A fractured world - and a US own goal?

8th September 2025

Launching a book is never straightforward. It requires planning, persuasion – and sometimes a bit of luck. I have been fortunate on that front this past week with two events in China providing striking images that neatly captured the subject of my new book, *The Fractured Age*, which explores how the return of geopolitics is reshaping the global economy.

The first was the Shanghai Cooperation Organization meeting in Tianjin, where leaders from more than 20 nations, including India and Russia, staged a carefully choreographed display of unity. The embrace of Xi Jinping, Narendra Modi and Vladimir Putin was less a gesture of friendship than a signal aimed at Washington and the world beyond. The second was China's Victory Day parade, a military spectacle of tanks, planes and missiles, played out before foreign dignitaries including Putin and Kim Jong Un. Donald Trump's response – sarcastic, irritated, but also tinged with grudging respect – included an accusation that China, Russia and North Korea were conspiring against the United States.

If further evidence of the fracturing global system were needed, last week's images provided it.

Trump's threat to cohesion

In meetings with clients across Asia over that week, the theme of fracturing came up time and again. As we argued in our recent Focus report, by the end of Trump's second term the geopolitical map could look very different. A US-China rapprochement is possible. A rupture between the US and its traditional allies is equally possible. Either outcome would reshape trade, investment and technology flows. But the most probable path is a world divided into two economic and geopolitical blocs, one centred on Washington, the other on Beijing.

The obvious challenge to this view is that the US-led bloc – which accounts for two-thirds of global GDP – may struggle to hold together in the face of Trump's erratic policymaking and his worldview that sees every country, ally or not, as a competitor. The West no longer looks bound by shared liberal values. Once unthinkable, the idea that America's allies could drift away now seems plausible.

No third bloc

Strained relations among the US and its allies have in turn fuelled speculation that a third global superpower could emerge, around which other liberal democracies would coalesce. We're not convinced. Europe is the only candidate to lead a third bloc, yet the European Union struggles to speak with one voice, let alone act as a coherent geopolitical pole. European governments will no doubt take on more responsibility for defence and regional security. But this is not bloc-building. On technology, trade and security, Europe has tended to follow, not lead. There is little reason to expect this to change.

More likely is that countries will seek to hedge their bets – remaining broadly within the US orbit while also moving closer to China. But here is the rub: whether this is achievable will not be decided in Delhi or Seoul, but in Washington and Beijing. Over the past week, the US imposed new rules on Taiwanese chip producer TSMC to prevent its export of advanced US chip-making tools to China without a licence. They follow similar rules which were imposed on South Korean producers of advanced memory chips last month.

In Tianjin, Xi may have cast himself as a defender of multilateralism, but the choreography of last week's events – including the parade with Xi at the centre and Putin and Kim Jong Un at his flanks – left little doubt that China is the core around which its allies coalesce. Just as America's allies are ultimately bound by decisions taken in Washington, China's geo-economic heft means its allies must increasingly defer to Beijing. Neutrality is a seductive notion but in practice will be hard to sustain.

India's constrained China tilt

Within this fractured world, India's place has been thrown into sharp relief over this past month. The country's size and growth potential make India a pivotal player for both Washington and Beijing. India has leaned towards the US in our fracturing map, but Trump's punitive tariffs have nudged Delhi closer to China, and Modi's appearance in Tianjin – his first visit to China in seven years – was notable. Yet the obstacles to a lasting realignment in India-China relations remain formidable: an unresolved border dispute, hostility to Chinese technology, and Beijing's close ties to Pakistan. Relations have thawed but do not expect a Sino-Indian alliance any time soon.

Here lies the heart of the matter. America's great strength is not simply its economic scale but the diversity of its allies: high-income knowledge economies such as the UK and Japan; cutting-edge manufacturers like Taiwan and Korea; low-cost producers such as Vietnam and Mexico; and resource giants like Canada and Australia. This array of countries gives the US bloc the capacity to replicate many of the benefits of globalization within itself.

If Washington can hold its allies together, the economic costs of fracturing will be modest – smaller than most assume and easily offset by other factors such as the impact of AI. But if America lets its bloc splinter, it will have scored a spectacular geopolitical own goal. And in the fractured age, that is a mistake the West can ill afford.

In case you missed it

We're continuing our round of in-person briefings on the macroeconomic implications of fracturing in London on 17th September and New York on 9th October.

What will the outcome of the French government's no-confidence vote mean for the political stalemate over the budget, and for its bond market. Find out in our Tuesday Drop-In.

Many of the conditions for a UK debt crisis are in place – all that's missing is a trigger, says Deputy Chief UK Economist Ruth Gregory.

Japan's stock market rose sharply on Monday following Prime Minister Shigeru Ishiba's resignation. Just last week, Chief Markets Economist John Higgins argued that Japanese equities' outperformance still has further to run.