# ECONOMIC SECURITY AND GEOECONOMIC FRAGMENTATION[1]

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Abstract. This paper provides a systematic survey of the burgeoning literature on economic security and geoeconomics. By synthesizing recent data, the study situates contemporary debates within the context of globalization and geoeconomic fragmentation. It establishes a theoretical framework for understanding the exercise of power in geoeconomics and the evolution of statecraft tools. Furthermore, the paper evaluates empirical evidence regarding the economic consequences of security-driven interventions. Drawing on diverse methodologies—including causal inference, forecasting, large language models (LLMs), and network analysis—the survey maps the multi-faceted impacts of fragmentation. The paper concludes by assessing the future of multilateralism within an increasingly complex and evolving geopolitical landscape.

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# 1. Introduction

The contemporary global landscape is increasingly defined by a profound shift in how nations perceive the intersection of wealth and power. In an era of deep economic interconnectedness, governments are no longer solely focused on absolute gains from trade; instead, they are preoccupied with the risks of "asymmetric dependence." There is a pervasive fear that economies have become overly reliant on inputs, technologies, or financial systems controlled by hegemonic rivals—most notably the United States and China. This has catapulted economic security from a niche policy concern to a central pillar of national strategy.

Economic security, as the name simply implies, is about safeguarding a nation's economic interests, gain, and stability against external shocks. The partial recovery from the global financial crisis was soon followed by Brexit, escalating US-China trade tensions, the COVID-19 pandemic, and a rising number of military conflicts. As a result, there is a growing trend of states using economic tools in the form of statecraft to protect their economies from any type of foreign influences and to steer production towards specific sectors or industries. Protective trade policies, financial sanctions, foreign aid, and industrial policies have been the major tools used in statecraft.

Historically, economic statecraft was often viewed through the lens of liberal institutionalism or temporary sanctions. Today, however, it has evolved into a proactive, ex-ante restructuring of domestic economies to minimize ex-post external influence. While the term "geoeconomics" is often attributed to Luttwak (1990) its modern application is distinct. Unlike the total ruptures of the World Wars, current fragmentation occurs within a highly interdependent global system, where "decoupling" or "de-risking" creates complex, and often painful, ripple effects across global value chains.

This shift is manifested in a "new" industrial policy and protective tariffs that were once marginalized by mainstream economic discourse but have now regained central importance (Juhász et al., 2024; Stahl, 2025). The United States has pioneered this trend with the Inflation Reduction Act and the CHIPS and Science Act, aiming to secure supply chains through "friend-shoring" and "nearshoring." This process of 'decoupling' from China is defined as "the undoing of cross-border trade in high-tech goods and services" (Cerdeiro et al., 2021). This is not an isolated phenomenon; China's Belt and Road Initiative, the European Union's Economic Security Strategy, and South Korea's K-Chips Act all signal a global move toward economic self-protection. In this new equilibrium, sectors are not inherently "strategic"; rather, their position within the global economic network and their potential for use as leverage by a hegemon makes them strategic.

As these uncoordinated national policies proliferate, they trigger geoeconomic fragmentation (Clayton et al., 2024)—policy-induced shifts in cross-border flows guided by security considerations (Gopinath et al., 2025). This trend poses a critical trade-off between the security of the nation-state and the efficiency gains of global trade. Whether this competition results in a zero-sum game or a managed negative-sum outcome remains a central question for scholars and policymakers alike.

It does not appear that this fragmentation will end soon. Despite the explosion of interest in this topic—evidenced by the rise of new research centers and consulting practices—the literature remains fragmented across disciplines. While previous reviews[2] have touched on specific elements like trade or finance, there is an urgent need for a systematic synthesis that connects these disparate threads. This paper fills that gap by mapping the field of economic security and demonstrating how debates around industrial policy, fragmentation, and global value chains fit together.

The primary aim of this study is to shed light on the empirical approaches used to determine the outcomes of economic security measures and power politics. This study maps the field of economic security and shows how recent debates around industrial policy, fragmentation, and global value chains fit together. We explicitly focus on the economic dimensions of great power competition, leaving aside purely military or cultural issues. While much of the current discourse centers on the U.S.-China relationship, this paper gestures toward similar dynamics involving the EU, India, and "middle power" strategies to broaden its relevance for a global audience.

After mapping the current shift in global economy, the remainder of this paper is structured as follows: Chapter 2 provides a theoretical background of the use of power in geoeconomics and historical evolution of economic security tools. Chapter 3 delves into the empirical literature, focusing on impact analysis, forecasting, and recent methodological trends. Chapter 4, concludes with a discussion on the future of multilateralism and future research suggestions.

### 1.1.The Evolving Global Landscape: From Hyper-Globalization to Strategic Fragmentation

Since the late 20th century, rapid globalization has forged a world of unprecedented economic density. The global economy now functions through a labyrinth of over 300 million firms linked via approximately 13 billion distinct supply chains (Pichler et al., 2023). By 2020, global value chains (GVCs) accounted for nearly half of all international trade (World Bank, 2020). This era of "hyper-globalization" was catalyzed by the systematic reduction of trade barriers—most notably China’s 2001 entry into the WTO. It has played a key role in fostering economic growth (Atkin & Donaldson, 2022), reducing poverty and inequality, promoting sustainability (WTO, 2023), convergence across nations (Aiyar et al., 2023), improved innovation (Akcigit & Melitz, 2022) and peace building (Martin et al., 2008). Within this framework, the multilateral trading system governed by the WTO acted as an "invisible infrastructure," providing the stability and transparency necessary for global growth (Ossa, 2023) Koopman et al. (2020).

[2] See the Journal of Economic Surveys and the Annual Review of Economics.

While economic interdependence was once seen as beneficial, Policymakers are increasingly viewing extensive GVC participation not as a source of efficiency, but as a vector for vulnerability. The COVID-19 pandemic and rising geoeconomic tensions have highlighted how systemic shocks can turn interconnectedness into a "chokepoint" (Lebastard & Serafini, 2023). Geopolitic tensions are unwinding gains from international trade. Consequently, liberal economic policies surged in the 1980s and 1990s have been overshadowed by rising protectionism since the mid-1990s and the expansion of protectionist policies more rapid than liberalizing ones (Colantone et al., 2022) as in the case of Trade and foreign direct investment (FDI) restrictions have tripled since 2018 (Aiyar et al., 2023).

This shift is particularly acute in strategic sectors like semiconductors. A sector is not strategic per se; rather, it is the sector's specific position within an economic equilibrium that renders it strategic (matteo). Chips are critical components in various machinery, making decoupling particularly concerning as China emerges as a key importer in this sector (R. Baldwin et al., 2023). U.S. imports from China have declined in select sectors (Pierce & Yu, 2023).

While the discourse often suggests a wholesale "deglobalization," the empirical reality is more nuanced. Systematic evidence of a total retreat from global trade remains scarce; instead, we are witnessing a slowdown and reshuffling. Aggregate trade data shows remarkable resilience: goods trade in 2022 reached record highs, with U.S. imports exceeding pre-pandemic levels in 2022 (Freund et al., 2023). The decline in trade volume is largely confined to commodities, while trade in services continues to expand (R. Baldwin et al., 2023), driven by digital transformation (Antras, 2021). Global trade in goods is projected to grow at an annual average rate of 2.9% over the next decade (Arbour et al., 2025). Even global cooperation continues to strengthen (WTO, 2023).

Rather than a collapse, the global economy is experiencing a "geoeconomic fragmentation"—a policy-induced redirection of flows toward geopolitically aligned blocs (Gopinath et al., 2025). This fragmentation is most visible in the "decoupling" of specific industries and the divergent trends in FDI. While trade remains resilient, FDI flows have plummeted from 3.3% of GDP in the early 2000s to 1.3% between 2018 and 2022, increasingly concentrating among politically "friendly" nations (Ahn et al., 2023). This is driven by acute security concerns regarding critical inputs. For example, despite being a net exporter of nonfuel minerals, the U.S. remains dependent on imports for over 75% of its consumption of 30 critical minerals essential for high-tech and green transitions (Seong et al., 2025).

Importantly, the "decoupling" from China has not led to isolation, but to a complex reconfiguration of production networks. We are seeing the rise of "connector countries"—such as Vietnam, Mexico, Poland, Morocco, and Indonesia (Curran et al., 2023)—which serve as strategic intermediaries. Chinese firms often invest in these nations to maintain indirect access to U.S. markets, while Global South countries are leveraging this shift to move from natural resource exports to advanced manufacturing (Arbour et al., 2025).

Ultimately, the drive for economic security necessitates a fundamental trade-off: the "cost" of security is the potential loss of the efficiency gains that fueled the previous decades of growth. As nations move to shield themselves from foreign influence and maximize domestic resilience, the uncoordinated nature of these interventions risks a permanent fragmentation of the global financial and trade systems. (matteo dersinden)

## 2. Power in Geoeconomics

The conceptualization of power is the central pillar that distinguishes geoeconomics from traditional international economics. While standard trade models often assume that actors interact in a frictionless market to maximize absolute gains, geoeconomics recognizes that states and firms operate within a power-laden hierarchy. This section explores the theoretical evolution of power analysis—from its roots in political science to its emerging formalization in economic modeling—and examines its historical application as a tool of statecraft.

Economists have paid so little attention to this area since World War II that this area of study barely existed until recently. Despite of the fact that power analysis in international relations is heavily used by political scientists, it has growing trend in economics as well. economists focus has been on economic power which is linked to the ability to sell and gain from a good. The application of geoeconomic power is particularly evident in how hegemonic states utilize their economic influence to exert control and demand costly concessions, such as trade restrictions or financial surcharges (Clayton et al., 2023). Claytn et al shows this book was first cited by economist but then after 70s it is heavily used by political science and other fields. Now it is time to return to this book and understand power in geoeconomics.

### 2.1. Theoretical Background

In its most fundamental sense, power is the ability of one actor to induce another to take an action it would otherwise not take. Within the geoeconomic literature, this is increasingly analyzed through the lens of relational power—direct influence over another actor—and structural power—the ability to shape the rules, institutions, and economic environments in which all actors operate (matteo).

Drawing on Joseph Nye's multi-layered approach to power, the global order can be viewed as a complex structure. At the top layer of military power, U.S. hegemony remains largely unipolar. However, the layer of economic power has shifted toward a multipolar distribution involving the U.S., China, and the European Union. This "asymmetric interdependence" (Keohane & Nye, 1977) creates the opening for weaponized interdependence (Blackwill & Harris, 2016; Drezner et al., 2021; Farrell & Newman, 2019), where states leverage their control over central nodes in global networks to exert coercive influence.

A significant advancement in recent literature is the formalization of power into economic models. (Clayton, Maggiori, et al., 2025) introduce a framework where a hegemon exerts power by influencing a target's participation constraint. A hegemon can lower the "Outside Option", using negative threats (coercion), such as sanctions or trade restrictions, to make non-compliance more costly or increase the "Inside Option", offering positive rewards (attraction), such as aid or preferential market access, to make compliance more beneficial.

Power is effectively the ability to extract "costly actions" from a target. If a target firm or government finds the action privately costly but takes it anyway to avoid a worse punishment, power has been successfully wielded. Crucially, the effectiveness of these threats is inversely related to the availability of alternatives; as de-risking and diversification strategies increase a target's outside options, the hegemon's relative power diminishes.

Theoretical debates also focus on whether the exercise of power results in a zero-sum or positive-sum game. Under Hegemonic Stability Theory (Kindleberger, Gilpin, Keohane), a hegemon provides "global public goods"—such as a stable reserve currency or free trade routes—that facilitate global coordination.

- Positive Sum: When a hegemon wields power to correct global externalities or provide security, it can add global value.
- Negative Sum: When a hegemon "destroys value" by imposing transfers or distorting trade to its own strategic advantage, it creates a zero-sum or negative-sum environment.

### 2.2. Historical Use and the Evolution of Economic Statecraft

The practice of using economic tools for geopolitical ends—economic statecraft—is not a modern invention but a recurring theme in global history. The roots of this study trace back to Hirschman (1945), who demonstrated how trade concentration creates dependencies that can be exploited for national power. This "Great Game" has been played by Roman Emperors, Napoleon (via the Continental Blockade), and Cold War strategists alike (putting back examples bunlar). Historically, markers of state power were trade surpluses and the control of shipping lanes. Since the 19th century, trade and exports have been key markers of state power in both economic and geopolitical terms. In response to Britain's trade dominance, for example, many countries adopted industrial policies aimed at modernization and catching up economically (Juhász & Steinwender, 2024). For example, they were frequently employed by the US administration during the Cold War as a form of economic containment of the USSR. The Coordinating Committee for Multilateral Export Controls (CoCom) maintained lists of goods subject to export controls including a "Nuclear List", a "International Munitions List", and an "Industrial List", and their enforcement often required pressure on foreign companies or governments (Mastanduno (1992)).

Today, this has evolved into the control of global value chains (GVCs) and digital standards. Later, Baldwin (1985), in his foundational book on economic statecraft, reviews thoughts and practices on how economic instruments affect foreign influence. Luttwak

(1990) famously argued that in the post-Cold War era, the manipulation of technology standards and commercially important R&D serves as the new "offensive style of war." Huntington (1993) mentions that when the military conflict is unlikely, economic power will determine the primacy of states. Wigell (2016) contributes to this debate by introducing a typology of how regional powers strategically deploy economic tools. He distinguishes four geoeconomic strategies—neo-imperialism, neo-mercantilism, hegemony, and liberal institutionalism—offering a framework for understanding variations in economic statecraft.

While the use of economic tools is old, the current era is distinguished by its scale and the use of modern financial instruments unconstrained by liberal norms Blackwill & Harris (2016). We are witnessing a shift from the "Neoliberal Order" to a "Geoeconomic Order" (Roberts et al., 2019). primarily driven by a relative decline in hegemonic power and the convergence of economic rivals. While hegemons have traditionally supported free trade, this support tends to wane when they perceive strategic threats. In such cases, the hegemon shifts from maximizing absolute economic gains to prioritizing relative strategic power, increasingly favoring protectionist measures. A unipolar world, dominated by a single hegemon, tends to support globalization. However, the transition to a multipolar world can trigger fragmentation, which is particularly costly for the declining hegemon and its closest allies Broner et al. (2024).

This shift is characterized by:

Targeting Allies: Unlike the Cold War-era containment of the USSR, modern geoeconomic measures (like the Inflation Reduction Act) often adversely impact political allies such as the EU and South Korea. This occurs because the primary motivation has shifted from "political stance" to "securing domestic economic resilience." The former sanctions were due to the political stance of the other country while recent reasons more about securing own economies, so it could even affect political allies as they are the trade partners. Moreover, as US historically benefitted from protectionist policies, what is suprising is unexpectedly large scope and magnitude of tariff changes (Irwin, 2020).

Statist vs. Private Capital: State-led foreign investment is another prominent instrument of geoeconomic power. (Babic, 2023) shows how statist economies like China and Russia use state capital to project geopolitical influence, while Western countries tend to favor less direct, financially driven investment strategies (Babic et al., 2020).

Technological Bipolarity**:** Becko & O'Connor (2024) propose how states can craft peacetime domestic policies that leverage trade ties in future conflicts. Their model identifies three dimensions of U.S. structural power: dominance in global value chains, legal authority, and alliance-based leverage. These strategies are especially visible in the semiconductor sector, where U.S. policies—ranging from export controls to alliance diplomacy—have aimed to constrain China's technological ascent (Malkin & He, 2024). The United States also urged its Indo-Pacific allies to support its ban on Huawei. While Australia responded decisively by banning the company, South Korea's response was more muted and limited. Japan, on the other hand, implemented a government ban but left the decision to individual companies' discretion. These varied responses reflect each ally's unique perception of the security risks involved and their diverging national interests (Lee et al., 2022). The Huawei case demonstrates the complexities of such power projection: despite U.S. sanctions, the firm remains a global leader in 5G, with many U.S. allies still favoring its cost-effective infrastructure—revealing both the potential and limitations of American geoeconomic strategy (Ryan & Burman, 2024).

Following Hirschman's legacy, modern researchers utilize the Herfindahl-Hirschman Index (HHI) and structural gravity models integrated with diplomatic game theory (Thoenig, 2023) to quantify power concentration. By measuring who owns what and who trades with whom at a granular level, scholars can now empirically assess a hegemon's "pull" or "push" power over a specific country or sector.

### 2.3.Tools

Economic statecraft is operationalized through a diverse toolkit designed to influence the behavior of foreign actors by manipulating their economic incentives. As Baldwin (1985) fundamentally argued, these instruments are not merely peripheral "soft" options but are effective levers of foreign policy. Rafih et al. (2024) categorize contemporary trends into four primary areas: direct state intervention, trade defense mechanisms, trade and investment restrictions, and plurilateral partnerships. These tools are often used to create threats that rearrange global economic activities, forcing targets to weigh the private cost of compliance against the "induced uncertainty" of defiance. (Evenett et al., 2024) differentiates the tools used by economic levl of countries that Recent industrial policies in advanced economies emphasize subsidies, while emerging and developing economies are increasingly imposing trade restrictions on imports and exports. These instruments are used in threats that might or might not be realized, and can involve not selling an input to the target (e.g. a semiconductor export control), not buying a product from the target (e.g. an oil sanction on Russian exports), or imposing tariffs or subsidies to attempt to onshore or friendshore a particular line of production. The targets respond to the pressure (and the induced uncertainty) by rearranging their economic activities.

#### 2.3.1.Trade-related Sanctions.

Trade remains the most visible arena for geoeconomic leverage. Historically, sanctions have been a cornerstone of foreign policy (Demarais, 2022), with prominent examples against Iran and Russia.

Export and Import Restrictions: A prominent case involves the U.S. government targeting China via semiconductor-related export controls, affecting both domestic firms like NVIDIA and foreign entities like ASML or TSMC. Conversely, the Chinese government targets the U.S. using rare earth products, including metals and magnets.

Tariff-Based Leverage: Tariffs differ markedly from targeted controls. The 2018–19 U.S.-China trade war saw tariffs imposed reciprocally across a wide sectoral composition.

Tariffs are also used for non-trade concessions; for instance, the Trump administration threatened 25% tariffs on Colombia to secure cooperation regarding deported migrants on military planes.

Market Access as a Threat: China frequently threatens the suspension of access to its consumer market in response to political tensions, targeting Norwegian salmon (2011), U.S. NBA franchise rights (2019), and Australian wines (2020).

Technological Tiering: The Biden administration's "Framework for the Diffusion of Advanced AI Technologies" restricts exports based on a three-tier categorization of a country's closeness to U.S. national interests, aiming to use AI exports as leverage to extract geopolitical and technological concessions.

### 2.3.2.Financial Sanctions.

Finance is a potent tool because global payment systems have strong strategic complementarities: each entity wants to be part of a system that everyone else uses. There is a US dominance in the global financial system. This makes alternative systems poor substitutes. Fragmentation is visible in finance as well that, countries building theit own systems to shield themselves from influence. As all countries shift towards home alternative systems hegemon becomes less attractive to all that is a strategic complmentary and leads to a doom loop (Clayton et al., 2024). although Russia and China have developed their own messaging systems for financial transfers—inefficient yet indicative of incentives to fragment the system.

Payment Systems and Settlement: Financial threats include freezing assets or preventing access to transaction systems. The U.S. typically pressures SWIFT, a Belgian cooperative, to join sanctions, broadening the network that joins the U.S.-led threat. Examples include freezing Russia's foreign reserves and threatening European banks with a loss of U.S. funding over dealings with Iran.

Asset Freezes: Asset freezes are a common geoeconomic instrument, for example used by the US-led coalition in sanctioning Russia for its invasion of Ukraine in 2022. While foreign aid is a "positive sanction" (providing aid for compliance), asset freezes are a "negative sanction." These are particularly powerful when the targeted country has low wealth and a high marginal value of consumption.

FDI Screening and Ownership: Foreign Direct Investment (FDI) allows for acquiring concentrated stakes (typically above 10%). While portfolio investment is more diffuse, the rise of sovereign wealth funds and large asset management groups has raised concerns of foreign influence here too. Yet, the rise of sovereign wealth funds and the concentration of portfolio investment in the hands of enormous asset management groups has started to raise concerns of foreign influence even for portfolio investments. Strategic foreign equity investments allow a hegemon to bypass the participation constraint entirely, replacing indirect threats with direct ownership-based control.

Hegemon has a financial service sector and each foreign country has a home system. Hegemon and home alternative are substitutes. Cross-country use of hegemon system are complements. Hegemon subsifizes use of own system by foreigners to make it attractive. Hegemon taxes home alternative to make outside option worse. Hegemon want oto get more integration to own system to make the withdraw more costly.

Financial Diplomacy and "Joint Threats": China's Belt and Road Initiative (BRI) pairs sovereign lending with infrastructure and manufacturing relationships. This "bundling" helps sustain borrowing capacity by threatening the termination of services if a country defaults, and vice versa. Borrowing under BRI often comes with expectations of political concessions, such as UN voting patterns (Dreher et al., 2022).

### 2.3.3.Industrial Policy

Industrial policy (IP) has re-emerged as a primary instrument of economic statecraft, functioning as both a developmental tool and a mechanism of protectionism. While the debate regarding its efficacy continues (Harrison & Rodríguez-Clare, 2010; Juhász et al., 2024), historical evidence suggests it can be a potent driver of growth. In the 19th century, England utilized IP in mechanized technology and manufacturing to become a global leader in exports, contributing to the "Great Divergence." Successful "catch-up" by a small set of other countries was similarly facilitated by state-led technology acquisition, human capital development, intellectual property protection, input tariffs, and subsidies (Juhász & Steinwender, 2024).

In the contemporary landscape, industrial policy is characterized by an allocation of wealth and the creation of strategic funds. There is a notable divergence in how these tools are deployed across different economic strata **(**Evenett et al., 2024):

Advanced Economies: Focus primarily on subsidies and wealth allocation to foster domestic champions (e.g., the U.S. CHIPS and Science Act or South Korea's K-Chips Act). In the semiconductor industry specifically, subsidies have become the dominant form of government support (Goldberg et al., 2024).

Emerging and Developing Economies: Increasingly rely on trade restrictions on imports and exports. In these contexts, IP is often most effective when structured around export-led development and product relatedness (Reed, 2024).

Crucially, economic constraints and market failures are not the sole determinants of IP use; political constraints and state capacity are equally decisive (Juhász & Lane, 2024). As noted by Evans (1995), "embedded autonomy"—the quality of business-state relations and institutional capacity—largely dictates whether a policy achieves its objectives. This institutional variation explains why initiatives like the CHIPS Act can successfully mobilize significant private investment, while similar designs in other jurisdictions may fail to do so.

Modern industrial policy is increasingly reactionary and competitive. Data from the New Industrial Policy Observatoryreveals that implemented measures are highly correlated with the prior use of similar measures by other governments in the same sector. This suggests a "tit-for-tat" dynamic where unilateral measures frequently trigger retaliation rather than accommodation (Evenett et al., 2024). This cycle raises critical questions regarding global coordination: as nations race to subsidize strategic sectors, they must navigate the risk of negative spillovers and the potential for escalating trade conflicts.

## 3. Empirics

The proliferation of economic security measures has catalyzed a fundamental restructuring of the global economy. As nations pivot toward alternative sourcing, scholars have sought to quantify the resulting trade-offs between national security and economic efficiency. The emerging empirical literature on this geoeconomic shift can be categorized into two primary methodological tracks. First, a growing body of work utilizes causal inference and econometric modeling to measure the immediate impacts of fragmentation at both the aggregate and firm levels. These studies examine how specific policy interventions alter trade flows and corporate behavior. Second, the literature employs macroeconomic forecasting and structural modeling to simulate long-term trajectories, providing a glimpse into the future of a fragmented global order. Beyond these traditional tracks, the field is currently being transformed by emerging methodologies. While network analysis allows for a more granular understanding of how "strategic" positions within the global equilibrium are formed and exploited by the states, Large Language Models (LLMs) distils systematic patterns from unstructured corporate data, providing a high-frequency measure of how companies perceive and respond to economic security threats.

### 3.1.Causal Outcomes of the Fragmentation in the Short-term

As the geoeconomic landscape evolves, a primary challenge for empirical research is distinguishing between temporary market fluctuations and permanent structural shifts. It is important to explicitly note that current findings should be treated as preliminary; as more time elapses since the implementation of major policies like the Inflation Reduction Act or the CHIPS Act, more robust causal studies and granular data will become available. In this context, current econometric analysis focuses on three guiding questions: (i) which drivers and outcomes are being measured?, (ii) which methodologies are being deployed?, and (iii) what is the consensus from the emerging evidence? Broadly, scholars utilize geopolitical distance, sanctions, and tariffs to measure shifts in global economic flows, such as trade, FDI, and innovation. Methodologically, the field is dominated by Difference-in-Differences (DID), structural gravity models, Poisson Pseudo-Maximum Likelihood (PPML), and input-output linkage analysis. In overall, there are negative economic outcomes on economies and the degree of the impact are greater in developing countries. De-coupling from China specifically visible in critical and strategic sectors. There are emergin economies to replace China and they also serve as connectors between China and the US.

### Trade Outcomes

Using DID methods to examine U.S. tariff-line data, Freund et al. (2024) and Alfaro and Chor (2023) find that while the U.S. is successfully decoupling from China in tariffed products, this is often replaced by indirect sourcing. Large emerging economies—most notably Mexico, Vietnam, and Canada—have emerged as "connector countries" (Gopinath et al., 2025). These nations gain market share in the U.S. while simultaneously increasing their own imports and receiving significant outward FDI from China, effectively acting as bridges in a reshuffled global network. Using PPML regressions, Blanga-Gubbay & Rubinova (2024) confirm that while "friend-shoring" is visible—as trade between geopolitical blocs grows more slowly than trade within them—there is less evidence for "near-shoring" or general regionalization. These disruptions are disproportionately felt in highly integrated sectors like manufacturing and finance, where geopolitical ties now serve as a primary barrier to entry — evident by structural gravity regression for sector-level bilateral trade flows (Hakobyan et al., 2023).

### Investment Outcomes

Beyond trade volumes, the long-term driver of growth, foreign direct investment (FDI) is also under pressure from the shifting geoeconomic landscape. Aiyar et al. (2024) utilize a gravity model on 300,000 greenfield FDI instances to show that increased geopolitical distance significantly reduces investment flows. This global trend is echoed in country-specific analyses; for instance, Fletcher et al. (2024) apply a two-step regression to show that Germany's FDI flows to the China-Russia bloc have become hypersensitive to geopolitical risk compared to flows toward the U.S. bloc. Furthermore, Mulabdic and Gaurav (2024) employ a Poisson Pseudo-Maximum Likelihood (PPML) regression to reveal an intensification in U.S. multinational reshoring and nearshoring, suggesting that U.S. supply chains are becoming increasingly regionalized rather than globalized. However, the literature offers a nuanced view; Tan (2024) utilizes a modified gravity approach to show that FDI fragmentation is not yet universal but rather circumscribed. This fragmentation is primarily concentrated in industries of high strategic value and is most pronounced in U.S. outward FDI, which has pivoted from China toward advanced Europe and the rest of Asia.

### Welfare Costs

The primary burden of these geoeconomic shifts falls on consumers; Fajgelbaum and Khandelwal (2022) demonstrate that U.S. consumers of imported goods face significantly higher prices, though the resulting drops in real income for both the U.S. and China remain relatively modest. Expanding on the structural costs of this divide, Bonadio et al. (2024) model a world bifurcated into U.S. and China blocs—with nearly half of the global economy remaining unaligned—finding that while trade costs increase sharply across these blocs, decoupling does not always align with trade-driven economic interests. This "bloc misalignment" suggests that some nations may find themselves in geopolitical groupings that are suboptimal for their specific income potential.

Furthermore, Caliendo and Parro (2023) argue that while the initial era of U.S.–China trade integration produced a complex map of winners and losers, the recent trade war has been largely ineffective in reversing the distributional shifts caused by the "China shock." Their findings indicate that the trade war generated welfare losses with only negligible effects on manufacturing employment. This inefficiency is echoed by Ignatenko et al. (2025) in their analysis of "liberation day" tariffs. They find that while such protectionist measures may succeed in narrowing the U.S. trade deficit, the resulting deadweight losses—compounded by the uncertainty of foreign retaliation—underscore the fundamental inefficiency of using trade policy as a primary tool for deficit reduction.

Fernandez-Villaverde et al. (2024) introduce a geopolitical fragmentation index by combining comprehensive indicators grouped by four categories that are trade, financial, mobility, and political fragmentation. Then they use it to understand levels of fragmentation between and across geopolitic blocs. They also measure causal effects of fragmentation with structural vector autoregressions and local projections. Findings show that there are negative impacts on the various economic outcomes including GDP per capita, industrial production, fixed investment, and stock prices while emerging economies are suffering more.

Finally, Thoenig (2023) warns that the welfare implications of trade policy diverge sharply when conducted in the "shadow of war" rather than peacetime. When geopolitical disputes risk escalating into high-intensity conflict, the traditional gains from trade may be overshadowed by national security externalities. Industrial policy decreases imports on the product 0.28% with the existence of Preferential Trade Agreements serve as protective shields (Barattieri et al., 2024) _ necessitating a more cautious approach to multilateral cooperation. While the aforementioned literature primarily quantifies the varied outcomes of these interventions, Juhász et al. (2024) pivot toward the underlying mechanisms, examining how industrial policy functions and the specific institutional conditions required for its success. In this view, the "state capacity" and the quality of business-state relations determine whether a policy achieves its strategic objectives or merely results in market distortions. This emphasizes moving beyond simple policy design and considering the broader institutional landscape.

### 3.2.Firm-level Analysis and Strategic Responses

While governments dictate geoeconomic policy, global firms are the primary actors navigating the resulting disruptions. Firm-level empirical analysis is a critical emerging frontier in the literature for two reasons. First, firm-level data is not easy to find and access. Second, micro-level adaptations can either reinforce or undermine state objectives. Central to this behavior is the "cost-resilience trade-off" (Baldwin & Freeman, 2022), where firms attempt to preserve autonomy through "corporate geoeconomics" amidst rising state intervention. These responses are increasingly modeled as a firm’s attempt to raise its "outside option"—effectively increasing its bargaining power against economic threats by diversifying supply chains or vertically integrating to reduce the cost of potential non-compliance (Clayton, Coppola, et al., 2025).

**Diversification and "Tariff-Jumping"**

Concerns regarding economic coercion have forced firms to reconsider global supply chain architectures. This is most visible in the "China+1" strategy, where Western firms maintain at least one supplier independent of China to ensure resilience (putting paper). However, firm responses often bypass the intended effects of state policies. For instance, Zeng and Kim (2025) find evidence of "tariff-jumping," where Chinese firms increased direct investment in the U.S. to evade protectionist barriers. Similarly, as firms invest in "connector countries" like Vietnam or Mexico, they may preserve access to restricted markets, effectively substituting direct trade with indirect, fragmented linkages that leave aggregate patterns largely unchanged. Recent empirical work by Ersahin et al. (2024) utilizes textual analysis of earnings calls to quantify supply chain risk, finding that firms respond to heightened vulnerability by pursuing vertical integration, establishing relationships with closer suppliers, and working with industry leaders. This shift is mirrored in industry guidance, such as the Boston Consulting Group (BCG) report by Rafih et al. (2024), which advises businesses to adopt "geopolitical risk awareness" and diversify supply chain control to navigate the fragmented landscape.

**Innovation and Heterogenous Effects**

The impact of geoeconomic pressure varies significantly by the type of policy and the firm's technological position. Cao et al. (2024) utilize a DID approach to show that Chinese firms placed on the U.S. Entity List experience a decline in innovation due to restricted "learning-by-importing." However, this effect is mitigated for firms with high initial patent stocks or those in sectors with less technological distance to the U.S. Interestingly, Clayton, Coppola, et al. (2025) document a sectoral divergence in responses: while firms affected by tariffs primarily adjust prices, those hit by export controls respond by disproportionately increasing R&D investment to develop in-house alternatives.

**Market Exit**

Trade policy uncertainty influences both short-term decisions, such as pricing and inventory, and long-term strategic entries (Handley & Limao, 2022). Under the U.S.-China trade war, Vortherms and Zhang (2024) observe increased firm exits in China, particularly among U.S. multinationals. They find that political alignment between the investor's home country and China acts as a crucial buffer, mitigating the risk of exit. Conversely, export controls can have unintended "boomerang" effects on the domestic economy; Crosignani et al. (2024) find that U.S. firms restricted from selling to China struggle to find alternative customers among domestic or allied markets, potentially threatening the very technological leadership the policies aimed to protect.

**Collective Interests and Governance Ecosystems**

The political economy of firm response is further complicated by how benefits and losses are distributed. Dur, Mateo, and Visart (2025) categorize business responses based on policy payoffs: subsidies (concentrated benefits) receive collective support, while screening mechanisms (concentrated losses) face collective opposition. Balancing these competing interests requires sophisticated governance. Doppen et al. (2024) identify two emerging "ecosystems" in Europe—public and private governance—aimed at balancing economic openness with security requirements. Understanding when these micro-adaptations aggregate into significant GDP effects remains a vital theoretical challenge; as firms vertically integrate to shield themselves, they may shift the global equilibrium in ways that traditional macro models have yet to fully capture.

### 3.3. Macro-Economic Forecasting and Global Economic Look in the Long-term

While causal studies capture the immediate shocks of geoeconomic shifts, macroeconomic forecasting provides a critical window into the structural transformation of the global economy over the long term. These analyses generally define financial fragmentation through the lenses of capital reallocation and the reversal of cross-border flows (IMF, 2023). As nations pursue "friend-shoring" and "near-shoring" to decouple from China, simulation models suggest that the resulting GDP losses may incur substantial costs, potentially exceeding those of traditional economic sanctions (Javorcik et al., 2024).

**Methodological Framework and Scenario Modeling**

To quantify these future trajectories, economists predominantly employ multi-regional, multi-sector stochastic dynamic models and Computable General Equilibrium (CGE) frameworks. These simulations typically divide the world into geopolitical blocs to test various degrees of fragmentation. The broad consensus among these studies is a projected decline in global GDP and employment, with the most severe impacts concentrated in developing and least-developed economies. Specifically, WTO (2023) warns that micro, small, and medium-sized enterprises (MSMEs) face the greatest hurdles due to escalating trade costs and diminished competitiveness in previously accessible global markets.

**Quantifying the Costs of Decoupling**

Long-term economic losses are increasingly categorized by their specific impact on welfare and output. Key findings in the literature include: Significant declines are projected globally (Cerdeiro et al., 2021; Eppinger et al., 2021), with low-income countries facing the most acute output disruptions (Bolhuis et al., 2023; Goes & Bekkers, 2022). Research estimates a direct welfare loss of approximately 0.12% of global GDP (Grossman et al., 2023), while long-term FDI fragmentation alone could reduce global GDP by up to 2% (Ahn et al., 2023). ASEAN countries appear particularly vulnerable to near-shoring trends, as their export markets are historically global rather than regional. Conversely, the United States is often modeled as the only actor capable of achieving a slight income gain due to its large, diversified, and well-endowed domestic economy (Petri & Plummer, 2023). However, the relative loss for China remains higher than for the U.S. or the EU (Maskus, 2023).

**Counterfactual Scenarios: Rivalry vs. Cooperation**

The ultimate magnitude of these losses depends heavily on the chosen policy path. Métivier et al. (2023) simulate scenarios ranging from a revival of multilateralism to intense geopolitical rivalry, concluding that multilateral cooperation remains the superior outcome for global welfare, whereas rivalry represents the most damaging trajectory. This is further detailed by Koopman and Tsigas (2025), who evaluate the economic fallout of escalating trade conflicts through three counterfactuals. Their model shows that universal tariff retaliation would reduce U.S. real GDP by 1.32% and real income by 2.77%. While bilateral accommodation offers modest relief, the most severe scenario—combining trade barriers with immigration restrictions—amplifies these losses dramatically, reducing U.S. GDP by 3.83% and real income by 12.08%. Collectively, these forecasts underscore that the compounding costs of diminished cooperation and restricted labor-trade mobility represent a significant threat to long-term global prosperity.

### 3.4.Emerging methods: Large-Language Models and Text-Analysis

There is a burgeoning trend in the application of Artificial Intelligence (AI) and Machine Learning (ML) to quantify qualitative information—essentially converting text archives into high-dimensional vectors for statistical analysis. his shift is particularly valuable for geoeconomic research, where specific pressures exerted on private entities often remain latent within unstructured data and are therefore difficult to observe through traditional metrics. While Antràs (2025) notes that AI may not yet replace quasi-experimental approaches for causal inference, these tools are fundamentally changing the "information set" available to both governments and researchers. By leveraging unstructured sources—such as news, corporate regulatory filings, and earning call transcripts—scholars can now capture geoeconomic dynamics and semantic meanings in real-time with a level of precision previously unavailable.

Beyond simple variable counts, a nascent but promising trend involves using Large Language Models (LLMs) to construct instrumental variables (IVs)[3] from text data to isolate exogenous shifts in policy sentiment from endogenous firm behaviors. Although Ash and Hansen (2023) provide a cautionary overview of the measurement challenges inherent in text algorithms, the field is moving toward these innovative applications to better identify agents, tools, and strategic activities. This transformation of strings into data points allows for a more granular understanding of geoeconomic fragmentation, providing a rigorous empirical bridge between qualitative policy shifts and quantitative economic outcomes.

### Leveraging LLMs for Geoeconomic Signal Extraction

LLMs are increasingly deployed to "mine" vast textual corpora for signals of geoeconomic pressure. Clayton et al. (2025) utilize LLMs to process over 356,000 earnings call transcripts and 178,000 analyst reports to identify the specific agents, tools, and activities involved in geoeconomic competition. This granular approach allows researchers to identify firm-level responses that traditional trade data might miss. For example, their findings highlight how U.S. export controls in the semiconductor sector affect specific nodes like NVIDIA, ASML, or TSMC, while Chinese retaliatory measures concentrate on the rare earth and magnet supply chains. By identifying these "latent threats," LLMs provide a clearer picture of the participation constraints faced by global firms.

### Quantifying Uncertainty and Exposure

Studies rely on text analysis to construct a measreument for trade policy uncertainty (Hassan et al 2019; Caldara et al 2020). Handley & Limao (2022) compute the fraction of newspaper articles on trade policy together with uncertainty keywords. Similarly, Benguria et al. (2022) adopt text analysis by using firms' annual reports to create a meaure for trade policy uncertainty and link it to US-China trade war. Hassan et al. (2024) benefit from text-based method to measure how political and economic shocks like Brexit afffect global firms. They show text analysis can capture a firms exposure to shock and distangle firms exposure to expected costs, benefits, and risk.

### Identifying Policy Trends and Sentiment Analysis

The literature also employs frequency-based and machine-learning classification methods to track the evolution of economic statecraft. Gopinath et al. (2025) and Freund et al. (2023) track the explosion of terms such as "friend-shoring," "near-shoring," and "reshoring" in company earnings calls and Google search trends, marking a clear departure from the globalization narrative of the previous decade. Evenett et al. (2024) and Juhász et al. (2022)

[3] An out-of-context example is from (Widmer et al., 2020) that they quantify political slant in local newspapers and they use channel positioning from Fox News Channel as an instrument for viewership.

utilize ML algorithms to classify thousands of industrial policy descriptions from the Global Trade Alert database. This allows for a disaggregated analysis of industrial policies across countries and industries, revealing the "tit-for-tat" nature of modern government interventions. Goldberg et al. (2024) apply these methods specifically to the semiconductor industry to map the global proliferation of subsidies and protective measures.

### 3.5.Emerging methods: Network Analysis

Network analysis has emerged as a fundamental tool for mapping the topography of global interdependence, allowing researchers to visualize the density of connections and the relative influence of specific actors. Methodologically, modern network statistics can be viewed as a sophisticated generalization of Hirschman's (1945) concentration index, evolving through early work on Economic Complexity (Hidalgo & Hausmann, 2009; Hausmann et al., 2014) to recent applications in trade and industrial policy (Georgieva, 2025). In the context of economic security, these methods are essential for identifying the "chokepoints" through which states exert structural power.

The conceptual starting point for much of this work is the theory of weaponized interdependence, where states leverage their control over central nodes in global economic and information networks to gather intelligence or exert policy coercion (Farrell & Newman, 2019; Drezner et al., 2021). In global production networks, the flow of capital, goods, and technology creates externalities for both producers and consumers. States that sit at the intersection of these flows can "weaponize" these linkages by threatening to withhold vital inputs. Quantitative measures—such as input-output centrality indices or pass-through frequency approaches (Inomata & Hanaka, 2021)—provide the empirical bridge between political economic theory and trade modeling, illustrating how specific network positions translate into tangible economic leverage.

The relative importance of a country is often determined by its dominance in specific segments of a technological stack. For example, a network analysis of the semiconductor industry reveals four primary nodes: design, raw materials, manufacturing, and assembly. While manufacturing is highly concentrated in East Asia, the U.S. maintains a dominant position in the design segment, a chokepoint it has utilized to weaponize trade flows and constrain rivals (Beaumier & Cartwright, 2024). Conversely, China's expanding control over key supply chain levers—particularly in the processing of critical raw materials—presents a growing challenge to Western structural power (Malkin, 2022).

Practical applications of this leverage are increasingly evident in regional disputes. Farrell and Newman (2022) document how Japan exploited its dominance in critical electronic materials to pressure South Korea following legal disputes over wartime labor. Because global leaders like Samsung are deeply integrated into these specific Japanese supplier networks, such targeted disruptions create systemic risks that ripple through the global economy. These "repeated games" of coercion and retaliation underscore the fact that network position, rather than mere trade volume, defines a nation's geoeconomic strength.

Network analysis also offers predictive insights into how governments formulate economic security strategies. Georgieva (2025) demonstrates that a sector's "centrality"—defined by its input-output linkages and connectedness to other industries—is a robust predictor of government intervention. By analyzing industrial policy data through the lens of production networks and sectoral relatedness, researchers can identify the heterogeneity of policy use across different income groups and time periods. This approach reveals that governments do not choose "strategic" sectors in a vacuum; instead, they target nodes that maximize domestic resilience while increasing the outside options of domestic firms relative to foreign hegemons.

## 4. Discussion

### 4.1. The New Global Order and the Future of Multilateralism

The transition from a neoliberal order to a new geoeconomic order—catalyzed by the U.S.-China trade and technology conflict—poses fundamental challenges to established trade and investment regimes (Roberts et al., 2019). As major economies seek to "balance dependency" through both public and private policy shifts, these actions trigger reciprocal responses that test the resilience of global institutions (Moraes & Wigell, 2022). However, the current literature increasingly argues that this geoeconomic shift does not necessitate the total abandonment of multilateralism; rather, it requires an institutional evolution that can accommodate legitimate national security concerns without triggering a slide into zero-sum competition (Paulson, 2023; Hoekman & Mavroidis, 2021).

A central tension in the current order is the perceived conflict between industrial policy (IP) and WTO law. While some view these as inherently incompatible, a growing body of work suggests that the system can be reconfigured to discipline harmful, beggar-thy-neighbor subsidies while preserving "policy space" for legitimate security and environmental objectives. Bown (2024) argues for a nuanced framework where economists help design rules that enable coordinated industrial policies, thereby preserving the gains from trade even in a fragmented world. Similarly, Mattoo et al. (2024)suggest that trade cooperation remains the rational choice for states unless geopolitical rivalry entirely overwhelms self-interest. Evidence from Barattieri et al. (2024) supports this path toward reconciliation, showing that while IP measures generally reduce imports, Preferential Trade Agreements (PTAs) can effectively offset these restrictive effects. This suggests that "plurilateral" or regional agreements may serve as a laboratory for new rules that balance domestic autonomy with international commitments.

The future of multilateralism is being shaped by a complex interplay of economic interdependence, geopolitical rivalry, and institutional transformation. China's deep integration into the global economy has played a key role in accelerating globalization, expanding global supply chains, and spurring a wave of regional and international economic agreements. As China has become a central player in global production networks, concerns have grown—particularly among advanced economies—about the vulnerabilities of economic interdependence. With the concurrent rise of populist regimes and protectionist trade policies, the legitimacy and effectiveness of international cooperation are increasingly being called into question. While macroeconomic forecasts suggest that fragmentation will impose widespread economic costs, the current moment presents an opportunity to reconsider and reimagine the structure of global economic governance.

Multilateralism is also being shaped by China's "à la carte" approach—simultaneously engaging with the liberal financial order while maintaining state-capitalist principles and creating alternative frameworks (Petry, 2025; Heldt et al., 2025). This divergence necessitates a move away from the rigid, 20th-century GATT/WTO framework toward more adaptable governance. Staiger (2021) contends that while the terms-of-trade theory provided a stable foundation for decades, the system now requires reconfiguration to handle modern challenges like digital trade and non-market economies.

Furthermore, the current crisis in the WTO's Appellate Body has paradoxically reopened policy space. Hopewell (2024) illustrates how developing nations like Indonesia and India have utilized this institutional vacuum to implement export restrictions and subsidy programs. This "norm modification" reflects a broader shift in negotiation structures where stakeholder composition—not just hegemonic power—drives outcomes (Weinhardt & Farias, 2025).

While the costs of fragmentation are severe—particularly regarding FDI and spillovers to low-income countries—multilateral institutions remain indispensable for mitigating these risks. When binding agreements are politically unfeasible, Ahn et al. (2023) emphasize the role of cooperative consultations to prevent retaliatory spirals. The WTO (2023) proposes "re-globalization" as a strategic alternative to fragmentation. Rather than retreating into blocs, re-globalization seeks to broaden trade integration to more economies, thereby enhancing resilience through diversification rather than decoupling. Ultimately, the role of multilateralism in the new order is to ensure that the pursuit of economic security does not result in a "closed" world. By lowering trade barriers for new participants and providing a framework for transparent policy intervention, the system can reduce the uncertainty that currently dampens global investment and employment.

### 4.2. Limitations and Future Research

While this study provides a conceptual and empirical foundation for understanding economic security and geoeconomic fragmentation, several limitations remain that delineate the frontier for future research. Current research often relies on aggregate-level data, which cannot fully capture the nuanced patterns of economic decoupling. A more granular approach—employing disaggregated, micro-level, and firm-level data—is essential to detect subtle shifts in trade and investment patterns. Although access to such datasets is currently limited, the maturation of these policy shocks will eventually provide the longitudinal data necessary for robust causal inference.

A critical research priority involves examining the bureaucratic and institutional conditions necessary for industrial policy (IP) to succeed. Building on Juhász et al.

(2024) and the foundational work of Evans (1995) on "state-society synergy," researchers should investigate how modern state structures and business-government relations enable or constrain IP effectiveness. Furthermore, as Barwick et al. (2024) argue, scholars must move beyond standard economic frameworks to incorporate geopolitical motivations, such as the pursuit of strategic autonomy, into policy design models.

The evolving role of private firms as active agents in geoeconomic governance—particularly in the digital and technological domains—merits deeper exploration. As Broeders et al. (2025) highlight, "Big Tech" companies are no longer mere subjects of policy but are active participants in geopolitical conflicts and international semiconductor alliances. Future work should focus on the strategic importance of critical technologies like AI and the materials that underpin them, assessing how targeted protectionism in these specific "chokepoints" affects global innovation capacity (Baldwin et al., 2023).

Emerging methods like LLMs and textual analysis offer a unique opportunity here; by matching firm-level sentiment from earnings calls with real-world investment data, researchers can determine whether corporate intentions (e.g., reshoring) are being operationalized or if they primarily serve as political signaling to appease home governments.

From a theoretical perspective, there is a significant need for formal economic modeling that accounts for a multipolar geoeconomic order. Current models often assume a unipolar or bipolar environment, yet the endogenous emergence of multiple hegemons and the resulting competition for structural power require new applied theories. This includes more disaggregated research on Chinese financial diplomacy; leveraging datasets like *AidData* to analyze China's role as a creditor can provide insights into how financial linkages are used to exert leverage in ways that IMF or traditional creditor data cannot yet capture. (putting paper). Lack of theory to support geoeconomic impacts. There is a large welfare impact of policies including coercion, industrial policy, tariffs, and sanction.

In summary, the rapidly changing landscape of economic security presents a "perfect storm" for academic inquiry. Understanding this era requires a synthesis of methods from macrofinance, international trade, political economy, international security, and computational science. As we move into a period characterized by the strategic importance of AI and critical materials, international economic policymaking must be grounded in evidence-based research rather than purely reactive statecraft. By leveraging emerging big data—both micro and macro—future studies can empirically capture the evolving logic of the state and assess the long-term implications for global production and cooperation.

### 4.3.Concluding Remarks

The evolving landscape of geoeconomic statecraft represents a fundamental shift in the global order, moving away from a era of "hyper-globalization" toward one defined by structural power and strategic autonomy. This transition reveals a critical paradox in hegemonic leadership: while the U.S.-led liberal order once provided a collective system where global integration yielded broad benefits, the instrumentalization of that integration has triggered a systemic retreat. When a lead power leverages its central position in global networks to exert coercive influence or secure narrow national interests, it effectively signals to other actors that their integration is a vulnerability. This perceived "betrayal" of the system's neutrality incentivizes nations to build alternative, fragmented systems to shield themselves from external leverage.

The evidence synthesized in this manuscript suggests that such fragmentation is an immensely costly path, destroying substantial gains from trade and financial integration. However, the theoretical framework provided by Clayton et al. (2024) offers a strategic middle ground. Because geoeconomic power is non-linear—increasing disproportionately only as a hegemon approaches total control of a sectoral input—significant economic security can be achieved with minimal systemic fragmentation. By focusing on diversifying input sources for key sectors rather than pursuing total decoupling, states can mitigate hegemonic leverage while preserving the core benefits of a connected global economy.

Furthermore, the exercise of power is rarely a one-sided victory. Geoeconomic threats involve the hegemon's own domestic firms and entities, imposing mutual costs that manifest through price volatility, welfare losses, and labor market disruptions. These strategies also have deeply asymmetrical effects on smaller states, which face distinct constraints and must adopt unique institutional responses to navigate the rivalry between major powers (Pitakdumrongkit, 2022).

Ultimately, the findings of this study argue not for a retreat from the global stage, but for a renewal and restructuring of international institutions. To better reflect the realities of the 21st century, global governance must evolve to discipline harmful subsidies and manage security externalities without triggering a zero-sum collapse. This agenda requires profound interdisciplinary collaboration; insights from behavioral economics, political science, and international relations are essential to understanding the complex interplay between state-firm interactions and the societal consequences of economic security policies. In an era of profound global change, evidence-based research remains the only viable bridge between the pursuit of national security and the preservation of global prosperity.

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