

Geoeconomics through State Scale Entities (SSEs)

Introduction

Contribution of paper: to suggest a new term for the implementation and understanding of geoeconomics, State-Scale Entities (SSEs), with specific although wide range characteristics and discuss the implications of their action for domestic and international markets, the global allocation of resources and economic growth.

Today, the neo-liberal rhetoric of the Anglo-Saxons, the Germanic Social-Market economy (Soziale Marktwirtschaft), the capitalism without democracy of China (Fortune, 2014), or the Market Imperialism of Russia, coexist all in a “severe” globalized frame, therefore creating a perplexing international economic environment. While Companies care less and less about borders whilst States the opposite, we attest the mushrooming of new (or «revived») different-then-State actors and the proliferation of the terms that aspire to describe them. Kenichi Ohmae, declared, from a business point of view, the Nation-State obsolete, unnatural and discussed the emergence of “region-states” (Ohmae, 1995). Non-state, hybrid state, NGOs, TCOs etc. constitute a term-cloud with vague distinction lines. The common denominator of a large group of them is that they are vectors of economic activity.

The battle for acquiring or maintaining economic supremacy and the control of natural resources is by no means a novelty. The Trojan and Peloponnesian Wars were mere struggles for supremacy and access to natural resources. Thucydides underlined that “*The war will not be decided in Attica, as some people think, but at the locations where Attica pulls out it’s resources*” (Thucydides, I’13). In the latest 21st century interventions, the underlying concept was the enforcement of economic freedom – and essentially the preservation of access to natural resources. Even the ISIS-phenomenon could not and cannot be maintained without having and protecting its access to the exploitation of its natural resources.

The term geopolitics born at the beginning of 20th century, with a DNA coded in Nietzenian philosophy and Otto von Bismarck’s notion of global dominance, was nurtured by Ratzels and Haushofer perceptions of Real- and Welt-politik (Chauprade, 2007). Its aggressive (confrontational) face, which reached its peak with WWII Armageddon, has been progressively changed to an explain-everything method through geography and history, in the meta-Soviet era.

A maturing literature is developing around the geoeconomic discourse. Today, everyone has in mind what the term might suggest but very few avoid the generality and manage to frame it. In 1959 Mistradis Gasparis, in *Geoeconomy and Geopolitics*, talked about the geoeconomic axis Mediterranean-Black Sea. Agnew & Corbridge (1989) spoke about “geopolitical economy”. Spark (1998) placed geoeconomy in free trade and borderless economic flows, resulting from geographic position. Luttwak (1993), claiming that “*both military power and classic diplomacy have lost their traditional importance in the central arena of world affairs*” attributed to geoeconomy a military “essence”. Smith (2002) positioned the notion around integration in the European western-market economic establishment. Sidaway (2005) frames it in global capital circulation and monetary

policies. For O'Hara and Hefferman (2006), geoeconomy is all about acquiring and securing vital natural resources. Mercill's (2008) "geoeconomic logic" expresses the economic aspects of geographical capital expansion. Hsiung (2009) shifts the power from geography and ideology to self-sufficiency in natural resources, relative freedom from markets and control over labor force. Spark (2002) presents a comprehensive relationship between geopolitics and geoeconomics in his table "*Contrasting geopolitics with geo-economics*". Abdul Monem Sa'id Ali (1999) defines that the "*objective of Geo-economics is, at a minimum, to safeguard the economic well being, and it's ability to withstand economic competition*". Ali's definition expresses the *defensive Geoeconomics*. By contrast, we can differentiate the objective of *offensive Geoeconomics* which is, not just access and control but also the acquisition of new (natural or digital) resources and/or the highest possible market share by applying economic power within a specific operational economic (physical or digital) environment. In other words conquering the Commanding Heights¹ of the economy. According to Spark (2007) while geopolitics divides, geoeconomy unites in the frame of an optimistic view of reconciliation of competing territories and enemies through commerce. Pascal Lorot (1999) underlines that the goal of geoeconomic policies are not the control of land (in contrast with geopolitics), but technologic and commercial supremacy. He expands Luttwak's perspective and globalizes the notion engulfing emerging Asiatic and Latin America States. He includes also multinational enterprises as geoeconomic strategists. Nowadays, the economic operational environment (vide supra) dictates the enlargement of the perception of geoeconomics in order to include also other actors, which could be aggregated in one unified term called State Scale Entities (SSEs). This is the main scope of this paper.

The rest of the paper is organized in three parts. In the first part a general overview of SSEs is presented together with their distinguishing characteristics. In the second part, a taxonomy is discussed along with the relationship of their size vis-a-vis market power. In the third part are examined the economic implications of two non-conventional categories of SSEs, the cyber giants and the State Mimicking Entities.

State Scale Entities

The SSEs lie in the core of the geoeconomic discourse and constitute its main actors. They are profit-oriented organizations with the ability of executing the full PPE (**P**lanning-**P**reparing-**E**xecuting) cycle of geoeconomic operations. Their structures are comparable with those of a State, in terms of structural complexity, but with the exception of States which are themselves a category of SSEs, they don't necessarily control land and they transcend national borders. The geoeconomic operations they conduct, result to a significant economic and financial direct or indirect impact on a strategic (macroeconomic) scale. In order to complete the PPE cycle they should possess certain characteristics, as follows:

¹ Term analyzed in Yergin D. & Stanislaw J. (2002). *The Commanding Heights. The Battle for the world economy*. New York. Simon & Schuster

The human resources include necessarily highly skilled, trained and educated personnel in order to face the requirements of demanding organizational functions such as complex financial operations², production, legal and logistic support and last but not least economic intelligence. The recruitment could be in voluntary basis or not³. The development of an organizational culture is mandatory. The Organization is strictly hierarchical with a centralized authority enabling central planning and decision-making or independent-cell structure. In order to have the flexibility and agility to conduct independent goeconomic operations the organization should be structured around seven basic *functions: Administration, Production, Distribution, Finance, Legal, Economic Intelligence, Sustainment-Logistic*. The funding could be open or covered/Illegal e.g Al-Shabaab's "charcoal for sugar" trade cycle (UNSC S/2011/433, UNSC S/2014/726) and ISIS oil water and wheat business (businessinside.com). Their mode of operation targets at the ability to project power and influence. In the case of states, the SSEs represent the instrument of national power and pride. The market penetration could be product-based market (multinationals) with the ability to adapt to changes in regulatory frameworks vs power-based, where SSEs cannot be forced to negotiate unless they are overpowered or their resources are depleted (ISIS). Their actions affect the long or short-term macroeconomic and microeconomic global environment of other SSEs or at least exercise significant influence on them.

We now proceed to the taxonomy SSEs that are divided in States and Economic Entities other than States (EEotS) as shown in figure 1. In the first category fall the *Core States*⁴ (C-States) and the rest of the States, which for a lack of a more suitable term I call *Globalized States*. C-States include States where the government exercises almost unlimited and unchallenged authority e.g North Korea, Cuba or China (at least for now). The recent North Korea-Sony Entertainment affair of «*SonyLeaks*» constitutes an example of how a C-State conducting an *offensive goeconomic* operation forced a SSE like Sony to capitulate. Globalized States category encompasses the vast majority of States that have, in different degree each, embraced the globalization and thus the government exercise a moderate role. Under the category of the EEotS fall the Multinational Corporations (MNCs), the State Owned Enterprises (SOEs) and the State-mimicking Entities (SMEs). Under the SMEs category fall a number of NGOs, Organized Crime Organizations, State-aspiring ethic group-based organizations e.g UÇK/KLA in Kosovo, PLO in Palestine, FARC in Colombia.

The most prominent category of EEotSs are the MNCs and the SOEs which vindicate a increasing role in globalized economy. The term used by Richard Longhorn is **Transnational Commercial Organizations (TCO)** to describe "corporations and business groups whose operations, staff and infrastructure are located in different states" (Longhorn, 2006). Cyber giants like Google, Facebook or Alibaba, although multinationals by nature, the ecosystem they created makes them a

² Including black-market banking system, "Deep Web" financial operations (Brantly, 2014)

³ Case of terrorist or organized crime organizations.

⁴ Thomas P.M Barnett used the term "Functioning Core", but in a different frame. Barnett, T. (2004). *The Pentagon's New Map, War and Peace in the twenty-first century*, New York, Penguin

sui generis «breed» of SSEs exercising *digeonomics* (dig-ital geo-economics). *Digeonomic operations* take place almost exclusively in the realm of the virtual world and acquiring for that matter a number of unique characteristics⁵. Firstly, by exploiting the “network effect” (The Economist, 2014), they grow and expand with a rate that “traditional” brick-and-mortar companies only dream of. They accelerate what Bill Gates called the *positive feedback cycle*, after crossing rapidly the *acceptance threshold* (Gates 1995). Secondly their host, the *almighty* Internet, allows them to bypass traditional regulation/tariff barriers much easier. Finally, they challenge some of the established market beliefs, like the “vices” of monopoly e.g. Microsoft (2009) and Google (2014) cases.

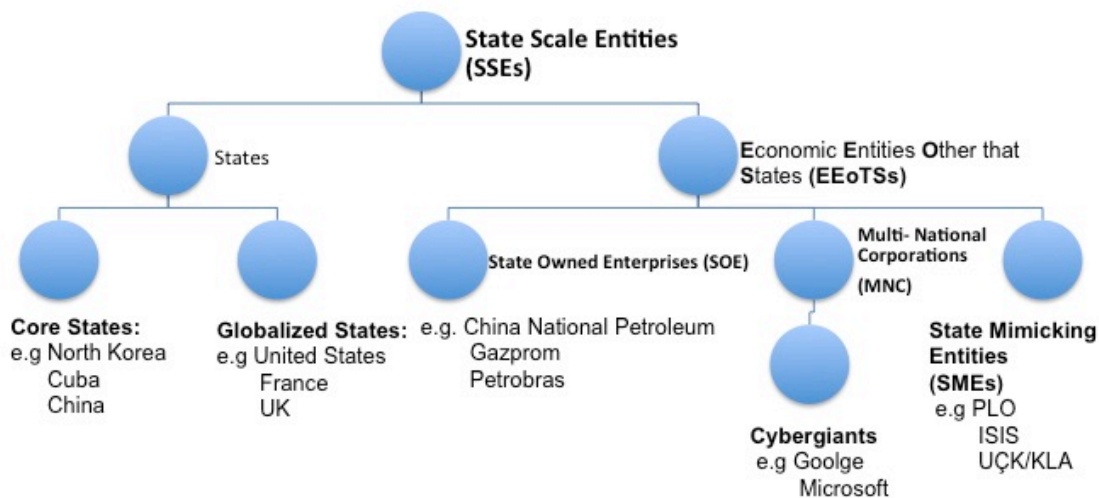


figure 1

The SSEs are themselves in the globalized environment, one of three categories of “producers” of economic activity. As shown in diagram 1, at the basic level lays a swathe of micro, small and medium size actors like small private-own firms, independent entrepreneurs and professionals, with a size (economic footprint) below a Critical Geoeconomic Mass (S^*) called Sub State Actors (SSAs). When the size surpasses a *Geoeconomic Threshold* (m^*), then the SSA transmutes to an SSE. The third category of economic activity producers is the **Hyper State Entities (HSEs)**, which comprise mainly group of nations, international or regional Organizations, including the Bretton Woods System organizations (WTO, FMI, World Bank) and grouping of States and Alliances, e.g. United Nations, OSCE, NATO. By nature they are not Profit Oriented Organizations but nevertheless exercise a certain direct or indirect economic influence.

Economic impact of Non-Conventional SSEs

Although SSEs are the principal vectors of global economy, the impact of cyber giants and State Mimicking Entities (SMEs) categorized as Non Conventional SSEs, is progressively

⁵ In 2013, Apple ranked 263/500 in number of employees (84,400) while occupying the 5/500 place in profits. In Google’s case the numbers were 357/500 (47,756 employees) and 34/500 in profits, and Microsoft’s, 229/500 (99,000 employees) and 15/500 in profits (Fortune 500, 2014).

increasing. Cyber giants are crossing very fast the m^* and emerge as fast growing SSEs. They contribute largely to the economy, by reducing unemployment in highly educated, highly skilled workforce, reducing the operational cost and boosting the development of infrastructures (necessity of high tech «highways»). On the other hand they disrupt the established economic activity by changing the operational structure of traditional conventional sectors (e.g Amazon-bookstors, Uber-Taxiservices, Udacity-On line education/training) and create monopolies. State-aspiring ethnic groups SMEs like ISIS and Boko Haram are threaten the regional (and occasionally global) stability by producing insecurity. In this context, economic activity dysfunctions, FDI flee or are discouraged and productivity plunders. On the other hand, the allocation of an increasingly volume of recourses to security in order to protect natural recourses, infrastructure and operations, burdens budgets with non-productive activities. Non Conventional SSEs can change also the ways markets operate. Google for example provides programmers, for free, with a software development kit (Android SDK), in order for them to build applications for its mobile operating System⁶.

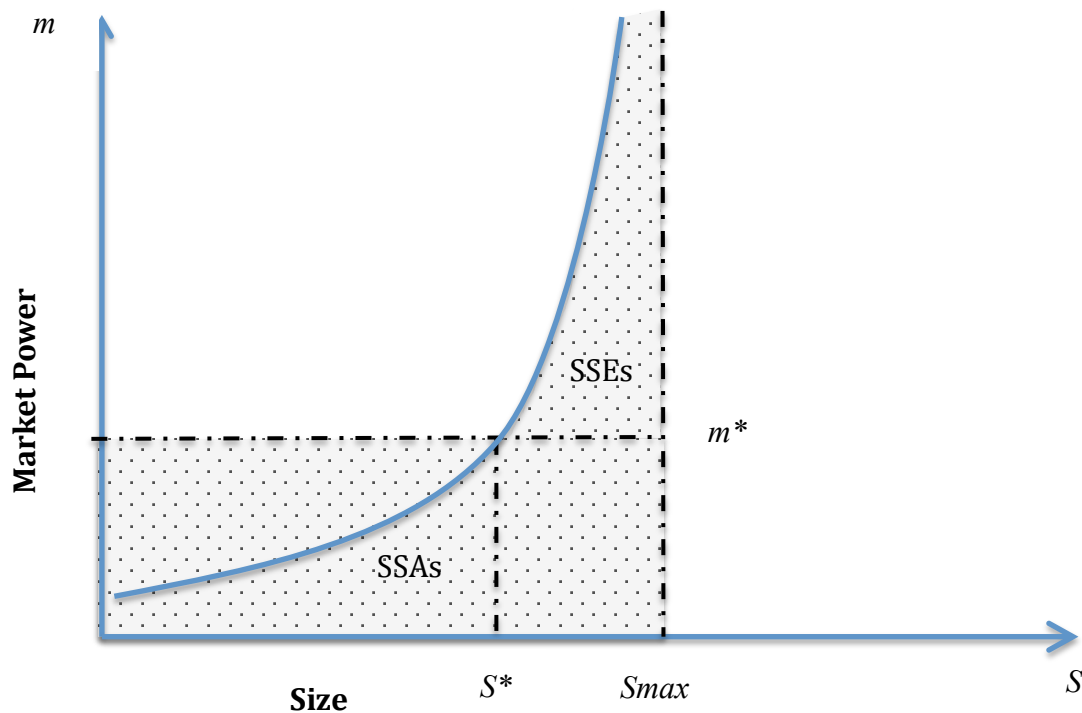


diagram 1

⁶ Although this strategy goes with strings attached (If device manufacturers want their users to have access to Google Play—Android's app store—they need to give Google's mobile apps a particular prominence), nevertheless it constitutes a disruptor in digital market operation (Economist, 2014)

Conclusions and future research

As a term, geoeconomy having its origins from the “aggressive” rhetoric of Geopolitics, although widely and exhaustingly used, has rarely been specifically framed. Although a unique definition is neither possible nor useful, a methodical analysis and the maturing of geoeconomics into a distinctive field of economics could prove itself a powerful decoder of the global economic meta-reality. While in economics, research is about limited resources, an important difference with geoeconomy is that it discusses an outright “battle” for resources and not their rational allocation through any particular management system or market.

The key actors that possess the ability to complete the full PPE cycle of geoeconomic operations are the SSEs. Their organizational structure around the seven basic *functions* allows independent action. Their taxonomy (States, C-States, Globalized States and EEotS), covers the full spectrum of global economic activity and in a first level constitutes a basis of observing, codifying and analyzing their distinctive mode of operations. In a second degree a method could be developed in order to standardize the different phases and understand their real-time changes.

Achieving economies of scale is a basic objective in economic activity and a fundamental principle of geoeconomics. As shown in diagram 1, a SSA must reach a certain size, in order to be transmuted in SSE. That could be achieved through expansion, conglomeration or M&A in a corporate level. The “BB” rule of thumb (the Bigger, the Better) must be followed, but up to a maximum size. This applies especially in relatively small and fragmented internal-oriented economies like for example the Greek one.

The next step in continuing this research is collecting data on various forms of SSEs, in order to understand their evolution and allow us, through examination of historical episodes, to be better prepared for understanding their behavior and effects in the future.

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