GIGA
German Institute for Global and Area Studies
Leibniz-Institut für Globale und Regionale Studien

Global Perspectives on Responsible Economic Statecraft

T4T
Transfer for Transformation

In Brief

Responsible Economic Statecraft conceptualizes state behavior through action, reaction, and interaction:

For more *Responsible Action,* states should strive to *balance seemingly competing goals,* including efficiency, security, social equality, and environmental protection. Trying to achieve one objective, for instance, economic growth, without considering its relation to others, such as resilience, undermines broader goals. *Crafting "Grand Strategies" with clear objectives, synergies, and tools can help break persisting silos across related policy areas.* In case of *administrative constraints, external consultation with diverse stakeholders* can be leveraged, bringing in interdisciplinary expertise and recommendations.

For more *Responsible Reaction,* states will have to *shift the perception that their strategies are primarily developed in response to adversaries*. To this end, states should emphasize *proactive, long-term policies in line with global goals and tailored to the needs of partner countries and their own. Updated communication strategies showcasing successful joint projects* can further increase their appeal as potential cooperation partners. To prevent a "race to the bottom" where great power competition leads to excessive securitization of economic relations, states should *adapt the rules of the global economy to target specific undesirable actions* rather than particular countries.

For more *Responsible Interaction*, states should *consider the potential adverse consequences the application of economic statecraft can have on other countries and across sectors*. To mitigate these effects, they should establish mechanisms for *forecasting, impact assessment, and adaptation* in close cooperation with affected stakeholders. *Providing space for different perspectives across cooperation settings and addressing internal challenges can reduce accusations of double standards* where countries are criticized for not applying their stated values — including in the areas of environmental protection or human rights — consistently themselves. This can help *build trust and reinforce the rules-based global order*.

Content

Global Perspectives on Responsible Economic Statecraft 5

Responsible Action 9

Responsible Reaction 15

Responsible Interaction 21

What's Next? 27

The Risks of Policy Overconfidence in a World of Weaponized Interdependence,
Prof. Abraham Newman 10

Technocratic (De-)Siloization in Global Economic Governance,
Jaša Veselinovič and Nora Kürzdörfer 11

Economic Statecraft: The Power of the Global South,
Dr. Amrita Narlikar 12

Mainstreaming International Trade Ethics through Academic Curricula Reforms,
Prof. Kenneth Amaeshi 13

Aligning Security and Prosperity to Win the Systemic Competition,
Britta Jacob 17

The Link Between Economic Statecraft and Social Inequality,
Dr. Elisabeth Winter 18

Addressing Implications of the EU's Geoeconomic Turn for Developing Countries,
Dr. Clara Weinhardt 19

Economic Statecraft by Major Powers Weakens Most Developing Countries,
Hung Tran 22

Advancing Humanitarianism Through Sanctions Refinement,
Prof. George A. Lopez and Prof. Alistair Millar 23

Responsible Economic Statecraft: An ASEAN Perspective,
Prof. Helen E. S. Nesadurai 25

Knowledge Exchange with Global Reach

The GIGA is an independent social science research institute based in Hamburg, Germany, engaged in the analysis of political, social, and economic developments in Africa, Asia, Latin America, the Middle East, and global issues more broadly. Research-based policy exchange and knowledge transfer are the cornerstone of the institute's mandate. Transfer for Transformation (T4T), the GIGA's knowledge exchange project funded by the Leibniz Competition, facilitates Co-LABorate, a platform for distinguished international experts and diverse stakeholders to jointly identify innovative and viable solutions to some of the most pressing global issues. In its first edition, kindly supported by the Ministry of Foreign Affairs of the Netherlands, preeminent thinkers from various regions of the world exchanged "Global Perspectives on Responsible Economic Statecraft."

Global Perspectives on Responsible Economic Statecraft

Organizing a knowledge exchange lab on Responsible Economic Statecraft inevitably raised the recurring question: "What exactly is *Responsible Economic Statecraft*?" To explore this complex issue, we convened over 30 experts from across the globe in May 2024. Through five parallel breakout sessions, academics, policymakers, and think tankers collaboratively identified key challenges and proposed solutions for the responsible application of economic statecraft.

Why Economic Statecraft?

Rising geopolitical tensions and increased state involvement in the global economy have brought terms like "economic statecraft," "geoeconomics," and "economic security" to the forefront of political debates. These terms are often used interchangeably and sometimes lack clear definitions. We choose "economic statecraft" as the broadest term, encompassing both geoeconomics – the use of economic strategies for geopolitical influence – and economic security, which focuses on protecting economies from external threats.[1]

We follow David A. Baldwin's definition: "Economic statecraft is the use of economic means in pursuit of foreign policy goals. As with other foreign policy tools, economic statecraft can be used to make either threats or promises and to either punish or reward. And […] success is often difficult to evaluate."[2] This definition also implies the reverse, where foreign policy can serve economic objectives.

Why Responsibility?

Building on insights from our expert group, we explore the concept of economic statecraft through the lens of "responsibility". While most states claim their use of geoeconomic tools is defensive, aimed at preventing or responding to foreign interference and economic coercion, visions of economic statecraft promoting international collaboration and mutual benefits are less common. As Baldwin's definition suggests, economic statecraft is neither inherently good nor bad, an important nuance in the ongoing debate.

This report offers a framework for Responsible Economic Statecraft, structured around three elements: **action, reaction, and interaction**. While reacting to external pressures or threats is key to protecting national and allied interests, in an era of cross-border interdependence, mere reaction is insufficient. States also bear responsibility for contributing to global stability and prosperity beyond their territory. Reaction, hence, needs to be complemented by action in the form of strategic and forward-looking initiatives. As global challenges continue to evolve, passivity or inertia can exacerbate risks and undermine collective progress. At the same time, tools of economic statecraft should include a measure of restraint to prevent second-order effects from overly forceful or hasty application. We thus introduce interaction as the third element in our framework. Decisions made and tools implemented by one state can have far-reaching impacts across policy areas, global markets, and economies of other states. Consequently, responsibility requires not only acting and reacting but also understanding policies' broader effects. Effective interaction – through stakeholder engagement and cooperation – is essential to mitigate adverse consequences and foster mutual benefits. This includes a commitment to achieve shared global goals and jointly uphold the rules-based international order.

Co-LABorative Insights

In line with our recommendation to enhance interaction, we are grateful to all contributors to Co-LABorate Issue 1 for providing expertise and perspectives from various regions of the world. Our recommendations often focus on policies from the US, EU, and China – not to single out these actors, but because implementing economic statecraft requires significant financial and political resources, which are often wielded by powerful and rich countries. By examining their strategies, we aim to understand how the interests of most countries can be better addressed in a shifting geopolitical landscape.

We thank our global experts for their contributions, insights, and personal quotes shared during our knowledge exchange lab. From these discussions, we distilled six key problems and solutions, organized around the themes of action, reaction, and interaction, forming the basis of our framework for Responsible Economic Statecraft.[3] We extend our gratitude to all Co-LABorators listed on page 7 who brought us one step closer to answering not only "What exactly is Responsible Economic Statecraft?" but also "How can it be achieved?"

Manifesting action, reaction, and interaction as central elements of Responsible Economic Statecraft may ring a bell. In 2023, the European Union issued a strategy centered around promotion, protection, and partnerships to safeguard its economic security. The increase of own industrial capacities, the reduction of asymmetric dependencies, and cooperation with reliable partners can also be found in strategies of other countries, including China, Japan, and the United States. We thus do not need to reinvent the wheel. All the while, we think that the active component of economic statecraft deserves more emphasis. Hence, we build on the various approaches put forward by different actors and explain what kind of action, reaction, and interaction is needed to find pathways for Responsible Economic Statecraft.[4]

1 See, e.g., **Edward N. Luttwak**, "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce," *The National Interest*, no. 20 (1990): 17–23; **Jean Pisani-Ferry, Beatrice Weder di Mauro**, and **Jeromin Zettelmeyer**, "How to De-Risk: European Economic Security in a World of Interdependence," *Bruegel*, July 3, 2024, https://www.bruegel.org/policy-brief/how-de-risk-european-economic-security-world-interdependence

2 **David A. Baldwin**, "Economic Statecraft," *Encyclopaedia Britannica*, January 21, 2016, https://www.britannica.com/topic/economic-statecraft

3 We complement the insights presented in this report with footnotes to related works, offering suggestions for complementary reading.

4 **European Commission**, *Joint Communication to the European Parliament and the Council: The EU's Economic Security Strategy*, June 20, 2023, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023JC0020&qid=1687525961309; **Tobias Gehrke** and **Filip Medunić**, "Fortune Favours the Bold: Upgrading the EU's Geoeconomic Strategy," *European Council on Foreign Relations (ECFR),* June 27, 2024, https://ecfr.eu/publication/fortune-favours-the-bold-upgrading-the-eus-geoeconomic-strategy/#where-the-economic-security-agenda-falls-short

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Action, Reaction, and Interaction for Responsible Economic Statecraft

We posit that the extent to which economic statecraft can be classified as "responsible" depends on how it is applied. From our knowledge exchange lab held in May 2024, we identified six key problems and corresponding solutions, all centered around promoting responsible action, reaction, and interaction.

Responsible Action

Problem 1:
Competing Goals and Trade-Offs

Russia's full-scale invasion of Ukraine marked a pivotal moment in accelerating discussions of economic security, especially in Europe. The event highlighted that economic interdependence does not guarantee political stability and can be weaponized by states controlling key resources. As a result, geoeconomic tools such as sanctions, subsidies, and industrial planning have taken center stage in policy agendas issued around the globe.[5] These tools are designed to safeguard national interests, manage crises, and address market failures. However, critics argue that their increased use distorts market dynamics and undermines long-term productivity, as liberalized trade remains crucial for efficiency, development, and avoiding economic isolationism. They also question the effectiveness of economic tools in achieving political objectives.

There is a persistent lack of instruments that effectively operate at the intersection of various policy areas. The main challenge is to develop tools that balance the seemingly competing goals of economic security, market efficiency, social equality, and sustainability. Achieving this balance requires recognizing that these objectives can reinforce each other rather than conflict. To manage the risks of economic interdependence while preserving its benefits, it is crucial to align short-term interventions with long-term strategies that promote stability and resilience.[6] Furthermore, economic security strategies must be carefully designed to avoid triggering protectionism, which could undermine the multilateral cooperation needed to tackle broader global challenges. Achieving this balance depends on ensuring that new and existing instruments work cohesively across multiple policy areas.

"We may need to pay a premium to become more resilient."

Dr. Tim Rühlig,
European Union Institute for Security Studies

The Risks of Policy Overconfidence in a World of Weaponized Interdependence

By Prof. Abraham Newman, Georgetown University

"Weaponized Interdependence… It's a beautiful thing." - Senior US Government Official

When I read the above quote in Chris Miller's book Chip Wars, my heart skipped a beat.[7] It is rare for an academic concept to filter so directly into the policy process, but I feared that the policy community had misinterpreted a key implication of my work with Henry Farrell. In our original article, "Weaponized Interdependence: How Global Economic Networks Shape Economic Coercion," and in our book, "Underground Empire: How America Weaponized the World Economy," we explain how the structure of the global economy offers certain states new tools to pressure their adversaries.[8] Many of the core economic networks (e.g., for information, finance, and production) that underpin globalization concentrate economic activity around a few firms. Governments use these chokepoints to monitor and surveille their adversaries or limit their access to these vital conduits of the global economy.

When we are asked about the above quote, interviewers often focus on how our work has helped governments develop the tools of weaponized interdependence. While our work has no doubt brought visibility to new forms of economic coercion, as our book explains, governments and the US government, in particular, began using and developing these tools long before we published our work. Instead, what I think is important is giving a name to such actions so that academics and policymakers can have a more transparent conversation about their use. Once things are named, then actors can also demand accountability. In that way, we hope that by bringing visibility to the issue, our work can spark a more nuanced conversation on the responsible use of these new economic weapons.

And here is the more pressing issue that I have with the above quote. The senior official seems to be suggesting that in the case of Huawei, China did not (or was unable to) respond to US pressure. As Miller concludes, the US "has escalation dominance when it comes to severing supply chains." Given the events of the interceding years (e.g., Chinese efforts at self-sufficiency or Russian efforts to circumvent supply chain restrictions), it is much less clear as to the empirical validity of the claim. Analytically, policymakers must consider a broad range of possible responses that states may take when they are targeted by economic coercion. Even if China is unable to directly replace US technology, that doesn't mean that China is not responding in other domains. And it would be premature to suggest that China's (or any other state's) ability (or inability) to respond is uniform across all sectors or global economic networks. If policymakers adopt a view that there are no costs to using these tools, we could quickly find ourselves in a world of miscalculations and unintended escalation.

A core objective that Henry Farrell and I had in writing our book was to bring attention to these risks and suggest a path forward. We find ourselves in a moment that has many parallels to the nuclear age. Policymakers have access to a set of powerful new weapons. Yet, they lack a full understanding of how their use might upend global politics. While one should not overclaim the analogy (these weapons cannot destroy cities), we need to urgently develop the language and institutions to guarantee their responsible use and protect the most valuable parts of globalization.

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5 **Henry Farrell** and **Abraham L. Newman**, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion," *International Security* 44, no. 1 (2019): 42–79, https://doi.org/10.1162/isec_a_00351; **Stefan Meister** and **Wilfried Jilge**, "After Ostpolitik – A New Russia and Eastern Europe Policy Based on Lessons from the Past," *German Council on Foreign Relations (DGAP)*, April 28, 2023, https://dgap.org/en/research/publications/after-ostpolitik-0

6 **Julia Grauvogel et al.**, "International Sanctions Termination Dataset: Visualizations," *T4T Visualizations*, GIGA, 2024, https://www.giga-hamburg.de/de/publikationen/beitraege/international-sanctions-termination-dataset-visualizations

7 **Chris Miller**, *Chip War: The Fight for the World's Most Critical Technology* (New York: Simon & Schuster, 2022).

8 **Henry Farrell** and **Abraham Newman**, *Underground Empire: How America Weaponized the World Economy* (New York: Random House, 2023); Henry Farrell and Abraham L. Newman, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion" (see note 5).

Problem 2:
Policy Silos and Administrative Constraints

The persistence of policy silos complicates efforts to balance competing goals. Global economic governance frameworks and the ministerial structures of many countries were initially designed to promote market liberalization and integration, separating economic and political issues by assigning them to different institutions and departments. This division was once valued for enhancing outcome legitimacy and streamlining processes. However, it now hinders the comprehensive, interdisciplinary collaboration needed to address the intersections of trade, finance, and geopolitics. Today, the growing connection between these spheres is more frequently recognized, with analysts and policymakers advocating for breaking down these silos to create more coherent and integrated strategies.[9]

Institutions are notoriously resistant to change, and the compartmentalization of economic, foreign, and security policies remains the norm in most organizations and governments.[10] Bureaucrats often face administrative constraints such as limited time, resources, and institutional support, making it difficult to address complex challenges with nuanced solutions. As a result, decisions in one area, like economic policy, may be made without fully considering the broader geopolitical context, leading to unintended consequences across multiple policy domains. This lack of synchrony is not just an internal issue for bureaucracies. Private companies, key players in geoeconomics, are also heavily influenced by government decisions on trade, investment, or intellectual property. During times of geopolitical unrest, it becomes increasingly difficult for businesses to plan and operate in alignment with broader strategic and foreign policy goals, which can appear ad-hoc and case-specific.[11]

"We should not perpetuate the myth of the separation of the economic versus the political processes."

Dr. Mohamad Forough,
Erasmus University Rotterdam

Technocratic (De-)Siloization in Global Economic Governance[12]

By Jaša Veselinovič, Vrije Universiteit Amsterdam and Nora Kürzdörfer, GIGA

With geoeconomics becoming the increasingly dominant mode of global politics, it is not only state actors that are forced to grapple with the requirements of economic statecraft. For organizations that have been set up as part and promoters of the Liberal International Order like the European Union or the World Trade Organization, the reality of economic power being leveraged for (geo)political goals is particularly challenging. Commitment to a liberal worldview that depoliticizes free trade and institutionally separates it from more straightforwardly "political" concerns is potentially a barrier to engaging in Responsible Economic Statecraft. Interestingly, while many policymakers recognize this "technocratic siloization" as a hurdle, there are differences in how attempts at overcoming this have been made.

As part of its "geoeconomic turn," the EU has been engaging during the past couple of years in the relative de-siloization of policymaking. Guided by the slogan of pursuing "open strategic autonomy," it issued its first strategy for economic security in 2023. The Directorate General Trade, led by the new post of Chief Trade Enforcement Officer, set up a number of "geoeconomic units," developed a range of geoeconomic policy tools like the Anti-Coercion Instrument, and strengthened its inter- and intra-institutional working relationships and coordination. Economic statecraft also requires different types of policy knowledge and constant exchange with corporate actors. For this purpose, the European Commission introduced several expert groups on geoeconomics, bringing together the private sector and specialists from Member States. Furthermore, policymakers in Brussels and national capitals have more proactively engaged in convening exercises, often organized by think tanks. With geoeconomic policymaking becoming increasingly dependent on the knowledge and cooperation of corporate actors, discrete convening by think tanks has become an important avenue for integrating EU trade and foreign policy.

Unlike the EU, the WTO was not designed to govern multiple policy areas but solely to establish the rules and standards of global trade. As a result, technocratic siloization—where trade is treated separately from other policy domains—is embedded in the organization's structure. The intersection of trade and security within the WTO emerges primarily through the increasing use of GATT Article XXI, which permits members to deviate from their trade obligations on national security grounds. In recent years, some countries have broadened the definition of "security" to justify protectionist actions, taking advantage of the lack of judicial oversight due to the deadlock in the organization's appellate function. However, legitimate security concerns also lack formal venues for discussion within the WTO.[13] At the 2024 Public Forum, the key outreach event, several panels explored the future of trade in a geopoliticized world, highlighting the need for a broader conversation.[14] Like the EU, the WTO could build on this momentum by seeking input from experts across disciplines and creating a dedicated space for members to develop a standard for Responsible Economic Statecraft collaboratively. This effort, too, would require breaking down the silos between trade and security, fostering a more integrated approach to global economic governance.

9 See, e.g., **Katrin Kamin et al.**, "Instruments of a Strategic Foreign Economic Policy," *Kiel Institute for the World Economy (IfW)*, November 2021, https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/6077a6f1-eefa-45d1-9613-7b44556c7c24-Instruments_of_a_Strategic_Foreign_Economic_Policy.pdf; **Sonsoles Garcia et al.**, "Trade, Climate, Finance: Breaking Silos for Ambitious and Inclusive Action," *World Economic Forum*, January 2024, https://www.weforum.org/agenda/2024/01/trade-climate-finance-breaking-silos-ambitious-inclusive-action/

10 **Douglas North**, *Institutions, Institutional Change, and Economic Performance* (Cambridge: Cambridge University Press, 1990).

11 **Lucas Guttenberg**, **Nils Redeker**, and **Sander Tordoir**, "Warum der Draghi-Bericht eine Riesenchance für Deutschland ist," *Handelsblatt*, September 17, 2024, https://www.handelsblatt.com/meinung/gastbeitraege/gastkommentar-warum-der-draghi-bericht-eine-riesenchance-fuer-deutschland-ist/100069785.html; **Marie Hasdenteufel**, **Daniela Iller**, and **Sidonie Wetzig**, "This is what it takes," *International Politics and Society Journal*, September 12, 2024, https://www.ips-journal.eu/topics/european-integration/this-is-what-it-takes-7769/

12 This contribution draws on **Jaša Veselinovič**, "A Knowledge Regime Fit for Geoeconomics? The Changing Production, Consumption and Practices of Policy Knowledge in the EU," *European Foreign Affairs Review* 29, no. 2 (2024), https://doi.org/10.54648/eerr2024008

13 **Amrita Narlikar**, "How Not to Negotiate: The Case of Trade Multilateralism," *International Affairs* 98, no. 5 (2022): 1553–1573, https://doi.org/10.1093/ia/iiac063; **Mona Paulsen**, "Let's Agree to Disagree: A Strategy for Trade-Security," *Journal of International Economic Law* 25, no. 4 (2022): 527–547, https://doi.org/10.1093/jiel/jgac048

14 **World Trade Organization**, WTO Public Forum 2024, *World Trade Organization*, https://www.wto.org/english/forums_e/public_forum24_e/public_forum24_e.htm

Solution 1: Crafting "Grand Strategies"

States are responsible for achieving a broad range of goals, from ensuring security and economic efficiency to promoting sustainability and social equality. Instead of addressing these objectives separately, there is a pressing need to integrate them into a cohesive, forward-looking approach. While policies like diversifying supply chains, transitioning to green industries, or expanding social safety nets may seem costly in the short term, they are vital for maintaining welfare in the medium to long term. Economic efficiency cannot be preserved if geopolitical tensions rise or if its environmental and social foundations weaken.[15]

For example, the US's Inflation Reduction Act and the EU's Green Deal seek to enhance both economic and environmental resilience.[16] Importantly, to achieve objectives at the intersection of two or more distinct, yet related policy areas, it is crucial to create new instruments tailored to address both, rather than relying on those designed for just one.[17] States would benefit from crafting "Grand Strategies" that clearly define goals, identify potential synergies, and outline the tools available existing or new — needed to implement economic statecraft. A one-size-fits-all approach is inadequate, and nuance remains key to avoiding a race to the bottom. Strategies should, for instance, differentiate between genuine security threats and issues related to market competition. While dependence on semiconductor supplies creates vulnerabilities, this is less relevant for simple consumer goods. A two-tier system of economic engagement could address this: one layer would protect against the weaponization of trade — potentially requiring a reallocation of government resources to mitigate any negative effects — while the other would continue to leverage efficiency gains. Finally, countries should engage with each other's strategies to balance national interests with collective global goals.

> **"We need to codify genuine resilience standards for specific supply chains in our system of global trade."**
>
> Dr. Tobias Gehrke, ECFR

Economic Statecraft: The Power of the Global South[18]

By Dr. Amrita Narlikar, Observer Research Foundation

While the field of geoeconomics has been rapidly expanding, most studies have tended to focus on major states, especially Great Powers. If actors from the Global South feature in these analyses at all, they do so usually in their roles as direct targets or indirect victims of economic statecraft. Perhaps this bias in the literature is not surprising. Especially in the deeply hierarchical world of weaponized interdependence, developing countries are structurally disadvantaged. Reasons of geography, technological development, and domestic capacity make it hard for them to occupy key nodes in global production networks; high barriers to entry reinforce existing monopolies, depriving them of alternative trading partners; the limitations of existing multilateral institutions to govern this brave new world exposes the Global South even more to the vagaries of power. Look closer, however, and it is possible to identify several strategies that parts of the Global South have available to them, not only to address these challenges in innovative ways, but also to convert them into opportunities. I highlight three below: hedging, new types of alliances, and narratives.

First, amidst multipolar competition and a scramble for spheres of influence among the Great Powers, hedging can offer important gains for some developing countries. India provides a powerful illustration of this strategy.[19] On the one hand, it has maintained its strategic partnership with Russia and even increased its oil imports from the country (despite pressures from the West). On the other hand, India has deepened its strategic cooperation with key Western partners such as France and the US (including enhanced defense cooperation via trade, technology sharing, and co-production). Domestic infrastructure development together with streamlining and updating of its tax regime form a part of India's strategy to develop into an attractive manufacturing hub that serves as a viable and reliable alternative to China. For countries like the US that are serious about "friendshoring" this could be a game-changer, given especially the relative closeness of existing alternatives (such as Vietnam) to China. Japan too has successfully managed a tough balancing act between China and the United States. While hedging offers several advantages, this strategy has an important limitation. Even when played with the greatest diplomatic skill, it is unlikely to work in the medium-to-long run if confrontation among the major powers increases. For instance, if the US attempts to tighten export controls on Chinese chipmakers continue, even trusted allies may find their own trade with China curtailed. In such a scenario, Southern players will have to choose sides.

The second strategy – of alliances and coalitions – will thus matter enormously in a world of weaponized interdependence.[20] But the alignments driven by geoeconomic imperatives will be of a different ilk from those of the Cold War, and the Global South can play a major role in shaping them. Some groups will be within the Global South, representing collective efforts to develop alternative hubs that challenge Western monopolies. Plans by the BRICS to develop an alternative to the SWIFT payment system are an example of this. But even more important will be coalitions that transcend the North-South divide, and involve the teaming up of like-minded states from the Global South with a Great Power that occupies a network hub (for instance, bandwagoning with the US or China, or balancing with a threshold hub power e.g., the EU). The EU has the potential to emerge as a hub for critical technologies, or for setting norms on digital governance. By improving the domestic competitiveness of its firms in strategically important sectors, and simultaneously investing in connectivity projects abroad, the EU and its select partners in the Global South could diversify and secure their realigned supply chains. Consider the geographical distribution of critical natural resources (such as lithium for EVs) and the jurisdictions that they fall under, and the advantages of allying with regional partners becomes even more obvious.

Third, while the role of network structures, domestic institutions, and norms in determining the ability and willingness of powerful actors to use or misuse economic statecraft has been the subject of scholarly analysis, the importance of narratives in this process has still not received enough attention. In fact, the (true or false) causal stories that actors tell themselves can have a big influence on when, why, and how actors deploy various policy instruments for geoeconomic purposes. And narratives are a useful source of agency, especially for members of the Global South. For instance, China's BRI narrative has been that the initiative stands for the cause of international cooperation and development. But even with a first-mover advantage and despite controlling a hub of connectivity projects, China has encountered serious limits to its BRI via the power of narratives. Critical counter-narratives – many emanating from the Global South – have emerged over the years, which see the BRI as a new form of colonialism, highlight its deleterious environmental impact, and flag up its potential threat to national security. Cancellation of some BRI projects has followed, and caution towards Chinese investment has grown. Through smart counter-narratives, weaker members can thus sway the balance of power away from one hub towards another.

Economic statecraft is not just a preserve of the rich. Scholars and practitioners will be well-served to study, and factor in, how (and just how swiftly) some countries from the Global South are adapting to the changing opportunities and challenges of today, if they want to build more dynamic geoeconomic models and strategies. A better understanding of the options and priorities – and partnership potential – of countries from the Global South is also key for questions relating to the legitimacy and ethics of economic statecraft, and a corresponding updating of multilateral rules.

15 **Nora Kürzdörfer**, "Dystopische Visionen für eine utopische Zukunft," *Internationale Politik*, Oktober 28, 2024, https://internationalepolitik.de/de/dystopische-visionen-fuer-eine-utopische-zukunft

16 **Cordelia Buchanan Ponczek**, "US-EU climate change industrial policy: Pulling in different directions for cooperation, competition, and compromise," *FIIA Briefing Paper 368*, FIIA, August 31, 2023; https://www.fiia.fi/sv/publikation/us-eu-climate-change-industrial-policy

17 **Katrin Kamin et al.**, "Instruments of a Strategic Foreign Economic Policy" (see note 9); **Jan Tinbergen**, *On the Theory of Economic Policy* (Amsterdam: North-Holland, 1952).

18 This contribution draws on **Amrita Narlikar**, "Must the Weak Suffer What They Must? The Global South in a World of Weaponized Interdependence," in *The Uses and Abuses of Weaponized Interdependence*, Daniel Drezner, Henry Farrell, and Abraham Newman (editors) (Washington, DC: Brookings Institution, 2021); and **Amrita Narlikar**, *Poverty Narratives and Power Paradoxes in International Trade Negotiations and Beyond* (Cambridge: Cambridge University Press, 2020).

19 **Aruna Narlikar**, **Amitabh Mattoo**, and **Amrita Narlikar**, *Strategic Choices, Ethical Dilemmas: Stories from the Mahabharat* (Gurugram: Penguin Random House India Private Limited, 2023).

20 **Daniel W. Drezner** and **Amrita Narlikar**, "International Relations: The 'How Not To' Guide," *International Affairs* 98, no. 5 (2022): 1499–1513, https://doi.org/10.1093/ia/iiac190

Solution 2:
Break the Silos from the Outside

Turning a Grand Strategy for Responsible Economic Statecraft into action is far more challenging than crafting it. As with any institutional reform, breaking down silos between organizational departments is a lengthy process. In the meantime, bureaucrats and policymakers can deepen their collaboration with civil society, the private sector, academia, and think tanks. External actors can provide additional insights, especially when resources are limited, or internal expertise needs to be complemented. To avoid the risk of echo chambers, it is crucial to consult a diverse range of stakeholders and seek out perspectives from unfamiliar sources, fostering more innovative and well-rounded solutions.

Engaging with different stakeholders offers distinct benefits. Consulting civil society is indispensable for understanding the potential negative spill-over effects of economic policy on vulnerable parts of the population and the environment. Although often a sidenote in discussions of economic statecraft, the private sector plays a central role, as companies must comply with rules and standards. To better align commercial interests with broader foreign policy objectives, strategies should be developed collaboratively, identifying areas where governments can offer consistent and reliable support and where industries require modernization.[21] Finally, researchers and academics can offer detailed analyses of previous and current geopolitical and geoeconomic challenges, filling gaps where bureaucrats face constraints. However, to provide meaningful advice, experts must also commit to breaking the silos within their respective disciplines and incorporate knowledge beyond their fields.[22] Moreover, policy advice should be evidence-based, clearly articulated, and actionable, meeting the practical needs of decision-makers. Balancing long-term goals like resilience, competitiveness, equality, and sustainability, is possible only if silos between sectors, policies, and disciplines are dismantled.

"The responsible use of economic statecraft tools requires more resources and interagency cooperation."

Dr. Julia Grauvogel, GIGA

Mainstreaming International Trade Ethics through Academic Curricula Reforms

By Prof. Kenneth Amaeshi,
European University Institute

Sustainable development, which meets the needs of the present generation without compromising the ability of future ones to fulfill theirs, has become the yardstick to gauge responsible behavior in society. It covers environmental, social, and governance issues, which business leaders, managers, regulators, and policymakers are required to be abreast of. As such, academic institutions — particularly universities and business schools —are challenged to upgrade their curricula to match current demands and needs. This is at the heart of UNESCO's "Education for Sustainable Development."[23]

It is instructive to note that the quest for sustainable development is a normative agenda with implications for trade diplomacy. Although there is a growing interest in the interface between trade and sustainable development, trade is still largely seen as a purely economic, diplomatic, and legal affair. In other words, it is mainly about rules, power, and benefits. Mostly, governments set the rules, and private actors are meant to obey. Framed in this manner, trade becomes a matter of technicality where technocratic expertise reigns supreme. However, such emphasis and framing of trade occlude the ethical and normative foundations of trade as part of the broader market system. Ideally, markets can be loosely described as institutions for a free, efficient, transparent, competitive, and fair exchange of goods and services to meet human needs. In other words, the institutional purpose of markets is arguably not profit but the creation and exchange of "mutual value." In this regard, if markets are inherently normative – i.e., a practice founded on some norms (freedom, trust, mutual benefits, equity, etc.), it implies that market agents should abide by these norms. In this case, the morality of the market is not something external to it and voluntary, as mainstream thinking would assume, but rather something inherently internal and intrinsic to it. Framed as such, market agents (including regulators and policymakers) have a moral responsibility and duty to uphold the moral character of the market.

Notwithstanding, societal mores inform market rules and norms, as markets cannot exist outside society. In that sense, market morality draws from societal morality. Since the awareness of the moral responsibility of market agents is not commonplace, it is essential that businesspeople, regulators, and policymakers are trained to appreciate their moral responsibility and be socialized into it, especially in relation to trade. This will have implications for the curricula of business schools, schools of economics, and schools of public policy. It is essential that ethics is positioned as a core module in the training of business leaders, economists, policymakers, and trade experts. A good knowledge of ethics would help them further appreciate the role of trade in creating better and more inclusive economies that work for all, as well as how to realize this aspiration in practice.

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21 **Lars Gjesivk**, "Private Infrastructure in Weaponized Interdependence," *Review of International Political Economy* 30, no. 2 (2023), https://doi.org/10.1080/09692290.2022.2069145; **Mario Draghi**, "The Future of European Competitiveness," *European Commission*, September 2024, https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf

22 **Amrita Narlikar**, "How Not to Negotiate: The Case of Trade Multilateralism" (see note 13).

23 **UNESCO**, *Education for sustainable development*, 2024, https://www.unesco.org/en/sustainable-development/education

Responsible Reaction

Problem 3: Airports, Lectures, and Local Concerns

Economic security strategies are often justified as necessary reactions to adversarial others. In some cases, including the sanctions against Russia in response to its full-scale invasion of Ukraine, this framing is appropriate. In others, such as in economic connectivity initiatives, a focus on reaction is less productive. Programs like the EU's "Global Gateway" or the G7's "Build Back Better World" aim to deliver high-quality infrastructure projects but are often viewed as late responses to China's "Belt and Road Initiative" (BRI). The common saying "China offers airports, while the West offers lectures," highlights the perception that China provides investments free from moral imperatives and bureaucratic hurdles, making its offerings more attractive.[24] This does not imply that the BRI is without controversy as concerns about environmental, labor, and governance standards remain valid.[25] Nor does it suggest that connectivity strategies lack objectives beyond counterbalancing rivals.

Yet, when policies by countries with the resources to invest or offer economic development cooperation are primarily viewed as reactive rather than as independent initiatives, their underlying quality or intent can become less apparent. There is the risk that competition overshadows the specific needs and goals of the countries intended to receive support. Such a dynamic can erode trust, as the focus shifts from building genuine partnerships to maintaining influence. When the debate revolves solely around who can respond faster, it risks triggering a race to the bottom, where the quality of investment and long-term benefits for local communities are sacrificed in favor of short-term economic influence.

"Geopolitical competition through foreign development financing, trade agreements, and economic connectivity strategies is here to stay."

Eduardo Valencia, GIGA

"We cannot think about responsible actions without recognizing that there is still a huge difference among nations regarding basic economic conditions and political power. In that sense, reciprocity and respect for sovereignty are key in pursuing cooperation and multilateralism."

Dr. Tomás Marques, GIGA

24 See, e.g., **Alan Beattie**, "How the US and Europe Can Beat China's Belt and Road," *Financial Times*, June 29, 2023, https://www.ft.com/content/2a0814cb-afdd-4c9a-8f5e-09f07ceb3d64

25 See, e.g., **Stuart Heaver**, "Sri Lanka's Chinese-built port city stirs white elephant fears," *Aljazeera*, February 17, 2023, https://www.aljazeera.com/economy/2023/2/17/sri-lankas-chinese-built-port-city-stirs-white-elephant-fears; **Christina Lu**, "China's Belt and Road to Nowhere," *Foreign Policy*, February 13, 2023, https://foreignpolicy.com/2023/02/13/china-belt-and-road-initiative-infrastructure-development-geopolitics/

Problem 4: Fueling a Race to the Bottom

Economic statecraft has gained prominence in many of the world's largest economies, with governments often framing their actions as reactions to the policies issued by adversarial states. This pattern of "naming, shaming, and retaliation" is characteristic of US-Chinese competition but also extends to the EU, which positions many of its measures as countering China. At the same time, all parties employ similar tactics: reducing dependencies on opponents, strengthening domestic capacities, and seeking alternative partners — each presented as necessary responses to rivals' strategies.[26] Such tit-for-tat rhetoric not only risks fueling a race to the bottom but also overlooking the positive, cooperative potential of economic statecraft.[27]

Smaller or less developed countries, which depend on a stable trading environment, stand to lose the most as great power rivalry disrupts the institutions they rely on. As a result, they are increasingly skeptical of reactive approaches, particularly those that undermine the global trade order, such as the use of domestic industrial policies or the US-induced impasse of the World Trade Organization's (WTO) appellate body.[28] The former would benefit from more forward-looking communication, highlighting opportunities for cooperation with third countries. The latter remains contentious and illustrates that responsible economic statecraft also requires some measure of restraint, ensuring alignment with collective goals rather than purely national interest.[29] From the perspective of many countries, there is a risk that geopolitical antagonism overshadows genuine concern for economic security, environmental sustainability, or social welfare. If this perception takes hold, states may lose credibility and alienate potential partners.

"Economic statecraft can achieve long-term benefits by creating the right regulatory atmosphere that encourages resilience of supply-chains as well as reliability of end products. Well-designed regulations can contribute to positive results for governments, private companies, as well as the local communities, when projects are designed to be compliant."

Cordelia Buchanan Ponczek, FIIA

Aligning Security and Prosperity to Win the Systemic Competition — A Private Sector Perspective

By Britta Jacob,
Democratic Strategy Initiative,
Zentrum Liberale Moderne (formerly Bayer AG)

Globalization as we know it is over. Geopolitical shifts are affecting globally operating businesses and their supply chains. The risks of an increasingly fragmented global order need to be mitigated, both by governments and by businesses. In times of systemic competition, economic statecraft allows for an effective toolbox when it comes to levelling the playing field and preventing economic coercion. Yet, it needs to be embedded in an overall strategy for aligning the sources of our security with the sources of our prosperity. Boosting military defense capabilities and economic prosperity while mastering the ecological and technological transition and strengthening societal cohesion have to go hand in hand, if we want our democracies to not only survive but thrive.

At the moment, governments are primarily focusing on the "protecting" pillar of the EU's "Economic Security Strategy" with measures like investment screening and export controls. The "promoting" and "partnering" pillars, however, are equally important, if we want to leverage our economic power to shape the emerging international order according to our interests and values. Here's how:

1. We need a strategic EU industrial policy that contains a competitiveness check for all legislative proposals and decision-making, with the aim of increasing competitiveness and ensuring sustainable growth.
2. We need more state incentives and a suitable regulatory framework to promote strategically important industries and innovative technologies like biotechnology. For this, we also need more venture capital and a less risk-averse investment climate.
3. We need better access to and exchange of data, which is especially important for the healthcare sector. Better protection of intellectual property rights is equally important if we want to be successful in research and development of innovative therapies, e.g., for treating rare diseases.
4. Permit issuance for industrial operations needs to be faster and less complicated. In the global competition for power and technology leadership, we cannot afford to be slow and bureaucratic.
5. In order to de-risk from autocratic regimes, businesses need support to diversify their supply chains and access new markets. Therefore, the EU needs to prioritize strategic Free Trade Agreements, e.g., with MERCOSUR, Australia, or the U.S., and come up with pragmatic solutions to unlock possible impasses in negotiations.

Responsible Economic Statecraft is vital in an increasingly challenging geopolitical landscape. Yet, it needs to be part of an overarching strategy across different policy fields, and it requires the close collaboration of relevant stakeholders from politics, business, and civil society.

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26 **Elvire Fabry et al.**, "Shields Up: How China, Europe, Japan, and the United States Shape the World through Economic Security," *Institut Jacques Delors*, February 2024, https://institutdelors.eu/wp-content/uploads/2024/02/PP298_Comparing-_Economic_Security_Strategies_Fabry_Kohler-Suzuk_Lamy_Sibona_EN.pdf

27 **Daleep Singh**, "Forging a Positive Vision of Economic Statecraft," *Atlantic Council*, February 22, 2024, https://www.atlanticcouncil.org/blogs/new-atlanticist/forging-a-positive-vision-of-economic-statecraft/

28 **Andrew Gilder** and **Olivia Rumble**, "The Impact of the CBAM on African Economies and the Role of the AfCFTA," *SAIIA Policy Briefing No 290*, SAIIA, 2024, https://saiia.org.za/wp-content/uploads/2024/04/SAIIA_PB_290_ImpactOfCBAM.pdf; **Eduardo Valencia**, "A Look at the World Trade Organization – Promises and Pitfalls," *T4T Visualizations,* GIGA, 2024, https://www.giga-hamburg.de/de/publikationen/a-look-at-the-wto-promises-and-pitfalls

29 **Sophie Eisentraut**, "Standard Deviation – Views on Western Double Standards and the Value of International Rules," *Munich Security Brief 1*, Munich Security Conference, 2024, https://doi.org/10.47342/LDPB2956; **Rana Foroohar**, "The White House Knows That the Global South Has a Point," *Financial Times*, April 23, 2024, https://www.ft.com/content/6482a6b9-56ea-4d79-ab18-ec5c6fa8f3e0

Solution 3: Do Good and Talk About It

To ensure that strategies of economic statecraft are perceived as proactive, well-planned, and genuinely beneficial to partner countries governments should take two steps. First, instead of focusing on the flaws in the policies of other countries, they should prioritize the needs and interests of prospective partners. Western countries, in particular, need to move beyond a one-size-fits-all approach and recognize the unique circumstances of different regions and countries, crafting tailored solutions. Engaging local stakeholders from the outset, understanding their concerns, and co-designing initiatives based on mutual trust, are essential for building strong partnerships and achieving shared goals. This process should be facilitated by increased financial resources for (geo)economic diplomacy personnel and expertise from regional and comparative area studies experts.[30]

Second, after addressing local needs, states must update their communicative strategies to enhance their appeal as cooperation partners. Moving beyond anti-rival rhetoric, they should highlight successful examples of joint investment or infrastructure projects. For instance, the EU currently lists over 200 Global Gateway flagship projects on its website.[31] To increase visibility and engagement, the EU should focus on a few outstanding projects from each region and launch a tailored image campaign co-created with local stakeholders. This collaborative approach would ensure the messaging resonates with regional needs and perspectives, increasing its relevance and impact. Additionally, each project should feature transparent, accessible metrics demonstrating its long-term benefits, such as contributions to economic growth, energy independence, and local employment.

The Link Between Economic Statecraft and Social Inequality

By Dr. Elisabeth Winter, Bundeskanzler-Helmut-Schmidt-Stiftung

The current polycrisis has bluntly demonstrated that markets left to their own devices were not able to end poverty, prevent climate change, or secure states with essential supplies in times of emergency. In fact, it revealed that the blind trust in the self-regulation of markets led to and even exacerbated many of these problems. In the face of the blatant failures of unregulated globalization and its inability to promote prosperity for all, the return of economic statecraft as a tool for policymakers is a fortunate turn. After decades of badly managed globalization, nation-states are reassuming their role as active designers and managers of global trade governance. Today's geoeconomic shift, however, focuses disproportionally on the security realm of economic statecraft. Amid intensifying geopolitical conflicts, the "free-market" paradigm has been replaced by the new imperative of economic security. Economic security, in turn, calls for a de-risking of national economies amidst the newfound political willingness to weaponize asymmetries in economic interdependencies for geopolitical gains. Highly integrated markets, complex global supply chains, and the specialization of economies and businesses were once considered peace-promoting accomplishments of globalization. Today, they have created vulnerabilities and risks as former economic partners turned systemic rivals.

Reducing economic statecraft to economic security and attempts at de-risking falls short of the comprehensive approach necessary for Responsible Economic Statecraft. Such an approach would consider the many potential applications of economic instruments in addressing the various aspects of today's polycrisis. Well-crafted international trade policies can be a valuable lever to fight social inequality and climate change. Engaging in Responsible Economic Statecraft therefore requires states to design a new version of globalization that prioritizes human well-being. This means engaging in international trade, but also weighing up its benefits against its social and environmental drawbacks. Moreover, market dynamics should be conditioned to ensure that states maintain national control over strategic interests. Global supply chains should be reconceptualized and redesigned to be resilient, sustainable, and equitable: resiliency implies being able to endure geopolitical tensions, sustainability sees planetary boundaries taken into account, equitability ensures decent work and a good life.

What I am advocating is a Responsible Economic Statecraft that includes an active role for the state in reinventing a resilient, sustainable, and equitable globalization. To achieve this vision, politicians and policy practitioners must design and enact their interventions across policy silos. The security, trade, environmental, labor, and human rights communities must join forces to enable a holistic approach to crafting Responsible Economic Statecraft policies at all levels of trade governance, from the local to the global. Additionally, Responsible Economic Statecraft involves close cooperation with like-minded countries. New platforms that allow for such coordination are urgently necessary so long as traditional multilateral fora remain in paralysis.

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30 **Ariel I. Ahram**, **Patrick Köllner**, and **Rudra Sil**, *Advancing Comparative Area Studies: Analytical Heterogeneity and Organizational Challenges* (Oxford: Oxford University Press, 2024).

31 **European Commission**, "Global Gateway Flagship Projects," *International Partnerships*, https://international-partnerships.ec.europa.eu/policies/global-gateway/global-gateway-flagship-projects_en

Solution 4: Rules over Rivalry

A more effective approach to Responsible Economic Statecraft explains policies as reactions to specific behaviors rather than targeting individual countries. This shift enables addressing harmful practices that violate international norms — such as unfair subsidies, trade barriers, or labor rights violations — while preserving credibility within the global trading system. By concentrating on problematic behaviors, states can avoid accusations of political antagonism and ensure that their actions are perceived as fair and consistent.

While some countries may engage in these practices more frequently, the focus should remain on the questionable conduct itself. For example, if state-backed subsidies distort markets (issued by China, for instance), corrective actions will still primarily affect the countries responsible, but the justification will be based on addressing the behavior rather than the actor. When combined with positive applications of economic statecraft — such as debt relief, technology partnerships, or supply chain realignments — genuine opportunities for rules-based cooperation arise. In cases where existing legislation, for instance on subsidies, is outdated or inadequate, international bodies like the WTO should work to update these standards. Clear, modernized rules will enable countries to address problematic behavior more effectively. In instances where actions clearly undermine the global trade order, including the US paralyzing the WTO's appellate body, countries should critically reassess whether they are truly upholding the principles they claim to protect.

"We have entered a stage where agreements can be broken any day and the most powerful wins. We must work towards the strengthening of our economies as well as toward commitment to multilateral solutions. One cannot exist without the other."

Dr. Francesca Ghiretti, Rand Europe

Addressing Implications of the EU's Geoeconomic Turn for Developing Countries[32]

By Dr. Clara Weinhardt, Maastricht University

The EU's recent shift toward a geoeconomic approach in its external economic relations has presented significant challenges in terms of aligning its diverse policy objectives. Historically, the EU has championed trade liberalization as a pathway to global prosperity, peace, and sustainability. However, the geoeconomic turn has made it more difficult to coordinate these different objectives, as trade-offs become more apparent. Much attention has been paid to how such trade-offs affect the EU's relations with the US, China, or other major players. Yet, the implications for its relations with less developed economies remain largely overlooked. Ongoing efforts to define Responsible Economic Statecraft should take these implications into account.

With regard to developing countries, the effect of the new EU trade and investment instruments are likely to vary not only across countries and instruments, but also across different types of instruments. Security-related ones such as investment screening target (large) economic competitors have the least impact on developing countries. Conversely, sustainability-related instruments tend to apply to or even target developing country partners of the EU. The EU's "Carbon Border Adjustment Mechanism," for instance, seeks to prevent "carbon leakage" when EU-based companies move production to (developing) countries with less stringent climate policies or when EU production gets displaced by imports from these countries. Doing so at the same time levels the playing field vis-à-vis economic rivals. However, negative economic repercussions of the mechanism are likely to hit low-income countries much harder than middle- or high-income ones.

One potential remedy, although infrequently used, is the provision of differential treatment for developing countries within EU trade and investment instruments. This approach could enhance the EU's appeal by fostering more equitable economic relationships. The EU's competitiveness-related international procurement instrument, for instance, includes an exemption for Least Developed Countries. For most of its novel defensive trade instruments, however, the EU has so far not adopted concrete provisions or flanking measures that could mitigate negative implications for developing countries. The geoeconomic turn in trade and investment may thus make the EU a less attractive partner for countries in the Global South.

To navigate these challenges, it is crucial for policymakers to engage in more in-depth analyses and consultations with stakeholders. Mapping out the trade-offs and spillovers of various policy options can bring the broader implications of the EU's geoeconomic strategies to the forefront. Responsible Economic Statecraft thus necessitates a focused examination of the novel defensive trade instruments and their multifaceted implications. This, in turn, would make it possible to opt for a more equitable approach in implementing specific trade instruments that affect developing countries.

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32 This contribution draws on **Clara Weinhardt** and **Ferdi De Ville**, "The Geoeconomic Turn in EU Trade and Investment Policy: Implications for Developing Countries," *Politics and Governance* 12 (2024), https://doi.org/10.17645/pag.8217

Responsible Interaction

Problem 5: Adverse Consequences

When states design and implement tools like sanctions or tariffs, they typically aim to influence opponents or promote domestic industries. However, greater attention has to be paid to the unintended adverse effects these (and other) measures can have on both target countries and third parties. Sanctions, for instance, are generally more effective when they impose high economic costs on the target. Yet, the more severe the sanctions, the greater the potential for widespread societal repercussions not only in the target but also in other countries. Similarly, tariffs can pose a burden not only on the intended countries, but also their trading partners, (inadvertently) amplifying their reach.[33]

In other cases, adverse consequences arise not from direct action but from missed opportunities for deeper interaction. A case in point is the non-ratification of the MERCOSUR-EU free trade agreement (FTA) due to domestic pressure from agricultural interest groups in countries like France, among other European countries, leading to de facto protectionism of the EU's market. The EU-Australia FTA remains unconcluded for similar reasons. While trade liberalization can be politically difficult, failing to solidify economic partnerships at the right moment undermines the effectiveness of trade agreements as geoeconomic tools and risks alienating strategic partners.[34] This lack of a coherent European trade policy weakens the EU's global political standing and market power. For many countries in the Global South, increased trade is essential for development, leading them to diversify their alliances.[35]

"Sanctions are a prominent tool of current foreign policy across the globe."

Prof. Christian von Soest, GIGA

"You cannot deny access to food, medicine, and energy responsibly but it's a very effective tool in military conflicts; it wins wars. Nowadays, food and medicine are typically exempted from sanctions, but financial sanctions limit trade finance, so their import can be affected indirectly."

Prof. Eckart Woertz, GIGA

Economic Statecraft by Major Powers Weakens Most Developing Countries[36]

by Hung Tran,
Atlantic Council Geoeconomics Center

In their strategic and geopolitical competition, major countries allied with the US and China respectively, have increasingly used economic statecraft as policies of preference to promote their economic and national security. These include all measures to restrict and control trade, services, as well as direct and portfolio investment flows to unfriendly states, aiming to reconfigure global supply chains to be based in friendly and reliable countries — through strategies such as reshoring, nearshoring, and friendshoring in the West, or self-sufficiency in China. Such strategies have become more pronounced in the high-tech and green energy sectors, from critical minerals to finished products. These approaches have fragmented the global economy as trade, investment, and financial flows have been bifurcated along countries' geopolitical affinity with either of the two superpowers. This geoeconomic fragmentation has contributed to a slowing down in global economic and trade growth (to around 3 percent per annum) as well as to an outright decline in global foreign direct investment (FDI) volumes (from 3.3 percent of global gross domestic product in the first decade of this century to 1.3 percent in the past five years).[37]

Many developing countries, especially low-income ones, have been negatively impacted by these trends. Particularly vulnerable are those which are not in geostrategic locations, in possession of key mineral resources, or which have not developed a sufficient manufacturing base to participate in the reconfiguration of global supply chains. By contrast, several developing countries that actually do meet these requirements and have adopted appropriate geopolitical policies not seen as unfriendly by either side have been able to engage with both the West and China, attracting increasing trade and FDI flows from both in the past five years. This includes countries like Indonesia, Mexico, Morocco, Poland, and Vietnam — which have been referred to as "connector economies" by Bloomberg Economics.[38] They can offer a template for other developing nations to follow. The many countries that do not fulfill the requirements will be outcompeted by the connector economies in the reconfiguration of global supply chains.

In short, economic statecraft measures have been employed to promote the economic and national security of major countries amid their geopolitical contest but have led to slower and uneven global growth, particularly detrimental to low-income countries — especially those without sufficient national resources or basic manufacturing capabilities. In the long run, if not reversed, the slowing and non-inclusive global growth pattern could threaten to undermine the very security that major countries are trying to achieve now.

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Advancing Humanitarianism Through Sanctions Refinement – Lessons Learned [39]

By Prof. George A. Lopez, University of Notre Dame and Prof. Alistair Millar, Fourth Freedom Forum

The dramatic increase in sanctions imposed unilaterally, by regional organizations, and ad hoc coalitions of states, has generated controversy and concern in policy circles, especially from the Global South. To address these concerns, in the spring of 2021, we founded an international, multi-stakeholder initiative that represents a global "trisector" grouping, i.e., public, private, and socio-economic actors, working on sanctions and humanitarian considerations. Named as "Advancing Humanitarianism through Sanctions Refinement" (AHSR), our goal has been to develop new ways to mitigate and minimize the unintended humanitarian consequences of sanctions and related restrictive regulations, while simultaneously safeguarding the effectiveness and legitimacy of these tools of economic statecraft.

Informed by the large body of academic research and policy studies,[40] and furthered by rounds of consultations with diverse practitioners in national policy, banking, and humanitarian work and decisive meetings at Wilton Park in the United Kingdom in May 2022 and May 2023,[41] we produced a Model Humanitarian Checklist for Sanctions Units.[42] Our efforts were further energized by the remarkable humanitarian carve-out adopted in United Security Resolution 2664.[43]

The cornerstone of the checklist posits, first, that, while sanctions regimes can differ, each must be designed implemented, and adapted in compliance with international law and especially international humanitarian law.

Second, the checklist provides various considerations to guide the development and implementation of humanitarian exemptions. These include that such exemptions must be clarified during the sanctions design and discussion phase and not at the point of deterioration of a humanitarian situation. Further, sanctions imposers must develop contingency plans for more substantial exemptions in the event of natural, human-driven, and conflict-related disasters. In addition, through regular interactions with relevant stakeholder groups, sanctions imposers should harmonize humanitarian exemptions and consistently evaluate their adequacy.

Third, and building from a consistent claim by both humanitarian organizations and national officials, the checklist provides key categories for ensuring clear language and up-to-date guidance for sanctions imposers to provide tailored, timely, and regularly updated both public and private guidance to relevant sectors regarding sanctions compliance. Other factors include the need to identify bottlenecks or barriers to legitimate trade and financial transactions, including for humanitarian payments, household remittances, and supply chains for essential goods.

A fourth and complex cluster of factors in the checklist addresses safeguarding humanitarian banking channels and how private sector actors engaging in trade relating to basic human needs and humanitarian payments should have functioning, cost-effective, regulated, and sustainable payment channels available to them.

Problem 6:
Double Standards

Partly due to a lack of attention to adverse consequences, countries that apply tools of economic statecraft are often accused of hypocrisy and double standards. There is a perceived discrepancy between stated policy objectives of upholding higher environmental, human rights, multilateralism, or international law standards, and outcomes that fail to reflect these commitments. As a result, such policies may appear no more effective in achieving these goals than those of their adversaries. Simply put, countries are held to account for the very standards they claim to uphold. Examples including the US invasion of Iraq, EU countries closing their borders to refugees, and the uneven distribution of vaccines during the COVID-19 pandemic, reflect how self-interest overshadowed upholding these standards.[44]

This criticism notwithstanding, countries aiming to reduce their economic integration with political adversaries or to increase their engagement with countries with critical resources continue to promote concepts like friend-shoring, value-based partnerships, and like-mindedness. Finding common ground, such as geographical proximity, similar institutions and political culture, or shared language and culture is not inherently problematic. However, imposing frameworks of acceptable behavior before interacting with potential partners can be counterproductive. For example, countries with a history of perpetrating colonialism are poorly positioned to dictate the values that should underlie partnerships. Moreover, selectively emphasizing values in some partnerships while turning a blind eye when allies disregard those standards erodes trust and exposes contradictions.[45] For instance, smaller and emerging economies are often excluded from funding opportunities because they do not fully align with Western visions of sustainability or governance. This highlights the need for a more pluralistic view of sustainability and other governance goals, one that allows for interaction with prospective partners on equal terms.

"That the EU sees the green transition as an impetus for economic security does not mean that all countries see it that way."

Viking Bohman, Swedish National China Centre

39 This contribution draws on the various publications and resources of the **Advancing Humanitarianism through Sanctions Refinement** project which can be found at https://ahsrproject.org/. The authors thank their colleague **Erica Moret** for her many and skilled contributions to this project and checklist.

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Solution 5:
Forecasting and Feedback

To mitigate the adverse consequences of economic statecraft across sectors and to third countries, solutions grounded in interaction are essential. Governments should establish a three-stage mechanism —forecasting, impact assessment, and adaptation— to ensure continuous engagement with potentially affected countries. An inclusive approach helps protect vulnerable populations and promotes coherence among domestic and regional constituencies, for example, in finding a joint approach to trade agreements and partnerships.

The first stage of such a process involves scenario planning and forecasting, tools designed to identify a given policy's potential impacts under various circumstances.[46] These exercises can be conducted by governments or, when resources are limited or political sensitivities are involved, by external research institutions. This interactive and cross-sectoral approach enables policymakers to better predict effects on global supply chains, food security, and local communities, ensuring that all stakeholders' concerns are considered. The second stage focuses on impact assessment. Here, governments, private sector, civil society, and research institutions collaborate to analyze how policies affect different stakeholders across countries. These findings feed into the third stage: the continuous monitoring and adaptation of policies; no forecasting exercise can perfectly predict all outcomes. By regularly evaluating the effects and making necessary changes, governments can minimize unintended harm and ensure that policies remain flexible and effective, supporting long-term global stability. Finally, well-defined exit strategies should guide the timely conclusion of policies, either to prevent prolonged harm or to end a policy once its objectives have been achieved and can be sustained without further intervention.

"Sanctions have a severe impact on people living under them. Yet, their use has surged immensely in the last twenty years, and their long-term consequences are underestimated. Responsible Economic Statecraft has to focus on how sanctions and other tools can end eventually."

Filip Medunić, DGAP

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Solution 6: Pragmatism and Patience

To overcome double standards, countries should adopt a more pragmatic and patient approach in their interaction with prospective partners. Pragmatism means acknowledging that, while values and norms may evolve, differences will likely persist in some cases. Western governments would benefit from first stepping back to understand the perspectives shaped by other countries' specific values. Only then can shared objectives be identified and prioritized collaboratively. In this endeavor, it is unproductive to claim that some countries act purely transactionally and out of self-interest while others focus on promoting principles. This framing ignores the reality that all governments, to some extent, pursue their own national priorities.

A pragmatic approach to cooperation also demands patience. Minilateral settings, where small groups of countries work together on specific issues, can be effective. These arrangements ideally remain open for others to join later, allowing for incremental but durable progress that respects diverse interests and negotiation cultures.[47] The EU and the US should exercise patience not only in their dealings with other countries but also within their own boundaries. Instead of positioning themselves solely as guardians of human rights, environmental protection, or democracy abroad, they should address internal issues that undermine these principles. Though this process may be slow and challenging, it is essential for restoring credibility on the global stage and fostering more balanced, effective interactions in the long run.[48]

"Minilateralism can be a useful tool when it comes to economic statecraft, as a way of promoting greater transparent and more meaningful interaction between actors."

Mahima Duggal, GIGA

Responsible Economic Statecraft: An ASEAN Perspective

By Prof. Helen E.S. Nesadurai, Monash University

What does Responsible Economic Statecraft look like from Southeast Asia? ASEAN is today confronted with several dilemmas: member states are caught in a worsening US-China conflict, while the weaponization of trade and investment by bigger powers has sparked fears of fragmentation and the formation of a closed bloc. Although Southeast Asia may have gained from some of the resulting reorganization of supply chains, this region's economic security remains reliant on an open and rules-based world economy. ASEAN's "Outlook on the Indo-Pacific" issued in 2019 reflected these concerns and remains relevant today: it eschews exclusive approaches to region-building and bloc formation strategies driven by containment-type sentiments and practices that divide regional spaces rather than integrate them.[49] With their national security intertwined with and reliant on economic security, sustaining and expanding diverse trade, investment, and further economic relationships with other countries constitute lifelines for ASEAN member states.

The concepts and practices that guided three decades of regional economic integration and institution-building continue to inform the ASEAN perspective on Responsible Economic Statecraft. First, this region's notion of economic statecraft is developmental, focused on connectivity and inclusivity, and based on shared rules. These are encapsulated in regional approaches such as "open regionalism" and "developmental regionalism." Since the 1990s, these have shaped ASEAN cooperation and institution-building in Southeast Asia, East Asia, and the Asia-Pacific. Second, ASEAN's ethos is pragmatism. Regional states generally manage their relationships in non-ideological ways. Today's ideologically driven binary framings and practices – "good versus evil," "with us versus against us," "democratic versus authoritarian" – are not regarded as reliable or effective approaches to conflict management in a multipolar and complex world. Instead, these can become points of no return from which it will be much harder to find common ground.

Previously, the Asia Pacific region had not been known for habits of cooperation among its constituent states. Today, it is home to a range of institutional structures that have connected the vastly different countries situated across this wide geographic space. Indeed, these institutional links had been vital when contending regional states needed to engage and communicate with one another. These bonds have facilitated more recent and ambitious, economic agreements such as the "Regional Comprehensive Economic Partnership" (RCEP) and the "Comprehensive and Progressive Trans-Pacific Partnership" (CPTPP). As such, functional cooperation on security, economics, and development continues to be viewed as a valuable route to building common ground, and as building blocks to address other regional and global challenges that require concerted rather than fragmented solutions such as climate change, cyber-security, and pandemics, to name just a few.

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What's Next?

Defining Responsible Economic Statecraft is not just a matter of communication across academic disciplines and professional backgrounds. The increased attention on geopolitical and geoeconomic strategies and the ubiquity of related terms reflect the necessity to think anew about great power competition and its effects on countries around the globe. This report stresses the need to harness the opportunities of economic statecraft. Managing economic interdependence, addressing shared challenges like climate change and inequality, and preventing economic tools from being misused for zero-sum gains calls for responsible action, reaction, and interaction. The main challenge to responsible action is the breaking of policy silos and the development of long-term strategies and tools. Obstacles to this endeavor are primarily organizational and procedural, and thus largely solvable through administrative reforms. Finding means for responsible reaction and responsible interaction is the more difficult task. Successfully interacting with a region or country requires understanding societies with different aspirations and priorities than one's own. This endeavor demands fostering an ethos of curiosity among practitioners and researchers in foreign policy circles alike. Thoughtful, collaborative approaches are needed that take the values and interests of partner countries seriously.

With Co-LABorate Issue 1, we have taken first steps towards determining the actions, reactions, and interactions needed to achieve Responsible Economic Statecraft. Our mission is to ignite the debate to spark a comprehensive societal approach, where governments, universities, think tanks, businesses, and civil societies from the world's different regions work together to create a global standard that advances a more reliable, equitable, and sustainable global economy. To bring in your perspectives, and to become part of the ongoing dialogue on Responsible Economic Statecraft, scan this QR code:

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