

Turmoil in Geopolitics and the Future of Political Economy and Trade Alliances: A Critical Analysis and Way-out

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Abstract

This paper critically examines recent turmoil in international geopolitics and its repercussions for the political economy and the architecture of global trade alliances. Drawing on event-based analyses (notably the Russia–Ukraine war), studies of economic statecraft (sanctions, export controls, investment screening), and literature on regional trade frameworks and supply-chain resilience, the paper synthesizes empirical findings and presents policy prescriptions for preserving resilient openness. Using a mixed-methods approach that combines qualitative scenario mapping with quantitative secondary-data analysis of trade and commodity disruptions, the paper also shows how shocks transmit through commodity markets and supply chains, how states and firms adjust via hedging strategies, and how trade alliances—regional and plurilateral—are likely to evolve under pressure. The findings emphasize diversified openness (not autarky), strengthened regional hubs, updated multilateral rules for digital and investment governance, and calibrated technology and financial controls that balance security with growth. The paper concludes with actionable recommendations for middle powers and multilateral institutions to sustain economic interdependence while managing strategic risk.

Keywords: Geopolitical turmoil; Economic statecraft; Trade alliances; Supply-chain resilience; Sanctions; Regionalism; Trade policy; Political economy; Strategic bifurcation; Multilateralism

JEL classification: F51; F52; F59; O19; N70

1. Introduction

The contemporary global order is undergoing profound disruption, marked by intensifying geopolitical turmoil, economic realignments, and the reconfiguration of trade alliances. The post-Cold War consensus that promoted liberalization, globalization, and multilateralism is increasingly challenged by rising protectionism, great-power rivalries, regional conflicts, and the erosion of trust in multilateral institutions. Events such as the Russia–Ukraine conflict, escalating U.S.–China tensions, sanctions and counter-sanctions, and the weaponization of energy and technology supply chains have underscored the fragility of the existing global economic framework. These developments have not only heightened political uncertainty but have also reshaped the trajectory of international trade, investment, and cooperation.

The crisis of globalization is reflected in the weakening of traditional trade alliances and the emergence of alternative regional and bilateral blocs.

Multilateral platforms such as the World Trade Organization (WTO) struggle to provide effective dispute resolution, while mega-regional agreements like the Regional Comprehensive Economic Partnership (RCEP) and plurilateral initiatives such as the Indo-Pacific Economic Framework (IPEF) highlight a shift toward issue-based coalitions. Simultaneously, supply chain disruptions, strategic decoupling, and the resurgence of industrial policy reflect a new era where economic policy is increasingly driven by security imperatives rather than efficiency alone.

Against this backdrop, a critical analysis of geopolitical turmoil and its economic implications is imperative. Understanding how states navigate the interplay between security, sovereignty, and economic interdependence can provide insights into the future of political economy and global trade alliances. This research paper examines the drivers of geopolitical instability, explores possible solutions to mitigate its adverse impacts, and evaluates the evolving landscape of international trade alliances. It argues that while

geopolitical turmoil presents formidable challenges, it also creates opportunities for states to reimagine cooperation, diversify trade partners, and establish more resilient economic structures.

2. Objectives and Scope

The paper has four objectives:

- (1) Synthesize the literature on economic statecraft, sanctions, and regional trade evolution;
- (2) Empirically trace the transmission of select geopolitical shocks to trade and commodity markets;
- (3) Analyse strategic responses by states and firms (hedging, diversification, regionalization); and
- (4) Propose policy prescriptions for multilateral, regional, and national levels that reconcile resilience with openness.

The geographic scope emphasizes global dynamics with examples from Europe, Asia, and key middle powers. The temporal scope focuses on 2018–2025 to capture recent acceleration in economic measures and the impacts of the Russia–Ukraine conflict.

3. Literature Review

The literature identifies economic statecraft as central to modern great-power rivalry, documents the transmission of conflicts into commodity and financial markets, and debates whether the world is deglobalizing or reorganizing for resilience. Empirical work on RCEP, CPTPP, and BRICS expansion shows the emergence of layered regionalism, while OECD and WTO analyses probe the costs and limits of reshoring. Important gaps include cross-sectoral quantification of hedging costs and integrated micro–macro models linking firm supply-chain choices to alliance outcomes. This paper builds on those gaps by combining event analysis with scenario mapping.

The literature converges on several pragmatic prescriptions: balancing openness and security by diversifying partners rather than pursuing autarky; strengthening regional hubs and redundancy; updating multilateral rules (digital trade, subsidies, investment screening) where feasible; and developing crisis-ready public-private coordination mechanisms. Yet debates persist over trade-offs—how much risk mitigation justifies higher costs—and about where rule-making authority should rest (multilateral institutions vs. coalitions of like-minded states). Scholars also call for deeper empirical work linking firm-level supply-chain

adjustments to macro-level alliance outcomes and for comparative cost–benefit analyses of hedging strategies across sectors and countries.

4. Methodology

This research adopts a mixed-methods approach:

Secondary-data analysis: Aggregate trade, commodity price and flow data from international institutions (WTO, OECD, IMF) are used to quantify short-run shocks and medium-term reallocation for selected case episodes (e.g., the Russia–Ukraine war, targeted sanctions episodes).

Qualitative scenario mapping: Drawing on policy documents and scholarly debates, we construct three plausible alliance-evolution scenarios (Constrained Multilateralism; Layered Regionalism; Strategic Bifurcation) and map expected trade, investment and technological outcomes under each.

Comparative policy analysis: We analyse policy options across three governance layers—multilateral (WTO/IMF), regional/plurilateral (RCEP/CPTPP/BRICS), and national (industrial policy, export controls)—evaluating trade-offs across security, growth and institutional credibility.

Limitations: The paper relies on secondary data and stylized scenario assumptions, which while informative, cannot capture all micro-level firm heterogeneity.

5. Empirical analysis: Shocks, Transmission and Reallocation

5.1 Commodity price and market effects

Recent conflicts and sanctions produced large, rapid commodity price shocks—particularly in energy and agricultural markets—raising import bills for vulnerable countries and spurring abrupt re-routing of trade flows. These shocks reveal asymmetric exposures across countries and sectors: energy- and food-importing low-income states experience higher welfare costs, while alternative exporters and traders sometimes capture windfall gains.

5.2 Supply-chain disruption and firm responses

Firms responded by diversifying suppliers, nearshoring or regionalizing production, and increasing inventories. The cost–benefit calculus varies by sector: capital-intensive and high-precision

sectors (e.g., semiconductors) face high reshoring frictions, while modular manufacturing is more amenable to supplier diversification.

5.3 Reallocation across trade alliances

Layered regionalism (deepening within-region agreements) often absorbs some re-routed trade, while sanctions and export controls create bifurcation risks—where certain technologies and finance channels are effectively partitioned. Middle powers engage in calibrated hedging—deepening ties with multiple partners while avoiding exclusive alignment.

6. Scenario mapping: Futures of Trade alliances

Three constructed scenarios:

A. Constrained Multilateralism — multilateral institutions adapt incrementally, updating rules on digital trade, subsidies and investment screening; alliances remain overlapping but rules converge enough to prevent deep fragmentation. Trade remains largely open, though with stricter governance in sensitive sectors.

B. Layered Regionalism — Regional and plurilateral blocs (RCEP, CPTPP, and expanded BRICS) deepen integration within regions, creating high-trade zones with differentiated rules. Global fragmentation increases; cross-bloc commerce requires complex regulatory arbitration.

C. Strategic Bifurcation — Major Powers and their allies split into rival economic ecosystems with incompatible standards (technology, data governance, finance). Trade flows persist but are costly; firms must choose ecosystems or operate dual-compliance strategies.

For each scenario policy implications mapped, likely winners/losers (by region and sector), and transition pathways.

7. Critical Evaluation + Policy Prescriptions and Gaps

A. Executive summary

The post-2019 world is moving from economic interdependence toward selective fragmentation: conflict (Ukraine, Middle East), rising great-power competition, and trade weaponization (tariffs, export controls) are driving a re-sorting of trade and political

alliances. This creates simultaneous pressures — an incentive to regionalize and “friend-shore” critical supply chains, and elevated risk for open multilateral governance. The result is a more complex political economy where resilience, strategic autonomy, and geopolitical signalling matter as much as traditional cost-efficiency.

B. Major drivers of current turmoil (critical appraisal)

Great-power realignment and alliance drift. The US-China rivalry has hardened trade and technology cleavages; recent high-level diplomatic oscillations and renewed engagement between other major powers further blur alliance certainty. Large economies are reorienting trade patterns (e.g., China shifting trade towards ASEAN/Global South). These shifts force smaller economies to balance between economic opportunity and geopolitical risk.

Weaponization of trade and economic instruments.

Tariffs, export controls, and sanctions have become routine levers of geopolitical strategy. Using trade policy for geopolitical aims increases policy uncertainty, raises transaction costs, and incentivizes firms and states to internalize political risk into commercial decision-making. This weakens the classical welfare arguments for unfettered liberalization.

Supply-chain vulnerability and strategic sectors.

Conflict in maritime chokepoints, energy shocks and concentrated production of critical inputs (semiconductors, fertilizer feedstocks, rare earths) reveal geopolitical externalities in global value chains; firms diversify away from single-source dependencies but face higher costs. Institutional responses so far (nearshoring, diversification) are insufficiently coordinated and often partial.

Domestic politics and economic nationalism.

Populist and protectionist domestic politics push governments toward visible, short-term protections (tariffs, local content), reducing space for long-term cooperative policy and eroding trust in multilateral dispute resolution.

C. Impacts on political economy and trade alliances (analysis + critique)

Fragmentation with hybrid integration. Rather than a single bipolar split, we are seeing layered, sectoral

alliances: “friend-shoring” in critical tech and energy, broader trade openness in

non-strategic goods. This hybrid model raises transaction and compliance costs and fosters a two-tier globalization that disadvantages smaller, less diversified economies.

Policy incoherence and short-termism.

Governments frequently combine strategic decoupling in select sectors with continued dependence in others (e.g., energy purchases from strategic rivals even while imposing tariffs). This incoherence complicates forecasting and undermines investment in long-lived capital projects.

Geopolitical risk → lower trade openness.

Empirical evidence indicates heightened geopolitical risk depresses trade openness, especially for countries with weak buffers or narrow export baskets.

The distributional impact is asymmetric — commodities exporters can benefit short-term; manufacturing-centric economies face higher restructuring costs.

D. Assessment of current policy responses (what’s working, what’s not)

What’s working?

Diversification & resilience planning by firms and governments reduces single-point failures (e.g., multiple suppliers, inventory buffers). Major international organizations now prioritize supply-chain resilience.

What’s not?

Ad hoc regionalism without systemic rules increases transactional friction and political mistrust. Tactical trade measures (short-term tariffs, unilateral export bans) create long-run credibility costs and retaliation spirals.

Insufficient multilateral updating. WTO and similar institutions have been slow to integrate geo-economic realities (cross-border data flows, industrial subsidies, state capitalism) into enforceable rules, leaving gaps that geopolitical actors exploit.

E. Pragmatic solutions (policy toolbox with critical caveats)

Rebuild a pragmatic, rules-based multilateralism.

Update trade rules to cover subsidies, strategic export controls, and measures for critical goods. Create faster dispute-resolution for geo-economic cases.

Caveat: Political bargaining is hard; incremental, high-trust pilot initiatives (e.g., plurilateral pacts on semiconductors, green inputs) may be more feasible than sweeping WTO reform.

Structured resilience, not simple friend-shoring.

Encourage diversified multi-regional sourcing and shared emergency stockpiles for critical inputs via regional cooperative frameworks (e.g., maritime convoy rules, pooled strategic reserves)

Caveat: Diversification raises costs—compensatory fiscal or regulatory support (R&D credits, logistical corridors) will be necessary for lower-income partners.

Targeted de-risking in finance and investment.

Channel multilateral development finance into supply-chain connectivity projects and cross-border infrastructure that reduce chokepoint risks (energy interconnectors, port upgrades).

Caveat: Avoid geopolitically contingent financing that becomes a means of influence capture.

Hybrid governance for strategic sectors.

Build sectoral governance (semiconductors, rare earths, fertilizers, energy) with shared technical standards, transparent stock monitoring, and non-politicized crisis protocols.

Caveat: Such regimes must balance strategic confidentiality with transparency to avoid freeze-outs.

Domestic institutional strengthening.

Invest in social and labour buffers (retraining, unemployment insurance) to mitigate political backlash from structural shifts, making governments less prone to protectionist reflexes.

F. Research Gaps and Methodological notes

Quantifying sectoral decoupling costs: More empirical work is needed to estimate long-term GDP and welfare trade-offs of partial decoupling by sector.

Political economy of coalition formation: Comparative case studies on how middle powers (India, ASEAN states) navigate alignment decisions would illuminate bargaining strategies.

Effectiveness of plurilateral governance: Assess pilot initiatives (e.g., semiconductor accords, energy alliances) for scalability and compliance mechanisms.

The current geopolitical turmoil does not simply reverse globalization; it reconfigures it into a more complex, layered system where political alignment and strategic resilience coexist with economic interdependence. Policy success requires combining updated multilateral rules, pragmatic regional cooperation, and domestic social cushioning. Without such coordinated moves, the world risks costly fragmentation and escalating retaliatory cycles that harm both growth and security.

8. Findings

- Economic statecraft is a central element of geopolitical competition; sanctions and export controls have substantive but uneven effects.

- Geopolitical shocks transmit quickly through commodity markets and supply chains, leading to asymmetric global impacts.

- Firms and states tend to prefer diversification to full decoupling; sectoral differences matter for feasible strategies.

- Trade alliances are likely to evolve into layered structures where regional integration deepens even as global coherence may weaken.

- Coordinated updates to multilateral rules, along with resilient supply-chain practices, can mitigate fragmentation and sustain interdependence.

9. Key Recommendations:

Diversified openness (not autarky): Policymakers should prioritize supplier diversification and regional hubs over costly full reshoring. Fiscal and regulatory support can ease diversification costs for critical sectors.

Targeted multilateral updates: The WTO and allied institutions should prioritize rule-making in digital trade, subsidies, transparency in export controls, and investment screening standards to reduce regulatory divergence.

Adaptive export-control coalitions: Technology controls work better when coordinated across like-minded states. Coalitions should focus on verifiable dual-use items and coordinate timing to limit circumvention.

Public-private resilience partnerships: Governments should partner with firms to develop contingency planning, shared strategic stockpiles for critical inputs (rare earths, semiconductors components), and crisis logistics frameworks.

Support for middle powers: International financial institutions and regional banks should offer hedging instruments (swap lines, targeted trade finance) to cushion vulnerable importers and facilitate supplier switching.

Inclusive governance in new blocs: For new or expanding groups (e.g., BRICS), pursue institutional transparency and trade-facilitation measures to prevent protectionist drift and ensure developmental gains for smaller members.

Dialogue and Diplomacy: Encourage open communication and negotiation between nations to resolve differences peacefully.

Multilateralism: Strengthen international institutions like the United Nations, WTO, and regional organizations to promote cooperation.

Economic Cooperation: Foster economic interdependence through trade agreements and partnerships to create mutual benefits.

Resolution Mechanisms: Establish effective mechanisms for mediation, arbitration, and negotiation to resolve disputes. Develop fast-track dispute-resolution mechanisms for cross-bloc regulatory incompatibilities, (digital standards, and certifications) to reduce frictions in layered regionalism

Building Trust: Encourage cultural exchange, people-to-people diplomacy, and transparency to build trust between nations.

Other Specific Initiatives Required

Trade Negotiations: Pursue comprehensive and fair trade agreements that benefit all parties.

Regional Cooperation: Strengthen regional organizations like ASEAN, EU, and SAARC to promote regional stability and trade.

Global Governance Reforms: Advocate for reforms in global governance institutions to make them more representative and effective.

Dialogue Forums: Utilize forums like the G20, BRICS, and Davos to facilitate dialogue on global issues.

Track II Diplomacy: Encourage unofficial dialogues and exchanges between think tanks, academics, and business leaders.

Adopt Key Principles

- Foster respect for sovereignty and territorial integrity.
- Encourage cooperation in areas of common interest.
- Ensure that global and regional initiatives are inclusive and consider diverse perspectives.
- Promote transparency in international dealings and agreements.

10. Conclusion

Existing research paints a picture of a global political economy in flux: trade and investment remain central tools of power but also arenas for adaptation and cooperation. The dominant prescription across recent work is nuanced: avoid extremes (full decoupling or unfettered exposure), instead pursue diversified openness embedded in resilient institutions. The critical analytic task ahead is to evaluate which mixes of policies and institutional innovations can sustain economic interdependence while managing strategic risk—precisely the focus of the empirical and normative sections of this paper.

The literature depicts a global political economy in transition—one where economic instruments are central to geopolitical rivalry, where shocks prompt both short-term disruptions and medium-term realignments, and where regionalism and technology governance will shape the contours of future trade alliances. The dominant pragmatic lesson is nuanced: pursue diversified openness embedded in resilient institutions rather than extremes of unfettered integration or full decoupling. The empirical challenge is to identify which institutional mixes and adaptive firm strategies most plausibly sustain economic

interdependence while managing strategic risk—the objective this paper seeks to advance.

The political economy of the coming decade will be defined by a balancing act: preserving deep economic interdependence while managing strategic competition. The optimal policy mix emphasizes diversified openness, coordinated technology controls among allies, stronger regional hubs, and multilateral rule updates in rapidly evolving domains (digital trade, investment screening). Middle powers have critical roles as hedgers and institutional innovators; multilateral institutions must adapt to remain relevant. Robust public–private partnerships and targeted financial instruments will reduce the welfare costs of strategic hedging and protect vulnerable economies.

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