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Geopolitics and the geometry of global trade: 2025 update

Trade reconfiguration continues along geopolitical lines, this update with 2024 data shows

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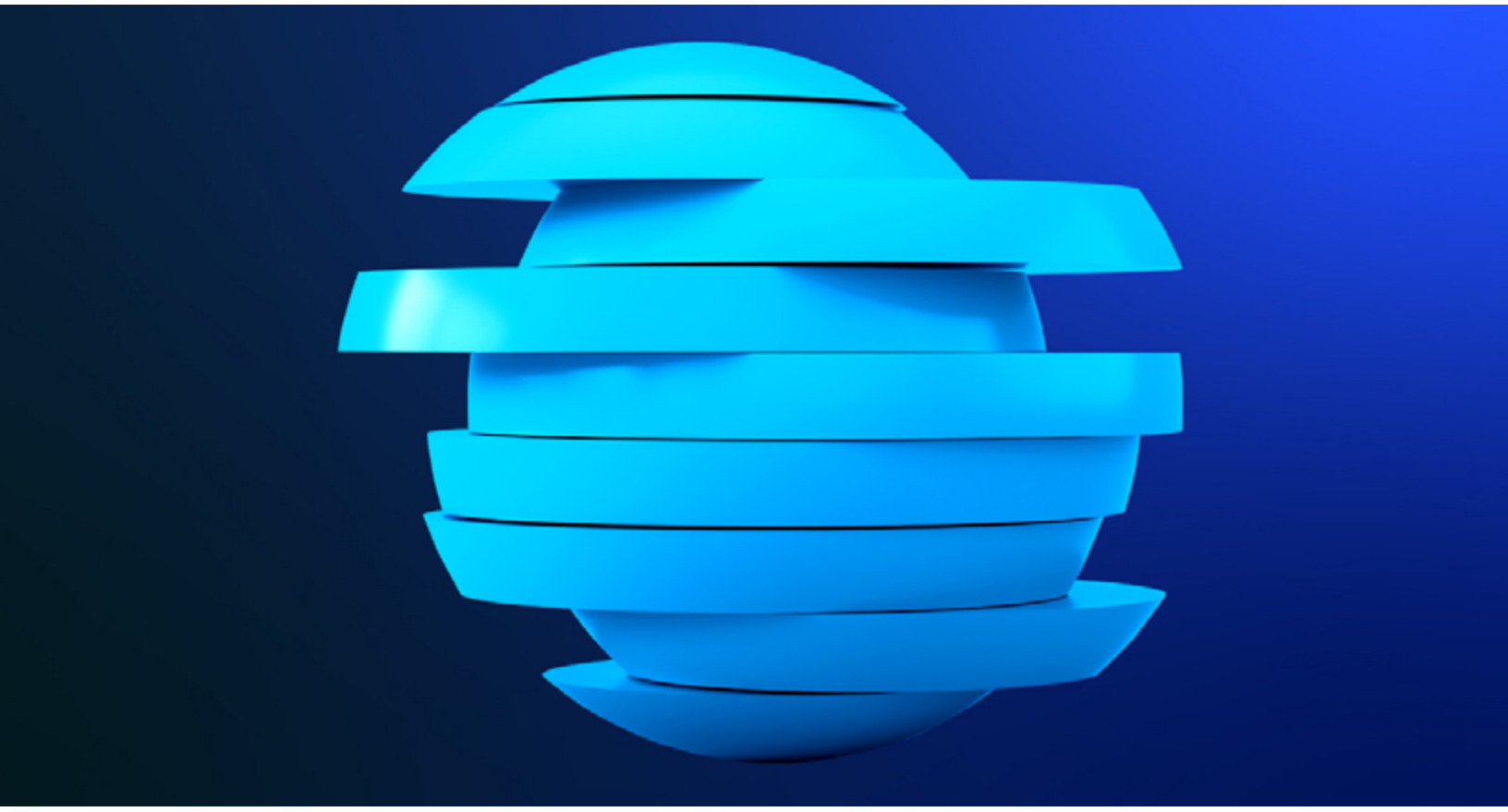


January 2025

Trade relationships are continuing to reconfigure, and changing geopolitics is a major reason. The United States has continued to shift trade away from China and toward other economies such as Mexico and Vietnam. In some cases, this is due to these economies forming an intermediate step in trade flows between China and the United States. European economies have moved away from trade with Russia and increased trade with other partners, notably the United States. Developing economies, rather than advanced ones, now account for the majority of China's imports and exports. Economies such as those of Association of Southeast Asian Nations (ASEAN), Brazil, and India continue to strengthen trade ties across the geopolitical spectrum.

In view of widespread talk about friendshoring, nearshoring, decoupling, and derisking, the McKinsey Global Institute has been monitoring shifting trade patterns closely. In a previous report, we found evidence of trade reconfiguring toward geopolitically closer partners.[1] This is an update, examining 2024 data for the economies of ASEAN, Brazil, China, Germany, India, the United Kingdom, and the United States.[2] The pattern of reconfiguration has continued, but its character and pace differ among major economies.

1

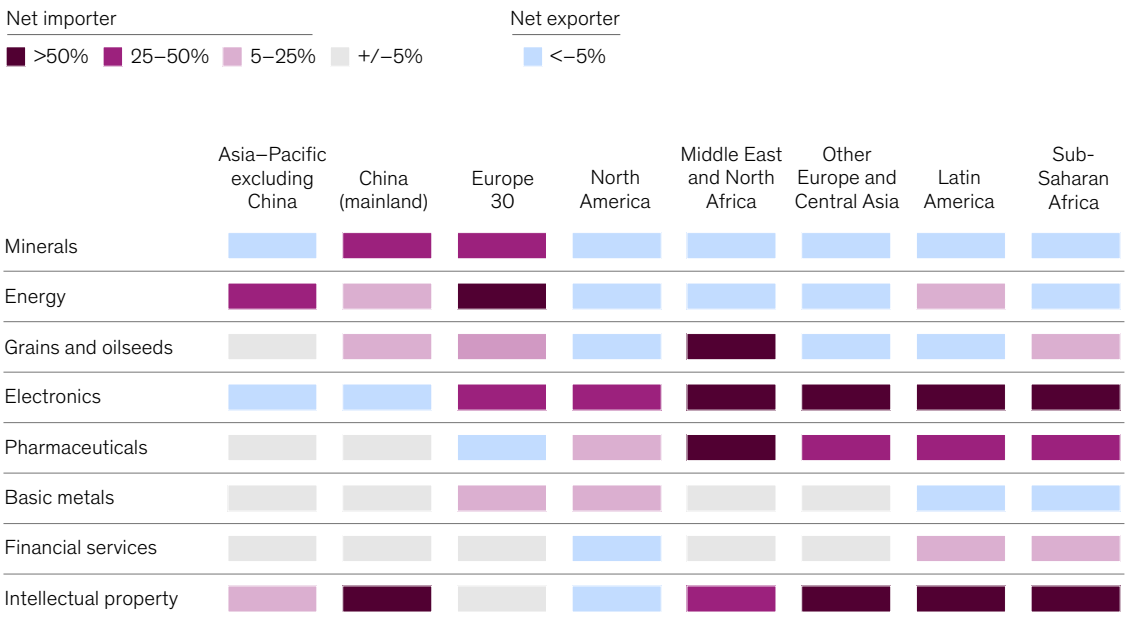
Economies connect through trade, but in different ways

Trade binds economies around the world. Every major region relies on imports for more than 25 percent of its consumption of at least one type of critical resource, manufactured good, or service (Exhibit 1). And even in sectors for which a region is a net exporter, it may still be dependent on imports

Exhibit 1

Every region depends on trade.

Net imports as share of domestic consumption, %, 2023 or most recent available



Note: Intellectual property net import share of domestic consumption is calculated as net imports as a share of total trade. Data for Sub-Saharan Africa are based on a limited sample (5 countries) for manufactured goods and services.
Source: IHS Markit; WTO–OECD Balanced Trade in Services; FAOSTAT; International Energy Agency World Energy Balances; McKinsey Global Institute analysis

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for many crucial products. For example, while the United States is a net exporter of nonfuel minerals in aggregate, it relies on imports for many critical minerals such as rare earth metals. The US Critical Minerals List includes 50 minerals, and for about 30 of them, imports supply more than 75 percent of US annual consumption.[3]

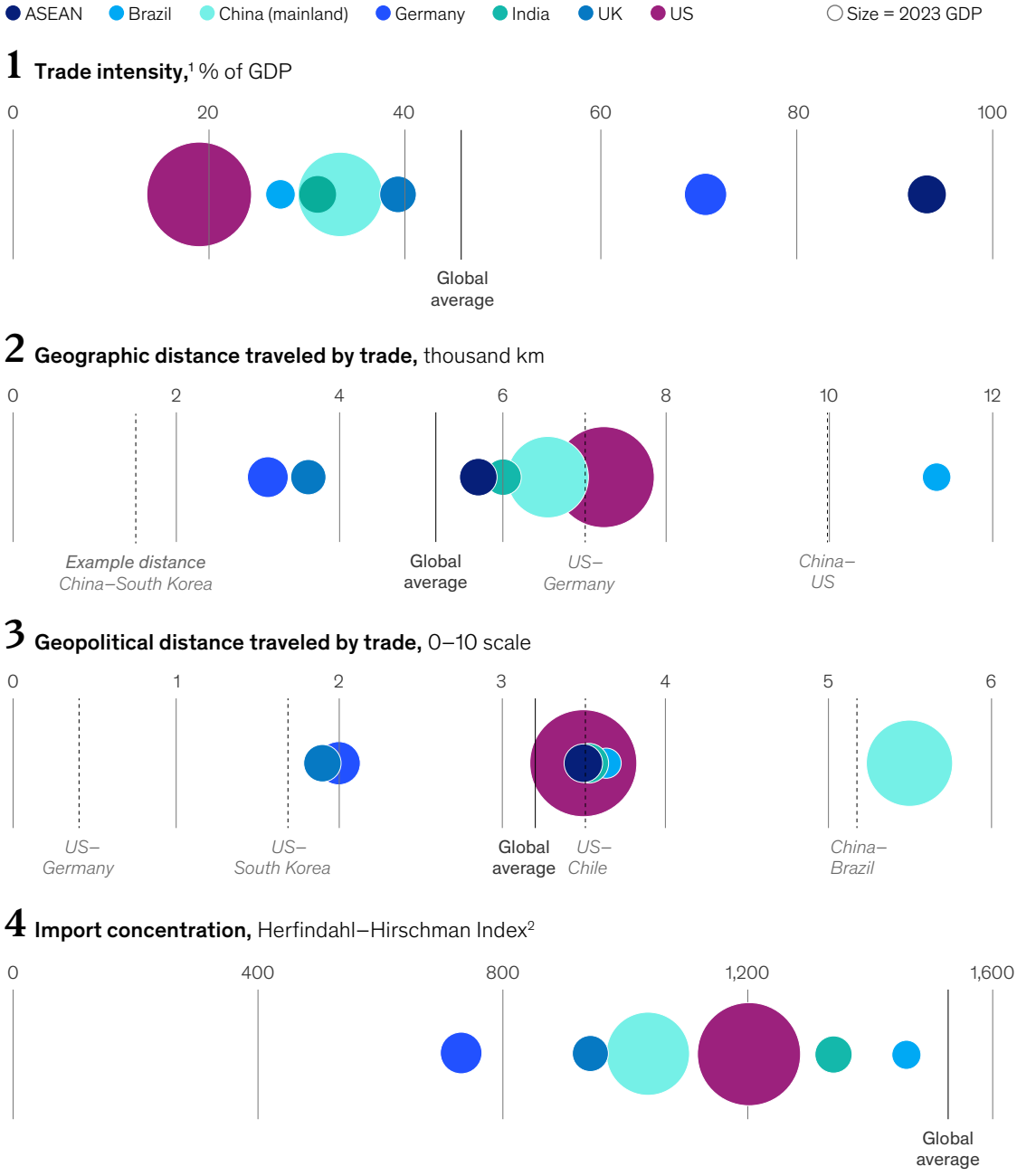
Although all economies engage in trade, each has its own distinct trade footprint. We analyze the changing geometry of global goods trade using four measures: trade intensity, geographic distance, a measure we have developed of "geopolitical distance", and import concentration. These metrics provide valuable insights into the unique trade characteristics of different economies.

Economies vary in how much they trade in comparison to their size; this is their trade intensity. Economies also vary in their patterns of trade partners in both where they are, or geographic distance, and how aligned they are on global issues, or geopolitical distance.[4] Finally, economies differ in how broad or narrow their network of supply relationships is, or their import concentration (Exhibit 2).

Although all economies engage in trade, each has its own distinct trade footprint.

Exhibit 2

Four dimensions help define the geometry of trade.



[1]Trade intensity and global averages are for 2023; economy-level distances and import concentration are year-to-date figures for 2024 based on trade data from national sources.
[2]Index is a common market indicator of concentration. The value for average global import diversification is higher than for the economies presented, as large economies have lower import concentration, on average, than other economies. Import concentration is represented only for individual economies.
Source: UN Comtrade; Destatis; US Census Bureau; Comex Stat; General Administration of Customs of the PRC; Government of India Ministry of Commerce and Industry; ASEANstats; UK Office for National Statistics; CEPII; Voeten (2017) and UN Digital Library; World Bank; McKinsey Global Institute analysis

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Trade occurs around the globe between partners with different geopolitical stances. In our previous report, we found that some of the world's largest trading economies do a great deal of business with partners that are at the opposite end of the geopolitical spectrum.

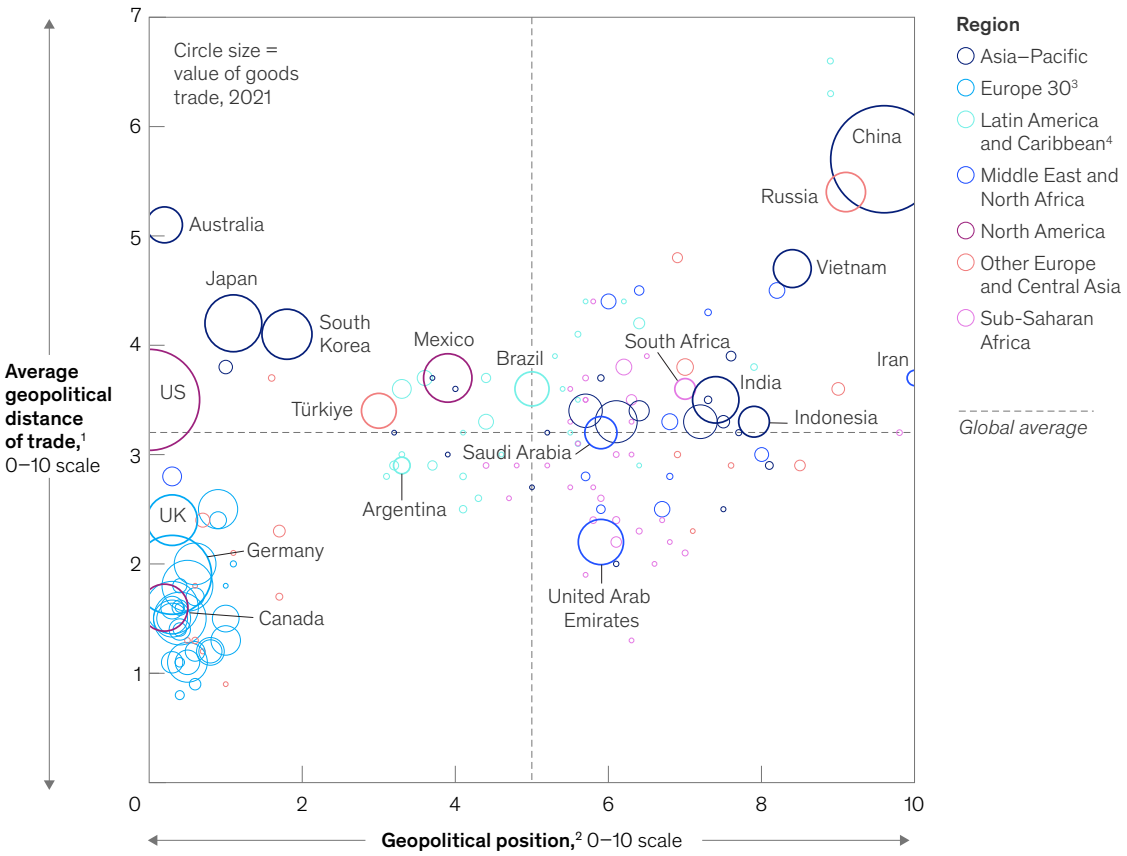
China, the largest trading economy in the world, trades more with geopolitically distant partners than any other economy. It trades extensively with the Europe 30, Japan, South Korea, and the United States; in combination, these economies accounted for about 40 percent of China's total goods trade in 2023 (Exhibit 3).[5]

Germany and Russia are also examples of economies at opposite ends of the geopolitical scale, but they used to trade a great deal with each other. Notably, prior to Russia's invasion of Ukraine in 2022, Germany relied heavily on Russian energy resources—and it had to engineer a swift reconfiguration after the war began.

Exhibit 3

Many countries trade with geopolitically distant partners.

Goods trade relationships, 2023 or most recent available, and **UN General Assembly voting patterns,** 2005–22



Note: Chart represents all economies for which recent trade data are available and that record votes at the United Nations General Assembly. The average geopolitical distance of trade for each economy has been updated from a version of this chart in the previous report, which was based on 2021 trade data.
[1]Value-weighted average difference between geopolitical position of reference economy (see footnote 2) and geopolitical position of trade partner economy across goods imports and exports.
[2]Calculated by principal component analysis of UN General Assembly voting records in 2005–22, reduced to a 0–10 scale.
[3]Europe 30 includes the European Union plus Norway, Switzerland, and the UK.
[4]Latin America and Caribbean excludes Mexico, which has been included in North America.
Source: UN Comtrade; Voeten (2017) and UN Digital Library; McKinsey Global Institute analysis

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2

Some trade has continued to reconfigure along geopolitical lines, with recent shifts varying by economy

The most significant ongoing shift in trade patterns is a fall in the average geopolitical distance of trade. This measure declined by about 7 percent between 2017 and 2024, a period that witnessed ongoing trade tensions between the United States and China as well as Russia's invasion of Ukraine. Economies at each end of the geopolitical spectrum have been trading less with one another: China, Germany, and the United States have seen sharp reductions in the geopolitical distance of trade. However, not all economies are realigning their trade along geopolitical lines. As in our previous report, the geopolitical distance of trade among mid-aligned economies, including ASEAN, Brazil, and India, was stable or increased.

The average geopolitical distance of trade fell from a high of about 3.5 in the early 2010s to 3.1 in 2023. A geopolitical distance of 3.1 is approximately the distance between the United States and Türkiye or between Russia and Saudi Arabia by our measure—the scale runs from zero to ten. In 2024, the average geopolitical distance of trade persisted at this lower level but did not contract substantially further.

By contrast, the average geographic distance of trade has been climbing—very slowly, but steadily—by about 10 kilometers each year over the past decade. This appeared to continue through 2024. The average distance a dollar of trade now travels sits at about 5,200 kilometers, roughly the distance between London and Boston or between Singapore and Tokyo. Large economies recorded stable geographic distances of their trade through 2024. Nearshoring does not yet appear to be happening on a global scale.

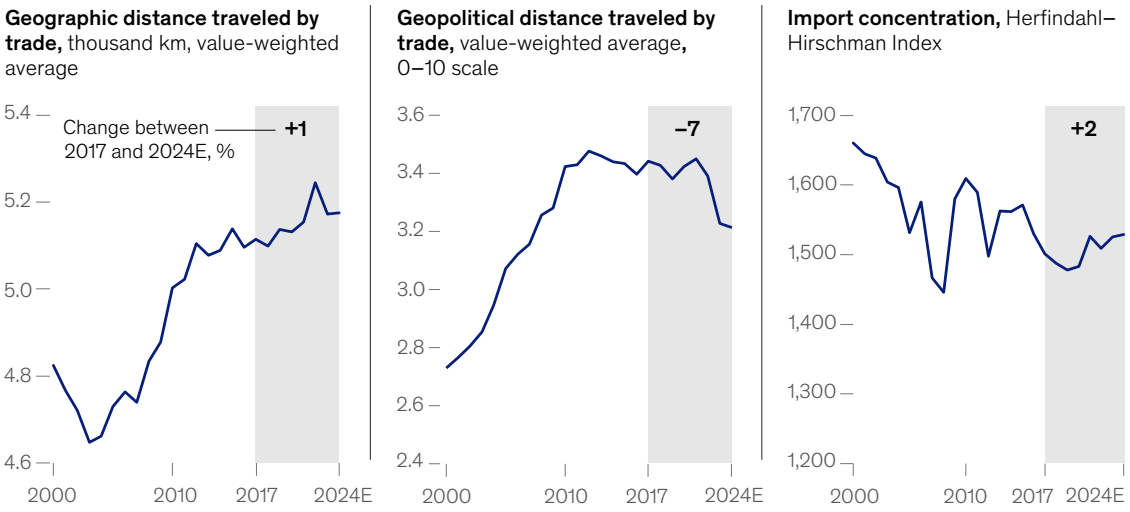
Global import concentration—that is, the breadth of trading relationships an economy relies on for each of the goods it imports—also remained stable, with no overall trend toward diversification, but patterns vary. For larger trading and more developed economies such as China, Germany, and especially the United States, sourcing patterns appear to be diversifying. For economies including ASEAN, Brazil, and India, import concentration trended upward, often due to deepening ties to China (Exhibits 4 and 5).

Economies at each end of the geopolitical spectrum have been trading less with each other: China, Germany, and the United States have seen sharp reductions in the geopolitical distance of trade.

Exhibit 4

Trade is traveling shorter geopolitical distances.

Evolution of goods trade indicators, 2000–24E



Note: 2024 shifts are estimated based on the shifts between 2023 and 2024 for a panel of large economies representing ~50% of global trade, based on trade data from national sources.
Source: UN Comtrade; Voeten (2017) and UN Digital Library; CEPII; McKinsey Global Institute analysis

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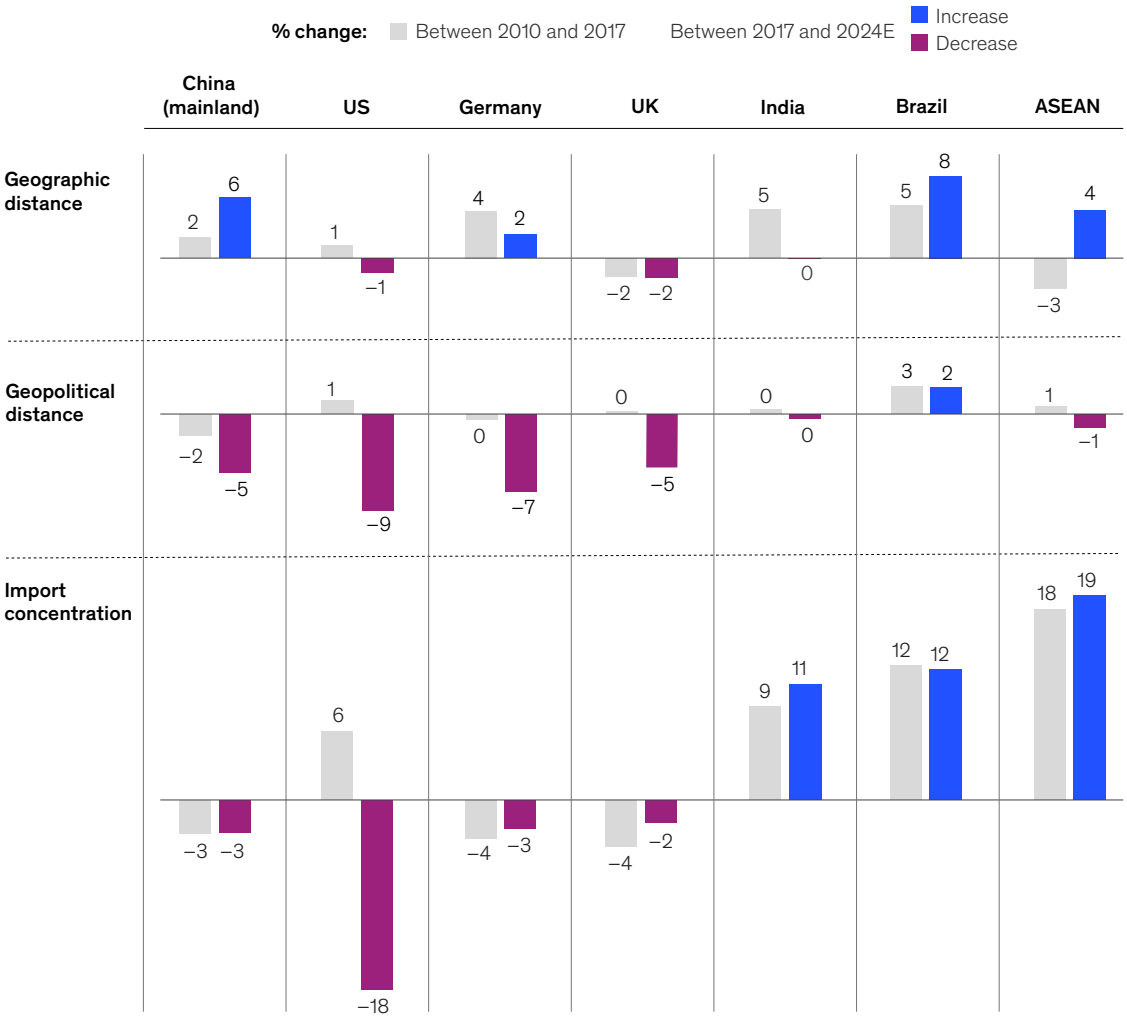
Although markers of import concentration have remained stable in recent years, concentration is a key feature of the global trade network. Our previous research found that about 10 percent by value of global trade is "globally concentrated"—that is, three or fewer economies provide more than 90 percent of the globally traded supply of a particular product.[6] Examples of globally concentrated products range from iron ore (mainly supplied by Australia and Brazil) to laptops and smartphones (largely supplied by China).

Trade in globally concentrated products intersects with geopolitical distance. Nearly 20 percent of global goods trade is between more geopolitically distant economies, defined as pairs of economies that are more than eight points apart on the zero-to-ten scale of geopolitical distance. Examples of geopolitically distant economy pairs include China and the United States, and Germany and Russia. However, zooming in on just globally concentrated products, almost 40 percent of trade in these goods is between geopolitically distant economies. Examples of globally concentrated products that traverse wider geopolitical distances include permanent magnets, which can be used to power electric motors and are mainly supplied to the global market by China, and machinery for manufacturing semiconductor wafers, which is mainly supplied to the global market by Japan. Globally concentrated products may be those for which finding an alternative supplier is not easy, at least in the near term.

Exhibit 5

Recent shifts show differing patterns of goods trade among economies.

Goods trade indicators



Note: 2024 data through latest available month from national sources. Geographic distance measures the value-weighted average trade partner distance in km. Geopolitical distance measures the value-weighted average trade partner distance based on analysis of UN General Assembly voting patterns between 2005 and 2022. Import concentration measures the average import Herfindahl–Hirschman Index across ~12 sectors. Individual economies are ordered by the value of total goods trade in 2023.
Source: General Administration of Customs of the PRC; US Census Bureau; Destatis; UK Office for National Statistics; Government of India, Ministry of Commerce and Industry; Comex Stat; ASEANstats; CEPII; Voeten (2017) and UN Digital Library; McKinsey Global Institute analysis

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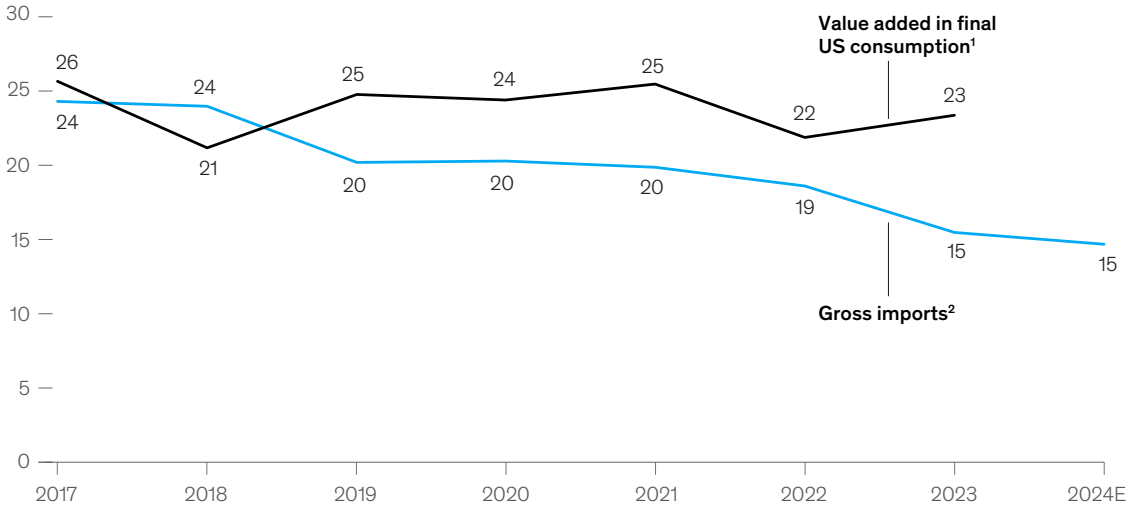
Shifting the fundamental geography of import dependence happens slowly. For example, while the United States has substantially reduced the share of its manufactured goods imports coming from China in recent years, the share of US imported value added that originates in China may not have fallen as much (Exhibit 6). This could occur, for example, if a product largely produced in China is shipped to a third country for final assembly before being exported to the United States. This is partly what we observe in the case of ASEAN's new trade dynamics with the United States.

Exhibit 6

Trade diversion can happen quickly, but shifting the geography of value addition may happen more slowly.

Mainland China share of US manufactured goods imports, 2017–24E, %



Note: 2024 data are through October 2024.
[1]China's share of value added in US final consumption of imported manufactured goods. This includes value added originating in China that is imported by the US from another economy.
[2]China's share of total imports of manufactured goods into the US.
Source: US Census Bureau; Asian Development Bank; McKinsey Global Institute analysis

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3

The United States continues to diversify away from China and to trade more with ASEAN and Mexico

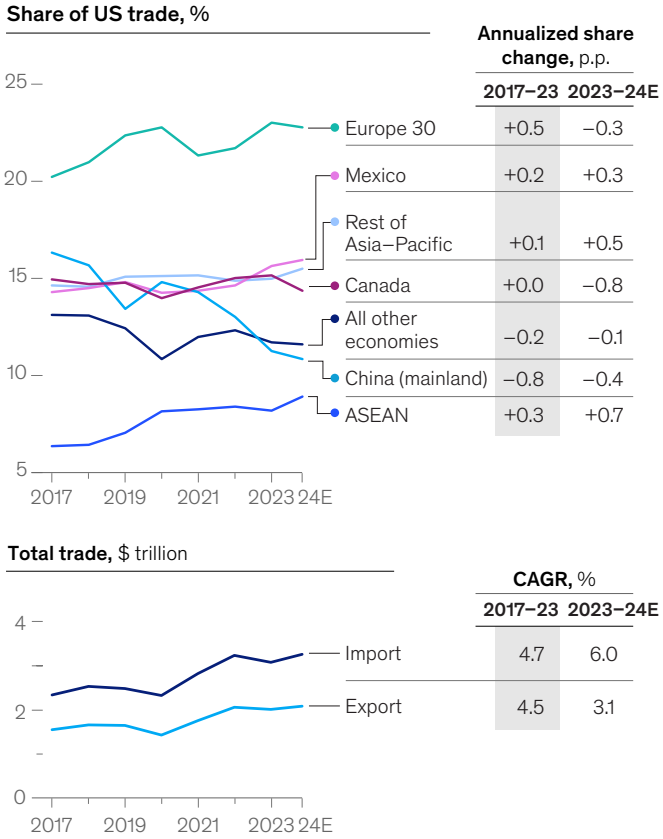
The United States continues to reorient trade away from China. It reduced its share of trade in manufactured goods with China by six percentage points between 2017 and 2024. At the same time, the United States increased its share of imports from Mexico and ASEAN by about two and four percentage points, respectively. As a result, Mexico became the largest supplier of goods to the United States in 2023, a position that China had held since 2007.

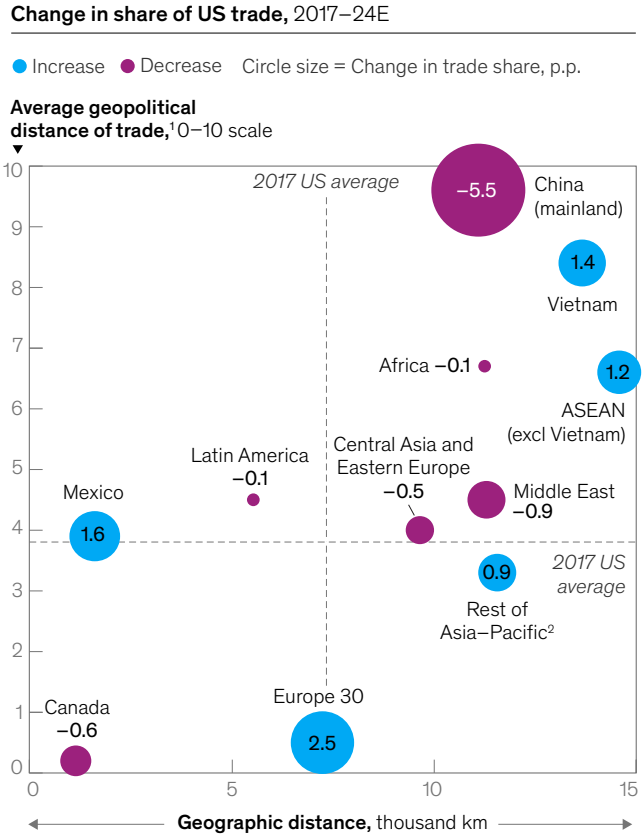
In 2024, both Mexico and ASEAN continued to register trade gains from US trade reorientation, with both economies gaining share of US trade faster in 2024 than they had on average between 2017 and 2023 (Exhibit 7). Meanwhile, China steadily lost share of US imports across almost all sectors between 2017 and 2024, with the most substantial declines in electronics, machinery, and textiles and apparel. In these sectors, the share of US imports from China fell by between 14 and 16 percentage points over the period. This reflects a change in the United States' sourcing patterns rather than a shift in China's export mix or values. In fact, China has increased its global exports across these sectors by over $500 billion since 2017. Moreover, this reorientation of imports away from China appears relatively specific to the United States—neither Germany nor the United Kingdom registered more than a two-percentage-point decline in its share of imports from China in these sectors between 2017 and 2024.

Exhibit 7

The share of US trade with ASEAN continues to grow.

Shifts in US goods trade, 2017–24E





Note: 2024 data through October 2024. 2024 trade totals are extrapolated using the available 2024 data and the historical ratio of annual total trade to the value of trade between January and October. Chart on right represents all global regions, disaggregating individual economies that have gained or lost more than 1-percentage-point share of trade with the US between 2017 and 2024. Aggregations are represented as the trade-weighted average geopolitical and geographic distance from the US.
[1]Calculated by principal component analysis of UN General Assembly voting records in 2005–22, reduced to a 0–10 scale.
[2]Excludes mainland China, Vietnam, and other ASEAN economies.
Source: US Census Bureau; CEPII; Voeten (2017) and UN Digital Library; McKinsey Global Institute analysis

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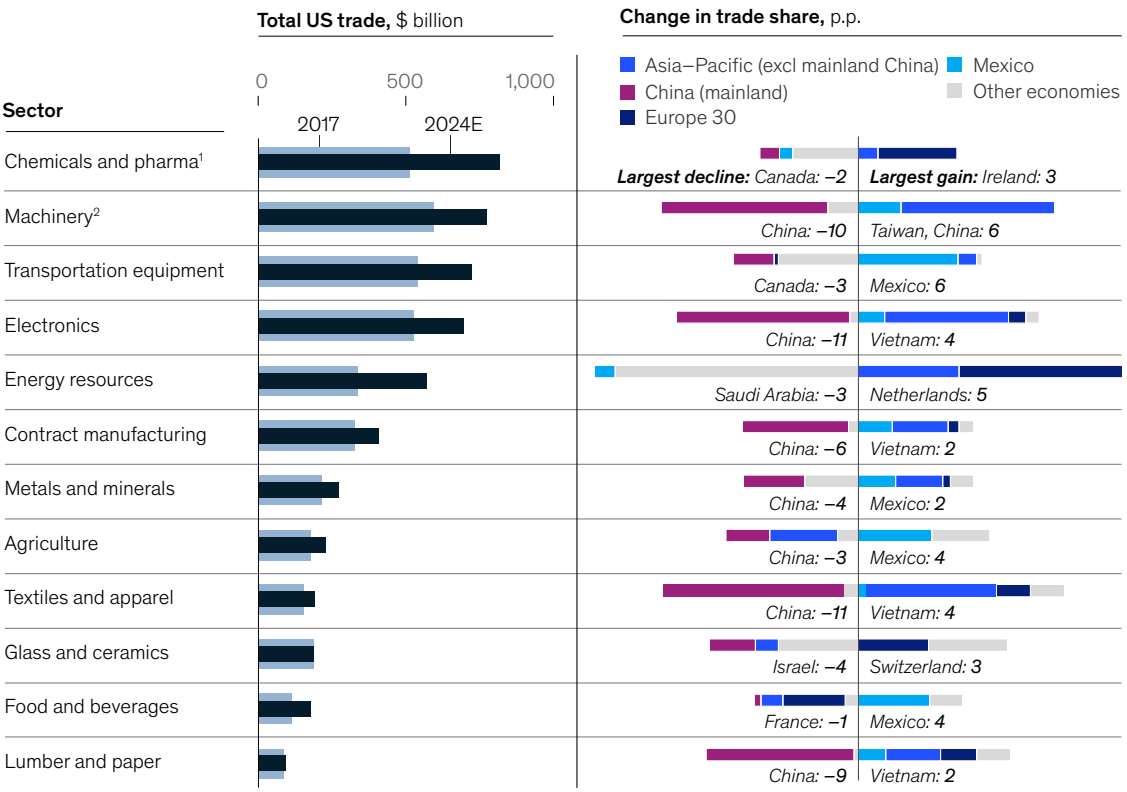
Recent US trade shifts are more indicative of reconfiguration of relations with other partners in Asia than they are of nearshoring. In fact, the average geographic distance of US trade increased slightly in 2024.

ASEAN appears to have been the main recipient of the US shift away from trade with China—more so than Mexico. Mexico's largest trade share gains have occurred in sectors, such as transportation equipment and food and beverages, in which China was a less significant trade partner (Exhibit 8). Within ASEAN, Vietnam had the largest gains in share in sectors where China lost the most share. However, a significant share of the value exported by ASEAN economies embodies value added in China. For example, in 2023, about 25 percent of the value of Vietnam's electronics exports represented value added originally in China. In 2015, this figure was closer to 10 percent.[7] This suggests how the United States' dependence on China may be reconfiguring, with economies such as Vietnam partly intermediating trade flows between the two. Indeed, China's share of global manufacturing value added remains substantial, at about 30 percent of the global total.

Exhibit 8A

US trade has been shifting from mainland China to other economies in Asia and Mexico.

Shifts in US goods trade by sector, 2017–24E



Note: 2024 data through October 2024. Figures exclude trade under special provisions with no clear sectoral specification. 2024 trade totals are extrapolated using the available 2024 data and the historical ratio of annual total trade to the value of trade between January and October.
[1]Includes rubber and plastics.
[2]An approximate label for Harmonized System Chapter 84; however, this broad sector also includes many electronics products.
Source: US Census Bureau; McKinsey Global Institute analysis

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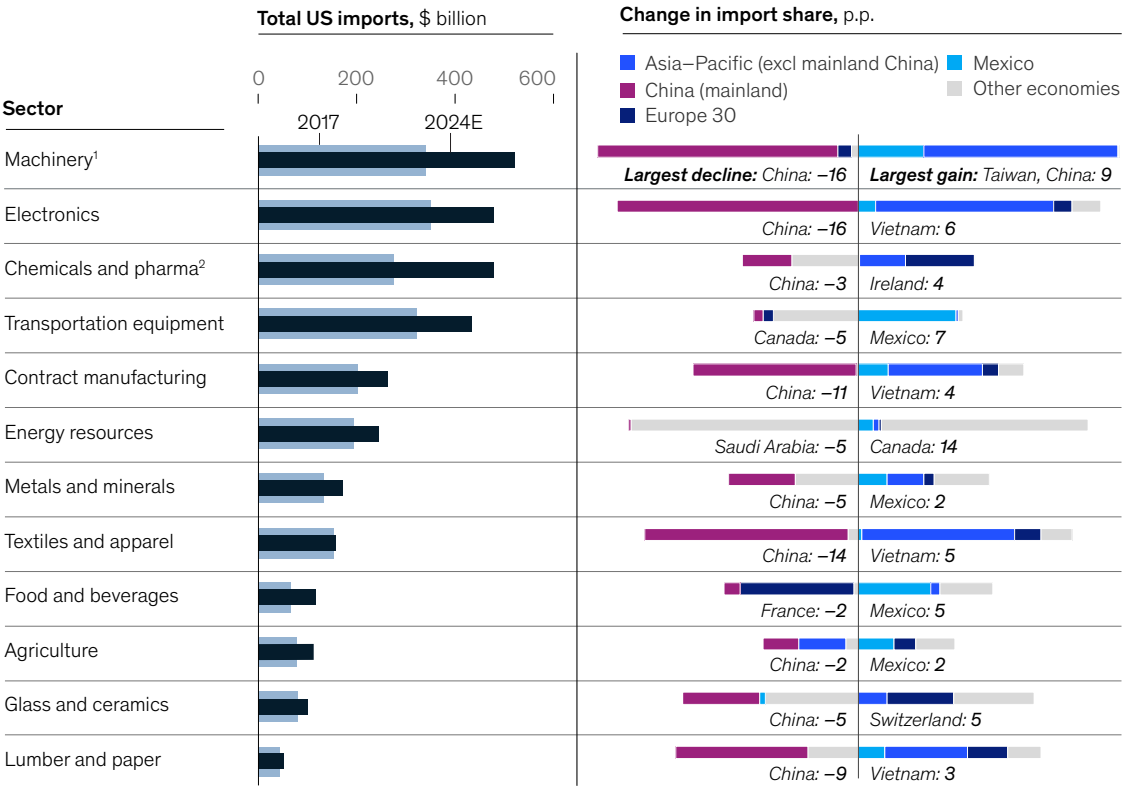
The Europe 30 also gained share of US trade in the period, mainly driven by shifts in chemicals and pharmaceutical trade and in US exports of energy resources. For example, the share of US energy resources exports headed to the region doubled between 2017 and 2023, from about 15 to 30 percent.

Exhibit 8B

US imports from mainland China have mostly been replaced by imports from other economies in Asia.

Shifts in US goods imports by sector, 2017–24E



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[1]An approximate label for Harmonized System Chapter 84; however, this broad sector also includes many electronics products.
[2]Includes rubber and plastics.
Source: US Census Bureau; McKinsey Global Institute analysis

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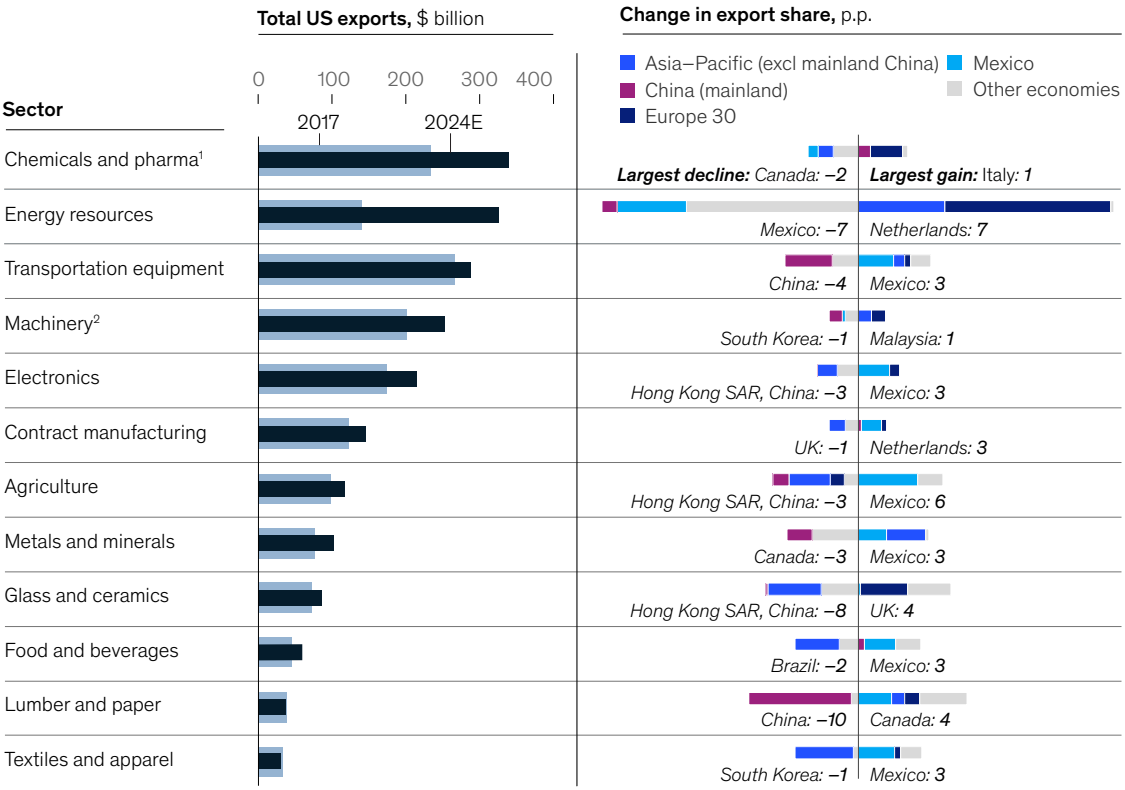
Exhibit 8C

US energy resources exports shifted substantially toward Europe.

Shifts in US goods exports by sector, 2017–24E



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[1]Includes rubber and plastics.
[2]An approximate label for Harmonized System Chapter 84; however, this broad sector also includes many electronics products.
Source: US Census Bureau; McKinsey Global Institute analysis

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4

China continued to expand its trade with developing economies, particularly ASEAN, Latin America, and Russia

In the past two years, developing economies overtook advanced economies to represent the majority of China's imports and exports. In tandem, China reduced its share of total trade with more geopolitically distant partners—including the Europe 30, Japan, South Korea, and the United States—by almost ten percentage points between 2017 and 2024.

Much of China's shift toward developing economies was the result of growing trade ties with ASEAN, which in 2024 overtook the Europe 30 to become China's largest trading partner region (Exhibits 9 and 10). Many of the sectors registering the most substantial trade shifts—like electronics, machinery, and textiles—are those where China's role is evolving as an upstream

supplier of intermediate inputs to ASEAN. ASEAN economies, in turn, produce finished goods for the global market and, increasingly, the United States. Between 2017 and 2024, the share of ASEAN's electronics exports headed to the United States doubled, rising from 10 to nearly 20 percent. One notable exception to this pattern is Indonesia. Its trade with China grew at a remarkable 12 percent annually on average between 2017 and 2024, powered by Indonesia's exports of metals and minerals, particularly nickel.

China's trade with Latin America has also been on a steady upward trajectory, bolstered by China's agricultural imports from the region and China's export growth in manufactured goods, spanning consumer electronics and clean technology products such as photovoltaic cells, lithium-ion batteries, and electric vehicles (EVs). Much of this trade growth has been powered by trade with Brazil—which in 2024 represented almost 50 percent of all of China's trade with Latin America, up from just over 40 percent in 2017.[8] However, many Latin American economies have been experiencing rapidly growing trade with China. The value of trade between Brazil and China grew about 13 percent annually between 2017 and 2024. Peru and Colombia experienced a similar growth rate. And for some smaller economies, trade growth with China has been even brisker, with Ecuador and Costa Rica, for example, posting trade growth rates of nearly 20 percent annually.

China has also deepened trade ties with Russia. Russia is a growing source of energy resources for China and is emerging as a significant destination for China's automobiles and other transportation equipment. In 2017, only 2 percent of China's transportation equipment exports went to Russia. By 2024, that figure was more than 10 percent.

With the reorientation toward the developing world, China's share of trade with Europe 30 economies has fallen marginally. This was mainly driven by a change in the sector mix of China's imports rather than by European economies losing significant share in any sector. For example, European economies gained share of China's transportation equipment imports between 2017 and 2024, rising from about 50 to about 60 percent. However, the total value of China's imports in this sector fell by about 4 percent annually as China's domestic automotive sector continued to grow, reducing its import dependency. As a result, the value of Europe's transportation equipment exports to China stagnated—the larger slice did not compensate for the shrinking pie. A similar pattern can be seen in European exports to China of textiles and apparel and, to some extent, chemicals and pharmaceuticals.

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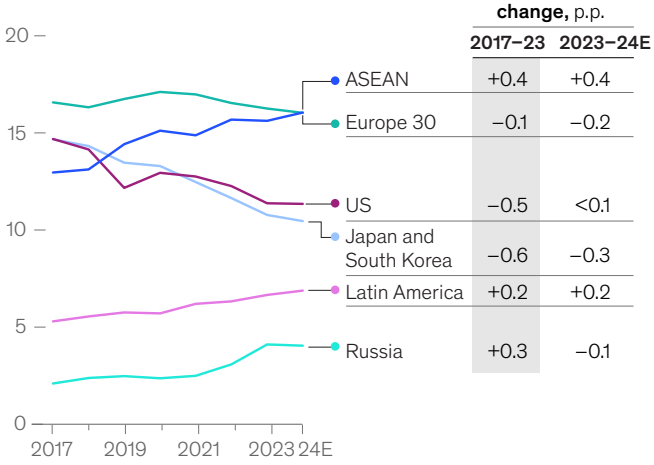
Exhibit 9

China has continued to reorient trade toward developing economies, particularly ASEAN.

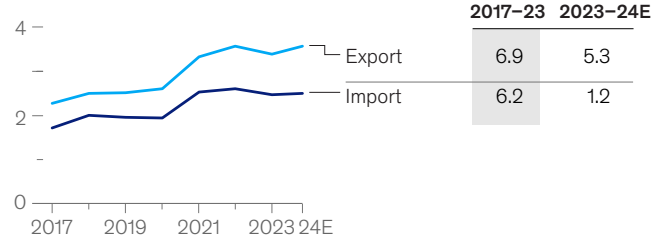
Shifts in mainland China goods trade, 2017–24E

Share of mainland China trade, %



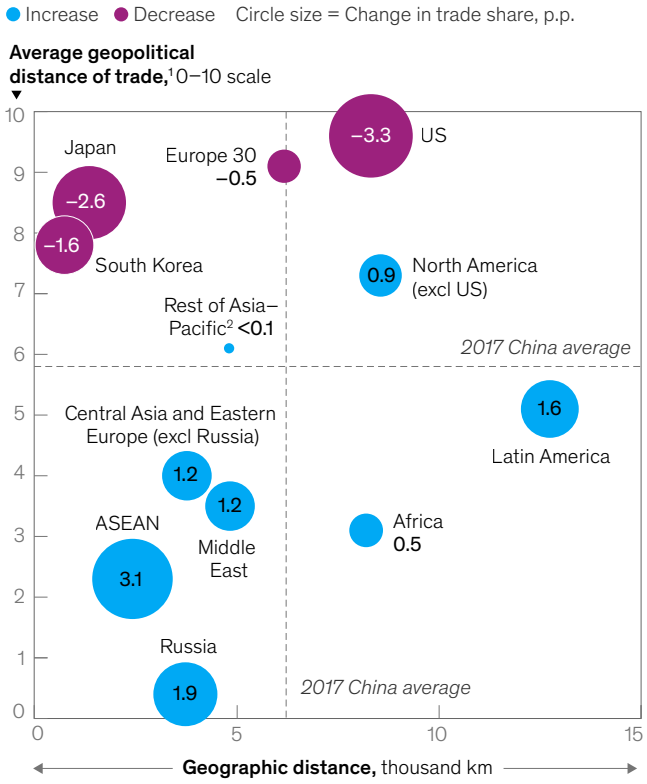
	Annualized share change, p.p. 2017–23	2023–24E
ASEAN	+0.4	+0.4
Europe 30	–0.1	–0.2
US	–0.5	<0.1
Japan and South Korea	–0.6	–0.3
Latin America	+0.2	+0.2
Russia	+0.3	–0.1

Total trade, $ trillion



	CAGR, % 2017–23	2023–24E
Export	6.9	5.3
Import	6.2	1.2

Change in share of mainland China trade, 2017–24E



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[1]Calculated by principal component analysis of UN General Assembly voting records in 2005–22, reduced to a 0–10 scale.
[2]Excludes ASEAN, Japan, and South Korea.
Source: General Administration of Customs of the PRC; CEPII; Voeten (2017) and UN Digital Library; McKinsey Global Institute analysis

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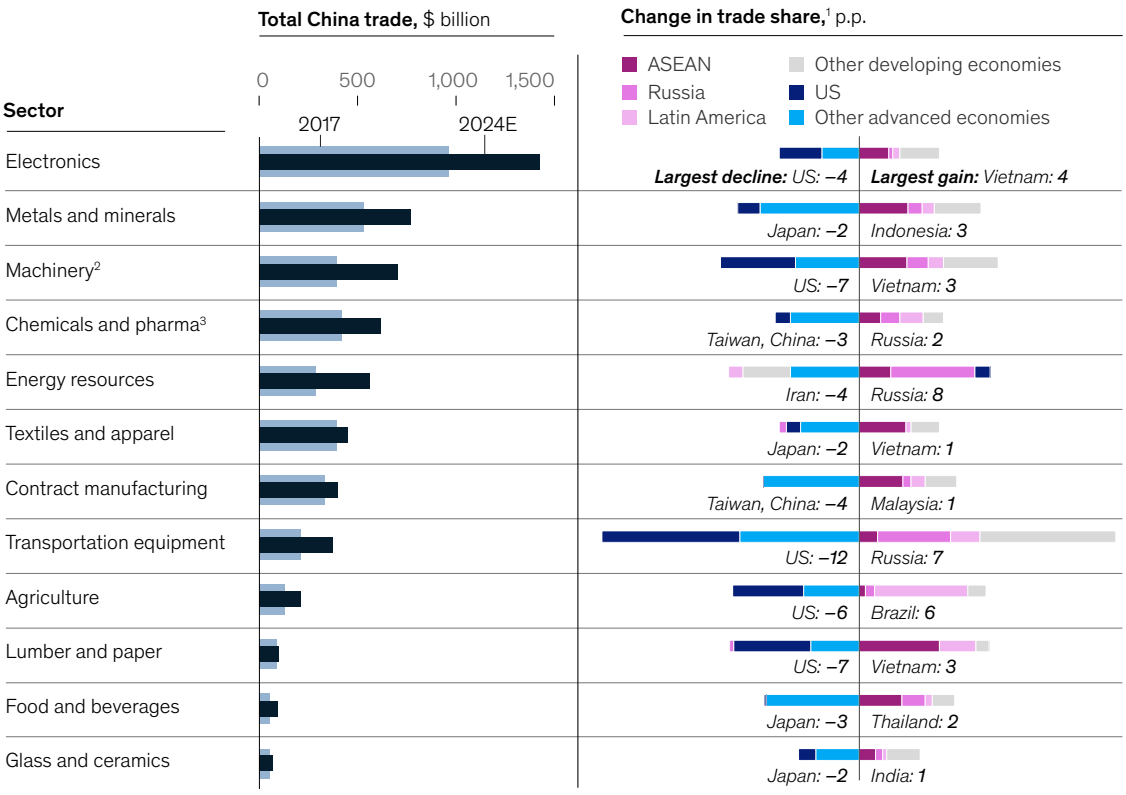
Exhibit 10A

Mainland China's shift toward developing economies has occurred across sectors.

Shifts in mainland China goods trade by sector, 2017–24E



Note: 2024 data through October 2024. Figures exclude trade under special provisions with no clear sectoral specification, and Harmonized System Chapter 71, which includes nonmonetary gold. 2024 trade totals are extrapolated using the available 2024 data and the historical ratio of annual total trade to the value of trade between January and October.
[1]Excluding trade between mainland China and Hong Kong SAR, China. A substantial share of goods trade between these two economies is reexported, and therefore shifts may be reflective of trade routing rather than trade for domestic industry or final consumption.
[2]An approximate label for Harmonized System Chapter 84; however, this broad sector also includes many electronics products.
[3]Including rubber and plastics.
Source: General Administration of Customs of the PRC; McKinsey Global Institute analysis

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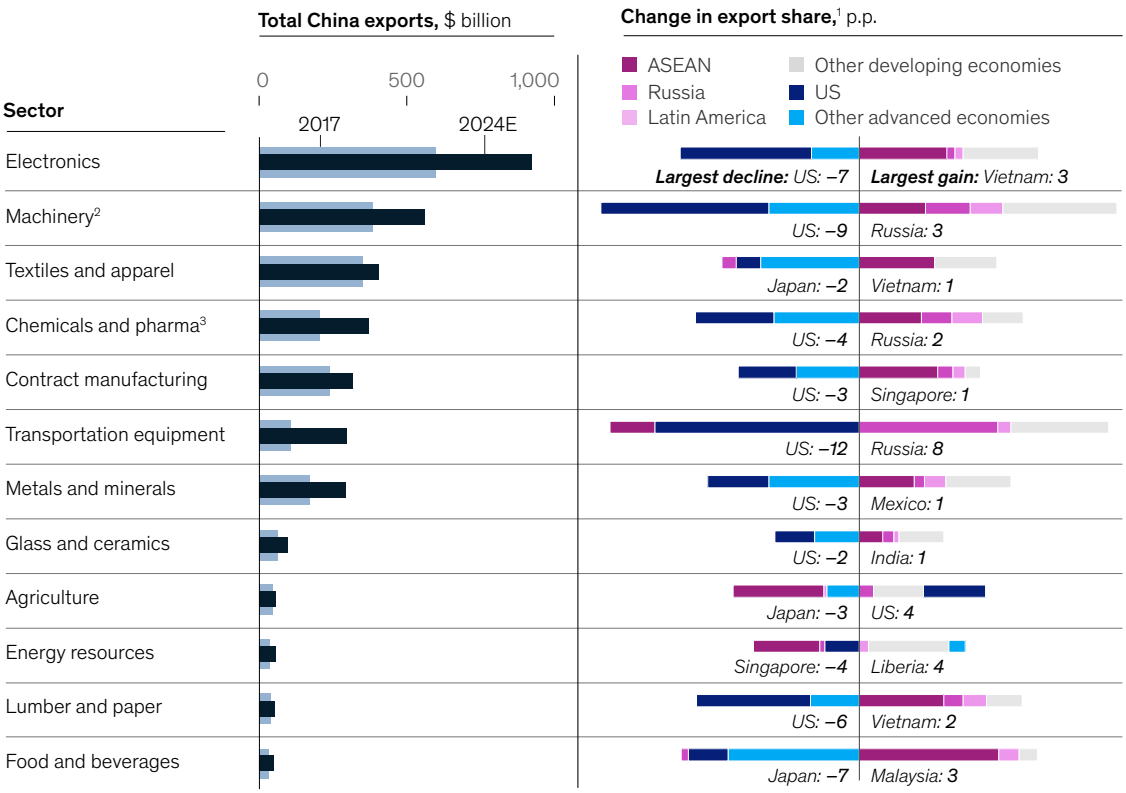
Exhibit 10B

Mainland China's manufactured goods exports shifted to ASEAN and Russia in particular.

Shifts in mainland China goods exports by sector, 2017–24E



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[3]Including rubber and plastics.
Source: General Administration of Customs of the PRC; McKinsey Global Institute analysis

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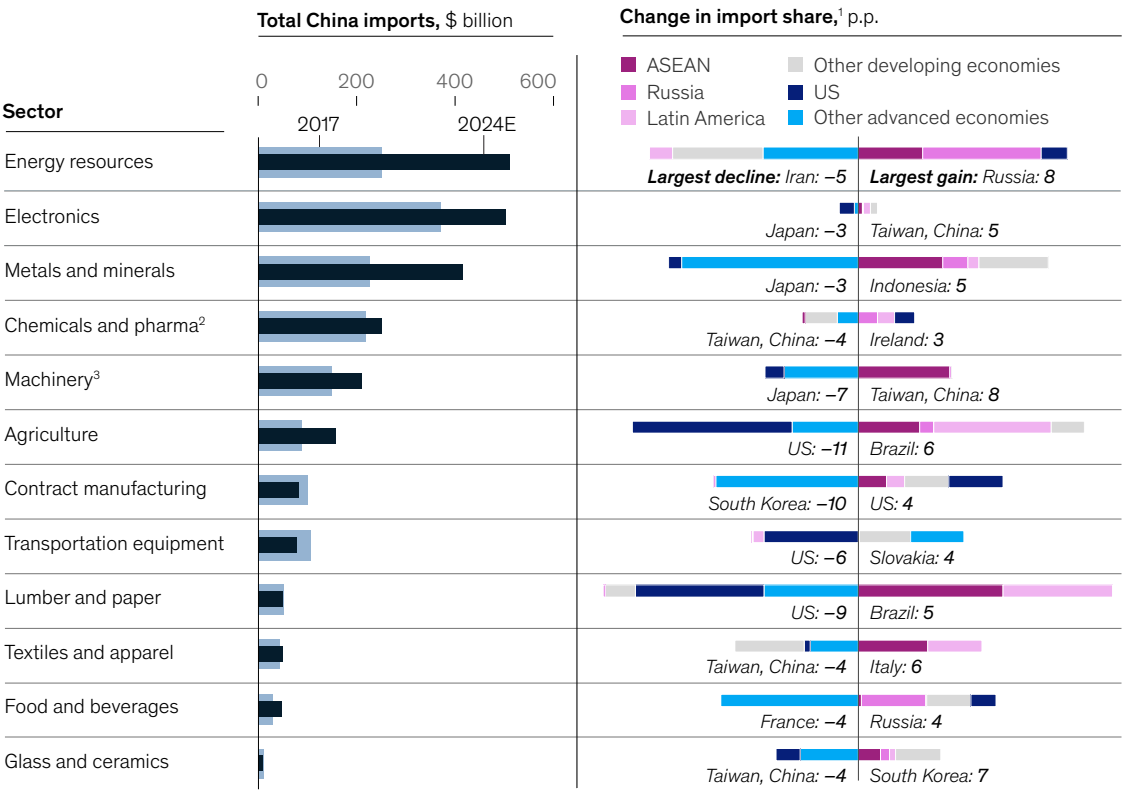
Exhibit 10C

Mainland China shifted imports to Russia for energy resources, Brazil for agriculture, and Taiwan for electronics and machinery.

Shifts in mainland China goods imports by sector, 2017–24E



Note: 2024 data through October 2024. Figures exclude trade under special provisions with no clear sectoral specification, and Harmonized System Chapter 71, which includes nonmonetary gold. 2024 trade totals are extrapolated using the available 2024 data and the historical ratio of annual total trade to the value of trade between January and October.
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[2]Including rubber and plastics.
[3]An approximate label for Harmonized System Chapter 84; however, this broad sector also includes many electronics products.

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5

Germany reduced trade with Russia substantially, and trade with China may be showing early signs of slowdown

Russia's invasion of Ukraine triggered a sharp shift in how Germany sources its energy imports, with the United States emerging as a major supplier. This shift meant that, in 2024, the United States overtook China as Germany's largest partner in goods trade. To give a sense of the magnitude of Germany's pivot away from energy imports from Russia, Russia's share of Germany's energy imports fell from more than 30 percent in 2017 to just 1 percent in 2023.

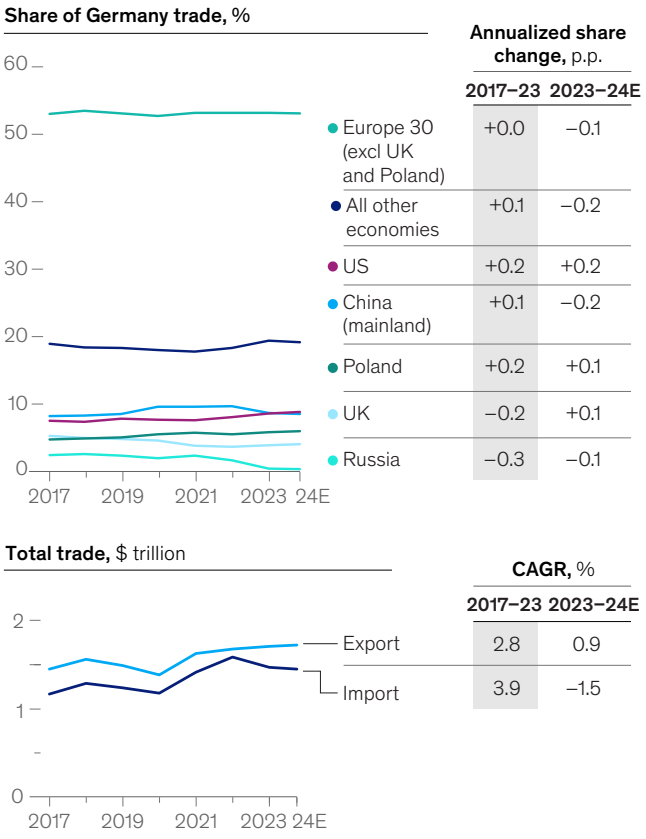
Germany's share of trade with China has been falling in recent years (Exhibit 11). However, unlike the United States, whose lower trade with China mainly meant reducing imports, Germany's recent trade distancing from China has mainly been a result of a reduction in the share of Germany's exports headed to China. In some of its largest export sectors, including chemicals, machinery, and transportation equipment, the share of Germany's China-bound exports has been on a steady downward trend since 2020, with further decreases in 2024. This may partly reflect a loss of market share of German auto manufacturers in the Chinese market, as well as changes in industrial competitiveness in sectors such as chemicals resulting from commodity price changes in the wake of Russia's invasion of Ukraine.[9]

The EU continued to rely on Chinese imports, but China's reliance on EU exports fell. Between 2017 and 2024, China's share of imports to the EU from outside the bloc increased from 18 to 21 percent. But the share of the bloc's exports heading to China

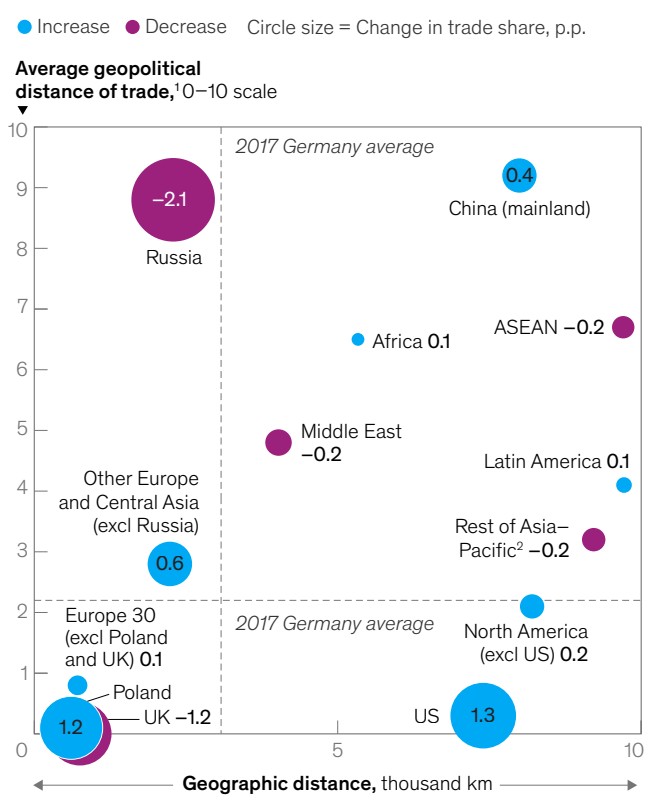
Exhibit 11

The United States overtook China as Germany's largest extraregional goods trade partner in 2024.

Shifts in Germany goods trade, 2017–24E



Change in share of Germany trade, 2017–24E



Note: 2024 data through September 2024. 2024 trade totals are extrapolated using the available 2024 data and the historical ratio of annual total trade to the value of trade between January and September. Chart at right represents all global regions, disaggregating individual economies that have gained or lost more than 1-percentage-point share of trade with Germany between 2017 and 2024. Aggregations are represented as the trade-weighted average geopolitical and geographic distance from Germany.
[1]Calculated by principal component analysis of UN General Assembly voting records in 2005–22, reduced to a 0–10 scale.
[2]Excludes mainland China and ASEAN.
Source: Destatis; CEPII; Voeten (2017) and UN Digital Library; McKinsey Global Institute analysis

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fell from a peak of more than 10 percent in 2020 to about 8 percent in 2024.

One standout area of growth has been the trade relationship between Germany and Poland. Between 2017 and 2023, this was the trade corridor within the Europe 30 that grew the most by value. The increase was powered by the integration of the two economies in transportation equipment and machinery value chains, for example through trade in lithium-ion batteries, internal combustion engines, and other vehicle parts. The available 2024 data suggest that this corridor's growth is continuing, but at a more moderate pace.

6

The United Kingdom's goods trade intensity has declined

On average, the goods trade intensity of high-income economies globally rose by 3 percent between 2017 and 2023, but it fell by 3 percent for the United Kingdom. This decline was mainly driven by slower growth of UK goods exports. Between 2017 and 2023, the nominal value of UK goods exports grew by under 2 percent each year on average (Exhibit 12)—the slowest export growth rate of the Europe 30 economies. Indeed, in real terms, the value of UK goods exports decreased by almost 15 percent between 2017 and 2023, and available data suggest that it declined further over the course of 2024.[10]

As with many other European economies, the United Kingdom sharply reduced its trade with Russia following the latter's invasion of Ukraine; goods trade fell by more than 90 percent between 2021 and 2024. Following this, the United States emerged as a major supplier of UK energy resources. However, the growing trade share of the United States was broader based. The United States also gained share of UK transportation equipment, chemicals, and electronics trade, with this shift persisting through 2024. In chemicals, the UK share of trade with Germany fell the most—by about five percentage points between 2017 and 2024—with share decreases across all subsectors, such as pharmaceuticals, organic chemicals, and plastics.

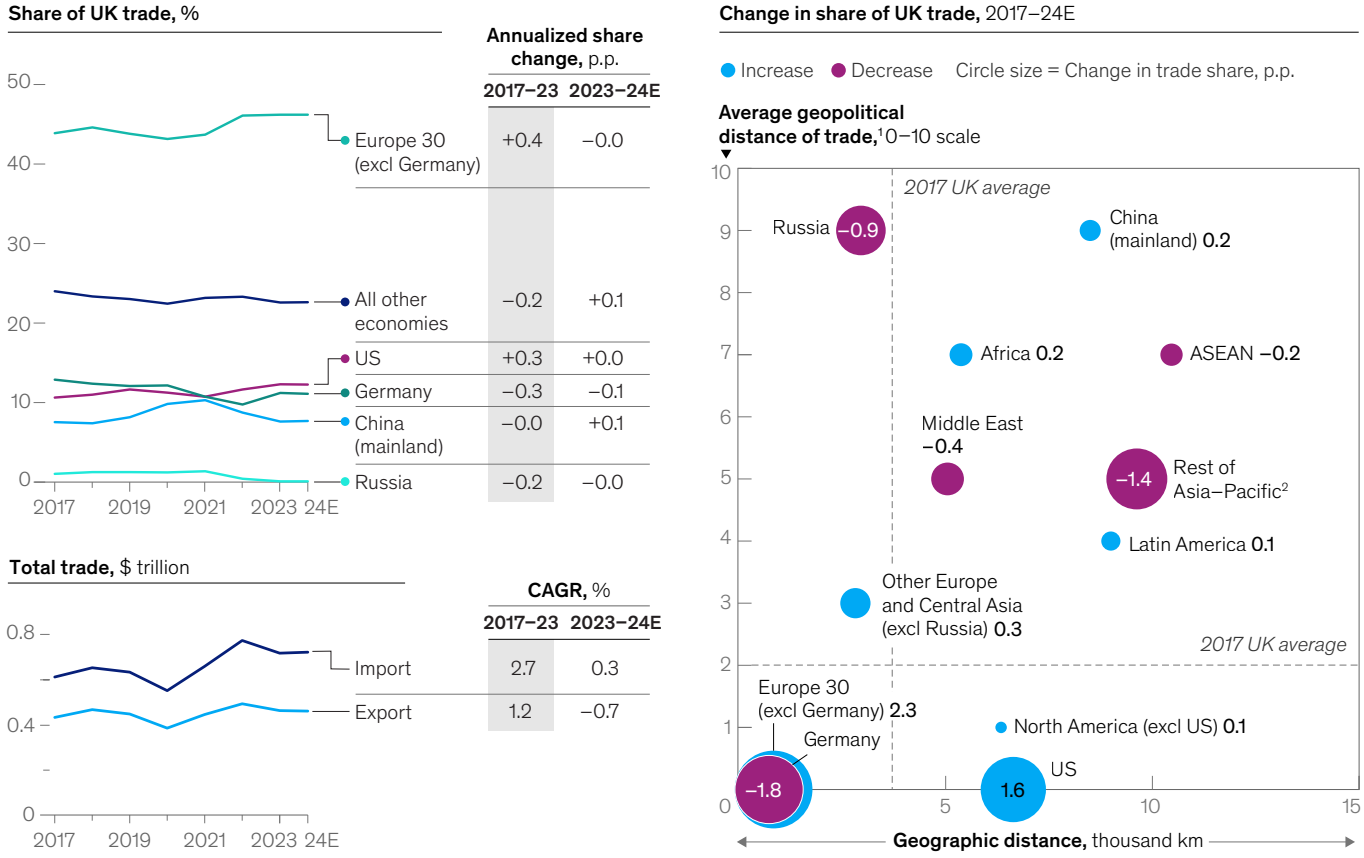
The decline in Germany's share of UK chemicals trade was part of a more general trade slowdown between the two largest economies in the Europe 30. Indeed, the trade corridor between the United Kingdom and Germany was one of only a handful of the 435 intra–Europe 30 corridors to shrink in value between 2017 and 2023. It shrank by the most, by about 14 percent or $16 billion, in this period, and the available 2024 data suggest that a recovery is not yet under way.[11] UK trade often reoriented to other partners in Europe, such as France, Ireland, and Poland. As a result, the United Kingdom's overall share of trade with European partners remained broadly stable and substantial. The Europe 30 economies together accounted for 57 percent of UK goods trade in both 2017 and 2024.[12]

Overall, trade between the United Kingdom and China has remained roughly constant, with pronounced sector shifts. China's share of UK trade in 2023 and 2024 was similar to prepandemic levels. However, China gained share in some sectors in those years, including in chemicals and machinery, but lost share in others. For example, in electronics—particularly telecommunications equipment and office machinery—China lost share of UK imports to India and the United States. And with the reconfiguration following the invasion of Ukraine, China lost share of UK energy exports, which were increasingly directed to countries in Europe. However, as seen in Germany and many other economies, UK imports of transportation equipment, such as EVs, from China surged more than fourfold, from $1.5 billion to $7 billion between 2017 and 2023. Economies such as Japan and South Korea lost share in this sector.

Exhibit 12

The United Kingdom's trade has shifted slightly toward the United States.

Shifts in UK goods trade, 2017–24E



Note: 2024 data through October 2024. 2024 trade totals are extrapolated using the available 2024 data and the historical ratio of annual total trade to the value of trade between January and October. Chart at right represents all global regions, disaggregating individual economies that have gained or lost more than 1-percentage-point share of trade with the UK between 2017 and 2024, and Russia. Aggregations are represented as the trade-weighted average geopolitical and geographic distance from the UK. Trade analysis for the UK excludes SITC product group 9 to remove potential distortion from trade in nonmonetary gold, and excludes trade within the British Islands (i.e., between the United Kingdom, the Channel Islands, and the Isle of Man).
[1]Calculated by principal component analysis of UN General Assembly voting records in 2005–22, reduced to a 0–10 scale.
[2]Excludes mainland China and ASEAN.
Source: UK Office for National Statistics; World Bank; CEPII; Voeten (2017) and UN Digital Library; McKinsey Global Institute analysis

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7

India's trade expanded across the geopolitical spectrum

India's trade has expanded across the geopolitical spectrum. Some shifts stand out. In the case of energy resources, the share sourced from Russia has soared from only about 1 percent in 2017 to almost 30 percent in 2024. At the same time, India's share of trade with the United States and the Europe 30 has been stable or increasing, fueled by India's exports to these economies. Their value increased by an annualized 8 and 9 percent, respectively, in this period. In the case of India's exports of electronics, the share headed for the Europe 30 and the United States rose from less than 40 percent in 2017 to close to 65 percent in 2024.

India's trade evolution with China has been powered by rising imports from China, which increased in

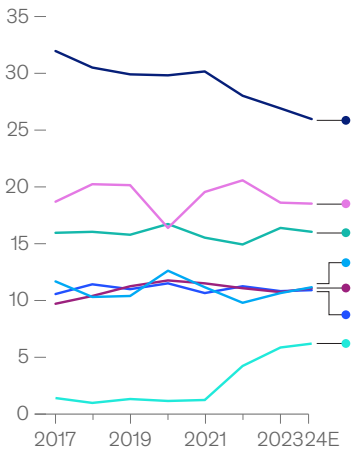
value by about 6 percent a year on average between 2017 and 2023. This was driven by chemicals (including pharmaceuticals) and machinery, which grew by about 10 percent a year. Some notable items include microprocessors, memory chips, and semiconductor manufacturing equipment. India's imports of these items from China grew tenfold between 2017 and 2023, rising from a combined import value of less than $500 million to $5 billion, with the upward trajectory appearing to continue through 2024. By contrast, each year fewer of India's exports head to China. Indeed, the dollar value of India's exports to China fell by 2 percent a year on average between 2017 and 2023. The net effect of these two shifts—rising imports from China but falling exports to China—has been to reduce China's share of India's trade between 2017 and 2024 (Exhibit 13).

Exhibit 13

India continued to develop more trade ties across the geopolitical spectrum.

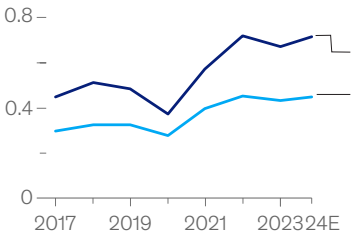
Shifts in India goods trade, 2017–24E

Share of India trade, %



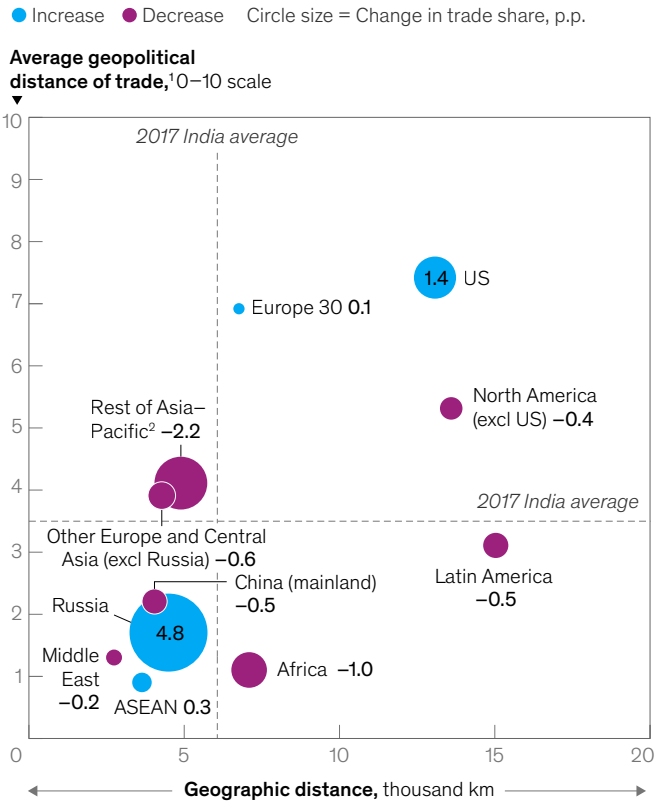
	Annualized share change, p.p. 2017–23	2023–24E
All other economies	+0.1	–0.3
Middle East	–0.0	–0.1
Europe 30	+0.1	–0.3
China (mainland)	–0.2	+0.6
US	+0.2	+0.4
ASEAN	+0.0	+0.1
Russia	+0.7	+0.3

Total trade, $ trillion



	CAGR, % 2017–23	2023–24E
Import	7.0	6.3
Export	6.3	4.3

Change in share of India trade, 2017–24E



Note: 2024 data through October 2024. 2024 trade totals are extrapolated using the available 2024 data and the historical ratio of annual total trade to the value of trade between January and October. Chart at right represents all global regions, disaggregating individual economies that have gained or lost more than 2-percentage-point share of trade with India between 2017 and 2024. Aggregations are represented as the trade-weighted average geopolitical and geographic distance from India.
[1]Calculated by principal component analysis of UN General Assembly voting records in 2005–22, reduced to a 0–10 scale.
[2]Excludes mainland China and ASEAN.
Source: Government of India, Ministry of Commerce and Industry; CEPII; Voeten (2017) and UN Digital Library; McKinsey Global Institute analysis

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These shifts may suggest an emerging asymmetrical trade relationship between the world's two largest developing economies, in which India increases imports from China but exports less to it. India may be developing increasing upstream dependence on imports from China for the goods that then head to markets such as the United States and the Europe 30.

8

Brazil's trade continues to shift to Asia

Between 2017 and 2024, the broad trajectory of Brazil's trade has been one of growing exports—particularly of agricultural goods and metals—to China, complemented by ever-increasing imports of manufactured goods from China in return.

This trajectory of Brazilian imports continued through 2024 and in some cases accelerated. For example, between 2022 and 2024, China's share of Brazil's transportation equipment imports doubled, from 11 to 22 percent, mainly propelled by EV imports from China, which grew more than sixfold in value terms. Similarly, China gained share of Brazil's substantial chemical and machinery imports in 2024. However, on the export side, Brazil's agricultural exports to China declined in 2024, driven mainly by extreme weather events affecting agricultural production. Nevertheless, the general trend of increasing trade ties with China can be observed across sectors.[13]

Another source of trade growth in Asia for Brazil has been ASEAN, which is increasingly gaining share of Brazil's exports across sectors. One example is Singapore, which became the third-largest destination for Brazil's energy resources exports, after China and the United States. With Singapore's role as a global shipping hub, these Brazilian energy resources, in turn, help power the global shipping industry.

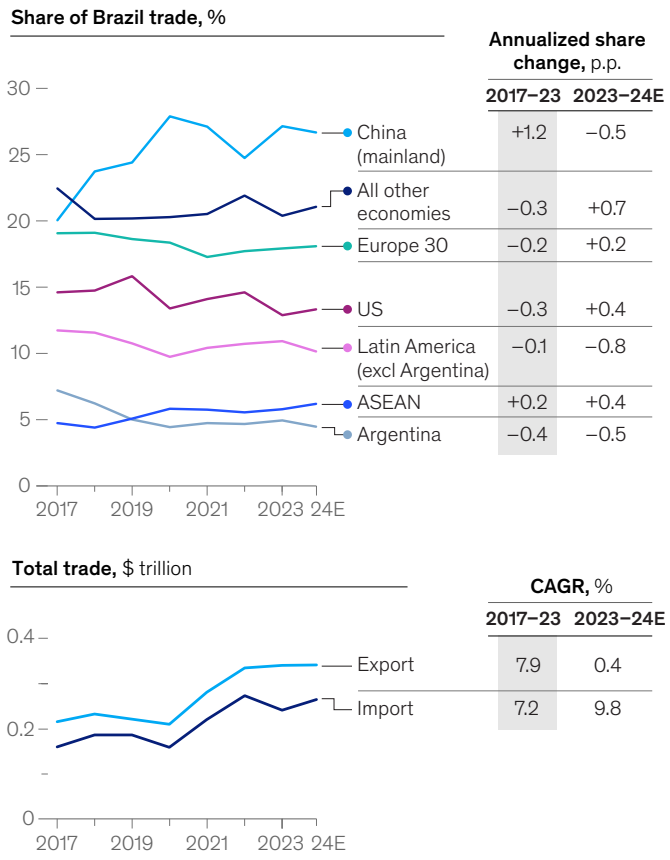
With this trade reorientation to Asia, Brazil's share of trade with intraregional partners, and in particular Argentina, continued to fall, reaching 15 percent in 2024 (Exhibit 14).

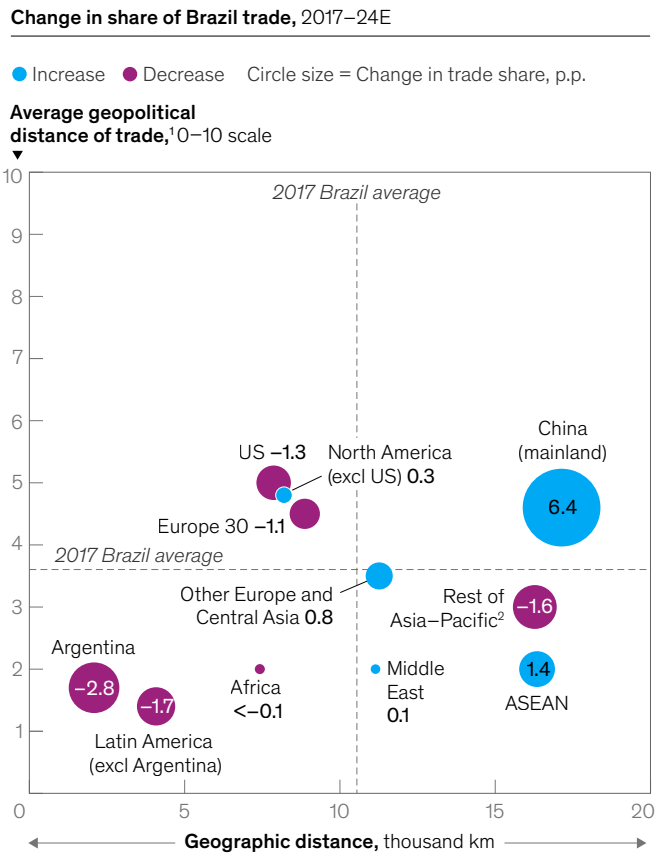
Between 2017 and 2024, the broad trajectory of Brazil's trade has been of growing exports to China, complemented by ever-increasing imports of manufactured goods from China in return.

Exhibit 14

Brazil's trade continues to shift toward extraregional partners.

Shifts in Brazil goods trade, 2017–24E





Note: 2024 data through November 2024. 2024 trade totals are extrapolated using the available 2024 data and the historical ratio of annual total trade to the value of trade between January and November. Chart at right represents all global regions, disaggregating individual economies that have gained or lost more than 1-percentage-point share of trade with Brazil between 2017 and 2024. Aggregations are represented as the trade-weighted average geopolitical and geographic distance from Brazil.
[1]Calculated by principal component analysis of UN General Assembly voting records in 2005–22, reduced to a 0–10 scale.
[2]Excludes mainland China and ASEAN.
Source: Comex Stat; CEPII; Voeten (2017) and UN Digital Library; McKinsey Global Institute analysis

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9

ASEAN is importing more from China and exporting more to the United States

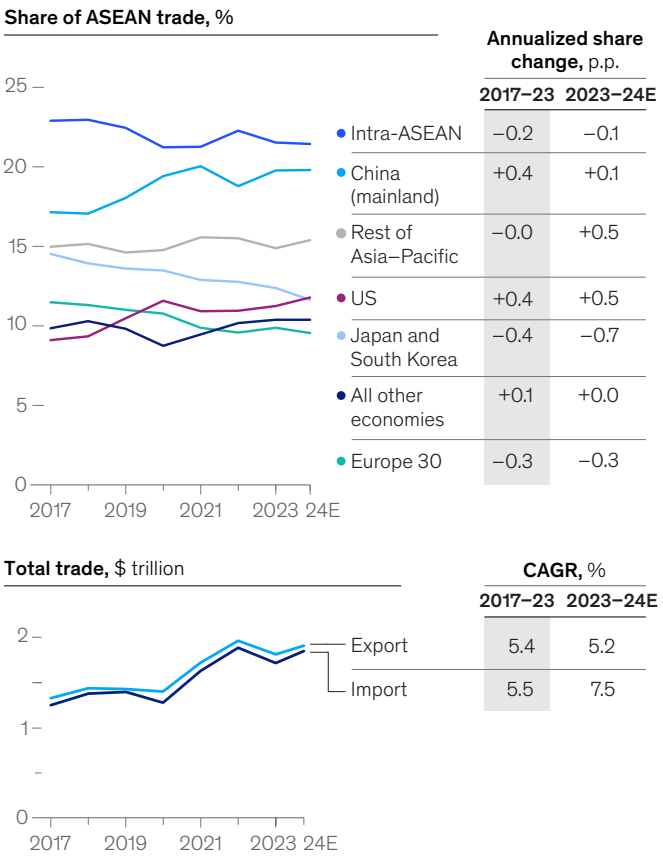
Between 2017 and 2024, ASEAN increased its share of trade with both China and the United States, indicating how the region's trade spans the geopolitical spectrum. With these shifts, the Europe 30, Japan, and South Korea all lost share of ASEAN trade (Exhibit 15).

ASEAN's trade reorientation toward the United States was focused on exports, and particularly exports of electronics. Between 2017 and 2023, the value of ASEAN's electronics exports to the United States grew at a remarkable 18 percent annually, although growth in 2024 appears to have moderated. ASEAN's exports reoriented to the United States in other sectors, too, such as chemicals, machinery, and textiles and apparel. In these sectors, the Europe 30, Japan, and South Korea typically lost share of ASEAN's exports. However, ASEAN did not markedly increase imports

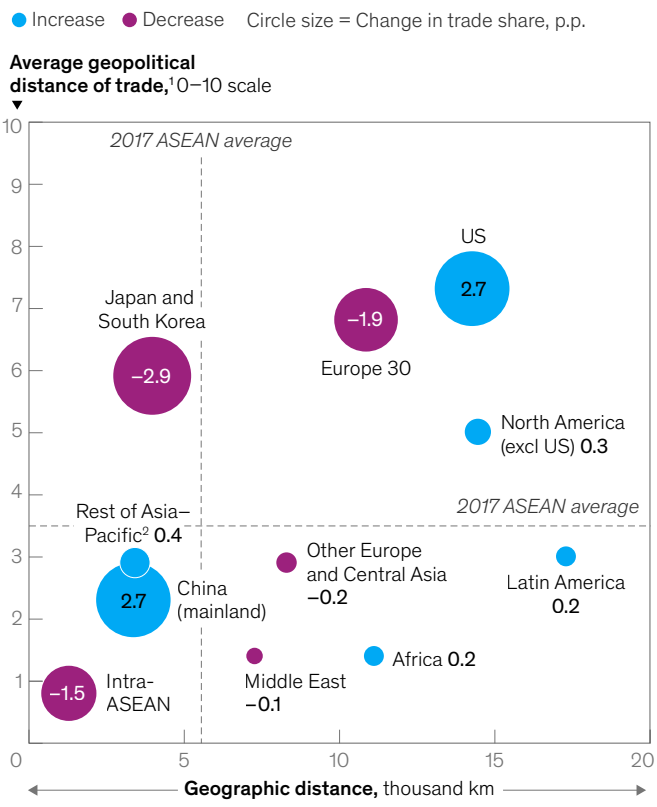
Exhibit 15

ASEAN trade has shifted toward China and the United States.

Shifts in ASEAN goods trade, 2017–24E



Change in share of ASEAN trade, 2017–24E



Note: 2024 data through September 2024. 2024 trade totals are extrapolated using the available 2024 data and the historical ratio of annual total trade to the value of trade between January and September. Chart at right represents all global regions, disaggregating all individual economies that have gained or lost more than 1-percentage-point share of trade with ASEAN between 2017 and 2024. Aggregations are represented as the trade-weighted average geopolitical and geographic distance from the ASEAN average.
[1]Calculated by principal component analysis of UN General Assembly voting records in 2005–22, reduced to a 0–10 scale.
[2]Excludes mainland China, Japan, South Korea, and intra-ASEAN trade.
Source: ASEANstats; CEPII; Voeten (2017) and UN Digital Library; McKinsey Global Institute analysis

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from the United States in this period. Indeed, the share of ASEAN's imports from the United States remained flat at about 7 percent.

On the import side, ASEAN registered a substantial increase in the share of its imports from China. By 2024, 25 percent of all ASEAN's imports were supplied by China, up from 20 percent in 2017. China gained share of ASEAN's imports in electronics, chemicals, machinery, and textiles and apparel—often the same sectors in which ASEAN experienced the most growth in exports to the United States. This points to a trend of ASEAN increasingly sourcing inputs from China to feed into its manufacturing sector. Again, Europe, Japan, and South Korea typically lost share of ASEAN's imports in these sectors. Notably, China did not gain material share of ASEAN's exports in the period, with its share of ASEAN's exports stable at about 14 percent.

Taken together, these shifts suggest that a new trade dynamic is emerging between China and the United States, with ASEAN economies becoming

increasingly integrated as intermediate steps in the global value chains that link the two largest economies. This is one of the reasons the US trade shift away from China is much smaller in value-added terms than in the import and export trade data. Broadly, China adds value to a product that is exported to ASEAN, and China's value added is therefore embedded in the goods that ASEAN exports to the United States. Consider, for instance, a product like a laptop or cell phone, which was previously entirely manufactured in China and exported to the United States for, say, $1,000. The same product could be now manufactured in ASEAN with $600 of Chinese inputs. In this case, the value of the export from China to the United States would drop by $1,000, but the value added exported to the United States from China would fall by only $400. However, the picture varies by economy within ASEAN. Vietnam registered the most rapid growth of any of the six largest ASEAN economies both in its exports to the United States and in its imports from China between 2017 and 2023, which grew at 15 and 11 percent annually, respectively. A similar pattern, albeit a less striking one, is evident for Malaysia and Thailand. However, not all ASEAN economies show this type of trade configuration. For example, the share of exports from Indonesia, the Philippines, and Singapore headed to the United States was roughly constant between 2017 and 2024.

These economy-level patterns indicate how ASEAN's role in the global trade network goes far beyond its emerging role in the trade dynamic between mainland China and the United States. For example, the region's trade in electronics has also been growing rapidly—at more than 10 percent annualized—with India and with Taiwan. This serves as an example of the region's growing role in the global electronics value chain.

Business leaders regard geopolitical instability as a top threat to the global economy not only in the short term but also in the longer term, according to a McKinsey survey.[14] Trade may have geopolitical ramifications, but trade is also a core feature of the global economy and is deeply intertwined with labor markets and economic development.

The way in which geopolitical forces are interacting with global economic connections is sometimes nuanced. For example, some economies such as China, Germany, the United Kingdom, and the United States show evidence of relatively swift trade reconfiguration along geopolitical lines, while economies such as Brazil, India, and ASEAN continue to trade across the geopolitical spectrum. Moreover, despite a reduction in direct trade connections between China and the United States, strong indirect connections persist. And trade dynamics may move in opposite directions in the same corridor—for example, as seen in the case of the EU and India reducing their share of exports to China even while increasing their share of imports.

The ongoing shifts in global trade are one part of the evolving geopolitical landscape of which organizations are well aware, and they are now crafting strategies accordingly.[15] It makes sense for organizations to monitor changes in the geometry of trade, such as trends in geopolitical distance, as part of their response. This response can also include understanding the implications of potential trade tariffs and the strategic opportunities they may provide.[16] Organizations can also be proactive in attempts to accelerate growth, optimize business operations, and build capabilities and strategies to help them respond to geopolitical disruption, for instance through structural segmentation.[17] The shifting geopolitical geometry may create risks, but carefully navigating it may deliver opportunities, too.

The research was led by **Jeongmin Seong**, an MGI partner in Shanghai; **Olivia White**, a senior partner and a director of MGI in San Francisco; **Michael Birshan**, a senior partner and member of the MGI Council in London; **Sven Smit**, a senior partner in the Amsterdam office and MGI chair; **Camillo Lamanna**, a McKinsey consultant in Sydney; and **Tiago Devesa**, an MGI senior fellow in Lisbon.

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Endnotes

1 *"Geopolitics and the geometry of global trade,"* McKinsey Global Institute, January 2024.

2 These are the same economies examined in the previous report. China, the United States, and Germany represent the three largest trading economies in the world, and the combined membership of ASEAN represents the fourth. We also consider the United Kingdom, the second-largest economy in Europe after Germany; India, the world's second-largest developing economy after China; and Brazil, the largest developing economy outside Asia. Unless otherwise specified, China refers to mainland China.

3 *Mineral commodity summaries 2024*, US Geological Survey, January 2024.

4 We developed a measure of geopolitical distance, which is the geopolitical analog of geographic distance, based on UN General Assembly voting records between 2005 and 2022. Since many votes are procedural or repeated, we included only votes designated as "important" by the US Department of State. Overall, the analysis includes 201 votes, or about 15 percent of all UN General Assembly votes in the period. For a fuller description of the methodology, uses, and limitations, see *Geopolitics and the geometry of global trade*, McKinsey Global Institute, January 2024.

5 The Europe 30 includes the 27 member states of the European Union (EU) plus Norway, Switzerland, and the United Kingdom.

6 Olivia White, Lola Woetzel, Sven Smit, Jeongmin Seong, and Tiago Devesa, "The complication of concentration in global trade," McKinsey Global Institute, January 12, 2023.

7 Based on McKinsey Global Institute analysis of Asian Development Bank Multiregional Input-Output tables.

8 Latin America includes South and Central America and the Caribbean. Mexico has been included in North America.

9 See, for example, Chunying Zhang and William Wilkes, "VW, BMW and Mercedes are getting left in the dust by China's EVs," Bloomberg, October 15, 2024.

10 Based on analysis of trade data through October 2024 from the Office for National Statistics in the United Kingdom, deflated using chain volume measures and excluding precious metals. Note that all trade values are reported in current prices unless otherwise stated.

11 This analysis of intra-European corridors uses Eurostat trade data, while other analyses in this section are based on United Kingdom Office for National Statistics (ONS) trade data. Note that Eurostat and ONS data differ. The ONS records goods trade on a balance-of-payments basis and registers no growth (in current prices) of UK trade with Germany between 2017 and 2023, rather than a decline. However, the UK data similarly show that the UK–Germany corridor was the slowest-growing of all corridors between the United Kingdom and other major European economies.

12 The stable overall share should not be taken to imply that the Withdrawal Agreement and Trade and Cooperation Agreement between the United Kingdom and the EU (part of "Brexit") had no effect on UK goods trade with EU members. For a recent discussion of its potential effects, see, for example, Rebecca Freeman et al., *Deep integration and trade: UK firms in the wake of Brexit*, Centre for Economic Performance, discussion paper number 2066, December 2024.

13 See, for example, Mei Mei Chu, "China soybean imports slip 9% in Nov but on course for record annual high," Reuters, December 10, 2024; and Karen Braun, "China forgoes US corn despite slowdown in Brazilian shipments," Reuters, September 19, 2024.

14 *Economic conditions outlook survey*, McKinsey, September 27, 2024.

15 Cindy Levy, Shubham Singhal, and Matt Watters, "A proactive approach to navigating geopolitics is essential to thrive," McKinsey, November 12, 2024.

16 Cindy Levy, Matt Watters, and Shubham Singhal, with Isabella Bennett, "Tariffs on the move? A guide for CEOs for 2025 and beyond," McKinsey, December 19, 2024.

17 Andrew Grant, Michael Birshan, Olivia White, and Ziad Haider, "Can your company remain global and if so, how?" McKinsey, May 17, 2024.