

The Rising Fragmentation of the Global Economy: Xi, Modi, and Putin’s Strategic Convergence

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Executive Summary

The latest summit between China’s Xi Jinping, India’s Narendra Modi, and Russia’s Vladimir Putin marks a critical turning point for the global economy. By rerouting energy supplies, developing alternatives to dollar-based financial systems, and reinforcing India’s balancing role, these leaders are fundamentally reshaping the rules of trade and investment. For the United States, this shift signals not only higher costs from tariffs and disrupted supply chains, but also a new opportunity to build deeper partnerships with India, invest in smarter “friend-shoring,” and lead efforts to modernize the rules-based trading system.

How Xi, Modi, and Putin Are Redrawing the Economic Map

At the 2025 Shanghai Cooperation Organization (SCO) summit in Tianjin, Xi Jinping convened with Vladimir Putin and Narendra Modi to advance a bold agenda: promoting a “new global order,” floating the creation of an SCO development bank, exploring alternative sources of financing, and expanding Eurasian energy links. Meanwhile, Russia and China took concrete steps toward expanding gas pipelines, including major progress on the long-anticipated Power of Siberia 2 route. At the same time, India and Russia reaffirmed their energy partnership, pressing forward despite new U.S. tariffs on Indian imports of Russian crude (Reuters, 2025a; Financial Times, 2025; Bloomberg, 2025).

Xi and Modi also used the summit as a forum to stabilize their own relationship after years of border tensions—a move that many analysts view as a possible reset with far-reaching implications for regional dynamics (CFR, 2025; Chatham House, 2025).

This summit spotlights a major trend: non-Western economies are stepping up coordination on finance, energy, and trade standards, just as the U.S. and its allies tighten tariffs, export controls, and investment screening. As a result, we’re seeing more trade bypassing the dollar, energy flows shifting east, and new institutions emerging to support a world of rival blocs (Al Jazeera, 2025; SCMP, 2025).

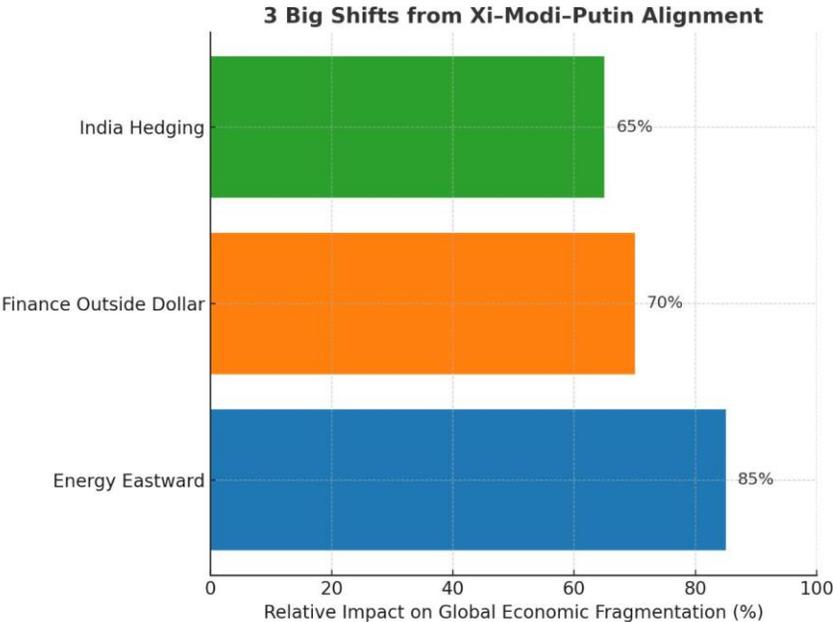
The SCO meeting crystallized three foundational changes now reshaping the global economic landscape:

- 1- **Energy Flows Eastward:** Russia is reorienting its pipelines and exports toward Asia.
- 2- **Finance Beyond the Dollar:** China is building alternative financial systems and pushing for trade settlements in yuan.
- 3- **India’s Strategic Hedging:** India is maintaining discounted Russian oil imports while strengthening ties with Western economies.

These trends are visualized in Figure 1, which illustrates how energy realignment, financial diversification, and India’s hedging strategy are driving global economic fragmentation in the wake of the Xi–Modi–Putin alignment. The relative impact scores in the figure help capture the scale of each shift.

Figure 1

Three major shifts contributing to global economic fragmentation following Xi–Modi–Putin alignment.



Note. Relative impact scores are illustrative estimates to visualize the scale of change.

Mechanisms of Fragmentation in Action

1. Alternative Finance and Payment Systems

Xi's call for an SCO development bank and "more inclusive globalization" is a direct challenge to U.S.-centric financial systems. While the details are still emerging, the direction is clear: more financing for the Global South and more currency diversification in trade (Al Jazeera, 2025). India and Russia have also explored local-currency trade settlements, though with mixed success so far (Reuters, 2023; 2024).

2. Energy Realignment Toward Asia

Russia and China are not just talking about shifting energy east, they're building the infrastructure. The Power of Siberia 2 pipeline, designed to send up to 50 billion cubic meters of gas per year to China, is a structural move away from Europe and toward Asia (Reuters, 2025a; Financial Times, 2025). This isn't just short-term maneuvering; it's a long-term bet on a new energy axis.

3. India's Strategic Hedging

Despite U.S. efforts to curb Indian purchases of Russian oil through tariffs, India has kept buying, balancing energy security, inflation, and autonomy (Reuters, 2025c; 2025g). The rupee has sometimes taken a hit on tariff news, but India's approach demonstrates that "multi-alignment" is here to stay. India isn't picking sides; it's making room to operate outside of Washington's preferences.

4. A Shared Narrative Against Western Dominance

Both Xi and Putin have leaned into "counter-hegemonic" rhetoric, positioning themselves as champions of the Global South and critics of Western-led sanctions and tech controls (AP, 2025; Reuters, 2025e). This narrative helps legitimize a move away from U.S.-centric systems for many emerging economies.

How This Speeds Up Global Economic Fragmentation

Leading multilateral organizations have warned for years: policy-driven fragmentation, tariffs, sanctions, export controls, and financial de-risking, can slice 2% to 7% off long-term global output, with even deeper losses if tech decoupling intensifies (IMF, 2023a; 2023b; 2023c). The WTO also notes that geographic "re-shoring" and bloc formation can reduce efficiency, driving up costs without necessarily making supply chains more resilient (WTO, 2023; OECD, 2025a).

Case-in-point evidence:

- **Energy Corridors:** The Power of Siberia 2 pipeline and other projects physically lock in trade networks outside the West (Reuters, 2025a; Financial Times, 2025).

- **Tariffs and Currencies:** U.S. tariffs on Indian-Russian oil trade have spurred rupee depreciation and volatility (Reuters, 2025h; 2025i).
- **India's Oil Sourcing:** Despite outside pressure, India has maintained Russian crude imports at roughly 1.7–1.75 million barrels per day through the first half of 2025 (Reuters, 2025g).
- **Institutional Innovation:** Xi's push for an SCO bank and alternative financial plumbing is a clear sign of intent to build non-Western policy platforms (SCMP, 2025; Al Jazeera, 2025).

What Fragmentation Means for the Global Economy

As the world economy divides into competing blocs, the effects are already rippling through global markets, trade, and finance. This new reality doesn't just shift political alliances, it changes the basic mechanics of how money, goods, and resources move. Here are three of the most significant consequences:

Lower Efficiency, Uneven Resilience: The International Monetary Fund warns that economic fragmentation could shave as much as 7% off global GDP over the long run, especially if the breakdown of supply chains, knowledge sharing, and technology links accelerates (IMF, 2023a; 2023c). What's lost isn't just efficiency, but also the ability to bounce back from shocks.

Regionalized Commodity Pricing: As Russia redirects gas exports toward Asia and Europe pivots to LNG and renewables, energy markets are fragmenting. This split leads to greater price volatility and makes it harder for regions to cushion themselves against sudden disruptions (Reuters, 2025a; Financial Times, 2025).

Changing Financial Plumbing: With more trade being settled outside the U.S. dollar, even if only to a limited extent, cross-border transactions become more complex and legally uncertain. Over time, this trend gradually chips away at the U.S.'s financial leverage and the dominance of dollar-based systems (IMF, 2023c).

What the U.S. Should Expect, and Do Next

As global economic fragmentation accelerates, the United States is facing a new set of challenges and opportunities. Navigating this landscape will require more than reactive policy; it demands strategic adaptation and proactive engagement. Here's what's at stake and where the U.S. should focus:

1. **Dollar & Sanctions Reach:**

The U.S. dollar remains the world's reserve currency, but as more countries experiment with non-dollar settlements and state-backed banking alternatives, America's financial leverage and ability to enforce sanctions are slowly eroding (IMF, 2023c; WTO, 2023).

2. **Inflation & Supply Chains:**

While broad tariffs might offer short-term protection for some domestic industries, they often drive up costs for businesses and consumers alike. Studies show that reshoring alone tends to shrink trade volumes without delivering meaningful resilience, unless it's combined with genuine diversification (OECD, 2025a).

3. **Energy Security & Pricing Power:**

China's deepening energy ties with Russia mean U.S. liquefied natural gas (LNG) will still find strong demand in Europe and Asia, but American exporters will increasingly compete on price, blunting the U.S. diplomatic advantage that comes with energy dominance (Reuters, 2025a; Financial Times, 2025).

4. **Strategic Opportunity with India:**

India's flexible approach to global alignments can be both a risk and an asset. Heightened tensions, such as those triggered by tariffs, could push India closer to other powers. But intentional U.S. cooperation in areas like technology, clean energy, and resilient supply chains could anchor India as a key partner in a more diversified and stable global order (CFR, 2025; Chatham House, 2025).

Policy Recommendations for Washington

To navigate a more fragmented global economy, the U.S. needs a strategy that's both proactive and nuanced. Rather than relying solely on old playbooks, Washington should focus on solutions that strengthen resilience, reinforce alliances, and modernize the global trading system. Here's where policy should shift:

Targeted Trade Defenses:

Adopt precise, evidence-based actions against unfair trade practices instead of blanket tariffs. This approach helps address real problems while minimizing unintended economic fallout (OECD, 2025a; WTO, 2023).

Deeper "Friend-Shoring":

Promote supply chains that span multiple trusted countries, especially in vital areas like semiconductors, batteries, and pharmaceuticals, to balance efficiency with greater resilience (OECD, 2025a; IMF, 2023c).

Smart Financial Openness:

Leverage America's rule of law and financial scale to keep U.S. markets attractive, but bolster investment screening where genuine national security interests are at stake.

Invest in U.S.–India Ties:

Strengthen technology partnerships, facilitate trade, and expand clean energy financing to make it more compelling for India to partner with the U.S. and its allies (CFR, 2025).

Revitalize the Rules-Based Order:

Lead efforts on WTO reform and pursue new agreements on subsidies and transparency. This will

help discourage protectionist moves that could accelerate global fragmentation (WTO, 2023; IMF, 2023b).

Conclusion

The convergence of China, India, and Russia is accelerating a profound shift in the global economic landscape. As energy flows, financial systems, and trade alliances move further away from traditional Western structures, the risks of fragmentation, higher costs, inefficiency, and instability, are becoming real and immediate. Yet, this period of change also presents the United States with a rare opportunity: by embracing targeted policy, deepening key partnerships, and revitalizing global rules, Washington can not only adapt to a more multipolar world but help shape it for greater stability and shared growth.

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