

A world map in a dark blue color scheme. Several countries are labeled with their three-letter ISO codes: USA, CAN, MEX, BRA, ZAF, ECU, IND, CHN, and RUS. Curved lines connect some of these locations, suggesting global trade or communication networks.

Geoeconomics

Econometric Society World Congress

August 2025

Matteo Maggiori

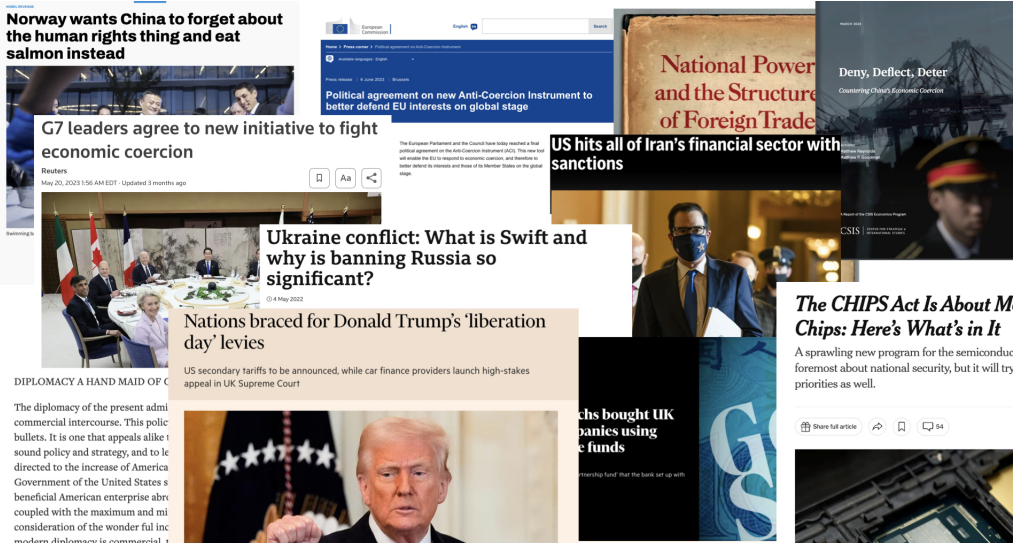


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Why do we care? An Activity that Shapes the World



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, Forthcoming Econometrica

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

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)

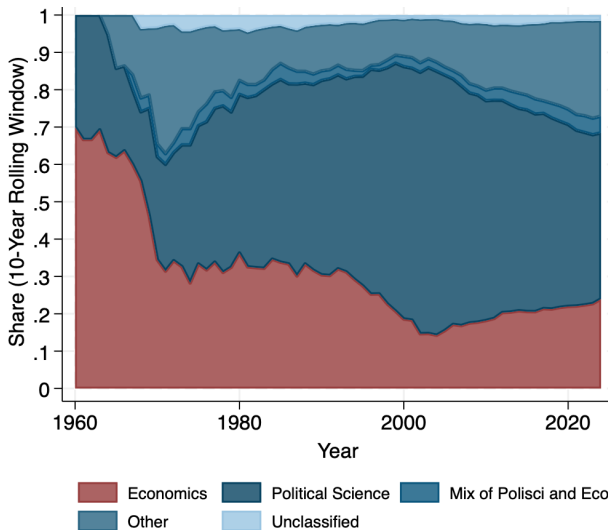
Hirschman: National Power and the Structure of Foreign Trade

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

US Suppliers



ASML



Chinese Customers
(e.g. SMIC)

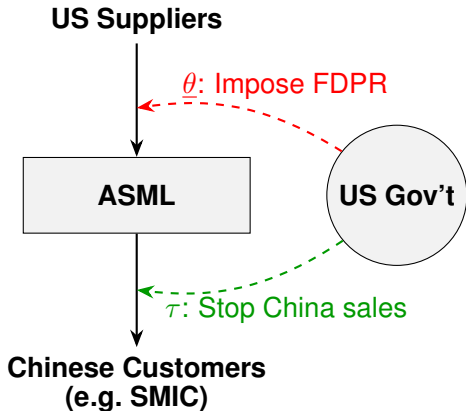
Power as Slack in a Participation Constraint

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

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

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

- ▶ 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

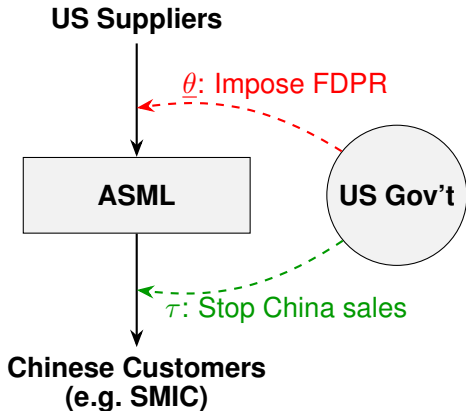
$$V(x^*, z, \underline{\theta}, 0)$$

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- ▶ 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

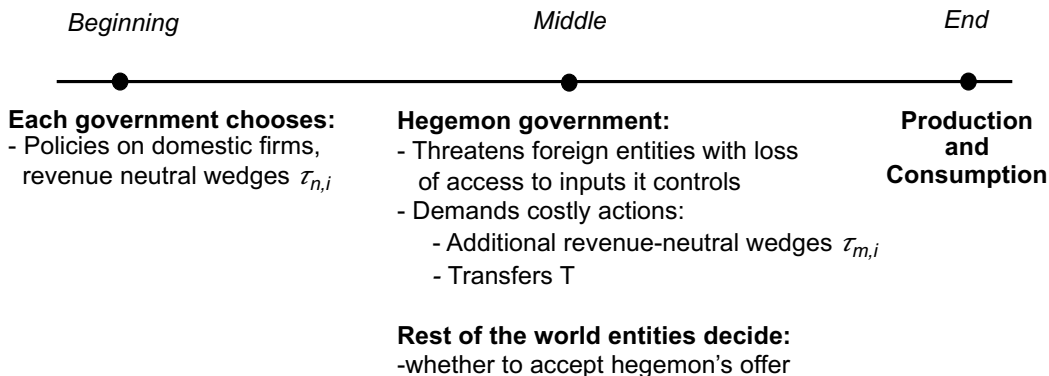
- ▶ Utility function: $U(C_n) + u_n(z)$, where C_n vector over each good C_{ni}
Simplifying assumption: U is identical across countries, homothetic
- ▶ Consumer owns domestic sectors and factor endowments $\bar{\ell}_f$ in their country
- ▶ Budget constraint:

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

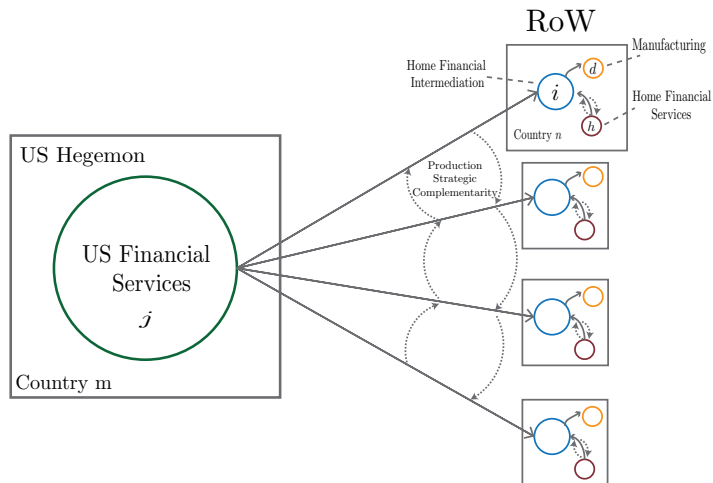
Sector i profits Π_i , good price p_i , factor price p_f^ℓ

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

Timeline and Government Policy Tools



Application: Financial System as a Tool of Coercion



Intermediary Production and Externalities

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

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

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

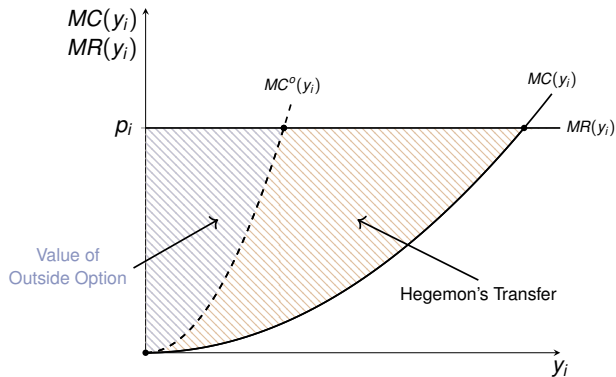
For application, assume constant prices

Comparing Different Global Structures

| | Hegemon Finance | Home Alternative |
|----------------|--------------------------------|--------------------------------|
| | τ_{n,i_nj} | τ_{n,i_nh} |
| 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:

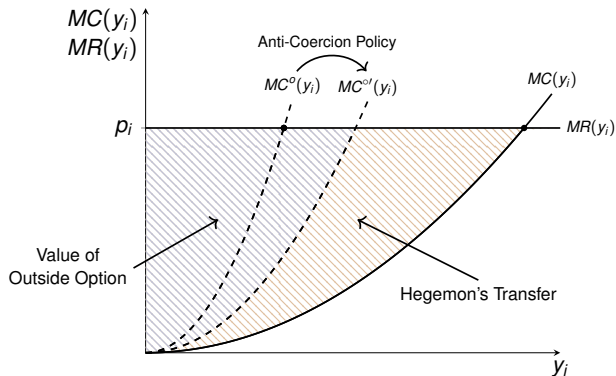
$$\tau_{m,ijn} = -\frac{\xi_j}{1 + \xi_j} \left(p_j + \tau_{n,ijn} \right)$$

- ▶ 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 |
|----------------|-----------------------------|-----------------------------|
| | τ_{i_nj} | τ_{i_nh} |
| 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 | ∞ | $-\frac{\xi_h}{1+\xi_h}p_h$ |

Four Lessons from Geoeconomic Theory

1. **Trade off between Gain 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:

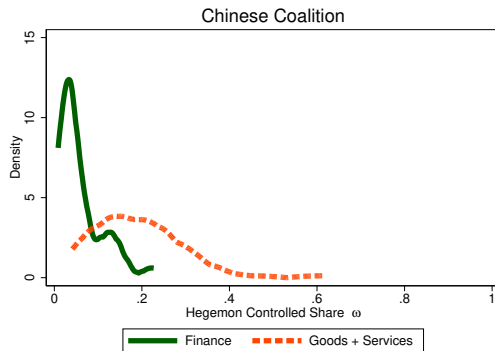
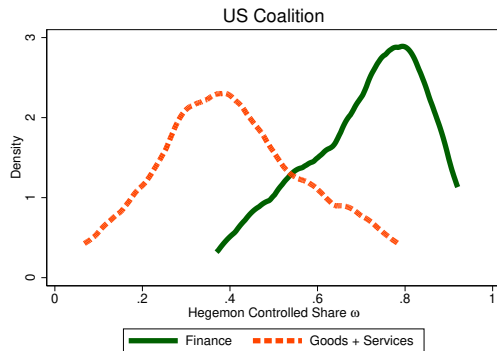
$$\text{Power}_{m,i} = -\frac{\beta}{1-\beta} \sum_{G \in \{M, F\}} \Omega_{iG} \log \left(1 - \Omega_{iGR} + \Omega_{iGR} (1 - \omega_{iGR_m})^{\frac{\varsigma_G - 1}{\sigma_G - 1}} \right)^{\frac{1}{\varsigma_G - 1}}$$

- ▶ 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 ($\varrho = 1$), 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), $\varsigma_G = \sigma_G/2$ (Feenstra et al 2018)

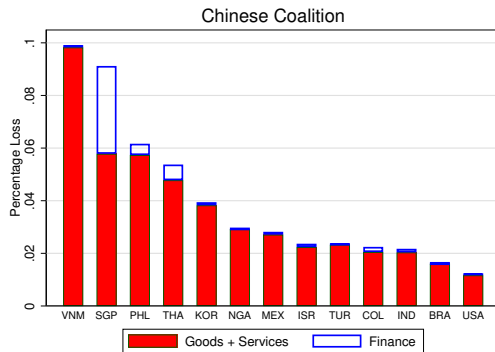
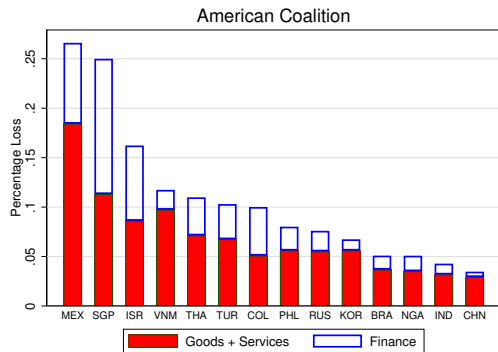
Sectoral Dominance by the American and Chinese Coalitions

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

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



The Sources of American and Chinese Power



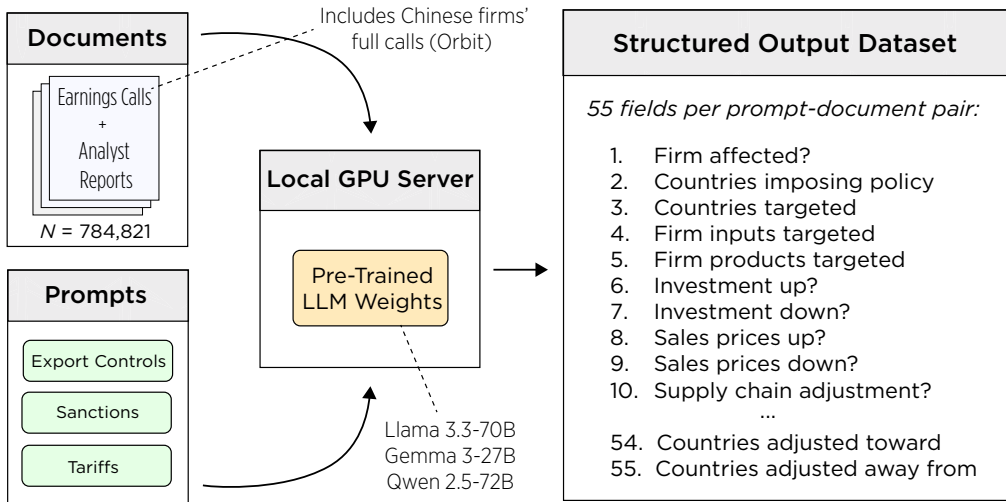
Measurement: An Artificial Intelligence Approach



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



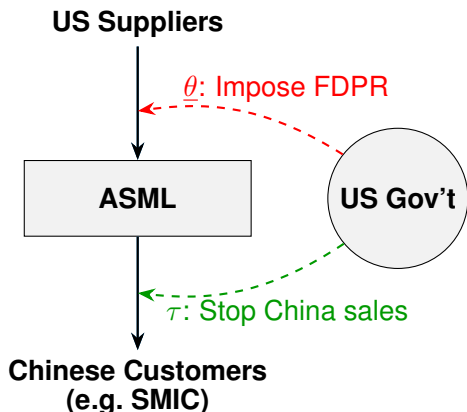
Example of LLM Inference From Textual Data

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

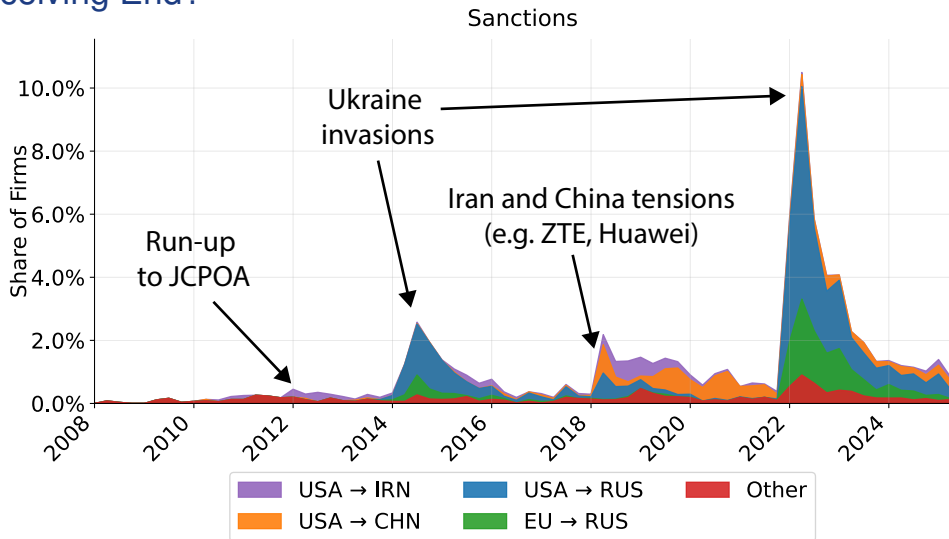
- ▶ Structured field **outputs** from LLM:

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**

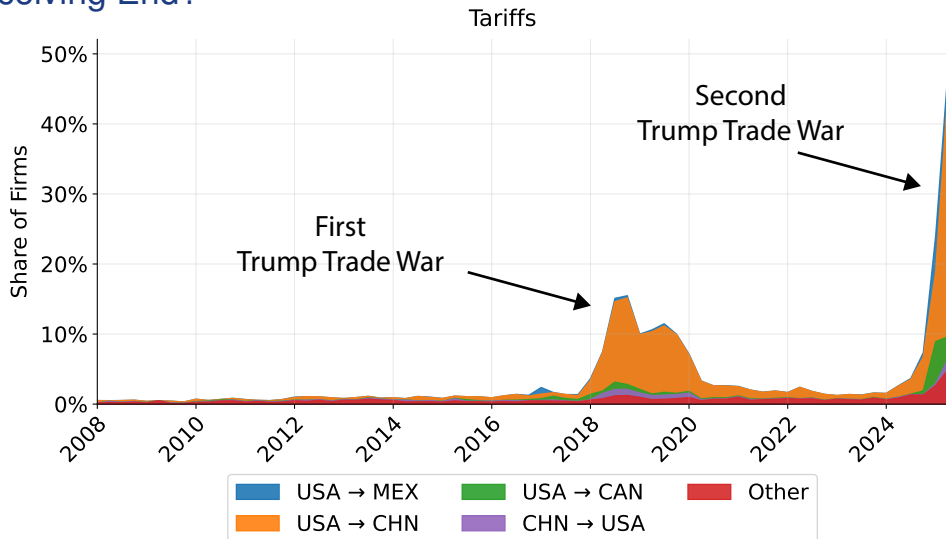
- ▶ Additionally, we also capture data from Chinese customers such as SMIC



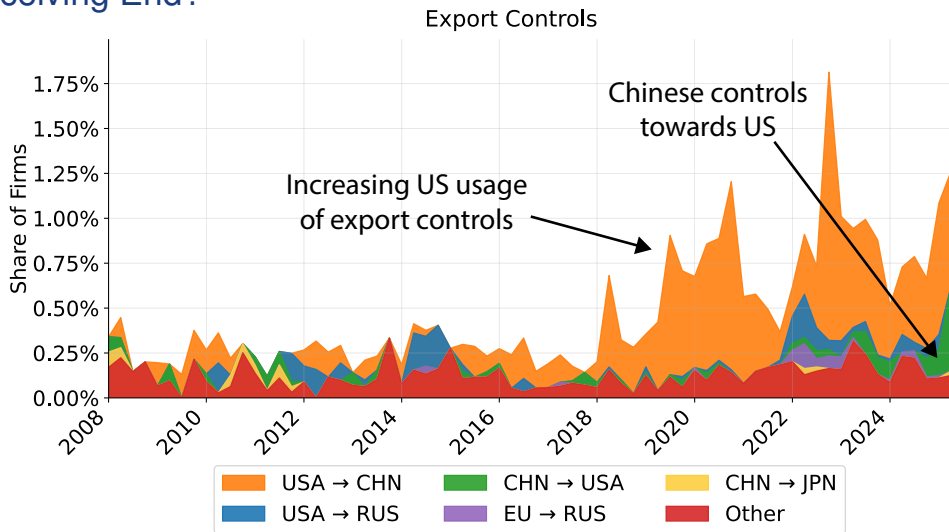
Aggregate Patterns: Who Imposes Pressure and Who Is on Receiving End?



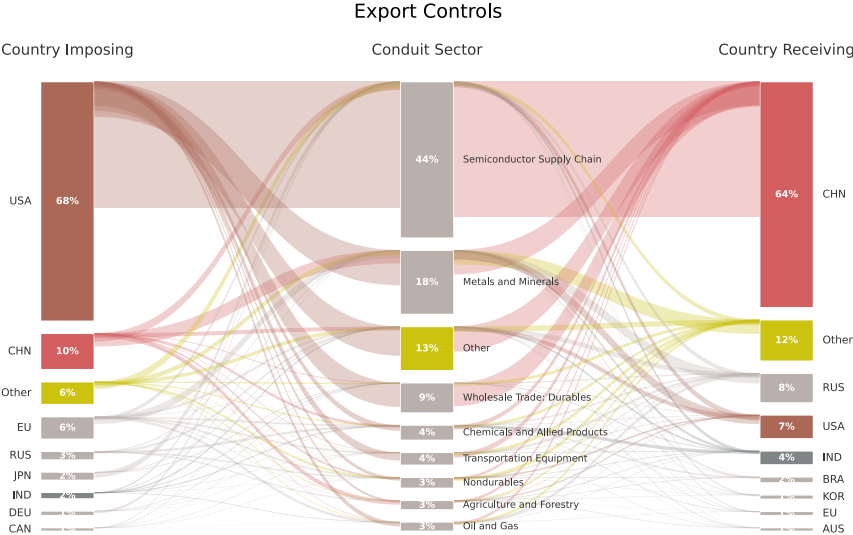
Aggregate Patterns: Who Imposes Pressure and Who Is on Receiving End?



Aggregate Patterns: Who Imposes Pressure and Who Is on Receiving End?



Which Sectors Are Used as the Means of Pressure?

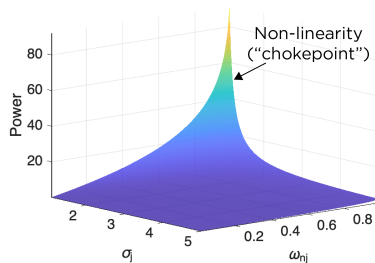


Do US Export Controls Successfully Target Strategic “Chokepoints”?

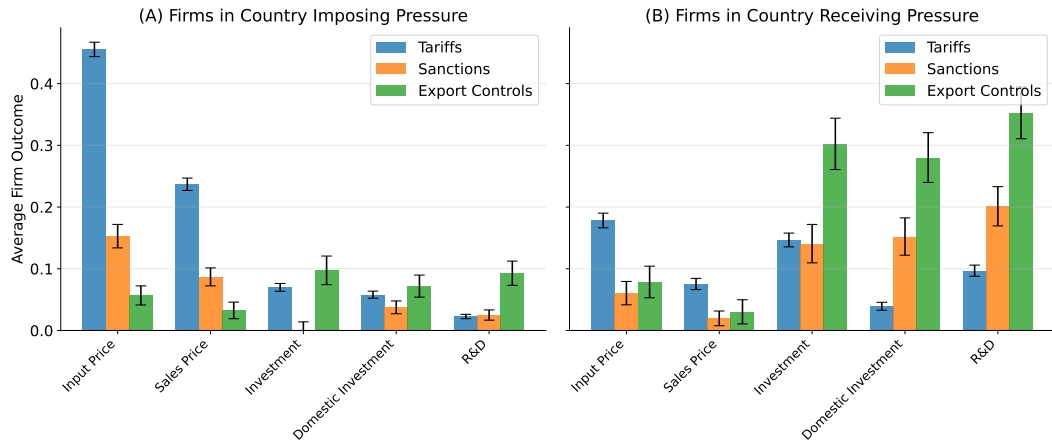
$$\underbrace{\text{Logit}[P(Y_{i,t} = 1)]}_{\text{LLM measure of pressure}} = \alpha_t + \beta \cdot \underbrace{\text{Power}_{mn,i,t}}_{\text{Measured power from sufficient stats}}$$

$$\underbrace{\delta = \mathbb{E}\left[\frac{\partial \log P(Y_{i,t} = 1)}{\partial \text{Power}_{mn,i,t}}\right]}_{\text{Average marginal effect}}$$

| | Any EC | |
|----------------|--------------------|--------------------|
| | (1) | (2) |
| $\hat{\delta}$ | 722.7** (304.7) | 724.3** (318.4) |
| Quarter FE | No | Yes |
| Observations | 37,396 | 37,396 |
| Pseudo- R^2 | 0.02 | 0.05 |



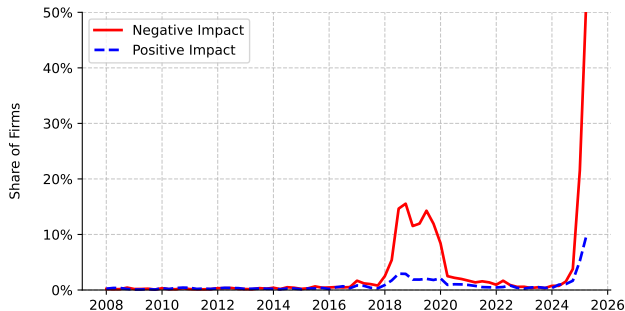
Firm Responses In Countries Imposing or Receiving the Pressure



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

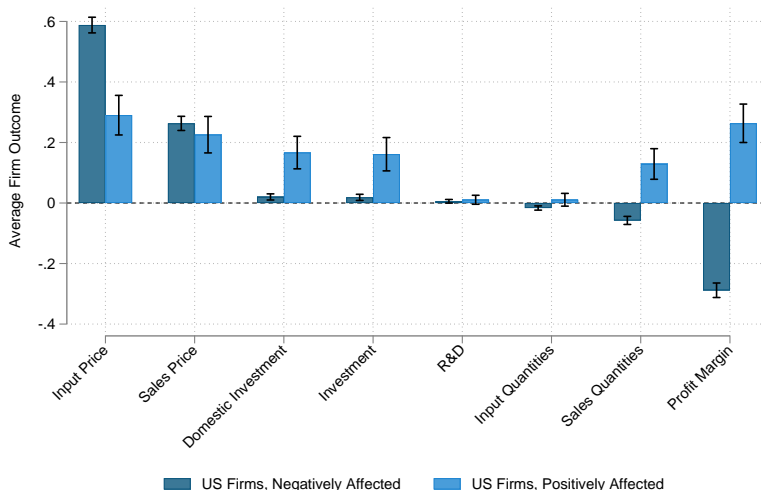
An Ongoing Look at the Trade War of 2025

- ▶ 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



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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