The costs of coercion

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November 2025

Prepared for presentation at the Federal Reserve Bank of Boston's 69th economic conference, "The US Economy in a Changing Global Landscape," November 21-22, 2025

The government of a country at the center of a trade or financial network can use its strategic position to extract concessions from other governments. To do so is understandable, as governments entrusted with their societies' national security and material well-being have every reason to take advantage of the fact that at times the quest for one complements the quest for the other.

However, the use of economic tools to enhance a country's power may have costs – and may ultimately reduce its prosperity. Using a country's commercial or financial centrality for geopolitical purposes can lead other countries to find less risky alternatives. A government that restricts exports to, or imports from, a trading partner is depriving its own companies of business and its own consumers of choice. A government that rules another nation off limits for investments or loans is similarly limiting profit opportunities to its citizens. Of course, the price of these measures may be worth paying if they improve the nation's bargaining position, and more generally help bring about welcome changes in the behavior of other countries.

In this paper, I review the coercive policies that governments use to enhance their security – as they define it. I evaluate the costs that governments face as they consider imposing geopolitically-driven constraints on their citizens' economic activities. I do so to suggest the calculations governments make when they use economic means to pursue geopolitical goals, to propose ways of evaluating these costs and, and to put forward ways of analyzing these geoeconomic activities.

This essay focuses on the *costs* of geoeconomic policies. This is because the geopolitical benefits can be very difficult to assess, inasmuch as they often involve non-material factors. It is not to suggest that the net benefits of such policies are negative, and in fact they almost certainly are not. A one-sided focus on costs can nonetheless help us understand geoeconomics more fully. For one thing, it suggests that we keep in mind the damage a geoeconomic policy can do to our economy when assessing its desirability. More to the point, it may indicate cost differentials among options. The relative costs of different geoeconomic policies likely affects the choice of coercive measures governments undertake.

Most generally, discussions of geoeconomic policies should be informed by a well-defined sense of their costs. Governments tend, for obvious reasons, to focus on the value of the goals they are trying to achieve as they implement restraints on economic activity. But we need clarity about the costs as well as the benefits in order to inform opinion about the use of economic policies for geopolitical purposes.

Geoeconomics

The realm of actions considered here fall into the category of "geoeconomics," a term that has come to mean the use of economic policies for geopolitical purposes.[1] There are two common, closely related, such geopolitical purposes. The first is to coerce or encourage other governments to make concessions on economic policies. A government might threaten trade or financial sanctions to get another government to treat its companies better, or to remove restraints on its trade. (In what follows we will follow convention and call a country that is attempting to coerce another the "sender," and the country being coerced the "target.") The second geopolitical purpose is to coerce or encourage others to make non-economic concessions, such as on military or diplomatic policies. The sender might threaten sanctions to get the target to break off relations with a third country, or to contribute to an alliance, or to refrain from invading a third country.

The use of geoeconomics for economic purposes is easier to evaluate than its use for non-economic purposes. That is because we can, in principle at least, assess the expected economic benefits the sender will receive if its coercion is successful. Imposing sanctions is costly for the sender's economy, but if the sanctions succeed in changing the target's policies in ways that benefit the sender's economy, we can hope to weigh these costs and benefits – in monetary terms. For example, countries can use their market power to change the terms of trade in their favor, and this possibility and its impact can (at least in theory) be calculated (Becko 2024, for example).

It is harder to assess the net benefits of the use of economic tools to achieve non-economic, geopolitical, purposes. This raises a host of analytical complications, starting with the difficulty of knowing how geopolitical goals can be assessed in importance. How much does a government value getting another country to break off relations with an enemy, or to refrain from invading an ally? How much does a country value its national security, and the things that contribute to it? These are exceedingly hard – perhaps impossible – to measure, although we can get a sense of the relative costliness of the geoeconomic sanctions involved. Much of the debate over the use of economic policies for geopolitical purposes has to do with different ways of evaluating the importance of the geopolitical goals themselves. We cannot shed much light on this, but we can be more specific about the costs of the policies to achieve those goals.

For the purposes of this essay, then, I concentrate on the more difficult case: the use of economic instruments to attempt to affect the non-economic, geopolitical behavior of other countries. While I do not hope to estimate the geopolitical *benefits* of such policies we can, I believe, hope to analyze the *costs* of using economic policies for geopolitical purposes, such as in trade and investment forgone. To the extent that this is clarified, it can be applied to the more purely economic realm.

Several initial points are worth making. First, the use of coercion does not necessarily require the use of military force – or even the threat of military force. Economic weapons, such as sanctions, may be effective in putting pressure on the target; their imposition and escalation can signal the sender's resolve to make the target suffer until it yields. In equilibrium, indeed, effective sanctions may never need to be used – if they are credible, their threat will be enough to secure compliance.[2]

Second, it is exceedingly hard to know if sanctions achieve their goal. In part this is because the most effective sanctions are the ones we never see: the prospect that they will be imposed is enough to deter undesirable behavior. Scholars have debated the effectiveness of sanctions for decades, and we cannot hope to resolve the issue here.[3] We can however give a sense of the costs contemplated by governments that do impose sanctions, which presumably are related to their expectation of the benefits of success.

A third point is that my focus on the costs of geoeconomic policies does not imply that they are not a desirable choice for national governments. It is, as noted, very difficult to calculate the net benefits of geoeconomic policies, especially when the target behavior is non-economic. I leave such attempts aside to focus on the portion of geoeconomics that we can have some possibility of calculating, its expected economic costs. It is entirely possible – in fact, very likely – that the net benefits are positive. Indeed, to the extent that governments act rationally, the net benefits to the government (not necessarily the country) are almost certainly positive.

Geoeconomics in history

Governments have long used their economic policies for coercive purposes. During the mercantilist era that ran from the sixteenth century until the early nineteenth century, the major powers tied their economic policies – in particular toward their colonial empires and colonizing competitors – very directly to their military purposes. At the time, the Atlantic powers – Spain, Portugal, the Netherlands, France, and England -- fought a series of nearly constant wars against each other. The quest for colonial possessions, and for the riches they might hold, played a central role in this contest; denying enemies access to riches was as important as securing them.

Mercantilist theorists were clear on the connection. Thomas Hobbes's view is typically (including by Adam Smith) summarized as "Power is wealth, and wealth is power." Practitioners were similarly clear. The governor of the East India Company, Josiah Child, wrote in 1681: "Foreign trade produces riches, riches power, power preserves our trade and religion."[4] Sir Walter Raleigh, a symbol of English commercial militarism, opined, "Whosoever commands the sea commands the trade; whosoever commands the trade of the world commands the riches of the world, and consequently the world itself."[5]

The mercantilists were not wrong: the international economic order of the day was based on monopoly, and that monopoly was maintained by military force. The great powers' colonial riches helped them equip their military machines, and their military machines helped them acquire and hold their colonies.

Adam Smith regarded these enforced monopolies as superfluous. He railed against the "mean and malignant expedients of the mercantile system," as "in many different ways hurtful to the general interest of the country."[6] Smith and his colleague David Ricardo insisted that wealth depended on specialization, and that specialization demanded that governments abandon the attempt to monopolize and direct trade in ways inconsistent with their countries' comparative advantage.

Smith and Ricardo had trouble convincing their fellow Britons, but as British industry and its middle classes grew, the arguments against mercantilism gained traction. Specialization – free trade – would mean cheaper food and more competitive manufacturing, and in any case British industry would dominate the world without the need for expensive monopolies and vexing colonies. Free trade and comparative advantage eventually won out over mercantilism.

Geoeconomics returned with the upsurge in colonial imperialism of the late 19th century. Once again the major powers contended for control of the seas and much of the land – at least the land of Asia and Africa. Great power conflict only intensified after World War I, especially as France, Germany, and the United Kingdom retreated into self-defined spheres of influence. Albert Hirschman's description of Germany's use of geoeconomic weapons to cement its control over Central and Eastern Europe is the pioneering modern source of geoeconomic thinking (Hirschman 1945).

The Cold War brought geopolitics even more to the fore. The Western allies agreed on the need to keep military, and militarily valuable, technology out of the hands of the Soviets and their supporters. The Coordinating Committee for Multilateral Export Controls (CoCoM) put stringent controls on trade with the Soviet bloc (Mastanduno 1992). Differences arose among the Western allies over the appropriateness of prohibitions of economic activity that did not have directly military implications – such as gas pipelines – with the Europeans typically less willing to give up economically valuable interactions for geopolitical purposes (Bonin 2007, for example). Nonetheless, so long as the Cold War raged, there was general agreement in the West about the desirability of controlling trade with the Soviet bloc.

The West faces renewed and redoubled geopolitical tensions on several fronts. Conflict with Iran over that country's nuclear program has been a source of major friction. The resurgence of geopolitical conflict between the West and both Russia and China is even more striking. In all these cases, and several others, governments have shown themselves increasingly willing to use economic policies for strategic goals. Some of the goals in question are economic, especially with respect to China, but in most instances the purposes of the geoeconomic policies are mostly diplomatic and military – geopolitical. In what follows I attempt to clarify how countries might calculate the value of pursuing these geopolitical goals with economic means.

Geoeconomics in one country

I start by analyzing the implications of the use of economic policy for geopolitical purposes by one country against another, whose actions will not affect the broader international economic and political system. All countries engage in geoeconomic policymaking, and they all face a similar set of real or potential costs in doing so. I catalogue some of them below.

The general problem: sovereignty vs. the gains from cooperation. The tradeoffs associated with the use of coercive (non-cooperative) methods are a mirror image of the central tension in international cooperation. A government cooperating with others necessarily surrenders some sovereign autonomy; a government using its sovereign authority for coercive purposes loses some of the benefits of cooperation. Cooperation requires the adjustment of national policy from what it would have been in the absence of cooperation – otherwise it would simply be autonomous behavior. But compromising in the interests of cooperation has costs, even if only in the abstract loss of some independence. Cooperative ventures involve an implicit or explicit calculation of whether the benefits of cooperation outweigh the sovereignty surrendered.

The geoeconomic context reverses the calculations. A government using geopolitical tools exercises sovereignty in pursuit of national goals; it is not compromising its sovereignty, but insisting on it to try to bend others to its will. So while realizing the gains from cooperation requires giving up some policy independence, exercising that independence geopolitically requires giving up some of the potential gains from cooperation.

The sovereignty-cooperation tradeoff is exceedingly hard to evaluate in geopolitical affairs – how should we value the cooperation forgone when a government uses coercion to impose its will? Conversely, how important are the economic benefits gained from cooperation, and how valuable is the sovereignty given up?[7] Difficult as it is, this is the overarching problem that geoeconomics raises. Governments that want their economies to realize the gains from trade must give up some control; governments that use trade as a weapon are giving up some of the gains from trade. From a potential target's side, the benefits of economic integration come with the costs driven by the possibility that integration can be used as a weapon by a trading partner. Conversely, avoiding this weapon means giving up the benefits of economic integration. In what follows I catalogue some of the costs that governments incur when they use economic tools to pursue geopolitical goals.

Costs to aggregate (economic) welfare. The most common application of this general principle is to note that geopolitics of necessity pulls a country away from economically desirable international economic activities and exchanges. While economic efficiency may demand commercial and financial integration, for example, geopolitical goals demand denying a protagonist – and yourself – the gains from that integration.

Keynes put it succinctly: "The community as a whole cannot hope to gain by making artificially scarce what the country wants."[8] Restricting trade for geopolitical purposes pulls a country away from its comparative advantage and reduces its economic opportunities. This limits its aggregate *economic* welfare; we cannot say it limits its aggregate *social* welfare, inasmuch as this last should include the value of achieving the geopolitical goals. Nonetheless, there is a clear efficiency cost to imposing economic sanctions, and indeed to the range of economic-policy measures considered for geopolitical purposes.

Adam Smith had a strong view as to how and why mercantilist controls were working against the country's general interest:

> The great object of the mercantile system is to diminish as much as possible the importation of foreign goods for home consumption, and to increase as much as possible the exportation of the produce of domestic industry. Its two great engines for enriching the country were restraints upon importation, and encouragements to exportation.
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> Consumption is the sole purpose of all production; the interest of the producer ought to be attended to only to promote that of the consumer. But in the mercantile system the interest of the consumer is sacrificed to that of the producer.[9]

Modern geoeconomic policies are not so single-minded as mercantilist controls; they are as likely to deny economic opportunities to producers as they are to consumers. The results is analogous, though: the country's resources are not being put to their most efficient possible use; its productive capacity is being limited in pursuit of a higher, or at least different, goal.

Geoeconomics exists because governments are willing to sacrifice aggregate (economic) welfare for geopolitical purposes. In so doing, they face a series of constraints that highlight the costs geoeconomic policy can entail.

Costs to specialization. A subset of efficiency costs is that restricting a country's access to foreign economic opportunities limits its ability to benefit from specialization. Specialization, the division of labor, is central to productivity and economic growth and, as Adam Smith pointed out, "the division of labor is limited by the extent of the market."[10]

The ability to specialize is the principal benefit of integration into the world economy. But the more integrated – and specialized – a country is, whether through trade or investment, the more vulnerable is the country to geopolitically motivated restraints on cross-border economic activity. This is true both for the sender and the target.

The more specialized is the economic activity to the relationship between two countries, the more valuable it is – and the more vulnerable as well. Rents increase in scarcity and specificity, so the rarer and more specific the economic activity is to partners, the more profitable it is – and the greater the cost of interrupting the relationship. Put differently, the more exceptional is an economic relationship, the more difficult it is to replace, and the greater the partners' vulnerability. This is a simple application of the general rule that a country's bargaining power increases in its outside options – conversely, that a country or firm with few outside options has little bargaining power.

This leaves potential senders and targets in a quandary: the more valuable the economic activity, the more vulnerable it makes the country. The market for shoes is highly competitive, with few rents available. Interrupting Brazil's access to the American market incurs costs for both sides, but both Brazilian producers and American consumers will find new sources of demand and supply. The market for specialized capital equipment is highly oligopolistic, with many rents associated with specific contracts for specific customers. Interrupting China's access to German supplies of specialized capital equipment likely leaves both Chinese purchasers and German producers with substantial losses due to their vulnerability. This may make China more vulnerable to such a policy – but it may also make Germany less likely to adopt it.

Vulnerability may be asymmetric: a country dependent upon a crucial raw material may have no alternative sources of supply, while the exporter has a diversified world market at its disposal. Similarly, a small country may have little choice but to use the dollar for reserves and trade, while the United States is hardly dependent upon a small country's use of the dollar. We can infer from this that senders will try to choose economic activities for which the target has few substitutes, whether due to the specificity of the production process or the extent of the sender's control of supply. We can also infer that potential targets will try, if they can, to avoid reliance on partners, goods, and services for which there are not ready substitutes. This takes us back to costs to efficiency and productivity, but in a more targeted manner: it is the economic activities more specific to two countries' relationship that suffer in the shadow of geoeconomics. These are, to reiterate, likely to be the most profitable such economic relationships, so that *ex ante* attempts to avoid exposure to geoeconomic risks reduces the return to private economic activity and to aggregate economic welfare.

Costs to innovation. A related cost is to innovative activity. Research and development expenses depend on being recouped, and being recouped depends in turn on access to markets and protection from copying. Cutting off a target's access to high-technology (innovation-intensive) goods reduces effective demand, and the incentive for further innovation. By the same token, such an embargo is an invitation for the target's firms to copy the technology, and to innovate on their own.

At one level this is simply an implication of limiting specialization, but it has obvious general and follow-on effects. And it is reflected in empirical studies. Restrictions on technology-intensive exports from the United States have been associated with a decline in affected American firms' research and development spending (Gao et al. 2025). By the same token, the threat of sanctions has been found to increase innovative activity in a geopolitical adversary (Clayton, Coppola et al. 2025; Flynn et al. 2025).

Costs to credibility. A country's reputation is valuable; its reputation for abiding by its agreements is particularly valuable. Trading or investment partners that expect compliance with contractual arrangements are more likely to enter into mutually beneficial economic exchanges. On the other hand, if potential partners anticipate problems in enforcing contracts and other agreements, they will be less likely to entertain them and valuable economic connections will be sacrificed.

Geoeconomic policies are only used on countries with which valuable economic ties exist or might be created – if there are no economic relations, geoeconomic tools have no purchase. But the use of such tools breeds wariness, not only among their targets but more generally. A government that has violated prior commitments does not instill confidence in the likelihood that it will honor new ones.

Despite common mention of a "rules-based international system," there is no global government and therefore no real way of enforcing rules across borders and among countries. There is only *expectations of behavior.* When real or potential partners expect that commitments are credible and will be honored, they can enter into valuable but risky contractual relationships. But when governments or economic actors lack confidence in the credibility of others, they will avoid risk and only enter into spot exchanges or their equivalent.

Some of the literature on geoeconomic instruments suggests that the use of financial sanctions is preferable to the use of trade restrictions; the latter imposes well-known costs on the sending country while the former simply denies the target access to an existing financial system. This, however, ignores the implications for the reputation of the sender, which may suffer as a result. The imposition of financial sanctions by a financial center, for example, has been estimated to affect the sending country's credibility and to raise borrowing costs for its government (Ferrari Minesso et al. 2024). The Trump Administration's trade war similarly has been associated with a shock to confidence that is estimated to have had analogous effects on government borrowing, and more generally on American firms' profitability (Hassan et al 2025). Together, American financial sanctions and the trade war appear to have appreciably reduced the use of the dollar in reserves, limiting the benefits the country realizes from the dollar's status as a global reserve currency (Chinn et al. 2025).

The credibility of a country's commitments is a valuable resource, one that requires substantial investment to establish and that provides returns over a long period of time, for both the government and other economic actors. A government's reduced credibility is likely to have costs both for itself and for the credibility of other economic actors in the country.

Costs to the future. The issue of credibility raises the broader problem of the impact of geoeconomic tools over time. Indeed, one argument for geoeconomic policies is that their immediate use can lead the target country to change its policies with lasting positive geopolitical effects for the sender. This suggests that economic policies for geopolitical purposes are investments: the sender forgoes consumption and invests in coercion, in the expectation of receiving a return on its investment greater in net present value terms than the forgone consumption. Like all investments, however, this is a gamble. A sending government will find such a gamble more desirable when its short-term costs are limited and its expected long-term benefits are substantial. Such inter-temporal considerations are crucial, but – like all gambles – risky.

Geoeconomic policies make inter-temporal sense when the long-run geopolitical goals outweigh the short-run economic costs (in net present value terms). This of course requires a sense of how likely the sanctions are to be successful. The calculation may not always be positive: the economic costs may turn out to be unacceptably high, and the geopolitical gains small. There are plenty of sanctions, for example, that do not appear to have had the desired impact on the behavior of the target, despite their cost to the sender (Hufbauer et al. 2009 and Bajoghli et al. 2024, for example). This is one source of domestic (and international) conflict over the desirability of sanctions and like instruments.

Even leaving aside strategic miscalculation, the time horizons involved in geopolitical relations might suggest that geoeconomic efforts may face difficulties in paying off in the long run. Geopolitical goals often arise in the intense heat of immediate interactions with another country. This can lead a sending government to undertake geoeconomic policies that turn out to have long-term costs that outweigh their immediate impact. This is especially the case because countries that find themselves targeted may respond by acting to reduce their future vulnerability, which can mean limiting their economic dealings with the sending country – a restatement of the credibility problem discussed above. As one prominent European think tank argued to the European Union's finance ministers and central bank governors, recent American behavior "requires policies that increase Europe's strategic autonomy…[including] much greater defence, tech and financial autonomy from the US" (Sapir et al 2025).

Historical evidence suggests that geopolitical tension among nations significantly reduces the likelihood of welfare-improving trade agreements among them (Eichengreen et al. 2021). More recent examples abound. In late 2025 the Trump Administration imposed high tariffs on Brazil, India, and South Africa as a result of immediate political disagreements. There is some indication that these countries have, at least in part as a result, resolved to reorient much of their economic activity away from the United States and toward other countries, especially China. This may well be a case in which the pursuit of short-term geopolitical goals may lead to substantial long-term economic costs for the United States.

A related example comes from the financial realm. NATO allies imposed substantial financial sanctions on Russia in response to that country's full-scale invasion of Ukraine in February 2022. These have included freezing Russian assets, largely in Europe, and a continued threat to use those assets to help fund Ukrainian defense efforts. These actions will undoubtedly lead countries that feel they might be subject to similar measures – countries whose relations with NATO countries are fraught – to avoid holding assets in forms and places where they might be subject to similar seizure.

By the same token, the United States government's use of the threat and reality of financial sanctions on other countries – such as Iran – has almost certainly led governments around the world to seek out alternatives to the U.S. dollar, and the American financial system. Inasmuch as both Europe and the United States benefit from their role as international financial centers – and from the role of their currencies as international reserve currencies – the use of their financial centrality may ultimately diminish both the economic value and the geopolitical usefulness of this centrality.

Geoeconomic policies are typically based on an expectation that the short-term economic costs are worth the long-term geopolitical benefits. But this is by no means guaranteed in a world of strategic uncertainty, and when time may allow firms and governments to substitute away from an affected relationship.

Costs to domestic social groups. Up to now we have considered aggregate effects, on countries as units. But geoeconomic policies, and the responses to them, are made by policymakers who have to answer to domestic audiences. Whether the countries involved are democracies or not, policymakers cannot ignore the concerns of powerful constituents. This is well established in the broader political economy literature, and there is reason to believe that special-interest considerations will be also be relevant in the case of geoeconomic policies.

Adam Smith had strong views of the distributional sources of mercantilist policies:

> It cannot be difficult to determine the contrivers of this mercantile system; not the consumers, whose interest has been entirely neglected, but the producers, whose interest has been carefully attended to; among this latter class merchants and manufacturers have been by far the principal architects.[11]

It is indeed a commonplace of political economy that concentrated, organized, interests tend to dominate the concerns of diffuse, disorganized, interests – producers over consumers, industries over their customers. The calculation is applicable to geoeconomics, and can help categorize the possible costs.

Costs to the public in return for concentrated benefits. The pursuit of geopolitical interests typically has costs to aggregate welfare; by restricting economic activity, geoeconomics makes the society as a whole poorer, at least in the short term. If the goal is to extract concessions for the sending society as a whole, the short-term costs may be worth the long-term gain. However, political realities may make it attractive for the government to use geoeconomic tools to extract concessions from the target government that serve concentrated interests in the sending country, even at the cost of overall national efficiency. Aggregate social welfare does not lobby or pay campaign contributions; indeed, it may not even be reflected in voting behavior.

This is a relatively simple calculus if the geoeconomic tools are being employed to extract economic concessions. A sending government may impose sanctions that are costly for the sending economy, or groups within it, to secure benefits for a politically influential constituent or group. The goal might be to secure special treatment for a specific firm or preferential policies for a favored industry. In this case, the sending economy is bearing costs in order to benefit special interests, presumably special interests in favor with the government. Even if both winners and losers are concentrated, the government's calculations will take into account the relative power of various groups. Giving up the Chinese market for lobster may be worth obtaining Chinese concessions on intellectual property – assuming lobstermen are less powerful than Hollywood. More generally, a sending government can be expected to use geoeconomic tools with costs for politically less powerful actors – including the mass public – and benefits for more politically powerful ones.

The concentrated benefits might be geopolitical. While it is easier to think about the differential impact of economic policies on groups in the population, there is also variation in the extent to which particular groups, industries, or regions favor geopolitical goals. There are certainly differences among nationals of a country on geopolitical policy. These differences may be regional, with those along a border more sensitive to threats from a neighboring state than those inland. The differences could be ethnic, with ethnic solidarity or hostility reflected in geopolitical views. Or they might be partisan, inasmuch as there are often substantial inter-party differences in geopolitical policy preferences. Policymakers are likely to choose geoeconomic tools that impose costs on the less politically powerful, but that aim at achieving goals desired by the more politically powerful. Restricting American trade with Syria is unlikely to lose an American government many votes; doing so to extract Syrian concessions toward Israel is likely to win it quite a few.

Costs to concentrated interests in return for general benefits. The opposite problem arises when the government pursues geopolitical goals that benefit the country as a whole – whether economically or geopolitically – but that have heavy costs for specific groups in the sending nation. Geoeconomic policies typically involve restricting nationals in the sending country from profiting from economic engagement with the target country: export controls, import barriers, restrictions on lending or investment all force sending-country residents to forgo profitable activities. These restrictions do not fall equally on all citizens of the sending country, or on all of its businesses. Politically powerful firms and industries may be able to avoid being used for geopolitical purposes; firms and industries with less political influence are easier to throw into geopolitical battle, even if they are harmed by the battle.

The target country presents a mirror image. Some target-country economic activities are more politically prominent than others, which means they are more likely to be the object of attacks. This is self-evident in the increasing use of individual-level sanctions, such as on Russian oligarchs. More generally, governments often target industries believed to be particularly politically sensitive: European retaliation against trade barriers imposed by the Republican Trump Administration has often aimed at industries located primarily in Republican states.

In these conditions, both sending and target governments are likely to find themselves under pressure for compensation from those bearing the brunt of geopolitical policies. American grain farmers have asked for, and received, support from the federal government when their income has been affected by Chinese retaliation against American policies; more recently, when China effectively embargoed American soybeans in favor of Brazilian, American farmers clamored for another support program. Other groups may not be so lucky, or so politically influential. Current evidence indicates that America's high-technology industries are particularly vulnerable to disruption by geoeconomic measures, while China's more traditional manufacturing industries are less vulnerable (Wang et al. 2025). Whatever the case, a sending government will need to be aware of the distributional consequences of its geoeconomic policies, just as a target government will need to attend to the distributionally relevant impact of the sender's policies.

Summing up. Given the potential costs of geoeconomic policy to aggregate economic activity, to powerful groups, and to future generations, it may seem remarkable that it is ever employed. But one implication of this survey is that the expected benefits must be quite remarkable for countries to go down the geoeconomic path. These benefits, to be sure, may be to current policymakers and their supporters rather than to the country as a whole and over time. Nonetheless, whether in the mercantilist era, the Cold War, or today, we have seen plenty of indications of the broad impact of geoeconomic policies on government behavior, in both sending and target nations. I turn now to one context in which this broad impact is obvious, the effects of the geoeconomic policies of a major power on the broader international economic and political order.

Geoeconomics in a Major Power

The major powers affect the nature of international politics and economics. Scholars have long recognized that leading countries – hegemons, if the focus is on a single dominant nation – have the power to transform international affairs. In some instances, the hegemonic power may be coercive or predatory, using its position to extract concessions and resources from others. On the other hand, the hegemonic power may be benevolent, leading the way toward the provision of global public goods. The rationale for the former is clear: why not use power for extraction? The rationale for the latter is in line with the previous discussion of cooperation: if cooperation is Pareto-improving but difficult to achieve, the great power has an incentive to take the lead in facilitating cooperation.

The possibility of Great Power benevolence has been used to explain the generally cooperative relations among nations during the Pax Britannica and the Pax Americana, and its collapse in the interwar period. In Charles Kindleberger's words, "The world economic system was unstable unless some country stabilised it, as Britain had done in the nineteenth century and up to 1913. In 1929, the British couldn't and the United States wouldn't" (Kindleberger 1973). This, and subsequent analyses, emphasizes the potential for a Great Power to sustain – or fail to sustain – an existing economic and political order, in its own (perceived) self-interest.[12]

The international economic and political order is an equilibrium construct. In the absence of world government, the only meaningful sense in which we can identify a global order is on the basis of expectations of government behavior. When governments expect other governments to engage in predatory, beggar-thy-neighbor, policies, they have every incentive to do so themselves. When governments expect others to cooperate, and failure to cooperate can lead to punishment and exclusion, a cooperative balance can be maintained.

Costs to world order. In this context, the behavior of one or more great powers can be crucial to the maintenance or collapse of an international economic and political order. In Kindleberger's view, the isolationist turn in American politics in the 1920s consigned the world to a broader, deeper, and more disastrous depression that was necessary. By the same token, the American turn toward global leadership and multilateralism in the 1940s is widely seen as having been essential to the construction of the more collaborative international economic order planned at Bretton Woods and implemented thereafter (Frieden 2019).

A great power's efforts to construct, or deconstruct, an international economic order will certainly have an impact on its own well-being. What sort of order it works to build depends on where it sees its interests. In this the problem facing a hegemonic power is not unlike that faced by an individual small country: does it cooperate and compromise, or use its privileged position to extract? The difference here is that the choice has a powerful impact on the environment within which the great power, and everyone else, operates – into the foreseeable future. In this sense the behavior of a major power is different inasmuch as it creates significant externalities for the rest of the world: either positive externalities in creating a cooperative environment, or negative externalities in leading the world toward a conflict of each against all.

A great power thus faces the sorts of tradeoffs discussed above, only on a larger scale – one which affects the rest of the world. Hegemonic use of geopolitical power can produce short-term gains at the expense of longer-term economic benefits. Geoeconomic measures can sacrifice economic activity to military goals. And the use of power-political tools can benefit favored groups and harm society as a whole.[13] Of course, the opposite is also possible: geoeconomic measures can ensure lasting economic benefits, enhance economic activity, and help society. The big difference here is that whatever the impact, it will be felt world-wide and not just in the sending and target nations.

These considerations appear relevant to current debates over the international trading, and more generally economic, system. The Trump Administration has exercised geoeconomic power against economic and geopolitical rivals, and against former allies as well, at a level not seen since the Cold War. An important difference from previous measures is that the targets of geoeconomic policy during the Cold War were not part of the broader western international economic order; today the targets, both among rivals and among allies, are all integrated into the same global economy.

Whatever the value of these geoeconomic measures may be for the United States, they call the nature of the international economic order into question. Expectations of American behavior have been revised in ways that will be difficult to reverse. This may mean that the United States will find itself more isolated, perhaps in a limited sphere of influence, while the rest of the world carries on as before. Or it may mean that a new international economic and political order will emerge, one that differs in important ways from the American-led multilateralism that has prevailed since the 1940s. It is too early to tell – but either direction, or some combination, will entail the costs and benefits identified here.

An evaluation of the costs of current American geoeconomic policy, then, has to take into account not only its contemporaneous and expected future direct impact on American relations with other countries; it has to incorporate expectations about how the turn in American policy is likely to affect the international economic and political order. This is also true of the geoeconomic policies of other major powers – in particular China and the European Union – that have an ability to shape global or regional order. Whatever the estimates may be, a full evaluation of the net benefits of current American (and Chinese and European) policy would have to take into account its global impact.

Implications

The costs of coercion are likely to be substantial. This is not to argue against using geoeconomic tools; it is to suggest that consideration of the expected benefits of coercive measure should take the costs into account. These costs are not just the possibility of failure, they include the direct and indirect, immediate and longer-term, impact on the sender's national economy, and on groups within it.

Governments presumably *do* take these costs into account in contemplating using economic policies for geopolitical purposes. This may help explain why we observe the coercive measures we see. The relative costs of different types of coercive measures, for example, will certainly be specific to time and place. For some governments and purposes, the impact on innovation may be of lesser importance. The relevance of international credibility may vary, with some governments less concerned than others about their reputation. Time horizons vary among politicians depending on things like election timing, so that there may be important variation among governments in the relevance of long-term costs (or benefits). And governments also vary with respect to the domestic interests to which they are beholden, so that the relevance of distributional effects – and the distributional effects of relevance – will depend the government in question.

The relative costs of geoeconomic policies presumably also affect how governments match policies with goals. A government concerned to address a long-term problem faces different constraints, and will make different choices, than one confronted with an immediate challenge. To take an example, during the Cold War virtually all Western allies adhered to the strict limits on trade with the Soviet Union under CoCoM. This was the case despite the fact that these limits were costly to many countries, especially those in western Europe that were denied access to natural economic partners. There were certainly differences within the alliance, understandable both as a reflection of differential economic costs and differential (perceptions of) geopolitical benefits. Western European countries resisted the Reagan Administration's attempt to block a gas pipeline in part because they saw the Soviet threat differently, in part because they bore the principal economic costs of blocking the pipeline. But the alliance held to the long-term implications of CoCoM restrictions in pursuit of the long-term goal of defeating the Soviet Union and its allies in the Cold War competition.

The differential cost of geoeconomic policies may also be useful in analyzing the behavior of governments. For example, the role of timing suggests that politicians are less likely to risk substantial short-term costs if their hold on power in tenuous: why risk losing office if the gains from geoeconomic policy will be realized by your successor? On the other hand, a government secure in its hold on government can afford to wait to realize the payoffs of costly (sanctioning) behavior.

Conclusion

Governments have always used economic policies to attempt to change the behavior of other governments, in both economic and non-economic realms. Controls on international trade and investment were common in the mercantilist era, in the interwar years, and during the Cold War. After the end of the Cold War, they became less common as international economic integration grew, with an assumption that in this globalized world such geopolitical motives would fade.

Over the past fifteen years, geoeconomic policies have returned with force to the arsenal of powers both great and small. Sending and targeted nations are adjusting to a world in which the use of geoeconomic strategies is common. The evolution of American policy in this regard is perhaps most striking, especially as the targets have not only included traditional adversaries, such as Russia and China, but also traditional allies, such as the European Union and Japan.

Policymakers, analysts, and citizens need and deserve a clear sense of the costs of geoeconomic policies, even – perhaps especially – in sending nations. These policies can limit the efficient functioning of the economy, reducing the incentives to specialize in ways that maximize national productive efficiency. They can diminish the incentive of firms to innovate, and stimulate innovative activity by foreign competitors.

Geoeconomic policies practically by definition limit the range of profitable activities available to national firms and industries. These policies may damage the reputation of the country, and of its firms and citizens, for reliability in their interactions. They may do long-term damage to the nation's economic prospects. And they may harm some industries, firms, groups, or people in the sending nation in favor of others, in ways that may be politically controversial.

None of this is to suggest that geoeconomic policies are not worthwhile, for the benefits may be substantial and may clearly outweigh the costs. We need, nonetheless, a clear sense of what those costs are before we can form a considered opinion about whether the net benefits are positive.

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Notes

[1] Clayton et al. 2025a provides an outstanding summary both of the concepts involved and of much of the history; Clayton et al. 2025b and 2025c are important contributions that address different aspects of the problem.

[2] In some contexts it may be worth distinguishing between coercive measures of two types. The first are threats issued with the expectation (or hope) that the target will concede. The second are measures that the sender fully expects to implement, sanctions as punishments rather than as bargaining chips. The Western embargo of Russian oil after February 2022 was an attempt to punish the Russian government; there may have been hope that it would lead to Russian concessions, but there was no expectation that the embargo would not be imposed. In expectation (and equilibrium) the former are not imposed, while the latter are. However, the distinction fades inasmuch as the power of the former measures depends largely on the expectation that the sender *would be* willing to impose them.

[3] For a classic statement see Baldwin 1985; for one empirical attempt see Dashti-Gibson et al 1997. It seems to me that the approach taken by Martin 1992, focusing on secondary sanctions, comes closest to being definitive; and does indicate that sanctions can in fact be effective.

[4] The closest Hobbes actually wrote is that “Riches are Honourable; for they are Power," but there is little doubt that he would have approved of the paraphrase. The Child

quote is from a pamphlet published pseudonymously but generally attributed to him. The full title of the pamphlet is worth reproducing:

> A treatise wherein is demonstrated, I. That the East-India trade is the most national of all foreign trades, II. That the clamors, aspersions, and objections made against the present East-India company, are sinister, selfish, or groundless, III. That since the discovery of the East-Indies, the dominion of the sea depends much upon the wane or increase of that trade, and consequently the security of the liberty, property, and protestant religion of this kingdom, IV. That the trade of the East-Indies cannot be carried on to national advantage, in any other way than by a general joynt stock, V. That the East-India trade is more profitable and necessary to the kingdom of England, than to any other kingdom or nation in Europe.

[5] In his 1618 work, "A Discourse of the Invention of Ships, Anchors, Compass, &c."

[6] *The Wealth of Nations* Book IV, Chapter VII.

[7] In international monetary affairs, however, the literature on optimal currency areas does weigh the welfare benefits of eliminating monetary and exchange-rate volatility against the benefits of maintaining monetary-policy autonomy. This illustrates the fact that the calculation may be easier in purely economic affairs

[8] Quoted in Skidelsky 1983, p. 227.

[9] Adam Smith, 1776, *An Enquiry in the Nature and Causes of the Wealth of Nations*, Book IV, Chapters 1 and 9 [abridged]

[10] *Ibid*, Book I, Chapter III.

[11] Ibid.

[12] In the International Relations literature this became known as the Theory of Hegemonic Stability, and has had a rocky history both theoretically and empirically. The definitive summary and critique in Lake 1993.

[13] On the distributional sources of the American turn toward isolationism (and away from it) in the interwar years see Frieden 1988.