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The Risk of the Global Economy Fragmentation is Growing[1]

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Abstract
The article examines the reasons for the fragmentation of the world economy and global trade at the beginning of the 21st century. The author explores two aspects of this fragmentation. The first relates to the weakening of the World Trade Organization (WTO) and its rule-making function, which has intensified regionalization, as manifested in the emergence of mega trade agreements. Further progress of the latter, while the WTO remains relatively weak, may contribute to the future fragmentation of world trade, from which small developing countries will primarily lose. The second aspect is largely due to the consequences of the financial crisis of 2008–09, which resulted in the desire of key players to create more autonomous national economies and ensure economic security to avoid excessive costs in the event of future crises. This gave rise to talk about strengthening deglobalization trends. The second aspect also includes the U.S.-China trade war with technological decoupling between them, the influence of geopolitical factors on trade, and the impact of industrial policies of large states on trade. The final part of the article provides a brief analysis of the negative impact of fragmentation on the global economy and trade. The author concludes that geo-economic fragmentation poses a real threat to the global economy.

Key words: Global economy, trade, fragmentation, deglobalization, protectionism, decoupling, US, China

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Since the early 1990s, the "golden age" of globalization, as it is commonly believed, has come. It seemed that there were no more obstacles to further economic and financial integration. The benefits of globalization were considered obvious and undeniable. The interconnection between the flows of production, consumption and investment gave consumers more choice at attractive prices. Companies were able to expand their markets and optimize the efficiency of their supply chains. Global capital markets have simplified access to credit, lowering its cost for both private and public borrowers. This has encouraged many governments around the world to enter into mutually beneficial partnerships.

However, by the end of the second decade of the 21st century, the "golden age" of globalization came to an end. The growth rate of world trade began to yield to the growth rate of world gross domestic product (GDP) and cross-border capital flows began to decline. The World Economic Forum in Davos, in 2019, became a kind of indicator of the signs of deglobalization, with the participation of heads of state and government noticeably decreasing. In the first quarter of the 21st century, the elements of fragmentation of the world economy and trade, combined with

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deglobalization, are becoming more visible and are increasingly attracting the attention of international institutions, researchers, and policymakers.

In this period, in terms of dominant factors, two intertwined aspects of fragmentation can be distinguished. One is due to the weakening of the multilateral system, that is, the World Trade Organization (WTO), manifested primarily in the inability of the organization's members to complete the Doha round of trade negotiations that began in late 2001. As a result, the effectiveness of the WTO's rules-generating function for world trade decreased, which prompted its most active members to move to the creation of new formats—mega-regional trade agreements (MRTAs) and a new type of in-depth trade agreements, which opened the possibility of developing trade rules that are not yet in the WTO. In MRTAs and new-type deepened trade agreements, many saw the contours of the future fragmentation of world trade [Aggarval, Evenett, 2013].

The second aspect is related to the aftermath of the 2008 financial crisis, which has not been adequately addressed. The crisis resulted in the desire of key players to create more autonomous national economies and to ensure economic security in order to avoid excessive costs in case of a recurrence of similar global crises. This has given rise to talk of increasing trends of deglobalization. The trade war between the U.S. and China, the consequences of the COVID-19 pandemic, and the military conflict around Ukraine, which revealed the ineffectiveness of supranational institutions, the vulnerability of global production chains due to the strong dependence on individual supplier countries, and the significant influence of the geopolitical factor in the existing global economic system, led to a slowdown in the processes of economic globalization or, in other words, the onset of the so-called "slowbalization"[2] period and, accordingly, strengthened the trend toward fragmentation of the global economy. The notions of "reshoring," "onshoring," and "nearshoring" began to enter the vocabulary of politicians and businesspeople, meaning the revision and reassessment of supply chains in favour of politically close partner countries.

Let's look at both aspects in more detail.

Fragmentation of World Trade as a Consequence of the Weakening of the WTO

In the second decade of the 21st century, the World Trade Organization found itself in a state of deep crisis, the origins of which are rooted in the different perceptions held by developed and developing countries about the role and discipline of the WTO in the present and future. The specific causes of the crisis, such as the impasse in the Doha round negotiations, the weakening U.S. leadership role, protectionism, and the crisis of the decision-making mechanism, have been accumulating for years. The impossibility of resolving the trade conflict (trade war) between the U.S. and China through traditional WTO instruments was the most vivid evidence of the weakening of the WTO, in particular, the normal functioning of the dispute settlement mechanism. In the context of the crisis of the multilateral trading system, the major players have become increasingly active in asserting their ability to take unilateral action when the global system fails. Specific evidence of this was the statement by U.S. Trade Representative Catherine Tai that the WTO's multilateral rules were insufficient to adequately address China's "unfair trade practices and non-compliance." She therefore called for the use of new, unilateral U.S. trade tools to achieve the desired result [Olson, 2022].

The lack of progress in the WTO negotiations has effectively blocked the WTO's function of generating new trade rules. However, the need for them has not disappeared—the ongoing process of trade expansion has required rules of the game in a number of areas, such as trade and environment, trade and labour standards, and electronic commerce, as well as the deepening of

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[2] The term “slowbalization” has gained traction since its appearance in the article “The Steam Has Gone Out of Globalisation” in the British weekly Economist [2019].

already existing WTO provisions, for example, in the area of trade-related aspects of intellectual property rights (TRIPS agreement). To a certain extent, this task was solved through the creation of MRTAs—the Trans-Pacific Partnership (TPP) and the Comprehensive Regional Economic Partnership (RCEP)—and the so-called deepened trade agreements of a new type—CETA (EU-Canada), JEFTA (EU-Japan), and KORUS (U.S.-Korea).[3] Thus, the emergence of these new formats became an objective necessity. At the same time, there was also an important subjective reason for the development of these agreements. It consisted in the weakening of the leadership role of the United States in the WTO, which had already manifested itself under President Barack Obama. Washington concluded that a significant number of WTO members, primarily developing countries, were not complying with the organization's rules, while continuing to enjoy the unjustified privileges of membership gained upon accession to the WTO, which ultimately nullified the negotiating efforts of developed countries, making it impossible to develop the necessary new rules.

As U.S. faith in the effectiveness of the organization waned, the White House's penchant for regional formats increased. It reached its peak between 2011 and 2016, when intensive negotiations on the creation of two partnerships, the TPP and the Transatlantic Trade and Investment Partnership (TTIP), were underway. Around the same period, negotiations on a third mega agreement, the RCEP, also took place. At the same time, it should be noted that the most important motive for the creation of the first two partnerships, the TPP and TTIP, was the desire of the West, primarily the U.S., to contain China, which was explicitly stated by President Obama [VOA News, 2016].

Donald Trump's presidency caused an obvious damage to the progress of the MRTAs—one of his first decrees, in late January 2017, withdrew the U.S. from the TPP, and negotiations with the EU on TTIP were finally frozen. However, the TPP partnership was successfully transformed into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and has good prospects. At the beginning of 2022, the RCEP came into force, becoming the world's largest free trade zone with a total population of 2.3 billion people.

Although the two most ambitious partnerships, the TPP and TTIP, failed in their original form, the anticipation of their signing raised serious concerns among international trade experts that stemmed from the loss of the WTO's central role in regulating trade and generating rules. For if the TPP (in its original form) and TTIP were successful, the regulation of about two thirds of world trade, according to estimates, could be outside the scope of WTO rules. As the well-known international trade researcher R. Baldwin [2011] wrote in this regard, the creation of mega agreements brings both good and bad news for the world trading system. The good news is the elimination of the so-called "spaghetti bowl" effect when the rules of different regional trade agreements (RTAs) in one region overlap. The bad news is that they can damage international trade governance by undermining the central role of the WTO, with alarming consequences. Another major researcher, J. Bhagwati, was even more categorical in this regard, stating that "trade economists generally agree that preferential trade agreements are a plague on the world trading system" [2013].

A number of other scholars and experts have called for serious measures to sustain the multilateral trading system to avoid a scenario in which the system fragments. Worst-case scenarios, they argued, could lead to a disruption of global trade and a world that splits into large trading blocs and in which trade relations are largely based on relative power rather than rules. In

[3] The author uses the conventional division of MRTAs and new type of deepened trade agreements proposed by researchers P. Draper, S. Lacey, and Y. Ramkolowan [2014, p. 8]. Both the former and the latter have provisions that are ahead of the WTO legal framework, but MRTAs have at least three parties, while the in-depth ones may have two.

such a world, the smallest players, especially those whose trade is least covered by bilateral or regional agreements, would be at a major disadvantage [Akman et al., 2020].

Table 1. MRTAs and Deep Type Trade Agreements in the World Economy

	Share in World GDP, %	Share in World Export, %	Share of World Population, %
TTIP	35	30	10.4
TPP	37.5	25.7	11.4
CPTPP	12.2	14.7	6.6
RCEP	30	25	30
CETA	18	15	6.7
JEFTA	33	16	8,0

Source: The table uses average data obtained by the author from different sources.

Although the largest mega agreements, TTIP and TPP, have not been realized in their original form, progress has continued in the MRTAs and new types of deepened trade agreements. Two significant partnerships, RCEP and CPTPP, have entered into force, with the latter already proving attractive by granting the UK's request for accession in 2023. As for the new type of deep trade agreements, CETA and JEFTA, their conclusion, in addition to mutual interests of the parties, should also be seen as a demonstration of disagreement of the EU, Canada, and Japan with the protectionist policy of Washington under the Trump administration, directed against further liberalization of markets and economic integration. As can be seen from Table 1, MRTAs and new-type deepened trade agreements account for a notable share of global GDP and world trade, with an upward trend. This suggests that if the WTO is further weakened, the progress of new formats may increase the likelihood of fragmentation of world trade.

Rivalry Between the U.S. and China Is the Main Impetus for the Fragmentation of World Trade

The financial crisis of 2008–09 can be considered a turning point that marked the slowdown of globalization of the world economy and trade, as a result of which the tendency to autonomize national economies and ensure economic security in order to avoid high costs in case of recurrence of global crises became apparent. The U.S.-China trade war, the COVID-19 pandemic, the Ukrainian conflict, western sanctions against Russia, the periodic increase in tensions around Taiwan, the Palestinian-Israeli conflict in the Gaza Strip after October 2023, the Houthi attacks on commercial ships in the Red Sea since the end of 2023—all these international events have created new obstacles to international trade and new preconditions for the fragmentation of the global economy.

Of these circumstances, the rivalry between the United States and China remains the primary catalyst for fragmentation. It is worth briefly noting that the current rivalry was preceded by a very dramatic period of relations between the two superpowers.

Toward the end of the twentieth century, a peculiar alliance of very distant economies began to emerge between the United States and China, with China assuming the role of "final producer" and the United States as "final consumer." The interaction between the two countries grew, the benefits were mutual, and ideological differences were put aside for a while. In 2001, Washington provided important support to Beijing in China's accession to the WTO. In the early 2000s, China began actively acquiring U.S. treasuries. As the largest holder of these notes, worth about $1.5 trillion, China has become a reliable guarantor of financing the huge U.S. budget deficit. In the second decade of the 21st century China became one of the most growing markets for U.S. exports.

American researcher S. Roach called this established deep interconnection of the two economies "codependency" [2019]. Of course, Washington did not discount politics and ideology,

expecting to gradually draw China into mutually beneficial trade and the world market, eventually transforming China's internal development toward democratization, deepening market reforms and, after that, its behaviour in the international arena. However, these plans completely failed, which, along with some internal economic changes in China and the U.S., paved the way for the subsequent aggravation of relations.

Serious signals of the destruction of the co-dependence of the two economies were sounded in the fall of 2016 in the election speeches of U.S. presidential candidate Trump. Having become the head of the White House in January 2017, he immediately began to implement his threats against China, considering it the main culprit of America's excessive foreign trade deficit. The meeting between the U.S. president and Chinese president Xi Jinping in April 2017 in Florida seemed to open the way to smoothing out trade and economic contradictions. But, as it turned out, not for long. Already in mid-August 2017, despite Beijing's calls to avoid a trade war, President Trump ordered an investigation into numerous episodes of violations, from Washington's point of view, of intellectual property rights of American companies in China [Swanson, 2017].

However, the problem of high foreign trade deficit was not the only reason for the trade war unleashed by Washington against the Celestial Empire. The fact is that, just with the arrival of Trump as president, the prospect of China becoming a world economic and technological leader in the near future was seen as quite real, which was a serious moral and psychological challenge to the consciousness of the average American, accustomed to the fact that since the beginning of the twentieth century there was only one superpower in the world—the United States. Trump, with his slogan "Make America Great Again" tried to exploit these feelings of Americans as much as possible to prevent the United States from losing its world leadership. He decided to achieve this goal not by conventional competition but by launching a trade war against his rival.

The conflict between the two economic superpowers affected most of the world's markets. In particular, it had a significant impact on the world market of agricultural products, where the redistribution of commodity flows began.

The United States is known to be the world's largest exporter of agricultural products, while China was the second largest buyer of these products after Canada. According to ITC Trade Map [n.d.], in 2018, U.S. exports of agribusiness products to mainland China halved to less than $10 billion. In 2019, it increased to $14 billion but was still well below pre-trade war volumes.

The confrontation between China and the U.S. has affected most participants in the global agro-industrial complex market, including Russia. Already at the end of 2017, China, according to the Federal Customs Service, took first place among importers of Russian food and, in 2018–19, the volume of supplies increased 1.8 times to $3.2 billion.[4]

The 2018–19 trade war forced Washington and Beijing to seek compromises. In mid-January 2020, a trade agreement between the two sides was finally reached and the first part of it went into effect on 14 February [Hofman, 2020]. The bilateral trade deal could have been more significant if its first part had been followed by the second, but this did not happen for a number of reasons, including the consequences of the COVID-19 pandemic and the lack of trust between the parties.

The U.S.-China trade agreement immediately had an international dimension. A serious systemic consequence of the first part of the deal was that it violated the most important basic principle of the WTO—the principle of reciprocal most-favoured-nation treatment (MFN). Since China, as part of its bilateral agreement with the United States, committed itself to increase imports of U.S. goods and services by $200 billion, under MFN, exactly the same conditions should be

[4] In the first quarter, Russian agricultural exports to China exceeded $1 billion [AGROEXPORT, 2021].

extended to other WTO member trading partners (exceptions are possible only in cases of a free trade area or customs union between countries).

The importance of the problem was emphasized not only outside the United States but also in the United States itself. Thus, the above-mentioned Roach in his work "Unbalanced: The Codependency of America and China" pointed out that "U.S.-China trade frictions have the potential to undo many of the most important benefits of international trade and globalization." In other words, we are talking about an attempt to undermine the fundamental foundations of the universal trading system, one of the inevitable consequences of which will be the fragmentation of world trade.

The trade war between the U.S. and China may continue if Trump regains the presidency in 2025. As the Washington Post wrote in January 2024, Trump, if re-elected, is likely to return to his protectionist trade policy, only in an even tougher version. That variant could involve imposing a 10% import duty on nearly all $3 trillion worth of annual imports from all countries. Restrictive measures against China would be particularly tightened. Trump also supported the Republican Party's idea to downgrade China's trade status by depriving it of most-favoured-nation treatment (in U.S. practice, PNTR) in trade with the United States, which would automatically raise federal tariffs on Chinese imports to 40% or higher [Stein, 2024].

Under the terms of the fourth industrial revolution, another major reason for the impending fragmentation of the world economy has emerged. This is the global technological divide, which is largely a consequence of the decoupling of the U.S. and Chinese economies. The history of the technological divide dates back to at least 2010, when China began censoring search results on the Google platform. Thus began the era of two Internets: the Chinese and the rest of the world. The massive rift deepened soon after Trump became president of the United States in 2017 [Prime, 2020]. The trade war that began, in turn, accelerated the decoupling of the economies. In May 2018, China's Huawei was blacklisted under the guise of a national security threat, severely limiting the company's ability to purchase high-tech equipment in the United States. And, in August 2019, a ban on the purchase and use by U.S. government agencies of telecommunications equipment from Chinese companies ZTE and Huawei came into force in the United States. The relevant measures also applied to video surveillance systems and equipment from Chinese companies Hytera Communications Corporation, Hangzhou Hikvision Digital Technology and Dahua Technology and their subsidiaries. Huawei was effectively declared war. Google and other American IT companies were forced to refuse to work with them. In 2018, Huawei top manager Meng Wanzhou was detained in Vancouver at the request of the U.S. under the pretext of "links to Iran" [Corera, 2021].

The situation has become paradoxical, as both sides have begun to make mutual technological claims after decades of deepening and developing economic ties, when the United States and China were already heavily dependent on each other technologically. As many authoritative publications in the West have pointed out in this regard, the two major technological powers, China and the United States, are closely tied to each other, and their separation would deal a heavy economic blow to technology companies in the United States and elsewhere [Johnson, Gramer, 2020]. According to former U.S. Treasury Secretary G. Paulson, who also served as CEO of Goldman Sachs, recent years have seen "the prospect of an economic iron curtain—one that would erect new walls on each side and destroy the world economy..., large parts of the world economy would eventually be closed to the free flow of investment and trade" if the United States and China do not settle their differences [Cox, 2018].

The Negative Consequences of Fragmentation Are Inevitable

Trade, as noted above, is increasingly affected by geopolitical factors as geopolitical rivalries increase in the 2010s through the 2020s. Due to these factors, states seeking economic and military superiority are imposing restrictions on trade in sensitive materials and technologies such as

microchips, rare earth metals, and others. This gives grounds to speak about the serious and sometimes overriding influence of technology on trade. A vivid example of this is the industrial policy of the Biden administration, which has an increasing impact on U.S. trade policy. Legislative acts such as the Chips and Science Act, the Inflation Reduction Act (IRA), and the Infrastructure Investment and Jobs Act passed under President Biden are real evidence of this impact, for these acts are aimed at tilting investment and production decisions toward the interests of national companies rather than toward partners.

The IRA, which went into effect in the U.S. on 1 January 2023, illustrates the nature of Washington's current industrial policy [The White House, 2022]. The purpose of the IRA was stated as to ensure U.S. leadership in clean energy technology, manufacturing, and innovation. However, in relation to external partners, it has turned into a serious threat of protectionism. Thus, the IRA caused a sharply negative reaction in the European Union, where they considered that the U.S. law is openly discriminatory against similar products imported from other countries and violates trade rules.[5]

While, in the case of the IRA, the United States denied any intention to gain unilateral advantages, regardless of the potential economic damage to its closest trading partner, some other foreign economic initiatives of Washington are noticeably more protectionist in nature. Among them is a striving to limit trade to predominantly reliable partners and "friendly" supply chains. This approach was advocated, in particular, by U.S. Treasury Secretary J. Yellen, who spoke in favour of friendshoring, which implies an emphasis on trade with those countries that share the values of the developed world or western values [Business Standard, 2022]. The justification for such a policy boils down to security, but for international trade it is nothing but outright protectionism, preventing companies from choosing the most efficient supplier by the state, building less favourable production chains, and raising prices for consumers. Finally, it is a direct step toward violating the already-mentioned fundamental principle of international trade—the mutual provision of MFNs—and toward trade fragmentation. Such protectionist policies can be remotely compared to the Smoot-Hawley Tariff Act of 1930, which, instead of protecting the U.S. economy, only accelerated and exacerbated the Great Depression, eventually going down in history as an example of the most pernicious protectionism in American history [Irwin, 1998].

It is clear that Washington's encouragement of friendshoring, onshoring, and other similar practices is pushing its closest partners to do the same. In 2023, the European Union adopted French president Emmanuel Macron's concept of "strategic autonomy," which implies strengthening the joint European industrial policy formulated in such documents as the Chips Act (semiconductor production), the Net Zero Industry Act (the EU's accelerated energy transition plan), the Critical Raw Material Act (reliable supply of critical raw materials), and the European Union's "strategic autonomy" programme [Barré, 2023]. Russia's use of what Brussels sees as oil and natural gas exports as a strategic tool against the EU in the wake of the special military operation in Ukraine, as well as Russia's deepening ties with China, have intensified the EU's efforts to protect key sectors by reducing its dependence on both countries. Moreover, a growing number of voices within the European Commission and among member states are calling for the EU to follow in America's footsteps by reducing high-tech exports to China and limiting the integration of Chinese technology in Europe.

However, such a European strategy carries considerable risks, as China could retaliate by limiting exports of key raw materials needed to produce high-quality semiconductors and renewable energy. China, which accounts for 98% of the world's gallium production and controls 68% of germanium production in various countries, has already reduced exports of these materials for chip production to the U.S. in response to the Chip and Science Act, which in turn restricted

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[5] The author wrote in detail about the contradictions that arose between Washington and Brussels in connection with the IRA in his article "EU-US: New Barriers to Trade" [Portansky, 2023].

technology exports from the U.S. to China. Relatively recently, China imposed export restrictions on graphite, a mineral used in green technologies. In 2022, it was estimated that approximately 30% of the world's critical raw materials could be subject to such restrictions, compared to just 5% in 2019 [Javorcik, 2023].

If the EU restricts technology transfer to China, the latter could impose export restrictions on key raw materials before European countries manage to find alternative sources. Meanwhile, many critical minerals, including those vital to the transition to a green economy, are produced predominantly by countries not affiliated with the West. Developing new deposits takes time, and the environmental consequences of refining and processing some raw materials may reduce Europeans' willingness to seek alternatives.

Thus, in recent years, the world's leading economies have witnessed an intensification of new industrial policies aimed at preserving modern production in strategically important industries. However, as some studies have shown, the benefits of even optimally designed industrial policies are small and unlikely to transform economies [Irwin, 2023]; trade restrictions can lead to a destructive domestic turn toward protectionism, resulting in lower export earnings and hence a reduction in critical imports.

The new barriers to trade described above inevitably lead to fragmentation in the global economy. While estimates of the cost of fragmentation vary, tightening international trade restrictions, according to the International Monetary Fund (IMF), could reduce global economic output by as much as 7% in the long run, or about $7.4 trillion (at the 2023 U.S. dollar exchange rate). This is equivalent to the combined size of the French and German economies and three times the annual output of sub-Saharan Africa. According to information cited by IMF Managing Director K. Georgieva, a graph of one week in August 2023 showed that the number of new trade barriers introduced each year has nearly tripled since 2019 to nearly 3,000 in 2022 [IMF, 2023].

According to the Italian Institute for International Policy Studies (ISPI), the main concerns about geopolitical fragmentation are related to its impact on global economic growth. Negative deviations will affect baseline scenarios that already envision potential growth that will be generally lower than in previous decades in almost all regions of the world in the coming years. While it is still very early to understand the magnitude of this impact, evidence estimates losses of between 1% and 12% of GDP, which also depends on the level of political tensions and economic fragmentation that will be achieved. A serious consequence of fragmentation is also the increased volatility of key macroeconomic indicators, leading to higher financial risks on private and public debt and more frequent inflation spikes [Brugora, 2023].

Other forms of fragmentation, such as technological decoupling, disruption of capital flows, and migration restrictions, will also raise costs.

Obviously, these effects (lower economic growth, financial risks, and inflation) will hit the most fragile economies and social classes harder. Finally, the level of international cooperation will decrease, which will make it more difficult to solve global problems and achieve common goals; cultural and scientific exchange may also decrease, with a possible slowdown or differentiated dynamics of technological development.

Conclusions

At the beginning of the 21st century, fragmentation has become an increasingly prominent trend in the global economy and trade, linked to the slowdown in globalization. Among the reasons for fragmentation are the following: the weakening of the multilateral system (WTO), accompanied by the emergence of MRTAs and new types of deep trade agreements, the consequences of the 2008–09 financial crisis, the U.S.-China trade war and the technological decoupling of the two

economies, the impact of geopolitical factors on trade, and the impact of industrial policies of large states on trade.

The progress of new formats in international trade in the form of mega agreements has the potential to increase the likelihood of fragmentation of world trade. In case of further weakening of the WTO, several trade blocs may form on the basis of these agreements with the probable leadership of the U.S., China and the EU. In this case, small developing countries will be the most disadvantaged, and international trade will largely lose its universal legal basis.

In the first quarter of the 21st century, the global economy is facing a set of new barriers to trade, resulting, to a large extent, from the financial crisis of 2008–09 and unilateral actions of states caused by the consequences of geopolitical pressure on trade, the increased role of technology in the competition between states, the emphasis on trade with those countries that share the values of the developed world or western values, and trade and economic sanctions. This is evidenced by the restrictions imposed by states on trade in chips, rare earth metals, the principle of friendshoring, and others.

In recent years, some developed countries (U.S., EU) have intensified the use of new industrial policy, seeking to preserve and develop modern production in strategically important industries. A striking example was the IRA adopted in the U.S. in 2022, which caused outrage and protests from the closest partner—the European Union. However, as some studies have shown, the benefits of even optimally designed industrial policies are small and unlikely to transform the economy. Trade restrictions associated with such policies are likely to lead to protectionism, which will eventually hit national economies and trigger further fragmentation.

With increasing economic fragmentation, trade is no longer driven by purely economic objectives. Instead, geopolitical factors are increasingly shaping trade policy, with states creating obstacles for companies to choose the most efficient supplier and to build more profitable production chains, resulting in higher prices for consumers. In this regard, international institutions note that geo-economic fragmentation will be costly and negatively affect almost all countries. It will inevitably affect global economic growth. Baseline scenarios being developed by international and national institutions already envision potential growth in the coming years that will be generally lower than in previous decades in almost all regions. While it is too early to understand the magnitude of this impact, early quantitative estimates suggest losses of between 1% and 12% of GDP.

The most important source and catalyst of fragmentation of the global economy and trade is the economic, technological, and strategic rivalry between the two superpowers, the United States and China. In the first quarter of the 21st century, it manifested itself in the form of a trade war, which had a number of negative consequences for the states and the world economy as a whole. Under the conditions of the fourth technological revolution, another serious reason for the fragmentation of the world economy has emerged—the global technological divide, which is largely a consequence of the decoupling of the American and Chinese economies. The result is the prospect of an economic “iron curtain” that could destroy the world economy, as large parts of it will eventually be closed to the free flow of investment and trade unless the U.S. and China resolve their differences. Negotiating new trade rules could prevent this decoupling or rupture from escalating. This could involve bringing together interested countries to work out an information and communications technology trade agreement that would be open to new entrants. The Information Technology Agreement (ITA), which already exists within the WTO, could be used as a basis for its elaboration.

Thus, geo-economic fragmentation should be seen as a real threat to the global economy and trade. At the same time, however, this threat is not inevitable today—the process of economic globalization remains dominant, despite the known slowdown, and is acquiring new features. For example, global supply chains have continued to expand in recent years, with such countries as Vietnam, Taiwan, and Indonesia becoming “hot spots” in their development, which allows other

countries to avoid the two superpowers—China or the United States—when choosing their main trading partner.

The existing risks mean that the described fragmentation factors may lead to a decrease in the level of international cooperation, which will increase the threat to the global economy and trade.

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