Research Square

Preprints are preliminary reports that have not undergone peer review.
They should not be considered conclusive, used to inform clinical practice,
or referenced by the media as validated information.

The Political Mobilization of Geoeconomic Leverage: Insights from Public Choice

Loïc Sauce

l.sauce@istec.fr

Istec Business School Paris

Research Article

Keywords: geoeconomics, public choice, geoeconomic coercion, geoeconomic leverage, political incentives, adaptation

Posted Date: September 8th, 2026

DOI: https://doi.org/10.21203/rs.3.rs-10853210/v1

License: This work is licensed under a Creative Commons Attribution 4.0 International License.
Read Full License

Additional Declarations: No competing interests reported.

The Political Mobilization of Geoeconomic Leverage: Insights from Public Choice

Abstract

Geoeconomics examines how states use economic dependencies as instruments of strategic power, but gives less attention to the domestic political incentives that shape how intensively such leverage is used and preserved. This paper draws on core insights from public choice to bring these incentives into the analysis of geoeconomic coercion. We develop a simple two-period model in which coercion generates an immediate strategic return but also induces adaptation by the target, reducing future dependence and eroding the coercing state's subsequent leverage. Political decision-makers may nevertheless favor more intensive current coercion when they place less weight on future strategic benefits or obtain additional short-term political returns from its use. Under these conditions, politically optimal coercion exceeds a long-run national benchmark: the state overuses its geoeconomic leverage to its own long-run strategic detriment. Conversely, sufficiently strong domestic opposition from firms bearing the costs of coercion can produce restraint. By connecting domestic political incentives to the endogenous evolution of dependence, the paper builds a bridge between geoeconomics and public choice and shows how the political production of geoeconomic policy can diverge from the state's long-run strategic interest.

Keywords: geoeconomics; public choice; geoeconomic coercion; geoeconomic leverage; political incentives; adaptation

JEL codes: D72; F13; F50; P16

Introduction

Economic interdependence is once again being analyzed not only as a source of gains from exchange but also as a potential source of power. Financial sanctions, export controls, investment screening, tariffs, technology restrictions and policies aimed at securing strategic supply chains have become increasingly prominent features of the international economic environment. These developments have contributed to the consolidation of geoeconomics as a research field connecting international economics, political economy and the study of international power. Mohr and Trebesch (2025) describe this emerging field as encompassing economic coercion, the geopolitics of trade and finance, geopolitical risk, and the economics of security and war.

The intellectual foundations of this agenda are older than the recent terminology. Hirschman (1945) famously emphasized that international economic relationships can produce asymmetric dependence even when exchange is mutually beneficial. The costs of interrupting an economic relationship need not be distributed symmetrically between its participants. Economic integration can therefore simultaneously generate gains from trade and opportunities for influence. More recent work has developed this intuition by analyzing the network structure of economic relationships, outside options and the strategic value of difficult-to-substitute inputs and infrastructures (Farrell and Newman, 2019; Clayton, Maggiori and Schreger, 2026).

The emerging economics of geoeconomics has considerably sharpened these mechanisms. Clayton, Maggiori and Schreger (2026) provide a formal framework in which geoeconomic power derives from the ability of a hegemonic country to coordinate threats across multiple economic relationships. Economic relationships become strategically valuable when targets depend strongly upon them and possess poor substitutes. Their framework thereby relates geoeconomic power to economic structure, input-output linkages and outside options rather than simply to aggregate economic size.

This research program has also become progressively more political and more granular. Clayton, Maggiori and Schreger (2025) explicitly consider domestic political-economy constraints on the projection of geoeconomic power, including the cooperation of domestic firms and the legal and political limits facing governments. Clayton, Coppola, Maggiori and Schreger (2025) provide firm-level evidence showing that different forms of geoeconomic pressure generate heterogeneous

responses. Firms affected by export controls report changes in sourcing, domestic investment and research and development, while firms through which pressure is transmitted may themselves incur commercial losses.

These developments create an opportunity to bring contemporary geoeconomics into closer dialogue with a long tradition in public choice and political economy. Economic sanctions were analyzed from an explicitly public choice perspective well before the recent expansion of geoeconomics. Kaempfer and Lowenberg (1988, 1992) argued that sanctions should be understood not simply in terms of their aggregate economic effects but as political outcomes shaped by organized interests in sanctioning and targeted countries. More broadly, the political economy of trade has long treated policy as the outcome of interactions between policymakers and organized groups rather than as the direct implementation of a unitary national-welfare objective (Grossman and Helpman, 1994).

Our argument is complementary to recent geoeconomic research rather than a critique of it. That literature has progressively endogenized both the economic sources of international leverage and some of the political constraints on its exercise. We draw on core insights from public choice to isolate one additional mechanism: the intertemporal political choice of how intensively existing leverage is used. Because targeted firms and governments adapt, the use of power today changes the stock of leverage available to future policymakers.

We develop a simple two-period model in which a hegemon inherits an economic relationship generating geoeconomic leverage. Coercion produces an immediate national benefit but also encourages adaptation by the target, so more intensive use of leverage in the first period reduces the dependence available in the second. A long-run national benchmark internalizes this intertemporal effect. We then allow current policymakers to place less weight on future geoeconomic capacity or to receive additional current political returns from coercion.

The central result is a form of geoeconomic overuse. When policymakers value future leverage less than the long-run national benchmark, or when current domestic political returns favor coercion, they exploit existing leverage more intensively and accelerate its subsequent erosion. Politically rational incentives can therefore lead the state to use a strategic asset too aggressively, to its own

long-run detriment. The distortion need not favor coercion, however: sufficiently strong political opposition from firms bearing the costs of geoeconomic policies can instead produce restraint.

The contribution is deliberately focused. Domestic politics is already increasingly present in recent geoeconomic research. We provide a parsimonious bridge between the two literatures by connecting domestic political incentives to the intertemporal preservation of the economic relationships on which geoeconomic power depends. Leverage is therefore not only an input into political choice but also an endogenous state variable affected by that choice.

This connection also links research on economic networks to research on political organization. Network position can determine both potential geoeconomic leverage and the political stakes surrounding its use. Recent public choice work, for example, shows that an industry's position in production networks can shape incentives to engage in lobbying (Tsang, 2026). The same economic structure can therefore influence both where coercion is feasible and the domestic coalition that supports, restrains or reshapes its deployment.

The paper proceeds as follows. Section 2 positions the argument within the geoeconomics, political economy and public choice literatures. Section 3 develops the two-period model. Section 4 discusses its institutional interpretation. Section 5 derives empirical implications and a research agenda. Section 6 concludes.

Section 2: Geoeconomic Leverage and Its Political Mobilization

From dependence to leverage and adaptation

The rapid growth of geoeconomics has been accompanied by an expansion of the meanings attached to the term. Mohr and Trebesch (2025) adopt a deliberately broad definition encompassing economic coercion, the geopolitics of trade and finance, geopolitical risk, and the economics of security and war. Such breadth is useful for mapping an emerging field, but a narrower definition is helpful for the collective-choice problem studied here.

Vihma (2018) cautions that geoeconomics can lose analytical precision when it is stretched to encompass virtually any interaction between international economics and political power. For present purposes, we therefore focus on situations in which existing or potentially reorganizable

economic relationships provide leverage that public authorities can mobilize in pursuit of geopolitical or economic objectives.

This instrumental definition is close to Clayton, Maggiori and Schreger (2026), who analyze how governments use economic strength derived from financial and trade relationships to pursue geopolitical and economic goals, and to Clayton, Coppola, Maggiori and Schreger (2025), who define geoeconomic pressure around the governmental use of existing economic relationships. The restriction is analytical rather than evaluative: broader approaches, such as Babić, Dixon and Liu (2022), deliberately encompass cooperation, competition and a wider range of state and non-state actors.

We therefore restrict the object while retaining a plural conception of the actors involved in it. Geoeconomic policy is initiated through political institutions, but its construction and implementation can depend on firms, financial intermediaries, foreign governments and transnational networks. This identifies the concrete question examined below: given an existing source of economic leverage, when and how intensively will political decision-makers choose to use it?

Within this narrower definition, the intellectual starting point predates the contemporary terminology. Hirschman (1945) showed that international trade can simultaneously generate mutual economic gains and asymmetric political dependence. The relevant issue is not whether both parties benefit from exchange, but whether the costs of disrupting the relationship differ between them. A country possessing superior outside options can therefore derive political leverage from an otherwise voluntary economic relationship.

The contemporary geoeconomics literature has considerably developed this intuition. One important advance concerns the identification of the economic structures from which leverage emerges. Power is not reducible to aggregate economic size. It depends on the ability to restrict relationships that targets value and cannot readily replace. Farrell and Newman (2019) emphasize this point through the concept of weaponized interdependence. Global economic networks contain asymmetric structures whose central nodes can create opportunities for surveillance and exclusion.

Clayton, Maggiori and Schreger (2026) provide a formal economic foundation for a related mechanism. In their framework, the distinctive source of hegemonic power is the ability to coordinate threats across multiple economic relationships. The effectiveness of such threats depends on the private cost that exclusion would impose on the targeted entity. They describe this capacity as Micro-Power. A sector contributes to Micro-Power when it supplies inputs that targets value strongly and for which substitutes are poor. Strategic importance may arise from physical scarcity, increasing returns, natural monopoly or network effects.

Their framework also introduces Macro-Power: the value to the hegemon of using targeted actions to reshape broader economic outcomes through production networks and externalities. Sectors can therefore be strategically important not only because access to them is difficult to replace, but because intervention in them generates amplified effects elsewhere in the economy. The result is a major conceptual advance over an account of geoeconomic power based solely on country size. Economic power becomes relational, network-dependent and endogenous to the organization of the economy. This is the starting point of our analysis rather than an assumption we seek to replace.

A second development concerns the actors through whom geoeconomic power operates. The early language of geoeconomics often emphasized states and national strategies. Luttwak's original formulation was closely connected to the continuation of international rivalry through economic instruments. Interestingly for the argument developed here, his account already assigned an important role to bureaucratic incentives. As discussed by Shahzad (2022), Luttwak referred to bureaucratic impulses of role preservation and role enhancement in the emergence of geoeconomic strategies.

More recent work has moved much further beyond a simple opposition between national states. Babić, Dixon and Liu (2022) argue explicitly that contemporary geoeconomic relationships cannot be understood through states as sole actors. Firms, social groups, international institutions, investors and other organizations participate in the allocation and exercise of economic power across local, national and transnational levels. They consequently favor a non-state-centric political economy of geoeconomics while retaining a central role for public authority.

This distinction matters because many strategically relevant economic resources are neither created nor directly controlled by governments. Technological capabilities emerge from investment and innovation by firms. Financial leverage depends on banks, payment infrastructures and private compliance systems. Supply-chain choke points reflect accumulated production structures. Standards and market architectures can result from combinations of private coordination, regulation and historical development. Government may subsequently mobilize these capabilities, but the existence of a potential choke point and the ability of public authorities to use it are analytically distinct.

The contemporary economics literature increasingly incorporates this distinction. Clayton, Maggiori and Schreger's framework allows targeted entities to be either firms or governments. Their subsequent work on the political economy of geoeconomic power emphasizes that economic size and connectivity do not automatically translate into geoeconomic capacity: governments seeking to project power may need to persuade or compel domestic firms and citizens, and in some cases foreign allies, to participate in the policy.

Firms, political constraints and heterogeneous actors are therefore already increasingly central to geoeconomics. Our contribution focuses on a specific dynamic question: how can the heterogeneous incentives of these actors influence the level of coercion that is politically chosen, particularly when today's use of power changes tomorrow's economic structure?

A further development is the growing recognition that geoeconomic relationships are dynamic. A target subjected to pressure does not passively absorb the consequences of the policy: it can adapt. Clayton, Coppola, Maggiori and Schreger (2025) provide particularly useful firm-level evidence. They document that firms respond to different geoeconomic instruments through different margins. Tariffs primarily generate price responses, whereas export controls are disproportionately associated with increased research and development. Firms also adjust sourcing, investment, inventories and supply-chain relationships.

The semiconductor cases are especially revealing. Chinese firms affected by US technological restrictions report searching for alternative suppliers and increasing domestic investment and R&D aimed at developing alternatives to restricted inputs. At the same time, firms used as means of

pressure, including NVIDIA and ASML, report losses associated with restricted access to the Chinese market.

This produces two analytically distinct effects. First, coercion changes the outside option of the target over time. Successful adaptation weakens future dependence. Second, coercion creates heterogeneous consequences inside the sender's economy. Firms responsible for transmitting pressure can themselves become domestic losers from the policy. Both effects are central to our model. The first justifies treating dependence as a dynamic state variable rather than a fixed characteristic. The second provides a concrete economic interpretation for the domestic political return q.

The broader literature on economic fragmentation reinforces this dynamic interpretation. Countries exposed to potential coercion may rationally sacrifice part of the benefits of international integration in order to acquire better outside options. Economic-security policies, diversification and technological substitution can consequently reduce the future leverage of the hegemon even when they are economically costly in the short run. The use of geoeconomic power can therefore modify the conditions that initially made it possible.

Public choice and the political mobilization of leverage

Several core insights from public choice are directly relevant to this problem. Rather than treating an aggregate objective as a sufficient explanation of policy, public choice emphasizes how heterogeneous interests and institutional incentives are translated into collective decisions.

These insights matter here because geoeconomic policy creates concentrated and heterogeneous stakes on both sides of a coercive measure. Olson's (1965) collective-action framework explains why some affected groups can organize more readily than others. Stigler (1971) and Becker (1983) show how organized interests enter political decision-making, while Grossman and Helpman (1994) demonstrate in trade policy how governments can trade off aggregate objectives against political support. In our setting, these mechanisms motivate the reduced-form political return q and the possibility that the political horizon differs from the long-run national benchmark.

The direct application to economic coercion is particularly important here. Kaempfer and Lowenberg (1988) explicitly develop a public choice approach to international economic sanctions. In their subsequent book (Kaempfer and Lowenberg, 1992), they argue that political analysis is necessary to explain not only the effectiveness of sanctions but also why sanctions are adopted and why particular forms are selected. This literature establishes that economic coercion is endogenous to domestic politics. Friedrich (2013) adds a dynamic perspective by showing that relationships between politicians and organized interests can evolve over time and can contribute to policy persistence. That insight is especially relevant when current policy changes the economic and political environment inherited by future decision-makers.

The contribution of the paper lies in placing these familiar political incentives within the economic environment described by contemporary geoeconomics. Leverage arises from network relationships, and strategic sectors differ in substitutability and amplification. Firms can constitute both targets and means of pressure. Targeted actors can also invest in reducing future dependence. The political choice of coercion can therefore be connected to an endogenous theory of leverage rather than applied only to a given sanctions instrument.

Tsang (2026) suggests a direct connection between economic structure and political organization. Production networks do not only determine the propagation of economic shocks. They can also affect the incentives of industries to organize politically.

Tsang (2026) studies the relationship between industry position in production networks and lobbying. His model combines Olson-style collective-action problems with production-network structure and predicts a non-monotonic relationship between downstream centrality and lobbying. Greater downstream reach increases the stakes associated with policy intervention but can also enlarge the set of potential beneficiaries who have incentives to free-ride.

This result is particularly suggestive for geoeconomics. Modern geoeconomic models imply that network position affects potential economic leverage. Similarly, public choice research implies that network position can also affect political incentives and organization. The same economic structure can therefore contribute simultaneously to the effectiveness of a geoeconomic instrument and to the political coalition that supports or opposes its deployment.

Taken together, these developments point to a complementarity rather than a conflict between the two literatures. Contemporary geoeconomics explains where leverage comes from, why some relationships provide greater strategic opportunities than others, and how targets respond to pressure. Core public choice insights help analyze how heterogeneous domestic interests and political horizons affect the mobilization of those opportunities. Our model adds one specific dynamic link: it allows the political choice of current coercion to determine the level of dependence inherited by future policymakers.

This yields two related contributions. First, political incentives operate on an endogenous strategic asset: the choice of coercion changes the future stock of leverage itself. Second, the political effect has no predetermined sign. When current political returns favor coercion or policymakers underweight future leverage, politically chosen intensity exceeds the long-run national benchmark. Organized firms bearing substantial costs from coercion can, however, push policy in the opposite direction.

The framework consequently predicts that similar structural opportunities for economic coercion can produce different policies under different domestic political configurations. Because current policy modifies future dependence, those political differences can also generate different future distributions of geoeconomic power.

Section 3: A Two-Period Model of the Political Mobilization of Geoeconomic Leverage

This section introduces a deliberately parsimonious extension of the contemporary geoeconomic framework. The purpose is not to provide an alternative theory of the economic origins of leverage. Rather, we distinguish between the existence of leverage and its political use. Exercising geoeconomic power generates current benefits but also encourages targeted actors to invest in substitution, diversification and technological adaptation. The political decision-maker therefore faces an intertemporal trade-off: coercion generates benefits today but can reduce the stock of economic dependence on which future coercive capacity rests.

A long-horizon national benchmark internalizes this effect. A political decision-maker may internalize it only imperfectly, either because future leverage is discounted more heavily or because current coercion generates additional political returns.

Environment, adaptation and the national benchmark

Consider two periods, t = 1, 2, and two countries: a hegemonic country H and a target country T.

Let $d_t \in (0,1]$ denote the degree of economic dependence of the target on an economic relationship that can potentially be mobilized by H. Dependence can reflect reliance on a technological input, financial infrastructure, critical intermediate good, market access, or another difficult-to-substitute economic relationship. We exclude $d_t = 0$ because it describes the trivial case in which the relationship provides no geoeconomic leverage.

In each period, the government of H chooses an intensity of geoeconomic coercion $x_t \in [0,1]$. The current national payoff from coercion is represented by:

$$g(d_t, x_t) = a d_t x_t - \frac{c}{2} x_t^2. \quad (1)$$

where $a > 0$ measures the productivity of economic dependence in generating geoeconomic benefits and $c > 0$ captures the increasing domestic cost of coercion. For a given level of coercion, pressure is more effective when the target is more dependent. At the same time, increasingly intensive coercion entails rising costs for the sender, including lost trade, compliance costs, disruption to domestic firms or other economic costs[1].

The distinctive dynamic feature of the model is that coercion induces adaptation by the target. Dependence in period 2 is therefore:

$$d_2 = d_1(1 - \phi x_1). \quad (2)$$

where $0 < \phi < 1$. The parameter ϕ captures the responsiveness of the target's future dependence to present coercion through adaptation by targeted firms and public authorities. A higher value corresponds to a setting in which those actors can more readily develop substitutes, diversify suppliers, reorganize production or invest in alternative technologies.

Equation (2) is intentionally reduced-form. The model does not seek to explain the target's investment decision itself. Instead, it isolates the implication that greater coercive pressure today reduces the stock of dependence available tomorrow:

$$\frac{\partial d_2}{\partial x_1} = -\phi d_1 < 0. \quad (3)$$

[1] The factor $1/2$ is a standard normalization for a quadratic cost: it makes the marginal cost equal to cx_t. It has no independent economic interpretation.

For notational simplicity, write $d_1 = d$. We impose the following sufficient parameter restriction as Assumption A1:

$$c > ad. \tag{A1}$$

Because $d_2 \leq d$, Assumption A1 ensures an interior coercion choice in period 2 and provides convenient sufficient conditions for the first-period solutions below.

In the second and final period, there is no future dependence to preserve. Let $V_2(d_2)$ denote the maximized second-period national payoff conditional on inherited dependence d_2. The government then chooses x_2 to maximize:

$$V_2(d_2) = \max_{x_2 \in [0,1]} \left\{ ad_2 x_2 - \frac{c}{2} x_2^2 \right\}. \tag{4}$$

The first-order condition is:

$$ad_2 - cx_2 = 0.$$

which yields:

$$x_2^\star(d_2) = \frac{ad_2}{c}. \tag{5}$$

Under Assumption A1, $0 < x_2^\star(d_2) < 1$. Substituting the optimal choice into the period-2 objective gives the continuation value of inherited economic dependence:

$$V_2(d_2) = \frac{a^2 d_2^2}{2c}. \tag{6}$$

This expression makes explicit why preserving dependence has value to the hegemon. Dependence is not itself assumed to enter national welfare. It is valuable because it can be converted into future geoeconomic influence.

We first consider a benchmark decision-maker that fully internalizes the national value of future geoeconomic leverage. Let $\delta_S \in [0,1]$ denote the weight attached to second-period national payoffs. The benchmark chooses x_1 to maximize:

$$W_S(x_1) = adx_1 - \frac{c}{2} x_1^2 + \delta_S V_2[d(1 - \phi x_1)]. \tag{7}$$

Using the period-2 value function:

$$W_S(x_1) = adx_1 - \frac{c}{2} x_1^2 + \delta_S \frac{a^2 d^2 (1 - \phi x_1)^2}{2c}. \tag{8}$$

The first-order condition is:

$$ad - cx_1 - \delta_S \frac{a^2 d^2 \phi}{c} (1 - \phi x_1) = 0. \tag{9}$$

Solving for x_1 gives:

$$x_S = \frac{acd - \delta_S a^2 d^2 \phi}{c^2 - \delta_S a^2 d^2 \phi^2}. \tag{10}$$

The second derivative is:

$$W_S''(x_1) = -\frac{c^2 - \delta_S a^2 d^2 \phi^2}{c} < 0. \quad (11)$$

under Assumption A1. Hence the objective is strictly concave and x_S is unique. The benchmark balances the immediate geopolitical benefit of coercion, its current economic cost, and the loss in future coercive capacity caused by adaptation. Importantly, x_S is not a global social optimum. It is a long-run national benchmark for the hegemonic country and does not include the welfare of the target or third countries.

Political incentives and geoeconomic overuse

We now distinguish the political objective of the current decision-maker from the long-run national benchmark. Suppose coercion generates an additional current political return qx_1. The parameter q should not be interpreted as an additional real economic benefit of the policy. Those effects are already contained in the national payoff. Rather, q captures the net political return accruing to the current decision-maker because of the domestic distribution of the policy's costs and benefits.

Coercion may benefit politically organized protected industries, constituencies receiving strategic investment, or public agencies whose remit expands with economic-security policy. Conversely, exporters or financial institutions exposed to foreign markets may oppose coercion. The reduced-form parameter q summarizes the resulting current political incentive. For the main proposition, assume:

$$0 \leq q < c - ad. \quad (A2)$$

The upper bound is a sufficient condition ensuring an interior solution. We relax the sign restriction on q below.

The political decision-maker may also place less weight on future national leverage than does the long-run benchmark. Let:

$$0 \leq \delta_P \leq \delta_S \leq 1. \quad (A3)$$

The difference between δ_P and δ_S can capture electoral turnover, finite political tenure, uncertainty about future control of government, bureaucratic career horizons, or other mechanisms causing current policymakers to internalize future geoeconomic capacity imperfectly.

The political decision-maker therefore solves:

$$\max_{x_1 \in [0,1]} W_P(x_1).$$

where:

$$W_P(x_1) = adx_1 - \frac{c}{2}x_1^2 + qx_1 + \delta_P \frac{a^2d^2(1-\phi x_1)^2}{2c}. \quad (12)$$

The first-order condition becomes:

$$ad - cx_1 + q - \delta_P \frac{a^2d^2\phi}{c}(1 - \phi x_1) = 0. \quad (13)$$

Hence:

$$x_P = \frac{acd - \delta_P a^2d^2\phi + cq}{c^2 - \delta_P a^2d^2\phi^2}. \quad (14)$$

As before:

$$W_P''(x_1) = -\frac{c^2 - \delta_P a^2d^2\phi^2}{c} < 0. \quad (15)$$

Under Assumptions A1–A3, the solution is unique and interior.

Proposition 1. Political overuse of geoeconomic leverage. *Suppose Assumptions A1–A3 hold. Then $x_P \geq x_S$. The inequality is strict whenever either $q > 0$ or $\delta_P < \delta_S$. Consequently, $d_2^P \leq d_2^S$, with strict inequality whenever $x_P > x_S$.*

Proof. Subtracting x_S from x_P and simplifying gives:

$$x_P - x_S = \frac{c[(\delta_S - \delta_P)a^2d^2\phi(c - ad\phi) + q(c^2 - \delta_S a^2d^2\phi^2)]}{(c^2 - \delta_P a^2d^2\phi^2)(c^2 - \delta_S a^2d^2\phi^2)}. \quad (16)$$

Under Assumption A1, $c - ad\phi > c - ad > 0$ and $c^2 - \delta_i a^2d^2\phi^2 > 0$ for $i \in \{P, S\}$. By Assumptions A2 and A3, $q \geq 0$ and $\delta_S - \delta_P \geq 0$. Every term in the numerator of Equation (16) is therefore weakly positive, while the denominator is strictly positive. Hence $x_P - x_S \geq 0$. The inequality is strict if $q > 0$ or $\delta_P < \delta_S$.

Finally, from $d_2 = d(1 - \phi x_1)$:

$$d_2^P - d_2^S = -\phi d(x_P - x_S) \leq 0.$$

which establishes the final statement.

Proposition 1 formalizes a distinction between economic leverage and its political mobilization. The long-run national benchmark internalizes the fact that using economic dependence today makes that dependence less valuable tomorrow. Current policymakers may nevertheless choose a higher intensity of coercion for two distinct reasons.

First, the political horizon may be shorter than the horizon over which the economic consequences of adaptation materialize. When $\delta_P < \delta_S$, future losses of geoeconomic capacity are underweighted

relative to current gains. Second, the distributional consequences of coercion can create an additional current political return. When $q > 0$, domestic political incentives reinforce the use of economic leverage even when the associated future erosion of leverage is fully anticipated. These mechanisms are additive. The politically chosen intensity of coercion can therefore exceed the level that would be selected by a government maximizing the hegemon's own long-run national payoff.

The result does not imply that the domestic political mechanisms modeled here necessarily produce excessive coercion. If the domestic firms bearing the costs of geoeconomic policies are sufficiently well organized, the net political return may instead be negative. Allowing $q < 0$ leaves the structure of the model unchanged but makes the sign of $x_P - x_S$ conditional on the relative strength of the short-horizon effect and domestic political opposition.

From Equation (16), political coercion exceeds the long-run benchmark if and only if:

$$q > -\frac{(\delta_S - \delta_P)a^2d^2\phi(c - ad\phi)}{c^2 - \delta_S a^2 d^2 \phi^2}. \quad (17)$$

Equation (17) emphasizes what the model does and does not predict. The mechanisms introduced here, motivated by core public choice insights, do not imply a systematic bias toward more aggressive economic statecraft. Rather, identical economic structures need not generate identical geoeconomic policies: the political use of a given choke point depends on the domestic institutional and distributional environment surrounding it.

From leverage to an endogenous political process

The model deliberately leaves several institutional mechanisms inside the reduced-form parameter q. Public choice research identifies multiple channels through which q may be generated, including differences in collective-action capacity across groups, lobbying, electoral geography, bureaucratic incentives and the distribution of policy-generated rents. The present model does not attempt to reproduce those mechanisms. Its narrower purpose is to connect them to the dynamic structure emphasized by contemporary geoeconomics.

The central implication is therefore not simply that political incentives can move policy away from a long-run national benchmark. Because targeted firms and public authorities adapt, the political use of geoeconomic power today changes the economic structure from which geoeconomic power can be drawn tomorrow.

Section 4: Institutional Interpretation and Extensions

Firms, networks, and the political construction of strategic sectors

The model separates two questions that are analytically distinct. When the political choice is made, initial leverage is taken as given: it reflects inherited dependence and the organization of markets, networks, technologies and alternatives available to the target. The second question is political: how intensively will that leverage be used? This depends on the political environment of the sender. The model then makes leverage endogenous over time because current coercion changes future dependence.

The distinction implies that measurements of dependence or network centrality cannot by themselves fully predict geoeconomic behavior. They identify opportunities for coercion rather than policy choices. Consider a sector with very low substitutability and a dominant supplier located within the jurisdiction of a major power. This configuration may constitute substantial potential leverage. But mobilizing it can impose costs on the domestic supplier, downstream users, financial intermediaries or allied countries. Different political institutions will aggregate these consequences differently.

One particularly important implication of the model follows from the ambiguous role of firms. Firms contribute to geoeconomic power because their technologies, infrastructures, market positions or networks can generate dependencies. But the same firms can oppose the political exploitation of those dependencies. This creates a distinction between the strategic value of a firm to the state and the political preferences of the firm itself. The two need not coincide.

A globally dominant firm may provide an especially effective mechanism for restricting foreign access to a technology. Yet precisely because it is globally integrated, the firm may suffer large revenue losses when that access is restricted. Its economic centrality simultaneously increases the strategic value of coercion and the private stakes involved in opposing it.

Recent evidence on production networks and lobbying reinforces this point. Tsang (2026) shows that network position affects the incentives of industries to engage in political activity. This creates a promising connection between public choice and geoeconomics: production networks can

determine both the technological effectiveness of geoeconomic coercion and the political organization of the actors affected by it.

The same logic applies to the designation of sectors as strategic. Contemporary geoeconomics provides economically meaningful criteria for strategic importance. A sector can matter because it contributes strongly to a target's production, because substitutes are scarce, because it occupies a central position in a network, or because intervention generates amplified effects elsewhere in the economy.

Yet the translation of these characteristics into policy requires classification. Governments must decide which technologies are critical, which industries qualify for subsidies, which inputs require stockpiling, which investments should be screened and which exports should be controlled. These classifications have distributional consequences.

Once strategic status affects access to subsidies, procurement, protection or regulatory exemptions, firms possess incentives to influence the process through which strategic importance is politically recognized. This suggests a distinction between structural strategicness and politically recognized strategicness. The distinction does not imply that strategic-sector policies are primarily rent-seeking devices. Many sectors can genuinely generate security externalities. The specific public choice implication is simply that, because strategic classification produces economic consequences, it will itself become part of the political process.

Bureaucratic organization and implementation capacity

Another extension concerns the administrative production of geoeconomic policy. Formal legal authority is not equivalent to effective coercive capacity. Export controls require classification systems, licensing procedures, technical expertise and monitoring. Financial sanctions depend heavily on compliance by banks and payment intermediaries. Investment screening requires information about ownership structures, technologies and potential security externalities. Supply-chain policy often depends on technical knowledge dispersed among private firms.

The state is therefore not simply choosing an instrument from a menu. Its ability to implement the chosen policy depends on administrative organizations and private intermediaries. Effective

pressure therefore requires not only economic dependence and potential leverage, but also legal authority and the administrative capacity to translate that leverage into realized coercion.

The current model begins after the first two stages and abstracts from implementation capacity. A richer institutional extension could examine the incentives of the organizations responsible for the remaining stages. Such an extension would be particularly relevant where agencies differ in objectives or information. A finance ministry concerned with international financial centrality may evaluate sanctions differently from a security agency concerned with technological denial. A trade ministry may place greater weight on exporter losses. Regulatory jurisdictions can overlap. These are not merely complications around an otherwise unique policy choice. They are institutional mechanisms through which the policy choice itself is produced.

Political horizons and hegemonic self-restraint

The model's dynamic mechanism has an additional implication for hegemonic restraint. A government possessing substantial economic leverage faces an intertemporal temptation. Exploiting a choke point yields benefits today. Repeated or intensive exploitation can induce investment in alternatives and thereby reduce future leverage. From the perspective of a sufficiently patient hegemon, restraint can therefore be valuable.

But a hegemon is not literally an infinitely lived decision-maker. Political authority is exercised by successive governments, administrations and organizations. The actors choosing whether to exploit leverage today may attach relatively little value to the coercive opportunities available to their successors. The model captures this possibility through different political and long-run discount factors.

This provides a public choice interpretation of geoeconomic self-restraint: the capacity to preserve long-run leverage depends partly on institutions capable of aligning current political incentives with future strategic value.

International rules may matter in this respect. A trade agreement or international institution is normally understood as constraining opportunistic behavior among countries. The present mechanism suggests an additional possibility. External constraints can also help a country commit

against short-run domestic political incentives to exploit leverage that is more valuable when preserved. This does not imply that international institutions are always efficient commitment devices. It identifies a potential institutional function: preserving the value of an economic network by increasing the cost of politically attractive short-run coercion. The commitment problem can therefore be simultaneously international and domestic.

Section 5: Empirical Implications and Research Agenda

Similar leverage, different policies and instruments

The first prediction is that comparable structural opportunities for coercion need not generate comparable levels of coercion. Holding measures of dependence and substitutability constant, policy intensity should vary with domestic political variables.

Relevant variables include the concentration of domestic gains and losses, lobbying expenditure by affected sectors, the geographical concentration of employment, electoral exposure of policymakers, institutional authority of relevant agencies, dependence of domestic firms on the targeted foreign market, and the organization of downstream users. This creates a natural empirical complement to existing measures of choke points. Instead of asking only whether economically powerful choke points are used, future work can ask which domestic political configurations make their use more likely.

A related implication concerns the form rather than the intensity of geoeconomic policy. Governments typically possess several instruments capable of pursuing similar strategic objectives: tariffs, export controls, subsidies, procurement policies, investment screening, sanctions or regulatory requirements. These instruments distribute domestic costs and benefits differently.

A public choice perspective therefore suggests that instrument choice should depend partly on the political organization of the actors bearing those consequences. This extends a familiar insight from the political economy of trade to geoeconomic policy. Grossman and Helpman (1994) show how political organization affects the structure of protection. Kaempfer and Lowenberg emphasize that domestic political interests influence the form taken by economic sanctions. The contemporary geoeconomic environment broadens the set of instruments and affected actors.

Coercion and adaptation

The central dynamic prediction concerns the relationship between coercion and subsequent adaptation. Higher coercive intensity should generate stronger investment in alternatives when substitution is technologically feasible. Existing evidence is already consistent with the mechanism. Firms affected by export controls report increased R&D, while geoeconomic pressure more broadly affects sourcing, investment and supply-chain organization (Clayton, Coppola, Maggiori and Schreger, 2025).

The relevant question for future research is not simply whether targets adapt, but whether adaptation reduces the sender's subsequent capacity to exert pressure. Particularly useful empirical settings include semiconductor equipment and advanced chips, critical minerals, international payment infrastructures, energy networks, telecommunications equipment, and cloud and digital infrastructure. These sectors offer variation in substitutability, investment lags and network effects.
The model predicts that the long-run cost of coercion should be particularly important in sectors where current dependence is high but technological substitution becomes feasible after sufficiently large investment.

Institutional variation

Finally, the framework suggests that institutional differences across countries should matter for the conversion of economic power into policy. Countries possessing similar economic capabilities can differ in executive autonomy, legislative control over trade and sanctions, bureaucratic organization, legal constraints, lobbying systems, electoral incentives, public-private coordination and exposure to judicial review.

Such differences should affect both the intensity and persistence of geoeconomic policies. Comparative institutional analysis therefore offers a promising complement to structural measures of international economic power. The question becomes not only where the choke points are, but which institutional arrangements make those choke points politically usable, and which encourage their preservation rather than immediate exploitation.

Section 6: Conclusion

One of the important contributions of contemporary geoeconomics has been to bring economic dependence and strategic power back to the center of international economics and political economy. Recent work has substantially improved our understanding of how network structure, substitution possibilities, strategic sectors and coordinated threats generate geoeconomic leverage, while new empirical research shows how firms experience and respond to pressure.

The paper draws on core insights from public choice to add a focused political mechanism to that research program. In the model, using leverage produces current benefits but induces adaptation that reduces future dependence. When current policymakers place less weight on future leverage, or when coercion generates positive domestic political returns, they use the strategic asset more intensively than a long-run national benchmark would. The state can therefore overuse geoeconomic leverage to its own long-run strategic detriment.

The mechanism does not imply an inherent political bias toward aggressive geoeconomics. Organized firms bearing the costs of coercion can instead generate restraint. The broader implication is that economic structure determines the opportunity for geoeconomic coercion, while political institutions and interests influence whether, how intensively and through which instruments that opportunity is used. Because use today changes dependence tomorrow, economic and political structures evolve together.

The contribution is therefore one of connection rather than replacement. Established public choice research has long shown that sanctions and trade policies are shaped by domestic political incentives. Contemporary geoeconomics, for its part, provides a rich account of the economic leverage being mobilized and of the adaptation that follows its use. Bringing these insights together suggests a simple further question: not only where does geoeconomic leverage exist, but which political arrangements encourage its exploitation, restraint or preservation over time?

References

Babić, M., Dixon, A. D., & Liu, I. T. (2022). Geoeconomics in a changing global order. In M. Babić, A. D. Dixon, & I. T. Liu (Eds.), The Political Economy of Geoeconomics: Europe in a Changing World (pp. 1–27). Palgrave Macmillan.

Becker, G. S. (1983). A theory of competition among pressure groups for political influence. Quarterly Journal of Economics, 98(3), 371–400. (https://doi.org/10.2307/1886017)

Clayton, C., Coppola, A., Maggiori, M., & Schreger, J. (2025). Geoeconomic Pressure. NBER Working Paper No. 34020.

Clayton, C., Maggiori, M., & Schreger, J. (2025). The political economy of geoeconomic power. AEA Papers and Proceedings, 115, 588–592. (DOI: 10.1257/pandp.20251040*)*

Clayton, C., Maggiori, M., & Schreger, J. (2026). A framework for geoeconomics. Econometrica, 94(1), 105–136. (https://doi.org/10.3982/ECTA23206)

Farrell, H., & Newman, A. L. (2019). Weaponized interdependence: How global economic networks shape state coercion. International Security, 44(1), 42–79. (https://doi.org/10.1162/isec_a_00351)

Friedrich, S. (2013). Policy persistence and rent extraction. Public Choice, 157(1–2), 287–304. (https://doi.org/10.1007/s11127-012-9945-9)

Grossman, G. M., & Helpman, E. (1994). Protection for sale. American Economic Review, 84(4), 833–850. (https://www.jstor.org/stable/2118033)

Hirschman, A. O. (1945). National Power and the Structure of Foreign Trade. University of California Press.

Kaempfer, W. H., & Lowenberg, A. D. (1988). The theory of international economic sanctions: A public choice approach. American Economic Review, 78(4), 786–793. (https://www.jstor.org/stable/1811175)

Kaempfer, W. H., & Lowenberg, A. D. (1992). International Economic Sanctions: A Public Choice Perspective. Westview Press.

Luttwak, E. N. (1990). From geopolitics to geo-economics: Logic of conflict, grammar of commerce. The National Interest, 20, 17–23. (https://www.jstor.org/stable/42894676)

Mohr, C., & Trebesch, C. (2025). Geoeconomics. Annual Review of Economics, 17, 563–587. (https://doi.org/10.1146/annurev-economics-092424-111952)

Olson, M. (1965). The Logic of Collective Action. Harvard University Press.

Shahzad, A. (2022). Geoeconomics: The new geopolitics. Policy Perspectives, 19(2), 1–20. (https://www.jstor.org/stable/48734159)

Stigler, G. J. (1971). The theory of economic regulation. Bell Journal of Economics and Management Science, 2(1), 3–21. (https://doi.org/10.2307/3003160)

Tsang, K. P. (2026). Downstream centrality and industry lobbying in production networks. Public Choice. https://doi.org/10.1007/s11127-026-01428-z

Vihma, A. (2018). Geoeconomics defined and redefined. Geopolitics, 23(1), 47–49. https://doi.org/10.1080/14650045.2017.1379010