

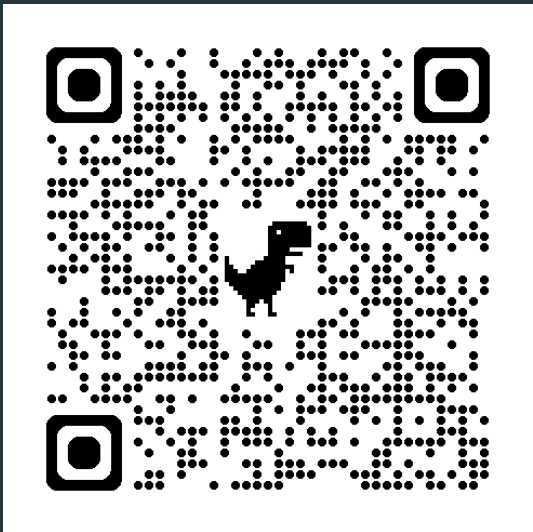
US Economic Statecraft, Asian Economic Diplomacy: Geoeconomic Theory and Empirics

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(Follow along on your personal device)



Conclusion

1. Economic statecraft, economic diplomacy
 - Acquiesce. Adapt. Aggregate. Resist. 3A+
2. Analytical model
 - 3A+; Resilience; Economic Security

3. Empirics

- Strategic differentiation
- Dynamic complementarity
- Great Power elasticity

ECONOMIC STATECRAFT, ECONOMIC DIPLOMACY

US industrial policy, Asian economic diplomacy

2022 Inflation Reduction Act

US subsidies, EV tax credits, North American final-assembly requirements, and critical-minerals sourcing conditions.

1. **South Korea aggregated:** Coordinated with Japan and the EU to contest discriminatory US industrial-policy provisions.
2. **South Korea resisted:** Parliamentary resolutions, ministerial and presidential representations, and KORUS and WTO legal arguments.
3. **South Korea sought accommodation:** Section 45W commercial-vehicle tax-credit treatment provided a route for leased Korean EVs. Indonesia separately petitioned for access to IRA-related critical-minerals benefits.
4. **Australia adapted:** Expanded domestic critical-minerals financing by A\$2 billion in October 2023, doubling the facility to A\$4 billion.

Beyond alignment and hedging

Acquiesce. Adapt. Aggregate. Resist.

3A+

Acquiesce Concede on a specific axis of Great-Power contention.

Adapt Restructure domestically to reduce vulnerability.

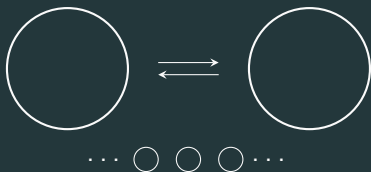
Aggregate Build external options through cooperation with other nations.

Resist Contest the Great Power's action, demand, or authority.

Economic diplomacy is not simply choosing a side.

ANALYTICAL MODEL

Thucydides and small-state agency



$$GP = \{0, 1\}$$

$$TN = \{\dots, -1, 0, 1, \dots\}$$

Figure 1: Great Powers and Third Nations. “Great Powers do what they will. The rest of us suffer what we must.” (Thucydides 400BCE, *The Peloponnesian War*)

1. Economic statecraft is what members of GP do, a “means of working the US’s geopolitical will in the world” (Blackwill and Harris, 2016; CMS, BGH, MRS, CMO).
2. Economic diplomacy is what, without rules-based multilateralism, members of TN need to do
3. Inversion: Switched dependent variable, equilibrium concept, mechanism, normative perspective.

$$\begin{aligned}\gamma W(K, Z) &= \sup_{\pi} \left\{ p(\rho \times \pi) - c(\pi) + W_d \dot{K}_d + W_g \dot{K}_g + W_Z \dot{Z} \right\} \\ W_d &= \frac{\partial W}{\partial K_d}, \quad W_g = \frac{\partial W}{\partial K_g}, \quad W_Z = \frac{\partial W}{\partial Z} .\end{aligned}\tag{1}$$

$$\begin{aligned}\gamma S(K, Z) &= \sup_{\sigma} \left\{ y(K, \alpha_q, \xi) - f(K, \alpha_q, \alpha_d, \alpha_g, \xi; \pi) + S_d \dot{K}_d + S_g \dot{K}_g + S_Z \dot{Z} \right\} \\ S_d &= \frac{\partial S}{\partial K_d}, \quad S_g = \frac{\partial S}{\partial K_g}, \quad S_Z = \frac{\partial S}{\partial Z} .\end{aligned}\tag{2}$$

$$\rho \times p' + (1 - \rho)W_Z = c' \quad (3)$$

$$y_q - f_q = S_Z \pi \rho_q \quad (4)$$

$$-f_d + S_d = 0 \quad (5)$$

$$-f_g + S_g = 0 \quad (6)$$

$$y_\xi - f_\xi = S_Z \pi \rho_\xi. \quad (7)$$

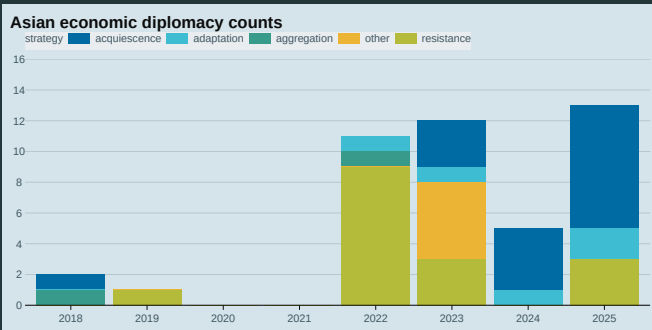
EMPIRICAL FINDINGS

Strategic differentiation

Strategic repertoire

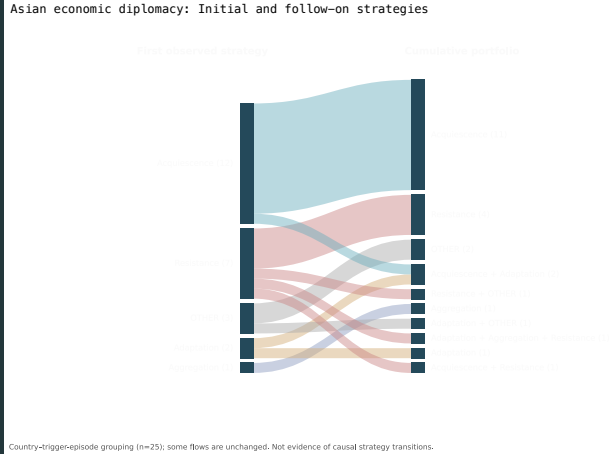
Strategy	Events	Share (%)
Acquiescence	16	37.2
Adaptation	5	11.6
Aggregation	2	4.7
Resistance	16	37.2
OTHER	5	11.6

43 recorded responses. Strategies are
non-exclusive.



3A+ accounts for most observed responses; the mix changes across time.

Dynamic complementarity



43 responses form 25 country–trigger–episode histories. Initial strategies need not remain the final portfolio.

Great Power elasticity

Responses by US instrument

Instrument	Events	Acq.	Adp.	Agg.	Res.	Other
Industrial policy	19	0	2	1	12	5
Technology controls	8	6	2	0	0	0
Trade policy	16	10	1	1	4	0
Financial sanctions	0	0	0	0	0	0

US dispositions

US movement	Events
Relaxes	4
Unchanged	0
Tightens	0
Mixed	0
Unclear	33
Not applicable	6

- Industrial policy elicits mainly Resistance; trade policy, mainly Acquiescence.
- Subsequent US movement is observable, but incompletely ascertained.
- Dynamic co-movement is not evidence of causality.

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