

Geo-Economic Fragmentation

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Geo-Economic Fragmentation Latest News

The Economic Survey 2024-25 stated that global economic integration is backsliding, with geo-economic fragmentation replacing globalization, leading to a significant rise in trade restrictions.

About Geo-Economic Fragmentation

- 'Geo-economic fragmentation' can be defined as a **policy-driven reversal of global economic integration** often **guided by strategic considerations**.
- It is characterized by **countries forming trade and financial partnerships based on geopolitical alignments**.
- This process encompasses different **channels, including trade, capital, and migration flows**.
- This trend, marked by a **retreat from multilateralism**, has made geography less relevant than geopolitics in trade and investment decisions.
- Such fragmentation would **result in permanent losses to global GDP**.

- Based on IMF estimates, the costs of geoeconomic fragmentation can range from 0.2 percent to up to 7 percent of GDP in some economies.
- These losses can emanate from **technological decoupling, trade restrictions, reduced capital movements** owing to higher risk aversion, and a **decline in international cooperation** in the provision of global public goods among economies.
- **Trade is the main channel** through which fragmentation is reshaping the global economy.
- The impact of geo-economic fragmentation is seen in global **FDI flows**, which **are increasingly concentrated among geopolitically aligned countries**, particularly in strategic sectors.

Geo-Economic Fragmentation FAQs

Q1. What is meant by geo-economics?

Ans. Broadly, one can think of geoeconomics as the interplay of international economics, geopolitics and strategy.

Q2. What are the effects of economic fragmentation?

Ans. Fragmentation not only fuels inflation, but also negatively impacts economic growth prospects, particularly in emerging markets and developing economies that depend on an integrated financial system for their continued development.

Q3. What are the major barriers to global economic flows?

Ans. The major obstacles to international trade are natural barriers, tariff barriers, and nontariff barriers

Source: NIE

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