

Advances in Geoeconomics

While geopolitics has captured global attention, geoeconomics is often the hidden force that governs relationships between countries. Geoeconomics refers to the intersection of economic factors, relationships and conditions on global events. It is the economic psyche that shapes the new world order. A country's political and business alignments have an impact on individuals, companies and on future economic stability.





Introduction to Geoeconomics

Geoeconomics is the dynamic economic relationships of countries shaped by a multitude of intervening factors such as geography, politics, and business. Geoeconomics differs from geopolitics, in a sense that economic thought and action constitute the framework of its implementation. Macroeconomic and microeconomic variables exert a salient influence in its practice.

As a discipline, geoeconomics is associated with American strategist Edward Luttwak who stressed the higher importance of trade and finance among nations over military strength and ideological competition (Csurgai, 1998).



Geoeconomic Relationships

Central to geoeconomic relationships across countries is regional economic integration. Due to its importance in the political and economic well-being of a country, it has shaped the agenda in a country's international affairs. In the 1990s, Brazil was the driving force in the creation of the Common Market of the South (MERCOSUR). In 2008, South Africa pushed for the Southern African Development Community (SADC).

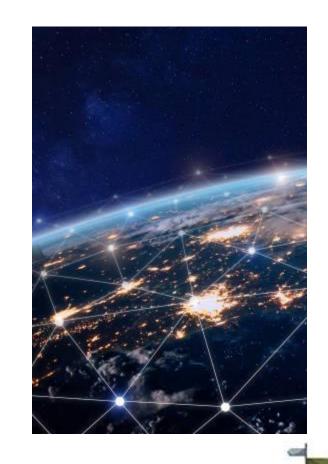
Economic integration is a process where linked countries are aligned with a global market (Bekaert & Harvey, 1995). Drivers of economic integration include economic forces and need, and these agreements are subsequently executed through formal means (Muñoz del Bustillo & Perales, 2000).

A country can be engaged in several economic integration initiatives. In the view of Bhagwati and Panagariya (1999), this multitude of agreements appears like a 'bowl of spaghetti,' with overlapping treaties across many countries.

Regional Economic Integration

Participation in regional economic integration recalibrates a country's political and economic situation. Country convergence results in the synchronization of business cycles at the regional level (Brida et al., 2011). Regional alignments lead to global implications or 'global regionalization' (Capanelli et al., 2010).

Scholars continue to explore the logic and motivation behind the economic alignment of nations. Aggregation of countries is shaped by financial linkages and fiscal regulations (Baxter & Kouparitsas, 2005; De Grauwe, 2006). Market size and level of development give member nations regional power (Schirm, 2010). There is a growing importance of technology and finance in the international agenda of countries (Rediker, 2015). This quest for answers continues given the evolving nature of geoeconomics.



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International economic architecture

Geoeconomic relationships of countries shape their economic architecture. Strong economic globalization tends to take place at a regional rather than a global level (Artis et al., 2011). Oftentimes, the strongest states in an economic union yield the most influence (Grieco, 1990). Referred to as 'regional hegemons,' these countries use their clout and influence in shaping the political, economic and business agenda. Some countries have 'shaping power' or the ability to define end results and events on the international stage (Szabo, 2015).



International economic architecture, Part 02

The globalized environment redefined business frameworks. There is an emergence of global factories where manufacturers create goods in diverse locations around the world (Gereffi, 1989). Diverse linkages tie in producers, buyers and nations, while global value chains lead to lower operational costs and efficiencies (Gereffi, 1994; Bair & Gereffi, 2003).

With emerging economic alignments and business models, there are new considerations. Geography and size impact volume of trade and growth (Frankel & Romer, 1999). An increase in trade is not exclusively due to tariff reduction (WTO, 2011b); attention needs to be placed on a broad range of influencing factors. Infrastructure has to be assessed along with export capacity, logistics, security, and depth of integration (Romanowski, 2015). Changes in the geoeconomic configuration in the oil industry with the discovery of shale gas and non-conventional energy sources, underscore the need to watch geoeconomic shifts carefully (Blanke & Kaspersen, 2015).

International economic architecture, part 03

National integration across countries contributes to benefits such as: global alignments (Baldwin, 2006); economic prosperity (Sen, 1999; Bhagwati, 2004); financial development (Bekaert et al., 2005); capital access and foreign investment (Baker et al., 2004); knowledge gains (Gertler & Levitte, 2005); economic growth, technological flows and the creation of jobs (Kucera, 2002; Flanagan, 2006); leading to growth paths of member nations (Lee, 2012); convergence of income per capita among participating nations (Martin, 1998); and the development of neighboring countries (Resmini, 2003).



International economic architecture, part 03

With distinct interests and objectives, nations take on diverse geoeconomic postures and respond to integration in different ways. In some instances, internal trade is preferred over external trade (McCallum, 1995). Some countries tend to invest in domestic securities (Lewis, 1999). Others pursue a beggarthy-neighbor policy (Kronberger, 2002) where their own economic challenges are addressed and those of other countries are neglected.

Geoeconomic action of nations also leads to counteraction from others. Baldwin (1993) introduced a 'domino theory' where economic integration resulted in a series of government and business reactions, including competitive action from other nations. Reduced import barriers encourage investment as a response to foreign competition (Neary, 2002). Domestic competition forces organizations to disperse into new locations (Crozet & Soubeyran, 2004).

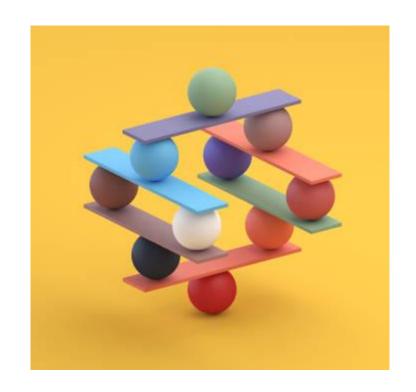




There are at least ten attributes that characterize the contemporary global geoeconomic environment:

- Dynamic
- Evolving
- Politically anchored
- Market driven
- Fragmented
- Impactful
- Cohesive
- Varied intensity
- Misunderstood







• Dynamic: geoeconomic relationships are constantly evolving and based on changing conditions. China has taken a proactive role in cultivating relationships in new ways through infrastructure support and finance, loans, grants, and joint ventures in locations in Asia, the Indian Ocean, Africa and Latin America (Khanna, 2015).



5-minute break till 08:57 Attributes that characterize the contemporary global geoeconomic environment:



Evolving: economic alignments can change quickly as a result of several factors.
 Trade arguments across countries result in weakened economic ties and policy changes. Oil prices continue to have a profound impact on countries such as Russia, Saudi Arabia, the USA, China, Mexico and Brazil, leading to shifts in consumption, investment, and government policies (Levi, 2015)





 Politically anchored: economic relationships are influenced by politics. A nation's political agenda drives fiscal and economic decisions. States are taking an active role in capitalistic endeavors, leveraging company ownership and financial institutions to promote their agenda (Rediker, 2015).





• Market driven: market desires and preferences impact the geoeconomic standpoint of countries. Most countries seek to attract investments and boost tourism. They plan for ways to become attractive destinations (TAX, Ireland and Apple). Nations compete to penetrate new markets, as seen in the USA's efforts to strengthen relationships with India and China, and Russia's efforts toward business development in Venezuela (Khar, 2015).





 Fragmented: regional economic integration results in economic clustering, linking small blocs of countries together while excluding others. In the case of the EU, member countries receive economic privileges that are not available to other nations. The same can be said about NAFTA which economically links the USA, Canada and Mexico in a cohesive manner.





• Impactful: the geoeconomic agenda of countries lead to far-reaching consequences. In some regional trade alignments, the larger and more influential countries (core) tend to benefit more than the others (periphery) (Bremmer, 2015). A nation's geoeconomic action has an impact on the future of key stakeholders—neighboring countries, trade allies, major corporations, small businesses, and country residents. Geoeconomic actions shape the global economic architecture and its economic sustainability.





 Cohesive: the geoeconomic strategy of a country is a unifying force that draws countries together. A nation with a well-developed geoeconomic agenda will attract others that share similar goals. Nation-states are motivated to obtain gains from international economic activities while maintaining their autonomy (Gilpin, 2001).





 Varied intensity: geoeconomic relationships differ in terms of depth of association. In some cases, economic relationships across countries cover extensive aspects of trade and politics; in other cases the extent of association is limited and superficial. Some economic accords are more comprehensive than others.





 Misunderstood: geoeconomics and its implications are commonly misunderstood and underappreciated. Given the fact that it impacts and is impacted by diverse factors, many aspects of its practice are not well understood. The discipline of geoeconomics is evolving and needs to be studied carefully in the coming years.





 Transformative: geoeconomics influences business, economics and politics in profound ways. Trade alliances across nations can impact the price of commodities which affects the global economy. This same influence is evident in combating terrorism, international health, environmental conservation, food supply and security, resolving political conflicts, and dealing with global financial crises. Geoeconomics can transform the global economic architecture.



3. Geoeconomics: pros and cons

As in many global endeavors, there are advantages and disadvantages associated with geoeconomic engagement. The advantages include:

- Economic benefits:
- Political harmony
- Trade stimulus
- Efficiency building
- Cost reduction
- Capital flows
- Skill building
- Technology transfers
- Wealth creator
- Gateway for entrepreneurship

3. Geoeconomics: pros and cons

- Domineering positions
- Uneven benefits
- Disagreements
- Legal complications: with heightened business interaction across geoeconomically aligned countries, there is likely to be a rise in cases of business arguments and legal conflict. Laws may not be clear cut in foreign locations (Khanna & Palepu, 1997).
 Alienating: countries in geoeconomic alignment may alienate other countries outside their circle of influence.
- Lack of clarity



4 Emer

With the economic restage, the sign geoeconomic coming year capture cigeoeconomic world.

4 Emergence of geoeconomics and book structure

With the growing importance of economic relationships on the world stage, the study and the practice of geoeconomics will likely increase in coming years. This book aims to capture diverse viewpoints of geoeconomics and its impact on the world.

The content is beneficial to academics in their efforts to expand research and understanding on the subject. The topic is relevant to managers and entrepreneurs as they seek understanding of the business implications of geoeconomic events. Consultants, international organizations, and government policymakers will find the geoeconomic insights helpful in the identification of strategies and solutions for economic and business challenges.

Following this Introduction by J. Mark Munoz, the book has three parts. Part I is Understanding geoeconomics, with chapters on: Geoeconomics: A review of the research methodologies of trade alliances (Subhajit Chakrabarty); The geoeconomics of global cities: Exploring new avenues for expanding business internationalization (Philippe Régnier and Pascal Wild); Influence of region, country and subnational-region institutions on internationalization of multinational corporations (Wiboon Kittilaksanawong); Geoeconomic spillovers: Are Indian states interconnected in promoting state–business relations? An empirical analysis (Krishna Chaitanya Vadlamannati, Artur Tamazian and Arusha Cooray); Geoeconomics in Central and Eastern Europe: Implications of FDI (Zoltan Gal and Andrea Schmidt); The changing geoeconomics of China's diplomacy in Africa (Richard Aidoo); The nature, impact and lessons of Abenomics (Viara Bojkova); and Where geoeconomics and geostrategy meet: The troubled relations between the European Union and the Russian Federation (David Criekemans).

Part II covers International geoeconomics, and includes the following chapters: Geostrategic economics in the 21st century: China, America, and the Trans-Pacific Partnership (Francis Schortgen); EU trade policy after the GFC: The geoeconomics of shifting EU trade policy priorities (Louise Curran); Determinants of FDI in the Customs Union of Russia, Belarus and Kazakhstan (Richard B. Nyuur, Andrey Yukhanaev and Alina Amirzadova); The role of regional integration on foreign direct investment in Southern Africa (Jayati Ghosh, Imelda K. Moise and Ezekiel Kalipeni); A case study: Geoeconomics and the Iranian nuclear deal (Jonathon Cini); The impact of geographic factors on economic development: Evaluation of Europe and the Middle East (Hilal Yıldırır Keser and Işın Çetin); Three spheres of

geoeconomic advantage in Central America: Transportation, tourism and trade (Michael J. Pisani); and The state of regional integration in Africa: Prospects and advances (Joash Ntenga Moitui).

Part III pertains to Managing geoeconomics, and covers: The evolution of geoeconomics and the need for new theories of governance (Najiba Benabess); Geoeconomics and banking (Hubert Bonin); Geoeconomics of the global arms industry (Alexandre J. Vautravers); The new geoeconomics of energy: A Saudi Arabian case study (Robert E. Looney); Global water geoeconomics: Paradigm shift and emerging challenges (Lakshmi Mudunuru and J. Uma Rao); The geoeconomics of aging (Masud Chand); Geoeconomics and political interference: The case of China's porcelain industry (Jane Yuting Zhuang and André M. Everett); The African Growth and Opportunity Act: International business, relations and politics (Satyendra Singh); and Geoeconomic strategies and economic intelligence (Gyula Csurgai). The book ends with a Conclusion (J. Mark Munoz).

As one of the pioneering and most comprehensive books on the subject, the editor hopes that a heightened global interest in the topic will follow. It is hoped that this book will become a stimulus for more intensive research on the subject and open the doors to innovative solutions for the contemporary economic challenges confronting businesses and nations.

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Thank you



Geoeconomics A review of the research methodologies of trade alliances

Expected Learning Outcomes

Trade alliance is an important subject of investigation among researchers of international trade. In this chapter, the author explores the theoretical basis and determinants of trade, and the role of trade alliances. A discussion of methodologies used will follow.



The theoretical basis of trade



1. The earliest theory of trade was mercantilism which implied dominance of weak countries and colonies through trade and restricting the colonies to expand through trade. The theory of absolute advantage by Adam Smith spoke of two countries trading in goods in which countries have advantage of endowments, considering labour as the key factor. The comparative advantage theory by David Ricardo spoke of nations trading on the basis of opportunity cost even if they did not have absolute advantage. Krugman extended it further and reasoned that consumers also have love for variety, hence there is reason to trade beyond comparative advantage and this sought to explain some more of the trade (Krugman, 1980).



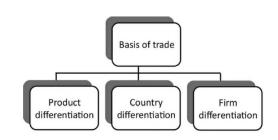
The theoretical basis of trade



2. The above is largely differentiation based on product. Another differentiation is based on countries. Armington (1969), in drawing up his analysis, made the assumption that products exported by each country are different. As each country has its own differentiated system and tariffs, this assumption was considered acceptable. Armington (1969) indicated that elasticities extended to include microelasticity (substitution among third countries) and macro-elasticity (substitution with respect to home-country competition) can be a useful base to estimate trade elasticities (Feenstra et al., 2012).



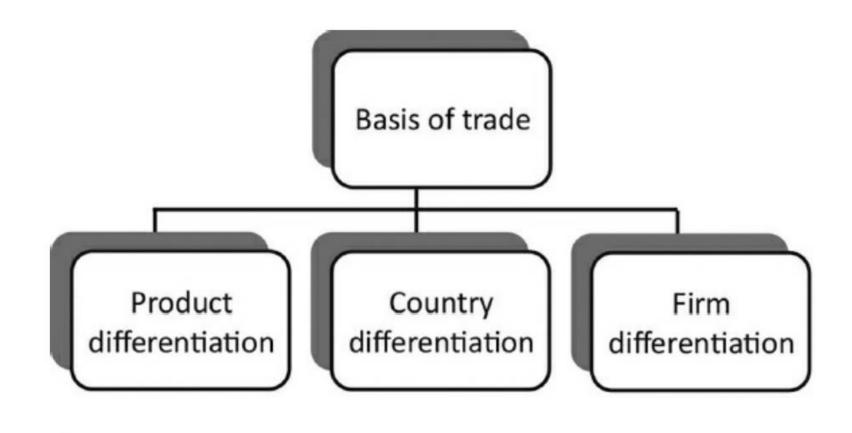
The theoretical basis of trade



3. The third basis of differentiation is based on firm heterogeneity. This challenged distance as a factor (the gravity model). The issue of firm heterogeneity has come up because trade is considered to occur not only among nations but also among heterogeneous firms (Chaney, 2008). Heterogeneity is largely modelled with an extensive margin (the number of firms exporting) and an intensive margin (the average turnover of an exporting firm). Therefore, broadly, three types of differentiation (differentiation with respect to product, with respect to country and with respect to firm) can be drawn on to explain the theoretical basis of trade, given in Figure.

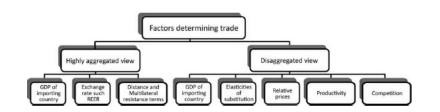


Why does international trade happen





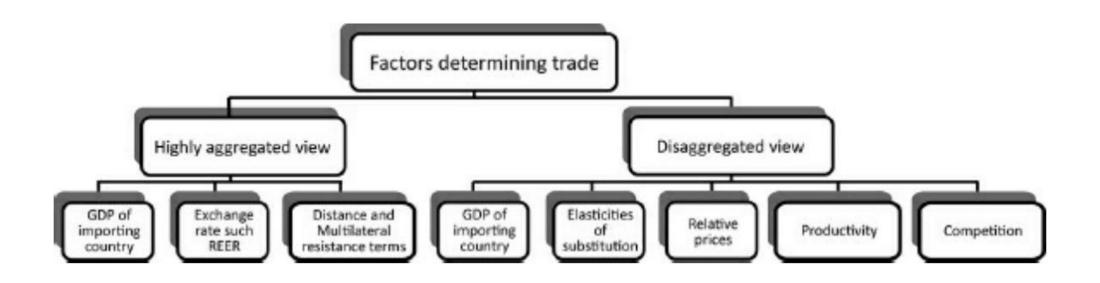
2 Factors governing trade



At a highly aggregated level, the primary factors governing exports are gross domestic product (GDP) of the importing country and the exchange rate, such as the Real Effective Exchange Rate (REER), of the exporting country apart from the trade costs (Rangarajan & Mishra, 2013). The GDP is a proxy for demand. At a disaggregated level, each commodity can be differentiated based on country of origin (Armington, 1969), and in this constant elasticity of substitution (CES) is assumed. Though CES is a fair assumption, there are limitations (Yilmazkuday, 2008). The primary factors governing exports at the highly disaggregated level are the elasticities of substitution (against domestic competition as well as against third-country competition in the foreign market), relative prices and income (Feenstra et al., 2012).



2 Factors governing trade What drives trade?



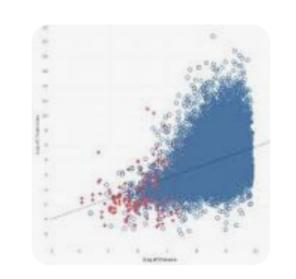


Gravity Model

 https://www.unescap.org/resources/gravity-model-international-trade-userguide-updated-version

What is the gravity model theory?

The gravity model of international trade states that the volume of trade between two countries is proportional to their economic mass and a measure of their relative trade frictions. Perhaps because of its intuitive appeal, the gravity model has been the workhorse model of international trade for more than 50 years. 31 Mar 2020





3 Foreign trade agreements and trade



- Foreign trade agreements are expected to impact trade. Among the major works in this area, a study on the impact of NAFTA and the Canada-United States Free Trade Agreement (CUSTA) on international trade used data for 5,000 commodities (Romalis, 2004).
- Another major study, by Powers (2007), examined the effect of tariff reductions and free trade agreement participation on sectoral imports in a panel with about 75 countries, 25 manufacturing sectors, and three time periods. The panel includes data for sectoral bilateral imports, sectoral preferential tariff rates, sectoral output, GDP and free trade agreement (FTA) participation. Tables highlight key information on regional trade agreements and preferential agreements in the world.



| | Grand total |
|--|-------------|
| Customs union | 19 |
| Customs union—accession | 10 |
| Economic integration agreement | 133 |
| Economic integration agreement—accession | 6 |
| Free trade agreement | 232 |
| Free trade agreement—accession | 2 |
| Partial scope agreement | 16 |
| Partial scope agreement—accession | 1 |
| Grand total | 419 |

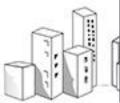
(WTO, 2016b)

Table 2.2 Preferential trade agreements

| Name | Туре | Provider(s) | Initial entry into force |
|--|----------------|--|--------------------------------|
| Generalized System of Preferences (GSP)—Australia | GSP | Australia | 01/01/1974 |
| Generalized System of Preferences— Canada | GSP | Canada | 01/07/1974 |
| Generalized System of Preferences— European Union | GSP | European Union | 01/07/1971 |
| Generalized System of Preferences— Iceland | GSP | Iceland | 29/01/2002 |
| Generalized System of Preferences— Japan | GSP | Japan | 01/08/1971 |
| Generalized System of Preferences— New Zealand | GSP | New Zealand | 01/01/1972 |
| Generalized System of Preferences— Norway | GSP | Norway | 01/10/1971 |
| Generalized System of Preferences— Russian Federation, Belarus, Kazakhsta | GSP n | Belarus; Kazakhsta Russian Federation | |
| Generalized System of Preferences— Switzerland | GSP | Switzerland | 01/03/1972 |
| Generalized System of Preferences— Turkey | GSP | Turkey | 01/01/2002 |
| Generalized System of Preferences— USA | GSP | USA | 01/01/1970 |
| Duty-free tariff preferences scheme for least developed countries (LDCs) | LDC-specific | India | 13/08/2008 |
| Duty-free treatment for African LDCs— Morocco | - LDC-specific | Morocco | 01/01/200 |
| Duty-free treatment for LDCs—Chile | LDC-specific | Chile | 28/02/201 |
| Duty-free treatment for LDCs—China | LDC-specific | China | 01/07/201 |
| Duty-free treatment for LDCs—Taipei, | LDC-specific | Taipei, China | 17/12/200 |

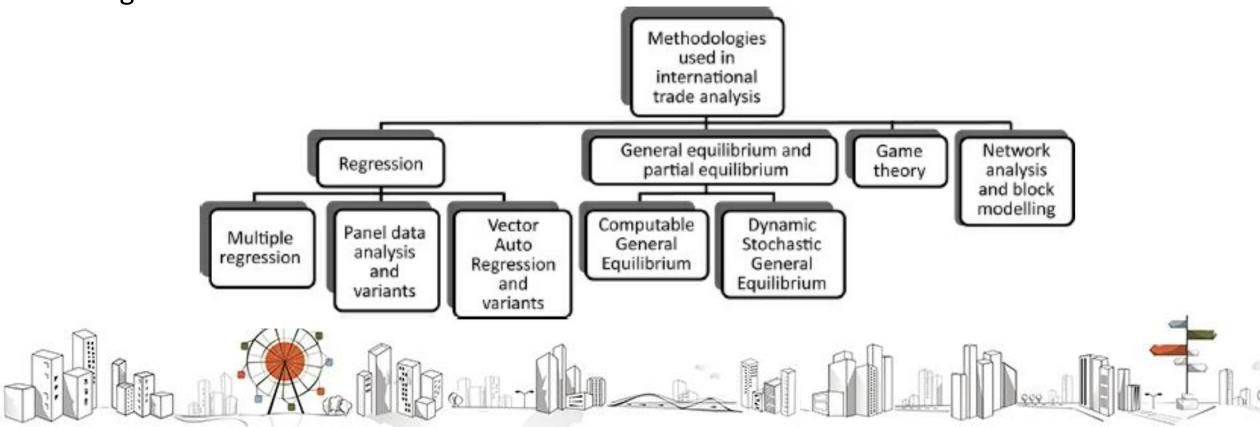


(WTO, 2016a)



27-02-2023 We stopped here4 Methodologies

Broadly, there are four types of methodologies used in modelling international trade: regression, general equilibrium, game theory and network analysis, shown in Figure.



4 Methodologies

The traditional model for aggregate trade flows in a monopolistic competition framework is the gravity model, in which distance is considered a significant determinant. Anderson and van Wincoop (2003) show that this model applies to sectoral trade as well. Feenstra (2004) showed a fixed-effects method of estimation of the gravity equation to generate average border effect of a pair of countries.



Global trade modelling may be carried out using various approaches. One considers global trade data as a base and uses social accounting matrices (SAM). Another considers SAM as the base and extends the model to various countries with the globe as the clearing house. The third approach incorporates the value chain which seeks to eliminate double counting and considers the supply chain. There are a large number of economic variables and the SAM are quite large. So there has been an effort to simplify the variables in the panel so that the model does not become indeterminate.



Conclusion

Trade modelling is complex. There are a large number of economic factors and the matrix of relationships is complicated and difficult to estimate. Free trade agreements impact trade but quantifying these 'shocks' to the economy is imprecise. Despite the promise of DSGE and newer research methods, limitations remain. Some parametric assumptions in general equilibrium modelling and the emerging methods need stronger empirical foundations.



Thank you

