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GEOPOLITICAL SHIFTS, ECONOMIC AND FINANCIAL FRAGMENTATION

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MEASURING GEOECONOMICS

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Goeconomics is broadly understood as the study of how economic policies and geopolitical considerations are intertwined. Although there is no single, universally accepted definition, one common formulation – similar to that of Chatham House – describes goeconomics as “the interplay of international economics, geopolitics, and strategy” (Schneider-Petsinger, 2020). This general conception encompasses several variants, including that of Clayton *et al.* (2023), who define goeconomics as a strategy in which “governments use their countries’ economic strength through financial and trade relationships to achieve geopolitical and economic goals”. A comprehensive review of existing definitions is provided by Mohr and Trebesch (2025).

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After a long period of relative neglect, research in this area has recently gained momentum amid rising geopolitical tensions between major powers – most notably the United States, China and Russia – and renewed conflicts in various parts of the world. Contemporary work in this field typically focuses on how geopolitical events shape domestic macroeconomic policies and cross-border flows of goods, services, capital, and people. Addressing these questions empirically requires quantitative measures of geopolitical development. While economic data are generally accessible – despite some limitations in measuring cross-border flows – quantitative metrics of geopolitical tensions have long been scarce.

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Recent years, however, have witnessed a surge in the development of new indicators designed to quantify geopolitical tensions on a regular basis. These indicators have, in turn, been incorporated into empirical time series models to evaluate the dynamic effects of geopolitical shocks on macroeconomic and financial variables.

In this paper, we take stock of these recent advances. We first review and compare the main quantitative indicators of geopolitical tensions, discussing their methodological features, advantages, and limitations. We then examine how these indicators can be integrated into econometric frameworks to assess the propagation of geopolitical shocks through the global economy and financial system.

MEASURING GEOPOLITICAL TENSIONS

Over the years, given the rising importance of quantitative geonomics, various tools for measuring geopolitical tensions have been developed in literature. Here we review several of the most useful empirical tools.

United Nations (UN) votes

In political science and international relations, the most widely used measurement for bilateral geopolitical preferences is based on the voting behavior of United Nations members at the UN General Assembly (UNGA). The most important contributions on this topic are Bailey *et al.* (2017) and Fjelstul *et al.* (2025). Bailey *et al.* (2017) estimate countries' foreign policy preferences as time-varying ideal points using UNGA roll-call votes, interpreted with respect to a single dimension aligned with support for the US-led liberal order¹. One cannot use those votes to directly infer the unobserved geopolitical preferences of countries. The difficulty is to distinguish temporary changes in the agenda, which can occur in order to secure economic, financial or military support, from latent preference evolution. Fjelstul *et al.* (2025) introduce a resolution-centric database that systematically covers all resolution-related decisions in UNGA plenary sessions and shows that using these more complete data can change substantive conclusions in prominent studies.

To provide intuition, the UN ideal point captures a country's latent foreign policy orientation as revealed through its voting behavior at the UNGA. This measure summarizes a country's position along the main geopolitical or ideological dimension structuring UNGA votes. Conceptually, it can be viewed as a "foreign policy ideology score", analogous to left-right ideology measures in domestic political science.

Higher values of the UN ideal point indicate closer alignment with the United States and its Western allies, while lower values signal

proximity to Russia (or the former USSR), China, or the non-aligned movement. The scale is relative and time-varying, allowing it to capture global ideological shifts across decades.

The measure exploits the systematic voting patterns observed in thousands of UNGA resolutions. Some countries almost always vote with the United States and its allies; others systematically oppose them; and a third group remains noncommittal, abstaining or varying according to each specific issue. As shown by Bailey *et al.* (2017) and Fjelstul *et al.* (2025), these patterns are not random but reflect an underlying geopolitical orientation – what they refer to as a country’s ideal point. Thus, the UN ideal point is not an opinion poll or a diplomatic label; it is a quantitative, data-driven representation of how each country positions itself on the global geopolitical spectrum.

Graph 1 (below) illustrates the evolution of this orientation over time. During the Cold War, the USSR represented the primary geopolitical rival of the Western block led by the United States. Following China’s admission to the UN in the 1970s – replacing the Republic of China – the People’s Republic of China maintained a distinct position, separate from the USSR after the Sino-Soviet split. In the 1980s, the USSR’s stance toward the West softened amid worsening domestic economic conditions, culminating in the dissolution of the country in 1991. The new Russian Federation initially aligned more closely with Western powers until the mid-1990s. China’s relationship with the West deteriorated sharply after the Tiananmen Square events of 1989 but improved in the 2000s, notably with its accession to the World Trade Organization in 2001. More recently, the onset of the war in Ukraine in 2022 has reshaped the global geopolitical landscape once again, revealing a re-emerging division between a Western block and a China–Russia axis, sometimes referred to as “the West versus the rest”.

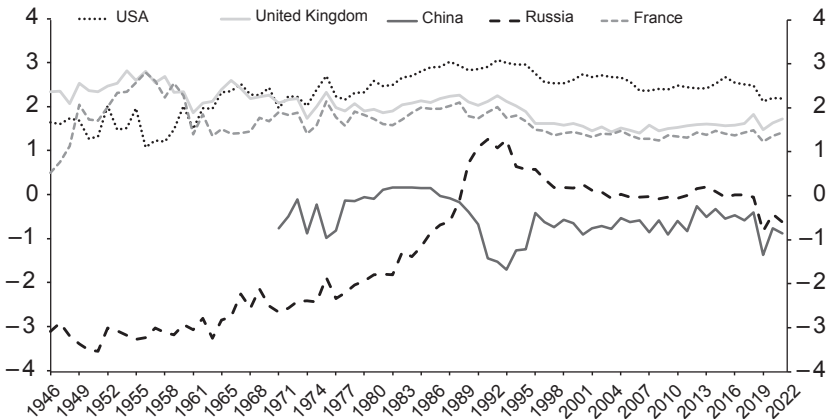
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Geopolitical risk (GPR) index

In the field of economics, Caldara and Iacoviello (2022) have introduced the geopolitical risk (GPR) index, providing one of the first systematic attempts to quantify geopolitical risk for a given country with respect to all other countries. By identifying and counting articles that explicitly discuss geopolitical tensions, threats, or conflicts, the GPR index captures shifts in perceived global risk arising from international political events, that is the left tail of the distribution of geopolitical tensions. The authors distinguish between geopolitical acts and geopolitical threats, which refer to the anticipation or risk of such events taking place². This distinction proves crucial: geopolitical acts tend to reduce uncertainty once they materialize, producing relatively mild economic effects, whereas geopolitical threats tend to increase

uncertainty, particularly among firms, and can have more pronounced macroeconomic consequences. This result aligns with the broader literature on uncertainty shocks (e.g., Bloom, 2009), which emphasizes that expectations of conflict or instability can depress investment and economic activity even in the absence of realized events.

Graph 1
UN Ideal Points for the Permanent Members of the Security Council



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Note: the UN ideal points estimate the (hidden) geopolitical preference of countries. Higher values mean more alignment with the US and Western block. Lower values mean closer alignment with Russia/USSR, China, or the non-aligned block.

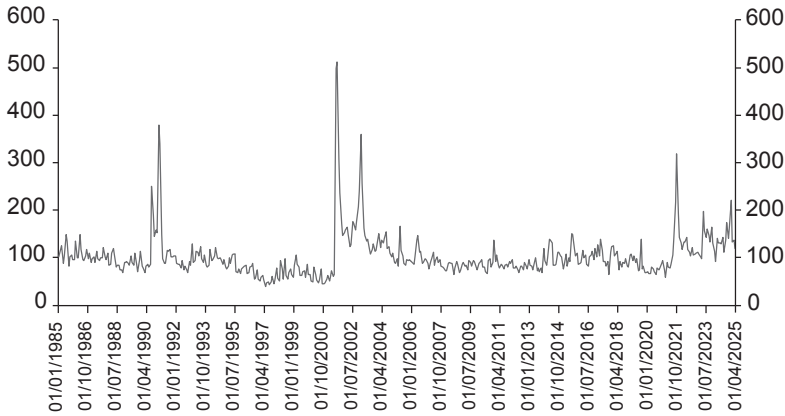
Source: see endnote 1 (below).

The GPR index is constructed at a monthly frequency through automated text searches of geopolitical terms in the electronic archives of eleven major North American and British newspapers that have been available since 1985. The GPR index thus provides a valuable tool for examining how both realized and anticipated geopolitical tensions transmit to the real economy. It is available for the global economy, as well as for some specific countries. Bondarenko *et al.* (2024) propose similar indicators for the major European countries, obtained from newspapers published in the national languages.

In Graph 2 (below), the GPR index is plotted from 1985 to 2025. Distinct peaks correspond to major geopolitical episodes such as the Gulf War (1990-1991), the September 11 attacks and Iraq War (2001-2003), the Crimean crisis (2014), and the Russian invasion of Ukraine (2022).

Note also that there exists a monthly historical GPR (GPRH) that begins in 1900 and which is still updated. The GPRH index incorporates less information than the GPR index (only three newspapers), but is useful for long-run empirical analyses.

Graph 2
Measuring Geopolitical Risk: GPR Index



Note: the GPR index measures the relative coverage of geopolitical events in a representative sample of the Anglo-Saxon press that covers International Relationships.

Source: see endnote 2 (below).

GDEL T (Global Database of Events, Language, and Tone)

The GDEL T Project³ systematically records over 300 categories of physical and political activities worldwide – from riots and protests to peace appeals and diplomatic exchanges – at an exceptionally high frequency (every 15 minutes). Drawing from global broadcast, print, and online media sources in more than 100 languages, GDEL T provides structured data on international events, including who acted, toward whom, and how often these actions were reported. It also includes textual sentiment and topical information through its Global Knowledge Graph (GKG), which quantifies the tone, salience, and thematic context of news coverage. These rich datasets enable the construction of indicators that capture geopolitical alignments and tensions between states. For instance, the private bank BBVA has developed a set of high-frequency bilateral indicators of geopolitical tension based on GDEL T data⁴. The Interstate Conflictual Relations Index is a recent exploitation of GDEL T to investigate in real time the diplomatic tensions between two countries⁵.

As an example, we consider the daily records of political and diplomatic interactions reported in global media between the United States and China from 1980 to the present. We retain all events involving either direction of interaction (US towards China, or *vice versa*), focusing on event types – such as official statements or diplomatic appeals – that primarily reflect diplomatic communication rather than

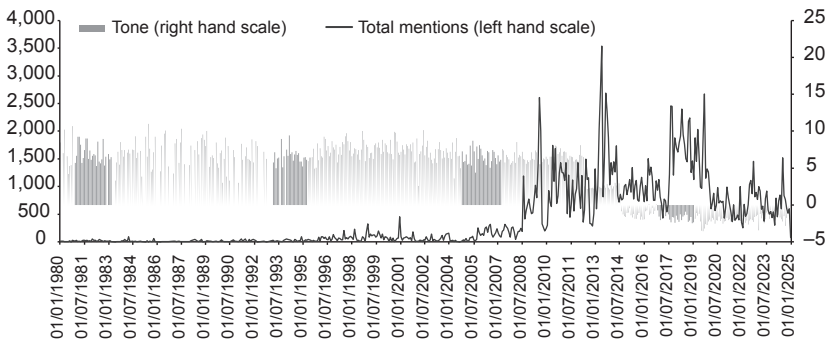
broad social unrest. Each recorded event includes metadata such as tone (the polarity of media coverage) and mentions (the extent of news dissemination), providing a dynamic, high-frequency measure of the evolving bilateral relationship between the two countries.

These daily events are aggregated at their monthly frequency to provide a smoother depiction of the evolution of bilateral relations over time. For each month, we compute the average tone and average number of mentions across all recorded events. Negative tone values indicate generally hostile or conflictual coverage in the press, whereas positive values reflect cooperative or conciliatory narratives. The number of mentions captures the overall salience of US-China relations in global media at each point in time.

Both indicators are displayed jointly in Graph 3 (below), with tone represented by bars and mentions by a solid line, to illustrate how sentiment and media attention evolve together. The figure reveals a marked increase in the number of articles covering US-China relations around 2013, coinciding with an initial decline in the average tone. Starting in 2015, sentiment turns distinctly negative and remains in negative territory, thereafter suggesting a persistent deterioration in the perceived quality of bilateral relations.

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Graph 3
Evolution of Media Attention and Tone in US-China Bilateral Relationships



Note: the GDELT data allows us to build high-frequency indicators of bilateral geopolitical tensions.

Sources: see endnote 3 (below); authors' calculations.

Political relationship index for China

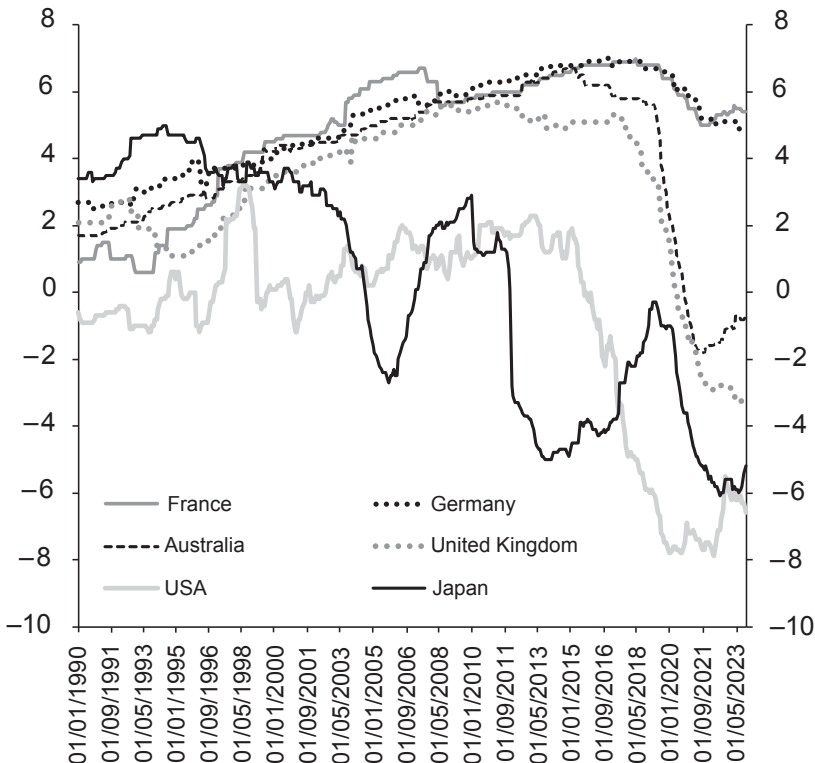
The geopolitical relationships between China and its main partners are of central importance in today's international environment (Du *et al.*, 2017). The Political Relationship Index (PRI), developed by the Institute of International Relations at Tsinghua University⁶ provides a systematic measure of China's political relationships with its major trading partners (Yan, 2010).

The PRI is a monthly indicator constructed from the classification of positive and negative diplomatic events reported in the *People's Daily*, the Chinese Ministry of Foreign Affairs website, and other official sources. It ranges from -9 to +9, reflecting the overall tone of bilateral relations: from rivalry (-9 to -6), tense (-6 to -3), poor (-3 to 0), normal (0 to 3), good (3 to 6), to friendly (6 to 9). The scale follows a structure similar to the Goldstein scale (Goldstein, 1992), allowing for consistent interpretation across countries and overtime.

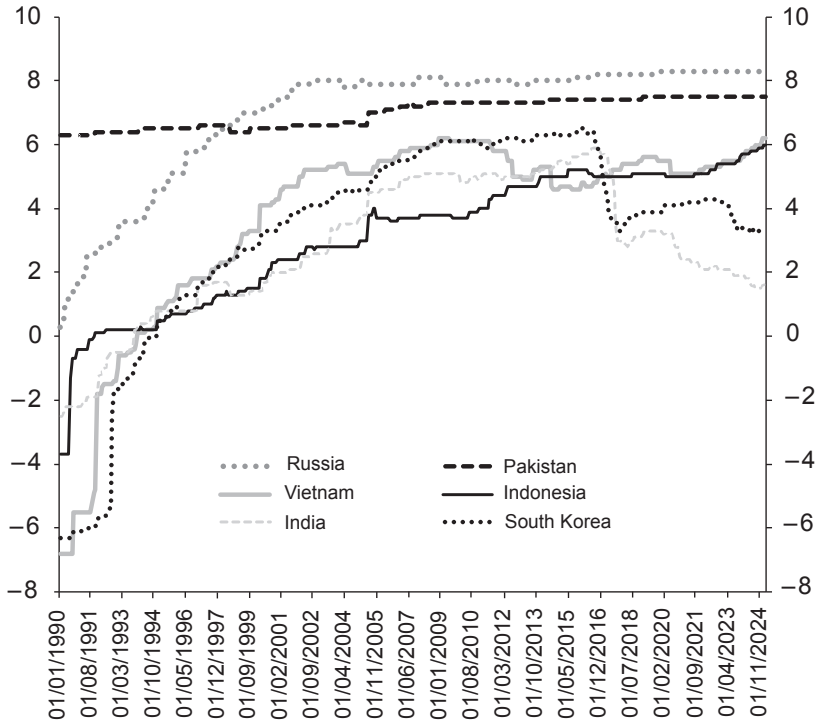
As illustrated in Graphs 4 (below), the evolution of China's bilateral political relationships since 1990 reveals clear contrasts between Western and Eastern partners. According to PRI data, Pakistan and Russia emerge as China's most steadfast allies. In the case of Pakistan, this reflects a deep strategic partnership encompassing security cooperation, shared geopolitical interests, and large-scale infrastructure investments

Graphs 4
Bilateral Geopolitical Political Relations with China

Graph 4a
Relation of China with the West



Graph 4b
Relation of China with the East



Note: the PRI measures the state of the geopolitical relation between China and its main partners.

Source of both graphs: see endnote 6 (*infra*).

under the China-Pakistan Economic Corridor, fostering a level of mutual trust rare in China's external relations. The relationship with Russia has also strengthened markedly since the mid-2000s, supported by growing energy trade, defense collaboration, and financial integration. Today this partnership constitutes one of the cornerstones of China's foreign policy, securing access to critical resources and a powerful diplomatic partner.

Beyond this inner circle, China's foreign relations display a more complex pattern. Ties with the US and Japan have oscillated between strategic competition and pragmatic engagement, alternating periods of tension and cooperation as interests converge or diverge. Relations with Germany and France have remained comparatively stable, grounded in trade, investment, and technological exchanges, at least so far. Obviously, the current aggressive export strategy from China could lead to some changes. It will be interesting to track them in real time with this index. In Southeast Asia, the dynamic has been one of

deepening economic interdependence tempered by geopolitical caution. Vietnam and Indonesia, for example, have expanded trade and investment links with China while maintaining vigilance over regional strategic balances. Vietnam's commercial engagement has intensified even amid maritime disputes, and Indonesia has welcomed Chinese investment in infrastructure and energy projects. By contrast, India's relationship with China has become increasingly cautious, as border disputes and regional rivalries have eroded mutual confidence. Meanwhile, South Korea has experienced periods of diplomatic cooling, reflecting the broader reshaping of supply chains and security alliances under rising geopolitical tensions.

Comparison of measures

How can we disentangle those indicators? We propose in Table (below) a classification of those indicators by pointing out their main pros and cons.

ASSESSING THE EFFECTS OF GEOPOLITICS ON ECONOMIC ACTIVITY

Once quantitative measures of geopolitical tensions are available, they can be incorporated into standard time-series econometric frameworks, typically sampled at quarterly or monthly frequencies. This section reviews how these indicators can be used to assess the macroeconomic impact of geopolitical shocks and discusses the main transmission channels to economic activity.⁷

Modelling

Empirical research in geoeconomics primarily seeks to estimate the dynamic responses of macroeconomic or financial variables to exogenous geopolitical shocks. Two main econometric approaches have been employed for this purpose: (1) Structural Vector Autoregressive (SVAR) models and (2) Local Projection (LP) methods. Both approaches generate dynamic responses – commonly referred to as impulse response functions (IRFs) – that trace the effects of a specific shock over time.

SVAR models have become a standard tool in empirical macroeconomics due to their simplicity, tractability, and ability to capture the autoregressive dynamics inherent in multivariate time series (Sims, 1980; Kilian and Lütkepohl, 2017). A central challenge in SVAR modeling lies in identifying the underlying causal structure: different identification schemes can produce observationally equivalent reduced forms. By imposing economically motivated restrictions, SVARs enable researchers to identify structural shocks – such as supply,

Table
Comparison of Various Geopolitical Measures

Proxy	What it measures?	Coverage	Bilateral	Pros	Cautions	Best use
UN Votes	Institutional foreign policy alignment (ideal point)	1946-present, annual or semi-annual	Yes (distance between country ideal points)	Long-run comparability, institutional signal	UN agenda only, abstentions	Benchmark alignment, historical comparison
GPR	Media-based geopolitical risk	1900 or 1985-present, monthly or daily	No aggregate, no directional	High frequency, captures salience	English-language bias (US-UK), the risk differs from alignment, not dyadic	Shock identification, macro/finance controls, risk monitoring
GDELT	Media-based interstate, conflicts, cooperation, Goldstein (1992) scale, media tone	1979-present, near-real-time	Yes, directed dyads, topic-specific filters	Very high frequency, global, dyadic and issue-specific	Coverage and coding bias, needs normalization and validation	High-frequency bilateral alignment, nowcasting
PRI	Bilateral political relations of China	1950-2025, for 12 partners	Yes, directed dyads	Long horizon, directly bilateral, China-focused diplomacy signal	China-centric sources, limited country set	China-partner studies, trade, cross-check with GDELT/UN votes

Source: authors.

demand, oil price, uncertainty, or geopolitical shocks – while allowing the variables in the system to interact endogenously. The resulting IRFs provide an image of the economy’s dynamic response to each type of shocks.

An alternative approach, introduced by Jordà (2005), relies on Local Projections (LPs) to directly estimate IRFs. This method has gained considerable popularity due to its flexibility and ease of use, particularly when it is a question of nonlinear responses. Within this framework, IRFs are obtained by regressing a macroeconomic outcome variable – such as GDP growth – on its own lags, a set of control variables, and an identified structural shock, separately for each forecast horizon. The estimated coefficients on the shock across horizons form the IRF. Despite its advantages, the LP approach does not in and of itself resolve the issue of shock identification. One common solution, referred to as narrative approach, is to rely on externally identified structural shocks derived from qualitative sources, as in the seminal work of Romer and Romer (1989) on monetary policy shocks.

Empirical results

Empirical evidence consistently suggests that geopolitical shocks exert adverse effects on macroeconomic and financial activity. These effects are transmitted through several channels, in particular through declines in international trade, disruptions to investment, and heightened financial uncertainty. Sanctions, military conflict, and the threat of escalation are key mechanisms behind these contractions.

Caldara and Iacoviello (2022) calculate a structural VAR model in which the geopolitical risk (GPR) index is ranked first in a standard Cholesky decomposition. This identification strategy implies that any contemporaneous correlation between the GPR index and other macroeconomic variables reflects the causal effect of geopolitical risk on those variables, rather than the opposite. Their impulse response analysis shows that business investment declines by approximately 1.5 percentage points within one year following a geopolitical shock, particularly among firms operating in geopolitically exposed industries. In financial markets, geopolitical shocks lead to higher short-run volatility and lower equity and oil prices, while the two-year interest rate declines. Complementing their SVAR analysis, Caldara and Iacoviello (2022) also use quantile regressions to show that heightened geopolitical risk is associated with increased disaster probabilities due to conflicts and greater downside risks to GDP growth.

The oil market is particularly sensitive to geopolitical tensions. Mignon and Saadaoui (2024) examine the impact of political relations between China and the United States on oil prices using both SVAR

and local projection techniques. Relying sequentially on both the PRI and GPR indexes, they find that improvements in bilateral relations between the two countries tend to raise oil prices through a positive demand channel, reflecting more optimistic expectations about global economic activity. Conversely, rising geopolitical risk generates fears of supply disruptions, which pushes oil prices higher through a negative supply channel.

More broadly, geopolitical shocks tend to raise global commodity prices. Using a global monthly SVAR spanning several decades, Caldara *et al.* (2025) show that heightened geopolitical tensions systematically increase commodity prices. They also demonstrate that this “commodity channel” contributes to higher inflation despite simultaneous deflationary forces stemming from weaker output, lower consumer sentiment, reduced trade, and tighter financial conditions. These inflationary pressures are further amplified by currency depreciation following geopolitical shocks (Afonso *et al.*, 2024, as regards the evolution of the Chinese yuan). However, as Yilmazkuday (2025) notes, the magnitude of depreciation varies across countries: those more deeply integrated into global value chains experience stronger depreciation of domestic currencies. In addition to imported inflation, fiscal dynamics likely reinforce inflationary pressures. Greater defense spending, rising public debt, and constrained financial conditions collectively exacerbate fiscal imbalances and financial tensions, adding to the stagflationary framework.

Overall, the empirical evidence points to geopolitical shocks having stagflationary effects – simultaneously depressing economic activity while increasing inflation. This conclusion is significant, as one might have expected higher defense spending during periods of geopolitical tension to stimulate demand and crowd in private investment. Yet, the empirical record suggests that such potential expansionary effects are outweighed by the recessionary consequences of heightened geopolitical risk. It should be noted, however, that if a major country were to enter a war economy in the future, the results might be different.

CONCLUSION

The literature on geoeconomics and how to quantify it has expanded rapidly in response to rising geopolitical tensions. This paper has reviewed several quantitative indicators that have been developed to measure such tensions and illustrated how these measures can be incorporated into econometric models to assess their dynamic effects on macroeconomic activity.

Beyond geopolitical risk indicators, recent research has also focused on measuring the degree of global (dis)integration that has emerged since the Global Financial Crisis – following decades of deepening globalization. A major difference between the current era and the Cold War lies in the extent of trade and financial interdependence among countries with divergent geopolitical orientations (Gopinath *et al.*, 2025). During the Cold War, trade between rival blocks was very limited both in scale and in the scope of exchanged goods and services. In contrast, today’s global economy is far more interconnected, making it more exposed to the economic fallout of geopolitical fragmentation.

Against this background, Fernández-Villaverde *et al.* (2024) propose a Geopolitical Fragmentation Index (GFI) to quantify global fragmentation. Their approach results in a dynamic hierarchical factor model combining 16 indicators grouped into four dimensions: trade, finance, mobility, and politics. Similarly, IMF economists (IMF, 2022, 2023) have introduced the concept of “connector countries”, which bridges the notion of ideal points with the framework of connectedness developed by Diebold and Yilmaz (2023). The idea of connectedness captures how shocks flow between countries – some acting as transmitters, others as receivers – through trade and financial linkages shaped by geopolitical realignments.

Overall, these new measures provide additional valuable tools for understanding how geopolitical tensions reshape global economic integration. They also highlight a central challenge for the coming years: managing the macroeconomic and financial consequences of an increasingly fragmented global economy.

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November 2025

NOTES

1. See the website: <https://unvotes.unige.ch/>

The data on ideal points are available on the Harvard Dataverse: <https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/LEJUQZ>

2. The GPR (threats) counts mentions of threatened or threatening geopolitical events (e.g., warnings, mobilization, or diplomatic crises), while GPR (acts) counts mentions of events already in progress (i.e., wars, terrorist attacks, or other hostile acts). The GPR headline index is the weighted average of its two components, and their difference is the spread between perceived and actual geopolitical risks.

Data are available on the website: https://www.matteoiacoviello.com/gpr_country.htm

3. This database is available on the website: <https://www.gdeltproject.org/>
The project is described in Leetaru and Schrodtt (2013) and Leetaru (2014).

4. See the website: <https://bigdata.bbvaresearch.com/en/geopolitics/>
5. See the website: <https://iscr.skema.edu/>
6. See the website: <http://www.tuiir.tsinghua.edu.cn/imiren/info/1091/1320.htm>
7. There is currently a great amount of research in this field, and we do not pretend we are providing an exhaustive review here.

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