# Global (Dis)Order: Prosperity in a Fragmenting Global Economy

## Framing and Scoping Workshop

4 July 2025

On 4 July 2025 the British Academy convened an international interdisciplinary workshop gathering a range of experts to interrogate the framing document of the workstream and provide insights on future areas of enquiry relevant to the current moment and policymaker audiences.

The discussion took place in three parts. The first provided a higher-level overview of the global context, considering global economic governance and the effects of great power competition on international financial institutions and related mechanisms. The second and third parts considered the intersections of the interlocking shifts articulated in the framing document, namely: the fragmenting trading, financial and monetary systems and emerging trends within technological, green and development transitions.

## The Global Context and Capturing the Moment

1. Since World War 2 we have operated in an economic order and international system defined by US leadership. A creative rethink is therefore required across the multilateral global finance system, humanitarian system, international monetary and payment systems, and climate finance architecture. All of these need a blueprint for reform – but who is willing and able to provide the leadership for these processes? Attendees discussed the role of leadership in our current moment and possible future trajectories including:
   1.1. **A G-zero world**: a world where no one is in charge, and there is no consensus on dispute resolution. This would be very bad for small and medium sized countries.
   1.2. **A G-three world**: a return to $19^{th}$ century regional spheres of influence led by US, China and Russia. History tends to suggest that this is an unstable formula. Given that Russia is a military giant but an economic dwarf, if Europe can sufficiently coordinate, there is potential for it to emerge as the third economic regional power.
   1.3. **A G-minus one world:** a world in which we achieve some level of international cooperation, but without the United States. There are examples of this already happening: voluntary arbitration system within WTO; pandemic treaty; Oceans treaty; regional development banks providing climate finance.

2. Whilst *Great Power Competition* is being used as a framework to understand modern geo-economic developments the main two great powers, the US and China, are exhibiting unexpected behaviours.
   2.1. Rather than seeking to expand its influence through economic incentives, the US is using economic aggression to wage an assault on key historic alliances.
   2.2. Rather than responding to this opportunity through economic incentives, China is implementing economic mechanisms against the EU and pursuing aggressive territorial claims on its neighbours, alienating liberal democracies.

3. The WTO was founded on the premise of regulating democratic capitalist economies within functional domestic rule of law. Major systemic tensions have arisen since it has attempted to arbitrate between socialist and capitalist economies on issues of subsidies and intellectual property. Future much needed governance on carbon taxation, competition, and taxation of multinationals dealing in intangibles should be led by a market size and space approach.

### *US-China-EU emerging dynamics*

4. There is now more clarity on the trajectory of the next decade. US economic policies will contribute to a rising deficit, and it will pursue the continuation of tariffs and coercive conditions that try and exclude China from global supply chains. One might tentatively predict what this will mean for inflation (up), the value of the dollar (down) and the trade deficit (unchanged). China is not currently taking full advantage of this, either within domestic economic reform opportunities or ambitious new external economic partnerships, in particular its engagement with African and European economies and regional blocs.

5. How the EU navigates Chinese competition in green technologies will require it to be more flexible than its historic 'do it my way' approach. It would do well to secure agreements on equivalence rather than blunt standardisation, and acknowledge that much of the effects of China's investment in solar and EVs is now 'sunk' in economic terms and a positive global good. If it is thinking about future economic strategy and protections it will need to think about future areas of subsidies rather than protecting existing outcompeted sectors.

### *Historic drivers and future trajectories of 'rules-based system'*

6. It is worth acknowledging that whilst 'the rules-based system' delivered many positive outcomes for a large set of countries it also (i) created insecurity and lack of resilience for other countries (ii) created left behinds within and between countries (iii) facilitated a debt and financial crisis that has fostered populist backlash (iv) been incapable of effectively dealing with negative externalities e.g. the climate crisis. Any attempt to preserve 'the rules-based system' will need to examine how the old rules structurally undermined themselves. In addition, the old system of rules assumed very different security norms. Dual-use technologies and supply chain resilience become economic security issues within escalating geopolitical tensions.

7. Historically, it has been an important role of middle and emerging powers to build international institutions that put guardrails on what big powers do. Focusing on the ambitions and actions of India, Brazil, Nigeria, South Africa, Germany etc is very important in understanding future trajectories. In particular, we should pay attention to the complex narratives surrounding the international financial architecture. It is not just a simple explanation of the order 'the Global North created an architecture that is not favourable to the Global South'. Emerging Global South powers are asserting themselves on the world stage and blocking changes that would benefit other Global South countries.

## *Global economic slowdown and its roots*

8. It isn't clear what the optimum economic model is in the contemporary political economy. The US model creates dynamic skilled productive workers but without sufficient social protections and disbursement mechanisms creating a deeply left behind population that fuels polarisation. The European model mitigates this with its welfare states but has entrenched productivity issues.

9. Large multinational service providers are eroding tax bases everywhere and concentrating and extracting wealth. Services and intangibles dominate the economies of developed countries, and are increasingly part of the structural transformation of developing economies, but we lack an international framework that effectively supports trade in this area. In the instance of technology multinationals, our competition policy frameworks struggle to regulate non-priced products when they operate more like a barter system – data for services – and concentrate and monetise informational power, facilitating institutional and governance capture.

## Interlocking Shifts in the World Economy – fragmenting trading, financial and monetary systems

1. Whilst fragmentation is occurring, it may be driven more by hedging responses to uncertainty and risk rather than divergent system ideals. Emerging data analysed by the IMF shows there may be a greater base of shared fundamental objectives than we might realise, which can form the basis of new and effective plurilateral economic cooperation. This emerging cooperation could provide the bedrock for deeper multilateral integration further down the line as well as a counterbalance to financial coercion and the growing weaponisation of trade and investment by larger economies.
   1.1. It is important to remember that a lot of plurilateralism in trade arrangements is premised on the existence of the WTO. So even as more and more agreements emerge outside of the WTO framework, it doesn't make it unnecessary.

2. We are at a point in the financial regulation cycle where regulatory systems are now a source of structural instability. Guardrails are being removed in the banking sector that could permit a financial crisis to build quite suddenly. This is in part due to:
   2.1. How the US is pulling away from underpinning the system, with other financial centres following suit to reduce their exposure. This will lead to domestic capital and local finance having more prominence over cross-border banking. This is not intrinsically a bad thing, however, the speed at which we seem to be moving to a deglobalised financial system means that this will likely occur faster than the maturity of the financial system's liabilities.
   2.2. A product of the post-2008 regulatory structure is that a large amount of financial activity moved into non-bank financial institutions (shadow banking). The G20 is attempting to rectify this, but requires US support and leadership. Next year is a crunch year for this process as we await a new chair of the Federal Reserve and the US will hold the G20 presidency, setting the agenda for the financial stability board.

### *Simultaneous integration and fragmentation*

3. We are operating on a dual trajectory of financial fragmentation and globalisation. In particular, we should pay attention to cryptocurrencies, that act as both a global source of finance, but also as non-unified competing systems without sufficient controls, providing a major source of instability. To practically support emerging cooperation, more academic work needs to go in to support governments on how they define governance principles and mechanisms that are transparent and reduce firm uncertainties facilitating subsequent trade and investment in newly created and integrated markets.

4. It is worth challenging the assumption that economic fragmentation is bad, and rebuilding the rules of the international system is good. It is important to recognise that moves are being taken towards economic fragmentation as governments seek to make their citizens richer and more resilient to financial shock, as well as derisking from an increasingly weaponised US dollar.
   4.1. Can plurilateral cooperation be used as an instrument to discipline the use of financial coercion and the growing weaponisation of trade and investment? There is growing appetite for countries to come together and look at supply chain risks and solutions.

### *Middle space social and private institutions*

5. There is the potential for private sector multilateralism to contribute to global regulatory frameworks. Trade is unusual in how bound up it is with the politics of nation states. Most other systems come together from international networks of business people and professionals coming together to agree standards and practices and avoid bad actors from gaining market share.

6. A lot of greening measures in the private sector are being driven by annual reports and accounting measures. There are standards that are needed and should be measured, but they need to be created with a sense of bottom-up democratic legitimacy in order to avoid measuring the wrong things or achieving secondary goals. Can (inter)national businesses facilitate this function?
   6.1. For this to be operable, larger private sector financial players and businesses would do well to be reminded by other parties that there is more to be gained in the long term from being reliable partners within the green financial system as the costs will persist and continue to build up long after particular presidential cycles.

### *Strategic coalition formation*

7. As we think about how heterogenous small and medium sized players position themselves within US-China geo-strategic rivalry we should turn to game theory. Rather than being idealistic about potential value-based coalitions and positive initiatives, it is important to use game theory to understand what the incentives are to defect in any particular direction. We need a rigorous intellectual framework to think about this process of collation formation.

8. The EU might be capable of instituting a new equilibrium. Whilst it might not be agreeable internally, if it were capable of providing a fairly standard external trade deal various countries would find this an attractive offer. Many developing countries do want to be part of a rules-based system and the EU could be an anchor that provides the system with traction. To do this it might need to move to a concentric circles model with

the (i) eurozone, (ii) regulatory alignment, (iii) open access to trade and financial flows offering differential association opportunities for economic cooperation.

## Interlocking Shifts in the World Economy – emerging trends in technological, green and development transitions

1. Global fragmentation is greatly affecting the African continent. African leaders are not interested in taking sides within US-China competition. They are looking for the best partnerships and alliances that work for them. Technology and the digital economy are viewed as priority tools for development, and a root towards social and economic transformation. Mobile money and digital payments system roll outs have had a significant impact on the political economy of the African continent.

2. The global discourse on international aid has shifted dramatically over recent years, leading to systematic reductions in aid financing globally. But it is important to remember that international development as initially envisaged was not simply about measuring and showcasing aid effectiveness to maintain public support for outward financial flows but instead was about industrialisation to address balance of payment disequilibria.

### *Green transition in the Global South*

3. There is significant cause for optimism due to many positive case studies. Namibia has gone from 0% to 40% solar energy mix in 3 years built at 2 cents per kWh. Chile transitioned from 0% to 25% in 3 years. Kenya now has a 90% clean electricity market. Uruguay, after the 2008 oil price shock transitioned to 30% wind generation in 8 years. These are promising leadership and innovation stories from the Global South.

4. However, there is a structural inequity in the global green transition. North America, European and East Asian Countries (mainly China) receive the profits from green investments whilst Africa and others have been locked out of advancements in these areas. There isn't enough total system finance for comprehensive structural economic transformation that facilitates *Green Development*.
   4.1. As bilateral aid becomes more political and transactional we must think about which bits of the multilateral aid and development system are most important to preserve and what can be consolidated. Currently there are around 80 climate funds and a proliferation of new institutions that are sub-scale and inefficient.
   4.2. Technology diffusion and transition acceleration are somewhat hampered by multidecade fossil fuel contracts and high legal enforcement that prevents the abrogation and switching to preferable energy mix sources and solutions.
   4.3. Many developing countries are dependent on carbon-based exports. Global financial institutions and multilateral development institutions haven't been engaging enough on transition mechanisms. Angola and Nigeria could be particularly badly affected.

### *Demography, migration and international labour*

5. There is a growing labour shortage in developed countries and a growing labour supply side in developing countries. Whilst there is a fertility crisis amongst developed nations, Africa is due to see 60% population growth in the next 25 years and urbanisation rates

rising from 5-10% to 70%. This is an unprecedented pace, a similar transition took place in Latin America over 110 years. Private finance and state support are needed to address these industrial needs alongside internal and external migration related challenges in order to smooth out the transition and mitigate fragility.

6. Developed countries need to find ways to rebuild trust in their migration policies, differentiating between permanent and circular movement. Some more experimentation and case building is needed. Spain is taking an adventurous approach.

### *Technology industry concentration and consolidation*

7. One of the barriers to technological diffusion in developing countries is the concentration of power over the cloud, data and software provision in the US. Whilst this is good for the US stock market in the short term, in the long run it is already having effects on the stability, diffusion and adoption of technology systems globally.

8. US officials have been sold the idea by tech giants that you can use technology to lock other countries into your system and influence. Kenya has been locked into the Microsoft system through its digital innovations. China is trying to do the same thing with its hardware and software technology stack. Is there a way to advocate for competition and interoperability between systems within the geopolitical system?