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Beyond Trade: Geo-economics as the New Framework of Global Power Politics

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Abstract

The structure of global power in the twenty-first century is increasingly shaped not by military conflicts but by the strategic use of economic interdependence. Geo-economics—defined as the intentional use of economic tools to achieve geopolitical aims—has become the primary method of statecraft. This paper argues that tools such as trade policies, sanctions, technology controls, and infrastructure investments are no longer neutral market operations but act as instruments of coercion, deterrence, and influence within an evolving hierarchy of power. While globalization in the late twentieth century encouraged deep integration through liberal trade systems and global value chains, recent trends reveal a clear shift toward fragmentation, strategic decoupling, and the weaponization of markets—evident in rising tariffs, financial sanctions, and the creation of exclusive economic blocs. Using official data from the World Trade Organization, International Monetary Fund, World Bank, and national statistical agencies, this study systematically analyzes changing trade and investment patterns alongside shifts in national policies. Through comparative case studies of the United States–China rivalry, Western sanctions against Russia, China's Belt and Road Initiative, and the European Union's green industrial strategies, the paper demonstrates how geo-economic tools are employed across different political economies.

It also examines India's changing geo-economic position, focusing on production-linked incentives, trade diversification, and supply chain resilience—creating a new model of strategic economic management. The analysis concludes that geo-economics has fundamentally altered the nature of global power, requiring integrated policy frameworks that balance economic openness with strategic independence.

Keywords: *Geo-economics; Economic Statecraft; Sanctions; Trade Policy; India; Global Power*

1. Introduction

The modern international system is undergoing a fundamental shift in how power and influence are exercised. While military strength and diplomatic alliances once defined global dominance, the 21st century increasingly relies on geo-economics—the strategic use of economic tools to attain political and strategic objectives. Therefore, geo-economics combines geopolitics and international economics, where countries employ measures such as trade policies, investment rules, technology restrictions, financial sanctions, and infrastructure investments not only for economic gain but also to reshape global power dynamics.

This shift has accelerated in the post-globalization era, marked by more trade disputes, the decline of multilateral trade agreements, and growing concerns about national security linked to economic dependence. Events like the U.S.–

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China trade and technology conflict, sanctions on Russia, and the reorganization of global supply chains after the COVID-19 pandemic have exposed how fragile highly connected production networks are and the risks of over-relying on strategically essential imports. Consequently, countries are no longer passive participants in global markets; they are increasingly trying to reshape them to advance their own national interests.

Traditional military coercion has also become less politically acceptable due to high economic costs, reputational risks, and normative limits. In contrast, economic statecraft offers a more subtle yet effective way to influence others. Tariffs, export controls, foreign investment screening, and trade agreements now act as tools of strategic influence, enabling states to discipline rivals, reward allies, and shape global norms without resorting to force. This change underscores the growing importance of geo-economics in redefining global power, making it a key focus for research and policy in the twenty-first century.

Research Questions:

1. How have economic tools replaced traditional geopolitical methods in global strategy?
2. What are the key mechanisms and outcomes of geo-economic competition?
3. How is India managing the geo-economic landscape?

Hypothesis: Geo-economic tactics are reshaping global power structures more decisively than traditional geopolitics, particularly through trade and technology policy

2. Review of Literature

The concept of geo-economics has developed over the past 30 years as scholars have sought to explain the growing significance of economic tools in achieving strategic and political goals. The earliest known use of the term is often credited to Edward Luttwak, who described geo-economics as "the logic of conflict with the methods of commerce," shifting the focus from military confrontations to economic competition. Luttwak's explanation emphasized how nations are increasingly relying on trade policies, industrial strategies, and financial influence as alternatives to traditional military tactics in the global landscape.

Subsequent research has refined and expanded this foundational idea. Blackwill and Harris (2016) developed the concept of geo-economics as intentional economic statecraft, highlighting the deliberate use of financial tools—such as sanctions, export controls, sovereign investments, and development finance—to influence the strategic actions of other states. Their work places geo-economics within the broader realist tradition, emphasizing how national interests and the pursuit of power shape economic policy decisions.

Baldwin (1985, 2016) made parallel contributions, distinguishing between economic diplomacy and economic statecraft, noting that while economic diplomacy aims for mutual benefit, economic statecraft is inherently coercive and uneven. His framework has been influential in evaluating the effectiveness of sanctions, trade restrictions, and conditional financial aid as tools of foreign policy.

Recent empirical studies have shifted their focus to the weaponization of interdependence, a concept introduced by Farrell and Newman (2019). They show how states that control critical nodes of global networks—such as payment systems, technology standards, or financial infrastructure—can wield disproportionate geo-economic power. This approach connects international political economy with network theory, providing micro-foundations for understanding modern economic coercion.

Despite the increasing amount of literature, a clear definition of geo-economics still does not exist, and scholarly debates continue over the boundary between legitimate economic policy and strategic coercion. Furthermore, much of the current work remains conceptual, with limited use of quantitative models to analyze geo-economic outcomes. Therefore, this review emphasizes a critical gap: the need for systematic empirical studies that combine trade, finance, and security data to evaluate the real impact of geo-economic strategies on global power relations.

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3. Conceptual Framework

Geo-economics can be conceptualised as:

1. Economic Statecraft: Policy strategies designed to influence another country's political decisions through economic tools.
2. Economic Diplomacy: Traditional discussions on trade, investment, and economic cooperation.
3. Security Nexus: The point where economic tools directly support national security objectives.

The analytical framework for this study adopts a realist perspective, highlighting the competitive distribution of economic power and its strategic use in forming the global order.

4. Instruments of Geo-economics

Tool	Strategic Purpose
Trade Policy	Leverage market access, tariffs.
Sanctions	Coercion without military force
Technology Controls	Protect core industries, strategic tech
Infrastructure Diplomacy	Extend influence via investment.
Currency & Finance	Influence through capital flows
Energy Diplomacy	Secure critical resource access.

These tools can be used to reward allies, penalize rivals, and influence international norms in ways favourable to national interests.

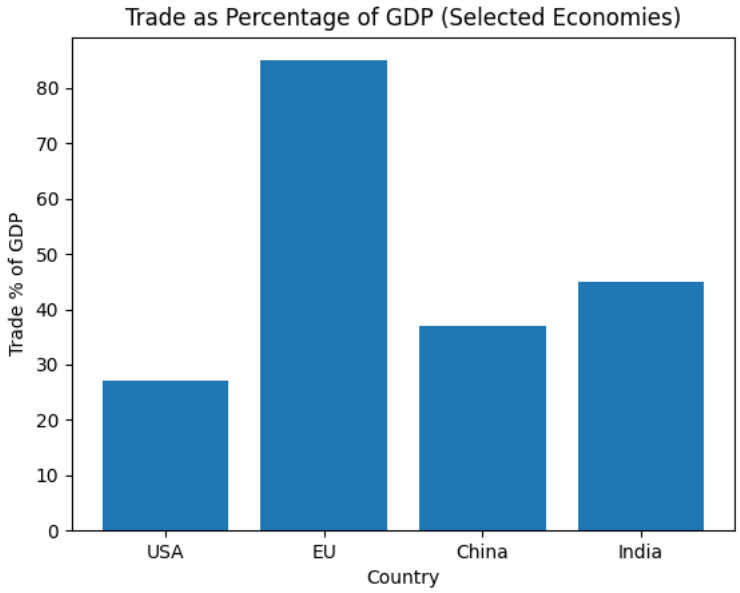
5. Methodology

This research employs a descriptive and analytical design, drawing on:

1. Official Data Sources: WTO, IMF, World Bank, DGCI&S, Ministry of Commerce (India) (World Trade Organization)
2. Trend and Comparative Analysis: International Trade Patterns
3. Case Studies: Examples of Using Geo-Economic Tools
4. Limitations: delays in official data and inconsistent reporting standards

6. Trend and Comparative Analysis: International Trade Patterns

Understanding global trade trends is essential for analyzing how geo-economics evolve, as trade serves as both a catalyst and a tool of strategic competition. Over the past thirty years, international trade has expanded rapidly due to liberalization and integration into global value chains. However, recent shifts signal a turning point, driven by geo-economic fragmentation, increased protectionism, and strategic realignments.



Trade as Percentage of GDP – Selected Economies

This chart compares the trade openness levels of four major economies — the USA, EU, China, and India — by showing trade (exports plus imports) as a percentage of GDP.

i. European Union – Deepest Integration (~85%)

The EU is notable for having trade that exceeds 80% of its GDP, reflecting strong internal market integration among member states, significant dependence on external markets for growth, and a top position in global value chains—especially in automobiles, chemicals, and machinery. This makes the EU a highly open but also vulnerable geo-economic actor, susceptible to trade disruptions, regulatory risks, and conflicts.

ii. India – Rising Trade Integration (45%)

India's trade-to-GDP ratio of around 45% indicates a significant rise in global integration over the past two decades, driven by growth in merchandise exports, strong performance in services, and increased participation in digital trade and outsourcing.

However, this also shows a growing strategic vulnerability, especially in sectors that depend on imported intermediates, such as electronics and energy.

iii. China – Manufacturing Power with Strategic Control (37%)

China's relatively lower ratio reflects a sizeable domestic market that absorbs much of its output, an export-oriented approach balanced with internal demand, and an increasing focus on technological self-reliance to reduce exposure to foreign controls. China combines trade openness with strategic insulation, making it a classic geo-economic power.

iv. United States – Selective Integration (27%)

The USA has the smallest share of trade, reflecting: a sizeable domestic market, dominance in high-value services and tech sectors, a greater ability to impose trade restrictions without significant domestic harm, and increased leverage in trade wars and sanctions.

The chart shows that geo-economic power isn't just about openness, but how carefully that openness is managed. While the EU and India rely more on trade, the US and China stay strategically insulated, allowing them to use economic tools more assertively in global power politics.

Global Merchandise Trade Growth Trend

The chart reveals a distinct structural change in the pattern of global merchandise trade growth over the past twenty years.

i. High-Growth Phase (2000–2005)

During the early 2000s, global trade grew rapidly, rising from about 6% in 2000 to over 7% by 2005. This period represents the peak of globalization, fuelled by WTO-led trade liberalization and the expansion of global value chains—China's entry into the WTO, along with the quick offshoring of manufacturing.

This was a period when trade was expanding faster than global GDP.

ii. Post-Crisis Deceleration (2010–2015)

After the Global Financial Crisis, trade growth gradually decreased from around 4% in 2010 to about 3% in 2015.

This slowdown reflects: structural fatigue in globalization, rising protectionist sentiments, slower industrial growth in advanced economies, and a shift toward services and digital trade.

Trade elasticity to GDP decreased, indicating that trade was no longer the main driver of growth.

iii. Collapse During COVID-19 (2020)

The sharp decline to about –5% in 2020 represents the most significant contraction in global trade in recent history. Lockdowns worldwide, supply chain disruptions, transportation delays, and decreased demand all contributed to this drop. The pandemic revealed the vulnerability of highly interconnected global supply networks.

iv. Weak Recovery Phase (2023)

The rebound to approximately 1.8% in 2023 is modest and partial.

This shows that international trade has not yet returned to its pre-2010 growth pattern. Companies and governments are concentrating on reshoring, friend-shoring, and diversification. Geo-economic rivalries, sanctions, and strategic decoupling now limit trade.

7. Overall Inference

The chart clearly shows the shift from liberal globalization to geo-economic fragmentation. Trade has transitioned from a way to promote integration to a strategic battleground, confirming that geo-economics now guides the logic of global power politics.

7.1 Global Trade Growth: A Historical Overview

Period	Key Trend	Drivers
1990–2008	Rapid trade expansion	WTO accession, tariff reductions, supply chain integration
2009–2019	Post-GFC recovery, slower elasticity	Financial crisis impacts, rising regionalism
2020–Present	Stagnation & restructuring	COVID-19 disruptions, trade tensions, strategic decoupling

7.1.1 Post-Cold War Liberalization

After the Cold War, global trade grew significantly, fuelled by lower tariffs and the expansion of the World Trade Organization (WTO). Trade volumes grew faster than global output, enabling developing economies, especially China, India, and ASEAN, to become deeply integrated into global value chains (GVCs). According to WTO estimates, merchandise trade volume grew at an average annual rate of about 5% during much of the 1990s and 2000s.

7.1.2 Post-Global Financial Crisis Adjustment

While trade rebounded after the 2008 financial crisis, its growth rate slowed relative to GDP growth. The slowdown reflected structural shifts: rising costs of offshoring, automation eroding labour-cost advantages, and the increasing share of services in global production. Regional trade agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), diversified governance beyond multilateral frameworks.

7.2 Contemporary Shifts: Protectionism & Strategic Trade

In the late 2010s and early 2020s, trade patterns began to show **contestations between economic integration and strategic autonomy**.

7.2.1 Trade Tensions and Tariff Wars

The U.S.–China tariff confrontation, which began in 2018, marked a significant shift in global economics. Both countries imposed tariffs on hundreds of billions of dollars' worth of goods, disrupting supply chains and prompting firms to relocate manufacturing operations. The escalation of tariffs not only reduced bilateral trade but also affected third-party economies connected through GVCs.

7.2.2 Pandemic-Induced Supply Chain Reconfigurations

The COVID-19 pandemic revealed weaknesses in just-in-time production systems. From pharmaceuticals to semiconductors, countries experienced supply shortages that prompted shifts in policy toward reshoring, friend–shoring, and diversification. These strategies are proactive geopolitical and economic responses that aim to balance economic efficiency with strategic risk management.

7.3 Comparative Patterns: Advanced vs Developing Economies

Indicator	Advanced Economies	Emerging & Developing Economies
Trade as % of GDP	High (often >60%)	Increasing but varied
Integration in GVCs	Deep participation	Rapidly expanding pockets

Indicator	Advanced Economies	Emerging & Developing Economies
Exposure to tariffs	High	Medium to high
Dependency on critical imports	Managed via diversification	Increasingly strategic concern

7.3.1 Trade Elasticity and GDP Correlation

Advanced economies traditionally generate a larger share of GDP from trade, including extensive service exports and digital trade integration. In contrast, emerging economies, while becoming more integrated, face structural vulnerabilities such as dependence on commodity exports and limited technological control.

7.4 Regional Trade Blocs and Shifting Alliances

The post-2010 period has seen a proliferation of regional trade agreements:

a. RCEP (Regional Comprehensive Economic Partnership): Encompassing ASEAN nations, China, Japan, South Korea, Australia, and New Zealand — now the most significant trade bloc in the world by GDP.

b. EU Trade Network: Enhanced integration among member states through external FTAs.

c. USMCA: North American trade agreement focusing on labour and automotive regulations.

These blocs illustrate how states strategically pursue geo-economic cohesion, reshaping global trade governance.

7.5 Key Metrics in Trade Dynamics

7.5.1 Merchandise trade growth (WTO data) has slowed significantly since 2018. The trade intensity of GDP plateaued and then began a modest decline in several major economies.

7.5.2 Digital and Services Trade now accounts for over 20% of global trade. Digital services have become strategic assets, with advanced economies dominating in export share.

2.6 Geo-Economic Implications of Trade Patterns

Current trends show several geo-economic phenomena, including strategic decoupling as major economies reorganize supply chains to manage risks. The weaponization of trade policy involves tariffs and export controls used as tools for coercion and negotiation leverage. Additionally, countries are diversifying trade by adjusting export markets and sourcing bases to reduce geopolitical risks.

The Geo-economic Power Transmission Model (GPTM)

Model Structure

Stage 1: Global Economic Network Formation

International trade, finance, and technology create dense networks:

Network Type	Example
Trade Networks	Global value chains
Financial Networks	SWIFT, dollar-based settlements
Technology Networks	Semiconductor supply chains, standards
Infrastructure Networks	Ports, data cables

Stage 2: Hub Dominance

Certain states hold key positions — they control choke points.

Hub Type	Controlling State
Payment systems	USA (SWIFT influence, USD clearing)
Advanced chips	USA, Taiwan
Infrastructure finance	China (BRI)
Energy corridors	Russia, OPEC states

Stage 3: Asymmetric Dependence

Other states become structurally reliant on these hubs: import dependence, technology reliance, and financial exposure. This reliance creates vulnerability.

Stage 4: Weaponizing Interdependence

When conflict occurs, hub states activate control mechanisms:

Tool	Mechanism
Sanctions	Exclude rivals from financial networks.
Export controls	Deny access to technology.
Tariffs	Disrupt trade flows
Investment screening	Block capital access

Stage 5: Behavioural Compliance

Target states respond through policy alignment, strategic concessions, and supply-chain realignment. This completes the geo-economic transmission of power.

Visual Representation

Global Networks

↓

Hub Control (Central Nodes)

↓

Asymmetric Dependence

↓

Weaponised Interdependence

↓

Target State Behaviour Change

How This Model Explains Today's Geo-economics

Case	Hub Power Used
USA vs China	Semiconductor & dollar networks
West vs Russia	SWIFT & financial sanctions
China BRI	Infrastructure financing
EU CBAM	Regulatory network dominance

Theoretical Contribution

This model builds on Farrell & Newman by combining trade, finance, technology, and infrastructure into a unified geo-economic framework; clarifying why network centrality is more critical than economic size; and showing how economic tools systematically replace military coercion.

Policy Insight for India

India must Reduce Its dependence on external hubs, build domestic network nodes (such as UPI and semiconductor fabs), and diversify trade and finance partnerships to avoid becoming a peripheral node in weaponized networks. This Geo-economic Power Transmission Model (GPTM) offers a solid theoretical foundation for analyzing 21st-century global power politics.

Traditionally, international trade served as a unifying force in globalization, connecting economies through interlinked production networks. However, recent structural shifts driven by protectionist policies, pandemic disruptions, and strategic trade measures have transformed trade into a geo-economic arena of competition. These trends highlight the need for countries to implement policies that balance economic integration with strategic resilience, impacting not only monetary outcomes but also the global power distribution.

8. Case Studies: Examples of Using Geo-Economic Tools

The practical importance of geo-economics becomes most clear when examining how major powers use economic tools to achieve strategic goals. The case studies below show the variety, scope, and success of geo-economic strategies in today's world order.

8.1 The United States–China Trade and Technology War

The U.S.–China rivalry is the most extensive example of geo-economic competition in the 21st century. Starting in 2018, the United States imposed tariffs on over US$370 billion worth of Chinese goods, citing unfair trade practices, intellectual property violations, and national security concerns. These measures were paired with export controls on advanced technologies, especially semiconductors, artificial intelligence, and telecommunications equipment.

By restricting Chinese firms' access to vital U.S. technology—primarily through sanctions on companies like Huawei—the United States sought to slow China's technological growth. This situation demonstrates how trade and technology policies have become tools of strategic containment, significantly altering global supply chains and prompting companies to redesign their production networks.

8.2 Sanctions on Russia: Economic Coercion without War

Following Russia's actions in Crimea in 2014 and the Ukraine conflict in 2022, Western economies implemented a comprehensive sanctions regime targeting Russia's financial system, energy exports, and access to international capital markets. Russian banks were excluded from the SWIFT payment system, and restrictions were placed on the export of advanced technology.

These measures caused significant disruptions in Russia's economy, led to currency fluctuations, and shifted its trade focus toward Asia. This example shows how sanctions can be a powerful geo-economic tool, enabling countries to exert pressure without using military force while also affecting global energy and financial markets.

8.3 China's Belt and Road Initiative (BRI): Infrastructure as Influence

China's Belt and Road Initiative exemplifies positive geo-economics by focusing on infrastructure financing and investment diplomacy rather than coercion. Through substantial investments in ports, railways, highways, and digital infrastructure across Asia, Africa, and Europe, China has become an integral part of the economic systems in over 140 countries.

By providing long-term loans and development aid, China not only expands its export markets but also gains strategic access to key trade routes and natural resources. The BRI demonstrates how geo-economic strategies can be used to extend spheres of influence through economic integration instead of conflict.

8.4 The European Union's Green Industrial Strategy

The European Union has increasingly used industrial policy as a geo-economic strategy to maintain its technological leadership in renewable energy and eco-friendly technologies. By enforcing carbon border adjustment measures, offering subsidies for clean energy industries, and establishing regulatory standards, the EU aims to protect its national industries while setting global benchmarks.

This strategy demonstrates how regulation can act as a geo-economic tool, shaping global production standards and encouraging trading partners to comply with European market requirements. These case studies show that geo-economics has become a key element of international power politics. Whether through tariffs, sanctions, infrastructure diplomacy, or regulatory influence, nations are increasingly competing strategically with economic tools, reshaping the global economy.

9. India's Geo-economic Strategy

India's approach to geo-economic issues shows its dual aims of economic growth and strategic independence.

Trade and Economic Data:

Trade as % of GDP	44.7%	2024	Trading Economics
Merchandise Exports	US$437.7 billion	2024–25	Press Information Bureau, Govt. of India
Growth in Non-Petroleum Exports	6.07%	2024–25	Press Information Bureau, Govt. of India
Share in Global Services Exports	4.3%	Latest available year	Press Information Bureau, Govt. of India

Strategic Initiatives:

Atmanirbhar Bharat & Production Linked Incentives (PLI): Emphasize strengthening domestic manufacturing to reduce strategic dependencies. Free Trade Negotiations: India recently finalized an FTA with New Zealand, aiming to double trade and attract substantial investment flows. Supply Chain Resilience: Policy highlights diversification and digital trade.

Challenges:

Structural trade deficits with key partners, such as China, continue to grow, indicating increased dependence on imported components. India's GDP growth outlook remains strong, indicating economic resilience despite rising geo-economic pressures.

10. Impact on Global Order

Geo-economic rivalry has fragmented multilateralism, with WTO negotiations stalled and a declining consensus on global trade rules (DGAP). The rise of economic blocs, as strategic regional alliances, shapes trade policies beyond traditional multilateral systems. Weaponization of interdependence, where tariffs and export controls are used as strategic tools. Strategic decoupling, with major industries intentionally cutting economic ties, especially in the technology sector.

11. Policy Implications

For developing countries, balance integration with the protection of strategic industries. Strengthen regional cooperation mechanisms. For emerging economies (e.g., India): deepen capabilities in technology and manufacturing. Expand FTAs while managing strategic trade deficits. Institutional capacity building: Ministries of commerce, finance, and technology policy must coordinate to align economic strategy with national security. Safeguarding sovereignty: diversify supply chains and build strategic reserves in critical sectors.

12. Conclusion

Geo-economics marks a clear shift from the traditional military-focused view of international relations, highlighting the rise of economic power as the primary form of global influence. Today, trade policies, sanctions, technology controls, infrastructure investments, and energy diplomacy are not just tools for economic management; they are strategic instruments for shaping geopolitical alliances, redefining partnerships, and altering global supply chains. Official trade and investment data from multilateral organizations indicate that, although global economic integration has driven significant growth and interconnectedness, it has also created systemic vulnerabilities — especially exposure to supply-chain disruptions, financial contagion, and strategic dependencies in critical sectors such as semiconductors, energy, pharmaceuticals, and rare earth minerals.

The intensification of geo-economic rivalry has also accelerated the breakdown of the global economic order, weakened multilateral trade systems and fostered the growth of regional blocs and bilateral agreements. This shift is significant for emerging economies like India, which must balance engaging with global markets for growth while safeguarding its economic sovereignty and strategic independence.

Future research should go beyond descriptive analyses and focus on rigorous quantitative modelling of geo-economic tools to evaluate their causal effects on growth, trade diversification, technological progress, and political alignment. Empirical studies employing panel data, network analysis of global value chains, and computable general equilibrium models can offer deeper insights into how geo-economic strategies influence development paths and international stability. Such evidence-based research will be essential for creating resilient economic policies capable of navigating an era where economic statecraft plays a crucial role in world politics.

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