

CAPITAL ECONOMICS

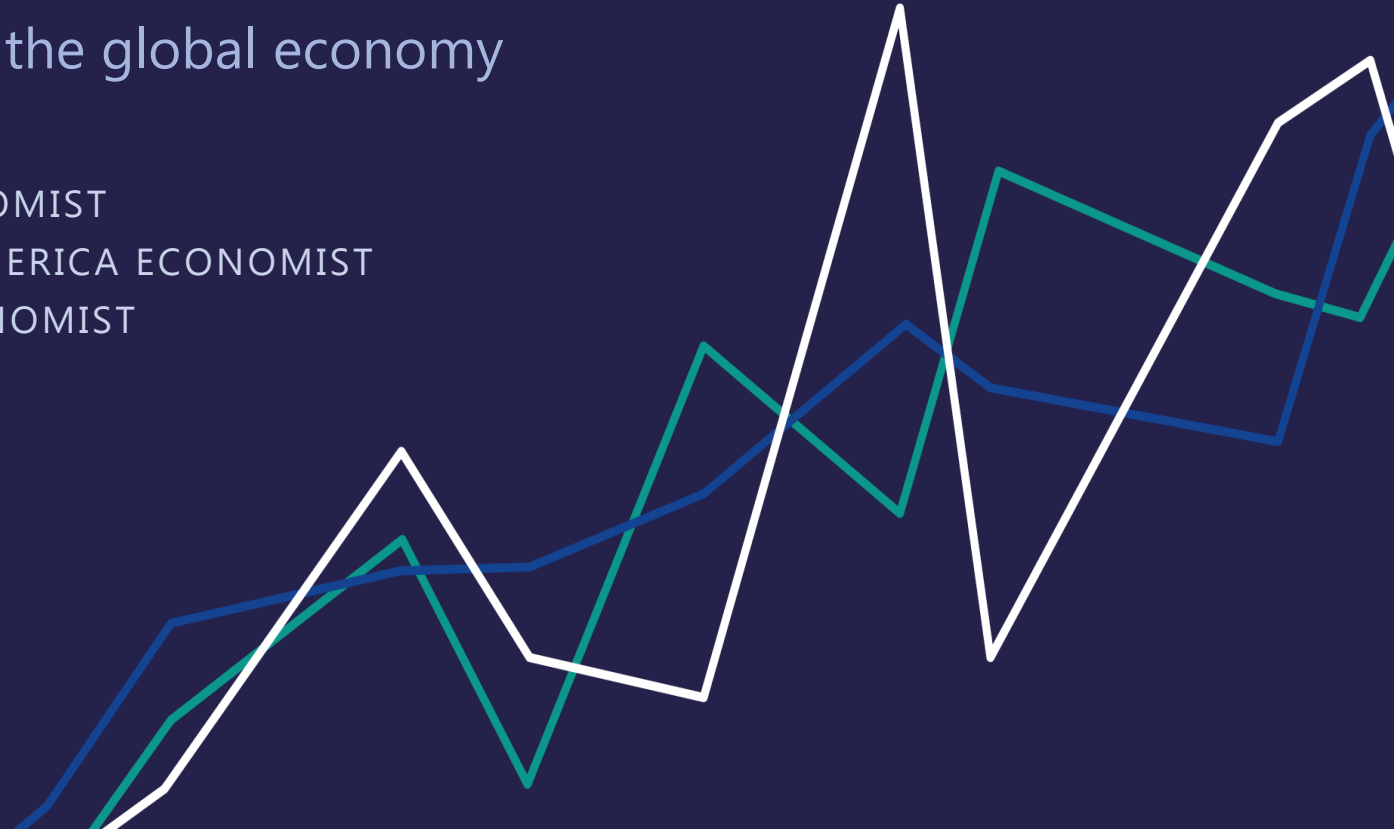
The Fractured Age

How geopolitics is remaking the global economy

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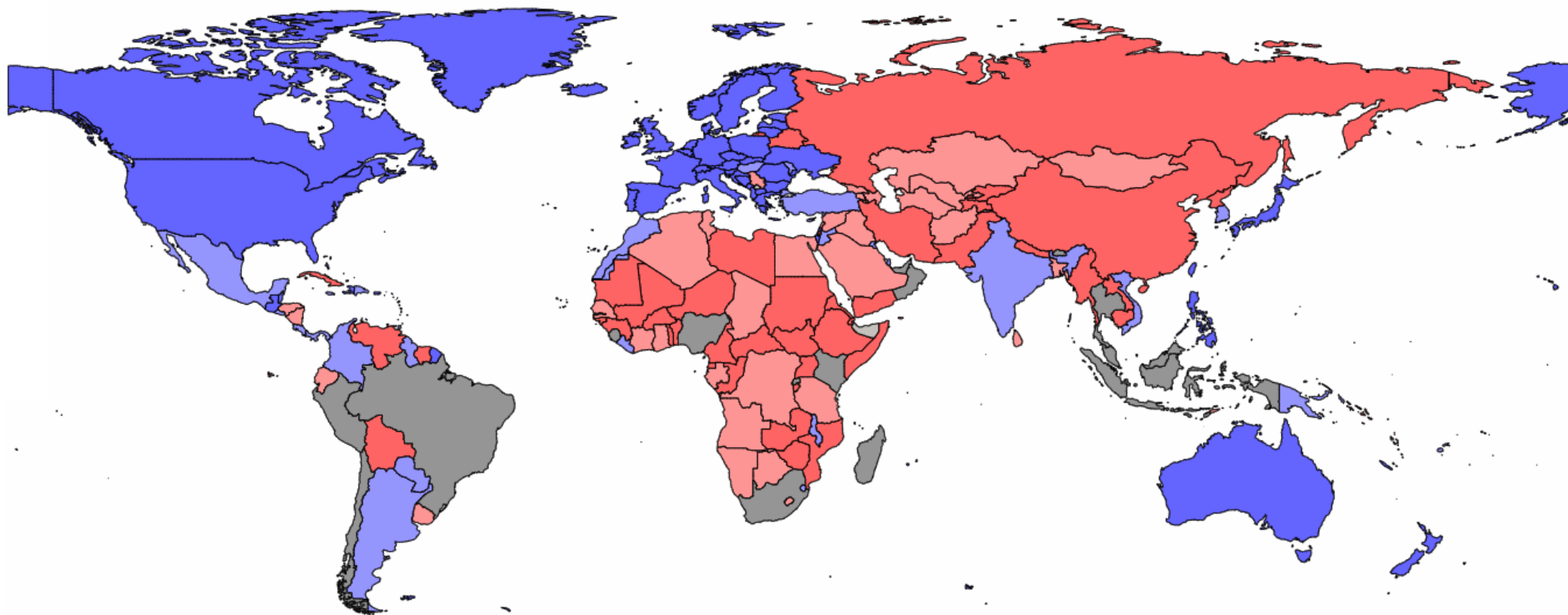


What is fracturing?

- 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



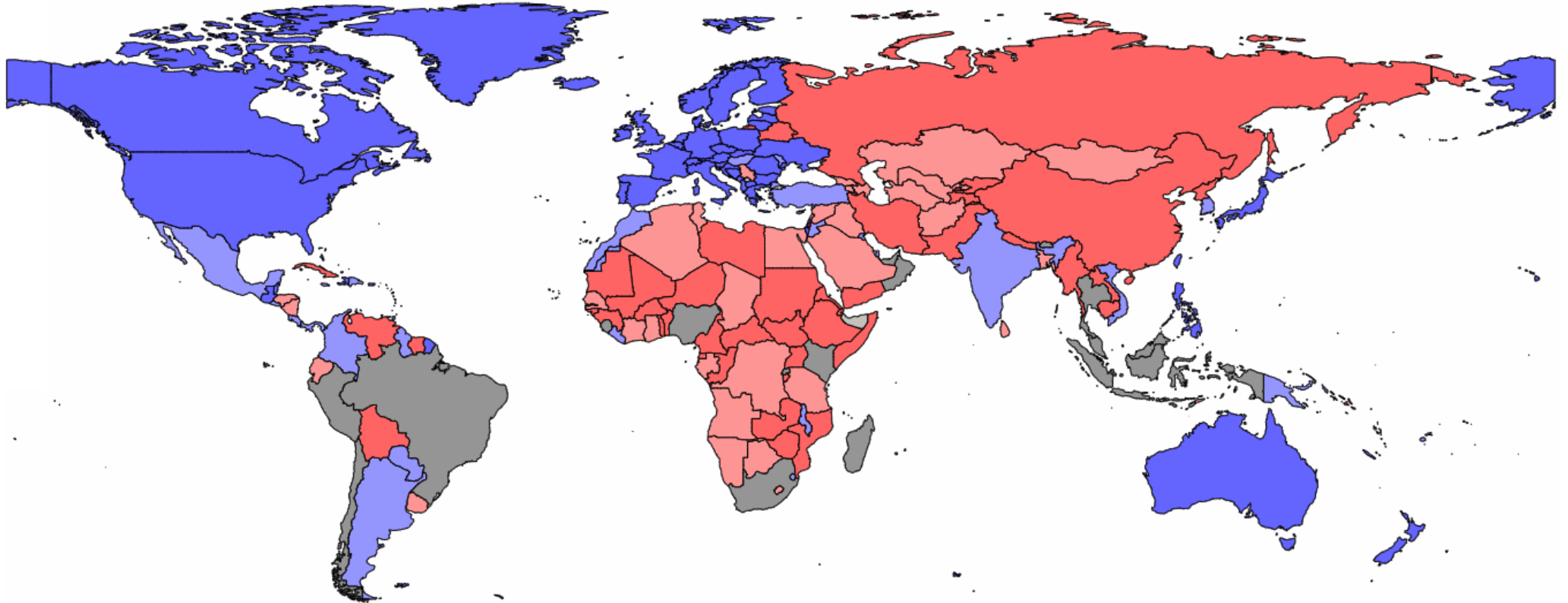
Source: Capital Economics

Geopolitical realignment and resulting economic outcomes

- What evidence is there of shifting geopolitical alignment this year?
- Why is a multipolar world not forming?
- Could a US-China deal put global fracturing into reverse?
- Might US policies push countries towards China?
- What are the implications for the global economic outlook?

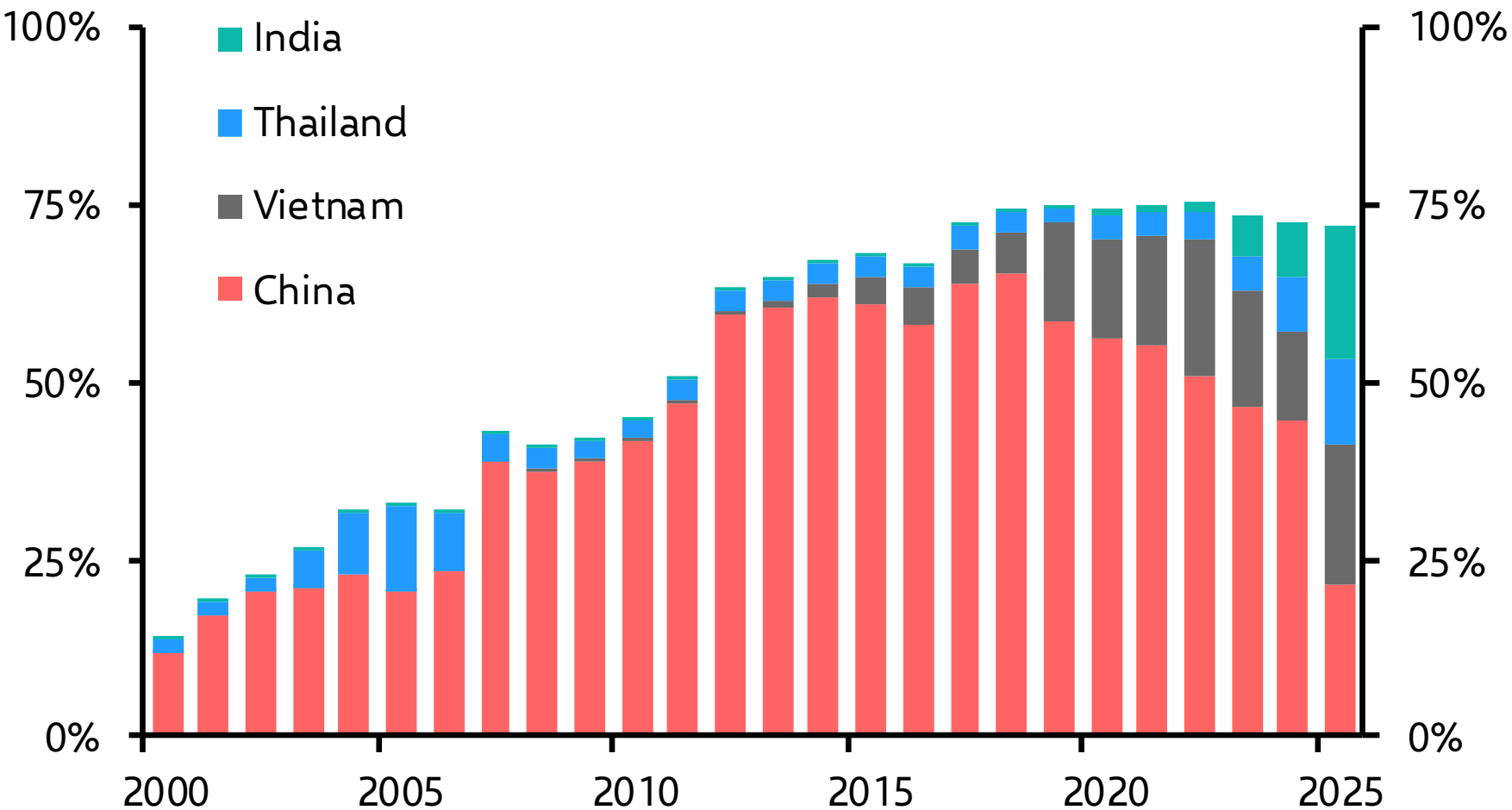
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Source: Capital Economics

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

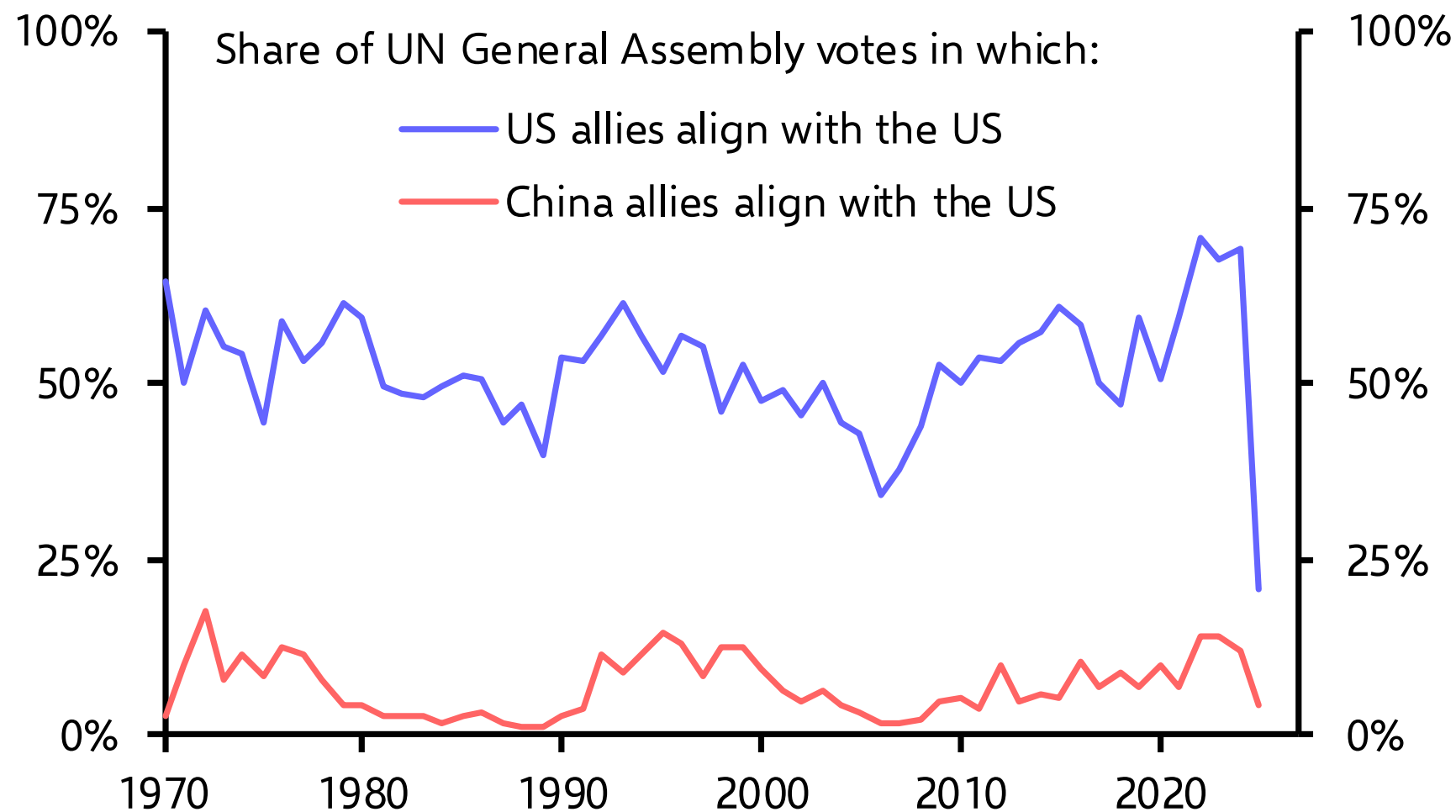


Sources: USITC, Capital Economics

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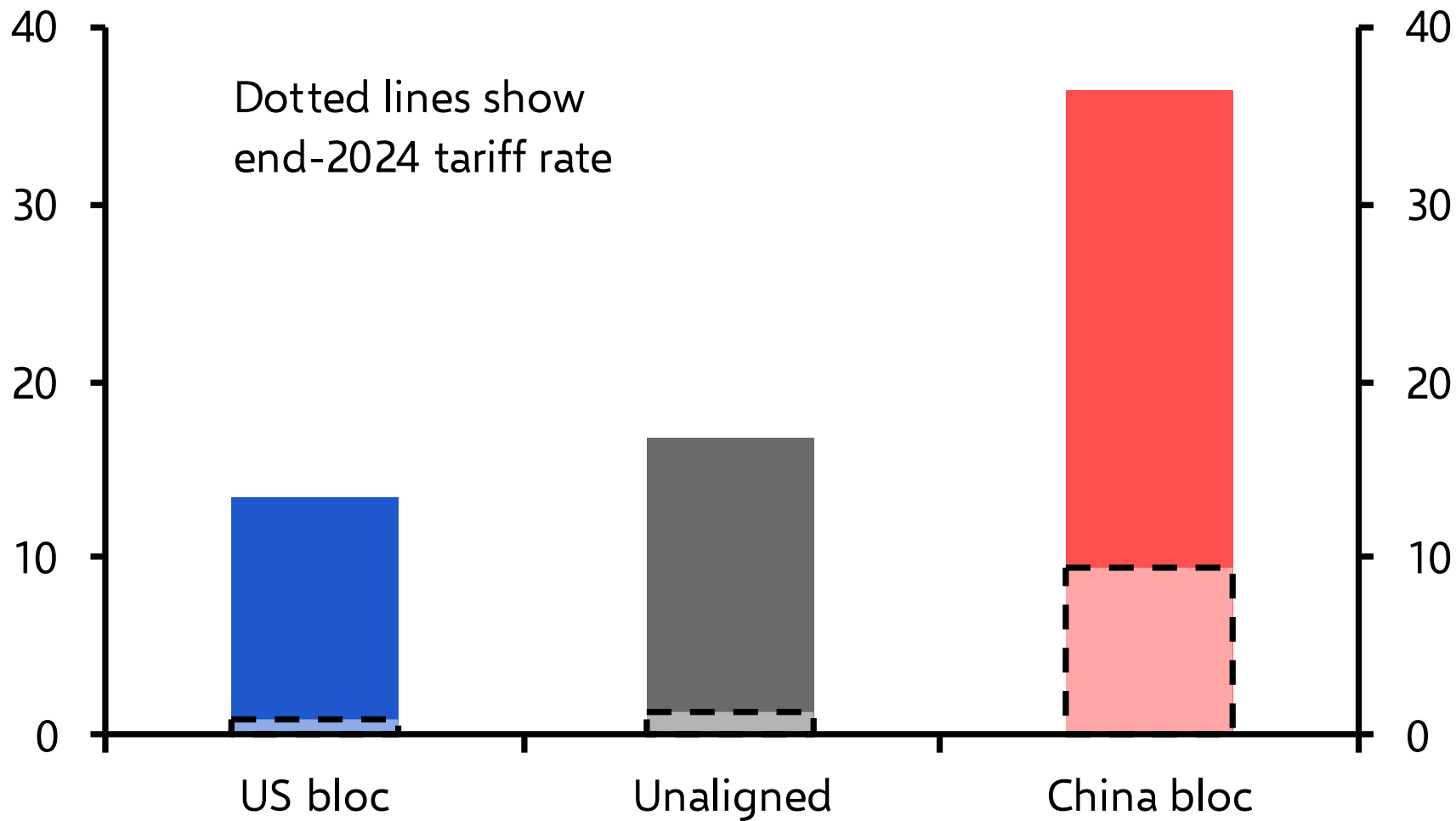
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Alignment with the US at the UN General Assembly



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 12 September. Sources: UN, Capital Economics

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

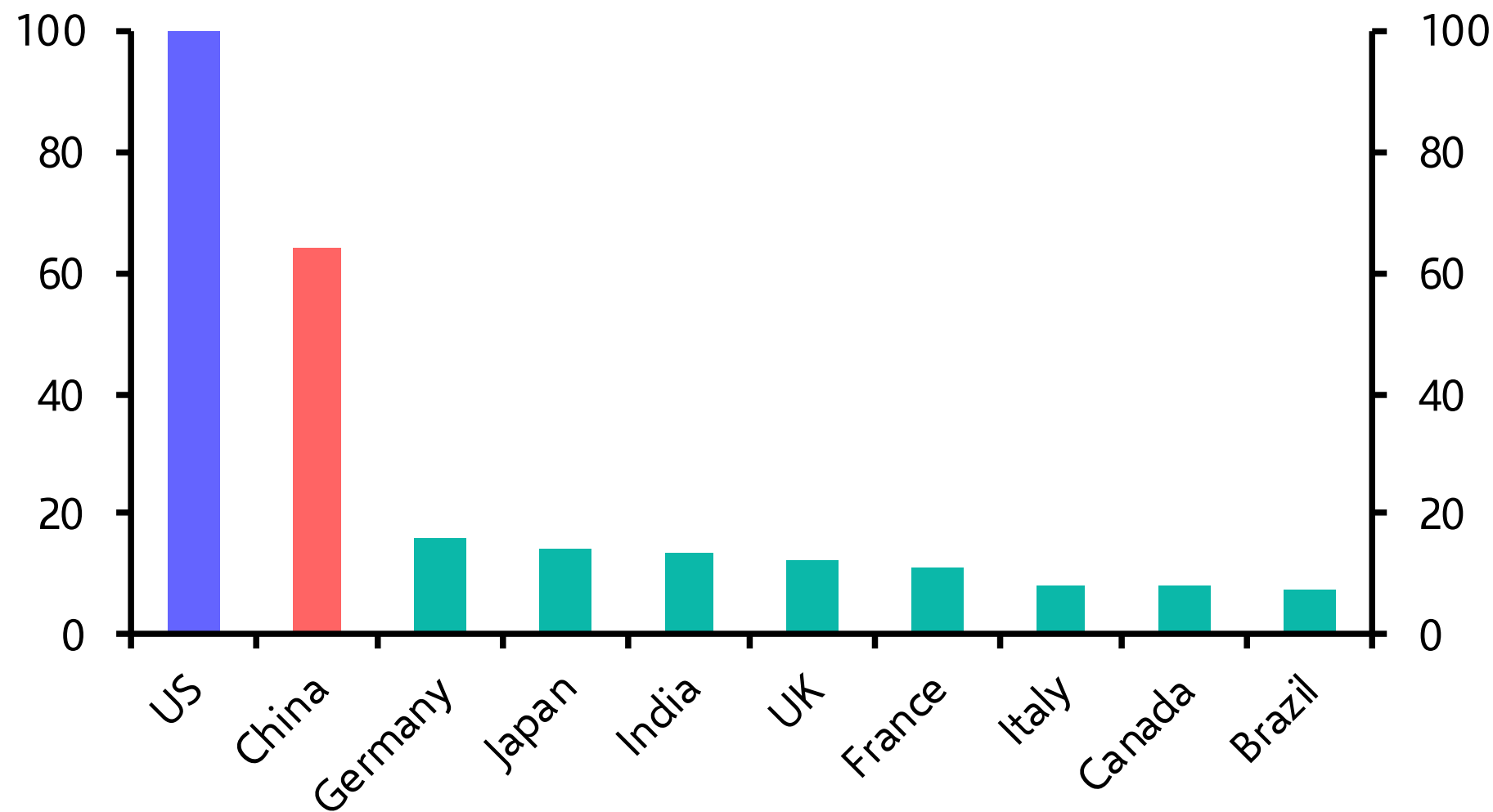


Sources: US Census Bureau, Capital Economics

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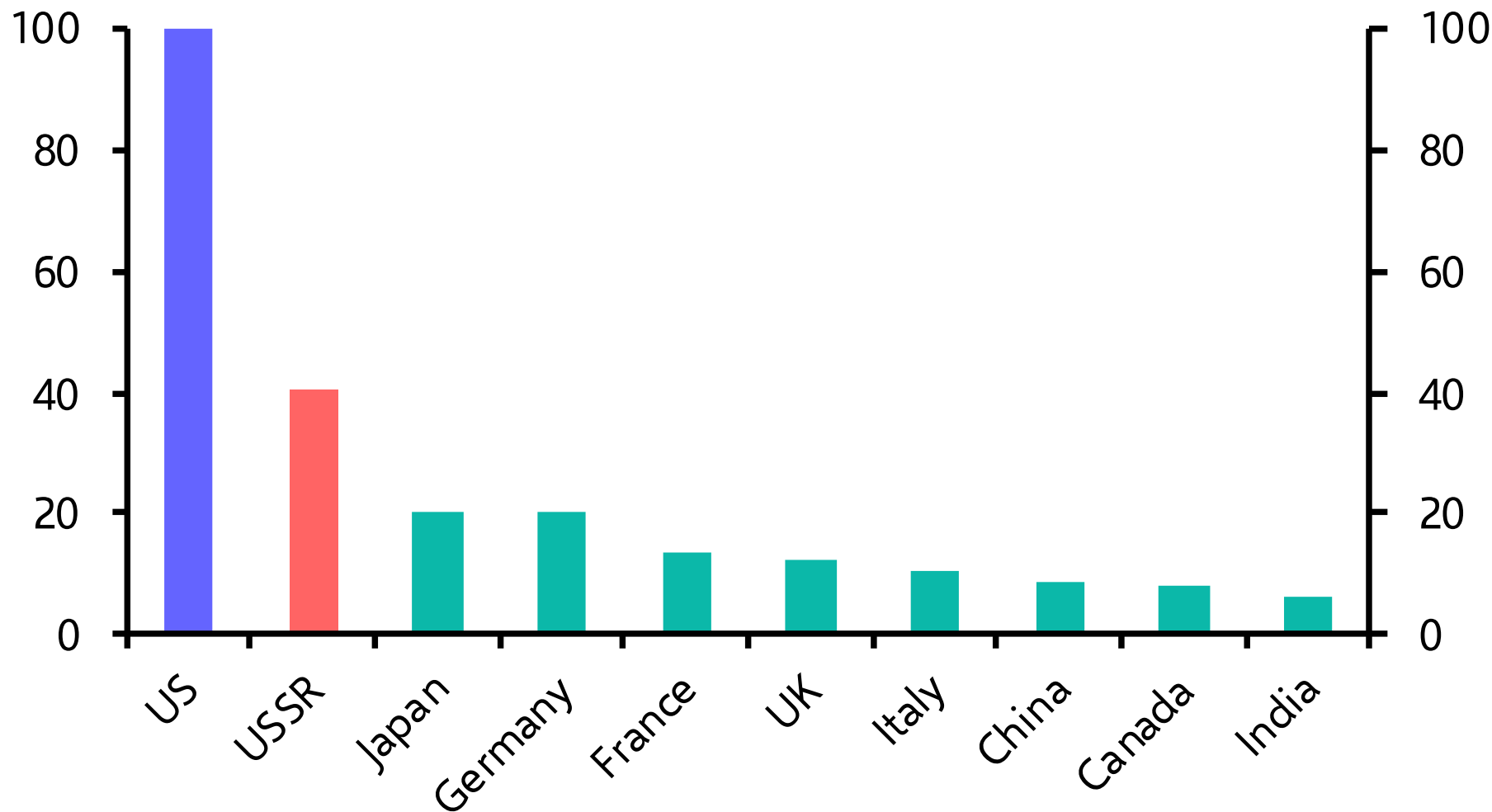
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Ten largest economies in 2024 (US = 100, market exchange rates)



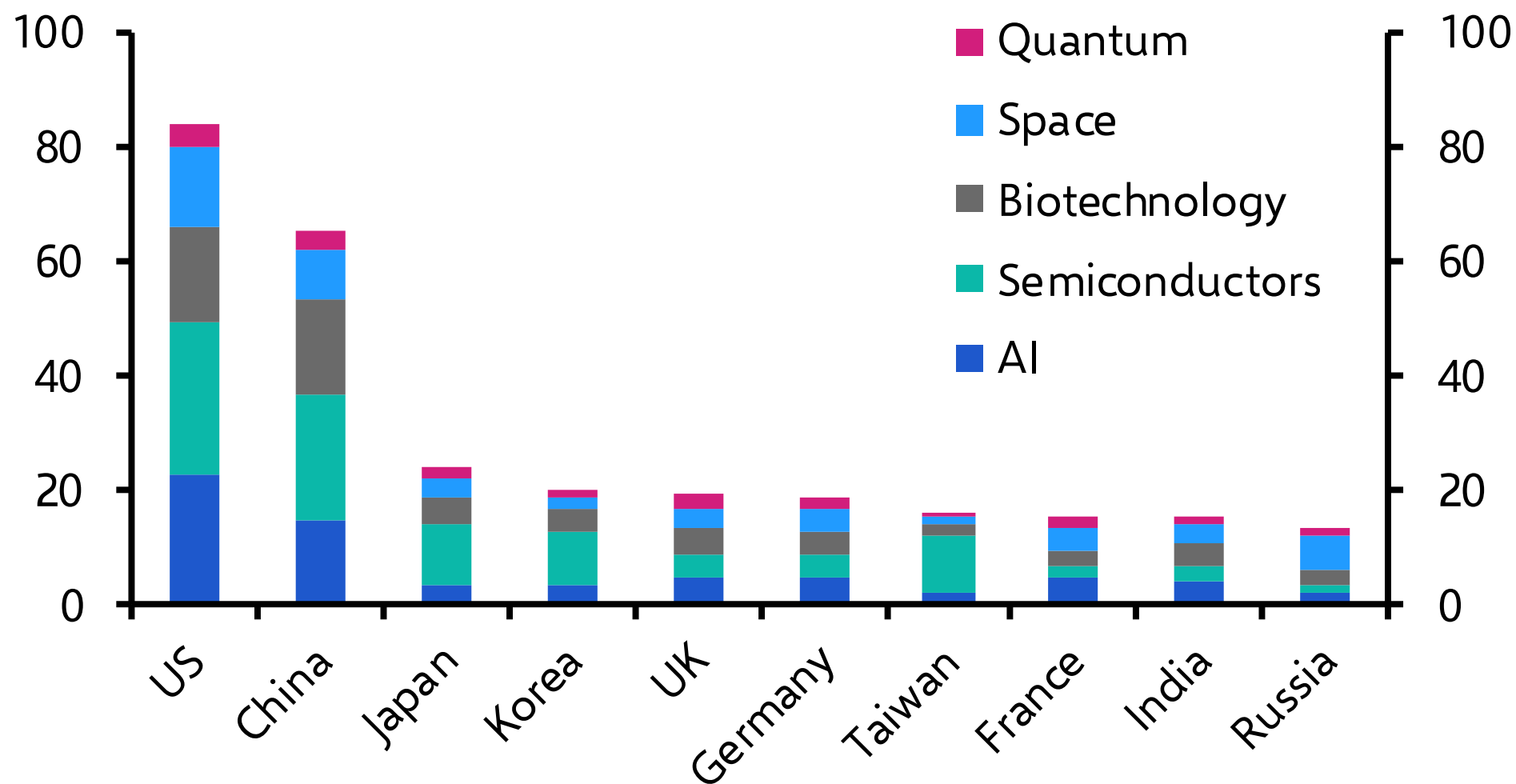
Sources: IMF, Capital Economics

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



Sources: World Bank, Capital Economics

Critical & Emerging Technologies Index of Capabilities

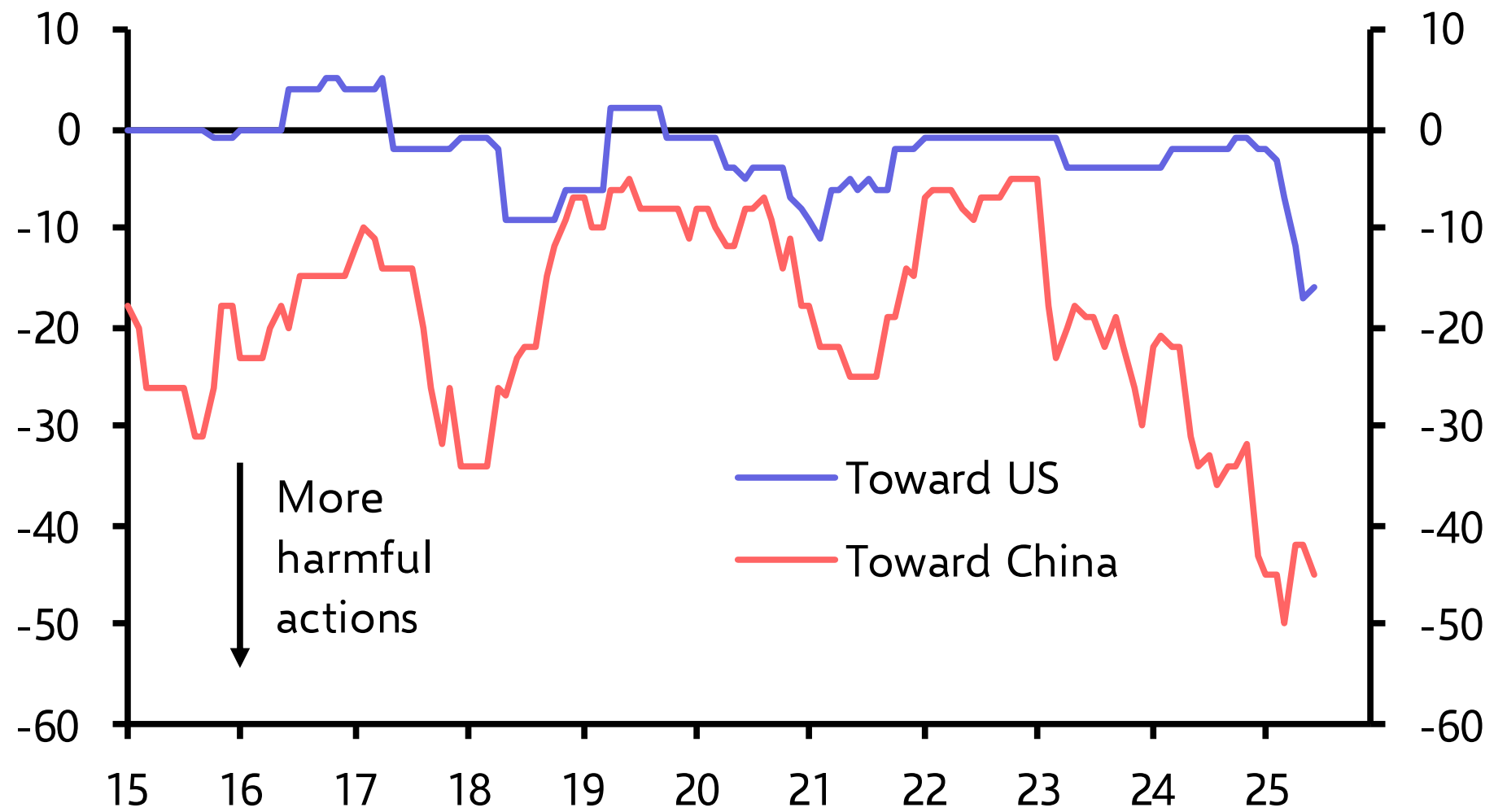


Source: "Critical and Emerging Technologies Index." by E. Rosenbach et al. (2025)

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



Sources: Global Trade Alert, Capital Economics

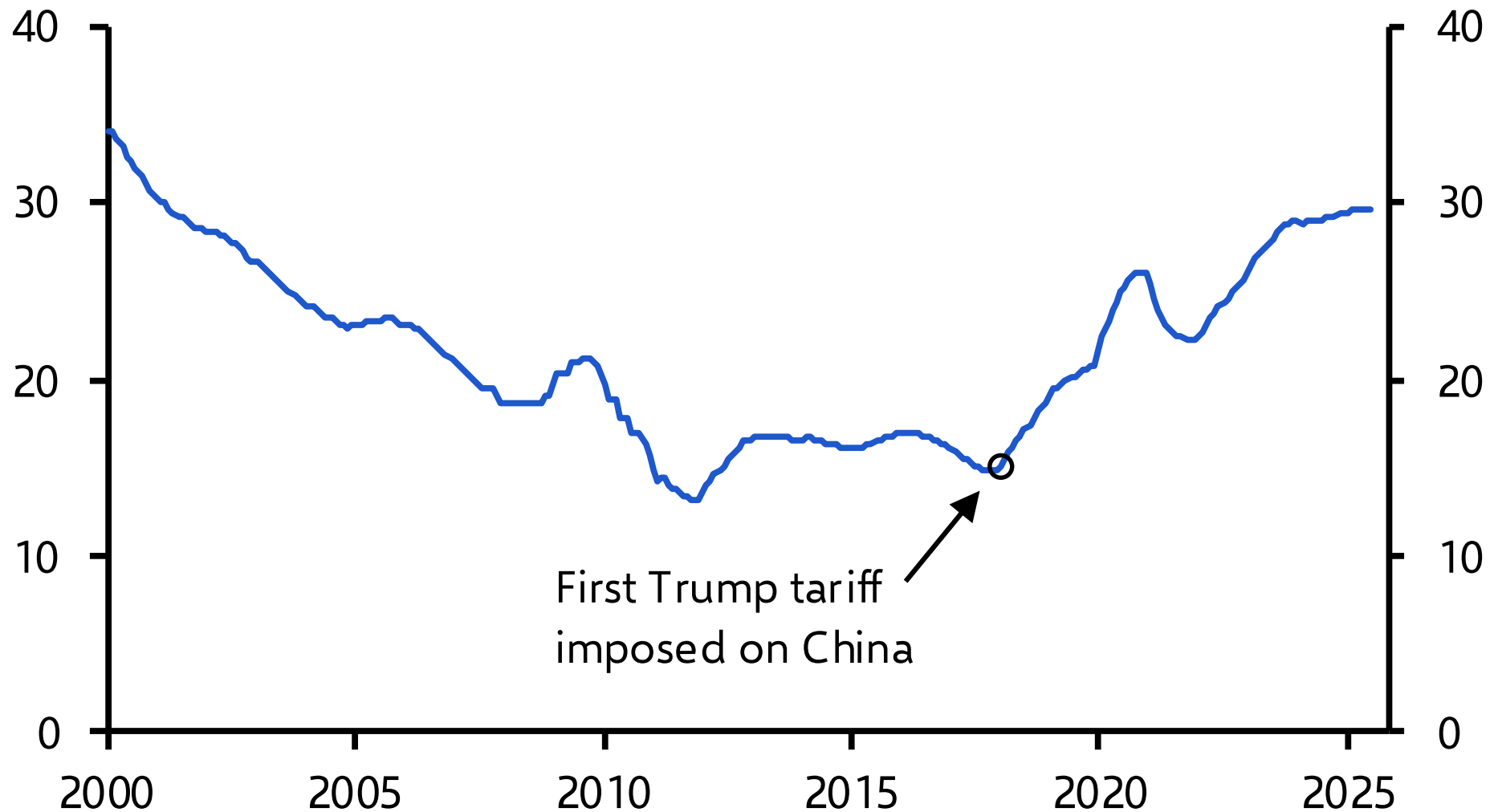
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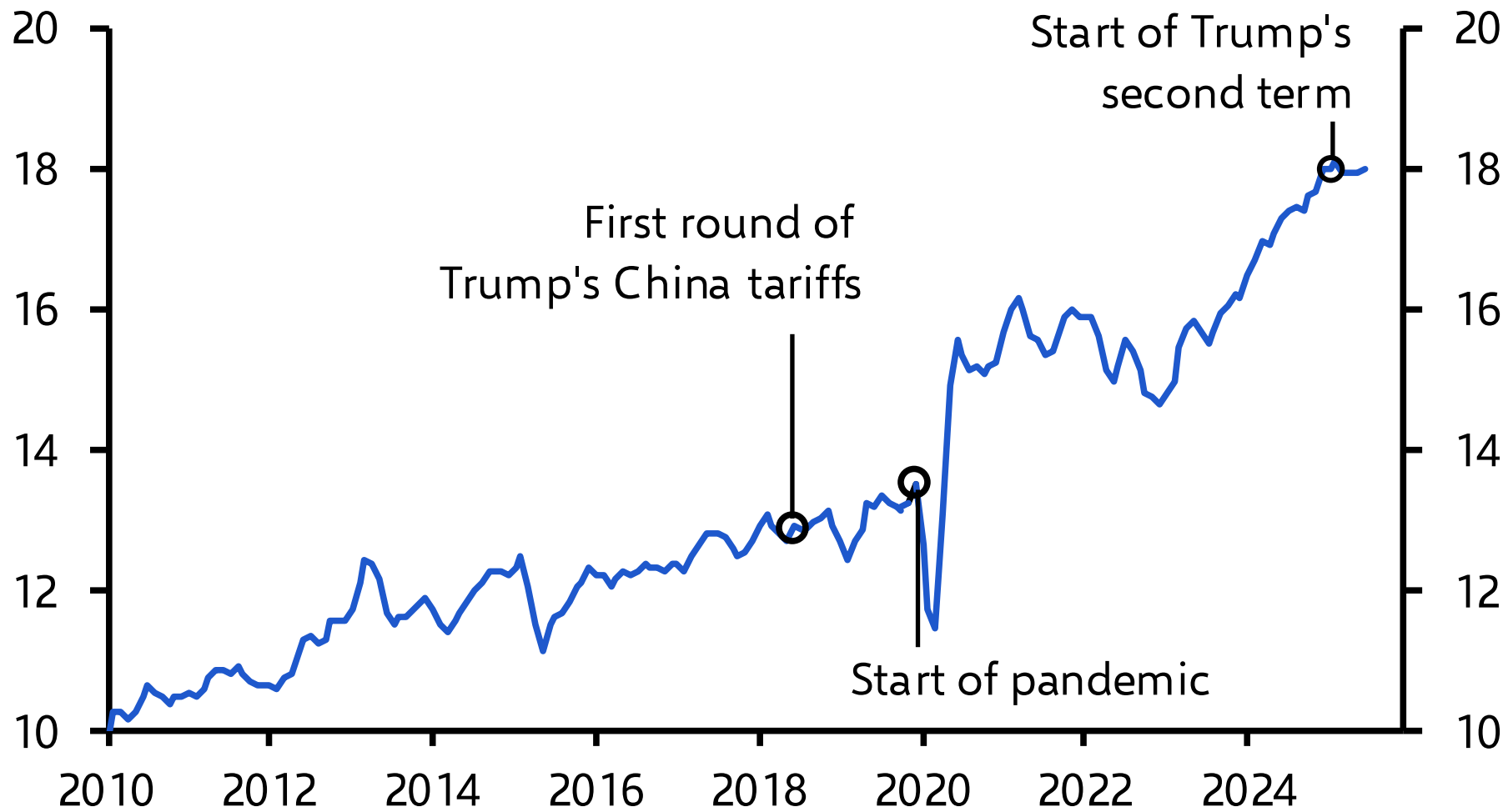
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Share of firms in industry in China that are losing money (%)



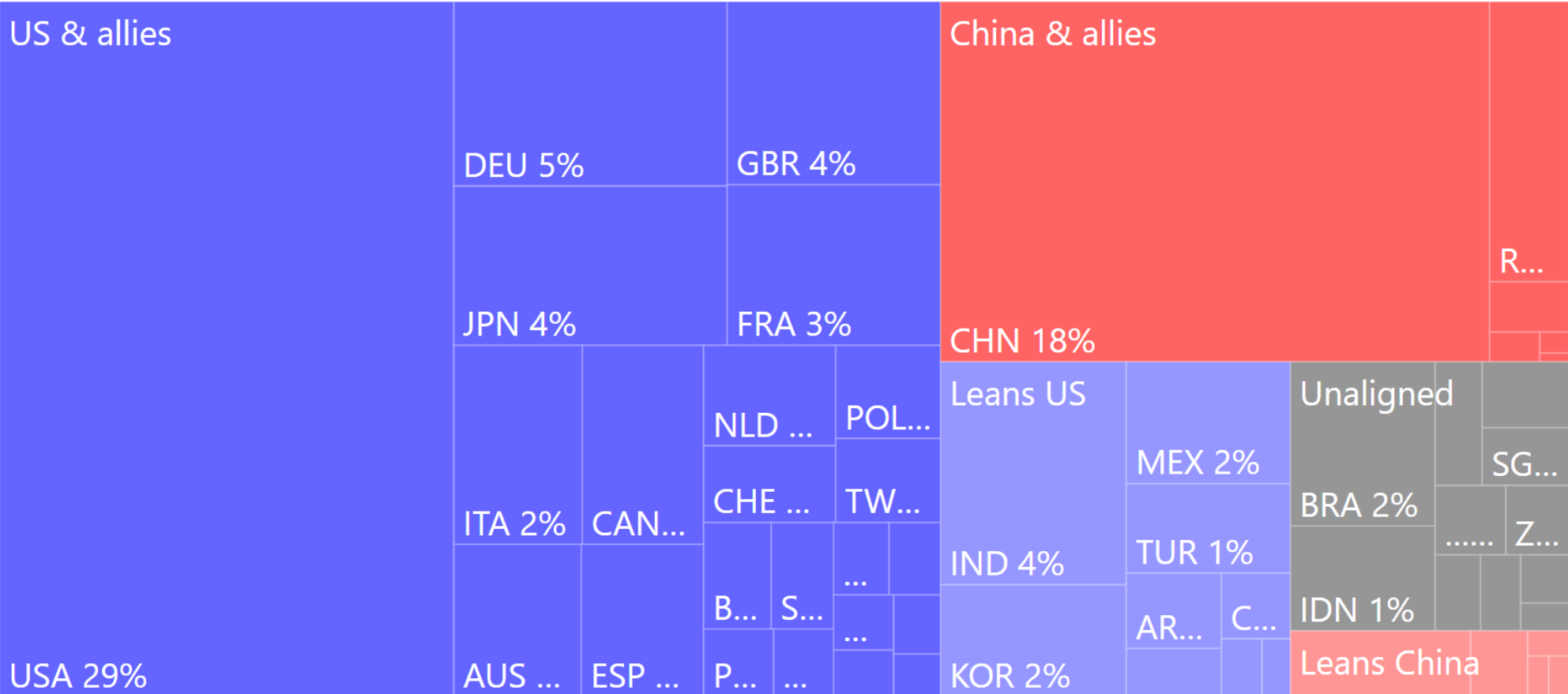
Sources: CEIC, Capital Economics

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



Sources: LSEG, CPB, Capital Economics

Share of global GDP (market exchange rates, 2024)

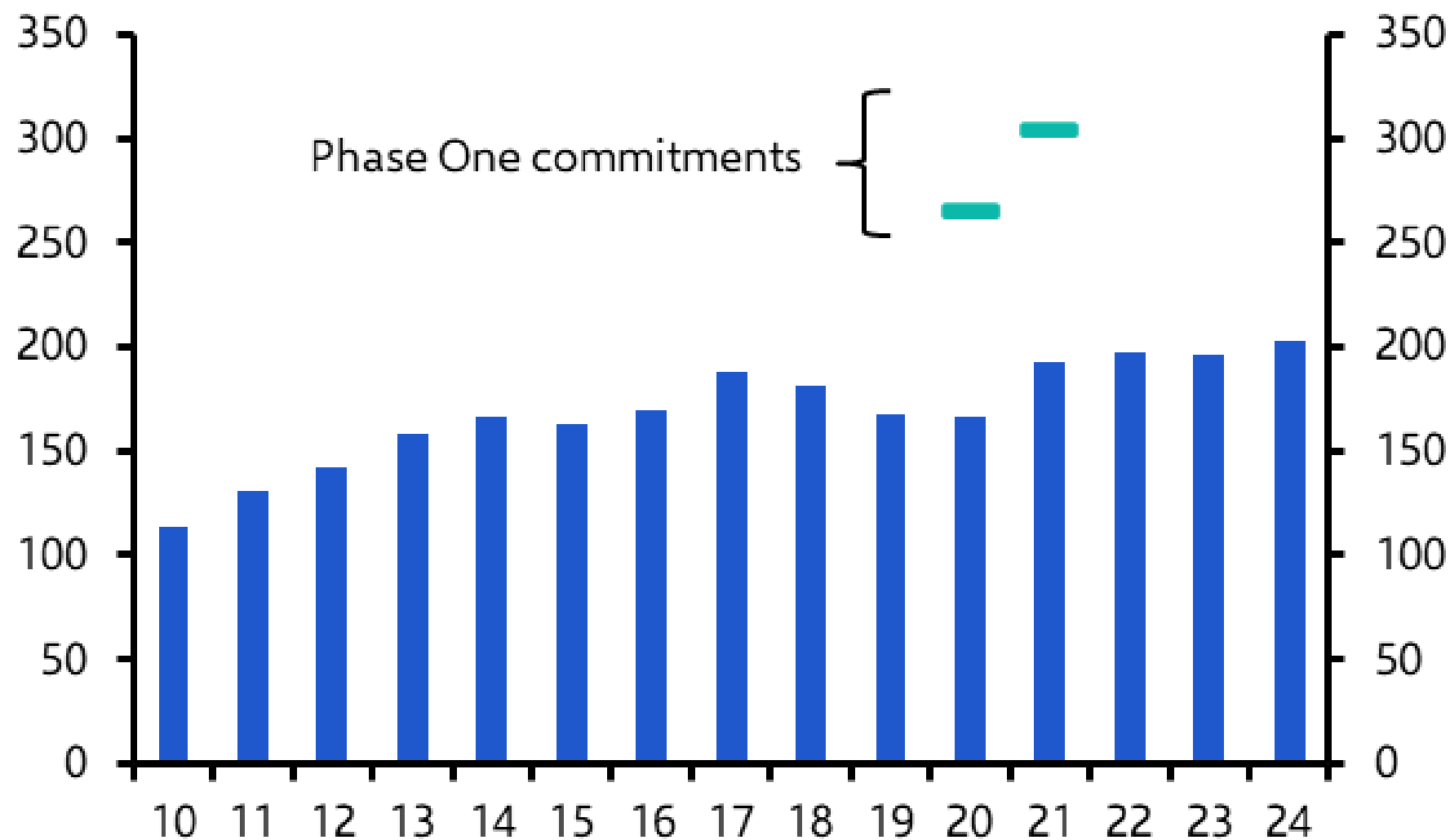


Sources: World Bank, Capital Economics

What would a Grand Bargain look like?

- 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)



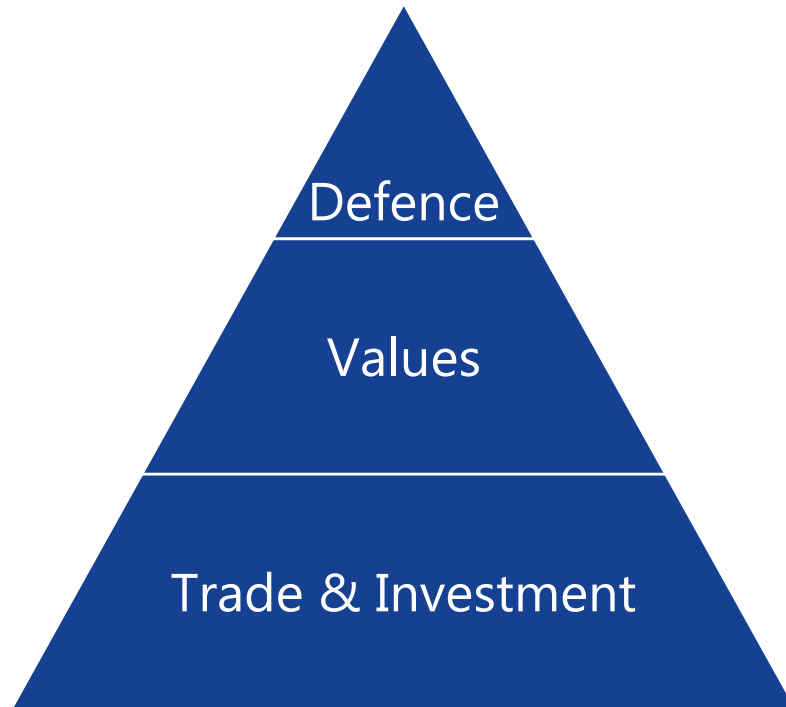
Sources: BEA, Capital Economics

Geopolitical realignment and resulting economic outcomes

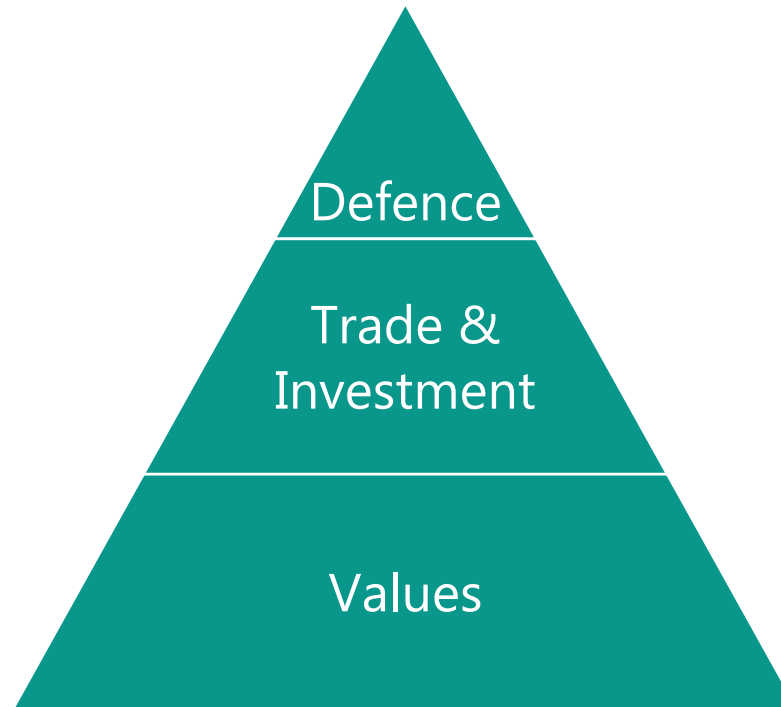
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What factors push countries into either bloc?

Developed Economies



Emerging Economies

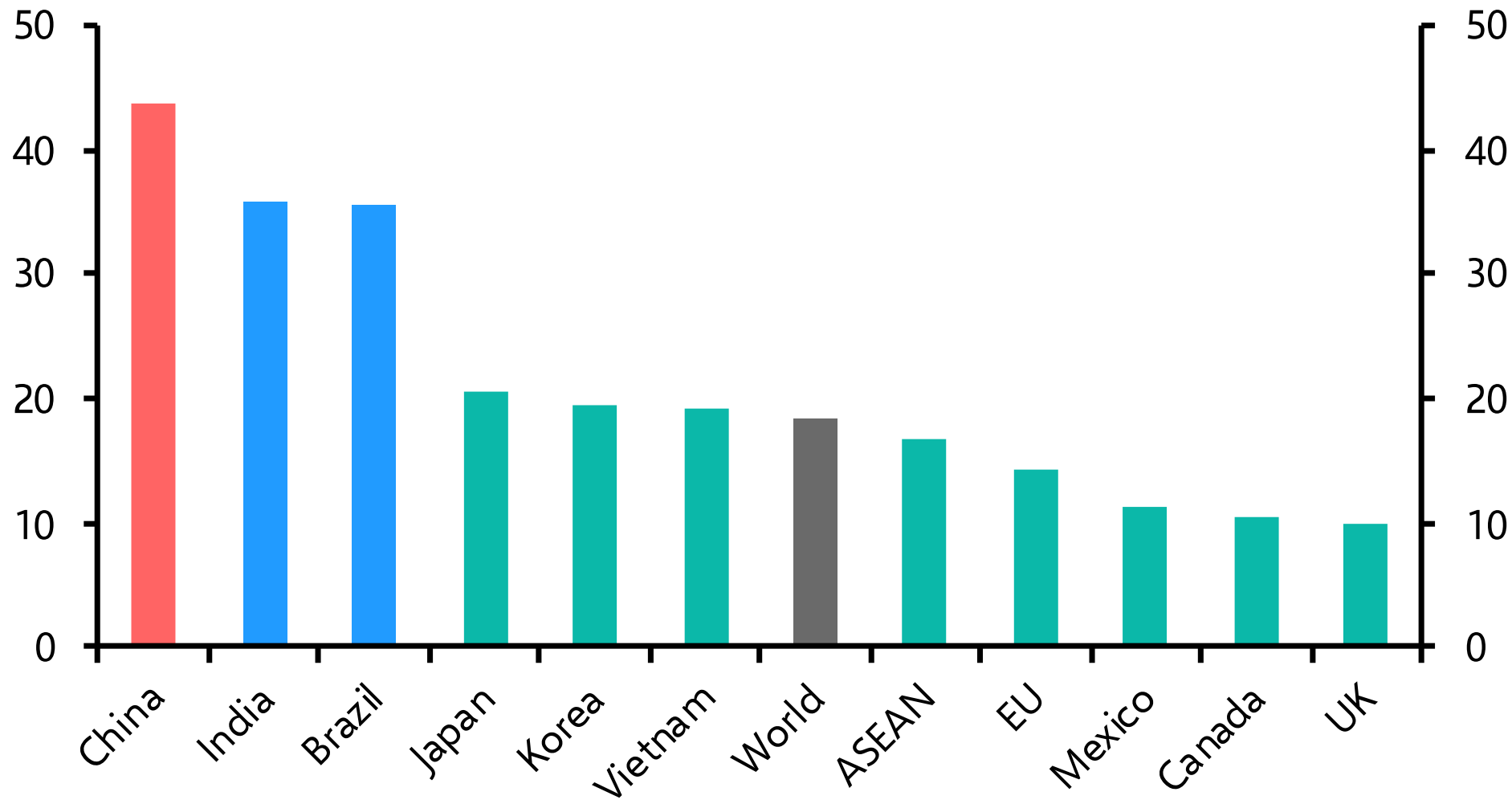


More
important

Less
important

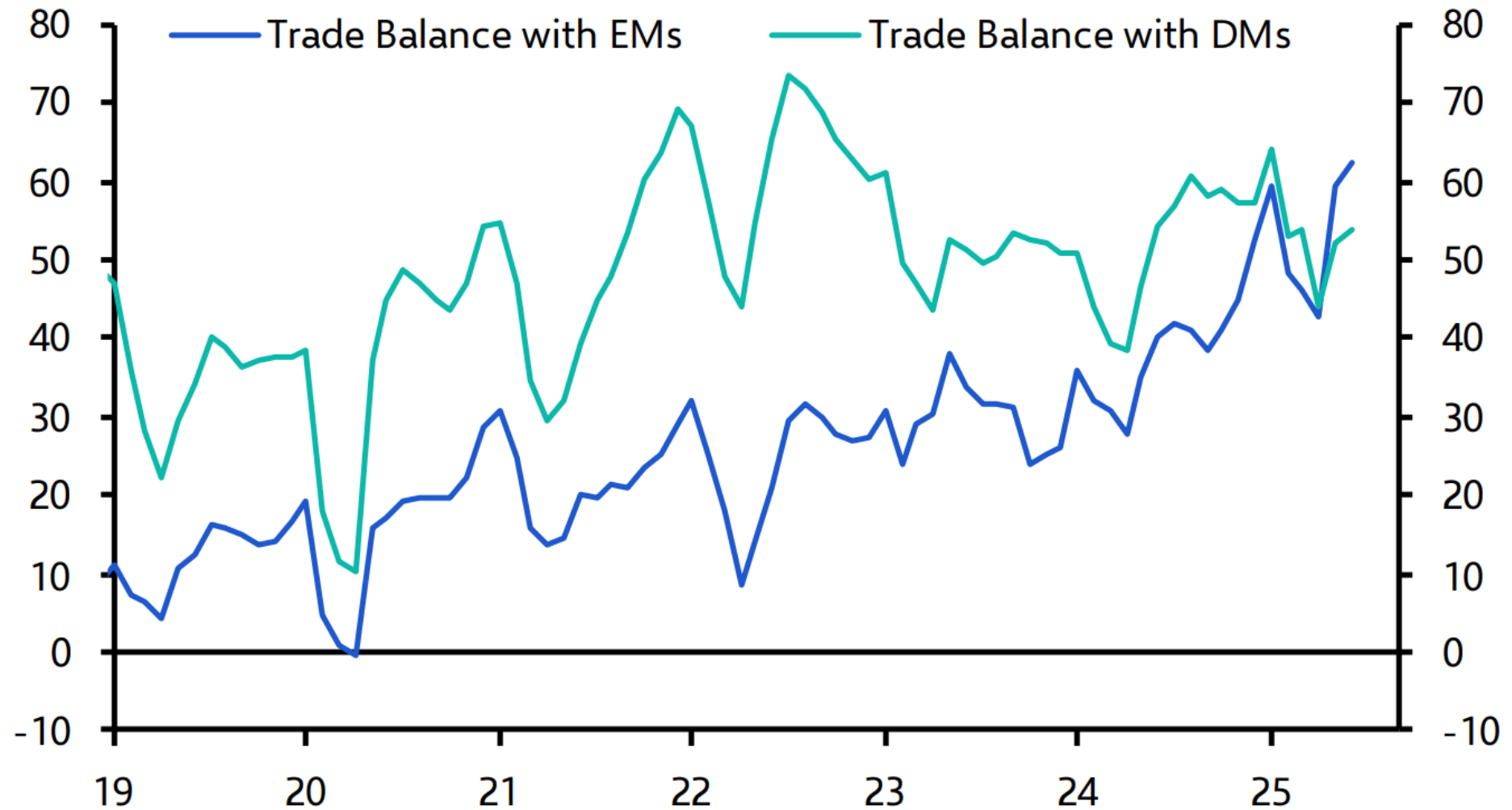
Source: Capital Economics

Current US effective tariff rates (% , 2024 weights)



Sources: USITC, Capital Economics

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



Sources: CEIC, Capital Economics

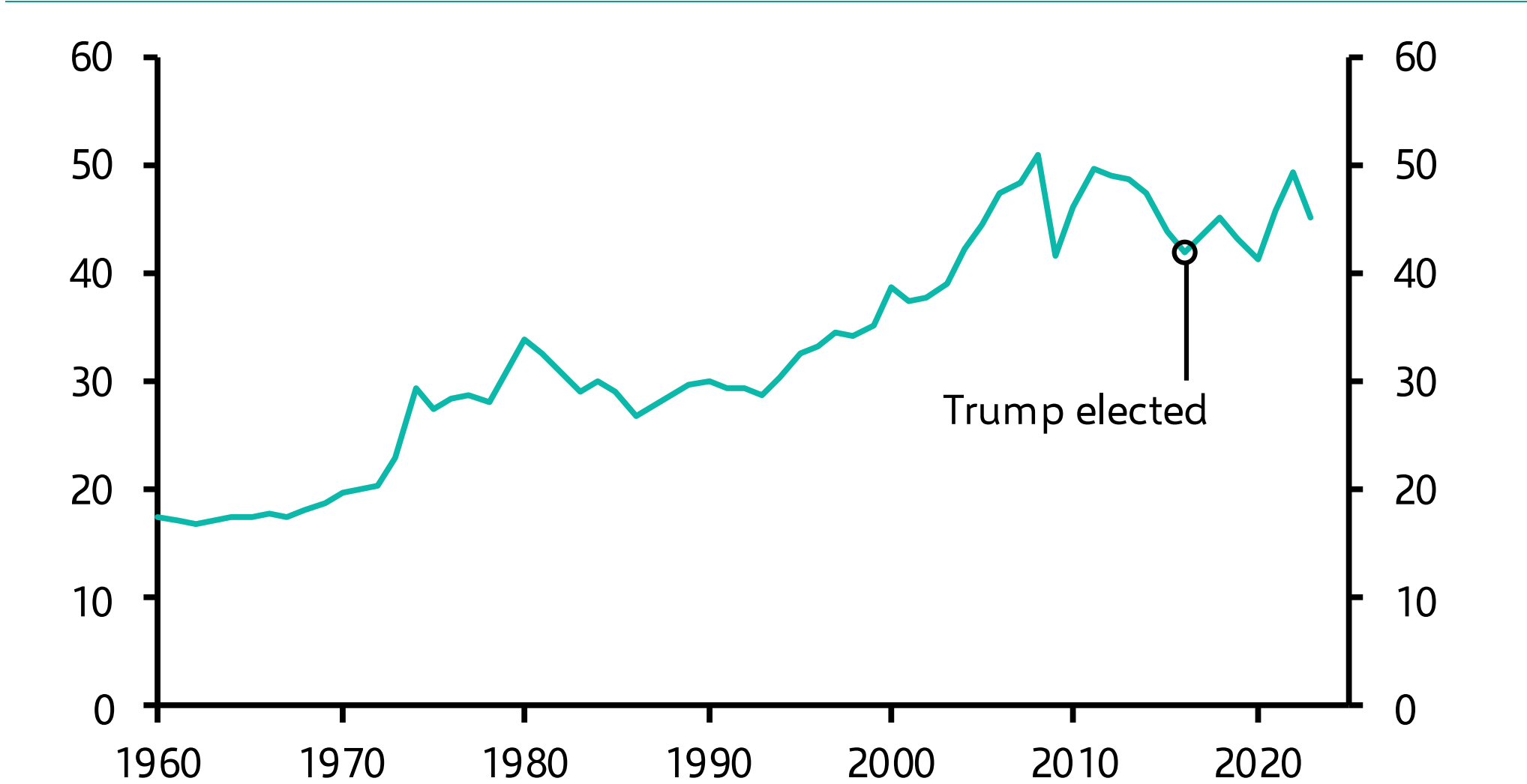
The current path of global fracturing

- 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.
- Recent US policies are likely to push 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

- 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.