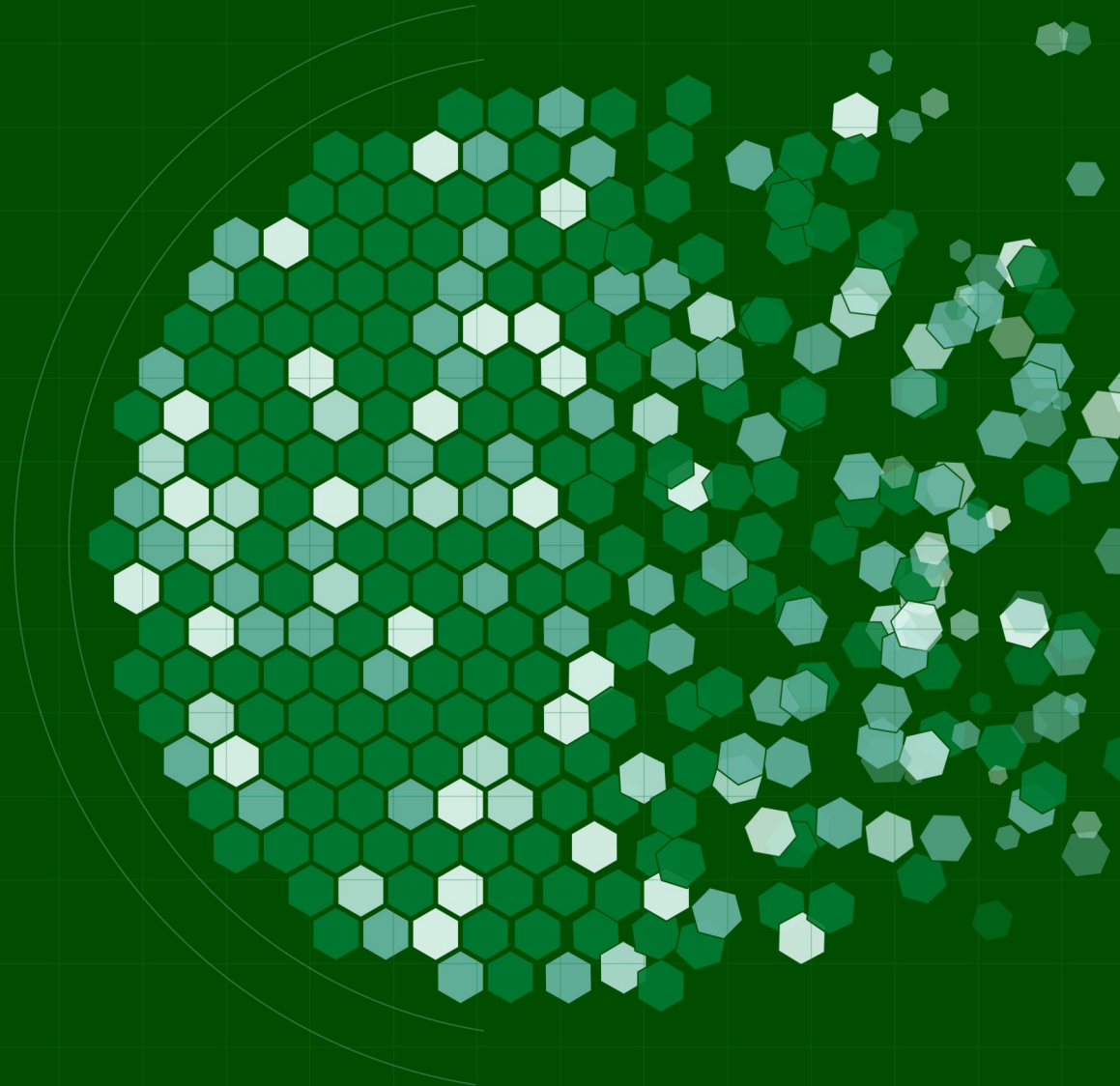


An evidence review for policymakers



Navigating a Fragmenting World

The Global Consequences of Geopolitics and What Policy Should Do

Karim Iddouch

Author

Evidence from a systematic review

of 3,570 studies, 1990–2026

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About the evidence

This report is based on a systematic review of 3,570 peer-reviewed studies published between 1990 and 2026, including a detailed classification of a representative sample of 400 studies.

Disclaimer

The findings, interpretations and conclusions expressed in this report are those of the author alone.

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Key messages

- 1 Geopolitics is now a first-order economic risk.** Since 2014 the world economy has absorbed sanctions, trade wars, a war in Europe, attacks on shipping, sweeping tariffs and, in 2026, a war in the Gulf that cut oil flows through the Strait of Hormuz to a trickle. Severe fragmentation of the global economy could cost up to 7% of world output.
- 2 Research has grown fast but narrowly.** Of the 3,570 studies reviewed, 77% were published since 2022. Since 2018 research has increasingly treated geopolitics as a single measurable risk, captured by one news-based index. This has produced strong evidence on markets but left large gaps elsewhere.
- 3 The evidence is strongest where it matters least directly for people.** Confidence is high that geopolitical shocks move financial and energy markets. It is low for food security, development and household welfare: food and agriculture account for only 3% of the literature.
- 4 How shocks travel is the weakest link.** Nearly 3 in 10 studies name no transmission channel and only 7% test the channel they propose, yet the channel determines which policy instrument can respond.
- 5 Those who bear the costs are largely invisible.** Studies measure consequences mainly for states, markets and firms; households are the focus of only 6%. The economies most exposed, including in the Middle East and North Africa, are often assessed with measures built from Western news.
- 6 Popular responses are largely untested.** Reshoring, near-shoring and friend-shoring are at the centre of policy debate, but only 6 of the 355 studies examined in detail evaluate them. Diversification is a safer bet until the evidence improves.
- 7 Policy should be specific, channel-based, protective and evidence-building.** The report sets out 22 recommendations for six groups of institutions and a three-phase roadmap that starts with no-regret measures and evaluates costly responses before they are scaled up.

Executive summary

A world economy reshaped by geopolitics

For much of the period after the Cold War, policymakers could treat geopolitics as background to economic policy. That is no longer possible. Over the past decade, the world economy has been hit by a sequence of geopolitical shocks, each arriving before the effects of the previous one had faded: the sanctions that followed the annexation of Crimea in 2014, the trade war between the United States and China, Russia's invasion of Ukraine in 2022, attacks on shipping in the Red Sea from late 2023, sweeping US tariffs in 2025 and, in 2026, a war in the Gulf that cut oil flows through the Strait of Hormuz from around 20 million barrels a day to a trickle. These shocks are increasingly simultaneous, deliberate and persistent ([Chapter 1](#)).

This report asks what the research evidence can tell policymakers about the consequences of these shocks. It draws on a systematic review of 3,570 peer-reviewed studies published between 1990 and 2026, combined with a detailed classification of a representative sample of 400 studies according to the source of geopolitical pressure, the channel through which effects travel, the domain affected, who bears the consequences and how actors respond.

What the evidence shows

The evidence is strongest for financial and energy markets. Geopolitical shocks raise volatility, change how shocks spread between markets and move energy prices, especially in regionally segmented markets such as European gas. Evidence of medium strength shows that geopolitical risk raises inflation while depressing activity, disrupts trade and supply chains, and increasingly steers foreign investment towards political allies. The evidence is contested on whether geopolitical tension accelerates or slows the energy transition, and thin on food security, development and welfare ([Chapter 2](#)). The overall pattern is that the evidence is strongest where it matters least directly for people's welfare.

How shocks travel and who pays

Geopolitical shocks reach economies through six channels: prices, physical disruption, uncertainty, policy responses, expectations and changes in rules and institutions. Each calls for a different policy instrument, but the channel is the weakest link in the evidence: 29% of studies name no channel and only 7% test the one they propose ([Chapter 3](#)). Research measures consequences mainly for states (51% of studies), markets and investors (23%) and firms (14%); households are the affected party in only 6%. Emerging and developing economies are among the most exposed, yet their share of research has fallen since 2022. The 2026 Gulf war illustrates the stakes: the UN Development Programme estimated that four weeks of escalation could cost Arab economies \$120–194 billion and push up to 4 million more people into poverty ([Chapter 4](#)).

Blind spots that can mislead policy

Since 2018 research has increasingly treated geopolitics as a single measurable risk, a shift this report calls *riskification*. Studies treating geopolitics in this way rose from 2% before 2018 to 56% in 2022–2026. This approach has real advantages, but it has created five blind spots: one number for many different shocks; measures built from other countries' news; correlation read as causation, with 91% of quantitative studies correlational and about 3% using causal designs; responses recommended but rarely evaluated; and two research communities, in economics and in political science and geography,

that share only two of their 100 most-cited works ([Chapter 5](#)). The report proposes a six-question checklist for using geopolitical research in policy.

What policy should do

Four principles follow from the evidence: be specific about the source of the shock; act on the channel through which it travels; protect those who bear its costs; and evaluate responses before scaling them up. On this basis the report sets out 22 recommendations ([Chapter 6](#)). Among the most important:

- **Finance ministries** should replace generic geopolitical risk with specific scenarios in fiscal planning and size fiscal buffers to energy and food import exposure.
- **Central banks and supervisors** should build channel-based scenarios into stress tests, communicate clearly when a geopolitical shock is a supply shock, and use more than one measure of geopolitical risk.
- **Trade, industry and energy authorities** should map critical dependencies and chokepoint exposure and favour diversification over relocation until evidence on reshoring and friend-shoring improves.
- **Economies of the Global South**, including in the Middle East and North Africa, should build their own indicators of geopolitical exposure, prepare social protection for price shocks and strengthen regional cooperation on food and energy security.
- **International organisations, statistical agencies and research funders** should integrate distribution into surveillance, support evaluations of fragmentation responses and fund research that tests channels and links shocks to household and firm data.

[Chapter 7](#) turns these recommendations into a roadmap in three phases: no-regret measures that can start within a year, capacity building over one to three years, and structural reforms over a longer horizon, together with indicators to track progress.

CHAPTER 1

Why geopolitics matters now

Chapter summary

- Since 2014 the world economy has absorbed a sequence of geopolitical shocks: sanctions, trade wars, a war in Europe, attacks on shipping, sweeping tariffs and, in 2026, a war in the Gulf that closed the Strait of Hormuz.
- These shocks are no longer rare events. They now affect energy, food, trade and finance at the same time, and their costs could reach up to 7% of world output if the global economy fragments severely.
- Research has expanded rapidly in response, but in a particular way. Policymakers need to know what that research can and cannot tell them, which is the purpose of this report.

1.1 A decade of compounding shocks

For much of the period after the Cold War, policymakers could treat geopolitics as background to economic policy. Markets, institutions and technology were seen as the main forces shaping trade, investment and growth. That assumption no longer holds. Over the past decade, the world economy has been hit by a sequence of geopolitical shocks, each larger in scope than the last and each arriving before the effects of the previous one had faded ([Figure 1.1](#)).

The sequence began with Russia's annexation of Crimea in 2014 and the sanctions that followed. It continued with the trade war between the United States and China from 2018, which turned tariffs and export controls into instruments of strategic competition. The COVID-19 pandemic then exposed how far production depended on long and concentrated supply chains. Russia's invasion of Ukraine in February 2022 disrupted two of the world's largest exporters of grain and energy: Russia and Ukraine had together accounted for about 30% of global wheat exports, and the Food and Agriculture Organization's Food Price Index reached its highest level on record in March 2022 ([Food and Agriculture Organization, 2022](#)).

The shocks have since multiplied. From November 2023, attacks on commercial ships in the Red Sea forced container lines away from the Suez route; container shipping through the Red Sea fell by about 90% between December 2023 and February 2024 ([Defense Intelligence Agency, 2024](#)). In April 2025 the United States imposed a 10% baseline tariff on almost all imports, with higher rates for many partners ([Executive Office of the President, 2025](#)). And on 28 February 2026, war broke out between the United States and Israel on one side and Iran on the other. Oil flows through the Strait of Hormuz fell from around 20 million barrels a day to a trickle, which the International Energy Agency described as the largest supply disruption in the history of the global oil market, and the price of Brent crude came close to \$120 a barrel ([International Energy Agency, 2026a](#)). The de facto closure of the strait also cut off almost a fifth of global supplies of liquefied natural gas ([International Energy Agency, 2026b](#)).

Figure 1.1 A decade of compounding geopolitical shocks, 2014–2026

Source: Author's own elaboration.

1.2 Why these shocks are different

Three features distinguish today's geopolitical shocks from earlier episodes. First, they are **simultaneous**. Energy, food, shipping, technology and finance are now affected at the same time, so that a single event, such as the closure of the Strait of Hormuz, moves oil, gas, fertiliser and freight prices together. Second, they are **deliberate**. Many recent shocks are not accidents of war but instruments of policy: sanctions, tariffs, export controls and restrictions on investment are used to gain strategic advantage. Third, they are **persistent**. Rather than a temporary disturbance followed by a return to normal, the world economy appears to be reorganising around geopolitical alignments, with supply chains, investment and finance increasingly following political lines.

The potential costs are large. The International Monetary Fund has estimated that severe fragmentation of the global economy could reduce world output by up to 7%, and by 8–12% in some countries if technology is also decoupled; even limited fragmentation would cost about 0.2% of global output (Aiyar et al., 2023). These costs would not be evenly shared. Economies that depend on imported energy and food, that sit on contested trade routes, or that have limited fiscal space to cushion shocks are likely to be most exposed.

1.3 Research has followed, but in a particular way

Research has responded to these events on a large scale. Of the 3,570 journal articles reviewed for this report, 77% were published between 2022 and 2026, and the number published in 2026 alone is more than eighteen times the number published in 2016. Geopolitics is now studied in finance, energy economics, trade, operations management, development studies, international relations and political geography.

Much of this new research, however, measures geopolitics in one way: as a single index of geopolitical risk, built by counting news articles about wars, terrorism and international tensions in a small set of

major Western newspapers. This approach has produced valuable evidence, especially on financial and energy markets. But it also shapes what policymakers can learn. An index can show that geopolitical tension moves prices; it cannot, on its own, show which kind of geopolitics is at work, how its effects travel, or who ultimately pays for them. Chapters 3 to 5 show that these are precisely the questions on which the evidence is thinnest.

1.4 Why this matters for policy

Policymakers increasingly make decisions that depend on understanding the consequences of geopolitics. Finance ministries must decide how much fiscal space to hold against energy and food shocks. Central banks must judge whether geopolitical shocks will raise inflation or depress demand. Trade and industry ministries must decide whether to encourage firms to diversify suppliers, reshore production or align with particular partners. Development agencies and social protection systems must anticipate who will be hurt when food and fuel prices rise.

Each of these decisions needs evidence that is specific about the source of the shock, the channel through which it travels and the people who bear its costs. Evidence that treats every geopolitical event as the same kind of shock, or that measures its effects only on asset prices, can mislead as easily as it can inform. Knowing the strengths and limits of the evidence base is therefore not an academic concern; it is a condition for sound policy.

1.5 About this report

This report draws on a systematic review of 3,570 peer-reviewed studies, published between 1990 and 2026, whose main subject is geopolitics and its global consequences. It combines a mapping of the whole literature with a detailed reading of a representative sample of 400 studies, each classified according to the source of geopolitical pressure it examines, the channel through which effects travel, the domain affected, who bears the consequences, and how actors respond.

The report is organised as follows. **Chapter 2** summarises what the evidence shows about the consequences of geopolitics in each major domain, with a rating of the confidence that policymakers can place in each finding. **Chapter 3** examines how geopolitical shocks are transmitted. **Chapter 4** asks who bears their costs. **Chapter 5** identifies the blind spots in the evidence that could mislead policy. Chapters 6 and 7 set out recommendations for governments, central banks, trade authorities, economies of the Global South, international organisations and research institutions, together with a roadmap for implementation.

CHAPTER 2

What we know: the global consequences of geopolitics

Chapter summary

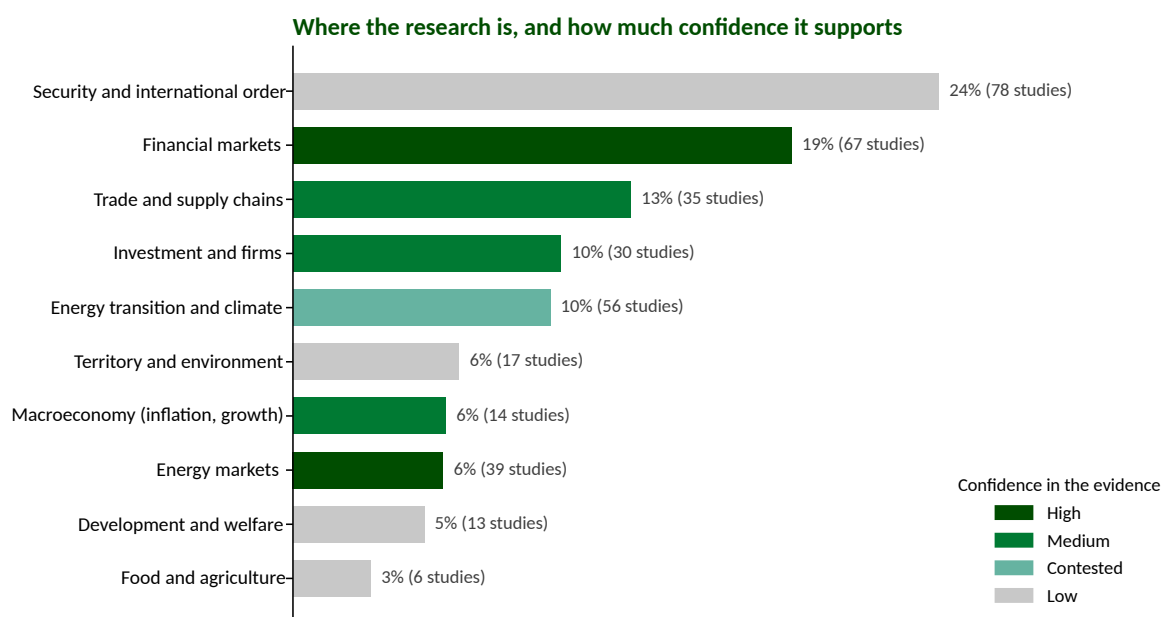
- The evidence is strongest for financial and energy markets: geopolitical shocks raise volatility, change how shocks spread between markets, and move energy prices.
- Evidence of medium strength shows that geopolitical risk raises inflation while depressing activity, disrupts trade and supply chains, and increasingly steers foreign investment towards political allies.
- The evidence is contested on the energy transition and thin on food security, development and welfare, which are among the areas that matter most for people.

2.1 How to read the evidence

This chapter summarises what research shows about the consequences of geopolitics in each major domain. Each finding carries a confidence rating that reflects the quantity, consistency and design of the underlying studies. The ratings are deliberately conservative: they describe how far policymakers can rely on the evidence, not how important the domain is.

Rating	Meaning
HIGH	Many studies (30 or more in the coded sample) using several methods find a consistent pattern.
MEDIUM	A moderate number of studies find a broadly consistent pattern, but most rely on correlation, or evidence comes mainly from a few strong studies.
CONTESTED	A substantial body of studies reaches conflicting conclusions.
LOW	Few studies, mostly qualitative or conceptual, or no estimable effect.

Research effort is unevenly distributed across domains ([Figure 2.1](#)). Security and international order and financial markets together account for more than 40% of the literature. Food and agriculture, which affect the largest number of people, account for 3%.

Figure 2.1 Share of research by consequence domain and confidence in the evidence

Source: Author's own elaboration.

Box 1. What the “geopolitical risk index” measures, and what it does not

The most widely used measure of geopolitics in economic research is the Geopolitical Risk (GPR) index developed by [Caldara and Iacoviello \(2022\)](#). It measures the share of articles in a set of leading US, UK and Canadian newspapers that discuss adverse geopolitical events and threats, such as wars, terrorism and military tensions. Separate indices distinguish geopolitical *threats* from geopolitical *acts*, historical versions extend back to 1900, and country-specific versions are built from the same newspapers.

The index has transformed research: it allows the effects of geopolitics to be compared across countries and over more than a century. It is cited by more than half of all economics and finance studies in this review. But policymakers should keep three limits in mind. **It measures attention, not exposure:** it records how much Anglo-American newspapers write about geopolitical events, not how exposed a particular economy is. **It aggregates different shocks:** a war, a sanctions regime and a diplomatic crisis all raise the same number. **It does not identify channels:** a statistical link between the index and an outcome does not show how the effect arises. About 15% of studies that use the index apply its global version to a single non-Western economy, implicitly assuming that the geopolitics reported in Western newspapers is the geopolitics that matters there.

2.2 Financial markets

Confidence: **HIGH**

Financial markets are the most thoroughly studied domain. The evidence consistently shows that geopolitical shocks raise market volatility and change how shocks spread between markets, but the direction of the effect on returns differs across assets and conditions. The Russia-Ukraine conflict

reorganised connectedness between Russian, European and commodity markets (Umar et al., 2022), and geopolitical risk raises the transmission of shocks from energy and agricultural markets while reducing it for metals (Gong and Xu, 2022). Gold repeatedly emerges as a haven during geopolitical stress (Shahzad et al., 2023).

Effects are typically asymmetric: they are larger in periods of market stress, at extreme quantiles of returns, and for geopolitical acts than for threats. Almost half of the studies in this domain report such mixed or asymmetric effects rather than a uniform decline in asset values.

Why this rating. 67 coded studies, almost all quantitative, find consistent evidence of higher volatility and changing spillovers. Most estimates are correlational, and very few test the channel through which effects arise.

For policy. Financial supervisors and central banks should treat geopolitical shocks as a source of volatility and contagion across asset classes, and include them in stress tests, rather than assume a uniform fall in asset prices.

2.3 Energy markets

Confidence: **HIGH**

Geopolitical shocks move energy prices and strengthen the transmission of shocks across energy markets, with effects concentrated in periods of conflict (Jin et al., 2023). The 2022 invasion of Ukraine had a much stronger effect on European natural gas prices than on US or Asian prices, reflecting the regional segmentation of gas markets (Aizenman et al., 2024). The 2026 closure of the Strait of Hormuz, which cut oil flows through the strait from around 20 million barrels a day to a trickle and pushed Brent crude close to \$120 a barrel (International Energy Agency, 2026a), confirms in real time what the research documents: energy is the main route through which geopolitical conflict reaches the world economy.

Why this rating. 39 coded studies point consistently to adverse effects for energy importers and to stronger market spillovers, and the evidence is corroborated by recent events. Evidence on how long the effects persist is weaker.

For policy. Energy-importing economies should treat geopolitical supply disruption as a central risk to energy security and plan strategic reserves, supplier diversification and demand-side buffers accordingly.

2.4 The energy transition and climate

Confidence: **CONTESTED**

The evidence on how geopolitics affects the energy transition is divided. Some studies find that geopolitical risk impedes investment in renewable energy, for example among Chinese energy firms (Abbas et al., 2023), and is associated with higher carbon emissions. Others find that geopolitical risk stimulates the transition by raising the strategic value of energy independence (Su et al., 2021). In the coded sample, about half of the studies with an estimable effect report adverse effects and a fifth report beneficial ones, the highest share of any domain.

A separate body of analysis argues that the transition will itself reshape geopolitics, as hydrogen and renewables redraw the geography of energy trade and dependence (Van de Graaf et al., 2020; Scholten et al., 2020).

Why this rating. 56 coded studies reach conflicting conclusions, and the direction of causality is often unclear: geopolitical risk may affect the transition, but the transition also changes geopolitical risk.

For policy. Governments should not assume that geopolitical shocks will either accelerate or derail the transition. The outcome depends on policy: shocks can be used to accelerate the shift to domestic clean energy, or they can divert investment back to fossil fuels.

2.5 Trade and supply chains

Confidence: **MEDIUM**

Geopolitical risk raises pressure on global supply chains in the short run (Qin et al., 2023), and firms respond by redesigning supply chains, although their responses are constrained by institutional pressures, the mobility of their assets and their perception of the severity of the risk (Roscoe et al., 2022). A recent review of the operations literature finds that regionalisation, back-shoring and new technologies are the main strategies for mitigating geopolitical disruption (Bednarski et al., 2025).

Why this rating. 35 coded studies, 70% of those with an estimable effect reporting adverse consequences, but fewer than half are quantitative and few use causal designs.

For policy. Trade authorities should monitor the concentration of critical supply chains and the exposure of key routes, such as the Red Sea and the Strait of Hormuz, rather than rely on aggregate risk indicators.

2.6 Foreign investment and firms

Confidence: **MEDIUM**

Foreign direct investment is increasingly shaped by geopolitical alignment. Using data on more than 300,000 greenfield investment projects between 2003 and 2022, Aiyar et al. (2024) show that geopolitical alignment plays an economically significant role in where investment goes, and that this effect has strengthened since the US–China trade tensions of 2018. Firms also respond strategically to geopolitical tension, for example by improving their environmental, social and governance performance in host countries where tension with their home country is rising (Kim et al., 2025).

Why this rating. 30 coded studies, including the largest number of causal designs of any domain, but evidence remains concentrated on large multinationals and a few source countries.

For policy. Economies seeking investment should recognise that geopolitical alignment now affects their attractiveness, and that connector economies with good relations across blocs may gain from the reallocation of investment.

2.7 Inflation and growth

Confidence: **MEDIUM**

Geopolitical risk raises inflation while lowering economic activity, a stagflationary combination. Using data for 44 economies since 1900, Caldara et al. (2026) find that higher geopolitical risk foreshadows higher inflation, accompanied by lower activity, higher military spending and public debt, supply disruptions and a decline in trade; at the global level, the inflationary effects of higher commodity prices and currency depreciation outweigh the deflationary effects of weaker sentiment. Other work finds that the inflationary effect of geopolitical risk is shorter-lived than that of supply-chain pressures (Asadollah et al., 2024).

Why this rating. Only 14 coded studies, but they are almost all quantitative, 85% of those with an estimable effect find adverse effects, and the leading study covers more than a century of data across many economies.

For policy. Central banks should treat geopolitical shocks as supply shocks that can raise inflation and depress growth at the same time, and communicate how they will respond to such trade-offs.

2.8 Food and agriculture

Confidence: **LOW**

Despite the food price shock of 2022, food is the least studied domain. The available evidence shows that geopolitical shocks move grain and energy prices and that effects differ across regions. The

invasion of Ukraine moved wheat, corn and especially European natural gas markets (Aizenman et al., 2024), and geopolitical risk affected food prices differently in Eastern and Western Europe (Sohag et al., 2023).

Why this rating. Only 6 coded studies, of which only a third are quantitative. The direction of effects is consistent with observed price spikes, but the evidence on who is affected and how is very thin.

For policy. Food-importing countries cannot yet rely on research to anticipate the effects of geopolitical shocks on food security; they should invest in monitoring and in the analysis of their own exposure (Box 2).

Box 2. The 2022 food and energy shock: what it revealed

Russia's invasion of Ukraine in February 2022 affected two countries that together accounted for about 30% of global wheat exports. In March 2022, the FAO Food Price Index reached 159.3 points, its highest level since the index began in 1990, up 12.6% from February (Food and Agriculture Organization, 2022). Energy prices rose at the same time, raising the cost of fertiliser and transport.

Research quickly documented the market response. Using daily data, Aizenman et al. (2024) estimate that the invasion shock moved wheat prices by 2%, corn by 1% and European natural gas by 7.5%, with much stronger effects in Europe than in the United States or Asia. But the review found only six studies in its coded sample whose main focus is food and agriculture, and very few that follow the shock from world prices to the households that bear it. The shock revealed the vulnerability of import-dependent economies in the Middle East, North Africa and Sub-Saharan Africa; the evidence base has not yet caught up with that vulnerability.

2.9 Development, welfare and security

Confidence: **LOW**

The consequences of geopolitics for development and human welfare are studied mostly through qualitative work. Studies show how sanctions regimes undermined targeted states' responses to the COVID-19 pandemic (Seyfi et al., 2023) and how war reaches into intimate and everyday life (Pain, 2015). The large literature on security and international order, which accounts for nearly a quarter of all research, examines how geopolitical projects such as the Belt and Road Initiative reshape cooperation and competition (Flint and Zhu, 2019), but rarely estimates their effects.

Why this rating. 13 coded studies on development and welfare, mostly qualitative; 78 on security and order, almost none quantitative and half without an estimable effect.

For policy. Development agencies should not assume that the welfare costs of geopolitical shocks are known. Measuring them, particularly for poor households, is a priority for research and statistical systems.

2.10 Summary of the evidence

Table 2.1 summarises the main findings. The overall pattern is clear: the evidence is strongest where it matters least directly for people's welfare, in asset and commodity markets, and weakest where it matters most, in food security, development and household welfare.

Table 2.1 What we know about the consequences of geopolitics

Domain	Main finding	Coded studies	Confidence
Financial markets	Shocks raise volatility and change cross-market spillovers; effects are asymmetric; gold acts as a haven	67	HIGH
Energy markets	Shocks raise prices and spillovers, especially in regionally segmented markets such as European gas	39	HIGH
Energy transition	Divided: shocks can impede or accelerate the shift to renewables	56	CONTESTED
Trade and supply chains	Shocks raise supply-chain pressure; firms redesign supply chains under constraints	35	MEDIUM
Investment and firms	Geopolitical alignment increasingly shapes foreign investment	30	MEDIUM
Inflation and growth	Geopolitical risk raises inflation and lowers activity	14	MEDIUM
Food and agriculture	Shocks move grain and energy-related prices; regional effects differ	6	LOW
Development and welfare	Sanctions and war harm health and welfare; few estimates	13	LOW
Security and order	Geopolitical projects reshape cooperation and competition; rarely estimated	78	LOW

Source: Author's own elaboration.

CHAPTER 3

How shocks travel

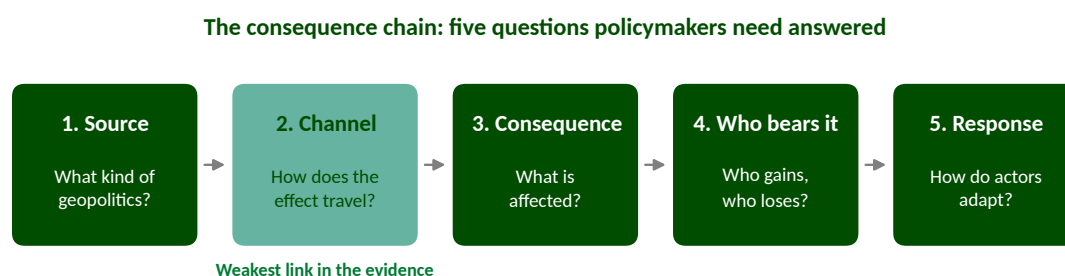
Chapter summary

- Geopolitical shocks reach economies through six main channels: prices, physical disruption, uncertainty, policy responses, expectations, and changes in rules and institutions.
- The channel is the weakest link in the evidence. Nearly 3 in 10 studies name no channel at all, and only 7% test the channel they propose.
- Policy depends on the channel. The same rise in a geopolitical risk index can call for monetary, trade, energy or social policy responses, depending on how the shock is transmitted.

3.1 From a geopolitical event to an economic outcome

Every geopolitical shock follows a chain from its source to its final effects (Figure 3.1). A source, such as a war, a sanctions regime or a strategic rivalry, acts through one or more transmission channels; these channels produce consequences in particular markets or sectors; the consequences fall on particular countries, firms and households; and those affected respond, sometimes in ways that reshape geopolitics itself. For policy, the second link is decisive. Knowing that geopolitical tension has risen is of limited use unless one also knows how the effects will travel, because the channel determines which policy instrument can respond.

Figure 3.1 The consequence chain



Source: Author's own elaboration.

3.2 Six channels of transmission

The literature identifies six main channels through which geopolitical shocks reach economies (Table 3.1). They differ in speed, in the sectors they affect, and in the policy instruments that can address them.

Table 3.1 Channels of transmission, with examples and indicators to monitor

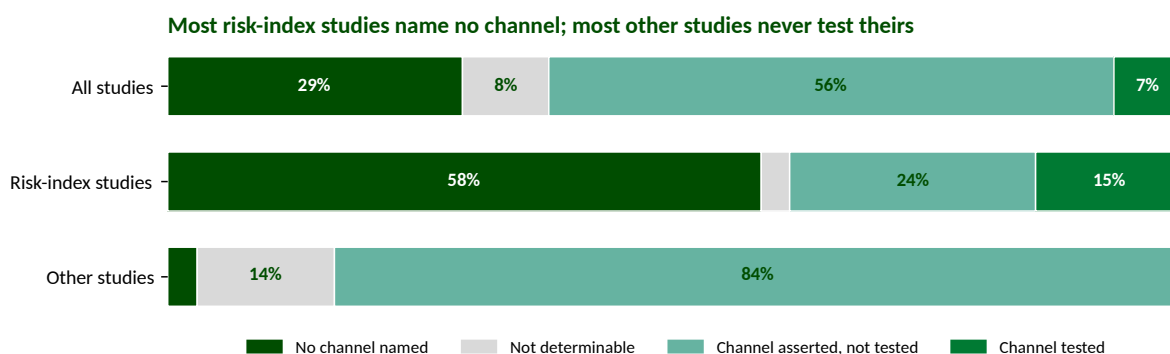
Channel	How it works	Recent example	Indicators to monitor
Prices	Supply fears or cuts raise the prices of energy, food and other commodities, feeding into inflation and the terms of trade	Brent crude came close to \$120 a barrel after the 2026 closure of the Strait of Hormuz	Commodity futures, import price indices, fertiliser and freight costs
Physical disruption	Wars, blockades and attacks interrupt production, transport and trade flows	Container shipping through the Red Sea fell by about 90% between December 2023 and February 2024	Shipping transits at chokepoints, port calls, delivery times, inventories
Uncertainty	Firms delay irreversible investment and hiring; investors demand higher risk premia (Bernanke, 1983; Bloom, 2009)	Higher geopolitical risk is followed by lower investment and employment (Caldara and Iacoviello, 2022)	Investment intentions, risk premia, capital flows, volatility indices
Policy response	Governments respond with tariffs, export controls, subsidies, alliances or industrial policy, which then reshape markets	US tariffs of April 2025; export controls on advanced semiconductors	Trade and investment measures, export-control lists, industrial subsidies
Expectations and sentiment	News and narratives shift the expectations of consumers, investors and firms before any physical effect occurs	Market reactions to threats of conflict, as distinct from actual attacks	News-based indices, consumer and business confidence surveys
Institutions and rules	Sanctions, exclusion from payment systems and changes in international rules alter how trade and finance can be conducted (Farrell and Newman, 2019)	Exclusion of Russian banks from international payment messaging in 2022	Sanctions lists, payment-system access, investment-screening regimes

Source: Author's own elaboration.

3.3 What the evidence says about channels

The channel is where the evidence is weakest. In the coded sample of studies, 29% link a geopolitical source to an outcome without naming any channel, and a further 8% give too little information to identify one. Among the studies that do name a channel, policy responses (24% of all studies) and institutional change (13%) are cited most often, followed by physical disruption (12%), uncertainty (7%), prices (6%) and sentiment (2%). Most importantly, only 7% of studies actually test the channel they propose; more than half assert a channel without testing it.

The two main research traditions fail at this link in different ways (Figure 3.2). Studies that measure geopolitics with a risk index mostly name no channel (58%): they establish that the index is associated with an outcome but not how. Studies in the political and geographical traditions almost always name a channel but almost never test it (84% assert one without testing). Neither gives policymakers what they most need: tested evidence on how a particular kind of geopolitical shock is transmitted.

Figure 3.2 How studies treat the transmission channel

Source: Author's own elaboration.

3.4 The channel depends on the source

Whether a channel is identified depends heavily on how the source of the shock is defined. Of the 153 coded studies whose source is an aggregate risk index, 107 (70%) name no channel. By contrast, studies of more specific sources almost always identify one (studies of particular wars are an exception, with a third naming no channel): studies of sanctions, tariffs and other instruments of statecraft most often point to physical disruption, studies of strategic rivalry to policy responses such as export controls and industrial policy, and studies of geopolitical narratives to expectations and sentiment. The lesson is straightforward: **the more specifically a shock is defined, the more can be said about how it travels.**

Illustration: one index, three different shocks

Suppose a geopolitical risk index rises sharply. The same rise could reflect three very different events, each calling for a different response.

- **A blockade of a major shipping route.** The main channels are physical disruption and prices. The relevant responses are energy and food security measures, such as the release of strategic reserves, alternative routes and targeted support for vulnerable households.
- **New export controls on critical technologies.** The main channel is policy response. The relevant responses lie in trade and industrial policy, such as diversifying suppliers, negotiating exemptions and supporting affected firms.
- **A diplomatic crisis with no physical disruption.** The main channel is expectations. The relevant response may be clear communication by central banks and governments to prevent an overreaction in markets.

Treating all three as the same “geopolitical shock” risks applying the wrong instrument: tightening monetary policy against a temporary sentiment shock, for example, or relying on communication when supply is physically interrupted.

3.5 Implications for policy

Three implications follow for institutions that monitor and respond to geopolitical risk.

- **Monitor channels, not only indices.** Aggregate risk indices are useful as a summary of the geopolitical climate, but they should be complemented by channel-specific indicators, such as chokepoint transits, commodity prices, trade measures, sanctions lists and investment intentions (Table 3.1).
- **Match the instrument to the channel.** Monetary policy is suited to managing the inflationary effects of price channels; trade and industrial policy to disruptions and policy shocks; communication to sentiment shocks; and fiscal and social policy to protecting those who bear the costs.
- **Demand tested evidence on channels.** Policymakers who commission or use research should ask not only whether geopolitics has an effect, but through which channel, and whether that channel has been tested. Chapter 7 proposes ways to build this evidence.

CHAPTER 4

Who pays the price

Chapter summary

- Research measures the consequences of geopolitics mainly for states (51% of studies), markets and investors (23%) and firms (14%). Households are the affected party in only 6% of studies.
- Emerging and developing economies are among the most exposed to geopolitical shocks, yet their share of research has fallen since 2022, and their exposure is often measured with indicators built from Western news sources.
- The 2026 Gulf war shows the stakes: the UN Development Programme estimated that four weeks of war could cost Arab economies between \$120 billion and \$194 billion and push up to 4 million more people into poverty.

4.1 The costs are real, and unevenly shared

Geopolitical shocks do not fall evenly. Their costs depend on where an economy sits in relation to trade routes, energy and food supplies, and political blocs, and on how much room its government has to cushion the shock. The International Monetary Fund has concluded that emerging market economies and low-income countries are likely to be most at risk from the fragmentation of trade and technology, and that the unravelling of trade links would most adversely affect low-income countries and less well-off consumers in advanced economies (Aiyar et al., 2023).

Recent events bear this out. In an illustrative scenario of four weeks of military escalation, the UN Development Programme estimated in March 2026 that the war could reduce the combined output of Arab economies by between 3.7% and 6.0%, or \$120–194 billion, eliminate up to 3.6 million jobs and push up to 4 million more people into poverty, about three-quarters of them in the Levant (United Nations Development Programme, 2026). The same war raised energy and transport costs far beyond the region, for every economy that imports oil and gas.

4.2 What the evidence says about who bears the costs

The research reviewed for this report gives a partial picture of who bears these costs. Half of all studies (51%) examine the consequences of geopolitics for states, typically their security, energy supply or macroeconomic performance. Almost a quarter (23%) examine markets and investors, and 14% examine firms. Households, the people who ultimately pay higher prices, lose jobs or are displaced, are the main affected party in only 6% of studies; regions and cities, and international organisations, account for 3% each.

The gaps are systematic (Figure 4.1). Studies of financial markets examine investors almost exclusively. Studies of energy, the energy transition and the macroeconomy examine states. Households appear mainly in a small number of qualitative studies of security, development and food. In studies that measure geopolitics with a risk index, households are almost entirely absent: they are the affected party in 0.1% of such studies.

Figure 4.1 Evidence-gap map: number of studies by domain and affected actor

	States	Markets and investors	Firms	Households	Regions and cities	International organisations
Financial markets	2	60	5	-	-	-
Energy	23	16	-	-	-	-
Transition & climate	49	5	2	-	-	-
Food & agriculture	1	1	-	3	1	-
Trade & supply chains	15	1	15	1	-	3
Investment & firms	8	-	22	-	-	-
Macroeconomy	14	-	-	-	-	-
Development & welfare	8	-	-	5	-	-
Security & order	66	-	1	5	-	6
Territory & environment	10	-	-	2	5	-

Source: Author's own elaboration.

About a third of studies (35%) report that effects are uneven, but this unevenness is mostly measured across markets, countries or statistical quantiles rather than across people. The literature can therefore say a good deal about which asset classes or countries are hit hardest, and very little about which households, workers or regions within countries bear the costs.

4.3 The Global South: most exposed, least studied

About 29% of studies focus on consequences in the Global South, compared with 26% for the Global North and 38% for global aggregates. This share is not small, but it has moved in the wrong direction. It rose to about half of studies in 2018–2021 and then fell to about a quarter in 2022–2026, just as the war in Ukraine, the Red Sea crisis and the 2026 Gulf war exposed the vulnerability of import-dependent economies in Africa, the Middle East and South Asia.

Where the Global South is studied, it is often seen through measures built elsewhere. About 15% of studies that use the geopolitical risk index apply its global version, built from US, UK and Canadian newspapers, to a single non-Western economy. The research is also produced mostly outside the regions most affected: authors based in Africa lead about 4% of studies, and authors based in Morocco 15 of the 3,570 studies reviewed. The regions that bear many of the costs of geopolitical shocks therefore have little part in defining how those costs are measured.

4.4 How geopolitical shocks reach households

Although research rarely follows geopolitical shocks to households, the channels through which they arrive are well understood from other fields. Four stand out.

- **Food and energy prices.** Poorer households spend a larger share of their income on food and energy, so price shocks like those of 2022 and 2026 reduce their real incomes most.
- **Jobs in exposed sectors.** Workers in industries that depend on disrupted trade routes, sanctioned markets or targeted technologies face lost hours, wages and jobs.

- **Public budgets.** Governments that spend more on energy subsidies, defence or debt service when geopolitical risk rises may cut spending on health, education and social protection.
- **Remittances, migration and displacement.** Wars and sanctions disrupt the flows of people and money on which many households in the Middle East, North Africa and Central Asia depend.

Each of these channels can be measured with existing household surveys, labour-force data and budget data. That they are rarely connected to geopolitical shocks is a gap in research design, not in data availability.

Box 3. A view from Morocco and the Middle East and North Africa

Morocco illustrates both the exposure and the opportunities that geopolitical fragmentation creates for economies in the region.

Exposure. Morocco imports about 90% of its energy needs ([US International Trade Administration, n.d.](#)), so energy price shocks such as those of 2022 and 2026 pass directly into its trade balance, public finances and household budgets. Like most economies in the region, it relies on imported cereals, which links its food security to conditions in the Black Sea and global grain markets. Across the region, the 2026 Gulf war showed how quickly conflict can affect output, employment and poverty.

Opportunities. Fragmentation also creates opportunities for economies that maintain links with more than one bloc. Morocco has trade agreements with both the European Union and the United States, sits at the entrance to the Mediterranean, and has expanded renewable electricity, with a target for renewables to provide more than half of installed electricity capacity by 2030. As firms in Europe and elsewhere seek to shorten and diversify supply chains, such connector economies may attract investment that is reallocated from more distant or politically distant locations. Whether they do depends on policy, infrastructure and skills.

Measurement. Policymakers in the region need indicators of geopolitical exposure that reflect their own trade, energy and financial links, not only the coverage of Western newspapers. Central banks, statistical offices and universities in the region are well placed to build them ([Chapter 6](#)).

4.5 Implications for policy

- **Put distribution at the centre of risk assessment.** Governments assessing geopolitical risk should ask not only how much output or inflation might change, but who will bear the cost, and should link geopolitical scenarios to household and labour-market data.
- **Prepare targeted protection in advance.** Because food and energy price shocks hit poorer households hardest, social protection systems should have pre-designed, rapidly scalable responses for geopolitical price shocks, rather than improvising them after the shock.
- **Build measurement capacity in the Global South.** Exposed economies should develop their own indicators of geopolitical exposure and contribute to the research that shapes international assessments.

CHAPTER 5

Blind spots that mislead policy

Chapter summary

- Since 2018 research has increasingly treated geopolitics as a single measurable risk. This “riskification” has produced valuable evidence but also five blind spots.
- The blind spots are: one number for many different shocks; measures built from other countries’ news; correlation read as causation; responses that are recommended but rarely evaluated; and two research communities that seldom draw on each other.
- None of these blind spots makes the evidence useless. But each can lead policymakers to the wrong conclusion if it is not recognised. A simple checklist can help (Section 5.7).

5.1 How research came to see geopolitics as a single risk

For most of the period covered by this review, geopolitics was studied as a matter of territory, power and strategy. Since 2018, a different approach has come to dominate. Geopolitics is increasingly treated as a single measurable risk, captured by an index and entered into statistical models alongside other economic variables. In 2022, “geopolitical risk” overtook “geopolitics” as the most common keyword in the field (Figure 5.1). In the sample of studies examined in detail, those treating geopolitics primarily as a measurable risk rose from 2% before 2018 to 56% in 2022–2026, and 41% of all recent studies use the same index.

Figure 5.1 The crossover: how “geopolitical risk” overtook “geopolitics”



Source: Author’s own elaboration.

This shift, which this report calls the *riskification* of geopolitics (borrowing a term from security studies; Corry, 2012), has real advantages. It allows comparisons across countries and over long periods and

has generated a large body of evidence on markets. But it has also created blind spots. Five are particularly relevant for policy.

5.2 Blind spot 1: one number for many different shocks

The most common source of geopolitical pressure in the literature is not a specific event or instrument but an aggregate index; it is the source in about a third of all studies and 57% of quantitative ones. An aggregate index adds together very different events: a war, a sanctions regime, a terrorist attack and a diplomatic crisis. [Chapter 3](#) showed that these events travel through different channels and call for different responses. When they are combined into one number, research cannot tell policymakers which kind of geopolitics produces which effect, and a finding that “geopolitical risk raises inflation” may hold for supply disruptions but not for diplomatic tensions.

5.3 Blind spot 2: measuring with someone else’s news

The most widely used index is built from a small set of US, UK and Canadian newspapers ([Box 1](#)). It measures how much these newspapers write about geopolitical events, which is a reasonable proxy for the geopolitical concerns of Western markets. It is a less reliable proxy for the exposure of other economies. About 15% of studies that use the index apply its global version to a single non-Western economy, and only about 11% check their results against a second measure of geopolitics. A border dispute that dominates the agenda in North Africa or South Asia may barely register in Western newspapers, while events that matter little to a given economy may register strongly. Policymakers outside Europe and North America should therefore be cautious about evidence that measures their exposure through foreign news coverage.

5.4 Blind spot 3: correlation read as causation

Almost all quantitative studies in the field (91%) estimate correlations or statistical spillovers between geopolitical indicators and economic outcomes; only about 3% use designs that can identify causal effects, such as natural experiments or comparisons of exposed and unexposed groups before and after a shock. Yet the language of research often suggests more: in more than a third of quantitative studies (38%), the abstract describes geopolitical risk as “driving”, “causing” or “leading to” outcomes that the research design can only show to be associated with it. Combined with the absence of tested transmission channels ([Chapter 3](#)), this means that much of the evidence shows *that* geopolitical tension and economic outcomes move together, not *why*, or whether policy could break the link.

5.5 Blind spot 4: responses recommended but rarely evaluated

Policy debate is dominated by responses to geopolitical risk: resilience, diversification, reshoring, near-shoring, friend-shoring, strategic reserves and alliances. The research base on whether these responses work is thin. Almost two-thirds of studies (63%) do not examine any response. Many recommend responses in their conclusions without evaluating them. Reshoring, near-shoring and friend-shoring, which are at the centre of current trade and industrial policy, are evaluated as responses in only 6 of the 355 studies examined in detail. Policymakers are therefore committing substantial resources to responses whose costs and benefits have rarely been measured ([Box 4](#), [Chapter 6](#)).

5.6 Blind spot 5: two communities that seldom draw on each other

Research on the consequences of geopolitics is divided between two communities. Economists and finance scholars, who now produce most of the quantitative evidence, draw on a common set of measurement and statistical methods. Political scientists and geographers, who study how geopolitical power works, draw on theories of territory, power and discourse. Of the 100 works cited most often by each community, only two are shared. Neither community, moreover, typically defines what it means by geopolitics: almost no study in the sample states a definition in its abstract. The result is evidence that is strong on measurement but weak on mechanisms, or strong on mechanisms but weak on measurement, and rarely both. International business research, which needs both to explain how firms respond, is the main bridge between the two.

Table 5.1 Five blind spots and what they mean for policy

Blind spot	Evidence from the review	Risk for policy	What to ask
One number for many shocks	An aggregate index is the source in about a third of studies and 57% of quantitative ones	Applying the same response to wars, sanctions and diplomatic crises	Which specific source of geopolitical pressure does the finding concern?
Someone else's news	15% of index users apply the global version to one non-Western economy; 11% use a second measure	Misjudging exposure outside Europe and North America	Does the measure reflect this economy's own exposure?
Correlation read as causation	91% of quantitative studies are correlational; about 3% use causal designs	Expecting policy to change outcomes that are only associated with geopolitics	Is the effect causal, and is the channel tested?
Responses not evaluated	63% examine no response; reshoring and friend-shoring are evaluated in 6 studies	Committing resources to untested strategies	Has the response been evaluated, and at what cost?
Two separate communities	Only 2 works shared among each community's 100 most cited	Evidence strong on numbers or on mechanisms, rarely both	Does the study combine measurement with an explanation of how?

Source: Author's own elaboration.

5.7 A checklist for using geopolitical research in policy

Six questions to ask of any study on the consequences of geopolitics

- **What kind of geopolitics?** Does the study identify a specific source, such as a war, sanctions or rivalry, or does it rely on an aggregate index?
- **Measured from whose perspective?** Does the measure of geopolitics reflect the exposure of the economy in question?
- **Through which channel?** Does the study name the channel through which effects travel, and has it tested it?
- **Causal or associated?** Does the design support causal claims, or only show that variables move together?
- **Who bears the cost?** Does the study show who is affected, beyond states and markets?
- **What works in response?** If the study recommends a response, has that response been evaluated?

A study does not need to answer all six questions to be useful. But the more of them it leaves unanswered, the more caution policymakers should exercise in acting on its conclusions.

CHAPTER 6

Policy recommendations

Chapter summary

- Four principles follow from the evidence: be specific about the source of the shock, act on the channel through which it travels, protect those who bear its costs, and evaluate responses before scaling them up.
- The chapter sets out 22 recommendations for six groups: governments and finance ministries; central banks and financial supervisors; trade, industry and energy authorities; economies of the Global South; international organisations; and statistical agencies, research funders and researchers.
- Some recommendations rest on strong evidence; others respond to gaps in the evidence. Each indicates its evidence base.

6.1 Four principles

The recommendations in this chapter follow from four principles, each responding to one of the main findings of this report.

- **Be specific about the source.** A war, a sanctions regime, a tariff escalation and a diplomatic crisis are different shocks. Risk assessments and policy responses should identify which kind of geopolitical pressure they address ([Chapter 5](#)).
- **Act on the channel.** The right instrument depends on how a shock travels: through prices, physical disruption, uncertainty, policy responses, expectations or rules ([Chapter 3](#)).
- **Protect those who bear the costs.** The costs of geopolitical shocks fall unevenly, and most heavily on import-dependent economies and poorer households, yet these are the least studied ([Chapter 4](#)).
- **Evaluate before scaling up.** Responses such as reshoring and friend-shoring are being adopted faster than evidence on their costs and benefits is being produced ([Chapter 5](#) and [Box 4](#)).

6.2 Governments and finance ministries

1 Replace generic geopolitical risk with specific scenarios.

Fiscal risk statements and medium-term budget frameworks should model a small number of specific geopolitical scenarios, such as the closure of a major shipping chokepoint, sanctions affecting a key trading partner, or a tariff escalation, each traced through its channels to output, prices, public finances and households.

Evidence base: Chapters 3 and 5; recent shocks in Chapter 1.

2 Size fiscal buffers to energy and food import exposure.

Economies that import most of their energy and staple foods should hold fiscal space in proportion to that exposure, and should design in advance temporary, targeted support for vulnerable households rather than broad and costly price subsidies.

Evidence base: Energy markets (High confidence, Chapter 2); distribution (Chapter 4).

3 Subject strategic interventions to cost-benefit analysis and evaluation.

Subsidies for reshoring, strategic stockpiles and investment screening should be assessed before adoption and evaluated afterwards, with clear objectives for the reduction in exposure they are meant to achieve.

Evidence base: Responses rarely evaluated (Chapter 5).

6.3 Central banks and financial supervisors

4 Build channel-based geopolitical scenarios into stress tests.

Stress tests should include scenarios for energy price spikes, cross-market contagion, and exclusion from payment systems or sanctions on counterparties, reflecting the strong evidence that geopolitical shocks raise volatility and change how shocks spread between markets.

Evidence base: Financial markets (High confidence, Chapter 2).

5 Treat major geopolitical shocks as supply shocks, and say so.

Because geopolitical risk tends to raise inflation while lowering activity, central banks should explain in advance how they will weigh these competing effects, and distinguish persistent supply disruptions from temporary sentiment shocks that need no monetary response.

Evidence base: Inflation and growth (Medium confidence, Chapter 2); channels (Chapter 3).

6 Monitor exposure to the institutional channel.

Central banks should assess the exposure of reserves, correspondent banking relationships and payment arrangements to sanctions and to changes in access to international payment systems.

Evidence base: Institutions and rules channel (Chapter 3).

7 Use more than one measure of geopolitical risk.

Analysis should combine global indices with country-specific and locally built measures, and check whether conclusions hold across them.

Evidence base: Measurement blind spot (Chapter 5).

6.4 Trade, industry and energy authorities

8 Map critical dependencies and chokepoint exposure.

Authorities should identify the products, inputs and routes on which the economy depends most heavily from a small number of suppliers or through a small number of chokepoints, and monitor them with channel-specific indicators such as transit volumes, delivery times and inventories.

Evidence base: Trade and supply chains (Medium confidence, Chapter 2); indicators (Table 3.1).

9 Favour diversification over relocation until evidence improves.

Diversifying suppliers and routes is generally less costly and more flexible than relocating production. Large-scale reshoring or friend-shoring programmes should be piloted and evaluated before they are expanded (Box 4).

Evidence base: Friend-shoring evidence (Box 4).

10 Use energy security to accelerate the energy transition.

Because the evidence on how geopolitical shocks affect the transition is divided, policy should actively steer the response: strategic reserves and supplier diversification for the short term, and domestic renewable energy and interconnection for the long term.

Evidence base: Energy transition (Contested evidence, Chapter 2).

Box 4. Friend-shoring: what the evidence does and does not show

“Friend-shoring”, relocating supply chains and investment towards politically aligned countries, has moved to the centre of trade and industrial policy. The evidence shows clearly that it is **happening**. Using data on more than 300,000 greenfield investment projects from 2003 to 2022, [Aiyar et al. \(2024\)](#) find that geopolitical alignment plays an economically significant role in where foreign investment goes, and that its role has grown since the US–China trade tensions of 2018. Firm-level studies show that companies are redesigning supply chains in response to geopolitical disruption, although institutional pressures, the mobility of their assets and their perception of risk constrain how far they can go ([Roscoe et al., 2022](#)), and regionalisation and back-shoring are prominent mitigation strategies ([Bednarski et al., 2025](#)).

The evidence is much weaker on whether friend-shoring **works**, and at what cost. Only 6 of the 355 studies examined in detail for this report examine reshoring, near-shoring or friend-shoring as a response. They document that it is occurring and how it is organised; one finds that US firms reducing their supply bases in politically distant countries face more complex supply bases, and another weighs its benefits for critical minerals against environmental, social and feasibility risks. None estimates whether friend-shoring actually reduces exposure to geopolitical shocks. Meanwhile, the IMF estimates that severe fragmentation of the global economy along geopolitical lines could reduce world output by up to 7% ([Aiyar et al., 2023](#)). Friend-shoring may reduce exposure to some geopolitical risks while increasing costs, concentrating dependence on a smaller set of partners, and excluding economies outside the main blocs.

For policy: treat friend-shoring as a hypothesis to be tested rather than a proven strategy. Set measurable objectives for reduced exposure, evaluate pilots, and weigh the gains against the costs of fragmentation. Connector economies outside the main blocs can benefit from the reallocation of investment, but only if they maintain open links in more than one direction.

6.5 Economies of the Global South, including the Middle East and North Africa

11 Build national indicators of geopolitical exposure.

Central banks, statistical offices and universities should develop indicators that reflect the economy’s own trade, energy, food and financial links, including news-based measures built from regional and local-language sources, rather than relying only on indices built from Western newspapers.

Evidence base: Measurement blind spot (Chapter 5); Box 3.

12 Prepare social protection for geopolitical price shocks.

Cash transfer and subsidy systems should have pre-designed, rapidly scalable responses to food and energy price shocks, targeted at the households most exposed.

Evidence base: Distribution and households (Chapter 4); Box 2.

13 Position as connector economies.

Economies with links to more than one bloc should maintain trade agreements and investment relationships in several directions, and strengthen the infrastructure, logistics and skills needed to attract investment that is being reallocated.

Evidence base: Investment and firms (Medium confidence, Chapter 2); Box 3 and Box 4.

14 Strengthen regional cooperation on food and energy security.

Regional arrangements for grain storage, joint procurement and energy interconnection can reduce the exposure of individual economies to disruptions of supply and trade routes.

Evidence base: Food (Low confidence, Chapter 2); exposure of import-dependent economies (Chapter 4).

6.6 International organisations

15 Develop inclusive, source-specific measures of geopolitical exposure.

International organisations should support measures of geopolitical risk and exposure that distinguish types of shock and draw on sources from all regions, and make country-level exposure data publicly available.

Evidence base: Chapters 3 and 5.

16 Integrate distribution into surveillance.

Country surveillance and risk assessments should trace geopolitical scenarios through to households, workers and regions, particularly in low-income and import-dependent economies.

Evidence base: Chapter 4.

17 Support the evaluation of fragmentation responses.

International organisations are well placed to coordinate cross-country evaluations of reshoring, friend-shoring and strategic stockpiling, and to document their costs for third countries.

Evidence base: Box 4; Chapter 5.

18 Preserve the rules that limit the costs of fragmentation.

Maintaining multilateral rules on trade and payments, and safeguards for food, medicine and humanitarian flows, limits the costs of fragmentation for economies outside the main blocs.

Evidence base: IMF estimates of fragmentation costs (Chapters 1 and 4).

6.7 Statistical agencies, research funders and researchers

19 Adopt a reporting standard for research on geopolitics.

Studies should state how they define geopolitics, which source of geopolitical pressure they examine, which channel they expect, and who bears the consequences. Journals and funders can encourage this standard.

Evidence base: Chapters 3 and 5.

20 Fund causal designs and tests of channels.

Research funders should prioritise studies that exploit natural experiments, such as the imposition of sanctions or export controls, and that test the channels through which effects travel.

Evidence base: Correlation blind spot (Chapter 5); channels (Chapter 3).

21 Link household and firm data to geopolitical shocks.

Statistical agencies should make it possible to connect household surveys, labour-force surveys and firm data to measures of geopolitical exposure, so that distributional effects can be measured.

Evidence base: Chapter 4.

22 Bridge the two research communities.

Interdisciplinary funding calls, joint programmes and policy fellowships can bring together economists who measure geopolitical shocks and political scientists and geographers who explain how they work.

Evidence base: Blind spot 5 (Chapter 5).

Table 6.1 Recommendations at a glance

Actor	Priority recommendations	Strength of evidence behind them
Governments and finance ministries	Specific geopolitical scenarios in fiscal planning (1); buffers sized to import exposure (2); evaluate strategic interventions (3)	High for energy exposure; recommendations 1 and 3 respond to gaps
Central banks and supervisors	Channel-based stress tests (4); communicate on supply shocks (5); monitor sanctions exposure (6); use several measures (7)	High for markets; Medium for inflation
Trade, industry and energy authorities	Map dependencies and chokepoints (8); diversify before relocating (9); use energy security to drive the transition (10)	Medium for trade; Contested for the transition; weak for friend-shoring
Global South and MENA economies	National exposure indicators (11); shock-ready social protection (12); connector strategies (13); regional cooperation (14)	Low for food and households; recommendations respond to gaps
International organisations	Inclusive measures (15); distribution in surveillance (16); evaluate responses (17); preserve multilateral rules (18)	Responds to gaps; fragmentation costs estimated by the IMF
Statistical agencies, funders, researchers	Reporting standard (19); causal designs (20); link household data (21); bridge communities (22)	Responds directly to the blind spots in Chapter 5

Source: Author's own elaboration.

CHAPTER 7

From recommendations to action: a roadmap

Chapter summary

- The 22 recommendations in [Chapter 6](#) do not all need to be done at once. They fall into three phases: actions that use existing tools and can start within a year; actions that build new capacity over one to three years; and structural reforms that take longer.
- Early actions should be those that are cheap, reversible and useful in any scenario, such as mapping dependencies, adding specific scenarios to fiscal plans and stress tests, and preparing social protection for price shocks.
- Costly and hard-to-reverse responses, such as relocating production, should wait for the evaluations that the roadmap sets in motion. A small set of indicators can track whether policy and research are moving in the right direction.

7.1 Three principles for sequencing

The recommendations in [Chapter 6](#) differ in cost, in the time they take to deliver and in how easily they can be reversed. Three principles guide the order in which they should be taken up.

- **Start with “no-regret” measures.** Some actions are useful whatever happens next: knowing which imports pass through which chokepoints, or having a social protection system that can scale up quickly, pays off whether the next shock is a war, a blockade or a tariff. These come first.
- **Build capacity before commitment.** Measures that require new data, models or institutions, such as national exposure indicators or channel-based stress tests, take time. They should start early so that they are ready when larger decisions are taken.
- **Evaluate before scaling up.** Responses that are costly and hard to reverse, such as reshoring or friend-shoring, should be tested and evaluated before they are expanded. The evidence reviewed in [Chapter 5](#) shows that these responses have rarely been evaluated.

7.2 The roadmap

[Table 7.1](#) sets out the roadmap. Each action is linked to the recommendation in [Chapter 6](#) that it puts into practice, the institutions that should lead it, and the period in which it can realistically be completed. The numbers in brackets refer to the recommendations in [Table 6.1](#).

Table 7.1 Implementation roadmap for the recommendations in Chapter 6

Phase	Action (recommendation)	Lead institutions	Priority
0–12 months	Map critical dependencies on imports and the chokepoints they pass through (8)	Trade and industry ministries; statistical agencies	HIGH

Phase	Action (recommendation)	Lead institutions	Priority
0–12 months	Add two or three specific geopolitical scenarios, such as a chokepoint closure or new sanctions, to budget and debt planning (1)	Finance ministries	HIGH
0–12 months	Add channel-based geopolitical scenarios to existing stress tests (4) and check results against more than one measure of geopolitical risk (7)	Central banks; financial supervisors	HIGH
0–12 months	Prepare social protection to scale up when food and fuel prices rise: targeting rules, triggers and financing in advance (12)	Social affairs and finance ministries	HIGH
0–12 months	Explain in policy communication when a geopolitical shock is a supply shock and what this implies for inflation (5)	Central banks	MEDIUM
1–3 years	Size fiscal buffers to energy and food import exposure, using the dependency maps (2)	Finance ministries; IMF and World Bank	HIGH
1–3 years	Build national and regional indicators of geopolitical exposure, based on local news, trade and price data (11, 15)	Statistical agencies; central banks; international organisations	HIGH
1–3 years	Monitor exposure to sanctions and payment systems (6) and include distributional effects in surveillance (16)	Central banks; international organisations	MEDIUM
1–3 years	Launch evaluations of diversification, reshoring and friend-shoring measures already in place, before scaling them up (3, 9, 17)	Finance and trade ministries; international organisations	MEDIUM
1–3 years	Adopt a reporting standard for research on geopolitics and fund causal designs and tests of channels (19, 20)	Research funders; journals; universities	MEDIUM
3+ years	Use energy security policy to accelerate the energy transition and reduce exposure to oil and gas chokepoints (10)	Energy ministries; development banks	MEDIUM
3+ years	Develop connector strategies and regional cooperation on food and energy security (13, 14)	Governments of the Global South; regional bodies	MEDIUM
3+ years	Defend and modernise the multilateral rules that limit the costs of fragmentation (18)	Governments; WTO, IMF and World Bank	HIGH
3+ years	Link household and firm data to geopolitical shocks and build lasting networks between the two research communities (21, 22)	Statistical agencies; research funders	MEDIUM

Source: Author's own elaboration.

Box 5. A first-year agenda for an energy- and food-importing economy

For a middle-income economy that imports most of its energy and much of its food, such as many in the Middle East and North Africa, the first year of the roadmap could focus on four steps.

- **Know the exposure.** Identify the share of energy, cereal and fertiliser imports that pass through the Strait of Hormuz, the Red Sea and the Black Sea, and the suppliers on which they depend.
- **Plan for the scenario, not the index.** Estimate the fiscal cost of a three-month closure of one of these routes, including fuel and food subsidies, and set out in advance how it would be financed.
- **Get social protection ready.** Agree on the price levels that would trigger temporary transfers and on the households that would receive them.
- **Start the evidence.** Begin collecting the data needed to evaluate whatever diversification measures are adopted, so that their costs and benefits can be judged within three years.

7.3 Building the evidence base

Several recommendations depend on evidence that does not yet exist. [Chapter 3](#) showed that only 7% of studies test the channel through which geopolitical shocks travel, and [Chapter 5](#) that responses such as reshoring and friend-shoring have rarely been evaluated. Five research priorities would do most to close these gaps, and each corresponds to one of the blind spots identified in [Chapter 5](#).

- **Source-specific evidence.** Studies that separate wars, sanctions, tariffs, export controls and diplomatic crises, rather than combining them in one index, so that policymakers know which kind of shock produces which effect.
- **Local measures of exposure.** Indicators built from the news, trade and prices of the economy in question, especially for economies outside Europe and North America, and routine checks against more than one measure.
- **Tested channels and causal designs.** Natural experiments, event studies around specific shocks and comparisons of exposed and unexposed firms or regions, which can show not only that geopolitics matters but how.
- **Evaluations of responses.** Assessments of the costs and benefits of diversification, reshoring, friend-shoring, strategic reserves and social protection, ideally designed before these policies are introduced.
- **Joint work across communities.** Research that combines the measurement tools of economics and finance with the understanding of power and territory in political science and geography. Funders can help by attaching evaluation requirements to large strategic programmes and opening trade, shipping and household data to researchers.

7.4 Monitoring progress

A small set of indicators can show whether policy and research are moving in the right direction ([Table 7.2](#)). Research indicators have a baseline from this review; policy indicators can be tracked by the institutions concerned.

Table 7.2 Indicators for monitoring progress

Indicator	Baseline (this review)	Direction sought
Share of studies that test the transmission channel	7%	Rising, so that most quantitative studies test the channel they propose
Share of quantitative studies with causal designs	About 3%	Rising steadily
Share of index-based studies that use a second measure of geopolitics	About 11%	Becoming standard practice
Studies that evaluate reshoring, near-shoring or friend-shoring	6 of 355 coded studies	A body of evaluations covering several regions
Share of studies that examine any response	37%	Rising, with responses evaluated rather than only recommended
Budgets and stress tests with specific geopolitical scenarios	Not measured	Standard practice in finance ministries and central banks
Countries with national indicators of geopolitical exposure	Not measured	Available for all economies with high import exposure
Social protection systems with pre-agreed triggers for price shocks	Not measured	In place in the most exposed economies

Source: Author's own elaboration.

7.5 Risks to implementation

Three risks could undermine the roadmap. The first is **urgency crowding out evidence**: in the middle of a crisis, governments may adopt costly responses without plans to evaluate them, repeating the pattern documented in [Chapter 5](#). Building evaluation into programmes from the start is the main safeguard. The second is **fragmentation of the response itself**: if each country builds its own indicators and stockpiles without coordination, the costs of fragmentation estimated by the IMF will rise rather than fall. Regional cooperation and common standards reduce this risk. The third is **limited capacity** in the economies most exposed to geopolitical shocks, which often have the least fiscal space and the thinnest statistical systems. Technical and financial support from international organisations should be directed first to these economies.

7.6 Conclusion

Geopolitics has returned as a central force in the world economy. The evidence reviewed in this report shows clearly that geopolitical shocks move energy and financial markets, and that their costs fall unevenly. It is much less clear about how these shocks travel, who ultimately pays for them and which responses work. Policy cannot wait for complete evidence, but it can be designed to learn: by starting with measures that are useful in any scenario, by building the data and capacity needed for larger decisions, and by evaluating costly responses before scaling them up. A world that is fragmenting along geopolitical lines needs policy that is specific about the shock, the channel and the people who bear the cost.

ANNEX

Methodology

This report rests on a systematic review of peer-reviewed research on the global consequences of geopolitics. The review followed the PRISMA 2020 guidelines for systematic reviews (Page et al., 2021). Table A.1 summarises its five stages.

Table A.1 How the evidence was assembled

Stage	What was done
Search	Scopus was searched on 30 October 2026 for journal articles published between 1990 and 2026. The query combined three groups of terms: geopolitics and related concepts (for example geoeconomics, sanctions, trade wars, great-power rivalry and friend-shoring); consequences (impact, effect, spillover, shock, transmission); and global scope (international, cross-border, supply chains, energy and food security, financial markets). It returned 15,265 records.
Screening	Duplicates, errata, reviews and non-English records were removed, leaving 14,228 articles. Four inclusion rules then kept only articles whose principal subject is geopolitics, for example because a geopolitical term appears in the title or is both an author keyword and part of the abstract. The final set has 3,570 articles in 1,359 journals. A check on a sample of 400 articles suggests that about 89% of the final set is correctly included.
Mapping	All 3,570 articles were used to map publication trends, author keywords and the 195,147 references they cite, which shows how the field has evolved and which works each research community draws on.
Coding	A sample of 400 articles was classified in detail: the 200 most influential, ranked by citations per year, and 200 drawn at random in equal numbers from three periods. Each was coded from its title, keywords and abstract using a common codebook covering the source of geopolitical pressure, the transmission channel, the domain affected, who bears the consequences and the response studied. Coding was carried out with the assistance of a large language model under the author's supervision, in two independent runs. Agreement on the 100 articles coded twice was high (Cohen's kappa between 0.70 and 0.97). Forty-five articles were found on reading not to be mainly about geopolitics and were excluded, leaving 355. Estimates for the field as a whole are weighted to reflect the sample design.
Rating	The confidence ratings in Chapter 2 reflect the number of coded studies in each domain, the consistency of their findings and the strength of their designs (Section 2.1).

Source: Author's own elaboration.

Limitations. The review relies on a single database and on articles in English, which under-represents research published in other languages and in some area-studies journals. Coding was based on abstracts rather than full texts, so the shares of studies that define geopolitics or test channels are best read as lower bounds. Agreement between two model-assisted runs may overstate the agreement that human coders would reach. Finally, the current-event figures cited in the report come from official and institutional sources and describe events that were still unfolding when the review was completed.

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About this report

Wars, sanctions, tariffs and strategic rivalry now shape the world economy as much as markets do. This report reviews 3,570 studies published between 1990 and 2026 to ask what the evidence says about the global consequences of geopolitics, how shocks travel, who bears their costs, and what policymakers should do in response.

Key messages

1

Geopolitical shocks are now simultaneous, deliberate and persistent.

Severe fragmentation of the world economy could cost up to 7% of global output.

2

Research increasingly treats geopolitics as a single risk index.

Such studies rose from 2% of the literature before 2018 to 56% in 2022–2026.

3

The evidence is strongest for markets and weakest for people.

Households are the affected party in fewer than 6% of studies; food in 3%.

4

Policy should act on channels and evaluate its responses.

Only 7% of studies test how shocks travel; friend-shoring is rarely evaluated.