Geoeconomic spheres: The Age of Economic Multipolarity and Regionalism

Esferas geoeconómicas: la era de la multipolaridad económica y la integración regional

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Abstract

With globalization being challenged by the end of unipolarity, international economics and supply chains are being redesigned to account for national security. Russia’s invasion of Ukraine, the cut-off of Russian gas to the European Union and the purposeful employment of debt and shipping lanes to achieve political objectives forces the Western allies to de-risk their markets and economies. While protectionism is widely seen as inevitable, its lack of practicality prevents it from being a suitable replacement. Regional integration, and the creation of ally-based supply chains, however, present a unique opportunity in economic statecraft: to simultaneously strengthen alliances and de-risk our economies.

Key Words: geoeconomics, supply chains, industrial policy, regionalism, de-risking, spheration.

JEL classification: B, E, F, O, P

Resumen

La globalización se enfrenta al desafío del fin de la unipolaridad, llevando al estudio de la economía internacional y las cadenas de producción a rediseñarse para tener en cuenta la seguridad nacional. La invasión rusa de Ucrania, el corte del gas a la Unión Europea y el uso de deuda y rutas comerciales para conseguir objetivos políticos obligan a los aliados occidentales a reducir el riesgo de sus mercados y economías. Aunque muchos ven el proteccionismo como inevitable, su falta de utilidad real impide que sea un sustituto adecuado. Sin embargo, la integración regional y la creación de cadenas de suministro basadas en alianzas presentan una oportunidad única en la historia de la política económica: fortalecer simultáneamente la creación de alianzas a la par que reducir los riesgos de nuestras economías.

Palabras clave: geoeconomía, cadenas de suministro, política industrial, regionalismo, reducción del riesgo, esferificación.

1. Introduction

In The Wealth of Nations, Adam Smith used the production of a pin as an analogy to make a case for specialized labor and the basis of the capitalist tradition,
which would later include diversified supply chains and, closely later, globalization as we know it (Smith, 1776). The idea that one ought to follow the Ricardian theory of comparative advantage led hundreds of thousands of companies to disperse their supply chains in cost-effective ways that increased their revenues, and rightly so. More so, many leaders found consensus in the assumption that increased economic dependencies would eliminate the need and benefit of great power conflict. Today, however, we cannot find that strong consensus on globalization anymore; geopolitics have entered the corporate boardroom.

This new environment is marked by multipolarity, in which power is distributed across a number of strong States rather than a single hegemon. The rise of China as a challenger to the unmatched American leadership that started with the fall of the Soviet Union in 1991 has changed the world, but so has the rise of India, the European Union (EU) as a bloc, Iran and other countries creating robust regional spheres of influence. We are not just seeing a battle for the global hegemonic position but a tug-of-war that looks different in each region, with small and large actors alike battling for influence and control. The rise of new centers of power and technological empowerment of individuals and non-State actors point to a 21st-century world order in which no single nation can dominate.

As the world returns to a state of great power competition, economics, technology and trade are becoming both a superconductor for strategic alliances and a field for fierce competition. Access to critical supply chains and products is no longer guaranteed, and dependencies can quickly turn into vulnerabilities. To tackle these challenges, countries must and are “de-risking,” but they cannot go at it alone, requiring the formation of objective-oriented alliances that create spheres of economic integration and statecraft (Blackwill & Harris, 2016). This is not the end of globalization as we know it, but rather, the reshaping of globalization into regionalization and “spherification”.

This report aims to use a geopolitical lens to analyze the macroeconomic trends that will result from this shift in paradigm. The paper also aims to identify the results and trends that will characterize this era of geoeconomic competition, providing a region-by-region analysis of economic integration and looking at key elements and products that will decide the future of prosperity. One can hope that the research below will inspire future analysis of economic trends based on geostrategic interests, and be used as a base for comparison in subsequent research.

It is my hope that this report will inform future researchers, policymakers and business leaders on how to navigate an ever-complex landscape full of liabilities and opportunities. By the end of the paper, I hope to have demonstrated some of the ways in which our globalized economies and interconnected foreign policies might change.

2. A Change of Paradigm

Russia’s invasion of Ukraine in 2022 proved, firstly, that States can and will, at times, pursue paths of action that harm their economic interest if they deem their
geopolitical goals to be different, as evidenced by the economic crash that followed the February 2022 attacks. More importantly to the West, however, Russia’s halt of the gas supply to Germany risked putting the entire continent en jaque to the cold of winter. Geopolitical rivals could no longer be relied upon for the supply of strategically important products, and they never should have.

This cut, however, only added to the COVID-19-induced supply chain crisis, which revealed an enormous dependence on China for the supply of medical supplies, electric batteries, car parts and, most importantly, semiconductors. For chips, more specifically, the world was stunned to realize that 60% of the global supply stemmed from one company and country: Taiwan Semiconductors Manufacturing Company (TSMC), which also produces 90% of the most advanced semiconductors (The Economist, 2023).

With this new reality, President Biden of the United States (US) and President Von der Leyen of the European Union moved forward to implement legislation that would arbitrarily subsidize the creation of strategic supply chains in Europe, America and allies countries, diverging from the capitalist tradition of Adam Smith and opening the door to a reshaped economic order.

Multilateral organizations built to avoid geopolitical confrontation and create consensus, like the World Trade Organization (WTO), find themselves at a crossroads, unable to choose a side in the already undergoing economic competition between the West and China. In an age of increasing competition and rivalry, consensus is increasingly difficult and unlikely to be created by bodies with 80+ members, but rather on a bilateral or bloc-based basis. As detailed by European Executive Vice President Josep Borrell, “The UN Security Council is paralyzed, and many ‘technical’ organizations are turned into arenas where countries compete for influence” (Borrell, 2020). This new diplomatic and economic order, unlike that shaped by protectionism, is not one of less international interaction but rather of increasing bloc-based engagement.

3. The Theory and the Schools of Thought of Contemporary Geoeconomics

While this is evidently a “Brave New World” in the field of economics, it is not necessarily a turn to the past; on the contrary. The history of economic theory is filled with changes made to improve our understanding of the world: from mercantilism, we moved to absolute advantage, then the Ricardian model, and now, we are witnessing a new model: one that accounts for not just costs of production, labor and market potential, but the geopolitical risks associated with each decision and the evaluation of business operations for national security.

Within this path of economic security, we find two competing schools of thought: the Protectionists, who wish to reshore all supply chains back to the West, and the Friendshorers, who follow the basis of diversification as a key to supply chain resilience while limiting their map to allies and partners. The first
have existed for as long as free trade has, arguing that supply chain diversification led to the domestic loss of jobs and influence and arguing for unsuccessful tools such as tariffs. Today, however, they are having their moment, bringing the supply of semiconductors and electric vehicles (EV) batteries back to the US and Europe.

The Friendshorers, however, follow different motivations than the Protectionists, as they stem from Adam Smith’s and Ricardo’s assumptions and logic. They embrace specialized labor and diversified supply chains, finding a large concern in dependencies in a single country, whichever one it might be. Rather than bring the industry back home, they advocate moving production away from China and Russia to a much larger group of Western or non-aligned countries, reducing dependency on any single country. Furthermore, these Friendshorers see supply chain diversification as a way of strengthening relationships with allies, creating spheres of economic integration.

4. A View into Regional Geoeconomic Spheres

These spheres are a convergence of both market logic and national interest, which reduces risks for both companies and national governments, yet they are not as new as one might think. Most regions of the world have experimented with varying levels of integration to create these spheres, even if unintentionally. In her book “The Myth of Globalization: Why Regions Matter”, Shannon O’Neill describes how this process has taken place in different regions of the world and states that “regionalization looks to be that Goldilocks middle that will enable governments to protect growing national security concerns, boosting supply chain resilience and allowing companies to thrive” (O’Neil, 2022). Below is an analysis of the state of geoeconomic cooperation in some regions of the world.

4.1. Europe and South-East Asia: The Rise of Small Actors

The European Union, albeit created precisely to combat great power competition, is the strongest example of a convergence of strategic objectives (peace in Europe as well as standing up to the Soviet Union) and market logic, evidenced by the success of the single market, single currency and overall economic integration of the continent. Economic integration has not only led to one of the highest levels of intra-region trade and investment worldwide but, most importantly, to the creation of political institutions such as the Council of the European Union or the European External Action Service. These institutions allow the members of the bloc to speak with one voice internationally and to use the gravitational power of the EU Single Market to achieve geopolitical objectives. The EU, however, is no longer that shared hub of manufacturing that it once was, rarely producing pieces of much larger items that are
assembled elsewhere. With the incoming TSMC factory in Dresden and Intel fab in Poland, as well as the NextGen EU Funds, the European Union has a unique opportunity to reenergize the supply chain of strategic products (Lu, 2023).

Southeast Asia is an emerging example of a growing economic sphere. The Association of Southeast Asian Nations (ASEAN) group, while far from becoming the EU, has proved a useful forum for economic integration, facilitating State-to-State commerce and increasing foreign direct investment (FDI) flows through a structure akin to the EU’s single market. Today, tariffs within the ASEAN bloc are effectively zero, creating a populous and attractive market that gives a united voice when dealing with the US, China or bigger markets (CFR.org Editors, 2023). This voice was key while negotiating the US-led Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a free trade agreement between North America and Southeast Asia that was eventually taken down by the Trump administration. The bloc proved its strengths, however, while succeeding at negotiating the Regional Comprehensive Economic Partnership, a free trade agreement including China and Australia, giving ASEAN unprecedented market access.

Both ASEAN and the European Union are examples of an unintended consequence of geoeconomic competition: the growing strength of small actors. While countries like Cambodia, Luxembourg, Belgium or Malaysia are not positioned to be global geopolitical powers, their belonging to a larger identity that requires their approval to move policy forward gives them a new kind of power. While these countries might not be able to influence global events directly, they can speak through their geoeconomic sphere, which elevates their claims to a higher level of relevance and international attention. Furthermore, by being members of these region-based organizations, middle-sized countries like Indonesia or Germany can rise to lead these blocs, giving them power resembling that of a regional hegemon. The trend is the economic materialization of the Italian fascio symbol, which came to symbolize strength through unity, the point being that whilst each independent rod was fragile, as a bundle, it became strong.

4.2. The Americas: The Case for Political Leadership

North America is also a brilliant example of this successful bloc-based economic integration. Originally created as the North America Free Trade Agreement (NAFTA) by George H.W. Bush, the now United States, Mexico and Canada agreement (USMCA) is responsible for a record 75% of Canadian and Mexican imports coming from the United States (Floyd, 2024; Wayne & Marroquín Bitar, 2022); more importantly, it has allowed companies from the three members to spread their supply chain across the vast territories of this bloc, keeping free market access while benefiting from the comparative advantage of specific regions dedicated to agriculture (United States Department of Agriculture, 2019). More
importantly for the national governments, this free trade area has ensured that critical supply chains remain localized within the continent, ensuring stable prices for these critical products. Furthermore, USMCA could become critically important in the extraction and refinement of critical minerals. Mexico is a top-three supplier for 14 of the 53 minerals deemed as “critical” by the US Defense Department (Crowley et al., 2022). Canada is also resource-rich, being home to almost half of the world’s publicly listed mining and mineral exploration companies (Government of Canada, 2023). A potential North American minerals supply chain could be especially beneficial by integrating refinement facilities, which are the stage of the supply chain with the highest value-added.

Latin America’s economic integration, in complete contrast, is a prime example of missed potential and the need for political initiative. A recent Inter-American Development Bank (IADB) survey indicated that seven out of ten Latin Americans favor their country integrating further with other Latin American and Caribbean countries; their countries have the lowest international trade rates as a percentage of GDP in the world (43.3 % in comparison to 55.3 % for OECD Members) (Acosta & de S. Paulo, 2022). Brazil, the region’s largest market, has a share of only 32 % of trade to its GDP, reducing its economic gravitational power and, thus, reducing the likelihood of economic integration of the region. More worryingly, intra-regional trade accounts for less than 15 % of total trade in the region, compared to around 55 % in South Eastern Asia and Western Europe (Moreau & Machado Parente, 2023). While these figures are largely due to a lack of commercial infrastructure and an overflow of bureaucratic costs for companies, these are both problems that could be tackled were their political initiative to do so. Organizations like the Inter-American Development Bank exist precisely to facilitate investments in these procedures, but their potential remains untapped, just like Mercosur, the region’s attempt at creating a common market. This scenario is even more confusing when accounting for the fact that most of these countries share a common language and a history in which most have not been to war with each other.

The two Americas present a contrast in economic integration for a number of different reasons, but for the purpose of this paper, a regional leader and political initiative will act as the main focuses. In North America, the US acts as the undisputed leader of the group, not only because of the enormous size of its market, number of firms and potential for outward FDI flows but also because of the extent of its global political power. In Latin America, Argentina and Brazil are the largest actors, but neither has made a push for further economic integration and, while smaller Colombia and Chile have expressed interest in doing so, a lack of an established leader with a clear agenda complicates integration. Similarly, North American political elites (with counted exceptions) have maintained a steady path towards integration, realizing that it was in their country’s interests, which is not true for Latin America, which is exposed to more volatile electoral changes.
4.3. Africa: Making the First Steps

The African continent, while also impaired by the challenges of poor infrastructure, overwhelming bureaucracies and security risks, is making fast steps toward economic integration. One must first be dissuaded from the idea that a Pan-African economic sphere or even a free trade agreement is possible. As stated prior in this paper, the creation of an economic sphere requires a convergence of geopolitical interest and market logic, which varies enormously across the continent: one cannot expect Morocco to have remotely similar interests or markets to the Democratic Republic of Congo. This is why the surge of economic integration in the continent has been largely region-based, with groups of countries creating blocs with their immediate neighbors. While there are eight of these organizations, many are inactive, and the Economic Community of West African States (ECOWAS) acts as the best example of integration. ECOWAS has an infrastructure that attempts to harmonize standards and procedures, as well as bodies that fund projects facilitating intra-region trade and commerce (Jebuni, 1998). Similar to Latin America, political initiative is needed for African countries to align further with their neighbors. The main challenge to economic integration, however, also resides in a spread-out lack of hard security, with terrorists haunting the Sahel and a number of guerrilla groups creating instability around the continent. Economic growth requires both entrepreneurship and foreign investment, which are impossible to develop in locations that have a weak rule of law.

5. Global Spheres: A View into Interest-based Economic Integration

Geographic proximity is the most logical and popular source of economic integration, as it creates both a low-cost incentive for commerce and generates a number of shared challenges for the members. As described in “The India Way” by Dr. Jaishankar, however, current-day alliances, particularly in great power and economic competition, are more fluid and vulnerable to changing strategic priorities.

5.1. BRICS

The BRICS group, composed of South Africa, Russia, India, China and Brazil, is a prime example of this goal-based sphere that is not limited by geography. This group is formed by the recognition of its members that they wish to become more powerful global actors and that the current statu quo of the world favors an ever-less-important portion of the world economy. Today, the BRICS represents close to 42% of the world’s population, 23% of global GDP and 16% of world trade (BRICS India, 2021). The group, however, has not taken significant steps towards their real economic integration, rather agreeing on high-level objectives. Rather
than presenting an alternative to the West, they only seek to take away the global hegemony, as evidenced by its members’ moves to de-dollarize their economies. While this move is not accompanied by an endorsement of an alternative currency, it reduces the US’ financial power.

5.2. G7

This group of the seven most advanced Western economies represents the near-perfect materialization geoeconomic sphere. Not only do their members share a vision of the world and strategic interests, but market logic has led its members to have abnormally high levels of intra-country trade and commerce, mergers and acquisitions between companies within the group and very high FDI flows. The G7, while not intended to be one, is a de-facto economic alliance due to the large size of its member markets and the reality that, together, they control a considerable portion of the global economy. Its economic power, while seldom used, has led to very impactful economic sanctions that have, in the past, deprived offenders of access to the world’s markets (S&P Global Market Intelligence, S&P Global Commodity Insights, 2024). Furthermore, with the arrival of competition with China, the group has created a Build Back Better World (B3W) initiative, a multi-billion-dollar effort that commits members to fund infrastructure projects around the world to create reliable supply chains and secure new allies and partners. The B3W, however, recently became outdated due to the EU and US commitment, together with India, Saudi Arabia and the G7 partners, to the Partnership for Global Infrastructure and Investments (PGII), which is already delivering with the Lobito Corridor in creating international trade corridors to diversify supply chains.

5.3. Belt and Road Initiative

The B3W, however, was but an attempt to rival China’s mighty Belt and Road Initiative (BRI), a nine-year-old project by Chinese Communist Party (CCP) Chairman Xi Jinping that initially counted 155 countries as partners or recipients (Tindall, 2023). The initiative, which uses Beijing’s funds to finance infrastructure projects in the developing world, such as ports, roads, or bridges, was originally hailed as a path to reduce the costs of global trade and elevate the role of emerging countries in the global economy. The reality, however, proved a clod plunge when it became evident that Beijing has not lent cheap loans but debt-trapping insolvent countries into abnormal interest rates that made them de facto economic hostages (Nishizawa, 2023). Beijing’s attempt was to use the BRI to create new allies and partners, expanding its sphere of influence through economics and trade. The reality, however, has turned into a general skepticism towards the initiative, which has a lower number of participants every year, and countries like Italy are pulling out.
The funding, however, seems to have proved successful with those who have remained. Following Russia’s invasion of Ukraine, the world was surprised to find very few African countries criticizing the invasion, wondering why these aid-receivers were not subscribing to the Western narrative. Beijing’s grip on its recipients could be the answer.

5.4. **Partnership for Global Infrastructure**

Adding up to the rivals of the Belt and Road Initiative, we ought to consider the Partnership for Global Infrastructure and Investments, announced at G20 in New Delhi with the US, EU, France, Germany, India, Italy, Japan, Mauritius, United Arab Emirates (UAE), Saudi Arabia and the World Bank as members (The White House, 2023). While the PGII funds are counted within the commitments of the B3W initiative, this partnership already has specific deliverables, including a rail line connecting the Pacific to the Atlantic crossing Africa and the already-agreed-upon Lobito Corridor, which connects key African points in the production of critical minerals to a major port (The White House, 2021b; Castellet, 2024).

While this partnership is not necessarily a geoeconomic sphere, it exemplifies a new kind of partnership, one in which its members are not aligned by values or an alignment of long-term strategies but rather by a wish to tackle a specific challenge or issue. These ad-hoc alliances, while very fluid, represent a recognition within this world order that no country can tackle certain crises by itself and, thus, opt for international engagement (Jaishankar, 2022). In this case, it is critical minerals; in others, it might be health products, water access, the opioid crisis, etc. This trend is not driven by the admirable values that created the United Nations but by the realpolitik and pragmatism that the international landscape requires.

5.5. **The Quad**

Another example of this issue-focused alliance is the Quadrilateral Security Dialogue (QSD), known as the Quad, composed of the United States, Japan, Australia and India. While the official goal of the group is to ensure a “free and open Indo-Pacific”, the implement nation of that vision is to ensure that China does not become a regional hegemon (The White House, 2021a). The US is interested because of a loss of hegemony in any region means a global loss of power, especially in economically critical Asia; Australia and Japan are interested because they do not wish to live in a neighborhood dominated by a rival and they have long benefited from US military support; India is a member because it hopes to not be a regional power, but its interests would be badly hurt by a neighboring China that has unrestricted power on shipping routes. This idea is not new at all; in fact, it is what led Russia, Great Britain and Austria to join forces against Napoleon: living anywhere as a small fish is a dangerous scenario.
The Quad does not have a free trade agreement or is even hoping to have one. Instead, it can meet its China-limiting goal by coordinating export controls on critical technologies.

6. Looking to the Future: Geoeconomic Trends and Key Actors

Having described the state of the world and strategic competition, it is now imperative to look at what the trends and actors that shape this new world economic order will be.

6.1. A Strong Transatlantic Alliance

The United States and the European Union are not just aligned in democratic values and in respect for human rights: as the leaders of the current statu quo, they share an interest in maintaining the current world order, but their leadership is being challenged by revisionist actors. China and Russia seek to retrieve this level of economic power to become the next leaders, while smaller actors prepare to embrace multipolarity. A shared concern is thus evident.

In terms of market logic, no-to-blocs are better positioned to form a new sphere. The EU and US trade above 1.3 trillion dollars’ worth of goods and services annually, sharing the most significant amount of FDI flows in the world (United States Trade Representative, 2022). Similarly, multinational companies operate relatively efficiently across the Atlantic, employing millions of people and developing industry and innovation ecosystems. Both Europe and the US also share a need for swift innovation and technology adoption to remain competitive against these emerging powers. Political bickering, however, prevented the signature of the Transatlantic Trade and Investment Partnership (TTIP), a free trade agreement that would have brought the two blocs even closer, maximizing EU-US investment flows and materializing an Atlantic economic sphere (Van Ham, 2016).

### TABLE 1
MACROECONOMIC COMPARISON BETWEEN THE UNITED STATES, THE EUROPEAN UNION AND CHINA
(In dollars)

<table>
<thead>
<tr>
<th></th>
<th>Share of global GDP</th>
<th>Outward FDI</th>
<th>Trade as share of GDP</th>
<th>GDP per capita</th>
<th>GDP in 2028 (exp.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US</strong></td>
<td>24.16%</td>
<td>6.58 trillion</td>
<td>25 %</td>
<td>70,248</td>
<td>32 trillion</td>
</tr>
<tr>
<td><strong>EU</strong></td>
<td>20.05%</td>
<td>13.4 trillion</td>
<td>25 %</td>
<td>43,300</td>
<td>21 trillion</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>18.37%</td>
<td>146.5 billion</td>
<td>38 %</td>
<td>12,556</td>
<td>23 trillion</td>
</tr>
</tbody>
</table>

**SOURCES:** Eurostat (2023), McEvoy (2024), Statista (2023, 2024), Textor (2023a) and World Bank (2022a, 2022b).
The EU-US Trade and Technology Council, although quite successful at getting the appropriate officials in the same room to discuss critical issues, has not yet delivered on a strategic framework that aligns the EU and US economies vis-à-vis China. Officials, however, explain that strategic alignment is not the goal of this body, looking at dispute resolution and alignment on specific policies as their goals, such as the bilateral agreement on electric vehicle chargers (The White House, 2022). Creating this strategic partnership, however, is not an option; it is a necessity for both blocs to remain competitive.

Europe’s working-age population is set to shrink in the long term, with businesses complaining that increasing bureaucracy makes them less competitive than in other regions. The European Commission now puts the bloc’s potential growth at less than 1.5%, shrinking to 1.2% by 2027, a decline from 2%-2.5% at the turn of the century (Koranyi, 2023). This low GDP rate, mainly due to low productivity rates, could lead to the EU representing a much smaller share of the global economy than it does, losing influence and being limited to its role as a regional actor.

Differently, the United States’ growth is severely limited by its reliance on fragile supply chains, especially for critical minerals, semiconductors and medical equipment. The European Union also shares this challenge; furthermore, both have taken decisive steps in the same direction. The European Chips Act, mimicking President Biden’s CHIPS and Science Act, aims to rebuild and strengthen the semiconductor ecosystem in the bloc; ideally, it seems the two legislative efforts might have become complementary, with the EU program focusing on modern chips while the US one focuses on older models and printed circuit boards for the defense industrial base.

An EU-US strategic economic alliance could prove vital in addressing shared supply chain challenges, creating a new production ecosystem for critical products and spurring investments across the two continents, fostering prosperity and re-energizing the industrial competitiveness of both blocs.

6.2. Russia, Ukraine and the European Industrial Base

In February of 2022, the peace that had guaranteed Europe’s prosperity came to a brisk end when Vladimir Putin launched an illegal invasion into Ukraine’s sovereign territory, reviving his country’s imperialist nature. Even then, however, the Member States of the European Union were not ready for what was to come. Many doubted that Russia was to ever cut the supply of gas, even launching repeated threats to attack the EU’s mainland. But all of this has been written before.

Most importantly, however, Europe realized that it was not ready to stand up to the Russian threat. Unlike the United States, the EU does not have a unified defense industrial base (DIB), but rather, a set of highly fragmented DIBs, which prevents the European armies from purchasing weapons as a block. The direct consequence
so far has been the inability to ever reach economies of scale, creating highly expensive products that are replicated across the NATO and EU Member States.

To present a realistic threat to President Putin, Europe’s defense industrial base must level up. This entails the European Union coordinating through institutions such as the EU’s Permanent Structured Cooperation (PESCO) and the European Defence Fund (EDF) to create a unified supply chain and industrial base for defense-related products. This would not be unprecedented in the EU’s history: when French, West Germans, British and Spanish leaders decided that commercial aviation was a sector of strategic importance, they pulled their national champions together to create a pan-European champion: Airbus (Encyclopaedia Britannica, 2020). The project demonstrated that when national interests to enhance competitiveness aligned, EU Member States could pull together to create a new economic beast. The allies should use the same idea to create an integrated European defense industrial base.

6.3. India as a Pivotal Actor

India has become and will remain one of the main actors in this newly formed multipolar world, especially in developing emerging technologies and reshaping global supply chains. For market reasons, India presents an attractive alternative for Western businesses to move their operations, which are currently housed in China. With a larger consumer market that has ever-growing purchasing power, highly trained blue-collar labor at a relatively more affordable cost, an incredibly skilled workforce in Science, Technology, Engineering and Mathematics (STEM) products and a more enabling political system not dominated by State-owned enterprises (SOE), India offers Western companies benefits similar to that of China without the associated costs and concerns (Rockhill Asia, 2023).

### TABLE 2
POTENTIAL FOR NEARSHORING IN INDIA, CHINA, VIETNAM AND THE UNITED STATES

<table>
<thead>
<tr>
<th></th>
<th>Population (15-64)</th>
<th>Yearly STEM Graduates</th>
<th>Manufacturing Labor Costs (USD/hour)</th>
<th>Economic Freedom Score</th>
<th>Ease of Doing Business Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>962 million</td>
<td>2.5 million</td>
<td>3.5</td>
<td>52.9</td>
<td>85.30</td>
</tr>
<tr>
<td>China</td>
<td>989 million</td>
<td>3.57 million</td>
<td>6.51</td>
<td>48.3</td>
<td>77.90</td>
</tr>
<tr>
<td>Vietnam</td>
<td>67 million</td>
<td>&lt; 250,000</td>
<td>2.99</td>
<td>61.8</td>
<td>60.00</td>
</tr>
<tr>
<td>USA</td>
<td>216 million</td>
<td>820,000</td>
<td>27.37</td>
<td>70.6</td>
<td>61.50</td>
</tr>
</tbody>
</table>

**SOURCES:** Center for Security and Emerging Technology (2024), Dyvik (2024), Kim (2023), O’Neill (2024), Population Review (2024), Rockhill Asia (2023), Textor (2023b), Trading Economics (2024) and World Bank (2022c).
As companies seek to avoid the incoming trade war between their home countries and China, India can offer a close proximity alternative without the compliance costs and political risk. More so, and as described by Dr. Jaishankar in “The India Way,” the country is evolving from its foremost concerns being its immediate neighborhood with Pakistan, China and Russia (Jaishankar, 2022). While India has long been engaged in international politics, leading the non-aligned movement during the Cold War, it has now been successful at strengthening its voice in multinational bodies and companies and in becoming a key actor in policy conversations, with the most recent G20 Summit in New Delhi being a prime example.

India’s geoeconomic policy, however, is not so much led by market logic as it is by a promising international environment and a concerning neighbor. The return of multipolarity to the world stage calls for great powers for fluid ad-hoc alliances rather than long-term commitments, which is ideal for a country like India that has not aligned itself with the Western world or the revisionist powers, allowing them to work with both to achieve their strategic objectives. This position, however, also positions them to use the gravitational power of their market to gain new allies, exert influence on others and reach trade agreements on specific items with different powers.

However, we would be wrong to think that India would be completely delighted to work with China as with Europe or the United States. As described by Elbridge Colby in “The Strategy of Denial,” key actors in East Asia will align with the United States not just because of our shared values but because they do not wish to see a single regional hegemon, who is opposed to their views, set the rules for trade, commerce and democracy around the region (Colby, 2021). The more powerful China grows in the region, the less agency India, Australia, the Philippines and others have to express their interests.

It is primordial that the European Union and the United States lift and promote India as a political counterweight to China, creating a stable balance of power in the region. While most of this effort will be conducted in the halls of ministries and military affairs, economics has a vital role. Encouraging companies to move from China to India is one way to do so, but so are the signature of trade agreements and the alignment of export controls, which are already underway.

6.4. OPEC+ as a Pivotal Actor

We must also realize that these geoeconomic spheres are more familiar than we might think. OPEC, the cartel of oil-producing countries, has acted this way for decades, using its oil extraction and production dominance to influence superpowers and blocs into aligning with their strategic interests. Through arbitrary price controls on crude and refined oil, this group of countries has exerted power over the mighty United States and, at times, has held the global economy in their hands. Combined, the OPEC Member States accumulate 40 % of the world’s total crude oil production and 79.5 % of the world’s proven oil reserves (Organization of the Petroleum
Exporting Countries, 2022). The expansion of the group into OPEC+, with members across East Asia, Africa and other regions of the world, is expanding this influence even further, including natural gas and other vital energy resources.

The group is even more important in the framework of great power competition. Aside from the global struggle for influence between China and the United States, the Middle East is witnessing a battle for regional hegemony between Saudi Arabia, the leader of OPEC and the most advanced economy in the region and Iran, which uses proxy actors to achieve their objectives. Firstly, there is an evident conflict between Sunni Saudi Arabia and Shi’ite Iran, which has also led to the formation of faction-related blocs in the region. Secondly, and more pressingly, influence in the region has become a zero-sum game, with the entire region being divided across either of the two main actors.

While Iran’s market and economy do not have a gravitational pull to attract new allies due to the weight of Western trade and investment sanctions, the country has found alternative ways to project influence.

6.5. The Strategic Importance of Critical Minerals

Critical minerals are one of the products that have a massive role in creating economic spheres. Similar to semiconductors, they are an unavoidable part of the supply chain necessary to build everything from radar to satellites, chips themselves and, perhaps most importantly, the electric vehicle batteries that will power the green transition. Unlike chips, however, these materials are location-dependent, meaning that we cannot produce them wherever we so wish, having to adapt to the location of their reserves.

Concerningly, the EU imports over 98 % of its rare earth minerals from China, while the US imposes a still concerning 50 % reliance for 31 minerals and a more worrying 100 % for another 12 minerals (Von der Leyen, 2023; Zoe Liu, 2023). This dependency is even more problematic considering the current economic Cold War, as China could arbitrarily decide to limit Western access to these materials. In fact, it already did so in 2010 with Japan, which only builds on the pressure for immediate action (Tabeta, 2023). Russia’s recent invasion of Ukraine ought to serve as a needed lesson that autocratic countries will, indeed, cut off trade if they deem it in their interest.

The positive beacon of hope in this scenario is that while China controls the sale of refined minerals, it does not hold its extraction, accounting for a lesser 10 % of the global market for both copper and lithium (Castillo & Purdy, 2022). The People's Republic of China (PRC)’s dominance in this supply chain comes from the vast amount of refineries in the country and the number of firms performing hydrolysis and electrolysis refinement at lower prices.

Through the appropriate incentives included in the industrial policy arsenal, the EU and the US could create a refinery-targeted supply chain to construct factories.
focused on hydrolysis, electrolysis and integrating minerals into commercial products. However, the allies must be wary of attempting to revive regional manufacturing, for, as seen in Table 2, labor costs might be so overwhelming that companies might find the markets unattractive, even with subsidies.

Instead, the allies should be looking at the construction of these refinery factories as an opportunity to build new alliances with resource-rich countries. Some of the countries with the largest reserves of critical materials still have developing economies and domestic challenges, and the export of these raw, unfiltered materials only gives them a low price. However, by providing incentives for refineries to be moved to these countries, the US and EU would a) diversify their supply chain away from China, b) build new, positive relationships with emerging markets and c) recuperate global influence and importance in the energy supply chain. Nigeria, for example, recently banned the export of unfiltered raw materials, aware that they needed to include the branch of the supply chain with the highest value added (Kennedy, 2023). This effort could also be a unique opportunity for the West to create a resilient economic bloc that ensures an integrated and diversified supply chain, giving its members global influence. Likeminded efforts are currently ongoing in Angola, Zambia and the Democratic Republic of Congo under the Lobito Corridor project.

Should the allies fail to do so and maintain this course of importing cheap materials from developing countries, they only fuel the existing fire of resentment across former European colonies, potentially giving them an excuse to form an OPEC-like cartel that sets arbitrarily high prices for these materials.

Policy Recommendations:

− That the United States and the European Union, accompanied by allies, create a network of Special Economic Zones throughout countries in the developing world that craft a harmonized supply chain. Through an agreement on standards of production, the allies can create Source Protection Zones (SPZ) focused on extraction, refining or product-integration in developing countries in Latin America and Africa, spurring investments and diversifying the supply chain.
− That Australia, Canada, Finland, France, Germany, India, Italy, Japan, South Korea, Norway, Sweden, the UK, US and the EU exploit the Minerals Security Partnership (MSP) as a standard-setting council that would permit tariff-free access to minerals extracted or processed in any of the Member States.
− That companies in Western countries work with their national governments to combine their innovation and efficiency to their government’s funds and land permitting access.
− That the MSP members focus their investments in the private sector on refining and processing (especially in hydrolysis and electrolysis) to reduce China’s stranglehold in the supply chain.
− That governments in the MSP ease regulations on local land permits to allow for further extraction and facilitate investments by reducing bureaucratic burdens.
6.6. Standards for Technology and Innovation

The other critical issue over which to ensure geopolitical influence is setting standards for emerging technologies. Contrary to the essential minerals supply chain, however, segmenting the regulation of the internet and these emerging technologies is dangerous and counterproductive. Unlike minerals, the internet is not location-dependent; when it was designed, it was not conceived to account for national borders but as a global product. The same applies to emerging technologies such as artificial intelligence (AI) and quantum computing. While countries have the sovereign right to ban and regulate these products, as seen in Italy’s reversed decision to ban ChatGPT and the European Union’s AI Act, these laws will not stall the development of these products in other corners of the world (Nelson, 2023; European Parliament, 2023).

If markets as large as China, the United States, India or the European Union produce legislation that sets contradictory standards for developing these technologies, they will all see the proliferation of these critical technologies in ways they seek to avoid in other regions. To avoid this duplication of efforts and to ensure that producers of critical technologies have clear and stable guidelines, global powers must reach a pragmatic consensus. Such is the spirit that led to the AI Summit in London in 2023, bringing together the world’s largest economies and rivals to set common standards for artificial intelligence. While the summit did not prove as substantive as hoped, it set a good precedent for international collaboration.

Policy Recommendations:

- That the US, China and the European Union convene in the regularly-organized AI Summits to compare their regulatory approaches to AI and quantum encryption.
- That the EU and the US foster a network of regulatory sandboxes testing what environment would be most conductive to entrepreneurs and innovators while preserving the goals of “Trustworthy AI” agreed at the Bletchley Declaration.
- That computer scientists and engineers develop technologies capable of encrypting information from a quantum-powered computers.
- That the European Union consults with its Western allies in the G7 before setting further legislation on digital markets and emerging technologies nobody can fully grasp.
- That business leaders and computer scientists be integrated in standard-setting bodies in the European Union to oversee the implementation of existing regulations.
- That Western governments create working groups with business leaders and innovators to plan more informed strategies on approaching innovation.
7. Conclusion

As described in this paper, the end of globalization and the logic of Adam Smith’s pin factory analogy have both negative and positive effects. Segmenting the global economy and supply chains into politically aligned blocs poses a colossal challenge to international companies and advanced manufacturers, forcing them to rethink their entire structure. It is also expected that this “decoupling” or “de-risking” movement will lead to a reduction of 4.5% of global GDP, with output in Asia lowering by 10% in the next five years (Carrière-Swallow & Srinivasan, 2023). Even more concerning, supporters of the theory of economic peace fear that the loss of supply chains linking rivals could reduce any guarantees of peace between China, Russia and the United States.

Recent events, however, make one question the validity of supply chains as a guarantor of peace and the benefit of the aforementioned 4.5% compared to the risk of dependency on single providers and vulnerable supply chains. This reconversion of globalization is thus not necessarily a negative shift. The reconversion of market logic to account for national security is but a new equation in macroeconomics, leading to more secure supply chains and more integrated economies. Contrary to expected protectionism, this return to industrial policy leads to increased economic regionalism and even more diverse supply chains and allows emerging markets to seize the moment for prosperity. Far from isolating countries, it expands partnerships between established allies and forces great powers to work with others on an ad-hoc basis when mutually beneficial.

The future of international economics, trade and the global balance of power is being rewritten. We are now to witness the re-emerging role of economic spheres in this age of uncertainty and competition.

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