
America or China? As the global economy fractures, the world will have to choose

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America or China? As the global economy fractures, the rest of the world is going to have to throw its economic lot behind one or the other, writes Neil Shearing.

Much ink has been spilled on the supposed death of globalisation. But the story, as always in economics, is more nuanced.

The popular narrative goes like this: tariffs first introduced by Trump, maintained by Biden, and now turbo-charged in Trump's second term, mark the rise of economic nationalism. Global integration is retreating; the free trading system of the post-Cold War is collapsing.

Yet the facts say otherwise. Global trade volumes remain near record highs. If this is deglobalisation, it's a strangely open version.

The opposing view argues that globalisation is like gravity – an unstoppable force. Today's tensions, by this logic, are temporary. But that view is too complacent. Globalisation has always come in waves, and those waves have broken before.

The real shift lies not in trade volumes, but in the political architecture underpinning them. The defining force now is the deepening US-China rivalry. While Trump's 2016 election broke with the post-Cold War consensus, the true turning point came earlier: between the 2008 global financial crisis and Xi Jinping's accession to the Chinese leadership in 2012.

The crisis exposed globalisation's failures. Xi, meanwhile, showed economic integration wouldn't necessarily lead to shared values. His priorities have been reasserting Party control at home and challenging US hegemony abroad. One consequence is that in both Washington and Beijing, economic policy is increasingly being viewed through a geopolitical lens. In this sense, Trump is a symptom rather than a cause of today's tensions.

Rather than deglobalising, the world economy is splintering into competing blocs centred on the US and China. The economic implications will depend on how that fracturing unfolds – and how other countries align.

In a fractured world, trade flows will shift rather than shrink. Apple's decision to move production to India, away from China, is just one example. But this goes beyond trade. China's rare earth export restrictions show how control of critical minerals is now economic weaponry. Meanwhile, Trump's "America First" investment memorandum set out plans to attract capital from allies while excluding China.

The impact of fracturing will vary between sectors. High-tech goods, pharma, and dual-use items are most exposed. Low-tech, non-strategic goods – toys, furniture, appliances – may remain unaffected.

The alignment of other countries will also shape economic outcomes. US restrictions on Chinese access to advanced semiconductors have relied on cooperation from firms and governments in Japan, the Netherlands, Taiwan and South Korea.

Some believe Europe could form a third bloc in a fractured world around which other liberal democracies could coalesce, but that's unlikely. The EU is economically significant, but politically fragmented. It lacks the coherence and assertiveness of a superpower. It follows rather than leads, often siding with the US (such as the decision to cut out Huawei from telecoms infrastructure) but also mindful of its economic ties to China.

Most countries would prefer neutrality, but that's becoming harder. Few have real leverage. Recent US trade deals with the UK and Vietnam reportedly included clauses to contain trade and investment with China. A key element of July's US-EU energy deal, struck at Trump's Turnberry resort in Scotland, was a \$750bn commitment by Europe to buy American energy. Independence is getting increasingly difficult.

In this fracturing world, the US starts from a position of strength. Its allies include advanced economies (UK, Japan, Germany), manufacturing hubs (Taiwan, Korea, Mexico) and resource-rich nations (Australia, Canada). In contrast, China's bloc is comprised mostly of autocracies and commodity producers. This may help Beijing secure supplies of critical minerals, but Washington has the broader, more adaptable base.

Still, there are risks. Trump's aggressive use of tariffs, even against allies, could splinter the US-led bloc. If Trump pursues the more extreme elements of his economically nationalist agenda and pushes partners away it could drag US GDP growth below 1% a year – turning "America First" into "America Last."

So where next? The path ahead will be shaped by three things: whether the US remains a leader around which the rest of the West coalesces; whether fracturing can be confined to strategic sectors; and whether intensifying rivalry edges closer to open conflict.

The idea of a cooperative, rules-based global order now looks increasingly out of step with reality. Power is starting to matter more than process. Trade policy is becoming an instrument of diplomacy rather than economics. For governments, this is uncomfortable. For businesses raised in a borderless world, it's disorienting. But denying the shift is no longer an option. The challenge now is to adapt – and quickly
