

GEOECONOMICS, REDISCOVERED

Josh Lipsky

Around the world, the line between economic policy and national security is disappearing

“**W**hat is geoeconomics?” A senior Brazilian financial official leaned over and asked me that question during a session I was chairing in Rio de Janeiro in 2024, during Brazil’s G20 presidency. An Atlantic Council delegation had come to discuss stablecoins, supply chains, and Russia’s foreign exchange reserves.

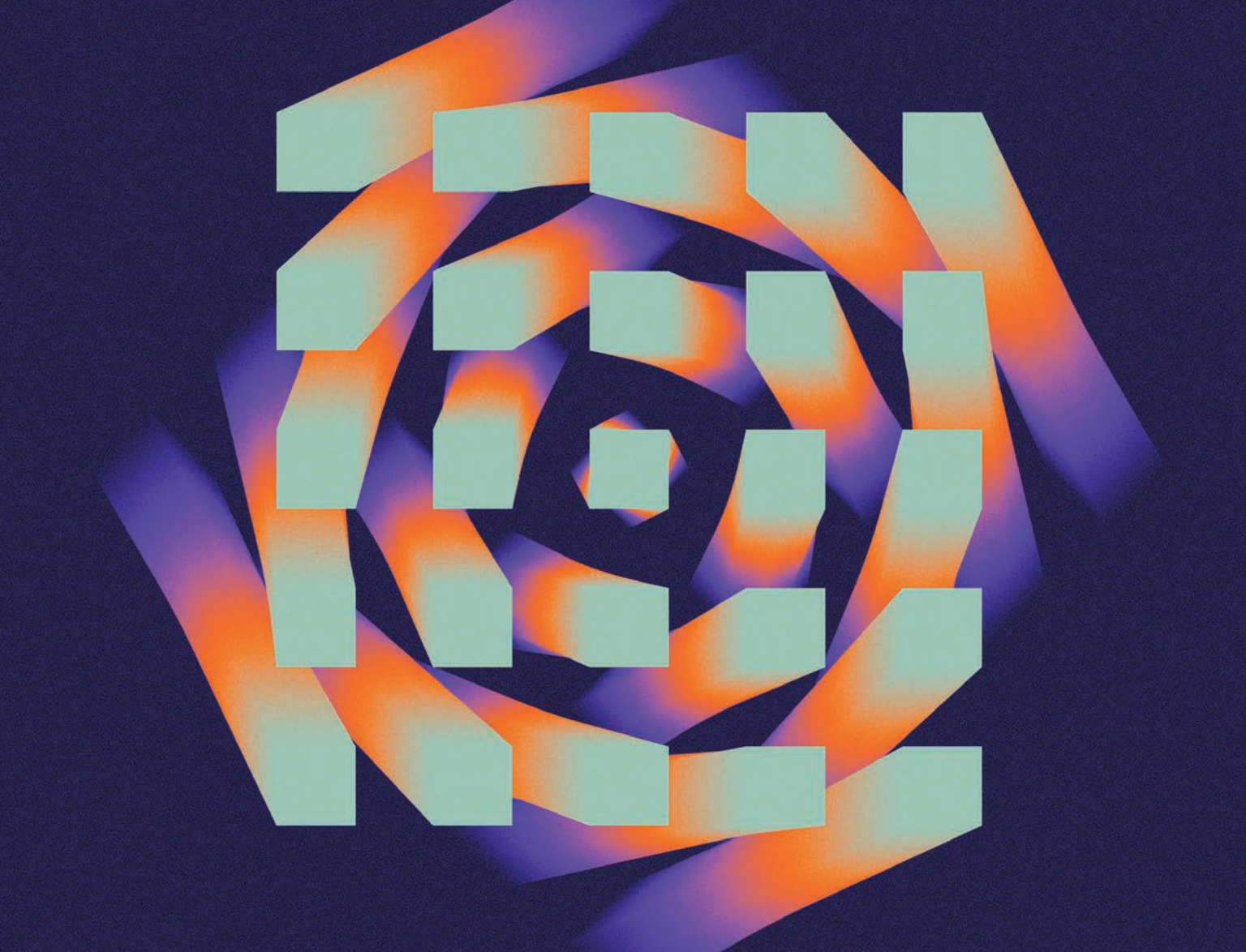
I quickly replied, “It’s this—what we’re doing right here, the combination of finance and national security.” “Oh,” he said and then paused. “Here in Brazil, we just call that policy.”

The truth is that while many in the West, especially in the United States and Europe, are rediscovering the concept of geoeconomics, for most of the world it is simply the way business is done. The idea of separating out national security and economics makes little sense for policymakers in countries like India and Türkiye, and of course Brazil, who every

day wake up and worry about a geopolitical shock that could limit their energy supply or a regional political conflict that would frighten foreign investors and trigger a sudden exodus of capital.

For much of the post-Cold War era—until the pandemic and Russia’s invasion of Ukraine—the US and Europe had the luxury of often separating economic policy from national security. Even after 9/11 and the rise of financial sanctions, Treasury officials in Washington still had to fight for a seat at the table during debates over the wars in Iraq and Afghanistan.

Wall Street and Washington could, and often did, operate on a disconnect. Over the past 15 years, as presidents of both parties and members of Congress continually raised alarms about China’s treatment of intellectual property and industrial overcapacity, US financial firms deepened investment and increased financial flows to Beijing.



Today, the ability to silo economic and national security policymaking is gone. The US is rediscovering geoeconomics and doing so within a system that also serves as the beating heart of global finance. As we've seen over the past five years through the rise of industrial policies, government ownership in private companies, and sweeping sanctions that reorient entire sectors and banks, this evolution is—and will continue to be—a painful and sometimes costly process.

Some will mourn this change, and others will celebrate it, but the reality is that for most of US history, geoeconomics was the norm. The past three decades were the exception.

Geoeconomics has a long and rich academic track record—but those textbook versions of geoeconomics don't fully capture what is happening now.

Today's geoeconomics lies at the intersection of finance, national security, and macroeconomics. It

is about how trade and capital flows are reshaped in real time by strategic rivalry. We at the Atlantic Council divide geoeconomics into three pillars. The first is the future of capitalism and trade—think of the Bretton Woods system and the challenge of inclusive growth. The second is the future of money—which comprises stablecoins, cryptocurrencies, central bank digital currencies, and payment systems. The third is economic statecraft—the tools of geoeconomics, including sanctions, export controls, and tariffs.

Cold War

A prime example of geoeconomics in US history is the Coordinating Committee for Multilateral Export Controls (COCOM)—launched in 1949. At the onset of the Cold War, President Harry Truman's commerce secretary, Averell Harriman, a founder of the famed Wall Street firm Brown Broth-

ers Harriman, argued that the US could not on its own pursue an export control policy to limit Soviet military capacity. He believed Western-aligned nations must coordinate with allies.

And so the US, working with West Germany, France, the United Kingdom, and eventually 17 countries, developed lists—including a dual-use technology list consisting of products such as computers and the processors that powered them. In 1952, the same group launched a sister project, CHINCOM, designed with even stricter controls on advanced computing exports to China. It all sounds eerily familiar.

These efforts were not painless or cost free. Companies tried end runs around the controls. The designation of certain products caused tension between the US and other countries, including the infamous late-1980s Toshiba-Kongsberg scandal, when the Soviets got hold of parts that made their submarines run more quietly.

But the system overall was effective and served its purpose until the early 1990s, when it was sunset.

Of course, as is true today, geoeconomics was not limited to goods—it is and always has been connected to how the money to pay for those goods moves around the world.

Consider the creation of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) in the early 1970s. After President Richard Nixon suspended the convertibility of dollars to gold, cross-border transactions in a range of currencies accelerated. First National City Bank (Citibank's predecessor) developed a new global messaging standard, but the risk of one large US institution dominating payments worried many, especially in Europe.

So a consortium of banks came together, across the United States and Europe, and developed the SWIFT system as a compromise. It would rely heavily on US financial institutions but would be headquartered in Belgium.

Today, a parallel fight is playing out between allies. A 2025 study for the European Parliament warned that “continued dependence on non-EU payment networks, particularly Visa and Mastercard, represents a structural vulnerability for both European banks and the Union’s financial sovereignty.” What do Visa and Mastercard have in common? They are US companies. Swap out Visa and Mastercard for First National City Bank and the same words could have been written in 1971.

Geoeconomics today

What is different today, however, is that the global economy has changed. The world’s largest economy—where finance accounts for about a quarter of corporate profits, whose roughly \$30 trillion Treas-

ury market anchors the global financial system, and whose central bank has repeatedly stepped in to stabilize markets not just for Americans but for the world—is reconsidering its model. Everyone else has taken notice.

In 2020, President Joe Biden’s national economic council director asked to deliver a speech on a “new industrial policy” at the Atlantic Council. It was a surprising request: For years in Washington, industrial policy had been a dirty word. But that speech was an early signal of the shift already underway.

In the years since, officials in several emerging markets have felt some satisfaction that the US is edging closer to something more like their model. In Delhi in 2024, one senior policymaker remarked that all those years of US lectures on free and open markets may have been “a bit of a mistake.” Many of those same countries have spent the past decade building foreign exchange reserves, diversifying suppliers, and signing regional currency swap agreements to weather the kinds of shocks they long assumed would come. Now that resilience is being tested, and the US is paying careful attention to a type of economic policymaking it too long ignored.

It would be a mistake in return, however, for the rest of the world to think the new US version of geoeconomics will match the Cold War version. Back then the US, a manufacturing powerhouse, could outcompete its adversaries on everything from cars to televisions. Throughout the 1960s and 1970s US GDP growth and its global share of manufacturing were consistently double the size of the Soviet Union’s. And even when that advantage waned in the 1980s, it was because Japan, an ally, caught up to the US. That made negotiations over everything from trade to currency easier to manage.

More danger

Today’s geoeconomics era is more complicated and dangerous. The world’s two largest economies, the US and China, are pursuing their own versions of geoeconomics in action. The tables have turned in several ways. China now produces roughly 30 percent of global manufacturing output, compared with about 16 percent for the US. This is not a short-term change, but our models have not yet accepted the new reality of great-power rivalry between the world’s largest economies. For financial policymakers, that means worries about higher risk premiums and more volatile capital flows have to be front and center.

The danger of this new era of geoeconomics is that once governments invoke it, it can become the gloss to justify almost any policy. US Commerce Secretary Howard Lutnick and his predecessor, Gina Raimondo, are both fond of saying, “Economic security is national security.”

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But another way of framing that concept is, “National security is whatever we say it is.”

In such a world businesses lose the predictability necessary for investment. Corporations change the way they interact with the government, and crony capitalism prevails. Money is wasted. Jobs are lost. Fragmentation, protectionism, and a world in conflict carry a high price tag.

So rediscovering goeconomics the right way—in a way that recognizes the progress of recent decades and alters, rather than abandons, the rules that made progress possible—could not be more critical. The rules-based system, which many now seem so willing to cast aside, delivered the greatest poverty reduction in human history and a dramatic rise in living standards both in the US and abroad—largely through more trade, investment, and technology diffusion.

But the world that produced those gains was not without its faults. Even as overall prosperity advanced at home and abroad, globalization hollowed out opportunity and resilience in too many places. The pandemic—and the supply shocks that accompanied it—laid that reality bare. That is why those who hope to return to an era of unbridled free markets will continue to be disappointed.

No going back

The United States is not going back. It is searching for a new system—or perhaps rediscovering an old one—willing to break the conventions of the recent past on trade and finance.

In 2022, Western policymakers found it.

Four years ago, on a Saturday morning in February, G7 countries decided to block access to the sovereign assets of a G20 country—Russia, which had just launched a full-scale invasion of Ukraine. More than \$300 billion in Russian central bank assets was immobilized, and most of it remains frozen today. It was the single most important goeconomic decision of the decade so far.

There was no playbook to consult. It happened because of individuals who thought creatively and tried to do something that even a few years earlier would have been dismissed as too risky. The groundwork had been laid over decades. From the rise of financial sanctions after 9/11 to the way the

dollar and euro worked together to pressure Iran into a nuclear deal in 2015.

What happened on that Saturday morning in 2022 opened a Pandora’s box the world will live with for a generation. It showed the world that Russia’s strategy of diversifying into euros after the invasion of Crimea in 2014—a rational approach in a pre-goeconomics world—no longer worked. Allies could now jointly weaponize payment systems at a moment’s notice to ensure that finance advanced national security goals. In fact, as Atlantic Council research shows, since the G7 sanctions response there has been a 100 percent increase in the number of pilot cross-border payment system projects (nearly all designed outside the dollar and euro systems).

While the sweeping sanctions came as a surprise to the Russian government and to much of the world, they should not have.

Goeconomics has always been part of US economic and foreign policy. The Bretton Woods system itself is the quintessential goeconomic creation—founded not after war, but during war, six weeks after D-Day.

That leaders from 44 countries would gather in New Hampshire to discuss a new international financial architecture while their fellow citizens were facing down gunfire thousands of miles away seems, on its face, illogical. But as President Franklin Roosevelt said at the start of the conference, “It is fitting that even while the war for liberation is at its peak, [we] should gather to take counsel with one another respecting the shape of the future which we are to win.”

No one had to explain what goeconomics meant back in 1944.

The challenge today is different: to navigate this new era, with all the global financial system’s complexity and interdependence, not to build a new system but to adapt one no longer fit for purpose. To see if the world’s largest economy can shift its economic policymaking without mass disruption at home and abroad. The distance between the world’s financial and political capitals is rapidly shrinking.

The change calls for economists to understand concepts like great-power rivalry and for foreign policy professionals to train in macro- and microeconomics as a prerequisite for their jobs.

And it means all of us in the West must relearn what most of the world never forgot: Goeconomics is simply how the world does business. **F&D**

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