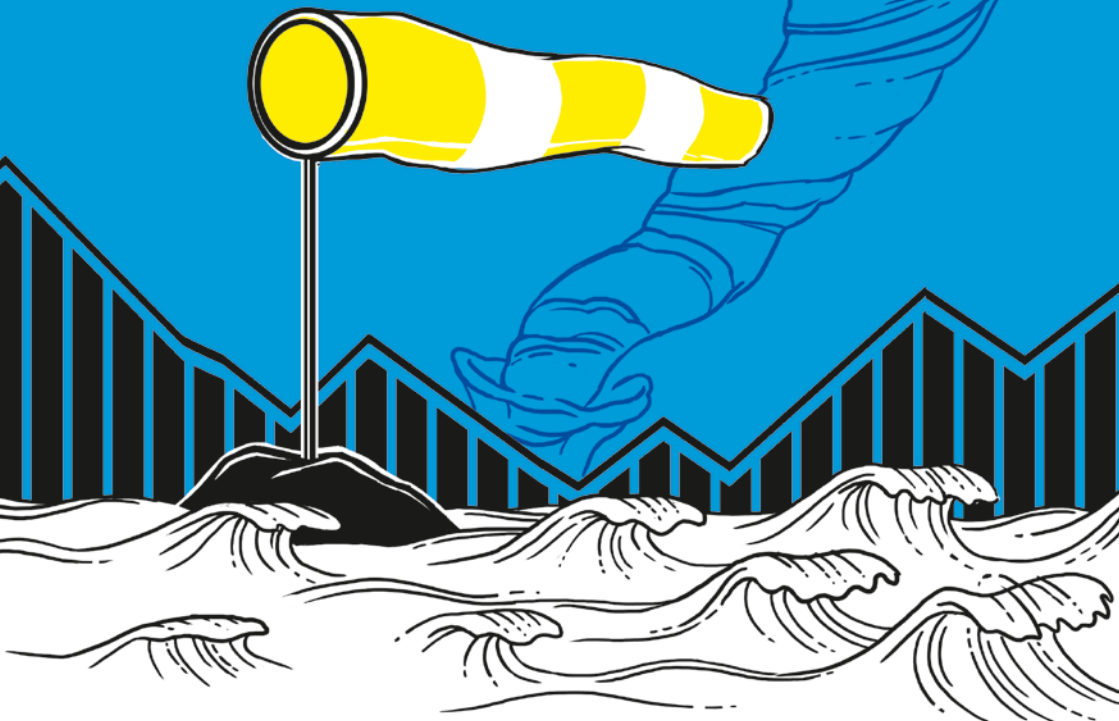


STORMS AHEAD

THE FUTURE
GEOECONOMIC
WORLD ORDER



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2

New Geoeconomics: A Primer

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Globalization is a quintessential geoeconomic phenomenon. But although almost everybody has been reaping the benefits of global exchanges of strategic flows such as commodities, data, money, goods, and services as well as the free movement of people, one core feature has been overlooked: Globalization is nothing without infrastructure, and infrastructure runs through corridors that are subject to multifold state and non-state interests. Thus, globalization has never occurred in a political vacuum but has been shaped by political forces. Today, these political forces are changing geoeconomic practice.

Geoeconomics is the projection of economic power within and across five essential domains² – land, air, sea, space, and cyberspace – to achieve political goals. What sets today's geoeconomic practice apart from the past is the changing fabric of the international system, the emergence of new and diverging Western and non-Western domestic political preferences that give geoeconomics a new twist, and the fact that connectivity increasingly turns toxic. Powerful emerging economies mimic the Western use of the geoeconomic toolbox. Consequently, Western governments need to prepare for economic countermeasures targeted at exploiting the vulnerabilities of highly intertwined economies. At the same time, wielding geoeconomic power among allies becomes contested, as it erodes the common economic foundation of the West at the very moment it engages in systemic competition with non-Western challengers.

These changes alter the operating environment of business, as strategic flows, corporate supply chains, and corporate technology development constitute the core of today's geoeconomic competition. This prompts the need for a corporate geoeconomic response. Defensive corporate geoeconomics primarily looks at corporate preparedness to mitigate geoeconomic risks. Offensive corporate geoeconomics strives to benefit from and shape the forces of economic power projection. Overall, the rise of corporate geoeconomics and non-Western geoeconomic practice requires public and private stakeholders to develop new modes of cooperation to ensure successful economic statecraft and corporate business development.

2 *Originally, domain is a military terminus describing an operating space „whose access or control is vital to the freedom of action and superiority required by the mission.“ See: Jeff Reilly, „Beyond the Theory: A Framework for Multi-Domain Operations,“ Over the Horizon, April 13, 2018, <https://othjournal.com/2018/04/13/oth-video-beyond-the-theory-a-framework-for-multi-domain-operations/>.*

Contemporary Geoeconomic Toolbox

Geoeconomics and geostrategy are age-old “conceptual siblings” that deal with the projection of power to wield influence by considering geospatial conditions. Whereas geostrategy primarily emphasizes the use of different instruments to achieve political goals, geoeconomics focuses on the use of economic instruments to shape economic exchanges for political returns.³ The geospatial dimension⁴ is important, as it shapes actors’ preferences and their ability to project power, which is best illustrated by supply chains, the center of gravity of today’s geoeconomic competition.

Supply chains connect regions of origin, transit, and destination. Actors operating at each stage can wield power and influence depending on factors such as the economic power and size of markets, the criticality of a product, or the very specific geographical location that turns a location into an important transport hub. Three forces of power shape supply chains:⁵ Downstream power results from the supplier’s attempt to control all value-adding steps from production to consumption. Upstream power illustrates the reverse mechanic, thereby leveraging the power of a consumer market to influence who is involved in producing a product and how it gets to the destination. Midstream power attempts to make the best out of both worlds by accruing power from the fact that supply chains are in transit from origin to destination. The rise of the Arab Gulf carriers that serve Western and Eastern passenger and cargo destinations perfectly illustrates midstream power. As Margarita Balmaceda has argued with reference to the energy sector, it is impossible to understand geoeconomic power projection without considering how supply chains “deeply penetrate local politics and business in each state through which this chain goes.”⁶

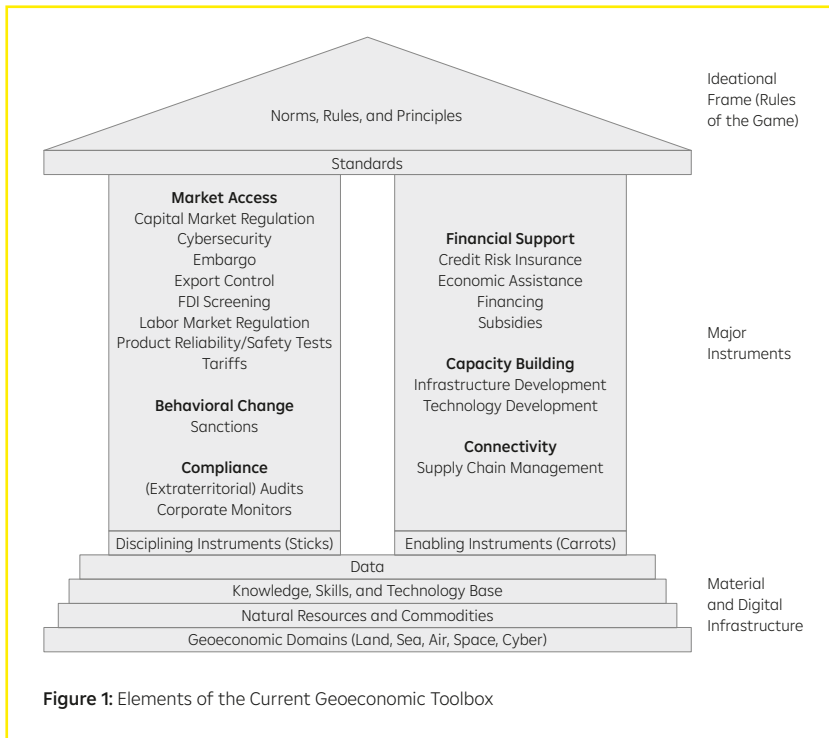
3 Zbigniew Brzezinski, *The Grand Chessboard. American Primacy and its Geostrategic Imperatives* (New York: Basic Books, 1997), pp. 37-40; Robert D. Blackwill and Jennifer M. Harris, *War by Other Means. Geoeconomics and Statecraft* (Cambridge/London: Harvard University Press, 2016), p. 9; Gideon Rose, „Geo-economics, Trade and the Liberal Order,” in *The Age of Economic Coercion: How Geopolitics is Disrupting Supply Chains, Financial Systems, Energy Markets, Trade, and the Internet* (Geneva: WEF, 2016), https://www3.weforum.org/docs/WEF_Age_of_Economic_coercion.pdf.

4 Sören Scholvin and Mikael Wigell, „Geo-Economic Power Politics. An Introduction,” in Mikael Wigell et al. (eds.) *Geo-Economics and Power Politics in the 21st Century. The Revival of Economic Statecraft* (London: Routledge, 2019), pp. 1-13, here p. 9.

5 Heiko Borchert, *Flow Control Rewrites Globalization. Implications for Business and Investors. HEDGE21 Strategic Assessment* (Dubai: HEDGE21/Alcazar Capital, 2019), pp. 29-31, https://www.borchert.ch/wp-content/uploads/2021/08/1901_Borchert_Flow_Control.pdf.

6 Margarita M. Balmaceda, *Russian Energy Chains. The Remaking of Technopolitics from Siberia to Ukraine to the European Union* (New York: Columbia University Press, 2021), p. 40.

Against this background, Figure 1 illustrates the current geoeconomic toolbox. The use of disciplining (sticks) and enabling instruments (carrots) rests on a material and digital infrastructure illustrated as the foundation. If, to what extent, and with what effect these instruments will be used, depends on worldviews and values that drive norms, rules, and principles, which in turn influence standards that shape markets and economic behavior. Together these elements constitute the ideational frame of geoeconomic practice.



The material and digital infrastructure is intimately tied to the five geoeconomic domains. In fact, it is via land, sea, air, space, and cyberspace that geoeconomic and geostrategic practice go hand in hand. The United States best illustrates this close relationship. From a U.S. perspective, technological leadership underpins economic success, which ensures military superiority.⁷

⁷ Michael Adas, *Dominance by Design. Technological Imperatives and America's Civilizing Missions* (Cambridge/London: Harvard University Press, 2006); Stephanie Carvin and Michael John Williams, *Law, Science, Liberalism and the American Way of Warfare* (Cambridge: Cambridge University Press, 2015).

Given its geographic location, power projection is in the country's political, economic, and military DNA, because it is the only way to influence developments abroad. The fact that China is exactly mimicking this approach in its attempt to shape international affairs explains Washington's alarmism. In addition, geospatial aspects play a key role in determining a nation's resource richness or poverty, which can be leveraged via downstream power. However, raw "resource power" is increasingly being tamed by normative goals that emphasize sustainability rather than (one-sided) resource exploitation. As will be discussed in the next section, this is set to be one of the most fundamental drivers of future geoeconomic power-wielding, as it makes geoeconomics subject to different visions about the social contract, i.e., the interplay between political, societal, and market forces.

Political choices shape the foundational infrastructure of the geoeconomic toolbox, which becomes most obvious when looking at the remaining two elements. The technology base underpins economic power, but technology alone is insufficient without knowledge and skills that turn ideas and technology into products. This explains why ambitious emerging countries are no longer satisfied with getting access to technology from international partners but strive to develop technology locally and ramp-up indigenous work force programs. The resulting indigenization is essential for reducing dependence on foreign partners, which becomes even more important the more these countries want to shape regional and international affairs. Finally, digitalization binds all foundational elements together and produces data as a new commodity, which is highly sought after but also increasingly contested.

How actors use geoeconomic instruments depends on their goals. Most of the instruments depicted in Figure 1 can be used to exert positive or negative influence; thus, the illustration reflects the most typical application.⁸ Let's look at these goals and instruments in more detail:

- **Market access:** Tariffs, embargos, and export controls are standard instruments for rendering product supply more difficult. Most recently, export controls have regained prominence to prevent the proliferation of strategic technologies. Worries about unwanted access to strategic technologies have also led to new and/or modified regulations to screen foreign direct investments. In this regard, requirements to create trans-

parency concerning the Ultimate Beneficial Owner (UBO) of a company become an effective means to exclude certain actors from specific markets, in particular if these actors are state influenced. Given rising concerns over technology access, cybersecurity as a security instrument is turning into a geoeconomic instrument. Most recently, for example, the Cyberspace Administration of China has toughened regulations on cross-border data sharing, thereby effectively paving the ground for separate Chinese and non-Chinese data ecosystems and prompting companies to reconsider existing business models.⁹ Product reliability and safety tests can be used in a similar way, as Tesla's recent recall of vehicles in China over issues with the autopilot software illustrates.¹⁰ Finally, market access restriction also spill over into labor markets as governments express concerns over engaging with scientists from strategic competitors. Enforced delisting from stock markets and more demanding IPO requirements can limit financial market access for the companies of a strategic competitor.¹¹

- **Behavioral change:** Sanctions remain the preferred geoeconomic instrument for changing somebody's behavior. Over the past decades, governments have honed their sanctions-related capabilities. For example, international sanctions against Russia that "prohibit providing new debt or new equity greater than thirty days' maturity to identified persons operating in the Russian financial sector"¹² illustrate a sophisticated understanding of business operations and a target's refinancing costs. But despite the growing sophistication, the sanctions record is mixed. On the one hand, targets learn to live with sanctions, for example, by emphasizing indigenization and reaching out to non-Western partners.¹³ On the other hand, sanctions create drawbacks, such as China's most recent anti-foreign sanctions law.¹⁴

- 9 Alexa Lee, „Personal Data, Global Effects: China's Draft Privacy Law in the International Context,“ *New America Blog*, January 4, 2021, <https://www.newamerica.org/cybersecurity-initiative/digichina/blog/personal-data-global-effects-chinas-draft-privacy-law-in-the-international-context/>; Lingling Wei, „China's New Power Play: More Control of Tech Companies' Troves of Data,“ *Wall Street Journal*, June 12, 2021, <https://www.wsj.com/articles/chinas-new-power-play-more-control-of-tech-companies-troves-of-data-11623470478>; Dana Heide et al. „China wird zum Datensilo,“ *Handelsblatt*, June, 18-20, 2021, pp. 24-25.
- 10 Eva Xiao, „Tesla Addresses Safety Issues in More Than 285,000 Vehicles in China,“ *Wall Street Journal*, June 26, 2021, <https://www.wsj.com/articles/tesla-recalls-285-000-vehicles-in-china-most-of-them-locally-made-11624698587>.
- 11 *The Dawn of Capital Markets Sanction. The US Government Embraces a Potent New Lever of Financial Statecraft* (Washington, DC: RWR Advisory Group, 2021), <https://www.rwradvisory.com/rwr-report-the-dawn-of-capital-markets-sanctions/>.
- 12 Richard Nephew, *The Art of Sanctions. A View from the Field* (New York: Columbia University Press, 2018), p. 158.
- 13 Richard Connolly, *Russia's Response to Sanctions. How Western Economic Statecraft is Reshaping Political Economy in Russia* (Cambridge: Cambridge University Press, 2018), pp. 8-9.
- 14 Xu Huang and Sophia Tang, „China Enacts the Anti-Foreign Sanctions Law,“ *Conflict of Laws*, June 21, 2021, <https://conflictoflaws.net/2021/china-enacts-the-anti-foreign-sanctions-law/>.

- **Compliance:** Growing sophistication in sanctioning third parties goes hand in hand with smarter ways to enforce compliance. Here the U.S. practice offers two interesting examples. Former U.S. Secretary of State Mike Pompeo had reportedly tasked the overseas development agency USAID to conduct cybersecurity audits in third countries before providing development assistance, with the goal to remove Chinese products from the local telecommunications infrastructure.¹⁵ In a similar way, the United States has mastered the art of requiring non-compliant foreign companies to appoint corporate monitors¹⁶ to testify compliance with legal judgments. In doing so, these corporate monitors are gaining access to corporate informational crown jewels.

- **Financial support:** Financial support is used to curry favor for geoeconomic initiatives that serve individual or collective goals. Economic assistance in combination with technology sharing is a case in point. China has used this mix in the South-South Cooperation Program with the Food and Agriculture Organization to combine agricultural tools and equipment with hands-on expertise of Chinese scientists deployed for several years to countries participating in the program.¹⁷ Other examples include direct government support of high-technology programs such as aircraft development by Boeing and Airbus or the most recent European Union (EU) plans to use the COVID-19 recovery funds to build high-speed trains or green hydrogen infrastructure.¹⁸

- **Capacity building:** Capacity building in combination with infrastructure development can open doors to long-term partnerships.¹⁹ China's Belt and Road Initiative and the EU-Japan Connectivity strategy fall into this category, as does also the U.S.-Japan plan for joint infrastructure development in the Indo-Pacific.²⁰ Whereas these programs can tailor support to target countries, there is a risk of crowding-out effects due to the

15 „Mike Pompeo Mobilizes USAID Against Huawei,” *Intelligence Online*, October 16, 2019, p. 2.

16 Vikramaditya Khanna and Timothy L Dickinson, „The Corporate Monitor: The New Corporate Czar?,” *Michigan Law Review* 150:8 (June 2007), pp. 1713-1756; „French Finance Minister Explores New Economic Security Measures,” *Intelligence Online*, December 13, 2017, p. 5.

17 *FAO-China South-South Cooperation Programme (Rome: FAO, 2015)*, <http://www.fao.org/3/a-i4700e.pdf>.

18 „Laying the Foundations for Recovery: Italy” (Brussels: European Commission, 2021), https://ec.europa.eu/info/system/files/italy-recovery-resilience-factsheet_en.pdf.

19 See also the chapter by Björn Fägersten and Tim Rühlig in this volume.

20 Rieko Miki, „US and Japan plan ‚Belt and Road’ Alternative for Indo-Pacific,” *Nikkei Asia Review*, April 6, 2021, <https://asia.nikkei.com/Politics/International-relations/Indo-Pacific/US-and-Japan-plan-Belt-and-Road-alternative-for-Indo-Pacific>.

exclusive character of some of these initiatives.²¹ With political decisions replacing markets as the relevant investment signals, there is also a risk that national competitive advantages could erode if “me too” technology and infrastructure investments are prioritized that would otherwise not be sustained.

- **Connectivity:** Globalization runs on connectivity, but connectivity remains vulnerable to political, economic, technological, environmental, and other man-made disruptions. For most countries the COVID-19 pandemic has been a wake-up call pointing up the risk of depending on foreign sources of supply. The governments of South Korea and Japan, for example, have been very active in setting up funds to reorganize corporate supply chains away from China to reduce dependence. So far, however, these programs have been of limited use, as companies want to remain engaged in the Chinese market. In some cases, Japanese semiconductor companies even decided to step into the Chinese market, as taking risks was considered most beneficial at a time when competitors mulled withdrawing from the market.²² The downside of these and other policy initiatives aimed at supply chain reorganization is that a core business management task becomes increasingly politicized, which increases the risk of regulatory disruption.

What's New?

3 Plus 3 Forces of Change

Geoeconomics is a two-level game.²³ At the international level, actors use geoeconomic instruments to advance their interests and shape the preferences and policy leeway of allies and competitors. But the policy preferences

- 21 Excluding offers from rivaling nations might not be an explicit condition of the programs but might come with the implicit conditions or the tacit expectation that countries that engage in 5G with, let's say, Western suppliers, will refrain from cooperating with China in the same area.
- 22 Kathrin Hille, „The Great Uncoupling: One Supply Chain for China, One for Everywhere Else,“ *Financial Times*, October 6, 2020, <https://www.ft.com/content/40ebd786-a576-4dc2-ad38-b97f796b72a0>; Sam Kim, „South Korean Firms Reluctant to Bring Production Back From China,“ *Bloomberg*, October 5, 2020, <https://www.bloomberg.com/news/articles/2020-10-05/south-korean-firms-reluctant-to-bring-production-back-from-china>; Hideaki Ryugen et al. „Japan's Silicon Wafer Latecomers Turn to China for Expansion,“ *Nikkei Asia Review*, March 16, 2021, <https://asia.nikkei.com/Business/Tech/Semiconductors/Japan-s-silicon-wafer-latecomers-turn-to-china-for-expansion>.
- 23 The two-level game theory addresses the interplay between domestic politics and international relations. See: Robert D. Putnam, „Diplomacy and Domestic Politics: The Logic of Two-Level Games,“ *International Organization* 42:3 (Summer 1988), pp. 427-460, <https://www.cambridge.org/core/journals/international-organization/article/abs/diplomacy-and-domestic-politics-the-logic-of-twolevel-games/B2E11FB757C4465C4097015BD421035F>.

that underpin the respective practice do not result from the international system only; domestic preferences are important in shaping geoeconomic ambition. So far, mainly Western nations have driven the geoeconomic practice. But the rise of emerging economic powers that harbor differing views on how to shape the future international order implies that non-Western domestic political preferences are becoming more important. Analysts need to pay more attention to this dynamic, as it ignites a new geoeconomic agenda that deviates from globalized geoeconomics (Table 1).

Three major input factors drive this new agenda: peer-to-peer competition, diverging domestic political preferences, and toxic connectivity. These forces change the geoeconomic output, i.e., the way geoeconomic instruments are used. A new geoeconomic responsibility to protect goes hand in hand with resurging state interventionism. In addition, digitalization changes the character of the five geoeconomic domains and broadens the regulatory footprint. Let's start with the input factors.

	Globalized geoeconomics	New geoeconomics
International environment	<ul style="list-style-type: none"> ■ Benign, with the US as the "hegemon of last resort" 	<ul style="list-style-type: none"> ■ Contested due to systemic competition
Key rationale/ Leitmotif	<ul style="list-style-type: none"> ■ Free flows ■ Winner takes it all 	<ul style="list-style-type: none"> ■ Flow control ■ Self-sufficiency
Core principles	<ul style="list-style-type: none"> ■ Market interoperability ■ Efficiency and effectiveness ■ Just in time 	<ul style="list-style-type: none"> ■ Environmental, social, governance (ESG) principles ■ Resilience ■ National security
Systems design	<ul style="list-style-type: none"> ■ Hub and spoke system with open and diverse vectors of economic exchange 	<ul style="list-style-type: none"> ■ Self-sustaining circular ecosystems with strategically controlled access points for economic exchange
Major growth engine	<ul style="list-style-type: none"> ■ Exports 	<ul style="list-style-type: none"> ■ Import substitution and domestic demand
Regulatory approach	<ul style="list-style-type: none"> ■ Global reach with extra-territorial overstretch 	<ul style="list-style-type: none"> ■ Regional, club-based reach with extraterritorial push-back

Table 1: Old and New Geoeconomics in Comparison

First, the international environment becomes less benign, as the liberal international order (LIO) is faltering and peer-to-peer conflicts are resurging. Whether or not cooperation is still possible depends on actors' expectations about the "future trade and investment environment." Under positive expectations actors are likely to see benefits in continuing current practices of cooperation. But if expectations turn negative and if one actor anticipates severe economic decline, "the leaders of the dependent state will begin to view war as the rational lesser of two evils."²⁴

Even prior to the COVID-19 pandemic, most indicators signaled a gradual abatement of globalization, and ambitious peers emerged to secure their piece of the shrinking global economic pie.²⁵ These peers act ambivalently. They want to benefit from the existing order while challenging it at the same time. Peers that mimic Western geoeconomic practice exploit tensions within the LIO that run along two seams. First, a clash between democracies and authoritarian regimes is in the making. Although the current U.S. administration under President Biden²⁶ puts this notion at the core of its foreign policy, it is ambivalent, as several democracies like Brazil, Israel, India, and Turkey are on a populist-authoritarian slope. Second, the LIO and the Westphalian order overlap but are not congruent. China and the United States feel more comfortable with Westphalian values, whereas Europe is all-in on the liberal, post-national aspects of the international order.²⁷ Cracks along both seams make it much more difficult for incumbent leaders to discipline challenging peers.

This is where changing domestic political preferences kick in as the second driving force.²⁸ Diverging domestic political preferences matter, because geoeconomic endowments are different. As Blackwell and Harris argue, the ability to control outbound investments, the size of a market, its relevance for partners, and the ability to shape strategic flows influence the execution of geoeconomic power.²⁹ These endowments can be used to project domestic

24 Dale C. Copeland, *Economic Interdependence and War* (Princeton: Princeton University Press, 2015), p. 2.

25 *For Better or Worse: Has Globalization Peaked?* (New York: Citi, 2019), p. 3.

26 Joseph R. Biden, "Why America Must Lead Again. Rescuing U.S. Foreign Policy After Trump," *Foreign Affairs* 99:2 (March/April 2020), pp. 64-76.

27 David A. Lake, Lisa L. Martin, and Thomas Risse, "Challenges to the Liberal Order: Reflections on International Organization," *International Affairs* 75:2 (Spring 2021), pp. 225-257.

28 See also the chapter by Daniel S. Hamilton in this volume.

29 Blackwell/Harris, *War by Other Means*, pp. 87-92.

political preferences overseas, which explains the "Brussels Effect."³⁰ Today, however, we are witnessing a twin change of new domestic political preferences in the West and fundamentally different value sets in non-Western countries that become more important given their economic rise.

In the West, the COVID-19 pandemic, climate change, welfare losses of the middle class, and the rising specter of populism usher in market-taming policy preferences. Driven by the idea that monopolies undermine markets, infringe upon consumer and privacy rights, and endanger democracy, digital behemoths are increasingly subject to new regulatory scrutiny.³¹ Whereas environmental, social and governance (ESG) principles drive public spending and private investments and require companies to be more transparent concerning the ecological and societal impact of their activities, this push for transparency has "little utility for an authoritarian trying to consolidate control."³² Consequently, resource-intensive business models come under pressure from politicians, consumers, and investors at the very moment when, for example, Europe's dependence on non-European resource providers is growing because of ESG-driven climate and energy policies. The strategic implications of this development will be far-reaching, as the West is likely to be the "junior partner in whatever collective climate solution Beijing and other emerging Asian powers can live with."³³

Whereas Western countries emphasize sustainability, non-Western countries focus more and more on self-sufficiency. But when a country like China emphasizes the role of the state over private companies, opposes individual rights, and prefers rule by law rather than rule of law,³⁴ self-sufficiency takes a different meaning. China is aware that the international environment turns non-benign and responds with the dual circulation strategy that puts stron-

30 *The Brussels Effect denotes the ability of the European Union to „promulgate relations that shape the global business environment, leading to a notable ‚Europeanization‘ of many important aspects of global commerce.“ See: Anu Bradford, *The Brussels Effect. How the European Union Rules the World* (Oxford: Oxford University Press, 2020), p. xiv.*

31 Lina M. Khan, „Amazon's Antitrust Paradox," *Yale Law Journal* 126:3 (January 2017), pp. 710-805, <https://www.yalelawjournal.org/note/amazons-antitrust-paradox>; Gansh Sitaraman, *The National Security Case for Breaking Up Big Tech* (New York: Knight First Amendment Institute/Columbia University, 2020), <https://knightcolumbia.org/content/the-national-security-case-for-breaking-up-big-tech>; Greg Ip, „Antitrust's New Mission: Preserving Democracy, Not Efficiency," *Wall Street Journal*, July 7, 2021, <https://www.wsj.com/articles/antitrusts-new-mission-preserving-democracy-not-efficiency-11625670424>.

32 Tom Ginsburg, „The BRI, Non-Interference, and Democracy," *Harvard International Law Journal*, 62 (Special Issue July 2017), pp. 40-65, <https://harvardilj.org/2021/07/the-bri-non-interference-and-democracy/>.

33 Adam Tooze, „How Climate Change Has Supercharged the Left," *Foreign Policy*, January 15, 2020, <https://foreignpolicy.com/2020/01/15/climate-socialism-supercharged-left-green-new-deal/>.

34 Jessica Chen Weiss and Jeremy L. Wallace, „Domestic Politics, China's Rise and the Future of the Liberal International Order," *International Organization* 75:2 (Spring 2021), pp. 635-664, here p. 640.

ger focus on the strength of the local market.³⁵ This shift primarily serves to reduce foreign dependence and to strengthen redundancy, for example, by way of operating multiple transportation hubs, as a strategic asset. Other powerful non-Western nations adopt similar policies that require indigenization and localization of foreign technologies in return for market access. Localization is tied to control, for example, when Saudi Arabia decides that companies need to open regional headquarters in the country to benefit from government contracts or when Russia wants digital companies to have local offices to step up regulatory scrutiny.³⁶ Interestingly, self-sufficiency also coincides with behavioral changes among ruling elites in a country like Russia. According to Vladislav Inozemtsev, new Russian oligarchs prefer to groom their fortunes at home rather than abroad, thereby containing the risk of becoming an international sanctions target.³⁷

Given the fact that Western and non-Western nations operate at different stages in the economic life cycle, diverging domestic political preferences might be nothing but normal. However, if Western preferences gradually emphasize resource-intensive de-industrialization while losing access to and control over the resources needed to shape industrial transformation towards a new eco-friendly, service-driven digital knowledge economy, strategic vulnerabilities will increase. At the same time, Western nations also risk losing the ability to shape strategic flows such as energy and commodities, while resource-rich producers and resource-intensive consumers grow closer, thereby further tilting the power asymmetry between Western and non-Western nations to the benefit of the latter.

Finally, both trends explain why connectivity is becoming increasingly toxic. Once considered a key feature in a system that binds all actors together, dependence now turns into a liability. Supply interruptions during the COVID-19 pandemic have influenced perceptions, as did also the rhetoric and practice of former U.S. President Trump, who argued that allies and competitors used

35 Stephen Olson, „China's Dual Circulation Strategy Signals a New Era," *South China Morning Post*, June 25, 2021, <https://www.scmp.com/comment/opinion/article/3138451/how-chinas-dual-circulation-strategy-heralds-new-era-global-trade>.

36 „Saudi Arabia Says Foreign Companies Must Have Regional HQs in Kingdom to Access Government Contracts," *Arab News*, February 16, 2021, <https://www.arabnews.com/node/1809861/business-economy>; „Putin Signs Law Forcing Foreign Social Media Giants to Open Russian Offices," *Reuters*, July 1, 2021, <https://www.reuters.com/technology/putin-signs-law-forcing-foreign-it-firms-open-offices-russia-2021-07-01/>.

37 Vladislav Inozemtsev, „Keine Sanktionen gegen alte Oligarchen," *Internationale Politik* 76:4 (July/August 2021), pp. 96-101, here pp. 99-100.

globalization to damage the U.S. economy.³⁸ Both narratives shift attitudes vis-à-vis international technology development, for example. In the past, nations and companies competed with technologies but today they compete for access to and ownership of technologies. This subtle change matters because technologies underpin corporate supply chains. It also illustrates the fact that nations and companies increasingly exploit specific features of a networked and globalized economy for unilateral benefit, sometimes also to "achieve coercive outcomes."³⁹ This coincides with the broader trend towards flow control, understood as "the will and the capability of an actor to define the framework and the operational conditions for strategic flows."⁴⁰ Therefore, flows – and everything that is needed to keep them running – take center stage with the new geoeconomic agenda.

These developments change the geoeconomic practice in three distinctive ways. First, acknowledging that dependence creates vulnerabilities triggers the geoeconomic responsibility to protect (R2P).⁴¹ The geoeconomic R2P agenda emphasizes resilience, national security, and supply chain responsibility. All three concepts are reasonable but ambivalent.

Resilience and national security are fundamentally important concepts, but their relative vagueness is the biggest problem. Following the COVID-19 pandemic, reference to public health and national security of supply have been used to justify market interventions. In this case, interventions focused on pharmaceutical and medical industries, among others, but it could easily be extended to agriculture, energy, clean technologies, or any other industry in the future. But definitional fuzziness that creates discretionary leeway for opportunistic interventions⁴² undermines the relevance of resilience and national security as economic policy guidelines.

38 Jeremy Diamond, „Trump Slams Globalization, Promises to Upend Economic Status Quo,” CNN, June 28, 2016, <https://edition.cnn.com/2016/06/28/politics/donald-trump-speech-pennsylvania-economy/index.html>.

39 Henry Farrell and Abraham L. Newman, „Weaponized Interdependence and Networked Coercion,” in Daniel W. Drezner, Henry Farrell, and Abraham L. Newman (eds.) *The Uses and Abuses of Weaponized Interdependence* (Washington, DC: Brookings, 2021), pp. 305–323, here p. 308.

40 Borchert, *Flow Control Rewrites Globalization*, p. 10

41 The R2P concept emerged in the context of the United Nations and denotes a „political commitment to end the worst forms of violence and persecution.” See: <https://www.un.org/en/genocideprevention/about-responsibility-to-protect.shtml>.

42 One of the best examples is the initial intention of the former Trump administration to levy tariffs on automobile imports from Europe because of national security concerns. See: Rachel F. Fefer et al, „Section 232 Auto Investigation,” CRS IN FOCUS (Washington, DC: Congressional Research Service, 2021), <https://fas.org/sgp/crs/misc/IF10971.pdf>.

Supply chain responsibility faces a similar problem. ESG emphasizes the need for advanced supply chain responsibility and leads to all kinds of mandatory due diligence obligations.⁴³ The problem is two-fold. First, governments expect companies to solve political problems, such as guaranteeing minority rights, and use corporate supply chains to project their own value sets onto other nations. This puts companies in a most uncomfortable position. In addition, believing that due diligence obligations will make supply chains more transparent grossly neglects the fact that supply chains turn dark beyond immediate contractual relationships. Without incentives that advance transparency to verify if companies behave properly, darkness prevails, but this issue is not on the political agenda.

Second, the geoeconomic R2P agenda coincides with the return of government interventionism. There is a growing belief that negative distributional effects of globalization erode the social fabric in Western nations.⁴⁴ Thus, governments step in to correct globalization-induced market failure. In addition, Western governments recognize China as a systemic competitor that requires extra strong interventions to counterbalance its moves.⁴⁵ Under this agenda, interventions will cut deeper and last longer, thereby shifting the focus from broad macro-level regulation to detailed micro-level regulation aimed at redesigning corporate supply chains, deciding what products will be cleared for exports, and designating commodities as socially acceptable or unwanted. Thus, governments increasingly make corporate decisions without bearing immediate responsibility for the respective outcomes.

Values-driven state interventions are not new, but the increasing economic power of non-Western nations reinforces the corporate dilemma caused by diverging Western and non-Western values. A company's license to operate depends on compliance with the regulatory regimes at home and abroad. Since Western nations no longer exclusively set the bar for acceptable corporate behavior, corporate regulatory and reputational risks will increase. These risks will become more pertinent, if non-Western nations combine specific values with regulatory monitoring and enforcement practices,

43 Lise Smit et al. *Study on Due Diligence Requirements Through the Supply Chain* (Brussels: European Commission, 2020), <https://op.europa.eu/en/publication-detail/-/publication/8ba0a8fd-4c83-11ea-b8b7-01aa75e-d71a1/language-en>; Ionel Zamfir, *Towards a Mandatory EU System of Due Diligence for Supply Chains* (Brussels: European Parliamentary Research Service, 2020), [https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI\(2020\)659299](https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2020)659299).

44 Matthew C. Klein and Michael Pettis, *Trade Wars Are Class Wars. How Rising Inequality Distorts the Global Economy and Threatens International Peace* (New Haven/London: Yale University Press, 2020).

45 Ilias Alami and Adam D. Dixon, „The Strange Geographies of the „New“ State Capitalism,” *Political Geography* 82 (June 2020), <https://doi.org/10.1016/j.polgeo.2020.102237>.

for example digital surveillance in combination with social credit systems, that Western nations frown upon. Consequently, governments will need to pay more attention to the normative coping capacities of companies. Furthermore, diverging normative baselines raise the question as to which values will ultimately drive a company's Corporate Social Responsibility (CSR) practice. As a consequence, cultural diplomacy designed to embed a company in different normative spaces could become a new instrument of corporate soft power.

Finally, both developments occur in tandem with the changing nature of the five geoeconomic domains due to digitalization. Digitalization permeates all geoeconomic domains and weaves them together. Government-driven digital regulation thus reverberates across all domains and shapes the business model of digital companies and their clients. In the regulatory shadow of a benign international environment, digital business models reached global dominance by leveraging the central role of unifying digital platforms. Today, this approach turns into a digital trap. China's data protection regulations, for example, are becoming increasingly hawkish, which affects companies operating in China and extends to Chinese companies listed overseas. This highlights how the political will to control technology champions, national security concerns over data sovereignty, and worries about tougher U.S. audit requirements that conflict with Chinese law, in combination with the drive for self-sufficiency, projects geoeconomic interests into financial markets, thereby also affecting global investment firms that "bought into fast-growing Chinese startups expecting to cash out after the companies list on global exchanges."⁴⁶

Corporate Geoeconomics

Looking at the developments discussed above, with the help of Michael Porter's five forces of competition, highlights the scope of change.⁴⁷ First, competitive rivalry will intensify due to the rise of state-owned enterpris-

46 Keith Zai and Jing Yang, „China Targets Firms Listed Overseas After Launching Didi Probe,” *Wall Street Journal*, July 6, 2021, <https://www.wsj.com/articles/china-to-revise-rules-and-strengthen-supervision-of-overseas-listings-11625572533>; Elizabeth Chen, „Rapidly Implementing a Chinese Data Security Regime,” *China Brief* 21:14 (July 16, 2021), pp. 1-5, <https://jamestown.org/program/rapidly-implementing-a-chinese-data-security-regime/>.

47 Michael Porter, „How Competitive Forces Shape Strategy,” *Harvard Business Review* (March 1979), <https://hbr.org/1979/03/how-competitive-forces-shape-strategy>. This paragraph is based on: Borchert, *Flow Control Rewrites Globalization*, pp. 26-29.

es that follow political goals. Their risk-related coping capacity outstrips commercial and stock-listed competitors, which gives them greater leeway. Second, the threat of substituting existing products and services is increasing, as ambitious emerging nations strive for import substitution to grow local industries and pave the ground for future exports. Third, policies tailored to groom local champions can lower market entry barriers at home, as these programs effectively lock out more sophisticated international competitors. In addition, the lack of specific business models in emerging countries might enable local companies to combine products and services in ways unfamiliar to Western nations, which in turn increases their attractiveness once they serve overseas markets. For example, Alibaba and We Chat started as online platforms and social networks and quickly entered financial and delivery services also because of the lack of local competitors in these segments. Fourth, governments can use identity politics and shore up nationalism as a geoeconomic instrument to influence other nations via their consumers. This happened to the South Korean retail store Lotte Mart in China when Seoul decided to procure U.S. air defense systems.⁴⁸ Finally, emerging nations engaging in geoeconomics will also strengthen the bargaining power of their suppliers vis-à-vis incumbent competitors. Localization programs, for example, are accompanied with demands to cooperate with preferred local partners, which gain the upper hand.

Despite the significant consequences of the new geoeconomic agenda on companies, it would be wrong to believe that business only sits at the receiving end of geoeconomic change. Rather, companies have geoeconomic agency, best understood as corporate geoeconomics. Indirect corporate geoeconomic power refers to the fact that corporate activities reinforce or run counter to geoeconomic intentions of governments. This is one of the reasons why technology proliferation is becoming so contested, as the business motive to serve clients can collide with governmental interests in preventing competitors from gaining access to certain technologies.

Direct corporate geoeconomic power refers to the fact that companies use and shape economic exchanges across different geoeconomic domains to

48 „South Korean retailers a casualty of political stand-off,” *Financial Times*, September 11, 2017, <https://www.ft.com/content/c5fb42c8-969f-11e7-a652-cde3f882dd7b>.

advance their own commercial interest.⁴⁹ Direct corporate geoeconomics comes in defensive and offensive variants.

The defensive perspective mainly addresses risk mitigation. This requires companies to take a detailed look at the impact of geoeconomics on core management functions. Identifying the respective vectors of influence is key to understanding how geoeconomic risk exposure threatens corporate business models. For example, companies need to analyze to what extent financial sanctions could impair access to capital markets. Technology export restrictions might undermine a company's ability to sell products. At the same time, technology import bans are very likely to change corporate supply chain configurations, as new suppliers are needed. These bans can also question existing research and development partnerships, as the loss of key partners can undermine a company's technological advantage. Most importantly, companies will need to investigate sanctions-related board of director risks that arise from the fact that ties to governments that are considered strategic competitors are increasingly contentious, as these links could imply government influence on corporate decision-making.

Offensive corporate geoeconomics targets economic gains for business by combining operations along the five geoeconomic domains in one business model. Logistics companies like UPS, DHL/Deutsche Post, or Agility offer air-freight, land and sea-based transportation, thus operating in three different domains. Electronic supply chain management adds cyber as the fourth dimension to their business model. Oil and gas companies mostly combine land and sea-based exploration with transportation along the same domains. Their business is especially prone to regional instabilities that can lead to supply interruptions, thus requiring them to pay special attention to geostrategic and geoeconomic developments. The same is true for mining companies like Rio Tinto, BHP Billiton, or Vale. Together these companies are the leading iron ore producers that also own substantial shares of the global iron ore shipping capacity; this gives them significant downstream power along the supply chain.

49 For a similar idea dubbed „corporate statecraft“ that looks at corporate adaptation to a changing geoeconomic landscape, see: Henrique Choer Moraes and Mikael Wigell, *The Emergence of Strategic Capitalism. Geoeconomics, Corporate Statecraft, and the Repurposing of the Global Economy* (Helsinki: FIIA, 2020), <https://www.fiia.fi/en/publication/the-emergence-of-strategic-capitalism>.

As these examples refer to the “old economy,” the geoeconomic dimension might be less surprising given the physical footprint of transport-heavy business models. But the “new economy” has geoeconomic agency, too, which is growing rapidly. In this regard, Amazon might be the poster child of corporate geoeconomics in a digitized world, because it truly integrates operations across all five geoeconomic domains in a comprehensive business model.⁵⁰

- Amazon maintains a fleet of trucks for land-based transportation. In the United States alone, the company has ordered 100,000 Rivian custom electric delivery vehicles.
- Amazon Air operates 80 airplanes, and the U.S. Federal Aviation Authority has given Amazon the green light to operate logistics drones.
- Amazon China is registered to operate as an ocean freight forwarder offering sea transport for Chinese sellers.
- AWS, Amazon’s cloud-based services, not only provides the digital backbone for all of Amazon’s activities but also holds 32% of the global cloud market by serving third parties.
- The U.S. Federal Communications Commission has approved operation of the Kuiper satellite constellation, including more than 3,000 satellites, that will provide additional satellite-based bandwidth for Amazon’s digital business model.
- Finally, Blue Origin envisions providing rockets and spaceships for future space transportation.

Conclusion

This paper has argued that geoeconomics is a two-level game. A new international geoeconomic dynamic results from the resurgence of systemic peer-to-peer competition, whereas the disciplining effect of the existing liberal international order is waning. At the same time, Western and non-Western

50 *Elijah Shama, “Amazon is purchasing 100,000 Rivian electric vans, the largest order of EV delivery vehicles ever,” CNBC, September 20, 2019, <https://www.cnbc.com/2019/09/19/amazon-is-purchasing-100000-rivian-electric-vans.html>; “Amazon leases 12 Boeing aircraft to bolster air cargo fleet,” Reuters, June 3, 2020, <https://www.reuters.com/article/us-amazon-aircraft-idUSKBN23A37D>; “Amazon Wins FAA Approval for Prime Air Drone Delivery Fleet,” UAS Weekly, September 1, 2020, <https://uasweekly.com/2020/09/01/amazon-wins-faa-approval-for-prime-air-drone-delivery-fleet/>; *Shefali Kapadia, “Amazon Ramps Up Ocean Shipping Services,” Supply Chain Dive, January 22, 2019, <https://www.supplychaindive.com/news/amazon-shipping-freight-forwarding-first-mile/546548/>; Felix Richter, “Amazon leads \$150bn Cloud Market,” statista, July 5, 2021, <https://www.statista.com/chart/18819/worldwide-market-share-of-leading-cloud-infrastructure-service-providers>; *Michael Koziol, “Amazon’s Project Kuiper is More than the Company’s Response to SpaceX,” IEEE Spectrum, August 17, 2020, <https://spectrum.ieee.org/tech-talk/aerospace/satellites/amazons-project-kuiper-is-more-than-the-companys-response-to-spacex>; <https://www.blueorigin.com/>.***

domestic political preferences evolve in different directions, thus giving geoeconomics a new twist. As a result, connectivity increasingly turns toxic, as dependence on foreign partners comes to be seen as a major strategic concern.

This new geoeconomic environment challenges Western governments and business alike. New modes of public-private cooperation in tackling these challenges are needed, and this requires reforms along three axes. First, public-public coherence needs to be improved by identifying how foreign geoeconomic practice affects national and allied policy leeway. This requires a thorough assessment of individual and collective geoeconomic vulnerabilities and a better understanding of the courses of action strategic competitors might use to exploit them. In addition, strategic misfits among national and allied policy choices need to be identified and mitigated.

Second, public-private interaction needs to be stepped up. Overall, joint situational awareness and understanding of geoeconomic challenges and response options need to be improved. A geoeconomic dashboard consisting of a risk map and indicators illustrating dependence, vulnerabilities, and political and business opportunities could be a major step forward. This dashboard would guide public-private dialogues among ministers and leading business representatives to discuss individual and joint interests in specific overseas markets, reflect upon the strategic impact of national and international technology developments, and shine light on likely challenges that emerge from current regulatory policies in different markets.

Finally, closer private-private interaction should be seen as the first line of defense vis-à-vis overseas geoeconomic challengers. Intelligence-driven information exchange among companies operating along the same supply chain could advance mutual preparedness. In addition, companies should launch voluntary initiatives to combine liquidity with data to provide incentives to advance supply chain transparency.⁵¹

51 Carsten Jaekel and Heiko Borchert, *The European Way, How to Advance Europe's Strategic Autonomy by Pairing Liquidity with Data to Make Supply Chains More Transparent, Resilient, and Sustainable* (Cologne: Ernst & Young, 2020), https://www.ey.com/en_ch/supply-chain/the-european-way-how-to-advance-europes-strategic-autonomy.

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Goeconomics is the projection of economic power within and across land, air, sea, space, and cyberspace to achieve political goals. The changing fabric of the international system, diverging Western and non-Western political preferences, and connectivity that increasingly turns toxic change the goeconomic practice. In response, public policies and corporate strategies need to be adjusted. Storms Ahead provides a much-needed compass to guide public and private decision-makers through increasingly stormy waters by providing a diverse and complementing set of perspectives and blending conceptual approaches with practical insights.

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