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# Wanted: Geoeconomic Strategy for Trade Relations

The planned investment by the Chinese state-owned group Cosco in HLLA, the operator of the Port of Hamburg, has triggered a fierce dispute. Critics of the investment argue that the Chinese government would gain unwanted control over the port facilities. Supporters, meanwhile, maintain that it is only a minority stake and that the German government is in a position to impose conditions on port operators, regardless of who the owner is.

### World View of the 2000s

The debate shows that geopolitical factors are increasingly influencing economic policy decisions. Until now, German foreign economic policy has been based primarily on the guiding principle that trade and cross-border investment are welcome because they benefit all parties involved. According to this view, rising prosperity in China is also good for Germany and Europe, because it increases export opportunities. Chinese investment in Germany can promote growth and employment in this country, and vice versa. In addition, there was the belief that economic contacts promote mutual understanding and peaceful cooperation – and, in China's case, can even lead to the adoption of democratic values.

This thinking fits into a world in which states behave peacefully and cooperate closely with each other. After the end of the confrontation between the communist Eastern bloc and the West at the beginning of the 1990s, there was great optimism that the world economy would develop in this direction. This hope has certainly been partially fulfilled. The integration of many Central and Eastern European countries into the EU and the integration of China into the world economy are expressions of peaceful economic cooperation.

### New "Conflict Order"

However, US political scientist Edward Luttwak warned as early as 1990 that the end of the communist power bloc and the shift to market-based exchange by no means meant that geopolitical conflicts are over. He argued that governments will continue to pursue their own economic interests and enforce them even at the expense of others. What can be expected, he said, is a world in which the cooperative logic of international trade is mixed with the conflict logic of geopolitics. Luttwak calls this "geoeconomics." Numerous conflicts between the US, Europe, and China over trade barriers or the protection of intellectual property show that he was right in his assessment.

The Russian invasion of Ukraine and China's increasing threats against Taiwan show that a new era has now begun. Not only trade wars but also military conflicts are once again becoming more likely. These are conflicts between countries with close economic relations – which means that these relations can serve as a weapon. The West's sanctions against Russia, the extensive suspension of Russian gas supplies to Europe, and the US sanctions against China are examples of this.

This development requires a fundamental change in foreign economic policy that combines economic and security issues – "new geoeconomics."

### Managing Risks

Since Germany's prosperity is based firmly on international trade, it is particularly important here to develop the right geoeconomic strategy. It has to balance between partly competing goals. On the one hand, it is a matter of limiting critical dependencies that make Germany vulnerable to blackmail in the event of a crisis. But, on the other, it is equally imperative to continue to use of the immense advantages of the international division of labor. Economic strength is also an important factor of military power and deterrence.

It follows from this that it would be premature to cut trade relations with China or other authoritarian countries across the board. Instead, geoeconomic stress tests should be used to systematically monitor the impact of any disruptions to economic relations – and to take precautions to keep the costs manageable if the worst comes to the worst. This includes diversifying raw-material and energy supplies as well as strengthening cyber defenses and increasing the resilience of critical infrastructure.

What does this mean for the Port of Hamburg? In principle, Chinese investments in Europe increase the costs of a conflict for China if such investments can be expropriated in the event of a crisis. If government regulation can ensure the functionality of this infrastructure regardless of ownership, the risks for Germany are limited. But whether this is guaranteed is unclear. This shows that an overall geoeconomic strategy is lacking so far. It would therefore be advisable to put the project on hold for the time being.

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