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Geoeconomics and Geopolitics in the XXI Century: Some considerations

1.- Introduction

In this presentation, we will try to put emphasis in the new roll of the geopolitical and geoeconomics concepts, since we consider the geoeconomics as a method of foreign policy analysis that seeks to understand, explain and predict international political behaviors in a more general way.

We will focus on the practices of using political power over a given area or territory, and we believe that geoeconomics in this century is going to be the art of use economics instruments to produce beneficial political results.

In that sense, for us, Geoeconomics is the use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results, as is defined by Blackwill and Harris in "War by Other Means".

In the context of the underlining driver of globalizations, we will try to explain, this new concept of geoeconomics, and the dimension of the relationship between economic power and geopolitics.

We will conclude by highlighting the most relevant aspects exposed and putting emphasis in the importance of the understanding of all economic instruments of statecraft.

2.- The new roll of the Geopolitical and the Geoeconomics

In 2010, Leslie Gelb, in a seminal paper called "GDP Now Matters More Than Force", highlight the present nexus between economics and national security, saying:

"Most nations today beat their foreign policy drums largely to economic rhythms, ….; Most nations define their interests largely in economic terms and deal mostly in economic power, …; Most nations have adjusted their national security strategies to focus on economic security, … Also, point out: "Emerging powers today are seen as emerging precisely be cause of their growing economies, not their muscled up armies"…; "Today, the prevailing idea is that economic strength should be applied primarily toward achieving economic—not military—ends."

Gyula Csurgai, in a recent paper, "The Increasing Importance of Geoeconomics in Power Rivalries in the Twenty-First Century" states that Geoeconomics is an interdisciplinary analysis that includes geopolitical factors, economic intelligence, strategic analysis and foresight and has the objective to provide a tool for states and businesses to develop and implement successful strategies to conquer markets, and protect strategic segments of the domestic economy, among other things.

Therefore, geoeconomics can be considered as applied research and it can be understood as both an analysis and practice by states and businesses.

In spite of its increasing role, geoeconomics does not substitute geopolitics.

The two concepts are closely linked and therefore to examine contemporary power rivalries both geopolitical and geoeconomic analysis must be carried out.

For authors such as Mikael Wigell, as exposed in his recent book, "Geoeconomics and Power Politics in the 21st century: a revival of economic statecraft", of 2019, geoeconomics is both a strategic practice and an analytical framework. As an Analytical framework, geoeconomics stands in the tradition of International Relations realism, which emphasizes how competition for relative power drives state behavior.

Geoeconomics as a Strategic practice, or practical geoeconomics, refers to the application of economic means of power by states so as to realize geostrategic objectives, or more formally, as 'the geostrategic use of economic power'.

The geodimension in geoeconomic means that the economic bases of national power must have decisive geographical features:

Resources being at specific places, or sea-lines of communications taking specific routes, for example. Alternatively, the objective of geoeconomic strategies must be geographicaly delimited, as in the case of a sfere of influence that a hegemons controls by keeping its neighboring countries economically dependent of itself.

With this background, Blackwill and Harris, in their books, address two important questions designed to enhance understanding of geoeconomics: What is geoeconomics, why is it growing in importance, and what are the instruments of geoeconomics.

3.- What is geoeconomics and why is it growing in importance?

3.1.- What is geoeconomics?

After the Cold War, Edward Luttwark, in a Summer 1990 publication, wrote: "the methods of commerce were displacing military methods—with disposable capital in lieu of firepower, civilian innovation in lieu of military-technical advancement, and market penetration in lieu of garrisons and bases."

According with Blackwill and Harris Geoeconomics is "the use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results; and the effects of the other nations' economic actions on a country's geopolitical goals".
And, their analysis is focused on the second element of this definition, the use of economic instruments as means to achieve geopolitical ends.

Before continuing with the details of that definition, let us affirm what we mean by geopolitics. According with Blackwell and Harris, geopolitics is really a set of assumptions about how states exercises power over territory –what constitute this power, or how it is increased and spend down.

4.- What are the instruments of geoeconomics?

As Col. Troxell explains, Statecraft refers to the means by which governments pursue foreign policy, and can be categorized into four primary instruments:
- diplomacy (negotiations and deals),
- information (words and propaganda),
- military force (weapons and violence), and
- economics (goods and money).

According with Blackwill and Harris, the most suitable tools for geopolitical applications, are:
- Trade policy,
- Investment policy,
- Economic and financial sanctions,
- Financial and monetary policy,
- Aid,
- Cyber, and
- Energy and commodities.

They maintain that Trade, as a geoeconomic tool, has traditionally been utilized through positive inducement, and perhaps is the most readily applied economic tool.

This positive inducement has been used through negotiated free-trade agreements, and through normal trade relations granted by nearly universal membership in the World Trade Organization (WTO).

However, Trade, can be used also as a coercive instrument in the way of sanctions, denying the free flow of goods. Coercive sanctions imposing embargoes against the free flow of goods and services remain a centerpiece of economic statecraft, despite a strong consensus that they sometimes do not work.

In relation with the Investment Policy, Blackwill and Harris recall that, forty years ago, 90% of all cross-border were trade-based, but, in 2014, 90% were financial, and add that a large part of the current flows comes as some forms of investments.

In that sense, International investment flows now far surpass cross-border trade flows, and according to the United Nations, developing countries that need capital for growth now turn to the international markets for the vast majority of their needs, and in a form of combination of short-term investors, and multinationals investing for the long term (foreign direct investment [FDI]).

Most FDI is based on market-driven decisions, and as a result, their only geopolitical consideration is the stability of the market they are entering. However, the advent of large and growing State-Owned Enterprises (SOEs), Sovereign Wealth Funds (SWFs), and internationally active State-Owned Banks (SOBs) has begun to tilt the playing field away from pure market-fundamentals decision-making.

Western firms and nations ask for transparency in financial decision-making, to ensure investments are made on the “basis of economic market-driven logic”, and Sovereign Wealth Funds (SWFs) are supposed to comply transparency and guard against political investments, but the level of state ownership in these institutions cannot help but “endow them” with unique political levers.
Col. Troxell, points out that, Financial sanctions represent the next step in the evolution of sanctions regimes; they are designed to restrict access to the global banking system and international capital markets.

Similar to the potency of financial sanctions based on the ubiquity of the U.S. dollar, the efficacy of financial and monetary policy as a tool of geoeconomics is largely dependent on the role of a country's currency in the international monetary system.

Currency wars are fought between Central Banks, either manipulating their currencies for competitive advantage or conducting unconventional domestic monetary policy by implementing quantitative easing programs.

As explain, Juan C. Zarate, in his 2013 book, named "Treasury's War: The Unleashing of a New Era of Financial Warfare", we have entered a new era of financial influence where financial and economic tools have taken pride of place as instruments of national security, and the conflicts of this age are likely to be fought with markets, not just militaries, and in boardrooms, not just battlefields. Geopolitics is now a game best played with financial and commercial weapons.

In that sense, say Zarate, the new geoeconomic game may be more efficient and subtle than past geopolitical competitions, but it is not less ruthless and destructive.

Major and minor state power, along with super-empowered individuals and networks, can harness economic interdependence to increase their global power status at the expense of their geopolitical rivals.

The evolving geoeconomic environment has raised the stakes of international competition and new forms of financial warfare.

5.- Structural features or geoeconomic endowments

In order to understand the central question of how states works their geopolitical will in the world, through the application of economics leverage, Blackwill and Harris, consider that at least as important as the tools and tactics, are the underling geoeconomic capabilities that help to explain whether these instruments work.

They maintain that, just as not all states are created equal in terms of their capability to project military power, there are certain structural features or geoeconomic endowments that dictate how effective a country is likely to be in the use of geoeconomics.

Four structural features to be in the use of geoeconomics are identify:
1.- Ability to control outbound investment.
2.- Domestic market features (like, overall size; degree of control over one's domestic market, both in dictating terms of entry and in controlling import levels from a given sector or country; asymmetries in economic relationships whit others states; perceptions of future growth, etc.).
3.- Influence over commodity and energy flows.
4.- Centrality to the financial system (for example, reserve currency status, some forms of financial sanctions).

6.- Conclusion

To conclude, I would like to highlight that:

- The geoeconomic domain will quite likely be the most critical arena for nation-state competition in the decades to come. Thus, it is important to understand the economic instruments of statecraft and their employment in pursuit of geopolitical objectives, but also to remain cognizant of their limitations.

- Today's globalized economy has created a new dimension of strategic competition. While States still prioritized their own security, citizen also expects then to ensure its economic well-being, and will replace governments based of the state of the economy.

- Power is no longer limited to controlling geopolitical territories and chokepoints, but also on ownership of key industrial sectors, markets and supply chains. Mastering this new arena is, essentially, the point of geoeconomics.

- The French Prime Minister, Georges Clemenceau, once said "War is too important to be left to the generals".

- But, in our days, and updating the statement of Clemenceau, it should be said: "The economy is too important to be left to economists".

References: In this work we follow to:

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The Strategy of Geoeconomics: https://www.youtube.com/watch?v=lswiu1K1Vnk&t=289s