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Geopolitics and the geometry of global trade: 2026 update

Tariff splashes, AI waves, and the ripples reshaping global trade

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At a glance

— **Trade in 2025 did not retrench, despite dire predictions.** Both US imports and Chinese exports reached new highs. Southeast Asia deepened its role in global manufacturing, India gained ground in selected sectors, and Brazil expanded commodity exports to China. All told, trade grew faster than the global economy, while advanced economies and China reoriented away from geopolitically distant trading partners.

— **AI-related trade emerged as the most substantial engine of growth.** Exports of semiconductors and data center equipment accounted for one-third of global trade growth as Asian hubs—Taiwan, South Korea, and parts of Southeast Asia—supplied markets around the world, particularly the United States.

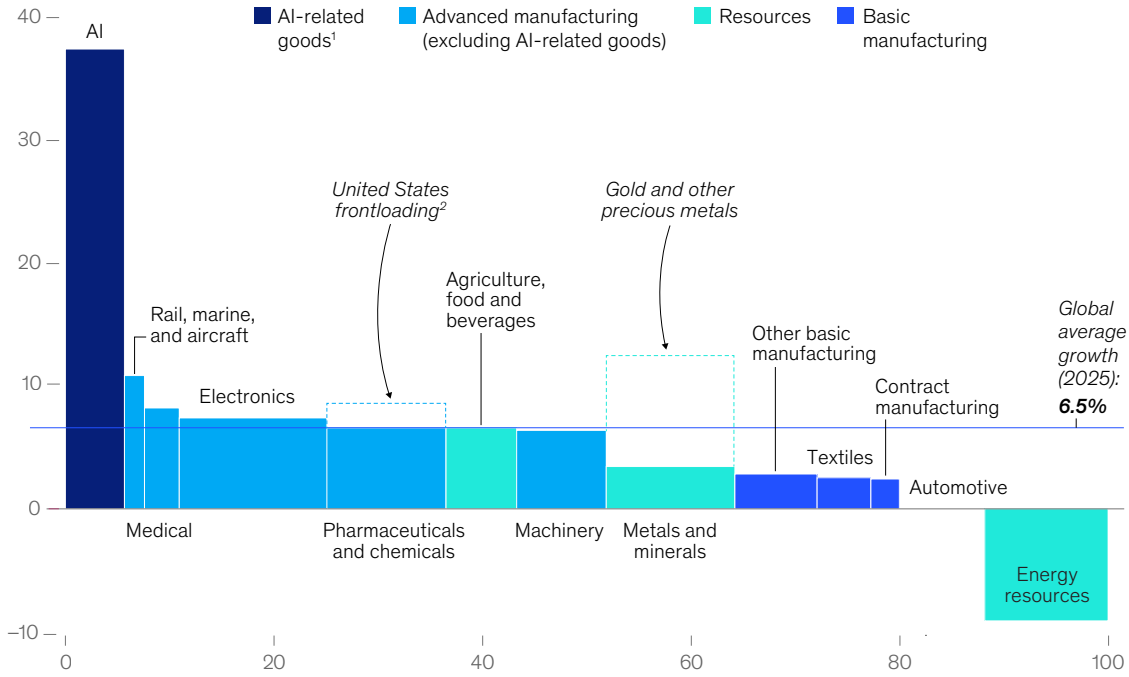
— **China expanded its role as a "factory to the factories."** Increasing shipments to fast-growing emerging economies, it ramped up exports of industrial components and capital goods, supplying the essential machinery and parts needed to power advanced manufacturing hubs worldwide.

— **Tariffs triggered trade readjustment, with US–China trade falling by around 30 percent.** The United States replaced about two-thirds of the gap with imports from other sellers, while Chinese exporters of consumer goods from electric cars to toys cut prices by an average of 8 percent to find buyers in new markets. ASEAN thrived, increasing trade with both economies, but the European Union faced a double squeeze: more Chinese imports and higher US tariffs.

— **Shifts in trade point to some durable trends—and a need for resilience to shocks.** AI, emerging market growth, and China's evolving manufacturing focus are not flashes in the pan, nor is the growing role of geopolitics in reshaping trade—a shift that's been apparent in the data for nearly a decade. Short-term developments require responses, too. Tariff shifts in 2025 were abrupt—and 2026 has already delivered its own jolts. Companies need long-term thinking coupled with agility.

Trade in advanced manufactured goods—especially AI—grew fastest.

Change in global trade by sector, 2024–25 (annualized), %



Note: Sectoral approximations based on HS2 codes, except for AI which is based on trade data at the HS 6-digit level. Annualized 2025 values are based on available year-to-date data, prorated monthly for each reporting authority. Estimated from trade data from a panel of large economies—ASEAN; Brazil; China (mainland); EU; India; and US—which together report about 90% of global goods trade. For AI-related goods specifically, estimates also include all major Asian economies.
[1]AI-related goods include semiconductors, graphics cards, routers, and servers, which can also be used for non-AI applications. Beyond these goods, a wide range of capital and intermediate goods, including HVAC, power, and construction equipment, is also required for data center buildout but is not included in this category.
[2]Some trade growth in rest of world may also be indirectly related with US frontloading, eg, intra-European trade.
Source: ASEAN Stats; Comex Stat; Eurostat; US Census Bureau; General Administration of Customs of the PRC; Government of India Ministry of Commerce and Industry; International Trade Administration, Ministry of Economic Affairs (Taiwan, China); Japan e-Stat; Korea Customs Service; McKinsey Global Institute analysis

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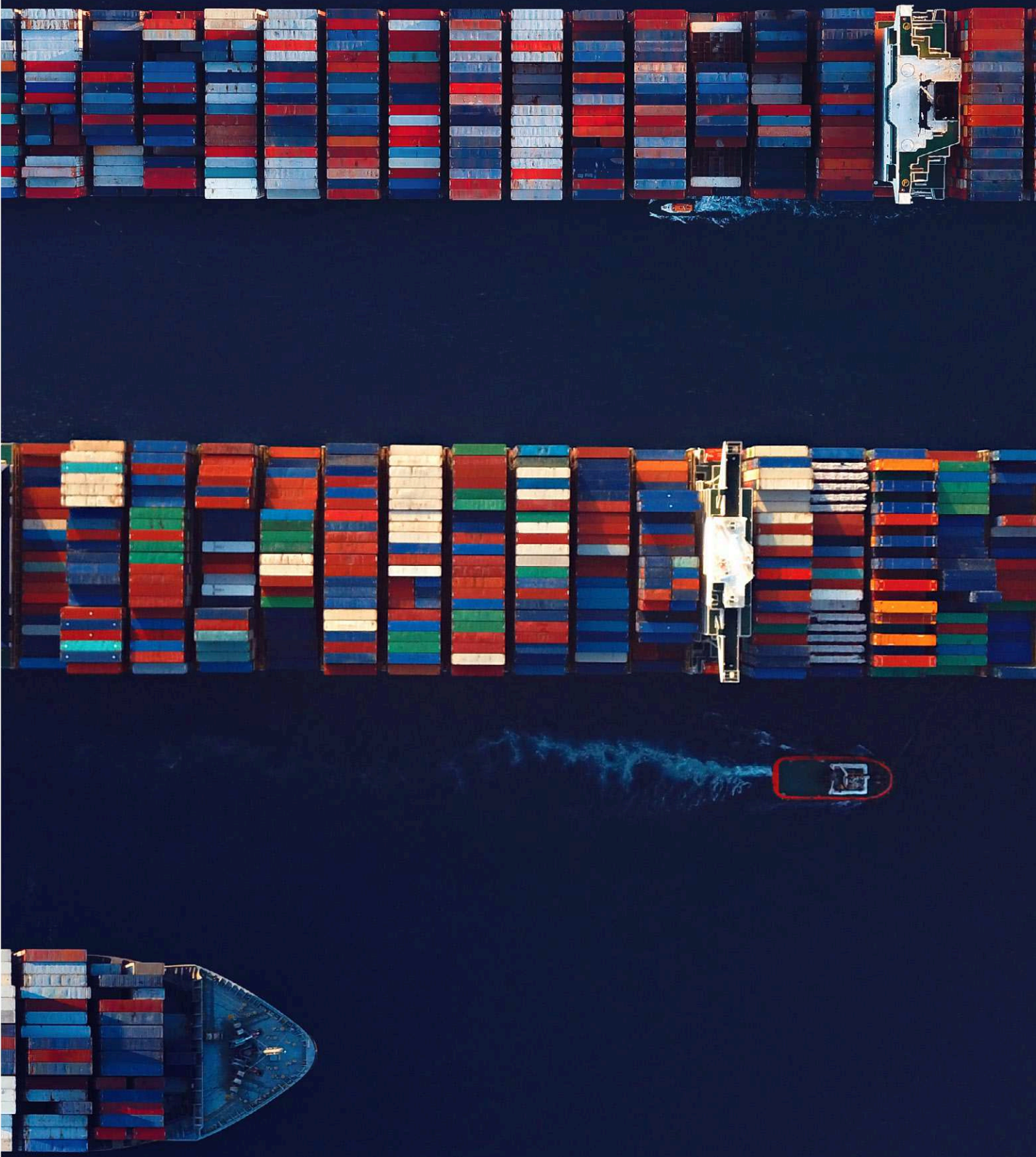
Introduction

The past year was the most tumultuous in memory for global trade, even beyond the splash from tariff announcements. Longstanding alignments came under strain, and trade relationships were reassessed—not just among geopolitically distant partners, but among historic allies. Yet trade increasingly moved toward more closely aligned economies, while continuing to grow in step with global output.

Building on three years of McKinsey Global Institute research documenting the emerging realignment of trade along geopolitical lines, this report examines how these dynamics evolved in 2025. It traces the way tariffs rippled through the network alongside major waves influencing trade, such as AI and emerging market growth. Our analysis covers more than 90 percent of global trade across ASEAN, Brazil, China, the European Union, India, the United States, and their trading partners.[1]

Developments remain in flux. Geopolitical conflict has sharply intensified in recent weeks. Separately, in February 2026 the US Supreme Court struck down the legal basis for many of the tariffs introduced in 2025, prompting new measures under alternative authorities. Despite these uncertainties, many structural shifts underway in global trade are likely to persist.



By the end of 2025, US tariff rates stood at their highest level since World War II. The increases reshaped trade along geopolitical lines, deepening a realignment already underway and pushing more than $165 billion in trade away from the US–China corridor.[2]

It would be natural to see tariffs as the defining trade story of 2025 (see sidebar "Tariffs in flux").

Yet other forces proved equally consequential in an increasingly contested global landscape.

One was the artificial intelligence boom, and the race across the world to build data centers. Shipments of the chips, servers, and networking equipment needed for their construction accounted for about one-third of trade growth, much of which was between geopolitically aligned economies.

Another underappreciated force was China's shift upstream in global production. It exported to a wider range of markets, shipping more manufacturing inputs and capital goods, while exports of finished products fell—changing not just how much trade flowed across borders, but what goods moved. Lower prices helped China's exporters find demand for consumer goods as access to the US market narrowed.

These shifts rippled across the global trade network. ASEAN and other emerging economies expanded their roles in reconfigured supply chains. The European Union faced growing competitive pressure.

Several outcomes in 2025 ran against common expectations. Despite higher tariffs, global trade did not retrench. Both US imports and Chinese exports reached new highs. In fact, the United States emerged as the largest single driver of global import growth, largely due to firms stockpiling ahead of the tariffs, alongside strong demand for AI-related equipment.

Trade keeps growing but reorients geopolitically

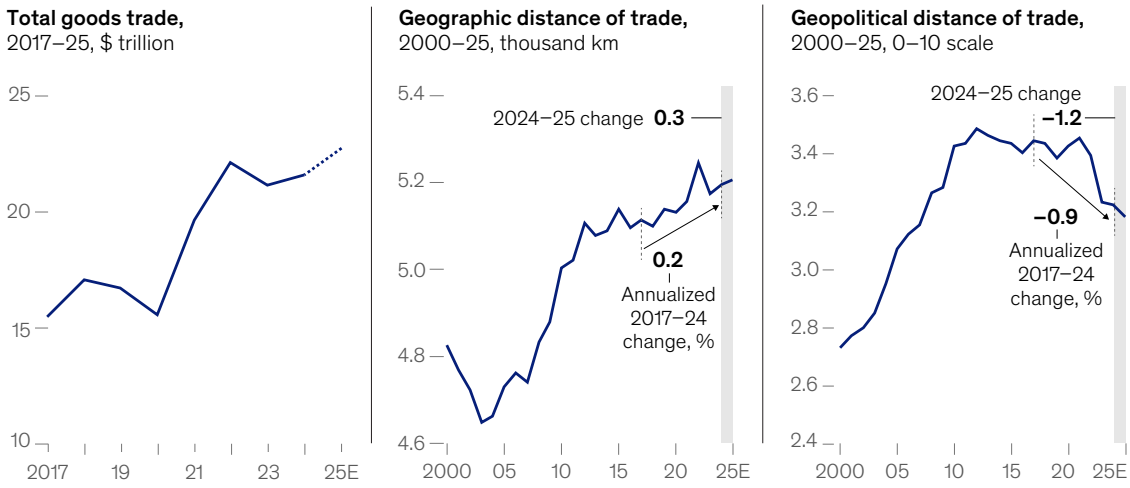
Although global commerce faced significant disruption in 2025, aggregate trade patterns largely followed existing trends (Exhibit 1). Goods continued to travel longer geographic distances and flowed increasingly between geopolitically aligned partners. Routes shifted, yet trade kept expanding roughly in line with global economic growth (see sidebar "Methodology" at the end of Chapter 1).[3]

Goods continued to travel longer geographic distances and flowed increasingly between geopolitically aligned partners.

Exhibit 1

Trade is growing but traveling shorter geopolitical distances.

Goods trade indicators, annualized



Note: 2025 shifts are estimated from a group of large economies (ASEAN, Brazil, China [mainland], EU, India, and US), which together allow inference of more than 90% of global trade using national customs data. Annualized 2025 values are based on available year-to-date data, prorated monthly for each reporting authority.
Source: ASEAN Stats; CEPII; Comex Stat; Eurostat; General Administration of Customs of the PRC; Government of India Ministry of Commerce and Industry; UN Comtrade; US Census Bureau; Voeten (2017) and UN Digital Library; McKinsey Global Institute analysis

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As in prior years, tensions between the United States and China were the single biggest force influencing the geopolitical distance traveled by trade (Exhibit 2). Both economies continued to reorient away from each other and toward geopolitically closer partners, accelerating a trend underway since 2017. US tariff increases, which were applied broadly but were generally highest for China, reinforced the shift.[4]

The European Union's trade also shifted toward more geopolitically aligned partners, largely because exports to China fell. Trade with the United States rose in the first half of the year, driven by large flows of pharmaceuticals and some metals ahead of expected tariff rollouts. Trade with Russia continued to decline, though from a much smaller base than in the years immediately after the invasion of Ukraine.

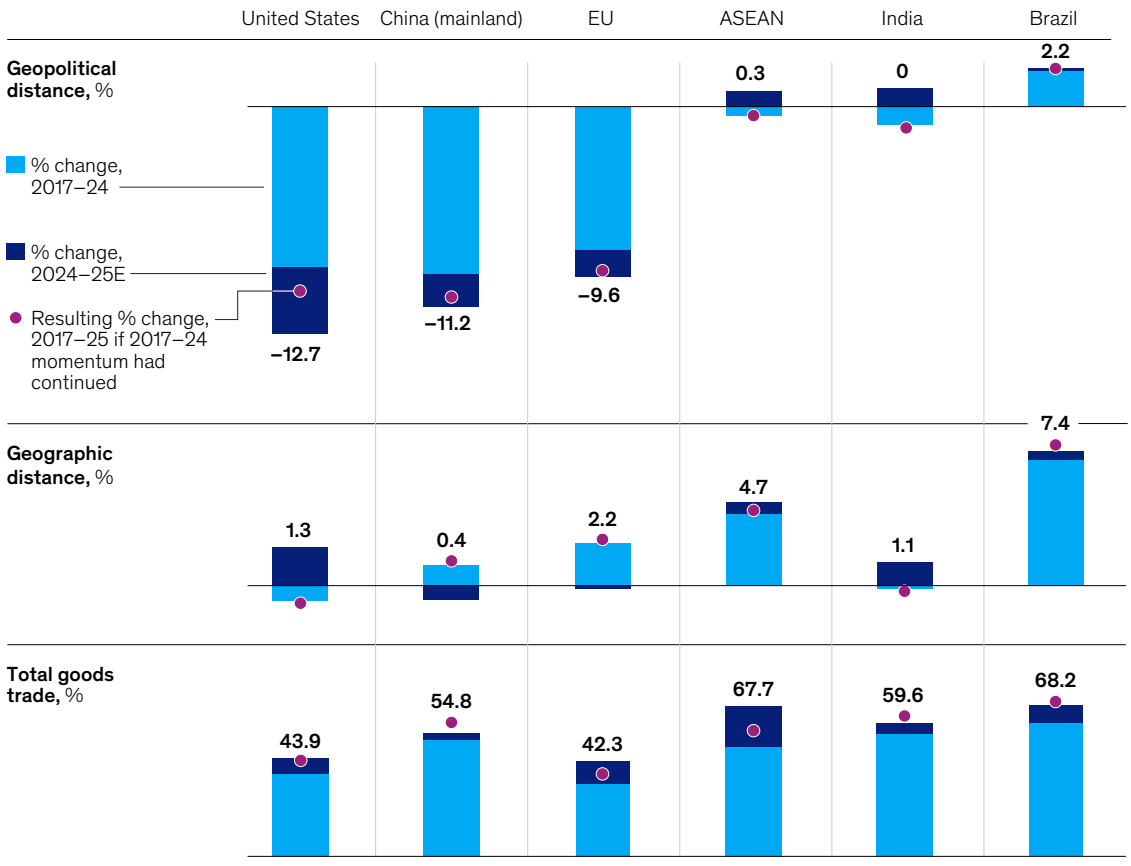
These shifts can be read as a form of "derisking" in the United States, China, and Europe as firms managed geopolitical pressures. But there was limited broad-based evidence of firms bringing production home or relocating it to nearby partners. Canada's and Mexico's shares of US trade declined, contributing to supply chains reaching farther on average.

Outside the largest economies, the picture differed. Major emerging economies continued to expand trade across the geopolitical spectrum. India stood out for a marked increase in geographical distance, reflecting growing shipments of smartphones to the United States, about 13,000 kilometers away.

Exhibit 2

Decline in geopolitical distance was mostly driven by the United States, China, and the European Union.

Goods trade indicators by economy, 2017–25 (annualized)



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Sidebar

Tariffs in flux

The global tariff landscape shifted substantially in 2025. Sharp rises in US tariffs, with multiple shifts throughout the year, were most prominent. But many other economies also raised tariffs and other trade barriers, albeit in less sweeping ways.

US tariffs throughout the year

The average effective US tariff rate jumped from 2.4 percent in late 2024 to about 22 percent in early April 2025, its highest level in about a century. By year-end, a series of trade agreements and policy adjustments had reduced this rate to about 15 percent.[1] Because businesses may receive tariff exemptions for products unavailable domestically or refunds for exported components, collected tariffs remained below these levels. In 2025, the collected tariff rate peaked at just under 11 percent in October.[2]

1 *State of U.S. Tariffs*, Yale Budget Lab, April 8, 2025 and January 19, 2026. Average effective tariffs are the weighted average of announced tariff rates, where the weights are the import mix before new tariff policies take effect. The McKinsey Global Institute finds similar figures for the average effective US tariff, which it tracks using publicly announced information from government agencies. McKinsey Global Institute figures form the basis for the sector- and economy-specific tariff rates in this report.

2 McKinsey Global Institute calculations based on US International Trade Commission data. The collected tariff rate is an ex-post measure of duties collected divided by total imports.

Tariffs in flux

US tariffs were set by economy under the International Emergency Economic Powers Act (IEEPA), with rates initially defined by a formula based on bilateral goods trade deficits and subsequently updated following negotiations with major trading economies.[3] More geopolitically distant trade partners generally faced higher tariffs. Headline rates for China peaked at 137 percent in April, and the country's annual average effective rate for 2025 was about 31 percent. By contrast, average effective tariffs for Canada and Mexico were roughly 2 percent and 4 percent, respectively, as coverage under the United States–Mexico–Canada Agreement provided broad exemptions for most products.

Tariffs also varied by sector. In part, this resulted from differences in each economy's export mix. For example, average effective tariffs for textiles reached almost 50 percent at their peak in April, because major exporters were generally subject to high economy-level tariffs. Moreover, specific products—such as steel, aluminum, and automobiles—faced targeted tariffs under Section 232 of the Trade Expansion Act of 1962. This act permits tariffs on national security grounds, often linked to concerns about domestic industrial capacity. Other sectors—such as critical minerals, energy, pharmaceuticals, and semiconductors—were mostly exempt from economy-specific tariffs and did not face targeted Section 232 tariffs in 2025.

Although the early 2026 US Supreme Court ruling invalidated the use of IEEPA to justify economy-specific tariffs, the overall trajectory of US trade policy may remain unchanged. On the same day as the court's decision, the administration invoked Section 122 of the Trade Act to implement a temporary 150-day, universal rate of 10 percent and initiated investigations necessary to justify new product-specific tariffs while requesting that trade partners maintain the terms of their recently negotiated deals.[4] As of this writing, the average effective tariff was approximately 12 percent, accounting for the Section 122 actions and existing product-specific tariffs.

Tariffs and trade restrictions beyond the United States

Trading partners responded with a mix of retaliation and negotiation. Most notably, China initially imposed 10 to 15 percent tariffs on American agricultural exports and restricted exports of rare earth minerals.[5] These measures were later paused under a series of agreements in late 2025, with further talks scheduled into 2026. Similarly, Canada implemented 25 percent tariffs on US steel and consumer goods, while the European Union reinstated duties on certain high-profile US exports including bourbon and motorcycles.[6] Following the United States' invocation of Section 122 in early 2026, the European Union also paused work on the "Turnberry" trade deal.[7]

Tariff increases extend beyond those imposed by or on the United States. Several economies raised barriers to protect their domestic markets from lower-priced Chinese imports. The European Union implemented, and India proposed, new safeguards on steel and chemicals, while various countries in Latin America and Africa increased tariffs to shield nascent manufacturing sectors from displaced global supply.[8]

Broader protectionist trends have emerged worldwide. For example, in early 2026, Mexico introduced surcharges of up to nearly 50 percent on a range of imports, citing a need to protect domestic industry and increase revenues.[9] Non-tariff trade barriers are also on the rise globally, including subsidies, local-content requirements, export controls, investment screening, and targeted incentives, to strengthen domestic capabilities in strategic sectors.[10]

Debates over rules-of-origin requirements and the extent of domestic value added also featured in tariff discussions with some trading partners. While some agreements included related provisions, no general methodology exists to trace product-level value added across borders. Determining compliance remains difficult because estimates of how much reported exports reflect inputs from third countries vary across sources and typically lag by several years.[11]

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3 The International Emergency Economic Powers Act (IEEPA) grants the US president authority, upon declaring a national emergency, to investigate, regulate, or prohibit economic transactions in response to an unusual and extraordinary threat to US national security, foreign policy, or the economy originating substantially outside the United States. Subsequent country-level negotiations included, for example, the Economic Prosperity Deal with the United Kingdom, a joint arrangement with China, the Agreement on Reciprocal, Fair and Balanced Trade with the European Union, and a deal by the same name with Vietnam, the Agreement Toward a New Golden Age for the U.S.-Japan Alliance, the Strategic Trade and Investment Deal with South Korea, and an interim deal with India, among others. At the time of writing, no such agreement has been reached with Brazil.

4 "Fact sheet: President Donald J. Trump imposes a temporary import duty to address fundamental international payment problems," The White House, February 20, 2026. At the time of writing, there were ongoing discussions around a potential 15 percent headline rate. See also David Lawder, "New US tariff starts at 10%, Trump administration working to hike it to 15%," Reuters, February 24, 2026.

5 "China: SCTC announces retaliatory tariffs on US agricultural products," US Department of Agriculture, March 4, 2025.

6 "List of products from the United States subject to 25 per cent tariffs effective March 13, 2025," Department of Finance Canada, March 13, 2025; "EU countermeasures on US steel and aluminium tariffs explained," European Commission, March 12, 2025.

7 "Turnberry legislation on hold until Greenland threats cease," European Parliament press release, January 21, 2026.

8 "Commission strengthens protection for EU steel industry," European Commission, March 25, 2025; "India proposes retaliatory duties after EU extends safeguard measures on some steel products," *Economic Times*, March 28, 2025; Chan Ho-Him, "Flooded by cheap Chinese goods, Latin America is fighting back to protect its industries," *Associated Press*, February 1, 2026.

9 Alejandro Nemo Gomez Strozzi and Gregory Husisian, "Mexican January 2026 tariff tsunami—Maquilas aren't immune," National Law Review, December 29, 2025.

10 From protection to promotion: The new age of industrial policy, McKinsey, May 16, 2025.

11 For previous research on this topic, see, for example, Roland Rajah and Ahmed Albayrak, "Made in Vietnam or a backdoor for Chinese exports?" *The Interpreter*, Lowy Institute, March 2025; and Caroline Freund, *The China wash: Tracking products to identify tariff evasion through transshipment*, University of California at San Diego, January 2025.

AI emerges as the engine of trade

Booming AI investment left a clear mark on global trade in 2025. Shipments of the hardware needed to develop and run the technology increased by almost 40 percent during the year, accounting for about a third of global trade growth—an impact that has received far less attention than AI's effects on economic growth, investment, financial markets, or jobs (Exhibit 3).[5] This expansion unfolded amid heightened geopolitical tensions and tighter trade restrictions.

The rapid buildout of data centers required large volumes of semiconductors, servers, and networking equipment from tightly linked supply chains running through Taiwan, South Korea, and parts of ASEAN. The United States added roughly half of the world's new data center capacity in 2025, making it the largest source of demand.[6] US trade of AI-related goods rose by roughly 66 percent, or an estimated $220 billion.

China was the second-largest builder of data centers, but trade restrictions limited its ability to import some of the most advanced chips and semiconductor manufacturing tools for much of 2025, leading it to rely heavily on domestic supplies. As a result, China's trade in AI-related goods increased by only 16 percent, or an estimated $85 billion.

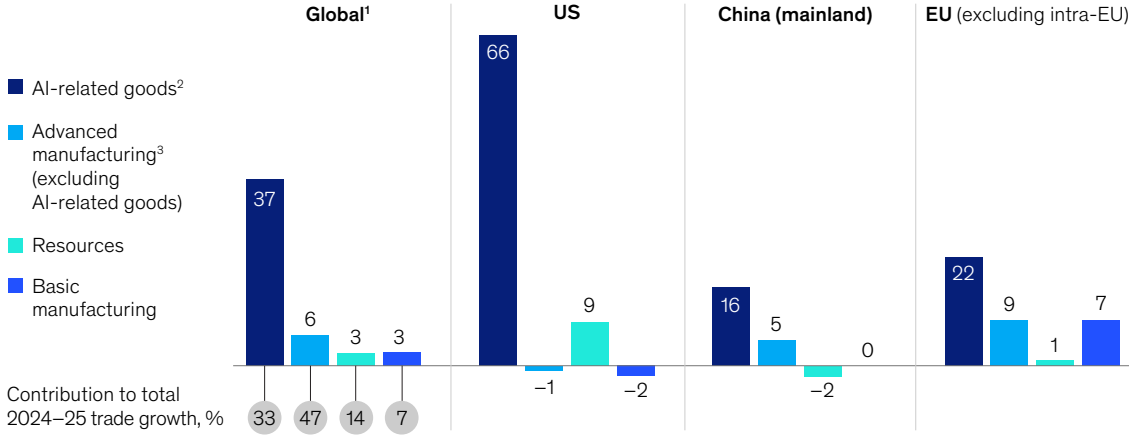
The European Union added less capacity than either the United States or Mainland China and saw moderate growth, albeit from a low base. At the same time, some of its exports—most notably extreme ultraviolet lithography machines—remained critical to leading-edge chipmaking in Taiwan and South Korea.

Even as AI-related trade surged, policy restrictions shaped where goods could flow.[7] The United States restricted exports of advanced computing chips, high-bandwidth memory, and chipmaking tools, coordinating with key partners. The Netherlands and Japan imposed their own licensing restrictions on advanced semiconductor manufacturing equipment, while South Korean chipmakers curtailed exports of high-bandwidth memory and halted technology upgrades at their Chinese facilities. China, for its part,

Exhibit 3

Trade in AI-related goods saw major increases across all regions.

Goods trade growth by industry group and region, 2024–25 (annualized), %



Note: Annualized 2025 values are based on available year-to-date data, prorated monthly for each reporting authority.
[1]Estimated from trade data from a panel of large economies—ASEAN; Brazil; China (mainland); EU; India; and US—which together report about 90% of global goods trade. For AI-related goods specifically, estimates also include all major Asian economies.
[2]AI-related goods include semiconductors, graphics cards, routers, and servers, which can also be used for non-AI applications. Beyond these goods, a wide range of capital and intermediate goods, including HVAC, power, and construction equipment, is also required for data center buildout but is not included in this category.
[3]Advanced manufacturing includes automotives and transport equipment, chemicals, electronics, machinery, medical and scientific instruments, and pharmaceutical products.
Source: ASEAN Stats; Comex Stat; Eurostat; US Census Bureau; General Administration of Customs of the PRC; Government of India Ministry of Commerce and Industry; International Trade Administration, Ministry of Economic Affairs (Taiwan, China); Japan e-Stat; Korea Customs Service; McKinsey Global Institute analysis

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countries imposed restrictions on the transfer of proprietary AI technologies, reflecting differing concerns around national security, data privacy, and intellectual property.[9]

McKinsey Global Institute research on foreign direct investment (FDI) announcements indicates that the AI infrastructure buildout will continue globally, as new large data center and semiconductor fabs break ground—with flows between US and Asian economies driving most of the activity in semiconductor manufacturing.[10] The resulting capacity is likely to support further growth in related trade between aligned economies.

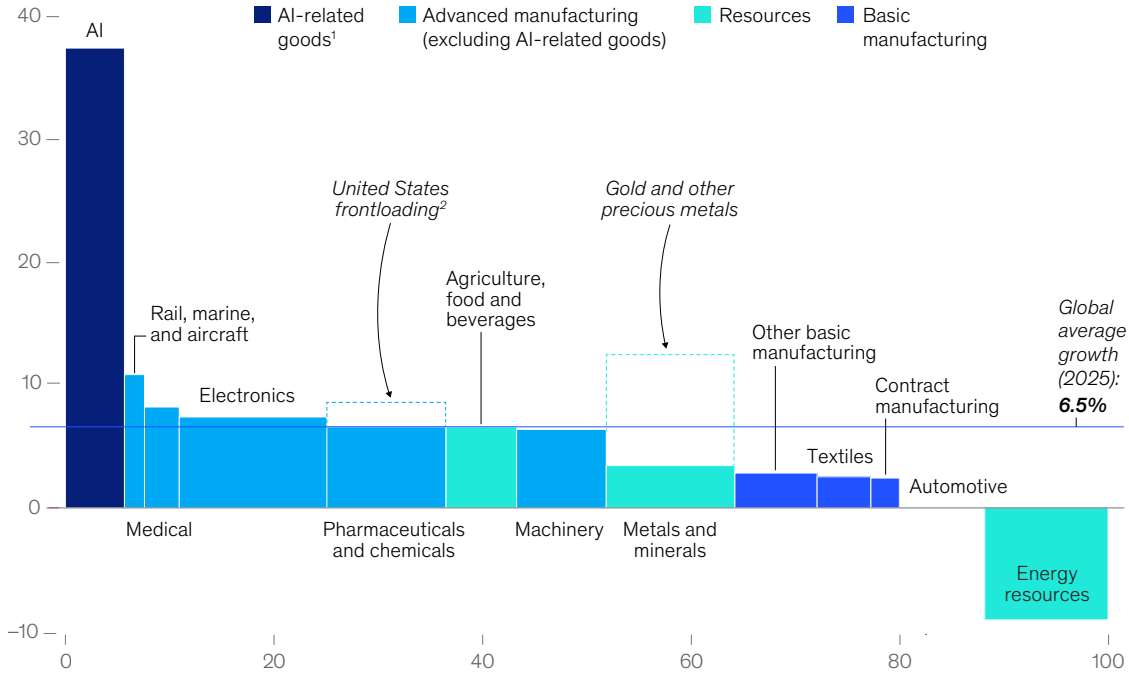
Even beyond AI-related demand, trade in advanced manufacturing categories grew faster than in other sectors. Shipments of trains, planes, and ships were strong, while demand for industrial machinery was driven by emerging economies. This underscores how long-term, global economic waves are affecting trade, and will likely continue to do so, even amid disruptions from tariffs and other forces (Exhibit 4).

Growth in basic manufacturing was more modest, with tariffs reshuffling trade flows rather than expanding them, particularly as US–China trade declined. The performance of resources trade was mixed in 2025, as the value of energy trade fell on the back of lower prices—even as volumes held. Minerals and energy are likely to remain important for trade given their role as critical inputs for advanced manufacturing (Exhibit 4; see sidebar "Advanced manufacturing drove trade in 2025").

Exhibit 4

Trade in advanced manufactured goods—especially AI—grew fastest.

Change in global trade by sector, 2024–25 (annualized), %



Share of global trade in 2024, %

Note: Sectoral approximations based on HS2 codes, except for AI which is based on trade data at the HS 6-digit level. Annualized 2025 values are based on available year-to-date data, prorated monthly for each reporting authority. Estimated from trade data from a panel of large economies—ASEAN; Brazil; China (mainland); EU; India; and US—which together report about 90% of global goods trade. For AI-related goods specifically, estimates also include all major Asian economies.
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Advanced manufacturing drove trade in 2025

The shakeup in global trade played out across advanced and basic manufacturing and resources in 2025. Longer-term trends, such as heightened AI investment, drove growth in many advanced manufacturing sectors and parts of the resources sector, while disruption to US–China trade especially influenced basic manufacturing.

Advanced manufacturing drove the largest increases in trade

AI-related investment, supply chain reconfiguration, and general economic growth fueled gains in advanced manufacturing.

- *Rail, marine, and aircraft* saw increases in a small set of high-value products. Chinese ship and rail manufacturers benefited from investment cycles in emerging economies, including infrastructure and oil and gas projects in Latin America and Africa. At the same time, US aircraft exports rose, primarily to Europe and China.
- *Machinery* grew as China expanded industrial machinery exports to emerging markets, notably supporting electronics assembly in ASEAN economies and India, and resource extraction in Brazil. In parallel, the United States increased imports of equipment associated with data center construction, from turbines to cooling systems, often sourced from Mexico and the European Union.
- *Pharmaceuticals, chemicals, and medical instruments* ranked among the fastest-growing categories, driven largely by US frontloading of pharmaceutical imports from Europe. European medical and scientific device exports to emerging markets also increased. Basic chemicals saw more limited gains, as Chinese exports put pressure on producers in markets such as India.
- *Electronics* experienced significant shifts in supply chains. US imports from China declined across consumer electronics, while ASEAN economies and India gained share, particularly in smartphones and laptops. China increasingly supplied intermediate goods—like phone parts and chips—to partners in Asia, reshaping regional trade.
- *Automotive* trade was an exception, experiencing a slight contraction. US tariffs weighed on imports of vehicles and parts from Europe, Japan, South Korea, and Canada, leading to double-digit declines along several corridors. Meanwhile, China increased vehicle exports to Europe and expanded across emerging markets. Nonetheless, lower export prices meant that values grew slower than volumes.

Basic manufacturing showed slower growth

Basic manufacturing expanded more slowly amid greater exposure to trade barriers. US imports diversified away from China, while displaced Chinese exports found demand elsewhere. In traditional segments, such as lumber, paper, glass, and ceramics, growth was limited by localized policy and soft demand.

- *Contract manufacturing and textiles* experienced sluggish growth but rapid reconfiguration. Reduced US imports from China were partly offset by sourcing from ASEAN economies. In parallel, Chinese exporters redirected sales to Europe and other emerging markets.
- *Other basic manufacturing sectors* recorded similar growth rates. Brazilian exports of lumber and paper faced softer demand and trade-policy uncertainty in the United States and Europe. Higher US tariffs curtailed exports of ceramics and building materials from India. Rubber and plastics showed a mixed pattern, with US sourcing shifting partially toward ASEAN economies while China expanded its export to Europe, Africa, and Latin America.

Resource trade was mixed

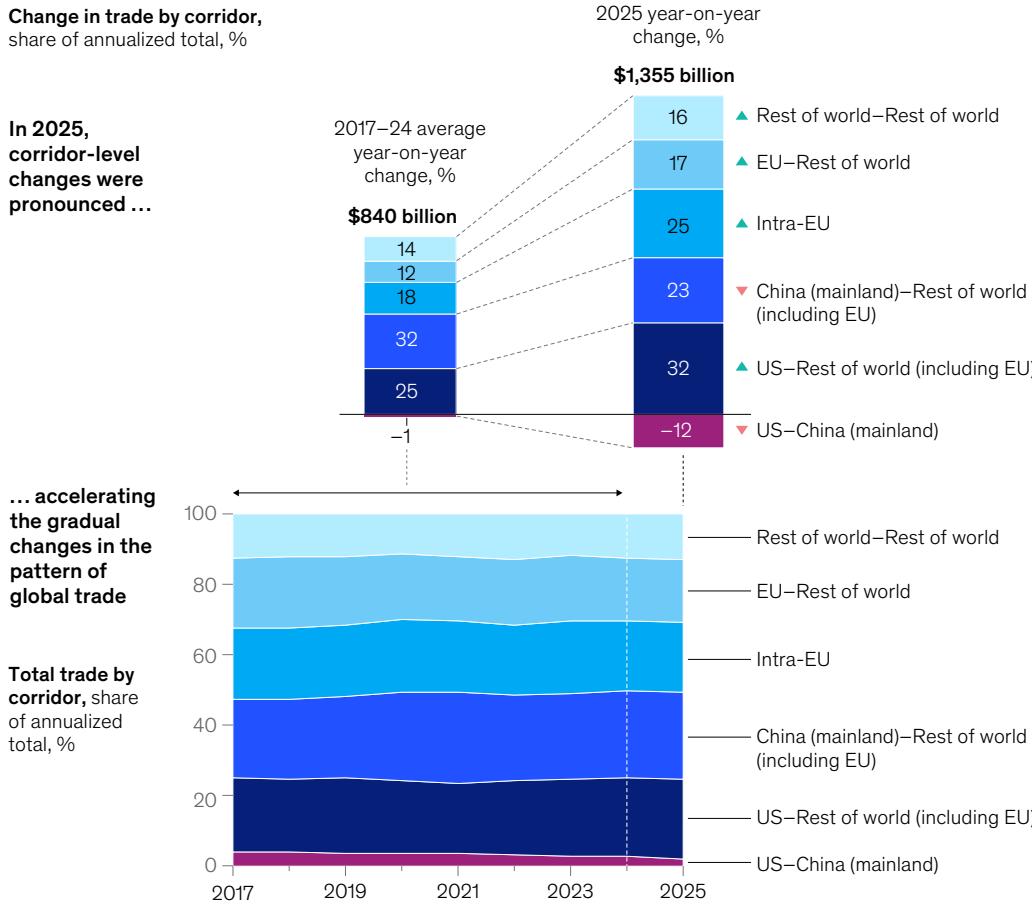
Agriculture and industrial metals posted steady gains, supported by sustained demand and electrification-linked inputs, whereas energy trade was weighed down by lower prices. Commodity prices had large, mixed impacts, with some products such as coffee and copper rising sharply, while others including sugar and iron declined. Although energy shipments remained substantial, price declines reduced overall trade values.

- *Agriculture, food, and beverages* saw broad-based growth, led by stronger trade within Europe and between Europe and Africa, especially amid higher prices for commodities such as coffee or cocoa. Trade also increased across corridors linking China with ASEAN economies and Latin America, particularly in fruit and meat products.
- *Base metals and minerals* experienced rising trade, concentrated in copper and battery-related materials. China expanded copper imports from Sub-Saharan Africa as well as Russia. Indonesia continued to grow its nickel shipments, mostly to China and other partners in Asia. Iron and steel trade growth was more modest, as prices declined. However, ASEAN and India increased purchases of steel inputs and non-ferrous metals tied to manufacturing expansion.
- *Energy* trade volumes remained substantial, but lower oil prices reduced overall trade values. The European Union's imports of energy resources from Russia remained roughly at 2024 levels. Russia remained China's largest energy resource supplier, and China sharply reduced imports from the United States. Meanwhile, in the United States, higher domestic production and softer prices contributed to a lower import bill, particularly affecting trade with Canada.

Plummeting trade between the United States and China had widespread ramifications in 2025. The decline in US–China trade reduced global trade growth by about 10 percent during the year, with reduced US imports from China accounting for roughly 85 percent of that decrease.[11] Resulting supply gaps in the United States and underutilized capacity in China forced firms to seek new suppliers and buyers. Some economies took on bigger roles in supply chains, while others mainly absorbed displaced Chinese exports (Exhibit 5).

Exhibit 5

The United States and China sat at the center of global trade reconfiguration in 2025.



Note: Annualized 2025 values are based on available year-to-date data, prorated monthly for each reporting authority. Import data used for US, China (mainland), EU, UK, ASEAN, India, and Brazil growth, except in the case of the US–China corridor, where figures are based on trade data reported by the US. For remaining economies, import growth is proxied by mirrored exports from other economies. Figures may not sum to 100%, because of rounding.
Source: ASEAN Stats; Comex Stat; Eurostat; US Census Bureau; General Administration of Customs of the PRC; Government of India Ministry of Commerce and Industry; McKinsey Global Institute analysis

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valued at more than $80 billion—by turning to alternative suppliers (Exhibit 6). India, for example, increased smartphone exports to the United States to levels equal to roughly 40 percent of what China had supplied, and ASEAN economies replaced about two-thirds of the value of US laptop imports that had come from China.

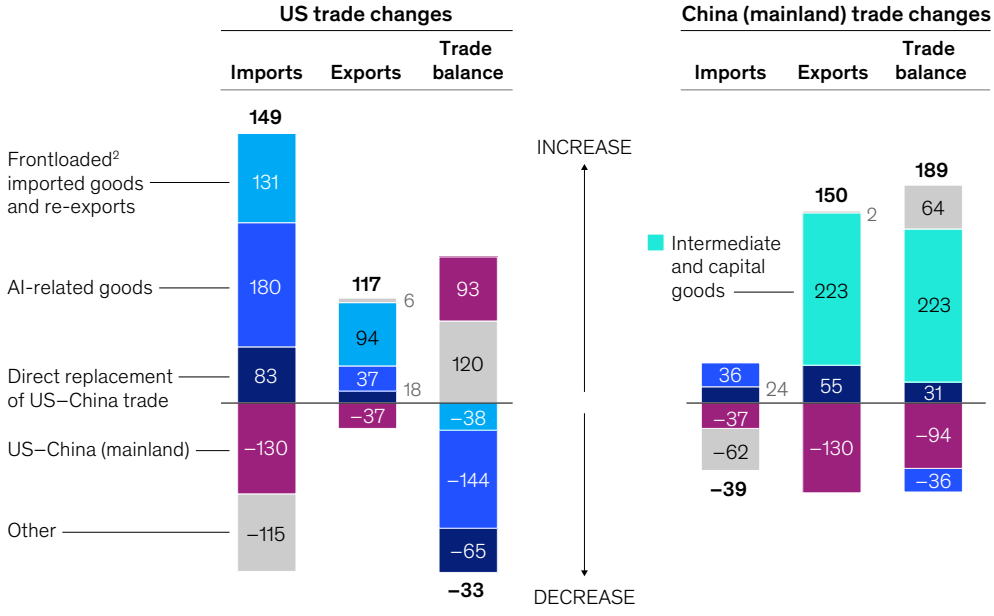
For its part, China also redirected exports away from the United States, although replacement levels were lower than on the US side. Shipments to the United States fell by roughly $130 billion in 2025, of which China replaced about $55 billion on a like-for-like basis.[12] Much of this displaced supply flowed to Europe and to emerging economies in Asia, the Middle East, and Africa. These were largely consumer goods, often sold at lower prices, adding pressure—particularly in Europe—on manufacturers of products such as vacuum cleaners, digital cameras, and clothing.

For both the United States and China, trade shifts in 2025 went well beyond replacement dynamics. For US firms, frontloading was another response to announced tariffs. They brought forward nearly $130 billion in additional pharmaceuticals and gold imports ahead of potential tariff increases, later lifting exports as large amounts of gold were re-exported (see sidebar “US frontloading”).

Exhibit 6

Tariff-driven redirection and AI reshaped trade between the United States and China.

US and China (mainland) trade change decomposition, 2024–25 (annualized), $ billion[1]



Note: Annualized 2025 values are based on available year-to-date data, prorated monthly in the case of China.
[1]Figures for the US are based on trade data reported by the US. Figures for China are based on trade data reported by China except in the case of US-to-China and replacement, where figures are based on trade data reported by the US.
[2]Represents increases in categories of goods where imports rose sharply relative to the prior-year baseline and where the incremental increase was concentrated in a short period, indicating stockpiling beyond normal seasonality and growth. Examples of such product categories include mainly pharmaceutical inputs, gold, and other metals.
Source: General Administration of Customs of the PRC; US Census Bureau; McKinsey Global Institute analysis

McKinsey & Company

US frontloading

In the opening months of 2025, US imports rose sharply as firms accelerated orders and shipments in anticipation of tariff increases.[1] US logistics indicators also showed elevated inventories and warehousing costs consistent with firms storing goods ahead of potential tariffs.[2] This buying pattern was widespread, particularly for consumer products ranging from air conditioners to wristwatches and cars.

By the end of the year, however, total imports for most products remained broadly in line with normal annual demand. The timing had shifted, not the total amount imported, as firms pulled forward only enough purchases to cover near-term needs.

Defining frontloaded products

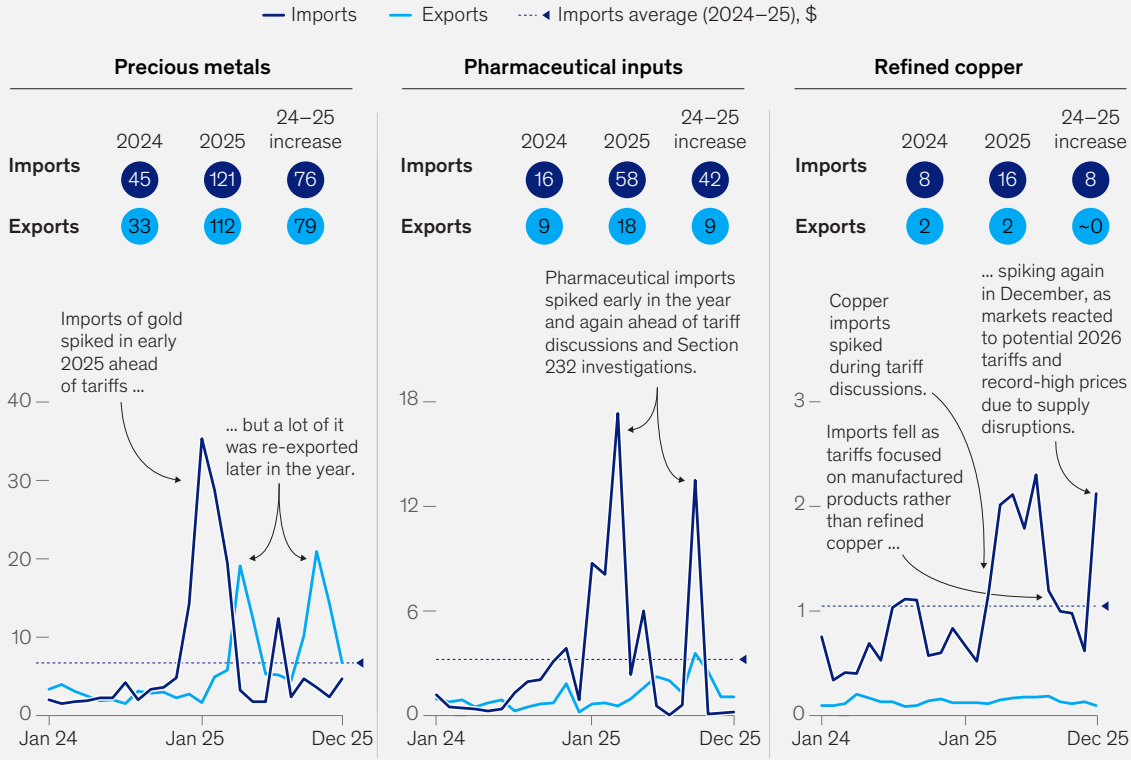
For a narrow set of products, imports spiked and the impact persisted through the year (exhibit). To identify these systematically, we examined products at the HS6 level for which trade (1) increased by at least 50 percent relative to the 2024 baseline, and (2) most of that incremental rise was concentrated within three months. The total number of such products is short: polypeptide hormones, precious metals—especially gold—and refined copper. We define these as frontloaded products.

Polypeptide hormones are high-value, easily stored pharmaceutical ingredients, particularly those used in GLP-1 type weight-loss drugs—largely sourced from Ireland. Beyond trade data, industry reporting and market analysis attribute Europe's 2025 pharmaceutical export surge in part to frontloading.[3]

Exhibit

Metals and pharmaceutical imports spiked ahead of tariffs.

US monthly imports and exports of the top frontloaded product categories, 2024–25, $ billion



Note: Precious metals primarily include gold, silver, and platinum. Pharmaceutical inputs primarily include polypeptide, protein, and glycoprotein hormones. Refined copper includes cathodes and related sections.
Source: US Census Bureau; McKinsey Global Institute analysis

McKinsey & Company

1 François de Soyres, Nils Goernemann, and Chris Machol, *Racing against tariffs: Global impacts of frontloading*, Federal Reserve FEDS Notes, August 1, 2025; and *Global trade: Frontloading precedes tariff shock*, ABN AMRO, April 2025.
2 "February 2025 Logistics Manager's Index Report LMI at 62.8," *February 2025 Logistics Managers' Index*, Logistics Managers' Index, March 4, 2025.
3 Christian Bürger, Industry trends pharmaceuticals January 2026, Atradius, January 21, 2026.

US frontloading

Precious metals were also frontloaded, as traders exploited price spreads that widened amid tariff uncertainty. Imports from Switzerland, the United Kingdom, and Australia spiked, particularly for gold bars routed primarily by air into New York.

April 2025 onward, amid concerns that tariffs on copper articles would also extend to refined copper cathodes.[4]

In all these cases, tariffs did not materialize, but the risk alone was enough to trigger defensive buying.

Note that there are some products, notably AI-related equipment imports

growth spiked and then was sustained throughout the year. This shift appears structural, and we do not classify such products as frontloaded. Other products, like natural gas imports, exhibit regular seasonal spikes and are also not captured under our definition.

[4] Andy Home, "Column: US copper mountain still growing after December import surge," Mining.com, February 27, 2026.

Some US imports did fall—by around $115 billion—much of it in goods subject to tariffs. However, these declines were concentrated in a narrow set of categories, including cars and household goods such as furniture.[13] There is limited evidence that domestic manufacturing offset these lost imports. Instead, the shortfall reflected a combination of weaker demand and inventory drawdown.[14]

In total, US imports rose by roughly $150 billion during the year, driven in part by the increase in AI-related purchases noted above, which were unrelated to the tariffs. All told, US trade with the rest of the world accounted for more than one-quarter of trade growth, exceeding its historical share.

For China, higher tariffs accelerated a shift away from consumer goods exports to the United States and toward components and equipment supplied to manufacturers across the globe. In these categories, exports to the rest of the world grew by roughly $220 billion, pushing the country's trade surplus to a record.

China moves upstream in production networks

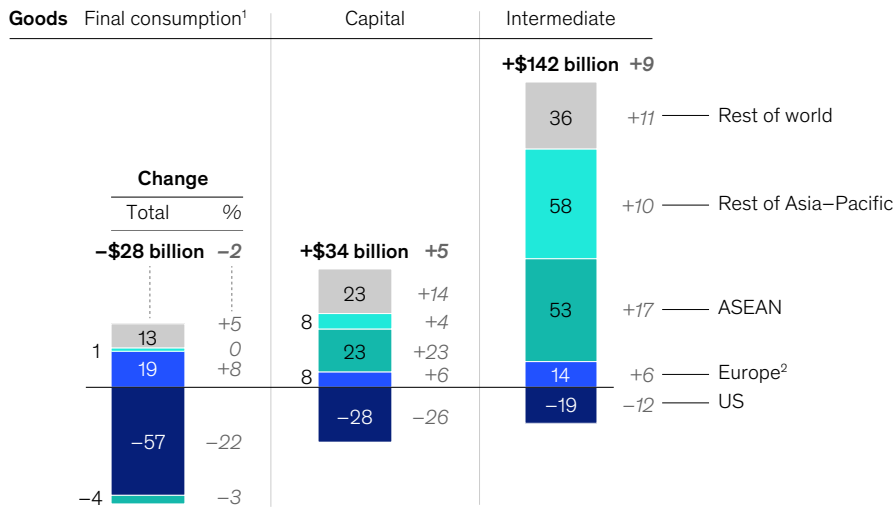
For years, Chinese firms had been increasing production of intermediate inputs used in final goods assembled in the country, supported by domestic policies that encouraged higher local content.[15] Exports of those goods have been rising in turn. In 2025, this trend accelerated. Shipments of intermediate inputs—including memory chips, other semiconductors, and industrial components such as valves—rose by 9 percent, up from 6 percent the prior year (Exhibit 7).

For China, higher tariffs accelerated a shift away from consumer goods exports to the United States.

Exhibit 7

China's exports surged to power manufacturing globally.

Change in China (mainland) exports by product economic classification, 2024–25 (annualized), $ billion



Note: Annualized 2025 values based on Jan–Nov data, annualized on per-month prorated basis.
[1]Includes de minimis exemptions.
[2]Includes EU-27 as well as Norway, Switzerland, and the UK.
Source: General Administration of Customs of the PRC; McKinsey Global Institute analysis

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Some of these exports amounted to indirect replacement of lost US-bound sales as parts, particularly in electronics, were used by manufacturers elsewhere to make goods later exported to the United States. Smartphone trade exemplified this pattern, with a decline of about $15 billion in smartphone exports, matched by a comparable increase in component shipments, particularly to India.

In many other cases, however, rising exports of parts and machinery were not tied to replacing China's lost US sales. Instead, they supported the expansion of manufacturing capacity in third markets, particularly emerging economies, deepening China's role as a supplier of production inputs rather than a final-goods exporter.

ASEAN trade surges, while Europe faces mounting pressure

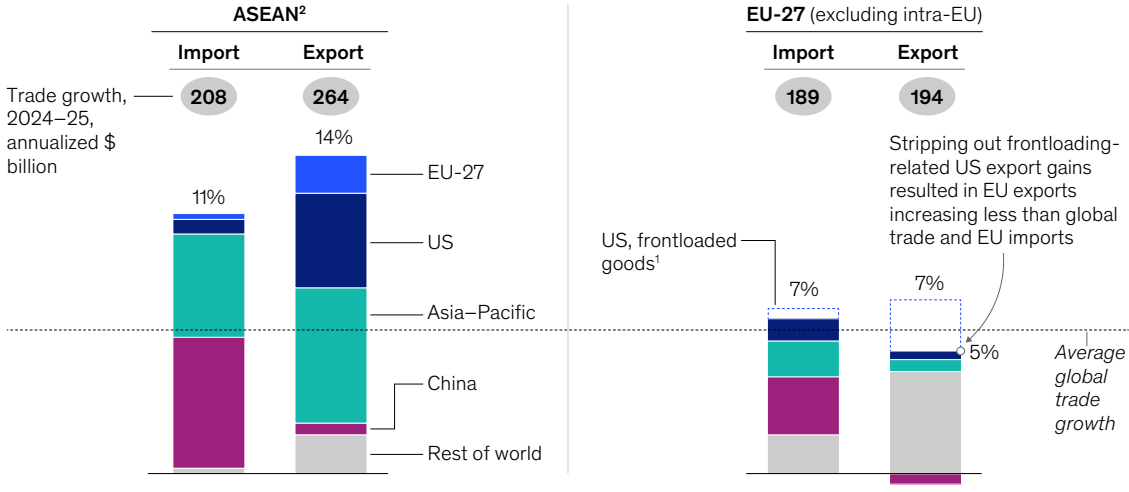
Regions differed sharply in the extent to which they captured opportunities created by the decline in US–China trade.

ASEAN stood out in 2025 for its rapid trade growth and expanding role as a global connector. Imports of equipment and manufacturing inputs rose, as the region took on processing and assembly work once concentrated in China, while exports of finished goods increased, particularly to the United States (Exhibit 8). Some have questioned the extent to which this reflects a shift in substantive manufacturing, rather than minimal final assembly or even transshipment—passing along goods originating in China to skirt US tariffs.[16] While this is a heavily debated topic, some analysts find that Chinese inputs represent well under half of the value of final goods exported from ASEAN economies to the United States.[17] Furthermore, the region's exports grew faster than its imports, indicating that domestic manufacturing is adding more value.

Exhibit 3

ASEAN trade connected the world and grew faster than EU trade.

Import and export growth by reporting region and partner, 2024–25 (annualized), %



Note: Annualized 2025 values are based on available year-to-date data, prorated monthly for each reporting authority, excluding changes associated with frontloaded goods, which are not annualized.
[1]Categories where imports rose sharply relative to the prior-year baseline and where the incremental increase was concentrated in a short period, indicating stockpiling beyond normal seasonality and growth.
[2]35% of trade growth with Asia–Pacific corresponds to intra-ASEAN trade.
Source: ASEAN Stats; Eurostat; McKinsey Global Institute analysis

McKinsey & Company

In contrast, the European Union did not fill the gap left by declining US imports from China, even though it produces many of the same goods and could have served as an alternate supplier.[18] In 2025, excluding frontloaded shipments of pharmaceuticals and gold, EU exports grew by about 5 percent. Exports to its two largest trading partners—the United States and China—faced headwinds, while exports to emerging economies rose by over 6 percent. Intra-EU trade also expanded at a similar pace.

Headwinds were strongest in the auto sector, which faced steep US tariffs and intensifying competition from China's electric vehicle (EV) producers. Exports to the United States fell by $8 billion, while exports to China declined by $7 billion. At the same time, imports of Chinese-made vehicles into the European Union rose by about $4 billion despite barriers meant to curb them.[19]

Tariffs, AI investment, and China's continued shift upstream in production reshaped global trade flows in 2025. The chapters that follow examine how these forces played out across major regions, as firms rerouted supply chains, responded to shifting competitive pressures, and navigated changes in market access in an unusually unsettled year for global trade.

Methodology

Our analysis covers more than 90 percent of global goods trade, reported in nominal terms. It draws on trade statistics reported by customs authorities in the United States, China, the European Union, ASEAN economies, India, and Brazil. These reporting economies account for roughly half of global exports and imports, but since nine-tenths of all trade flows into or out of at least one of these economies, mirrored reporting allows us to infer more broadly.

For most economies in this analysis where full-year data was not available at the time of writing, we annualize the latest data reported through the latest available month. In the case of the United States and Brazil, we use full-year data, as reported as of late February 2026.[1]

We follow the same methodology used in previous reports in our series on *Geopolitics and the Geometry of Global Trade,* both in how we quantify geopolitical distance and in how we measure and segment trade flows, as summarized below.

Quantifying geopolitical distance

To quantify geopolitical alignment in a way analogous to geographic distance, prior MGI research developed a measure based on UN General Assembly voting records from 2005 to 2022 (exhibit). Using principal component analysis, we map each voting economy onto a one-dimensional spectrum scaled from zero to ten. This spectrum is not defined relative to any single country or pair of economies. The geopolitical distance between two economies is the absolute difference between their positions on this scale. We treat this distance as fixed over the period analyzed; accordingly, changes in the geopolitical distance of trade reflect shifts in the *mix of trading partners,* not changes in the underlying distance between any specific pair.

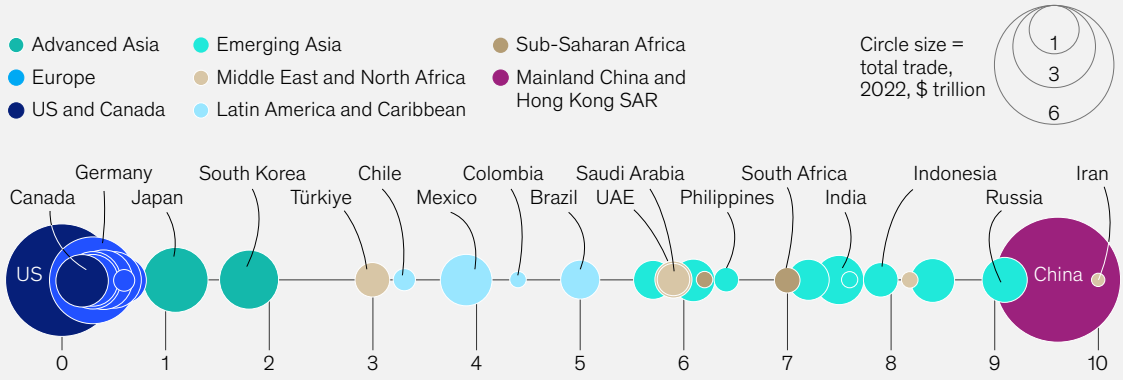
Limitations and interpretation of geopolitical distance

Geopolitical relationships are dynamic, and UN voting behavior is an imperfect proxy: Votes can be noisy and sensitive to the issue set in any given session. Some longstanding alignments may come under pressure, and divergence on high-profile votes can emerge rapidly. Even so, from a commercial standpoint, trade and investment patterns tend to adjust with lags, and observed trade flows in the period covered largely reflect longer-standing alignments and constraints.

Exhibit

Economies hold different geopolitical positions.

Geopolitical position based on UN General Assembly voting patterns,[1] 2005–22, 0–10 scale



[1]Calculated by principal component analysis of UNGA voting records in 2005–22, reduced to a 0–10 scale. To exclude procedural votes, a subset of UNGA votes are considered. For 2005–21, these exclude votes not designated as "important" in "Voting practices in the United Nations," US Department of State. For 2022, votes addressing the war in Ukraine are included.
Source: *Geopolitics and the geometry of global trade*, McKinsey Global Institute, 2024; McKinsey Global Institute analysis

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[1] Mainland China's trade figures are based on annualized data through November. European Union and India's trade figures are based on annualized data through October. ASEAN trade figures are based on annualized data through September.

Methodology

Measuring and segmenting trade flows

We measure goods trade using national customs data of the six-digit Harmonized System (HS6), the most granular internationally comparable product classification, which covers roughly 6,000 product codes. We compile global totals based on import-side data for all reporting economies, with the exception of the US–China corridor where we use US data for both imports and exports. Where a reporting authority does not cover a bilateral flow, we use mirrored trade, the partner's corresponding export or import record, to fill gaps.

Mismatch of bilateral trade statistics

Bilateral trade statistics rarely match perfectly across partners due to differences in valuation methods, as well as timing issues, reporting thresholds, and classification practices. We use local trade data when discussing region-specific chapters or exhibits. Figures do not fully reconcile between sections due to reporting differences. For example, China's exports to the European Union reported in the China section differ from EU imports from China reported in the EU section.

Price effects

All trade values are analyzed in current prices, expressed in nominal US dollars. As a result, changes may reflect both quantity and price movements, particularly in commodities and other price-volatile categories. Where relevant, we distinguish shifts that appear primarily price-driven from those more consistent with changes in volume effects.

[2] US reported imports from China differ materially from Chinese reported exports to the United States. In 2025 full-year terms, the gap is over $110 billion, equivalent to about one-third reported US imports from China. See Enda Curran, "Tariff fraud is distorting US–China trade data," Bloomberg, February 25, 2026.

United States: AI and tariffs reshape trade

On the face of it, the trade surprise of 2025 was the strength of US foreign demand, which became the largest contributor to global import growth even as new tariffs took effect and shipments from China fell.

Yet most of this change reflected rushed buying ahead of tariff increases rather than a sustained increase in demand. Frontloading of pharmaceuticals and gold caused large swings in the trade balance, with the deficit widening in the first part of the year as firms stockpiled imports and then narrowing later as inventories were drawn down and gold was re-exported.[20] Excluding these effects, both imports and the trade deficit were little changed compared to the prior year.

Beneath this stability, however, the composition of US trade shifted markedly. Purchases of AI-related goods rose sharply, while imports from China continued to fall as firms rerouted supply chains toward alternative suppliers, particularly in ASEAN (Exhibit 9).

The United States stockpiles imports amid tariff uncertainty

Promises, and then announcements, of much higher tariffs were the first salvo of change. An immediate and significant impact was frontloading, but it proved short-lived.

As the risk of higher tariffs rose in early 2025, US firms began stockpiling goods. For many consumer products, from air conditioners to wristwatches and cars, firms pulled forward purchases to avoid tariffs. By the end of the year, however, total imports remained broadly in line with normal annual demand: The timing shifted, not the overall value (see sidebar “US frontloading”).

For a narrow set of products, by contrast, frontloading increased full-year import totals. High-value, easily stored pharmaceutical ingredients, particularly those used in GLP-1-type weight-loss drugs, saw a surge, largely from Ireland. Gold imports from Switzerland, the United Kingdom, and Australia also spiked, as traders exploited widening price spreads amid tariff uncertainty.[21] In both cases, tariffs never materialized, but the risk alone was enough to trigger defensive buying.

These shifts generated sharp intra-year swings in the trade balance. The deficit rose to 70 percent above 2024 levels in the first quarter before narrowing through midyear as frontloading subsided. By the fourth quarter, it stood 25 percent below year-earlier levels as traders unwound positions and re-exported the bullion, refilling vaults overseas.[22] On a full-year basis, the deficit changed little.

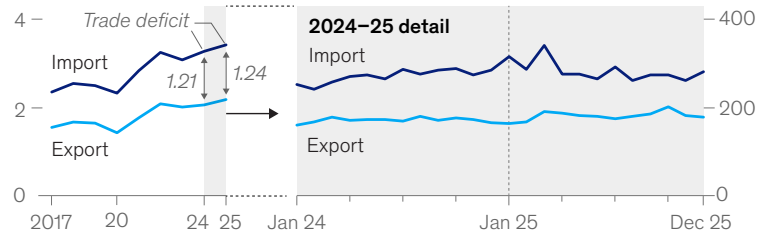
In total, we estimate that about $130 billion of the $150 billion increase in US imports in 2025 reflected purchases pulled forward beyond a typical year’s demand.[23] The surge in pharmaceuticals and gold, along with subsequent re-exports, accounted for roughly 80 percent of total import and export growth, a distortion unlikely to recur.

Exhibit 3

US trade grew while shifting away from China.

Total goods trade

$ trillion, 2017–25 | Monthly, Jan 24–Dec 25, $ billion

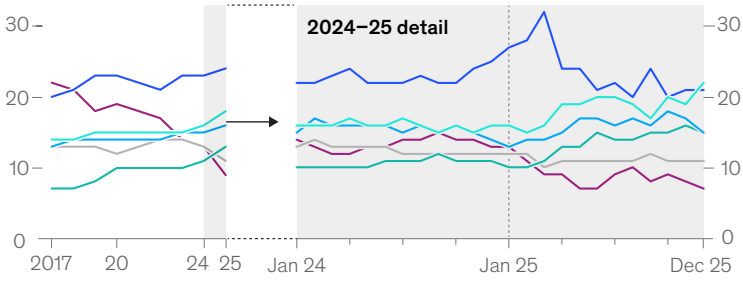


	CAGR, % 2017–24	2024–25
Export	4.2	5.7
Import	4.9	4.6

Change in trade deficit, 2024–25, % +3

Share of US imports

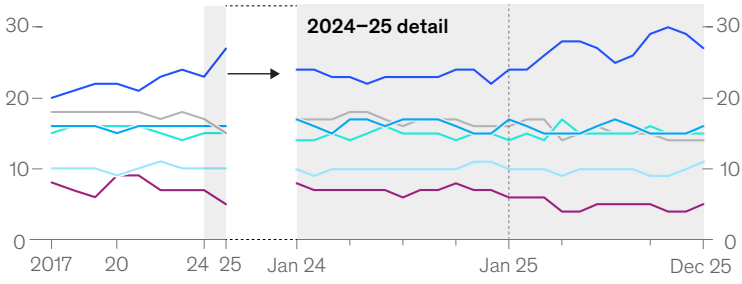
% of total, 2017–25 | % of total, monthly, Jan 24–Dec 25



	Share change, pp 2017–24	2024–25
Europe	+0.3	+1.0
Rest of Asia–Pacific	+0.3	+2.4
Mexico	+0.3	+0.2
ASEAN	+0.5	+2.5
Canada	<0.1	–1.4
China (mainland)	–1.2	–4.4

Share of US exports

% of total, 2017–25 | % of total, monthly, Jan 24–Dec 25



Europe	+0.5	+3.7
Rest of Asia–Pacific	–0.1	+0.5
Mexico	+0.1	–0.7
Canada	–0.2	–1.8
Latin America	<0.1	<0.1
China (mainland)	–0.2	–2.1

Source: US Census Bureau, McKinsey Global Institute analysis

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How suppliers replace imports from China

US tariffs and other trade restrictions hit China hardest, and it appears that the impact on US–China trade will persist. Although many US firms had been shifting a greater share of their sourcing from China to other Asian suppliers since 2017, the shock in 2025 forced an even faster adjustment. US imports from China fell by about $130 billion, almost triple the decline in either of the prior two years. Imports from alternative suppliers replaced about two-thirds of the gap, leaving a net decline of about $50 billion.[24]

The extent to which firms found substitutes varied widely by product. Sourcing was largely replaced in high-value consumer electronics, particularly when producers could move later stages of production without rebuilding entire supply chains. Smartphones, laptops, and other devices were largely substituted by relocating final assembly to Asian economies, particularly India, Vietnam, and Thailand. The key components for these products continued to come from established suppliers, including processors from Taiwan, memory chips from South Korea, and a wide range of other parts primarily from Mainland China (Exhibit 10). This shift, however, led to cost increases; for example, laptops sourced from ASEAN economies were on average 20 percent more expensive than those previously sourced from China.[25]

Goods tied to data center construction, including servers, computer parts and cooling equipment, also saw high replacement levels. China had been a relatively small supplier of these products to begin with.

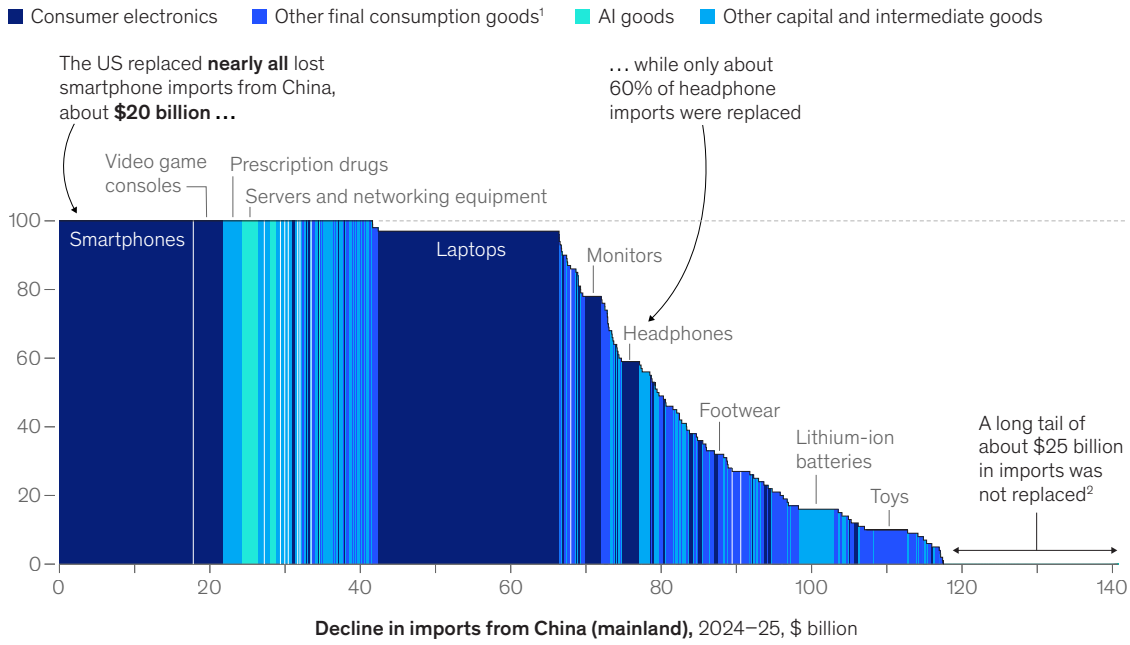
By contrast, replacement proved more limited in lower-value products such as toys and household furnishings, where creating alternative supply chains using existing inputs was less feasible—or profitable.[26] In some cases, inventories carried over from prior years may have been sufficient to meet ongoing consumer demand; in others, firms may have substituted similar products instead. There is limited evidence that ramped-up domestic manufacturing replaced a meaningful share of these imports.

US imports from China fell by about $130 billion, almost triple the decline in either of the prior two years.

Exhibit 10

Consumer electronics and AI goods drove replacement away from China, while substitution remained uneven across other products.

Share of 2024–25 decline in US imports from China (mainland) replaced, by product and end use, %



[1]Includes de minimis shipments.
[2]For these products, the US registered declining imports from China and no increase in imports from other partners. The largest of these products, by value, are passenger motor vehicles and parts, as well as furniture.
Source: US Census Bureau; McKinsey Global Institute analysis

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Imports of AI-related goods surge

Separate from tariff-driven activity, AI infrastructure emerged as a structural driver of US trade growth. Imports of AI-related goods rose by about $180 billion in 2025. These purchases included advanced logic chips from Taiwan as well as servers and networking equipment—inputs required to build data centers—from parts of ASEAN.

The buildout also required increased shipments of supporting infrastructure, including gas turbines for power generation, HVAC systems for cooling, and fiber-optic cabling for connectivity.[27] Demand for all these inputs is likely to remain elevated, given data center construction plans.[28]

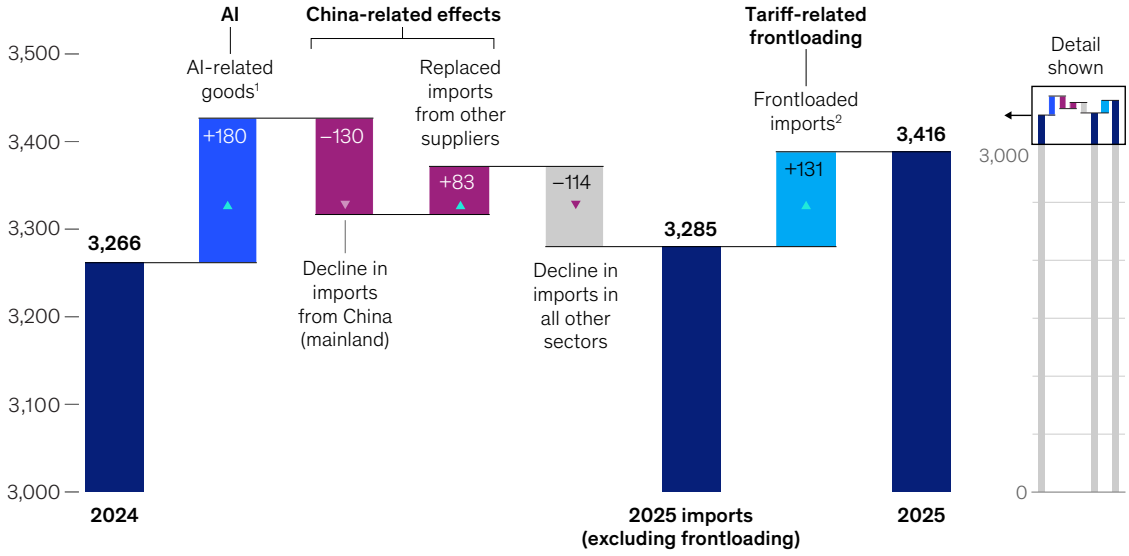
Underlying US imports remained steady

Looking at overall imports, material shifts in composition largely offset one another. Gains in AI-related imports were almost exactly counterbalanced by declines in goods previously sourced from China, alongside lower purchases of fossil fuels and automobiles (Exhibit 11). Excluding frontloading, US imports grew by less than half a percent in nominal terms, slower than the overall economy.[29]

Exhibit 11

US imports were flat, excluding frontloading.

US goods imports, 2024 and 2025, $ billion



[1]AI-related goods include semiconductors, graphics cards, routers, and servers, which can also be used for non-AI applications. Beyond these goods, a range of intermediate inputs, including HVAC, power, and construction equipment, is required for data center buildout but is not included here.
[2]Categories where imports rose sharply relative to the prior-year baseline and where the increase was concentrated in a short period, indicating stockpiling beyond normal seasonality and growth. Examples include gold and pharmaceutical inputs.
Source: US Census Bureau; McKinsey Global Institute analysis

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The story for exports was similar. US exports grew by more than 5 percent in 2025 but increased by just 2 percent after excluding re-exports of frontloaded gold, well below overall US economic growth. Gains in liquefied natural gas and aircraft were roughly offset by declines in crude and soybean exports to China.

Trading partners reshuffle

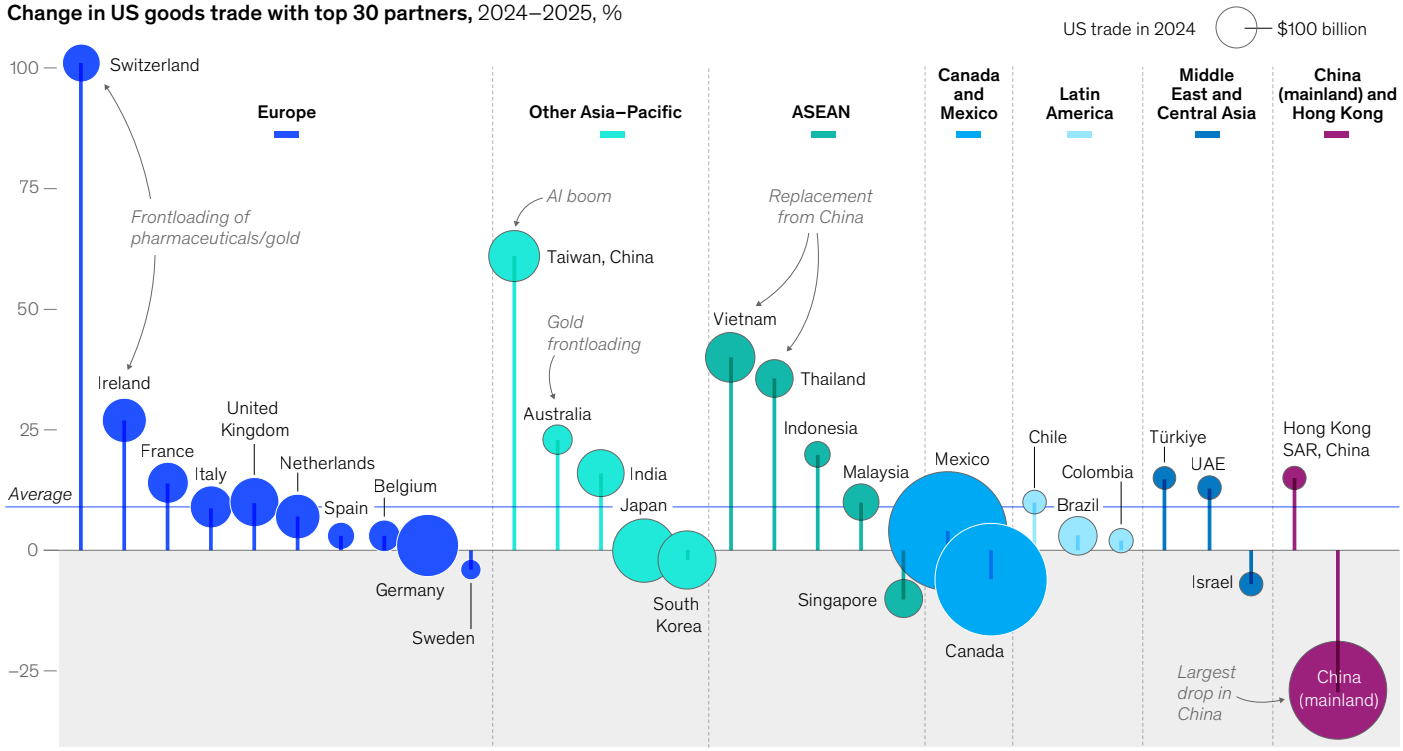
In 2025, US imports rose from some partners and fell from others, reflecting the combination of forces at play in global trade and differences in export mix (Exhibit 12). Tariffs hit automobiles and auto parts imports disproportionately, reducing trade with major exporters, such as Canada, Germany, Japan, and South Korea; auto exports from these economies to the United States fell by 10 to 20 percent. Inventories cushioned the impact on consumption even as domestic production didn't increase.[30]

Oil imports also declined, primarily reflecting higher domestic production, with lower oil prices contributing.[31] Canada, a major oil supplier, was therefore hit through both channels—autos and energy.

Exhibit 12

A small set of European and Asian partners reshaped US trade.

Change in US goods trade with top 30 partners, 2024–2025, %



Source: US Census Bureau, McKinsey Global Institute analysis

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Trade grew most with partners tied to the year's major shifts: Switzerland, Ireland, and Australia because of tariff-related frontloading; ASEAN economies and India replacing electronics previously sourced from Mainland China; and Taiwan reflecting strong demand for chips .

Despite the highest tariffs in nearly a century, the United States remained the world's largest importer in 2025, but the mix of purchases and suppliers changed. Some shifts, such as frontloading, were temporary. Others, including AI-related purchases and substitution away from China, are likely to endure.

China's goods trade surplus reached a record high in 2025, as exports continued to rise and imports edged down (Exhibit 13).[32]

Even as access to the US market narrowed, China's total export values grew, driven by rising sales of manufacturing inputs to markets worldwide. These gains offset weaker performance in consumer goods, from EVs to synthetic sweaters, where firms cut prices to sustain volumes as they sought buyers outside the United States.

Imports, meanwhile, declined modestly, breaking with their average annual growth of 5 percent over the preceding several years. China spent less on foreign cars and on energy imports, the latter largely reflecting lower oil prices.[33]

Factory to the factories

China remained the world's export engine in 2025, but with growing emphasis on intermediate inputs and capital goods. Exports of these products increased by over $175 billion, while consumer goods exports fell for the first time since 2019.[34]

Long known as the "factory of the world" for mass-producing consumer goods such as electronics, textiles, toys, and furniture, China has gradually increased production of the machinery and materials that underpin manufacturing. Sustained investment, supported by government policy, expanded domestic production capabilities, reducing reliance on foreign sources and increasing exports of these goods.[35] As a result, China increasingly serves as a "factory to the factories."

Facing softer demand in the United States and domestic markets, firms increased exports of intermediate inputs and capital goods in 2025. Growth was led by intermediate inputs, whose exports rose by 9 percent, up from 6 percent the prior year. Segments accounting for three-quarters of intermediate inputs and capital goods exports by value expanded (Exhibit 14). Electronic components—including chips, lithium-ion batteries, and parts used in smartphones and computers—made up roughly half of the total increase, alongside gains in general machinery and oil and gas equipment.

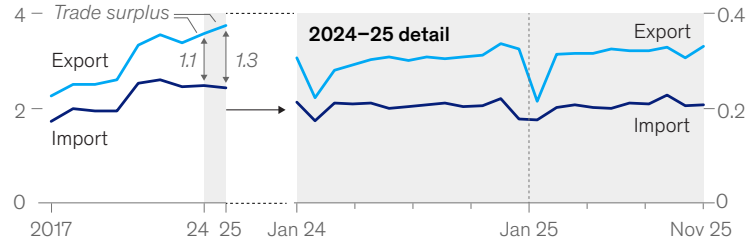
China remained the world's export engine in 2025, but with growing emphasis on intermediate inputs and capital goods.

Exhibit 18

China's surplus grew as trade shifted from the United States toward the Global South.

Total goods trade

Annualized $ trillion, 2017–25 Monthly, Jan 24–Nov 25, $ trillion

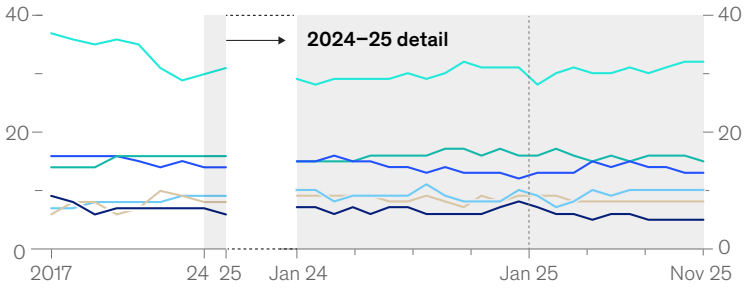


	CAGR, % 2017–24	2024–25 annualized
Export	6.8	4.2
Import	5.4	–1.6

Change in trade surplus, 2024–25, % +17

Share of China imports

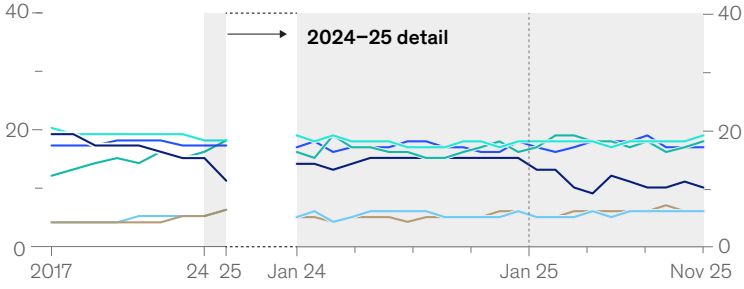
% of total, 2017–25 % of total, monthly, Jan 24–Nov 25



	Annualized share change, pp 2017–24	2024–25
Rest of Asia–Pacific	–1.0	+0.8
ASEAN	+0.3	–0.1
Europe	–0.3	–0.6
Latin America	+0.3	+0.4
Middle East	+0.3	–0.2
United States	–0.3	–0.8

Share of China exports

% of total, 2017–25 % of total, monthly, Jan 24–Nov 25



Rest of Asia–Pacific	–0.3	+0.2
ASEAN	+0.6	+1.1
Europe	<0.1	+0.5
United States	–0.6	–3.4
Latin America	+0.1	+0.3
Africa	+0.1	+0.9

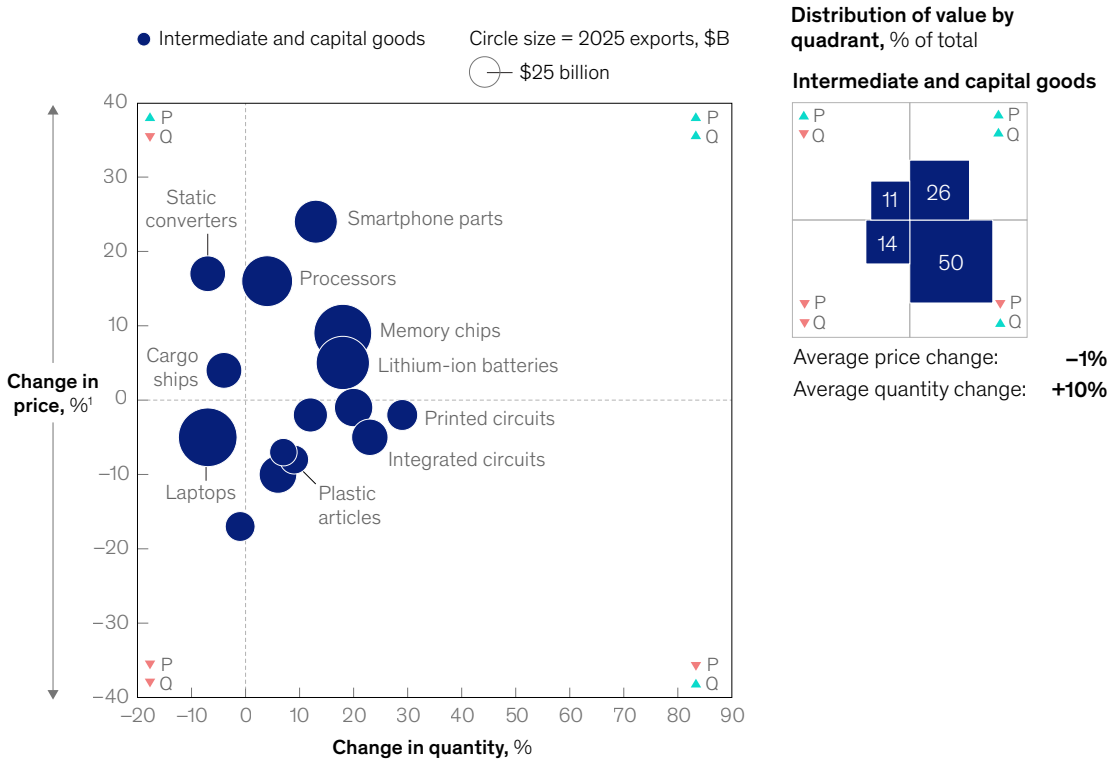
Note: Annualized 2025 values based on Jan–Nov data, annualized on per-month prorated basis.
Source: General Administration of Customs of the PRC; McKinsey Global Institute analysis

McKinsey & Company

Exhibit 14

Industrial inputs' export volumes rose for most products.

Price and quantity changes for the top 15 China (mainland) exports by end use, 2024–25 (annualized)



Note: 2025 values are annualized based on Jan–Nov data, prorated on a monthly basis.
[1]Price changes may reflect shifts in product mix within categories, changes in unit prices, or both. De minimis shipments are excluded given heterogeneity within categories.
Source: General Administration of Customs of the PRC; McKinsey Global Institute analysis

McKinsey & Company

China's influence as a global supplier of intermediate inputs and capital goods expanded further in 2025. At the start of the year, it accounted for just over 40 percent of global exports in this segment. Over the year, it contributed about half of the global growth in these goods, with gains spread across a wide range of products.[36] For example, China's unit shipments of valves grew by more than 20 percent in 2025, an increase roughly equivalent to half the total annual exports of the product from the United States, the second-largest exporter. Lithium-ion battery shipments grew by about 20 percent, approximately matching the combined overseas sales of Poland and Hungary, the next-largest suppliers.

In many cases, falling prices supported expansion in intermediate inputs and capital goods, with about half of these products recording lower prices alongside rising volumes. Solar cells offer a clear example: A roughly 33 percent price drop helped increase export volumes to the Middle East by 20 percent.[37]

China ships more consumer goods at lower prices

As Chinese firms lost access to the US consumer market, they lowered prices to secure buyers elsewhere, with prices falling for about 90 percent of consumer products, by value (Exhibit 15).[38] While this strategy

$30 billion reduction in export values.[39] Light-emitting diode (LED) fixtures illustrate the pattern, with shipment volumes increasing by 4 percent while average prices fell by 6 percent. US sales declined by about $400 million, while exports to other markets, particularly Europe and ASEAN, rose by about $150 million.

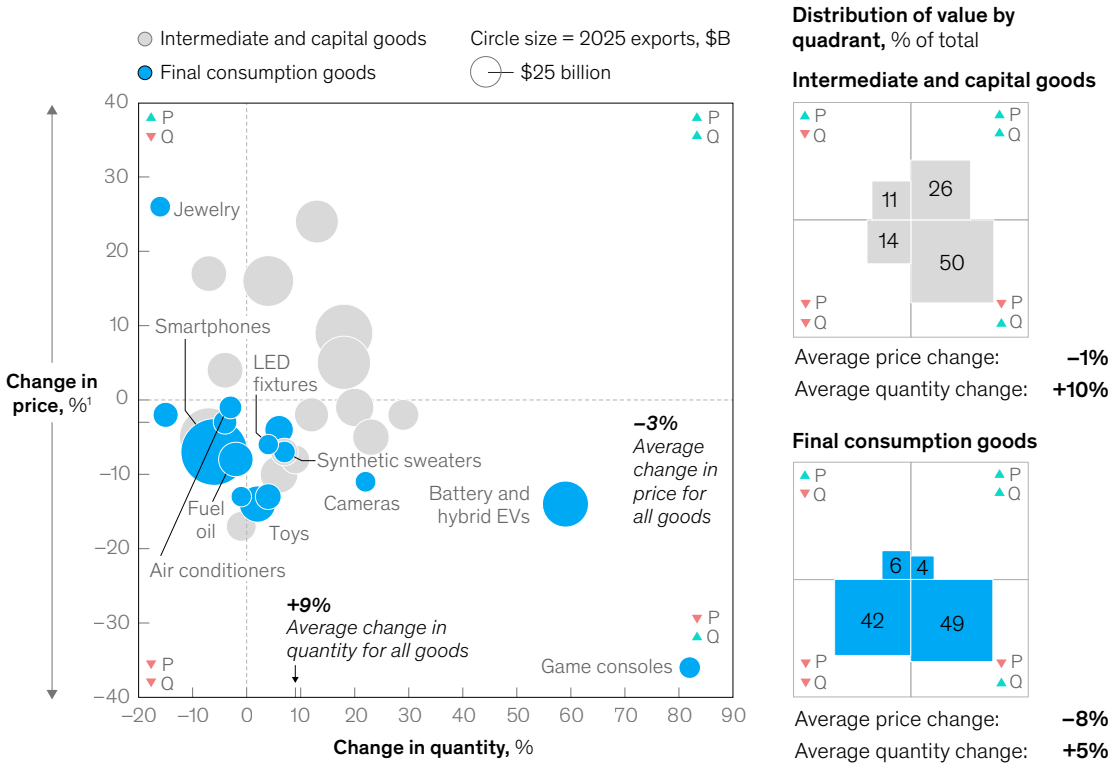
No consumer export reshaped global trade in 2025 more than China's EVs. A 15 percent price decline on average, supported by a comparable reduction in domestic battery costs, enabled a 60 percent increase in unit exports.[40]

The impact of price adjustments varied by market. In emerging economies where similar goods are not produced at scale, lower prices expanded access and boosted consumption. Unit exports of battery EVs to Latin America and ASEAN economies, for example, rose by 50 percent. In Europe, by contrast, falling prices for consumer goods, including cars and electronics, intensified pressure on local manufacturers even as consumers benefited from lower costs.

Exhibit 15

Price cuts supported final consumption goods shipments of most products.

Price and quantity changes for the top 15 China (mainland) exports by end use, 2024–25 (annualized)



Note: 2025 values are annualized based on Jan–Nov data, prorated on a monthly basis.
[1]Price changes may reflect shifts in product mix within categories, changes in unit prices, or both. De minimis shipments are excluded given heterogeneity within categories.
Source: General Administration of Customs of the PRC; McKinsey Global Institute analysis

McKinsey & Company

Exports shift toward emerging economies

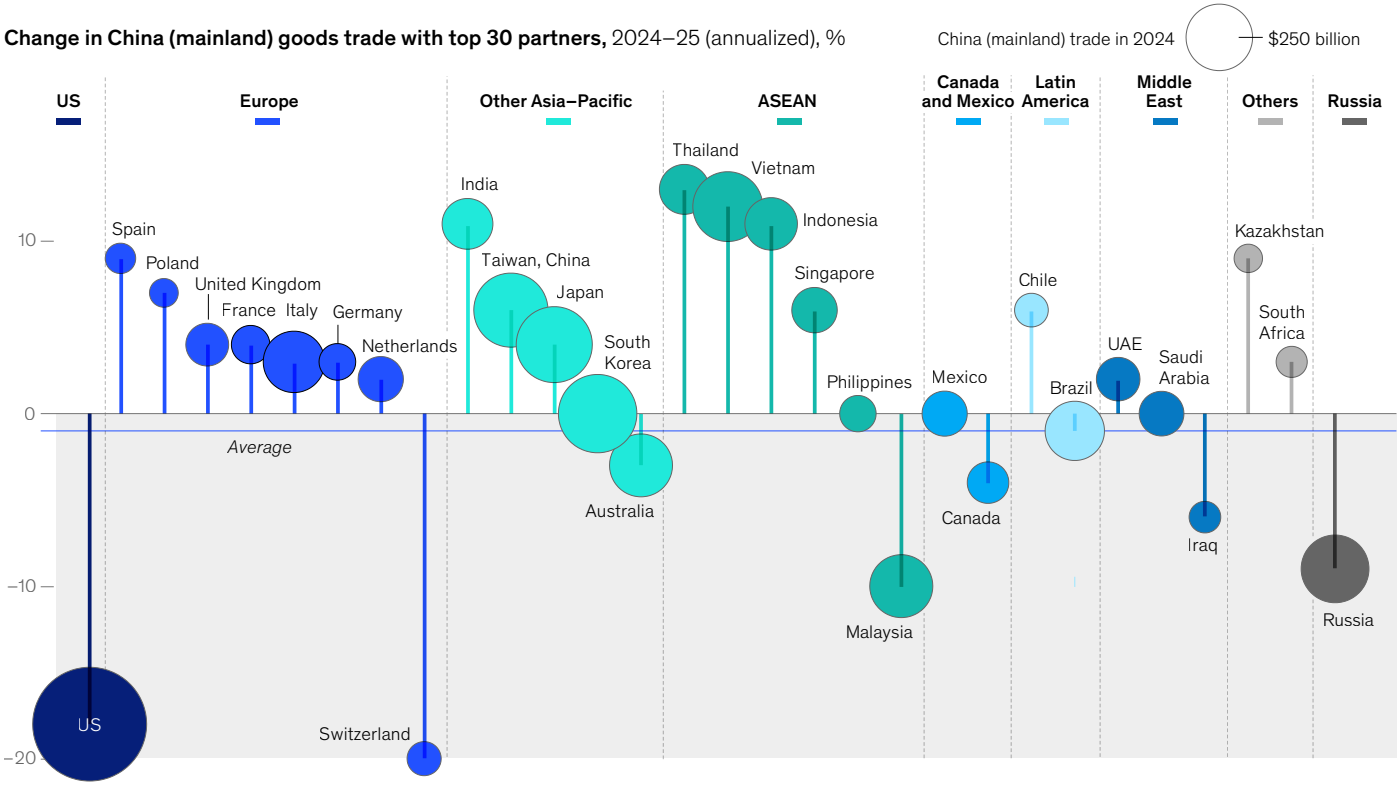
As China shipped more intermediate inputs and machinery, exports to manufacturing hubs in emerging economies rose to nearly half of total exports, up from one-third in 2017. Growth was driven primarily by electronic components such as chips and printed circuits, as well as smartphone and computer parts, particularly to ASEAN and India (Exhibit 16). Shipments of components to the Middle East also increased, particularly power equipment for infrastructure, including batteries, converters, and transformers. Markets for these products included Saudi Arabia and the United Arab Emirates.

China's exports to Europe also grew, though they were more concentrated in finished goods. Products such as household appliances and clothing were redirected away from the United States. EVs were another contributor. As prices fell across many categories, shipment volumes rose more sharply than headline export values suggest—a boon to consumers but a challenge for competing manufacturers.

China's move upstream in supply chains and its declining pricing reshaped global trade and competitive dynamics in 2025. Arguably, nowhere were these pressures more visible than in Europe, as we discuss in the next chapter. Increased Chinese exports, especially in autos, combined with higher US tariffs to create a "double squeeze."

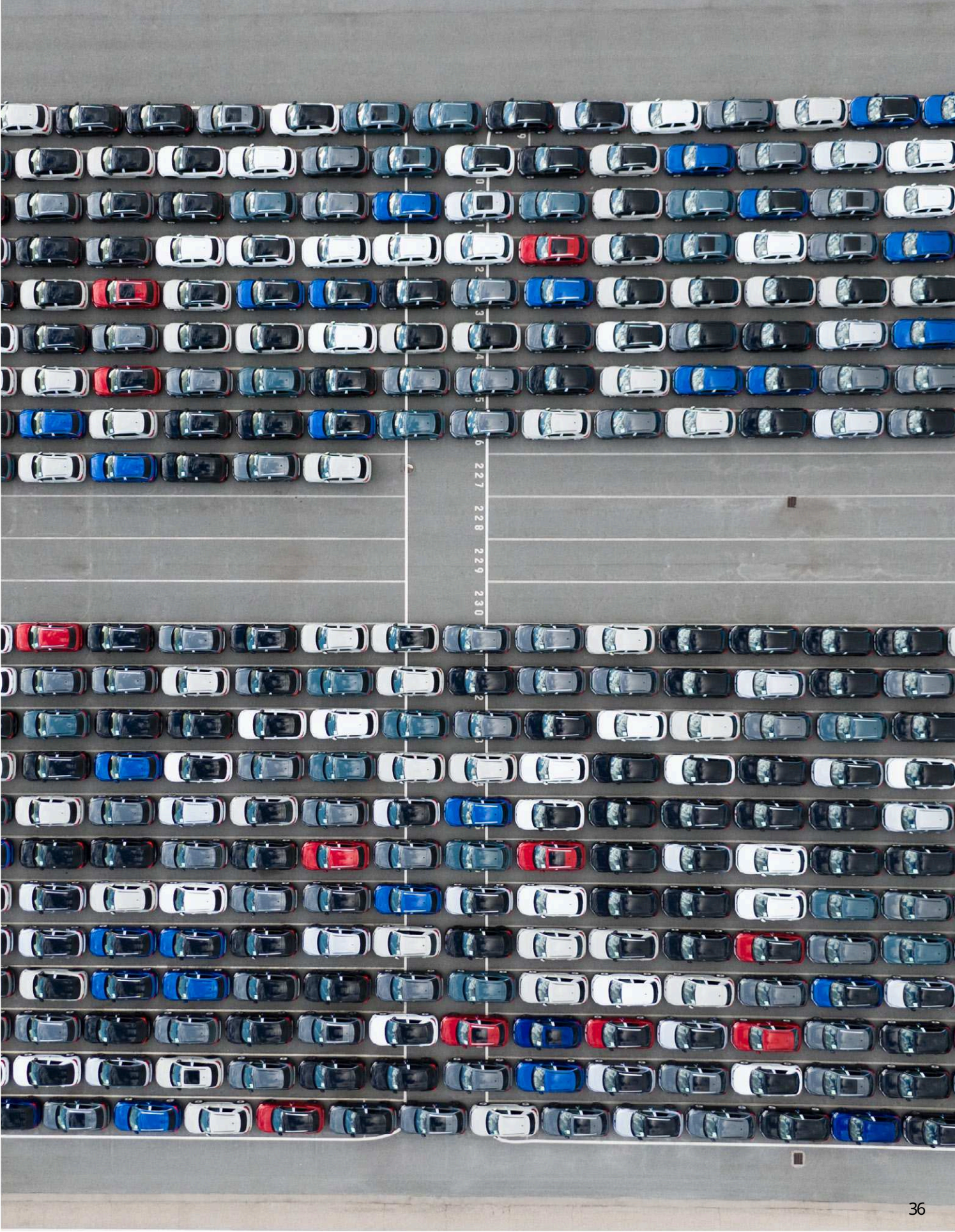
Exhibit 16

China's trade shifted away from the United States toward other economies.



Note: Annualized 2025 values based on Jan–Nov data, annualized on per-month prorated basis.
Source: General Administration of Customs of the PRC, McKinsey Global Institute analysis

McKinsey & Company


227
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EU trade grew in 2025, and its trade surplus grew by $5 billion.[41] Yet the headline figures masked a loss of competitiveness as the bloc was caught between rising imports from China and higher US tariffs that constrained key exports, particularly cars.

A closer look at the underlying trade flows reveals the double squeeze. The European Union's trade deficit with China deepened as imports rose and exports fell. At the same time, the surplus with the United States narrowed over the course of the year, with most export gains stemming from temporary US frontloading of pharmaceuticals ahead of tariffs. Without this boost, the bloc's total trade surplus would have shrunk by about $40 billion (Exhibit 17).[42]

Most industries face pressure, with autos at the epicenter

Rising competition from China weighed heavily on Europe's manufacturing base. Imports from China increased by over $60 billion in 2025, reflecting stronger European demand for Chinese products across a wide range of industries. High-value manufactured products, including electronics such as batteries, EVs, and machinery, accounted for a substantial share of this increase, while imports also rose in textiles and contract manufacturing.[43] In these sectors, where Chinese producers compete directly with European firms, imports grew faster than exports. Falling prices and increased low-cost e-commerce shipments added further pressure.

In principle, Europe could have offset these headwinds by supplying goods the United States stopped importing from China. In practice, this did not occur. Once tariff-related frontloading is stripped out, the European Union captured less than 3 percent of the US demand previously met by China, largely in a narrow set of pharmaceutical products. In fact, outside of pharmaceuticals, EU exports to the United States dropped, with some sectors experiencing sharp declines, including a 7 percent drop in planes, trains, and automobiles.

Rising imports from China and limited gains in the US market collectively shrank the EU's manufacturing trade surplus by $70 billion—when excluding frontloading—reflecting a deterioration in the trade balance across nearly every industry (Exhibit 18).[44]

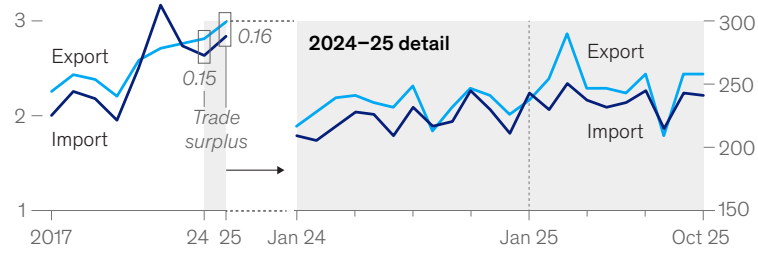
The European Union's trade deficit with China deepened as imports rose and exports fell.

Exhibit 17

Europe's trade with the United States rose briefly as export share fell in China.

Total goods trade

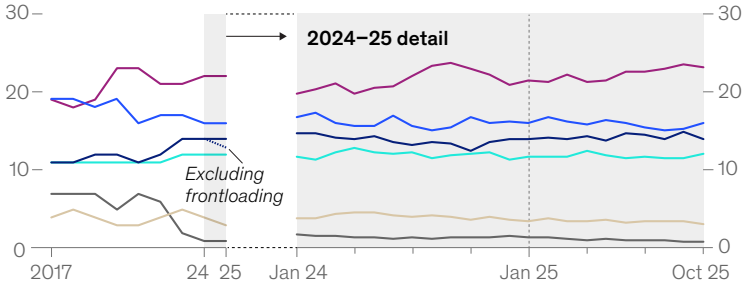
Annualized $ trillion, 2017–25 | Monthly, Jan 24–Oct 25, $ billion



	CAGR, % 2017–24	2024–25 annualized	2024–25 (excl frontloading) annualized
Export	3.2	7.2	4.7
Import	4.1	7.4	6.4
Change in trade surplus, 2024–25, %		+3	–20

Share of extra-EU imports

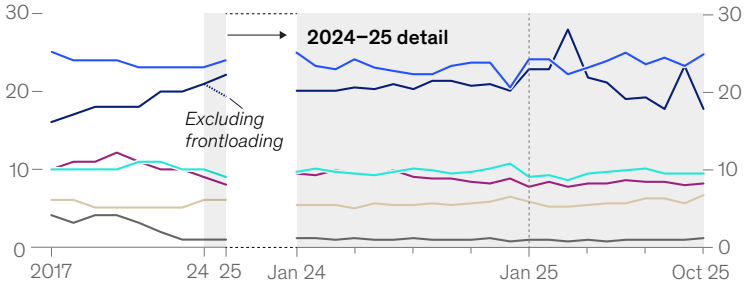
% of total, 2017–25 | % of total, monthly, Jan 24–Oct 25



	Annualized share change, pp 2017–24	2024–25
China (mainland)	+0.4	+0.8
EFTA and UK[1]	–0.5	–0.2
United States	+0.3	+0.4
Rest of Asia–Pacific	+0.1	–0.2
Middle East	<0.1	–0.6
Russia	–0.8	–0.4

Share of extra-EU exports

% of total, 2017–25 | % of total, monthly, Jan 24–Oct 25



EFTA and UK[1]	–0.3	+0.8
United States	+0.6	+1.0
Rest of Asia–Pacific	<0.1	–0.5
China (mainland)	–0.1	–0.8
Middle East	–0.1	+0.2
Russia	–0.4	–0.1

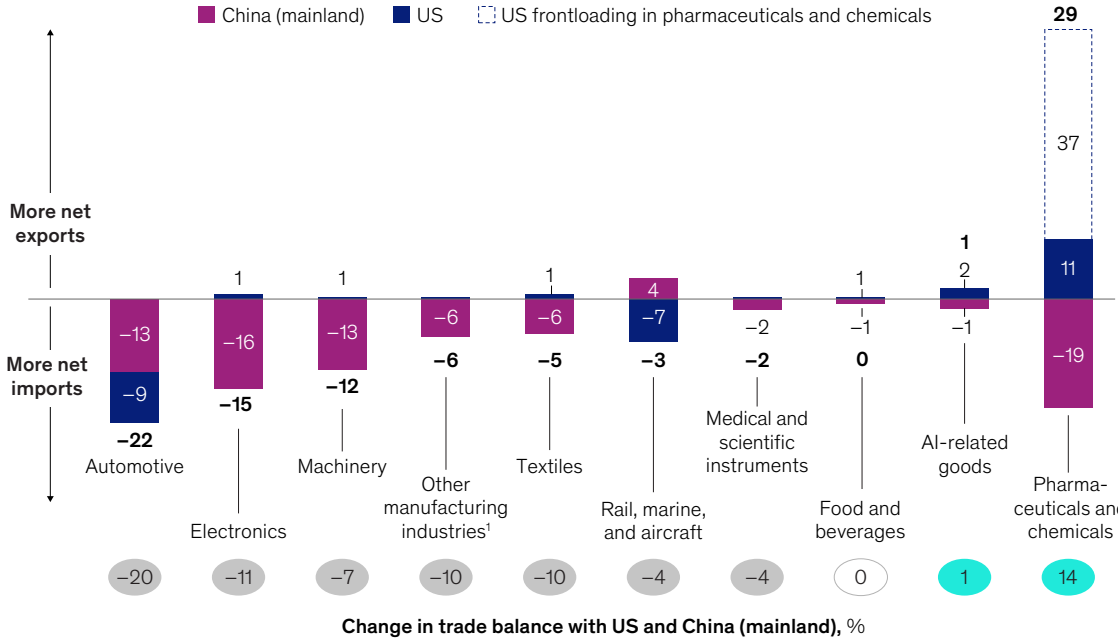
Note: Annualized 2025 values based on available Jan–Oct data, annualized on per-month prorated basis. The share of EU trade conducted with non-EU partners has remained broadly stable since 2017, accounting for roughly 40% of both imports and exports.
[1]Includes Norway, Switzerland, and the United Kingdom.
Source: Eurostat; McKinsey Global Institute analysis

McKinsey & Company

Exhibit 18

Most EU sectors, especially automotive, faced rising trade pressure with the United States and China.

Change in EU trade balance (exports minus imports) by industry,
2024–25 (annualized), $ billion



Note: 2025 values are annualized based on Jan–Oct data, prorated on a monthly basis.
[1]Includes contract manufacturing, wood and paper, rubber and plastic, and nonmetallic mineral products.
Source: Eurostat; McKinsey Global Institute analysis

McKinsey & Company

Autos, long central to Europe's export strength and employment, were hit hardest, as the sector's trade balance with the United States and China declined by $22 billion. EU auto exports to both markets fell. Shipments to the United States declined by 17 percent, while exports to China, once viewed as a growth market, dropped by over 30 percent.

Import pressures compounded the strain, with EU purchases of lower-priced Chinese EVs surging to more than 800,000 units, about 50 percent higher than 2024 levels.[45] Germany, the region's largest carmaker for more than half a century, imported more cars from China than it exported there for the first time.[46] By late 2025, EVs assembled in China accounted for about 15 percent of EV sales in the European Union.[47]

Europe found partial offsets in auto exports elsewhere. Shipments to non-EU markets outside the United States and China grew by 5 percent, or about $10 billion. However, in those markets, China's auto exports grew roughly twice as fast, limiting Europe's gains. Intra-EU auto trade increased by 6 percent, rebounding from contraction in 2024.

for phasing out internal combustion vehicles—thereby allowing automakers to continue producing them for longer—and introducing incentives to increase domestic content in EV manufacturing. At the same time, firms attracted investment from Chinese EV and battery makers, which have announced about $10 billion of greenfield projects in Europe each year since 2022, more than in any other market. Projects include gigafactories in Hungary and Spain that could roughly double the European Union's battery production capacity.[48] Whether these developments materially strengthen the industry, and whether additional steps will follow, remain to be seen.

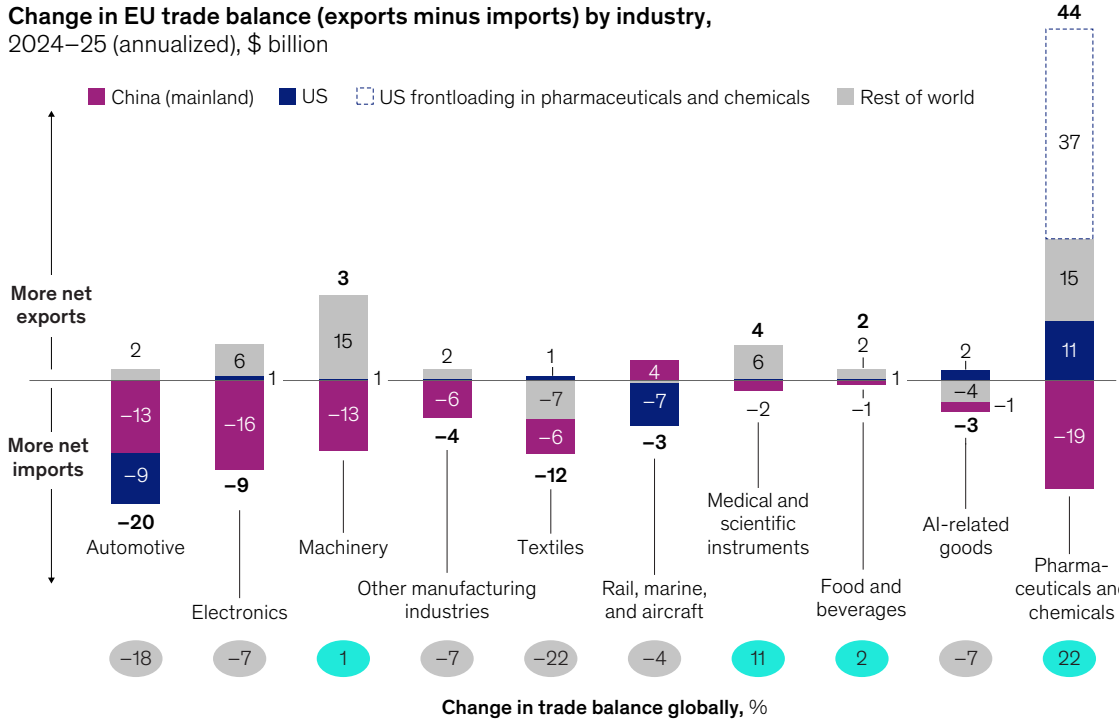
Europe makes some gains in other markets

Europe expanded many of its existing trade relationships beyond the United States and China. In several cases, this translated into export gains. Advanced machinery and industrial electronics drove the largest increases, with stronger shipments of semiconductor manufacturing equipment used in the AI supply chain to South Korea and Taiwan, as well as power generation equipment to rapidly electrifying markets in the Middle East and Africa. Medical and scientific equipment exports, including diagnostic equipment, prostheses, and pacemakers, expanded to fast-developing emerging markets in Latin America and the Asia-Pacific region. Meanwhile, demand strengthened in other non-EU European markets for pharmaceuticals and luxury foods and beverages—including cheese, cocoa, and wine (Exhibit 19).

Exhibit 19

The European Union expanded its trade balance with markets outside of the United States and China.

Change in EU trade balance (exports minus imports) by industry, 2024–25 (annualized), $ billion



Note: 2025 values are annualized based on Jan–Oct data, prorated on a monthly basis.
[1]Includes contract manufacturing, wood and paper, rubber and plastic, and nonmetallic mineral products.
Source: Eurostat; McKinsey Global Institute analysis

McKinsey & Company

exports to the Middle East and imports from Asia, notably textiles and electronics from ASEAN, as well as agricultural products, metals, and minerals from Africa and Latin America (Exhibit 20).

Trade expansion and EU competitiveness

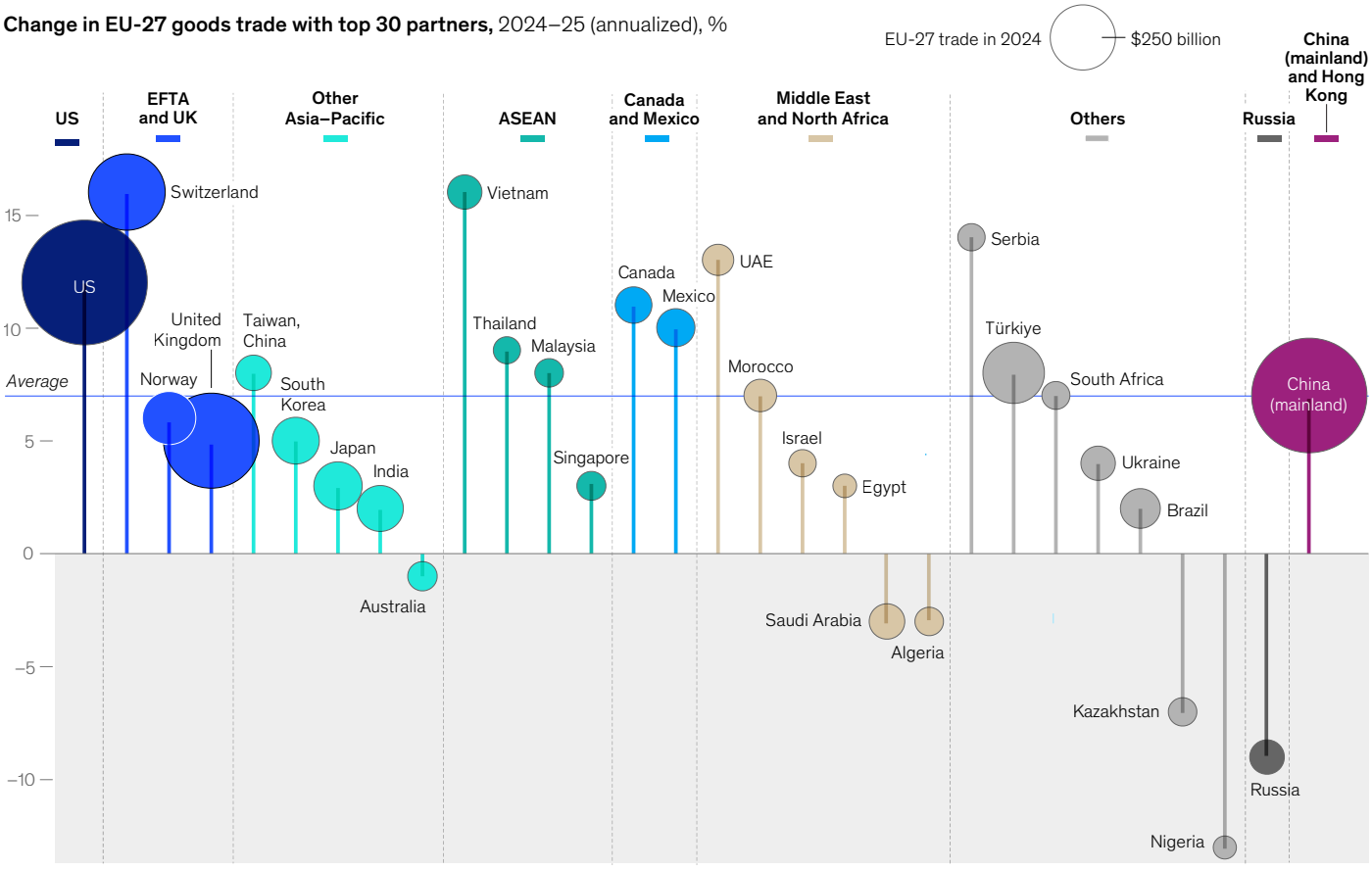
Given pressure on its trade balance with external partners, one of the European Union's stated priorities has been to increase the role of domestic demand.[49] Intra-EU trade grew by around 6 percent in 2025, slightly faster than exports when frontloading is excluded, providing some additional demand for EU goods.

The European Union is also looking to further expand trade globally and is pursuing trade agreements with fast-growing markets. In January 2026, it signed agreements with India and the Latin American bloc Mercosur, the latter pending review by the European Court of Justice. Tariff reductions would be substantial in sectors where the European Union is a large exporter, particularly autos and pharmaceuticals.[50]

Exhibit 20

EU trade grew across regions.

Change in EU-27 goods trade with top 30 partners, 2024–25 (annualized), %



Note: Annualized 2025 values based on available Jan–Oct data, annualized on per-month prorated basis.
Source: Eurostat; McKinsey Global Institute analysis

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Still, the current scale of trade puts these opportunities into perspective. Although the European Union is already the second-largest trading partner after China for both markets, the two together account for less than 8 percent of EU trade. By contrast, the United States and China together represent about one-third.[51] These deals are therefore more likely to deepen long-term relationships than to materially shift the EU trade balance in the near term.

With competitiveness at the top of the EU agenda, new trade relationships may be crucial. But economic competitiveness does not necessarily go hand in hand with a larger trade surplus. Building a presence in the industries of the future often requires importing the technologies that underpin them. Expanding AI infrastructure would require greater imports from Asia, including advanced logic chips and other critical components. Imports of these AI-related goods to the European Union have so far trailed those to the United States and China, reflecting lower levels of data center investment.

Europe broadened its trade ties in 2025. While trade with new partners was not enough to offset pressure on domestic industry from rising Chinese imports and constrained access to the United States, the bloc continues to explore new options to engage broadly.

Emerging economies: Finding opportunity across the geopolitical spectrum

Domestic development priorities primarily drove trade decisions in major emerging economies in 2025. In pursuing them, economies including ASEAN, India, and Brazil found opportunities to trade across the geopolitical spectrum, with offsetting shifts keeping average geopolitical distances relatively stable even as geographic distances increased.

How this played out varied, reflecting differences in economic strengths. ASEAN continued to grow as a manufacturing hub, in particular by importing more inputs from China and exporting more finished goods to the United States. For India, trade supported brisk domestic growth, but overall exports were little changed. The one exception was smartphones, where India met about half of the US demand that was previously sourced from China. Brazil stood out as one of the few economies to expand exports to China at scale, primarily by replacing commodities that China had once imported from the United States.

ASEAN trade is booming

ASEAN expanded trade with every region in the world in 2025, with total manufactured exports jumping nearly 14 percent and imports rising by 11 percent (Exhibit 21).[52] The largest shifts involved the United States and China. Exports to the United States climbed by about $80 billion, roughly one-third of total export growth, while purchases from China surged by more than $100 billion, accounting for about half of total import growth.

Manufacturing footprint—and trade shifts—vary by country

Electronics remained central to ASEAN trade in 2025, accounting for around 45 percent of the region's exports and 70 percent of annual export growth.[53] Gains varied by country, reflecting differences in supply chain roles (Exhibit 22).

Vietnam and Cambodia saw the fastest export growth. Vietnam expanded the final-assembly of consumer electronics, including laptops, smartphones, and game consoles, while importing more components from China and other parts of Asia. Finished goods were primarily exported to advanced economies, in some cases replacing Chinese exports to the United States. Cambodia played a similar role, but in textiles rather than electronics. The expansion of trade with both the United States and China has prompted scrutiny of rules-of-origin compliance and local value-added requirements, but potential policy responses remain unsettled at the time of writing (see sidebar "Tariffs in flux").[54]

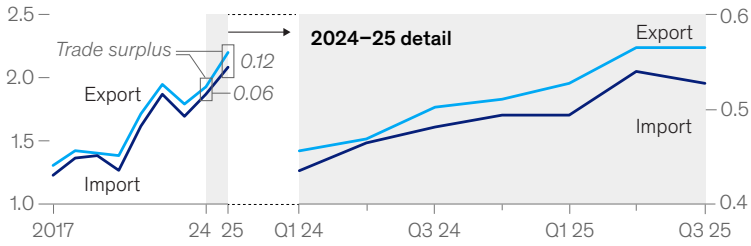
ASEAN expanded trade with every region in the world in 2025.

Exhibit 21

ASEAN trade boomed globally, especially with the United States and China.

Total goods trade

Annualized $ trillion, 2017–25 | Monthly, Jan 24–Sep 25, $ trillion

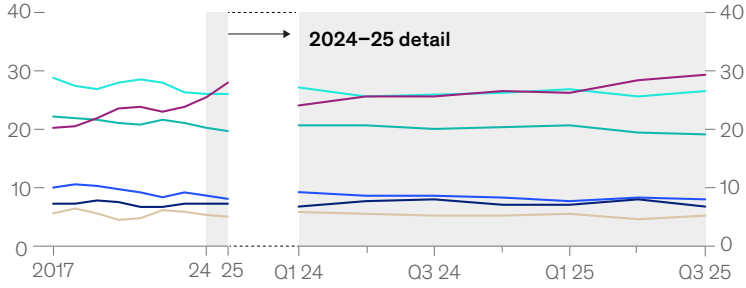


	CAGR, % 2017–24	2024–25 annualized
Export	5.7	13.6
Import	6.1	11.1

Change in trade surplus, 2024–25, % +86

Share of ASEAN imports

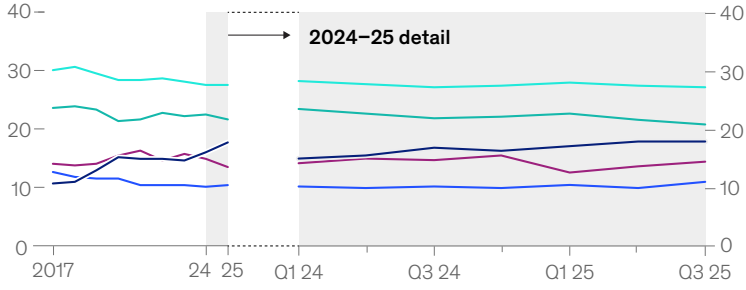
% of total, 2017–25 | % of total, monthly, Jan 24–Sep 25



	Annualized share change, pp 2017–24	2024–25
China (mainland)	+0.7	+2.5
Rest of Asia–Pacific	–0.4	<0.1
ASEAN	–0.3	–0.7
Europe	–0.2	–0.7
United States	<0.1	–0.2
Middle East	<0.1	–0.3

Share of ASEAN exports

% of total, 2017–25 | % of total, monthly, Jan 24–Sep 25



Rest of Asia–Pacific	–0.4	–0.1
ASEAN	–0.1	–0.9
United States	+0.8	+1.6
China (mainland)	+0.1	–1.3
Europe	–0.4	+0.3

Note: Annualized 2025 values based on Jan–Sep data, annualized on per-month prorated basis.
Source: ASEAN Stats; McKinsey Global Institute analysis

McKinsey & Company

Exhibit 22

ASEAN exported more to the United States and imported more from China, with large variations between economies.

Change in goods trade by reporting economy, 2024–25 (annualized), %

Note: 2025 values are annualized based on Jan–Sep data, prorated on a monthly basis.
Source: ASEAN Stats; OpenDOSM; McKinsey Global Institute analysis

McKinsey & Company

Elsewhere in the region, export gains reflected different manufacturing footprints. In Singapore and Malaysia, growth was concentrated in supply chains tied to the AI boom, including chips, networking hardware, circuit boards, servers, and routers, alongside broader advanced manufacturing, notably pharmaceuticals in Singapore.[55] Both strengthened their roles as regional hubs, with growth driven more by intraregional supply chain flows than by direct exposure to US demand. In Malaysia's case, this reflected its role in assembling, packaging, and testing semiconductors produced elsewhere in Asia.

Thailand occupied a middle ground, combining final assembly work and higher-end supply chains, reflected in its mix of consumer electronics, AI-related goods, and some industrial electrical equipment.

But not all ASEAN economies were anchored in electronics supply chains. Indonesia's exports, for example, were driven by commodities. Growth in 2025 came from minerals and chemical products including steel, fertilizers, and other chemicals sold to a range of partners in Asia, Europe, and the United States. Export

increased imports of Chinese EVs and consumer electronics, but accounted for comparatively fewer manufacturing inputs than other ASEAN economies.

Trade ties grow widely

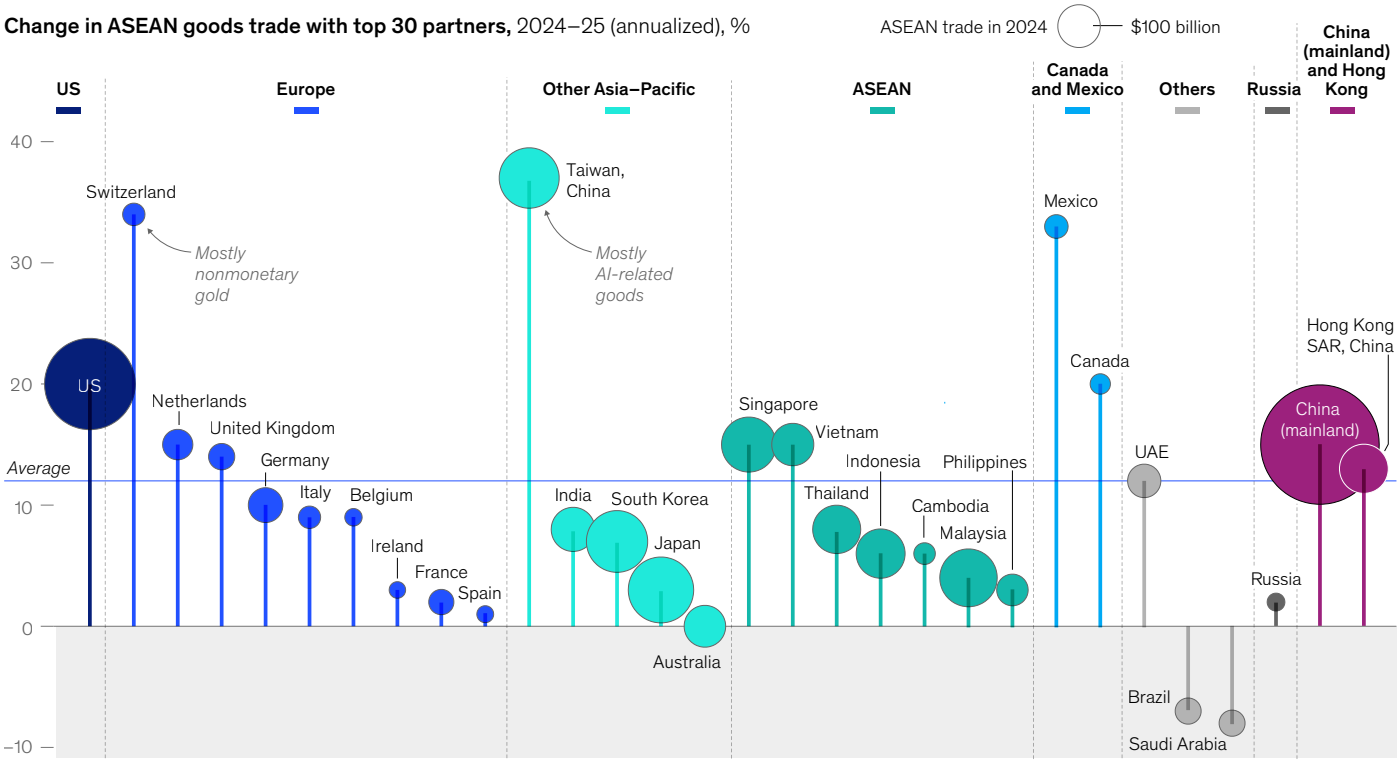
More than half of ASEAN economies' trade growth was linked to economies other than the United States and China. The region's growing role in electronics manufacturing and assembly supported exports to other markets including Europe and Mexico while trade of commodities boosted relationships with Canada and the United Arab Emirates.

ASEAN countries also traded more among themselves and deepened ties to the rest of Asia (Exhibit 23). Intra-ASEAN trade grew by 8 percent, including large increases between Malaysia and Vietnam. Trade with Taiwan grew by nearly 40 percent, largely in AI-related goods, while imports from South Korea increased as demand rose for memory and other components used in later stages of electronics assembly.

Exhibit 23

ASEAN expanded trade across the geopolitical spectrum.

Change in ASEAN goods trade with top 30 partners, 2024–25 (annualized), %



Note: Annualized 2025 values based on Jan–Sep data, annualized on per-month prorated basis.
Source: ASEAN Stats; McKinsey Global Institute analysis

McKinsey & Company

India's imports power growth, but manufacturing breadth remains limited

India's booming economy drove strong demand for inputs to support infrastructure and industrial buildout, even as lower energy prices tempered growth in the import bill in 2025.[56]

India made progress toward its goal of becoming a global manufacturing hub, though results were uneven (Exhibit 24).[57] Smartphone assembly surged as US buyers shifted away from China, while pharmaceuticals and machinery posted solid gains abroad. At the same time, falling commodity prices and rising trade barriers weighed on overall performance, with a sharp decline in refining exports offsetting gains elsewhere and leaving export growth flat.[58]

India imported the basic building blocks of economic growth in large quantities, including chemicals from the Middle East and metals from across the globe.[59] Its purchases of these inputs increased by 15 percent. To support manufacturing, it also imported substantial amounts of machinery from China, ranging from weaving machines for textiles to transformers. Energy was the only major input that did not grow, not because volumes declined, but because prices retreated, reducing the Middle East's and Russia's share of India's trade.

Industrial policies like "Make in India" aimed to promote domestic manufacturing capabilities and export growth. And in 2025, many more of the world's smartphones were manufactured in India. These devices, which were exempt from US tariffs, were the largest single contributor to export growth. The United States increased its smartphone imports from India by about $15 billion while reducing smartphone imports from China by around $18 billion.[60] This shift lifted India's electronics exports by roughly 40 percent. Imports of components from China, including batteries, screens, and semiconductors, rose. Ireland also supplied important parts including chips, becoming India's fastest-growing trading partner in 2025 (Exhibit 25).

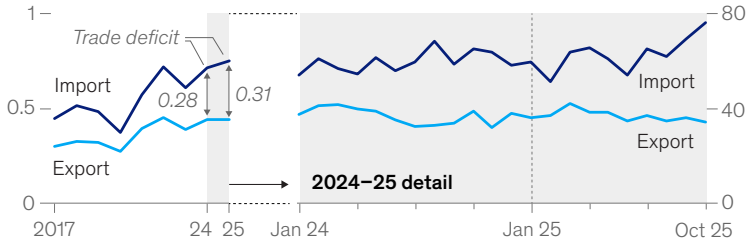
India made progress toward its goal of becoming a global manufacturing hub, though results were uneven.

Exhibit 24

India's trade balance weakened as imports from China rose and US export gains faded.

Total goods trade

Annualized $ trillion, 2017–25 | Monthly, Jan 24–Oct 25, $ billion

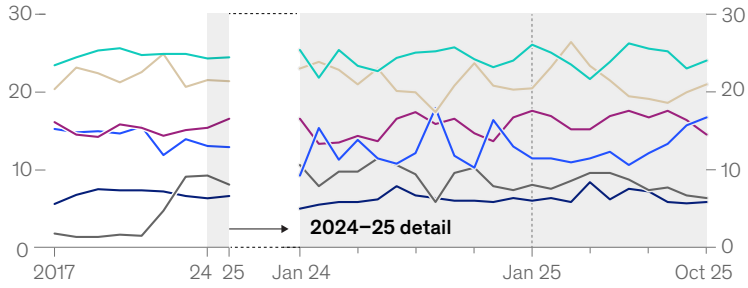


	CAGR, % 2017–24	2024–25 annualized
Export	5.8	0.0
Import	6.9	4.8

Change in trade deficit, 2024–25, % +13

Share of India imports

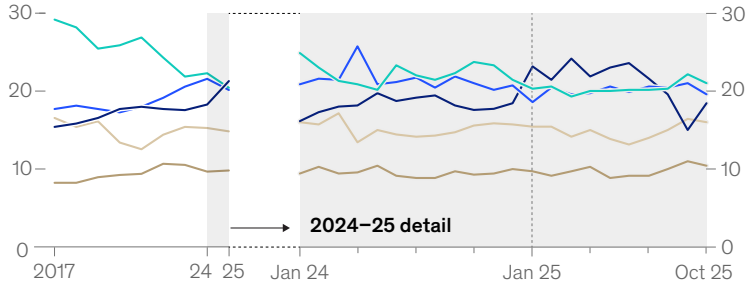
% of total, 2017–25 | % of total, monthly, Jan 24–Oct 25



	Annualized share change, pp 2017–24	2024–25
Asia–Pacific[1]	+0.1	+0.2
Middle East	+0.2	–0.1
Europe	–0.3	–0.1
China (mainland)	–0.1	+1.2
Russia	+1.1	–1.2
United States	+0.1	+0.3

Share of India exports

% of total, 2017–25 | % of total, monthly, Jan 24–Oct 25



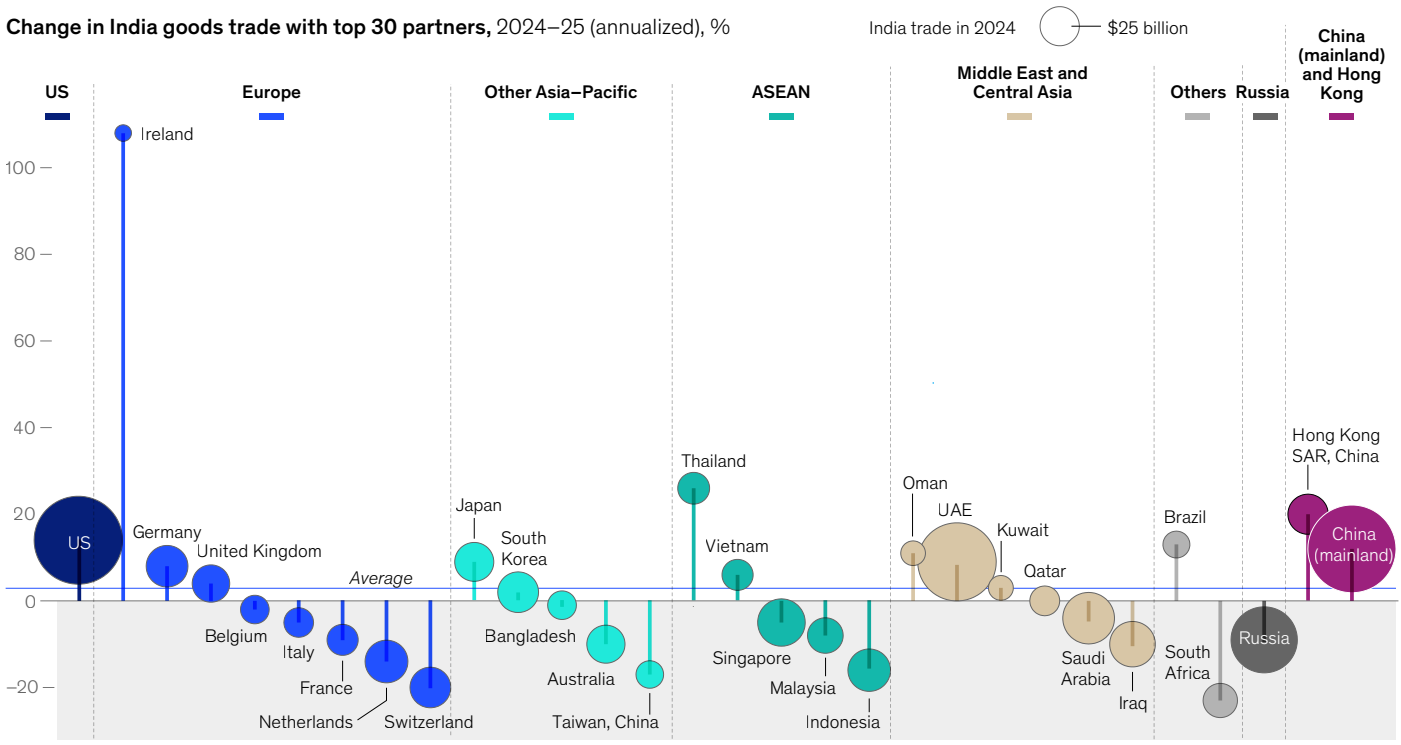
Asia–Pacific[1]	–1.0	–1.9
Europe	+0.6	–1.5
United States	+0.4	+3.0
Middle East	–0.2	–0.4
Africa	+0.2	+0.2

Note: Annualized 2025 values based on Jan–Oct data, annualized on per-month prorated basis.
[1]Includes ASEAN.
Source: Government of India Ministry of Commerce and Industry; McKinsey Global Institute analysis

McKinsey & Company

Exhibit 23

India's trade picture was mixed across economies.



Note: Annualized 2025 values based on Jan–Oct data, annualized on per-month prorated basis.
Source: Government of India Ministry of Commerce and Industry; McKinsey Global Institute analysis

McKinsey & Company

Additional gains came from other advanced manufacturing categories—including pharmaceuticals and machinery—which saw exports increase by almost 10 percent, while electronics other than smartphones grew more slowly than ASEAN exports. Together, these categories added about $7 billion to export growth.[61]

Export gains, however, were not broad-based. Most notably, exports from India's global refining hub declined. Fuel exports to Europe and Asia fell, reflecting commodity price declines and some trade restrictions on Russian oil as an input.[62] Exports of chemicals also faced intensified competition from Chinese refiners amid softer global demand. In addition, US tariff hikes in July led to sharp declines in shipments of ceramics, building materials, and industrial diamonds, all historically important exports for India. Taken together, these developments left total export growth flat in 2025.

Although US tariffs changed again in 2026, the larger challenge remains structural. As manufacturing gains momentum, benefiting from selective relocation of supply chains out of China, the open question remains whether India can broaden its export base beyond smartphones and pharmaceuticals to meet its manufacturing goals.

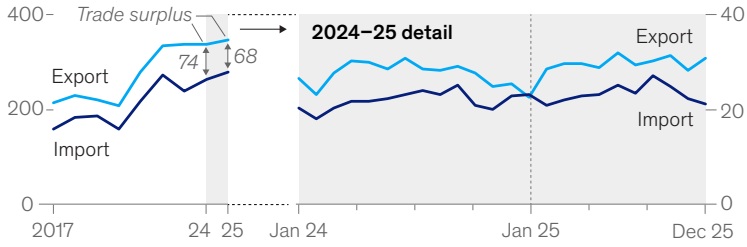
Brazil's commodity exports boomed in 2025, supported by increased demand from China as it moved purchases of agricultural goods and crude oil away from the United States. This boom, in turn, required additional inputs, from pesticides to oil rigs, primarily sourced from China (Exhibit 26).[63]

Exhibit 26

Brazil grew trade across regions, with the strongest gains in China.

Total goods trade

$ billion, 2017–25 | Monthly, Jan 24–Dec 25, $ billion

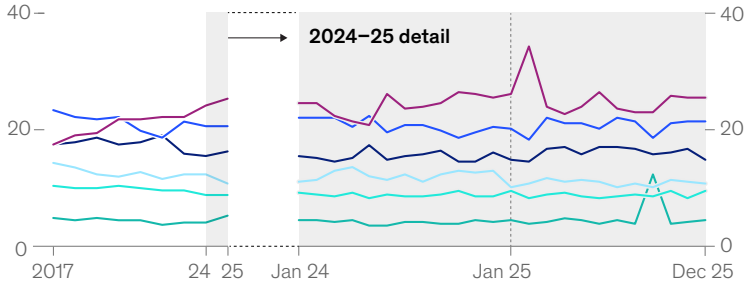


	CAGR, % 2017–24	2024–25
Export	6.6	3.5
Import	7.5	6.7

Change in trade surplus, 2024–25, % **–8**

Share of Brazil imports

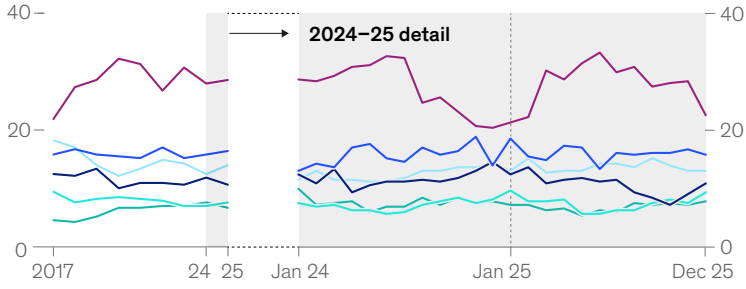
% of total, 2017–25 | % of total, monthly, Jan 24–Dec 25



	Share change, pp 2017–24	2024–25
China (mainland)	+1.0	+1.1
Europe	–0.4	<0.1
United States	–0.3	+0.7
Latin America	–0.3	–1.4
Rest of Asia–Pacific	–0.2	+0.1
ASEAN	–0.1	+0.9

Share of Brazil exports

% of total, 2017–25 | % of total, monthly, Jan 24–Dec 25



China (mainland)	+0.8	+0.7
Europe	<0.1	+0.4
Latin America	–0.8	+1.3
United States	–0.1	–1.2
Rest of Asia–Pacific	–0.3	+0.4
ASEAN	+0.4	–0.8

Source: Comex Stat; McKinsey Global Institute analysis

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exports of manufactured goods within Latin America, particularly cars to Argentina. However, headwinds in US demand limited manufacturing growth, especially in lightly processed goods, while increased imports of lower-priced final goods from China put pressure on some domestic producers.

Agricultural exports to China rose by about 13 percent, or about $5 billion, with more than half of the increase coming from soybeans. In 2025, Brazil provided three-quarters of China's soybean imports, a product that had been central to US–China trade. Brazil also increased exports of iron ore and crude oil, the latter again replacing US supply. Lower prices for iron ore and crude oil meant volume gains outpaced increases in export value.[64]

Exports of agricultural goods and minerals to the European Union rose by about 20 percent each compared with 2024, as negotiations over the EU–Mercosur trade agreement moved toward finalization.[65]

To support this resource boom, imports of machinery and inputs from China increased by roughly $6 billion, or 11 percent, including floating oil production units, agricultural machinery, and agrochemicals.[66] Europe also supplied important machinery and chemical inputs, but growth was only about half that recorded from China.

At the same time, competition from Asia put additional pressure on domestic producers, especially automakers, where vehicle imports grew by almost 50 percent in unit terms. This competition affected exports as well: Brazilian textile exports to China and ASEAN economies fell by about a third, reflecting heightened competition from Chinese producers redirecting output (Exhibit 27).

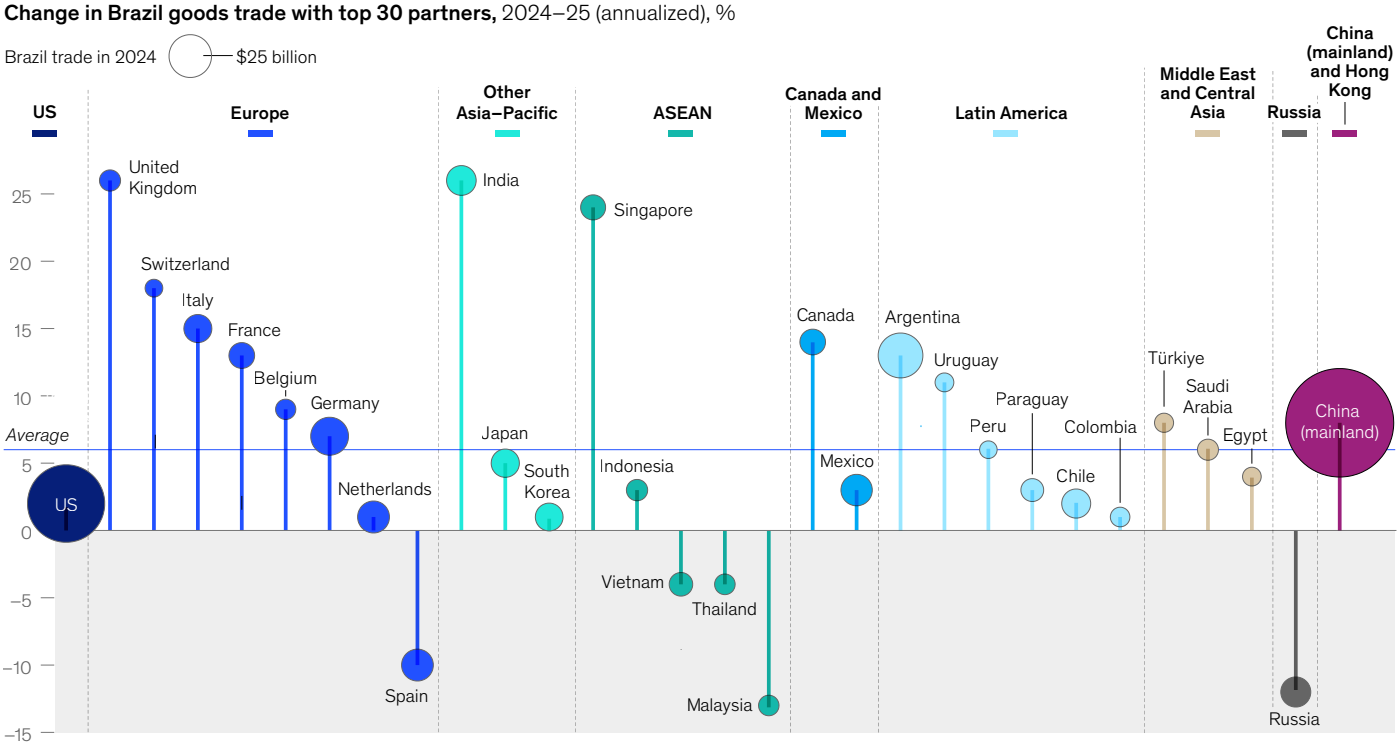
While Brazil's manufactured exports rose overall, growth was uneven across products and regions. Anticipation of US tariffs, even those that ultimately were not implemented, led to declines in a wide range of goods, particularly lightly processed goods such as furniture, wood products and pig iron.[67] Upcoming stricter EU sustainability requirements also contributed to the decline in exports of wood and paper products.[68]

In 2025, Brazil provided three-quarters of China's soybean imports, a product that had been central to US–China trade.

Exhibit 27

Brazil increased trade across the geopolitical spectrum but continued trading most with China.

Change in Brazil goods trade with top 30 partners, 2024–25 (annualized), %



Source: Comex Stat; McKinsey Global Institute analysis

McKinsey & Company

Nonetheless, more advanced manufacturing categories posted stronger growth, offsetting weakness elsewhere. Exports grew, particularly within Latin America and, to a lesser extent, Europe. Nearly one-third of all export growth came from autos, primarily to Argentina, following revisions to the ACE-14 automotive agreement that lowered trade barriers.[69] Argentina, Peru, and Chile also increased purchases of Brazilian machinery, especially for the construction and resource sectors.[70] This suggests scope for greater manufactured-goods trade within Latin America, where overall regional trade remains limited.

In 2025, trade reconfigured rapidly and in unexpected ways, as both short-term tariff shocks and deeper forces reshaped the system. The result was an uneven year, marked by solid trade growth and geopolitical realignment, sharp intra-year swings in US imports, record Chinese exports, Europe caught in a double squeeze, and new openings for emerging economies.

Multinationals recognize that trade is evolving rapidly and in hard-to-predict ways. What is often less clear, however, is how to navigate that uncertainty. Our research over the past several years underscores the need for a practical posture: orienting trade strategy toward the structural trends most likely to endure, and building the capability to rebalance quickly as conditions shift.

Scenario analysis helps leaders treat trade exposure as a portfolio of what we outlined last year as safe bets, cautious bets, and uncertain bets—and to reallocate capital, capacity, and commercial focus accordingly.[71] In 2025, for example, trade corridors supported by underlying, long-term factors proved more resilient, including parts of intra-ASEAN trade and select Asia corridors such as India–Japan. In contrast, uncertain-bet corridors shrank on average, reflecting greater exposure to geopolitical rupture.

The signals do not stop at trade. Our research on FDI announcements points to new capacity coming online in AI infrastructure and advanced manufacturing, and to new production hubs taking shape—particularly across the US–Asia technology stack and in selected emerging-market manufacturing locations.[72]

Firms need to respond not only to long-term structural shifts but also manage short-term shocks and their effects. Tariff announcements—and the responses they triggered, from frontloading to redirection—illustrate the kind of rapid adjustments this demands. Doing so requires keeping a close pulse on trade developments and accelerating decision cycles—on everything from supply chain reorganization to broader strategic questions such as where to invest or which markets to serve.

The leaders who outperform will not choose between the long term and the short term. They will do both: positioning for enduring structural change while retaining the agility to respond to near-term disruptions—and continually rebalancing their corridor bets as the evidence evolves.

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Endnotes

1 "China" refers to Mainland China and excludes Taiwan, Hong Kong, and Macao unless otherwise specified. Analysis covers goods trade only. The 90 percent estimate reflects trade reported by these economies and their bilateral trade relationships with other partners, including mirrored trade used to construct global aggregates. For details on mirroring and aggregation, see sidebar "Methodology."

2 All figures in this report refer to nominal goods trade. For the United States, data correspond to full-year totals. For other economies, absolute figures reflect annualized totals based on nine to 11 months of available data, depending on the economy.

3 Trade grew faster than global GDP in 2025. In nominal terms, for the economies covered in this report—representing approximately 90 percent of global trade—goods trade is estimated to have grown by 6.5 percent, with full-year totals projected pro rata and excluding flows showing evidence of frontloading. The WTO estimates a similar 7 percent growth in world merchandise exports in current prices. These figures compare with an estimated 5.4 percent growth in global GDP in current prices in 2025, according to the International Monetary Fund (IMF). In volume terms, the WTO estimates 4.6 percent growth in world merchandise trade, compared with a growth in global real GDP of around 3 percent. See *World Economic Outlook Update*, International Monetary Fund, January 2026; IMF, *World Economic Outlook Database*, October 2025; and World Trade Organization, *Global Trade Outlook and Statistics*, March 2026.

4 China faced the highest average tariff rates over the course of 2025.

5 In this report, trade is estimated using data from a panel of large economies—ASEAN, Brazil, the European Union, India, Mainland China, and the United States—which together report about 90 percent of global goods trade. For AI-related goods specifically, the country coverage is expanded to major Asian economies beyond those in the core panel. The AI-related goods considered include AI-linked semiconductors, graphics cards, routers, and servers, which can also be used for non-AI applications. Beyond these core categories, data center buildout requires a wide range of additional inputs, from cooling systems to construction and power equipment such as generators. Many of these items also increased, but growth in data-processing equipment was an order of magnitude larger.

6 "Hyperscale data center count hits 1,136 as average size increases; U.S. accounts for 54% of total capacity," Synergy Research Group, March 19, 2025; "2026 global data center outlook," JLL, January 5, 2026; Perri Thaler, "The data center boom is concentrated in the US. But China's growth remains a mystery," *IEEE Spectrum*, January 5, 2026.

7 Cindy Levy, Matt Watters, and Shubham Singhal, "Restricted: How export controls are reshaping markets," McKinsey, April 3, 2025; Simon Evenett, Adam Jakubik, Fernando Martín, and Michele Ruta, *The Return of Industrial Policy in Data*, International Monetary Fund, January 3, 2024; Karen Sutter, U.S. export controls and China: Advanced semiconductors, Congressional Research Service, September 19, 2025; "BIS updated public information page on export controls imposed on advanced computing and semiconductor manufacturing items to the People's Republic of China (PRC)," Bureau of Industry and Security, US Department of Commerce, October 28, 2022; Gregory C. Allen and Isaac Goldston, *Understanding U.S. allies' current legal authority to implement AI and semiconductor export controls*, Center for Strategic and International Studies, March 14, 2025.

8 Elaine Kurtenbach, "China bans exports to US of gallium, germanium, antimony in response to chip sanctions," Associated Press, December 3, 2024.

9 Lennart Heim, *Understanding the artificial intelligence diffusion framework: Can export controls create a U.S.-led global artificial intelligence ecosystem?*, RAND Corporation, January 14, 2025.

10 "The FDI shake-up: How foreign direct investment today may shape industry and trade tomorrow," McKinsey Global Institute, September 22, 2025.

11 Based on United States census data. Note the United States reported imports from China differ materially from Chinese reported exports to the United States. Nonetheless, both the United States' and China's reported data are consistent in showcasing substantial drops of US imports from China. See Enda Curran, "Tariff fraud is distorting US–China trade data," *Bloomberg*, February 25, 2026.

12 Based on the matching of exports of the same HS6 product code.

13 A few non-tariffed categories also contracted; the most relevant of these was crude oil, by about $27 billion.

14 Federal Reserve economic data do not suggest a broad-based material increase in utilization rates. The NAICS (North American Industry Classification System) manufacturing index remained at similar levels in H2 2025 compared to H2 2024. Similarly, US manufacturing employment figures do not reflect an increase in jobs. See "Capacity utilization: Manufacturing (NAICS)," Federal Reserve Bank of St. Louis, February 18, 2026; and *The Amtec Blog*, "The state of the U.S. manufacturing workforce (2025–2026 benchmark report)," January 12, 2026.

15 "Notice of the State Council on the publication of *Made in China 2025*," Center for Security and Emerging Technology, June 1, 2015; "The outline of the 14th Five-Year Plan for national economic and social development and long-range objectives of the People's Republic of China," National Development and Reform Commission, March 15, 2022; "China releases white paper on energy transition," State Council Information Office, November 12, 2025; "China has over 17,600 national-level 'little giant' firms," Xinhua, November 12, 2025.

16 David Dollar, "China's transshipment of goods to the US," Brookings Institution, April 17, 2024; Liam Proud, "Transshipment is the new dirty word in trade," Reuters Breakingviews, July 21, 2025; and William A. Reinsch, "A primer on transshipment," Center for Strategic and International Studies, March 18, 2024.

17 Evidence from trade-in-value-added datasets from the Organisation for Economic Co-operation and Development and Asian Development Bank suggests around 30 percent of the value of Vietnam's exports to the United States reflected the value added of Chinese inputs as of 2022, and that percentage has been growing since 2018. Recent studies suggest that in the early 2020s, less than 10 percent of Vietnam's exports to the United States reflected direct transshipment. See Roland Rajah and Ahmed Albayrak, "Made in Vietnam or a backdoor for Chinese exports?" *The Interpreter*, Lowy Institute, March 25, 2025; Caroline Freund, *The China wash: Tracking products to identify tariff evasion through transshipment*, University of California at San Diego, January 2025; and Serhan Cevik and Faezeh Raei, *Demystifying trade patterns in a fragmenting world*, International Monetary Fund working paper, number WP/25/114, June 27, 2025.

18 "The great trade rearrangement," McKinsey Global Institute, June 25, 2025.

19 "EU Commission imposes countervailing duties on imports of battery electric vehicles (BEVs) from China," EU Commission, December 12, 2024.

20 A few other metals also saw frontloading, though to a lesser extent than gold. These included silver, platinum, and copper.

21 A few other metals also saw significant growth,

including silver, platinum, and refined copper, which were likewise subject to tariff uncertainty.

22 Over $50 billion was re-exported in the fourth quarter of 2025, including more than $40 billion in gold and $5 billion in pharmaceutical inputs.

23 Of the approximately $130 billion increase in frontloading of imports, pharmaceuticals accounted for more than $40 billion, gold for close to $70 billion, other precious metals for $6 billion, and copper for $8 billion.

24 Replacement was about 65 percent in value terms but 60 percent in quantity terms, because substitutes were often priced higher than previous Chinese imports.

25 Price refers to the average unit import price, measured on a free on board (FOB) basis.

26 Some of these goods may have shifted into small-parcel imports under de minimis exemptions. However, the decline in these categories of nearly $40 billion far exceeds the increase in de minimis imports of about $3 billion.

27 While important, these goods are excluded from our classification of AI-related goods because they serve broader purposes.

28 "2026 global data center outlook," JLL, January 5, 2026; Bhargs Srivathsan, Marc Sorel, and Pankaj Sachdeva, "AI power: Expanding data center capacity to meet growing demand," McKinsey, October 29, 2024.

29 "Gross domestic product, fourth quarter and year 2025 (advance estimate)," US Bureau of Economic Analysis news release, January 30, 2026.

30 Erin Keating, "New-vehicle inventory holds steady as industry navigates year-end uncertainty," Cox Automotive, December 11, 2025; database, "Table data: Domestic auto inventories," Federal Reserve Bank of St. Louis, February 20, 2026; "Motor vehicle assemblies: Auto assemblies," Federal Reserve Bank of St. Louis, February 18, 2026; and Ilkhan Ozsevim, "Global vehicle production faces sharpest decline in 5 years," Automotive Manufacturing Solutions, October 28, 2025, modified January 6, 2026.

31 The US Energy Information Administration estimates that domestic crude oil production increased year on year and notes that crude oil prices generally declined in 2025.

32 Absolute figures in this section are annualized based on data available through the end of November 2025.

33 China reduced oil imports by an estimated $40 billion over the course of the year, entirely due to lower prices as volumes held steady. Oil price dynamics may also be influenced by the relative prices China pays for certain crude imports, which do not always track global benchmarks. Coal imports declined by $15 billion, and imports of gas-powered automobiles fell by almost $15 billion.

34 Exports of intermediate inputs and capital goods increased by $143 billion and $34 billion, respectively. Excluding the United States, exports of these goods grew by over $220 billion.

35 "Notice of the State Council on the publication of *Made in China 2025*," State Council of the People's Republic of China, May 8, 2015; "The 14th Five-Year Plan for national economic and social development of the People's Republic of China and the outline of long-range objectives through 2035," National Development and Reform Commission, March 2021; "China unveils action plan to promote high-quality development of the manufacturing sector," State Council of the People's Republic of China, November 12, 2025.

36 Figures represent each economy's share of growth in exports of intermediate inputs and capital goods relative to the European Union, China, and the United States.

37 Volumes measured in number of units. Simultaneously, average panel wattage increased over the past year.

38 Calculations in this section do not include duty-free de minimis articles.

39 In some cases, lower average prices reflected changes in the specific product mix under a single product category, such as shifts toward less expensive models or formats. For example, in game consoles, China exported fewer high-end home consoles to the United States and more lower-priced handheld devices to emerging markets.

40 Figure represents combined increase in export quantities in battery EVs and plug-in hybrid EVs. See "Lithium-ion battery pack prices fall to $108 kilowatt-hour, despite rising metal prices," BloombergNEF, December 9, 2025.

41 Figures in this section refer to annualized October data. They include EU-27 trade with the rest of the world but exclude trade within the EU-27. Figures are presented in dollars, which depreciated relative to the euro in 2025. In euro terms, both imports and exports grew more slowly.

42 The share of EU trade conducted with non-EU partners has remained broadly stable since 2017, accounting for roughly 40 percent of both imports and exports.

43 Such as toys or gym equipment.

44 When including exports tied to frontloading to the United States, EU's manufacturing surplus with the United States and China falls instead by around $40 billion.

45 Unit figures are based on Chinese customs data and represent total shipments to EU-27 countries of EVs, including battery electric, plug-in hybrid, and hybrid models.

46 *Economic and market report: Global and EU auto industry: First half 2025*, European Automobile Manufacturers' Association (ACEA), September 2025; Delia Marin, "The China shock hits Germany," Centre for Economic Policy Research, August 7, 2025.

47 Anthony Palazzo, "China takes record share of Europe's EV market in November," Bloomberg, December 31, 2025.

48 "The FDI shake-up: How foreign direct investment today may shape industry and trade tomorrow," McKinsey Global Institute, September 22, 2025.

49 Christine Lagarde, "Turning size into scale: Europe's new growth model," European Central Bank, February 23, 2026.

50 In India, tariffs of as much as 110 percent were applied to European car exports. Under the new agreement, tariffs on up to 250,000 vehicles, roughly equivalent to the European Union's current exports to China, are set to fall gradually to 10 percent over five years. Barriers to trade in textiles and pharmaceuticals have also been reduced. Under the Mercosur agreement, tariffs are slated to decline on autos and pharmaceuticals, which are currently subject to rates as high as 35 percent and 14 percent, respectively.

51 The United Kingdom, Switzerland, and Norway account for 20 percent of EU trade.

52 Figures in this section refer to annualized values based on third-quarter data. They cover trade within ASEAN economies and between ASEAN economies and the rest of the world.

53 Including both consumer electronics and electric equipment (classified as machinery).

54 Rising imports from China alongside expanding exports to the United States have prompted questions about whether some goods are undergoing only minimal processing in economies such as Vietnam to avoid higher US tariffs on China. Evidence from trade-in-value-added datasets from the OECD and Asian Development Bank suggests about 30 percent of the value of Vietnam's exports to the United States reflects value added of Chinese inputs, and that percentage has been growing since 2018. Recent studies suggest that in the early

2020s, less than 10 percent of Vietnam's exports to the United States reflected direct transshipment. See also Roland Rajah and Ahmed Albayrak, "Made in Vietnam or a backdoor for Chinese exports?" *The Interpreter*, Lowy Institute, March 25, 2025; and Caroline Freund, *The China wash: Tracking products to identify tariff evasion through transshipment*, University of California at San Diego, January 2025.

55 In Singapore, export growth was also supported by higher gold exports, largely reflecting price effects. See also "An analysis of Singapore's nominal non-oil domestic exports growth in 2025," Ministry of Trade and Industry, Singapore, February 10, 2026.

56 Energy resources, specifically lower prices, drove the decline in import values even as the volume of fossil fuel imports increased in 2025. That included a 4 percent rise in crude oil imports. As of early 2026, it is unclear whether quickly evolving energy prices may change this picture. Government of India, Ministry of Commerce and Industry; Government of India, Petroleum Planning and Analysis Cell, Ministry of Petroleum and Natural Gas.

57 Santosh Kumar, Sarla Meena, and Saurabh Kalia, "10 years of 'Make in India'" Government of India, Press Information Bureau, September 25, 2024.

58 All trade figures in this section are based on annualized data through October 2025.

59 Some of the growth in imports of metals was driven by gold and silver, which are important inputs to some India-assembled goods, such as jewelry.

60 The United States reduced smartphone sourcing from China by about 40 percent.

61 Pharmaceuticals, machinery, and electronics excluding smartphones each added roughly $2 billion of export growth.

62 Sambit Mohanty and Max Lin, "Infographic: Indian refiners on edge as Nayara Energy faces EU sanctions," S&P Global, July 31, 2025.

63 Figures in this section refer to yearly totals.

64 Brazil's crude oil exports to China by volume increased by 27 percent year over year in 2025. Brazil's iron ore exports to China by volume rose by 2 percent year over year.

65 "EU and Mercosur sign historic agreement creating one of the largest free trade zones in the world," European Commission, January 19, 2026.

66 Floating oil production units are floating production, storage, and offloading vessels, known as FPSOs.

67 In some cases, such as pig iron, tariffs never came into force, but the expectation of them was enough to trigger shifts in trade. See Ethan Bernard and Stephen Miller, "Trump exempts Brazilian pig iron, iron ore ahead of deadline, 10% tariff remains," Steel Market Update, July 31, 2025; and Joao Nakamura, "Timber exports to the US have halved since the tariff hike," CNN Brasil, November 13, 2025.

68 "EU imposes 5.4% duty on Brazilian plywood," Fordaq, November 10, 2025; Gustavo Milazzo, "2025 testa a resiliência da madeira brasileira e redefine estratégias," Newspulpaper [2025 tests resiliency of Brazilian wood industry and redefines strategies], Brazilian Pulp and Paper Technical Association, December 22, 2025.

69 Alberto Alerigi, "Brazil auto exports to jump driven by Argentina; tariffs affect local sales," Reuters, August 7, 2025.

70 Mariana Durão, "Vendas da indústria de máquinas sobem 7,3% em 2025, para R$ 299 bilhões, afirma Abimaq," [Sales of the machinery industry rise 7.3% in 2025, to R$299 billion, says Abimaq], CNN Brasil, January 28, 2026.

71 "A new trade paradigm: How shifts in trade corridors could affect business," McKinsey, June 18, 2025.

72 "The FDI shake-up: How foreign direct investment today may shape industry and trade tomorrow," McKinsey Global Institute, September 22, 2025.