Geoeconomics: Understanding the Power Dynamics in International Relations

A Theoretical Framework for Analyzing Economic Coercion

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Research Background and Importance

- Geoeconomics is the use of a nation's fiscal and trade relations to achieve geopolitical and economic objectives.
- In the context of current competition between the US and China, the article aims to provide a model to conceptualize how major powers use their financial and economic strength to extract economic and political surpluses from countries around the world.
- Geoeconomic power is a form of soft power, operating through commercial channels such as disrupting the supply of goods or purchases, technology sharing, or financial relationships and services.

Research Questions and Hypotheses

- How is geoeconomic power generated, and how can the exercise of threats across multiple economic activities increase the power in equilibrium?
- Hypotheses include input-output linkages, limited contract enforceability, and externalities.
- Geoeconomic power arises from the ability to exercise threats from independent economic activities in a coordinated manner.

The Model

- The framework is based on three core elements: input-output linkages, limited contract enforceability, and externalities.
- The model includes production and consumer externalities, as well as limitations on contract enforceability.
- Geoeconomic power comes from a country's ability to integrate threats across multiple economic relationships, often with some of the threats being executed by third-party entities that are also under pressure.

Derivation Process and Formula Interpretation

- The article includes several mathematical derivations and formulas to explain different concepts and relationships in the model.
- For example, the Leontief inverse matrix is used to summarize the propagation of production externalities in the input-output network.
- Additionally, the article derives how a hegemonic country can exercise power by demanding its entities in the network to take costly actions, which can be markups on goods or increases in loan interest rates, or import restrictions and tariffs.

Main Results

- The main result is that a hegemonic country can amplify its influence by controlling some strategic sectors, such as financial services, as the distribution changes in these sectors have a greater impact on the world economy.
- The article also explores how a hegemonic country can compete with other countries in the geoeconomic domain and how to provide the greatest combined threat in competition.

Practical Significance

- The article provides a theoretical framework for analyzing and understanding how countries use their economic strength to achieve geopolitical objectives.
- This is significant for understanding issues such as economic sanctions, trade wars, and technology competition in current international relations.

Conclusion

- The article formalizes the concept of economic coercion by constructing a theoretical model that views it as a combination of strategic pressure and costly actions.
- By applying this framework, the author analyzes real-world cases such as national security externalities and China's Belt and Road Initiative, demonstrating the potential application of the model to real-world issues.