Geoeconomics and Conflict: A Review and Open Questions

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6 August 2025

Abstract: We examine the intersection of two subfields within political economy: geoeconomics and conflict. Geoeconomics is primarily concerned with the use of "economic weapons" of coercion, while the conflict literature mainly focuses on military weapons and war. We propose bridging these two approaches, focusing on the international dimension of conflict. We start by reviewing the existing literature linking both fields, in particular research on the relationship between trade and war and on the use of geoeconomic tools such as foreign aid and sanctions. We then highlight four main directions for future research. First, we call for a broader view of the geoeconomic toolkit, as rogue leaders do not limit themselves to economic coercion. In addition to economic weapons, future research should also consider more aggressive—and often costlier—forms of intervention short of war, including sabotage, cyberattacks, covert operations, and the sponsorship of terrorism or insurgency. Second, we require a better understanding of how geoeconomic tools affect the likelihood of conflict. Do sanctions, strategic tariffs, or military aid provoke or deter war? Third, more research is needed on the domestic political economy of geoeconomic actions and their link with conflict. When and why do governments and citizens support the use of economic versus noneconomic weapons? Finally, we stress the importance of research on explicitly peacemaking tools of diplomacy, including mediation, security guarantees, and transparency initiatives.

Key words: Geoeconomics, conflict, political economy.

*We are grateful to Juan Pablo Rud and to participants at the first annual ReCIPE conference at Paris School of Economics and the 80th Economic Policy Panel Meeting at CESifo Venice Summer Institute for their generous feedback.

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1. Introduction

Armed conflict can have devastating costs. It destroys physical capital, human capital, and inter-group social capital. Understanding the causes and consequences of conflict is crucial for human and economic development. In recent decades, economists and political scientists have predominantly studied civil rather than international wars. This focus on domestic conflicts was warranted, as internal wars have been the most prevalent form of armed violence around the world since the end of World War 2. Today, however, we are witnessing the return of international warfare. Figure 1 shows that from around 2015 onwards, fatalities from international conflict events have exceeded those from purely domestic events.[1] The rising threat of external war is exemplified by Russia's invasion of Ukraine and international involvement in recent conflicts in Gaza, Sudan, Syria, Yemen, and the Sahel. This reversal coincides with major transformations in the global political and economic order, including the decline of U.S. hegemony and the rise of new powers in Asia.

These developments raise challenging questions for economists. What do rising geopolitical tensions imply for economic behavior? What are the economic costs of international power rivalry and war? How is conflict shaped by international power dynamics, in particular economic power? Can economic power be leveraged to discourage conflict by deploying "economic weapons" such as sanctions?

Our goal in this pathfinding paper is to review the intersection of two fields within political economy that are well positioned to answer these and related questions.[2] The first is the emerging field of "geoeconomics", defined by Mohr and Trebesch (2025) as "the field of study that examines the links between geopolitics and economics," or, more broadly, the economics of international political power rivalry. The second is the more established field of conflict and security. At their intersection are topics such as the study of inter-state conflict, the international causes and consequences of intra-state conflict, and the connection between geoeconomic tools (such as economic sanctions and incentives) and conflict. By reviewing existing work at this intersection

[1] The figure uses fatalities from two-way conflict events ("battles") from 1989 to 2023, as measured by the Uppsala Conflict Data Program. International conflict events are defined as either inter-state or *internationalized* civil conflict battles, which are internal armed conflicts in which a foreign state is involved, either through military intervention or support to one of the parties.

[2] A few sub-sections of this paper, especially sections 3.1 and 3.2., draw heavily on the related survey by Mohr and Trebesch (2025). One of the five key fields of geoeconomics identified by Mohr and Trebesch (2025) is the economics of war, which is discussed in much greater depth in this paper.

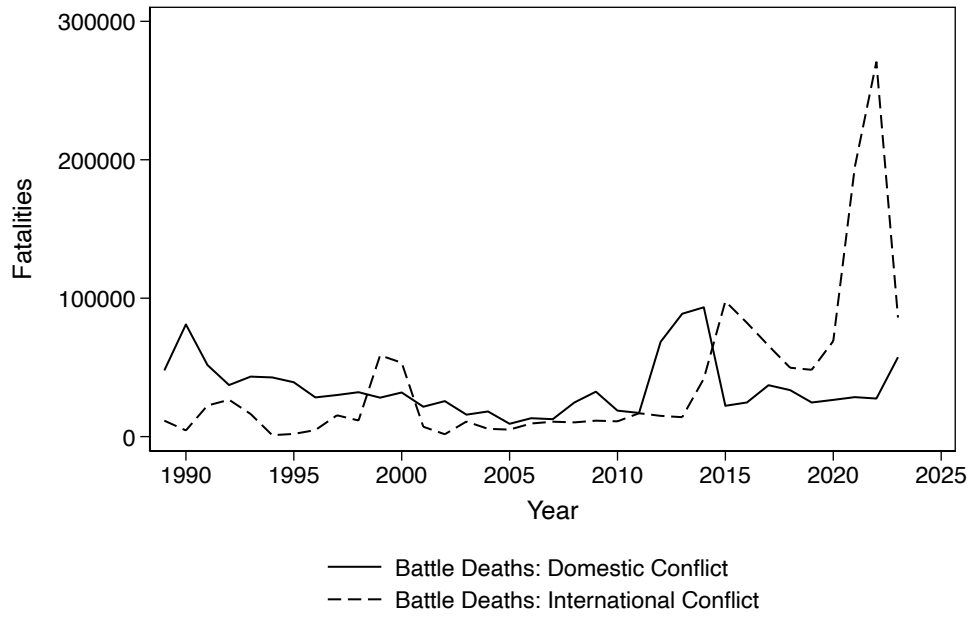

Figure 1: **Battle Deaths from Domestic vs. International Conflict**. Domestic events include non-state and localized intra-state battles. International conflict events are defined as either inter-state or *internationalized* civil conflict battles. The latter are internal armed conflicts where a foreign state is involved, either through military intervention or support to one of the parties. One-sided conflict (violence against civilians) is omitted. Source: UCDP

and by highlighting promising avenues for future research, we hope to bridge the gap between these fields and generate new insights on the international dimensions of political economy and conflict.

We take a broad view of the "geoeconomics and conflict" nexus. While the tradition in much of the political economy literature is to study domestic conflict over the balance of internal political power, we additionally focus on power rivalry in the international arena. In the context of Acemoglu, Johnson and Robinson (2005), for example, where the focus is on political tension between two domestic groups (i.e., the elite and civil society), we introduce a third actor in the form of extraterritorial groups with an interest in influencing outcomes, such as competing for power, extracting rents, or preventing conflict and instability. This broader focus on external groups (including states or "great powers") connects well with the classic definition of geopolitics by Lacoste (2006) as "the study of rivalries for power or influence over territories and the people who inhabit them".

In preparing this paper, we draw upon recent reviews in geoeconomics, such as Mohr and Trebesch (2025), Thoenig (2024) and Clayton, Maggiori and Schreger (2025b), and connect this

framework to established literature on the economics of conflict, as recently summarized by Rohner (2024), and Rohner and Thoenig (2021). We also stress that, in addition to political economy, these topics are of interest to economists and political scientists working across many fields, including international trade, finance, economic history, defense economics, or development, among other areas. Work at the intersection of geoeconomics and conflict therefore has the potential to connect various disciplines and fields of specialization, combining a broad mix of theories, methods, and data.

Outline and scope of the paper. In Section 2, we begin with a brief motivation that also serves as a conceptual framework for the remainder of the article. First, we discuss the economic costs of war, including the shadow costs of geopolitical risk and other spillover costs that propagate through economic networks. Geopolitical risk is associated with a decline in investments, employment, and stock market performance. Rising tensions in the international sphere can make trade more costly, as states may restrict the set of potential trading partners to geopolitical allies in order to reduce exposure to adverse geopolitical events. The literature on the economic costs of war can be traced back at least as far as World War I. We review work on the short and long term costs of conflict.

Second, we offer a brief primer on theory. Since conflict is so costly, why it occurs is a puzzle. There ought to exist an ex-ante transfer that is preferable to conflict for all parties. This bargaining space is increasing in the costs of conflict and decreasing in the spoils of conflict. This implies that the risk of conflict can be alleviated by interventions that either increase the opportunity costs of participating in war or decrease the value of appropriable rents. As outlined by Fearon (1995), among others, conflict still occurs despite this scope for a bargained resolution. There are three broad explanations for why bargaining can fail and war can occur. The first is asymmetric information on the relative probabilities of victory. If groups do not agree on their relative strengths, then a transfer may not be preferable to war for both parties. This suggests that external interventions that facilitate the free flow of information between potential belligerents may be effective in avoiding conflict. The second is the problem of commitment, whereby one side has an incentive to renege on bargained settlement. Interventions that can provide contract enforcement (via a security guarantee, for example) may be effective in resolving this problem. The third is the problem of political bias, or the extent to which is the pivotal decision-maker in a

society stands to gain from conflict relative to the rest of society at large. With a sufficient amount of political bias on both sides, conflict becomes inevitable. Reducing the political pro-war bias of pivotal-decision makers is another potential avenue for external actors to prevent conflict.

In Section 3, we review two topics at the intersection of geoeconomics and conflict that have received particular scholarly attention: the relationship between trade and war, and the use of geoeconomic tools. We start by reviewing work on the classic question of whether trade is a force for peace or a harbinger of conflict. The argument in favor of a pacifying effect comes from realizing complementarities in production due to the gains from trade. This increases the opportunity cost of attacking a trading partner. The argument against is twofold. First, trade can incentivize conflict over the distribution of the trade surplus. Second, in a highly globalized world of dense supply chain networks, countries are no longer as dependent on an individual trading partner. The availability of substitute trading partners can allow other incentives to fight to become more salient. The evidence suggests that while bilateral trade decreases the probability of war, global trade may increase it.

The second main body of existing work studies the suite of geoeconomic tools or "economic weapons" that become available to economically powerful states in a globalized world. This includes the classic tools of economic incentives and sanctions as in Baldwin (1985), as well as the closely related tools of "weaponized interdependence" as in Farrell and Newman (2019) and Drezner, Farrell and Newman, eds (2021). The effectiveness of any specific tool depends on the objective of the agent using it. For example, geoeconomic tools can be deployed to achieve narrow geopoltical ends, such as altering the balance of political power within a target state in favor of a friendly group. However, these tools can also be used with the aim of preventing conflict either within a target state or between two states. We are interested in understanding the consequences of both the narrow, rivalrous use case as well as the more enlightened use case. We review work on the mixed effects of economic aid, which can encourage development and improve perceptions of the donor country but is also highly context specific. We also review sanctions, including recent contributions using granular data on firms and individuals, as well as recent work on embargoes, blockades (in which all economic exchange with the target is halted) and the use of trade agreements and tariffs for geopolitical ends, e.g., the application of tariffs to damage the domestic political standing of a rival power's leader.

In Section 4, we turn our attention to promising avenues for future work. These are active

topics with the potential to generate important insights in geoeconomics and conflict. We focus on four broad pursuits. The first is on expanding the geoeconomic toolkit to capture the broader suite of policies used by rivals today. To better understand the behavior of unconstrained or rogue leaders, it is important to study not just classic “economic weapons" like sanctions and embargoes, but also more aggressive forms of interventions such as military aid, support for insurgents and terrorists, cyber attacks, or the sabotage of industries or infrastructure. The common thread across these "tools" is that they are deployed by one actor to influence the balance of political power in another jurisdiction or on the global level. How these tools interact, whether they are complements or substitutes, and how costly they are for both the sender and target are critical topics. Research on these questions is relatively thin and of increasing importance.

The second open question is whether (or when) the use of geoeconomic tools raises or decreases the risk of conflict. A central promise of globalization has been that, in an integrated world, states can deploy non-violent tools to discourage conflict and manage instability. In the 2010s, observers such as Pinker (2011) or Blackwill and Harris (2016) therefore predicted a world in which conflicts increasingly take the form of “war by other means", meaning geoeconomic wars without the deployment of soldiers or drones. However, both conflict and geopolitical risk still exist in our globalized world, and they are clearly on the rise again. Why this is the case is a central question of our time. When does economic warfare and decoupling result in military escalation and when does it contribute to de-escalation and deterrence? There is much scope for work on the degree of substitutability between kinetic and non-kinetic interventions, and for work on strategic responses to geoeconomic policy, whether violent or otherwise.

The third promising research area is on the domestic political economy of geoeconomic policies. Leaders are generally concerned with their domestic political survival, and these considerations must be taken into account when studying the comparative statics of foreign policy decisions. In the arena of geopolitics and conflict, work has been done on audience costs and credible signaling, where democratic leaders can make more credible threats and commitments due to the domestic costs of backing down; pro-war bias and political agency frictions, where hawkish actions are facilitated by unaccountable political power; and the peace-versus-survival dilemma, where leaders are discouraged to end wars if they face costly personal consequences in their aftermath. Rigorous work on the domestic political economy of geoeconomic policy more generally is a fruitful avenue for future research.

The fourth avenue is on the use of explicitly peacemaking tools of diplomacy, which include efforts to address the roots of bargaining failures via, e.g., mediation, security guarantees and armed peacekeeping, as well as other initiatives designed to reduce incentives to fight, e.g., multilateral transparency initiatives in natural resource supply chains.

Finally, across all of these promising areas for future research, we encourage work using granular data and/or large-scale text corpora that allow for the use of causal inference methods and for identifying precise causal mechanisms, where applicable. Many of the most striking advances in the recent literature take these state-of-the-art empirical methods to the many long-standing 'big-picture' research questions that have existed in international relations for some time, suggesting that the rigor-versus-relevance tradeoff may not be strictly binding in this nascent field.

2. Motivation and Theory

In this section, we review the costs of war and geopolitical risk, before the considering the 'puzzle' of why war still exists given these costs.

2.1. Costs of War and Geopolitical Risk

War is extraordinarily costly. Human fatalities from civil and interstate wars are estimated to have been almost 20 million from 1944 to 1999 (Fearon and Laitin, 2003). Moreover, it is estimated that the indirect effect of conflict on fatalities is roughly equal to the direct effect, meaning that for each person killed in war there is another who dies due to the consequences of war, which include disrupted markets, services, and disease environments. The destruction of human capital due to conflict can create conditions for a 'war trap,' since a reduction in labor productivity in turn reduces the opportunity cost of partaking in further conflict (Rohner and Thoenig, 2021). War also often entails sexual violence (Cohen, 2013).

Scholars have been studying the economic costs of international war since at least World War I (see, for example, Clark, 1916, Rossiter, 1916, Clark, 1931). More recent accounts examine the effects of war and associated violence against civilians on a broad range of outcomes, including forced displacement and other long-run cultural and political legacies (for a recent survey see Munroe, Nosach, Pedrozo, Guarnieri, Riaño, Tur-Prats and Valencia Caicedo, 2023).

Mueller (2012) estimates that the average civil war reduces GDP per capita by around 18% initially, with a recovery of about 5%. Inter-state wars are estimated to cost around 10-15% of GDP and require 15-20 years to recover (Organski and Kugler, 1977). The impact of war on trade alone is estimated to be about 3% of GDP for large-scale wars (Glick and Taylor, 2010). Compared to other macroeconomic shocks, Barro (2006) and Barro and Ursúa (2008) show that major international wars are among the most disastrous, and can lead to collapses in consumption, GDP, and asset prices in affected countries.

Recent research has focused on the large cross-country spillovers of war, with the economic costs increasing in the vicinity of the fighting (Federle, Meier, Müller, Mutschler and Schularick, 2024b, Federle, Meier, Müller and Sehn, 2024a). This is in line with Davis and Weinstein (2002) and Miguel and Roland (2011), who document the large and long-lasting destructive impact of bombing campaigns on economic activity in the affected areas. More evidence on economic spillovers from Caldara, Iacoviello and Yu (2024a) indicates that international wars are associated with shortages in the US economy. Wars can also force substitutions between local and imported inputs, with large adverse effects on firms (e.g. Amodio and Di Maio, 2017), supply chains (Korovkin, Makarin and Miyauchi, 2024), and economic networks more generally (Couttenier et al. 2024).

Looking beyond macro aggregates, war exposure increases out-group hostility and lowers civic engagement, which might explain the persistent effect of war on economic activity and trade (Rohner, Thoenig and Zilibotti, 2013, Dell and Querubin, 2017).[3] This is in line with the transaction-level analysis by Korovkin and Makarin (2023), who show that after Russia's attack on Ukraine in 2014, trade decreased more for firms in areas with fewer ethnic Russians, where the erosion of inter-group trust due to the war was greater.

A growing literature examines various shadow costs of conflict, including the costs of containing violence and of war threats. Caldara and Iacoviello (2022) define geopolitical risk as "the threat, realization, and escalation of adverse events associated with wars, terrorism, and any tensions among states and political actors that affect the peaceful course of international relations." Using this definition, they develop various geopolitical risk indices based on newspaper articles going back more than 100 years. Leveraging these indices, they then show that geopolitical risk

[3]Other research shows that individuals that were exposed to war violence exhibit higher levels of local cooperation and civic engagement (Bauer, Blattman, Chytilová, Henrich, Miguel and Mitts, 2016).

shocks are correlated with declines in investment, employment, and equity markets, as well as an increased likelihood of major economic crises. Their work has spurred a substantial empirical literature on the spillover effects of geopolitical risk on asset prices, inflation, and bank lending. For a survey, see Hodula, Janků, Malavaná and Ngo (2024).[4]

2.2. Why Does War Happen?

The large and diffuse costs of conflict yield two important theoretical implications. The first implication is that, since conflict is so destructive, why does it occur at all? The inefficiency of war is a well known puzzle in the literature. Below, we briefly discuss the conditions under which conflict is more likely to be avoided. The second implication is that, since these costs are so diffuse across borders, there ought to exist strong incentives for external actors—either third-party states or multilateral institutions—to intervene in order to prevent conflicts from beginning. Connecting these observations, there likely exists both the rationale and the scope for geopolitical tools to be used to foster peace effectively.

The bargaining range for Coasian transfers that prevent conflict exists precisely because conflict is so destructive. Any distribution of resources that exists following a war could have been arranged without incurring the associated costs, implying that both groups could feasibly be better off choosing peace. In the simplest contest models of war, this bargaining range is determined by the ratio of the costs of conflict to the benefits (or 'spoils') of conflict. The more costly it is to fight, both in terms of direct costs and foregone production, the less likely is conflict. Similarly, the greater the gains from conflict, for example the value of appropriable resources controlled by a state, the more likely is conflict. The clear implication from the perspective of external actors is that, in order to incentivize peace, it may be profitable to increase the costs of conflict and/or decrease the value of the spoils.

The existence of this bargaining range indicates that, in a frictionless world, conflict should never happen. Why it does is the focus of a rich theoretical literature (see, for example, Fearon (1995), Powell (2006), Jackson and Morelli (2007), and, for an excellent recent survey, Baliga and Sjöström (2024)). We consider three causes of bargaining failure that are most relevant. The first is asymmetric information on the relative strengths of potential belligerents. If either

[4]See, for example, Caldara, Conlisk, Iacoviello and Penn (2024b), Niepmann and Shen (2024) and di Giovanni, Kalemli-Özcan, Silva, Soylu and Yıldırım (2024) . A distinct but related approach is taken by Hassan, Hollander, van Lent and Tahoun (2019), who use earnings calls to measure firm-level geopolitical risk.

group overestimates its probability of success, then conflict may occur despite the grave costs involved. In Fearon (1995), this problem is sustained by both sides having strong incentives not to share private information on readiness for battle. One reason for this incentive is that revealing one's true strength might undermine bargaining power in negotiations over a transfer. Another is the more obvious fact that revealing this information might be strategically costly, directly lowering the chances of victory. The problem of asymmetric information is potentially more acute in the case of inter-state or internationalized conflict—the focus of this article—where social networks between groups might be weak and misperceptions might be substantial. The policy implication is that, in cases where asymmetric information is at the root of bargaining failures, interventions that incentivize the exchange of information between parties (or between each party and a mediator) could be conducive to peace.

The second cause of bargaining failure relates to commitment problems. If either group is incentivized to renege on a deal by attacking unilaterally, then a transfer will not sustain peace. The typical remedy in this scenario is to ensure that a contract can be enforced by a third party. Again, this is potentially a more salient problem in the context of inter-state and internationalized conflict since there is no third-party government who can credibly enforce a contract. This is likely to be even more challenging in the absence of a willing hegemon. The potential scope for a successful intervention in this case is a credible security guarantee or, perhaps more promisingly, multilateral peacekeeping operations.

The third cause of bargaining failure comes from political agency problems within one or both groups. If the pivotal decision maker for a group—say, the autocrat in an autocracy—stands to gain more from conflict than the rest of group at large, then war can happen in equilibrium. This idea has roots at least as far back as Kant (1795) and is formalized by Jackson and Morelli (2007), who label the term "political bias." The basic idea is simple: if leaders stand to gain from conflict without internalizing the costs, then conflict is more likely to occur. The authors show how a sufficient amount of bias on both sides will guarantee conflict, even if transfers can be feasibly enforced. Evidence in favor of this mechanism is provided by McGuirk, Hilger and Miller (2023), who exploit variation in the degree to which members of the U.S. Congress are exposed to the costs of conscription in the 20th century. They show that legislators with sons who are of eligible age to be drafted are between 7-11 percentage points less likely to vote in favor of conscription than otherwise similar legislators with daughters of the same age. The

implication is that political agency frictions are an important reason why wars occur. This is one explanation for why democracies tend not to fight other democracies—as the pivotal decision maker approximates the median voter, these frictions are likely to ease. In terms of external policy lessons, efforts to encourage democratic accountability within countries may be fruitful. It may also be worthwhile to consider the calculus of the pivotal decision maker and directly influence the payoff from conflict that they face.

In sum, the theoretical literature provides a clear framework for external actors who are interested in influencing the likelihood on conflict within or between states. Efforts to shape the costs and benefits of war for participants are first-order. Theory also suggests that mediation efforts may succeed in easing informational problems, while peacekeeping and security guarantees may be successful in addressing commitment problems. Increasing democratic accountability within states is also likely to reduce a leader's incentive to fight. We take these lessons into our review of the empirical literature.

3. Geoeconomics and Conflict: Reviewing the Intersection

A fundamental promise of liberal globalization is that, by deepening economic integration between nations, it will render war more costly and thus more rare. Moreover, to sustain peace, members of the international community will be able to deploy (or threaten to deploy) *economic weapons* rather than physical weapons to coerce potential belligerents and maintain order. In this section, we briefly review the literatures on (i) the relationship between trade and war and (ii) the classic 'geoeconomic' toolkit of economic incentives and sanctions that states use to discourage adversarial behavior.

3.1. Trade and Conflict

Scholarship on the relationship between trade and war goes at least as far back as Montesquieu, who argued that "doux commerce" (literally 'sweet' or 'soft' commerce) tends to civilize trading partners, who are less likely to fight as a result. According to this Enlightenment-era liberal view, trade reduces the likelihood of war between groups because economic interdependence and commercial linkages raise the opportunity cost of conflict. One of the central questions in

this literature is whether economic integration indeed brings peace, or rather the opposite. (For an excellent overview of this topic, see Thoenig, 2024).

Rohner et al. (2013) outline the potential for multiple equilibria arising from this relationship. Trust and cooperation are conducive to trade. If groups successfully trade, they reap the peace dividend that is sustained by increasing opportunity costs of conflict. However, a shock to this equilibrium—say, a violent incident—can reduce trust between groups, which in turn undermines their propensity to trade. This process reduces the opportunity cost of conflict between them, which can lead to a 'war trap' equilibrium that is reinforced by low trust and low trade. They propose this cycle as one potential explanation for the persistence of conflict that is evident in the empirical literature. They emphasize the importance of fostering inter-group (say, inter-ethnic) cooperation and trust to avoid this bad equilibrium.

The 'realist' view, by contrast, argues that economic integration heightens interstate rivalries, as growing interdependence fuels concerns over strategic vulnerabilities and intensifies competition for trade gains and critical resources (e.g. Hirschman, 1945, Waltz, 1979, Findlay and O'Rourke, 2007, Clayton et al., 2025b).

Martin, Mayer and Thoenig (2008) bridge liberal and realist perspectives, showing that globalization has a dual effect on conflict: while higher bilateral trade reduces war risk due to growing mutual dependence, deep global integration can raise it by enabling countries to escape bilateral dependencies and reorient their trade away from (potential) adversaries. Their paper helps to explain why large wars have declined, but smaller, localized conflicts have risen. Thoenig (2024) builds on this logic in a geoeconomic setting, showing how efforts to reduce dependence on a rival can unintentionally raise global conflict risks. The security dilemma he outlines is illustrated for the case of US-China decoupling. An initial rise in trade costs may bring welfare gains for the US by reducing dependence on China. However, if trade costs increase too much, global conflict risk may escalate, resulting in overall lower US welfare.

In light of recent developments and rising conflict risks, a promising related literature examines the optimal degree of economic decoupling, as well as policies of strategic dis-integration and reshoring, from a theoretical perspective (Sturm and O'Connor, 2024, Mayer, Mejean and Thoenig, 2024, Alekseev and Lin, 2025, Kooi, 2025). Empirically, Liu and Yang (2025) show that rising geopolitical tensions lead countries to adopt trade policies aimed at increasing their economic leverage in the event of future conflict. Specifically, they find that countries tend to reduce exports

and increase imports vis-à-vis less-aligned partners.

To further understand the theoretical mechanisms linking economic complementarities and peace more generally, it is worth also examining micro-level studies that go beyond the strict case of international trade. Jha (2013) provides a theoretical structure that is applicable in many contexts. He argues that peace and tolerance between groups can be sustained if economic exchange satisfies three conditions: (i) economic complementarities between groups, which implies positive sum interactions that benefit both sides; (ii) group specific comparative advantage that is intangible, which makes each group valuable to the other and discourages appropriation; (iii) the existence of a credible outside option for the minority group, which increases their economic power. He provides evidence that historical inter-ethnic complementarities in trade between Hindus and Muslims have created a lasting legacy of ethnic tolerance in South Asian towns. Muslim-specific advantages in Indian Ocean shipping during the medieval period made inter-ethnic cooperation particularly strong in trading ports, where institutional mechanisms developed to support further exchange. Using town-level data spanning medieval and colonial South Asia, Jha finds that medieval ports were significantly less prone to Hindu-Muslim riots from 1850 to 1995 compared to other towns. He attributes this difference to local institutions formed during the medieval era, which continue to foster inter-ethnic trust and shape contemporary occupational patterns.

3.2. Geoeconomic Tools: The Poison Cabinet of Economic Weapons

In an integrated world, countries can employ a large variety of economic policy tools to advance their geopolitical objectives. In this section, we consider the main, classic tools of economic statecraft as understood by Baldwin (1985), that is, economic carrots and sticks that can shape outcomes in target countries. For complementary overviews, we point the reader to Clayton et al. (2025b) and Blackwill and Harris (2016).[5]

While some of the classic instruments are clearly deployed with geopolitical aims in mind (e.g., sanctions), others can have additional or alternative motives (e.g., development aid). Among those driven by geopolitical aims, it is worth stressing that these tools may be deployed in order to achieve narrow political ends, such as gaining market access, while others could be used to

[5]In Section 4, we will move beyond these well-known tools and take a broader view that also considers more aggressive actions in the realm of "gray-zone warfare", such as the sabotage of infrastructure, industrial espionage, cyberattacks, or weapons aid.

prevent or discourage conflict within or between states. In either case, it is important to establish an evidence base for each tool, whatever the motive. The common feature of each tool is that states leverage economic capacity in pursuit of geopolitical aims.

Economic Aid

Foreign aid includes a wide range of instruments—humanitarian assistance, disaster relief, development aid, export credits, and concessional loans or grants. Unlike sanctions, such aid is rarely accompanied by explicit geopolitical messaging. Nonetheless, empirical evidence shows that geopolitical considerations significantly influence the allocation of aid across space and time (Alesina and Dollar, 2000, Kuziemko and Werker, 2006, Faye and Niehaus, 2012, Dreher, Fuchs, Parks, Strange and Tierney, 2022).

With respect to conflict, theory suggests that economic aid can generate potentially countervailing effects, either by increasing the opportunity costs of conflict or by increasing the value of appropriable rents.[6] Programs that increase the economic returns to labor, for example by boosting human capital, ought to reduce conflict, while programs that introduce 'lootable' resources, such as cash or food, may have the opposite effect unless they are provided in a secure environment.

Hearts and Minds There is evidence that foreign aid can positively affect attitudes towards the donor country. Andrabi and Das (2017) document improved trust in Europeans and Americans in the wake of a 2005 earthquake in northern Pakistan. The authors interpret this finding as evidence that international humanitarian aid efforts can generate a positive 'hearts-and-minds' response toward Westerners in a predominantly Muslim population.

Dell and Querubin (2017) find further evidence that economic aid can generate popular support among communities. They exploit a spatial regression discontinuity that demarcated two contrasting approaches by US armed forces during the Vietnam War. On one side of the border, U.S. Marine Corp (USMC) aimed to provide security by winning support through development programs. On the other, the U.S. Army relied on overwhelming power through search-and-destroy raids. As expected, public goods provision was higher on the USMC side of the boundary. In addition, the USMC side experienced fewer insurgent attacks by Viet Cong (VC) fighters and

[6]Economic aid could also alter the relative probability of victory. For example, if the state captures rents from aid, it might be better able to disincentivize rebel violence.

was less likely to have a VC presence. Moreover, citizens on the USMC side expressed more positive attitudes toward the United States and all levels of the South Vietnamese government. The pattern indicates that support for VC insurgents was undermined by public goods provision in USMC areas while it was boosted by the more aggressive approach in army-controlled areas.

A seminal contribution by Berman, Shapiro and Felter (2011) provides a theoretical framework for considering how such 'benign measures' can be successful in combating insurgencies. In a model where citizens can choose to inform counterinsurgency (i.e., state) or insurgent forces, greater public goods provision strengthens state support and reduce violence. This effect is greater where the public goods provision is informed by local needs. A follow-up paper (Berman, Felter, Shapiro and Troland, 2013) yields further support for information-centric ('hearts and minds') counter-insurgency strategy, this time highlighting the complementarities between jointly providing economic aid and security, with the latter acting as protection against looting, a mechanism that arises in the basic theoretical framework above. This finding is echoed in Sexton (2016) with an application to Afghanistan.

Foreign Aid and Conflict Nielsen, Findley, Davis, Candland and Nielson (2011) find evidence that is consistent with the above accounts, namely that a severe decrease in aid revenues leads to more armed conflict. In this case, the theoretical mechanism works through a shift in the domestic balance of political power toward rebels, who then advocate for future resource transfers. If the aid shock proves to be temporary, the state cannot credibly commit to this transfer, leaving a bargaining failure of the type discussed in the previous section and ultimately a significant increase in the onset of armed conflict.

Using cross-country panel data, de Ree and Nillesen (2009) find that foreign aid significantly reduces the duration of civil conflict in Africa. The authors instrument aid flows using changes in donor-country GDP, yielding potentially causal estimates and a notable advance relative to previous cross-country studies in this regard.

Crost, Felter and Johnston (2016) provide evidence that the opportunity cost mechanism is one reason why foreign aid can reduce violence. Studying a conditional cash transfer program in the Philippines that was partly funded through loans from the World Bank and the Asian Development Bank. The range of conditions included child vaccinations, school attendance, and even ensuring that no family members were (or appear to be) active in an armed insurgency. In

other words, the design of this program clearly increases the opportunity cost of conflict. The authors find that the program led to a substantial decrease in conflict incidents.

The broader literature on foreign aid and conflict suggests that context is critical. Nunn and Qian (2014) examine the effect of U.S. food aid on conflict in recipient countries. Instrumenting food aid with temporal variation in U.S. wheat production and cross-sectional variation in the tendency to receive U.S. aid, they find that more food aid increases the incidence and duration of civil conflicts, but not inter-state conflict or the onset of new civil conflict. The finding is consistent with the idea that in-kind 'lootable' resources can prolong existing conflicts.

Similarly, a large community-driven development (CDD) program in the Philippines also led to an increase in conflict. Exploiting a discontinuity in assignment criteria, Crost, Felter and Johnston (2014) find that barely eligible municipalities experienced more conflict, most likely because armed rebel groups attempted to sabotage the programs in order to weaken government support. This pattern is consistent with the model in Berman et al. (2011), described above, in which insurgents compete with the state for the support of civilians.

Evidence of foreign aid's mixed effects on conflict are central to McGuirk and Nunn (2024), who examine the impact of World Bank agricultural projects in Africa. When projects that are designed to increase the productivity of crop agriculture are assigned to traditionally agricultural areas, the risk of conflict falls by around 50% and economic activity increases by around 25%. This finding is consistent with the large literature on opportunity costs and conflict—by raising productivity in a labor intensive sector, these projects succeeded in discouraging would-be combatants from joining armed groups. However, a markedly different picture emerges when a crop agriculture project is assigned to a traditionally pastoral location. By generating competition for land between two groups—i.e., a contestable resource—these 'mismatched' projects increase the risk of conflict by upwards of 200%. This finding highlights the importance of local context for external actors designing economic aid projects.

Similarly mixed findings are found by Beath, Christia and Enikolopov (2025) in the context of an insurgency in Afghanistan, where development projects reduced violence and increased government support in interior regions, where insurgents tended to be local, but not in peripheral villages near the Pakistani border, where insurgents tended to be foreign. They conclude that development programs in these contexts are only effective where insurgents are reliant on the local population for support.

Economic Sanctions

Sanctions are the most prominent geoeconomic policy tool and have been studied extensively in the literature, as covered in surveys by van Bergeijk, ed (2021), Felbermayr, Morgan, Syropoulos and Yotov (2021), and Morgan, Syropoulos and Yotov (2023). The authors of the much-used "Global Sanctions Database" define sanctions as "restrictive policy measures that one or more countries take to limit their relations with a target country in order to persuade that country to change its policies or to address potential violations of international norms and conventions" (Morgan et al., 2023, p. 3). This includes trade sanctions, financial sanctions, military sanctions, or person-specific sanctions (e.g., on travel, asset freezes).

Theoretically, sanctions could be viewed as a tool deployed by external parties to undermine current military actions or to influence the expected costs or benefits of conflict for potential belligerents. Accordingly, following the onset of World War 1, sanctions emerged as a prominent "economic weapon"—not only deployed during conflict, but increasingly used as a strategic alternative to war, aimed at preventing future aggression (Mulder, 2022).

A growing body of theory explores the costs sanctions impose on both sender and target states, and provides insights into their effective design and implementation (Kaempfer and Lowenberg, 1988, Eaton and Engers, 1992, de Souza, Hu, Li and Mei, 2024, Johnson, Rachel and Wolfram, 2024, Clayton, Maggiori and Schreger, 2023, Sturm, 2024, Itskhoki and Ribakova, 2024). Empirical analysis of sanctions began with the influential study by Hufbauer, Schott and Elliott (1990). Subsequent research finds that while sanctions may shorten civil wars, they often impose severe burdens on civilian populations (Dashti-Gibson, Davis and Radcliff, 1997, Escribà-Folch, 2010). For example, using micro-data, Bundervoet and Verwimp (2005) study the effect of sanctions on the health status of children in Burundi. They find that a rural Burundese child who was exposed both to the civil war and to the subsequent sanctions (that significantly raised prices) had a height-for-age score that was 1 standard deviation lower than a comparable child who was not exposed to either shock.[7]

Most studies focus on the effects of sanctions on target countries—especially sanctions in the realm of trade (Felbermayr, Kirilakha, Syropoulos, Yalcin and Yotov, 2020, Dai, Felbermayr, Kirilakha, Syropoulos, Yalcin and Yotov, 2021, Kohl, 2021), finance (Cipriani, Goldberg and La Spada,

[7]More recently, new datasets have allowed a growing literature to examined both the determinants and impacts of sanctions – for an overview of developments in sanctions data, see Portela and Charron (2023).

2023, Drott, Goldbach and Nitsch, 2024), central bank asset freezes (Krahnke, Minesso, Mehl and Vansteenkiste, 2024), or smart sanctions on firms or individuals (Ahn and Ludema, 2020, Draca, Garred, Stickland and Warrinnier, 2022, Nigmatulina, 2023), with inconclusive results on sanction effectiveness. A newer line of research also examines the repercussions of sanctions for sender countries (Crozet and Hinz, 2020, Besedeš, Goldbach and Nitsch, 2021), as well as the responses of third countries (Corsetti, Demir and Javorcik, 2024).

A promising new strand of research leverages increasingly rich and granular data, which enables researchers to make progress on identifying causal relationships and uncovering heterogeneous effects, shedding light on the winners and losers of sanctions. Recent research on sanctions against Russia has shown that, while well-connected firms have been spared from the effects of targeted smart sanctions against elites, the Russian economy more generally has experienced substantial losses in terms of imports, TFP, and output (Nigmatulina, 2023, Egorov, Korovkin, Makarin and Nigmatulina, 2024). A related literature uses large-scale text data to study the mechanisms of economic coercion or "geoeconomic pressure" that includes off-path threats that induce compliance without explicit policy changes (Clayton, Coppola, Maggiori and Schreger, 2025a).

Finally, there is also scope for studying the downstream consequences of sanctions on outcomes in low-income countries. For example, sanctions on Russia were partly responsible for the spike in fertilizer and food prices in 2022. Tracing the effects of these price movements on conflict in Africa or other less developed regions is a worthwhile topic for future research.

Embargoes and Blockades

Embargoes and blockades are an extreme form of sanctions, as they tend to imply a complete halt in economic exchange. They are most commonly deployed during wars or armed conflicts and their economic effects have been analyzed in a small but growing body of work (Irwin, 2005, Etkes and Zimring, 2015, Fetzer, Feld, Lambert and Garg, 2024, Lambert, 2012, Mulder, 2022, Juhász, 2018).

One particularly important topic in the context of this article's scope is the effectiveness of arms embargoes and the control of cross-border flows of weapons more generally. Arms embargoes are perceived to be a potentially less costly alternative to general sanctions, although there are potential challenges with respect to enforcement. Brzoska (2008) finds that multilateral arms

embargoes are more successful than unilateral ones, and argues that embargoes are more effective when bundled with other policies. Hultman and Peksen (2017) finds that while sanctions (or the threat of sanctions) appear to increase the intensity of conflict, arms embargoes on the other hand are likely to reduce conflict violence. The paper strongly suggests that arms embargoes have the potential to be an effective tool for external actors to reduce conflict.

There is an obvious challenge in studying illicit weapons flows, given that data on the flow of banned items is difficult to observe. In an innovative paper, DellaVigna and Ferrara (2010) develop a method to detect illegal arms trading using stock valuations of weapons producers. They show that, in countries under arms embargo, events that suddenly increase conflict intensity lead to positive returns for firms that are headquartered in countries with high corruption and low transparency in arms trading. Based on their model, they outline a general method to detect embargo violations.

Finally, Gallea (2023) uses plausibly exogenous variation in the supply of arms to show that arms imports significantly increase the risk of internal conflict in Africa, especially violence against civilians. The finding is inconsistent with the common refrain that weapons flows are endogenous to conflict and thus that banning them will not meaningfully affect violence.

Trade Agreements and Strategic Tariffs

Geopolitical incentives also influence the signing and content of trade agreements (Eichengreen, Mehl and Chițu, 2021), which tend to increase geopolitical alignment between countries. According to Vicard (2012), 'deep' agreements that involve customs unions and common markets are associated with a lower probability of conflict, while 'shallow' agreements that involve less integration (e.g., partial scope and free trade agreements) do not. Importantly for this article, regional trade agreements (RTAs) can confer exceptional benefits to groups of potential adversaries, who in addition to reaping the standard gains from trade can also reap a peace dividend by increasing the opportunity costs of conflict. Using data on RTAs from 1950 to 2000, Martin, Mayer and Thoenig (2012) show that this complementarity between economic and politics determines the likelihood that countries join trading blocs. Moreover, country pairs with a higher frequency of past wars are more likely to sign RTAs. This pattern is consistent with the model of trade and trust war traps in Rohner et al. (2013), where countries are highly motivated to signal trust and move to the good equilibrium of trade and peace. Broner, Martin, Meyer and Trebesch (2025) develop a theory in

which hegemons promote policy alignment—such as in legal and regulatory frameworks—that facilitates trade integration. They show that hegemons account for a disproportionate share of global treaty-signing, and that treaty-signing predicts subsequent increases in bilateral trade.[8]

A related tool that has gained prominence in recent years are strategic tariffs (see, e.g., Fajgelbaum and Khandelwal, 2022). The US-China trade conflict provides recent evidence of such strategic use: Fetzer and Schwarz (2020) show that Chinese retaliatory tariffs were systematically targeted at U.S. regions with strong electoral support for Donald Trump, while Fajgelbaum, Goldberg, Kennedy and Khandelwal (2019) demonstrate that import tariffs imposed by the US government under Trump were disproportionately higher on products originating from politically contested counties within the United States.

Export Controls and Investment Screening

Other increasingly salient tools include export controls and investment screening mechanisms. Export controls grant governments the authority to restrict the export of specific goods or technologies to foreign countries. Despite their growing use, research specifically addressing export controls remains limited, leaving many questions unanswered. For exceptions, see Crosignani, Han, Macchiavelli and Silva (2024) and Alfaro, Fadinger, Schymik and Virananda (2024).

Investment screening is a related policy tool that is gaining traction, as numerous countries have implemented mechanisms to monitor and restrict foreign investments. These measures have often been driven by concerns over increased foreign acquisitions in critical sectors, particularly by Chinese state-controlled firms. As in the case of export controls, only very few academic studies have examined the drivers and effects of investment restrictions—an exception is Frattaroli (2020). Thus, there is considerable scope for future work.

4. Geoeconomics and Conflict: Pathways for Future Work

Despite the optimism of late 20th century liberalism, conflict and geopolitical risk still abound in an integrated world. This raises the possibility that the model is incorrect or incomplete. For example, states may strategically 'decouple' in order to reduce economic dependencies, thereby

[8]Pflueger and Yared (2024) add another perspective on hegemony. They show that hegemons with large military power benefit from a funding advantage in government debt markets, which in turn allows them to invest more in the military and increases their chances of winning wars.

raising the risk of conflict.[9] States may also deploy a broader set of geopolitical tools than previously considered. Whether these tools facilitate peace or escalate conflict will be determined in part by parameters such as the degree of substitutability between violent and non-violent interventions, together with patterns of response on the part of adversaries. Another explanation is that, following the theoretical discussion above, the deployment of geoeconomic tools is an insufficient conflict-prevention strategy, since bargaining failures can still lead to war as long as the bargaining range is greater than zero.

In this section, we propose broadening the scope for research at the intersection of geoeconomics and conflict. First, we fexpand the geoeconomic toolkit to incorporate more aggressive forms of intervention that go beyond the strictly economic definition in the previous literature but fall short of war. Second, we discuss the relationship between this more comprehensive set of policies and conflict outcomes. Third, we discuss the domestic political economy of geoeconomic policies. Fourth, we propose more research on explicitly peace-making tools that target the causes of bargaining failures as well as economic incentives to attack. In all of these discussions, the goal is to raise potentially interesting questions for future research rather than offer an exhaustive review of existing work on each topic.

4.1. A Broader View of Geoeconomic Tools - Economic and Noneconomic Weapons

Having reviewed the classic geoeconomic instruments such as those studied in Blackwill and Harris (2016) or Clayton et al. (2025b), we propose broadening the geoeconomic toolkit to cover other—often more aggressive—policies deployed by states to influence outcomes in other states. The focus is no longer on purely economic weapons but also on the use of proxy armed actors as well as other conflict-related policy interventions that can be regarded as complements or substitutes to purely economic tools but fall short of war.

In an increasingly conflict-prone international environment, we view it as essential to consider not only the classic economic tools of coercion, but also these other tools of hybrid warfare "investments" such as foreign sabotage, terrorism or assassinations abroad. A dictator (such as Vladimir Putin of Russia) is likely to consider the full set of available options before choosing the most cost-effective tool to achieve a given geopolitical goal, or perhaps a combination of multiple such tools. A democratic leader, in turn, may consider a more constrained set of options (e.g.,

[9] This *security dilemma* is the subject of Mayer et al. (2024).

a peacekeeping mission) due to electoral concerns. In both cases, it is necessary to characterize the full set of tools available to each leader in order to understand the strategic rationale behind geopolitical actions more generally.

As in the case of classic geoeconomic tools such as sanctions, the motive behind each action is context specific. They may be deployed for narrow political ends, which could imply undermining adversaries or intervening to shift the domestic balance of power toward allies through armed conflict. Alternatively, some may be used with a view to decreasing the risk of civil or external conflict and avoiding the resultant negative spillovers. In any case, it is important to examine the effect of each tool in order to understand the strategic motives behind their use and manage their consequences.

Aggressive Interventions Short of War

Covert Operations While there are obvious data challenges in studying covert operations, recent high-profile contributions using classified information can shed light on the strategy behind certain tactics. For example, Berger, Easterly, Nunn and Satyanath (2013) provide evidence that CIA interventions during the Cold War were used to create larger foreign markets for American products. Following these interventions, imports from the US increased while exports to the US were unchanged. The effect is concentrated in industries in which the US had a comparative disadvantage and is driven by direct purchases of American products by foreign governments.

Dube, Kaplan and Naidu (2011) similarly employ classified information to estimate the effect of top-secret coup authorizations on the valuation of partially nationalized multinational firms that stood to benefit from US-backed coups. They find that authorizations increased abnormal returns for fully nationalized firms by 13% over a 16 day period. Taken together, these papers highlight how covert geopolitical actions can affect economies in other states.

Finally, there is much scope for research on the consequences online foreign influence efforts, which could be deployed to foster divisions and shift the distribution of political power in foreign states. To this end, a dataset recently published by the Empirical Studies of Conflict Project contains rich information on 150 such cases.[10]

[10]Martin, Diego A., Jacob N. Shapiro, Julia Ilhardt, and Kevin T. Greene (2024). Trends in Online Influence Efforts. Empirical Studies of Conflict Project. Available at: `https://esoc.princeton.edu/publications/trends-online-influence-efforts`.

Cyberattacks and Sabotage Sabotage represents a more aggressive form of unarmed geoeconomic intervention. It ranges from economic sabotage—such as sanctions that impair the productivity of targeted foreign firms (Liu, Rotemberg and Traiberman, 2024)—to industrial espionage (Glitz and Meyersson, 2020, Glitz, Keita and Quentel, 2023), and even military sabotage, including the destruction of critical infrastructure (e.g., the Nord Stream 2 pipeline or subsea telecom cables) or targeted bombings. While some research explores the economic effects of bombings during wartime, the broader economic and geopolitical consequences of sabotage remain underexplored.

Cyberattacks and hacking constitute another geoeconomic instrument employed by states and quasi-state actors. A small but expanding literature documents their substantial economic impact: firms targeted by cyberattacks face declines in profits and stock returns (Jamilov, Rey and Tahoun, 2023), while spillover effects can propagate across sectors and borders, particularly through multinational firms (Crosignani, Macchiavelli and Silva, 2023).

Supporting Foreign Armed Conflict Actors

Many states seek to influence outcomes in other states by directly supporting civil conflict actors. In this subsection, we briefly discuss 'proxy' interventions, such as military aid and sponsoring rebel groups, an addition to more on-the-ground counterinsurgency activities.

Military Aid and Counterinsurgency Military aid has been a central geopolitical tool used by both democracies and autocracies for centuries. There are many examples of military aid contributing to successful nation-building in liberal democracies, and helping to defeat autocratic aggressors. The best-known example is the large-scale military aid by the US to other allies during World War 2, which was decisive in the war against Nazi Germany. More recently, military aid played an integral role in supporting Ukraine against the Russian full-scale invasion (Trebesch, Antezza, Bushnell, Frank, Frank, Franz, Kharitonov, Kumar, Rebinskaya and Schramm, 2023).

The evidence in other contexts is less encouraging. Dimant, Krieger and Meierrieks (2024) examine the effect of US military aid on anti-American terrorism in a sample of 174 countries between 1968 and 2018. They find that higher military aid is associated with a greater risk of anti-American terrorism in aid-receiving countries. Military aid also correlates with lower military capacity, more corruption, and more anti-American sentiments in recipient countries. The authors conclude that US military aid aggravates local grieveances among civilians in recipient

states. Dube and Naidu (2015), studying Colombia, find that US military aid leads to an increase in paramilitary attacks but not guerrilla attacks. Military aid also leads to more paramilitary homicides, especially in elections years. This pattern suggests that military aid can be diverted to armed nonstate actors, increasing violence and undermining domestic political institutions.

Regarding counterinsurgency efforts, the impact of more interventionist on-the-ground military support depends critically on the tactics used. As mentioned above, a more hearts-and-minds approach—whereby local development programs are combined with a security presence—can be more effective in undermining insurgencies than a more blunt force approach (Berman et al., 2011, 2013, Dell and Querubin, 2017).

Finally, Fetzer, Souza, Eynde and Wright (2021) study the important question of how foreign powers disengage from a conflict. Examining security transitions in Afghanistan, they find that while the initial transfer from foreign to Afghan forces tended to reduce insurgent violence, the subsequent exit entirely of foreign troops was met with a sharp increase in violence. They interpret this pattern as evidence of signaling on the part of insurgents, who strategically reduce their activities to encourage the foreign withdrawal, before capitalizing on weaker domestic security afterwards.

Sponsoring Insurgency and Terrorism In addition to supporting counterinsurgency efforts, some external actors also support non-state conflict participants such as insurgent rebels or transnational terrorist or extremist groups. Understanding who supports these activities and when are where they are deployed is an important question for research and policy. For example, Michalopoulos and Papaioannou (2016) find that secessionist conflict is more likely where ethnic groups are partitioned by national boundaries, suggesting that the presence of an ethnic diaspora may facilitate conflict, a finding that is also consistent with Collier and Hoeffler (2004).

With respect to international terrorism, Conrad (2011) argues that the role of inter-state rivalry is understudied. He makes the observation that states involved in ongoing rivalries with other states are the victims of more terrorist attacks than states that are not involved in hostile interstate relationships. One form of transnational extremist violence that is becoming more prevalent in Africa is jihadism, or conflict involving explicitly Islamist armed groups.[11] McGuirk and Nunn (2025, 2024) note that jihadism is closely linked with the rise of farmer-herder conflict

[11]For a micro-level framework on religious-extremist violence, in which successful armed groups provide valuable club goods, see Berman and Laitin (2008).

across the Sahel in recent decades. Since pastoralists tend to believe in Islam and agriculturalists Christianity, shocks that generate conflict between these ethnic groups are mechanically likely to generate ostensibly religious conflict. These findings are consistent with accounts in which disaffected young pastoral men are vulnerable to jihadist recruitment. Since pastoralists are often mobile, these changes may contribute to the rapid spread of jihadism across space (and across borders) in recent years. There is scope for much more research in this area, including efforts to understand the presence of jihadist groups in different parts of Africa and the extent to which their activities are connected to state actors.[12] A connected question relates to changes in the presence of non-African states in Africa in recent years, most notably the exit of French forces and the influx of forces connected to Russia. What drive these changes and how they affect civilians are important questions for researchers to consider.

Towards a Broader Geoeconomic Toolkit

Much more work is needed to gain an in-depth understanding of the full geoeconomic toolkit used by various actors. Are some tools complements? Or substitutes? Which tools are most likely to be combined? And which ones are most effective at a given cost of deploying them? What constraints do leaders face in using different tools? Does this vary by leader, for example in autocracies versus democracies? It may be necessary to understand the full choice set before understanding the use of any given tool, as in Collier and Vicente (2005) with respect to elections in which unconstrained political actors choose between voter intimidation, vote-buying and ballot fraud. In this application, it could be that constrained leaders are more apt to deploy purely economic instruments relating to aid and trade, while less constrained "rogue" leaders are able to deploy more aggressive or interventionist tools, ranging from sanctions to sabotage or even targeted killings or the sponsoring of terrorism.

Figure 2 provides a stylized summary of the more comprehensive geoeconomic toolkit, spanning a spectrum from economic instruments—such as aid, sanctions, and embargoes—to unarmed interventions like sabotage and coups, and ultimately to proxy armed interventions, including military aid and the support of insurgencies. This highlights the value of integrating

[12]For more on jihadism and civil war, see Kalyvas (2018); for more on jihadism and pastoralism, see Benjaminsen and Ba (2019); for more on jihadism in the Sahel, see Thurston (2020).

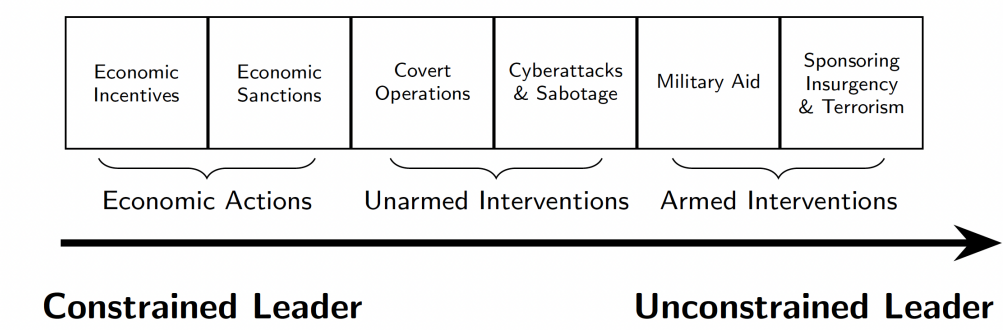

Figure 2: **A Broader View of Geoeconomic Tools: Economic and Noneconomic Weapons**

research across the toolkit, paying attention to factors that determine the types of leaders who have access to different types of tools.

4.2. Do Geoeconomic Tools Increase the Risk of Conflict?

Between the 1990s and the 2010s, geoeconomic tools such as financial sanctions were increasingly regarded as a promising and powerful tool to contain rogue and violence-prone state and non-state actors without reverting to armed conflict. This idea of "war by other means" was formulated, among others, by Blackwill and Harris (2016). As of 2025, however, the optimistic view on geoeconomic tools as a harbinger of peace has faded, not least because Russia could not be deterred from its full-scale invasion of Ukraine. It is even possible that the broad sanctions imposed on Russia following its 2014 annexation of Crimea may have inadvertently strengthened its wartime readiness by fostering greater economic independence from the West. In addition, the United States is now aggressively using geoeconomic tools against both adversaries and longtime allies. These actions could ultimately result in more rather than less conflicts around the world.

Against this backdrop, there is much scope for research on connecting the broader geoeconomic toolkit to conflict risks and conflict outcomes. A useful starting point is to consider whether geoeconomic tools can be considered a less costly alternative to all-out war, or, by contrast, if the proliferation of geoeconomic policymaking has contributed to more geopolitical risk and instability.

In considering these questions, it is important to ask whether "economic weapons" and other non-violent interventions act as substitutes for or complements to armed (and proxy armed) interventions. It is also imperative to consider the response function of target actors. For example, unarmed interventions may trigger armed responses, potentially undermining the premise that

geoeconomic tools represent a non-violent substitute for war.

In addition to these big-picture considerations, there are many more specific research questions arising from this analysis. For example, how can positive economic incentives (such as aid projects and preferential trade agreements) be designed to minimize the risk of civil and inter-state conflict? Do economic sanctions succeed in discouraging wars, or might they do the opposite? The role of US embargoes on Japan as a precursor to the attack on Pearl Harbor would suggest that the latter is at least plausible in certain cases (Barnhart, 1987). Another important question relates to how sanctions are deployed in peacetime, where the goal is to discourage launching a war, versus wartime, where the goal is to undermine military production. Finally, in addition to studying the effects of these tools, it is necessary to study the costs arising from their use, separating between those that are internalized by the sender, the target, and via spillovers to third-party actors.

4.3. Peacemaking Tools: Mediation and Security Guarantees

The theoretical discussion in Section 2.2 suggests that the classic toolkit of economic interventions can shape incentives to fight, supporting the liberal case for global economic integration. However, this is an incomplete perspective on the origins of war, which also include bargaining failures conditional on incentives to fight. In light of this, a more comprehensive toolkit for minimizing negative spillovers from conflict must also include diplomatic interventions that specifically address the roots of bargaining failures. We consider two below, as well as one economic intervention specifically designed to address conflict incentives.

Mediation Theory suggests that third-party mediation has the potential to help would-be belligerents overcome the asymmetric information problem. Successful mediation would have to remove barriers to the flow of information. It would also have to address incentives to misreport relative strengths. Existing research on this topic indicates that there is a positive correlation between mediation and the likelihood of a conflict ending.[13] As with many of the more nascent literatures in this review, there is scope for empirical contributions that rely on causal inference methods. Another question to consider relates to the mediator's own incentives to intervene,

[13]See Rohner (2024) for an excellent review of this literature.

which could be due to negative externalities from conflict, a desire for international prestige, or domestic political pressures.

Security Guarantees and Peacekeeping As with mediation, there is a strong theoretical basis for the role of armed peacekeeping and other security guarantees. Such interventions can address the commitment problem by reducing the incentive to deviate from a peace agreement. In practice, a security guarantee makes a unilateral attack more costly by ensuring third-party contract enforcement. Recent research on UN peacekeeping suggests that it can prevent conflict effectively. For example, Hultman, Kathman and Shannon (2013) finds that the number of UN peacekeeping troops in an area is associated with fewer battlefield deaths both during and after the end of a civil war, while Hultman (2010) finds that UN peacekeeping missions with explicit mandates to protect civilians appear to succeed. Using matching techniques and controlling for fixed effects, Haass and Ansorg (2022) and Hultman, Kathman and Shannon (2014) both find the composition of UN missions matters. Respectively, more troops (as opposed to police and observers) and more troops from high-quality national armies are important for reducing conflict.[14] As in the case of mediation, there is scope for important work on the incentives facing third-party countries to provide security guarantees. It may be the case that peacemaking interventions in general are under-compensated relative to the global benefits that they confer.

Transparency and Traceability Initiatives Theory indicates that there is scope to reduce conflict by lowering the value of appropriable resources. This mechanism characterizes the well-known finding that control over capital-intensive point-source sectors (such as minerals and oil) is a strong determinant of civil conflict (Dal Bó and Dal Bó, 2011, Dube and Vargas, 2013, Berman, Couttenier, Rohner and Thoenig, 2017). International initiatives that impose transparency and/or traceability on mineral production and supply chains therefore have the potential to reduce violence since they will undermine demand for output that was produced by illicit armed actors.

This is the logic behind initiatives such as the Kimberley Process (a certification scheme for rough diamonds) and the Extractive Industries Transparency Initiative (EITI), an opt-in initiative for establishing a global standard for the governance of oil, gas and mineral production. Encouragingly, evidence suggests that both of these schemes are reducing resource-related conflict.

[14]Peacekeeping is Theme 9 in the CEPR/FCDO ReCIPE initiative. We point the reader to the corresponding article in this issue for a more detailed, accurate, and timely account of the literature.

Heffernan (2016) and Binzel, Fehr and Link (2024) find evidence that the Kimberley Process led to a permanent and significant reduction in armed conflict in areas with diamond deposits, while Berman et al. (2017) find that the effect of price shocks on conflict around mines in Africa is attenuated where countries have signed up for (and implemented) EITI rules. They also find consistent evidence for similar schemes such as the International Council on Mining and Metals (ICMM) and the Mineral Certification Scheme of the International Conference on the Great Lakes Region (ICGLR).[15]

4.4. The Domestic Political Economy of Geoeconomics and War

Underlying all of these policy options are domestic political economy concerns. Most political leaders value staying in power, and most will execute foreign policy with these considerations in mind. In international relations, this drives the concept of *audience costs*, or, the domestic costs incurred by more accountable leaders (e.g., in democracies) if they commit in public to a foreign policy action and then fail to follow through (Fearon, 1994). Since leaders in non-democracies are less constrained by audience costs, this allows leaders in democracies to credibly signal threats or commitments, overcoming informational problems and facilitating deescalation in a foreign policy crisis. This is one common explanation for the empirical 'democratic peace,' i.e., the fact that democracies rarely fight each other (Gelpi and Griesdorf, 2001).

As discussed in Section 2, another reason why democracies rarely fight is that the pro-war bias of the pivotal political decision-maker is likely to be closer to that of the country at large, which implies that the costs of conflict are more likely to be internalized (Jackson and Morelli, 2007, McGuirk et al., 2023). This can explain why political agency frictions are a potentially significant cause of war. Unchecked power can allow leaders to pursue war as a means to consolidate personal wealth or power, or to distract from domestic dissent, without incurring commensurate personal risk. Geoeconomic policies that address this agency friction have the potential to discourage war.

A closely related mechanism linking domestic politics and the duration of war is the *peace versus political survival* dilemma—the idea that leaders who face costly political (or other personal) consequences after war have fewer incentives to end it, even if the war is extremely destructive

[15]Theme 5 in the CEPR/FCDO ReCIPE initiative is on climate change, natural resources, and conflict. Again, we point the reader to the corresponding article in this issue for a more comprehensive account of the literature on transparency initiatives.

to society (Debs and Goemans, 2010, Chiozza and Goemans, 2011). This logic is a potential factor that prolonged wars in Sudan, where Omar al-Bashir was indicted by the International Criminal Court (ICC); Yugoslavia, where Slobodan Milosevic was indicted by the International Criminal Tribunal for the Former Yugoslavia (ICTY); and Israel-Gaza, where Benjamin Netanyahu faces domestic corruption charges as well as an arrest warrant from the ICC. This literature suggests that there may be a tradeoff between pursuing justice post-conflict versus providing the incentives for negotiated settlements that end conflict in the first place.

In addition to these examples, there is much scope for rigorous empirical work on the connection between domestic political economy and other policies related to geoeconomics and conflict that are featured in this article. For example, how popular is foreign aid?[16] What are the attributes of foreign aid that are most popular with domestic audiences?[17] Why is support for international trade declining in some OECD countries and what can states do to revive trust in international institutions? What are the domestic political consequences of unarmed and armed proxy interventions in foreign countries, and how does this differ from the political consequences of direct conflict actions?[18] Addressing these questions is important for developing a more comprehensive understanding of geoeconomic behavior.

5. Summary and Conclusion

This article considered the intersection of two fields of political economy: geoeconomics—the economics of international power rivalry—and the economics of conflict and security. An intuitive way to distinguish these fields is that geoeconomics is primarily concerned with the use of "economic weapons", while the economics of conflict focuses on military force and violent interventions. A central message of this paper is our proposal to bridge this gap in the literature and bring the two fields closer together. Scholars should study armed and non-armed interventions jointly, reflecting the reality that these tools are increasingly used in tandem.

[16]For an overview on the economics of foreign aid, including a review of strategic motives for donating, see Qian (2015). Separately, Kaufmann, McGuirk and Vicente (2019) document widespread misperceptions of aid budgets across OECD countries, finding that US citizens believe they spend over 40 times more on overseas development assistance (ODA) than is actually spent. Whether or not correcting these misperceptions would increase support for foreign aid is an open question.

[17]Faye and Niehaus (2012) find that *recipient* country political election cycles are important—donor countries allocate more aid to allied recipients during election years, but not to less aligned recipients.

[18]For example, Karol and Miguel (2007) find that, across states, U.S. military casualties in Iraq depressed President Bush's vote share in 2004. Similarly, Kuijpers (2020) documents that while governing parties enjoy a short run rally-around-the-flag benefit from military casualties, they are eventually punished over time.

In a world of rising geopolitical tensions and a growing number of authoritarian regimes, we see particular value in adopting the perspective of unconstrained or rogue leaders. Such leaders may be more willing to combine traditional economic coercion with more aggressive interventions, including sabotage, cyber-attacks, or outright military conflict against a foreign state. There is a clear need to better understand how and when leaders choose between different tools, whether these instruments act as complements or substitutes, how they interact, and what the costs and consequences of each are.

It is equally important to examine when and how geoeconomic tools—originally viewed as a more peaceful alternative to war, or "war by other means"—may actually increase the risk of conflict and escalation. Relatedly, we encourage further research on explicit peacemaking mechanisms, such as security guarantees, mediation, transparancy initiatives, and other conflict-reduction strategies. We also highlight the importance of connecting domestic political economy considerations to all of these policy actions.

Methodologically, we see much potential in leveraging novel, granular data to better identify empirical relationships in this area. Applying econometric rigor to the broad, policy-relevant questions on geoeconomics and conflict is a significant challenge and a valuable opportunity for future work.

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