

Editor's Letter

The Geoeconomic Calculus

THE END OF THE COLD WAR promised a more peaceful age of international relations, as most nations professed to follow agreed rules in a positive-sum game designed to benefit all. Today, that vision is under threat as governments increasingly turn to tariffs, sanctions, and export controls to advance national security goals. Around the world, the line between economic and national security policy is blurring. A new era of geoeconomics is taking hold.

How effective is geoeconomic power? Which sectors should be considered strategic? Is geoeconomic power always a zero-sum game, or can it generate global gains? And how can middle powers navigate this transition? This issue of *Finance & Development* explores the economic tools nations are using to shape the new global power dynamic. History offers some valuable guideposts.

Geoeconomics is not, in fact, new. Josh Lipsky reminds us that for most of the world—from Brazil to India to Türkiye—it's simply how international business has always been done. What has changed, he notes, is that the world's largest economy is joining in, with consequences for everyone.

Christopher Clayton, Matteo Maggiori, and Jesse Schreger provide a new analytical framework for understanding geoeconomics. They show how control of choke points—such as financial infrastructure, technology, or critical commodities—can confer immense power. But overuse of this power is self-defeating: It drives other nations to seek alternatives and erodes the very leverage being wielded. The authors call for policy tools that allow limited intervention to enhance economic security while preserving the benefits of globalization.

Jeffrey Frieden weighs economic coercion's costs and benefits, arguing that it takes a toll on efficiency, innovation, credibility, and even domestic cohesion. But Kim Ruhl asserts that enhancing geoeconomic resilience is essential, even if it means reduced efficiency. He argues that the US, in grappling with nonmarket actions by adversaries, must adopt tariffs, sanctions, and industrial strategies as tools of economic statecraft.

The stakes are especially high for those navigating between great powers. Sub-Saharan African countries face declining aid and a crumbling multilateral peace architecture, says Ethiopia's foreign minister, Gedion Timothewos. Yet he sees opportunities for leverage in the global race for Africa's critical minerals. N. K. Singh makes the case that



“Resilience matters—but so does restraint.”

middle powers such as India can shape the emerging order by building issue-based coalitions. And Beatrice Weder di Mauro challenges Europe to stop thinking of itself as a middle power and start acting like a great power in proportion to its economic heft.

Others examine how rivalry reshapes cooperation. Aaditya Mattoo, Michele Ruta, and Robert Staiger argue that geopolitical competition need not end trade cooperation, but it does require rethinking the rules. The multilateral system must make room for geopolitical rivalry while avoiding disruptive trade wars and protecting neutral countries.

A common thread emerges: Resilience matters—but so does restraint. Excessive dependence can be a vulnerability; excessive fragmentation jeopardizes the immense economic benefits that flow from cooperation. The challenge is to strike a balance—diversifying and cooperating where possible, and preserving institutions that make power predictable rather than arbitrary. Ultimately it is a shared commitment to rules that keeps the world economy connected.

Still, geoeconomics is likely not a passing phase. It describes a shift in how nations pursue security, growth, and influence in a more contested world. Economic thinking must evolve with real-world experience and account for these forces as policymakers navigate an increasingly volatile world.

There is much more to explore in these pages—including different perspectives and analysis on some of the most pressing global economic issues. I hope the articles stimulate fresh thinking and reflection and further debate. **F&D**

Gita Bhatt, editor-in-chief