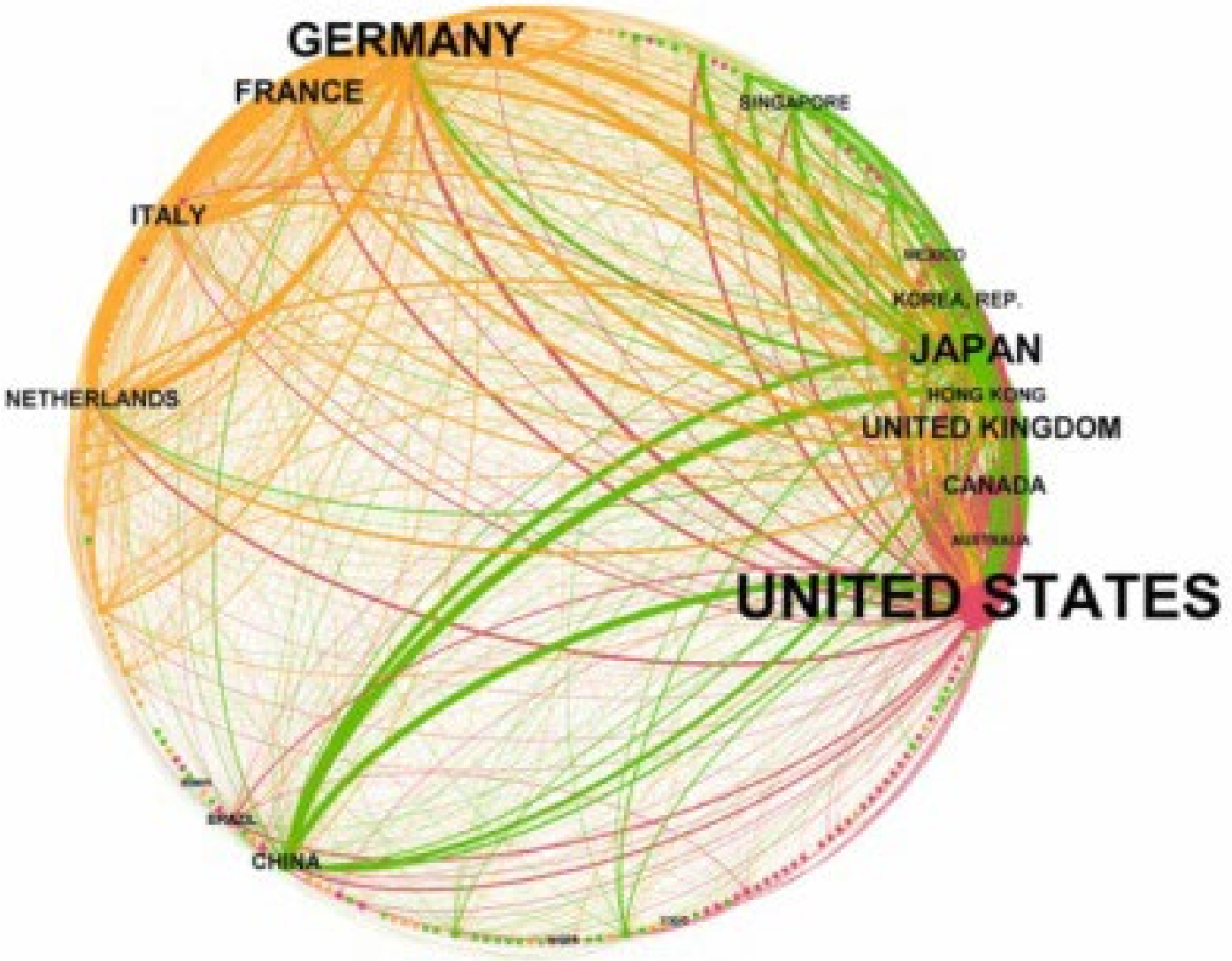
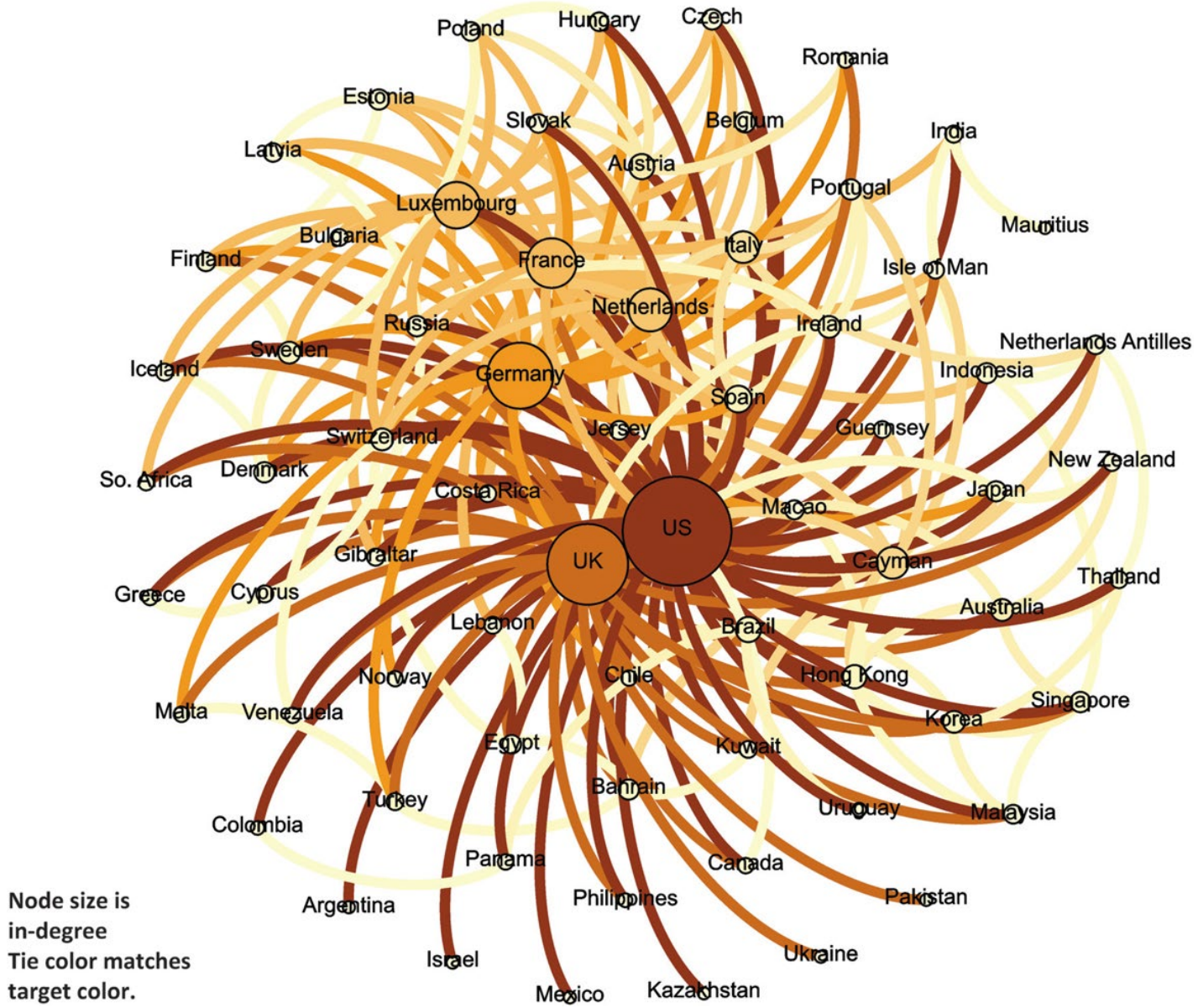
The Costs of Coercion

Jeffry Frieden
Columbia University

The global trading network



The global financial network



Network centrality is power

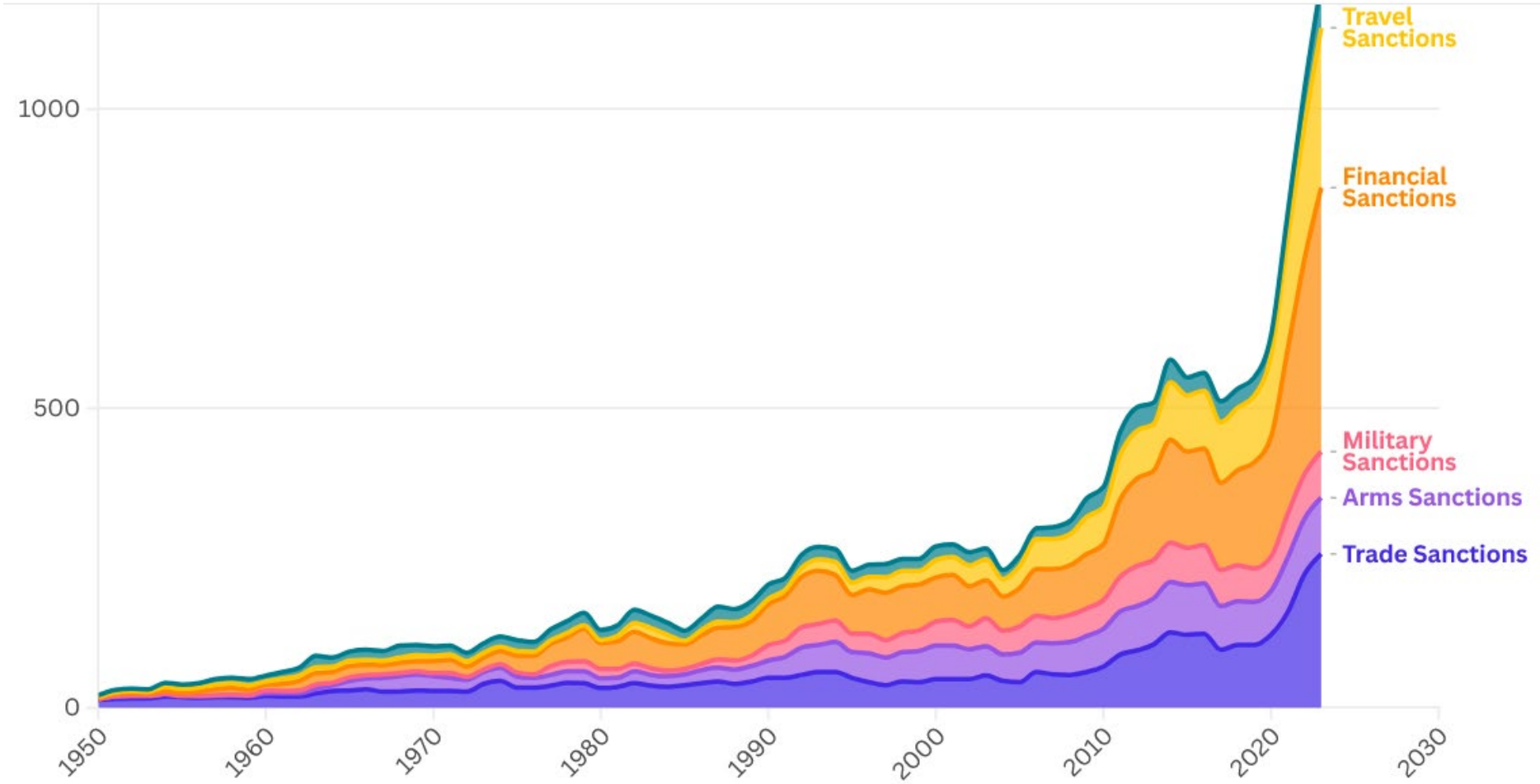
- To interrupt or tax trade
- To monitor/influence financial flows
- To freeze assets
- Economic power can be used
- What could go wrong?

Geoeconomics

- The use of economic tools for geopolitical purposes
- Governments at the center of trade/finance can use power to extract concessions.
- Concessions may be economic, or non-economic (geopolitical)

Geoeconomic history

- Mercantilism (16th–19th centuries): Colonial monopolies enforced by military force
- Free trade advocates (Smith, Ricardo) reject; 1850-1914 first era of globalization
- Interwar conflict brings geoeconomics backs; Cold War reinforces it
- Interlude for the second era of globalization
- The return of economic coercion (U.S., China, Russia)


Travel Sanctions
Financial Sanctions
Military Sanctions
Arms Sanctions
Trade Sanctions
1000
500
0
1950
1960
1970
1980
1990
2000
2010
2020
2030

Preliminary observations

- Two kinds of sanctioners
  - Normal countries
  - Major power → systemic effects
- Two kinds of sanctions
  - To bargain
  - To punish → permanent
  - Perhaps not so different….

Preliminary observations

- Success is hard to assess
  - Most effective sanctions are never observed
  - Observed sanctions have already failed
  - But there is evidence of mild success
- Benefits are hard to assess
  - Often non-monetary: national security, alliance behavior, deterrence
  - Even so, worth determining the costs

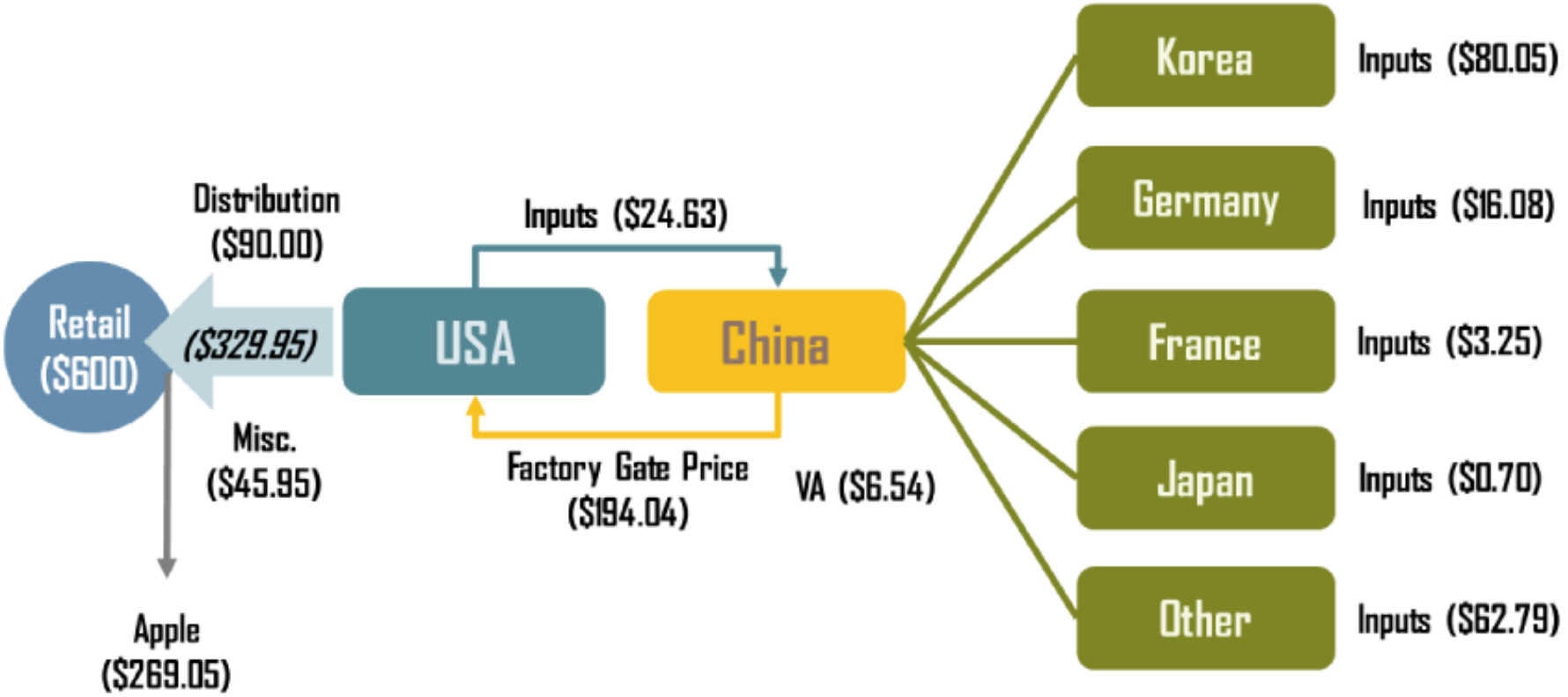
What could go wrong?

- Opportunity cost ≈ opportunities lost
- Opportunities for cooperation lost
  - Cooperation requires compromise of sovereignty
  - Coercion is the *use* of sovereignty for non-cooperative purposes
  - Coercion changes expectations of behavior
  - Once expectations change, difficult to change back
  - A reputation for credibility and reliability is valuable

Opportunities lost for…

- Aggregate economic efficiency
  - Restricting economic exchange pulls economies away from comparative advantage
- Specialization
  - Crucial to productivity growth
  - Economic benefits increase in specialization
  - Vulnerability also increases in specialization
  - Tradeoff between gains from specialization and costs of vulnerability

The iPhone4 from production to sale



Who makes 787 parts:

CHINA

COMPANY: **Chengdu Aircraft Industrial Group**

Rudder

COMPANY: **Shenyang Aircraft Group**

Vertical fin leading edge

COMPANY: **Hafei Aviation Industries**

Wing to body fairing panels

JAPAN

COMPANY: **Kawasaki Heavy Industries**

Midfuselage section

Fixed trailing edge

COMPANY: **Fuji Heavy Industries**

Center "wing box" fuselage section

COMPANY: **Mitsubishi Heavy Industries**

Wing box

SOUTH KOREA

COMPANY: **Korean Air**

Wing tips

Tail cone

AUSTRALIA

COMPANY: **Boeing** *(Melbourne)*

Movable trailing edges

Inboard flaps

CANADA

COMPANY: **Boeing** *(Winnipeg)*

Wing to body fairing assembly

Aft pylon fairings

Wing to body fairings

Main landing gear doors (body)

Main landing gear doors (wing)

FINAL ASSEMBLY: **Everett**

UNITED STATES

COMPANY: **Spirit AeroSystems**

Nose section *(Wichita, Kan.)*

Engine pylons *(Wichita)*

Fixed leading edges *(Tulsa, Okla.)*

Movable leading edges *(Tulsa)*

FINAL ASSEMBLY: **North Charleston**

COMPANY: **Boeing**

Aft fuselage sections *(North Charleston, S.C.)*

Vertical fin *(Frederickson, WA)*

Horizontal stabilizer *(Salt Lake City, Utah)*

COMPANY: **United Technologies** *(Chula Vista, Calif.)*

Nacelles

COMPANY: **GE** *(Evendale, Ohio)*

Engines

ENGLAND

COMPANY: **Safran**

Main landing gear

Nose landing gear

COMPANY: **Rolls-Royce**

Engines

FRANCE

COMPANY: **Latecoere**

Aft passenger doors

Forward passenger doors

SWEDEN

COMPANY: **Saab**

Aft cargo door

Forward cargo door

ITALY

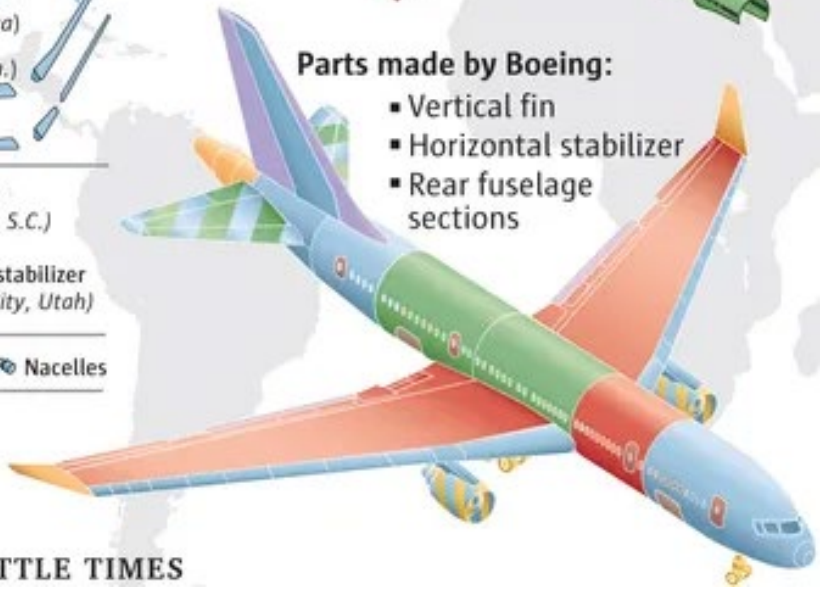
COMPANY: **Leonardo**

Horizontal stabilizer

Midfuselage sections

Parts made by Boeing:

- Vertical fin
- Horizontal stabilizer
- Rear fuselage sections



Reporting by DOMINIC GATES, Graphic by MARK NOWLIN / THE SEATTLE TIMES

Opportunities lost for…

- Innovation
  - Sanctions reduce incentives for R&D and market expansion.
  - Targets may increase innovative activity to replace denied technologies.
  - Example: U.S. export controls reduce R&D investment at home, increased abroad

Opportunities lost for…

- A country's reputation for reliability
  - Can raise borrowing costs and discourage long-term partnerships
  - Short-term coercion can trigger long-term decoupling
  - Partners seek financial and technological autonomy
  - Example: U.S. sanctions reduced dollar reserve use; coercive trade policies lead Brazil, India to reorient trade to China (cf. TPP → PCTPP)
  - Trading off long-term economic goals for short-term geopolitical goals?

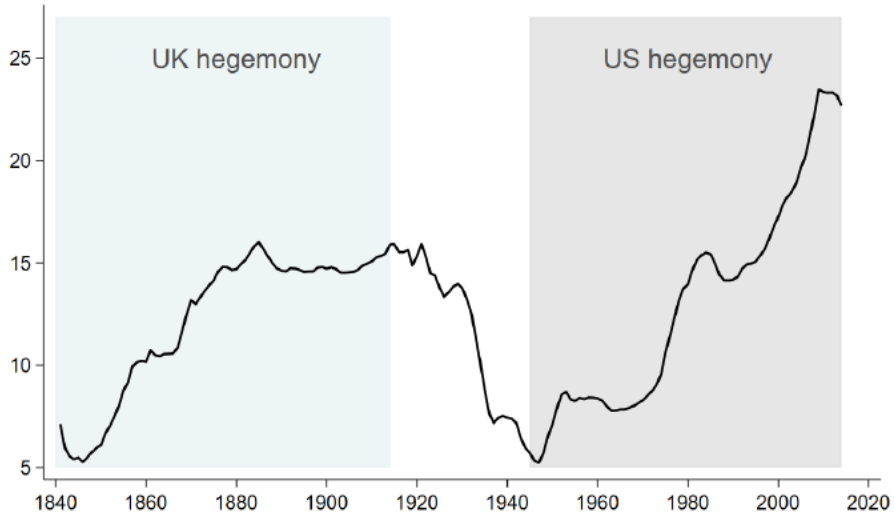
Opportunities lost for…

- Firms, industries, groups within countries
- Distributional conflicts emerge:
  - Domestic political influence affects nature of feasible geoeconomic measures
  - Concentrated benefits vs. public costs
  - Public benefits vs. concentrated costs
  - Politically connected groups may gain disproportionately.

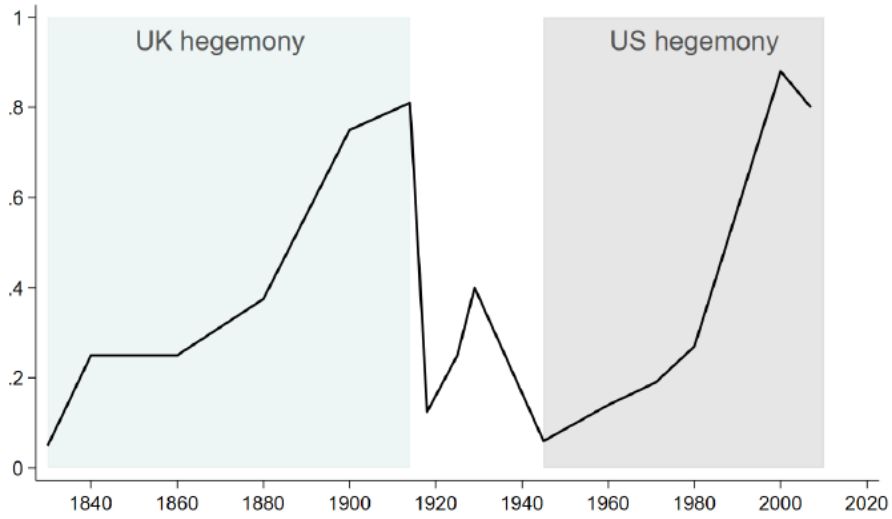
Geoeconomics for Major Powers

- Great powers shape global order – coercive or cooperative.
- Examples: UK/US hegemony – Pax Britannica and Pax Americana.

(a) Global exports as % of global GDP



(b) Global capital mobility index



Geoeconomics for Major Powers

- Great powers shape global order – coercive or cooperative (externalities)
- Examples: UK/US hegemony – Pax Britannica and Pax Americana
  - Global public goods and their provision
  - Current U.S. policies change expectations about cooperative behavior
- Systemic impact: potential fragmentation and regional blocs

Opportunities lost for world order

- Geoeconomic coercion weakens multilateralism
- Less trust → less trade and cooperation
- Example: 1930s isolationism deepened the Great Depression.
- Post-war economic order based on
  - American leadership
  - Multilateralism
  - Both now in question

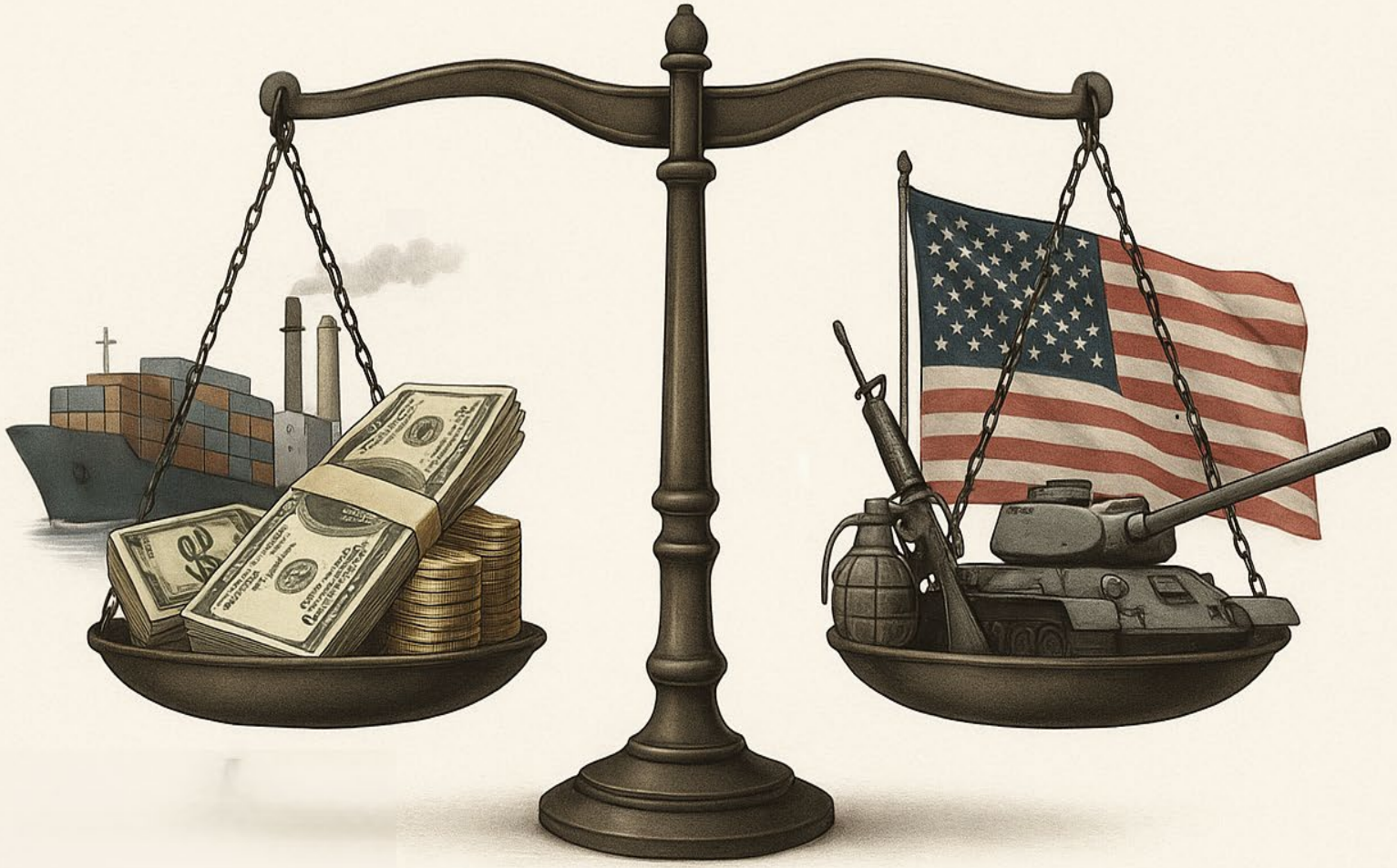
Policy Implications

- Not arguing that net costs are always negative
  - Rational govts would ensure they are positive
- Probably consensus on many
  - Blockade Nazi Germany, CoCoM during Cold War
- But need to weigh gains vs. costs
  - Especially ST gains vs. LT costs, advantage vs. reputation
- Align coercive tools with geopolitical goals
- For great powers: Consider systemic impact of coercion on economic openness, global and w/partners

Conclusion

- Economic coercion has real and measurable costs.
- Benefits may justify use, but require transparent evaluation.
- Wise use of geoeconomics balances power and prosperity
- At global level, geoeconomics can reinforce cooperation for global stability – or undermine it

The costs of coercion



Jeffry Frieden
Columbia University