Geoeconomics: Open Questions (Session 2)

Today: Christoph Trebesch (Kiel Institute)

First lecture: Eoin McGuirk (Tufts)

April 27, 2026

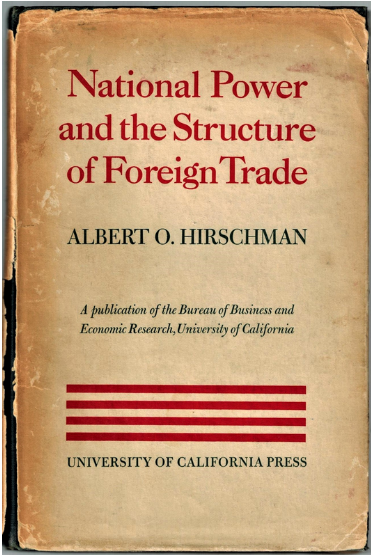
What is Geoeconomics?

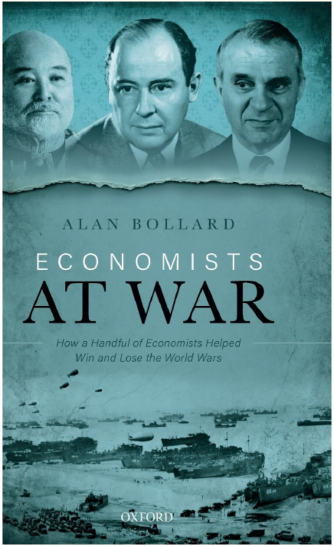
- **Narrow view**:
  - “the use of economic instruments to promote and defend national interests [and] advance geopolitical goals” (Blackwill and Harris 2016)
  - ”the use of a country’s economic strength from financial and trade relationships to achieve geopolitical and economic goals” (Clayton, Maggiori, Schreger, 2023)
- **Broad view**:
  - “the study of the interaction between trade, diplomacy, and geopolitics” (Thoenig 2024)
  - ”the field of study that links economics and geopolitics (power rivalry)” (Mohr and Trebesch, 2024)

Research on Geoeconomics & Geopolitics - a long (and dark) history

- **Nazi / racial use of the term**:
  - Haushofer: "Geopolitics is [...] a doctrine on the spatial determinism of all political processes"
  - Kiel Institute President Andreas Predoehl (1934-45): Theory of "Wirtschaftlicher Lebensraum" (economic living space) justifying the Nazi's wars of aggression
- **A long history of thought**:
  - Leading economists such as John Hicks, Albert Hirschmann, John Maynard Keynes, Wassily Leontief, Joan Robinson, Thomas Schelling, or John von Neumann all made important contributions to what we would now call geoeconomics
  - Foundational: Hirschmann's "National Power and the Structure of Foreign Trade"

Highly recommended readings





Two survey papers

ANNUAL REVIEWS

Publ

ANNUAL REVIEW OF ECONOMICS

Review Article

Geoeconomics

Cathrin Mohr[1] and Christoph Trebesch[2]

View Affiliations

Vol. 17 | https://doi.org/10.1146/annurev-economics-

Review in Advance first posted online on May 20, 2025. (C

NBER WORKING PAPER SERIES

PUTTING ECONOMICS BACK INTO GEOECONOMICS

Christopher Clayton
Matteo Maggiori
Jesse Schreger

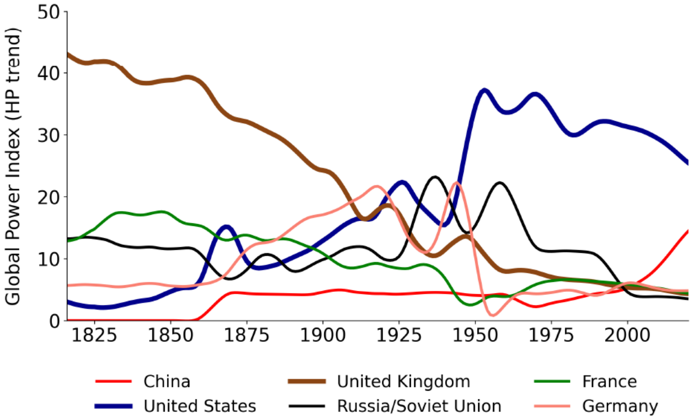
Working Paper 33681
http://www.nber.org/papers/w33681

NATIONAL BUREAU OF ECONOMIC RESEARCH
1050 Massachusetts Avenue
Cambridge, MA 02138
April 2025

Why now? Why is geoconomics back?

Why now? Why is geoconomics back?

Figure 15: Share of global power, 1815-2020



Note: Data from Moyer et al. (2024) Global Power Index Database. HP-filtered trends in country-level power indices. over time.

Five main sub-fields of Geoeconomics

1. The use of **geoeconomic policy tools** such as sanctions and embargoes
2. The geopolitics of **international trade**, especially work on coercion and fragmentation
3. The geopolitics of **international finance**, which focuses on currency dominance and state-directed capital flows
4. **Geopolitical risk and its spillovers** to domestic economy, eg on investments, inflation
5. The **economics of war and defense**, in particular research on trade and war, military aid, military production, and procurement

1a) Geoeconomic policy tools (Mohr/Trebesch 2025)

1. Sanctions (trade, finance, "smart")
2. Embargoes and blockades
3. Tariffs and trade agreements
4. Export and investment controls (bans, screening)
5. Sabotage, espionage, and cyberattacks

1b) Geoeconomic policy tools (Clayton et al. 2025)

Table 1: Geoeconomic Tools

Export or Import Restrictions	
	Tariffs
	Quotas
	Licensing and regulation
	Access to means of transport and infrastructure
Industrial Policy	
	Producer and infrastructure subsidies
	Long-term procurement contracts and price floors
	Creation and use of strategic reserve funds
	Creation and allocation of sovereign wealth funds
Financial Restrictions	
	Asset freezes
	Asset expropriation
	Access and taxes on international payment, settlement, custody systems
	Aid withdrawals
	FDI inbound and outbound screening
	Access and taxes on equity and debt portfolio allocations
	Access and taxes on insurance
	Access and taxes on trade credit
Macroeconomic Restrictions	
	Ability to use lender of last resort facilities
	Ability to participate in international regulatory meetings
	Participation in sovereign renegotiations
	Participation in bilateral and multilateral treaties

2) Geopolitics and trade: does trade bring peace?

- Montesquieu, Kant, Mill all wrote about relationship of trade and war
- Liberal view: trade raises opportunity costs of war (Angel 1909)
- Realist view: trade increases rivalries, e.g. over strategic goods
- Martin et al. (2008): Bilateral trade *decreases* war prob, but globalization *increases* it

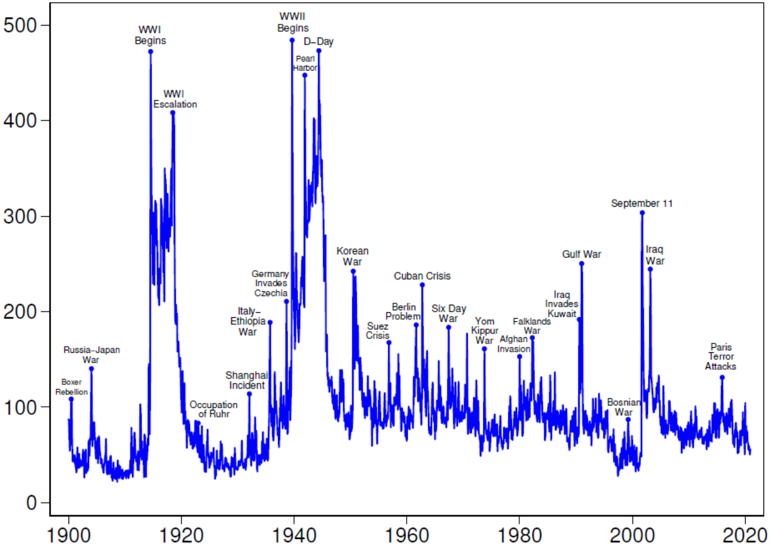
3) Geopolitics and international finance — the return of the state

- **States have a growing imprint on global finance:**
  - Competition to establish/preserve dominant currency
  - Central banks now the main holders of sovereign bonds
  - New creditor powers (China, India, Russia, Arab countries) prone to leverage official finance when investing or lending abroad: state banks, SWFs, central banks
- **Open questions:**
  - Impact of geopolitical shifts and shocks on global capital allocation, currency markets, and asset prices
  - Will global finance fragment (more than trade) in a multipolar world?
  - Role of the Euro, Dollar, & Renminbi. How do dominant currencies rise and fall?

4) Geopolitical risk and its domestic economic spillovers

- Caldara and Iacoviello (2022, AER) define geopolitical risk as "the threat, realization, and escalation of adverse events associated with wars, terrorism, and any tensions among states and political actors that affect the peaceful course of international relations"
- Literature shows geopolitical risk shocks to have impact on investment, stock market, bank lending, inflation, probability of crises and recessions etc.

Caldara and Iacoviello (AER) - geopolitical risk index



Caldara and Tong (new) - measuring geopolitical risk wit AI

The AI-GPR Index:
Measuring Geopolitical Risk using Artificial Intelligence[*]

Matteo Iacoviello[†] Jonathan Tong[‡]

April 24, 2026

VERY PRELIMINARY DRAFT

Abstract

We introduce an improved measure of geopolitical risk that builds on Caldara and Iacoviello (2022) and uses artificial intelligence to evaluate newspaper content. Our approach replaces keyword matching with semantic understanding: instead of searching for specific word combinations, we use one of the flagship ChatGPT models (GPT-4o mini) to read newspaper articles and assess their geopolitical risk intensity. The daily AI-GPR index scores about 5 million articles from the New York Times, Washington Post, and Chicago Tribune from 1960 through 2025. The approach reduces false positives from articles mentioning war or terrorism in non-geopolitical contexts while capturing relevant articles that lack exact or common dictionary terms. The AI-GPR index also assigns gradations of risk intensity rather than simple yes-or-no classifications, providing more nuanced measurement even at high frequencies. We demonstrate

US bias in risk measurement? Alternatives:

ELSEVIER

Journal of International Economics
Volume 152, November 2024, 104005

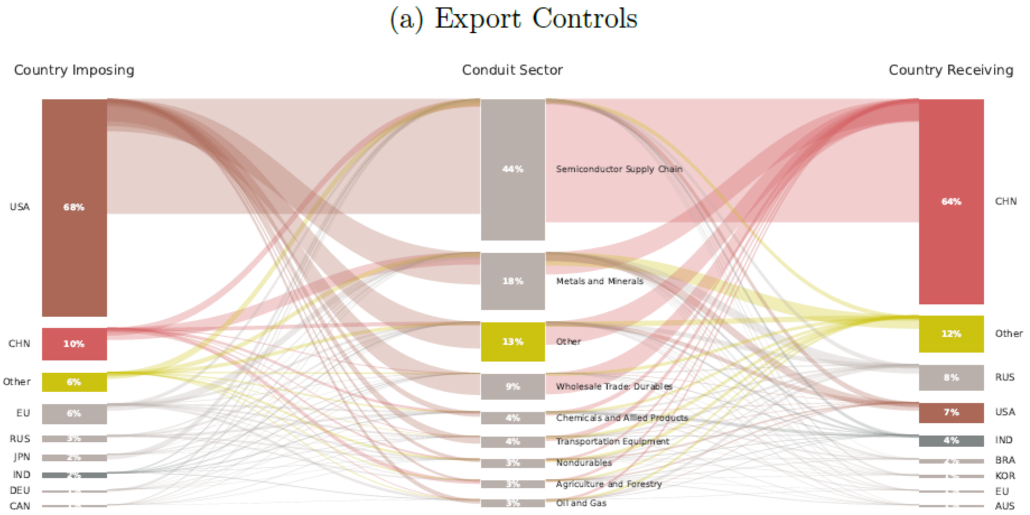
Full length articles

Geopolitical risk perceptions ☆

Yevheniia Bondarenko [a], Vivien Lewis [a b], Matthias Rottner [c a], Yves Schüler [a]

Figure: Local news matter!

Clayton et al. "Geoeconomic Pressure" (firm /sector level risk measures)



5) The economics of (external) wars

- What is the cost of war? Old question (Clark 1916)
- Research on "macro disasters" (Barro 2006, Barro/Ursua))
- Federle et al. identify exogenous wars and find 10% output drop, 20% inflation

New research on the cost of wars

KIEL Institut

Johannes Marzian and Christoph Trebesch December 2025

Guns and Butter: The Fiscal Consequences of Rearmament and War

Kiel Working Paper

No. 2310, ISSN 1862-1155
Kiel Institute for the World Economy

THE ECONOMIC CONSEQUENCES OF WAR

Efraim Benmelech
Joao Monteiro

Working Paper 34389
http://www.nber.org/papers/w34389

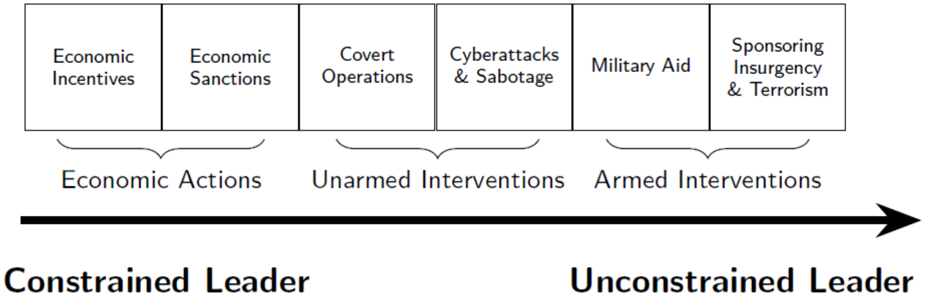
NATIONAL BUREAU OF ECONOMIC RESEARCH
1050 Massachusetts Avenue
Cambridge, MA 02138
October 2025

Open research questions

Understanding the full "poison cabinet" of Geoeconomics

- Much progress on measuring and understanding sanctions
  e.g. Felbermayr et al "Global Sanction Database"
- Less progress on export and investment controls, embargoes, espionage, sabotage
- **What is missing:**
  - Micro-level data, causal identification
  - A holistic view of the full "poison cabinet": Which tools are most effective? Which ones cause the least collateral damage? How do the various coercive tools interact?
  - Taking the perspective of authoritarian / unhinged leaders

Unconstrained: from economic sanctions to sabotage or assassinations



Geoeconomics and conflict - survey by McGuirk and Trebesch 2025

JOURNAL ARTICLE

Geoeconomics and conflict: A review and open questions

Get access >

Eoin McGuirk ✉, Christoph Trebesch

Economic Policy, Volume 40, Issue 123, July 2025, Pages 683–715, https://doi.org/10.1093/epolic/eiaf005

Published: 22 August 2025 **Article history** ▾

Cite Permissions Share ▾

Abstract

We examine the intersection of two subfields within political economy: geoeconomics and conflict. Geoeconomics is primarily concerned with the use of "economic weapons" of coercion, while the conflict literature mainly focuses on military weapons and war. We propose bridging these two approaches, focusing on the international dimension of conflict. We start by reviewing the existing literature linking both fields, in particular research on the relationship between trade and war and on the use of geoeconomic tools such as foreign aid and sanctions. We then highlight four main directions for future research. First, we call for a broader view of the geoeconomic toolkit, as rogue leaders do not limit themselves to economic coercion. In addition to economic weapons, future research should also consider more aggressive—and often costlier—forms of

Geoeconomics and the risk of war

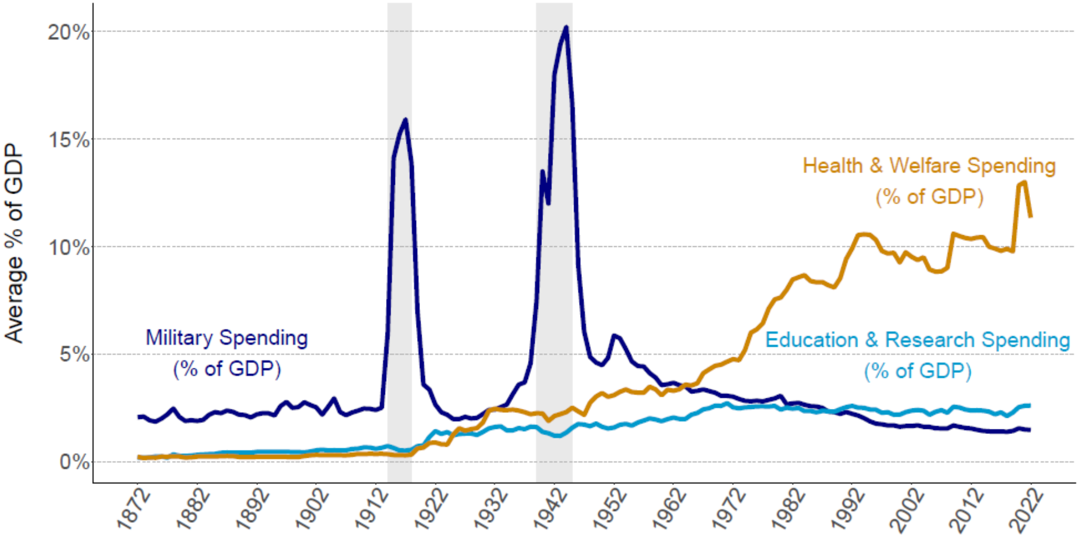
- **Big open question:** Does the use of geoeconomic policy instruments like sanctions increase or decrease the risk of war?

- **What other (peacemaking) tools can be used?** Examples: mediation, security guarantees, and transparency initiatives.

External wars and defense spending

- We need a new wave of research on military economics and the economics of external wars (i.e., on *actual* weapons).
- **Open questions:**
  - Ext. wars: Determinants and cost of wars? How to run a wartime economy?
  - Defense spending: What is the right level? What are the opportunity costs and economic impacts? How can military expenditures maximize societal benefits?
  - Fostering defense innovation: How to set incentives? Market-driven approaches vs. government funding and intervention?
  - Military procurement: mass production vs. bespoke procurement? auction design?

Government spending since 1870 - Marzian/Trebesch: "Guns vs Butter?"



The role of hegemony (or: the superpowers of superpowers)

- Much of the literature focuses on coercion by superpowers (e.g. Clayton et al. 2024)
- Kindleberger (1978) proposes notion of "Hegemonic Stability" - hegemons provide public goods such as military protection, lender of last resort, world's banker
- Broner et al (2025) theory of "Hegemonic Globalization" - hegemons prompt political alignment, thus generating an "international order" and global economic integration
- **Open questions:**
    - Is globalization possible in a world of great power rivalry?
    - When do hegemons coerce or cooperate? Why? Isolationism vs globalization?
    - Who wins and loses from a transition to a multipolar world?

Tech competition and geopolitics: AI, quantum, space, green energy

- The literature on geoeconomics and technology is in its infancy
- **Open questions:**
  - How do innovations shape economic and geopolitical power?
  - How will US-China-EU tensions affect research and innovation?
  - Costs and benefits of cooperating with a strategic rival, e.g. with China
  - How can competing states foster breakthrough innovations? Trade-off with military & social spending

Geoconomics is back and here to stay. Thank you