

IMPACT OF STATES' ECONOMIC PRAGMATISM ON GEOPOLITICS

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Abstract

Economy has become a central aspect in a state's polity. Economic development has always been a pivotal consideration for framing out domestic and foreign policy with the rise of globalization and international markets.

However, economic development and growth as a concept within the fourfold of a state's outlook have been a long process of evolution witnessing the downfall of feudalism and the rise of capitalism. The modern understanding of the economy in International Relations came about with the breakup of the Soviet Union and the rise of globalization with the USA spearheading it.

The concept of economic development has transcended the traditional boundaries of economics and made inroads in domains of national security and international relations. This has challenged the traditional hypothesis that military might and hard power are the paramount considerations for national security. Politicians and bureaucrats are getting cognizance of the fact that even economic progress begets power for countries at international domains.

Liberalism and Neo-liberalism always considered economic cooperation as the driving force for peacebuilding between states. But to dismay, the status quo is witnessing hostile relations between countries affecting the entire geopolitical scenario due to economic considerations. This paper seeks to understand the impact of a cynical approach of countries on international economic agreements and trade pacts.

Moreover, the paper seeks to understand the growth of countries at international spheres due to their focus and efforts at economic stabilization. Russia after the 1998 crisis emerged out of its abysmal condition by capitalizing on its natural reserves to gain dominance in Asian politics and at the same time strengthening its hard power, evident in the Ukraine crisis. Even in the case of UAE, its dependence on oil has made it the wealthiest emirate. This gave the country predominance in the Gulf by acting as a mediator between Arab states and with growing importance they reached pinnacle by imposing an embargo on the US for supporting

Israel in Yom Kim Pun War. The paper seeks to answer the impact of states that give precedence to the economy on the geopolitics and try to find analytical solutions for peaceful relations between countries.

Evolution of Economy in International Relations

Economic aspect and ideologies have long been at the center of ideological and political debates. From the time of emergence of nation-states in Europe, military might was given priority over economic concern for strengthening the states and deal with their adversaries. However, with increased warfare, there was a need for economic and fiscal resources which gave rise of the concept of soft power.

Intellectuals like Thucydides stressed the need and importance of economic development for city-states like Athens to increase the wealth of state which in turn could be utilized to enhance military capabilities. Hence, the hypothesis has arrived that one begets the other, i.e. both hard and soft power are complementing to each other.

The concept and meaning of economic development have also been evolved and transformed through the changing social and political structure of the world.

Initially, the European states were more or less comprised of agrarian societies and agricultural produce provided the major source of revenue for kingdoms. Hence, the cities were an agrarian economy. Kings needed greater resources to build larger army and fight wars to increase their strength or protect themselves which made them focus on increasing agricultural production and build infrastructures like irrigation channels and dams. This was considered to be the initial kind of intervention that state authorities indulged in for the end goal of economic development. The society was characterized by feudalism wherein feudal lords extracted the surplus generated by the serfs. The surplus was in turn used for military purposes and to buy precious stones for the Middle East and Asia. This started the exchange of goods and commodities between different regions and led to the creation of markets.

Gradually market became a decisive force in the social and political sphere. As a result of which agriculture became commercialized, and this led to the emergence of capitalism. Market compelled the state to increase production which led to technological innovations that finally culminated in the “agricultural revolution”.

The most significant development was the industrial revolution in Europe which marked the advent of factory production and the practice of division of labor. Huge profits were accumulated by the bourgeoisie class which

incentivized them to expand market overseas. Economic global links were established which led to social and cultural domination by the European Industrial states and this led to colonialism. Spain and Portugal invested heavily in explorations in search of different forms of goods like precious metals and spices. They started dominating the trade and consistently exploited the colonies for more profits. Hence, mercantilism became a common system of the world economy as it was preferred by the colonizing countries.

However, it was challenged when Adam Smith introduced the concept of a free market in his book “The Wealth of Nations”. People associated with the idea of every nation developing and prospering simultaneously. This was the time when World War 2 had ended and many new colonies from Asia, Africa, and Latin America were gaining independence from their colonizers. As a result, there evolved a world economy wherein there occurred export of capital from Europe to their colonies.

The other important phase was the collapse of the Soviet Union. USSR lost the cold war despite being one of the most powerful nations and also leading the arms race. Around one-third of the total output was directed towards military and weapons construction. This resulted in very low productivity and a shortage of supplies. Workers rebelled in mining industries as they had no incentive to work. Moreover, USSR failed in policing and developing its satellite states and people began inclining towards the western model of economic growth. Hence, the importance of planned economic growth was envisaged in maintaining power and greater control at both domestic and foreign territories.

This ushered in a new era of economically powerful countries that relied heavily on fiscal growth and trade agreements.

At the end of a bipolar world, each country started boosting their economic capabilities and production levels to meet the demands of the international markets. It turned out that one country was dependent on some other country for certain resources that the former didn't possess and in turn, the latter was dependent on another country. This created the system of interdependence.

Interdependence furthered the narrative that for countries to achieve real power was no more the sophisticated weapons and large military establishment, but also secure a foundation through economic efficiency and technological base.

This period also witnessed the growth of transnational corporations that blurred the boundaries of states for economic progression. However, it came with its own set of problems. This globalized world became dominated by the western developed countries and they continued to prosper at cost of third world countries of Latin America, Africa, Eastern Europe, and Asia. Dependency theorists suggested that economic activities in rich countries often led to problems in poorer countries. It led to the phenomena of Cycle of Dependence

which was criticized by the Marxist writers. They divided the world into Core and Periphery. Core countries were the western nations that developed at the cost of Peripheral countries whilst remaining in a perpetual state of poverty.

Since then, multiple efforts have been made at establishing a multi-polar world and challenging the hegemony of USA. Countries that have been able to do so have improved their economic capabilities significantly and expanded rapidly. The rise of China with its state capitalism is evident in today's global politics. Moreover, countries have gained immense wealth due to their ability to extract from their reserves of natural resources, especially oil and natural gas. Currently, the global scenario is heavily influenced by oil politics which is also manifested in Geopolitics. The next section deals with this phenomena through the course of two countries: Russia and Saudi Arabia.

RUSSIA

Russia has enormous energy resources and significant deposits of many different minerals. Its coal reserves are majorly located in the southern fields along the Trans-Siberian road and the hard (anthracite) coal is located in European Russia.

Currently, Russia is the largest producers of oil, having around one-fifth of global trade. It also has one-fourth of total Natural Gas output. Its extensive Pipeline system links production sites to all regions of the country, former Soviet Republics and European countries.

Source	10 ⁹ bbl	10 ⁹ m ³	Reserve Class
Oil and Gas Journal	60	9.5	SPE Proven
John Grace	68	10.8	SPE Proven
World Oil	69	11	SPE Proven
British Petroleum	72	11.4	SPE Proven
US Energy Information Administration	80	13	
United States Geological Survey	116	81.4	SPE Proven

Figure: Estimates of Russian oil reserves, posted 2006¹

¹ The Oil Drum. "[Uncertainties About Russian Reserves and Future Production](#)". The Oil Drum. Retrieved 2015-02-17.

The Russian Economy has had its course through various pitfalls after the collapse of the Soviet Union.

Boris Yeltsin (Russia's first President) began implementing a number of radical economic reforms including price liberalization, mass privatization and stabilization of ruble in 1991. He initiated a "loan for share" program that transferred ownership of some natural resource enterprise to powerful businessmen in return for loans to help with government budget. These so-called "oligarchs" would use some of their newly acquired wealth to help finance Yeltsin's re-election campaign.

The economy was performing horribly until 1997 when it saw a growth of 0.8% but again hopes fell during the 1998 financial crisis. Many expected the Russian economy to revert to its poor performance of the 1990s following the export stimulus effects of the ruble devaluation, it has been argued that the chief drivers of the post-crisis economic growth came from the natural resource sector, most notably oil. Between 2001 and 2004, the natural resource sector contributed to more than a third of GDP growth - with the oil industry being directly responsible for nearly a quarter of that growth. A significantly depreciated ruble helped stimulate domestic production leading to a spurt economic growth over the next few years with real GDP growth reaching 8.3% in 2000 and approximately 5% in 2001. Putin's succession to power in 1999 with the reversal of economic fortunes gained the new president significant popularity, and he made it his goal to avoid the economic chaos of the previous decade and move the country towards long-term growth and stability.² Putin confiscated Russia's largest and most successful company, the Yukos oil company in 2003. This event signaled the beginning of a wave of takeovers of private companies by the state. Between 2004 and 2006, the Russian government renationalized a number of companies in what were considered to be "strategic" sectors of the economy. Russia's dependence on oil and other natural resources has been exacerbated by Putin's return to a more centrally planned economy. The takeover of Yukos and other key sectors of the economy allowed Putin to construct a centralized management system that extracts economic rents from oil and other natural resources in order to be channeled into the sectors of the economy deemed most important. Rather than trying to direct and diversify the economy towards less resource-dependent activities, Putin has made its key sectors even more addicted to those resources.

The 2008 global financial crisis and the drop in the price of oil have revealed the nature of Russia's resource-dependent economy and highlighted the need for continued structural reforms. A dip in oil prices between 2014 and 2016 caused big losses to Russian economy. The price of crude oil decreased more than 30 percent from \$75 to \$51 between October 2 and November 29. This is the first declining trend since February 2016, the lowest price level in the last decade³.

² <https://www.investopedia.com/articles/investing/012116/russian-economy-collapse-soviet-union.asp>

³ <https://www.investopedia.com/ask/answers/030315/how-does-price-oil-affect-russias-economy.asp>

Russian economy was hard hit by the global financial crisis with output declining by 7.8% in 2009. But, as the price of oil recovered and global financial markets began to stabilize, growth did return, although not nearly to the level it had been prior to the crisis. In order to control oil price shocks, Russia has pursued policies such as nationalization, politicization, developing the oil export market of the Russian Federation, developing joint oil fields, etc. The establishment of a stabilization fund in 2004, after the 2003 oil shock, is considered as the most prominent policy against the global oil price shocks. Russia developed this fund in 2008 and split it into two separate funds, named the Reserve Fund and the National Welfare Fund.

The country's economy did witness some positive incidents in 2006 when it decided to smoothen relations with USA and breakthrough from the hindrances it faced due to the legacy of cold war. Both Russia and USA signed an agreement to reduce tariffs on cars and respect the intellectual property rights of each other.

In 2012, Russia became a member of WTO which helped it to expand the business beyond energy and get into joint ventures with Shell, Boeing, and Ford. In the same year, Permanent Normal Trade Relations were established that aimed at removing Cold war era restrictions on Russia.

We can concur that oil and geopolitics are closely intertwined and are greatly shaping the geopolitical game, policies of the state and the demand of non-state actors. The growth of Russia has also been largely oil based and so is its role in the current global politics. Tensions heightened between Russia and USA due to the Russian invasion in Ukraine and intervention in Georgia that finally culminated in the US imposing sanctions on Russia in 2014. This had led to the worldwide effect that has consequences in International crude oil prices and European markets.

Strengthening economic capabilities through control over oil markets has always been Russia's cardinal consideration while drafting its foreign policy. To garner support for itself in the Ukraine issue, Russia has always held Europe at its hostage through former's oil reserves. Russia supplies 30% of European oil and 24% of its natural gas and moreover it has used its energy revenues to diversify into other European businesses. Hence, any sanctions on the Russian economy is tantamount to jeopardizing European markets.

Putin knows how to maximize Russia's interest in the international economy. He has constantly pressurized foreign energy contractors to increase Russia's share of their profits which was evident when Russia arbitrarily changed its agreement with Royal Dutch Shell and Exxon Mobile⁴.

⁴ <https://www.nytimes.com/2016/12/12/world/europe/rex-tillersons-company-exxon-has-billions-at-stake-over-russia-sanctions.html>

The degree of influence he had over European markets was discernible when he granted Russian oil company Rosneft to operate in Exxon mobile.

The Georgia case also provides the extent of Russia's interest in maintaining its control over oil markets. In 2008, Russia's peacekeeping forces captured the city of Gori and the state of Abkhazia. Georgia is important for Russia as it is a crucial transit point for oil and other natural resources and its intervention is in the area that has a strategic oil pipeline owned by British pipeline⁵.

Russia's cynical approach toward boosting its economy has had a tragic effect on world politics. Wary of Russia's ameliorating economy, USA has imposed sanctions on it in 2014 which targeted the pocketbooks of its big oligarchs.

Countries are divided into picking sides. Both Georgia and Ukraine have USA as its alliance in countering Russian influence considering that both these countries are a member of WTO and USA threatening Russia to block the latter's membership to WTO if it continues with its tactics.

On the other side, Germany and the European Union blocked Georgia and Ukraine's membership to NATO, which portrays the influence of the Russian economy on Europe.

Saudi Arabia

Saudi Arabia is the world's largest oil exporting country that currently exports 70 million barrel per day. It claims that it still has 260 billion barrels left to extract. Considering Saudi's vast oil reserves, it has gained huge clout in the global economy which has enabled it to wield power to push up prices for its needs⁶.

Before the 1930s, the region that would later come under the control of the Saudi state was composed of several regions that lived off specific resources and differentiated human activities. The western province, the Hijaz, for example, depended chiefly on subsistence agriculture, some long-distance trade, and the provision of services to pilgrims traveling to the holy cities of Mecca and Medina, whereas a plantation economy that grew dates and other cash crops dominated the Eastern Province. The discovery of oil in the Eastern Province in 1938 came just six years after another major development: the establishment of the Kingdom of Saudi Arabia, which unified a number of diverse areas of the peninsula under one ruler. Moreover, the rebuilding of Europe after World War II and its need for cheap, reliable sources of oil greatly enhanced the position of the newly established Saudi Arabian oil industry. The combination of these three events formed the basis of the current structure of the Saudi economy. Saudi oil production and investment policies have assumed paramount

⁵ <https://fas.org/sgp/crs/row/RL34618.pdf>

⁶ <https://www.reuters.com/article/us-saudi-oil-exports-idUSKBN1952AW>

importance to the industrialized world and, more recently, the developing world. This importance of oil to the West, particularly to the United States, could not have been more clearly underscored that it was by the Iraqi invasion of Kuwait in August 1990 and may have been a key reason for the massive military effort marshaled to expel Iraq from Kuwait. After the Persian Gulf War (1991), Saudi Arabia's standing in the world oil market increased, because it was the only major oil-producing country that had significant excess capacity of crude oil production and thereby a strong influence on international oil supplies and prices.

When Mohammed Bin Salman became the crown prince, it was expected that he would carry out social and cultural reform which became evident when he lifted the ban on Saudi women driving. It was perceived that he would implement a modernizing and liberalizing agenda through his policies in Saudi Arabia. However, with the killing of Khashoggi and the arrest of 30 Saudi clerics, it has proved otherwise being more despotic than his predecessor. This has brought into limelight the role and impact of Saudi Arabia's policies in driving international forces. Even after CIA accusing MBS, Trump has shied away from taking an active stance against MBS because of multiple reasons⁷. Firstly, both the countries have had a cordial historical relation which were evident in the Gulf war. Moreover, Saudi has had a tendency to pressurize other countries, even USA, to accept their demand as seen in 1973 when the former put an embargo on the USA for supporting Israel during the Yom-Kippur War. Saudi has also been the largest arms importer from the USA and recently leaders of both countries finalized \$110 billion arms deal.

To top it all, Saudi's Public Invest Fund which manages its vast oil reserves would invest in US Infrastructure Programme.

This clearly exhibits the kingdom's dominance over international relations due to its vast economy and immense wealth.

Large revenues from oil reserves also enabled Saudi to maintain its government during the Arab Spring in 2011. It allowed the Kingdom to undertake large public spending on housing and salaries which stabilized the country whereas the governments fell in Egypt, Libya, and Yemen. Moreover, the loyal and equipped security force was established with extensive patronage helped maintain law and order.

However, influencing just countries is not the extent of it. Recently Prince Alwaleed invested \$300 million into Twitter which made his total ownership in Twitter's market value to \$1 billion and doubling its amount of stocks. Speculation rose that Saudi would use Twitter to control the discourse surrounding it and build pro-government narratives through social media, noting that Twitter became popular in the Middle East through

⁷ <https://www.aljazeera.com/news/2018/10/jamal-khashoggi-case-latest-updates-181010133542286.html>

spreading the Arab Spring revolution⁸. Saudi has been accused of mobilizing troll army that crackdowns on dissenters and further the government's narrative.

Economic prosperity begets political clout. This was witnessed in the case of Saudi Arabia who has spent millions of dollars in the Yemeni Civil War. It backs the government and has constantly targeted the Houthi Rebels. This is aimed to become the hegemon in the Middle East and put a check on its rival: Iran's rise to power. Not just militarily, but also Saudi has been actively professing and propagating the conservative sect of Sunni Islam⁹. They have achieved what political scientist Gilles Kepel calls a "preeminent position of strength in the global expression of Islam." Moreover, the Saudi Arabian government funds a number of international organizations to spread fundamentalist Islam, including the Muslim World League, the World Assembly of Muslim Youth, the International Islamic Relief Organization, and various royal charities¹⁰.

Conclusion

These two case studies provide us with a larger picture on the role of economic considerations that a country makes in its surrounding environment of a globalized world and diminishing state boundaries.

The debate of military vs economy still persists today, however, the ways to approach and analyze it has changed due to changing realities. It can be deduced that greater economic capabilities and larger resource pool have often soared a country's political significance in international relations. Russia when experienced economic growth, started testing its hard power to challenge western dominance by intervening in Syria. Its mission to support Bashar-al-Assad and maintain his government has led Russia in a confrontation with the USA, who is funding the separatists in Syria.

Economic factors have also played a critical role in States exerting their influence over other countries. This was evident when Russia captured important towns in Georgia that possessed international gas pipelines and UAE increasing its base to gain dominance over the Suez Canal. A gripping fact is that the area of exerting influence is not just restricted to countries anymore. The rise of transnational organizations and Multi-National Corporations have also garnered states interests, which is perceptible as Saudi Arabia, one of the wealthiest country, is constantly investing in Twitter to dominate the discourse surrounding it and also in firms like Tesla and Uber to make an alliance with the hegemon USA.

Alliance building between countries is another phenomenon that spans out due to economic considerations. We see the USA not taking an active stance against Saudi Arabia after the killing of Khashoggi even when

⁸ <https://www.fastcompany.com/1802136/saudi-prince-and-300-million-twitter-investment>

⁹ <https://www.bbc.com/news/world-middle-east-29319423>

¹⁰ <https://www.revolvy.com/page/International-propagation-of-Salafism-and-Wahhabism-by-region>

countries like France and Germany have imposed sanctions on them and Turkey actively criticizing it, due to USA's vital interest in Saudi's petrol and oil reserves.

It is also evident when gulf countries have sided with each other to corner Qatar and make the latter bend to its knees to agree to demands of GCC. This limits Qatar's influence on a world level and limits its ability to maximize profits from the international market.

Understanding the conflict and trying to comprehend its source can prove beneficial to look for ways to resolve it. This paper presented with the economic base for various decisions taken by countries that led to conflicts and alliance buildings. Much can be attributed to the fact that the international political economy with capitalism as its spearheading ideologies has unequally benefited the countries. Western nations are leading the geopolitics due to its vast economic capabilities, but with the rise of Gulf countries due to its nature reserves and country like China due to technological innovations have posed a threat to the global power leading a major shift in global politics.

It has to be understood that International Organizations have limited to role to play as its decisions are not binding and especially in status quo when countries are busy prioritizing their self-interest and aspiring to become a global power. Hence peace cannot be imported, it evolves within a society. States have always focused on economic recovery because political concepts like democracy and secularism remain abstract if they are unable to feed families.

Hence, looking for common ground between warring countries based on their economic considerations and at the same time maintaining their sovereignty can go a long way in deriving solutions that had economic issues between countries as its core problem.

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