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Economic Warfare: Enduring Its Impact

By Muhammad Faizal Abdul Rahman

Synopsis

A multipolar world comprising several political, military, technological and economic spheres of influence that arise from irreconcilable geopolitical rivalries is beginning to take shape. Besides influencing states' policymaking, these rivalries can have trickle-down effects on industries and ordinary people.

Commentary

GEOPOLITICAL POWERS are exerting greater might in the various spheres of influence to remodel an international environment that would be to their advantage. This competition creates strategic distrust and instability that may compel other states to take sides to defend their national interests.

Terms such as “technological bifurcation” and “economic decoupling” that were seen recently in international press presage an unrealistic but increasingly conceivable future where different sets of technologies and rules split the global economy. Other states that depend heavily on new technologies and international markets for economic security will have to navigate a more uncertain world.

Transition to Multipolarism

Human history has seen periods where multiple centres of geopolitical power exist in competition and cooperation. A period of unipolarism, as characterised by the preponderance of United States power, following the end of the Cold War and until the early 2000s, may be an exception. The transition from a unipolar to a multipolar world, as evinced in the idea of the “Thucydides Trap,” can be a turbulent phase where competition may escalate into war.

However, the spectre of the two world wars and current economic interdependencies may thwart another big war and instead drive geopolitical powers to escalate the use of strategies below the threshold of conventional war, particularly, economic warfare. Geopolitical powers would exert their economic muscle to secure more political influence and acquiescence from other states.

To this end, the US, for example, uses [trade](#) sanctions as a punitive instrument against its strategic rivals. China aims to achieve “[yijing cuzheng](#)” – leveraging economics such as the Belt and Road Initiative (BRI) to promote politics. Russia exerts political influence in Europe through the sale of its vast [energy](#) supplies.

For other states with high dependence on global trade, it is increasingly challenging to hedge their bets and accommodate pressures from the geopolitical powers when economic warfare intensifies.

Constrained Policy Space for Other States

Global trade provides other states with access to international markets to compensate for their domestic markets' limitations. However, interdependencies between foreign investments and global trade endow geopolitical powers with levers to exert implicit pressure – foreign influence – on other states. Given this conundrum, Malaysia, for example, seeks to protect the control of its land from foreign influence by monitoring foreign investments in the [durian](#) industry.

Economic warfare, at the grand strategic level, has deep connections with the foreign influence that geopolitical powers can use to constrain the freedom of other states to maintain neutrality and chart their policies. Foreign influence can also create [divisive](#) pressures that undermine the cohesion of multilateral institutions that other states leverage for a collective voice in the raucous international space.

Economic warfare today extends to new technologies given the pervasiveness of the Fourth Industrial Revolution that fuses biological, physical and cyber tools across many industries. The Huawei ban, for example, is fundamentally the struggle for 5G technological superiority between the US and China as [technology](#) is key to economic preponderance and purportedly a conduit for foreign influence.

Indeed, the impact of economic warfare on the global supply chain of goods, technology and talent is inimical to policymaking and economic security. Other states may find it increasingly problematic to trade globally and secure supplies. This burgeoning problem can depress industrial performance, employment levels and efficient provision of public services. Therefore, other states must strengthen their defences in the event of prolonged economic warfare.

What Must Be Done?

To strengthen defences, other states must collaborate with the private sector to assess their domestic economies for strategic vulnerabilities that are at risk of being exploited as economic warfare levers. Strategic vulnerabilities may emanate from foreign assets

and dependencies on foreign systems and networks. The risk assessment can have three broad steps.

Firstly, the risk assessment must identify the industries that are critical to a state's long-term economic security and the new technologies that can sustain these industries. More attention must be given to industries and new technologies that geopolitical powers correspondingly regard as critical to their national interests – such as state-owned enterprises (SOEs) – and can exploit as economic warfare levers. Business decisions that certain foreign [SOEs](#) make may be an extension of geopolitical powers' foreign influence.

Secondly, the risk assessment must analyse and plan for hostile scenarios that represent plausible exploitation of these levers to influence or paralyse a state by targeting its centres of gravity (COGs). Military strategist [Warden's](#) Five Rings theory can be adapted as an analytical framework to study and secure a state's COGs, which are: public and private leadership, essential services, critical infrastructures, population and security forces.

Essentially, any industry that supports a COG can be weaponised against the state. In this respect, states may consider certain foreign investments and SOEs as potential security risks.

Thirdly, states must share information from the risk assessment – analysis and strategies – with the critical industries' key players. Public-private partnership is essential in countering economic warfare. In economic warfare, industries – including research on new technologies – constitute the frontlines of competition as geopolitics and industrial performance intersect.

As industries are susceptible to the intended and unintended consequences of a state's foreign policy decisions, businesses and business leaders in these industries inevitably become geopolitical actors. A state's economic security, therefore, depends on industries factoring geopolitical risks in the business decision-making process.

In sum, economic warfare may expectedly persist in the transition to a multipolar world. States must, therefore, strengthen defences to endure its impact and devise means to use it to their advantage.

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