath of the 2008 global financial crisis, the United States saw intensified domestic economic and social contradictions. The gap between the rich and the poor further widened. The middle class saw little income growth for a prolonged period. Populism started to rise. Labor groups and bipartisan politics restricted the US government's foreign trade cooperation. These social trends have gradually dismantled the domestic support for free trade and regionalism. Senator Bernie Sanders frequently and openly attacked free trade. Antitrade sentiment prompted Hillary Clinton, who previously called the TPP the gold standard of trade agreements, to turn against it. Trump's supporters were even more opposed to free trade.

After President Trump left office in January 2021, the US policy elites have started to reflect on and criticize Trump's economic statecraft. There are strong opinions within the United States about President Trump's global trade war. For example, former Treasury Secretary Jacob Lew wrote in *Foreign Affairs* back in 2018, criticizing Trump: "His (Trump's) administration is behaving as if the United States is immune to consequences, whether in the form of adversaries exerting economic pressure or allies rejecting the legitimacy of US policy".[55] Other criticism includes:

> the United States is getting worse at economic diplomacy just as other countries are learning how to adroitly wield economic instruments. By focusing on sticks to the exclusion of carrots, the Trump administration has squandered the United States' economic leverage. In the process, it has also undercut whatever strategic advantages it inherited from its predecessors.[56]

But despite the criticism of Trump's economic statecraft, we can be certain that one of the things that makes President Trump stand out from his predecessors is the frequency and ambition of his administration's approach to economic statecraft. This president has been keen to use economic leverage to extract concessions across a wide array of security and economic issues.[57] As Trump has said, the United States had not used its enormous capabilities to strike better bargains with allies and adversaries alike.[58]

Unlike President Trump, President Biden, as part of the political establishment elite, advocates fine-tuning the unreasonable international order, rather than completely overturning the old one, as Trump had suggested. President Biden has the distinct character of the Silent Generation – patient and inclusive. An intellectual the Frankfurt School would describe as "social cement", Biden tries to bring together stakeholders with different opinions to work toward a common goal. With this kind of persona, Biden advocated a return to multilateralism. Shortly after he took office, President Biden attended the 2021 Munich Security Conference to renew the transatlantic partnership under the slogan, "America is back", trying to increase the US political leverage against China through coordination and interaction with Europe. In February 2022, after Russia's "special military operation" against Ukraine, President Biden's efforts to coordinate allied relations were further recognized and strengthened, and despite the many differences within the G7 and NATO, there was overall agreement on the strategy toward Russia. This has maintained the stability of the alliance and even expanded NATO's membership. In short, President Biden appears to be more disciplined than Trump on diplomacy. However, he has not reversed the historical course of US economic statecraft's slide from liberalism to mercantilism.

Notes

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4 The EU's Economic Statecraft

After 2019, research on the EU's economic statecraft flourished. The European Council on Foreign Relations (ECFR), a think tank specializing in EU foreign policy, launched the Task Force for Protecting Europe from Economic Coercion,[1] produced a series of articles on the EU's economic statecraft, and promoted the introduction of the Anti-economic Coercion Instrument (ACI)[2] and the Recovery and Resilience Facility, etc.[3] Think tanks such as the Royal Institute for International Relations (EGMONT), Bruegel, the Centre for European Policy Studies (CEPS), and the European Centre for International Political Economy (ECIPE) all have researchers dedicated to economic statecraft.[4]

Unlike the United States, economic statecraft is a relatively new concept for Europe and was rarely mentioned before 2019. Earlier, the concept associated with economic statecraft was economic diplomacy. In 2016–2017 the EU considered producing a strategy paper (a "Communication" in the EU jargon) on European economic diplomacy.

Here's what happened: on February 24, 2016, the European Commission (EC)'s in-house think tank, the European Political Strategy Centre (EPSC), organized a high-level seminar, "Economic Diplomacy and Foreign Policy: Friends or Foes?" The seminar, which featured a keynote speech by Jyrki Katainen, then-Finnish Vice-President of the EC and head of trade policy, brought together the best minds in EU politics, industry, and academia to discuss how political and economic goals and tools can be combined and how to make trade-offs between political and economic interests.[5] The seminar was considered a precursor to the EU's advancement of economic diplomacy from 2016 onwards. For an economic diplomacy strategy at the EU level, the EU European External Action Service (EEAS) created an ambassadorial-level post of economic diplomacy advisor to oversee the development of an EU communication on economic diplomacy. However, the communication on economic diplomacy stopped at release for two reasons. First, there was a disagreement among EU member states on the definition of economic diplomacy. Some member states considered economic diplomacy as trade and investment promotion, which falls under the jurisdiction of member states. Other member states, the European Commission, the EU High Representative for Foreign

DOI: 10.4324/9781003351382-5

Affairs and Security Policy, and the EEAS that supported the High Representative, believed that unified and coordinated economic diplomacy was necessary at the EU level to better use economic power and instruments to achieve the EU's foreign policy objectives, and therefore the EU has jurisdiction over economic diplomacy issues. Second, there were divergent views within the European Commission on how to reconcile economic and strategic interests. The Commission's Directorate General for Trade was less inclined to weaponize trade policy instruments, whereas the EEAS in charge of foreign policy favored the use of trade, monetary, and financial instruments to achieve strategic external interests. As a result, a communication on economic diplomacy was not launched at the EU level.

However, the situation has become more compelling. Against the backdrop of President Trump's inauguration in 2017, the outbreak of the COVID-19 pandemic in 2020, and the Russo-Ukrainian War in 2022, the EU finds itself in an environment far from the peace and prosperity of Kant's world, but rather still in a Westphalian system of contention and "wrangling" between major powers. Even interdependence has increasingly become "weaponized". As a result, the EU, as a major economic force in the world, recognizes what it can and must use to its advantage is its own economic power. As such, the bloc continues to practice economic diplomacy through strategy papers of various forms and substance, including the strategy paper, "Connecting Europe and Asia: Building Blocks for an EU Strategy", unveiled in 2018.[6]

November 2019 marked the beginning of a gradual shift of the EU's economic statecraft, with a new European Commission in place. The new Commission president, former German Defense Minister Ursula von der Leyen, characterized her Commission as a geopolitical one.[7] This was a prelude to the EU's shift to geopolitics. In this process, discussions on the EU's economic statecraft have been gradually added to the agenda. To a large extent, we can consider economic statecraft as an economic version of the EU's strategy of geopolitics.

Maaike Okano-Heijmans, a senior research fellow at the Clingendael Institute, makes the distinction between economic diplomacy and economic statecraft. She notes that those who use the term economic statecraft tend to accentuate the element of power play, which is consciously or unconsciously deemphasized in scholarly and practitioners' references to economic diplomacy.[8] However, against the backdrop of intensifying geopolitical tension and the growing competition between major powers, EU institutions soon recognized the imperative to use their economic power to defend their economic and diplomatic interests. Therefore, economic statecraft, which emphasizes the power play, has gradually become a buzzword among the EU think tanks.

On February 24, 2022, the Russia-Ukraine war broke out in full force. The conflict triggered a series of global energy and geopolitical crises. For the EU, this was a wake-up call. In the past, the EU believed that the existing international order could be maintained through dialogue, but this war completely shattered such an illusion, and the EU turned to intense and sweeping economic sanctions on Russia, completely changing the landscape of the EU-Russian relationship, established since the end of the Cold War.

Against this backdrop, the EU increasingly feels the need to channel its own power resources that are scattered across various policy areas and strengthen internal coordination to maximize its overall impact. Since 2019, there has been a major debate within the EU around economic statecraft. In fact, even in the current geopolitical era, there is no consensus within the EU on what constitutes economic statecraft. For Europeans, economic statecraft is an ancient craft of state-centrism, reminiscent of 18th-century mercantilism. If the big debate on economic diplomacy (that started within the EU in 2016) eventually led to a series of EU strategies, the great discussion on economic statecraft (that started in late 2019) will likewise lead to a raft of new EU papers on economic statecraft with the transformation of wealth to power as the core element. This will tilt the EU policy scale from liberalism towards mercantilism.

This chapter is a completely new endeavor to review the EU's power through the prism of economic statecraft. It remains a puzzle that the EU is able to punch above its weight when its economy has suffered serious blows since the Euro Debt Crisis in 2009. I argue that the EU's economic statecraft played a significant role since the EU has found innovative ways of pooling wealth at the EU level and transforming wealth to power internationally. To a significant extent, the rise of the EU's power cannot be separated from the EU's rediscovery of the ancient art of "statecraft", or, to be more precise, "EU-craft".

4.1 Inherent Deficiencies in the EU's Implementation of Economic Statecraft and the EU's Innovative Solutions

The implementation of the EU's economic statecraft may be an impossible mission. This is because economic statecraft, as the name suggests, refers to the statecraft of a country, while the EU is not a single sovereign state; its 27 member states are not unified under the United States of Europe (USE) banner envisioned by the EU's founding fathers, nor centralized in a European federation. Therefore, when it comes to the EU's statecraft, the first challenge is the inherent lack of EU jurisdiction. The foreign and security policies related to economic statecraft, and even a considerable part of economic authority, are still in the hands of member states. For these policies, EU competence remains limited, playing only a coordinating, supporting, and supplementary role. Therefore, the EU has been facing a chronic "capabilities-expectations gap". Next, I will examine the inherent deficiencies of the EU's economic statecraft and explore how the EU has remediated such deficiencies over the years.

To be precise, the EU has strengths, but it lacks competence, so it cannot effectively, efficiently, and comprehensively direct its strength into the policy goals it wishes to achieve. Here, the EU encounters what Joseph Nye characterized as a "paradox of power", that is, those best endowed with power do not always get the outcomes they want.[9] According to Nye, the fragmentation of world politics into many different spheres has made power resources less fungible, that is, less transferable from sphere to sphere.[10] All great powers encounter such a paradox of power, and they all have their ways of mitigating this problem. The EU is unique in this aspect since it is a sui generis international actor.

In the absence of sufficient jurisdiction, the EU achieves the transformation of wealth into power mainly through the following six policy tools. Although these policy tools are not proposed within the framework of economic statecraft or economic diplomacy strategy, they are, in essence, economic statecraft, a wealth-to-power strategy with EU characteristics.

First, trade policies are used to realize the objective of foreign and security policies. The Lisbon Treaty links the principles and objectives of the EU common commercial policies and the integral external action. In the trade strategy published by the European Commission on October 14, 2015, the EU took the initiative to link trade and other issues in order to realize the goals of foreign affairs and values.[11] By offering developing countries aid and the Generalized System of Preferences, it intends to exert political influence on developing countries and even pursue the change of political system.[12] On the other hand, the EU relies heavily on the negotiation of free trade areas or linkage agreements for its geopolitical strategic purposes. The most typical is that the EU signed the Deep and Comprehensive Free Trade Agreement (DCFTA) with some former Soviet Union member states, including Ukraine, Georgia, and Moldova and it attempted negotiating with the United States over the Transatlantic Trade and Investment Partnership (TTIP). These agreements have a strong geopolitical characteristic. As negotiated, the DCFTA will provide a modern trade framework for Ukraine, which will abolish the tariff and quota gradually, create an open market, formulate a unified law, standard, and set of norms in different trading areas, and finally make the Ukrainian economy consistent with the EU standard.[13] Although the EU tries its best to avoid the word "geopolitics", the DCFTA is still regarded by numerous scholars as part of its geopolitical strategy, which provides support for the sustaining of stability in its peripheral regions and its strategy of eastern expansion.[14] The then-EU Trade Commissioner Cecilia Malmstrom also highlighted the importance of DCFTA to EU security in her speech in 2015.[15] Since Ukraine was a traditional ally and important trade partner of Russia, it caused strong dissatisfaction and resistance in Russia. Former Ukrainian President Yanukovych postponed the signing of the DCFTA, which led to a domestic political crisis in Ukraine. With intervention from Russia and NATO, it finally evolved into the Ukrainian crisis and triggered the merging of Crimea to Russia.

The TTIP between the United States and the EU is of extreme geopolitical strategic significance as well.[16] In the face of the rising Asia, the TTIP will strengthen EU-US cooperation apart from the existing WTO and make global trading rules. Also, the EU has relied on Russia for natural gas imports for a long period, and the TTIP will enable the United States to export oil and natural gas to Europe, which will improve the EU's energy security environment greatly.

Another strategy is the EU expansion policy. The EU's expansion policy is a major tool with which it intends to realize the transformation from economic strengths to political power by setting prerequisites. This is something that traditional great powers cannot do through peaceful approaches. In the EU Copenhagen Summit in 1993, the EU established strict accession rules – the Copenhagen criteria: (1) to establish a stable institution in order to safeguard democracy, rule by law, respect for human rights, and ethnic groups' rights; (2) to have a market economy system that operates well and the capacity to respond to the EU's internal competition pressure and market forces; (3) to have the capacity to undertake responsibilities as a member state, including agreeing with the political, economic, and monetary alliance objectives. The Treaty of Amsterdam specifies the political criteria for joining the EU. The applicant should have a democratic system. If it acts against the principles of democracy and human rights after accession, the EU, with other member states' unanimous decision, can cancel some rights of this member state in the EU. The political criterion is also regarded as the precondition that a country must satisfy before it triggers the accession negotiations.[17] Through the EU expansion policy, new member states can acquire benefits in political and economic terms. Politically, a country can elevate its international status, participate in the EU's decision making, and enhance its national image by joining the EU.[18] The economic benefits are more comprehensive. First, the status as an EU member state can change a country's institutional environment fundamentally. The government and corporations of the newcomer must abide by the EU's laws and regulations. Second, joining the single European market can boost the new member state's growth of trading and investment scale and refuel the free flow of goods, services, capital, and people in economic terms. Next, the new member state can access the EU fund, which is able to help improve this country's infrastructure and other areas, as well as stimulate its economic development. Last, the EU will provide regional aid for its underdeveloped member states or regions. Since the establishment of the EEC, the organization has grown from 6 countries to 28 countries through several rounds of expansion. The EU has exerted its attraction and implemented the carrot policy comprehensively on countries that wish to join the EU. With the economic hard power embodied in the EU expansion policy, the EU expands its normative power objectives like freedom, democracy, and rule by law to former Communist countries in central-eastern Europe and southeast Europe. Through this method, the EU has reshaped the post-Cold War European order.

The third strategy is economic sanction. The nature of economic sanction is to reach political and security objectives through the employment of forceful economic hard power. For the EU, economic sanction is a major tool to implement its Common Foreign and Security Policy.[19] In large measure, the EU's sanctions against more than 30 countries, including Russia, China, Iran, Syria, Myanmar, and Haiti, are still effective. Among the sanction measures, there is generally economic sanction. For instance, during the Ukrainian crises, the EU issued rounds of economic sanction against Russia, utilizing the linkage strategy of combining economic and military security issues.

The fourth is the structural foreign policy. The structural foreign policy means the EU develops linkages with neighboring countries and remote partners by signing cooperation agreements. A feature of this foreign policy is that it emphasizes long-term instead of short-term objectives. It attempts to change other countries' conditions of action step by step. To exert its power, the civilian mode rather than the military mode is the basis. The objective is to strengthen cooperation, reach a consensus, consolidate international mechanisms, and spread multilateralism to every level. This policy does not exclude a compulsory dimension, which means that the EU, by setting conditions, can deprive other countries of their profits when the latter refuse to accept the EU's conditions. It authorizes a country party to enter the European market or add to the tariff for a third party.[20] The structural foreign policy is also called the cooperation policy or cooperation power.

The fifth is the grand bargain strategy, whose major vehicles are mixed agreements containing various issue areas signed by the EU and third countries,[21] the strategic partnerships,[22] and the summit system. The negotiation mode of the grand bargain does not exist solely in the EU, but is widely used in political games and multilateral negotiations. For instance, the negotiation mode inside the WTO is a package deal that organizes multiple issues and realizes a grand bargain. This negotiation mode is conducive to the realization of an overall balance of interests. It also compensates departments and groups that have their domestic interests impaired in cross-border negotiations and thus facilitates the reaching of domestic consensus. Such a package negotiation is particularly significant for the EU as a nonmilitary power. With the long-term comprehensive partnership, the EU can exert long-term and subtle influence on its partners.

The sixth is party linkage – linkage with a third party of the EU. The term "party linkage" first appears in Sebenius's article, "Negotiation Arithmetic: Adding and Subtracting Issues and Parties", published in the journal *International Organization* in 1983.[23] Sebenius contends that the number of issues and parties in a negotiation is a variable. Thus, to add more parties with substantial influence over the nature of the negotiation or material interests involved in the negotiation can increase one party's bargaining power or legitimacy. In the EU's foreign policy practice, cases of adding parties are numerous. In fact, when the EU initiates foreign negotiations, identifying parties with compatible interests and constructing a negotiation alliance is a key step. Allies could be traditional great powers outside the EU or developing and small countries. As long as they can enhance the EU's status in negotiations, the EU will consider them. Nevertheless, when the EU negotiates with political and military powers with different values, it tends to borrow power from the United States. To the United States, the EU is always ambivalent. It wants to rid itself of the United States' restriction and seek autonomy, but to separate totally from the United States is difficult. Driven by this ambivalence, the EU has formed a tentative party linkage strategy with the United States. In other terms, on the global political and economic stage, the EU keeps a close eye on the United States and is ready to work or split with the latter, follow it or act independently, and cooperate or compete with it.

In the current context, the discussion on the EU's strategic autonomy and rearmament has intensified, which in turn, has fueled internal debate on the EU's economic statecraft, the central objective of which is to enhance the EU's coordinated use of various power endowments (especially economic power endowments) to achieve its foreign policy objectives (i.e., the transformation of wealth into power, the most important subject of our study on economic statecraft). There is now renewed urgency for the EU to launch its wealth-power strategy to push economic statecraft to the center of the EU's foreign policy agenda.

The EU is looking for ways to expand the sources of its wealth. The Next Generation EU (NGEU) program has authorized the EU to issue bonds. The NGEU program is radically changing the way the EU interacts with financial markets because of its ambitious and ground-breaking new public debt program. The EC has adopted a new, diversified borrowing strategy, similar to that of other major issuers, to raise money safely, reliably, and in a cost-effective manner. Member states authorized the EC to borrow up to EUR 750 billion in 2018 prices (around EUR 806.9 billion at current prices) until 2026. This means that the EU will borrow up to approximately EUR 150 billion per year over the next few years.[24]

4.2 Updating the EU's Economic Statecraft "Toolbox" Since 2020

Since 2020, at the confluence of various challenges such as the COVID-19 pandemic, geopolitical tensions between major powers, and the Russia-Ukraine conflict, the top political, diplomatic, and business minds of the EU and its member states have begun to plan new economic statecraft and rapidly update their "toolbox". Such economic statecraft has clear strategic objectives, issue areas, implementation means, and instruments, as manifested in the following ways.

4.2.1 Promote the Further Instrumentalization of Military and Economic Power to Create a "Europa Geopolitica"[25]

The new European Commission believes that hard power (i.e., credible military capabilities) is an important instrument.[26] The establishment of a "European army" has become the consensus among member states, led by France and Germany. The European Commission led by President Von Der Leyen is fully aware of the intensification of geopolitical competition and its own inability to deal with geopolitical issues. Speaking at the World Economic Forum in Davos on January 22, 2020, Ursula von der Leyen said, "We must also do more when it comes to managing crises as they develop. But to be more assertive in the world, we know we must step up in some fields". The EU is a master of rebuilding, but it must develop hard power – "credible military capabilities" – to influence world events. She stressed that there is a European way of foreign policy and foreign security policy where hard power is an important tool. These capabilities will be complementary to and "different" from NATO.[27] Von der Leyen endorsed the concept of an "EU army", at least as a sort of rhetorical call for improving the bloc's collective military and defense capabilities, rather than a literal expectation of soldiers in EU uniforms. Josep Borrell, EU High Representative for Foreign Affairs and Security, said, "We see the rebirth of geostrategic competition", notably between China, Russia, and the United States, and the EU must step up, and it "has the option of becoming a player, a true geostrategic actor, or being mostly the playground".[28] He endorsed increasing the EU's military capabilities and quoted Dutch Prime Minister Mark Rutte as saying, "If we only preach the merits of principles, and shy away from exercising power in the geopolitical arena, our continent may always be right, but it will seldom be relevant".[29] In terms of building a credible military force, the EC under von der Leyen's presidency has put forward a number of ideas for strengthening EU defense policy, including increasing the EU Defense Fund (EDF), for which the EC proposes to invest EUR 13 billion between 2021 and 2027 (an average of 1.8 billion euros per year) to fund cooperative defense research and the joint development of European military capabilities.[30]

4.2.2 Promote a "Sovereign Europe" and Protect the "Economic Sovereignty" of Europe

Economic sovereignty has become the core demand of the current EU economic statecraft. To pursue economic sovereignty, the EU needs to bolster its ability to participate in defining the rules of the game for the global economy; boost Europe's research, scientific, technology and innovation base; protect assets critical to national security from foreign interference; enforce a level playing field in both domestic and international competition; and strengthen European monetary and financial autonomy.[31] The key objective of the EU's new trade policy is to seek the so-called "Open Strategic Autonomy". It means striking the right balance between a Europe that is open for business and a Europe that defends its companies and consumers from unfair competition and hostile actions.[32] Moreover, in pursuit of strategic economic sovereignty, the EU is actively building resilience into its industrial value chains, promoting green transformation, and maintaining economic and industrial security. In participating in the world geoeconomic competition, the EU is carefully managing its interdependence with other major trading powers, closely monitoring its supply networks, diversifying its production chains, and minimizing its reliance on a single actor (whether a company, country, or region).

4.2.3 Promote the "Geoeconomic Europe" Agenda by Vigorously Implementing Economic Diplomacy

The EU Strategy for Cooperation in the Indo-Pacific, the EU-Asia Connectivity Strategy, the Globally Connected Europe Strategy, and the EU Global Gateway initiative are emblematic strategies of EU economic diplomacy that point to the key areas and main objectives of EU economic diplomacy today.

In its strategic competition in the Indo-Pacific region, the EU prioritizes the regularization of trade relations with the region and actively participates in shaping the region's political and economic order. From 2018 to 2020, the EU signed free trade agreements with Japan, Singapore, and Vietnam, and reached a strategic partnership agreement with the Association of Southeast Asian Nations (ASEAN). In April 2021, the EU Foreign Affairs Council adopted the Council Conclusions on the EU Strategy for Cooperation in the Indo-Pacific, stating that the EU wished to accelerate the reduction of its economic dependence on China by strengthening economic ties with India, Japan, and ASEAN. The EU plans to conclude the Partnership and Cooperation Agreement (PCA) negotiations with Malaysia and Thailand; start negotiations on the PCA with the Maldives; conclude trade negotiations with Australia, Indonesia, and New Zealand; restart trade negotiations with India; and conclude negotiations with the East African Community on the Economic Partnership Agreement (EPA). Clearly, the EU is directing more resources to strengthen partnerships with like-minded countries such as Japan, India, and ASEAN and to connect such efforts with its existing initiatives in the region.

4.2.4 Economic Coercion Is an Increasingly Important Tool in the EU's Economic Statecraft

Since von der Leyen became the new EC president, the EU has updated and reinvented its trade policy toolbox to include the International Procurement Instrument (IPI), the Supply Chain Due Diligence Act, and the Anti-Economic Coercion Instrument (AECI), among others.

Take the IPI as an example. In 2012, the EC submitted the "Regulation of the European Parliament and of the Council on the Access of Third-Country Goods and Services to the Union's Internal Market in Public Procurement and Procedures Supporting Negotiations on Access of Union Goods and Services to the Public Procurement Markets of Third Countries", but it failed to be adopted by the Council of the European Union. However, the situation has changed since 2021, and there is a new attitude within the EU towards this instrument. Anna Michelle Asimakopoulou, vice-chair of the International Trade Committee (INTA), believes that the IPI and other associated measures aim to deter malpractice and level the playing field for the European Union in this new geopolitical trade game. The EU's new, more assertive trade stance is not only necessary and pragmatic, but also the most intelligent course of action.[33] *BusinessEurope* is firmly convinced of the urgent need to have the IPI in place. It views the EU's IPI as an indispensable instrument that can complement existing EU tools in the trade policy area.[34] As a result, the IPI has garnered more support from European politicians and businesses. The EU believes that its existing government procurement rules overly insist on the principles of free trade, yet its trade negotiation counterparts and competitors refuse reciprocal opening, even as they gain free access to the EU market. Against the backdrop of the world economic downturn and the intensifying economic crisis in Europe, and in the face of the increasingly challenging trade environment, the EU began to shift its position by trying to open the government procurement markets of countries that have previously denied the EU access or adopted restrictive measures – in pursuit of "de facto reciprocity". The IPI allows the EU to develop a "review-negotiate-retaliate" process, whereby the EC has the power to initiate a review of a third country and to impose provisional price penalties on suppliers and products from that third country. Therefore, the IPI can be used by the EU as a new offensive trade tool, demanding that the market access opportunities provided by the EU are reciprocated by its trading partners. This can increase the EU's bargaining power in bilateral negotiations with countries such as China, India, Brazil, and Russia.

Let us also examine the Anti-Economic Coercion Instrument (ACI). The ACI is the EC's instrument for imposing punitive sanctions on countries that try to influence EU political policy through economic coercion. On December 8, 2021, the EC officially published the long-awaited draft "Regulation on the Protection of the EU and Its Member States from Economic Coercion by Third Countries". The draft regulation seeks to supplement and strengthen the EU's legal instruments to deter and counteract economic and trade restrictions from other countries. EC Executive Vice-President and Trade Commissioner Valdis Dombrovskis said that "At a time of rising geopolitical tensions, trade is increasingly being weaponized, and the EU and its Member States are becoming targets of economic intimidation. We need the proper tools to respond".[35] In the regulation, the EC stated the aim of this instrument was to "remedy a legislative gap" to "ensure the effective protection of the interests of the Union and its Member States where a third country seeks, through measures affecting trade or investment, to coerce the Union or a Member State into adopting or refraining from adopting a particular act" and "provide a framework for the EU to respond in such situations with the objective to deter, or have the third country desist from such actions, whilst permitting the Union, in the last resort, to counteract such actions". It suggests that the ACI "strengthens the EU's toolbox and will allow the EU to better defend itself on the global stage". With this new instrument, the EU will be able to respond to cases of economic coercion in a structured and harmonized manner.

4.3 The History of EU Foreign Policy From the Perspective of Economic Statecraft

Given that economic statecraft is increasingly becoming an important component of EU foreign policy practice and study, it is necessary to review the history of EU integration and foreign policy from the perspective of economic statecraft. Based on the Kondratieff long waves and the critical junctures in the EU integration process, I divide the history of EU integration and its foreign policy into five stages (see Table 4.1).

Table 4.1 Stages of EU Integration and Its Foreign Policy from the Perspective of Economic Statecraft

Years	*Paradigm of the EU's Economic Statecraft*	*Stages of EU Integration*	*The EU's Power and Foreign Policy Model*
1945–1967/71 Kondratieff long wave IV-A	Liberalism	Initiation stage: the Schuman Declaration of 1950; establishment of the European Coal and Steel Community; Treaty of Rome entered into force on January 1, 1958	International actor, but not yet emerged as a significant force
1967/71–1986 Kondratieff long wave IV-B	Liberalism + mercantilism	Patience stage: "Empty Chair Crisis"; economic stagnation in the 1970s; European Economic Community (EEC) enlargement (UK, Ireland, Denmark, and Greece)	Civilian Power Europe
1986–2001/08 Kondratieff long wave IV-B	Liberalism	Relaunch stage: Single European Act of 1986; Delors' Plan; EU enlargement (Spain and Portugal); end of the Cold War; entry into force of the Maastricht Treaty of 1992; birth of the European Union; launch of the euro in 1999; EU enlargement (Austria, Finland, and Sweden)	Normative Power Europe
2008–2025/2035? Kondratieff long wave V-B	From liberalism to mercantilism	Crisis stage: global financial crisis of 2008; European debt crisis; refugee crisis; geopolitical crisis; the rise of the far right; Brexit	Linkage Power Europe

4.3.1 The Foundation of European Power (1950–1967)

In the context of the bipolar confrontation between the United States and the Soviet Union, it is easy to overlook the major political and economic events that colored the rise of Europe. The period from the 1950s to the mid-1960s saw the laying of the "European Mansion" foundation. This was also a formative stage of the EU's economic and market power, paving the way for wealth creation on the continent.

The 1950s saw the first peak of the construction of the "European Mansion". In September 1950, the then-French Foreign Minister Robert Schuman first presented the Schuman Plan, which proposed the creation of a European Coal and Steel Community (ECSC), placing coal and steel for arms production in a central supranational body with a view to "a farewell to arms". This plan – drafted by Jean Monnet and endorsed and put into action by Schuman – was the guide and program of action for European integration. In the plan, Schuman advised German Chancellor Konrad Adenauer to take joint charge of the coal and steel industries of the member states and to exempt related tariffs, and the latter immediately agreed. On April 18, 1951, France, the Federal Republic of Germany, Italy, Belgium, the Netherlands, and Luxembourg signed the treaty establishing the ECSC in Paris, which entered into force on July 25, 1952. This was the first example of interstate cooperation in European history, whereby nation states ceded some of their powers to a supranational body. The treaty facilitated a significant improvement in Franco-German relations and marked the beginning of Franco-German rapprochement, a precursor for the union of western Europe. By 1954, virtually all the trade barriers to coal, coke, steel, and pig iron among the six nations had been removed. The ECSC went on to establish a series of common regulations to monitor cartels and regulate mergers. Its central executive body determined prices, set production quotas, and was authorized to penalize companies that violated the treaty and its regulations. On March 25, 1957, further to the ECSC, the heads of government and foreign ministers of France, the Federal Republic of Germany, Italy, the Netherlands, Belgium, and Luxembourg signed the Rome Treaty, establishing the European Economic Community (EEC) and the treaty establishing the European Atomic Energy Community (EAEC), later collectively known as the Treaty of Rome. In 1967, the institutions of the European Coal and Steel Community, the ECSC, EEC, and EAEC were merged to form the European Community. This was an important milestone for European integration. At this time, the EC had become a key international player but had not yet become a major force.

This period witnessed the birth of European economic statecraft, the essence of which is to convert the market power to the political construction of European communities.

4.3.2 The "Upward Spiral" of European Power (1967–2008)

This period saw the rise of European power, which coincided with the decline of American hegemony. From a long-cycle perspective, this phase consists of Kondratieff long waves IV-B and V-A (see Figure 3.1). This phase began in

1967/1971 and was marked by the "Nixon Shock" that forced the dollar to be unpegged from gold, the oil shock that began in 1973, and the stagflation that rippled through Western economies. In Kondratieff long wave IV-B, there was an economic depression and development stagnation, as well as the rise and fall of the major powers. The relative decline of the United States, the relative rise of Japan and western Europe, and intensified competition between the United States, Japan, and Europe characterized this shift in the balance of major powers. The European Community aspired to a greater role in the international arena as a nonmilitary "civilian power".

The rise of European power during this 40-year period was far from smooth sailing. From the perspective of economic statecraft, I first focus on the impact of European integration on European economic power, which was at a low ebb from the 1960s to the mid-1980s. Jean Monnet, "the Father of Europe", described the period of 1964–1972 as "a time for patience" for the development of the European Community. The "Empty Chair Crisis", a key event in the process of European integration, happened during this time. This crisis occurred in 1965, when Walter Hallstein, president of the Commission of the European Economic Community, tried to expand the powers of the European Parliament and the European Commission by shifting towards supranationalism. French President Charles de Gaulle vehemently opposed this and recalled the French representative to the European Economic Community (EEC), which resulted in no French representation at the EEC meetings for six consecutive months, effectively crippling the work of the EEC. Therefore, real development of the EEC was not realized until after 1972.

While the EC survived the Empty Chair Crisis, the economy of western Europe was experiencing the greatest recession since World War II. The three decades after World War II were a period of great economic exuberance for the capitalist economies of western Europe. In particular, from 1945 to 1971, the entire Western capitalist system experienced an extraordinary boom following World War II.[36] But after that, the capitalist world encountered cyclical changes, with slower growth, rising unemployment, rising inflation, and declining purchasing power among workers. Hesitation, anxiety, and pent-up anger fueled right-wing sentiment in Europe and the United States.[37]

From the late 1960s to the late 1980s, the world economy entered a downward cycle. From the perspective of the long cycle of the world economy, the late 1960s/early 1970s to around 1990 was Kondratieff long wave IV-B, a period of stagnation. During this period, the West suffered from the first and second oil crises (1971–1973 and 1980–1981). European economies were severely battered. US power was in its post-World War II prime before entering a period of relative decline after the Vietnam War followed by a revival after the end of the Cold War in 1989. These dramatic changes in the world economic and political landscape provided an important backdrop for the adjustment of the EC's diplomatic strategy.

In the late 1980s and early 1990s, with the end of the Cold War and the return of the world economy to an upward trajectory, European integration gained more space for development. In 1986, the EC adopted the Single

European Act, which started qualified majority voting in the single market. In 1989, the Delors' Plan was adopted, which proposed an economic and monetary union. With the accession of Spain and Portugal to the European Community in 1986, the number of EC member states grew to 12, and its strength, status, and influence continued to expand. In February 1992, the 12 EC member states formally signed the Treaty on European Union in the Dutch border city of Maastricht, also known as the Maastricht Treaty. After experiencing stagnation in the late 1970s and the first half of the 1980s, the European economy gradually came out of the doldrums with a great revival of strength and confidence. The economic recovery of the EC, the rapid progress on integration, and the dramatic changes that were taking place in the Soviet Union and Central and Eastern Europe (driven by Gorbachev's "new thinking") led the EU to reflect on its power dynamics. The identity of the EU, which European scholars later termed "normative power", was gradually taking shape.

From a global economic perspective, the world economy from the 1990s to the global financial crisis is referred to as the Great Moderation. The main features of the world economy during this period were that macroeconomic instability was considered to have been eradicated and that low and stable inflation and "sustainable" global economic growth were considered likely to coexist in the long term.[38] The Washington Consensus and neoliberal policies were in full swing. From the power shift standpoint, the United States had restored its power. After the end of the Cold War, the US liberal-democratic worldview outshined all others. EU integration progressed rapidly during this period. The euro was launched, and the EU achieved its largest expansion in its history, with a total of 25 member states.

4.3.3 Decline of European Power (Since 2008)

In Kondratieff long wave V-B (2001/08–2025/35), we witnessed the September 11 terrorist attacks, the global financial crisis of 2008, and the outbreak of the European Debt Crisis in 2009. Carmen Reinhardt, a senior research fellow at the Peterson Institute for International Economics, and Kenneth Rogoff, a professor at Harvard University, have described the effects of the crisis as the Second Great Contraction, following the Great Depression of the 1930s. In terms of power shifts, the West is in relative decline. Populism is on the rise. In the United States, populist President Trump was elected. The UK left the EU. The EU has experienced multiple crises – including the refugee crisis and geopolitical crises (the two Ukrainian conflicts) – and slow economic recovery. Economic nationalism within the EU is on the rise and pushing Europe towards "Fortress Europe", with rising pressures for protectionism and populism. This onslaught of complex crises has overwhelmed the EU, stunted the process of European integration, and undermined the overall power status of the EU. I will discuss the changes in European power from three aspects: political, economic, and institutional.

4.3.3.1 The Decline of Europe's Political-Strategic Power

First, the outbreak of multiple crises, such as the European debt crisis and Brexit, dealt a heavy blow to the political-strategic power of the EU. For some outside observers, these multiple crises may be the precursor to the disintegration of the EU and the eurozone. In his book *The Truth of the European Debt Crisis*, Shi Hanbing argues that in the absence of strong statesmen in Europe who can drive Europe towards a political union, the breakup of the eurozone is nearly the only possible endgame.[39] Indeed, at the height of the Greek crisis in 2015, both German and Greek leaders considered the option of a Greek exit from the eurozone. Ahead of the July 5, 2015, referendum on whether Greece should accept an international bailout plan, Prime Minister Alexis Tsipras called on the Greek people to reject "blackmail" and vote no in the referendum. Earlier, European leaders warned that voting "No" could mean Greece exiting the eurozone.[40] In the end, Greek voters overwhelmingly rejected the international bailout package, with 61.3% voting against the plan.[41] German Finance Minister Wolfgang Schäuble said on July 16, 2015, that a temporary exit from the eurozone would give Greece the flexibility to work over the debt issue. Schäuble stressed that to discount or forgive Greece's massive public debt of more than EUR 300 billion was not in line with eurozone membership. He implied that Greece would get its best shot at a substantial cut in its debt only if it was willing to give up membership in the European common currency.[42] In the 2017 French election, Jean Louis Marie Le Pen, leader of the French far-right party National Front, argued that France should leave the EU, like the UK, saying that if elected president, she would lead France out of the eurozone (Frexit). This shows that since the European debt crisis, European integration has faced serious headwinds. Some member states exiting the eurozone or even the EU has become a plausible policy option. This would clearly be a major affront to the EU's international status.

Second, the EU is internally divided and unable to reach consensus on economic, political, and environmental policy reforms. In terms of economic policy, there is heated debate within the EU. Since the European debt crisis, Germany has advocated austerity across Europe. This policy lasted until around 2013, when it began to meet widespread criticism. Germany and its allies pushed for the continuation of harsh austerity measures to address the fiscal deficits of member states and to prevent a repeat of the debt crisis. On the other hand, some member states, led by France and Italy, proposed ending austerity and restoring economic growth through increased spending. After all, economic conditions and political constraints vary significantly from state to state. After French President François Hollande took office in May 2012, a pivot to economic growth rather than austerity increasingly began to dominate France's European policy. In the process, France has gradually formed an alliance with Italy and the European Central Bank to promote economic growth and stimulus programs.[43] German Chancellor Angela Merkel, on the other hand, was isolated. In terms of climate and energy policy, the divergence in emissions reduction within the EU has intensified due to the

"East-West" political game. Specifically, the European Commission advocates more ambitious emissions reduction targets, and western European countries tend to support the Commission's proposition, whereas central and eastern European countries (led by Poland) have serious misgivings about the EU's reformulation of a more ambitious emissions reduction plan for 2030 due to their dependence on conventional energy sources. On the issue of accepting refugees, there were significant differences between western European countries and central and eastern European countries. For political, economic, and religious reasons, central and eastern European countries such as Hungary, the Czech Republic, Slovakia, and Poland opposed the compulsory solidarity plan proposed by the EC on the issue of refugee settlement.

Finally, controversy over the transparency of EU trade policy has intensified among the European public, and even representatives of member states in Brussels are questioning the EC negotiators for backroom deals with foreign countries.[44] In particular, the US-EU Transatlantic Trade and Investment Partnership (TTIP) negotiations have sparked fresh debates related to trade policy, including the democratic deficit, environmental protection, and data privacy. European public protests against the TTIP have continued, such as the September 2014 protest in Brussels (by Europeans from different walks of life) against the continuation of negotiations. The public is concerned that the EU and the United States have different implementation standards in many areas, such as genetically modified food and the auto industry, and that once the TTIP agreement is reached, European environmental, health, and safety standards will all yield to US standards, which will ultimately harm the public interest in Europe. In response to public concerns and controversies, the EC has tried its best to issue various papers and measures to gain public support for its policies. Opposition to trade within the EU is growing as EU trade policy becomes increasingly controversial. Consumers, workers, and small business owners have expressed increasingly vocal grievances against EU trade policy.

4.3.3.2 The Relative Decline of the EU's Economic Power

According to Eurostat, the EU's economic aggregate plummeted from the first place in 2006, accounting for 30% of world GDP, to 22% in 2016, behind the United States at 25%. Overtaken by the United States, Europe's ranking in the world economy retreated to second place. In 2021, China surpassed EU27 in terms of GDP, pushing the EU's economic ranking down further to third place.

4.3.3.3 Changes in the EU's Institutional Power

In the period between 2009 and 2019, the most defining event with the greatest impact on the EU's institutional power was the formal ratification of the Lisbon Treaty in December 2009. The Lisbon Treaty introduced new changes to the EU's external trade negotiations. Regarding foreign policy, prior to the Lisbon Treaty, there were three pillars with different decision-making processes. After the adoption of the Lisbon Treaty, at least in form, the three pillars were merged under a single institutional framework, and the EU uniformly adopted qualified majority voting. Under the Lisbon Treaty, the EU established the new EU presidency and the European External Action Service (EEAS). It also developed a unified set of objectives and decision-making processes for all EU external policies. The Lisbon Treaty created a "dual-hatted" position of High Representative of the Union for Foreign Affairs and Security, who also serves as Vice President of the Commission, primarily to ensure greater coordination between the EEAS, the Commission, and the member states. Article 205 of the Lisbon Treaty incorporated trade and investment policy into the EU's external action, and trade policy is henceforth formulated within the "framework of the principles and objectives of the Union's external action" (Article 207.1). These basic principles and objectives include, inter alia, to consolidate and support democracy, the rule of law, human rights, and the principles of international law; commit to world peace, security, and sustainable development; and promote an international system based on stronger multilateral cooperation and good global governance. The Lisbon Treaty made investment an area of competence for the EU, while giving the European Parliament co-decision powers in the field of trade legislation, which significantly increased the power of the European Parliament.[45]

In summary, the EU's overall power has been significantly reduced, mainly in connection with the sources of its economic power and political-strategic power. While the EU's power has been eroded, its institutional power has not declined significantly. On the contrary, thanks to the implementation of the Lisbon Treaty, the EU's institutional power has been consolidated to some extent.

What does the future hold for the EU? According to the trajectory of the long cycles of the world economy and the underlying logic of Europe's historical evolution, I predict that in the period of 2025–2035, the EU may gradually move towards the form of "Fortress Europe". There may be a transitional phase between Kondratieff long waves V-A and V-B, most likely around 2030. History suggests that this transition phase will see multiple conflicts flare up. The EU may not be able to resist internal protectionist and populist sentiments, and its trade policy will degenerate from liberalism to mercantilism or economic nationalism.

Specifically, there are four basic characteristics of a potential "Fortress Europe". First, the EU may see small-scale opportunistic expansion, including absorbing the Western Balkans and Ukraine into the union. The second is the gradual internal stratification that resulted in the "center-periphery" structure of Europe. The EU's economic core is the western European countries, while southern Europe and central and eastern Europe are the periphery and semi-periphery. Third, externally, the EU will become tough and obstinate. In terms of external trade policy, the community will adopt a defensive liberal policy with "reciprocity" at the core, strengthen trade remedies, implement the EU foreign investment review system, and propose new industrial policies. This stance is obviously different from the neoliberal approach. At the heart of defensive liberalism is "reciprocity", but if the policy of "reciprocity" fails, the EU may shift towards mercantilism, which is protectionist at its core. The EU will also join hands with the United States and other countries with similar interests in areas such as finance, exchange rate, trade, intellectual property rights, and the supply chain, to implement offensive economic diplomacy and exert pressure on developing countries and emerging economies. The emergence of a "US-EU Transatlantic Fortress" may become a real possibility. Fourth, the EU will be "strong on the outside and weak on the inside". Solidarity is in short supply within the EU, and its inner core of power remains relatively weak. Compromise is still necessary when dealing with populist forces. At a time of internal challenges and external threats, the EU will become increasingly self-protective. Externally, it will go after imaginary enemies to rally internal unity. The external negotiations of "Fortress Europe" must be hard-lined, and its strategy must be Machiavellian and strategic rather than based on values alone – but the values of liberal democracy will never be abandoned.[46] In its external negotiations, the EU will still connect and link values and pragmatic interests, which are not necessarily contradictory to each other.[47]

Arguably, the period between 2020 and 2035 will be remembered as a grand era for the emergence of the EU's economic statecraft. Whether for values diplomacy or economic diplomacy, the EU must proceed from the wealth-power equation and achieve the two-way wealth-power conversion. Whether that conversion can take place is a function of multiple factors, especially internal coordination.

Notes

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5 China's Economic Statecraft Under Xi Jinping

China's economic statecraft entered a new phase in November 2012 when Xi Jinping became General Secretary of the Communist Party of China. Thanks to the increasing national wealth accumulated by the previous generations of leadership, President Xi was able to launch several ambitious geoeconomic projects, including the Belt and Road Initiative (BRI). But his assertive great power diplomacy quickly encountered headwinds due to China's economic slowdown and deteriorating international environment. Therefore, economic statecraft (translating wealth to power) has become a central question for President Xi's "Major-Country Diplomacy with Chinese Characteristics"（中国特色大国外交）.[1]

President Xi's diplomacy is opposite to what the former Chinese leader Deng Xiaoping called "low-profile diplomacy" (韬光养晦). President Jiang Zemin (1993–2002) and President Hu Jintao (2002–2012) largely adhered to this low-profile diplomatic style. However, President Xi put an end to it and launched his flagship project – the BRI. Equally important but much less reported was his initiative of further reform and opening-up inspired by economic liberalism, represented by the launch of the negotiations on the RCEP (Regional Comprehensive Economic Partnership) and the two Bilateral Investment Treaties (BIT) with the United States and the EU, respectively, in 2013–2014. This economic liberalization agenda climaxed in the Third Plenary Session of the 18th Central Committee of the Communist Party of China on November 9–12, 2013, announcing new economic reforms and giving market forces a decisive role in allocating resources.

The year 2018 marks another watershed for China's economic statecraft. In 2012, China's economic growth started to slow. In 2014, President Xi Jinping created a new phrase "New normal" (新常态).[2] to describe China's economic slowdown after a three-decade-long double-digit economic growth. In 2017, Xi created another new phrase "Changes Unseen in a Century"（百年未有之大变局）.[3] to describe the chaotic global context. In March 2018, the United States launched a trade war against China. This trade war and the United States' labeling of China as a "strategic competitor" significantly changed China's relationship with the United States, and the Communist Party of China's (CPC's) perception of the outside world.[4] The COVID-19 pandemic

DOI: 10.4324/9781003351382-6

beginning at the end of 2019 further worsened China's economic situation and strained China's economic power resources for an ambitious major country diplomacy. To a large extent, the new economic stress that China has been experiencing since 2012 determines that Xi's economic statecraft needs to focus on development, instead of assertive outreach.

5.1 What Was President Xi's Economic Statecraft in His First Term (2012–2017)?

President Xi's new economic statecraft in 2012–2017 had two origins: one external and the other domestic.[5] *Externally*, Xi's new economic statecraft stemmed from a frustration over President Hu Jintao's low-profile diplomacy. Specifically, the frustration was expressed in five areas. The first was on trade. China had not assumed leadership in the global economy through the Doha Round multilateral trade negotiations that started in 2001, and it did not respond effectively when the United States shifted focus from Doha to regional and bilateral trade talks in 2004 and afterwards. Thus far in its modern history, China has not realized global economic leadership, despite its clear position as the world's largest beneficiary of an open multilateral trading system.

Finance is the second origin of the Chinese perspective on economic statecraft. For example, in 2009 during the peak of the financial crisis, the Chinese central bank governor Zhou Xiaochuan's proposal for a "super-sovereign international reserve currency" reflected China's aspirations and dissatisfaction with US dollar hegemony. Zhou proposed a super-sovereign international reserve currency to replace the US dollar as the world's reserve currency.

Third, on energy, China was deeply and increasingly concerned about potential disruptions to its sea lanes of economic supply, especially the narrow passage of the Malacca Strait, which from Beijing's perspective could be easily blockaded to the detriment of China's economic development and security. Accordingly, China is seeking to lock up sources of supply and create alternate routes of delivery that require its innovative use of channels of investment not beholden to the West.

Fourth, on technology, China has become even more deeply frustrated with the persistent arms embargo and export controls of dual-use products imposed by the Western world. Some of these measures date from normalization and have evolved; that evolution was affected by the "Tiananmen Incident" on June 4, 1989. These and other equally strongly held views on the lack of fairness of the core institutions of the international order drive foreign policy priorities that combine to define China's desire for recognition as a "major country" and to fuel popular expectations of a "great rejuvenation of the Chinese nation".

Finally, on the structure of the international order, China has been frustrated with the lack of reform of the International Monetary Fund, the Group of 20 (G20), and the World Trade Organization, among others, and has not yet succeeded in reshaping these institutions toward greater recognition of China.

Xi came to power cognizant of these frustrations and determined to earn a place in history that would reflect his ability to satisfy the Chinese people's hunger to repudiate historical weakness and satisfy their desire to see China take its rightful place in the world. He has adopted a more assertive foreign policy, characterized by willingness to defy convention and to overcome obstacles.[6]

On the basis of this perception that China has naturally evolved in the early 21st century toward a greater role in global economic leadership, and that China has greater leverage in a post-Great Recession world, the Xi administration initiated a diverse array of initiatives, including the land-based Silk Road Economic Belt and the Maritime Silk Road (known as the Belt and Road Initiative, BRI), the China-Pakistan Economic Corridor (CPEC), and the Bangladesh-China-India-Myanmar Economic Corridor" (BCIM-EC), which involved infrastructure investment and other forms of economic cooperation.

Moreover, President Xi proposed a "new concept of morality and interests" (新型义利观) vis-à-vis developing countries, putting morality (*Yi*, 义in Chinese)[7] before interests (*Li*, 利in Chinese) in the Chinese perspective.[8] Xi's new concept of morality originates from China's traditional Confucian understanding of the relationship between wealth and morality, which tends to put morals (or virtues) above economic interests. Confucius and his disciples believe that "the gentleman understands what is moral and the small man understands what is profitable".[9] For Xi, economic interests can be subject to a higher moral authority, and in many cases strategic and political interests in China's relations with other developing countries are similarly subordinate to the same higher moral authority. In other words, Xi's understanding of economic statecraft is influenced by China's traditional political thought and philosophy, which still has relevance in today's international politics.

Xi's economic statecraft is also designed to overcome a fear of insecurity, increasing territorial integrity, energy supply, food security, and a greater ability to withstand potential economic and financial shocks in the global economy.

Moreover, Xi's new economic statecraft had its *domestic* origins. China's economic growth – based on fixed asset investment, the main engine of wealth creation – had started to decelerate in 2012 and entered a "new normal". This new phase represents a downshifting from a high-speed growth pattern of 1992–2012 toward a sustainable, mid- to high-speed growth rate with higher efficiency and lower costs. The economic slowdown had complicated implications. On the one hand, it spurred China's ambitious agenda of economic statecraft, such as the BRI, and, on the other, significantly constrained the translation of China's wealth into power and global influence. Therefore, Xi's economic statecraft has dual objectives: to develop the economy and to achieve the strategic goals of a major country. From a long-term perspective, these two goals complement each other. With stronger national economic strength, China will more easily be able to achieve the status of a major country. However, in the short run, these two goals might conflict one with the other. The overstretch of a country's economic strength for strategic goals costs the sustainability of that country's economic growth. Over the past decades since China's reform and opening-up in 1978, economic growth had always been the core objective of China's economic statecraft.[10] Only after President Xi came to office, did there appear to be more internal debates about which objective takes precedence – economic growth or achieving the strategic goals of a major country. The dual nature of China's economic statecraft is determined by China's dual identities as both a developing country and a great power.

In discussing what principles China should adopt for economic diplomacy, former Chinese Commerce Minister Gao Hucheng suggested, "We must insist on the strategic guideline that diplomacy should serve the economy".[11] During President Xi's first term, major economic diplomacy initiatives such as the BRI, high-speed railway diplomacy, and nuclear power diplomacy were all closely linked to China's domestic development agenda. The Silk Road Economic Belt was designed to promote development of China's western region, especially Xinjiang Uygur Autonomous Region, and to redress the uneven development between China's eastern and western regions. The Bangladesh, China, India, and Myanmar Economic Corridor (BCIM) and China-Pakistan Economic Corridor (CPEC) were designed to develop the southwest region of China, improve transportation and communication connectivity in the southwest, stimulate economic growth in the border areas of the southwest, narrow regional development disparities, and consolidate border defense. High-speed railway diplomacy was implemented to export China's excess capacity of high-speed railway manufacturing. In China, high-speed railway had been given high hopes and tremendous resources to improve modernization, technological sophistication, economic power, international competitiveness, and capacity for independent innovation. As a result, in under a decade, the high-speed railway mileage China built has already exceeded the combined mileage of new high-speed railways built by developed countries in the West in the last 50 years or so. Excess manufacturing capacity of high-speed railways led China to implement high-speed railway diplomacy to export its large-scale, high-speed railway technology and manufacturing capacity to other countries.

As China's economy continued to slow in 2014, President Xi created a new phrase of "New Normal". For Xi, the "New Normal" is a statement based on his comprehensive assessment of the long cycles of the world economy and the different stages of China's development and how these two interact.[12] Since reform and opening-up, China's manufacturing capacity in all sectors has seen explosive growth, a considerable amount of which was amassed during the golden period of world economic growth for meeting external demand and during the stage of rapid economic growth at home. Some capacities further expanded in response to the impact of the global financial crisis.[13]

President Xi further stated,

> As our current challenges are largely non-cyclical, a V-shaped rebound through short-term stimulus measures may be unlikely, and our economic trajectory may be L-shaped. We should be prepared to fight a protracted

> battle, endure painful tribulations, appropriately manage expectations for a gear shift and speed reduction, and first protect our downside before seeking recovery. We should face up to the difficulties, define our path, boost our confidence, and make joint efforts to strengthen institutional dynamics and organic vitality, unlock the huge potential of our economic growth, and lead our economy to the next level.[14]

President Xi's analysis of "New Normal" is largely based on Marxist dialectical and historical materialism. Xi observed,

> In the context of longer history, China's economic development will always be reaching for a new state, a new pattern, and a new stage. The New Normal of economic development is part of this long process and is fully consistent with the law of motion of an upward spiral. To comprehensively understand and grasp the New Normal requires a spatiotemporal view of China's development.[15]

Despite President Xi's Marxist belief, he and his economic advisors decided to implement supply-side structural reform, a prescription for China's economic gloom arguably having a semblance of Reaganomics.[16] It seems that the CPC does not reject Western economics. During the global financial crisis starting in 2008, President Hu Jintao and Premier Wen Jiabao adopted a large-scale economic stimulus package largely inspired by Keynesianism. But we also need to bear in mind that the CPC economics cannot be separated from the Marxist concern about the people's livelihood.

During Xi's first term, he was very much concerned about two "traps": one is the "Thucydides trap" and the other is the "middle-income trap". For Xi, the former is political, that is, how to manage the relationship with the United States and other major countries. The latter is economic, that is, how to improve the quality and efficiency of China's economic development.[17] In Xi's mind, economic development remained his priority, an overriding objective of China's socialism.

On international economic policy, President Xi launched a series of strategic economic negotiations. For China, reaching high-quality agreements with key trading partners is both a major trend in global trade and investment and an attempt by the new CPC Central Committee leadership to forge ahead, promote supply-side structural reform, and increase institutional openness. China launched or accelerated a number of major external economic negotiations during 2012–2013, including the US-China BIT, the EU-China BIT, RCEP, and the China-Japan-Korea Free Trade Agreement. Among them, the US-China and EU-China BITs were the most ambitious and concerned the highest level of market opening, pre-establishment national treatment, and negative list model. However, these agreements were "hard bones" that would face many obstacles at the operational level, so they were strategic decisions that were made despite many constraints at that time.

After the new CPC Central Committee and State Council took office in 2012–2013, the Chinese government began to seriously consider using large-scale trade and investment negotiations as a lever for adopting advanced international trade rules while driving domestic reforms through opening-up. The launch of these strategic economic negotiations was based upon a renewed confidence by the new generation of Chinese leadership that China's economy had achieved significant growth and gained greater resilience. At the fifth US-China Strategic and Economic Dialogue in July 2013, China formally accepted and announced that it would enter into substantive negotiations with the United States based on the "pre-establishment national treatment and negative list" model. The negotiations on the EU-China Comprehensive Agreement on Investment (CAI, also called the EU-China BIT) began in November 2013 during the 16th EU-China Summit, four months later than the launch of the US-China BIT. On December 30, 2020, Chinese and European leaders jointly announced that the CAI negotiations were concluded on schedule after 35 rounds over seven years.

The negotiations on a China-US BIT largely failed. The negotiations came to a stop one week before Donald Trump became president in January 2017. The Chinese side experimented with the "pre-establishment national treatment" and the "negative list" under the treaty in Shanghai before rolling them out across the country by establishing multiple pilot free trade zones. During the G20 Hangzhou Summit in 2016, China and the United States were close to reaching an agreement. Once the Obama administration was replaced by the Trump administration, the positive reciprocity mode between the United States and China gave way to negative reciprocity and climaxed in a historical trade war in 2018–2020.

To summarize, the first term of President Xi's economic statecraft was characterized by both ambitious geoeconomic projects such as the BRI, and an economic liberalization agenda as well as supply-side structural reform with a semblance of Reaganomics. It's therefore a cocktail approach of socialist people-first economics and Western-styled market economy driven by China's profound motivation for a great rejuvenation.

During President Xi's first term in 2012–2017, there were clear efforts made by China's foreign policy community to achieve a two-way conversion between wealth and power. For these foreign policy elites, the mutual conversion of economic resources and diplomatic resources are two sides of a coin that must both remain viable. These elites are seeking China's way of managing international relations and a viable international order that draws inspiration from China's history. For them, in the face of new international circumstances, China needed to adopt the right concept of morality and interests, continuously cultivate its international institutional power, achieve increased economic power and effective conversion to diplomatic manoeuvres.

5.2 What Was President Xi's Economic Statecraft in His Second Term (2017–2022)?

The year 2018 marked a new watershed for China's economic statecraft, spurred by the US-China trade war. But several years before, there were already worrying signs everywhere, such as the Crimean crisis, Brexit, and the change in US domestic politics. The rise of populism and deglobalization seems to have become the dominant spirit of the times. At the end of 2017, President Xi made a judgement about the global context, claiming that the world was undergoing "profound changes hitherto unseen for a century".[18]

When President Xi labeled the global context as "changes unseen for a century", he labeled China's domestic context as "the best moment since the Opium War of [the] 1840s".[19] Xi made that statement in the climax of an unexpected trade war with the United States in 2018. The trade war was launched by President Donald Trump in February 2018. Before that, US-China economic relations were managed in an institutionalized environment, represented by the US-China Strategic & Economic Dialogue (S&ED) and the Joint Commission on Commerce and Trade (JCCT). President Trump abandoned this strategic dialogue approach and launched an economic war.

President Trump launched this economic warfare in a Blitzkrieg way. The Chinese side was caught by surprise. When President Trump visited China in November 2017, three months before the breakout of the trade war, he reaped the biggest orders ever in human history, of US $253.5 billion: 300 Boeing airplanes; a 20-year $83.7 billion investment by China Energy Investment Corp in shale gas developments and chemical manufacturing projects in West Virginia; and Qualcomm signed nonbinding agreements worth $12 billion with Xiaomi, OPPO, and Vivo. The Chinese administration thought unrealistically that it could do business with President Trump, as it had with previous GOP presidents. However, President Trump was already determined to fight China in a dramatic way. On August 18, 2017, two months before his visit in China, he had already signed a presidential memorandum regarding the results of a Section 301 investigation, preparing for an economic war.

The trade war witnessed mutual impositions of high tariffs and lasted until January 2020, when the first phase of a trade agreement was finally signed. As a result, US-China bilateral trade relations were significantly damaged. President Joe Biden kept the high tariffs in place.

As a result of these unexpected events, President Xi's perception of the international context turned increasingly realistic. He warned against the so-called "black swan" incidents as well as "grey rhino" ones. President Xi urged his senior officials to adhere to bottom-line thinking and making efforts to prevent and resolve major risks in the face of the treacherous international situation, the complex and sensitive atmosphere, and the daunting and arduous tasks of reform, development, and stability.[20] Eight months later in 2019, President Xi again warned of major risks at the Central Party School:

> Currently and going forward, China is navigating through a period of confluence, in which risks and challenges are likely increasing . . . those of you in leadership positions must be able to sensibly discern potential risks and understand where they will come from, how they will materialize and evolve, and if a fight is inevitable – like knowing a deer passing

> through grass when you hear leaves move, a tiger coming when pine leaves are ruffled, and autumn arriving when a leaf changes color.[21]

Increasingly, President Xi emphasized the spirit of struggle. He first mentioned in his Report of the 19th CPC Congress in October 2017 that "Realizing our great dream demands a great struggle".[22] On September 3, 2019, he reemphasized the "great struggle".[23] President Xi emphasized that the great rejuvenation of the Chinese nation can never be achieved through half-measured efforts or by loudly beating a drum, and that a great struggle is necessary to achieve a great ambition.[24] For Xi, "As communists, we fight with an aim, a position, and principles. The bigger goal is to unswervingly adhere to the leadership of the CPC and our socialist system".[25] The US-China trade war and the chaotic global context has been perceived by the CPC as major risks threatening the survival of the CPC.

Immediately after the trade war, China suffered another major blow. COVID-19 infections hit China unexpectedly and badly in 2020–2023. China was the first country to experience the COVID-19 pandemic. The first cluster of pneumonia patients was discovered in late December 2019 in Wuhan, Hubei Province, and a public notice on the outbreak was distributed on December 31, 2019.[26] The Chinese government adopted a zero-COVID policy, with lockdowns in many cities. These measures significantly reduced the death toll but weighed heavily on China's economy and turned out to be unsustainable. The pandemic largely cut off China's international exchanges. In 2020, China's economy slowed to 2.3%. Despite 8.1% growth in 2021, China's economy suffered a major setback in 2022, with a low growth rate of 3.0%. Finally, the Chinese government ended its zero-COVID policy in early December 2022.

As China's economic situation turned increasingly difficult, President Xi refocused on economic growth. Supply-side structural reform, the Dual Circulation Strategy and High-Quality Development formed the backbone of President Xi's development-oriented economic statecraft.

In 2020–2023, to keep China's economy growing and tackle the dramatic changes both in and outside of China, the Chinese government formulated a series of economic policies, first, the "Dual Circulation"（双循环）; second, "High Quality Development" (高质量发展), and third, "the Strategy of Boosting Domestic Consumption". High Quality Development is the final goal of China's development. The domestic-international Dual Circulation is the layout of China's development. More specifically, the dual circulation is a strategy to reorient China's economy by prioritizing domestic consumption ("internal circulation") while remaining open to international trade and investment ("external circulation"). On December 14, 2022, China set out plans to expand domestic consumption and investment as the economy struggled with the COVID-19 pandemic and weakening external demand.[27] The supply-side structural reform launched in 2015 remained as a way to improve the quality of China's development. As a result, China's development-oriented economic statecraft adopted a mixture of Keynesian demand-side and Reaganomics supply-side prescriptions. In parallel with Western-style economic remedies, China also adopted an array of Marxist economic narratives with Chinese characteristics, such as dual circulation and high-quality development.

On the front of international economic policy, the BRI remained a top priority. The Belt and Road Forum for International Cooperation (BRF) was launched in 2017 and became increasingly institutionalized. Recognizing increasing challenges and international resistance, President Xi publicly suggested that the BRI approach needed to shift from broad-brush to meticulous painting. While largely perceived as a geoeconomic instrument, the BRI is a de facto instrument of China's development-oriented economic statecraft. The overriding objective of the BRI is not struggling for power in an imperialist mindset, but seeking development, and largely in a Marxist mindset, to build a community of mankind.

During President Xi's second term, China's economic statecraft evolved largely due to external pressures and frustrations. The negotiations on the BITs with the United States and the EU both stalled. The BIT negotiation with the United States came to a halt after Donald Trump became president. The negotiation with the Europeans on a CAI was completed by the end of 2020, but its ratification was frozen due to the EU's human rights sanction against China and China's countersanctions simultaneously announced in March 2021. The only harvest of President Xi's economic liberalization agenda was the RCEP.

The frustrations over the international economic negotiations, as well as the economic warfare launched against China by the United States and the EU spurred China to develop its own economic coercion instruments, such as the Provisions on the Unreliable Entity List, adopting measures in response to the hostile actions taken by a foreign entity in international economic, trade, and other relevant activities such as: (1) endangering national sovereignty, security, or development interests of China; (2) suspending normal transactions with an enterprise, other organization, or individual of China or applying discriminatory measures against an enterprise, other organization, or individual of China, which violates normal market transaction principles and causes serious damage to the legitimate rights and interests of the enterprise, other organization, or individual of China.[28] On June 10, 2021, China's National People's Congress Standing Committee passed the Anti-Foreign Sanctions Law, giving the Chinese government a legal tool to respond to foreign sanctions with its own countersanctions. According to Article 3 of the law, individuals or organizations involved in the making or implementation of a foreign country's "discriminatory measures against Chinese citizens" or "interference with China's internal affairs" are eligible to be placed on a blacklist, or "counter-list".[29] These negative economic statecraft instruments resulted from over three years of escalating political and economic disputes with foreign countries, including the United States and the EU. They indeed form a stark contrast to the positive economic statecraft instruments China has traditionally adopted since the early days of its reform and opening-up.

During President Xi's second term, China's foreign policy community increasingly felt a mismatch between China's economic clout and its political influence.[30] President Xi's conduct of "Major-Country Diplomacy with Chinese Characteristics" requires a large-scale wealth-power conversion. While China's relations with the West is deteriorating, China has to rely increasingly on its partnerships with the group of developing countries. That means China will continue to advance the BRI and aid diplomacy. While China's economy continues to slow, China's economic statecraft will have to balance between an assertive diplomacy and a low-profile one. Increasingly, there are concerns that China's "Major-Country Diplomacy" is being overstretched.

5.3 Conclusion and Future Scenarios

President Xi is probably the first Chinese leader who has had the luxury to mobilize world-class economic power for achieving China's great power status on the world stage. But the deteriorating *zeitgeist* (the spirit of the times) is a major obstacle for Xi's ambition.

For President Xi's two terms as China's top leader (2012–2022), China's economic statecraft was fully manifested in his flagship project, the BRI (which he proposed during his trips in central and southeast Asia), the economic liberalization agenda represented by RCEP, the BITs with the United States and the EU, and the trade war with the United States. The essence of President Xi's economic statecraft is a two-way conversion between China's national wealth and its global influence (and power). For acquiring increased national wealth, economic development is a must.

Different from hegemons in history and other great powers, China has a mythical worship for development. President Xi is no exception. From Deng Xiaoping's time, the Chinese leadership has always put development at the center of their statecraft. That's to say, development is always the central goal of China's economic and diplomatic strategies. The fundamental motivation for the BRI or any other instruments of China's economic statecraft is development.

China's economic statecraft is essentially a new type of developmentalism with Chinese characteristics. China is after a new ideology of developmentalism, which is the result of the collective wisdom of several generations of leaders: from the "Three Represents" (representing advanced productive forces, the orientation of the advanced culture, and the fundamental interests of the broadest masses of the people) proposed by President Jiang Zemin,[31] to the "Scientific Outlook on Development" proposed by President Hu Jintao[32], and the "Xi Jinping Thought on Socialism with Chinese Characteristics for the New Era"[33] and the "Chinese Path to Modernization".[34]

During the presidency of Hu Jintao (Xi Jinping's predecessor), the guiding ideology of economic statecraft was that

> China is in the primary stage of socialism and will remain so for a long time to come. Amid increasingly-fierce international competition for comprehensive national power, it is of great strategic significance for a large developing country such as China to speed up modernization by putting economic growth at the center, seizing and effectively using the period of important strategic opportunity, and vigorously liberating and developing the social productive forces.[35]

The severe acute respiratory syndrome (SARS) epidemic in 2003 was closely linked to the formulation of the Scientific Outlook on Development in the same year. The SARS epidemic was the first major challenge Hu Jintao grappled with after taking office, and it had a great impact on his thoughts. For Hu, the victory in the fight against SARS fully demonstrated the great superiority of China's socialist system. However, the outbreak and spread of SARS also revealed new contradictions and weaknesses, such as the lack of coordinated growth, underdeveloped public health infrastructure, and the inadequate emergency response mechanism after a stage of rapid economic growth. It further triggered profound reflections of the CPC Central Committee on China's development under new circumstances. The CPC Central Committee was confronted with the important theoretical and practical questions of "what kind of development do we want and how do we achieve it?"

In late August and early September 2003, Hu Jintao put forward the thought of the Scientific Outlook on Development during his visit to Jiangxi Province, where he stressed the need for comprehensive, coordinated, and sustainable development. In October, for the first time in an official party document, the Third Plenum of the 16th CPC Central Committee formalized the Scientific Outlook on Development in its entirety, arguing that it is necessary to "put people first; establish a concept of comprehensive, coordinated, and sustainable development; and promote comprehensive economic, social, and human development".

Here is one example of how and why President Hu Jintao attached importance to economic development. As Henry Paulson, the former US secretary of the Treasury recalled, when President George W. Bush asked President Hu what kept him up at night, Hu answered it was to create 25 million jobs a year. China's leadership puts stability above all else, and that means a strong economy is a must. Accordingly, China needs more market-oriented reforms and a mutually beneficial relationship with its most important trading partner, the United States. Essentially, the CPC has made a deal with the Chinese people to ensure prosperity in exchange for long-term political power. China's leadership has rooted its credibility with the people in economic opportunity, job creation, and rising living standards, which was the glue holding the system together. However, China's continued success has raised the expectations of its people. As social tensions increased, these expectations became increasingly difficult to meet. These tensions revolved around poor air and water quality and troubling income disparities.[36]

China's adherence to development has multiple origins. The number one reason is that China still has a huge population living under the poverty line. Second, China's economic level is unbalanced across its vast geography. Third, China's Marxist ideology preaches that economic infrastructure determines superstructure. Therefore, China's political stability largely depends on China's economic growth and its ability to create jobs.

As China has grown to be one of the world's largest economies, China's ability to translate wealth to power is increasingly put in the spotlight. For generations since Deng Xiaoping, Chinese leadership has always believed that China is a developing country. It is still at an early stage of socialism and will remain at this stage for a long time. But China's ascendance to great power status requires China to give a bigger role to its economic statecraft, the essence of which is to translate its wealth to power (and the other way round). During the global financial crisis starting from 2008, President Hu Jintao started to practise economic statecraft. For President Hu, the key to solving all of China's problems was to focus on its own development.[37] Therefore, the overriding goal of President Hu's economic statecraft was translating China's diplomatic capability and increased global influence into economic growth. That being said, President Hu also tried on several occasions to translate China's wealth to global influence and power.

The biggest wealth-to-power transformation during Hu Jintao's presidency was pushing forward the reform of the global economic governance framework and the international financial system. At the 2010 Central Economic Work Conference, Hu Jintao proposed that China should accurately grasp the characteristics of the world economic governance framework in a period of change and strive to enhance China's ability to participate and shape its course.[38] Under President Hu's leadership, Zhou Xiaochuan, then governor of China's central bank tried to end US-dollar hegemony by proposing for a super-sovereign international reserve currency, which turned out to be an unsuccessful attempt. On the trade front, Chen Deming, China's then minister of commerce tried to complete the Doha Round negotiations together with all the other major trading nations. However, Chen Deming's efforts did not succeed. President Hu's frustrations in China's economic diplomacy largely defined his economic statecraft. For China to be able to exert more global influence on the world stage, there are two preconditions: one is economic growth (on the wealth side), and the other is China's ability to translate wealth to power (and global influence). For decades, there was strong domestic resistance to that translation.

Looking into the future, China's development-oriented economic statecraft will remain for quite a long time. Development will remain a top priority for the CPC and China's economic statecraft. Xi labeled his vision of development as "high-level development". The Dual Circulation will remain as a major layout of China' development. That is to say, China's development will rely largely on domestic circulation. It is a choice determined by the worsening global context and the continued pandemic.

China's future economic statecraft will focus on the recovery and accumulation of national wealth. The pandemic has caused significant destruction in China's economy. China's major approach is focused on both the demand and the supply side. On the demand side, boosting domestic consumption is the major way while on the supply side, structural reform will be further pursued.

As the global context is worsening, there will be more competition and even confrontation among great powers and increasingly between the West and the "Rest". Against this background, China's economic statecraft will enter a new stage, pumping more wealth into global politics. Security will become a buzzword for China's future economic statecraft. That includes protecting China's economic security and territorial integrity. More specifically, it means that China's economic statecraft will serve to preserve security in food, energy, and the supply chain.[39] In the meanwhile, China's Global Development Initiative,[40] aimed at helping developing countries to prosper, will gain prominence in China's future economic diplomacy.

To summarize, China's future statecraft will continue to feature a two-way conversion between wealth and power, with development as the overriding goal, and with reinforced leadership by the Communist Party of China.

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6 Competing Economic Statecrafts

The coming decades of the 21st century are destined to be an era of competing economic statecrafts. Economic statecraft entered the United States' diplomatic narrative in 2011 when the then Secretary of State Hillary Clinton delivered her well-known "Economic Statecraft" speech.[1] But it wasn't until Donald Trump's presidency that economic statecraft really became a buzzword and started to be practiced in a big way. In the EU, economic statecraft has become a fashionable subject since 2020, when the new European Commission started to develop new geoeconomic instruments, and more so after the EU imposed harsh sanctions against Russia. China has become a seasoned practitioner of economic statecraft, especially under President Xi's leadership since 2012. It is no coincidence that these three largest economies in the world are now competing for global influence by leveraging their respective economic strengths.

These three economies used to believe that economic interdependence is a source of prosperity, stability, and mutual trust. But now, as the spirit of the times turns introvert, conservative, nationalist, and populist, the policy elites of these major economies have to adapt with competing and conflicting economic statecrafts, if not a weaponization of their mutual economic dependences.

6.1 The Change of "The Spirit of the Times"[2]

The two decades since the fall of the Berlin Wall saw rapid globalization, as well as economic integration and connectivity. The establishment of the World Trade Organization (WTO), the European Union, the North American Free Trade Area, and the Asia-Pacific Economic Cooperation have greatly advanced global and regional economic integration. People in Asia had actively discussed an East Asian Community, or even an Asian Currency Unit. But with 9/11 and the global financial crisis of 2008, this open, confident, and win-win mentality gradually subsided, and the spirit of the times changed for the worse. Competing economic statecraft is a "product of the times" that is constantly given new meaning as the times change. It can be argued that the liberal, open, and inclusive spirit of the times that emerged after World War II is now slipping

DOI: 10.4324/9781003351382-7

towards populism, conservatism, and mercantilism. Its main features are fourfold: first, national centrism, which emphasizes the supremacy and precedence of national interests; second, the fierce competition among countries around geopolitical interests and power; third, the world's major economies are starting to pursue mercantilist economic policies; and fourth, the intensification of social tensions within countries along class and racial fault lines.

The changing times are likely the result of a mix of both cyclical changes in the world economy and the rise and fall of great powers. When the world economy is on the upswing and led by countries charged with positive energy, the spirit of the times is open and inclusive; the opposite is conservative and protectionist, leading to a surge in geopolitical tensions.

Now, the world economy has entered the B phase of the fifth long wave (the Kondratieff cycle), which is a stagnation phase (see Figure 3.1). This means that the future trajectory of the world economy is likely to be L-shaped until the next industrial revolution brings the world economy back to an upward track. Therefore, the era in which we are now living (i.e., 2005/2008–2025/2030) can be described as an era of heightened risk. In this era, the waves of populism, nationalism, and mercantilism that the world is experiencing will continue for a considerable period. In this period, which could range from one to two decades, geopolitical crises will further intensify.

The third decade of the 21st century (2020–2030) is a transitional period, a transition from phase B of the fifth long wave to phase A of the sixth long wave. In fact, the current transitional period has very salient features. If countries around the world continue to adopt a laissez-faire attitude and continue to cater to rising populism, the spirit of the times worldwide will slide irredeemably towards mercantilism and conservatism. We must not forget that this spirit of the times was last seen in the 1870s through 1914 and the 1930s, the precursors to two world wars.

The leaders of China, the United States and the EU have paid close attention to the changes in the global context. In 2017, Chinese President Xi created a specific phrase "Changes Unseen in a Century"（百年未有之大变局）[3] to describe the chaotic global context. China's development-oriented economic statecraft needs a peaceful international environment. That is why China's decision making is highly sensitive to the changing global context. It is President Jiang Zemin (1993–2002) who first stated that the first two decades of the 21st century were a period of important strategic opportunities.[4] President Xi Jinping inherited this analysis of the times, but added that "opportunities and challenges are both going through new developments and changes".[5] For Chinese leaders, dialectical materialism and historical materialism are the most important methodology in understanding the global situation before they make any policy.

It might be a coincidence that German Chancellor Olaf Scholz also adopts a view about the turning point of the global situation, which he calls a "*Zeitenwende*". According to him, the world is facing a *Zeitenwende*: an epochal tectonic shift. Russia's war of aggression against Ukraine has put an end to an era. New powers have emerged or reemerged, including an economically strong and politically assertive China. In this new multipolar world, different countries and models of government are competing for power and influence.[6]

Another German politician, Ursula von der Leyen, president of the European Commission, anticipated the worsening geopolitical situation by clearly positioning her European Commission as a "Geopolitical Commission". On November 12, 2019, in a speech at the Paris Peace Forum, she emphasized the creation of a genuine "Geopolitical Commission" to build a more outward-looking EU that would defend European values and interests worldwide. Josep Borrell, the EU High Representative of the Union for Foreign Affairs and Security Policy and Vice President of the EC, insisted that the EU must now "learn to use the language of power".[7] French President Macron even warned that with the escalating competition between China and the United States, Europe would risk "disappearing geopolitically".[8]

In short, the third decade of the 21st century is destined to be turbulent and unsettling. For China, the years 2021–2049 overlap with the historical intersection of the "two centenaries", when the old centenary ends and the new one begins. The old centenary is from 1921, when the Communist Party of China (CPC) came into being, to 2021, the 100th anniversary of the CPC. The new centenary is from 1949, when the People's Republic of China was established, to 2049, the 100th anniversary of the founding of the PRC.[9] For the United States, 2026 marks the 250th anniversary since independence. Both China and the United States hope to embark on a new journey in the third decade of the 21st century. Unfortunately, the United States and China have failed to co-evolve in a harmonious way. Both Presidents Trump and Biden have defined China as a "strategic competitor" to be contained on multiple levels. The expectation is that the 2020s will be a defining period in the history of US-China relations. If the United States and China can properly manage their differences, the ship of US-China relations will have a chance to navigate on a normal course; in the case of strategic miscalculation, it is very likely that war and large-scale geopolitical conflict will break out between the two superpowers, which would profoundly change the course of history and the future world landscape.

During the 2020s, the EU repositioned China and its relations with China have deteriorated. In the policy paper "EU-China: A Strategic Outlook", published in March 2019, the EU redefined China as, "a cooperation partner with whom the EU has closely-aligned objectives", "an economic competitor in the pursuit of technological leadership", and "a systemic rival promoting alternative models of governance".[10] The mutual trust is getting thin between the EU and China. China's ambiguous position on the Russia-Ukrainian War has significantly damaged China's image in the EU.

6.2 The Manifestations of Competing Economic Statecrafts and Consequences

China's launch of the Belt and Road Initiative in 2013 marks a watershed in the new age of competing economic statecraft. Its global coverage and large-scale leveraging of economic resources put China in the spotlight of global political economy. As a positive instrument of economic statecraft, the BRI spurred the United States to come up with competing connectivity projects, first the B3W initiative (the Build Back Better World) announced by President Joe Biden in June 2021, and then the PGII (the Partnership for Global Infrastructure and Investment) announced at the G7 Summit in June 2022, which intended to raise US $600 billion over the next five years to provide developing countries with financing for infrastructure development. Although China was not explicitly mentioned in the statement, the PGII was widely seen as an "alternative" to the BRI, aimed at weakening the international influence of the BRI.

Since China's launch of the BRI, the EU has come up with a series of positive economic statecraft projects, including the EU Strategy for Cooperation in the Indo-Pacific, the EU-Asia Connectivity Strategy, the Globally Connected Europe Strategy, and the EU Global Gateway initiative in 2020–2022.

There is a time lag of around eight years between China's first move of grand economic statecraft, project BRI announced in 2013 and the United States' B3W, as well as the EU's symbolic economic statecraft projects such as the Global Gateway announced in 2021. Why is there such a time lag? First, it took a while before other major economies realized the geoeconomic (and geopolitical) spillovers of China's BRI, and managed to organize alternative connectivity projects as a response. In 2013–2017 before the US-China trade war broke out in 2018, there was a window of opportunity for China, the United States, and the EU to collaborate on connectivity. A typical example was the EU-China Connectivity Platform established in 2014. Unfortunately, the value of this platform has been largely underappreciated.

Second, facing China's geoeconomic rise, the first response was initiated by an atypical American president, Donald Trump, who decided to choose a negative economic statecraft instrument (an economic warfare of a bullying nature) to overwhelm China. The US-China trade war lasted from March 2018 and until January 2020 before the United States realized that there is no winner in an economic war, and it is impossible to defeat China single-handedly. It is not until Joe Biden's time as president that a united Western front was to be organized to confront China's economic statecraft.

However, negative economic statecraft instruments such as a trade war or sanctions can hardly be effective because of their double-edged sword effects, creating both winners and losers domestically. In the US-China trade war in 2018–2020, the sectors benefiting from US-China trade relations suffered. According to Gary Hufbauer, a senior fellow of the Peterson Institute for International Economics, if US exports were cut by a third in an all-out trade war, the United States would lose about $50 billion of exports annually. About 250,000 US workers would lose their jobs. President Trump would not be able to diffuse the political backlash by calling on Americans to be patriots and accept their economic hardships.[11]

When both China and the United States were exhausted by the trade war, they sat down for a truce, which led to the so-called Phase One Trade Agreement signed on January 15, 2020.[12] Although there were expectations by the business communities of both sides that the punitively high tariffs would be lifted, there has been little progress in that direction in 2021–2022 during the Biden administration. Donald Trump was inspired by the worsened spirit of the times and also contributed to the further worsening of it. Economic nationalism (or mercantilism) is taking a strong hold in the United States while China is increasingly introverted. Different from Japan or Germany, two rising powers in history, China is a vast country with one of the world's biggest domestic markets. Therefore, China's typical response to a chaotic global context is a natural return to her own market and focus on her own affairs.[13]

From a longer perspective, China's economic statecraft is a response to the United States' economic statecraft represented by the "New Silk Road Initiative"[14] and the "Asia Pivot"[15] envisioned in 2011. The BRI is "China's March West" in response to Obama-Clinton's Asia Pivot.[16] China's negotiation of the RCEP was to respond to the US-led TPP. China's talks with the United States and the EU for BITs were to boost domestic reform and introduce the most advanced international economic rules so as to catch up with the highest level of economic rule making.

In retrospect, the West has squandered China's positive economic statecraft initiatives represented by the BRI and President Xi's economic liberalization agenda. The West's dissatisfaction with President Xi's ideological pivot further tightened the global economic statecraft competition.

We are now going through a phase of competing connectivity. Connectivity (and interdependence) is being instrumentalized and even weaponized. If the Trump administration raised the idea of a complete economic decoupling from China,[17] the Biden administration and his like-minded allies are trying for a partial decoupling. The essence of decoupling is an ultimate negative usage of economic resources by rejecting the rival country's access to markets, key resources, high technologies, and critical human resources. Decoupling is an upgrade of trade war and a typical example of economic warfare.

Although Joe Biden rejects the trade war model vis-à-vis China, the global context is gradually luring the West to adopt an economic warfare approach. This is largely inspired by the West's economic sanctions against Russia, and increasingly used against China, especially in the high-tech areas. The Biden administration tried to adopt a "small yard, high fence" strategy by creating "choke points" for critical US technologies vis-à-vis China. As Jake Sullivan, Biden's national security advisor, said,

> Foundational technologies have to be inside that yard and the fence has to be high because our strategic competitors should not be able to exploit American and allied technologies to undermine American and allied security.[18]

In the dark days of the world economy and warring states period of global economic statecraft, we are witnessing dramatic innovation of economic statecraft toolkits. To deny Russia the financial resources to fund its invasion of Ukraine, the US-led coalition immobilized Russia's sovereign wealth fund and central bank reserves.[19] To deny China's ability to acquire or develop high-end chips, as well as reduce the dependence on critical technologies from China, the United States passed the Chips Act 2022.[20] To stand for its values, the EU established a global human rights sanctions regime on December 7, 2020, which allows it to target individuals, entities, and bodies – including state and nonstate actors – responsible for, involved in, or associated with serious human rights violations and abuses worldwide, no matter where they occurred.[21] This global human rights sanctions regime has been applied on several occasions, including against Russia and China. The EU's sanctions against China on the ground of human rights violations in Xinjiang triggered China's furious countersanctions.

The EU stands out in practicing trade statecraft since Von Der Leyen became president of the European Commission in 2019. At the EU level, a series of trade legislations have been proposed with geopolitical implications, such as the Anti-Economic Coercion Instrument (ACI), aimed at countering the use of economic coercion by third countries.[22] The European Commission also proposed the Due Diligence Directive, International Procurement Instrument and Anti-Subsidy Regulation, all of which are giving teeth to the EU to increase its capabilities in adapting to the birth of a "Geopolitical Europe".[23]

Apart from innovation of toolkits, the negotiation strategies of economic statecraft are also going through "smart" reconfiguration. As the world seems to become multipolar, the global politics of economic statecraft appear to enter an era of a strategic triangle among the United States, the EU, and China. The Biden administration successfully revived the Atlantic alliance despite some trade disagreements. Russia's invasion of Ukraine largely reunited the West. President Von Der Leyen has emerged as the person to call when US officials want to call Europe.[24] The United States is aware that sanctions are most effective when coordinated with allies and partners, both because coordination bolsters diplomacy and because multilateral sanctions are harder to evade.[25]

China's position is significantly weakened in such a strategic triangle, with China on the one side and the United States and the EU on the other. That being said, the strategic triangle is constantly changing. The ultimate goal of the EU's geopolitical pivot is to seek so-called "strategic autonomy", an autonomous position vis-à-vis both the United States and China.[26]

6.3 Competing Thoughts Behind Competing Economic Statecrafts

Facing the deteriorating spirit of the times, the economic statecraft competition originates from competing paradigms of governing a state (or an economy). There emerged in the West, throughout history, four types of economic statecraft paradigms: mercantilism, liberalism, imperialism, and Marxism. Accordingly, different models of governance and statecraft have been grown on the soils of the United States, the EU, and other Western countries.

China is a very different model, a hybrid of every historical "ism", ideologically guided by Marxism with a developmentalist pursuit of Chinese "great rejuvenation". That makes any simplistic labeling of China's model of governance misleading and quickly obsolete. The labeling of China's governance model as "state capitalism" is misleading, because China adheres to its Marxist political regime and ideology. Neither can such a labeling explain President Xi's socialist campaigns such as "Eradication of Extreme Poverty"[27] and "Seeking Common Prosperity".[28] An alternative in understanding China's governance model is an eclectic one. Since the People's Republic was founded in 1949, Chinese leaders have embraced different guiding thoughts of economic statecraft, ranging from Marxism to mercantilism and liberalism (Table 6.1).

China's economic statecraft has a historical logic, which is inspired by China's "*tianxia* system" (天下 in Chinese, literally meaning "all under heaven"). In ancient China and imperial China, *tianxia* denoted the lands, space, and area divinely appointed to the Chinese sovereign by universal and well-defined principles of order. The center of this land was directly apportioned to the Chinese court, forming the center of a worldview that centered on the Chinese court and went concentrically outward to major and minor officials and then the common subjects, tributary states, and finally ending with fringe "barbarians".[29] This worldview gives China's economic statecraft its civilizational attributes and historical depth.

Although China's "tributary system" has been abandoned with the collapse of China's last imperial dynasty in 1911, China's worldview of *tianxia* has never been abandoned. It is already incorporated in China's philosophy and culture. China's economic diplomacy today is also inspired by the *tianxia* worldview. It includes a "new concept of morality and interests", which advocates a dual focus on morality and interests and prioritizes morality over profit in dealing with developing countries.[30] Several episodes in China's history are particularly commended as good examples of economic diplomacy: Zhang Qian's expedition to the western regions led to the establishment of diplomatic ties between the Han Dynasty and the tribes in the western regions, spreading friendship along the ancient Silk Road and bringing back to China the civilization, knowledge, and goods of the West. The spirit of the ancient Chinese explorer and diplomat Zheng He's seven voyages to the western oceans was "to befriend the distant people, make peace with all nations, and share prosperity with the world" and to facilitate economic exchange and trade flows. This is in stark contrast to the slave trade and colonial rule of the Western powers through their mighty warships and cannons.[31] China's distinctive civilizational attributes and historical experiences helped China to chart a different path of economic diplomacy unlike other great powers – to promote relations with other countries from the dimension of civilization and to implement the so-called "major country diplomacy" in a Chinese way. Since

Table 6.1 China's Economic Statecraft from Mao to Xi

Political Ideology		*Economic ideology*	*Main Tasks*	*Wealth-Power-Strategy*
Mao Zedong	Communist	Marxist mixed with China's traditional way of thinking as a central kingdom	Anti-imperialism, independence, self-sufficiency, building a strong state	Supporting the Communist Revolution, developing countries, supporting a new international economic order
Deng Xiaoping	Communist	Liberalism	Economic development, building a strong state	General Agreement on Trade and Tariffs (GATT) accession
Jiang Zemin	Communist	Liberalism	Economic development, building a strong state, the great rejuvenation of China, "Three Represents"	GATT/ World Trade Organization accession
Hu Jintao	Communist	Liberalism + light mercantilism	Economic development, building a strong state, great national rejuvenation The Outlook of Scientific Development	Emerging strategic industries, self-innovation,
Xi Jinping	Communist	Light mercantilism + embedded liberalism + socialism + historic logic	Economic development, "China Dream", building a strong state, the great rejuvenation of China, Two Centenary goals	Belt and Road Initiative; Asian Infrastructure Investment Bank; Brazil, Russia, India, China, South Africa (BRICS) Development Bank; competitive regionalism, Regional Comprehensive Economic Partnership, Free Trade Area of the Asia-Pacific; free trade zone

the Belt and Road Initiative was proposed, China's relations with developing countries in Asia, Africa, and Latin America have become increasingly close, gradually forming a BRI "circle of friends".

China's historical pursuit for a central position in the world is being implemented by a highly organized political party equipped with a Marxist ideology. That significantly facilitated China's rise in a short time span. But China's rise is far from being completed. It requires a continuous transformation of wealth to power.

Economic growth is therefore a precondition for China's rise, and China's economic statecraft is largely development oriented.

In comparison, the United States, as an established hegemon, is practicing a hegemonic economic statecraft, the essence of which is to maintain America's hegemony through a two-directional conversion between wealth and power. Since the end of WWII, the guiding thoughts behind the American economic statecraft has evolved from liberalism to mercantilism. What President Trump implemented was a kind of mercantilism (economic nationalism), focusing on "America First", launching global trade wars and floating the idea of a complete economic decoupling from China. At the same time, the Trump administration transformed military and strategic power into negotiating leverage in pursuit of wealth, such as renegotiating the "nightmare NAFTA"[32] and turning it into the USMCA (U.S.-Mexico-Canada Agreement). A global trade war was launched against the EU, China, Turkey, Iran, and India. Mercantilist trade policy under President Trump made the United States go after even its own allies in the name of "America First". This was unthinkable when the US economic statecraft was largely influenced by liberalism. The US-China trade war was also essentially a mercantilist war waged by the United States, only later painted as an ideological war by Secretary of State Mike Pompeo.[33] The Biden administration has not changed President Trump's mercantilist trade policy significantly, keeping high tariffs on China's imports and rolling out the CHIPS Act as well as the Inflation Reduction Act, the latter of which triggered complaints from two US allies, the EU and South Korea.

Different from both China and the United States, the EU is practising a defensive economic statecraft, something we may call "geoeconomic statecraft". The goal of the EU's economic statecraft is to achieve "strategic autonomy" and "strategic sovereignty".[34] In this context, the EU is seeking strategic autonomy from China and the United States, introducing an "anti-coercion instrument", seeking to become a leading international advocate of climate change, imposing investments screening, introducing an international procurement instrument, and implementing a series of economic diplomatic initiatives with geopolitical overtones. The EU's economic statecraft paradigm is still liberalism, but the liberal paradigm is shifting from positive reciprocity to negative reciprocity. Soon, there may be a paradigm shift to mercantilism. The EU's wealth-power strategy is based largely upon its identity as a civilian and normative power. Therefore, the EU's wealth-power strategy is focused largely on translating economic strengths to global influence and rule setting.

Although the EU is probably the weakest link in the US-China-EU strategic triangle, it is probably the most strategic one, poised to change the balance of power.

The global context is the first driver of all the major changes in international politics. In the good old days of globalization in the high Victorian days of the mid-19th century and the Reagan-Clinton years of the 1980s–1990s, all the major economies benefited from mutual openness and interdependence, whether it was a liberal capitalist economy or a socialist market economy (like China). Ideological differences were less emphasized and international cooperation was widely embraced. However, when globalization entered into its dark days like now, domestic governance in major economies encountered difficulties and yesterday's partners became scapegoats and rivals. Ideological differences are being reemphasized and economic statecraft is increasingly weaponized.

Overall, the competition of economic statecraft can now be regarded as a paradigm competition. Multiple paradigms coexist, evolve, transform, and influence one another. There is rivalry, competition, and cooperation among them. The United States is now evolving "inter-paradigm", backtracking from liberalism to mercantilism. The EU is evolving "intra-paradigm", still holding onto the liberal paradigm, but facing enormous mercantilist pressure and shifting from liberal geoeconomics to increasingly realist geopolitics.

That is why we see the increasing competition among mercantilism (the United States), weakened liberalism (the EU), and Marxism-developmentalism (China) in the deteriorating global context (Table 6.2). In such a competing triangle, economic statecraft is gaining prominence. The essence of economic statecraft competition is the competition among the United States, the EU, and China in their wealth-power systems and wealth-power strategies.

Table 6.2 The Competing Wealth-Power System and Strategies among the United States, the EU, and China since 2018

	United States	*EU*	*China*
Competing models of economic statecraft	Hegemonic economic statecraft	Geoeconomic statecraft	Developmentalist economic statecraft
Guiding thoughts	Mercantilism	Weakened liberalism	Marxism-developmentalism
Wealth-power system	Liberal democracy	Regulatory liberal democracy	Socialist market economy with Chinese characteristics
Wealth-power strategy	Indo-Pacific strategy, negative reciprocity, trade war	Global Gateway, Green Deal, digital transition, NextGen, strategic autonomy	Belt and Road Initiative, high-level development, dual circulation, domestic consumption

These three wealth-power systems were formed by historical circumstances and are still evolving. In the long run, what dictates the future rise and fall of great powers is, arguably, which wealth-power system is the most viable: the one that represents the most advanced productive forces, the one that keeps up with the times, and the one that best represents the interests of the majority of its people. For the moment, we have at least three coexisting wealth-power systems, and the competitive and cooperative relationship between these three systems will shape the future global political economy.

In the short and medium term, one needs to look to wealth-power strategies: how well do wealth and power work together? And what is the strategy? Because this will determine the fate of the wealth-power system. For example, the socialist bloc represented by the Soviet Union suffered the fate of disintegration because of the failure of its wealth-power strategies. It is still too early to tell whether China represents a more efficient and powerful wealth-power system. The answer depends on the outcome of the long race with other wealth-power systems in their respective wealth-power strategies.

In this context, China, the United States, and the EU are coincidentally pivoting toward a new, inward-looking economic strategy. The United States wants to "Build Back Better", the EU is after "strategic sovereignty", and China is looking to shape a new development paradigm. The common features are that China, the United States, and the EU are giving a bigger role to the government. The fiscal, monetary, industrial, and regulatory policies are being mobilized at the same time. The influence of market-based resource allocation is gradually losing its luster.

The US government has adopted a series of proactive policies and legislation, such as the Buy American Act, the American Rescue Plan, the American Jobs Plan, and the American Families Plan. More resources are now being directed to supporting onshore manufacturing, improving the hard and soft infrastructure, and increasing the potential economic growth rate.

The European Commission under President Von Der Leyen has set the following goals: to digitalize and green the economy within the union, strengthen the resilience and independence of the supply chain, promote multilateral economic diplomacy outside the union, and commit to the WTO as the main channel for multilateral trade.

Similarly, China has set ambitious goals for lifting China towards the top position in the world economy: to achieve high-quality economic development in the new journey towards the second centenary goal; improve total factor productivity through technology advances; improve industries through core technology and disruptive innovation; continue to consolidate its position as the world's top manufacturing powerhouse; and form a regional value chain with China at the core of the Asia-Pacific region through industrial transformation, upgrading, and relocation (similar to Japan's flying geese paradigm in previous times). While balancing the objectives of development and security, China will make use of the resources in "external circulation" and fully leverage its comprehensive strengths as a large economy, market, and procurer to increase the interaction and circulation with the external economy.

Driven by the justifications of their respective agendas, the governments of the three major economies have found a better raison d'être. Competition has also become the most important law of survival. China, the United States, and the EU combined account for two thirds of the world's gross domestic product. But among them, one's gain is increasingly perceived as the loss of the other. This realistic (and pessimistic) turn of economic statecraft thinking is defining the future great power politics.

Into the future, economic statecraft is increasingly used as tools for competition. The Chinese Marxist-developmentalist statecraft is the most efficient due to China's Communist regime, which is good at mobilizing resources for a state goal. However, this wealth-power system may easily get overstretched by exhausting its economic resources. Therefore, China's wealth-power strategy must have a solid adherence to the development dimension. Otherwise, it will soon lose momentum.

The US hegemonic economic statecraft is the most difficult to manage since a hegemon has constant challengers. To maintain its hegemonic position, the hegemon has to woo its allies by giving economic concessions and compete against its main challengers. That means the hegemon has a wealth-power dilemma, leading to overstretching either on the wealth end or on the power end. The inter-paradigm shift of economic statecraft from liberalism to mercantilism is a vivid demonstration of this dilemma.

The EU's geoeconomic statecraft is the most difficult to sustain. The European Commission's self-identity as geopolitical is potentially suicidal. The EU itself is a liberal project, while geopolitics by definition is antiliberal, which emphasizes zero-sum and better fit mercantilist philosophy. Moreover, the EU's pursuit of strategic sovereignty via geopolitics is almost an impossible mission. The Russia-Ukraine war is producing an energy crisis in the EU, moving European industries out of Europe, causing capital flight to the United States, and fanning populist anger as a result of sky-rocketing energy prices.

In the days of competing economic statecrafts, mutual trust is getting scarce. A nation's wealth expansion brings power spillover, which is an important source of strategic anxiety for other nations. This era of statecraft competition will not end until the world economy enters a new phase of productivity growth spurred by a new technological revolution. But from now to the next phase of prosperity, great powers will continue to compete in economic statecrafts. Driven by competing paradigms and wealth-power systems (and wealth-power strategies), the United States, the EU, and China may enter a vicious cycle of competition and confrontation. During this relatively long period of difficult days, the hope lies in people's confidence that the good old days will always come back.

Notes

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Index