

CAPITAL ECONOMICS

# Fracturing in the age of Trump

How geopolitics is remaking the global economy

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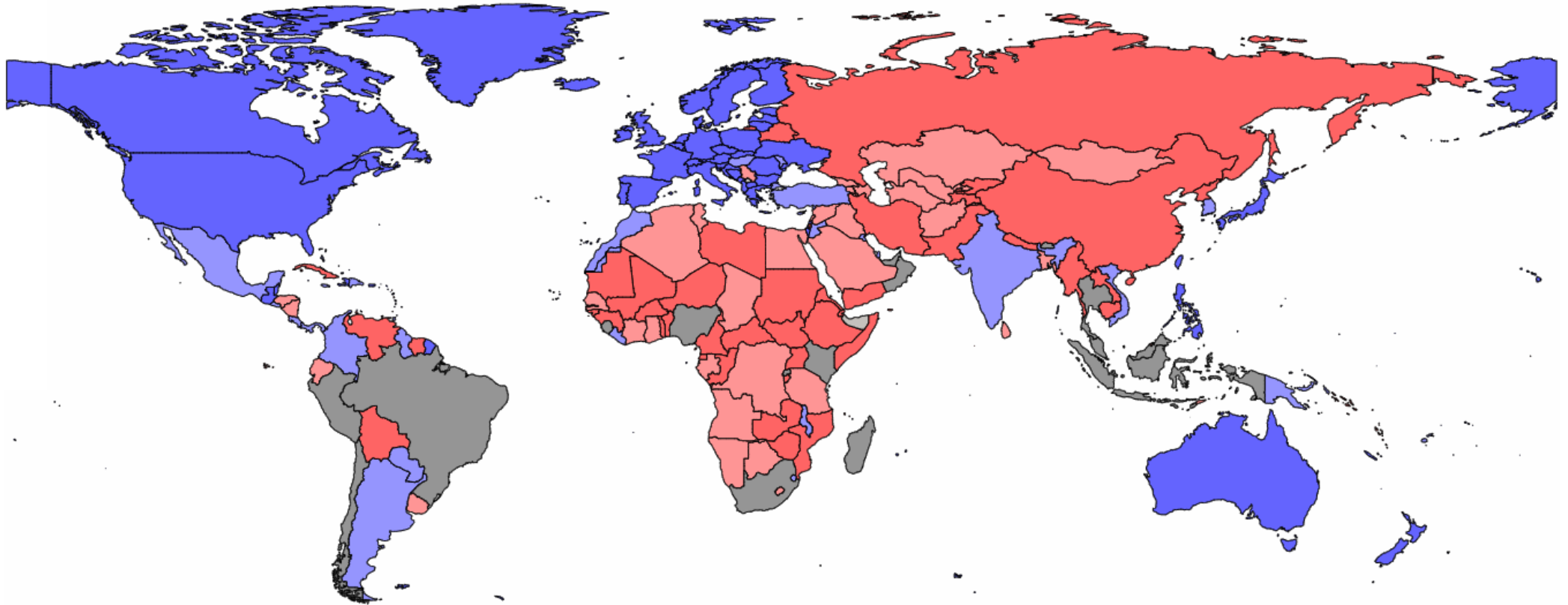
# What is fracturing?

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- The defining feature of the global economy over the past decade has been a deepening rivalry between the US and China.
- This is causing the global economy to split into competing blocs, with other countries coalescing around superpower nations.
- Economic relations between these blocs are breaking apart, or “fracturing”.
- Globalisation isn’t necessarily in retreat – trade and capital flows are likely to shift rather than shrink.
- The economic consequences of fracturing will depend on the size of the split and how other countries align.

# CE classification of global alignment at the start of 2025

● US & allies ● Leans US ● Unaligned ● Leans China ● China & allies



Source: Capital Economics

# What Trump's return means for fracturing

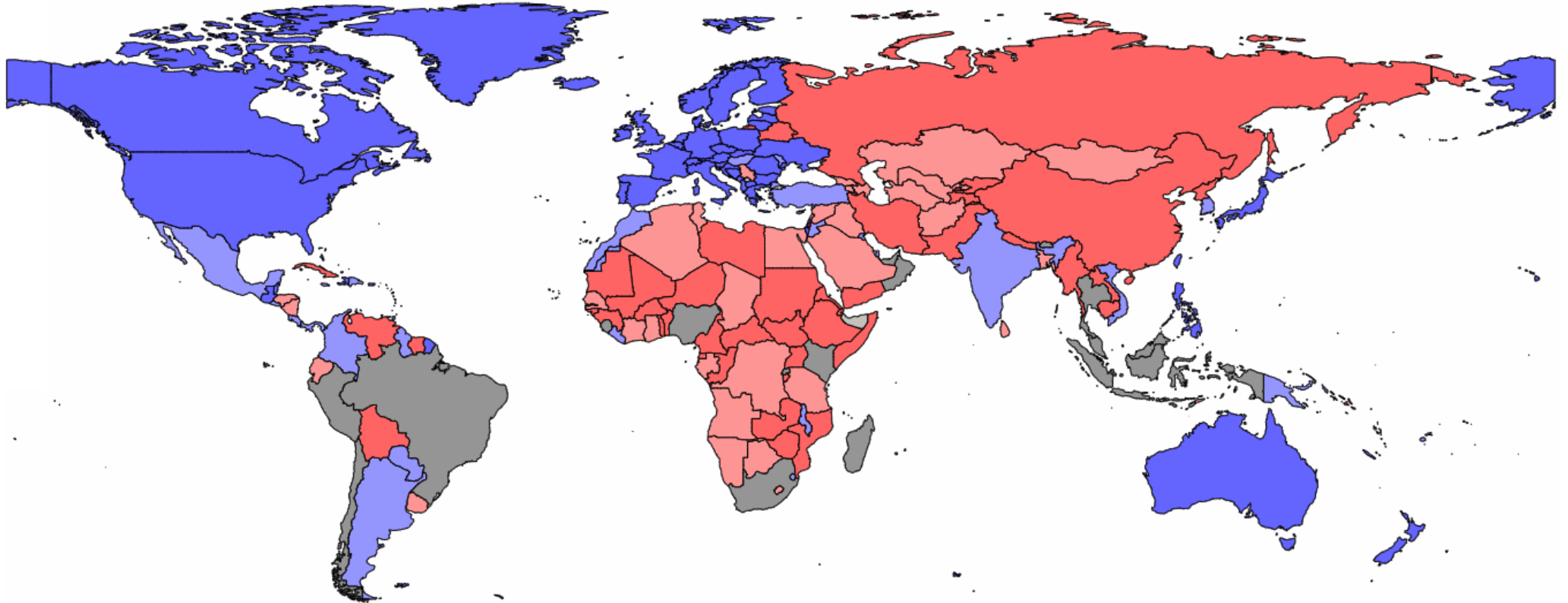
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- What can we learn from the first eight months?
- Why is a multipolar world not forming?
- Could a Trump-Xi deal put global fracturing into reverse?
- Might US policies push countries towards China?
- What are the implications for the global economic outlook?

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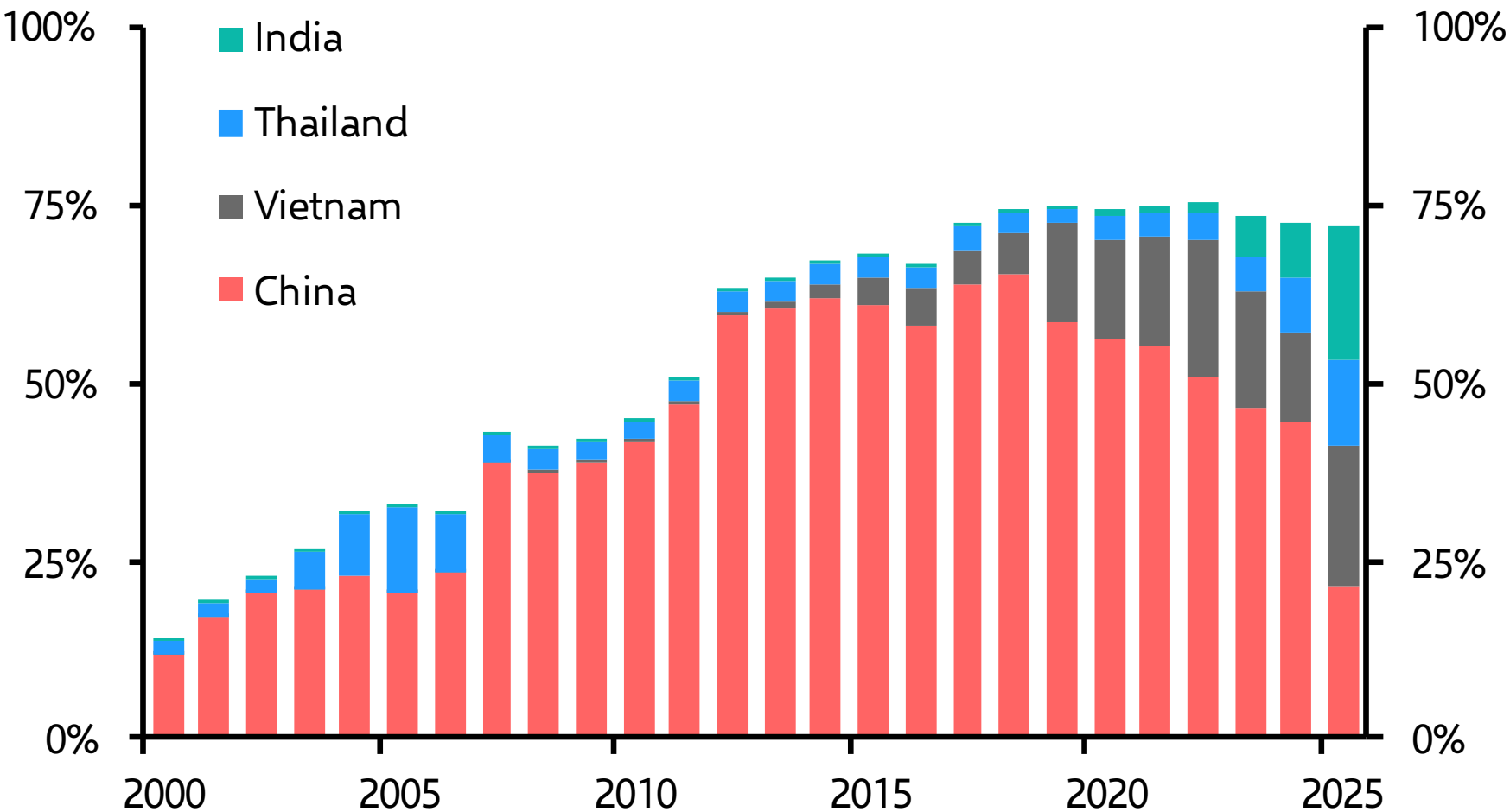
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Source: Capital Economics

# Sources of US mobile phone imports (% of total, 2025 up to July)



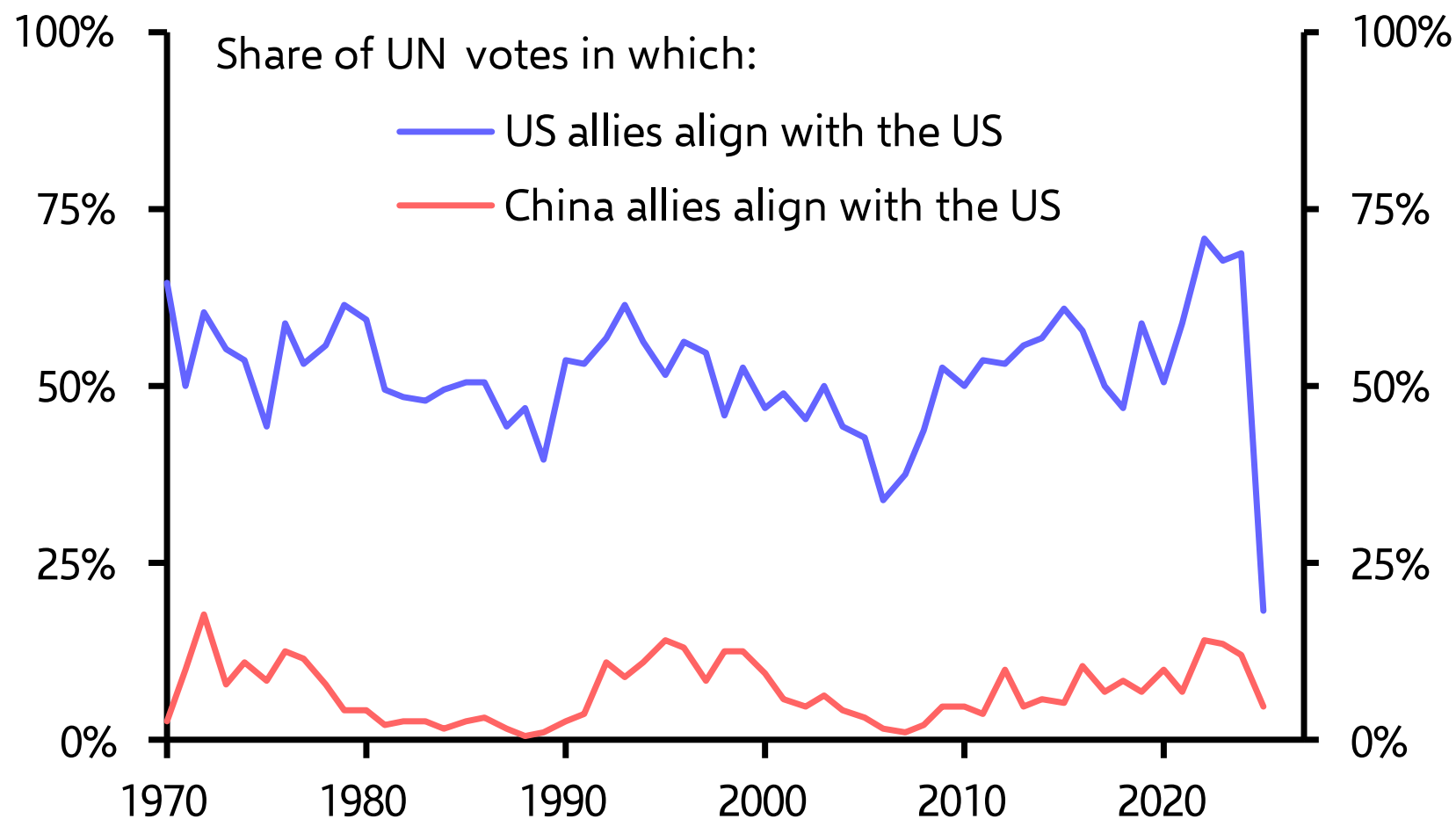
Sources: USITC, Capital Economics

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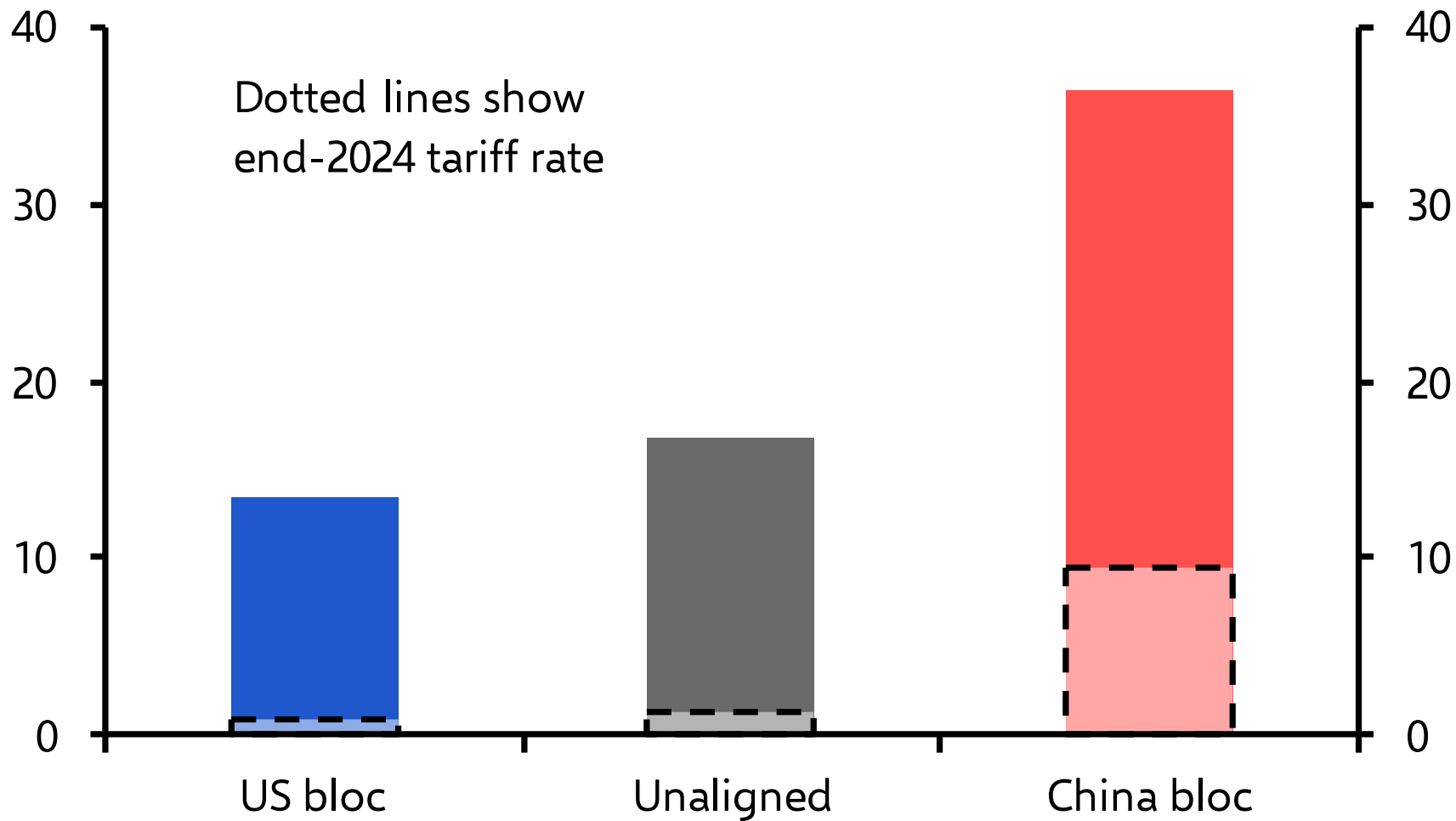
# Alignment with the US at the UN General Assembly



Note: The share of votes in each year that aligns with the US on issues where China & the US cast opposing votes. Median country. 2025 shows votes to the end of August.  
Sources: UN, Capital Economics



# Effective US tariff rate by bloc (% , end of August, 2024 weights)



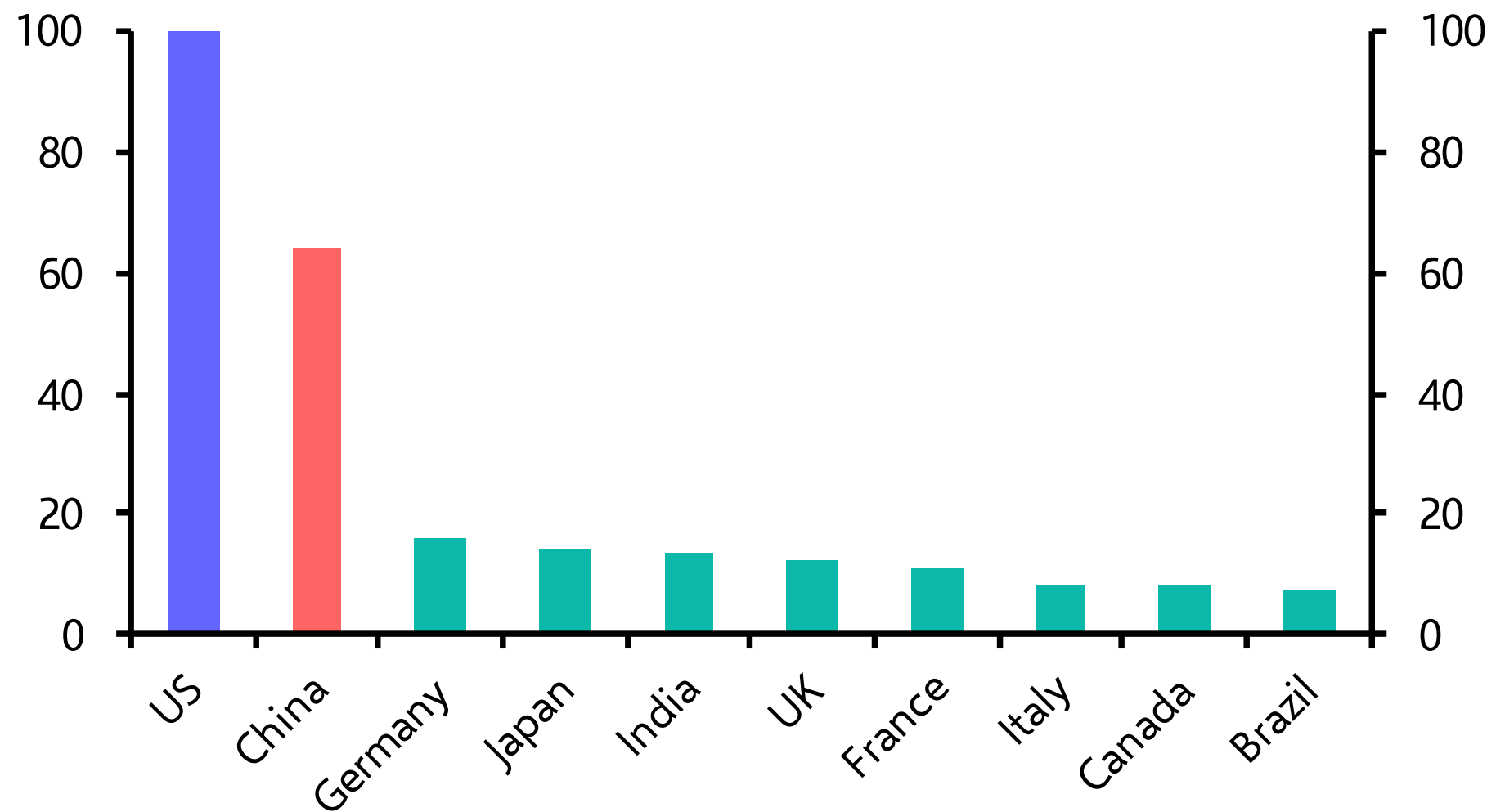
Sources: US Census Bureau, Capital Economics

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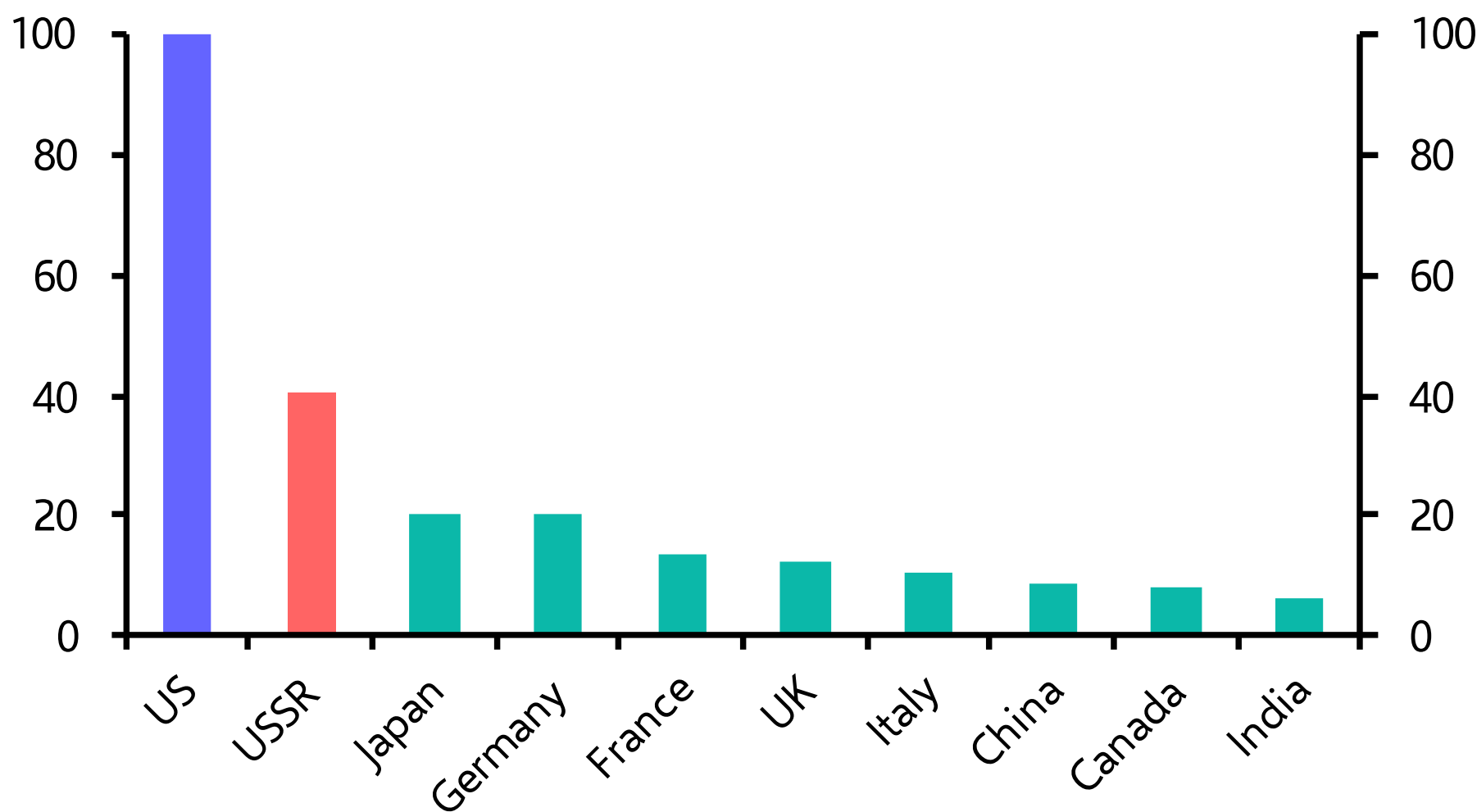
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# Ten largest economies in 2024 (US = 100, market exchange rates)



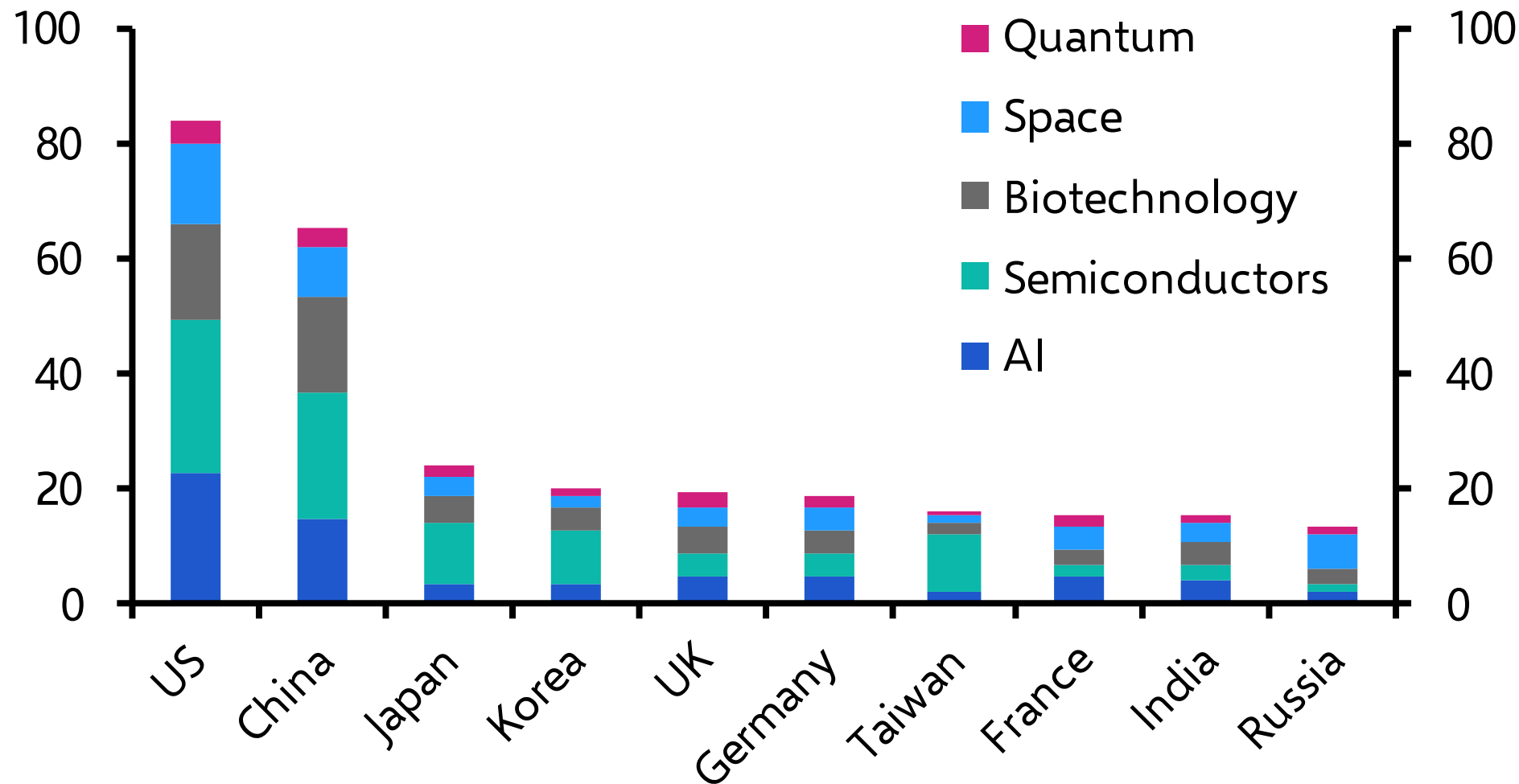
Sources: IMF, Capital Economics

# Ten largest economies in 1970 (US = 100, market exchange rates)



Sources: World Bank, Capital Economics

# Critical & Emerging Technologies Index of Capabilities



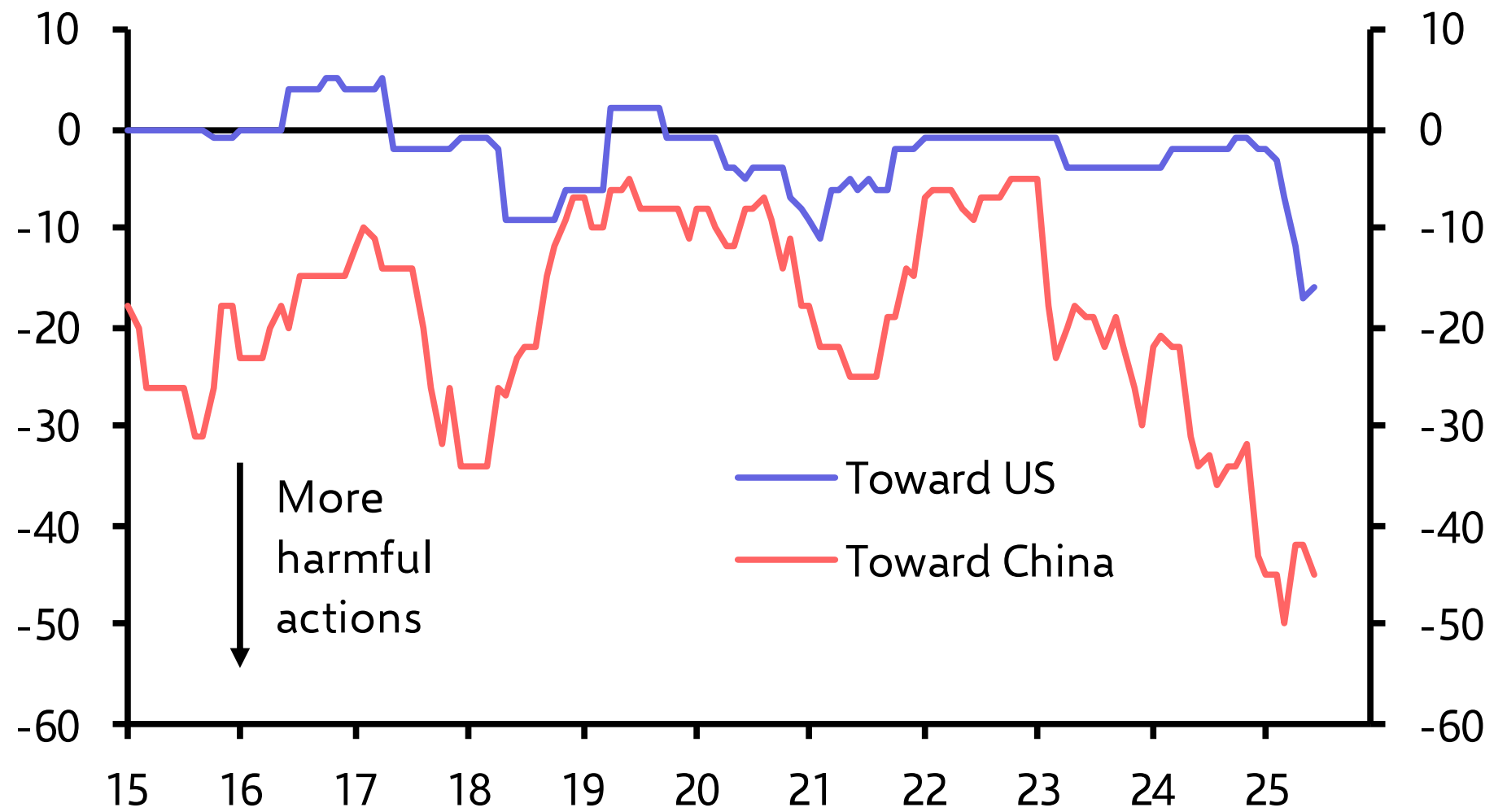
Source: "Critical and Emerging Technologies Index." by E. Rosenbach et al. (2025)

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# Trade protection actions by US allies (#, 12m average)



Sources: Global Trade Alert, Capital Economics

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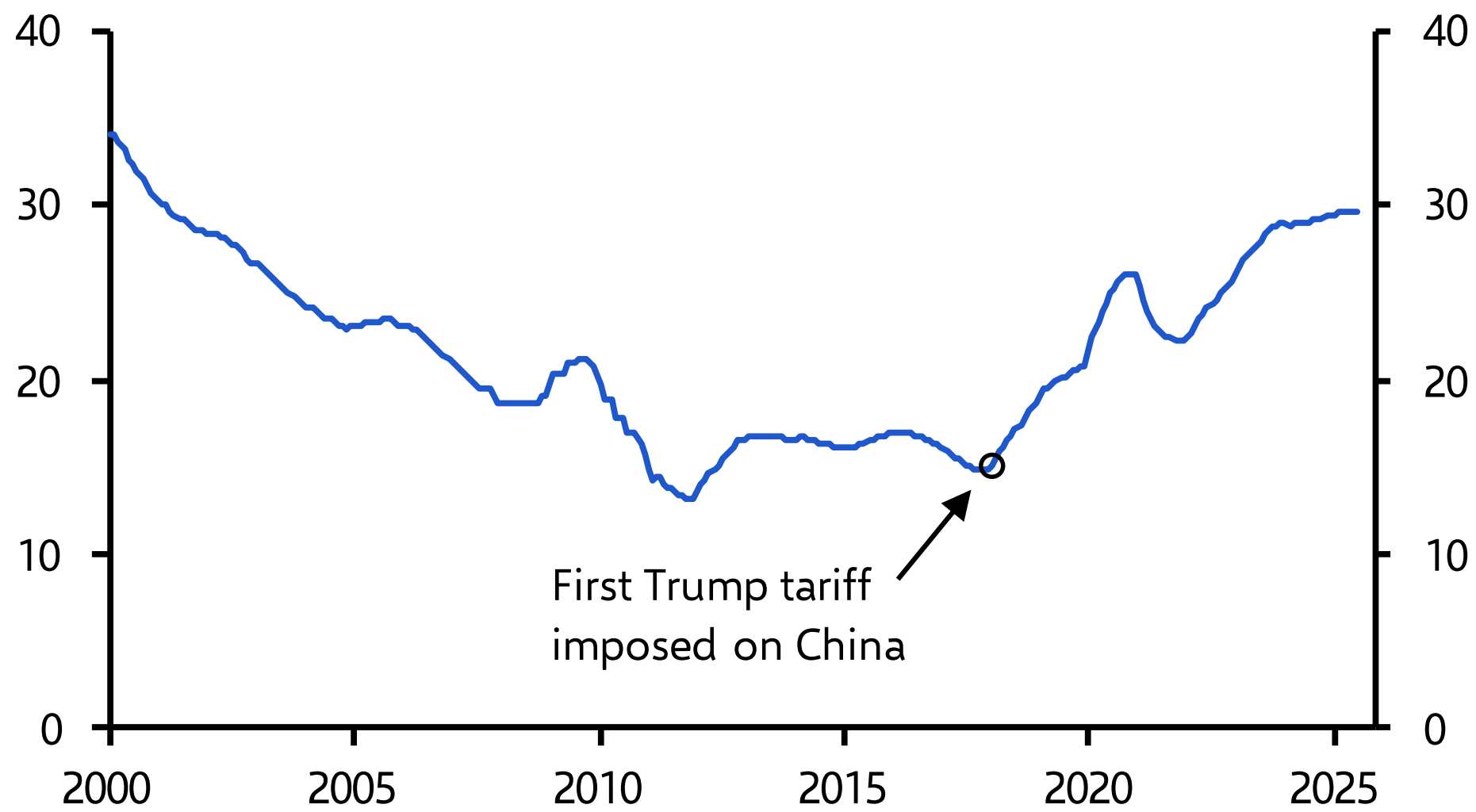


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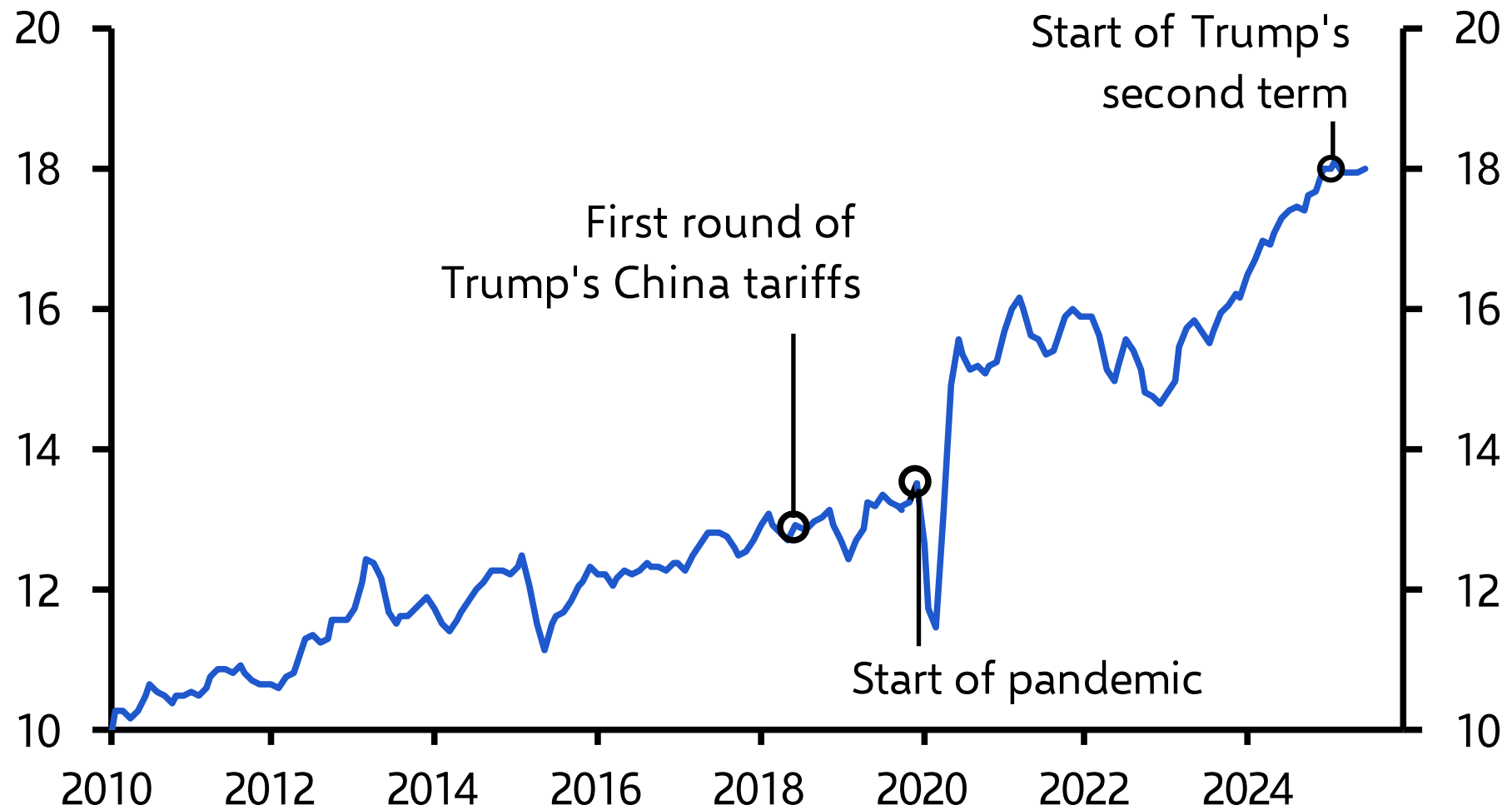
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# Share of firms in industry in China that are losing money (%)



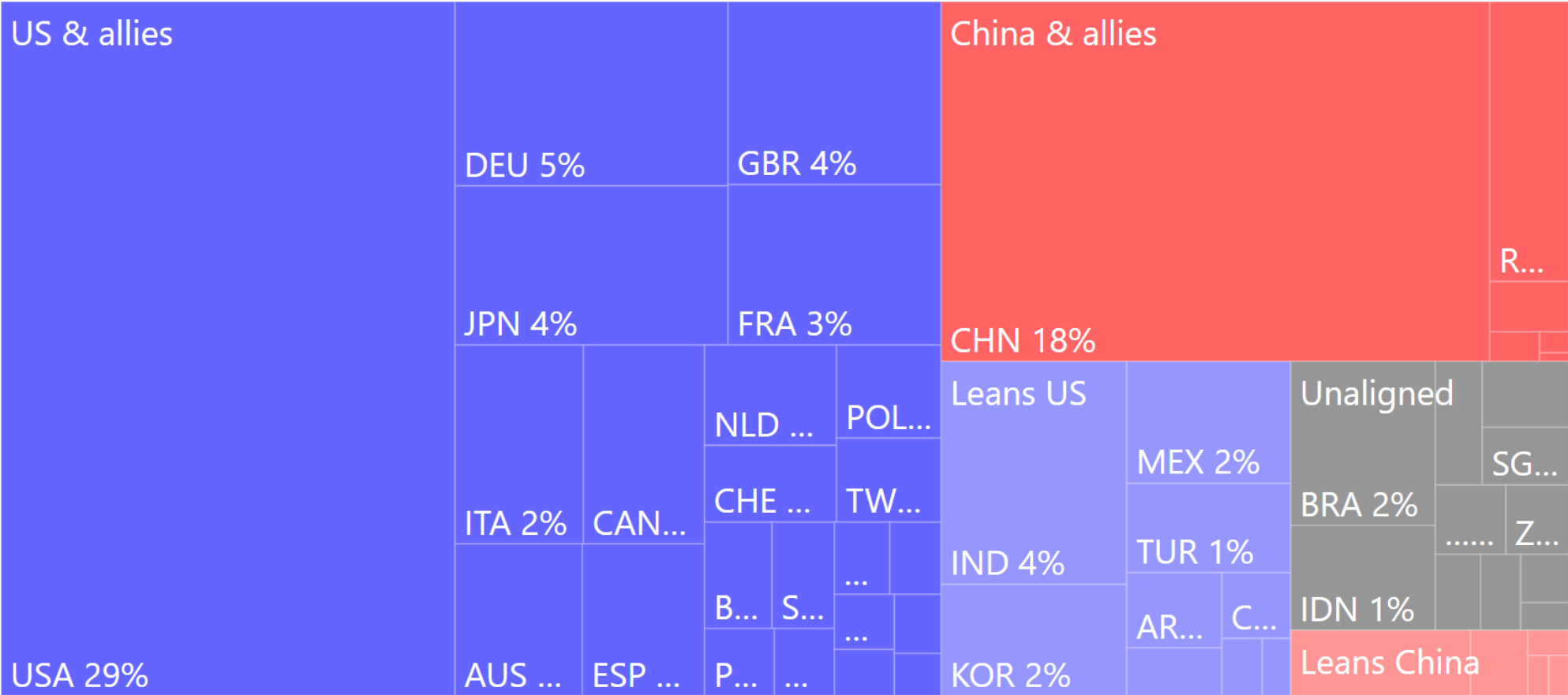
Sources: CEIC, Capital Economics

## China's share of global export volumes (% , 3m average)



Sources: LSEG, CPB, Capital Economics

# Share of global GDP (market exchange rates, 2024)



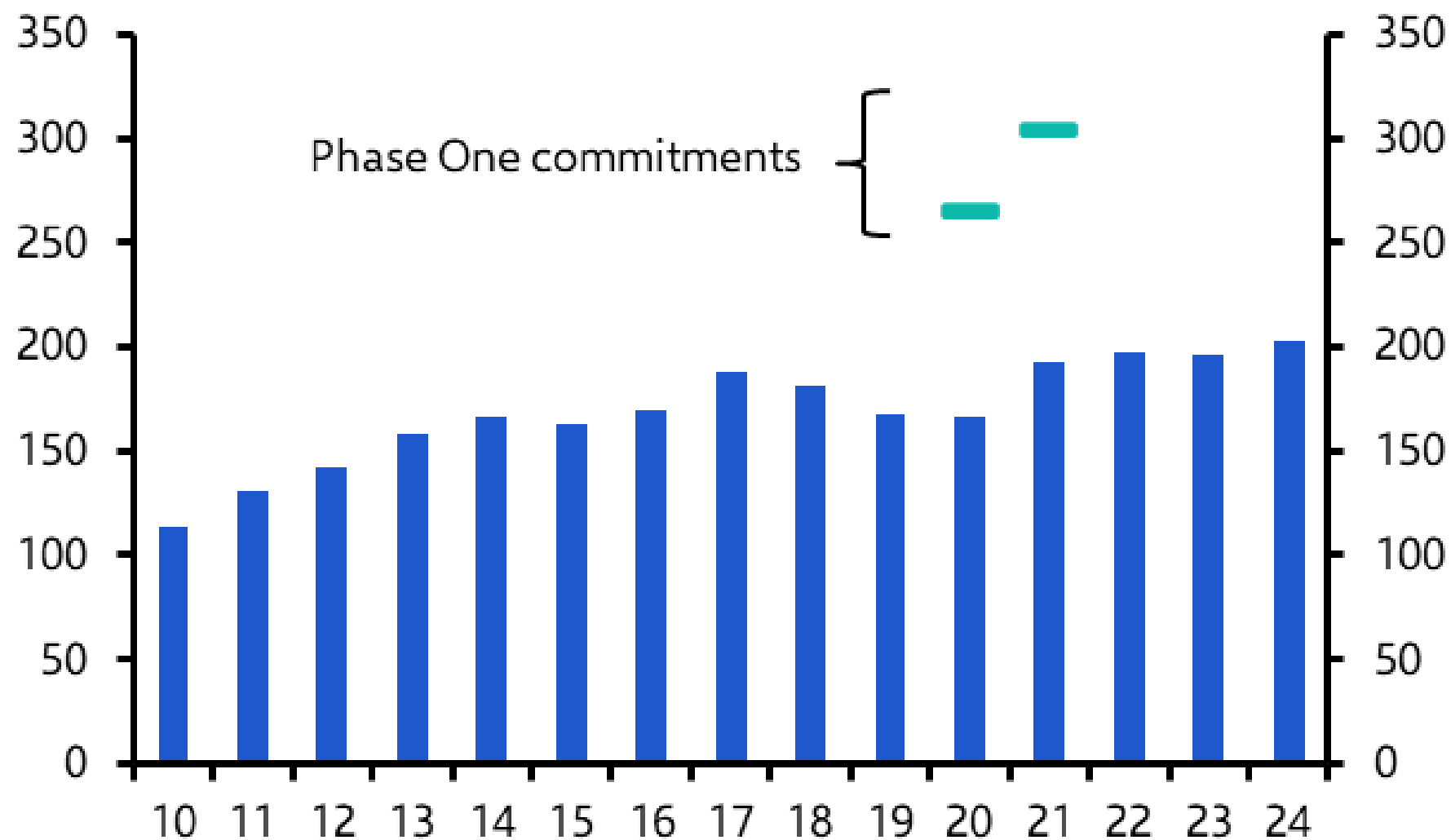
Sources: World Bank, Capital Economics

# What would a Grand Bargain look like?

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- A full reset would require the US to rollback tariffs and tech controls.
- China has little to offer in return that could assuage US concerns about geopolitical competition.
- A more limited “Phase One”-style trade deal is possible. But this wouldn’t address the underlying drivers of fracturing.

# China's goods imports from US & China's Phase One commitments (\$bn)



Sources: BEA, Capital Economics

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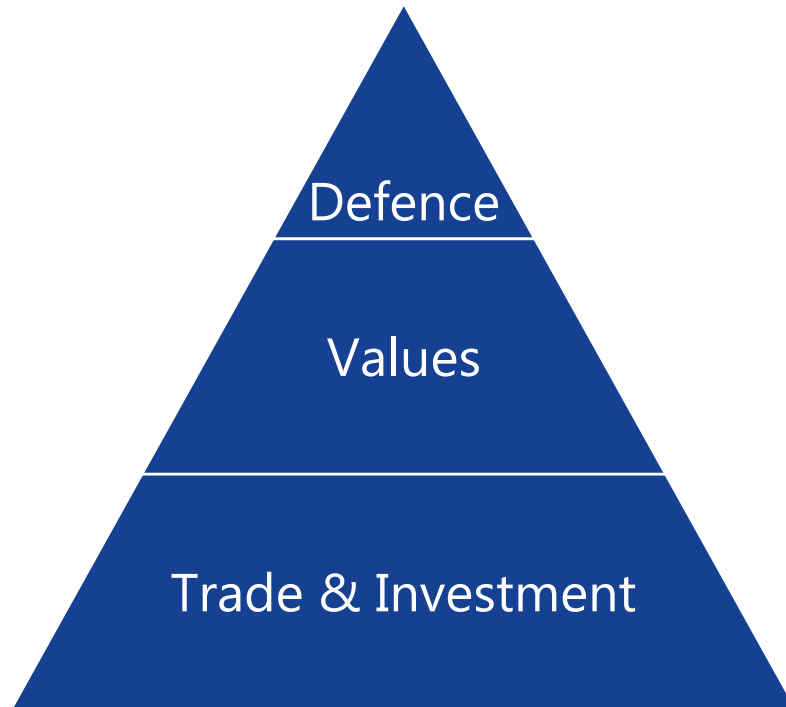
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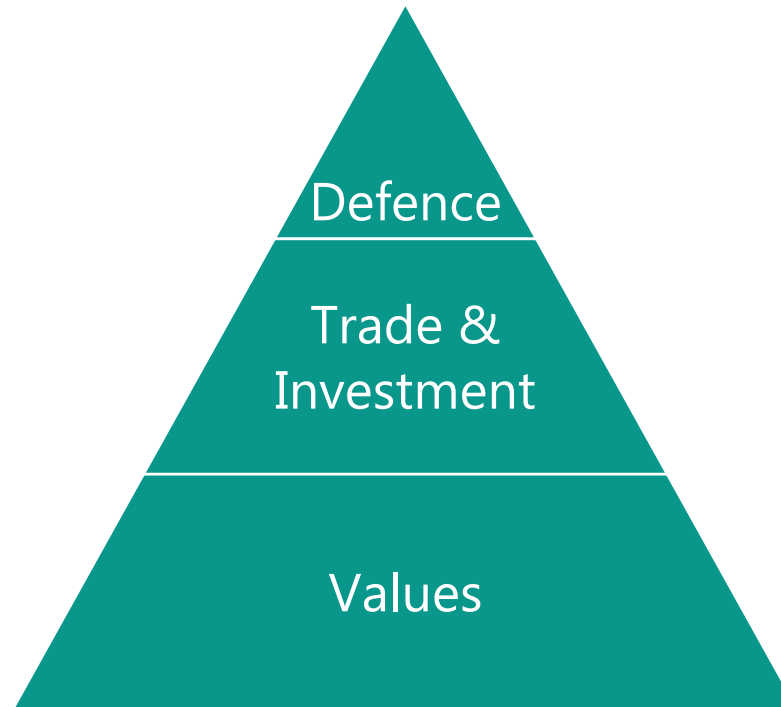
# What factors push countries into either bloc?

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## Developed Economies



## Emerging Economies



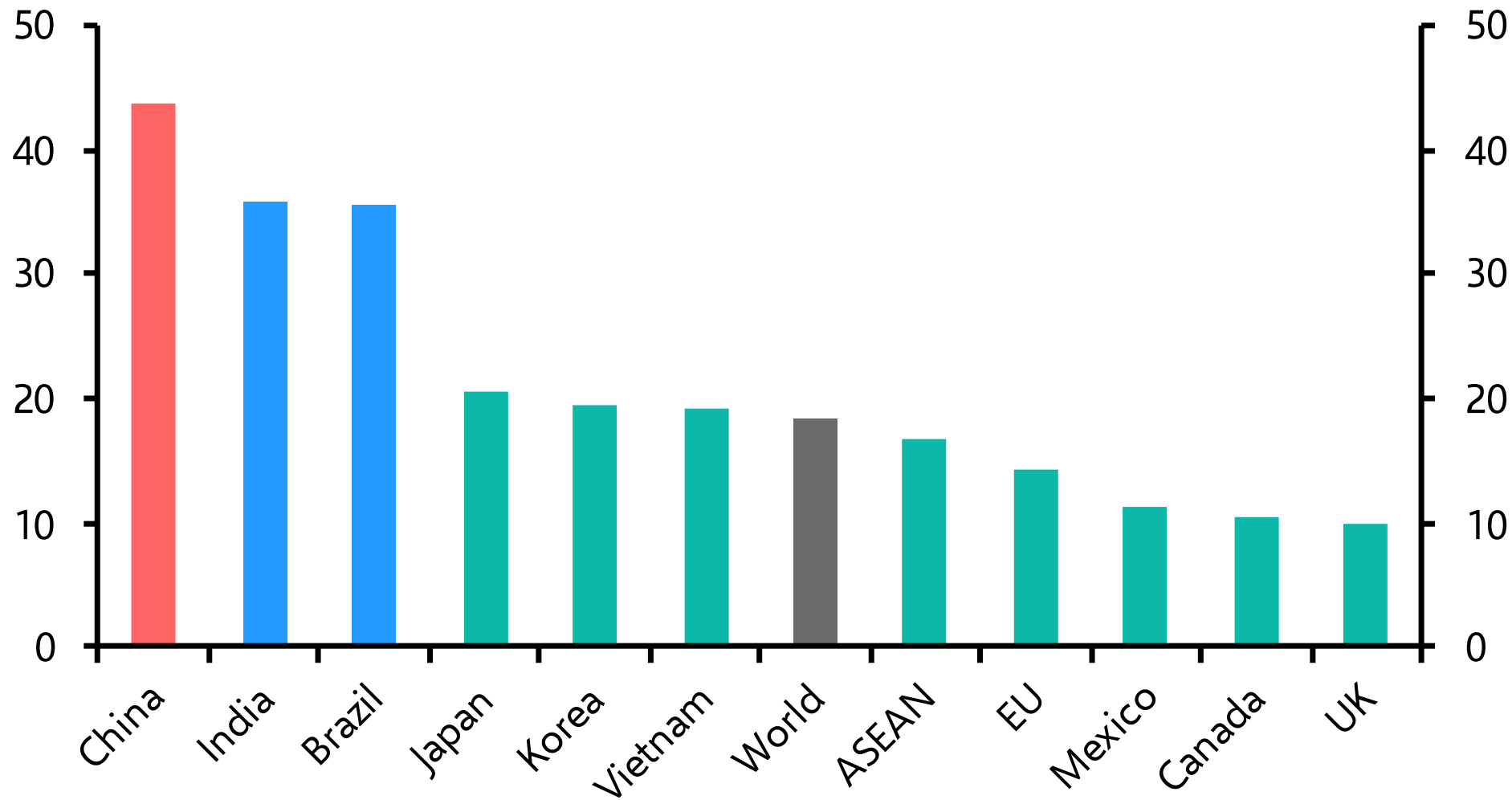
More  
important

Less  
important

Source: Capital Economics

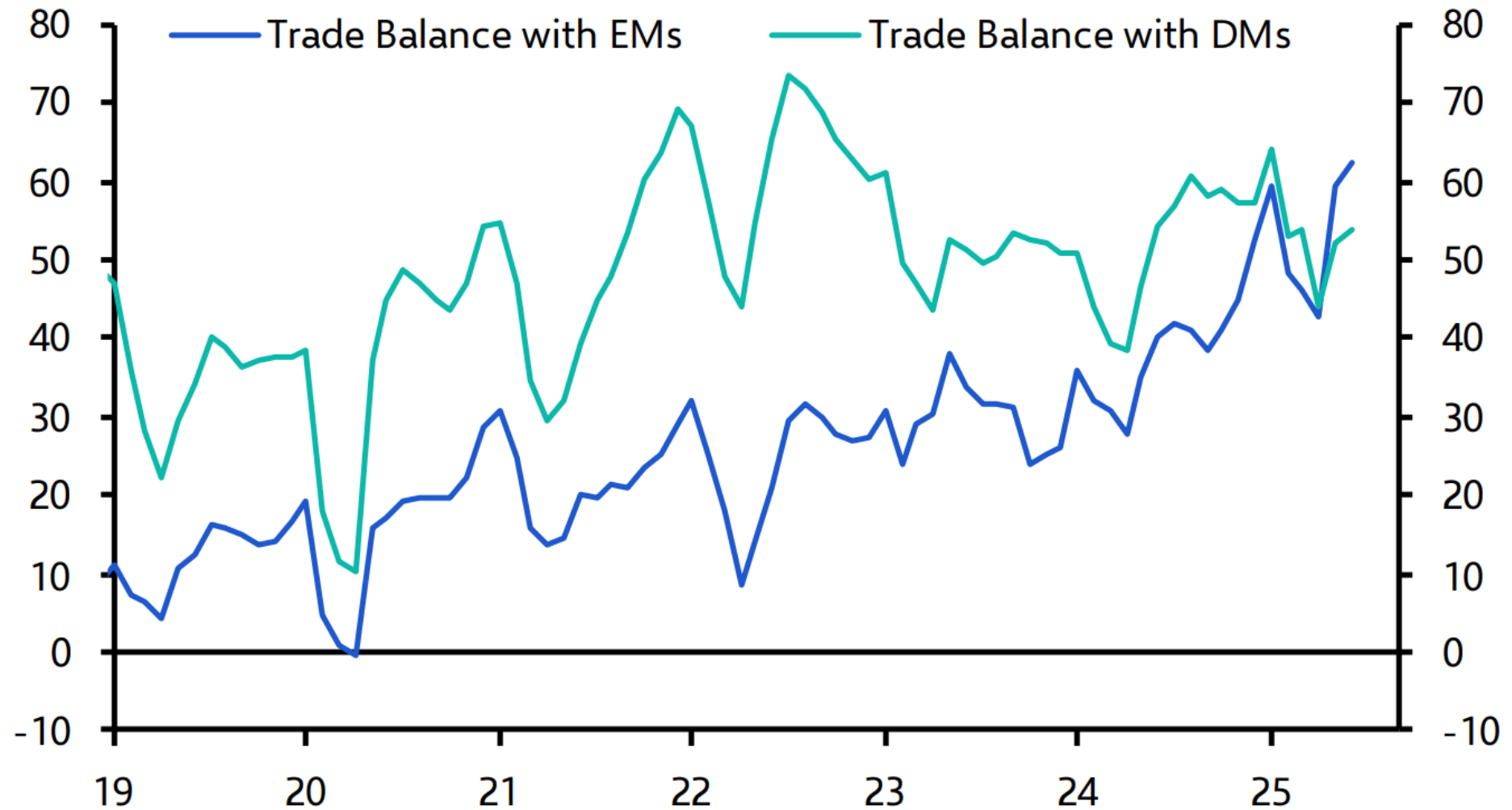


# Current US effective tariff rates (% , 2024 weights)



Sources: USITC, Capital Economics

## China's goods trade balance (\$bn, 3m average)



Sources: CEIC, Capital Economics

# The shape of fracturing under Trump 2.0

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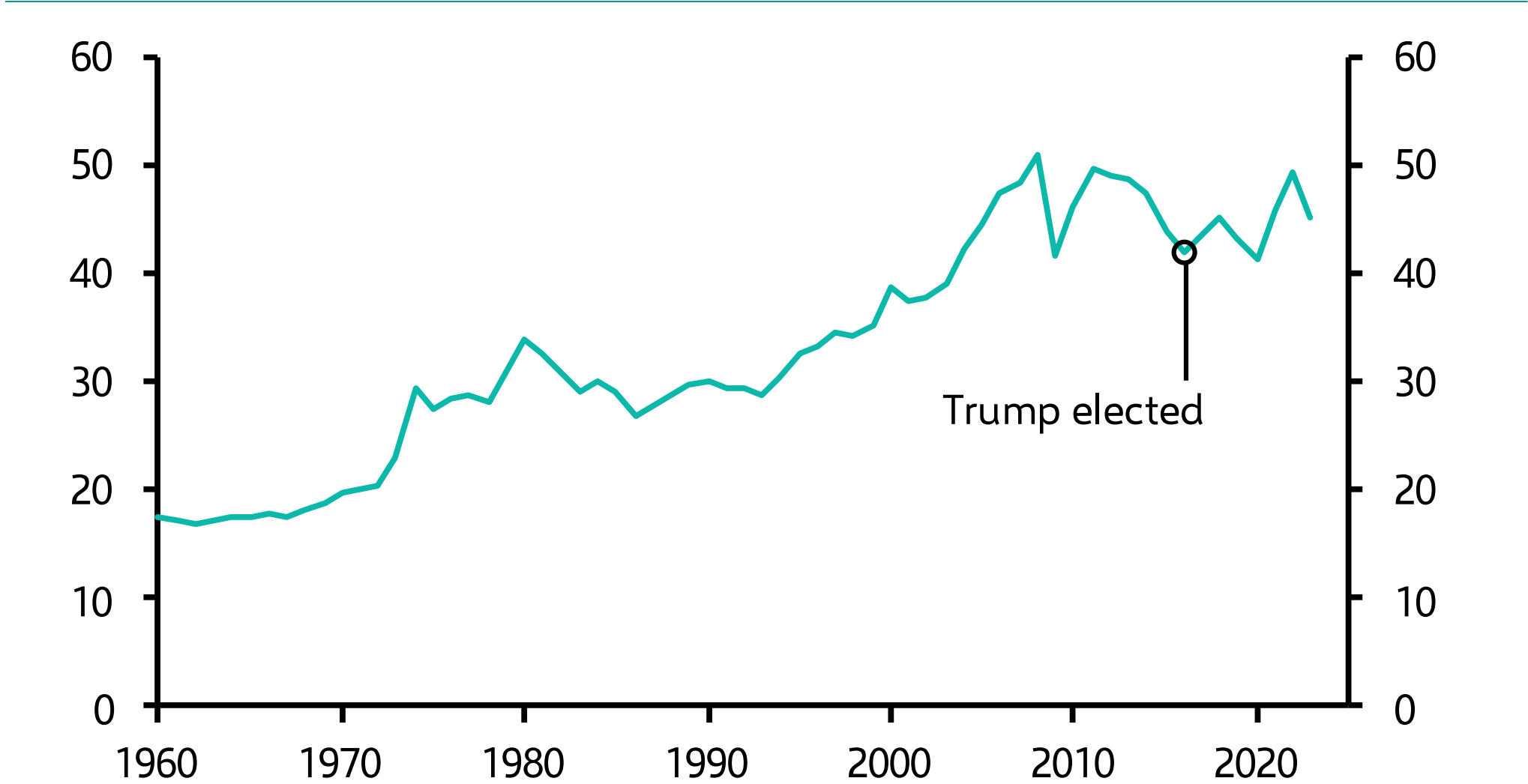
- Chances of US-China rapprochement and of a multipolar world emerging are low.
- The world will continue to fracture into US- and China-aligned blocs.
- Trump's policies risk pushing some countries closer to China.

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# Global goods trade (% of world GDP)



Sources: World Bank, Capital Economics

# Implications for the global economy

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- The current path of fracturing will lower global GDP by 1%.
- Costs are being felt disproportionately by China.
- The US bloc's advantage will be reduced if more countries enter China's orbit.
- Some countries will benefit thanks to friendshoring.