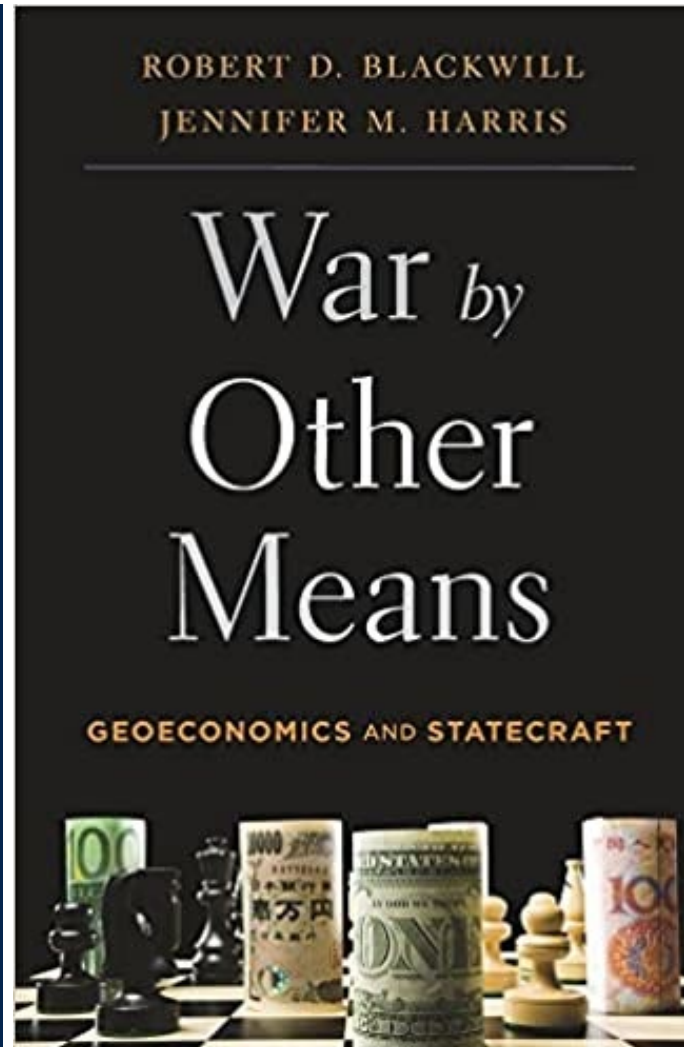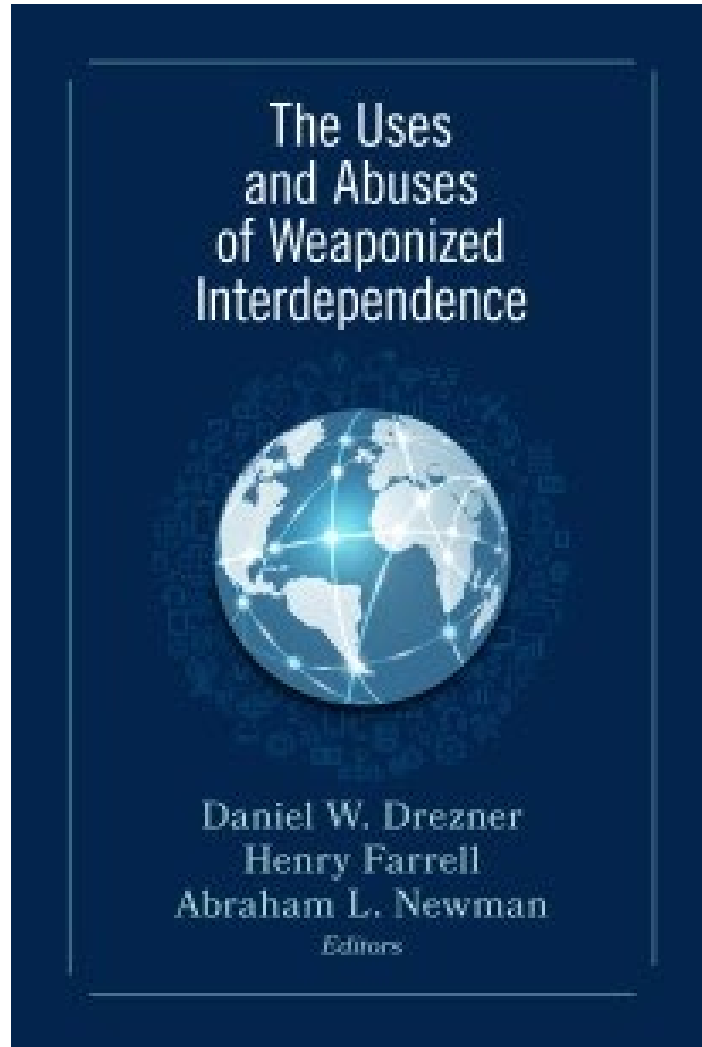# Geoeconomics
Theory and Practice

Univ. Prof. Gabriel Felbermayr, PhD

WU Wien, Sommer 2025
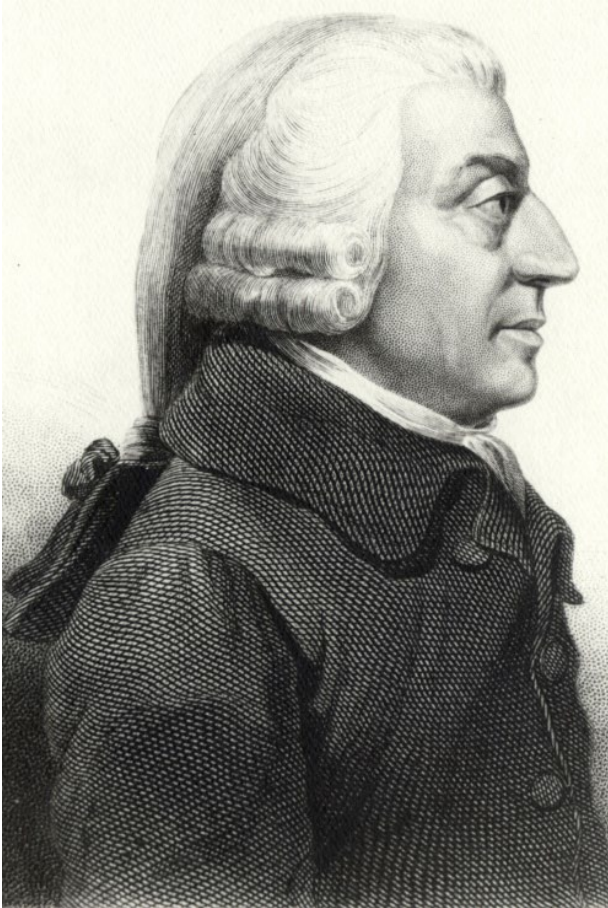
Geoeconomics: An emerging new field at the cross-section of Econ and PolSci

The Uses and Abuses of Weaponized Interdependence

Daniel W. Drezner
Henry Farrell
Abraham L. Newman
Editors

ROBERT D. BLACKWILL
JENNIFER M. HARRIS

War by Other Means

GEOECONOMICS AND STATECRAFT

The pursuit of foreign policy objectives with econmic 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)

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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

- Critizises 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.
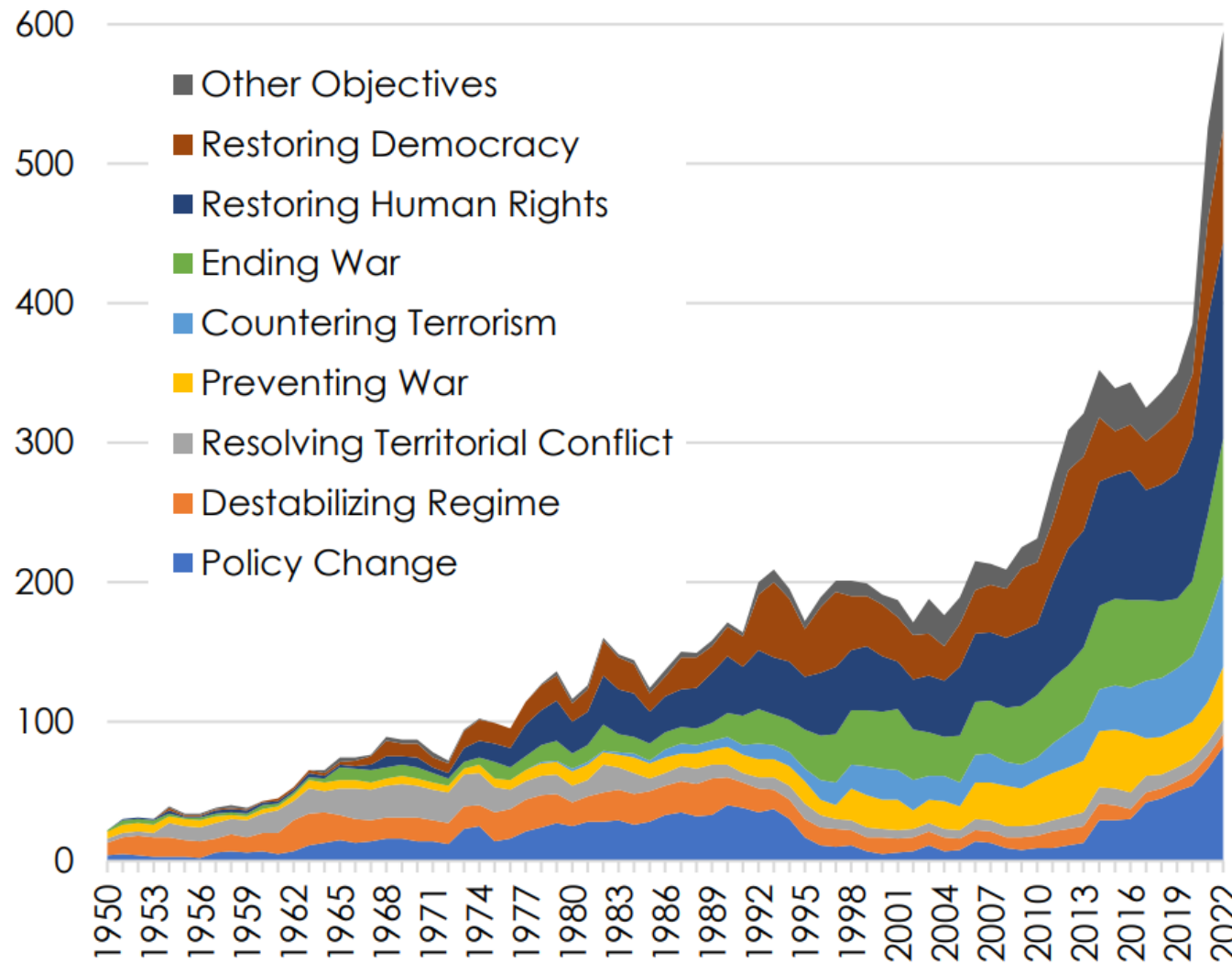
WIFO

„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.

WIFO

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: $W_j = \left(Y_j/N_j\right)^{\theta}\left(Y_j/Y_r\right)^{1-\theta}$ 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.

FELBERMAYR | War in Europe, What Can Sanctions Achieve?

WIFO

Number of Sanctions Episodes Rise, Objectives Change

Legend:
- Other Objectives
- Restoring Democracy
- Restoring Human Rights
- Ending War
- Countering Terrorism
- Preventing War
- Resolving Territorial Conflict
- Destabilizing Regime
- Policy Change

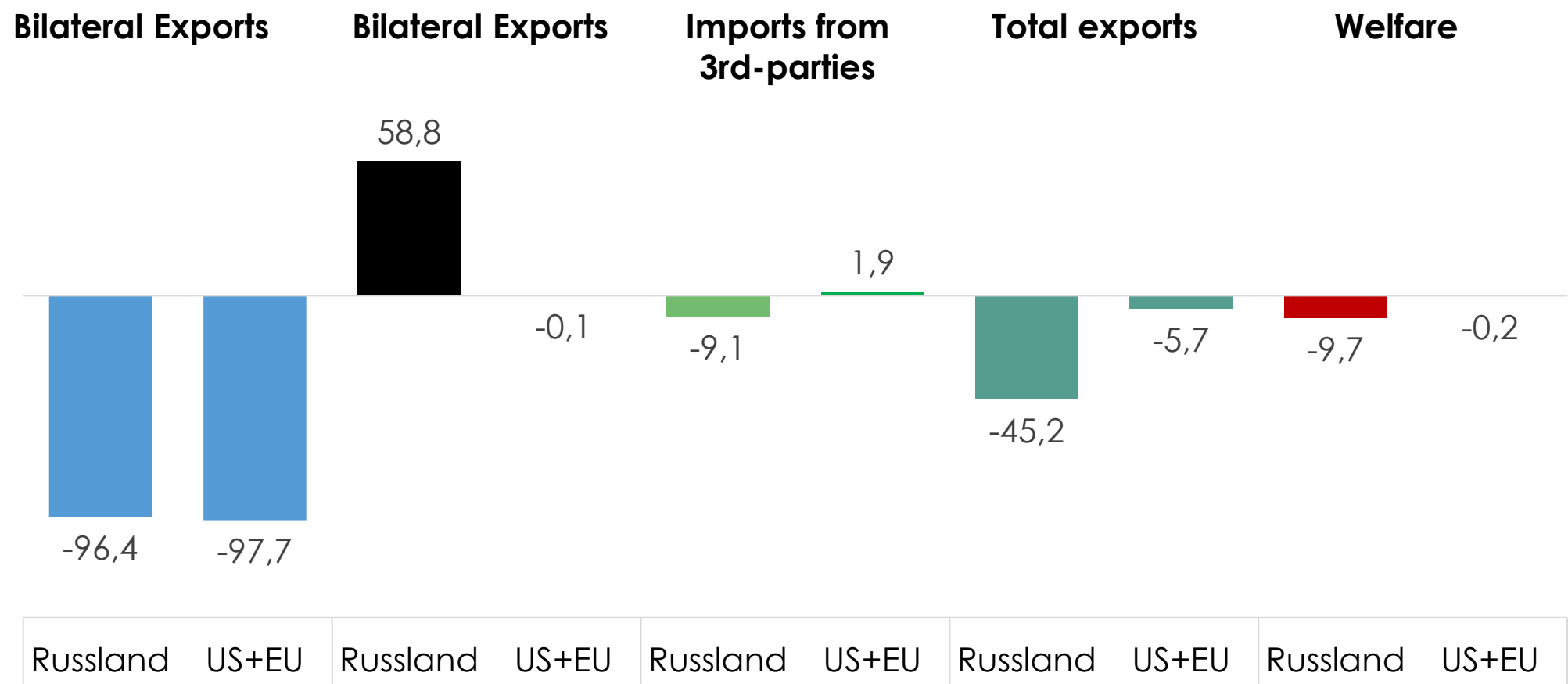https://www.globalsanctionsdatabase.com/

- 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

WIFO

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

Change in % of base level

	Bilateral Exports		Bilateral Exports		Imports from 3rd-parties		Total exports		Welfare	
	Russland	US+EU	Russland	US+EU	Russland	US+EU	Russland	US+EU	Russland	US+EU

Values: -96,4; -97,7; 58,8; -0,1; -9,1; 1,9; -45,2; -5,7; -9,7; -0,2

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