GEOECONOMICS OF THE CRISIS

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SUMMARY AND CONCLUSIONS

1

The U.S. policy stance under the Trump Administration is bringing about the disintegration of the international order, compelling other states to make a fundamental choice regarding their positioning within an unprecedented international landscape that has yet to assume a clearly defined configuration. According to some analyses, the international system is bound to navigate a period of "unorder," where the old rules governing interstate relations have collapsed without being replaced by a new set of norms.[1] The disruption inflicted on the system of international relations may, however, lead to different outcomes depending on how the U.S. Administration addresses the two major challenges it currently faces.

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The first challenge lies in the increasingly pronounced divide between two competing models of technological innovation: the American model, entirely market-driven and centered on a massive industrial concentration that rejects any form of regulation, and China's distributed model, where centrally defined policy objectives are also intended to prevent the emergence of dominant positions by a restricted number of firms[2]. From the U.S. perspective, the issue is that the Chinese model is proving to be remarkably successful, achieving leadership across a wide range of sectors and competing at the new frontier of Artificial Intelligence. The closing of the traditional technological gap can no longer be explained solely by the presence of extensive state subsidies. Indeed, the American model is also underpinned by substantial public support, both through military expenditure — and it is no coincidence that firms of the U.S. technology oligopoly are increasingly advocating the deployment of next-generation AI-enabled weapons systems — and through equally substantial tax incentives, most recently those introduced under the so-called *Big Beautiful Act,* which has apparently been well received by

[1] Leonard M., Surviving Chaos. Geopolitics When the Rules Fail, Polity Press, 2026.
[2] The question of whether—and to what extent—technological innovation should be subject to limits is also actively debated within the United States, fracturing the consensus even among the dominant firms of the American tech oligopoly. See *Anthropic chiede una pausa per i modelli di frontiera*, AI4 Business, 5 June 2026.

financial markets. Other analyses suggest that the success of the Chinese model also lies in its ability to diverge from the growth trajectories followed by the U.S. tech industry. For instance, this includes requiring its own companies to slow down the pace of innovation to avoid becoming dependent on the next-generation semiconductors, which are currently manufactured by a single major U.S. company[3]. That the balance may ultimately shift away from the United States is also suggested by Pope Leo XIV's encyclical *Magnifica Humanitas*, which is bound to have a profound impact. The document embraces concerns over a technocratic paradigm devoid of shared rules and fraught with new inequalities.

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The second challenge the U.S. Administration confronts is whether it can effectively shape the configuration of international trade. The trade policies adopted by the Trump Administration aim to regain control over these global dynamics by negotiating on a bilateral basis what goods are traded, in what quantities, and at what prices, on the condition that the agreements signed with individual partners generate economic gains for the United States. This approach deliberately distances itself from the multilateral principles on which the international free trade system has long been based. Yet, even in this domain, the United States appears to contend with increasingly constrained room for maneuver. Although the United States remains the world's largest economy, it may no longer possess the economic scale to impose its desired trade dynamics on the rest of the world—at least not insofar as competition unfolds solely in the real economy, rather than also through financial and military instruments.

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To better understand U.S. policy choices and assess their limitations, this Report proposes a key analytical framework based on the transformations reshaping the geography of global trade, along with the related evolution of production integration processes. To this end, the strategic positioning of major economies within the global trade network is reconstructed through the development of specific "Revealed Trade Preference Indices". The primary objective of this analysis is to determine whether international trade is undergoing a process of regionalization, where patterns of production integration that are non-neutral in geographical terms tend to prevail—that is, where integration is built around politically alternative economic systems that are mutually isolated, or that can be isolated at the

[3] For an informed comment on this topic, see the article by I. Deng and A. Cao, *Another "DeepSeek moment"? Huawei milestone alters China trajectory in chip race*, South China Morning Post, 29 May 2026.

discretion of policymakers. Indirectly, this analytical framework also makes it possible to assess the degree of influence that the United States could exercise within its own reference bloc[4].

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The transition from a phase of globalization to one of trade regionalization has become the subject of intense debate. The shocks that have disrupted global value chains have led to the coining of terms such as *backshoring* (repatriating production to the home country), *nearshoring* (the geographical relocation of suppliers to nearby countries), and, more recently, *friendshoring*, whereby sourcing is restricted to allied countries—explicitly incorporating geopolitical risk into the analysis of international trade. According to recent OECD publications, however, the available data are not consistent with a deglobalization scenario.Rather, they point to a dynamic adaptation of global value chains to the changes in the international landscape[5]. In particular, there is no evidence of ***significant *reshoring* activity***, notwithstanding the emphasis placed on this objective by the Trump Administration, which has repeatedly argued that tariffs should be used to induce multinational corporations to relocate production to the United States in order to preserve access to the U.S. market. In our view, this issue tends to be approached through a distorted analytical lens, misinterpreting as a retreat what is instead a physiological evolution of the globalization process.

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The data presented in this Report confirm that the momentum of international production integration is tending to decelerate. However, this should not come as a surprise under a simple principle of diminishing returns: it is unrealistic to expect globalization to sustain indefinitely the extraordinary pace it maintained from the mid-1980s until the eve of the 2008 global financial crisis. Indeed, one could argue that what was truly exceptional was the speed with which globalization unfolded during those two decades. The Report also notes that trade-restrictive measures have increased since the COVID-19 pandemic, while emphasizing that the continued expansion of globalization inevitably raises questions regarding the distribution of its associated costs and benefits. The current U.S. Administration has

[4] The Revealed Trade Preference Indices are presented in Chapter 3 of this Report, while Chapters 1 and 2 provide the annual update to our analysis on the evolution of globalization and the international standing of the Italian economy.
[5] Data on foreign value-added content in export flows; see E. Keeble, A. Kohli, and C. Webb, *Globalisation isn't dead. It''s reconfiguring. New insights from OECD Trade Value Added data*, OECD Blog, Paris, 12 May 2026.

chosen to address these governance issues through a confrontational approach, outside a multilateral and cooperative framework. The effectiveness of such a strategy, however, may prove to be limited[6]. The findings of the Report show that the world's major trading hubs continue to operate within a deeply integrated multilateral system, whose architecture is characterized by an ongoing reconfiguration of economic hierarchies. Within this framework, U.S. leadership has weakened, and reversing this trend appears unlikely in the absence of new multilateral governance arrangements.

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Particularly significant insights emerge from the disaggregated analysis of the world's major economies. China's trade geography reveals a selective reconfiguration of production integration patterns, aimed at offsetting its decoupling from the United States by consolidating its role as a key economic partner for a growing number of developing markets. The efforts deployed by U.S. administrations to contain China's expansion have thus led to an outcome opposite to the one intended, expanding rather than downsizing China's sphere of influence.
Conversely, the United States' trade preference indices show stronger trade ties with the Asia–Oceania region (excluding China), and even more so with the European Union. This configuration gives rise to a paradoxical outcome: the Trump Administration's hostility toward free trade leaves China relatively protected, while its full impact falls entirely on countries that are either long-standing or newly established strategic allies of the United States. This reflects the United States' inherent inability to reduce American economic dependence on foreign imports or, in other words, to induce firms to pursue meaningful *reshoring* strategies.

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As far as the European Union is concerned, its institutional architecture—including the enlargement process—makes it the region with the highest degree of trade regionalization. From a dynamic perspective, however, patterns of extra-regional integration have also prevailed in Europe. In particular, in the aftermath of the international financial crisis, the degree of trade preference toward the United States has notably increased. Over the past fifteen years, demand from the U.S. market has supported the European Union's outward projection, accompanied by

[6] The stance adopted by the Trump Administration is rooted in the disruptive impact that globalization has had on the American manufacturing sector, with the promise of reviving domestic manufacturing serving as a powerful driver of political support in the most recent elections. For an analysis of the asymmetrical consequences of globalization on U.S. manufacturing, see L. Gagliardi, E. Moretti, and M. Serafinelli, *The World's Rust Belts: The Heterogenous Effects of Deindustrialization on 1,993 Cities in Six Countries,* NBER, Working Paper, n. 31948, December, 2023.

a decline in trade preferences relative to the rest of the world. As a result, Europe now finds itself highly vulnerable to the reversal of U.S. trade policy. A similar pattern can be observed in Italy, whose trade has likewise become increasingly oriented towards the United States while revealing a low integration with Asian markets.

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Taken together, the data processed in the Report provide the elements for a geoeconomic interpretation of the ongoing crisis in international relations, which we develop along four main lines of reflection.

First, where processes of regionalization can be identified, they do not point to the emergence of separate trading blocs. Rather, they reflect a reorganization of production networks aimed at preserving the scale and openness of the global market. In other words, closer production integration among geographically neighboring countries is not intended to confine trade within a limited regional area, but to strengthen competitiveness in more distant export markets. From this perspective, regional integration should itself be understood in an extensive sense: namely, as a means to broaden the scope of the global economy by incorporating countries that had previously remained outside it.

Within this reorganization, the leading role is played by net-exporting economies, whose value chains are designed to capture foreign markets shares. Such has been the case for China until the middle of the last decade and is now true for a broad range of emerging economies, which—much like post-war Europe once did—base the early stages of their development on the expansion of sectors exposed to international competition. European countries should also prove capable of navigating with a certain degree of confidence a reconfiguration of production integration processes aimed at strengthening export capacity.

The United States occupies the opposite position and is comparatively more vulnerable, as its international economic integration is driven primarily by the need to satisfy domestic consumption in a context of structural macroeconomic imbalances characterized by simultaneous deficits across the private sector, the public budget, and the current account. Within this geography of global economic integration, U.S. pre-eminence appears to have diminished, and this constitutes one of the main drivers of the current crisis.

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The second major insight emerging from the Report concerns the transition of the international order from a hegemonic configuration to a duopoly, characterized by two countries that are equally influential in economic and, above all, political terms. The governance of such a duopoly is inherently complex, but it is made even more challenging by the fact that this is not a case of leadership passing from two comparable and, in some ways, interchangeable players, as occurred during the transition from British to American hegemony. Instead, the international landscape is now shaped by two countries whose profound differences are epitomized by innovation models with nearly opposite characteristics and by equally non-overlapping social organizations. This poses a significant challenge of adaptation for the other actors in the international system, particularly for Western nations. While the U.S. system is highly transparent in virtually all its facets, far less is known about the defining characteristics of the Chinese model. Realigning these balances within a cooperative framework represents the central challenge of the era of “un-order” the international system has entered.

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The third point we wish to emphasize concerns Europe. The European fiscal framework clearly mirrors the mercantilist nature of the European economic model, in which the main engine of growth has been the accumulation of trade surpluses in a context of persistently weak domestic demand. There is a clear need to acknowledge that the sustainability of European prosperity continues to rely on the willingness of other countries to absorb a substantial share of the EU’s output. This role has increasingly been performed by the United States—one from which Washington may legitimately choose to step back. Europe’s ability to reposition itself within the emerging global economic landscape now requires a strengthening of domestic demand and, above all, a large-scale revival of investment, which should not be confined solely to rearmament. At the same time, Europe will need to pursue a strategy of greater geographical diversification of its trade relations, while disengaging, as far as possible, from the U.S. market.

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The points highlighted thus far indicate that, given both its depth and its continuing evolution, the process of international production integration has become a constraint that even the world’s largest economies can only circumvent with great difficulty. However, severe geopolitical shocks threaten to fracture this integration, dramatically reducing the scope of international trade and forcing a reallocation of trade flows toward a much narrower set of partners. Reflecting this disruption, the fourth and final point advanced in this Report focuses on the Russian Federation—the only country among those examined to exhibit a sharp structural break in its trade preference indicators. This rupture stems directly from the invasion of Ukraine and the subsequent collapse of regional trade networks, international financial access, and institutional relations with Western nations. At a time when armed conflicts are becoming more frequent, the Russian case serves as a reminder of the profound risks weighing on the processes of trade and production integration. These vulnerabilities, too, underscore the need for a renewed multilateral framework for the governance of the global economic order.