GEOECONOMICS

Origins of Geoeconomics can be traced to the beginning of human civilization itself. Geoeconomics as a geopolitical pressure choke is not new. In more recent past it used to be a part of geopolitics, serving both as a means and an end. Few developments of twentieth and twenty-first century indicate that geoeconomics has come out of the closet of geopolitics and assumed primacy in foreign policy. Looking at events surrounding a few geopolitical hotspots, controversies involving climate change gives interesting insights.

Consider these news bites from contemporary history:
Russia invades Ukraine: Russian currency (rouble) tumbles to record low within four days of invasion.There are run on banks in Russia as Russian citizens queue up before banks to wihdraw life savings. Oil prices per barrel rising to record levels in global markets.

Not a shot has been fired by Ukraine into Russian cities and not a single third country has involved itself in this war. In other words, Russian invasion is a very localized conflict between two erstwhile USSR remnants. Then why are the citizens of the invading country getting jittered by the invasion in another country, and why the world, despite distancing itself from the conflict, feeling the heat from afar.

Never has geopolitics been overshadowed by geoeconomics in past in a manner that has unfurled in these events and many other developments in recent times. Just the last three decades of contemporary history give an interesting insight on how geoeconomics has emerged from of the shadowy existence in geopolitics. Economic interest was one of the key drivers (in shadow) of geopolitcal approaches of the modern era that precedes our contemporary history. Whether it was Communism versus Capitalism, race of superpowers, weapons of mass destruction, demonisation of countries such as North Korea, Iran, or the Middle-East conundrum,outcomes of geopolitical approaches reflect an inherent aim for safeguarding the economic interest of certain nations, and power blocks. The superpowers that emerged after World War II became the ones due to their rapidly growing economic might. It is due to this economic might that they could fund an arms race and exert economic influence all over the world. Geopolitical approaches adopted were geared to this sustained economic growth and hegemony.

In the world order, post-World War II, facets of geopolitics of superpowers such as of USA reflected in stationing troops in other countries, arrangements of collective security through agreements like the one forming NATO, outsourcing defence by allying with superpowers such as South Korea and Japan. The point is, military power was the prime agent of geopolitics in safeguarding geoeconomic interests. Economically speaking it was an insular world at that time. Back then countries or blocks of countries were economically insular. Though attempts to create exceptions to this insularity reflected in myriad bilateral and multilateral pacts entered into in the field of trade amongst countries. If any country is deficient in certain resources, it resorts to geopolitics to secure it for itself. Observers have opined that the Middle East conundrum, and the African tragedy are outcomes of interplay of geopolitics. It is also said that the paradox of poverty and conflict in resource rich regions is due to geopolitics .When Iraq was invaded, the real reason is believed to be securing the Middle East oil supply for United States of America. Search for weapons of mass destruction was the facade to hide geopolitical motives.

In succeeding decades, globalisation changed equation between Geopolitcs and Geoeconomics. The traditional roles of horse and the cart were literally swapped. The last few decades have seen a tremendous surge of free markets and rise of internet-based technology. Riding on this surge, world trade and economics have arrived at a point where a nation's geoeconomical interests are safeguarded by geoeconomics alone. Servicification of manufacturing and global value chains is one visible outcome of globalised world order. Cross border movement of goods and services has never been so free and mammoth in volume as has been under globalised economic order. Economic boundaries have vanished for both localised firms and multinational businesses. Multinational corporations hold bigger geopolitcal clout than many nation states. Determinants of market forces in the form of capital and labour have begun to be guided by efficiency and profitability. Business decisions are now guided by economics of profit rather than politcs of ideology under shadow of overbearing State. For example, Tesla an American company is more based in communist China. The ownership of businesses has transgressed borders. Fund flow and investments behave more like the planetary winds tuned to global factors.

Globalisation enabled Global Value Supply Chains (GVCs) are at the heart of present globalised businesses. Under this model, considerations of efficiency and profitability have broken up the manufacturing processes into segments handled between independent firms and dispersed the manufacturing process across political boundaries, unaffected by ideological considerations. Manufacturing firms maintain profitability by supplying value to a product line and it may not be the same firm manufacturing the final product. Economic interactions between countries are no longer the same. Global Value Supply Chains have coupled with the economies of countries by uplifting the scope of comparative advantage of nations to the level of global supply chain stability. Comparative advantage remains so long as stability of value supply chain remains. Instability in one link in a value chain deals a crippling blow to the dispersed value supply links geo-situated elsewhere in another country. Economic coupling at economic entity level has severely negated the effectiveness of geopolitical approach of destabilization seen in past. Global Value chains have emerged as engines of geo-economics today and prime drivers of geopolitical strategy.

Taiwan is a geopolitical hotspot that explains geoeconomic angle well. A tiny nation, which has locked horns with China solely on its economic might as it is an economic powerhouse in the niche segments of Semiconductors crucial for manufacturing processes across world. This confers monopoly to Taiwan in Chip designing market. Chinese Chip designing companies are nascent and in evolving stage. The chances of exposure of Chinese technology companies to Taiwan ranging from smart phones to electric vehicles could be substantial owing to global value supply chain. Even the military hardware of China could possibly have stamp of Taiwanese chips. Unlike Ukraine, world has great economic stake in stability of Taiwan. Seen in this perspective, Taiwan has developed its geoeconomic advantage by leveraging a vital technology component.

Now coming to the other side --- China. Beyond China's military drills in South China, sea and intermittent border faceoffs with India, it is Chinese funds and products that have catapulted this country into global hegemony in geopolitics. Dominance in global supply chains has made Chinese geoeconomic influence felt across the world. No developed countries of west can afford to approach China's geoeconomic influence through same outdated geopolitical tools without upturning its own applecart. The Chinese Belt and Road Initiative (BRI) is primarily an economic project bringing great leverage for its military also. But the not-to-missed thrust of BRI is basically geoeconomics and a geopolitical move. Central Asia and the surrounding regions are littered with low income and less developed countries which are land locked. There would be no strategic gains for China in modern times to militarily subjugate this region. But economic development of the region on Chinese terms, however, will give great geopolitical advantage to China on the one hand and on the other a thriving market for its products outside the traditional markets. In furtherance of this geopolitical objective, China has been using another geoeconomic tool of 'debt' to expand its geopolitical sphere of influence. Chinese geopolitical influence is felt ranging from Myanmar, Sri Lanka to resource rich African countries. The Belt and Road initiative has the potential to expand its economic reach to London by a land route. Geoeconomics is transforming economics into a geopolitical tool. Two global phenomenon are highlighted in this context--- Covid pandemic and Climate Change.

Covid pandemic had for a moment rallied mankind around an existential threat. Soon responses of countries took the geoeconomics route to ensure survival of its citizens and epidemiology management. After the outbreak, a race for finding vaccine ensued and the countries that had the infrastructure and human capital developed a vaccine in record time. India due to its vaccine manufacturing infrastructure came to be dubbed 'pharmacy of world'. Once vaccines arrived, world response to its utilization was one of geoeconomics. No country thought of invading India and capturing the manufacturing infrastructure or vaccine stock. Countries like USA and other developed countries instead tapped into the value supply chain and the Multinational Corporations they control in securing vaccine stock for citizens. The result --- on the one hand there were concerns on vaccine shortage in many countries but on the other surplus stocks in rich countries that eventually expired which had to be destroyed. Interest of nations was secured through geoeconomics rather than by any other tool of geopolitics.

Climate change is another area in geopolitics that generated enormous controversy and bitter quarrels amongst nations. We can start with the solar power and electric vehicle .The Sun and its energy were known to humans much before it stumbled upon fossil energy. But once abundance of fossil fuel was understood, research and development embarked on a single track journey developing the technologies using fossil fuel alone. Other sources such as the solar energy were ignored and conveniently forgotten. It was not the case that science of solar energy was unknown. Photo electric effect on which modern solar panels are based was discovered way back in 1905 by Albert Einstein and even before observed by Heinrich Hertz in 1887. As an aside, Einstein was awarded Noble Prize in 1921 for this discovery. However, all technological advancements from manufacturing industries to transportation came to be based on burning fossil fuel. The Period immediately after Industrial revolution which was far more open to all kinds of research and development, soon got hijacked to a single track approach to energy needs, after discovery of oil in 1859. Geoeconomics did play a role in relegating other sources of energy into oblivion for a long time. Soon geoeconomics of oil took refuge under geopolitics. States having spent fortunes to build the economic infrastructure based on fossil fuel had no option but pursue oil supply centric geopolitical approach. Infact, entire economic system from financing to manufacturing and marketing came to be calibrated to fossil energy . Until a few decades back no financial institution would be ready to lend to an entrepreneur basing his production model on anything other than fossil fuel.But the real display of geoeconomics is evident after the ill-effects of burning fossil fuel gradually came out in the open--climate change. Geopolitics of climate change began playing by call for cutting down emissions of countries. Behind this call for emission curbs however, is geoeconomics. Because the economic systems are so intertwined with fossil fuel energy, cutting down emission is not possible without forgoing growth. So developed countries are accusing developing countries like India, China as worst emmitters. There is no denial that every country contributes to rise in global emission in various degrees. But the crisis cannot be handled by a single country alone. To meet its end of geoeconomc game, developed countries base rhetoric on façade of statistics advanced by vested geoeconomics . Consensus is as elusive as ever.

To delve further into the geoeconomics of it, let us go back to global value chain referred to, earlier. In a competitive world, under-developed and developing countries with limited technological advancement cater to those segments in the global value supply chain which are labour intensive, and employ obsolete technologies. This segment of value supply chain has high negative externalities in the form of carbon footprint. Once the value is supplied from the dirty segment of polluting process, the value added component reaches the higher level stage of manufacturing the final product. The higher level stage takes place mostly in the developed countries and involves advanced technology. So cajoling only the developing countries to cut emission is not only unfair but also detrimental to global value supply chain. The story of economic rise of China fits as an illustrative example.. Focus for China was to increase GDP manifolds ,which it did by catering to the dirty part of the production process and supplying value for the final products produced by developed countries. There are environmental consequences of this approach for China. The ill-effects became visible in recurrent infamous Beijing smog of nineties. The GDP size it achieved which is neck to neck with USA has given China tremendous advantage in geoeconomics of climate change nonetheless. Now China is a critical link in the servicification of manufacturing and global value supply chains.

By manufacturing most of the critical components required upstream in global value supply chain used by the West, China enjoys dominant geoeconomic position for forcing a geopolitical rethink in west when it comes to climate change. China not just understood the power of geoeconomics but also the fact that climate risks could be used to migrate value supply chain advantages out of the country. This realisation is evident from its massive thrust on solar energy generation and policies to quickly wean away manufacturing sector from coal dependency.

Russian invasion of Ukraine has other geoeconomic implications . One fallout of Russian invasion of Ukraine could be possible imperilment of globalisation itself. To perceive the danger posed to geoeconomics driven geopolitical approach, weaponisation of Global Value supply Chains and economic equations revealed during Russian invasion of Ukraine need to be understood. Seen from the Russian President's point of view, the geopolitical reasons for invasion are embedded in its DNA inherited from USSR and a post- World War II NATO centric approach. The response of the west is, however, pure geoeconomics. It won't be long for countries to realize that weaponisation of geoeconomics by way of Global Value supply Chain suspension can used for participation in war.

Within days of invasion, sanctions were heaped on Russian economy. Most of the sanctions involved the banking channels like cutting off Russia economy from Society for Worldwide Interbank Financial Telecommunications (SWIFT) interface. Russian energy segment was, however, left untouched. Though European Union disapproved the invasion, it did not impose sanction on export of oil and gas by Russia. Reason is not far to seek. EU depends heavlly on Russian oil and gas for its energy needs. On the contrary, Russia threatened to turn off the tap, if EU were to aid Ukraine. Weaponisation of economic entities were further apparent when top western brands suspended operations in Russia thereby depriving Russians from enjoying the fruits of free market economy and globalization. Russian non energy products faced export embargo. Sanctions have affected bilateral equations of individual countries with Russia differently. Countries such as India's trade relation with Russia remain unaffected. However distortions it can create in global economic system is apparent. Countries will not fail to notice how weaponisation of geoeconomics can be more disastrous to economy than the war itself . Response of Countries can be as radical as decoupling its economy from the global framework. Countries may be forced a rethink on reining in reach of globalization in its domestic economy, curtail competition, relapsing into an insular economy, thereby dismantling the global value supply chain. If benefits of globalization are endangered, GDP of countries may fall, income of individuals dwindle. With the rise of internet based technology scaling new heights ,it may not be possible for countries to cut itself out and go back to the old system, but caging the tiger will strip away the benefits consumers enjoy on best products at competitive prices.

North East India and Geo-economics :

Geo-economics hold immense potential for North Eastern India. Northeast India is a geopolitical hotspot with China as backyard neighbor.The geopolitical corridors of Northeast India is defined by Myanmar in east, China in the North and Bangladesh in South with the chicken neck squeezing into in the east. Barring an economically resurgent Bangladesh, North East India is situated in an unfavourable geopolitical setting having insignificant regional geo-economic profile. Myanmar is economically inconsequential at present to the region and the world. North east India serves only as an asymmetric market for Chinese goods.

Inciting the animal spirits of geo-economics in North Eastern region can improve situation in revolutionary ways. To start with, industrial underdevelopment of North East India can be regarded as its advantage. For example, lack of the industrial clusters have sparred the environment of this region from destruction. River systems still flow in pristine form, teeming with marine diversity. When it comes to climate change, North East India has been more a victim than the culprit. In a new economic order(based on clean energy) where economies are migrating to renewable sources of power, absence of manufacturing systems of fossil-energy era leaves good room for fresh start by leveraging emerging technologies. However, it is futile to say that the economic revolution has to be led by manufacturing sector necessarily.

The geographical advantages bestowed on this region have to be harnessed in developmental planning, for geo-economics to start kicking. To the east, beyond Myanmar into South East Asia, sits in proximity a promising economic block. Then there is the perennial Brahmaputra-Barak river system. Brahmaputra-Barak system as a geographic feature connects the heart of North East India with Bay of Bengal through Bangladesh. Economies of all seven states can collectively benefit from development of the Brahmaputra-Barak river water way to ferry products in cheaper manner. From this economic perspective, Brahmaputra river system does not belong to Assam alone. In geo-economic planning and strategy, Bramhaputra –Barak river system needs to be recognised as a shared economic infrastructure giving vital sea access to the region .

North East India has great hydro power potential. Not going into the controversy surrounding hydro power, it is still a potential resource that causes no negative impact on climate change. Together with Solar energy and other alternate sources it can generate surplus clean energy for export, riding on lithium ion storage technology platforms in future.

Human Capital is another resource in North East India. This resource can transform the region into an economic power house in tertiary sector involving internet-based technology. Clusters of high value, precision technology product manufacturing units can also be developed centreed around human capital. Efficient use of native human capital will attract additional qualified human capital into the region,which no doubt will lead to faster urbanisation. But with proper planning, smart urbanisation can be achieved.

Connected to human capital is the scope for geoeconomic engagement with China. The presence of China in neighbourhood has always been perceived as a geopolitical threat alone. China has never been perceived as a geoeconomic opportunity for North East India. This relationship needs to be re-appraised from the geo-economics standpoint for unlocking the potential of being proximate to a global economic giant. Discomforts arising from China can be dealt through geo-economic ways. The forces of globalization will take care of other geopolitical concerns. The 'threat of China' perception looms because North East India has insignificant economic presence in Global Value Supply Chains. North East India can start participating in a regional Value Supply Chain and engaging economically with China. If North East India can find a place in the manufacturing processes as a value supplier to world, geopolitical threats will diminish. This is not unrealistic. Taiwan is a case in point. Consider that Chinese products from solar panels to toys can access North East India despite the perception of geopolitical threat the country poses. The perceived threat will reduce, if the current assymetricity in economics of trade and value supply is corrected through paradigm shift in economic planning by re-evaluating its economic significance and reconstructing the geo-economic profile of North East region of India .

Transformation of India's North East can undoubtedly be based on unleashing the driving forces of the geoeconomics in the region. Geoeconomics has come of age in shaping foreign policy, governing International trade, and determining geopolitical tone and tenor.

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