Correlated Trade and Geopolitics Driving a Fractured World Order

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Abstract

This paper evaluates the hypothesis that trade interconnectedness holds together the world economy even as geopolitical rivalry drives global fragmentation. The paper finds that, depending on circumstances, trade can contribute either centripetal or centrifugal force: Thus, economic interconnectedness cannot be relied upon to provide automatic glue for the global economy. The paper shows that over the last fifty years, trade, or economic forces more generally, initially worked together with geopolitics to help align the interests of both advanced and developing nations, and thus coalesce world order. However, from the first decade of the new millennium, three distinct factors—the "China Shock", multipolarity, and multilateralism—have altered those dynamics. Economic and geopolitical forces still work together but they now exacerbate global fragmentation. The paper advances three proposals to help repair global fracture: (a) seek inadvertent cooperation; (b) nudge Great Powers away from gridlock; and (c) build systems around plurilateralism or pathfinder multilateralism.

JEL: F13, F15, F50, F52, F53, F55, F60, Y10,

Keywords: centrifugal, centripetal, China shock, inadvertent cooperation, multilateralism, multipolarity

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1 Introduction

In the 2020s, public discourse, international relations scholarship, and global policymakers have all observed geopolitical rivalry worsening global fragmentation. The IMF estimated that even short of open warfare the result could be considerable loss in global well-being. Fragmentation "over the long term could reduce global GDP by up to seven percent, or USD7.4 trillion in today's dollars, the equivalent of the combined GDPs of France and Germany and more than three times the size of the entire sub-Saharan African economy" (Georgieva, 2023).

Thus, the friend-shoring, de-risking, and decoupling emerging from US-China geopolitical rivalry have caused trade barriers to rise everywhere. Over 2019 through 2022—coincident with a COVID pandemic that exacerbated geopolitical tensions—international trade restrictions rose three-fold (Georgieva, 2023, p. 136).

At the same time, however, these geopolitical dynamics driving global fragmentation have had to contend with forces working in the opposite direction. It is a common view that economics has provided the glue to hold together the global economy. For instance, a leading international relations scholar, Joseph Nye, noted of US decoupling that "it would be foolish to think we can separate our economy completely from China without enormous costs" (Nye, 2021). These enormous costs can be viewed alternatively as the price of fragmentation. When price is sufficiently high, rational agents will not undertake actions that incur those costs. Indeed, the title of IMF Managing Director Kristalina Georgieva's 2023 *Foreign Affairs* article is "The Price of Fragmentation" (Georgieva, 2023). Gita Gopinath uses the same reasoning on costs to argue that if geopolitics-driven fragmentation produces individual gains, then when set against the real costs those gains are illusory. Individual gains from fragmentation, if any, are at best only relative in that "even those who benefit from fragmentation could be left with a larger slice of a much smaller pie. In short, everyone could lose" (Gopinath, 2024).

For brevity call this the IMF view:

> *Geopolitical rivalry is fragmenting the world, but economics provides the glue that holds together the global economy and thus world order.*

This description likely conforms to many others' sense of the state of the world, so it can also be regarded as conventional wisdom.

The current paper investigates the relation between geopolitics and economics as forces jointly driving world order. Have geopolitics and economics always driven world order in opposite directions, one splintering, the other coalescing? How conventional is conventional wisdom?

I will argue that the unexpected answer to this last question is that the conventional wisdom/IMF view is at odds with global experience of the last five decades. I will provide evidence to characterize the last fifty years as divided into two distinct periods: First, 1980–2010 was a thirty-year period when both geopolitics and economics drove world order to ever greater coalescence; I will call this the **Centripetal Era**. Second, from 2011 on, both geopolitics and economics drove world order to ever greater fragmentation; I will call this the **Centrifugal Era**.

The consequences of overturning the conventional view are useful to make explicit. If the current era is indeed Centrifugal and economic ties are themselves splintering world order, then seeking to develop ever greater economic interconnectedness, without recalibrating underlying fundamentals, is doomed to fail. Raising trade ties will produce only perverse results, further fracturing the world rather than holding together the global economy.

Instead, more effective and better-targeted policies are needed. This paper suggests drawing on mechanisms that target repairing fragmentation beyond just strengthening trade ties. In the analysis that follows, such policies are three-fold: First, seek inadvertent cooperation. Second, identify and shelve zero-sum propositions (nothing good remains to be done there); instead, nudge away from Prisoners Dilemma or Epic Fail outcomes (Armstrong and Quah, 2023; Quah, 2024b). Third, build systems around plurilateral principles, or pathfinder multilateralism. When first-best multilateralism is unavailable, seek second-best solutions in restricted problem domains.

The remainder of this paper is organized as follows. Section 2 documents how convergence due to geopolitical and economic forces in the early part of the last half-century produced the Centripetal Era and coalesced world order.

Section 3 describes how after that Centripetal Era, both geopolitical and economic forces reversed direction so that the two then drove fracture

in the international system. This section also unpacks a number of reasons for the parallel reversal in both geopolitical and economic forces in their impact on the splintering of the international system.[1] Section 4 advances three proposals to mitigate further global fracture, given that trade—the large, already extant natural glue to the international system—might no longer be effective. Finally, Section 5 provides a brief conclusion.

2 Convergence

In the 1980s conceptualization of world order and the global economy were powered by three critical ideas: *political convergence*, *economic efficiency*, and, *comparative advantage*. These, I will argue, drove the coalescence of world order in this period of the Centripetal Era.

Political convergence refers to the hypothesis that as incomes rise and economic development progresses, societies tend naturally to become more democratic (Lipset, 1959). This provided easy resolution on the challenge posed by John F. Kennedy, that of the "long twilight struggle" between democracy and freedom, on the one hand, and totalitarianism and tyranny on the other (at least as popularly understood). Just let nations develop.

Economic efficiency does not mean "high productivity" or "advanced technology". Instead, it refers to an imperative to seek efficiency in the sense that economists understand, i.e., Pareto optimality. Outcomes had to be, rationally, win-win. Coupled with the idea of political convergence, every victory on economic efficiency also meant further advance on the march to democracy worldwide.

Finally, **comparative advantage** provides reference to another key concept in economics, namely that all nations, no matter how differentially-

[1] For economists who wish to consider my descriptions in more technical form, it might be helpful to think as follows. World order—the international economic system, together with the norms and conventions determining relations across nations—is a point in a high-dimensional topological space. Over time, world order evolves as a function of its past values together with a vector of driving variables, including among them geopolitical and economic forces. The latter might be exogenous or causally prior with respect to world order or, more typically, themselves be jointly determined, i.e., world order together with geopolitical and economic forces can be viewed as a vector autoregression in an appropriately-defined topological space. This paper describes the features of the propagation mechanism and the impulses determining that vector autoregression, and hence the dynamics of world order.

resourced and under-developed, would gain from participating in the global system of trade and capital flows. Globalization—the construct that sought to make anything produced anywhere available to everyone everywhere—was therefore the appropriate building block for the emerging international system.

These three ideas formed a self-reinforcing, globally-consistent virtuous cycle of policy and practice, driving both prosperity and democracy.[2] The system did not promise that everyone would achieve the same levels of well-being, only that the norm would be win-win outcomes and tendency towards democracy within successful nations. The imperatives of economic efficiency and comparative advantage drove ever more intense and widespread globalization, so that cross-country flows of trade and foreign investment rose to ever greater heights.

In retrospect, the 1980s and 1990s appear, in the main, to confirm success in a coalescent international system, at least along particular dimensions. Economically, the big success story was the rise of China and East Asia. These are obviously outside the usual Transatlantic locus of economic success: so, their becoming richer meant there was convergence for the world. More broadly, there were significant poor parts of the world that converged upwards to the rich, and modernity arrived where previously it was absent.

But there were also significant dimensions where convergence failed. For instance, studies of cross-country income dynamics revealed persistent income disparities (e.g., Pritchett, 1997); a middle-income trap (Asian Development Bank, 2011), so that poor countries remained permanently

[2]Popular writing in the 1990s sometimes associated variants of the thinking in the text with neoliberalism, the Washington Consensus, and other related labels. Many of the ideas in those are, however, different from each other, and different again from the current paper. My analysis considers ends and outcomes but is silent on the pathways to achieve those goals. There is, for instance, no suggestion in the current paper that free markets and fiscal discipline—key components of neoliberalism—are the only means by which to achieve efficiency and to leverage comparative advantage. Nor does the current paper suggest that the result of increasing democracy is a precondition needed to guarantee economic success. The Washington Consensus did not put itself forward as a plank for building world order. Instead it sought only to provide concrete policy proposals to deal with specific problems facing, in the main, Latin American economies in special circumstances. More detailed analyses are available elsewhere that unpack the differences across neoliberalism, the Washington Consensus, and other similar labels applied for this period: Naim (1999), Rodrik (2006), Spence (2021), and Williamson (2002).

bounded away from reaching the same levels of economic achievement as the very rich; and even twin-peakedness in the cross-country distribution of incomes (Quah, 1996, 1997) so that there appeared to emerge distinct clusters of convergence, with at least one grouping of countries stagnating at lower income levels.

All these studies, however, were of per capita incomes, treating each nation as a distinct datapoint: this meant that China, with over a billion people, was treated on equal basis with, say, Haiti with under 10 million. Data at a more disaggregated level provided more revealing insight on economic convergence. Quah (2011) calculated the world's economic center of gravity based on urban cities and rural centers, and used dynamics of that center of gravity to map out the dramatic change in the world's economic landscape in the decades from the 1980s. The key finding was that the rapid rise of incomes outside the Transatlantic region had by 2008 pulled the world's economic center of gravity 5,000km east from its traditional 20th-century resting point in the Atlantic Ocean, midway between the US and Western Europe. Over this same period China's economic growth lifted nearly 700mn of its people out of extreme poverty (Chen and Ravallion, 2010). Thus, as a narrative of individual incomes and economic well-being in the three decades after 1980 the overarching story was, indeed, convergence.

In parallel with these technical findings, the narrative on political convergence also appeared borne out. Fukuyama (1992) reported two key conclusions: first, "a remarkable consensus concerning the legitimacy of liberal democracy as a system of government had emerged throughout the world"; and, second, market mechanisms targeting economic efficiency and leveraging comparative advantage had produced "unprecedented levels of material prosperity, both in industrially developed countries and in countries that had been, at the close of World War II, part of the impoverished Third World."

Clinton (2000) provided one of the most vivid and memorable depictions of confidence in political convergence in this Centripetal Era. In his 2000 speech at the Paul H. Nitze School of Advanced International Studies of the Johns Hopkins University, Clinton spoke on how China might try to buck the trend on political convergence, by seeking to contain information flow on the worldwide web: "Now there's no question China has been trying to crack down on the Internet. Good luck! That's sort of like trying to nail

Jell-O to the wall." That same speech made clear the prevailing thinking on economic and geopolitical alignment: "China is not simply agreeing to import more of our products. It is agreeing to import one of democracy's most cherished values, economic freedom. The more China liberalizes its economy, the more fully it will liberate the potential of its people—their initiative, their imagination, their remarkable spirit of enterprise. And when individuals have the power, not just to dream, but to realize their dreams, they will demand a greater say."

Alongside these global successes in world order, one nation, the United States of America, emerged as the key player in the international system. The US had become the de facto hegemon or leader in unipolar world order.

The economic historian, Charles Kindleberger, described this kind of international leadership on the basis of so-called *Hegemonic Stability Theory*. This is the idea that the international system, like any macroeconomy, would naturally undergo bouts of instability, for which would be needed a sufficiently large agent to be consumer and lender of last resort or, more generally, to provide the global public good of international policy-making (Kindleberger, 1973, 1996).

Even beyond Keynesian countercyclical stabilisation, a hegemon was needed to provide security, to maintain the rules of world order, and to support global institutions that monitored and corrected deviations. This allowed the emergence of equitable openness in international trade and gave rise more generally to the idea of multilateralism—a rules-based order; a level playing field in economic engagement; commitment to peaceful resolution of disputes; cooperation in problem-solving; and equal treatment of nations whatever their size and military capability. The US was the only economy powerful and rich enough to provide these global public goods (Kindleberger, 1973). As political scientists described so vividly, American unipolarity produced world order (Ikenberry, 2005).

In conclusion, the three decades following 1980 saw remarkable success in political convergence, economic efficiency, and comparative advantage driving a coalescent, converging world order. The Centrifugal Era was, overall, a success, establishing with ever greater firmness a coalescent world order and integrated global economy. There were of course notable exceptions (e.g., Rodrik, 2006), but in the main this was indeed the Centripetal Era. It is not that in this period geopolitics no longer mattered (e.g., Luce, 2023). Instead, it was that geopolitical and economic forces aligned and

both worked to produce convergence and coalescence in the international system.

3 Shifts

What shifted the economic and geopolitical forces from the coalescing functions they served in the Centripetal Era?

This section will argue that that very success put in motion countervailing dynamics that would, in turn, bring about a reversal in direction of those same forces.

A first part of this argument is straightforward. By the late 2010s it had become obvious China was showing no democratic tendencies even as it modernized, grew rich, and developed advanced technologies. This was seen not just as a datapoint inconsistent with an academic hypothesis (Fukuyama, 1992; Lipset, 1959). Instead, this failure of convergence grew to become a driving force in Great Power rivalry. Because of its sheer size, China's political non-convergence presented, in some policymakers' views, unacceptable threat and ideological challenge to the incumbent hegemonic Great Power, the US. America's policy towards China shifted from engagement—increasing trade and investment and people-to-people ties—to instead balancing, i.e., undertaking actions to protect itself against China's present and future capabilities.

Under a regime of geopolitical engagement, China's actions, simultaneous with and subsequent to this turnaround of views, might have been viewed to be innocent or ambiguous. However, in the new atmosphere of balancing, they served primarily to elevate concerns. Such markers included China's emplacement-construction and heightened push on competing territorial claims in the South China Sea; aggressive wolf-warrior diplomacy; concerns over the two X's—Xinjiang and Xi Jinping, the former for China's ethnic management policies, the latter for centralisation of political power, including Xi's assumed association with Document no. 9 (Buckley, 2013); restrictions on information flows in the COVID pandemic; and China's dramatically rising military power. Obviously, comparable actions are seen elsewhere, including in the US itself, but in China's case these attracted elevated scrutiny because they appeared to represent a change in the muscularity of China's geopolitical stance. Taken together with the fear that China's stubborn political non-convergence represented a state-

ment of international intent, these markers reinforced the new vicious cycle of suspicion of China.[3]

By 2018 the US position on rivalry with China had concretized into policy statements such as those represented by the US Secretary of Defense James Mattis in 2018 where "Great Power competition, not terrorism, is now the primary focus of US national security." On China, in particular the understanding had become one where America and the West "face growing threats from revisionist powers (...) that (...) seek to create a world consistent with their authoritarian models, pursuing veto authority over other nations' economic, diplomacy, and security decisions." and that "persist in taking outlaw actions that threaten regional and even global stability. Oppressing their own people and shredding their own people's dignity and human rights, they push their warped views outward" (US Department of Defense, 2018).

Such views obviously jar in comparison to Clinton's more relaxed "Jell-O to the wall" understanding on limitations to the disruptive or commanding power of states such as China. These views also stand in stark contrast to earlier positions held by American leadership, in the Centripetal Era and earlier, that had looked to bring China into the international system. Richard Nixon, for instance, had written in 1967 "we simply cannot afford to leave China forever outside the family of nations, there to nurture its fantasies, cherish its hates and threaten its neighbors. There is no place on this small planet for a billion of its potentially most able people to live in angry isolation" (Nixon, 1967).

[3]An illustration of both the ambiguity in some observers' eyes but extreme risk in others', lies in China's August 2021 demonstration of its FOBS or Fractional Orbital Bombardment System capabilities. FOBS is a system initially developed by the Soviets in the 1960s. It refers to the launch of a nuclear warhead off a hypersonic glide vehicle in low earth orbit. China's approach to FOBS sacrifices accuracy for range, speed, and undetectability, and so is generally regarded as rendering FOBS less suited for first-strike action, but improves its second-strike retaliatory capability (Kaushal and Cranny-Evans, 2021). Indeed, China's own public announcements confirm this general perception not of pre-emptive first strike but of retaliation, that FOBS allows "using nuclear forces (... so) US forces cannot crush China" and that "when the Chinese people have this weapon (...), nuclear blackmail toward the people of the world will be completely destroyed" (Fravel, 2016). One reading of these developments is that China is responding endogenously to US action and seeks only to achieve equilibrium that is safer for all. Another, obviously, is that China is actively seeking primacy in a way that needs to be countered. The Centrifugal Era favored the second view.

Circumstances had thus reversed the train of argument in political convergence, and geopolitics had turned into a force for fragmentation rather than coalescence.

All nations are, of course, increasingly empowered by technology to be able to undertake "outlaw actions that threaten regional and even global instability" (as described in, e.g., US Department of Defense, 2018). The key question should be, What are the incentives of different nations to do so? When Richard Nixon wrote the passage cited, China was indeed a dangerous country: The entire nation was in the throes of a violent Cultural Revolution that caused over a million additional deaths and the arbitrary persecution of tens of millions; China was feared to be actively exporting Communist revolution. The China of today obviously does none of these things. In bringing over 700mn of its people out of extreme poverty, it has instead helped the world meet the Millennium Development Goals. China's most notable exports are still feared but for their competitiveness and economic impact on other nation's industries, not for their bearing incompatible ideology.

In this turnaround from coalescence to fragmentation, China's role would be not just a counter-example to political convergence. China would also become the source, for the US and other Western economies, of the so-called "China Shock": the idea that one's trading partner was stealing one's jobs, dismantling one's industry, and turning into ghost-towns what were once thriving middle-class communities. How can trade do all this, when trade is supposed to bring mutual benefit?

In the IMF view described in Section 1, economic efficiency and comparative advantage give rise to outcomes that benefit all sides. This happens at the level of aggregate well-being, and thus remain forces for coalescence in the perspective of international policy-making. Thus, indeed in the view of IMF, the costs of decoupling are high.

However, at the level of individual agents in the US or other developed-economy nations, the lived experience from trade differs from the obviously positive effects at the aggregate level. Instead, for such individual economic actors, what trade brings is not economic efficiency or the welfare impact of comparative advantage, but shifted price ratios. When trade occurs, relative prices change—otherwise, trade would have no effect. But any change in relative prices means some agent somewhere experiences reduced prices in what they produce and sell (Quah, 2024a). For affected individ-

uals, this translates into perceptions of the so-called China Shock—falling employment, shuttered industry, displaced communities.

In the reasoning proposed in this paper, it is this price disturbance that matters, not aggregate welfare improvement, or even income inequality or aggregate bilateral trade deficits.[4] In my argument, the relevant negative price shock can affect those at the top of the income distribution as easily as it can to the bottom: Thus, an effect on income inequality is neither necessary nor sufficient for political resistance to trade: even if inequality falls, those at the top of the income distribution can find cause to rally against trade. By the same reasoning, a negative price shock from trade can worsen the well-being of those affected, whether or not the trade balance is in surplus or deficit, or whether a trade deficit is large or small. Such a price shock is, of course, not inconsistent with standard concerns over inequality and trade deficits, but it can take effect regardless of what happens to inequality and trade deficits. Neither inequality nor the trade deficit is a sufficient statistic for understanding the impact of trade.

What then has actually happened to price dynamics with trade? Research on prices and the political consequences of trade is, unfortunately, not as widely available as that on either inequality or trade balances. Fig. 1 shows the dynamics of US import prices, of imports from China, Mexico, and Canada, alongside the US Consumer Price Index.[5]

A first observation is that import prices don't uniformly remain low. In the Figure, in the normalization I adopt, all price indexes begin at 100 in 2003. But obviously both Mexico and Canadian import prices have shown inflation rates higher than that in the US CPI. This is not unexpected or unusual: compositions of import bundles change and when those bundles shift into containing higher-technology products, import price inflation can of course be reasonably expected to be high. Indeed, over the entire time

[4]What I describe corresponds to lines of reasoning in, e.g., Adao, Carrillo, Costinot, Donaldson, and Pomeranz (2022), Autor, Dorn, and Hanson (2013), and others. However, again, my description emphasises price effects directly rather than the impact of trade working through inequality or aggregate trade balances.

[5]All series are from the US Census Bureau USA Trade Portal. Import prices are monthly import price indexes by origin, all industries, for China, Mexico, and Canada, respectively while the US Consumer Price Index is the CPI for all items less food and energy taken as the US city average, for all urban consumers. The series are normalized to all begin at 100 in Dec 2003, the earliest date for which China and Mexico data are available.

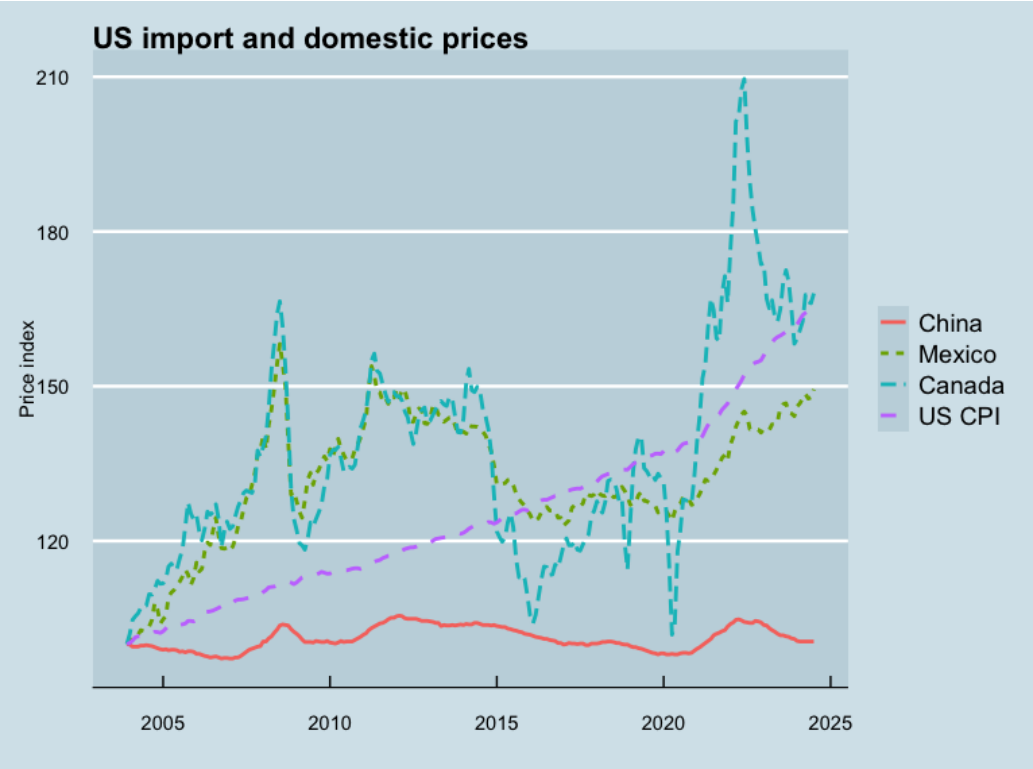

Figure 1: US import and domestic prices. The graph shows, from 2003 to 2024, prices of imports into the US from China, Mexico, and Canada, alongside the US Consumer Price Index. In the two decades graphed, China's import prices into the US have remained flat, ending 0.5% higher than at the beginning. In contrast, imports from Canada have at times seen price inflation higher even than in the US Consumer Price Index, ending the two-decade period with prices 68% higher than at the beginning. Imports from Mexico, similarly but not as extreme, had prices ending 49% higher than at the start. The US CPI inflated 65% over this sample.

sample, import prices from Mexico and Canada have, separately, shown both acceleration and slowdown in cycles over time.

The most striking observation, however, is that concerning imports from China. Price inflation in China imports has been, in essence, zero over the entire two decades, in contrast to that in the US CPI of 65%, Canada import prices of 68%, and Mexico import prices of 49%. China imports into the US have remained dramatically cheap, even though by 2024, almost half of that flow had become machinery and mechanical appliances, no longer low-quality toys and textiles. Keeping import price low in this way is all the more remarkable for the compositional change that must have occurred in this time. Recall that towards the beginning of this time period, the view on China's production had been that "with a per capita income at roughly the same level as Guyana and the Philippines, most Chinese did not have enough money to buy advanced technological products — let alone the resources to invent them" (Allison, Klyman, Barbesino, and Yen, 2021). China's move from low-tech to high-tech exports barely budged how much the US had to pay for imports from China generally.

Two concrete implications are notable: First, China's exports to the US have strongly benefited US consumers, keeping prices low and the cost of living down. Second, however, by exactly the same observation, the "China Shock" is just as strongly significant for American workers in those same industries. These price dynamics are why those workers see jobs vanishing, industries being dismantled, and ghost towns emerging where middle-class communities once thrived.

Beyond the China Shock, the broader geo-economics dimension too turned in the late 2010s. The earlier themes of economic efficiency and comparative advantage were ones where every participant could find agreement with the outcome, as the exchange advantaged everyone.

But in the late 2010s, just as China grew rich, others did so as well, spreading economic prosperity and thus increasing agency and capability, generally, to yet more parts of the world. The world became more multipolar, moving away from American unipolarity. This did not mean other parts of the world were growing to become direct rivals of the global hegemon, a decline in unipolarity does not mean automatically a rise in bipolarity. Instead, it meant only that the distribution of power across the global landscape had become more diffuse. This growing multipolarity—a shift in the distribution of economic and military capabilities towards a more

uniform distribution, rather than remaining single-peaked at only the US is of course just another way to characterize economic convergence: There is lessening prominence of poles in the distribution of power.

Multilateralism—the idea that there is a level playing field, and that all players obey the same set of rules—emerged from the principles of economic efficiency and comparative advantage. And it was multilateralism that allowed economic convergence to occur from the early 2010s. Multilateralism produced multipolarity.

But, paradoxically this combination of multilateralism and multipolarity itself generated, if not a force for fragmentation, then certainly a pull-back from further coalescence. Increasing multipolarity means, as the IMF put it, that "The benefits advanced economies derive from supporting global public goods, such as international trade, are increasingly shared with other countries" (Gaspar, Hagan, and Obstfeld, 2018). At the margin, turning away from continuing to support the provision of global public goods, like the international trading system, meant a retreat from the globalization and multilateralism that have been so powerful for coalescing the global economy. Put another way, maintaining multilateralism is exhausting work, and is especially challenging when others star to win whereas previously the norm had been that only you won.

4 Proposals

In the preceding sections I have developed the argument that in the earlier period, 1980–2010 or the Centripetal Era, both geopolitics and economics worked together to coalesce world order. However, in the Centrifugal Era, the decades that followed, these same forces reversed direction and contributed, again in tandem, to fragment the international system. My argument contradicts what I call the IMF view, which suggests economics remains a centripetal force even as geopolitics has shifted from centripetal to centrifugal, from coalescing to fragmenting.

With both geopolitics and economics now centrifugal, the global challenge is no longer that of choosing the incorrect point on a tradeoff locus. Instead, the danger is that nations end up in a Prisoners Dilemma (or Epic Fail) gridlock.

Armstrong and Quah (2023) and Quah (2024b) suggest that in such a situation, there are three classes of policy options. First, seek inadvertent

cooperation. Obviously, in a Prisoners Dilemma outcome, if all players could contract to collaborate, equilibrium could shift to an outcome where all improve their well-being. A fragmented world order, however, is unlikely to be one where contractual obligations are trusted. So, instead, the international community should seek cooperation without the kind of full agreement such as might be provided in a binding contract. Economists are familiar with such arrangements. The outstanding example is that described by Adam Smith's characterisation of how "it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest." An example of such inadvertent cooperation is provided in the 2020s in the South China Sea, where different individual nations have overlapping territorial claims. Instead of giving in to all-out rivalry—overlapping territorial claims are, after all, a zero-sum proposition—Southeast Asian nations have been able to agree on a Code of Conduct for that body of water, and continue to seek China's participation in that agreement.

Second is a class of possibilities for navigating a fractured international system by looking to Third Nations—those that are not Great Powers in direct contention—to nudge Great Powers out of Prisoners Dilemma gridlock (Quah, 2024b). Zero-sum propositions provide no space for maneuver, so there is little point in negotiating there. However, many disagreements take instead the form of a Prisoners Dilemma outcome. Through small sidepayments that, in the cooperative outcome might not even not be needed, but whose availability is guaranteed, gridlock can be averted and the usual Prisoners Dilemma outcome removed as a possible equilibrium.

Third are the options that recognize how a fragmented global economy makes it impossible to have truly universal multilateral solutions, but that spirit of multilateral problem-solving can be maintained in smaller subsets of the international community, and over restricted problem domains. These solutions can be thought of as providing pathfinder, plurilateral outcomes in the absence of full and complete multilateralism. An example of this is the World Trade Organization's Multi-party Interim Appeal Arbitration Agreement (MPIA). In Mar 2020, with the WTO Appellate Body understaffed and non-functioning so that dispute resolution cases were not being heard, sixteen WTO members set up the MPIA to decide on cases between just the members of group itself.

5 Conclusion

When observers and policymakers acknowledge the risks of a fractured global economy and world order, there is a widespread assumption that geopolitics is to blame. The typical accompanying hypothesis is that economics can provide the glue to hold together world order. For convenience, in this paper I have referred to this as the IMF view: economic exchange across nations makes apparent the mutual benefits to trade and clarifies the tremendous costs of economic decoupling and deglobalization.

This paper has argued that large geopolitical and economic forces do, indeed, drive world order. However, their direction of motion does not support the hypothesis that economics can provide centripetal force for the international system.

This paper documents how between 1980 and 2010 both geopolitical and economics forces powered the coalescing of world order. However, after 2010 both forces reversed direction and contributed, instead, to fragmentation of the international system.

That economics could be a centrifugal force hinges on effects similar to two relatively familiar ideas: first, the hypothesis that trade increases inequality, and second, the everyday observation that trade deficits attract political objection. In the US and the developed west, such effects are commonly thought of as the "China Shock", as China is the large trading economy that attracts the greatest political attention. The "China Shock" mechanism proposed in this paper is just that of price change, and is thus simpler and more direct than in narratives of inequality or trade deficits.

That economics no longer provides a glue to hold together the global economy means that fragmentation risks to the global economy can no longer be mitigated by recalibrating trade patterns. The problem instead rests on how trade itself is perceived to be the problem. This paper suggests a three-prong line of attack to mitigate these problems of geopolitical and economic fracture: (a) inadvertent cooperation; (b) Third Nation nudging the Great Powers away from gridlock; and (c) pathfinder or plurilateral adjustments to multilateralism.

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