Follow the Money: The Rise of Economics in Contemporary Geopolitics
Dunn, Gregory
Harvard International Review; Fall 2014/Winter 2015; 36, 2; ProQuest Central
pg. 4

Follow the Money

The Rise of Economics in Contemporary Geopolitics

staff writer
GREGORY DUNN

When the *Harvard International Review* was founded, the world of finance was far from cohesive. In the 1970s, the lines of the Cold War prevented one half of the world from trading with another, and even within alliances, international economies were nowhere near as connected as they are today. However, the twin miracles of modern computation and communication technologies, when combined with the fall of the barriers of the Cold War, changed the picture fundamentally.

If the turn of the century represented a golden age in global market integration, the decades that follow may represent a new development: nations leveraging global markets for geopolitical ends. The 2010s have featured a rapid increase in the manipulation of financial markets for geopolitical gain, and this trend is likely to accelerate in the future. While the use of economics as a geopolitical tool has proven to be a stabilizing factor in foreign policy so far, the rapid increase in geopolitically-motivated manipulation of financial markets may prove to have catastrophic effects on the modern global economy.

Perhaps the most consequential example of using economic integration for the purposes of foreign policy can be found in the interactions between the United States and China. The first substantial foreign policy decision the United States made regarding China was an economic one, when the United States established its famous Open Door policy with the aim of allowing international access to Chinese markets. As China has developed, access to these markets became an increasingly contentious proposition in the United States. A major issue in the latest US presidential election was whether to label China's export-oriented monetary policy as currency manipulation. While President Barack Obama's victory precluded such a step, the policy was evidence of a larger trend in the United States to attempt to influence China via economic means.

The largest unresolved issue in contemporary US-China trade policy is that of multilateral free trade agreements. The United States joined the Trans-Pacific Partnership (TPP), a comprehensive free trade agreement that has a substantial regulatory component promoting environmental protection and workers' rights. China, participating in TPP negotiations, has concurrently focused its efforts on a competing treaty, the Regional Comprehensive Economic Protocol (RCEP). This treaty encompasses most of the countries in the TPP, with the exception of the United States. The RCEP also features far fewer regulations—this would have a disproportionate

HARVARD INTERNATIONAL Review
Vol. XXXVI, No. 2 • Fall 2014/Winter 2015

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impact on Chinese industry. China's resistance to the TTP is not only rooted in its desire to maintain low costs of labor, but also its desire to counter US influence in the Asian economy. As the TPP negotiations enter their 10th year, it seems as if China's fears are unlikely to be realized any time soon.

The use of economics as a tool of foreign policy is not limited to the Pacific region. When the European Union was founded, the idea of a common European identity was the chief justification for integration. Such idealism is gone, and the impetus for the further integration of the European Union has become financial. To overcome the Eurozone financial crisis, the European Union has centralized economic control away from individual nations and into the hands of wealthier countries (notably Germany), technocrats affiliated with the European Central Bank, and the broader government of the European Union. Evidence that financial issues are propelling EU integration can be found in the aggressive and effective policies of the European Central Bank, led by Mario Draghi, who seeks to do "whatever it takes" to overcome the crisis. The powerful policy of the European Central Bank stands in stark contrast to the current stagnation within the European Commission, illustrating where the true force within the European Union resides. Europe demonstrates the replacement of the political, cultural, and security-based reasoning that led to the creation of the European Union with reasoning based in economics. While these trends alarm many in Europe, as seen in the rise of the reactionary right in the United Kingdom and France, the strength of the reaction (as manifest in their remarkably strong showing in elections to the European Parliament) reveals the power of the economically-led centralization in Europe today.

Economics has played a role in foreign policy since ancient times, when Constantinople paid tribute to barbarians to stop them from attacking the city. However, the contemporary use of economics in foreign policy has more of an impact than mere payments between states—rather, economics has risen to the forefront of contemporary multinational policy aimed at having truly global impacts. Argentina recently defaulted on debt that it was unable to pay to a group of banks, led by New-York-based Eliott Management Corporation, which was unsatisfied with Argentina's previous restructuring of its debt. Tellingly, the move was sold domestically as a punitive response to a predatory global financial order. Previously, the management of debt was a matter of accounting, finance, and revenue. Now, debt policy has become a means by which financial institutions around the world can be critiqued, as a part of Argentinian President Cristina Fernández de Kirchner's populist policies. The opposite effect has arisen in Russia. As Russian involvement in Eastern Ukraine became more obvious, the nations of the world united in a financial response, imposing severe multilateral sanctions that caused Russian stocks to fall over 10 percent. In both Russia and Argentina, global financial markets have played an outsize role in foreign policy.

Leveraging economics for the purpose of foreign policy is a useful strategy in times of economic crisis, when leaders can turn wealth into diplomatic power. However, contemporary markets are precarious and fraught with risk, making the future of economics in foreign policy bleak. This negative outlook is not a function of leaders' desire to shift towards other modes of engagement; in fact, many nations seek to conduct their foreign policy with economics as the focus of their efforts, thus avoiding capital expenditures on militaries and diplomatic corps. Rather, to put economics at the forefront of foreign policy in today's market engenders substantially more risk to the global financial order than it did in the past. Yet the reckless use of economics within foreign policy continues.

Many people would dispute that the economy has recovered from its collapse in 2007 and 2008, despite economic indicators in the United States reaching record highs. This strength, however, has not been seen throughout the world—Europe continues to lag, Japan's new policy of 'Abenomics' has failed to yield expected dividends, and China's growth rate seems increasingly precarious. German manufacturing, once the engine of growth in a faltering Europe, has recently fallen into recession, and Chinese property developers are facing financial difficulties—a stark departure from the steady returns that have characterized the previous decade of Chinese development. South Korea's most prominent conglomerate, Samsung, has fallen short of analysts' expectations. South America's economic growth spurt seems to have ended, with Brazil's economy, once lauded as the "B" in BRICS, likely entering recession. Africa's growth has been hindered by geopolitical instability in the north and Ebola in the west, which offset the growth displayed in many of the region's countries.

In this fragile economic ecosystem, the practice of using economics towards the ends of foreign policy has a greater potential to go awry, and a far greater potential to wreak havoc when inevitable miscalculation occurs. The most concerning trend, however, is for economic tools within foreign policy to be used towards shortsighted, ill-considered ends, resulting in an increase in reckless policymaking at the precise time caution is needed.

In 1986, US Professor Richard Rosecrance wrote in his widely cited *The Rise of the Trading State* that conventional means of international relations were being replaced by international economic engagement. In such a system in which trade dominates international organizations, there is little incentive to go to war because conflict stops trade, thereby negatively impacting people's livelihoods. Through economic engagement, trust-building cooperation, and the rise of global citizens, Rosecrance predicts that war would be an outmoded and inefficient way to conduct international affairs. Unfortunately, this prediction, while appealing, only holds in times of economic expansion. The conflict between Russia and Ukraine was rooted in a Ukrainian debt crisis, the starkest example in recent times of a disturbing corollary to Rosecrance's theory—if prosperous times breed peace, economic contraction and conflict go hand in hand as well.

One of the most pronounced examples of the interaction between poor diplomacy and poor economic situations has been China's harassment of US firms operating within China. Many US corporations do business in China, investing their

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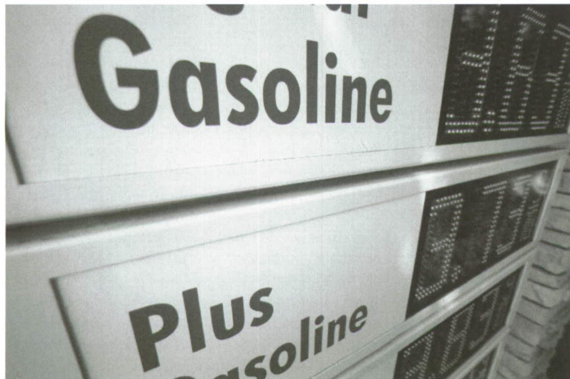
capital and expertise towards the furtherance of the world's largest purchasing-power-adjusted economy. However, the US-China relationship frayed over the summer of 2014, owing to accusations of cyber-espionage, aggression in the South China Sea, and negotiation in bad faith. As a result, Chinese officials have begun pestering American firms operating in China, launching dawn raids on their offices to investigate vague charges related to corporate business practices. The network corporation Cisco, the world leader in industrial-grade computer networking equipment, has been severely harassed in China as a means to pressure the US government over the activities of the National Security Agency. As a result of the targeting of US firms, a rift is opening between the two largest economies in the world, leaving China without US technology and the United States without access to the world's largest market. In an era when trade and global interconnectedness is key to long-term economic prosperity, the United States and China lose out massively as overzealous government officials decide to sabotage US-China economic cooperation in the name of politics. Here, conflict is leading to failures in economic cooperation, which in turn lead to further conflict and economic malaise.

Economic trouble can also lead to failure in diplomatic cooperation as well. One of the most pronounced examples of this trend is the reaction of the Organization of Petroleum Exporting Countries (OPEC) to the fall in energy prices in fall 2014. OPEC is traditionally seen as an ironbound alliance that can bring even the United States to its knees, thanks to its ability to control global energy supply and pricing. OPEC has functioned as a counter to western hegemony in the past, using its broad economic powers to mount a serious challenge to the interests of the United States and its allies. However, this hold on power has weakened as energy prices have fallen, forcing members of the alliance to make tough decisions about how to produce oil when it costs more to extract the substance than the amount for which it can be sold. Many of the OPEC economies have government sectors that are highly dependent on oil revenues—if these sectors were deprived, they would easily be destabilized.

Recently, OPEC has had to respond to oil prices well below US$100 dollars per barrel. According to the *Wall Street Journal*, Iran's government requires US$140-per-barrel oil to fund its governmental operations, Venezuela and Algeria require US$121-per-barrel oil. Other member nations, like the United Arab Emirates and Qatar, can still make a profit with oil prices below US$7-per-barrel oil. This massive disparity in economic conditions has driven a rift through the organization, and pleas by Venezuela for an emergency meeting with the aim of raising prices have gone unheeded. Poor economic conditions have torn apart a formerly powerful international organization, and thanks to the hydraulic fracturing boom in the United States, the price will likely remain low, further straining OPEC. While the structure of OPEC makes the organization inherently stronger when prices are high, this is a case that demonstrates a broader trend—alliances made in fair economic weather suffer when times are poor. OPEC countries became accustomed to conducting foreign policy with the aid of oil wealth, and the removal of this oil wealth has left these countries bickering and disorganized. Social scientists have observed the "rentier effect'" in countries with resource-driven economies, where oil wealth leads to the decay of governmental institutions, because buying loyalty is easier than governing effectively. The decline of OPEC demonstrates a similar phenomenon at play in foreign policy—now that oil wealth is disappearing, the foreign policy of OPEC countries is left adrift. Reliance on economics, a force OPEC countries counted on to forge a powerful role in the world, has failed.



Ocotober gas prices in California show the effect of falling oil prices, currently just above $90 per barrel. A level last seen in 2012, these prices are putting pressure on OPEC nations to call for a meeting in order to prop up prices.

A version of the international relations rentier effect can be seen globally. Wealth seems to be disappearing, and mistrust, malice, and myopic policymaking has risen to replace it. The international economic order which has given the world unparalleled growth over the past hundred years has also made us dependent upon its bounty—and now that it is receding, the weak foundations of global diplomacy have been revealed. While the peace that economic growth brings is always welcome in a chaotic world, it is important that this peace does not come at the expense of diplomacy, strategic thought, and international negotiation. While economics can bring about success in international relations, it is an unreliable foundation for global diplomacy, as revealed by the economics-based diplomatic relationships that are unraveling today.

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