

The United States, India, and the Rise of Geoeconomics

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I very much appreciate the Ananta Aspen Centre for inviting me here today and it is good to be among so many old friends.

My brief presentation on “The United States, India, and the Rise of Geoeconomics” is drawn from a book that my co-author, Jennifer Harris, and I have nearly completed on the subject of geoeconomics. In that context, I especially look forward to your comments and corrections on this occasion before the book is published.

So let me begin.

From Russia’s heavy economic pressure in Ukraine, in Europe and in Central Asia, and in its recent huge energy agreement with China; to the steady sums of financing Gulf monarchies have extended to Egyptian military leaders following the ouster of former President Morsi; to the varied economic retributions that China has dealt the Philippines and other ASEAN states amid tensions surrounding the South and East China Seas—more and more, states are “waging geopolitics with capital,” attempting with sovereign checkbooks and other economic tools to achieve strategic objectives which in the past were often the stuff of military coercion or conquest.

This trend in turn points to a larger one: for most countries, the theater of foreign policy engagement has for some time been predominately economics and financial markets. Most states today are more likely to air disagreements with foreign policies through restrictions on trade in critical minerals, or the buying and selling of debt, than they are through military applications. “Most nations beat their foreign policy drums to largely economic rhythms,” as an early astute observer of this phenomenon put it.

But not so for the United States and you may say India, which still defines and pursues national interests largely in political and military terms. America and I would argue India as well must re-orient foreign policy to succeed in an era crucially defined by economic power projection. But it will not be easy. This profound shift will require a wholesale updating of foreign policy DNA—policy priorities, assumptions, objectives, strategies and tactics.

Compared to the vast literature on the accumulation and applications of geopolitical power, no similar analytical framework exists for geoeconomics—there is no consensus as to the range of geoeconomic tools that presently exist or to the set of factors that make states more or less suited to wield them effectively. Are non-democracies better suited to geoeconomic tools? Are small countries just as disadvantaged when it comes to geoeconomics as with geopolitics? Absent any sort of conceptual blueprint or predictive logic for these tools, it should hardly be surprising that foreign policymakers seem far more reluctant to analyze their choices in geoeconomic, rather than geopolitical, terms.

In short, the time has come - my co-author and I believe -for American and Indian foreign policy and national security establishments to systematically re-think some of their most basic and long-held commitments and premises, including the composition of power itself. A new way of thinking about national interests and state power must aim for a foreign policy suited to a world in which economic concerns often--but not always--outweigh traditional military imperatives.

The term geoeconomics is in much use today, but almost always without a specific and working definition. Some tend to focus on the use of geopolitical or military power for economic ends. Others tend to define geoeconomics more broadly, as the entanglement of international economics, geopolitics, and strategy, a kind of catchall definition that obscures more than it clarifies; or simply as anything that touches on both the economy and geopolitics. Still others focus primarily on trade and the protection of domestic industries.

Those who use the concept have likewise primarily confined themselves to traditional examinations of international trade and sanctions. Typically, these inquiries depart from a narrow understanding of trade policy—trade, done well, strengthens a nation’s economic standing, and thus, at least in theory, enhances its power projection accordingly—but have no specific strategic dimension. It is essentially trade for trade’s sake. Others apply the term to almost all economic activity, domestic and foreign. These analysts sometimes begin by connecting a country’s power projection in a general way to the strength or weakness of the domestic economy or even society at large.

A strong domestic economy over the long term will of course remain a general requirement for any country’s power

projection, as the Indian Prime Minister has frequently stressed. These and other earlier interpretations of geoeconomics are useful and, it seems, widely accepted. But they are also incomplete. Strikingly, none of the existing understandings of geoeconomics succeed in capturing the phenomenon that, as a plain empirical matter, seems most responsible for the term's recent resurrection: The use of economic instruments to promote and defend strategic interests. Matters of where, how, and how well states wield economic instruments as tools of economic statecraft remain largely unexplored analytic and policy territory.

Understanding geoeconomics requires appreciating deeply embedded differences in the operating assumptions of geopolitics and economics. The logic of geopolitics is traditionally zero-sum, while the logic of economics is traditionally positive sum. As Michael Mandelbaum put this point in his latest book, “[t]he heart of politics is power; the aim of economics is wealth. Power is inherently limited. The quest for power is therefore competitive. It is a ‘zero-sum game.’ Wealth by contrast, is limitless, which makes economics a positive-sum game.” The logic of geoeconomics combines the two—viewing the economic actions and options of a given state as embedded within larger realities of state power.

As the United States and India face an uncertain, complex and periodically dangerous world in the decade ahead, how should they forge their external relations? What should be their primary foreign policy objectives and what strategies and instruments should each government adopt to realize those objectives? No doubt the new Indian government is examining just these questions as it begins its tenure in office.

Let me help you remember a bit of history regarding the United States and its strategic orientation. After Pearl Harbor, Franklin D. Roosevelt and Winston Churchill adopted a grand strategy for conducting the war: defeat Germany first, and then Japan. The clarity of that grand strategy, its insistent relationship of means to ends, of instruments to outcomes, was apparent to all who sought the Axis' defeat and was implemented with tactical adjustments every day until the end of the war.

And, crucially, the United States emerged from that conflict far stronger and more influential than when it entered it, an abiding characteristic of a successful grand strategy. Thus, US grand strategy was born of and dominated by issues of weapons and war, a fact that was to have enduring impact on how succeeding American Administrations to the present often regarded the prime instruments to deal with international threats and opportunities.

With respect to India, for obvious reasons associated with the early wars with Pakistan and since the early 1990's and the advent of cross-border terrorism, perhaps it can also be said that for India too, weapons and war, either real or potential, have at times inevitably dominated its grand strategy.

Now let me quickly be more specific about the American experience in this respect and ask you to come along with me, extrapolating to the Indian situation and the evolution of Indian grand strategy.

During the four-decade long Cold War, the U.S. strategic elite, Democrats and Republicans alike, and the American public generally accepted Washington's grand strategy. George Kennan coined the term "containment" in his "Long Telegram"

in 1947 and “X” article in *Foreign Affairs* in 1948 to describe a U.S. approach to deny Soviet encroachment on Western territory and national interests and to prevent Moscow from shaping a malignant international order, with the central proposition that the internal contradictions of the Soviet Empire would eventually produce its demise. In retrospect, it is difficult to imagine a clearer U.S. grand strategy, or one with greater success, as the USSR itself dissolved in 1991.

At the same time, it is worth noting how much this American grand strategy depended at its core on the instruments of U.S. and NATO nuclear weapons, deterrent military capability and arms control. Economic issues entered discussions of U.S. grand strategy primarily in the context that an America with a strong economy at home would be able to conduct robust policies abroad, a theme that has recently returned to U.S. public discourse. Over the decades, the debates within the West nearly always centered on whether NATO was maintaining sufficient military strength to persuade the Soviet leadership that it would be a catastrophic mistake to invade Western Europe.

Although this contingency gradually diminished following the Cuban Missile Crisis, it is noteworthy that Western grand strategy toward the Soviet Union had virtually no serious geoeconomic element in the years following the Marshall Plan. With the exception of intermittent sanctions against Moscow, such as the U.S. grain embargo following the Soviet invasion of Afghanistan and strict prohibitions against technology transfer, Washington right up to the fall of the Berlin Wall continued to be almost solely preoccupied with the military balance between the two sides.

That the application of U.S. economic instruments could help undermine the Soviet system and affect Moscow's external behavior was not an important subject of discussion among American policy makers, including during the later period of the Cold War. In short, U.S. Administrations over these decades fell out of the habit of using economic tools for strategic purposes.

Perhaps a linear and robust American grand strategy would have eventually emerged were it not for Al Qaida's attack on New York and Washington on September 11, 2001 -- this generation's Pearl Harbor for the United States -- and the subsequent decade-long wars in Afghanistan and Iraq. Once again as in the Second World War, the Cold War as well as in the Korea, Vietnam, Balkan and Desert Storm conflicts, during the past twelve years the preoccupation of U.S. Administrations and the Congress has centered on military instruments, both to destroy Al Qaida through the War on Terror and to conduct the two conventional conflicts.

Washington's national security debates concentrated on the size and content of the defense budget including missile defense; on war fighting capabilities and strategies; and on what constituted successful security outcomes in Iraq and Afghanistan. More recently, this military mindset also contributed to the U.S.-led attack on Libya; triggered the debate regarding whether the United States should use force to change the balance of power on the ground in Syria; and, of course, addressed how the U.S. should roll back the Iranian nuclear weapons programs.

Other than economic sanctions against Iran, it is striking how little of the public debate has addressed whether the United States, possessing the largest and most powerful economy in

the world, could use economic instruments for the purposes of strategic statecraft, that is to apply geoeconomics fundamentally to America's current external challenges.

The United States presently faces a blizzard of international problems, from the rise of Chinese power; to what now seems to be the return of Russian systemic destabilizing policies in Eurasia and beyond; to chaos in the Middle East; to the continuing danger of WMD terrorism. With statesmen rare in any age, perhaps it is best to return to a compelling compass for U.S. external behavior, American national interests as a basis for U.S. grand strategy, and to examine briefly how geoeconomic instruments might promote these interests.

Vital

Vital national interests are conditions that are strictly necessary to safeguard and enhance Americans' survival and well-being in a free and secure nation.

Vital US national interests are to:

1. Prevent a WMD, major terrorist or cyber attack on the American homeland;
2. Maintain the global balance of power and prevent the emergence of a hegemonic rival on the Eurasian landmass;
3. Ensure U.S. allies' survival and their active cooperation with the U.S. in shaping an international liberal order based on democratic values and the rule of law in which the U.S. can thrive;
4. Prevent the emergence of hostile major powers or failed states on U.S. borders;

5. Ensure the viability and stability of major global systems (trade, financial markets, supplies of energy, and the environment).

What about India? How would this distinguished audience define India's vital national interests?

Extremely Important

Extremely important national interests are conditions that, if compromised, would severely prejudice but not strictly imperil the ability of the U.S. government to safeguard and enhance the well-being of Americans in a free and secure nation.

Extremely important US national interests are to:

1. Prevent, deter, and reduce the threat of the use of nuclear, biological, and chemical weapons anywhere;
2. Prevent the regional proliferation of WMD and delivery systems;
3. Promote the acceptance of international rules of law and mechanisms for resolving or managing disputes peacefully;
4. Promote the well-being of U.S. allies and friends and protect them from external aggression;
5. Promote democracy, prosperity, and stability in the Western Hemisphere;
6. Prevent, manage, and, if possible at reasonable cost, end major conflicts in important geographic regions;
7. Maintain a lead in key military-related and other strategic technologies, particularly information systems;
8. Prevent massive, uncontrolled immigration across U.S. borders; and,
9. Prevent genocide.

How would you all define India's extremely important national interests?

In any case, for the U.S. note now many of these national interests lend themselves to promotion through geoeconomic tools:

- Maintain the global balance of power and prevent the emergence of a hegemonic rival on the Eurasian landmass;
- Ensure U.S. allies' survival and their active cooperation with the U.S. in shaping an international liberal order based on democratic values and the rule of law in which the U.S. can thrive;
- Prevent the emergence of hostile major powers or failed states on U.S. borders;
- Ensure the viability and stability of major global systems (trade, financial markets, supplies of energy, and the environment).
- Promote the acceptance of international rules of law and mechanisms for resolving or managing disputes peacefully;
- Promote the well-being of U.S. allies and friends and protect them from external aggression;
- Promote democracy, prosperity, and stability in the Western Hemisphere;
- Prevent, manage, and, if possible at reasonable cost, end major conflicts in important geographic regions;
- Prevent massive, uncontrolled immigration across U.S. borders; and,
- Prevent genocide.

I trust that you will agree with me that this is an impressive list of issues that geoeconomic instruments could be crucial in addressing through economic statecraft.

America's problem today is that after many decades of being preoccupied with the security dimension of American foreign policy, Washington too often instinctively considers the military instrument when it is largely or entirely irrelevant or inappropriate to many of the external challenge at hand.

Here are only a few examples.

China, in my judgment, seeks to end U.S. primacy in Asia and alter the balance of power in its favor in this vast and crucial region. And although the PRC pursues ambitious military modernization, its tools in implementing China's grand strategy for the foreseeable future are primarily geoeconomic and not military.

As you know, China claims almost the entire oil- and gas-rich South China Sea, and dismisses competing claims from Taiwan, Brunei, Vietnam, the Philippines and Malaysia. Japan also has a territorial row with China over islands in the East China Sea. In each of these cases, Beijing uses geoeconomic instruments, including access to the Chinese market, to try to affect the policies of these governments. What should be the U.S. and Indian response? Surely not military. Instead, the strength of the economies of America's Asian allies and of India will be preeminent factors in their ability to resist these PRC geoeconomic instruments and to stand strong in maintaining the current balance of power in Asia and attempting to shape future Chinese external behavior.

A stable and collaborative Egypt is a lynchpin of broader U.S. national interests in the Middle East. Again, however, American military power will have little to do with whether Egypt overcomes its current monumental economic problems.

Tough international economic sanctions against Iran have brought it to the negotiating table, a classic use of a geoeconomic instrument.

The future of Jordan will be an important determinant of whether the Middle East can regain some peace and stability in the period ahead and that moderate Jordanian future is crucially connected to the performance of Jordan's economy.

Putin's Russia appears to be embarked on an effort to recreate Soviet era spheres of dominating influence on its borders. Although NATO Allies in Eastern Europe in these circumstances require reassurance through U.S. military deployments and power projection, the future of Ukraine, Georgia, Azerbaijan and the nations of Central Asia will not be decided by American military capabilities. The only hope for Ukraine to withstand Moscow's subverting policies is to stabilize its economy and that in turn depends extensively on American and European use of geoeconomic tools and the assistance of the international lending institutions.

Regarding Mexico, it is obvious that an unstable Mexico driven by a failing economy would preoccupy the United States and divert its attention from its other pressing international challenges and obligations.

During World War Two, most of the Cold War period and its aftermath and in America's immediate responses during the 2000's to the 9/11 attack, the military and security dimensions

of U.S. foreign policy were rightly preeminent. After all, it was U.S. military power that helped defeat Germany and Japan, held NATO together, deterred the Soviet Union and killed most of Al Qaida's leadership. So to stress the point, the United States should in my view maintain its military primacy as an important element in promoting peace and stability in the global commons and ensuring the balance of power in Asia and Europe writ large. Indeed, given the world in which we live, it is likely that the United States in the future will use military force to protect its vital national interests, as it should do as a last resort. Attacking Iran's nuclear weapons programs if negotiations fail comes to mind.

I also do not mean to imply that India should cut back on its major military modernization requirements. Quite the contrary. Faster and more efficient Indian weapons acquisition procedures are urgently needed in order to responsibly guard the nation and to reinforce the balance of power in Asia.

But in the years ahead, U.S. and Indian military prowess is not going to address China's geoeconomic policies against the nations of Asia, is not going to balance Russia's imperialist ambitions regarding Central Asia, is not going to provide Pakistan's civilian government economic incentives to move away from confrontation with India.

In conclusion and putting America aside for the moment, let me ask seven questions concerning India which I hope will stimulate our discussion as to the connection between India's national interests and geoeconomics:

- 1) Most fundamentally, what are the prospects for India's domestic economic recovery, a recovery that remains the preeminent engine for India's external power projection,

- and what domestic economic reforms will most reignite Indian economic growth?
- 2) What is the relationship between U.S.-India economic interaction and the abiding national interests of India?
 - 3) To what degree can the Indian application of geoeconomics affect Pakistan's policies toward India?
 - 4) What role should geoeconomics play in the burgeoning India-Japan strategic relationship?
 - 5) How can geoeconomic instruments strengthen India's strategic policies toward Southeast Asia and the Middle East?
 - 6) Does China have a geoeconomic policy toward India? If so, what is it?
 - 7) Does India have a geoeconomic policy toward China? If so, what is it?

I look forward to your comments and questions on these issues regarding India, the United States, and geoeconomics.

Thank you for your attention. Again, as always, it is wonderful to be back in Mother India.