



## Mains Practice Question

**Q.** How has economic statecraft evolved as a tool of foreign policy in the 21st century? Examine with special reference to India's strategic interests. **(150 words)**

07 Jan, 2025 GS Paper 2 International Relations

### Approach

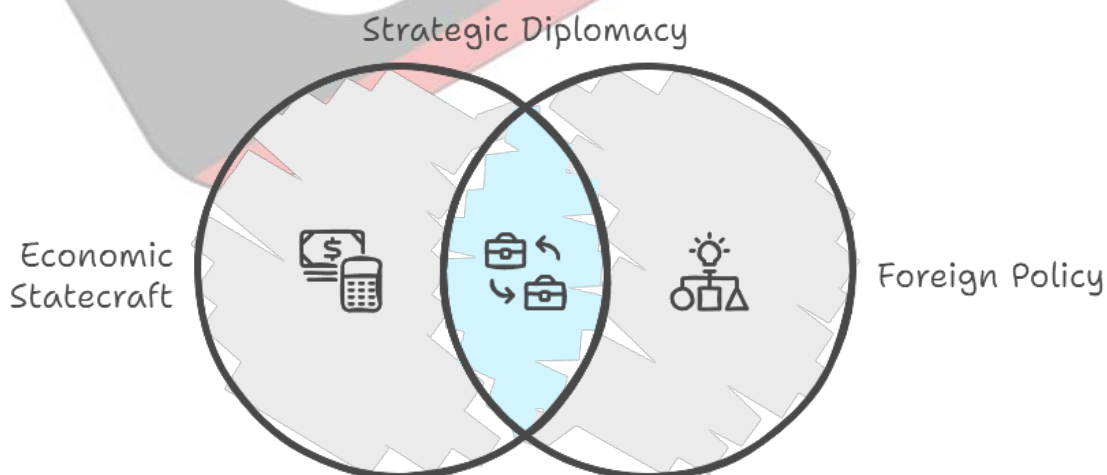
- Introduce the answer by defining Economic statecraft
- Give Evolution of Economic Statecraft in the 21st Century
- Highlight India's Use of Economic Statecraft:
- Give Challenges and Opportunities for India's Economic Statecraft
- Conclude suitably.

### Introduction

**Economic statecraft** refers to the use of economic tools—**such as trade, investment, sanctions, and development aid**—as instruments of foreign policy to achieve strategic objectives.

- In the 21<sup>st</sup> century, with **globalization and economic interdependence** reshaping geopolitics, nations have increasingly turned to economic statecraft to project influence, secure resources, and achieve strategic goals.

### // The Intersection of Economics and Diplomacy



## Body

### Evolution of Economic Statecraft in the 21<sup>st</sup> Century:

- **Shift from Hard Power to Economic Tools:** Nations are increasingly using economic tools as a **softer, less confrontational means of asserting influence.**
  - **Example:** **China's Belt and Road Initiative (BRI) aims** to expand its geopolitical reach through infrastructure investments.
- **Role of Global Value Chains:** The integration of economies into global value chains has made **economic dependencies a powerful tool of leverage.**
  - **Example:** The **US-China trade war** highlights how economic interdependence can be weaponized.
- **Geoeconomics in Competition:** Economic statecraft has become central in **geopolitical rivalries**, with sanctions, technology restrictions, and investments shaping power equations.
  - **Example:** **Western sanctions on Russia following the Ukraine conflict in 2022** significantly impacted its economy and international standing.
- **Strategic Alliances and Trade Agreements:** Economic partnerships and regional trade pacts have become **crucial tools for achieving strategic goals.**
  - **Example:** The **formation of the Regional Comprehensive Economic Partnership (RCEP)** strengthens China's economic clout in the Asia-Pacific.

### India's Use of Economic Statecraft:

- **Trade Diplomacy:** India has leveraged trade agreements and preferential market access to strengthen ties with strategic partners.
  - **Example:** The **India-UAE Comprehensive Economic Partnership Agreement (CEPA)** enhances India's presence in West Asia.
- **Development Aid and Assistance:** India uses development partnerships to build goodwill and influence in developing countries, especially in South Asia and Africa.
  - **Example:** India's **Lines of Credit to African nations** and projects like the **Parliament building in Afghanistan** signify economic diplomacy.
- **Energy Diplomacy:** Energy security is a **cornerstone of India's economic statecraft**, with efforts to secure resources and diversify energy partnerships.
  - **Example:** The **International Solar Alliance**, initiated by India, positions it as a global leader in renewable energy diplomacy.
- **Infrastructure and Connectivity Projects:** India counters China's BRI through initiatives like the **IMEC Corridor.**
  - **Example:** The **Chabahar Port** enhances India's connectivity to Central Asia, bypassing Pakistan.
- **Technology and Strategic Investments:** India uses technology partnerships to strengthen ties with key nations and promote its interests in emerging sectors.
  - **Example:** India's participation in the **Quad's initiative to build resilient semiconductor supply chains** reflects strategic use of economic tools.
- **Economic Defense Against Coercion:** India has focused on reducing dependency on specific nations, such as China, in critical sectors like electronics and pharmaceuticals.
  - **Example:** The "**Atma Nirbhar Bharat**" initiative and **Production Linked Incentive (PLI) schemes** aim to bolster domestic capacities.

### Challenges and Opportunities for India's Economic Statecraft:

- **Challenges:**
  - **Geopolitical Rivalries:** India faces challenges from China's economic expansionism, particularly through initiatives like the Belt and Road Initiative (BRI), which compete directly with India's strategic interests.
    - **Example:** China's influence in South Asia, particularly in **Sri Lanka and Nepal**, through heavy investments.
  - **Trade Imbalances:** India's trade deficits with key partners, such as China, ASEAN weaken its economic leverage.
  - **Economic Dependencies:** Over-reliance on **imports for critical sectors**, such as oil and

electronics, limits India's ability to counter economic coercion.

- **Capacity Constraints:** Limited financial resources for **large-scale infrastructure or aid projects** hinder India's ability to compete with economically powerful nations.
- **Global Protectionism:** Rising **protectionist tendencies in global trade** create challenges for India's export-driven growth and global trade integration.

▪ **Opportunities:**

- **Strategic Regional Role:** India's geographic location enables it to play a pivotal role in Indo-Pacific connectivity and trade routes.
  - **Example:** Initiatives like the **International North-South Transport Corridor (INSTC)** enhance strategic depth.
- **Strength in Technology and Services:** India's IT and pharmaceutical sectors offer significant leverage in economic negotiations and partnerships.
  - **Example:** India's global role as the "**pharmacy of the world**" during the Covid-19 pandemic.
- **Expanding Influence in the Global South:** India's development aid and infrastructure projects in Africa, South Asia, and Southeast Asia help strengthen its influence.
  - Example: India's **active role in G20 initiatives** and advocacy for **Global South issues**.

## Conclusion

Economic statecraft has emerged as a **powerful tool for India to advance its strategic interests in the 21<sup>st</sup> century**. By integrating **trade, investment, aid, and connectivity** with its foreign policy goals, India is positioning itself as a **major geoeconomic player**. However, to maximize its potential, India must address **domestic constraints, strengthen institutional capacities, and build resilient partnerships**.

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