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Geo-economics on the rise

The accelerated process of structural rearrangement in the global economic scene evoked by the 2008 crisis poses a challenge to political actors all around the world. The increasing role of emerging economies is compelling developed countries to find new strategies in economic diplomacy. Countries that do not apprehend the reshaping circumstances and shift in the balance of power, or are unwilling to adapt to them are facing major disadvantages in global competition.

The new theories of economic diplomacy behind the decisions of currently leading countries were not formulated in an ad hoc manner, and aren’t ill-grounded theoretically either. Quite the contrary - they are grounded in a very valid theoretical and scientific foundation. Today, only countries that recognize and acquire the principles and instruments of the geo-economic paradigm can gain and maintain competitive advantage.

Paradigm shifts in economic governance

Up until the wave of democratization amongst the Central and Eastern-European countries in the 1990-s, the leading concept of International Relations had been the geopolitical approach. Interestingly enough, the international strategies of the capitalist, and the opposing socialist block was built on the same geopolitical approach. This stems from the concept that the decisive factors of the international arena and its relations are states, whose economic-diplomatic decisions are dominantly driven by interest (democratic values vs. socialist values), with particular regard to issues of geographical location. (e.g. setting up buffer zones). The key to success had been the export of their values, dominion over natural resources, a hard-hitting army, maintaining institutional infrastructure and a sufficiently large population.

The triumph of capitalism, the globally accelerated influence of Western values and technological development had begun to stretch the framework of the initial concept of geopolitics however. New markets opened up to multinational companies, the newly emerging market economies started to adapt to the Western corporate culture, simultaneously sidelining ideological issues. Meanwhile, with the shrinking costs of
communication, production and transportation, the technological boom also contributed to the global expansion of business actors (e.g. outsourcing of industrial activities).

The sudden emerge of BRICS countries, particularly China, and the 2008 global economic crisis had been the catalyst of the paradigm shift, promoting the dynamic development of geo-economics. In contrast to its predecessor, the geo-economic approach is based on interest-driven decisions, where the decisive actors are national governments, economic interest-groups and business actors collectively. Key factors promoting success are the strength and stability of the financial heartland, (debt financing, investment risk classification of companies and countries, etc.) development of financial dependence (lending), as well as the market share and ownership structure of international companies and the conquest of export markets. The geo-economic logic suggests that national governments take on a supporting role, where the primary task of political decision-makers is to use diplomacy to open new export markets and reduce setbacks occurring upon the companies' entry into the new markets. (e.g. financial and regulatory difficulties).

Geo-economic strategies in practice

The new approach outlined above explains several strategic decisions made in the global arena in recent years. Based on this geo-economic logic, several allies of strategic importance to the United States, including the United Kingdom joined the Asian Infrastructure Investment Bank, established by Chinese initiative, also referred to as “counter-IMF”. British Prime Minister David Cameron was also driven by a geo-economic strategy when signing a 700 million pound agreement with India to manufacture Hawk-type aircrafts in 2010. The agreement ensured a purchase order for British companies such as BAE Systems and Rolls Royce. Furthermore, the British PM authorized the export of British civic nuclear energy as part of the agreement, despite discouragement from his advisors pointing out that India has not signed the non-Proliferation Agreement.

The historical lesson to be learned is that it is always the countries able to adapt to the ever-changing trends that were able to gain a competitive advantage in the global competition. Growing prevalence of the geo-economic approach is currently the most powerful international economic trend. Those countries failing to respond urgently enough in formulating new strategies within their economic-diplomacy framework are prone to fall behind those with quick adaptive capacities.