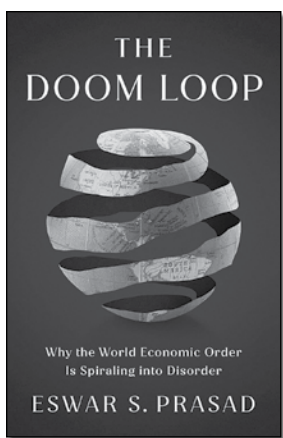


# The Coming New World Order of Instability



An excerpt from  
**The Doom Loop: Why  
the World Economic  
Order Is Spiraling into  
Disorder** by Eswar S.  
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*The feedback loop is becoming a doom loop.*

Looking back, the beginning of the millennium will be seen as an important inflection point. In that year, dramatic changes that had been brewing for a while picked up pace. Some of them would shake up the world order, while others, such as the creation of a monetary union in Europe, would fail to deliver fully on their promises. The biggest shifter would prove to be the opening up of China, which was admitted into the World Trade Organization in 2001. That gave Chinese exports access to international markets, kicking off a period of supercharged economic growth that has reshaped the world economy.

Today, the composition of the world economy has changed markedly since the beginning of the millennium. The U.S. share of global GDP has fallen back to 26 percent, while China's share has soared to 17 percent, leaving other countries in the dust (global GDP is the sum of each country's annual GDP measured in U.S. dollars at market exchange rates). The era of U.S. economic dominance is hardly at an end, but the period since 2000 has not been favorable to America's close allies. Japan's economy has shrunk to 4 percent of world GDP, close to India's share. The combined share of world GDP of what used to be the seven largest industrial economies, which constitute the Group of 7 or G7, has fallen to barely 44 percent, a 20 percentage-point decline since 2000, with Canada and Italy now bringing up the rear of the top ten economies.

My tribe of economists believes that competition is a positive force in practically every realm, certainly better than the alternative of unchecked monopoly power. Competition spurs efficiency, discipline, and innovation. Uber's technology for matching people seeking rides with those willing to offer them was remarkable, but it is competition that has kept the company on its toes. Uber's

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competition with Lyft in the United States and with other ride-sharing apps in various countries keeps prices down for riders and forces those companies to continually innovate and manage costs. Apple and Microsoft have to do the

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same in their incessant battle for market share, while at the other end of the spectrum Google's dominance in search and other services arguably gives it undue power that is not in the best interests of consumers.

Now, it is true that basic precepts of microeconomics do not always apply to the complex world of geopolitics. However, the underlying logic—that power cemented in the hands of only one or a few is less beneficial to society than a system where power is shared among many—is the animating force behind the democratic principles the West holds dear. A unipolar world is not without its advantages, though. A hegemon willing to exercise leadership and use its heft to maintain a rules-based system can be conducive to stability. For much of the post–World War II era, the United States willingly took on that role, but its muscular approach to maintaining order earned legitimate criticism. Indeed, the United States itself, particularly under the Trump administration, appears to have lost its appetite for this role.

Shifting from a unipolar world, in which the United States and its Western allies dominate in every sphere of global competition and influence, to one where new powers such as China and India assert their presence should offer opportunities for greater stability, as countries deploy their power in constructive ways for fear of losing influence. That, at least, is the theory. Reality is proving to be rather different.

Intensifying competition in the marketplace for global power is fomenting destabilization and tribalism as the world lurches toward a new order in which instability seems typical. Some might find comfort in the hope that

this turmoil is simply the result of the world's adapting to a reconfiguration of economic and financial power and that eventually things will settle into a new and more stable equilibrium. This is not the case, though. In fact, I contend that the forces that should be pushing the world toward balance are deepening the rifts and inciting disorder rather than fostering stability.

Global trade and financial capital flows, driven by private businesses seeking profit and investors searching for better returns, once helped create bridges even between countries that were geopolitical rivals. American firms, for instance, invested heavily in China while building up their global supply chains. China benefited from the technology these firms brought with them. The firms were thus in a position to advocate with both governments for policies that would help to maintain good relations between the two sides.

Amid rising bilateral tensions and growing hostility from the Chinese government, American companies have begun retreating from China. The tensions cut both ways, with Chinese firms that operate in the United States now facing greater scrutiny. The social media app TikTok, created by the Chinese company ByteDance, found that even its user base of over half the American population did not insulate it from the threat of a ban on national security grounds. Legions of distressed teenagers and social media influencers do not, unfortunately, carry as much weight in geopolitical matters as business interests.

Moreover, it is not just American and Chinese companies that are shifting their behavior in the face of the rising hostility they face in each other's countries. Worldwide

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trade in intermediate goods, final consumer products, and even technology is being reshaped as firms look to run their supply chains through friendlier countries that have established better relations with their home countries. Flows of

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financial capital are similarly reorienting in line with geopolitical fissures, deepening rather than bridging over those fractures.

These developments are shredding the script about how the mutual benefits from economic integration offset or even outweigh the intrinsically competitive structure of geopolitical influence, in which one country's gains are another's losses. That script worked well for a while. Globalization, the expansion of international trade and financial flows that gathered momentum in the mid-1980s, delivered many benefits. Countries saw a future of common prosperity, with improving living standards not only supporting a shift toward open and democratic societies but also giving political leaders reason to tamp down geopolitical tensions that could damage economic and financial integration. China looked as though it was gradually but surely being co-opted into the liberal democratic order, led along by the promise of growing affluence.

Now, however, the feedback loop between economics, domestic politics, and geopolitics is spiraling out of control and becoming destructive on every front, turning into a doom loop. It has become apparent that the benefits of globalization have been distributed unevenly, resulting in debt-fueled financial crises in developing countries and wiping out manufacturing firms in some industries in advanced economies. The ensuing populist backlash has put in power leaders who have undermined democratic institutions and are hostile to globalization. International trade has been portrayed by these populists as a phenomenon

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in which one country gains only at the expense of others rather than enabling common prosperity. And the system of rules that underpinned the post-World War II world order is at risk of decay or, worse, irrelevance.

Thus, the prospects of a multipolar world are creating new dangers rather than quelling old ones. ... Forces that should promote stability have become perverted into instruments of instability. Rather than just a transitory phase enroute to a calmer and more orderly system, we find ourselves in a deeply troubled new world in which destabilization has become the norm. ◆