PRINCETON SCHOOL OF PUBLIC AND INTERNATIONAL AFFAIRS

Policy Tradeoffs: Economic versus Geopolitical Risks

Comments on Jeffry Frieden, The Costs of Coercion

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The U.S. Economy in a Changing Global Landscape
Boston Fed 2025 Economic Conference

General Observations I

- Longstanding connections between geopolitical or security considerations and foreign economic policies.
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  - Military power used to extract.
  - Limits on exchange with strategic rivals.
- Sometimes inverted: economic ties help to prevent conflict.
  - Kant's perpetual peace & "spirit of commerce"
  - The European Coal & Steel Community and European Monetary Union

General Observations II

- Even at the height of late 20th/early 21st century globalization and rules-based liberal international order, geopolitics mattered:
    - Preferential trade agreements more likely with allies, all else equal.
    - Foreign aid driven in part by strategic interests.
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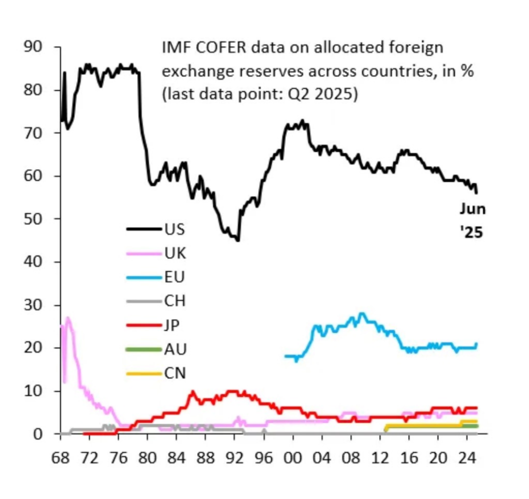
    - Preferential trade agreements more likely with allies, all else equal.
    - Foreign aid driven in part by strategic interests.
    - Operation of international financial institutions (IMF, World Bank) reflected influence of powerful member countries.
- Geopolitical weight gave powerful countries influence in a rules-based international order, but also generated resentment.
    - Frustration motivated other countries to search for alternatives (e.g. financing from Chinese creditors).

General Observations III

- Frieden's paper: largely from the perspective of country central to a commercial or financial network.
  - Should it use this centrality to coerce others, in service of its geopolitical aims?
  - While coercion may work in the short run, it also sets off a search for alternatives.

There is No Alternative?



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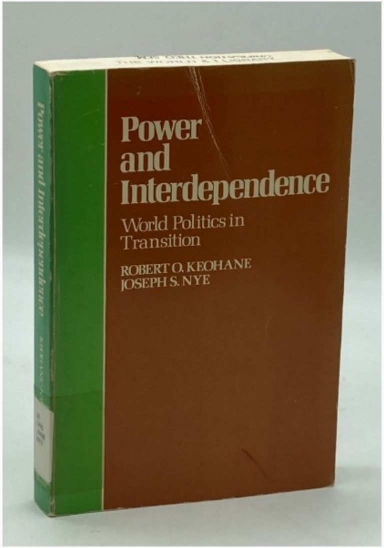
  - De-risking, friendshoring, resilience, decoupling.

Sensitivity and Vulnerability



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- **When vulnerable, how to reduce exposure?**
  - Uncertain benefits: hard to value future autonomy; and hard to predict what others will do to adapt.

Policy Instruments

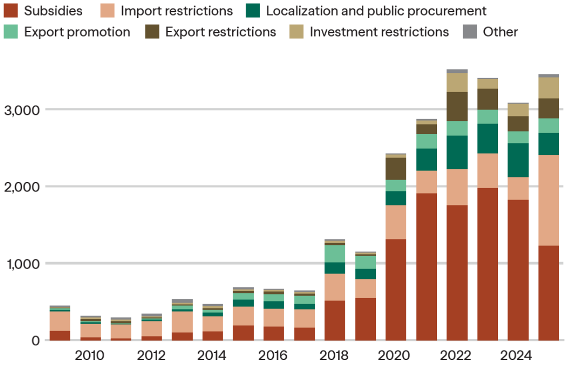
- Economic tools to effect or resist coercion are varied.
  - Frieden's focus: (trade or financial) sanctions, tariffs.
  - Carrots vs. sticks
- If aiming to reduce vulnerability, a range of additional instruments.

Policy Instruments

FIGURE 1

Interventions in the Global Economy Are on the Rise

Number of restrictive measures announced globally



Note: Data for 2025 is as of September.

Source: Global Trade Alert

Policy Instruments

FIGURE 5

Selected Tools From the U.S. Government's Economic Security Toolkit

TOOL	PURPOSE	U.S. GOVERNMENT AGENCY
Export controls and foreign military sales*	Prevent unauthorized transfer of sensitive technologies, strengthen alliances and defense supply chains.	Export controls: Commerce (BIS) enforces Export Administration Regulations (EARs) and licensing, Justice prosecutes and enforces penalties. Foreign military sales: Defense Security Cooperation Agency administers; State approves; Defense manages acquisitions. Congress reviews major cases.
Industrial policy*	Promote growth, resilience, and strategic industries through targeted investment.	Congress funds via legislation; White House, Council of Economic Advisors, and Treasury shape and operationalize policy.
Investment screening*	Safeguard infrastructure and technology from foreign influence via capital investment and manage risks from U.S. capital outflows to adversaries.	Treasury (CFIUS) reviews inbound transactions; Treasury, Commerce, State lead outbound screening; Defense, State, Commerce, Energy, Homeland Security contribute to inbound.
Sanctions	Restrict trade, financial transactions, or economic activities abroad to deter adversarial behavior and mitigate threats.	Treasury (Office of Foreign Assets Control) issues regulations and enforces compliance via civil penalties; Justice Department prosecutes violations.
Tariffs	Adjust imports to protect national security through Section 232 tariffs.	Commerce investigates threat and reports finding/recommendation to president, who decides and implements action.

*Focus of report

Council on Foreign Relations, Task Force Report 83, U.S. Economic Security, November 2025.

Policy Instruments

- How do governments evaluate choices among these instruments?
  - Are some instruments more prone to domestic political capture? (Veiled protectionism?)
  - Are mass publics more willing to support – and bear the costs of – certain instruments, or instruments aimed at specific targets?
  - Which instruments are more likely to damage international reputation, or to be viewed by foreign audiences as less legitimate?
  - Are there rules-based international means of governing the use of some of these instruments?

The Risks of De-risking & Decoupling

- Commercial peace was the result of domestic incentives to solve disputes peacefully.
- Economic integration also facilitated bargaining between countries.
  - Interdependence meant that trade or investment policy concessions could be offered in response to non-economic conflicts.
  - Issue linkage requires that countries are connected across multiple dimensions.
- Decoupled economies can no longer use economic relations to make concessions. Heightened risk of conflict?

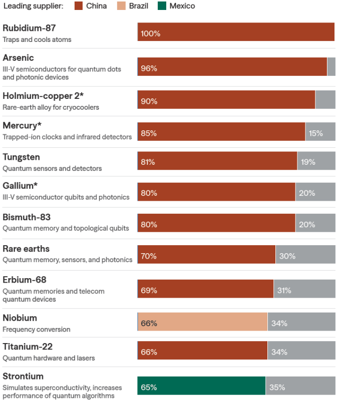
Appendix

Critical Minerals

FIGURE 11

Where Do Critical Minerals for AI and Quantum Come From?

U.S. import share for critical minerals where the United States is at least 65% dependent on a single country



*Values for mercury, holmium-copper 2, and gallium are approximated due to lack of data on global production and U.S. imports.

Source: U.S. Geological Survey