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Geoeconomic Fragmentation: Structural Transformation of the Global Political Economy and Strategic Implications for International Business

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Abstract: Global political economy is being transformed into the largest structural change since post-World War 2. This paper examines the topic of geoeconomic fragmentation, which is a policy-driven turning point of globalization from a global economic integration that is conducted through strategic concerns such as national security and economic autonomy. Based on recent institutional research and empirical data from 2022–2025, this paper studies the reasons, ways and economic implications of breakdown in the fields of trade, investment and technology. Additionally, this work unites international political economy scholarship and business administration by diving into how multinationals are going about strategic change in reaction to this new world through changes in their supply chains, organizations, and geopolitical risk management. The results suggest that when fragmentation is significant enough to result in substantial welfare losses, we see global GDP drops of between 2 to 7% of the economy in this more extreme case, and strategic advantage for firms to become what are called 'connector firms' as well as connector country.

Keywords: Geoeconomic fragmentation; Global supply chain restructuring; Foreign direct investment; Multinational corporates strategy; Geopolitical risk management

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1. Introduction

The liberal international economic order that the post-Cold War period can be described as an undergoing basic change. The IMF's "geoeconomic fragmentation" is an economic policy method for dividing up global markets on geostrategic or political reasoning instead of a naturally arising feature of globalization [1]. The influence that this change will bring about on international trade is beyond description, it will shake the forward 30 years of conception of globalization so that there would be any stops. From 2020 to 2024, the government took more than 24,000 new trade and investment restrictive measures, and the value of trade subject to restrictive measures in the first ten months of 2024 reached $887.7 billion, nearly three times that of the same period last year [2]. At the same time, regional trade agreements increased from just 22 in 1990 to over 360 in 2023, indicating a reconfiguration rather than a termination of economic integration [3]. These problems will ask scholars to use cross-national micro-analysis combined with company strategy.

2. Theoretical foundations of geoeconomic fragmentation

2.1. Defining geoeconomic fragmentation in contemporary scholarship

Geoeconomic fragmentation means using economic tools for geopolitical goals, so that global markets that were unified before split according to politics and security [1]. This phenomenon is not traditional protectionism, but seeks to shield domestic industry from foreign competition. Now, more and more want to deny rivals these strategic capabilities and secure some supply chain against adversarial disruption, using economic interdependence as a strategic asset. There is a distinction notion of decoupling and de-risking has become the main idea when it comes to discussion of policy making. Western policymakers started taking it up as the main policy around March 2023 when it was said by European Commission President Ursula von der leyen that de-risking would be taken up as an active policy, as after all economic ties with China being fully cut-off is not only impossible but also an unnecessary move [4].

2.2. Drivers of fragmentation: A multi-causal framework

Current fragmentation is due to numerous reinforcing elements. For instance:

(1) Competition between great powers US and China have turned economic interdependence to strategic vulnerability instead of mutual benefit. Weaponized supply chains of semiconductors, rare earth minerals, and finance shows economic interdependence gives rivals coercive leverage [5];

(2) The COVID-19 pandemic has revealed the vulnerability of globalized production and supply systems, pushing for increased self-sufficiency in basic goods at the political level;

(3) Russia’s war on Ukraine has quickened the speed at which economic policy was securitized and made clear that economic sanctions are now also a main way for big powers in contest;

(4) Domestic political pressures such as the fear of de-industirialization, the fear of inequality, and the fear of losing factory jobs cause less democratic advanced support for liberal open trade.

2.3. Theoretical perspectives on the fragmentation phenomenon

International political economy scholarship presents counterpoint views. Liberal institutionalists point out that the weakening of multilateral governance mechanisms and the low efficiency of the World Trade Organization (WTO) in handling trade disputes and preventing beggar-thy-neighbour policies have been revealed [6]. Fragmentation reflects institutional failure and calls for the renewal of the rules-based order. Realists argue that the first two routes of de-fragmentation were the result of changes in the distribution of power, and that fragmentation has always depended on US hegemony and the absence of a peer competitor. With China’s rising economic strength, the security externalities of interdependence have far outweighed efficiency concerns. On the other hand, the structuralist approach points to differences in how fragmentation affects actors depending on their position in global value chains. These actors are also more fragile when changes in supply chain options are driven by advanced firms that control commodities [7].

3. Empirical manifestations of fragmentation

3.1. Trade patterns reveal geographic reconfiguration

Global merchandise trade has shown strong resilience in terms of quantity, and the WTO expects that the growth rate of merchandise trade volume will reach 2.7% in 2024 and 3.0% in 2025 [2]. However, aggregate stability is a hiding spot for big geography rework. As mentioned in **Table 1**, although global trade is nearing a new record high, the structure of trade relation have changed greatly.

Table 1. Global trade indicators (2020–2024)

Indicator	2020	2022	2023	2024
World merchandise trade volume (% change)	-5.0%	+3.0%	-1.2%	+2.7%
Merchandise trade value (US$ trillion)	17.4	25.3	24.0	24.5
Commercial services trade (US$ trillion)	5.0	6.9	7.5	8.0
Digitally delivered services (US$ trillion)	—	3.9	4.3	4.6

Source: WTO Global Trade Outlook 2024; UNCTAD Global Trade Update December 2024 [2,8]

Critically, US-China bilateral trade has grown 30% more slowly than each country's trade with the rest of the world since 2018 [2]. The share of Chinese goods imported by the US fell from 22% of total U.S. imports in 2018 to less than 14% by 2023, while other Asian economies, such as Vietnam, Thailand, Taiwan, and India, increased their combined market share to between 27.7% and 30.0% over the same period [8]. This pattern does not indicate deglobalization but instead points to a new geopolitical organization of trading systems.

Intra-bloc trade has grown about 4% faster than inter-bloc trade since Russia's invasion of Ukraine, providing measurable evidence of the "friend-shoring" phenomenon [2]. The growth of regional trade agreements, now exceeding 360, indicates that states continue to pursue economic integration, but increasingly with political allies rather than through broader multilateral frameworks.

3.2. Foreign direct investment flows follow geopolitical logic

The pattern of investment is even more pronounced in fragmentation. Global FDI dropped 2% in 2023, and a larger 18% when excluding conduit economies like Luxembourg and the Netherlands [9]. **Table 2** shows that the FDI flows are more and more affected by geopolitics, not geographical optimization.

Table 2. Regional FDI flows (2022–2024)

Region	2022	2023	2024	2023-2024
Global total (US$ trillion)	1.33	1.37	1.40	+2%
Developing countries (US$ billion)	933	867	867	0%
China (US$ billion)	189	163	116	-29%
ASEAN (US$ billion)	222	230	235	+2%
Africa (US$ billion)	55	53	97	+75%

Source: UNCTAD World Investment Report 2024–2025 [9]

China has experienced the greatest change, with FDI now about 40% lower than its peak in 2022. This decline reflects both “China plus one” strategies adopted by multinational corporations and investors’ concerns, alongside rising political risk and regulatory uncertainty. In contrast, ASEAN economies and Africa have benefited relatively, with Africa seeing unprecedented growth of 75% to reach $97 billion in 2024. IMF analysis of bilateral FDI positions indicates that geopolitics strongly influences FDI growth flows [1].

Countries aligned with the U.S. invest more in each other, while investing less in China-aligned countries, and the same pattern holds in the opposite direction. This dynamic creates the basis for parallel investment universes with differing technological standards and governance frameworks.

3.3. Technology decoupling accelerates strategic competition

The technology domain is the most acutely fragmented. US export controls on advanced semiconductors and manufacturing equipment have reshaped the global chip industry. The CHIPS and Science Act has prompted approximately $450 billion in additional investment in the United States, while China’s semiconductor production increased by 40% in the first quarter of 2024 as domestic firms pursue self-sufficiency [5]. Projections indicate that Chinese companies could hold 33% of the legacy chip market by 2027.

Digital governance has fragmented in a similar way. The adoption of the UN Global Digital Compact in September 2024 represents an attempt to build common ground, but the existence of divergent regulatory frameworks, such as the EU’s Digital Services Act and AI Act, China’s data localization rules, and the US’s varying approaches, makes cross-border compliance difficult [10]. An OECD report notes that 92% of countries have a national digital strategy or are currently developing one, which can create conflicts over what types of data may be shared, whether algorithms must be made transparent, and how large digital platforms should be regulated.

4. Economic costs and distributional consequences

4.1. Aggregate welfare losses under fragmentation scenarios

IMF modeling suggests that if long-term fragmentation of the world economic system occurs, global GDP could fall by as much as 7%, amounting to a staggering $7.4 trillion, roughly equivalent to the combined annual GDP of France and Germany [1]. **Table 3** presents cost predictions under different fragmentation scenarios.

Table 3. Estimated GDP costs of geoeconomic fragmentation

Scenario	GDP loss estimate	Most affected economies
Limited trade fragmentation	0.2-0.5%	Commodity exporters
Moderate fragmentation	1.5-2.5%	Emerging markets
Severe fragmentation	5-7%	Small open economies
Full decoupling + tech fragmentation	8-12%	Technology-dependent states
Commodity market fragmentation	1.2%	Low-income countries

Source: IMF Staff Discussion Notes 2023; CEPR-IMF analysis [1,4]

These costs run through many channels: reduced specialization according to comparative advantage, duplicated investment as firms develop their own parallel supply chains, lost technology spillovers, and reduced competitive incentive for innovation. CEPR-IMF analysis states that fragmentation is a negative-sum game-the strategic benefits that rival powers gain do not make up for the total welfare losses [4].

4.2. Distributional impacts across country income levels

The costs of fragmentation fall unevenly on the developing world. Low-income countries may face potential GDP losses of more than 4% because they are heavily dependent on commodity exports and are vulnerable to supply chain disruptions in industries without domestic alternatives [7]. The World Bank's 2024 Development Report notes that countries fragmenting from one another can compound existing development challenges and leave middle-income countries unable to reach the level needed for sustained development [11].

On the other hand, some economies are positioned as "connectors" between dividing blocs. Mexico, Vietnam, India, and Malaysia have become manufacturing hubs for firms relocating from China while retaining access to both the US and Chinese markets [9]. China's FDI in Mexico increased from $744 million to $1.19 billion in 2022, and many Chinese companies have established subsidiaries there to maintain a foothold in North America amid trade frictions [5].

5. Corporate strategic responses to fragmentation

5.1. Supply chain reconfiguration strategies

The business administration implications of fragmentation have prompted a fundamental strategic re-examination by multinational corporations. According to survey data, 97% of companies were actively reconfiguring their supply chains in 2023, and 64% shifted from global to regional supply chain architectures, representing a 20% increase from the previous year [12]. As shown in **Figure 1**, this marks the largest-scale operational restructuring since the post-Cold War wave of globalization.

The "China plus one" strategy has become standard corporate practice, with companies maintaining operations in China while simultaneously developing alternative production capacity elsewhere. Research published in the Journal of International Business Studies shows that US companies are responding to government pressure to reduce reliance on China, but the pace varies depending on trade-offs between political legitimacy and operational efficiency for different firms [13]. According to McKinsey's 2024 survey of 88 senior supply chain executives, the operational impact of this strategy is clear: 73% have implemented dual-sourcing, 66% are bringing more inputs closer to production, and 78% are moving away from single-sourcing of critical materials [13]. However, capability gaps remain—only 30% report that their boards understand supply chain risk, and 90% cite a lack of digital talent in supply chain management.

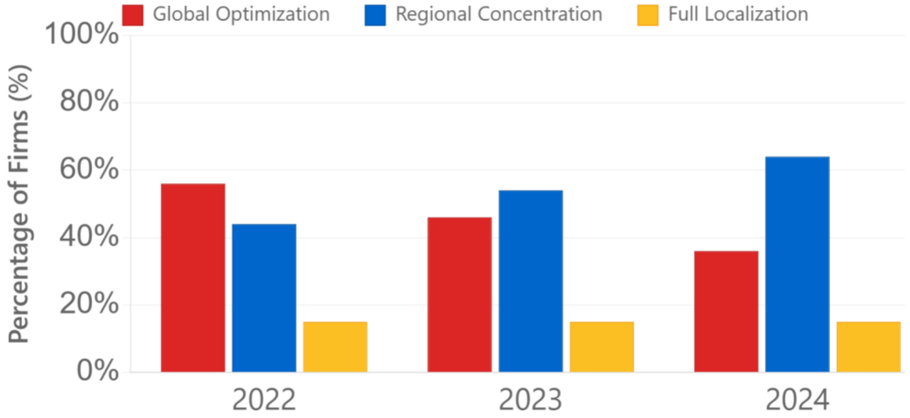

Figure 1. Corporate supply chain strategy shifts (2022–2024)
[Adapted from McKinsey Global Supply Chain Survey 2024]

5.2. Organizational restructuring for geopolitical resilience

Beyond operational adjustments, companies are also restructuring their organizational architectures to enhance geopolitical resilience. HSBC provides an example: it has divided its operations between Asia/Middle East (with Hong Kong as a hub) and Europe/Americas (with London as a center), allowing faster responses to different regulatory environments and reducing the potential impact of geopolitical disruptions. McKinsey's framework outlines a spectrum of organizational options, ranging from a fully decentralized holding-company structure, where regional business units have maximum autonomy, to fully unified global operations. Increasingly, firms are moving toward the decentralized end of the spectrum, accepting some efficiency losses in exchange for greater resilience and regulatory compliance [14].

5.3. Geopolitical risk management as core competency

Modern corporate strategy now treats geopolitical threats with the same seriousness as those posed by digitization and climate change. BCG's framework identifies four core competencies for geopolitical risk management: understanding risk through scenario construction, analyzing risk via dedicated geopolitics teams, mitigating risk with contingency plans, and responding to crises through nerve centers for rapid decision-making [14]. The financial impact of geopolitical exposure is highlighted by CEPR research: firms facing higher geopolitical risk have a greater probability of default and lower market value, with these effects intensifying since 2017 [4]. This finding underscores the urgent need for companies to establish structures for ongoing geopolitical assessment, rather than treating such risks merely as exogenous shocks.

5.4. Sustainability integration amid fragmentation pressures

The fragmentation of global systems creates a difficult balance when it comes to sustaining projects. On one hand, regionalizing supply chains can reduce emissions from transportation and improve the traceability of environmental compliance. On the other hand, fragmentation may slow the green energy transition due to higher costs for key minerals and renewable energy equipment concentrated in specific regions [15]. For example, with the EU's Corporate Sustainability Due Diligence Directive taking effect in July 2024, companies face varying regulatory requirements. The directive applies to all operations, subsidiaries, and value chains, but only 9% of companies report full compliance today, while 30% are far behind in implementation [12]. Meeting these environmental requirements while simultaneously rebuilding supply chains to be geopolitically resilient represents a significant strategic risk.

6. Discussion and implications

6.1. Toward a fragmented but interconnected global economy

The evidence reviewed does not support the idea of "deglobalization." Global trade reached around $33 trillion in 2024, marking a new all-time high [16]. What is occurring is better understood as a realignment of global economic integration along geopolitical lines, with parallel systems of economic exchange emerging, interaction continues, but in a more strategic and selective manner. This insight is particularly useful for scholars researching international business. Theories based on hyper-globalization, which assume a progressive reduction of barriers and movement toward common standards, need to be revised. The international business environment in the coming decades will continue to be shaped by regulation, inconsistent political factors, market access, and strategic considerations in daily business decisions.

6.2. Implications for business administration practice

From a practitioner's standpoint, there are four following key considerations. LSTM has been applied to regression problems by BC for BAI score estimation.

(1) Geopolitical competency must become an organizational capability in its own right, rather than a niche staff function. Companies that excel in scenario planning, intelligence gathering, and rapid response mechanisms gain a competitive advantage;

(2) Supply chain architecture decisions need to incorporate political risk in addition to traditional cost and efficiency factors. There is no longer a simple optimal solution; the configuration is industry- and company-specific. Pure cost optimization without considering resilience is no longer viable;

(3) As stakeholder pressures increase due to tensions between home-country government requirements, host-country regulations, and commercial imperatives, companies that maintain legitimacy across diverse political contexts while keeping operational flexibility will succeed. Firms that cannot balance these political and operational demands risk falling behind.

6.3. Limitations and future research directions

This study also has certain deficiencies as follows.

(1) Due to the speed of development, the empirical patterns may change quite a bit; the data given is a static image of a dynamic process;

(2) Firm level response remains heterogeneous and the sum of surveys might not show differences across different industries, firms and strategy oriented firms;

(3) The long-term equilibrium state of fragmentation is still uncertain; it is unclear whether the current situation is a new stable state or a transitional period before more extreme fragmentation or the reintegration of a new wave of merger.

In the future, adapt firm level adaptation strategy, analyze the institutional characteristics of "connector economies", and form detailed theoretical frameworks that integrate political economy analysis and strategic management perspectives.

7. Conclusion

Geoeconomic fragmentation represents the most fundamental change in the current global political economy. Evidence shows that while global economic integration continues, its geographical and political organization is being restructured at a foundational level. Trade and investment are increasingly occurring within and between specific blocs rather than universally, technology ecosystems are bifurcating along a US-China axis, and strategic imperatives are influencing even the most routine commercial decisions.

For international businesses, this transformation requires adjusting strategic variables across supply chain architecture, organizational structure, and the relational contexts of stakeholders at the international level. Enterprises that develop political capabilities, maintain strategic flexibility, and navigate the tension between efficiency and resilience are most likely to thrive in this new environment. Similarly, scholarship in global political economy and business administration must evolve, developing integrated frameworks capable of capturing the interplay between strategy and economics in today's world.

The fragmented global economy does not represent a return to the pre-globalization era of self-sufficiency, nor is it a continuation of the post-Cold War era of globalization. Rather, it is something fundamentally new: a vast system of conditional interdependencies, where economic connections remain strong but politically conditional, requiring both scholars and practitioners to adopt new conceptual frameworks and strategic approaches.

Disclosure statement

The author declares no conflict of interest.

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