



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

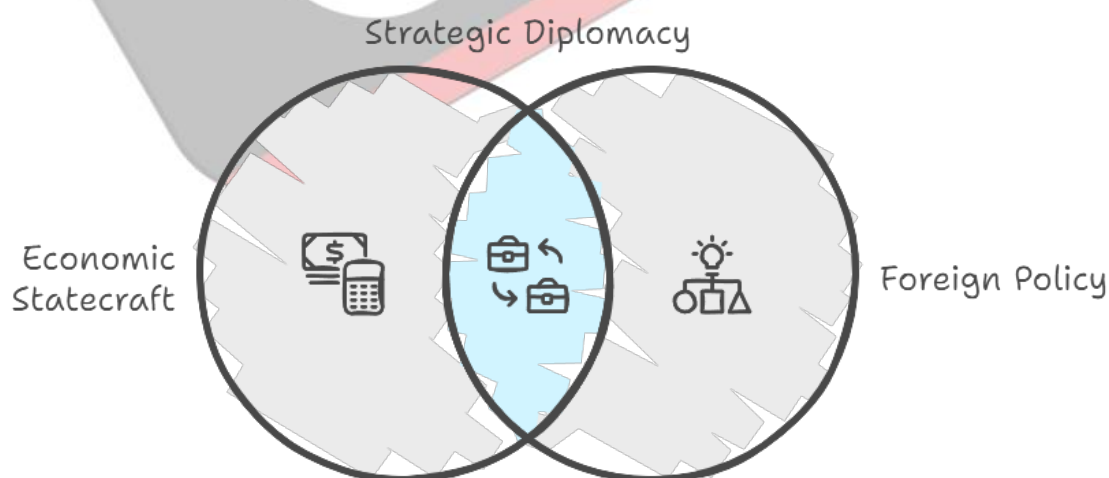
- Introduce the answer by defining Economic statecraft
- Give Evolution of Economic Statecraft in the 21st Century
- Highlight India's Use of Economic Statecraft:
- Give Challenges and Opportunities for India's Economic Statecraft
- Conclude suitably.

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 21st 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 21st 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 21st 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**.

PDF Reference URL: <https://www.drishtiias.com/mains-practice-question/question-8620/pnt>