

ESADE

Ramon Llull University

ESADEgeo-CENTER  
FOR GLOBAL ECONOMY  
AND GEOPOLITICS

E

69

# Book reviews on global economy and geopolitical readings



Fundación  
**REPSOL**



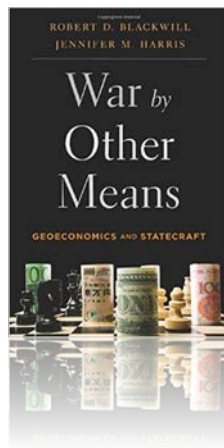
Obra Social "la Caixa"



E

# War by Other Means: Goeconomics and Statecraft

Blackwill, D. & Harris, J. M. (2016), The Belknap Press of Harvard University Press, Cambridge.



*"Despite having the most powerful economy on earth, the United States too often reaches for the gun instead of the purse in its international conduct. America has hardly outgrown its need for military force, which will remain a central component of U.S. foreign policy...This large-scale failure of collective strategic memory denies Washington potent tools to accomplish its foreign policy objectives."*

*"The Administration's State Department budget request for fiscal year 2016 was \$50.3 billion, while the Department of Defense's total FY16 request was \$585.2 billion. The State Department figure is 8.6 percent of the Defense Department's request, a ratio that is incompatible with an era of goeconomic power projection."*

## Summary

Nations are increasingly using economic resources in the geopolitical battlefield. Policies of all sorts – from trade and investment to energy and exchange rates – are used as tools for winning diplomatic allies, punishing opponents, and coercing the undecided. However, this is not true for the United States. According to Robert D. Blackwill and Jennifer M. Harris, Washington still resorts to arms too often to achieve its foreign objectives. The result is a battlefield that is dangerously tilting against the United States.

In *War by Other Means*, the authors explore *goeconomics*, that is, the use of economic instruments to achieve geopolitical objectives. To show why the United States is losing ground as a world power, the authors explain that goeconomics has long been a lever in US foreign policy. Nevertheless, factors such as the bureaucracy of the political system, or the prevalence of theories that insist on separating economics from foreign policy, have meant that America is unprepared to compete in a new era marked by goeconomics, while emerging countries, especially China, are adapting quickly.

For many decades, the US has benefited from the regulatory system it established after World War II. Now, however, as that system is starting to fray at the edges, its

competitors are taking advantage, and the US is limiting its own ability to react. Its geoeconomic policies are hampered by neglect and reluctance, and the country is too dependent on military might. For Blackwill and Harris, the US will pay an increasingly high price until these policies are corrected.

## The authors

**Robert Blackwill** is a member of the Council on Foreign Relations, the International Institute for Strategic Studies, and the Aspen Strategy Group. He is also a non-resident senior fellow at the Belfer Center for Science and International Affairs at Harvard University. Between 2008 and 2010, he was a senior researcher at the RAND Corporation. Previously, he was executive assistant to President George W. Bush, and deputy national security adviser for strategic planning. He was also a presidential envoy to Iraq, and the US government's coordinator for policies in Iraq and Afghanistan. Blackwill is the author and editor of numerous articles and books on transatlantic relations, Russia and the West, the Middle East, and Asian security. His best-selling book, co-written with Graham Allison of Harvard Kennedy School, *Lee Kuan Yew: The Grand Master's Insights on China, the United States, and the World*, sold 180,000 copies.

**Jennifer Harris** is a senior researcher at the Council on Foreign Relations. Previously, Harris was part of the policy planning team at the US State Department, where she handled global markets, geoeconomics, and energy security. In this role, Harris was the architect of the economic agenda of Secretary of State Hillary Clinton, which was launched in 2011. Previously, Harris was a member of the US National Intelligence Council, where she managed economic and financial affairs. Her work has been published in the New York Times, Foreign Affairs, Washington Quarterly, and the World Economic Forum, among others. She was awarded Truman and Rhodes scholarships, obtained a PhD from Oxford University, and holds a postgraduate degree (Juris Doctor) from Yale Law School.

## Key ideas and opinion

**Economic leadership skills have become a lost art in America. Meanwhile, the rest of the world has moved to strengthen and develop these skills.** Russia, China and other countries now routinely use geoeconomic tactics, often as a first resort, and this strategy often weakens the power and influence of the United States. **By ignoring the increasingly important role of geoeconomics in the international system, America has lost opportunities and diluted its foreign policy objectives.** Blackwill and Harris give the example of how Washington instinctively debated the deployment of military resources to address challenges in the Ukraine. However, there was no discussion about restoring the economic viability of the Ukraine to counter Putin's aim of creating

a Novorossiia or 'New Russia'. In the same way, there is no discussion of using an economic and financial blockade in the fight against ISIS; or making reforms of the Egyptian economy a major US foreign policy objective; or building a broader transpacific agreement.

In contrast, in 1944, delegates from allied nations, led by the United States, signed the Bretton Woods Agreement with the stated aim of creating and strengthening international economic cooperation (built on American and British principles) to help to avoid the horrors of another world war. **The reason for the current decline in geoeconomics in American foreign policy is complicated, say the authors. The short story points to a mixture of negligence and resistance.** American economists tend to oppose the use of economic policies to achieve geopolitical objectives, partly because the idea of using economics in this manner challenges some of the most basic economic assumptions. According to Professor Michael Mandelbaum, these assumptions include the idea that politics is based on power, and economics is based on wealth. Power is inherently limited; and the pursuit of power is, therefore, a competitive zero-sum game. However, wealth is limitless, and so economics is a positive-sum game. **Hence the scepticism of using economic policies to increase the projection of American power with respect to competitors.**

**During the years following the end of the Cold War, this view was accepted. America had no geopolitical rivals and a liberal economic consensus prevailed. But now, say the authors of *War by Other Means*, the end of history has ended. The US is, once again competing for ideas and global influence.** A growing chorus of American foreign policy leaders are calling for a reorientation of the country's foreign policy towards geoeconomics to succeed in an era defined by the projection of economic power.

**But what is geoeconomics?** For Blackwill and Harris, it is **the use of economic instruments to promote and defend national interests, produce beneficial geopolitical results, and generate effects on the economic activities and geopolitical objectives of other nations.** The authors state that geoeconomics has made a comeback for three main reasons: firstly, because **today's emerging powers prefer to mobilise economic instruments to project their influence in a geopolitical struggle.** For example, Mexico and Colombia aim to reduce the influence of regional powers such as Brazil and Argentina through the Pacific Alliance (which excludes Brasilia and Buenos Aires). The Eurasian Economic Union proposed by Russian president Vladimir Putin would not have gotten this far without financial coercion from Russia. Supporting the Lukashenko regime in Belarus, for example, costs Russia between \$7 and \$12 billion a year.

**A second factor in the resurgence of geoeconomics is that nations now have greater access to a wide range of resources.** For example, between 2004 and 2009, 120 **state-owned enterprises** became part of the Forbes list of the 2000 largest companies in the world, while 250 private companies dropped from this list. Moreover, Blackwill and

Harris state that 80% of companies on the Chinese stock exchange are state-owned. In Russia, this percentage is 62% and in Brazil 38%. The concentration of such wealth and economic influence in the hands of states has produced new sources of foreign policy power and instruments. **Finally, the rise of geoeconomics is also the result of changes in global markets. These markets are faster, deeper, and more integrated and active than ever** – and exert increasing influence over elections and foreign policy results. Blackwill and Harris stress that for several years now, the fate of the European Union has not been guided its member states, but by debt markets. Similarly, Egypt's ability to achieve stability largely depends on its economic performance.

Blackwill and Harris point out that although states are increasingly turning to economic methods to advance their geopolitical goals, **the potential use of military force continues to be an important factor in how countries pursue geopolitical goals. But force alone is no longer enough, nor is it the main ingredient.** Today, economic factors enable nations to pursue their geopolitical objectives more effectively. The authors list **seven economic tools that can be deployed to achieve geopolitical objectives**: trade policy, investment policy, cyber-attacks, economic and financial sanctions, financial support, financial and monetary policies, and energy policy.

Some of the **trade policies** highlighted include measures **adopted by Russia after joining the World Trade Organization in 2012.** In recent years, Georgian wines, Ukrainian chocolates, Tajik nuts, and Lithuanian (and even American) dairy products, have suffered sudden restrictions. Regarding **investment policies**, **the authors point out that investments in emerging countries have quadrupled since the early 2000s**, according to the IMF. South-south capital flows are also increasing rapidly: today, they represent \$1.9 trillion in foreign investment, with states controlling a growing share. This control, say Blackwill and Harris, brings greater diplomatic influence.

With respect to **sanctions**, the authors of *War by Other Means* note that the success of sanctions depends on the friends and allies of each country, and the authors go on to demonstrate the dependencies and tensions between various geoeconomic instruments. For example, **sanctions against the Iranian central bank were effective because the entities work in US dollars.** Therefore, every time the United States applies such sanctions it must foresee that other countries will seek alternatives to the dollar, which will reduce the future effectiveness of such sanctions. As Blackwell and Harris explain, the **Russian state energy company Gazprom, for example, has begun accepting rupees and yuan** – as well as euros and dollars – to deal with escalating penalties for Russian actions in Ukraine. The authors predict that the fourth economic tool, **cyber-attacks**, will be used every more frequently as geoeconomic instruments. According to a privately-funded study, **cyber-attacks represent 15% of global internet traffic on any given day. The vast majority of attacks come from IP addresses in Russia and China.** For example, on October 1, 2011 (a Chinese holiday), the proportion of global internet traffic generated by cyber-attacks fell to 6.5%. **The most targeted**

sectors are financial organisations, as well as energy, information technology, aerospace, and automotive companies. A specific example cited is the China's 863 programme, which has been active for 25 years and provides funding and government support for clandestine efforts to obtain sensitive US economic and technology information.

The practice of **giving aid** – either military, bilateral development assistance, or humanitarian – to buy strategic influence is **one of the clearest examples of the use of geoeconomic tools and is almost as old as diplomacy itself**. An obvious example is the \$3 billion aid package given by Saudi Arabia to Lebanon in 2013 that was aimed at reducing the influence of the militant group Hezbollah. However, according to Blackwill and Harris, the best example of geoeconomics is the **\$22 billion package that the Gulf Cooperation Council offered Egypt between 2011 and 2013, during the period between the fall of Mubarak and the expulsion of Morsi**. Finally, say the authors, **the creation of the BRICS bank is proof that Western conditions cannot always dictate economic aid**. There are other reasons to believe that **monetary and financial policy** are undergoing changes and will take on a greater role in the coming years, including **a stronger renminbi; a group of countries which is seeking to reduce the influence of the dollar**; the euro, which may continue to mature despite current troubles; and global debates about quantitative easing. Finally, Blackwill and Harris highlight the growing use of **energy and raw materials** for geopolitical aims. Russia cutting part of Europe off from its gas supplies after a political dispute in 2008 is only one example. **Many Central Asian nations are signing energy deals with China to counter-balance Russian influence in the region**. However, China has not yet shown a real desire to use its economic weight to pose a geopolitical challenge to Russia in the region.

For the authors, it is obvious that if the United States wanted to use geoeconomics, it would have a large palette of tools available, given the size of its economy. **However, moving towards a more conscious geoeconomic strategy would require, firstly, reflections in Washington on how to incorporate geoeconomics into foreign policy**. On this point, Blackwill and Harris believe that how the debate is built is especially important. Currently, policymakers do not consider geoeconomic approaches as the best option. Moreover, they tend to measure the impact of geoeconomics wrongly, by assessing the economic effect, rather than geopolitical outcomes. **Energy is one of the most promising areas for American geoeconomic power as the shale gas revolution is changing geopolitical realities worldwide**. Beyond economic gains, this shift towards more diversified, and often more local, energy sources diminishes the geopolitical leverage of those energy suppliers who for decades tried to use energy supply to their advantage. By becoming less dependent on energy from the Gulf, the US will have greater freedom to determine its actions in the Middle East. **This reality affects all the major powers in one way or another, and the other geoeconomic tools available to Washington will be strengthened** – such as sanctions on the Iranian oil industry.



There are signs that the United States is slowly – but inadvertently – awakening to this reality. Most of the progress has taken place in the diagnosis of the challenge, and the development of an initial conceptual framework. **Developing a vision of American foreign policy and moving to a specific line of action is a complex task.** For that reason, Blackwill and Harris, who recognise this reality, offer a series of recommendations in *War by Other Means*. **The first begins with some diplomatic education on geoeconomics.** American leaders must be able to explain the US geoeconomic ‘brand’ or style to citizens, allies, and friends; recognise geoeconomic coercion when it happens; and, more generally, discuss the appropriate role for geoeconomics in overall Western strategy with its allies.

**More specifically, for the United States to deploy a geoeconomic strategy, the authors offer the following recommendations:**

- achieve sustained economic growth;
- hold extensive debates in Congress about America’s potential for using economic tools for geopolitical purposes;
- transfer funds from the Pentagon to promote the national interests of the United States (the State Department budget for 2016 was \$50.3 billion, while the Defense Department had \$582.2 billion to spend);
- approve the Transpacific Economic Cooperation Agreement (TPP), and the Transatlantic Trade and Investment Partnership (TTIP);
- build a long-term geoeconomic policy for dealing with Russia and China;
- make geoeconomic investments in emerging India to rebalance towards Asia;
- convert the energy revolution into long-term geopolitical gains;
- make a more determined fight against state-sponsored geoeconomic cyber-attacks;
- strengthen the economic foundations for peace and democracy in the Middle East and North Africa;
- refocus American development aid to cultivate the next generation of emerging markets, especially in Latin America and Africa; and
- establish the administrative structures needed in the White House to carry out a suitable geoeconomic policy.

For the authors of *War by Other Means*, it is of great importance that the US Administration and Congress understand, process and implement this reality with precision, clarity, and a geoeconomic goal in mind – these steps will be critical to design a grand American strategy for a new era. Blackwill and Harris warn, in conclusion, that the US economy in the coming decades needs to be more relevant to American national interests, rather than simply serving to fund an immense defence budget. **Beyond economic sanctions against Iran, there has been surprisingly little public debate in the United States, the world's largest economy, about mobilising its**



**economy for geopolitical purposes.** In addition, when Congress wanted to use such geoeconomic possibilities – whether in the form of economic aid to Egypt or in negotiations for signing the TPP and TTIP – it has been met with harsh bureaucratic disputes within government and differences within a Congress that is unaware of the potential of such geopolitical tools. The authors conclude: **“Either the United States begins to use its geoeconomic power with much greater resolve and skill, or its national interests will be in increasing jeopardy.”**