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International Social Contract

Fixing a Fracturing World: Towards an International Social Contract for an Age of Geoeconomic Rivalry



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EXECUTIVE SUMMARY

The rules-based economic order is being renegotiated through tariffs, export controls and chokepoint coercion. Recent research suggests that this renegotiation is costly but can be contained, not least because even dominant powers gain from restraint. Geoeconomics is essentially about bargaining, and bargaining is shaped by domestic political economy. The turn to economic nationalism is rooted in stagnant incomes and the political revenge of places left behind, so any durable international settlement must be built on a domestic one. Delivering both depends on state capacity, including the ability to identify genuine vulnerabilities, discontinue bad policies and negotiate from a position of strength. A workable international social contract would accommodate rivalry within rules, let middle powers coordinate through coalitions of variable geometry, and keep open the developing world's path to shared prosperity and a green transition. It also calls for public policy professionals with new skills.

A FRACTURING INTERNATIONAL SOCIAL CONTRACT

The post-1945 international political and economic order is fracturing. It worked like an international social contract, in which states accepted limits on the unilateral use of their power in return for predictability, market access and collective insurance against shared risks (Keohane, 1984). The United States underwrote a bargain that turned out to have been temporary. Posen (2025b) describes a shift from American "insurance" towards something closer to "extraction", so that the allies of that order must now insure themselves against their insurer. China, a new entrant to the game, has meanwhile begun to use chokepoints of its own. The renegotiation is disorderly, and the key question is whether it will produce a looser but still workable contract, or a series of bilateral bargains punctuated by crises.

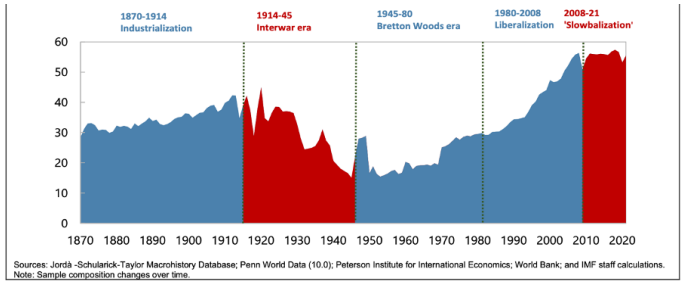
WHAT IS FRACTURING

Globalisation has not collapsed; it has fractured. Trade and investment are being rerouted along geopolitical lines. Export controls, investment screening and sanctions have become routine policy instruments (Gopinath, 2024; McKinsey Global Institute, 2024; Fishman, 2025). IMF estimates put the long-run cost of a severe fragmentation scenario at up to 7 per cent of world output (Aiyar et al., 2023). This ongoing fracture is also shrinking the space for cooperation on climate, pandemics, arms control and new commons, not because the need for it has declined but because the coalitions that sustained it have weakened.

This would not be the first time that trade and finance have been organised around geopolitical blocs. But exchange between the Cold War blocs was limited, whereas today's world is far more

interdependent, so the cost of fragmentation is correspondingly higher (Figure 1).

FIGURE 1. TRADE OPENNESS , 1870-2021 (SUM OF EXPORTS AND IMPORTS, PERCENT OF GDP)



Aiyar et al. (2023), Figure 1.

THE DOMESTIC ROOTS

Geoeconomics is at heart a bargaining problem, and international bargaining is shaped by domestic political economy. Trade integration and economic coercion alike create domestic winners and losers (Frieden, 2026), and the discontent of the losers can undermine the international order itself.

The turn to economic nationalism began with stagnant median incomes, widening inequality and the China Shock (Autor, Dorn and Hanson, 2013). Standard trade models had assumed the costs of import competition would be widely diffused; instead, they fell heavily on particular towns and workers, and two decades on those places had not recovered. Rodríguez-Pose (2018) shows that the resulting discontent is more of a "revenge of the places that don't matter" than a revolt of the poorest. In Europe, long-term economic decline predicts the populist vote more strongly than local inequality does; in the United States the two operate together, and only where the share of white residents is high (Rodríguez-Pose, Terrero-Dávila and Lee, 2023).

The discontent of the people and places left behind is therefore a domestic driver of fragmentation. It narrows the set of politically feasible options for any leader seeking a cooperative deal and raises the political return to visible economic coercion. If the roots of fragmentation are domestic, so is part of the remedy. Rodrik (2025) argues that rebuilding the middle class through good jobs must come first, and that a thinner globalisation leaving governments room to pursue their own economic and social priorities is more durable than a restoration of the old openness. An international social contract that ignores the domestic one is unlikely to be durable.

CHOKEPOINTS, O-RINGS AND THE LOGIC OF RESTRAINT

Two recent strands of research clarify the international dimension. The first concerns vulnerability: deep economic integration creates what Farrell and Newman (2019) call "weaponized interdependence". Orszag et al. (2026) argue that we have entered a new supply-side era in which, by analogy with Kremer's (1993) O-ring production function, a single missing input can halt production far downstream, with effects surfacing slowly and unevenly. What makes an input a chokepoint is how hard it is to substitute, not how much it is worth. China's rare-earth licensing controls of April 2025 (Ruhl, 2026) and the closure of the Strait of Hormuz in 2026 (Stanley, 2026) illustrate the point. Posen (2025a) draws the strategic corollary: in the US–China tariff war, escalation dominance lay with China, because a surplus country that withholds trade forgoes only revenue, while a deficit country forgoes goods it cannot readily make at home.

The second concerns power. Clayton, Maggiori and Schreger (2026) show that geoeconomic leverage is non-linear, at least

for medium-sized target economies: controlling 95 per cent of an input confers far more power than controlling 85 per cent, because even a modest alternative gives the target room to resist. Targeted diversification at genuine chokepoints therefore delivers most of the protection without wholesale decoupling. For dominant powers, overusing this leverage is self-defeating, since each coercive act prompts others to build alternatives and shrinks the network that is the source of that power. When everyone pursues individually rational anti-coercion policies, all parties end up poorer, the hegemon included. Dominant powers can therefore gain by credibly constraining themselves, which is what the postwar institutions allowed them to do. Some resilience is justified, because markets under-insure against concentrated risks. However, when all major powers seek it at the same time, the result is a security dilemma in economic form.

STATE CAPACITY: THE BINDING CONSTRAINT

Both the domestic and the international bargain run through the capacity of the state. Managing geoeconomic risks places heavy demands on it. It requires mapping supply networks to identify the few genuine chokepoints among many apparent ones, running screening and export-control regimes proportionately, and negotiating mineral and technology deals with better-resourced counterparties. It also means discontinuing bad policies, which is harder than launching them, since resilience language is easily captured by protectionist interests and every instrument acquires a constituency. Without such capability, policies aimed at resilience risk turning into costly protectionism that reduces efficiency without delivering greater security.

A high income does not guarantee high or stable state capacity. Government effectiveness, a common proxy, varies widely among countries at similar income levels, and it tracked Covid-19 excess mortality more closely than GDP per capita did. Nor is capacity, once built, secure: since 2005 the fall in the United Kingdom's government effectiveness score has been broadly comparable to Afghanistan's (Khan, 2026).

State capacity is also political and not merely technical, since compliance with policies, taxes and laws depends on public trust, itself under strain in established democracies. This creates a trap. Inequality erodes that trust, which in turn weakens the state's capacity to manage the shocks that made inequality a political problem. Because political constraints are specific to each country, effective reform is rarely a blueprint copied from elsewhere but an adaptive process of identifying and addressing the constraints that bind (Andrews, Pritchett and Woolcock, 2017). Capacity built this way underpins coalition-building at home and credible negotiation abroad.

RULES FOR RIVALS, AND MIDDLE POWERS

Effective resilience policy requires a granular map of genuine chokepoints rather than blanket "de-risking", governance of the instruments themselves, and protected space for cooperation where interests align. Sanctions and export controls still lack provisions for proportionality, review and sunset. Mattoo, Ruta and Staiger (2026) argue that WTO principles of reciprocity and non-discrimination cannot accommodate the adjustments rivalry requires. They propose a geopolitical exemption permitting discriminatory adjustments between rivals, provided the adjustment leaves the world prices facing third countries unchanged and so limits trade diversion. The idea points in the right direction: rules that accommodate rivalry rather than pretend it away.

Middle powers, from the European Union and the United Kingdom to Canada, Japan, Korea and major countries across

Asia, Africa and Latin America, depend on Washington for security and on Beijing for inputs. Individually their leverage is limited; collectively it is considerable. The answer is not a new bloc but overlapping, issue-specific coalitions on critical minerals, anti-coercion, standards and AI, built around a trusted core and open to non-democracies where interests coincide (Asthana, 2026; Bates, 2026; Singh, 2026). Two obstacles stand out among many: potential members are heterogeneous, and democratic checks and balances slow decision-making down. Nevertheless, the non-linearity result gives such coalitions a concrete target, since pooling supply and demand to build credible alternatives at chokepoints is where collective action pays most. Weder di Mauro (2026) adds a sharper challenge, arguing that Europe is large enough to act as a great power and diminishes itself by adopting the middle-power label. Rivalry also feeds conflict, and since wars are among the largest shocks an economy can face, building a defence-industrial base that deters without raising the likelihood of war is part of the same agenda (Kooi, 2025).

DEVELOPING COUNTRIES: A NARROWING PATH AND NEW LEVERAGE

The stakes are highest for low- and middle-income countries, because the dynamic benefits of trade — technology transfer, upgrading and institutional anchoring — have mattered most for development and rested on conditions that are now eroding (Goldberg and Ruta, 2025). Ethiopia's foreign minister has argued that the Asian export-led model is no longer viable (Timothewos, 2026). Automation and premature deindustrialisation further narrow the path for development (Rodrik, 2016). Rodrik (2025) locates the alternative less in replicating export-led manufacturing than in raising productivity in labour-absorbing services and green industries, through public–private action that does not wait for global cooperation. Stern and Stiglitz (2023) show that decarbonisation can raise growth by addressing multiple market failures at once. But it requires around US$1.3 trillion a year in external finance by 2035 for emerging and developing economies other than China (Bhattacharya, Songwe and Stern, 2025), which depends on precisely the cooperation that fragmentation puts at risk.

Critical minerals show both vulnerability and leverage. Africa holds a large share of global reserves but refines little of what it extracts, and the gains rarely reach mining communities. Competition among the United States, China and the European Union now creates bargaining power that did not exist when one buyer dominated. Converting that into value requires realistic national strategies about which stages of the value chain to capture, harmonised regional mining and tax codes, and global rules that take producers' development goals as seriously as consumers' security. Each of these is a serious test of state capacity and economic capability. Agou's (2026) notion of "sovereignomics" suggests that the path between dependency and reactive autarky lies in the patient, sequenced building of fiscal, productive and knowledge capabilities, so that cooperation flows from capacity rather than need. What developed nations owe here is less charity than rules that do not load the costs of their own resilience onto the poorest.

WHAT THIS MEANS FOR SCHOOLS OF PUBLIC POLICY

The market is already responding to these developments. Banks and firms are building geopolitical risk functions, and schools are adding geoeconomics to their curricula. Girishankar (2025) argues that the United States nonetheless lacks a cadre of economic statecraft specialists. Lipsky (2026) observes that most of the world never separated economics from security, and

that economists must now understand great-power rivalry while foreign-policy professionals need training in economics.

This agenda calls for three capabilities, in all of which public policy schools have a comparative advantage over disciplinary training. The first is analytical. New frameworks are needed to weigh economic efficiency against resilience. Applied together with network and input–output mapping, they can help to identify true chokepoints and the policy responses to them. New approaches to measurement are making this analytical task more tractable (Clayton et al., 2025).

The second is empirical and distributional. The first China Shock was diagnosed too slowly to inform policy in time; a second, as China moves into the frontier sectors of green goods, vehicles, semiconductors and robotics (Autor and Hanson, 2025), is foreseeable. Designing adjustment policies in advance costs less than managing the political backlash afterwards, and the tools to track exposure at a granular level now exist.

The third is institutional: understanding the political economy of coalition-building for policies with high long-term returns but salient short-run costs, mastering the art and science of implementation, and knowing how to course-correct and when to stop a policy.

Economic security is here to stay, yet there is a disconnect between the importance accorded it in policy circles and the paucity of research offering analytically grounded, context-specific lessons. Schools of public policy are well placed to close that gap.

CONCLUSION

Geoeconomic fragmentation is real, but it is not inevitable. A renewed contract will be looser than the old one, accepting rivalry while restraining its instruments and keeping open the developing world's path to shared prosperity. It will hold only if it rests on a domestic political settlement that gives citizens a stake in openness, and on states capable enough to tell real vulnerabilities from imagined ones, and to address the real ones. Recent research offers some grounds for optimism; restraint serves the interests of even the most powerful countries, and building the capacity to act on that is the task of the coming decade.

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