

Towards a Geoeconomic Power Index

AN ANALYSIS MODEL FOR GEOECONOMIC POWER

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Abstract

The increased proliferation of economic power as the preferred means for power politics has raised the international profile of the study of geoeconomics. As economic security takes up a more prominent role in the state's national security spectrum, the question of what geoeconomic power entails increasingly deserves our attention. Existing literature has so far neglected this section of geoeconomics; focusing on macro-, micro-, spatial-level approaches to define a state's geoeconomic conduct.

In this thesis, I sought to lay the first brick in addressing the above stated question through the development of a three-tier model to analyse a state's geoeconomic prowess by means of a literature study. This model consists of three levels of interpretation each centred around a singular thread of thought: (1) geoeconomic power is derived from common denominators, (2) geoeconomic power translates into various, interactive forms, and (3) states differ in terms of geoeconomic production strategies.

By capturing these three dimensions to power within the *Global Geoeconomised Space*, the model allows us to gain a comprehensive understanding of a state's geoeconomic power in relation to others.

De toenemende verspreiding van economische macht als het voorkeursmiddel voor machtspolitiek heeft de internationale aandacht voor de studie van geoeconomie vergroot. Naarmate economische veiligheid een prominentere rol inneemt in het nationale veiligheidsspectrum van een staat, verdient de vraag naar wat geoeconomische macht inhoudt steeds meer onze aandacht. Tot nu toe heeft de bestaande literatuur dit aspect van geoeconomie verwaarloosd en zich voornamelijk gericht op macro-, micro- en ruimtelijke benaderingen om het geoeconomische gedrag van een staat te definiëren.

In mijn thesis poog ik de bovenstaande vraag te beantwoorden door middel van de ontwikkeling van een drieledig model om de geoeconomische macht van een staat te analyseren aan de hand van een literatuurstudie. Dit model bestaat uit drie niveaus ter interpretatie, elk gericht met een specifieke rode draad: (1) geoeconomische macht is afgeleid van gemeenschappelijke kenmerken, (2) geoeconomische macht vertaalt zich in verschillende interactieve vormen, en (3) staten verschillen in termen van geoeconomische productiestrategieën.

Door deze drie dimensies van macht binnen de *Global Geoeconomised Space* te omvatten, stelt het model ons in staat om een diepgaand inzicht te verkrijgen in de geoeconomische macht van een staat in relatie tot anderen.

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Abbreviations

AfCFTA	African Continental Free Trade Area
ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
B3W	Build Back Better World Initiative
CFSP	Common Foreign and Security Policy
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
EU	European Union
GATT	General Agreement on Trade and Tariffs
GaWC	Global and World Cities
GDP	Gross Domestic Product
GGs	Globalised Geoeconomic Space
MPIA	Multi-Party Interim Arbitration
PRC	People's Republic of China
TTIP	Transatlantic Trade and Investment Partnership
TPP	Trans-Pacific Partnership
U.S.	United States of America
USMCA	United States-Mexico-Canada Agreement
WTO	World Trade Organisation

Introduction

1992. The implosion of the decaying Soviet Imperium concluded the umpteenth round in the grand scheme of geopolitics. And with it, the world of old, that of two (pseudo-)consolidated power blocs and the 'unaligned' grey zone, drew its final breath. The systemic clashes that dominated most of the 20th century had ended in the favour of the liberal democratic capitalist order. Riding that wave of momentum, the West gobbled up what remained of these zones of influence and established a truly globalised world system.

With the passing of time, the globe's present-day power dynamics are no longer reflected in the post-cold war world order. The globe's gravitational centre is shifting eastwards (figure 1), with the Indo-Pacific set to dominate most of the 21st century in every sense possible – economically, (geo)politically, culturally, and demographically (Choi et al., 2019). At the centre of this tectonic shift, we, befittingly, find the Middle Kingdom (Kemp, 2020; The Economist, 2018).



Figure 1: Globe's shifting centre of gravity (source: The Economist, 2018)

The China Shock

In mere decades, the PRC transcended from a regional power to that of a superpower in the making (Allison et al., 2022). Its rise to prominence – spurred by Deng Xiaoping's reforms – allowed it to become the economic and technological powerhouse it is today, garnering it considerable amount of cloud in the process. Small and great powers alike have all sought to curry its favour by rolling out the red carpet. The (strategic) scope of Xi Jinping's BRI – a 21st century version of the famous Silk Road – is a testimony to the Middle Kingdom's growing gravitational centrality in the multilateral politico-economic system.

The Dragon's ascension is accompanied by a profound paradigm shift in its international relations. Ditching its four-decade-old diplomatic code – *tao guang yang hui* – to some extent, Chinese diplomacy has displayed a more adversarial

approach in its interstate dealings (Tao Guang Yang Hui: To Conceal One'. . . : Tāo Guāng Yǎng Huì | Definition | Mandarin Chinese Pinyin English Dictionary | Yabla Chinese, n.d.). Coercion is no longer treated as a dirty act, on the contrary, Beijing has made little-to-no qualm to bare its teeth whenever national interests were at play. Whoever dares to slight it, befalls the misfortune of incurring its wrath. Asia's 'gentle giant' is no more; Beijing demands a role befitting of its global stature (Tian, 2021).

Tipping the scales of balance towards a yet to be determined equilibrium, the "China Shock" – the impact of the country's astronomical rise in the global pecking order – has left the Euro-Atlantic, the incumbent power centre, in a state of discomfort (Leonard, 2017). Uncle Sam in particular views Beijing's growing appetite as worrisome. The making of a Sino-centric system in the Indo-Pacific and beyond, no matter how slim the chances are, risks diluting its pre-eminence and fracture the U.S.-led multilateral system into regional fiefdoms. The perceived encroachment on its apex status has already triggered a reorientation of U.S. China policy within the wider 'Pivot to Asia' framework. Scuppering most of the 'naive' approach of transformative engagement, a more hard-line policy consensus in opposition to Chinese ambitions has taken shape.

Same old Game, New set of Rules

With the all-defining Sino-American relations increasingly becoming fraught, the world system's resilience will be put to the test. It is hardly impossible to ignore its impact on the wider international system. The Sino-American tussle has forced the reopening of the Grand geopolitical Casino. With the small(er) powers trying their luck at the slot machines, the greater powers – those with a global or an outsized regional clout – are gathering at the grand table for another game of high-stake poker.

What sets this round apart from past rounds are the rules of the game itself. Military power (projection) no longer holds the title of primary indicator for a state's geopolitical stature. Nor does territorial conquest hold the value it once had. Instead, economic power and tech-savviness are increasingly viewed as important to determine a state's global stature (Bertuzzi, 2021). Global primacy is now attained through technological leadership, exerting control over the modes of production, and defining the standards on future technologies. With economic security increasingly on par with military security, the grandest of games is subjected to the geoeconomic playbook.

The change in rules is already leaving its mark on the power dynamics at the table. Challenging U.S. hegemony no longer comes with the risk of military beatdown (Vega, 2021). Due to its covert nature, geoeconomic conduct is more likely to go un(der)detected, hence, making countering (geo)economic power projection less clear-cut when compared to military power project. Emblematic to the new rulebook is the Euro-Atlantic attempt to counter Beijing's multi-trillion BRI; both Brussels and Washington D.C. already announced their own projects bundled under the GPII – Global Gateway and B3W, respectively. In an earlier attempt under the Obama administration, the dual track approach within the "Pivot to Asia" framework contained strong geoeconomic element (Office of the Press Secretary, 2015). TPP – a highly ambitious multi-country trade deal – was the central pillar of Obama's endeavour to tie the region as closely as possible to the U.S. economy while simultaneously keeping Chinese ambitions at bay and forcing it to submit to its standards (Wesley, 2016).

Problem definition and Research Question

Though the concept remains largely elusive to the general populace, geoeconomics has increasingly found its way into the strategic thinking of power corridors of the world economic system. Whereas power on the international stage in the 20th century revolved entirely around the act of empire-building and securing one's territorial sovereignty, the 21st century has radically redefined it through an increasingly economic lens. Economic factors have become increasingly central to international relations, hence turning economic power into a key source for global influence (Cowen & Smith, 2009).

The Dragon's unparalleled growth during the past four decades has transformed the political views on the world economic system (Allison et al., 2022). No longer do policymakers interpret it as an apolitical sphere of interaction, guided by the principle of convergence towards a level-playing field underpinned by a set of multilateral arrangements and remedial measures to ensure the developing world's ability to compete within the system. Instead, the world economic system is increasingly viewed as an economic free-for-all in which the law of the jungle is slowly gaining ground.

The multilateral arrangements meant to safeguard the vestiges behind the apolitical interpretation of the world economic system are now framed as an impediment to the state's right to strengthen their economic prowess. Referees that once commanded authority find themselves increasingly side-lined as the world's biggest economies are increasingly banging the war drums (Ip, 2023). Global value chains once built based on the logic of the most optimal resource allocation now buckle under the increased emphasis on the logic of economic sovereignty (Leonard et al., 2019; Suzuki, 2021). Remedial exceptions to lower the bar for the developing world are increasingly being challenged for the sake of "reciprocity" (Fleming, 2012). And once harmonious economic relations are willingly put at it risk for the sake of national security.

In the wake of the "sudden" (political) awareness to the proliferation of economic power as a means to engage in power politics, states are actively reimagining and repositioning themselves along the strategic baseline of "*international competitiveness*" (Moisio, 2019). This qualitative transformation was strongly captured by the remarks made by President Emmanuel Macron (Gotev, 2022):

"On the economic side, President Macron emphasised the need for Europe to establish "genuine technological sovereignty" and to make Europe 'a digital powerhouse' that defines its own rules for the digital world and not be "rule takers, dependent on other powers".

A summit of the EU's 27 leaders on 10-11 March will "define the new European growth model", examine "investment plans and new industrial alliances" focused on "job and value creation through supporting evolving technologies". This would allow Europe "to produce and create wealth (based) on the cutting edge of innovation," creating "decent, qualified and better-paid jobs" while protecting Europe's social model, offering workers and "moving forward on minimum pay and gender equality"."

No longer the equivalent of a guardian knight mounting the barricades, states have morphed into what Moisio (2019) has described as the 'entrepreneurial state'; by taking up the role(s) of sales rep, banker, (risk) investor, and (talent) manager states are constantly reworking their territories to attract and attain particular segments of economic activity. In other words, states are on a constant quest to control said economic activity to their "national" benefit.

In such a context, a valid point popped up in my mind: if all states adapt to the above stated strategic baseline, what determines which states come out on top and which do not. As international competitiveness entails a degree of irreconcilability between states' national interests, how are some states more successful in their endeavours to exert control over economic activity, while other flounder in their attempts.

Whereas many attempts to define the concept of geoeconomics had been undertaken, academic literature has rather overlooked the topic of power in geoeconomics. Sure, several attempts have been made to shed light on the instrumental repertoire of states and what their usage entail, any real attempts for establishing a genuine power analysis along geoeconomic lines have remained absent in the study of geoeconomics.

Therefore, this research aims to address this gap in the academic literature by tackling the following question: **"How do we define (a) geoeconomic power?"** The question is two-folded; the word 'power' in international politics refers both to the theoretical concept as to the status within the hierarchy of states. Such a two-folded question does not entail the necessity for establishing two different approaches, however, as, inspired by the Lowy Institute's annual Asia Power Index, I will centre my attention on the conceptualisation of a model for geoeconomic power analysis.

This dissertation takes on the form of a literature study which unfolds in accordance with the following sections: Firstly, I will provide a brief overlook on the contextual *Stunde Null* of the international system's geoeconomic turn around, before gearing towards a critical assessment on geoeconomics based on the existing theoretical background. This will be followed by comparing the concepts of geopolitics and geoeconomics as to distinguish between the two, on the one hand, and to grasp in what ways they relate to each other, on the other hand. Despite the increased awareness, geoeconomics remains often used intermittently with geopolitics by mainstream media. Lastly, I will shift my attention to the purpose of this thesis: the setup of a model to provide us with a starting point for the comprehensive analysis of geoeconomic power.

Geoeconomics: What's behind the Name?

The Trump administration may have struggled in his pursuit of its 'America First' agenda, it certainly succeeded in popularising the blunt usage of economics to secure American interests. Its willingness to turn to blunt economics to drive its point home – the imposition of tariffs on steel (25%) and aluminium (10%) imports under Section 232 of the Trade Expansion Act, the use of extraterritorial sanctions in the Iran file, the U.S. crackdown on Huawei, and the tit-for-tat trade war between the PRC and the U.S. – garnered it a lot of attention in academic circles and beyond (Keane, 2021).

Trump's coercive antics has blown a hole in the liberal school's dominant paradigm. Globalisation no longer resembles the vanilla perspective of ever-increasing economic interaction proponents once held. Interdependency and interconnectedness no longer serve as pacifying conduits in the international system. The Trump administration has shown that these can be turned into a liability overnight.

What has set off the transformation of the international system? The redistribution of global power outside of what Katzenstein (2005) dubbed the American Imperium. The hegemonic stability theory and the long cyclical theory shed some light on the issue. Though they somewhat differ in essence, both stress the importance of the existence of a world power – albeit through hegemony or world leadership – to maintain the international order of its making (Cui, 2007; Rosecrance, 1987). The leading power must possess superior military and economic capabilities vis-à-vis its competitors to stave off the risk of being challenged.

A key tenet of these theories is the correlation between free trade and peace on the one hand and the relative decline of incumbent world power vis-à-vis challengers on the other hand (Adorney, 2020; Kirchner, 2021). Free trade benefits friend and foe (Cui, 2007; Kirchner, 2021; Roberts et al., 2019; Rosecrance, 1987). As long as the leading power remains unchallenged, its economic preference tends to tilt towards free trade. Whenever a challenger threatens the incumbent power's dominance, its appetite for free trade decreases and the pendulum veers towards a greater degree of protectionism (Kirchner, 2021).

Applying the above on the current state of affairs offers us an explanation for that transformation. The unique set-up of the American Imperium left U.S. supremacy unchallenged for decades: it incorporated several of the world's leading power centres in what Katzenstein (2005) called a coalition from the centre, its challengers lied squarely in the periphery, and its pre-eminence in the dual sources of power – economic and military – was unmatched. The USSR was its prime strategic challenger but was nowhere near a viable economic competitor. Japan and the EU were the primary challengers on the economic front but were not even remotely interested in challenging U.S. strategic leadership (Kirchner, 2021; Wesley, 2016).

The increased activism of emerging power centres in the outer rim is tilting the international system towards a more-or-less multipolar system – at least on the economic front – diluting the American Imperium in the process (Baru, 2012; McGuire & Smith, 2008; Vega, 2021; Wesley, 2016). The decisive factor at play, however, is the convergence of economic and strategic competition in the form of Beijing (Roberts et al., 2019). The ascension of the Dragon triggered the above-mentioned iron law of the hegemonic theories (Cui, 2007; Rosecrance, 1987).

Trump's offensive against the free trade regime should therefore be seen in light of Washington D.C.'s relative decline vis-à-vis Beijing in the backdrop of the structural shift towards the Indo-Pacific at the expense of the Euro-Atlantic (McGuire & Smith, 2008; Roberts et al., 2019). Beijing owes much of its economic rise – continues to do so to achieve 'Made in China 2025' – to the U.S.-led liberal order (Wesley, 2016). As the current rule-oriented international trade regime nurtured the PRC into a systemic rival, the U.S. changed its tune on the benefits of free trade as a means to stifle Beijing's strategic ambitions (Riecke, 2020; Roberts et al., 2019).

The trend towards weaponised globalisation has left policymakers around the globe grappling with the risks of supply chain vulnerabilities, pushing the topic of supply chain resilience on top of the political agenda (Suzuki, 2021). COVID-19 only further highlighted the precariousness of over-dependency as countries were suddenly left scrambling to acquire critical goods. Differing policy responses – reshoring, near-shoring, ally-shoring, and China+1 – reflect the heterogeneity of the debate of how to tackle the question (Kirchner, 2021; Suzuki, 2021). In the most extreme sense, the siren's call of economic decoupling is gaining traction in certain countries (Riecke, 2020; Roberts et al., 2019). Like it or not, Trump's legacy has decisively changed the trajectory of the international system for decades to come.

Theoretical Perspectives on Geoeconomics

How should we approach the topic of geoeconomics? A commonly agreed definition remains up in the air, still subject to debate within academic circles. The heterogeneity of the debate is reflected in the diversity of the different accents (competition, transformative, discourse, and cooperation) put forward by the respective IR schools: realists, constructivist, marxists, and institutional liberals (Vega, 2020).

For the sake of my dissertation, I will approach the concept from the perspective as a framework for foreign policy analysis with states as the primary protagonists (Scholvin & Wigell, 2016).

Substance-wise three approaches, or schools of thought as one could designate them, have emerged from the scholarly debate: (1) geoeconomics as economic warfare, (2) geoeconomics as the geostrategic usage of economic statecraft/assets, and (3) geoeconomics as the interplay between geography and economic spatial systems. Though each approach offers a distinct perspective on geoeconomics, they each underline two common core principle: the geostrategic use of economic power and the transformation of interdependence and interconnectedness into conduits for power projection in the pursuit of national interests and the resulting pressuring of the rule-based order.

Economic warfare

Edward Luttwak, the godfather of modern-day geoeconomics, is one of the most well-established scholars specialised in geoeconomics. In what he described as “the logic of conflict through the grammar of commerce,” he took a macro-level approach by designating the economic realm as the main stage for interstate rivalry in the post-Cold War era following the decreased usefulness of military power projection (Luttwak, 1990; Luttwak & Nicolson, 2000).

Residing squarely within the realist tradition, Luttwak was among the first to debunk the rose-tinted liberal paradigm on the correlation between peace and interdependency (Luttwak, 1990; Luttwak & Nicolson, 2000; Vega, 2020). Proponents of the so-called peace-interdependence thesis believed that globalisation of the free trade paradigm would result in the imminent subjugation of the realm of high politics to the logic of economics (McDonald, 2004; Riecke, 2020). After all, war, and the instability that it brings with it, is a major damper for international trade. Through deepened economic integration the prospect of war between trading partners had become unlikely if we were to believe 'Peace through Trade or Free Trade?' (McDonald, 2004; Roberts et al., 2019). By tying each other's future wealth to one and other, integrating one and others national economies would serve as an avenue for trust-building between nations (McDonald, 2004).

Luttwak, however, objected to the liberalist idea of a so-called free-trading nirvana. Cold War politics dictated the pace of the international trade regime, it defined economic logic (Santana, n.d.). Trade liberalisation was merely a matter of cold-blooded calculations to underpin the sprawling ties between the members of the First World (Luttwak & Nicolson, 2000). Without the strategic inhibitions of the Cold War, Luttwak predicted, multilateral trade liberalisation would grind to a halt.

Time would prove Luttwak right. Just as during the bipolar standoff, geopolitics – or rather its absence – defined the pace of the international economic system. The inconclusive Doha round pales with the relative ease in which the previous GATT rounds were concluded (McGuire & Smith, 2008; Wesley, 2016). Commercial quarrels between decades-old allies became more frequent, were more explosive, and most importantly became more public. Ever since the creation of the WTO system, a whopping 600+ complaints have been lodged compared to a ‘meagre’ 127 cases under the GATT framework (World Trade Organisation, n.d.-a, n.d.-b). In search for a renewed purpose, states shifted their bureaucratic apparatus towards steering economic outcomes (Luttwak & Nicolson, 2000; Moisisio, 2019; Wesley, 2016). Without the unifying (military) threat of an external other hovering over their heads, western allies were less willingly to yield economic ground (Luttwak & Nicolson, 2000). The logic of economics is competition, after all (Wesley, 2016).

To engage in geoeconomics requires the willingness to sustain short-to-medium-term losses to achieve medium-to-long-term benefits (Luttwak & Nicolson, 2000). Profit is no longer a top priority, strengthening one’s position in the economic hierarchy is (Luttwak & Nicolson, 2000; Bertuzzi, 2021). States must be willing to bear the costs of counter-retaliation measures to secure these relative gains. Such measures, in accordance with Luttwak’s assertion, had to be economic in nature for the interstate interaction to be classified as geoeconomic (Luttwak & Nicolson, 2000).

The aerospace sector is a poignant example of former. European states poured millions of public funding into present-day Airbus to break the U.S. chokehold in the civil aviation sector. The ploy did not go unnoticed as the entry of a sizable competitor could spell trouble for Boeing’s comfortable position. Cue a nearly two decades-long commercial standoff between the U.S. and the European backers of the Airbus consortium. Nowadays, Airbus ranks among Europe’s industrial giants, holds around half of the market share, and is a leading innovator within the sector. Beijing is trying to pull off a similar ploy with Comac (Behind Airbus-Boeing Truce Lies a Common Rival: China, 2021).

Geostrategic usage of economic statecraft

Luttwak may have provided significantly to the study of geoeconomics, his views on the matter displayed a western-centric ring to it. By portraying the practice of geoeconomics as de facto exclusively reserved for the ‘civilised’ West, Luttwak and Nicolson (2000) argued that much of the ‘barbaric’ non-western world simply lacked the propensity to engage in the geoeconomic game. The low(er)-income countries are utterly dependent on the whims of the global market, whereas the geoeconomic endeavours of the emerging economies in the middle-income class are labelled inadequate in terms of consistency and efficiency (Luttwak & Nicolson, 2000).

Reality tells us otherwise, however, with non-western countries, mostly in the middle-income class, proving themselves more than capable in the art of geoeconomics. The Asian Tigers, thanks to well-targeted state investment strategies, rose through the international rankings by becoming direct high value-added competitors to the West (Lorot, 2009). The Arab members of OPEC bared their teeth by imposing a far-reaching oil embargo against the U.S. and several of its allies in 1973-1974 (Office of the Historian, n.d.). The PRC, despite a string of ‘frozen’ disputes, has proven itself exceptionally adept in wielding the harder edges of geoeconomic conduct. To them, geoeconomics has become the preferred pathway to challenge the pre-eminence of the West on the global stage through the region-level backdoor (Vega, 2021). And it is a game in which they are able to outwit their Western peers through tools and tactics which the West simply cannot replicate in a similar fashion. A key factor at play here is the rise of state-led capitalism and state-owned enterprises as a development model for these countries (Schneider-Petsinger, 2016). Directive in nature and less driven by cost-effectiveness, these states will more (readily) to steer investments into endeavours with excessive costs on the one hand and pursue politically driven economic deals on the other hand. Geoeconomic conduct is thus not the

exclusive prerogative of western powers it seems; non-western powers are equally capable of playing the game (Lorot, 2009).

Keeping in mind the success of these emerging economies, a segment within the study of geoeconomics pursued a micro-level perspective on the matter by turning their attention to the instruments within a state's overall arsenal. Here, geoeconomics is understood as the geostrategic deployment of economic statecraft as a foreign policy tool to advance one's national interests (Kirchner, 2021; Roberts et al., 2019). By viewing the issue from a micro-level perspective, we can note that states have had a longer track record than argued by Luttwak & co. when it comes to wielding economic statecraft in a geostrategic fashion. The Megarian Decree, issued by the then Athenian empire against the city-state of Megara, is often quipped as one of history's earliest documented acts of economic statecraft (Brunt, 1951). Successive U.S. administrations have deployed geoeconomic ploys of their own. The Truman administration poured billions of USD into Western Europe to revive its social-economic fabric and create an export market for its industry (Dinan, 2014). The Kennedy administration imposed a far-reaching economic embargo on Cuba in 1962 due to its close relations to the USSR. The EU has had a decades-long track record when it comes to sanctioning entities – state and non-state alike (Sanctions, Privileged Instrument of European Foreign Policy, 2021).

By turning our attention to the state's geoeconomic toolbox, however, one might feel overwhelmed by the wide variety of economic statecraft. After all, states can turn to a whole plethora of economic policy instruments in their pursuit of their national interests. Blackwill and Harris (2016) designated the following tools as suitable of geoeconomic conduct: (1) trade policy, (2) investment policy, (3) financial and monetary policy, (4) economic and financial sanctions, (5) economic assistance, (6) cyber policy, and (7) national policies governing energy and commodities (Blackwill & Harris, 2016). Other designated instruments of geostrategic interests are industrial and research policy, competition policy, and domestic boycott and divestment campaigns (Bretton, 2021; EU Council, 2021; Haeck, 2021; Leali & Kayali, 2021; Leonard, 2017; Noyan, 2021).

The geostrategic deployment of economic statecraft as a foreign policy tool can be viewed through different lenses: (1) a relational aspect on the one hand and (2) a motivational aspect on the other hand.

The relational logic behind economic statecraft operates along the lines of the coercion-reward nexus, more commonly known as the carrot-and-stick approach. Media headlines have developed a keen eye for capturing actions residing squarely in the coercive side of interstate interactions – asset freezes, boycotts, economic sanctions, trade retaliation and travel bans. These actions, meant to exact economic pain, can easily be likened to the geoeconomic equivalent of a military war declaration. States, however, may choose to go the opposite route by turning to the perks of rewarding power – bribery, favourable loans, price cuts, preferential trade access – when dealing with third parties as a means of influence peddling and building up potential dependencies in the long run. The operator will act as a patron to the target in exchange for toeing its line when it comes to its interests (Vihma & Wigell, 2016).

Despite their opposite operational logic, one cannot view them separately from one and another as the acts of coercion and rewarding make up two sides of the geoeconomic coin. Russia's conduct within the former soviet sphere of influence (and beyond) offers us with some examples to substantiate their interchangeability. Energy exports are a common and often preferred lubricant for Moscow to "bind" such states to itself. Moldova stands out as a compelling case of Moscow's two-sides-one-coin deployment of energy exports over the years (Euractiv, 2013; Kobzeva & Tanas, 2021; Reuters, 2012).

The motivational logic behind economic statecraft, however, operates on the basis of strengthening one's domestic positioning vis-à-vis others within the wider system. A state's domestic economic prowess is paramount to its status in the geoeconomic world system. Without an economic base, one cannot hope to enter the geoeconomic arena, let alone emerge from it unscathed. Consequently, economic statecraft can be divided into a defensive and offensive set of instruments. The defensive statecraft seeks to protect a country's (nascent) economic sectors from foreign competition, whereas the offensive statecraft is aimed at securing technological advancements and increasing the operator's global market share through supportive measures (Luttwak & Nicolson, 2000).

Under the defensive instruments, we may understand shielding, stifling, and delaying (Luttwak & Nicolson, 2000; Roberts et al., 2019).

- **Shielding:** Domestic industry is protected through a barrage of measures ranging from classical trade barriers – tariffs, quotas, and import prohibitions – to more creative methods such as sanitary regulations, labelling rules, and rules of origin. Whereas classical measures are easier to counter, the indirect nature of creative methods makes them harder to counter against.
- **Delaying:** A country can also deploy measures in a more devious way such as through customs checks, means of bureaucracy, and compulsory standards to make it more cumbersome for foreign competition to enter their domestic markets. In such cases, exporters are less inclined to make the effort to enter the market.
- **Stifling:** A country can also deploy more assertive measures ranging from arbitrary standards, foreign investment screenings, and limiting foreign access to critical industries to blacklisting, export controls, and outright bans.

Under offensive statecraft, we recognise the efforts of making, market penetration, transacting, and taking (Luttwak & Nicolson, 2000; Roberts et al., 2019).

- **Making:** A state will use a variety of instruments to support and nurture homegrown industries into ‘adulthood’. The state’s support can range from the mobilisation of investment capital, preferential tax treatment, and research & development to operating subsidies and government purchases to keep it afloat.
- **Market penetration:** To aid its enterprises to tap into new markets for the sake of increasing their market share the state will provide covert support to outcompete their competition. Through predatory finance – loans with a low interest rate – it can effectively subsidize the exports of its industries, hence putting foreign competitors at a disadvantage. The state could take it a step further by underselling its products at artificially low prices (dumping) to crowd out the market and gain market share. The state could even go further through currency manipulation to achieve a favourable rate vis-à-vis other currencies and boost its exports.
- **Transacting:** Transacting entails the transfer of key technology. Through takeovers, mergers, and investments an actor could gain access to the intellectual property of companies. A state could also force a tie-up with a domestic counterpart to gain access to its domestic market.
- **Taking:** A state can choose to gain knowledge on emerging industries and/or gain control of strategic sectors through the theft of intellectual property, economic espionage, and asset seizures.

Interplay between Geography and Economic Spatial systems

To become fully-fledged geoeconomic actors, states must possess a profound comprehension of the geographical essence of the space in which they operate, as well as its consequential impacts on their functioning. The dynamics of globalization and internationalization have significantly transformed the foundational principle behind state sovereignty (Katzenstein, 2005; Vega, 2021). Consequently, these intertwined processes have given rise to a multifaceted spatial system with intricate linkages, encompassing a diverse array of actors. States now find themselves engaged in a fierce competition with the likes of transnational corporations and pressure groups. Anokhin and Lachininskii (2015) have aptly termed it the GGS.

In “Towards the Geopolitics of Flows: Implications for Finland” Aaltola et al. (2014) observed that interdependency has given way to a more fluid conceptualisation of sovereignty defined by the flow of commodities, services, and capital. One’s territorial integrity is no longer the corner stone for state sovereignty. Global flows are increasingly taking place beyond the territorially delineated international system. Therefore, exerting control over and securing access to the global

flows is increasingly seen as paramount to the state's sovereign integrity. Flow disruptions and asymmetric dependencies are considered equally harmful to a state's sovereignty as military incursions (Aaltola et al., 2014; Fjäder et al., 2021).

Katzenstein (2005) offered his own take on the fluidity of "flow sovereignty" by redefining it along the lines of a high-value bargaining chip. After all, the flow paradigm entails losing a degree of sovereign decision-making power in the form of a trade-off. A flow between two or more parties mirrors more-or-less a contract that binds all participating parties to one and other. Interconnectedness and interdependency are the primary forces behind the erosion of state sovereignty (Katzenstein, 2005).

The degree of erosion in sovereign decision-making is dependent on the degree of asymmetry residing within these flows. Asymmetric flows require one or more parties to accept a greater loss in sovereignty than the other. The closer it resides to the global flow structure, the larger its bargaining power will become (Aaltola et al., 2014). Therefore, sovereignty should be viewed from a spectrum-like perspective as opposed to the more-or-less monolith idea of statism (Beaverstock et al., n.d.).

Based on the above, the lay-out of the GGS functions along the lines of a so-called hub-and-spoke model (Aaltola et al., 2014; Fjäder et al., 2021). The asymmetric nature of the flow paradigm has centralised flow control over commodities, services, and (human) capital into networks (spokes) of power nodes (hubs) centred around the GaWC (figure 2) primarily located in the Euro-Atlantic and the Asia-Pacific (Anokhin & Lachininskii, 2015; Fjäder et al., 2021; Loughborough University London, 2020). Housing up to 68% of the global population in the future, making up a substantial share of national GDPs and clustering a wide variety of economic activities within their "immediate" neighbourhood, urban agglomerations have emerged as the beating heart(s) of the world's economic system (Bessis, 2021; Cote et al., 2021; European Committee of the Regions, 2021; Ritchie & Roser, 2018; United Nations, n.d.). The above-mentioned changes have given to rise the strategic urbanisation of the state; economic strategies are increasingly defined through an urban lens (Cote et al., 2021; Moisiso, 2019). Technological advancements, which often are fostered within these so-called city-regions, have further solidified the centralisation of asymmetric control over the global flows into these gatekeepers (Cote et al., 2021; Fjäder et al., 2021).

The GaWC are divided into five sets of global cities – alpha, beta, gamma, high sufficiency, and sufficiency – each exhibiting varying degrees of flow control (GaWC - The World According to GaWC 2020, 2020). Alpha cities form the apex of the pack. Highly integrated with the world economy, they govern the main global flows and link the major economic regions with the world economy. Beta cities act as the interlocutors between their state and/or moderate economic regions and the world economic system. Finally, the gamma cities link smaller regions into the network tissue of the GGS. They tend to hold a more localised set of relations compared with the alphas and betas (Derudder & Taylor, 2003).

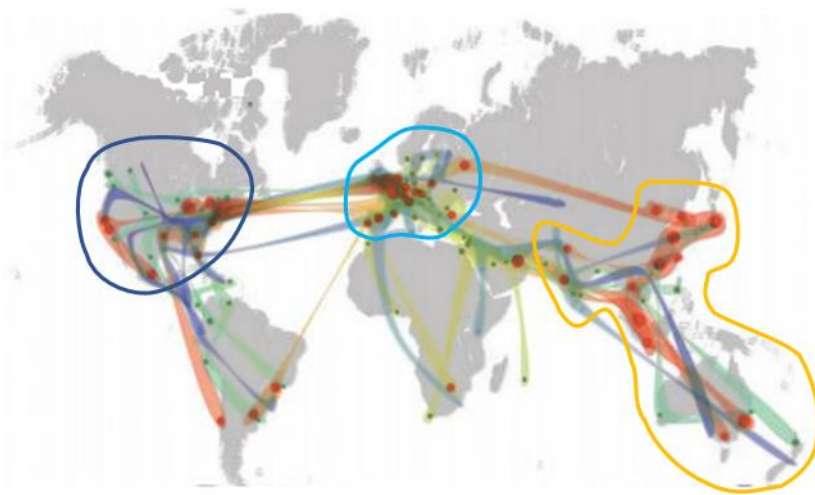


Figure 2: Representation of the 2010 GaWC Spatial System (Source: GLOBAL CITIES in Harmonious Development, n.d.)

The division of the GaWC into tiers of flow controllers sheds some light on the structural features of the GGS as a framework for geoeconomics (figure 2). Different layers of interconnectivity are noticeable. By overlaying the alpha-, beta- and gamma-layers, we can observe a notable difference in distribution and density of the GaWC network between geographical regions. The degree of interconnectivity is the densest in three geographically-defined spaces – Europe, the Asia-Pacific and North America – which coincidentally are the world’s current economic points of gravity (Cuyvers et al., 2002; Damen & Iglér, 2021). Together they form the triad economy, making up more than 80% of the world’s GDP (Katzenstein, 2005). The less densely-connected spaces – Latin America, Africa, Central Asia – reside more or less in the fringes of the global flow structure. As a result, they are reliant on the tripolar set of flow controllers to access the global flows. The asymmetrical centralisation of the alpha tier cities within the Europe, North America and the Asia-Pacific further solidifies that dependency (Anokhin & Lachininskii, 2015; Damen & Iglér, 2021).

Each of the above-mentioned spatial clusters are each structured around a dominant alpha tier city: London in Europe, New York in the Americas, and the Singapore-Hong Kong duopoly in the Asia-Pacific (Beaverstock et al., n.d.; Myers, 2020). Apart from the American space, the dominant alpha node mirrors the dominant polity in neither the Asia-Pacific nor Europe. Brexit spawned an uneasy co-dependency during a less than cordial time for EU-UK ties. London finds itself relegated to the role of an extramural alpha centre of the region’s structuring polity. The EU itself is already moving to recalibrate the intra-spatial flows in Europe by wrestling over financial flow control through the rationalisation of its fragmented financial markets (Brenton, 2021; Willems, 2021). In the Asia-Pacific, Hong Kong’s slight edge over Singapore as the region’s financial centre is attributed to its status as the gateway to the region’s gravitational centre as well as by the economic restrictions on the mainland – capital controls and closed market sectors (Beaverstock et al., n.d.; Cheng, 2021). The duopoly itself is traced back to their respective dominance in their subregional neighbourhood of East and Southeast Asia (Beaverstock et al., n.d.; Doing Business - Singapore vs China, n.d.). Political headwinds following the imposition of the Hong Kong Security Law could nullify its edge over Singapore for the battle over the Asian-Pacific (Doing Business - Singapore vs China, n.d.; Reuters, 2020; Stevenson, 2020; Tyrrell, 2020).

The presence (or lack) of geographically defined high-density networks and their effects on a region’s position within the GGS highlights the importance of the regional dimension of such flow structures (figure 2). Songwe (2019) observed that clusters with dense flow-networks register higher levels of trade sophistication and trade diversification when compared to clusters with lower levels of network density. The McKinsey Global Institute noted in 2019 that most of the international trade conducted by the economic triad happened intra-regional – North America ($\pm 40\%$), Asia-Pacific ($>50\%$), and the EU ($>60\%$) (Choi et al., 2019). The Sub-Saharan cluster, on the other hand, registered a meagre intra-regional share of just under 20%, rendering its economic security dependent on more distant extra-regional flows

with a select(er) group of few countries (Songwe, 2019). A consolidation spree to broaden and deepen such intra-regional interactions is already underway in a handful of regional clusters: RCEP and CPTPP in Asia-Pacific, USMCA in North America, AfCFTA in Africa, and the EU Single Market Program 2021-2027 and Open Balkan in in Western Balkans.

The consolidation of regional clusters coincides with the disruption that plagues much of the multilateral economic system (Roberts et al., 2019). The systemic inability for great powers to strike a grand bargain between each other has rendered it all but impossible to push for meaningful system modifications (McGuire & Smith, 2008). Intra-spatial clustering has therefore emerged as a countermeasure against the multilateral retreat into the law of the jungle (Cuyvers et al., 2002; Katzenstein, 2005). Countries will seek to band together in an effort to increase their resilience against asymmetric flow coercion through the amelioration of their economic bases and interlinking it into intra-spatial supply-value chains (Cuyvers et al., 2002; Songwe, 2019).

The division of the GaWC into interconnectivity levels, along with the importance of dense intra-spatial networks in geographically delineated entities in the GGS, indicates that lower levels of flow networks exist beneath the global flow layer. As seen in figure 3 we can differentiate between five geographical levels of geoeconomic analysis each with their own distinct set of actors and dynamics: (1) the highest or world level, (2) the upper or region level, (3) the middle or national level, (4) the lower or superregional level and (5) the lowest or regional level (Anokhin & Lachininskii, 2015; Lachininskii, 2012). These flow layers do not exist independently from one and other in a so-called spatial vacuum. They find themselves in a constant state of horizontal and vertical interaction with one and other. An event on the region-level (EU Green Deal) could seep to the (super)regional level (coal mining regions in the Visgrad-4 confronted with coal phase-out) which in turn will prompt the national-level to gear up for action on the region-level (demands for more transition funding).

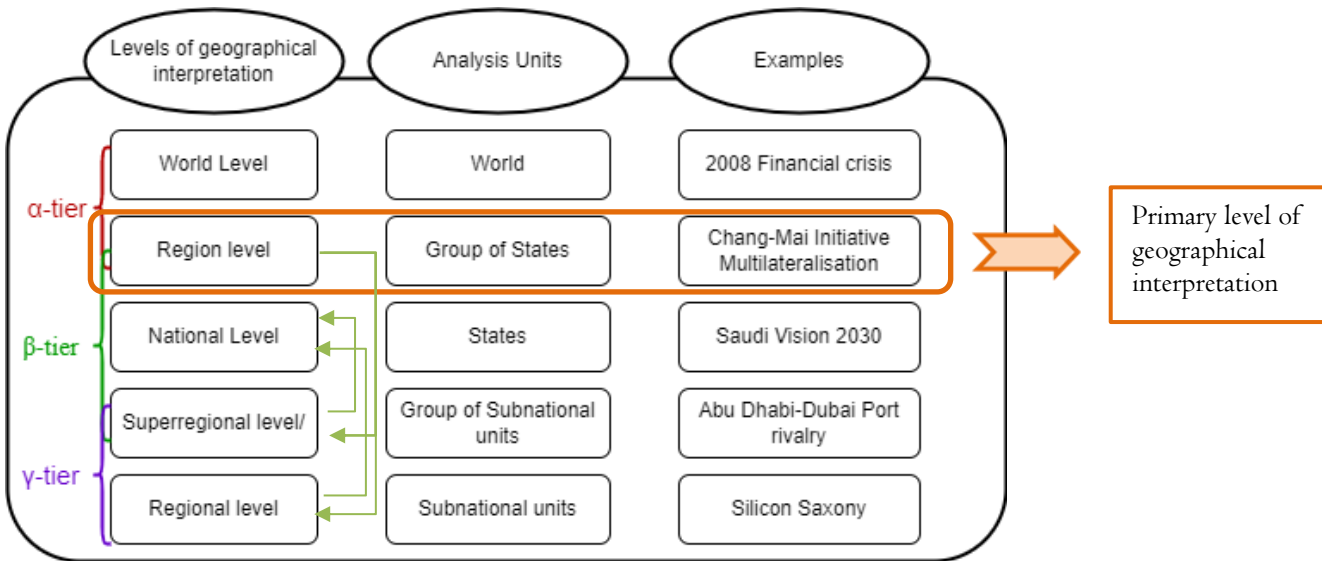


Figure 3: Levels of geographical interpretation of geoeconomic analysis (Source: Lachininskii, 2012)

Based on the existing literature, we put forward region-level units as the primary level of geoeconomic analysis instead of the world level. Anokhin and Lachininskii (2015) argued that research units should exhibit spatial stability as a criterion for geoeconomic analysis, which favours region-level clusters – so-called megaregions – over the world system as an analysis unit. The fragmentation of global power into several power centres has resulted into high levels of spatial instability in the world system (Leonard, 2017). Region-level clusters, on the contrary, exhibit a greater degree of spatial stability as they are often more-or-less a construct, an expression of power concentration (Katzenstein, 2005). As a construct, they can differ in size, scope, and ambition. Wigell (2015) observed that spatial clusters often crystallise

around a preponderant power. The central node exhibits a magnetic pull on their surroundings that grants it control over much of the intra-spatial flows in a hub-and-spoke manner.

Two additional factors are points of interest when looking into spatial stability. For starters, geographical proximity has a clear advantage over extra-spatial linkages (Ge et al., 2017; Mattlin & Wigell, 2015). The greater the distance between two or more countries, the less stable the spatial cluster will be. Closely interlinked to geographical proximity is the factor of cultural proximity. A shared identity – culture, history, or language – is an additional potential stabilising force. Countries with a shared identity are more likely to maintain stable interactions with each other (Aaltola et al., 2014; Ge et al., 2017).

If the upper level of geographical interpretation is the prime level for geoeconomic analysis, then it leaves us in quite a bind to answer the question of who the globe's predominant hub is. The deconcentration of global power into a system of varying levels of hub-and-spoke clusters has more-or-less negated the singular global hub-and-spoke perspective of the U.S.-led world system as ascribed by Aaltola et al. (2014) and Katzenstein's American Imperium (2005). No singular power comes close to holding the amount of sway needed to act as an omnipotent hub and produce spatial stability on a global scale. The process of deconcentration, however, has not only unleashed a consolidation wave of intra-spatial clusters but has also spawned the process of interspatial consolidation of extra-regional clustering. The EU has embarked on a quest to modernise – broaden and deepen – its existing FTAs (Chili) while injecting renewed impetus in stalled negotiations (India and ASEAN) and opening new negotiating chapters across the globe (Australia) (McGuire & Smith, 2008).

Anokhin and Lachininskii (2015), however, showed a particular interest in the scale, scope, and depth of the network density of interspatial linkages between upper-level clusters. "If a single power no longer suffices to produce spatial stability, then why not broaden the scope, and bring others into the equation," they would have thought. Interregional linkages are capable of emitting high levels of network power on the global flows architecture. TTIP, for example, riled much of the international system against it due to the power grab it engendered. Anokhin and Lachininskii (2015) coined the term "geoeconomic tent" as a means to describe the predominant interspatial linkage of the GGS in terms of network density. The geoeconomic tent can be likened to the idea of a "supercluster" or a clustered network hub – de facto or de jure – that shares certain structuring characteristics with the omnipotent hub. Whereas the Euro-Atlantic has served as the globe's defining structuring force, the Sino-American 'supercluster' is increasingly taking on a more structuring role. Instead of spawning a global system of quasi-autarkic clusters, the deconcentration has pushed interregional network connectivity to the forefront (McGuire & Smith, 2008).

Besides proliferation of economic power as a means for geostrategy and the transformation of interdependence and interconnectedness into conduits for power projection, geoeconomics holds a great degree of transformative power in the world economic system. Based on the assessed theoretical perspectives, I have come with the following definition for geoeconomics:

Geoeconomics entails the geostrategic usage of economic statecraft in one of five geographical interpretations of the geoeconomic spatial system (GGS), as defined by Lachininskii, to exert control over the global flows of goods, people, services and FDI in such a manner to harness the power of and secure itself against asymmetrical flow imbalances.

It's Complicated: Geopolitics vs Geoeconomics

In a world system increasingly governed by the economic interactions of a variety of actors, both cooperative and competitive in nature, some have argued that the increased importance of geoeconomics has put a dent to the prevalence of traditional geopolitics in international relations (Luttwak, 1990; Cowen & Smith, 2009). However, we cannot claim that the study of traditional geopolitics has become obsolete in the emerging geoeconomic system. In a system where

one's rank in the global hierarchy is increasingly determined by the extent of one's economic might, military power remains a coveted insurance instrument within a state's foreign policy arsenal. Geoeconomics may have altered the prevailing interpretation of sovereignty, it has not supplanted the Westphalian conceptualization of sovereignty. Economic security has simply become an additional facet within the notion of national security (Wigell, 2015).

War and military interventions may have become a cost-inefficient endeavour, states continue to reap the benefits from their mere existence as concepts in the international system (Ahmed & Fatmi, 1971). Present-day countries are less inclined to square off against a capable military. Mere sabre-rattling, for example, is a viable alternative. At a rather 'low' cost a state can exact a psychological toll through military build-up, exercises, or incursions of one's airspace to chip away their resolve.

Untangling geoeconomics from traditional geopolitics remains a challenging endeavour (Scholvin & Wigell, 2016; Vega, 2021). They may share a doctrinal basis – that is exerting control over their space through interstate competition – but dissimilarities in the execution are noticeable (Moisio, 2019; Vega, 2021). Geopolitics should be understood as the study of national foreign policy in light of (1) the global distribution of military and economic power and of (2) the respective power dynamics (Koenig, 2019). Economic power is thus inherently present in geopolitical and geoeconomic power projection. The difference, however, lies in how they define said economic resources. Traditional geopolitics defines it through a geography-defined perspective, whereas geoeconomics defines it from a flow-defined point of view (Blackwill & Harris, 2016; Moisio, 2019).

The most common way to distinguish both theories from one and other, is by comparing each other's pathway towards the state's primary objective; that is the accumulation of wealth (figure 4). Whereas both approaches agree on a shared objective, the components behind geopolitical and geoeconomic conduct – the means, the instruments, and actors – are quite different as described in the figure below (Anokhin & Lachininskii, 2015; Blackwill and Harris; 2016).

- Traditional geopolitics views the accumulation of wealth through the lens of controlling the production of territories of wealth. Control is exerted through conquest or the establishment of spheres of influences within the state's spatial cluster(s). Geoeconomics, on the other hand, likens securing steady access to the overall flow network of commodities, goods, services, and capital as vital to the accumulation of wealth. For a state to secure such access, it must vie for the top slots in the world economy (Anokhin & Lachininskii, 2015; Cowen & Smith, 2009).
- If the means to accumulate wealth are respectively territorial control and global flow control, the instruments to achieve these goals are political-military power and economic power. War and strategic diplomacy are the key instruments when navigating the geopolitical chessboard. Geoeconomics, however, designates the wide variety of economic tools – market- or state-based – under the umbrella of economic power as the way to assert control within the global flow framework (Anokhin & Lachininskii, 2015).
- Traditional geopolitics exclusively bestow states and national leaders with the agency to navigate the geopolitical space. Geoeconomics, however, is characterised by the increased actorness of non-state actors in a dense multi-actor network as a result of the effects of the interdependency trinity: regionalisation, globalisation, and internationalisation (Anokhin & Lachininskii, 2015).

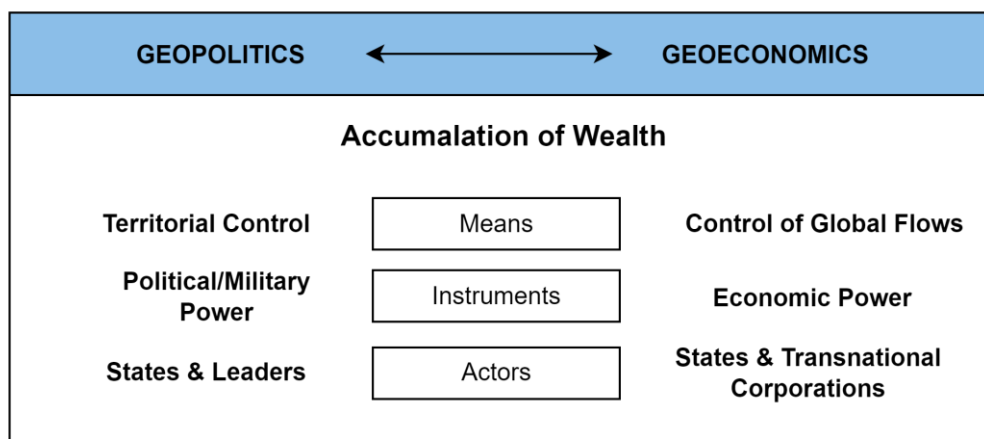


Figure 4: Different components of geopolitics and geoeconomics (source: Anokhin & Lachininskii, 2015)

Although a helpful starting-point to differentiate between geopolitics and geoeconomics, the property-based division risks trapping us in a black-and-white perspective. Instead of black-and-white, reality is a litany of grey tones. Blackwell and Harris (2016) suggested expanding the scope beyond the above-mentioned components by factoring in the situational context behind the operator’s move. Economic instruments can be leveraged to achieve goals that fit the geopolitical category and vice versa (Blackwell & Harris, 2016; Wigell, 2015). The UK bankrolled much of the continental war efforts against the First French Empire by directly financing the Austrian and Prussian armies. The Trump administration turned towards the U.S. diplomatic network to lobby allies against Huawei’s 5G participation. The EU’s Operation Atalanta against piracy was meant to secure global shipping lanes. Besides a property-based distinction, the situational context behind one’s move is equally important to differentiate between geoeconomics or geopolitics.

Vihma and Wigell (2016) took a different approach to differentiate between geoeconomics and geopolitics, by zooming into the operational logic behind power projection. Instead of focusing on the wielder, the target’s perception of the power projection serves as the subject of interest (figure 5). They noted that geopolitical aggression draws out a different type of reaction compared to geoeconomic aggression.

AGENT’S GEOSTRATEGIC CHOICE	TARGET’S REACTION		
	<i>Threat perception</i>	<i>Action-reaction force</i>	<i>Behaviorial tendency</i>
Geopolitics →	EXACERBATED →	CENTRIPETAL →	COUNTER-BALANCING / BANDWAGONING
Geoeconomics →	MITIGATED →	CENTRIFUGAL →	UNDERBALANCING

Figure 5: Different properties of traditional geopolitics and geoeconomics (source: Vihma & Wigell; 2016)

The confrontational nature of geopolitical power projection is more prone to result in a rally-around-the-flag reaction. Geopolitical aggression – military operations and diplomatic pressure campaigns – often allows the targeted state to rally (popular) support behind its leadership. When faced with imminent threats to national security, political disagreements are often subdued in name of national duty. It leaves the opposition with little leeway to challenge governmental leadership, allowing for more decisive governmental action to stave off the crisis. This is reflected in state policy choices: counterbalancing or bandwagoning (Vihma & Wigell, 2016).

More subtle in its approach, geoeconomic power projection is more prone to divide-and-conquer tactics through selective accommodation. The practicing state will seek to alter the domestic cohesion of its target by doling out economic handouts to a selected few. Through these 'agents', the operator effectively enters the domestic fray to steer the national security agenda of the target. Its agents are more susceptible to the interests of their patron. The commercialisation discourse will seek to put the perpetrator's economic conduct in a more positive light. If policy choices threaten the patron's interests, the agents will try and limit the damage by softening or preventing potential countermeasures. Selective accommodation thus often acts as a barrier against decisive governmental action by fanning the flames of inter-factional infighting. Disunited governmental action results into underbalancing (Vihma & Wigell, 2016).

Disentangling geoeconomics from geopolitics, thus proves to be hard task. Despite their opposite properties both require the same input for it to operate: economic resources. Both do not operate in airtight siloes, nor are they devoid of interaction with one and other. Whereas a property-based distinction requires an additional situational reflex, Vihma and Wigell's reaction-based distinction proved to be the best way to separate geoeconomics from geopolitics.

Defining (a) Geoeconomic Power

Having gained some insightful thoughts behind the concept of geoeconomics, the academic literature on geoeconomics left a question rather unanswered: What defines (a) 'geoeconomic' power in the GGS? Blackwill and Harris (2016) offered their view on several of the structural features of geoeconomic projection, while Wigell (2015) zeroed in on the geoeconomic strategies of regional powers. Leonard (2017) came the closest to answering the question by elevating a whole new set of actors to the rank of geoeconomic powerbrokers, dubbing them the new G7.

Before asking ourselves what (a) geoeconomic power entails, one must ask oneself what "power" itself entails. Barnett and Duvall (2005) describe the concept of power as "the production, in and through social relations, of effects on actor shape their capacity to control their fate". This is, in other words, in line with the above stated purpose of geoeconomics; to exert control over the global flows of goods, people, services and FDI in such a manner to harness the power of and secure itself against asymmetrical flow imbalances.

Just like in the study of geopolitics, a power disparity between states is noticeable, hence rendering states on an unequal footing in the GGS. That a state like Jordan would lose out against the likes of Japan or Mexico goes without saying. Even when we compare state(-like) actors (relatively) equal in terms of power such as the economic triumvirate – the EU, the PRC, and the U.S. – a difference in power properties is noticeable despite the relatively negligible power disparity between goliaths.

This led me to the following observations: (1) geoeconomic conduct comes in different shapes and sizes, (2) there are common denominators behind geoeconomic power, and (3) states do not behave in a monolith-like fashion.

Based on the above, I, therefore, propose an three-tier analytical model as a means to shed some light on "What defines (a) 'geoeconomic' power in the GGS?." The three-tier analytical model encompasses three different levels of interpretation for geoeconomic power analysis: (1) the cogs or the common components of geoeconomic power. (2) The strands or the different translations of geoeconomic power; Geoeconomic power should be viewed as an mosaic. (3) Geoeconomic power projection; States with a certain geoeconomic propensity may not behave in a similar fashion when faced with the same situation.

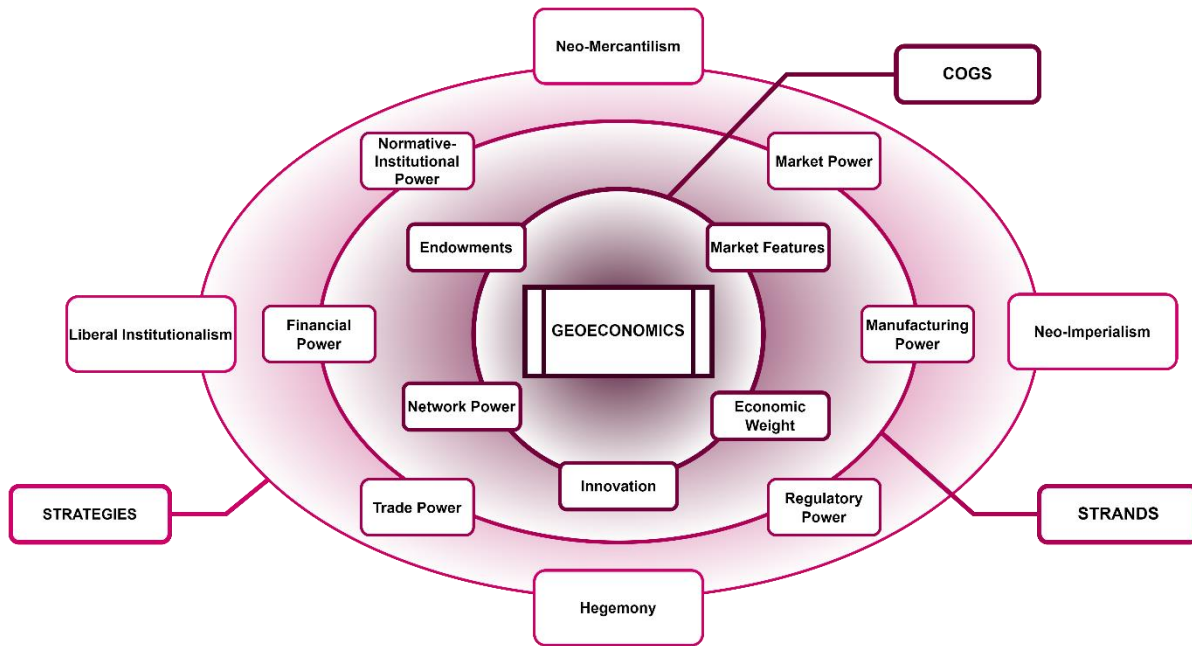


Figure 6: Properties of Geoeconomic Power (source: own design)

The Cogs in the Geoeconomic Machinery

A quick glance at the international system is enough to notice the variation in geoeconomic leverage between states in the GGS. A state's geoeconomic capabilities are linked to the attainment of one or multiple indicators. To understand how states are capable to exert geoeconomic power, a clear understanding of its basic components is required. I will differentiate between five indicators, each with their own set of metrics, for a state's geoeconomic propensity: (1) the availability of endowments, (2) economic weight, (3) market features, (4) network power, and (5) innovative capacity.

I. Endowments

First and foremost, a state's geoeconomic leverage depends on the variety of endowments bestowed upon it. The availability of one or more endowments not only shapes its geoeconomic arsenal and by extension the nature of a state's geoeconomic conduct, but it also determines one's place in the wider GGS. A key feature is their asymmetric distribution across the spatial system; some states are blessed with an abundance of endowments, whereas others have to make do with they have been dealt.

Taking a leaf out of the research field of psychology, endowments can be classified along the lines of a so-called nature-vs-nurture nexus. Endowments on the nature-side are those that a state possesses by the 'power of virtue.' Several states display an innate aptitude for geoeconomic statecraft thanks to the presence of natural resources/commodities – agricultural products, hydrocarbons and other energy resources, minerals – or simply due to having a geographical edge over others – the availability of farmlands, navigable waterways, coastal vs landlocked, and a favourable location.

On the other end of the nexus, we encounter the so-called nurture-endowments. These are the endowments a state possesses not by the power of virtue, but through the 'power of acquirement.' Just as a child can acquire certain skills such as reading and writing, states are equally capable to acquire geoeconomic levers through the process of "learning". Under these nurture-endowments, we classify human capital, logistical infrastructural assets (cyber, energy, maritime, transport), political stability and the willingness to act geostrategic.

As distinct as they are, both sets of endowments are closely intertwined and cannot be seen separately from each other. States might, for example, possess large volumes of hydrocarbon, but without the necessary infrastructure these states are unable to translate these nature-endowments into power sources. Russia's gas shift to the (Far) East – in reaction to the EU's policies supporting Ukraine – fell largely flat due to the limited logistical capacity to make up for the lost volumes whereas its efforts in rerouting its oil exports had proven to be more successful (Tsafos, 2022).

2. Economic weight

Whenever one tries to gauge a state's standing in the GGS, 'economic weight' is a recurring metric of importance to the geoeconomic machinery. Economic weight should be understood as "the economic footprint, defined by a set of factors, an actor has in relation to the various spatial clusters in which it resides." The weight it carries within the equation is best reflected in "Economic Weight Is Power. China Is Gaining Fast." by Graham Allison (2022): one's economy makes or breaks a state's long-term power potency.

How do we determine a state's economic weight? And what factors should be taken into consideration when trying to define it? I have chosen the following indicators as factors of consideration when determining economic weight: GDP, debt burden, tax-and-spending power, and corporate power.

- GDP

An often-used indicator to measure one's economic growth on a yearly basis, GDP reflects the total value of the goods and services produced annually within an economy ("Asia Power Index 2023," 2023; Lecluyse, 2023). When it comes to calculating GDP, the question of whether to use purchasing power parity (PPP) or market exchange rates (MER) is bound to arise. Growing consensus has tilted towards PPP as the better way to derive one's economic weight (Allison et al., 2022). PPP allows us to compare national economies by controlling price level differences and equalizing the purchasing power of currencies (Purdie & Song, 2022).

- Debt burden

States with high(er) levels of public debt are more likely to have greater constraints imposed on their geoeconomic conduct compared to their counterparts with low(er) public debt levels. Debt can be best described as an outstanding liability on which the debtor is likely to incur interests on (Nilsen, 2012). The process behind debt-creation – the issuance of liabilities held as debt by the creditor as a means to finance expenditures – is not inherently problematic, as the debtor is assumed to fulfil the debt requirements once their liabilities hit maturity. The danger, however, lies in the risk of stumbling into a Ponzi cycle of refinancing outstanding debt payments through the issuance of new liabilities until they hit a brick wall and become incapable of fulfilling their debt obligations (International Monetary Fund, 2014; Nilsen, 2012).

Debt-to-GDP ratio allows us to visualise one's overall debt burden. The debt-to-GDP ratio (measured in market exchange rate) should be understood as the ratio of the total outstanding external debt at the end of the year to annual GDP (International Monetary Fund, 2014). Confronted with a shrinking fiscal space and high(er) borrowing costs due to negatively affected creditworthiness, an unsustainable debt-to-GDP ratio has the potential to eat away at its overall resilience to economic shocks and/or speculative (geoeconomic) assaults and result in medium-to-long-term consequences to its standing in the GGS (Wilkenfeld, 2023).

As proven by the public debt piles in advanced economies such as Italy, Japan, and the U.S. a high debt-to-GDP ratio does not automatically translate into a stifled potential for geoeconomic propensity. A state's debt-servicing capacity emerges as a factor of consideration when considering the impact of one's debt burdens. Debt-servicing capacity refers to the ability and, more importantly, ease in which a state can make principal repayments and interests actually paid in currency, goods, or services on its debts (Williams, 1978; World Bank, n.d.). Less strenuous debt-servicing thus translates into more political wiggle room for geoeconomic investments.

- Tax-and-spending power

As the exclusive prerogative of the state, the importance of tax and spending power to the equation must not be underestimated. In order to play the geoeconomic game, one must possess ample budget(s) to fund its participation; joining geoeconomics does not come in cheap. States may seek to alleviate the costs of entry by incurring debt through the issuance of a range of liabilities, denominated in government-issued fiat currencies (Tcherneva, 2016). States, however, hold the exclusive right within the GGS to roll over debt once it reached maturity. Herein, lies the importance of tax-and-spending power.

Tax and spending power fulfils the essential role of a ‘real resource transference mechanism’ between the private sector and the state (Tcherneva, 2016). To states, the sole issuers of national currencies, taxation provides them with a vital (sustainable) source of real term income in order to finance their public investments & social expenditures and most importantly to cover its liabilities (Tcherneva, 2016; Why It Matters in Paying Taxes - Doing Business - World Bank Group, n.d.).

Hence, the inability to consistently raise taxes translates itself in the inability to cover expenditures linked to projects of geoeconomic nature due to the increased competition from other budgetary needs which will negatively hamper one’s economic weight (de Ville, 2018).

- Corporate power

Lastly, corporate power is an inherent indicator to ultimately measure one’s economic weight (The Economist, 2021). Market ownership befalls states only indirectly, it is ultimately the corporate sector that wields market ownership – this is even the case for state-led corporations (Leonard, 2017; Riecke, 2020). A state’s economic conduct is the result of a constant interaction between the political class and the economic class (Luttwak & Nicolson, 2000). A vibrant corporate base is thus a prerequisite for a state’s economic power.

Multinationals, especially, take on an important role to a state’s economic weight; not only multinationals are framed as a global creator, organizer, and connector of knowledge networks across locations, rather than a simple vehicle for technology transfer between given locations (Cote et al., 2021), they also gobble up a significant share of the global trade flows through the practice of intra-firm trade. Intra-firm trade corresponds to international flows of goods and services between parent companies and their affiliates or among these affiliates (Lanz & Miroudot, 2011).

Corporate power thus depends on the presence of a sizeable corporate base that simultaneously possess a sizeable transnational presence in the sectors in question. Corporate power derives its properties namely from manufacturing capacity and value-added capacity (design power) (Calhoun, 2021).

The semiconductor industry proves to be a clear example to highlight the difference between the two. Taiwan’s semiconductor juggernaut TSMC is the undisputed leader on the manufacturing front, while the U.S. outpaces the pack in terms of value-added capacity (Calhoun, 2021; Choudhury, 2021; Lee, 2021). The operator’s flow leverage is subsequently different. The latter’s reach is territorially bound, whereas the former can be leveraged extraterritorially due to the operators control over intellectual property. Herein, leveraging value-added capacity allows for greater a sway over the flows (Riecke, 2020).

3. Market features

Besides one’s economic weight in the globalised system, a state’s market characteristics are a factor of serious consideration in geoeconomics. A state’s market is construed around various characteristics and elements through which the overall economic environment and structure of its market is defined. The following market features have been designated as meaningful to gage a state’s worth: market size, purchasing power per capita (PPP), market control and market openness.

- Market size

To borrow the main tenet behind economies of scale: “size matters” (Kenton, 2021). One’s market size is a factor of consideration to a state’s geoeconomic leverage. States that command sizeable domestic markets

are granted a greater degree of leverage in the world economic system compared to their smaller counterparts due to them being coveted export and investment destination (Meunier & Nicolaïdis, 2006). In addition, larger domestic markets provide their (domestic) corporations with a greater safety net than counterparts with a smaller domestic homebase in times of global crises, hence granting the former an edge over the latter.

- Purchasing power – GDP (PPP) per capita

Besides the overall market size, the respective market's level of wealth in the form of GDP (PPP) per capita is a factor to take into consideration as well. By measuring the average economic output per person, adjusted for purchasing power parity (PPP), it allows us to gauge how affluent the market in question is. High(er) levels of GDP per capita are often a reflection of a significant and (often) prosperous consumer base with a greater degree of purchasing power compared to those with lower per capita levels (Purdie & Song, 2022).

Hence, markets with higher levels of per capita values are more likely to position themselves as attractive destinations for trade and investment. Apple provides us with a telling tale of purchasing power (figure 7): out of the 272 Apple stores overseas are nearly all located in countries with high GDP per capita levels (Asrar, 2023).

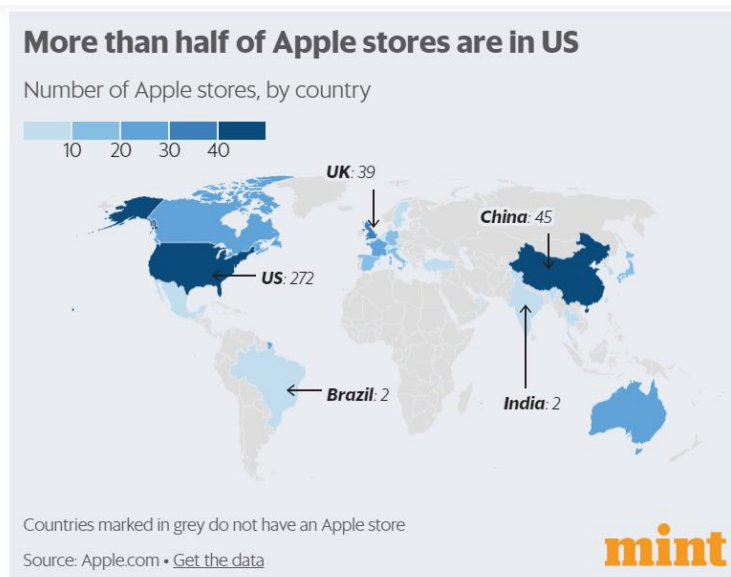


Figure 7: Geographical spread of Apple Stores (Source: Asrar, 2023)

- Market control

The act of market control is an additional metric of interest within a state's overall market structure. Market control reflects the state's degree of sovereign decision-making power over its national-economic processes (Hirst & Thompson, 2002). Countries capable of exerting tight(er) control over their domestic markets – in terms of imports and exports and market access – are more likely to exert geoeconomic power in the GGS in comparison to those with a lesser degree of control (Blackwill & Harris, 2016).

The PRC's stringent capital controls allowed it to weather the 2008 financial turmoil relatively well in comparison to its Euro-Atlantic counterparts (Chiang, 2007). Additionally, its debt burden is a less pressing issue compared to countries lacking such capital controls (Nath, 2023).

- Market openness

As a metric market openness is often linked to globalisation; a lower degree of (entry) barriers signifies a greater exposure to the world economic system and, therefore, entails a higher degree of economic

integration. The OECD states that markets with a relatively high(er) degree of openness tend to relatively outperform their counterparts on the opposite end of the openness spectrum in terms of economic performance. The greater degree of exposure to foreign competition and to new ideas and technologies allows for an improved resource allocation and, in time, higher productivity (Keho, 2017; Why Open Markets Matter, n.d.).

Markets with low(er) levels barriers are more likely to be better positioned within GGS compared with more closed-off markets with relatively high(er) entry costs. For one, their exposure would ameliorate its economic performance as mentioned above. Additionally, markets that exhibit high levels of market openness will prove to be more attractive for third countries than countries with low(er) levels of market openness (Why Open Markets Matter, n.d.).

4. Network Power

In a highly interconnected world economic system, structured around (global) value chains and governed by the flow paradigm, the extent of a state's ability to influence the flows stems from its position within the spatial connectivity web(s). Networks are sets of relations that form structures, which in turn constrain and enables mutual dependence between nodes (Hafner-Burton et al., 2009). Therefore, it would be wise to reflect on the importance of network power within the GGS.

Network power should be understood as the ability of a select few to exert authority over the nodes that reside within the same network through the upon agreed rules of conduct (Castells, 2011). Incidentally, it entails a degree of influence over the distribution of (scarce) resources and information within the network. In other words, network power is thus derived from social power and node positioning between network clusters (Hafner-Burton et al., 2009).

Network power is attained through various sources within the connectivity network: network centrality, network agency, subgroup membership, de-linking power, and network fungibility.

- Centrality - (Hafner-Burton et al., 2009)

Network centrality can be viewed as the primary tenet behind network power. It reveals the extent on how much other nodes rely on a single node (Hafner-Burton et al., 2009). The logic behind it is rather simple: the more crucial of a node-function a state fulfils within the connectivity network, the more likely it is to exhibit a magnetic pull on its spatial surroundings (Lowy Institute, 2021; Riecke, 2020).

- *Betweenness centrality* reflects the node-cruciality of a state on which the network depends for maintaining overall connectedness (Hafner-Burton et al., 2009). The U.S. decision to abandon the dollar's peg to gold and the subsequent collapse of Bretton Woods stands out as one of history's leading examples of betweenness centrality.

One's betweenness centrality can also be defined by the state's role as interlocutor between the nodes and the larger flow network(s). In this case, an interlocutor's network power depends on the exclusivity of its bridge function in relation to the often marginalised or weakly interconnected nodes (Hafner-Burton et al., 2009).

- *Degree centrality* as described by Hafner-Burton et al. (2009) refers to the number of connections between the state and any other nodes that reside within the network. Nodes with a high number of node (inter)connections are more like to obtain a greater degree of access to resources compared to more weakly interconnected nodes. High degree centrality thus allows for the diversification of resources.

Degree centrality within the periphery of a network cluster is an important yardstick to determine the nodes' resilience against the central node's sway over the flows. A relatively low level of

interconnectivity in the periphery often translates into greater degree of sway for the central network node (Hafner-Burton et al., 2009).

- *Closeness centrality* reflects the distance between the central node and the other nodes. The shorter the node-interconnections in terms of geographic and cultural terms, the likelier the central node is able to influence said nodes within its network cluster(s) (Disney, 2020; Ge et al., 2017; Hafner-Burton et al., 2009).
- *Flow betweenness centrality*, in a way comparable to betweenness centrality, envelops the entirety of all node-connections in the overall connectivity network over which a singular node exerts control over the entirety of the (resource) flow structure (Hafner-Burton et al., 2009). Perhaps the most straightforward example is the U.S. outsized financial power thanks to the preponderance of the U.S. dollar.

- Agency

Agency within the connectivity networks refers to the node's ability to pursue greater power by enhancing one's positioning within the connectivity network (Hafner-Burton et al., 2009).

- Subgroup membership

Within the world connectivity network, the rise of network sub-structures, so-called network cliques, is bound to happen. Network cliques are formed when two or more nodes share a certain degree of connectivity between one and other (Hafner-Burton et al., 2009). Such cliques can be formed through shared properties such as the (homophily) or through the need to minimise their weaknesses by pooling their strengths such as the (heterophily) (Cuyvers et al., 2002; Hafner-Burton et al., 2009; Songwe, 2019).

- De-linking power

The power to de-link or exit a network is one set aside for the nodes residing more or less in the fringes of the connectivity network. It serves as a safeguard measure to remind central nodes of the limits imposed to their brokerage power. The extent of one's de-linking power mirrors the network centrality of the dominant node. The more a dominant node's sway over the network cluster decreases, the more credible the threat of de-linking could become (Hafner-Burton et al., 2009).

The decrease in Russian sway over Moldova and Ukraine allowed both states to effectively de-link from the Russian network cluster in favour for the EU cluster that entailed greater benefits (Castells, 2011).

- Fungibility

The fungibility of network power entails the act of offsetting or supplementing other forms of power in the world economic system (Hafner-Burton et al., 2009). The EU is a prime example of how it offsetted its overall lack in politico-military prowess through its vast array of trade agreements while simultaneously supplementing its regulatory reach through the very same trade schemes (Bercero & Nicolaidis, 2021).

5. Innovation

"We have entered a global race in which the mastery of technologies is central". Thierry Breton's remarks underline the importance of innovation as the fifth cog to the state's geoeconomic machinery. States find themselves in a never-ending race to pursue "international competitiveness" to climb the economic hierarchy (Moisio, 2019, p. 8). Many of the world's most illustrious powers – the Byzantine empire, the Caliphates, the Chinese Imperial dynasties, the Dutch Republic, the Republic of Venice, e.g. – were at some point leading innovators during their prime.

As the bedrock for economic dominance, innovative capacity can be described as the act to maintain/pursue (sectoral) technological leadership vis-à-vis competitors to ensure one's economic standing (Dobbs et al., 2012;

Guire & Smith, 2008; Roberts et al., 2019). Innovation is therefore an imperative to secure technological leadership and by extension control over the flows in advent of the geoeconomic age (Kirchner, 2021).

To avoid becoming an also-ran in the innovation race, states have been pulling the stops – not sparing any costs – to avoid becoming overly dependent on others. The UK has become the latest country to unveil a billion+ semiconductor strategy after similar initiatives have seen light in Brussel, Seoul, Tokyo, and Washington D.C. (Browne, 2023; Duchâtel, 2021; Shead, 2021). The PRC for its part has formulated a comprehensive industrial strategy – “Made in China 2025” – to achieve global sectoral leadership in raft of designated emerging technologies (Chatzky & McBride, 2019; Kuo, 2018). The Chinese strategy, in turn, was based on Germany own initiative “Industry 4.0.” (Conrad et al., 2016).

The uneasiness felt in the US (and, by extension, the advanced world) surrounding Beijing’s “Made in China 2025” highlights the disruptive potential of innovation within the wider connectivity network (Conrad et al., 2016). The Asian Tigers are illustrative of the impact of innovation, who have become on par with their Western counterparts in the spheres of finance and high-tech manufacturing (Lorot, 2009).

Innovation may thus be an imperative in the GGS but overcoming that threshold to break through the glass ceiling of the world economic system is easier said than done. Innovation is a capital-intensive endeavour in the form of investments and training high skilled workers, a threshold not easily to overcome. The high threshold for example reflected in the structural leadership of the Euro-Atlantic in the world’s best 200 universities and the regional concentration of innovation centres in the triad economy (Cornell University et al., 2020).

A state’s innovative credentials is primarily derived from its knowledge power, which in turn depends on an array of indicators on the input and output side (Baru, 2012). On the input side, we classify the quality of a state’s education infrastructure (secondary and higher education), research network density (number of researchers/population and number research institutions in given area), R&D expenditure (% of GDP), and the degree of innovation openness (internal adaption rate and cooperation). On the output side, we can classify academic publications (quantitative and qualitative), trade brand, the number of patents, the number of spin-offs, start-ups, and scale-ups, and the number of graduates in high impact sectors (STEM) (Cornell University et al., 2020; Heng & Rodríguez-Pose, 2021; Wood, 2021).

Strands of Geoeconomic Power

Whenever comparing states with one and other, one notes that besides the difference in power metrics, geoeconomic power differs in terms of essence. By making an essence-based comparison, we can observe the existence of different types of geoeconomic power, so-called strands, within the GGS. Each strand possesses its own unique traits and qualities and, therefore, open up different pathways taken by countries.

I will differentiate between six ideal-typical strands of geoeconomic power: (1) trading power, (2) regulatory power, (3) manufacturing power, (4) institutional power, (5) financial power, and (6) market power.

We should not view a state’s geoeconomic leverage from a strict monolithic perspective. Drawing upon one strand to shape one’s geoeconomic leverage does not disavow the possibility of turning towards the other strands. Rather than operating on the basis of exclusion, operators can leverage the different strands in conjunction of one and other vis-à-vis others. Additionally, we should note that states do not necessarily exert equal amounts of strength through the various strands. Some states will possess greater amounts of strength in some strands compared to the others.

Therefore, geoeconomic power should be portrayed as a rope made up out of a combination of strands of different thickness.

I. Trade Power

With the world trade regime taking a more Hobbesian turn and Trade Ministries set to become primary powerbrokers in the GGS, the addition of trade power to the geoeconomic repertoire should not come as a surprise (Blackwill & Harris, 2016; Luttwak & Nicolson, 2000). Wherever trade goes, interdependency and interconnectedness often sprout in its stead. Ever since the rise of the Mesopotamian city-states, trade has served as one of the primary avenues for (1) (interstate) interactions within and between spatial clusters and (2) sources of primary income.

The main tenet behind trade power is to leverage existing trade and investment relations vis-à-vis third countries while also pursuing new trade relations to minimise the risks associated with the former. Hence, broadly speaking, trade power entails the ability to wield one's market access, the granting of it more specifically, in relation to third countries to further its own strategic interests (Meunier & Nicolaïdis, 2006).

Trade power owns much of its widespread use in the GGS due to its versatility whenever deployed. Trade as a geoeconomic instrument is leveraged along the lines of positive and negative conditionality. Conditionality refers to the dependability of trade to certain agreed upon conditions. Positive conditionality entails the use of soft power tools (persuasion and enticement) through preferential trade schemes, rescinding trade barriers, and entering trade deals. Negative conditionality entails the use of compulsory power tools (threats and coercion) such as trade sanctions, tariffs, rescinding market access, withholding exports, or even blanket trade bans (Luttwak & Nicolson, 2000).

It is important to distinguish between 'power in trade' and 'power through trade'. Power in trade is interest-based in nature, it entails a trade-off in market access between negotiating partners. The infamous 'cars for cows' slogan, used by opponents of the EU-Mercosur deal, is an example. Power through trade represents a more value-based nature. The operator will strive for the external adoption of its norms and values as the price to pay for market access. Power through trade is, therefore, more intrusive compared to power in trade (Meunier & Nicolaïdis, 2006).

2. Regulatory Power

The pursuit of geopolitical goals through legal means; there is no better way to describe the notion of regulatory power. A somewhat overlooked avenue for geoeconomic power exercise, the increased intertwining of economies has put the spotlight on the perks of regulatory power. Regulatory power can be best defined as the operator's ability to impose its own set of legislation and standards in an extraterritorial manner to "even the playing field."

Deploying regulatory power comes in three fashions: the political globalisation of regulatory standards, unilateral coercion, or unilateral regulatory globalisation (Bradford, 2015). Unilateral coercion entails the use of force – in this case through sanctions – to make others adhere to its rules. The U.S. has showcased an innate preference for unilateral coercion whenever third countries needed to toe its geostrategic line. Unilateral regulatory globalisation can be described as the externalisation of state's regulations and laws outside its borders through market mechanisms. Political globalisation of regulatory standards is the process in which regulatory convergence is achieved through (bilateral, plurilateral, or multilateral) negotiations such as international treaties.

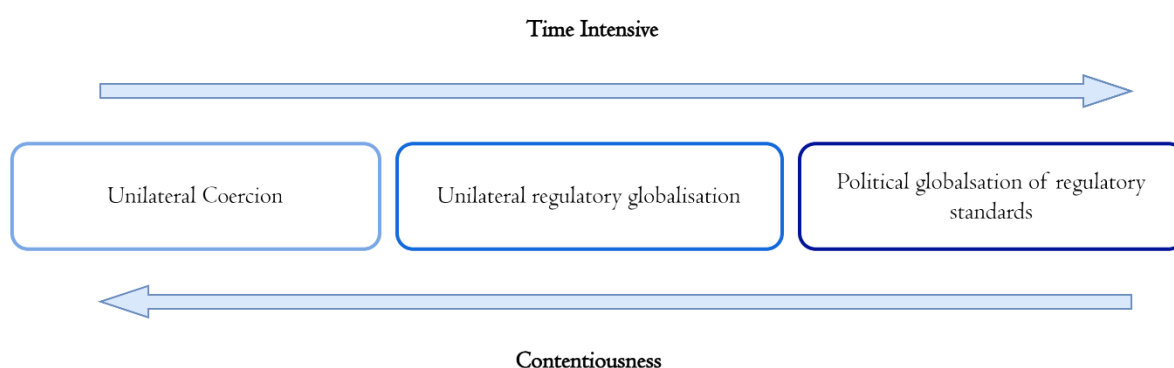


Figure 8: Forms of regulatory power (Source: Bradford, 2015)

Unilateral regulatory globalisation has emerged as the most effective form of regulatory power in comparison to the other methods due to the ease of deployment in terms of contentiousness and time insensitivity (Figure 8). It does not force third countries to adhere to the rules and standards imposed upon it by the operator, nor does the operator find itself in a negotiation limbo vis-à-vis third countries to reach an international agreement. Instead, unilateral regulatory globalisation compels third countries to adhere to the operator's domestic regulation in exchange for market access. It does not negate their ability to craft their own (domestic) regulations and standards but by doing so their businesses will be subjected to multiple regulatory regimes. Corporations are by default more likely to adhere to the regulatory regimes where their exports exceed their domestic sales. Hence, regulatory golden standards are born at the cost of third countries' sovereignty (Bercero & Nicolaidis, 2021; Bradford, 2015).

Unilateral regulatory globalisation, however, comes with high thresholds to overcome. The operator must possess the capacity (experienced institutions and will) to regulate a sizable market. It must exhibit a clear preference to regulate non-divisible production chains through the enforcement of strict standards on inelastic targets (Bradford, 2015).

3. Manufacturing Power

The Covid-19 induced economic shock and the semiconductor supply squeeze are just one of the few examples that have highlighted the importance of manufacturing power have changed. Power corridors in leading states across the globe have come to revalue the benefits of commanding a capable manufacturing base as a means to safeguard one's economic security against the weaponisation of the flows. And countries have displayed an eagerness to either the secure existing manufacturing capacity or to acquire the capabilities needed to foster such capacity.

When the Trump Administration imposed its broad tariffs on steel and aluminium, it framed it as a necessary step to protect the U.S. manufacturing base. In a similar vein, Westminster moved to scrutinize the Chinese purchase of a Welsh computer chip maker, while Italy's Draghi unapologetically prevented the acquisition of prized corporate jewels in strategic sectors through the Golden Power regime (BBC News, 2021; Lau, 2021). And the Chinese acquisition of Kuka sparked a wave of disbelief in manufacturing heartland Germany.

Manufacturing power is often regarded as an expression of one's overall strength and international stature (Dobbs et al., 2012). Many of today's leading (economic) powers gobble up the vast majority of the globe's value-added manufacturing output. The PRC's stellar rise is no less the associated with its role as the "world's factory" in many global value chains (Allison et al., 2022). Damen and Iglar (2021) noted that the concentration of the global value-supply chains shows a great overlap with the GaWC flow map with the triad economy gobbling up most of the value-supply chains centred around the Germany, the PRC, and the U.S. Hence, manufacturing power not only

captures one's overall manufacturing capacity, but also entails one's ability to exert influence over the global supply chains through the control of the manufacturing capabilities and resources.

McKinsey Global Institute noted, however, that countries, and by extension regions, have taken on different manufacturing roles within the GGS. These assigned roles – ranging from (more) labour- to knowledge-intensive – have arisen from the structure of the global value-supply chains, allowing for certain specializations within their manufacturing tiers (Dobbs et al., 2012).

4. Market Power

The most basic form of geoeconomic power projection, market power can be described as the weaponisation of the operator's market share over the flow of commodities, goods, and services to influence the behaviour of third countries. It may lack in sophistication compared to the other forms; it has proven its effectiveness throughout history. Market power manifests itself in two different manners: monopoly(-like) power through market ownership and monopsony(-like) power through purchasing power (Blackwill & Harris, 2016).

- Monopoly power is the supply-side expression of market power. A state's market share in one or more sectors allows it to influence the flow structure on a bilateral, regional, and global scale. The extent of one's monopoly power is dependent on (1) the number of suppliers in a given sector – the larger the number, the smaller their overall leverage – and (2) their ownership shares in the given sector – the larger one's share, the greater their leverage. The limited number of suppliers in the rare earth mineral sector and the PRC's large market share grants it a great degree of leverage.
- Monopsony power, on the other hand, is the demand-side expression of market power. Here, the operator's buying power grants it a degree of influence over the flow structure on a bilateral, regional, and global scale. Beijing's large share in German car imports is often coined as the Achilles heel in Germany's China Policy.

5. Financial Power

Money matters. World politics is no exception to this rule. No means of influence is as potent as financial capital. It is the lifeblood of today's world economic system. A loss of access to the global capital markets has proven devastating; crippling one's economic sovereignty and relegating entire countries to the socio-economic backwaters.

Financial power is derived from the operator's ability to pursue its strategic interests vis-à-vis its counterparts in the international system through its control of financial statecraft. Besides trade power, financial power is arguably one of the most widely used strands of geoeconomic power. Financial statecraft can be used to entice, persuade, or coerce others to toe the operator's lines (Armijo et al., 2020).

Financial power, however, can be described as a catch-all concept to cover the various manifestations we can observe throughout the GGS; of which I will zoom in on monetary power, investment power; and creditor-debtor power.

- Monetary power

Monetary power can be described as a state's autonomous capacity to make macroeconomic policy choices irrespective of the choices and interests of others (Krampf, 2019). By tinkering with one's monetary value through competitive devaluation or revaluation, states are able to influence their economic activity in accordance with their national needs (BBC News, 2010). Countries with little to no monetary power have little choice but to adjust its monetary – and often fiscal – policies to accommodate the policies of a dominant partner, even if it would prove more harmful (Krampf, 2019; Tcherneva, 2016).

The entire quantitative easing cycles showcased said vulnerability. Whereas quantitative easing pushed capital into the emerging markets, resulting in an overvaluation of many currencies and hurting their export

competitiveness; the shelving of the quantitative easing reversed these capital flows and led to a depreciation of currencies in the emerging markets (Walker, 2014). The Gulf countries have been acting in close tandem with the Federal Reserve's aggressive rate hikes as they seek to stymie the chances of a potential capital flight (Lucente, 2023).

Monetary power is closely interlinked with one's currency power. The extent of state's monetary power is inherently dependent on the currency's overall strength and appeal amidst the international currency competition as reflected in the currency pyramid (Cohen, 2015). The higher a currency ranks in the pyramid scheme, the greater its economic appeal and the more dominant it is in the world economic system (figure 9).

The decades-old dominance of the widely circulated American Greenback as the globe's primary currency is reflected in its top currency status; whereas the euro, the renminbi and the yen come in to mind as widely respected counterparts with a more limited international clout (Fратиanni, 2012). The currency pyramid does not entail a fixed hierarchy; currencies may rise and fall over time as the sterling-pound reminds us (Cohen, 2015).

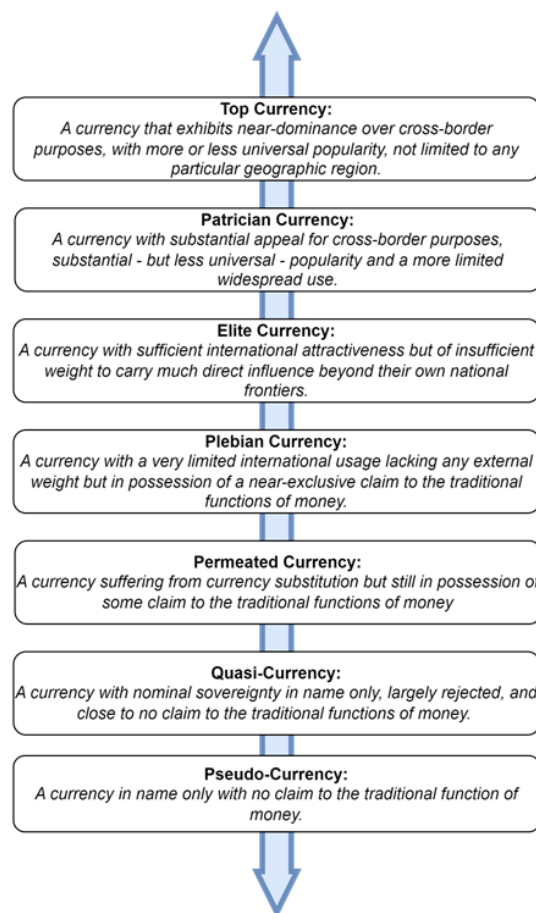


Figure 9: The Currency Hierarchy (source: Cohen, 2015)

Tcherneva (2016) takes a different approach by tying the extent of a state's monetary power to the characteristics of one's monetary regime. Here, a state's monetary power is a reflection of the policy space it possesses to freely conduct its monetary policy.

- Investment power

Setting up shop does not come without investing a sizeable chunk of money. The same goes without saying for securing economic activity as a means to climb the world economic hierarchy, which inherently opens up an avenue to exert influence on the international stage.

In what can be dubbed as ‘chequebook’ diplomacy, investment power entails the ‘stratification’ of one’s in- & divestments and development and humanitarian aid as a means to foster one’s ties with the recipients to enable the pursuit of its strategic interests (Leonard, 2017; O’Farrell, 2023). Such acts can take on various forms: from building all types of infrastructure to increase connectivity and commodity donations to supporting job- and wealth-creation by investing in mines and signing off large commodity purchases.

The spoils of investment power are multi-faceted in nature ranging from crafting a more positive image of itself in the target state and gaining political sway in regard to third countries to a more self-serving one in which investments are meant to create and secure new export markets (Dinan, 2014; Leonard, 2017; Schneider-Petsinger, 2016).

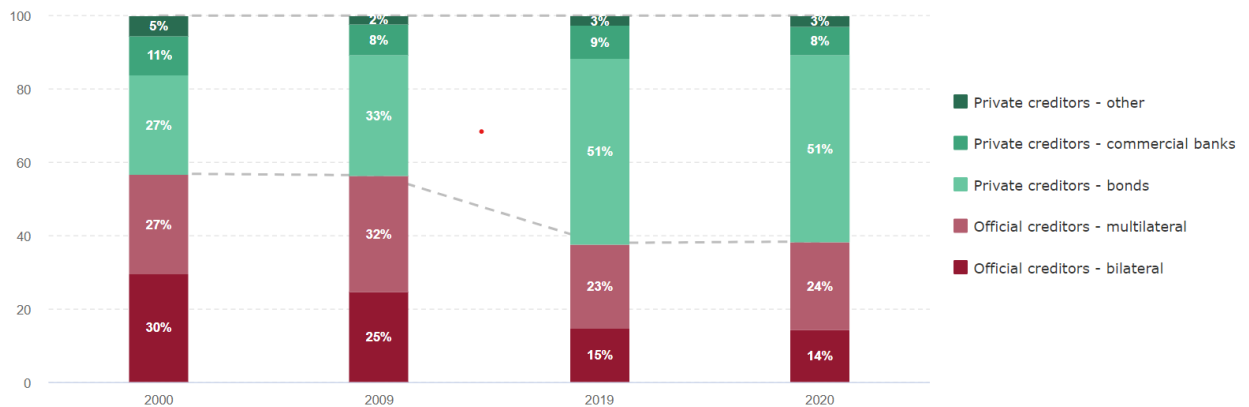
- Creditor-debtor power

In a world economic system in which capital flows are as fleeting as the wind, debt might very well be one of - if not the – most destructive forces in the world economy as it sends entire societies into ruin (Nilsen, 2012). The European Debt and Payment crisis and the 2022 Sri Lanka debt crisis are but a testimony of the societal costs associated with (the risk of) default in debt payments (Stamouli, 2022).

Creditor-debtor power is relational in nature; it is derived from the dynamics between the creditor and debtor. By issuing liabilities, debtors inherently accept the fact that creditors will hold a degree of sway over them, which is the true essence of power behind the creditor-debtor dynamics. (Nilsen, 2012). By hitting insolvency, creditors take on the role of arbitrator in which they decide upon the fate of the debtors. To stave off the risk of sovereign default, debtors will seek out its creditors to attain a lifeline in the form of debt extensions, restructuring, or cancellation (Nilsen, 2012). Such lifelines, however, do not come in cheap as such acts of kindness rarely come without any strings attached. Greece had to undergo years of forced upon austerity while selling of corporate jewels, whereas Sri Lanka had signed over de facto sovereign control over the newly built Port of Hambantota to the PRC (Abi-Habib, 2018).

Creditors, however, can decide to take a more purposely malignant route in the overall creditor-debtor dynamic. The U.S. threat against London to dump its \$3.75 billion in holdings in pound-sterling liabilities, which it held in accordance with the Anglo-American Loan Agreement of 1945, in the wake of the 1956 Suez Crisis is a testament to its power potential. Britain, which was a overly dependent of international borrowing, had a total of \$2.2 billion in foreign currencies stacked away. To put the gravity of the U.S. threat into perspective David J. Katz (2013) stated, *“the sell-off of US-held pound-sterling bonds, if executed, would have been catastrophic. The resulting increase of British currency in circulation would have deflated the value of the pound-sterling. This deflation would, in turn, have required Britain to drain its foreign currency reserves to buy pound-sterling bonds to maintain its currency’s parity against the US dollar. If it broke parity, and allowed the devaluation of its currency, Britain would not have the purchasing power or the foreign reserves to cover its food and energy imports. [...] Without credit, Britain would have faced a prolonged liquidity crisis and insolvency.”* If Washington D.C. had pulled the trigger, the cascade of events would have effectively cut London off from the international markets.

Creditors, however, do not always come out on top when it comes to the creditor-debtor dynamic (International Monetary Fund, 2014). Due to the developing world’s increased reliance on private creditors privately held debts outpace publicly held debts by a large margin (figure 10) (UNCTAD, 2022). In their role as guarantors of last resort, creditors could be stuck with the bill in case of an insolvency in which they could be forced to take on potential losses as public debt in a bid to safeguard spatial stability (International Monetary Fund, 2014; Tcherneva, 2016). The 2018 crash of Turkish lira, for example, led to heightened concerns in Frankfurt am Main due to the tens of billions in exposure held by eurozone lenders (Arbaa & Varon, 2019; Yackley et al., 2018).



Source: UNCTAD calculations based on data from World Bank (2022a).
 Notes: Averages by group of economies. Only countries with available data were included.

Figure 10: Long-term external PPG debt by creditor, developing economies (Percentage of total PPG debt) (source: UNCTAD, 2022°)

6. Normative-Institutional Power

Amongst the six strands, normative-institutional power stands as the more obscure expression of geoeconomic power, one that resides within the greyish zone between geopolitics and geoeconomics. Normative-institutional power should be viewed as the ability to shape the norms and institutions within the various spatial clusters to the preference of the operator’s interests (Barnett & Duvall, 2005). Herein, a state’s normative-institutional power mirrors its ability to establish so-called institutional facts (Delreux & Keukeleire, 2014; Demolombe & Louis, 2006).

Inspiring myself on the DC Comics’ “Lords of Order and Chaos”, I have classified the wielders of institutional power into two ideal-typical factions based on their operational logic: the preservers and the disrupters (Figure 11). The faction of preservers are the GGS’ Lords of Order, those who seek to uphold the spirit of existing institutional arrangements (structures and regimes) through incremental changes. If the preservers are order, then the disruptors are the GGS’ Lords of Chaos. Their faction seeks more radical changes by discrediting the international structures in place and ultimately doing away with the status quo. Wielding institutional power thus comes down to the (de)legitimation of the existing power order (Roberts et al., 2019).



Figure 11: Normative-Institutional Power's Role Spectrum (source: based on own design)

To leverage normative-institutional power, operators from both sides of the spectrum must go through the gatekeepers of the international regimes: the IOs¹ (plurilateral or multilateral). IOs often fulfil a central role within the connectivity network, operating as “neutral” flow operators in the GGS for the sake of the collective (Katada, 2018). Moreover, they are the primary staging ground for the codification of norms. Their status, therefore, turns

them into coveted extensions for geoeconomics power projection. IOs, however, are neither apolitical nor do they operate in a power vacuum. After all, they were designed to manage in the stead of the (then) regime-builders.

With IOs taking up a vital role in the flow structures, states vie for influence within these actors to command sway over such codifications. Influence is exerted through formal and informal avenues. Formally, countries can exert their influence through privileged (non-)membership, voting rights (in some IOs linked to funding), and through (in)direct funding. The Euro-Atlantic continues to hold dominant positions within the organisational structures of the Bretton Woods twins through their voting shares – with the U.S. even maintaining formal veto right in the IMF – despite the rebalancing of the global economy (Looney, 2014). Informally, countries can exert influence through personnel allocations and the too-big-to-ignore argument. The U.S. engaged in a lobbying frenzy to prevent Beijing adding WIPO as the 5th UN specialised UN agency headed by a Chinese backed candidate (Fung & Lam, 2020). In a similar vein, the election of Mathias Corman as the Secretary-General of the OECD was framed as setback to proponents of climate action, and a potential challenge to the EU's CBAM (Haydar, 2021; Wintour, 2021).

Wielding normative-institutional power, however, requires accepting the constraints that are inherently bound to it. It creates expectations on which states are supposed to act on. When the U.S. rendered the Appellate Body defunct, the EU, as one of the directional powers in the world trade system, took the lead in crafting the MPIA, a plurilateral interim to preserve the world trading regime and side-step the defunct Appellate Body (Titievskaja, 2021).

Geoeconomic Strategies

Geoeconomic power comes in different strands, it does not translate into a one-size-fits-all approach when it comes to power projection throughout the GGS. When Australia called for an independent probe into the origins of COVID-19, Beijing applied full-blown scorched earth tactics through the imposition of trade sanctions against an array of Australian goods (Walsh, 2021). The EU has threatened to rescind Pakistan's GSP⁺ status following Islamabad's controversial blasphemy laws (Wilms, 2022). In the energy sector, Russia has aptly turned its energy commodities into a means of controlling its immediate neighbourhood (Wigell, 2015), whereas Saudi Arabia orchestrated a major oil price war in 2020, flooding the oil markets to expand and consolidate its market share in an increasingly crowded field (Yagova, 2020). States thus choose to pursue different projection strategies vis-à-vis each other even when they possess similar forms of geoeconomic power.

By observing the behaviour of leading powers within their spatial clusters (region-level), Wigell (2015) distilled two parameters – whether or not to assume a leadership role and the motivations behind its conduct – to gain understanding of a state's strategic perspective on interspatial linkages (figure I2).

The former boils down to whether or not bearing the costs of being a leader. If a state is willing to bear the costs, it will leverage its economic capabilities as a means to an end. If not, they will pursue a more narrow-minded, purely economic goal. The latter focusses on the relational context of the interstate linkages linked to the Hobbesian-Kantian spectrum. A more Hobbesian approach will take a more zero-sum stance (focus on relative gains) on interstate interactions, whereas a more Kantian-like approach views interstate interactions more in light of a positive-sum stance (focus on absolute gains).

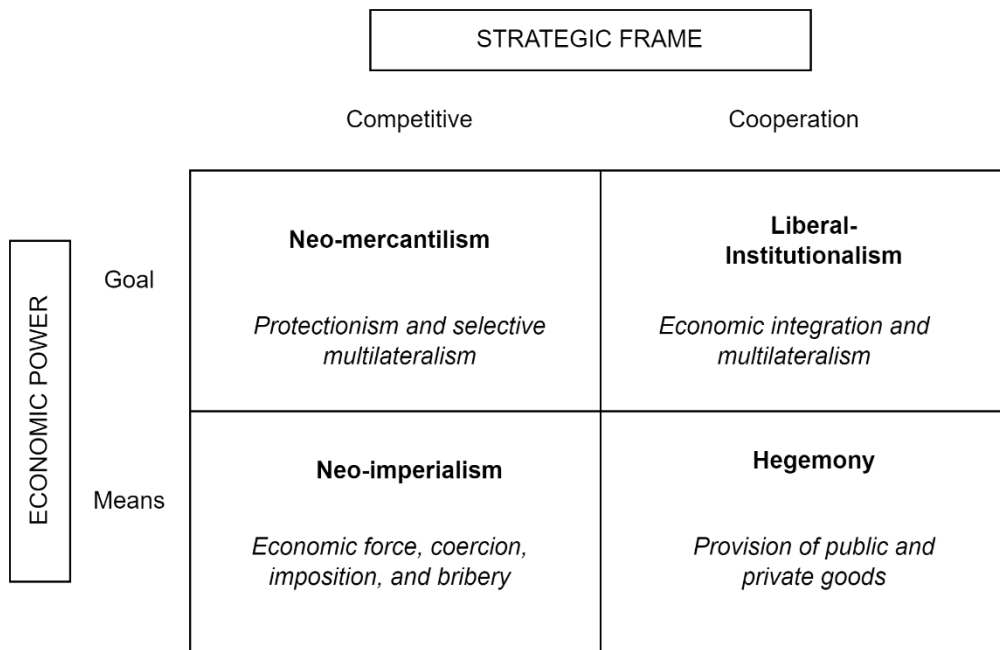


Figure 11: Regional powers' geoeconomic strategies (source: Wigell, 2015)

Based on these parameters Wigell (2015) distinguishes between the following geoeconomic strategies: (1) hegemony, (2) liberal institutionalism, (3) neo-imperialism, and (4) neo-mercantilism.

1. Hegemony

A hegemonic operator will deploy its economic statecraft to uphold a leadership role through a series of cooperative institutional arrangements. Leadership is primarily sustained through the benevolent provision of private and public goods; a strategy is more likely to tilt towards using the power of attraction instead of coercion. In such a situation, both the operator and the target are similarly constrained in their actions. The beneficiary is dependent on the operator to provide insurance, while it simultaneously maintains some wiggle room to stray from the hegemon's political line.

2. Liberal Institutionalism

Unlike hegemonic operators in the GGS, adherents to liberal institutionalism are abhorrent to the idea of assuming leadership. Liberal institutionalist operators are the most fervent proponents of a Kantian-like GGS. Interdependence and economic integration are framed as a necessity to further their economic objectives. The state apparatus is firmly locked into projecting an apolitical and restrained form of economic power.

3. Neo-Imperialism

A neo-imperialist operator will deploy economic statecraft to pursue an "unilateral" leadership role from a zero-sum perspective. Economic foreign policy is deployed with the intention to forcibly bind targets in its neighbourhood in a clear top-down approach to extend its sphere of influence. Neo-imperialist projection strategies therefore entail an one-sided sovereignty trade-off. Any attempt to stray from the (dictated) political line is met with outright economic coercion.

4. Neo-Mercantilism

Neo-mercantilism on the other hand underlines the operator's adversity to assume a leading role within its cluster or in any of the levels of geographical interpretation. Its strategic inhibitions are primarily shaped by its quest for economic power maximalisation. Economic foreign policy is deployed in such a manner to secure a steady flow of commodities, goods, and capital for itself. National economic development is pursued with the expectation to enhance its leverage on international fora vis-à-vis third parties. Neo-mercantilists tend to take an à-la-carte stance towards multilateralism, while maintaining the discretionary freedom to apply unilateral formulas.

The above-mentioned strategies should be viewed as ideal-typical in nature. Reality is more than often more complex as a state's geoeconomic projection strategy possesses to a degree varying elements from two or more strategies. The EU's Carbon Border Adjustment Mechanism is such an initiative that contains to a varying degree elements from hegemony and neo-imperialism.

Conclusion

Despite the narrower sphere within which it operates – the GGS – geoeconomics remains a contested concept that encompasses the various perspectives present in the academic literature. Through this dissertation I have sought to add to this richness by exploring the essence of geoeconomic power.

Thanks to the critical assessment of the available literature, it was possible to make some interesting observations regarding geoeconomics as a concept. As the production of wealth increasingly takes place beyond one's territorial borders, (economic) sovereignty has turned into a more fluid concept to reflect the mutual dependency between states within the GGS. Mutual dependency is asymmetric in nature, however, and reflects the bargaining power one holds within the connectivity networks. If power is derived from bargaining one's (flow) sovereignty, then the ultimate strategic baseline of the state entails "the exercise of control over the global flows of goods, people, services and FDI in such a manner to harness the power of and secure itself against asymmetrical flow imbalances through the geostrategic usage of economic statecraft", hence providing us with the operational logic behind geoeconomic power.

Furthermore, the deployment of geoeconomics entails the highest rate of success within the 2nd highest level of spatial interpretation due to spatial and possible cultural success rate. This does not disavow the state's ability to exert its geoeconomic influence within the spatial system's top layer. However, such conduct will be defined by the interactions between the most influential clusters, the so-called geoeconomic tent.

Through the setting up of the three-tier analysis model, it allows us to approach the topic of geoeconomic power from differing directions to formulate a comprehensive view on a state's geoeconomic profile. Keeping in mind the operational logic behind geoeconomic power, it allows to understand the degree of bargaining power, the means at a state's disposal and the potential projection strategies it could pursue.

This dissertation should be viewed as an open invitation for further continue research in the field of geoeconomic power analysis. With the Asia Power Index by the Lowy Institute – my main source of inspiration behind pursuing this topic – the quantification of the three-tier analysis model into an index to measure and assign scores to one's geoeconomic power comes to mind as a potential future research endeavour. In a similar fashion, it could provide future qualitative research with a blueprint to not only map one's geoeconomic power comprehensively, but also serve as a basis to make comparisons between two or more states within one or more spatial clusters, on the one hand, and within different economic sectors on the other hand.

As it entails a first attempt to understand the mechanics behind geoeconomic power, one must be cautioned to make any bold statements without assessing the potential shortfalls of this thesis. There is a need to approach the three-tier model for geoeconomic power analysis critically. Some might disagree with the elements that I had chosen to include within the three-tiers of interpretation and choose to replace one or more. Others might view it as incomplete and could add one or so. The three-tier model, after all, is subjective in nature. Additionally, the lack of assigned weightings should

be taken into consideration, especially when it comes to the first tier of interpretation. On top of that the model contains a strong state-centric perspective which negates its feasibility to map the geoeconomic conduct of non-state actors such as multinationals. Lastly, this dissertation could have benefited from an empirical research model as a way to trial-and-error for the three-tier analysis model as a whole and the chosen measures on their own.

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