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Geopolitics Practice, McKinsey Global Institute, and Strategy & Corporate Finance Practice

A new trade paradigm: How shifts in trade corridors could affect business

Trade routes face high variability in growth under different scenarios, with one-third of global trade potentially exposed to volatility by 2035.

This article is a collaborative effort by Jeongmin Seong, Olivia White, Shivanshu Gupta, Asutosh Padhi, Brajesh Chhibber, Jeffrey Condon, and Tiago Devesa, representing views from the Geopolitics Practice, McKinsey Global Institute, and the Strategy & Corporate Finance Practice.

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At a glance

— **The global trade system is in flux.** Since 2017, economies have traded less with geopolitically distant partners. Recent announcements on tariffs, trade, and industrial policy have deepened uncertainty.

— **Trade will grow by $12 trillion by 2035 in a baseline scenario.** The trade increase would boost today's global trade value by about 35 percent, to $45 trillion. In a diversification scenario (in which companies seek new sources of supply), about $1 trillion of that growth might not be realized. In a fragmentation scenario (in which geopolitically distant economies trade less), about $3 trillion of it could be lost.

— **Depending on the scenario, over 30 percent of global trade in 2035 could swing from one trade corridor to another.** That swing is the sum of the differences between the highest and lowest corridor-level values across the scenarios we examine. Fragmentation, pushed by heightened tariff levels, could drive the largest shifts, especially in critical sectors.

— **Trade corridors between emerging economies could be among the safest bets.** Of today's 50 largest corridors, 16 would grow strongly, even in a fragmentation scenario, while nine corridors—primarily linking advanced economies to China and Russia—would shrink sharply. The rest fall somewhere in the middle.

— **Trade in electronics could see the biggest shifts, followed by textiles and machinery.** These manufacturing value chains bridge geopolitically distant economies, so they're more susceptible than others to fragmentation. Resources across energy and mining could see substantial downstream effects.

— **Businesses can get ahead of changing trade dynamics.** By understanding potential scenarios and then establishing value creation theses to guide actions, firms can drive strategic and organizational changes to capture new opportunities, as well as to buffer against a downside.

About that grinding sound you've been hearing: Not to alarm you, but that's the tectonic plates of global trade shifting. Every business leader we speak with confirms that the current trade environment is the most uncertain in their lifetimes. Between momentous tariff hikes (and cuts and litigation), the return and spread of industrial policy, rising geopolitical tensions, and all the other disruptions of this digitizing, pandemic-scarred age, the system is in massive flux.

The unpredictability is forcing leaders to question long-held assumptions about where and how they operate. Global business systems—the footprint of factories, suppliers, warehouses, distribution centers, and the entire apparatus of making things and getting them to market—have long since been optimized for efficiency. Now, their owners are wondering if the systems will still work and what the new costs will be.

In a moment like this, it's easy to get lost in the headlines. But the real task is to understand the deeper, structural shifts at play. Trade patterns have significant inertia; they generally evolve slowly. Some signs of such an evolution have been evident since 2017, as big trading economies have adapted to shifts in geopolitics. These new geopolitical dynamics add an unpredictable element to the steadier forces of economic growth (see sidebar "Geopolitical distance").

Secular changes in trade patterns can be detected through shifts in trade corridors—the connections between countries to exchange goods, services, and resources. Our research finds that in a baseline scenario with tariffs at recent historical levels, global trade of goods, services, and resources would grow by about $12 trillion in real terms to $45 trillion by 2035, up from $33 trillion in 2024.

We also examine two out of many possible scenarios, both intended to bound uncertainty rather than to describe a precise future. In a fragmentation scenario, trade relationships deteriorate, and tariffs on most goods rise to 10 percent, with tariffs on critical goods traded between many advanced economies and China and Russia rising by up to 60 percent. Should that scenario unfold, about $3 trillion of the nearly $12 trillion in growth would be lost. On the other hand, in a diversification scenario, in which businesses prize resilience and diversify their suppliers, about $1 trillion in potential trade growth would be foregone.[1] (For more, see sidebar "Scenario assumptions.")

The unpredictability of the global trade environment is forcing leaders to question long-held assumptions about where and how they operate.

[1] Many alternative scenarios are possible. For example, this work focuses on the effects of trade policy on trade, but does not consider other impacts such as investment, balance sheet effects, or productivity changes. For a discussion of these topics, please see our Global Balance Sheet work.

Geopolitical distance

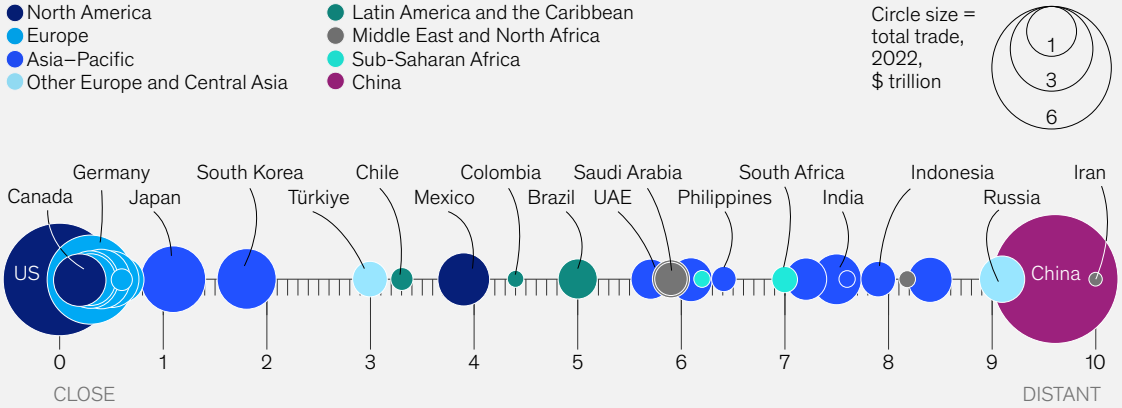
In our previous research,[1] we developed an analytical measure of geopolitical position, using votes in the UN General Assembly between 2005 and 2022 as a proxy for alignment on global issues. We used principal component analysis to map each voting country on a one-dimensional voting spectrum ranging from zero to ten. Since many votes are procedural or repeated, we included only votes designated as "important" by the US Department of State.

By this measure, Europe, Japan, South Korea, and the United States sit near one end of a spectrum, while both China and Russia sit closer to the other end (exhibit). Most emerging markets sit somewhere in the middle. We conducted robustness checks across various years between 2005 and 2022 and found that the geopolitical positions of many economies remained relatively stable according to our measure. Yet we note that the metric is retrospective and does not anticipate potential shifts in geopolitical alignment, which may be dynamic and evolving.

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, Jan 2024

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[1] "Geopolitics and the geometry of global trade," McKinsey Global Institute, January 17, 2024.

Given the size of the global economy (roughly $111 trillion according to IMF data), a difference of a couple of trillion dollars in trade growth may not seem dramatic. But when we zoom in to the level of individual trade corridors, the stakes become much clearer. Each could grow significantly faster or slower depending on which scenario plays out. When we add up the swings across all corridors, the total value at stake—the difference between maximum and minimum value in each corridor—could amount to 31 percent of total projected trade in 2035, or $14 trillion.[2]

[2] "Trade value at stake" reflects the full range of potential disruption or opportunity across more than 400 trade corridors and 40 sectors in our model. For each corridor–sector pair, we calculate the difference between the highest and lowest projected trade values in 2035 across the baseline, fragmentation, and diversification scenarios. The global trade value at stake is the sum of these differences, capturing shifts that may offset each other in the aggregate but are critical to understanding the true scale of change.

Scenario assumptions

We explore three potential scenarios for what global trade of goods, resources, and services could look like in 2035. They were developed using the Global Trade Analysis Project, a widely employed, computable general equilibrium model. For more details on modeling and limitations, see the McKinsey Global Institute (MGI) report "Geopolitics and the geometry of global trade."[1] Each of the three scenarios allows us to better understand possible dynamics in global trade by bounding uncertainty; they do not attempt the impossible task of identifying the future state of trade with any precision.

In a *baseline scenario*, we analyze how trade would continue to evolve according to economic fundamentals, such as the projected growth in population and economics of different countries, and no meaningful new trade barriers are erected relative to recent historical levels.[2] In this scenario, annual global GDP growth from 2025 to 2035 averages 2.7 percent. Annual GDP growth is taken to be 3.6 percent in China, 1.7 percent in the United States, and in Europe it ranges by country—for example, from 1.3 percent in Italy to 2.0 percent in France. These estimates reflect long-term trends in productivity and labor force growth and incorporate recent trends in private consumption, government spending, and business investment.[3]

In a *fragmentation scenario*, we analyze the result of trade frictions across countries that are geopolitically distant, using our geopolitical position metric. This scenario incorporates growth of substantial trade barriers (60 percent tariffs on critical goods and services, and 20 percent for others) between economies that sit at opposite ends of the geopolitical spectrum, notably between the advanced economies and both China and Russia.[4] It also includes more moderate friction (10 percent tariffs on critical goods and services) between emerging markets that sit in the middle of the geopolitical spectrum and both many advanced economies and China. The sort of trade frictions that this model approximates could arise through not only increasing tariffs but also controls on imports and exports—industrial-policy actions that have raised trade barriers, particularly in some of the most critical traded goods.

In a *diversification scenario*, we consider how trade might shift through widespread action by companies across sectors to diversify their sources of supply. Specifically, we consider a real-world analysis of the flow of product-level goods to sketch out the level of reconfiguration required to diversify trade in goods such that no product has a geographic import concentration greater than 3,000 as measured using the Herfindahl–Hirschman Index—a threshold generally indicating that 90 percent of imports come from just three or fewer economies. Research from MGI has shown that approximately 40 percent of global trade falls under this definition of "concentration."[5] That research also highlights two different forms of concentration. In about one-quarter of these cases, the number of suppliers across the world is truly limited—what we define as "globally concentrated." In the other three-quarters, companies have alternative sources of supply but have chosen a limited set of country partners for a range of reasons, including proximity and historical relationships, indicating "economy-specific concentration" rather than global concentration. In these products, trading relationships could be more readily diversified.

1 "Geopolitics and the geometry of global trade," McKinsey Global Institute, January 17, 2024.
2 Specifically, trade barriers are assumed to stay constant at 2022 levels.
3 For more, see "In a moment of tariffs, can the world find balance and trust to thrive?," McKinsey, May 2, 2025, and "The future of wealth and growth hangs in the balance," McKinsey Global Institute, May 24, 2023.
4 There is no single cross-country definition of what constitutes a "critical" product. To approximate criticality of trade flows, we undertook a bottom-up assessment of product criticality for around 5,000 goods. We reviewed these for overlap with sources such as the United States' Commerce Control List and list of Advanced Technology Products, the European Union's strategic dependency review and Critical Raw Materials Act, and China's 14th Five-Year Plan, supplemented by expert consultation. These sources also informed assessment of the criticality of services trade.
5 "The complication of concentration in global trade," McKinsey Global Institute, January 12, 2023.

In the following, we examine these three scenarios and identify the changes that could come to trade corridors and sectors. Of course, these are only three potential futures among many, and at time of writing, trade tensions create uncertainty about both the future of the macroeconomy and of the exact profile of trade barriers for the next ten years. Nonetheless, these scenarios illustrate potential outcomes of fundamental dynamics that have been playing out in global trade for the past decade. We will conclude with some strategies companies can use to anticipate the changes and seize the benefits.

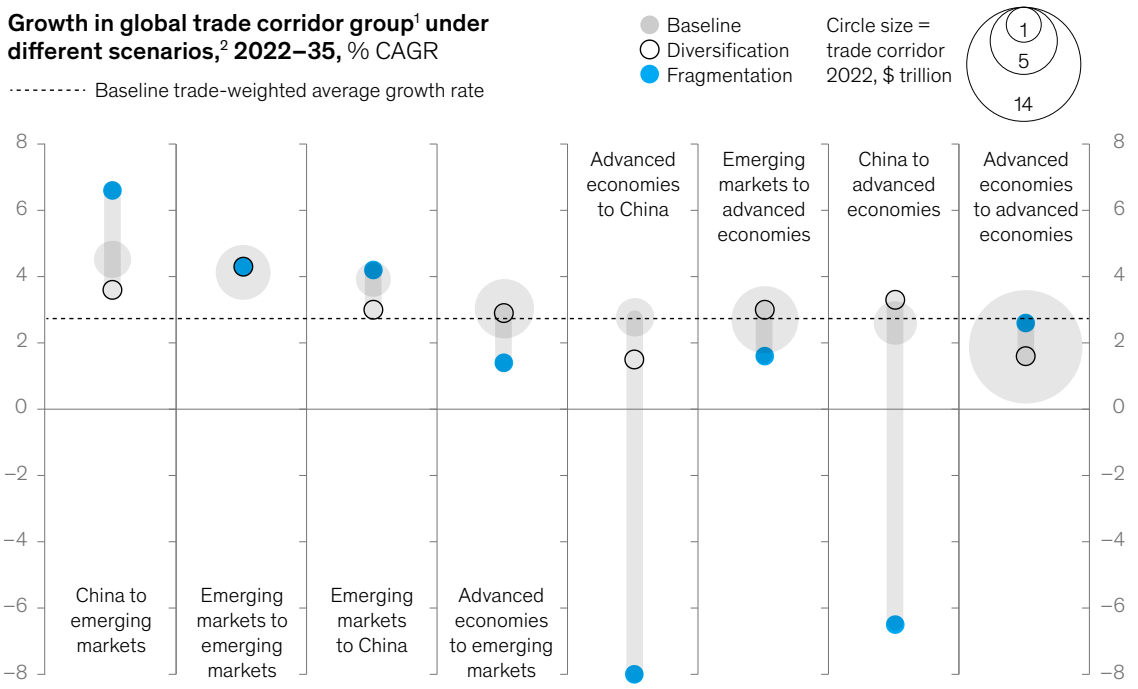
Trade growth by corridor

Even before April 2025, global trade had been undergoing structural reconfiguration. Over the past many years, trade has stretched across ever greater geographic distances. But since 2017, it has increasingly featured exchanges among more geopolitically aligned economies, resulting in a measurable decline in what we call "geopolitical distance" (see sidebar "Geopolitical distance").

Today, the global trade system sits at the cusp of even more change. Patterns of growth through 2035 across scenarios and geographies differ markedly (Exhibit 1).[3] In the baseline scenario, trade corridors connecting emerging markets with each other and China would grow at 4 to 5 percent annually on average over the next decade, outpacing the global average growth (2.7 percent). This higher growth would spring from underlying faster economic growth in these markets and their potential for additional integration as both markets and suppliers of the Chinese economy. On the other hand, the currently much larger corridors running to and from advanced economies would generally grow more slowly, about 2 percent per year.

Exhibit 1

Trade growth varies across scenarios and geographical groupings.



[1]Corridors are grouped as advanced economies (US, Canada, Europe, Australia/New Zealand, Japan, South Korea), China (shown separately), and emerging markets.
[2]Baseline assumes stable trade and continued global growth. Fragmentation simulates rising trade frictions, with tariffs increasing by 60% for critical goods and services and 20% for noncritical goods and services between geopolitically distant partners. Geopolitically neutral economies face moderate frictions, modeled as 10% tariffs on critical traded goods and services. Diversification assumes countries and firms proactively broaden sourcing bases to three or more suppliers, reallocating trade to reduce geographic import concentration across all sectors without explicit consideration of geopolitical position.
Source: McKinsey Global Trade Model; McKinsey Global Institute analysis

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[3] For granular corridor analysis, we use 2022 as the base year and all growth rates are real.

In the two alternative scenarios, fragmentation and diversification, patterns of growth would differ.

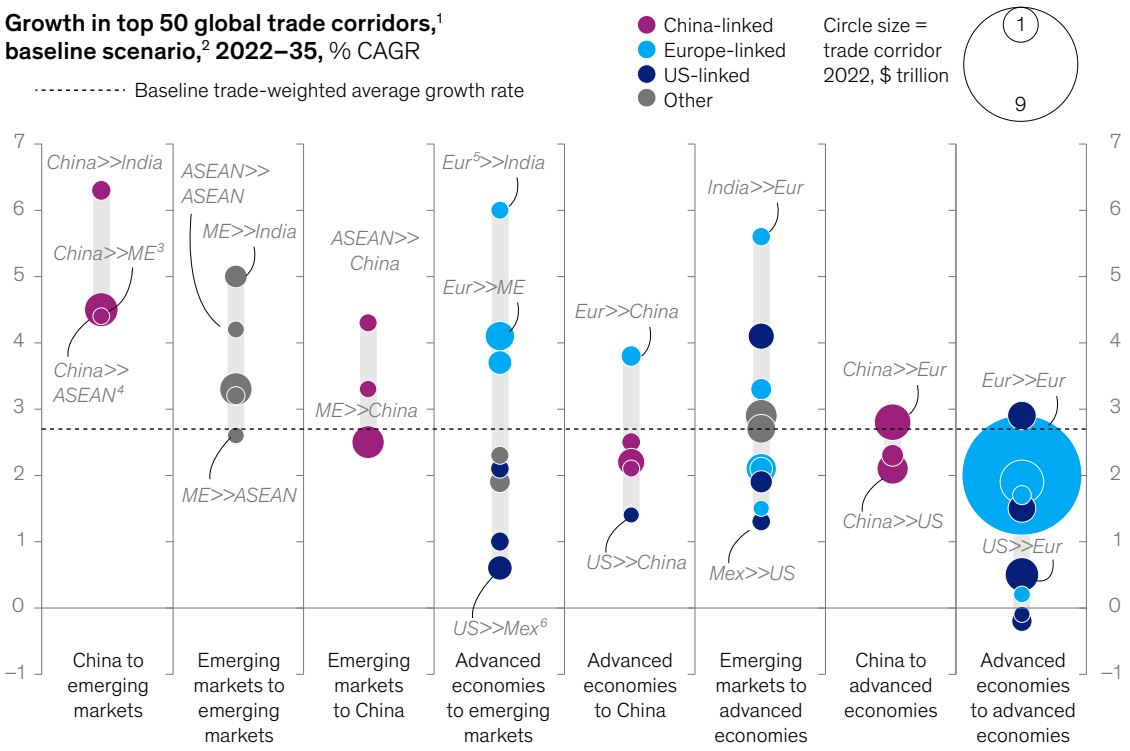
The fragmentation scenario could lead to the biggest changes in growth rates. Trade between China and advanced economies would drop significantly, while trade among advanced economies would speed up, compared with the baseline. Notably, trade between China and emerging economies would prove resilient, growing even faster under a fragmentation scenario than a baseline scenario, as China would seek out new partners.

In the diversification scenario, trade between China and emerging economies would grow more slowly than the baseline, as both sides seek to reduce mutual concentration—emerging markets by shifting away from a dependence on China's manufactured goods, and China by diversifying its suppliers of resources. Similarly, trade from advanced economies to China would also decline, as China reduces reliance on concentrated import categories such as resources (from Australia, say) and machinery and equipment (from Germany and Japan, for example). Conversely, China's exports to advanced economies remain relatively stable. This reflects a shift in China's trade mix—exporting less in concentrated sectors like electronics, while expanding in less concentrated areas such as transportation machinery. As a result, China would likely maintain its role as a key exporter in the global economy. A further point of interest is how emerging markets are positioned. Conventional wisdom suggests that emerging markets would benefit from a diversification scenario, but our model shows that this isn't necessarily the case. As countries diversify, they often turn to the next-best suppliers. Emerging markets already integrated into these networks stand to gain, but those outside remain on the sidelines. As a result, we see limited upside for growth in emerging-market exports relative to the baseline.

Looking deeper into the regional groupings, in the baseline scenario, 48 of the 50 largest trade corridors would see continued growth (Exhibit 2). Yet the corridors within each group vary considerably. For example, while corridors between advanced and emerging economies generally show moderate growth, some (such as the corridor linking Europe and India) could enjoy some of the fastest trade growth of any corridor (owing to India's fast economic growth rate and the relative underdevelopment of that corridor today); while others such as US–Mexico could see only modest increases (owing to the already highly saturated level of trade between these economies).

Exhibit 2

Trade corridors linking China to emerging markets grow faster than the global average in our baseline scenario.



[1]Corridors are grouped as advanced economies (US, Canada, Europe, Australia/New Zealand, Japan, South Korea), China (shown separately), and emerging markets. Corridor names indicate exporter and importer. [2]Baseline assumes stable trade and continued global growth. Fragmentation simulates rising trade frictions, with tariffs increasing by 60% for critical goods and services and 20% for noncritical goods and services between geopolitically distant partners. Geopolitically neutral economies face moderate frictions, modeled as 10% tariffs on critical traded goods and services. Diversification assumes countries and firms proactively broaden sourcing bases to three or more suppliers, reallocating trade to reduce geographic import concentration across all sectors without explicit consideration of geopolitical position. [3]Middle East. [4]Association of Southeast Asian Nations. [5]Europe. [6]Mexico.
Source: McKinsey Global Trade Model; McKinsey Global Institute analysis

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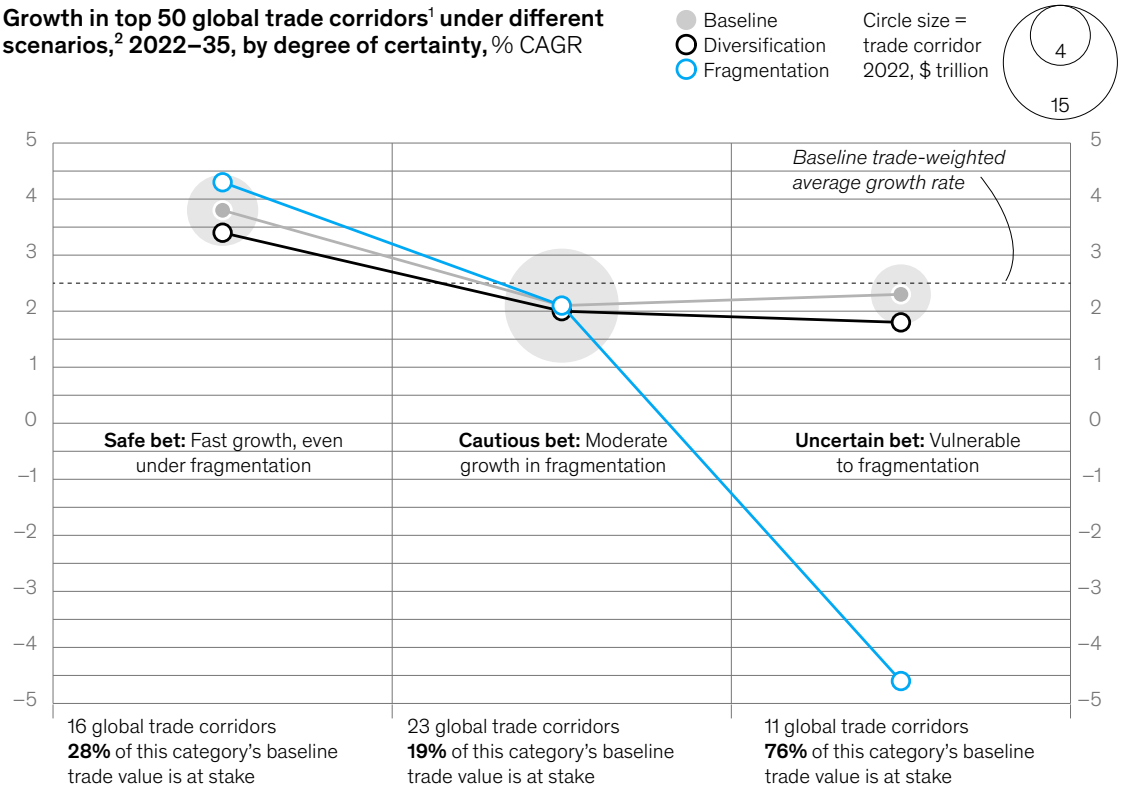
Under the fragmentation scenario, corridor growth would shift from a baseline scenario, in some cases drastically (Exhibit 3). Three strategic categories of trade corridors emerge, primarily based on how they perform in our fragmentation scenario: *safe bets*, which are resilient to the fragmentation scenario we model; *cautious bets*, whose growth is positive across scenarios but below average in a fragmentation scenario; and *uncertain bets*, which see their growth rates dip into negative territory in at least one of the scenarios we considered.

Exhibit 3

Under fragmentation, trade corridors exhibit divergent growth patterns.

Growth in top 50 global trade corridors[1] under different scenarios,[2] 2022–35, by degree of certainty, % CAGR



[1]The top 50 global trade corridors are categorized into 3 groups based on their growth across scenarios. "Safe bets" are corridors that grow in all scenarios and exceed average baseline growth, even under fragmentation. "Cautious bets" also grow consistently but fall below the global average baseline growth under a fragmentation scenario. "Uncertain bets" are those that shrink under at least one of the scenarios we considered.
[2]Baseline assumes stable trade and continued global growth. Fragmentation simulates rising trade frictions, with tariffs increasing by 60% for critical goods and services and 20% for noncritical goods and services between geopolitically distant partners. Geopolitically neutral economies face moderate frictions, modeled as 10% tariffs on critical traded goods and services. Diversification assumes countries and firms proactively broaden sourcing bases to three or more suppliers, reallocating trade to reduce geographic import concentration across all sectors without explicit consideration of geopolitical position.
Source: McKinsey Global Trade Model; McKinsey Global Institute analysis

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The scenario analysis indicates that there will be lots of motion in the top 50 corridors; some corridors will gain from disruption, and some will lose. But how much trade would be affected? By calculating the gap between the potential maximum and minimum trade values for each corridor, we can quantify the uncertainty—or value at stake—in how fast or slow that corridor might grow. Among the 16 safe-bet corridors and 23 cautious-bet corridors, the average value at stake of trade value is 19 to 28 percent relative to the 2035 baseline. For example, for trade between the Middle East and the United States, about 17 percent of the 2035 baseline value could be at stake, since that corridor could grow substantially faster in a diversification scenario than in a fragmentation one. For the 11 uncertain bets, the stakes are even higher, with about 76 percent of trade value at risk on average. Sellers, buyers, financiers, and logistics firms active in these corridors will want to carefully manage risks given the potential for volatility.

Strategic positions for multinationals

Bets on future trade have very different risk profiles. Some are safer than others; some carry more upside potential in a fragmentation scenario.

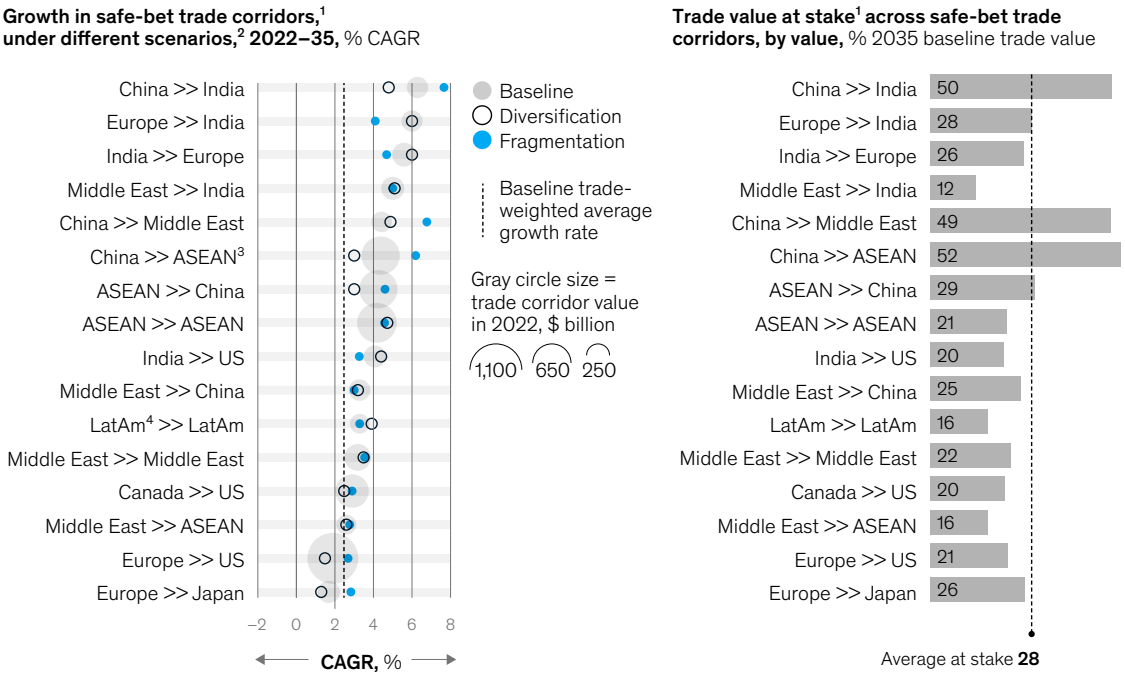
Safe bets

These corridors grow in all scenarios and grow faster than the average baseline global growth (2.7 percent) even in the fragmentation scenario (Exhibit 4). Safe bets include corridors connecting China to emerging economies such as the Association of Southeast Asian Nations (ASEAN) and India; intraregional trade in emerging markets; and trade between some major advanced economies, such as Europe and the United States.

Exhibit 4

Safe bets are fast growing, even under a fragmentation scenario.

Safe-bet corridors



[1]Trade value at stake by corridor is calculated as the difference between the highest and lowest projected 2035 trade values across scenarios (baseline, fragmentation, diversification) for each sector within the corridor. These differences are then summed across all sectors and expressed as a share of the corridor's 2035 baseline trade value. This reflects how much of a corridor's trade is exposed to scenario-driven volatility. Values can exceed 100% when many sectors within a corridor experience large swings across scenarios, since the metric reflects the total potential variation across all sector-level trades, not just the net change in aggregate corridor trade.
[2]Baseline assumes stable trade and continued global growth. Fragmentation simulates rising trade frictions, with tariffs increasing by 60% for critical goods and services and 20% for noncritical goods and services between geopolitically distant partners. Geopolitically neutral economies face moderate frictions, modeled as 10% tariffs on critical traded goods and services. Diversification assumes countries and firms proactively broaden sourcing bases to three or more suppliers, reallocating trade to reduce geographic import concentration across all sectors without explicit consideration of geopolitical position.
[3]Association of Southeast Asian Nations.
[4]Latin America.
Source: McKinsey Global Trade Model; McKinsey Global Institute analysis

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Some noteworthy safe bets include the following:

— *Corridors connecting India and the world (for example, between India and the European Union, from India to the United States, from the Middle East to India, and from China to India).* India features prominently among the safe bets; the five corridors cited all meet the bar. They include India as either an exporter or importer with partner economies ranging from Europe and the United States to the Middle East and China. The fast growth of the Indian economy leads to expansion in many of its trade corridors, in particular those supplying advanced economies. India's rapid growth would also boost its imports of essential inputs from advanced economies, such as machinery from Europe, leading to rapid growth in the other direction. Imports from other emerging economies could also grow, albeit from a smaller base—for example, energy from the Middle East.

— *Corridors connecting China and other emerging economies (for example, between China and ASEAN and between China and the Middle East).* Corridors like those running from China to Africa, ASEAN, and the Middle East accelerate their growth in the fragmentation scenario. In this scenario, China would shift its exports away from advanced economies, from which it's geopolitically distant, and seek out new export markets. On the other hand, trade flowing from emerging economies into China would remain about the same in a fragmentation scenario as in the baseline; these corridors would retain but not increase their fast growth rate. This happens because while emerging markets would account for a bigger slice of all of China's imports in this scenario, China's slower growth rate would mean that it imports less, making the overall pie smaller.

  Today's trade landscape is compatible with a deepening of these relationships. ASEAN is growing trade with China to the point of becoming its largest trading partner—and vice versa, especially as ASEAN economies integrate into existing Chinese value chains in sectors like electronics or textiles. As for the Middle East, its trade profile is complementary to China's, which could create more opportunities for trade, since the Middle East is a large net importer of many of the manufactured goods China produces, such as electronics and textiles. But this doesn't mean strengthened economic ties would be seamless. Increased Chinese imports may be a boon for consumers but would create competitive pressure on local producers.

— *Intraregional corridors in emerging markets.* Emerging regions such as ASEAN, Latin America, and the Middle East could also see intraregional trade growing above average in all scenarios. The robust economic growth of these regions boosts trade in a baseline scenario, and that growth is resilient to fragmentation and diversification scenarios, given the absence of new trade barriers between these economies. Many of these economies are already laying some of the groundwork for increased integration. Southeast Asian nations are strengthening regional integration through initiatives such as the ASEAN Economic Community and the Regional Comprehensive Economic Partnership (RCEP)—the largest free trade agreement by GDP—which includes all of ASEAN as well as other Asian countries. Some Middle Eastern countries are likewise boosting regional supply chains across energy, construction materials, and services as part of efforts to diversify their economies.

— *Corridors from Europe to geopolitically close advanced economies (for example, from Europe to the United States and from Europe to Japan).* Flows between Europe, the United States, and advanced Asian markets all deepen in a fragmentation scenario. As rising trade barriers trim exports from China to advanced economies, these economies turn to geopolitically closer partners to plug the gaps. The fastest growing of these corridors in a

fragmentation scenario run from Europe to the United States and advanced Asian partners, due to Europe's ability to replace some of China's previous exports. For example, the European bloc's manufacturing heft might help the United States substitute for imports of a range of manufactured goods from China.

Of course, growth in these corridors is contingent on the degree of trade cooperation that advanced economies exhibit. At the time of writing, while negotiations were still ongoing, the levels of discussed tariffs and barriers were still substantially lower than those between some advanced economies and China.

Cautious bets

These corridors would grow in all scenarios, but in a fragmentation scenario, their growth would lag behind the global baseline average. Some of these corridors are already deep, such as some between advanced economies and those that connect the largest advanced economies and fast-growing regions of ASEAN, India, and the Middle East (Exhibit 5).

More specifically, cautious bets include the following:

— *Corridors connecting emerging economies including Africa and advanced economies with complementary endowments (such as between Europe and the Middle East, between Europe and Latin America, between Europe and Africa, and between advanced Asia and ASEAN).* In the baseline scenario, emerging economies increase their share of two-way trade with advanced markets, due to their fast growth and the way their exports complement those of advanced economies. For example, Europe, advanced Asian economies, and the United States export a lot of pharmaceuticals and transport equipment that emerging markets will increasingly need as they grow. Conversely, some emerging markets (such as ASEAN or India) can specialize in textiles and electronics exports, others (such as Latin America and the Middle East) in energy, materials, and metals, all of which are needed in advanced economies.

  However, in a fragmentation scenario, the growth of these corridors (while still positive) is more muted. In this future, emerging economies generally see slower growth, creating a drag on their trade corridors. Furthermore, as China's trade with advanced economies plummets, it redirects trade toward emerging economies, selling more to them and, in some cases (notably ASEAN), buying more from them. The increase in available Chinese supply at lower prices could disrupt producers in emerging economies and reduce their exports to other markets.

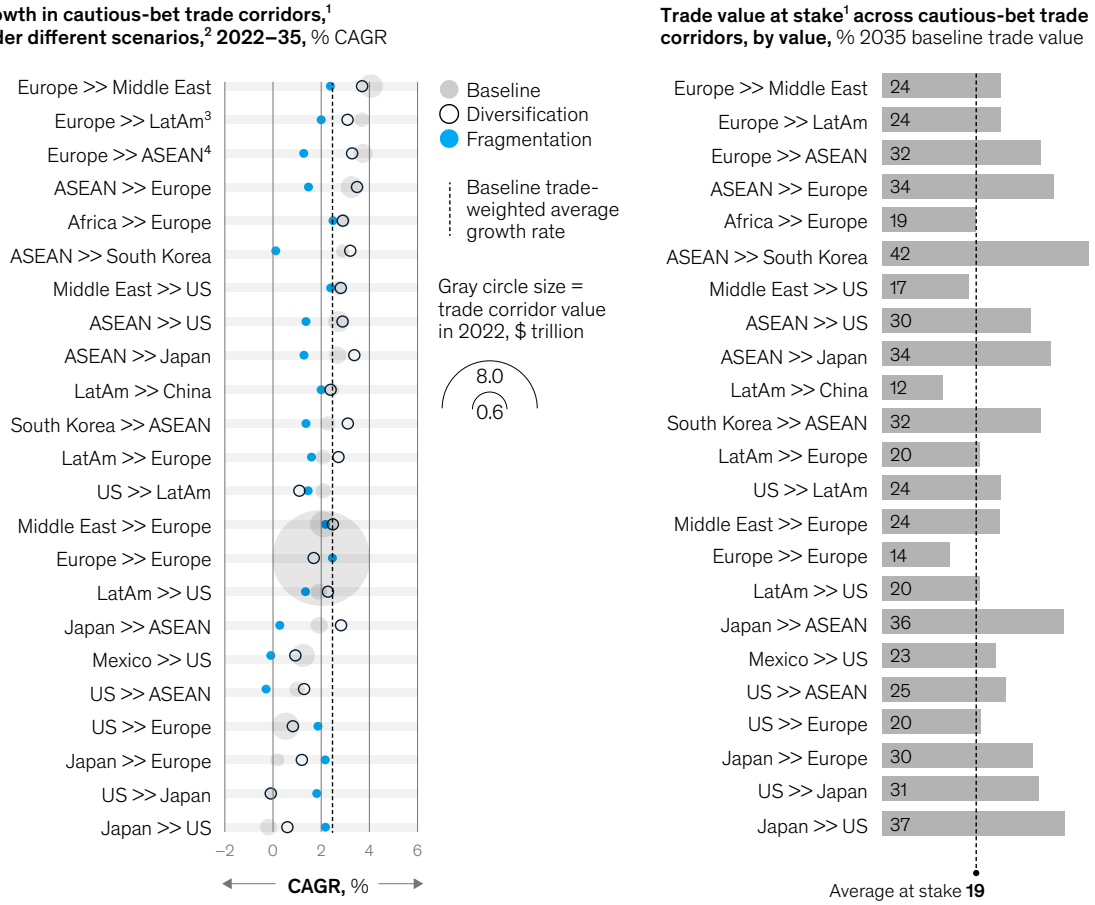
  Recent developments highlight the growing interest in these corridors. The European Union has pursued trade deals with the Mercosur bloc in Latin America, ASEAN, and Africa to expand global ties and diversify trade. When ratified, a new EU–Mercosur agreement would create a major free trade area with Argentina, Brazil, Paraguay, and Uruguay.[4] With ASEAN, the European Union has signed bilateral deals with Singapore and Vietnam and is negotiating with others. In Africa, the European Union has signed Economic Partnership Agreements with regional blocs. And with the 2023 signing of an Interim Trade Agreement between the European Union and Chile, which went into effect this year, the European Union is now the largest source of foreign direct investment into Chile, which in turn is an important source of critical minerals for Europe such as lithium and copper.[5]

[4] "EU-Mercosur agreement," European Commission, 2024.
[5] "The EU-Chile Interim Trade Agreement (ITA) explained," European Commission, 2023.

Exhibit 5

Cautious bets provide moderate growth, even in a fragmentation scenario.

Cautious-bet corridors



[1]Trade value at stake by corridor is calculated as the difference between the highest and lowest projected 2035 trade values across scenarios (baseline, fragmentation, diversification) for each sector within the corridor. These differences are then summed across all sectors and expressed as a share of the corridor's 2035 baseline trade value. This reflects how much of a corridor's trade is exposed to scenario-driven volatility. Values can exceed 100% when many sectors within a corridor experience large swings across scenarios, since the metric reflects the total potential variation across all sector-level trades, not just the net change in aggregate corridor trade.
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[3]Latin America.
[4]Association of Southeast Asian Nations.
Source: McKinsey Global Trade Model; McKinsey Global Institute analysis

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— *Already deep corridors with lower baseline growth rates that link advanced economies (such as intra-European Union, from the United States to Europe and Japan, and from Japan to Europe and the United States).* In these corridors, baseline growth is in line with the slower economic growth of developed nations. And given that they are already deep and well established, these corridors don't benefit from a diversification scenario. For example, Europe already has the highest intraregional trade share of any region. In fact, our modeling finds these corridors would grow the fastest in a fragmentation scenario, where advanced

economies need to take an “any port in a storm” approach to replacing Chinese and Russian imports. For example, fragmentation could further strengthen intra-EU production and consumption—particularly in machinery, autos, and local clean-energy production. Recent developments in European policy, such as discussions about coordinated procurement of defense products, have bolstered these ties.

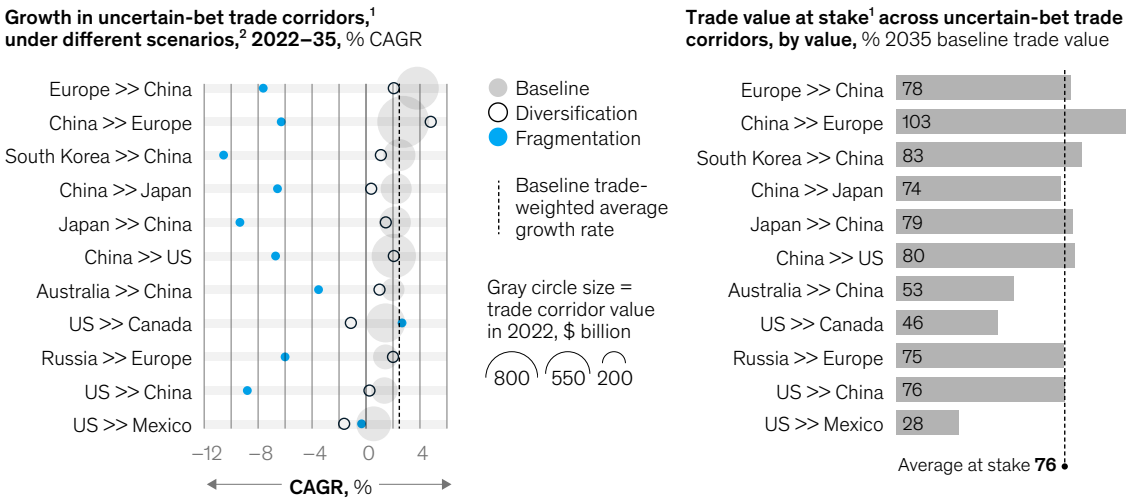
Uncertain bets

This category includes corridors that shrink materially in at least one scenario we consider. Of the 11 corridors, nine connect geopolitically distant economies with advanced economies and are highly exposed in a fragmentation scenario. In a fragmentation scenario, these trade corridors would shrink (even relative to today) by an average of 5.8 percent per year, compared with 2.3 percent growth in the baseline and 1.7 percent in the diversification scenario, putting significant trade value at risk. The pullback would be particularly obvious in trade between China and Russia and advanced economies. For critical goods and services, these corridors would fall sharply from the current 15 percent share of global trade to just 2 percent by 2035 (Exhibit 6).

Exhibit 6

Many uncertain bets are vulnerable to fragmentation.

Uncertain-bet corridors



[1]Trade value at stake by corridor is calculated as the difference between the highest and lowest projected 2035 trade values across scenarios (baseline, fragmentation, diversification) for each sector within the corridor. These differences are then summed across all sectors and expressed as a share of the corridor's 2035 baseline trade value. This reflects how much of a corridor's trade is exposed to scenario-driven volatility. Values can exceed 100% when many sectors within a corridor experience large swings across scenarios, since the metric reflects the total potential variation across all sector-level trades, not just the net change in aggregate corridor trade.
[2]Baseline assumes stable trade and continued global growth. Fragmentation simulates rising trade frictions, with tariffs increasing by 60% for critical goods and services and 20% for noncritical goods and services between geopolitically distant partners. Geopolitically neutral economies face moderate frictions, modeled as 10% tariffs on critical traded goods and services. Diversification assumes countries and firms proactively broaden sourcing bases to three or more suppliers, reallocating trade to reduce geographic import concentration across all sectors without explicit consideration of geopolitical position.
Source: McKinsey Global Trade Model; McKinsey Global Institute analysis

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Shifts in trade stemming from geopolitical dynamics are already apparent. As tensions escalate, countries are increasingly looking to new geopolitically closer sources. For example, Europe has reduced its share of natural gas imported from Russia to 19 percent, from 45 percent, with the aim of dropping to 0 by 2027.[6] After the 2018 rise in tariffs between China and the United States, China's share of all US imports declined to about 15 percent in 2024, from about 24 percent.[7] In May 2025, multiple rounds of tariff changes and broader trade disputes triggered a sharp decline in US–China trade, with Chinese customs data reporting an 18 percent year-on-year drop in imports and a 35 percent decline in exports. But while US–China trade has declined over the past few years in gross terms, it has seen little change in terms of value added.[8] This is because many of the economies that increased trade with the United States themselves rely on China as a provider of important inputs. In this way, the reduction of US–China trade has spurred growth in other corridors. For example, ASEAN economies have increased trade with the United States, but at the same time with China too.

The two remaining corridors involve trade from Canada and Mexico to the United States. They fall into the group of uncertain bets, but for very different reasons. These economies are closely integrated today, with deep and concentrated corridors. For example, the United States already accounts for about 80 percent of Canadian and Mexican exports of manufactured goods, and as much as 90 percent in sectors such as transport equipment. These corridors are therefore vulnerable to a diversification scenario, rather than fragmentation.

Sector-specific strategies are essential

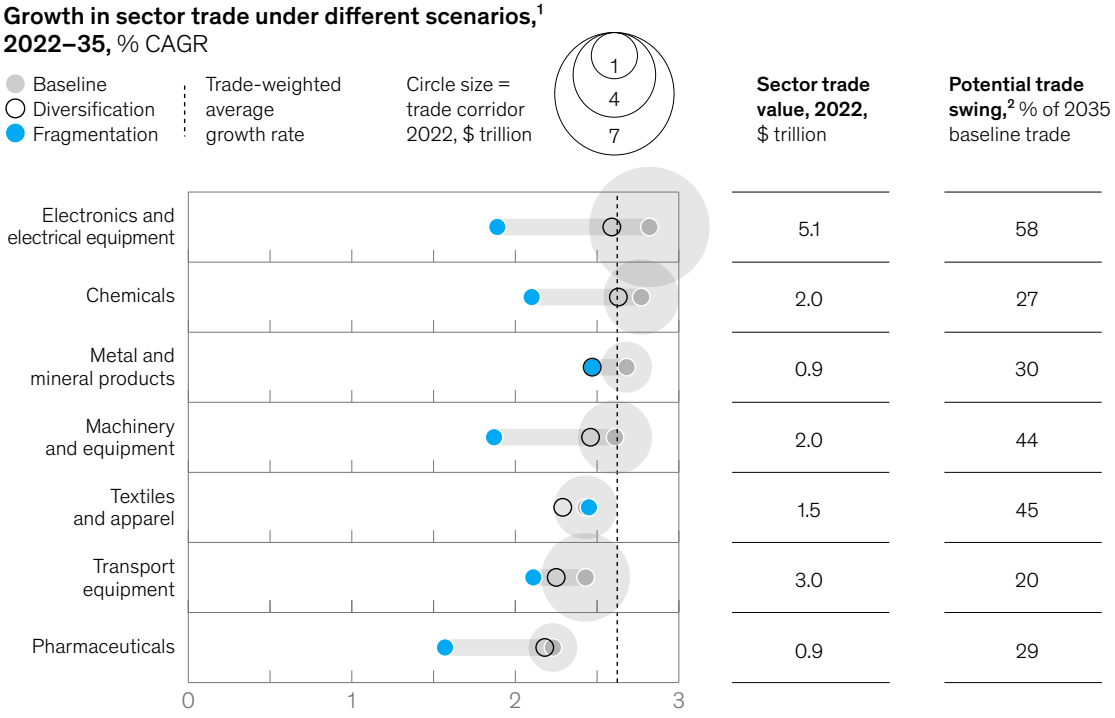
Electronics aren't iron ore, and iron ore isn't fashion. Every sector has distinct characteristics that will produce different dynamics in every scenario (Exhibit 7). And product-specific trade barriers may emerge, adding more turbulence to already complex flows. In the following section, we'll look closely at manufactured goods and resources. (Services are also affected by sectoral dynamics; see sidebar "Beyond goods trade.")

Shifts in trade stemming from geopolitical dynamics are already apparent. As tensions escalate, countries are increasingly looking to new geopolitically closer sources.

[6] "Roadmap to fully end EU dependency on Russian energy," European Commission, May 6, 2025.
[7] "Geopolitics and the geometry of global trade: 2025 update," McKinsey, January 27, 2025.
[8] "Geopolitics and the geometry of global trade: 2025 update," McKinsey, January 27, 2025.

Exhibit 7

Sector dynamics vary, creating uneven risks and opportunities.



[1]Baseline assumes stable trade and continued global growth. Fragmentation simulates rising trade frictions, with tariffs increasing by 60% for critical goods and services and 20% for noncritical goods and services between geopolitically distant partners. Geopolitically neutral economies face moderate frictions, modeled as 10% tariffs on critical traded goods and services. Diversification assumes countries and firms proactively broaden sourcing bases to three or more suppliers, reallocating trade to reduce geographic import concentration across all sectors without explicit consideration of geopolitical position.
[2]Potential trade swing by sector is calculated as the difference between the highest and lowest projected 2035 trade values across scenarios (baseline, fragmentation, diversification) for each corridor within the sector. These differences are then summed across all corridors and expressed as a share of the sector's 2035 baseline trade value. This reflects how much of a sector's trade is exposed to scenario-driven volatility.
Source: McKinsey Global Trade Model; McKinsey Global Institute analysis

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Trade in manufactured goods is highly exposed to shifts

Manufacturing industries could see the greatest shifts in trade corridors.

Start with *electronics*. Fully 58 percent of future baseline trade value is exposed to shifts in global trade dynamics, driven by three key characteristics. First, 22 percent of electronics trade is made between geopolitically distant partners, considerably higher than the global average of 12 percent, which amplifies the sector's vulnerability under fragmentation. Second, critical subsectors (including semiconductors and electrical equipment) make up a large portion—more than 80 percent—of the category and face significantly higher tariffs in a fragmentation scenario. Third, the sector is highly concentrated, with China and other Asian economies serving as the de facto electronics factory of the world. For example, China accounts for around 75 percent of global laptop exports. As a result, diversification efforts would have a particularly pronounced impact on this subsector.

Beyond goods trade

Countries exchange vast flows of capital, knowledge, and people, as McKinsey Global Institute research has previously established.[1] Trade in goods is the most visible, but other flows are just as critical. In fact, flows linked to knowledge and know-how are growing fastest. Flows of intellectual property (IP) and services grew about twice as fast as goods trade between 2010 and 2019. Data flows grew at almost 50 percent per year.

Trade in goods and trade in intangibles such as services and IP are often interlinked. For example, many Western multinationals undertake manufacturing in lower-cost locations such as East Asia, while retaining design or marketing activities closer to home. This creates interlinked flows—services and IP both run from the West to Asia (for example, consider a US chip-design company licensing its architecture to an Asian foundry), while the trade of goods runs from Asia to the West (the exports of the manufactured chips).[2]

While goods and intangibles flows are often interconnected, they can move in different directions and at different paces. For example, cross-border investment in the auto sector could reduce trade in finished vehicles while boosting trade of intermediate products as firms localize final assembly. Japanese automakers investing in US production facilities in the 1980s is an example.[3] Similarly, a German OEM setting up an R&D center in India today may reduce bilateral trade but spark new exports from India over time.

Flows of intangibles can face high barriers, often in forms other than tariffs. For instance, in the trade of services, regulatory restrictions, licensing requirements, and data localization rules can all create substantial friction. Some sectors rely on seamless cross-border collaboration, harmonized standards, and access to global talent pools. In a fragmented scenario, divergent regulation (especially a lack of mutual recognition of credentials) and relocation of client operations could substantially impair service delivery.

1 "Global flows: The ties that bind in an interconnected world," McKinsey Global Institute, November 15, 2022.
2 *Harvard University Press Blog*, "Globalization's three unbundlings," blog entry by Richard Baldwin, November 29, 2016.
3 Candace Howes, "Japanese auto transplants and the US automobile industry, *Economic Policy Institute*, 1993; David Wong, "The US auto industry in the 1990s," *Scispace*, December 31, 1989.

Textiles and apparel aren't considered critical, but given their distinct dynamics, 45 percent of trade value might be exposed to shifts. In fact, shifts in trade between geopolitically distant economies are already underway. For example, China's share of US textile and apparel imports fell by 14 percentage points between 2017 and 2024. In their place, imports from other Asian economies rose by ten percentage points. Notably, some of these economies increased their imports from China. In a fragmentation scenario, this pattern could persist or even intensify. Our model indicates that as a result, total trade volume under fragmentation remains close to the baseline—and even exceeds that of diversification. This is because our model assumes a 20 percent tariff between geopolitically distant economies, but no additional tariffs when trade flows through "connecting economies." As a result, China continues exporting intermediates to connecting economies (particularly in Southeast Asia and India), which then assemble and ship final goods to advanced economies. This rerouting preserves overall trade value. In the diversification scenario, rerouting isn't expected. Even many emerging economies would shift away from China, limiting its ability to export both intermediates and finished products. Trade volume would fall as a result.

Machinery and equipment would face a comparable level of change, with up to 44 percent of 2035 trade value exposed to shifts. The sector covers critical industrial applications including industrial and electrical machinery, specialized equipment, engines and turbines, and automated robotic systems, which are exposed to higher tariffs under a fragmentation scenario. Trade

between geopolitically distant partners accounts for 16 percent of the sector. Moreover, the supply base tends to be concentrated. The top three exporters of electrical machinery account for about half of global exports.

On the other hand, the *pharmaceutical* and *transport equipment* sectors will likely have lower value exposed to shifts. This is largely because a higher share of their trade occurs between geopolitically closer economies, reducing exposure to shock by fragmentation. For example, in pharmaceuticals, even though the sector is critical, most trade takes place between advanced economies with similar geopolitical positions, such as Europe, Japan, and the United States. Similarly, in the transport and equipment sector, intraregional trade is relatively strong, with significant flows occurring within Europe and North America.

Although our model suggests that the manufacturing sector is subject to the biggest shifts, it may still underestimate the true scale of disruption, as it doesn't fully capture the cascading impact of a potential lack of small yet critical components—a phenomenon that's all too common in real-world manufacturing. For example, shortages of small but essential parts such as semiconductors and wiring harnesses forced many automakers to slow or halt production in 2022. Similarly, breaks in supply chains for plastic resins led to delays in packaging, auto parts, and electronic casings. These chain reactions highlight how the absence of a single input can ripple across entire production systems. This phenomenon is also pronounced in critical minerals, which we explore in the next section.

In resource sectors, concentration could be costly to unwind

Concentration—whether global or local (that is, economy specific)—will significantly shape resource trade under different scenarios. For globally concentrated goods such as critical minerals, which are exported by only a few economies, short-term alternatives are limited. In a fragmentation scenario, this could lead to lost trade or major rerouting through geopolitically closer economies. In contrast, locally concentrated goods—those that, like energy and agriculture, have many suppliers but countries choose a limited set of partners for a range of reasons—would experience big shifts in a diversification scenario. Widely produced commodities such as wheat or rice could see volatility in prices. In both global and local concentration, the transition costs of shifting suppliers, combined with some downstream ripple effects, might be profound.

Mining is a globally concentrated and strategically exposed sector, both in physical extraction of ores from the earth and in the subsequent refinement. In some subsectors, extraction is particularly concentrated: Among many other examples, the top three producers account for over 70 percent of lithium production, 80 percent of nickel, and over 90 percent of cobalt.[9] Development timelines of a decade or more for new mining projects make rapid diversification challenging.[10] Refining is even more concentrated than extraction—for example, in lithium, one country (China) has 70 percent of refining production capacity. Refining capabilities can be even harder to develop than extraction, leading again to difficulties in reconfiguring the destination

[9] "Global Critical Minerals Outlook 2025," International Energy Agency, May 2025.
[10] "Average observed lead times from discovery to production for selected minerals, 2010-2019," International Energy Agency, May 2021.

of trade corridors. In the case of rare earths, both extraction and refining are concentrated, and both in China: The country accounts for more than 60 percent of extraction and 90 percent of refining. These effects together entrench dependency among downstream buyers. Though trade values in raw rare earths are modest, the downstream impact of disruption would be disproportionate. On average, $1 of neodymium, a rare earth vital for electric motors in electric vehicles and wind turbines, can enable about $600 of economic output.

Energy resources, particularly oil and gas, are more distributed than many think. The top three oil producers account for only 40 percent of global production, and major exporters span a wide geopolitical range, from North America to the Middle East and Russia.[11] Instead, it's locally concentrated—Korea and Japan import more than 75 percent of their oil from the Middle East, for example, and have optimized their refineries for these oils; it would be costly to shift to alternative sources.[12] That's emblematic of the broader story with energy: Supplier diversification or radical transitions due to geopolitical fragmentation can carry significant economic costs, including building and retrofitting infrastructure such as pipelines and refineries and managing price volatility. When European countries replaced Russian gas with liquefied natural gas (LNG) from the United States and others, they had to repurpose or expand existing pipelines and LNG terminals, and also rapidly build new regasification terminals and storage capacity.[13] As of 2025, the United States and geopolitically close economies are in discussions to expand trade of LNG and boost energy security ties, but such efforts are expected to come to fruition only by the 2030s.[14]

Agriculture, like energy, is also locally concentrated and exhibits similar dynamics. While some products such as soybeans are heavily concentrated (over 90 percent of exports come from the United States, Brazil, and Argentina), most have multiple suppliers, and agricultural products tend to be more substitutable than other resource categories. Yet countries often rely on nearby partners—for example, Southeast Asian nations source rice from Vietnam and Thailand, and North African countries have historically relied on wheat from Ukraine and Russia. Local concentration makes sense: Trade in agriculture is shaped by logistics, perishability, and long-standing trade relationships. In a fragmentation scenario, a handful of globally concentrated products could be disrupted. But diversification would result in wider-reaching impact. Replacing established trade routes can create cascading effects, as new supply relationships may lack the same scale, consistency, and quality. The sector is also inherently prone to price volatility due to weather, conflict, and other regional disruptions. For example, during the early part of the war in Ukraine, prices for several key commodities surged by 20 to 50 percent before gradually returning to prewar levels.[15] Ongoing trade uncertainty could amplify these fluctuations, compounding the sector's existing vulnerability to external shocks.

[11] "Annual petroleum and other liquids production," US Energy Information Administration.
[12] "Japan oil security policy," International Energy Agency, August 2022; "Korea oil security policy," International Energy Agency, March 2023; "What are the main traded sectors and who are the main trade partners of an economy?", Global Trade Explorer, McKinsey Global Institute.
[13] John Snyder, "Europe snaps up FSRUs to speed energy security," *Riviera*, July 7, 2022.
[14] Spencer Kimball, "Trump administration is convinced massive Alaska energy project will find investors despite steep cost," CNBC, June 2, 2025.
[15] "War in Ukraine: Twelve disruptions changing the world—update," McKinsey, July 28, 2023.

How businesses can get ahead of changing dynamics

When we look across business models, whether at an OEM, a distributor or retailer, a transportation or logistics operator, or an investor, the shifts in trade across corridors will require deft handling. Businesses can shape a coherent response to trade shifts by thinking through five questions:

— What is the mid-to-long-term impact on the current business due to trade shifts across corridors? How does this play out under different scenarios?

— Which trade corridors will become more important in the future view of the business, and which ones will become lower priorities?

— What is the value creation potential of these important trade corridors for the business over the mid-to-long term?

— How is the business positioned today to capture this value? What tactical and operational actions should the business take to maximize its ability to fully capture this value?

— What are the strategic and organizational changes needed to support these action plans? What are the new capabilities and organizational setups needed to navigate this tectonic change?

As just one illustration of what it takes to navigate tectonic trade shifts, consider how Micron, a US-based semiconductor company, undertook a set of multipronged actions to significantly increase its opportunities. Semiconductors are among the industries that could be most affected by geopolitical dynamics and trade shifts. The company wanted not only to defend its business but also to accelerate growth—and to do it all at pace.

The company responded quickly and decisively to the government's invitation to invest by building an ASTM-certified[16] facility in India, committing several billion dollars to the project in a country where semiconductor fabs are mostly unknown. That's a sizeable investment, of course, but the company felt confident that it had done its homework. The new fab was geopolitically nearer than other options and would also let it tap nascent domestic demand, which they estimated would grow much faster than the global average, doubling from roughly $50 billion to $100 billion by 2030.[17]

This early investment helped Micron make a move quickly when India's government offered incentives for further investment in India. Because it had immediately committed to the prime minister's initial invitation, the Indian government recognized the company's first mover status with a sizeable 70 percent capital subsidy for the new project.[18]

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[16] As published by ASTM International.
[17] "India's semiconductor market set to reach $103.4 billion by 2030," Ministry of External Affairs, Government of India, February 12, 2025.
[18] Nidhi Singal, "Narendra Modi govt is giving shape to India's semiconductor dreams: A high-stakes race to global dominance," *Fortune India*, February 9, 2025.

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Business leaders are understandably flummoxed by all the recent changes in trade policy and the uncertain potential for many more. In the face of this change, it's exceedingly difficult to commit to wholesale changes in the corporate strategy. Instead, we propose that companies develop solutions that make sense for them by looking closely at the trade corridors that are vital to their business and industry and using that rubric to shape tactical moves that will position them well for a volatile future.

At time of publishing, countries around the world are actively revising tariff and trade policies. Final outcomes and implications for businesses, governments, and individuals are highly uncertain.

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