

## Diplomacy in Great Power Competition and the Limits of Economic Statecraft

By  
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As contemporary rivals, the United States and China echo historical patterns of major competition between an established and a rising power, [described](#) within Graham Allison's article, "The Thucydides Trap: Are the U.S. and China Headed for War?" Allison warns of an apparent tendency towards war when an emerging power threatens to displace an existing great power like a regional or international hegemon.

The term 'diplomacy' originates from the ancient Greek word *diplōma*, [meaning](#) "an object folded in two," referring to a document granting travel or special privileges to diplomats. Statecraft is [defined](#) as the art of governing state affairs, encompassing diplomacy, economic statecraft, military strategy, and intelligence. Economic statecraft is [defined](#) as "the use of economic means to pursue foreign policy goals," including foreign aid, trade, sanctions, tariffs, and investment to achieve foreign policy goals. While diplomacy relies on negotiation and alliances to further foreign policy, economic statecraft, on the other hand, relies on economic power to achieve foreign policy objectives.

In early human history, relations between groups were often conflictual, with armed confrontation serving as the primary means for achieving strategic advantage. Yet, even in antiquity, diplomacy emerged as a vital tool for negotiation and conflict resolution. The rivalry between the United States and China, unlike ancient rivalries, did not evolve solely due to military power; rather, it is a hybrid of trade, investment, alliances, and military strength.

China has rooted its diplomacy in trade and economics, stretching its relationships from Asia to Africa and reviving the old Silk Road that was once a symbol of China's economic dominance. By using economic diplomacy as its foreign policy tool, China can open new markets and build alliances. Elsewhere in the Western Hemisphere, China is becoming the most important trade partner, with the likes of Argentina, Brazil, and Colombia now shifting towards China despite being traditional allies of the United States.

The United States' current diplomacy is evolving in the use of economic statecraft as well, through sanctions, tariffs, and foreign investment based on coercion and compliance. If that can be successful in achieving the U.S. foreign policy objective and the interest of the U.S. national security, it is apparent that the strategy is limited, as it does not have global reach. While states may comply with the U.S. policy based on fear of retaliation, success from this method can be limited; as in international relations, states can balance or bandwagon. By analyzing the global politics of small states in the south, the U.S. economic statecraft and boat diplomacy may push them towards balancing towards China.

Robert J. Art and Robert Jervis, in *International Politics: Enduring Concepts and Contemporary Issues*, [argue](#) that "force can be used to take or to bargain. If you can take what you want, you do not need your adversary's cooperation and do not have to bargain with him. A country may use force to seize disputed territory just as a robber may kill you to get your wallet. Most of the things people and nations want, however, cannot be taken in this way. A nation may want others

to stop menacing it; it may even want others to adopt its values. Brute force alone cannot achieve these goals.”

Coercion has been a tool of U.S. economic statecraft in foreign policy for a long time. However, history shows that it has clear limitations, especially in great power rivalry. In the U.S.-Japan rivalry leading to World War II, Japan achieved early military successes, but its overextension and limited industrial base prevented long-term strategic victory. Rather than deterring Japan, U.S. [sanctions](#) intensified its aggression, illustrating again that economic pressure can provoke escalation rather than prevent it. Coercive tools such as economic sanctions and tariffs, while a game-changer, cannot alone secure a strategic victory.

For deterrent purposes, economic sanctions historically have not prevented rogue states from changing their behavior. It did not prevent North Korea from developing long-range ballistic missiles, just as it was not successful in changing Iran’s human rights behavior and nuclear ambitions. Rather than punitive deterrence, what ultimately works in Iran is [deterrence by denial](#), as initial punitive measures did not suffice, highlighting the limitations of economic statecraft in power competition. Punitive deterrence will not prevent a new power from rising, as described by Alison in [Thucydides’ Trap](#), nor will it prevent weaker states from balancing against strong ones. It did not prevent the rise of China, and it will not prevent the rise of other future powers. What has and will make deterrence effective is the innovation of the U.S. nuclear triad, extended deterrence, and international cooperation through diplomacy.

Contemporary politics reflects the same pattern. Russia’s military power has not secured a decisive victory in Ukraine, and economic sanctions, either targeted or sectoral, have not changed Russia's posture. As noted by the [Council on Foreign Relations](#), “The United States began its 2022 barrage of sanctions by freezing \$5 billion of the Russian central bank’s U.S. assets, an unprecedented move to prevent Moscow from using its foreign reserves to prop up the Russian ruble.” While sanctions in other sectors, such defense and energy, have been seriously targeted, the war is still ongoing. In the same vein, the U.S.–China competition and tariffs imposed on Beijing have failed to change China’s behavior as [described](#) by Global Trade Magazine, “China’s annual trade surplus passed \$1 trillion, a record high, with a GDP growth remained steady at around 5%.”

It is paramount that the United States develop a hybrid strategy, combining diplomacy and other tools of statecraft to keep its leadership on the global stage, as opposed to relying on power.

While coercion and deterrence are important in great power rivalries, the current global landscape does not favor such a posture. There is a need to consider economic diplomacy as the main tool of U.S. foreign policy and economic statecraft as a second, as a future war will not be determined by military strength but by the mixture of both economic and military might.

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