Putting Economics Back into Geoeconomics

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Discussants: Jeffry Frieden, Thierry Mayer

John Leahy opened the discussion by asking why the model focused primarily on the target of the hegemon. He suggested that the hegemon's capacity and willingness to exert power could also be important considerations.

Continuing the discussion of the model, Giovanni Violante noted that both the presentation and discussions focused on a setting with a single hegemon facing many targets. He asked whether the insights of the paper carry through to settings with multiple hegemons, suggesting that these scenarios might alter the dynamics of the Nash equilibrium. He also observed that, while the framework presented is static, real-world power relationships are inherently dynamic. Consequently, he wondered how much of the paper's analysis could be extended to a dynamic setting.

Matteo Maggiori began his response by acknowledging that these were all excellent questions, reflecting a broader research agenda currently underway. Addressing Leahy's questions about a hegemon's willingness to exert full power, he noted that while in the simple model the hegemon fully exerts its power, the general theory nests cases where some surplus to the target is left on the table. This results because full power exertion can deteriorate the equilibrium, potentially harming the hegemon itself. As an example, he cited U.S. policy toward Europe after World War II arguing that the U.S. chose not to extract full concessions in order to foster European recovery, which ultimately benefitted the U.S. as well.

Turning to Violante's point about multiple hegemons, Maggiori outlined two extreme cases: In the first, two hegemons operate on disconnected networks (e.g., during the Cold War), and the model reduces to two copies of the single-hegemon case. In the second, the hegemons are perfect substitutes, producing all the benefits of global enforcement without the associated costs. The challenge, he noted, lies in analyzing intermediate cases, which require determining spheres of influence — something left to the authors' ongoing work. Addressing the question of dynamics, Maggiori explained that extending the framework to an Arrow-Debreu-style model is trivial given the structure of their theory. However, imposing a recursive structure poses greater challenges and remains a topic for future research.

Maggiori then responded to questions raised in Thierry Mayer's discussion regarding the choice of a small open economy setting. This choice, he noted, not only improves communication with non-economists but also introduces rich economic content. The small open economy setting highlights the strategic logic behind hegemon targeting: The hegemon chooses small countries that cannot retaliate and whose decision to comply is governed solely by private costs. In this way, country size affects more than general equilibrium dynamics — it also determines a target's internalized costs and retaliatory capacity.

Maggiori further elaborated on how the hegemon's strategic game provides an alternative rationale for trade policy. While traditional models emphasize terms-of-trade manipulation, the power-building motive can lead to the opposite result. The goal becomes making key goods — such as the U.S. dollar financial infrastructure — cheap abroad, fostering dependency and making any threat of withdrawal costly for the target. Thus, tariffs aimed at improving terms of trade may conflict with a hegemon's strategic objective.

Olivier Blanchard then asked for clarification on how the authors distinguish hegemonic power from bargaining power. He also inquired about the key characteristics that generate hegemonic power: While size may matter, other factors, such as control over crucial inputs for global production, might also be relevant.

Maggiori explained that hegemonic power rises non-linearly in the share of an input controlled by the hegemon and (inversely) in the elasticity of substitution for that input. He emphasized that hegemonic status is endogenous — it emerges as an equilibrium outcome rather than from any intrinsic feature like market size. What matters is which sectors the hegemon controls and which allies it attracts.

This last aspect — the formation of alliances — becomes especially important in the multiple hegemon setting raised by Violante. Maggiori referred to earlier work where they allow for multiple hegemons, a framework requiring contracts over a network with multiple players. He highlighted the emergence of nonlinearities in this setting, exemplified by the role of Singapore in the global financial system. For the U.S., bringing Singapore into its alliance might be the difference between controlling 95% versus 98% of global finance — a seemingly small margin that becomes critical when imposing sanctions. For China, by contrast, allying with Singapore is not about gaining power, but about blocking U.S. dominance.

Frederic Mishkin continued the discussion by asking how the geoeconomics literature views the relationship between exerting economic power (e.g., through sanctions) and the likelihood of military conflict.

Maggiori responded that while they have not explored this connection in detail, there is relevant work by Thierry Mayer and Mathias Thoenig. He described economic power as lying between hard military power and soft power, like cultural influence. He argued that this middle ground was largely neglected and deserves further study. Economic threats are relatively inexpensive and can therefore occur between democracies or friendly nations. He concluded by noting that whether such threats ultimately lead to conflict is an empirical question and a matter of degree, not principle.

Finally, Benjamin Friedman observed that history offers examples of both linear and nonlinear patterns of hegemonic rise and decline. He asked whether the model can accommodate both types of dynamics.

Maggiori offered two responses. First, he emphasized the model's nonlinear treatment of power, which stems from the use of a CES structure. This ensures that power is non-additive, echoing insights from Albert O. Hirschman's work in the 1940s. He returned to the Singapore example: shifting Singapore from the U.S. alliance to China dissipates global power — the U.S. loses much, while China gains little. Second, he noted that in the multiple-hegemon framework, tipping points can emerge. Losing enough sectors may cause all targets to shift allegiance, leading to a breakdown in influence. While they have not fully modeled this dynamic, he considers it a plausible theoretical implication of their framework — a conjecture that invites further exploration.