Discussion of "Geoeconomic Pressure"

by Clayton, Coppola, Maggiori, and Schreger (2025)

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What CCMS Do

- Develop an LLM-based methodology to classify geoeconomic pressure from large text corpora (earnings calls, analyst reports)
- Classify: which governments apply pressure, to which targets, using which instruments, firms, and products
- Key instruments: tariffs, export controls, sanctions
- Key bilateral relationship I will focus on: **United States** $\rightarrow$ **China**

Central question: When governments apply pressure, do they strategically target *chokepoints*—products where restrictions inflict the most damage?

The Chokepoint Power Measure

Building on Clayton et al. (2024), the power of country m over country n in industry J:

$$\text{Power}_{mnJ} = -\frac{\beta}{1-\beta}\frac{1}{\sigma_J - 1}\,\Omega_{nJ}\,\log(1-\omega_{nJRm})$$

Power is higher when:

- ω_{nJRm} is large: country n imports heavily from m in sector J
- Ω_{nJ} is large: country n spends a lot on sector J
- σ_J is low: few substitutes for m's inputs

Measures the **damage the US can inflict on China** by cutting off supply in a given industry

Empirical Strategy: Are Chokepoints Targeted?

Logit panel regression:

$$P(EC_{i(J),t} = 1) = \Lambda(\alpha_t + \beta \cdot \text{Power}_{mnJ})$$

- $EC_{i(J),t} = 1$ if American firm i in industry J reports being affected by export controls at time t
- Power_{mnJ} measured using 2018 trade data (pre-controls)
- Report average marginal semi-elasticity: $\hat{\delta} = E\left[\frac{\partial \log P(EC=1)}{\partial \text{Power}}\right]$
- The US strategically targets chokepoints: export controls are imposed precisely where they inflict the most damage on China
- Firms in the highest-leverage industries are $\approx 2.8\times$ more likely to face export controls than those at the median

Lashkaripour and Simonovska (2026): The Other Side of the Coin

CCMS show that governments *use* chokepoints to apply pressure

Our question: If trade partners weaponize export dependencies, what is the *optimal policy response* for the target?

- We build a trade model with an "unreliable" foreign partner who may impose export restrictions
- The probability of restrictions is endogenous: it rises with import dependence
- Optimal tariffs include a **geopolitical risk premium** on top of the standard terms-of-trade motive

The Optimal Tariff with Geopolitical Risk

$$t^*_{FH,k} = \underbrace{\frac{1}{\varepsilon^S_{FH}}}_{\text{Terms of Trade}} + \underbrace{\frac{\epsilon_k \lambda_{HH,k}}{\varepsilon^D_{FH,k}} \cdot \frac{d \ln \bar{\tau}_k(\lambda_{FH,k})}{d \ln \lambda_{FH,k}}}_{\text{Geopolitical Risk Premium}}$$

- ε^S_{FH}: aggregate foreign export supply elasticity (standard ToT motive, **uniform** across sectors)
- ϵ_k: trade elasticity for sector k
- $\lambda_{HH,k}$: Home's domestic expenditure share in sector k
- $\varepsilon^D_{FH,k}$: sector-k import demand function
- $\lambda_{FH,k}$: Home's import share from Foreign in sector k
- $\frac{d \ln \bar{\tau}_k}{d \ln \lambda_{FH,k}}$: the **geopolitical risk elasticity** — endogenous response of Foreign to import dependence

$\Rightarrow$ Risk premium is **sector-specific** and steeply **increasing** in import concentration

Estimating Geopolitical Risk from Data

If Foreign assumes an adversarial stance with probability reflecting the trade-off between welfare gains and non-pecuniary reputational cost, then the geopolitical hazard is

$$g_s(\Lambda) = a_s \, \Lambda_s^{\zeta}$$

The key elasticity ζ governs how steeply risk rises with import dependence

Data sources:

- **Export restrictions** (two sources, harmonized at HS6 level):
  - *Global Trade Alert (GTA):* 4,157 export-related interventions by 146 economies; 8 restrictive policy types (export taxes, bans, quotas, licensing requirements, price benchmarks, tariff quotas, local-supply requirements, other NTMs)
  - *OECD Inventories:* Industrial Raw Materials (65 commodities, 60 exporters) + Staple Crops (wheat, maize, rice, soybeans); combined: 519 HS6 products in stock panel
- **Bilateral trade flows:** BACI at HS6 level, 2017–2023

Hazard: $\text{hazard}_{Hst} = \sum_n \omega_{nHst} \cdot \mathbf{1}\{\text{exporter } n \text{ restricts product } s \text{ in year } t\}$

Estimation: The Geopolitical Risk Elasticity

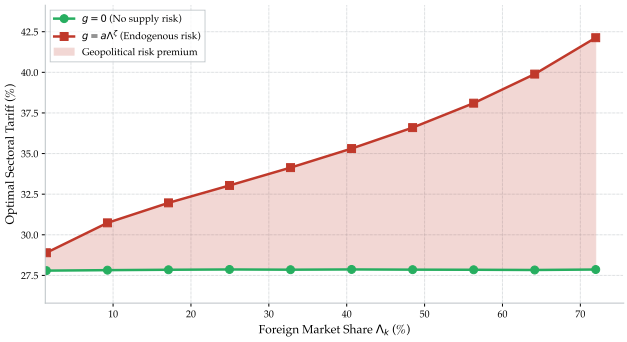
$$\log(\text{hazard}_{Hst}) = \tilde{\delta}_s + \tilde{\delta}_t + \zeta \cdot \log(\lambda_{Hst}) + u_{Hst}$$

Two hazard encodings: *Stock* (baseline)—is a restriction active in year t? *Flow* (robustness)—is a new restrictive action taken in year t?

	Stock Hazard (Baseline)			Flow Hazard (Robustness)		
	$\hat{\zeta}$	s.e.	N	$\hat{\zeta}$	s.e.	N
US (OLS)	0.152	0.030	37,087	0.197	0.031	37,066
US (IV)	0.392	0.173	31,748	0.386	0.164	31,730

- $\hat{\zeta} > 0$: geopolitical risk is increasing in import dependence
- IV instruments $\log(\lambda_{Hs,t-1})$ for $\log(\lambda_{Hst})$ to address endogeneity
- HS6 and year fixed effects included; data span 2017–2023

Optimal Sectoral Tariffs: United States



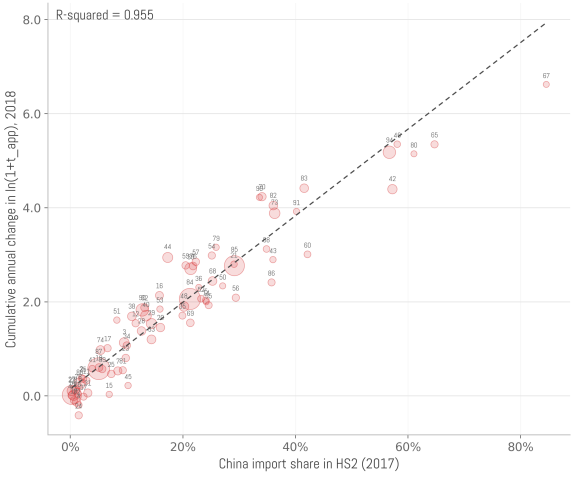
Calibration (2018)

Parameter	Value
GDP	\$20.5T
Imports / GDP	15.2%
λ_{FH} (import share)	8.5%
λ_{HF} (foreign imp. share)	2.6%
ϵ (trade elasticity)	4.00
β (value-added share)	0.56
$\hat{\zeta}$ (risk elasticity, IV)	0.392

Sources: World Bank WDI, BEA I-O, Simonovska–Waugh (2014), GTA + OECD + BACI

The risk premium is largest precisely where import dependence is greatest—sectors where comparative advantage is most pronounced and the gains from trade are largest.

Model Validation: The 2018 US–China Trade War



Sectors with greater Chinese import dependence received the largest tariff hikes in 2018 ($R^2 = 0.96$)

- HS2-level China import exposure (2017) vs. cumulative tariff changes over 2018
- Excludes Section 232 tariffs (steel/aluminum) applied uniformly to all partners
- Marker size scaled by HS2 import value

The terms-of-trade motive predicts *lower* tariffs in high-dependence sectors, where China's global dominance implies a high export supply elasticity

Our model rationalizes this pattern: the geopolitical risk premium is increasing in import concentration, generating the positive cross-sectoral relationship observed in the data

Thank you