CHAPTER 2

# Balancing Dependence: The Quest for Autonomy and the Rise of Corporate Geoeconomics

*Henrique Choer Moraes and Mikael Wigell*

## Introduction

The past years have witnessed a transformation in the logic underpinning global economic relations. Not only China and Russia, but also the European Union, Japan, the United Kingdom, and the United States

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H. Choer Moraes
KU Leuven Centre for Global Governance Studies, Katholieke Universiteit Leuven, Leuven, Belgium
e-mail: henrique.moraes@itamaraty.gov.br

Ministry of Foreign Affairs,, Brazil Ministry of Foreign Affairs, Brasília, Brazil

M. Wigell (✉)
Finnish Institute of International Affairs, Helsinki, Finland
e-mail: Mikael.Wigell@fiia.fi

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M. Babić et al. (eds.), *The Political Economy of Geoeconomics: Europe in a Changing World*, International Political Economy Series,
https://doi.org/10.1007/978-3-031-01968-5_2

are increasingly embracing a myriad of economic policies that defy the largely market-oriented rationale of the (neo)liberal order prevailing over the course of the last three decades. This (neo)liberal order was premised on the relative separation of the realms of economic and security policy, and thus of having profit-seeking market players as leading the pace and direction of global economic relations. This attitude is well exemplified by the 1994 declaration which prefaces the agreements launching the World Trade Organization, in which trade ministers hailed 'the participation of their economies in the world trading system, based upon open, market-oriented policies' (WTO, 1994, p. 1263). Developments over the last years point in a different direction with major economies actively deploying a mix of innovative as well as time-tested interventions in the economy directed at safeguarding their 'strategic assets', 'critical infrastructures' or 'emerging technologies' from control or influence by foreign state and/or market forces.

In order to make sense of these transformations, this chapter introduces the concept of 'balancing dependence' by which we refer to state policies that seek to reduce economic dependencies on foreign actors, both public and private. As great-power competition has been accelerating, most major powers have become increasingly concerned about the security risks that interdependence poses for state autonomy and economic preparedness. On the one hand, these risks are systemic in that they stem from the networked nature of the global economy and the effects of sudden disruptions in multi-tiered supply chains. The fragility of these global economic networks and linkages has been highlighted by the COVID-19 crisis (Farrell & Newman, 2020). On the other hand, these risks are geostrategic, relating to the way asymmetric interdependencies can be manipulated, exploited and leveraged for strategic benefits by the less vulnerable parties in these relationships (Farrell & Newman, 2019; Leonard, 2016; Scholvin & Wigell, 2018). As a result, recent reviews of security doctrines by China, the EU, Russia and the United States have seen unprecedented emphasis put on economic security and policies to reduce strategies dependencies (e.g. Helwig, 2021; McCormick et al., 2020; Trenin, 2021).

The tendency towards balancing dependence can also readily be seen in the EU's efforts to develop its 'open strategic autonomy', the United States' 'reshoring' of supply chains and technological 'decoupling', as well as China's 'Made in China'-strategy. The 'New Industrial Strategy for Europe', for example, declares that 'Europe's strategic autonomy is about

reducing dependence on others for things we need the most' (European Commission, 2020b, p. 13). To this aim, the European Commission published a survey in May 2021 on the 'strategic dependencies' affecting the EU, revealing 137 products where the EU can be considered highly dependent on imports (European Commission, 2021b). Similarly, the Biden administration, barely a month after taking office in January 2021, issued an executive order on 'America's Supply Chains', based on the premise that 'the United States needs resilient, diverse, and secure supply chains to ensure our economic prosperity and national security'.[1] US government agencies in a number of sectors—from defence to health, from food to semiconductors—were instructed to report on the risks that may affect the supply chains on which the US relies as well as on gaps in domestic manufacturing capabilities, and the structure of supply chains for strategic assets. China's main strategy for trade and technology—'dual circulation'—also revolves around an effort to reduce foreign dependence and strengthen self-sufficiency (García-Herrero, 2021).

This newfound urge to balance dependence puts pressure on the interdependent fabric of the global economy. Similar to the familiar notion of 'balancing power', balancing dependence creates a security dilemma as states seek to adjust their level of dependence in relation to similar efforts by others. The concern with reducing dependence by key economies triggers a reaction of broader and deeper measures towards economic autonomy by other key players in the global economy. While this reaction sometimes entails increasing the level of self-sufficiency, often it involves efforts to adjust the reliance towards economic partners deemed more reliable from a security perspective. Either way, as suggested by the surveys on strategic dependencies undertaken by the EU and the United States, states show more interest in understanding who their national economies depend on—and in trying to influence the network of dependencies. The notion of "friend and ally-shoring" introduced in the 2021 White House (2021) report on America's supply chains adds new vocabulary to the set of principles that shaped the neoliberal economic order enshrined in institutions such as the World Trade Organization. As a consequence, the (neo)liberal order may start to unravel (see also the introduction to this volume).

[1] Executive Order No. 14,017, 86 US Federal Register (February 24, 2021), p. 11,849.

However, to what extent this unravelling takes place will not only depend on state action. The (neo)liberal order has given global business clout to push back on government decisions (for a seminal analysis, see Strange, 1996, p. 29). States will not enjoy free rein in subverting economic relations into the strategic realm. Companies will seek to limit the impact of governments' actions over their businesses, while also attempting to induce governments to adopt measures—such as industrial policies and tax incentives—that hedge their position in a changing economic order. A priori it may thus be difficult to define how far states can go in merging economics and national security. States are varyingly constrained in their ability to pursue policies autonomously from domestic interest groups (see Gertz & Evers, 2020).

From the perspective of balancing dependence, the nature of domestic business-government relations is of particular importance. Intuitively, state capitalist systems can be assumed to have a comparative advantage over market economic systems when it comes to enlisting companies to balance dependence. As Gertz and Evers (2020, p. 117) contend: 'Close, cooperative relations between businesses and the government act as a force multiplier – state power increases when firms are aligned with state goals and eager and willing to work hand-in-hand with the government to achieve them'. By comparison, in liberal market economies, where business-government relations are more distant, policymakers will be constrained in using firms to advance state interests. Yet, even in state capitalist systems, enlisting companies to align with state interests is far from straightforward. As research by Kärkkäinen (2016) shows, China sometimes finds it difficult to control its corporate actors, even state-controlled ones, and get them to pull in the same direction. With a view to shedding light on market reactions to states' balancing dependence, we also introduce in this chapter the concept of 'corporate geoeconomics', with which we propose to describe how firms are trying to preserve a measure of autonomy in an economic environment marked by increased state (geoeconomic) intervention (see also Borchert, 2021).

The chapter proceeds as follows. The next section develops a geoeconomic framework for analysing the transformation of global economic relations. It argues that the notion of balancing dependence provides a novel analytical device for understanding the current repurposing of economic policies. As states seek to strengthen economic autonomy, they increasingly start to balance dependence, thereby feeding a reaction of

the same nature by other states that puts pressure on the interdependent fabric of the global economy. Thus, the subsequent section surveys the increasing convergence between economics and national security in the strategies of the major powers in the global economy, chiefly China, the European Union and the United States. But we also argue that an appropriate conceptualization cannot be circumscribed to a standard, state-centric geoeconomic framework. It needs some refinement in order to capture the distinctive elements of the current strategic context, namely the simultaneous economic competition and security rivalry between the world's great powers as well as the deep-seated interdependence that was ushered in by the regimes of (neo)liberal globalization. For this reason, the third section looks at corporate reactions to the revival of geoeconomics in Europe and the United States. It shows how market players seek to shape and limit state intervention as well as adapt to it, pointing to the agency of also non-state actors in contemporary geoeconomics. The concluding section argues that geoeconomics is ultimately a multilevel dynamic in which states are looking to strengthen their economic autonomy in relation to both other states in the international system as well as corporate actors, and in which these corporate actors in turn are trying to preserve their own autonomy from state intervention in what we call corporate geoeconomics.

## The Quest for Autonomy: A Geoeconomic Framework

As an analytical framework, geoeconomics straddles the gap between international political economy (IPE) and international security perspectives (IS). While IPE deals with the 'connections between economics and politics beyond the confines of a single state' (Cohen, 2008, p. 1), a significant part of the IPE academic agenda is focused on explaining socio-economic development, not security dynamics. International security studies, in turn, almost exclusively focus on explaining security-related outcomes. IS concepts revolve around the use of military power without paying much attention to the strategic uses of economic power. This explains why also IS studies focusing on the topic of economic sanctions (Mastanduno, 1999) provide few insights for understanding how the global economy will operate when security considerations affect the functioning of normal market relations.

The contribution we make by proposing the concept of balancing dependence stands at the interstice between these two scholarly traditions. First, it highlights that economic prowess is an attribute of power that supports a state's level of autonomy. In this sense, our concept draws on the 'power and plenty' tradition, whose modern theorization can be ascribed to Jacob Viner (Viner, 1948). But it also recognizes that, given the current interdependent structure of the international system, conflicts directly involving major powers are more likely to take place in non-military contexts, such as in the economic realm.

This also affiliates our framing with Edward Luttwak, for whom geoeconomics implies that states will seek to outdo others in the economic domain (Luttwak, 1990, p. 20). However, unlike the environment described by Luttwak, who focused on the US-Japan competition (Luttwak, 1993), the current international context is unprecedented given that key global economic partners—United States and China—are often also strategic or security rivals. Therefore, the geoeconomic framework of analysis needs to incorporate a security and strategic angle that did not exist in Luttwak's conceptualization. As foreign policy practice, geoeconomics is now more aptly understood as 'the geostrategic use of economic power' (Wigell, 2016, p. 137), in which economic and security or strategic considerations intertwine and shift the logic that has underpinned economic relations during the (neo)liberal era introduced in the post-Cold War (Roberts et al., 2019).

Our notion of balancing dependence thus points toward a novel analytical framework for studying geostrategic phenomena. 'Balance of power' is a central analytical device in traditional strategic studies. It is used to explain strategic behaviour, alliance statecraft and international order (Paul et al., 2004). By balancing against a threatening military power, states protect their territorial sovereignty and hinder hegemony. Yet, this concept cannot capture important novel dynamics in current strategic competition, which is being wielded foremost by economic means. Sovereignty itself is not really at stake in this new power political game. Rather, policymakers fret about ending up in a situation of economic dependence on an external power that could undermine the state's autonomy, i.e. its ability to act independently.

In contrast to sovereignty, which states either possess or not, autonomy denotes a relative attribute that states possess to varying degrees. 'Vassal states', while still formally sovereign, have had to yield their autonomy entirely to some other state. All states find themselves on a spectrum

between autonomy and dependence in terms of their ability to act according to their own interests, free from external constraints or interference. As Hurrell (2013, p. 38) explains, autonomy thus refers to the degree of *effective* state independence, whereas sovereignty denotes 'a state's formal legal claim to independence irrespective of the degree to which it is able to implement that claim in practice'.

The preoccupation with military power in much geostrategic scholarship and its concomitant focus on territorial occupation has led to a discarding of more subtle means by which a state's autonomy can be curtailed by actions that stop short of endangering its sovereignty. Herein, the burgeoning geoeconomic scholarship provides a welcome correction, with its focus on subversive economic means of power politics specifically targeting the autonomy of another state instead of its sovereignty. In particular, this scholarship has highlighted binding[2] and wedging[3] strategies whereby external powers seek to curtail a target state's effective room of strategic autonomy (see Tshkay, 2021; Wigell & Soliz Landivar, 2018; Wigell & Vihma, 2016).

As a strategic practice, geoeconomics thus revolves around a struggle for autonomy, whether offensively by trying to enforce dependencies on others—and use those dependencies to manipulate their behaviour—or defensively by reducing such dependencies so as not to become a pawn in geoeconomic power politics. The uptick in state economic interventionism seen today is driven by this quest for autonomy. Occasionally, measures adopted by states to reinforce their autonomy might even negatively affect the interests of domestic industries, such as when the US government seeks to discourage Wall Street firms from increasing its engagement in China. As President Biden's National Security Adviser,

[2] Geoeconomic binding refers to the use of economic inducements to make target states economically dependent on the external power who gains political leverage. China's BRI, for instance, has been portrayed as such a geoeconomic binding strategy, in which targeted countries gain short-term economic benefits at the expense of political concessions over the longer-term (Tshkay 2021; Wigell & Soliz Landivar, 2018).

[3] Geoeconomic wedging refers to a policy of dividing a target country (or coalition) by applying the logic of 'selective accommodation', in which the external power offers economic inducements selectively to some targets, but not to others. By manipulating economic rewards and punishments in this way, the geoeconomic agents exert divergent pressures on these targets, causing disunity among them. Extant research on geoeconomic wedging mainly concerns Russia's attempts to cause disunity in Europe, by the clever manipulation of energy prices and the funding of radical, populist and anti-EU political parties (Vihma & Wigell, 2016; Wigell & Vihma, 2016).

Jake Sullivan, declared: 'Why (…) should it be a US negotiating priority to open China's financial system for Goldman Sachs?' (Hale et al., 2021). Examples such as these show that the search for autonomy cannot simply be equated to protectionism.

Offensive geoeconomics by actors such as the United States and China has contributed to this quest around the world and propelled more consideration for balancing dependence. The use of economic coercion by the United States under then President Trump, with the application of extraterritoriality in enforcing financial sanctions, has precipitated geoeconomic balancing intended to reduce vulnerability to such coercion. In response, China has sought to create alternative financial infrastructures to protect against US 'weaponization' of the global financial system. China has launched the China International Payment System as an alternative to the US-dominated global payment system SWIFT, and it is gearing up for the internationalization of a digital yuan as an alternative to the dollar (see Cheung, 2020). Even Europe has created an anti-coercion instrument to hedge against the risk of being strong-armed, including by the United States (Hackenbroich, 2020). Likewise, the use of economic inducement by China through especially its BRI has raised concern for 'debt traps' and economic 'Finlandization', and precipitating calls for geoeconomic balancing aimed to avoid vassalage (e.g. Blackwill & Harris, 2016; Tshkay, 2021).

As with traditional geopolitical balancing, also geoeconomic balancing is associated with a security dilemma. In geopolitical balancing it relates to the risk of an arms race when states try to balance their own military preparedness in relation to the military capabilities of others (e.g. Jervis, 1978). In geoeconomics the balancing dilemma relates to the vulnerabilities arising from the dependence on foreign actors supplying resources critical for national security and welfare. In a context of accelerating great-power competition, reliance on foreign actors for the provision of goods that range from vaccines to food, from semiconductors to critical technologies is increasingly perceived as a source of vulnerability.

This perception of 'reliance on foreign actors as vulnerability' thus triggers a reaction as states respond to each other's efforts to balance dependencies by reducing their own level of dependence through measures aimed at strengthening economic autonomy. In this struggle for autonomy, the interdependent fabric of the current global economy risks coming apart. States seek to identify assets and capabilities they consider strategic and which warrant protection from foreign control. Even the

EU, which has benefited from open trade and investment policies, has issued a host of new policy instruments ranging from FDI screening, an updated blocking statute, new foreign subsidies and procurement regulations, as well as several action plans to increase the EU's technological autonomy (see Wigell et al., 2022).

State attempts to strengthen autonomy by balancing dependence are not straightforward. Increased state intervention is likely to collide with the interests of corporate actors who have been leading the process of neoliberal globalization over the past decades and who prefer to keep the state at arm's length from the market. These powerful non-state actors will see their own autonomy challenged by the increased state encroachment of strategic and security interests into the market, and by states attempting to enlist companies as interlocutors for their geoeconomic actions (see Gertz & Evers, 2020). As a result, companies are adopting different strategies to respond to state geoeconomics, which may range from trying to limit the use of geoeconomic instruments to actually helping enabling them, depending on their own particular interests. In this sense, our contribution also seeks to shed light on the role of economic market-led interdependence in constraining state's action to safeguard their autonomy, thus offering an angle that seems to be unaddressed by the IPE literature on trade with adversaries (Gowa, 1994, p. 42).

Companies should thus not be seen only at the receiving end of geoeconomic action. Companies have geoeconomic agency, which can be understood as corporate geoeconomics. According to Borchert (2021, p. 32), such a perspective can help explain 'why technology proliferation is becoming so contested, as the business motive to serve clients can collide with governmental interests in preventing competitors from gaining access to certain technologies'. As states feel compelled to mobilize more resources for accelerating geoeconomic competition, and thus assume more control over domestic businesses, business-government relations are likely to become more contentious. Many businesses are pushing back against attempts to increase state leverage. Especially in liberal market economies, companies are often only reluctant partners in economic statecraft and use democratic infrastructure, such as partisan politics and the court system, to frustrate government efforts to enlist them in helping realizing their geoeconomic strategies (Gertz & Evers,

2020). Other companies, on the other hand, may see opportunities for state capture in closer business-government relations.

The notion of corporate geoeconomics adds a domestic dimension to geoeconomics as an analytical approach, beyond the prevailing state-centric perspective. The role of *Innenpolitik* in geoeconomics research has remained relatively unexplored territory (notable exceptions include Blackwill & Harris, 2016; Gertz & Evers, 2020). Yet, already Luttwak (1990, p. 128) underscored the role of business-government relations in determining a state's geoeconomic policies and how 'geoeconomic activity of the state will become a focal point of political debate and partisan controversy'.

## Geoeconomic Balancing: Increasing State Control of Economic Interactions

A suite of geoeconomic policies adopted or being considered in recent years provides evidence that states are carving out an expanding scope of economic areas from market rules. This flurry of geoeconomic decisions stands in stark contrast to states' 'policy of purposeful benign permissiveness regarding (…) the forces of globalization' that has prevailed until recently (Kirshner, 2006, p. 4).

Traditional geoeconomic measures, such as export controls, are being imposed on an increasing number of products that extend beyond the defence realm. The 2018 reform of US export control points to a step change by directing the US government to focus on 'emerging and foundational technologies',[4] instead of adopting the traditional 'backward-looking' approach to the technologies protected (Brown & Pavneet, 2018, p. 24). These broad concepts signal the intention of preventing foreign actors from building on US technological leadership to become leaders themselves.

The same trend towards more rigorous control over access by foreigners to strategic assets is also visible with regard to investment screening mechanisms. Until recently, national economies would fight for foreign direct investments, to the point where states would not hesitate

[4] United States Export Control Reform Act 2018, Section 1758, *National Defense Authorization Act (NDAA) for Fiscal Year 2019*, Public Law No. 115-232.

to grant foreign investors the right to challenge national policies before international private arbitrators.[5] Now, a growing number of restrictions seek to keep certain foreign investors from acquiring even minority stakes in assets considered strategic. UNCTAD reports that, from January 2011 to September 2019, at least 13 countries introduced new investment screening legislation while at least 45 'significant amendments' to existing mechanisms were enacted (UNCTAD, 2019).

Another break from the recent past is identifiable in governments' attempts to actively redesign supply chains. The transition from the 'state-centric Washington Consensus model of development' of the 1990s to a 'global-value-chain framework' (Gereffi, 2014) meant that corporations defined how to organize their production geographically, based on cost-effectiveness criteria—hence the global value chains sprawling across the world. Now, states are invoking strategic reasons to dent this liberty enjoyed by companies. Thus, for instance, Japan announced subsidies for the relocation of firms outside China (Reynolds & Urabe, 2020). The French government is reported to be considering financial support for the reshoring of the production of paracetamol (Abboud & Peel, 2020). And the US government is going out of its way to prevent Chinese companies from catching up with American and especially Taiwanese companies that lead in the production of semiconductors (Blank, 2020). While these examples do not necessarily mean the collapse of global value chains, they testify to the fact that states are increasingly attempting to induce companies to structure production networks in a geoeconomic fashion, as opposed to the cost-effective criteria that account for the current shape of global value chains.

The EU and its member states are inching forward in the same direction. The European Union is working on new remedies to counter subsidized foreign investments (European Commission, 2021a). Furthermore, in a push to boost Europe's 'technological sovereignty', the European

[5] Until 31 December 2020, 1,104 investor-state arbitral disputes had been filed against 141 countries, increasingly against developed economies. In these disputes (also known as ISDS cases, for "investor-state dispute settlement") foreign investors have attempted to sue host states for alleged economic harms emerging from governmental measures ranging from anti-tobacco legislation to environmental licensing practices. Despite the popularity attained by ISDS commitments in the 1990s, when they were touted as a mechanism to attract foreign investment, the past years have witnessed an increased backlash against such procedures. See UNCTAD, *Investment Settlement Dispute Navigator*, at https://investmentpolicy.unctad.org/investment-dispute-settlement.

Commission is proposing measures to foster a European cloud service industry with a view to reducing Europe's 'technological dependencies in (…) strategic infrastructures (…) at the centre of the data economy' (European Commission, 2020a, p.9). Furthermore, while the EU's most senior competition official was making the case for member states to buy stakes in companies to stave off Chinese takeovers (Espinoza, 2020), the German government was doing precisely that—but to prevent a US government-led acquisition of a German vaccine-maker in 2020. 'We do not sell our silverware', quipped Peter Altmaier, Germany's economy minister (Miller & Cookson, 2020).

The fact that all of the geoeconomic measures described above took place in recent years is no coincidence. These measures are reactions to two interrelated events in particular: the impact of China's development model on the global economy, itself heavily reliant on geoeconomic instruments and, to a lesser extent, the perception that market-driven globalization excessively based on interdependent, fragmented production poses risks that were disregarded until recently—as demonstrated by the shortages of medical supplies in the wake of the COVID-19 outbreak.

Major economies are catching up to what they now perceive was China's strategy for the past twenty years. In this view, instead of opening up to an interdependent global economy, China has managed its exposure to interdependence in order to gain capabilities in a wide array of economic areas, ranging from the production of active ingredients for pharmaceuticals to the development of a sophisticated technological infrastructure. A 2019 study by the McKinsey Global Institute reported that 'China is becoming less exposed to the rest of the world, which, in turn, is becoming more exposed to China' (McKinsey Global Institute, 2019, preface). Particularly under the current leadership, China has become more wary of the risks associated with too much interdependence. The concept of 'national security' now reflects the wide scope of industries that Chinese legislators wish to protect and preserve against inward foreign investment (Huang, 2021, p. 130). These fears have only intensified in the wake of President Trump's policies towards China and Chinese companies (Gewirtz, 2020). China's government is reportedly trying to wean itself off its reliance on foreign suppliers for 'stranglehold technologies', arguably in preparation for a more hostile world economy (Economist, 2020a).

While (most) Western companies have certainly benefitted by relocating to China, Western governments are now faced with the spill-over

of capabilities away from their economies. Through a number of state-supported policies, China has successfully displaced incumbents in, among other economic sectors, the dredging industry, shipping companies, ports, shipbuilding and maritime components, railways and rail supply industry, steel, construction and engineering and energy networks (Holslag, 2019, 97–136). Attempts by Western governments to balance dependence stem from this realization.

Despite the increased polarization in US politics, one of the few topics identified as generating bipartisan support is the perception that China benefitted from largely unrestricted access to global markets without according similar conditions to foreign companies in its domestic economy (White House, 2020). Such political support enabled the US Senate to approve, in June 2021, a bill tabled by Senator Charles Schumer with a panoply of measures aimed at countering China (from financial support to third countries' independence from China to industrial policy measures such as heavy investments in the US semiconductor industry) (Romm, 2021). In 2019, the European Union has also felt the need to review its stance towards China by recognizing the country to be a 'systemic rival promoting alternative models of governance' (European Commission & HRFASP, 2019, p. 1).

Lack of reciprocity for foreign companies persisted over the years as a frustratingly unresolved irritant in bilateral relations with China, but economic ties with the country were still viewed favourably. The Chinese market was, and remains, an important source of revenue for a significant number of foreign businesses. This mixed appreciation of the Chinese market as both a source of threat and opportunities has been captured by many industry associations over the recent years (AmCham China, 2020; Federation of German Industries, 2019). It was instead the Chinese geoeconomic policies calling for 'indigenous innovation' (The State Council of The People's Republic of China, 2006) and increased self-sufficiency (CGTN, 2020) (and the consequent discrimination in favour of Chinese companies) that raised the concerns of Western countries to a strategic level, going beyond the level of economic competition only. These policies cast the lack of reciprocity and the discriminatory treatment of foreign companies in China in a substantively different light.[6]

[6] See for the United States: USTR (2018, pp. 4, 43, 147, 171); for the European Union: European Commission and High Representative of the Union for Foreign Affairs and Security Policy (2019, p. 5).

Persistent corporate grievances compounded by government anxieties tilted the domestic political balance in Western countries towards a change of tack in dealings with China. China's geoeconomic behaviour would increasingly be met with geoeconomic reactions in the shape of measures such as investment screening legislations, curbs on listings of Chinese companies in the US financial market and reinforced export control measures aimed at preventing Chinese companies from acquiring technologies detained by US companies.

This dynamic whereby states balance their dependence in reaction to measures of a similar nature by other states gives concrete shape to what, until now, remained only a likely development in the writings of some analysts. Accordingly, Luttwak contended in 2012 that 'China's continuing rise (…) will inevitably be resisted by geoeconomic means – that is, by strategically motivated as opposed to merely protectionist trade barriers, investment prohibitions, more extensive technology denials, and even restrictions on raw material exports to China (…)' (Luttwak, 2012, p. 42).

The geoeconomic balancing does not necessarily point to the containment of China, nor does it determine that China is not entitled to pursue its own development model. Rather, it implies the recognition that China's geoeconomic policies shift the game away from the market orientation that has prevailed until now. Most examples of the geoeconomic measures presented above seek to reciprocate China's domestic restrictions and shield strategic assets from being accessed by Chinese public and private actors. Thus, what became the EU investment screening mechanism in 2019 had as one of its opening salvos a letter by the economy ministers of France, Germany and Italy to the European Commission expressing concerns 'about the lack of reciprocity and about a possible sell-out of European expertise, which we are currently unable to combat with effective instruments' (Reuters, 2017).

A second factor driving geoeconomic balancing is a reversal of the prevailing perception of economic interdependence within developed economies, until recently viewed largely as a source of efficient allocation of resources. Shortages of face masks and other medical products to respond to the COVID-19 outbreak brought home to many policymakers the fact that market-led supply chain design had moved production too far from home (Farrell & Newman, 2020). The pandemic exposed the vulnerable side of interdependence that geoeconomic analysts had been warning about (Scholvin & Wigell, 2018).

Even absent any deliberate intent to weaponize interdependence, it was the very structure of globalized interdependence—fragmented, but concentrated in a small number of sources—that sparked the calls for increased resilience in the supply of certain goods. According to a report by the McKinsey Global Institute, '[m]any low-value or basic ingredients in pharmaceuticals are predominantly produced in China and India'. The same report identified '180 products across value chains for which one country accounts for 70 percent or more of exports, creating the potential for bottlenecks' (McKinsey Global Institute, 2020).

The anxieties aroused by over-reliance on interdependence are directly associated with the fact that Chinese state-controlled companies are key nodes in many supply chains, thereby turning even products of modest technical sophistication into 'strategic goods', such as face masks. Of course, the immediate link that associates China with the *malaise* in respect of interdependence should not obfuscate the fact that the existing architecture of production networks—or Chinese companies' position in it—is the direct result of corporate decisions, themselves enabled by political decisions within Western countries over recent years. A critical decision in this regard by the latter countries was the acceptance of China into the World Trade Organization (Blustein, 2019), which produced benefits not only to China, but also to the global economy.

It is in this context of geoeconomic balancing that we should interpret efforts such as the Biden administration's executive order on 'America's Supply Chains'[7] as well as the EU surveys on the strategic dependencies that affect Europe (European Commission, 2020b) presented at the introduction of this article. Exercises such as these are a first step for policies aimed at safeguarding the level of autonomy enjoyed by states and might lead to some degree of decoupling, diversification of economic partnerships and an increase in local manufacturing. Irrespective of how such policies evolve, however, debates aimed at taking stock of dependencies affecting a given economy are emblematic of a trend whereby governments show an interest in assessing strategic vulnerabilities emerging from economic relations.

Ultimately, balancing dependence is an exercise that unfolds in the domestic politics arena, taking into account the locally affected interests—as well as, of course, the international constraints that shape a country's

[7] Executive Order No. 14,017, note 1 above.

foreign policy. This means there is no pre-determined result for this exercise. States might conclude, all factors weighed, that they are comfortable with the existing level of interdependence.

## Corporate Geoeconomics: Market Reactions to Increased State Action

Under liberal market capitalism, it is in a state's strategic interest that companies are able to pursue their economic goals in an environment with minimal political interference. However, the current revival of geoeconomics puts a strain on the frequent convergence between the 'national interest' (strategic) and the 'corporate interest' (economic) that underpinned the neoliberal phase of globalization (Gilpin, 1975, p. 142; Krasner, 1978, p. 89).

How are corporations reacting to states increasingly resorting to geoeconomic measures? Reactions from market players could be grouped under what we call *corporate geoeconomics* (see also Borchert, 2021). Companies usually seek to preserve their businesses—however, in a shifting strategic global environment over which they have limited control, this often requires adapting corporate strategy in order to achieve self-preservation.

This is, of course, a dynamic context and it remains challenging to discern a clear path adopted by corporations in trying to preserve their businesses from the fallout of geoeconomic measures. With this caveat, we propose the following types of reactions from market players: (a) 'business as usual', in which companies try to limit or push back against state interference in economic relations; (b) 'one company, two systems', whereby companies seek to adapt in order to play on all sides of the strategic divide; and (c) 'patriotic capitalism' (Foroohar, 2018), where corporate actors either openly side with their governments or advocate the adoption of geoeconomic measures as a way of keeping their country's leadership in a given sector. We look at each of these in turn.

The first, and perhaps most natural corporate attitude to increased government action in the economic realm, is to try to keep a lid on state interference in economic transactions in an attempt to literally maintain business as usual. As an example of this stance, the Federation of German Industries (BDI) declared in a 2019 report that 'German industry has no interest in a conflict-oriented economic, political and technological containment or decoupling from China' (Federation of

German Industries, 2019, p. 6). Similarly, in the US public consultation seeking inputs to define 'emerging technologies' to be subject to export controls, a number of responses either sought to discourage the imposition of such controls or argued for a strict definition of which technologies to target. Amazon, for example, contended that 'export controls on these [emerging] technologies, unless carefully and narrowly drawn and truly essential to national security interests, would ultimately hurt U.S. companies and competitiveness globally' (Amazon.com, 2019). The 'business as usual' approach is also couched in language that seeks to 'depoliticize' corporate activity: 'We're not a political organisation and we don't want to be', stated HSBC's chief executive regarding the US-China strategic rivalry (Morris, 2021).

Furthermore, under the 'business as usual' pattern of corporate geoeconomics are instances in which market players have pushed back against statist geoeconomic measures. Accordingly, US companies Cisco and Oracle rebuffed the Trump administration's proposal to develop open source 5G software to compete against Huawei (Waters, 2020). Likewise, Toyota and other Japanese companies are reportedly not taking the subsidies offered by Japan to relocate their supply chains out of China, attracted as they are to the potential offered by the Chinese domestic market (Ryall, 2020).

A second approach that can be discerned in market actors' attitudes is to adapt their business models in order to be able to operate across existing strategic divides. Tesla is one of the companies that is betting on manufacturing in China, despite the escalating US-China geoeconomic tensions. Its Shanghai Gigafactory, which began production in 2019, anticipated sourcing 100% of its components from China by the end of 2020 (Global Times, 2020). Other companies also appear to be taking a 'one company, two systems' approach—certainly with an eye on the promising returns from the Chinese market (Fang, 2020)—in the hope that adapting their activities to the particular demands of each side of the strategic divide will allow them to continue their operations with minimal geoeconomic disruption (Helberg, 2020).

A complicating factor in this picture of corporate attitudes is the salience of human rights violations by China, especially regarding the Xinjiang region. Mounting criticism in the West is challenging the 'business as usual' and the 'one company, two systems' attitudes, with companies like German Volkswagen being forced to take a stand. But if they do, they risk suffering retorsion from Beijing (Friedman & Paton,

2021). This aspect of the strategic dynamic is certainly relevant and needs to be scrutinized in future research.

A final type of corporate geoeconomics behaviour can be observed when companies portray themselves as 'patriotic capitalists'. Market players emphasize the strategic nature of their sectors for their national economies, and often even for national security (Semiconductor Industry Association, 2019, p. 1), thereby siding with their national government but also seeking to benefit economically from it.

One manifestation of this approach can be observed when companies plead with their home governments to adopt geoeconomic measures. These are often presented as necessary to preserve the national leadership in certain economic sectors or to level the playing field, all the while supporting these companies' businesses. In 2020, the US Semiconductor Industry Association released a report advocating active state measures, such as tax incentives and investments in this industry '[b]ecause of the importance of semiconductor technology to our economy and national security' (Semiconductor Industry Association, 2020, p. 3). This stance has been echoed by Google's former CEO, Eric Schmidt, who advocates a number of public–private initiatives to 'renew American leadership' in the face of US competition with China (Schmidt, 2020). One example suggesting that this type of attitude might pay off is the passing of the US$ 52 billion subsidy package for the US semiconductor industry under the bipartisan United States Innovation and Competition Act in the US Senate (Semiconductor Industry Association, 2021). Another example includes cases in which a firm more openly takes sides in the geoeconomic dispute, such as Facebook's case for its importance in supporting the American economy and values: 'Facebook is a proudly American company', as Mark Zuckerberg stated during a congressional hearing.[8] Table 2.1 summarizes the strategies of corporate geoeconomics described above.

A question to be explored in future research would be to scrutinize the determinants driving each type of corporate geoeconomic attitudes. A hypothesis to be tested is whether the level of freedom enjoyed by a company or industry to take sides in the geoeconomic struggle would be a function of its reliance on global markets, with Facebook (which does not

[8] US House of Representatives Committee on the Judiciary—Subcommittee on Antitrust, Commercial, and Administrative Law, 'Testimony of Mark Zuckerberg – Facebook, Inc.', 29 July 2020.

**Table 2.1** Strategies of *corporate geoeconomics*

| Strategy | Description |
|---|---|
| 'Business as usual' | Companies seek to discourage measures that balance dependence for fear of 'politicization' of economic relations |
| 'One company, two systems' | Companies realize they cannot control balancing dependence measures and seek to adapt their operations in order to play on both sides of the geoeconomic divide |
| 'Patriotic capitalism' | Companies embrace strategic competition and try to secure favorable positions economically, such as by tax incentives and industrial policies |

operate in China) positioned in one extreme while manufacturers deeply integrated in Chinese supply chains and domestic market being at the other end of the spectrum.

To be sure, corporate geoeconomic attitudes do not mean companies are relinquishing the pursuit of profits. Rather, they are seeking ways to continue to deliver profits, but under an environment that is more politicized. Traditional geopolitical risk management does not provide companies with an accurate compass for navigating this type of transformation. Geoeconomic actions affecting companies' operations cannot be subsumed under 'a coup, state intervention, the actions of local oligarchs, a change in the political fortunes of a key local partner, or a radical shift in public sentiment toward the company' (Chipman, 2016). Rather, it is the very *rationale* of liberal market capitalism that is being reshaped as a result of frictions between major economic powers.

## Conclusion: Geoeconomics as a Multi-level Dynamic

This chapter argued that the logic underpinning the global economy since the aftermath of the Cold War is being transformed as major economies increasingly pursue more autonomy—and, in turn, renege on the market-led interdependence that inspired the regimes that shaped neoliberal globalization. As shown in this chapter, these major economies are actively seeking to balance the dependence of their national economies. In so doing, other states react by also adopting measures aimed at balancing their respective dependencies in a movement which ultimately undermines market-led global economic interdependence. It points to a revival

of geoeconomics, both as a strategic practice and an analytical tool. The present chapter sought to make the case for such revival as well as to offer refinements to the conceptual framework of geoeconomics in order to better capture the current convergence between economic and security perspectives within the context of an unprecedented level of global economic interdependence.

It is far from clear what the consequences from this geoeconomic turn will be for the global economy. We maintain that the resurgence of geoeconomics does not play out only at the level of relations between states. Instead, it is a multi-level dynamic: (i) at one level (which could be called state-state), states adopt measures to balance the dependence of their economies vis-à-vis other states, particularly those considered unreliable from a strategic perspective; (ii) at a second level, states seek to influence the behaviour of their national business communities in order to put into practice some measures aimed at balancing their dependencies. This can be seen in the (unsuccessful) US governments' measures to discourage American companies from increasing their exposition to the Chinese economy. Conversely, China's government does not seem to have found so much resistance against its inducements for Chinese companies to list their stocks in Hong Kong (Somasundaram, 2021); (iii) at a third level, as they engage in geoeconomic action, states seek to also influence the behaviour of foreign firms in order to either exclude foreign companies from their economies (and from accessing strategic capabilities), or to attract them and so contribute to the build-up of these capabilities (and thus decrease dependence on foreign suppliers). While the United States has adopted measures aimed at limiting the access of Chinese companies such as Huawei, WeChat and TikTok to the American market, China has been making overtures to important sources of strategic capabilities such as electric carmaker Tesla (McMorrow, 2019) and Wall Street firms (Economist, 2020b). At this level of geoeconomic interaction, strategic and economic interests of states and foreign companies will converge or diverge, leading potentially to counterintuitive situations in which the strategic interests of a state converge with those of foreign corporations (e.g. China's interest in attracting US companies such as Tesla or Wall Street banks), yet diverge from the strategic goals of the host state of the same firm (e.g. the earlier quote by the US National Security Advisor questioning the American government's interest in opening up the Chinese market for Goldman Sachs).

Understanding geoeconomics as a multi-level phenomenon is critical to make sense of how the global economy will evolve in the current strategic context. The perspective offered by our approach places emphasis on the fact that, while major economies are leading the charge against market-led economic interdependence by balancing dependencies (and, in consequence, triggering a geoeconomic chain reaction by other economies), this does not mean they can single-handedly determine the direction of this process. In view of the dense network of economic interdependence created in the past decades of (neo)liberal globalization, the future shape and governance of the global economy also depend on the reactions by market forces. The evolution of this multi-level dynamic is a matter for future analysis, but the concepts introduced in this chapter—balancing dependence and corporate geoeconomics—might contribute to shed light on the logic underpinning this process.

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