Maritime Security: From Physical Control to 'Geoeconomic Endowments'

Jennifer M. Harris
Council on Foreign Relations

It would be tempting to believe that a host of forces—many of them happy for the United States—lessens the U.S.' overall economic and security rationale for picking up the world's tab in securing maritime transit routes.

After decades of relying on Middle East energy imports, the United States is now a net energy exporter. In fact, now sources around over 60 percent of its oil domestically; of what oil the U.S. does import, the overwhelming majority derives from the Western Hemisphere (primarily Mexico and Canada). Many of the energy producer nations (Iran, Saudi Arabia) once primed to disrupt either energy supplies or the transit lanes needed to move them to make a geopolitical point are now more economically reliant on those exports and shipping lanes than is the United States; this, together with an Iran Deal that President Trump seems inclined to keep, suggests that odds of intentional, state-led disruptions from Iraq, Iran, and the Gulf States are lower than they have been in years.

Looking eastward, the same holds true in Asia. China, now reliant on imports for close to 70 percent of its oil demand, is hardly looking for trouble in the transit routes that might threaten these imports. Likewise, China remains heavily dependent on these same routes for its exports, which still comprise some 25 percent of Chinese GDP. Suffice it to say, no country stands to lose more from any threat impinging on maritime routes in Asia than China. U.S. allies in East Asia – especially Japan, Korea, Thailand and the Philippines—are finally stepping up their own naval spending, which should translate into greater ability to share in the burdens of policing the maritime commons in that region.

Beyond the realm of state actors, the prolonged fall in oil prices, combined with savvy offensive strategy from the United States has contained piracy off the coast of Somalia down to more a moderate annoyance than a significant transit problem; even if outright eradication is too much to hope for, the U.S.' regional partners can now come in, offering their support for a comfortable status quo (piracy off the coast of West Africa has remained more of a problem, albeit not one that poses the same caliber of threat to critical sea routes). ISIS, for all its threats, poses low risk of morphing into a maritime threat.

More generally, the U.S. is far less reliant on trade as a percentage of its GDP than many other countries – especially many NATO countries (including Germany and the UK), Japan, and China—meaning that these countries have far more to lose from a disruption affecting maritime trading routes. To the extent we do trade, it is far more in the realm of knowledge economy and technology services – much more the stuff of executives hopping planes and adding to frequent flier accounts than widgets crossing the seas in containers.

On this view, then, the risks of disruption to critical supply routes are lower than in recent years, and the U.S. is better insulated from energy-related disruption that might occur than in decades.

If only it were that easy….

The reality of today's global supply chain networks, together with China's ability to gain near-monopoly control of certain industries at various points along a given supply chain – mean that the risks to these global trading patterns remain as great, in many cases greater, as ever; they have merely migrated upstream, occurring well before cargo or oil is ever loaded onto ships.

This in turn forces the U.S. to rethink some of its most basic operating assumptions animating its maritime security posture. Today, it is the reins that a given state holds over certain factors of economic production—or what I call "geoeconomic endowments" that matter most. I identify four such endowments:

1. **Ability to control outbound investment.** First is a state's willingness and ability to put domestic capital to geopolitical use—be it outbound portfolio investment or outbound FDI, debt or equity. Across several of today's rising powers, governments control not just vast sums but a growing array of mechanisms for channeling this investment: state-owned investment vehicles for deploying reserve assets, sovereign wealth funds, state-owned banks, and state-owned enterprises, to name a few. These mechanisms also tend to be mutually reinforcing.

2. **Domestic market features** (overall size; degree of control over one's domestic market, both in dictating terms of entry and in controlling import levels from a given sector or country; asymmetries in economic relationships with other states; perceptions of future growth). Size may still matter, but this is less true in geoeconomics than in traditional geopolitical and military realms. Singapore and Qatar are two of the strongest examples.[1] Singapore punches far above its weight with its two primary SWFs, Temasek and the Government of Singapore Investment Corporation (GIC), accounting for 60 percent of the $23 billion in cross-border deals by global SWFs in early 2014. Along with the country's central bank, the Monetary Authority of Singapore, the two SWFs generate the financial returns necessary to sustain the tiny city-state's nearly $10 billion defense budget.[2] Qatar—a country smaller in size than the state of Connecticut and with a population (of 260,000 citizens) on par with JPMorgan's workforce—emerged as a pivotal player in nearly every violent revolution to unfold in the Middle East since 2011.[3]

   Beyond sheer size, sums, and growth rates, four more variables help explain a country's ability to translate its domestic market into geopolitical leverage: ability to exercise uniquely tight rein over access to domestic markets, capacity to redirect domestic import appetites to make a geopolitical point, actual or perceived consensus that a country's domestic market is too large to ignore (this, of course, especially applies to China and is merely a regional dynamic in the case of Russia), and a growth trajectory that makes other countries see rising future costs to opposing its foreign policy interests today. These so-called 'domestic market features' are probably most relevant in determining how fruitful particular trade and investment policy and sanctions efforts will be in producing geopolitical benefits.

3. **Influence over commodity and energy flows.** There are three basic variables that determine how successfully a country can, through its energy policies, influence its geopolitical standing: monopoly power (market ownership, as with OPEC members), monopsony power (purchasing power, as with the United States and China), and centrality as a transit point between major buyers and sellers (e.g., the Suez Canal, as a major international oil route, enhances Egypt's strategic relevance). All three are undergoing serious shifts. The shale revolution generally, and the ascendance of the United States as a net energy exporter in particular, places new pressures on an already strained OPEC that could ultimately dissolve the cartel.[4] As growing energy appetites in China, India, and elsewhere come to absorb sizeable shares of a given country's exports—and as these deals take the form of multiyear bilateral contracts between states—this purchasing power can come with new sources of geopolitical leverage for the importing country. Consider the 2014 deal between Russia and China finalizing the terms of a thirty-year gas supply contract: it was Beijing's purchasing power and geopolitical importance to Russia that ultimately gave China the upper hand, finally steering the agreement to completion after a decade of negotiations. Finally, long-standing transit arteries—the Panama Canal, the Strait of Malacca, the Strait of Hormuz, gas thoroughfares in central Asia—may become more or less strategically important as new sources of supply begin to redraw existing trade and demand patterns.

4. **Centrality to the global financial system (e.g., reserve currency status, some forms of financial sanctions).** The reason that the dollar's global footprint carries greater geopolitical benefits for Washington than, say, the Peruvian *nuevo sol* does for Lima is the same reason that U.S. sanctions carry greater bite than would similar sanctions from Peru: a vast share of global transactions directly touch, or at least rely upon, the U.S. financial system in some way. But this is changing.[5] Countries that have large, systemically vital financial sectors also tend to have a relatively easier time raising and mobilizing capital at low borrowing costs, and relatively greater ability to impact another country's borrowing costs.[6] At the same time, the link is easily exaggerated, as policy choices (e.g., fiscal health) and asymmetric dependencies (e.g., banking exposure) can of course also weigh heavily on a given geopolitical landscape. And again at the opposite end of this spectrum, North Korea has proven how a *lack* of financial market integration can be advantageous, at least for countries on the receiving end of geoeconomic coercion. In early 2015, after President Obama leveled new sanctions on North Korea following the cyberattack on Sony Pictures, U.S. Treasury officials privately admitted that their newfound power to implement sanctions would amount to little; their problem was not a lack of power but a dearth of targets. North Korea has shown itself highly resilient and creative in the face of sanctions, ironically aided by its own self-imposed isolation from global markets.[7]

[1] For commentary on how the geographies of capital, land, and labor shape Singapore (and neighboring Malaysia and Indonesia), see Matthew Sparke, James D. Sidaway, Tim Bunnell, and Carl Grundy-Warr, "Triangulating the Borderless World: Geographies of Power in the Indonesia-Malaysia-Singapore Growth Triangle," *Transactions of the Institute of British Geographers* 29, no. 4 (2004): 485–498. As illustrative commentary touting the geoeconomic prowess of Qatar, see, for instance, press reports surrounding the June 2014 prisoner exchange between the U.S. government and the Taliban, including Mark Mazzetti, Eric Schmitt, David E. Sanger, and Helene Cooper, "Behind P.O.W.'s Release, Urgency and Opportunity: Concern for Health of Bowe Bergdahl Drove Prisoner Exchange," *New York Times,* June 4, 2014: "At the same time, much of the fate of the administration's strategy was now in the hands of Qatar, the tiny wealthy emirate that in recent years has used its riches to amass great influence in the Middle East and Central Asia."

[2] Devadas Krishnadas, "Sovereign Wealth Funds as Tools of National Strategy: Singapore's Approach," CIWAG Case Study on Irregular Warfare and Armed Groups, U.S. Naval War College, 2013; Jeremy Grant, "Singapore Leads the Pack in Sovereign Wealth Deals," *Financial Times,* November 3, 2014; Jon Grevatt, "Singapore Announces SGD12.56 Billion Defense Budget," *HIS Jane's 360,* February 24, 2014; Dhara Ranasinghe, "Singapore, the Tiny State with Military Clout," CNBC, February 9, 2014.

[3] Qatar was an early supporter of Morsi and the Muslim Brotherhood, providing $8 billion in grants and loans to the short-lived Morsi government in Egypt. See, e.g., Khan, "The Gulf and Geoeconomics."

[4] Selina Williams, "BP Says North America Shale Oil Boom Will Pressure OPEC," *Wall Street Journal,* January 16, 2013; Clifford Krauss, "OPEC Split as Oil Prices Fall Sharply," *New York Times,* October 13, 2014; "The Future of OPEC," *Forbes,* December 5, 2013.

[5] As new financial hubs emerge, financial centers are becoming capable of transacting large-scale deals without requiring dollars or touching U.S. banks. Mike Bird, "Putin's Revenge: Russia and China Try to End the Dominance of the Dollar," *Business Insider,* November 10, 2014; Paoala Subachi and Helena Huang, "The Connecting Dots of China's Renminbi Strategy: London and Hong Kong," Briefing Paper, Chatham House and RUSI, September 2012.

[6] "International Finance System and Development, Report of the Secretary-General," United Nations General Assembly, July 2014, www.un.org/esa/ffd/documents/69GA_SGR_IFSD_AUV_250714.pdf.

[7] See Scott Snyder, "Sony Hack: North Korea's Toughest Counteraction to Obama's Proportional Response," *Asia Unbound* blog, Council on Foreign Relations, December 24, 2014.