

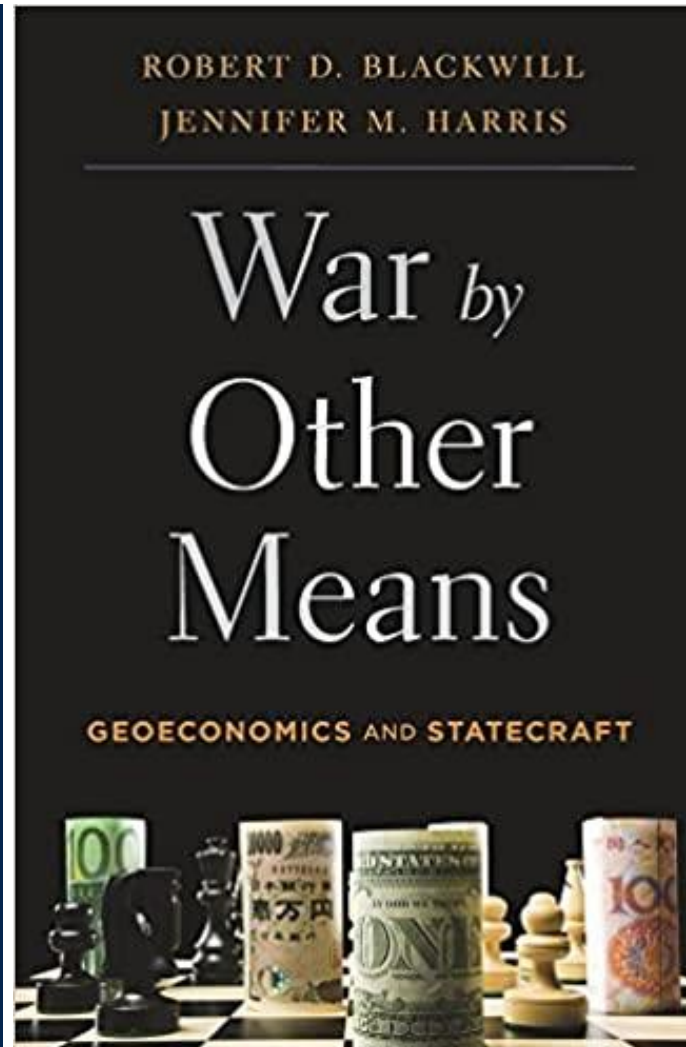
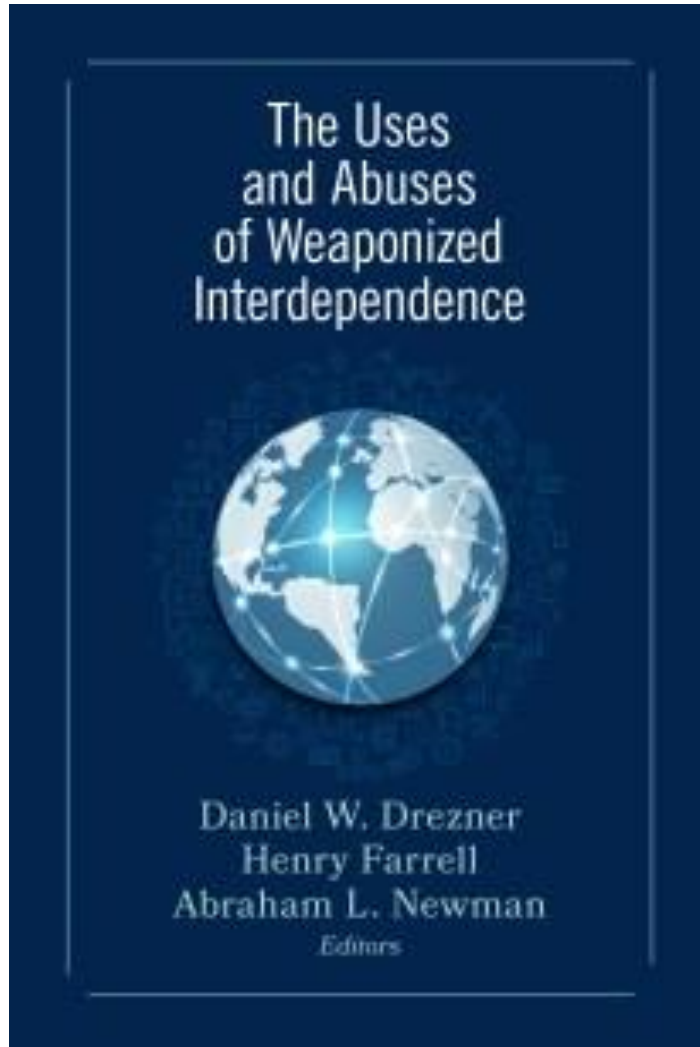
Geoeconomics

Theory and Practice

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WU Wien, June 6th, 2024

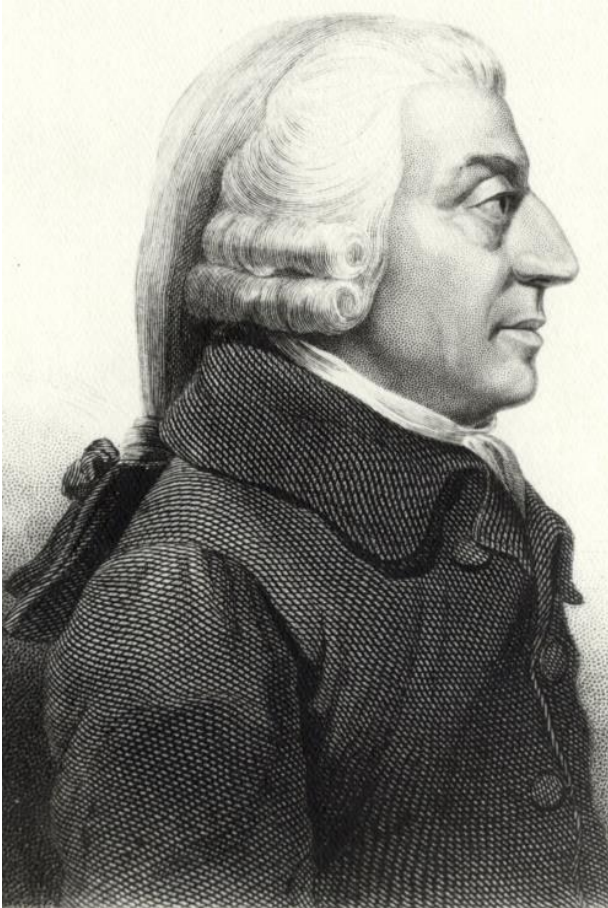
Geoeconomics: An emerging new field at the cross-section of Econ and PolSci



The pursuit of foreign policy objectives with economic policy instruments = economic statecraft

- **Persuasive** instruments (e.g., free trade agreements and other tariff cuts, and promise thereof) – Make Trade, Not War (Mayer, 2008)
- **Coercive** instruments (e.g., economic sanctions or withdrawal of earlier concessions, and threat thereof)

Pros and cons of international division of labor



An Inquiry into the Nature and Causes of the Wealth of Nations (1776)

- Promotes free competition and **division of labor**, intra- and internationally as a source of prosperity
- Criticizes the (attempted) exploitation of trade partners with ***beggar-thy-neighbour*** policies (tariffs, subsidies, ...)
- But: Division of labor creates **dependencies** and requires **trust** that dependencies are not opportunistically abused
- **Smith:** „...defence, however, is of much more importance than opulence“ (Book IV, Chapter II, p. 465)
- Argues that limitation of foreign trade can be necessary. In fact, „the act of navigation [banning Dutch ships] is, perhaps, the wisest of all the commercial regulations of England“.

Quelle: Wikipedia.

„Defense“ in international trade law

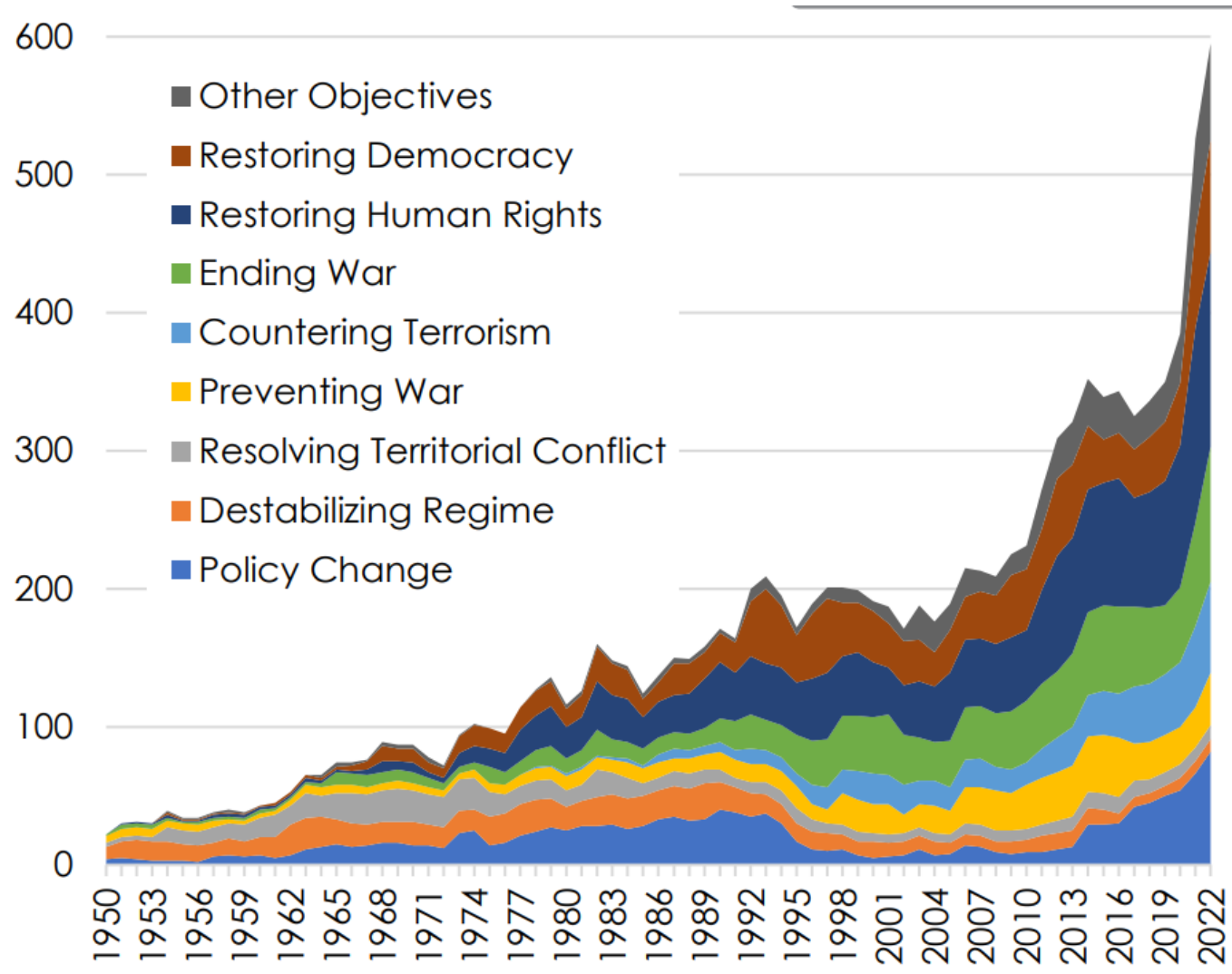
- GATT Art XXI: National security exemption – first triggered by D. Trump in 2018, since then imitated several times.
- **Section 232**: US steel and aluminum tariffs
- Dominance logic, zero sum game logic. WTO not made for this.



Absolute versus relative gains from trade

- **Economists** typically assume that policy-makers should strive at maximizing the absolute (real) GDP per capita of their own countries, foreign welfare gains are absent in the objective function
- **Political scientists** (e.g., Powell, 1991) stress that foreign gains also matter, in particular for security reasons
- **Generalized objective function** of country j : $W_j = (Y_j/N_j)^\theta (Y_j/Y_r)^{1-\theta}$ with (Y_j GDP, N_j population, r indexes a rival country. $\theta \in [0,1]$ measures trust in the context of systems competition
 - If $\theta = 1$: **Positive-sum environment**. GATT/WTO mechanisms (in particular non-punitive sanctions) induce cooperation
 - If $\theta = 0$: **Zero-sum environment**.
 - If $0 < \theta < 1$: Standard theory of GATT/WTO fails to hold. Need punitive sanctions that often will not work.

Number of Sanctions Episodes Rise, Objectives Change

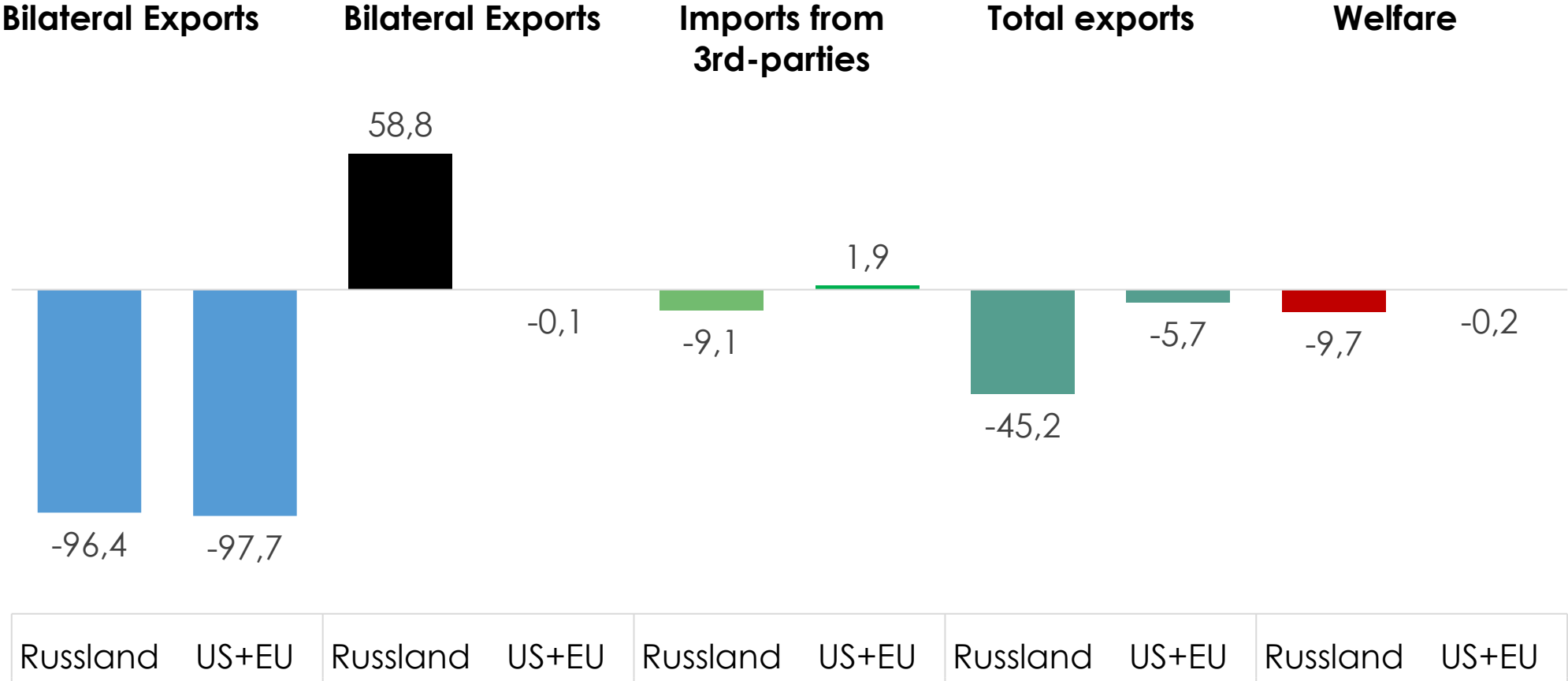


<https://www.globalsanctionsdatabase.com/>

- Global Sanctions Database collects and categorizes sanction episodes (outside of the remit of WTO-law)
- Objectives of sanctions are very diverse
- War by Other Means

Long-Run Effects of (almost) Full Decoupling from Russia

Change in % of base level



Q: Felbermayr et al., 2022. Annahme Handel zwischen EU, US, UK, JPN, CAN, KOR und RUS wird komplett eingestellt. Langfristige Effekte auf reales BIP pro Kopf.

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