



Alliance
of Democracies

MARCH 2023

A CALL TO ACTION AT BIDEN'S SUMMIT FOR DEMOCRACY:

Countering Authoritarian
Economic Coercion through an
'Economic Article 5'

BY

Alliance of Democracies Foundation

WITH PROJECT DIRECTION BY

Jonas Parello-Plesner & Katherina Madhuri Nielsen



To the leaders of the free world,

Increasingly, authoritarian countries are using economic coercion against democracies. China's use of economic coercion was at its peak in 2020 and current levels are unprecedented in comparison to the last decade. Trade restrictions have become China's standard tool for its coercive diplomacy. The aim of such coercion is to bend the will of democratic countries. This is a test for the free world.

In response, we propose an Economic Article 5 among democracies to counter authoritarian coercion. Our proposal is inspired by NATO's Article 5, which states that a military attack on one ally is considered an attack on all. The aim is to produce the same deterrence and solidarity in the economic realm among democracies that NATO produces in the security realm.

How would such an economic anti-coercion tool work?

1. First, an international grouping, or an "alliance of democracies," should come together for such a framework

Biden's Summit for Democracies is the only platform that brings together democratic leaders world-wide. That occasion should be seized for promoting this initiative.

Only among democracies can you act against autocracies, and it is high time governments committed to making a change, especially for smaller economies that are unable to single-handedly fight the intimidation of authoritarian tyrants. The current systems we have in place, such as the WTO, are insufficient; autocracies are using their power within these organisations.

2. Once enacted, a democracy subjected to economic coercion by an autocracy could invoke the Economic Article 5 to secure unified support from fellow democracies.

Essentially, solidarity is the key aspect to the invocation of Economic Article 5 to ensure all democracies benefit from the framework.

Currently, the democratic world is facing a surge in acts of authoritarian economic coercion. Following Lithuania's decision to open a Representative Office in Taiwan in 2021, Lithuanian trade with China was blocked. Likewise, in 2020, Australia requesting a COVID-19 inquiry from China resulted in an imposition of tariffs on barley, beef, coal, copper, wine, and other goods. China's cross-strait playbook has constituted a norm when it comes to ceasing imports of products from Taiwan. Following a ban on pineapples and other produce in 2021, Taiwan was again met with further export bans on seafood and its popular alcohol brands in late 2022. An Economic Article 5 could mitigate these measures of autocratic pressure through solidarity between states to stand up for others.

3. In effect, the Economic Article 5 would act first as a deterrent, second as a retaliatory coercive step, and finally as a longer-term proactive element.

The deterrence would be immediate. Autocracies would face the unified economic strength of the democratic world, a grouping of economies representing well over 60 percent of the world's economic power. Indeed, the symbolism of such solidarity would be a potent deterrent. The possibility of a coordinated response would make them think twice before acting. This is the overall goal of the instrument: preventing the occurrence of economic coercion.

A prime example is the success Australia faced through the alleviation of economic damage with market diversification and reliance on other allies, which ultimately meant a loss to the Chinese market. Exemplified through Australian coal exports from 2018 to early 2020; total coal exports to China remained between roughly US\$2 billion and US\$3 billion but dropped close to zero after restrictions were implemented. However, this was negated in early 2021 through a near doubling of exports to India, Japan, South Korea, and other countries, leading to a gross increase of exports. Currently, restrictions are being lifted and Beijing no longer sees any domestic benefit. China's actions may lead to the likely scenario that Australia will not return to the Chinese market, proving the sanctions to be detrimental in the long term.

4. The joint response must have bite if deterrence fails. It would move beyond statements of support to proportional, retaliatory measures.

Not only governments but also individual companies have been subjected to authoritarian coercion; acquiescence has often been the result. Yet the extraordinary private-sector withdrawal from Russia in response to the invasion of Ukraine shows the increased willingness of businesses to stand up, and they should be supported with access to alternative credit and supply lines. Likewise, governments need to take similar steps and demonstrate the refusal of acceptance of authoritarian bullying.

Evidently, the problem of economic coercion is being noticed. Regional counter measures are being developed. Japan's recent Economic Security Promotion Act was developed to protect its own markets from economic coercion through the prioritisation of economic security over market efficiency. For example, China's attempts to punish Japan through the halting of rare earth elements in 2012. Similarly, the European Commission has developed the Anti-Coercion Instrument (ACI) allowing the EU to respond more effectively to such economic challenges on a global scale and address coercion against member states. Likewise, there has been the creation of an "economic security dialogue" between the UK and Australia, to diversify global supply chains and ensure a step towards market sovereignty from hostile states that weaponise economic reliance. Most recently, the U.S. followed pursuit; members of Congress introduced the Countering Economic Coercion Act of 2023, providing new measures to assist allies facing economic coercion from China, and ensure accountability for its actions. The establishment of these regional measures prove the recognition the issue our democracies face, but only at an embryonic stage, all our democracies need to commit to global counter measures beyond sanctions.

5. Finally, such an Economic Article 5 is a longer-term opportunity to strengthen trade bonds among democracies.

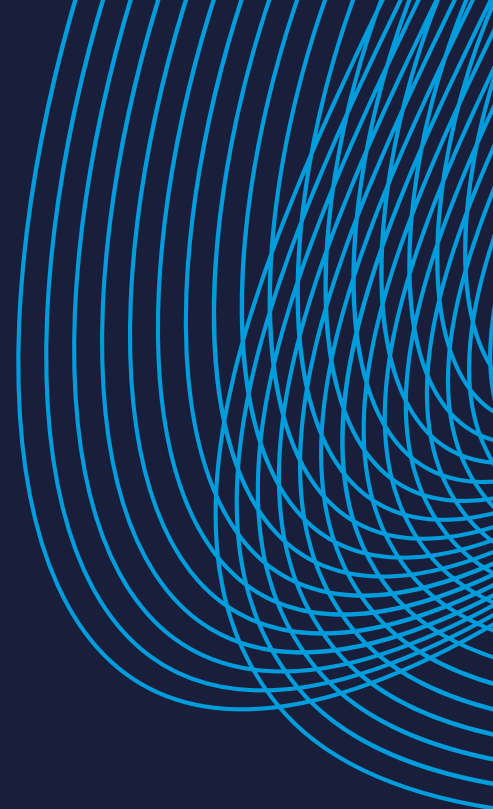
The longer-term response to authoritarian economic coercion could be a move toward a common market of democracies, which could include supply lines for sensitive and critical infrastructure among members of such an alliance of democracies. That would also lead to long-term inoculation from authoritarian economic coercion.

The world's democracies need to work to better shield individual states from such retaliatory measures when they stand up for the values of democracy. Allies must be met with benefits and safeguards of our democratic system when they engage in its defence.

Therefore, we give governments 5 takeaways from Economic Article 5:

- 1) Establish an alliance of democracies,**
- 2) Engage in solidarity,**
- 3) Create deterrence,**
- 4) Enforce regulatory coercive steps, and**
- 5) Secure free trade among free nations.**

This memo is a deliverable towards the Summit for Democracy, as part of the Resisting Authoritarian Pressure Cohort, alongside the Government of Lithuania and Freedom House.



Alliance
of Democracies

www.allianceofdemocracies.org
info@allianceofdemocracies.org