

A world map in shades of blue with white lines representing flight paths. Several countries are labeled with their three-letter codes: USA, GBR, FRA, IND, CHN, RUS, BRA, and ZAF. The map is centered on the Atlantic Ocean.

Geoeconomics

February 2026

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Stanford GSB



THE GLOBAL CAPITAL
ALLOCATION PROJECT

Why do we care? An Activity that Shapes the World

Norway wants China to forget about the human rights thing and eat salmon instead



G7 leaders agree to new initiative to fight economic coercion

Reuters

May 20, 2023 1:56 AM EDT · Updated 3 months ago



Ukraine conflict: What is Swift and why is banning Russia so significant?

4 May 2022

Nations braced for Donald Trump's 'liberation day' levies

US secondary tariffs to be announced, while car finance providers launch high-stakes appeal in UK Supreme Court

DIPLMACY A HAND MAID OF C

The diplomacy of the present adm commercial intercourse. This polic bullets. It is one that appeals alike sound policy and strategy, and to le directed to the increase of America Government of the United States s beneficial American enterprise abrc coupled with the maximum and mi consideration of the wonder ful inc modern diplomacy is commercial



European Commission
English
Press release - 4 June 2023 - Brussels
Political agreement on new Anti-Coercion Instrument to better defend EU interests on global stage

The European Parliament and the Council have today reached a final political agreement on the Anti-Coercion Instrument (ACI). This new tool will enable the EU to respond to economic coercion, and threatens to better defend its interests and those of its Member States on the global stage.

US hits all of Iran's financial sector with sanctions



Chips bought UK companies using the funds

partnership fund that the bank set up with

National Power and the Structure of Foreign Trade

Deny, Deflect, Deter
Countering China's Economic Coercion

CSIS

The CHIPS Act Is About More Than Chips: Here's What's in It

A sprawling new program for the semiconductor foremost about national security, but it will try priorities as well.

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What is Geoeconomics?

- ▶ **Geoeconomics:** Hegemonic countries use their economic strength from existing financial and trade relationships to achieve geopolitical and economic goals
- ▶ Fundamental questions:
 - ▶ Is geoeconomic power effective? In which dimensions?
 - ▶ What are the origins of this power and how is it wielded?
 - ▶ Is it zero-sum or positive sum globally?
 - ▶ Which sectors are strategic? What is a national security externality?
 - ▶ How should countries protect themselves from hegemonic influence?
 - ▶ Trade off between economic security and gains from trade?
 - ▶ How do we measure all this and inform policy?



Our Research Agenda on Geoeconomics

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Clayton Maggiori Schreger, A Framework for Geoeconomics, 2026, Econometrica

Clayton Maggiori Schreger, A Theory of Economic Coercion and Fragmentation, 2024 RR JPE

Clayton Maggiori Schreger, Putting Economics Back Into Geoeconomics, MacroAnnual 2025

Clayton Maggiori Schreger, The Political Economy of Geoeconomic Power, AEA P&P 2025

Clayton Coppola Maggiori Schreger, Geoeconomic Pressure, 2025

▶ Reading List



Concepts of Power in Economics and Political Science

- ▶ In modern economics power is too often reduced to only mean “market power.” But a sovereign or large firm is powerful in a broader sense
- ▶ Some important concepts of power in Political Science:
 - ▶ *“A has power over B to the extent that he can get B to do something that B would not otherwise do”* (Dahl 1957)
 - ▶ **Relational Power:** an actor, like a government, influences another actor to take a desired action
 - ▶ **Structural Power:** an actor influences an entire economic environment, e.g. setting the rules of the game or coordinating (Strange 1988)
 - ▶ Topic is “one of the most troublesome in the field of international relations.” Only point of agreement is “unsatisfactory state of knowledge” (Gilpin 81, Baldwin 13)

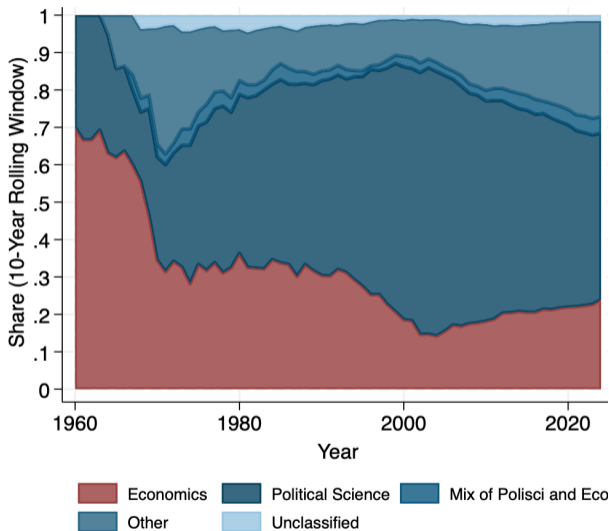
Hirschman: National Power and the Structure of Foreign Trade

Largely and unjustly forgotten history of this topic in economics

Hirschman (1945): *National Power and the Structure of Foreign Trade*

- ▶ Distaste for mercantilism: exertion of power in zero-sum game over fixed resources
- ▶ In the debate of “plenty vs power” (Viner 1948) does not support the laissez faire view that plenty is always best achieved by ignoring power
- ▶ Theory of power imbalances and how they arise from different trade patterns
- ▶ Measurement of power imbalances: the Hirschman-Herfindahl concentration index

Hirschman: National Power and the Structure of Foreign Trade

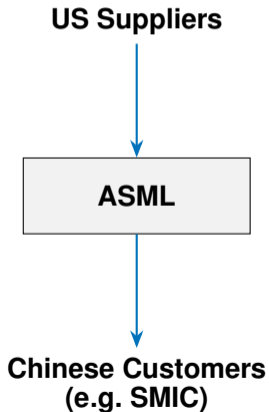


- ▶ Limited impact among economists
- ▶ By 1970s, foundational text of International Political Economy
- ▶ In economics, HH-index widely used to measure firms' market power; lost its connection to the power of countries

Power as Slack in a Participation Constraint

$$V(x^*, z, \cdot, \cdot)$$

- ▶ Entity's privately optimal actions: $x^* = x(z, \cdot, \cdot)$
- ▶ Takes as given a set of aggregate variables z



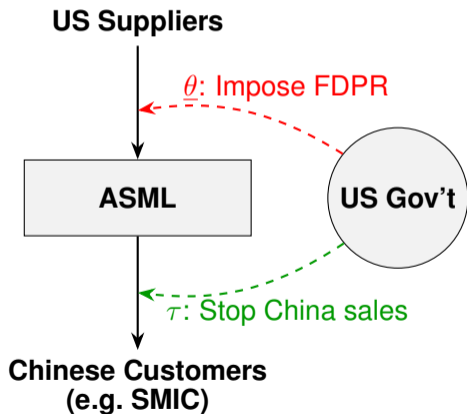
Power as Slack in a Participation Constraint

$$V(x^*, z, \underline{\theta}, 0)$$

$$V(x^*, z, 0, \tau)$$

$$V(x^*, z, 0, 0)$$

- ▶ Entity's privately optimal actions:
 $x^* = x(z, \theta, \tau)$
- ▶ Takes as given a set of aggregate variables z
- ▶ Hegemon threatens $\underline{\theta}$ if demands not accepted
- ▶ Demands that entity undertake costly actions τ



Power as Slack in a Participation Constraint

$$V(x^*, z, \underline{\theta}, 0)$$

$$V(x^*, z, 0, \tau)$$

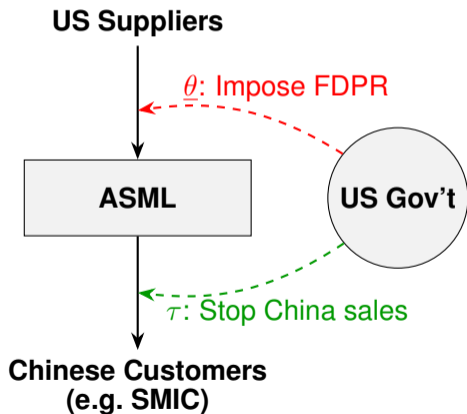
$$V(x^*, z, 0, 0)$$

- ▶ Entity's privately optimal actions:

$$x^* = x(z, \theta, \tau)$$

- ▶ Takes as given a set of aggregate variables z
- ▶ Hegemon threatens $\underline{\theta}$ if demands not accepted
- ▶ Demands that entity undertake costly actions τ
- ▶ **Participation constraint:**

$$V(x^*, z, 0, \tau) \geq V(x^*, z, \underline{\theta}, 0)$$



Micro and Macro Power: Strategic Sectors

- ▶ **Micro Power:** $V(x^*, Z, 0, 0) - V(x^*, z, \underline{\theta}, 0)$
 - ▶ The maximal value of costly actions that the hegemon can demand out of the target before contract is rejected
 - ▶ Sector is **strategic** if it lets the hegemon form valuable threats on other sectors
- ▶ **Macro-Power:** Hegemon exploits difference between private cost of actions to targeted entities and the social benefit to itself via manipulating the equilibrium
 - ▶ Sector is **strategic** if it lets the hegemon manipulate aggregate quantities and prices
 - ▶ Some strategic sectors have high indirect influence in the Leontief inverse sense, summarized as Lagrange multiplier on PC constraint

Sketch of Modeling

- ▶ N countries, a set \mathcal{I} of productive sectors, a set \mathcal{F} of local factors
- ▶ Each sector and factor are located in one country:
 - ▶ \mathcal{I}_n is the set of sectors in country n
 - ▶ \mathcal{F}_n is the set of local factors of country n
- ▶ Unit mass of firms in sector i produces a differentiated good y_i using:
 - ▶ Intermediate goods x_{ij} , where j is the source sector
 - ▶ Local factors of production ℓ_{if} , where f indexes factor
 - ▶ Production function $f_i(x_i, \ell_i, z)$
- ▶ Vector z of aggregate quantities, e.g. external economies of scale
- ▶ Each country n has a representative consumer and government

Representative Consumer of Country n

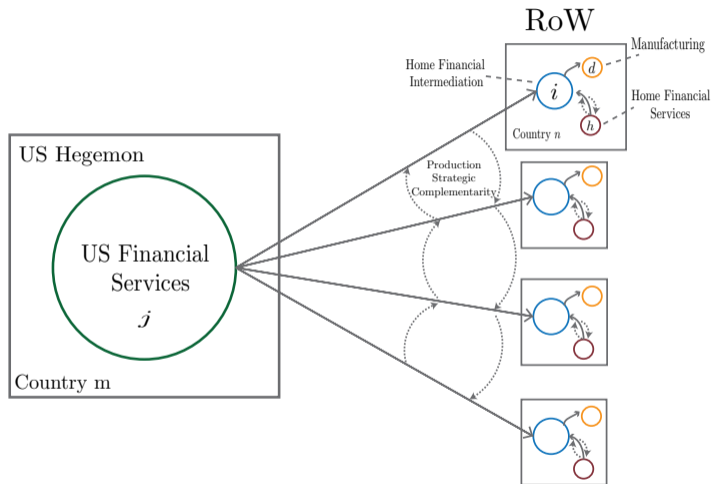
- ▶ Utility function: $U(C_n) + u_n(z)$, where C_n vector over each good C_{ni}
Simplifying assumption: U is identical across countries, homothetic
- ▶ Consumer owns domestic sectors and factor endowments \bar{l}_f in their country
- ▶ Budget constraint:

$$\sum_{i \in \mathcal{I}} p_i C_{ni} \leq \sum_{i \in \mathcal{I}_n} \Pi_i + \sum_{f \in \mathcal{F}_n} p_f^\ell \bar{l}_f$$

Sector i profits Π_i , good price p_i , factor price p_f^ℓ

- ▶ Marshallian demand $C(p, w_n)$; Indirect utility $W(p, w_n) = U(C(p, w_n))$
- ▶ Market clearing: $\sum_{n=1}^N C_{nj} + \sum_{i \in \mathcal{I}} x_{ij} = y_j$; $\sum_{i \in \mathcal{I}_n} l_{if} = \bar{l}_f$

Application: Financial System as a Tool of Coercion



Intermediary Production and Externalities

$$y_i = \left(A_j(z) x_{ij}^\sigma + A_{i_n h}(z) x_{i_n h}^\sigma \right)^{\beta/\sigma}$$

$$A_j(z) = \frac{1}{N} \sum_{n=1}^N \bar{A}_j z_{inj}^{\xi_j \sigma}$$

$$A_{i_n h}(z) = \bar{A}_h z_{i_n h}^{\xi_h \sigma}$$

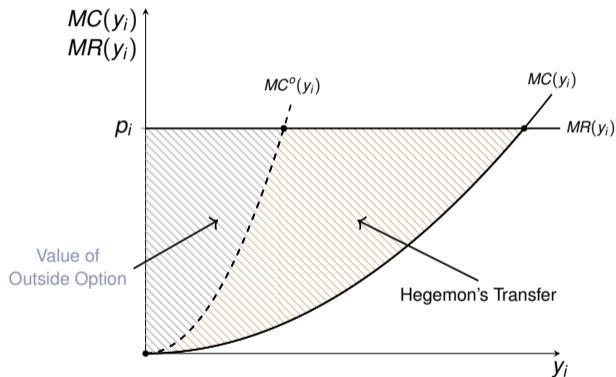
For application, assume constant prices

Comparing Different Global Structures

	Hegemon Finance	Home Alternative
	$\tau_{n,ijn}$	$\tau_{n,inh}$
Global Planner	$-\frac{\xi_j}{1 + \xi_j} p_j$	$-\frac{\xi_h}{1 + \xi_h} p_h$
Nash	0	$-\frac{\xi_h}{1 + \xi_h} p_h$
Anti-Coercion		

Hegemon's Power-Building Motives

Participation Constraint : $V_i(x_i^*, z, 0, \tau_{m,i}) - T_i \geq V_i(x_i^o, z, \underline{\theta}, 0)$



- ▶ Hegemon cares about difference in value between inside and outside option
- ▶ Hegemon builds power by manipulating the equilibrium

Hegemon's Optimal Use of Power

- ▶ Hegemon subsidizes use of Hegemon System to make inside option better:

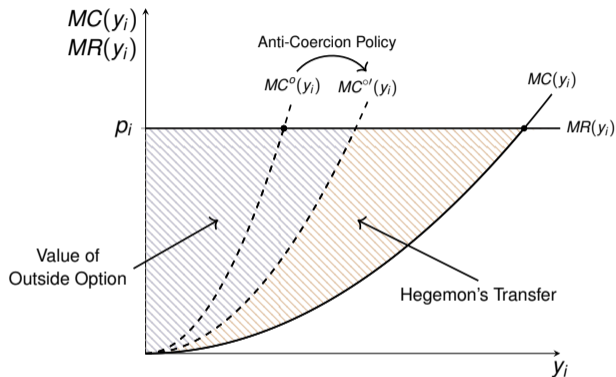
$$\tau_{m,ijn} = -\frac{\xi_j}{1 + \xi_j} \left(p_j + \tau_{n,ijn} \right)$$

- ▶ Hegemon taxes Home Alternative to make outside option worse

$$\tau_{m,inh} = \frac{\xi_h}{1 + \xi_h} \left(\frac{x_{inh}^o}{x_{inh}^*} - 1 \right) \left(p_h + \tau_{n,inh} \right)$$

- ▶ Hegemon attempts to over-globalize world economy to induce dependency

Countries' Anti-Coercion Motives



- ▶ Targeted entity cares about level of outside option
- ▶ Anti-coercion: maximize outside option, manipulate hegemon's demands

Comparing Different Global Structures

	Hegemon Finance	Home Alternative
Global Planner	τ_{inj} $-\frac{\xi_j}{1 + \xi_j} p_j$	τ_{inh} $-\frac{\xi_h}{1 + \xi_h} p_h$
Nash	0	$-\frac{\xi_h}{1 + \xi_h} p_h$
Anti-Coercion	∞	$-\frac{\xi_h}{1 + \xi_h} p_h$

Four Lessons from Geoeconomic Theory

1. **Trade off between Gains from Trade and Economic Security:** Increasing returns to scale and specialization are source of *both* gains from trade and hegemonic power by making other technologies poor substitutes for dominant ones
2. **Krugman Meets Geoeconomics:** facing coercive global hegemon, countries decide to specialize less and unwind some globalization
3. **Fragmentation doom loop:** each country fragmenting increases incentives for others to do so, kick globalization loop in reverse
4. **Hegemonic View of International Organizations:** these organizations are an expression of the hegemon that optimally commits to limit coercion to attract participation from other countries



Measurement: A Sufficient Statistics Approach

Quantifying Geoeconomic Power: Nested CES

Percentage loss from losing access to Hegemon's inputs:

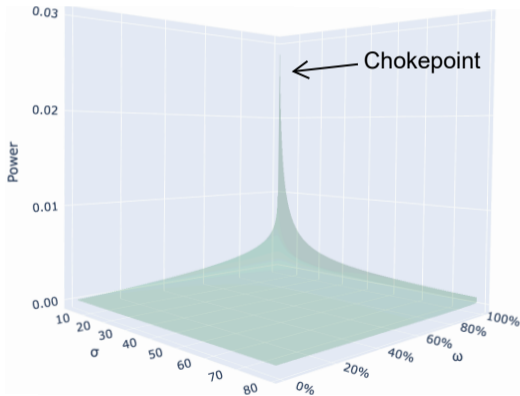
$$\text{Power}_{m,i} = -\frac{\beta}{1-\beta} \sum_{G \in \{M,F\}} \Omega_{iG} \log \left(1 - \Omega_{iGR} + \Omega_{iGR} (1 - \omega_{iGR_m})^{\frac{\sigma_G - 1}{\sigma_G - 1}} \right)^{\frac{1}{\sigma_G - 1}}$$

- ▶ Expenditures shares measured using OECD Input Output Tables, BACI, BaTIS:
 - ▶ Ω_{iG} : share on sector (Financial services (F), All other goods and services (M))
 - ▶ Ω_{iGR} : share of sectoral spending on foreign inputs
 - ▶ ω_{iGR_m} : share of foreign inputs within sector controlled by Hegemon
- ▶ **Baseline Calibration**: Cobb-Douglas outer nest, single sub-sector within Finance and goods + other services
- ▶ **Elasticities** σ_J : Costinot and Rodriguez-Clare (2014) for $\sigma_M = 6$, OECD (2017) for financial services (1.6) and insurance (2.2), $\sigma_G = \sigma_G/2$ (Feenstra et al 2018)

Sectoral Dominance by the American and Chinese Coalitions

Power is non-linear: strong increase when almost fully control an input

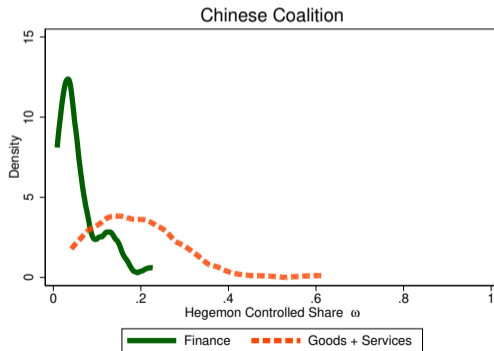
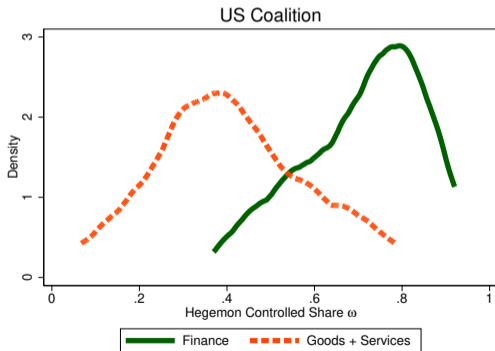
$$\left(\frac{1}{1 - \omega_i GR_m} \right)^{\frac{1}{\sigma_G - 1}}$$



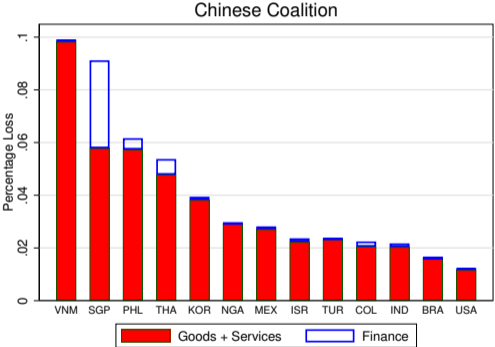
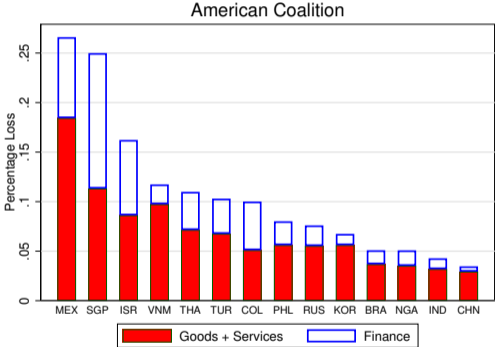
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Power is non-linear: strong increase when almost fully control an input

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The Sources of American and Chinese Power



US Financial Power: Macroeconomic Vs Geoeconomic Relevance

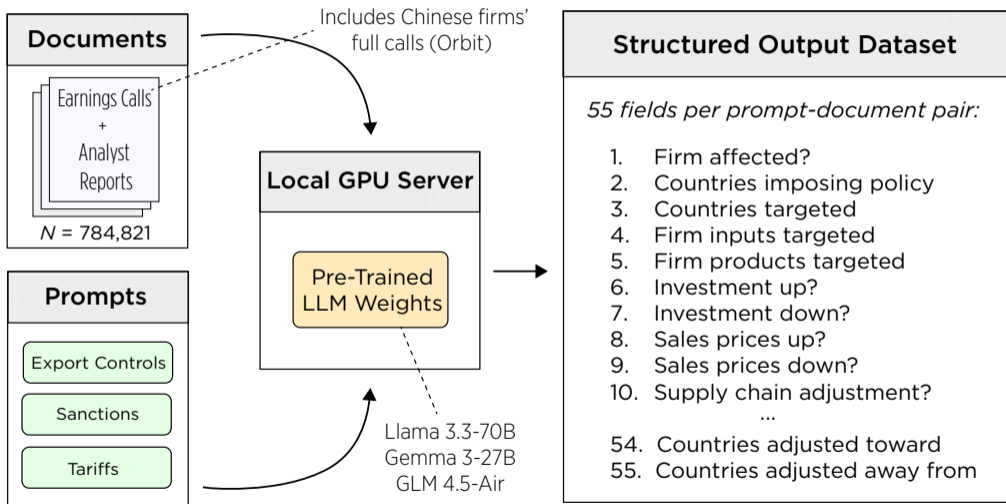
- ▶ US (and allies) dominates basic financial services: payments, settlement, messaging, custody
- ▶ Financial services are a chokepoint: dominant control, poor substitutes
- ▶ Other countries are building alternatives (China with CIPS)
- ▶ Suppose China gained a 10% market share, what are the consequences?
 - ▶ **macroeconomic consequences: little**
 - ▶ **geoeconomic consequences: vast**
- ▶ These implications are overlooked in policy debates in the US

Measurement: An Artificial Intelligence Approach

Using AI to Measure Geoeconomic Pressure

- ▶ Firm-level corporate text combined with large-scale, replicable LLM inference
- ▶ Measure in near real-time which firms are affected by various types of pressure
 - ▶ Who applies pressure to whom? Which means are used and why?
- ▶ Characterize how firms respond to each type of pressure
 - ▶ Broad range of margins: input prices, pricing, investment, R&D, supply-chains
- ▶ Quantify measurement uncertainty via prompt and model perturbations

Using LLMs to Extract Large-Scale Structured Data From Text



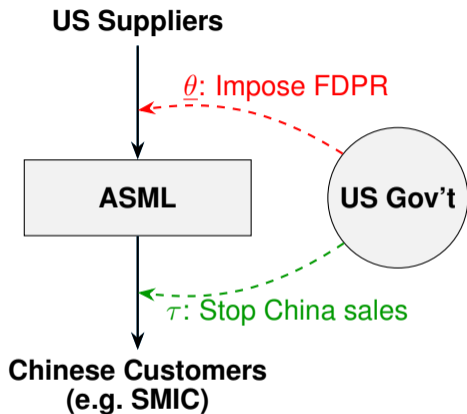
Example of LLM Inference From Textual Data

▶ ASML flagged as affected by export controls in multiple earnings calls and reports (2021-25)

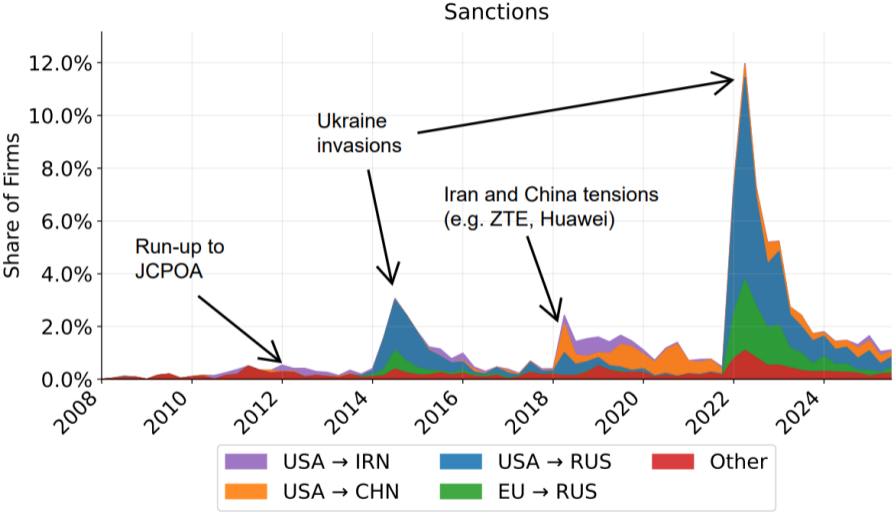
▶ Structured field **outputs** from LLM:

1. Countries imposing controls: **US, Netherlands**
2. Country receiving export controls: **China**
3. Firm's products targeted: **EUV and DUV systems, lithography tools**
4. Overall impact on firm: **negative**
5. Firm's responses: **lower sales**
6. Country of lower sales: **China**

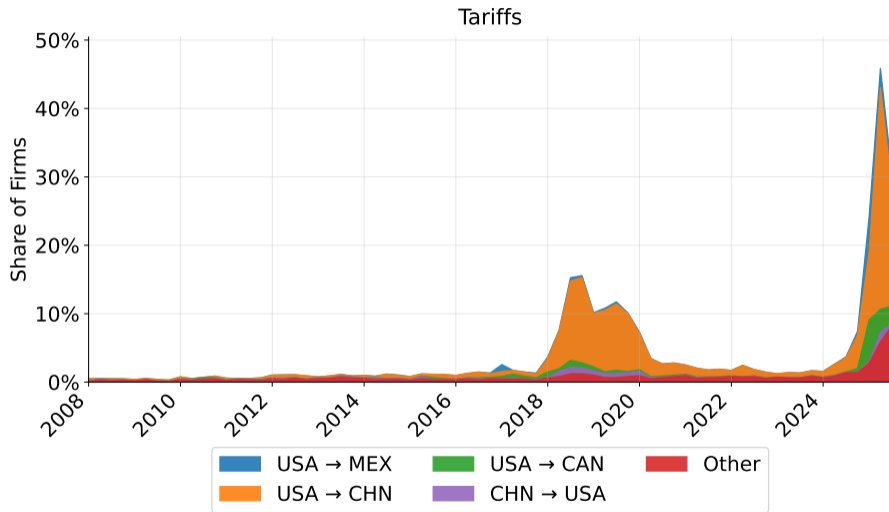
▶ Additionally, we also capture data from Chinese customers such as SMIC



Aggregate Patterns: Who Imposes Pressure and Whom?

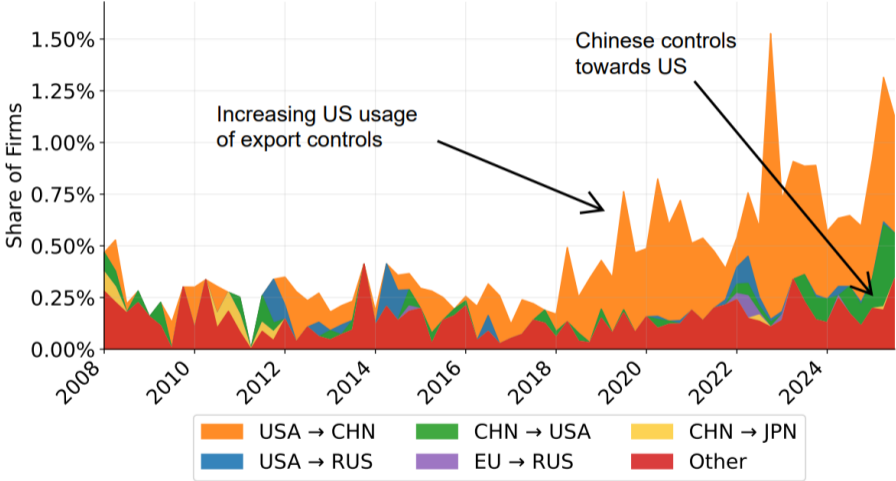


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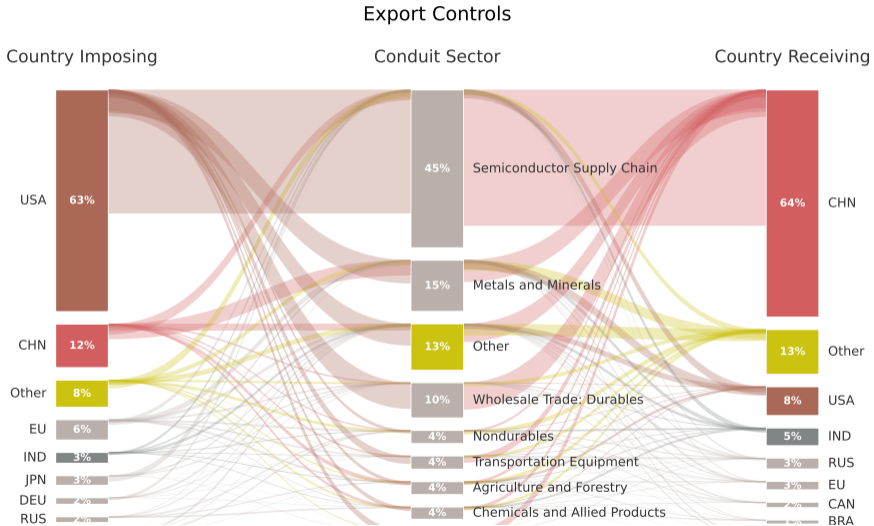


Aggregate Patterns: Who Imposes Pressure and Whom?

Export Controls



Which Sectors Are Used as the Means of Pressure?

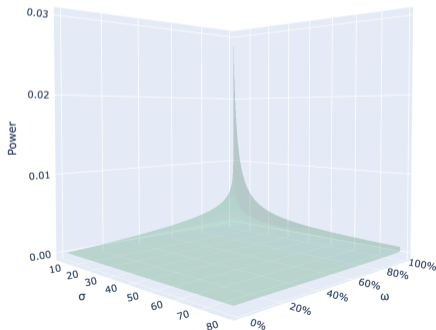


Do Hegemons Target Strategic “Chokepoints”?

- ▶ Percentage loss to target n from losing access to hegemon’s input in sector j :

$$\text{Power}_{ig} \propto \underbrace{\Omega_{ig}}_{\substack{\Omega_{ig} : \text{Expenditure} \\ \text{share on sector } g}} \times \underbrace{(\sigma_g - 1)^{-1}}_{\substack{\sigma_g : \text{Elasticity of} \\ \text{substitution in sector } g}} \times \underbrace{\log(1 - \omega_{ig})}_{\substack{\omega_{ig} : \text{Share of expenditures in} \\ \text{sector } g \text{ controlled by hegemon}}$$

- ▶ Simplified calibration, full formula in Clayton et al. (24); analogy to Arkolakis et al. (12)

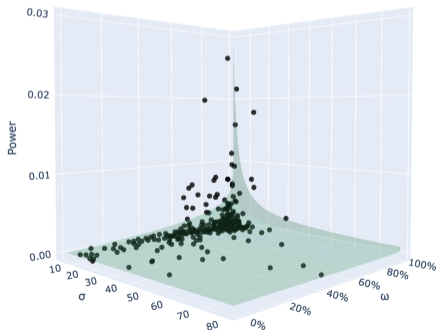


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- ▶ Simplified calibration, full formula in Clayton et al. (24); analogy to Arkolakis et al. (12)
- ▶ Measure Power_{ig} at SIC4 sectoral level using hard data (BACI, Fontagne et al. 22)

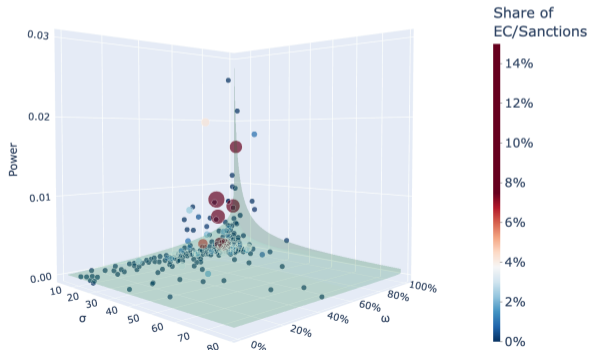


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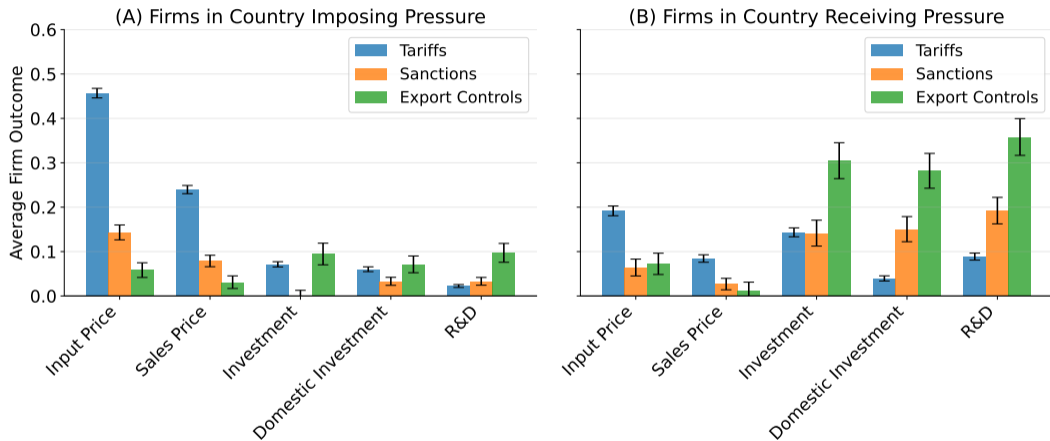
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- ▶ Simplified calibration, full formula in Clayton et al. (24); analogy to Arkolakis et al. (12)
- ▶ Measure Power_{ig} at SIC4 sectoral level using hard data (BACI, Fontagne et al. 22)
- ▶ Use LLMs to measure intensity of sector usage by the US in export controls and sanctions towards China



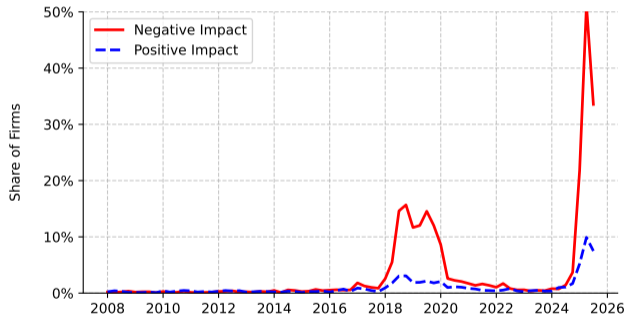
Firm Responses In Countries Imposing or Receiving the Pressure



- ▶ Pricing outcomes most relevant for firms in imposing country; investment and R&D for firms in countries receiving pressure

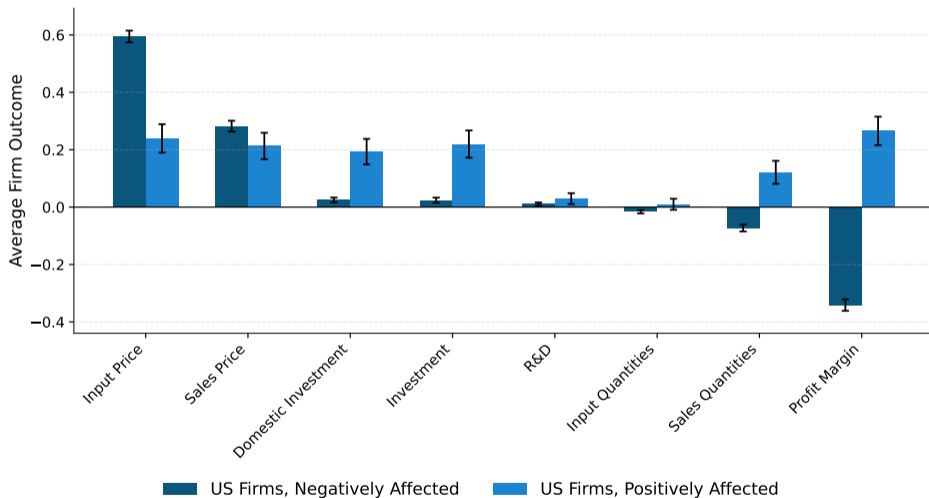
An Ongoing Look at the Trade War of 2025

- ▶ An advantage of our approach is ability of examine events in near real-time
- ▶ We track US firms reporting positive or negative impact during current trade war:

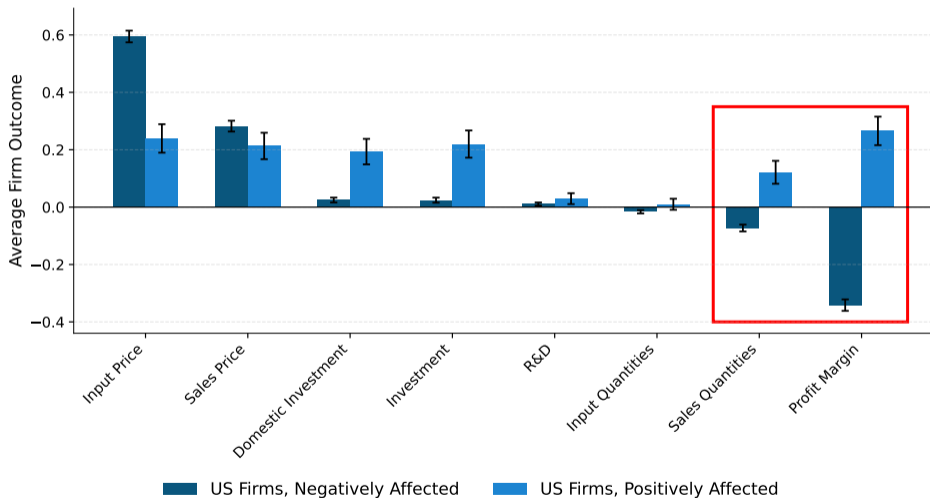


- ▶ Positive effects from lower competition, domestic producer subsidy aspect of tariffs

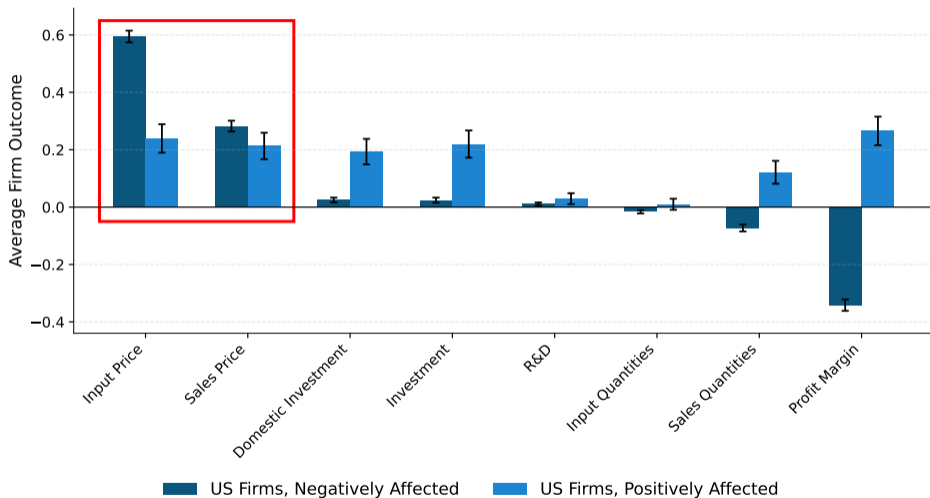
An Ongoing Look at the Trade War of 2025: US Firms' Adjustment



An Ongoing Look at the Trade War of 2025: US Firms' Adjustment



An Ongoing Look at the Trade War of 2025: US Firms' Adjustment



Policy and Future Research

Cannot think of a more pressing global challenge that economists should be studying

Much more to do:

- ▶ More modeling: multiple hegemony, political economy, duality with military
- ▶ Large-scale data on economic interdependence and causal evidence on the effects of threats
- ▶ Quantitative models for policy counterfactuals

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Reading List

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