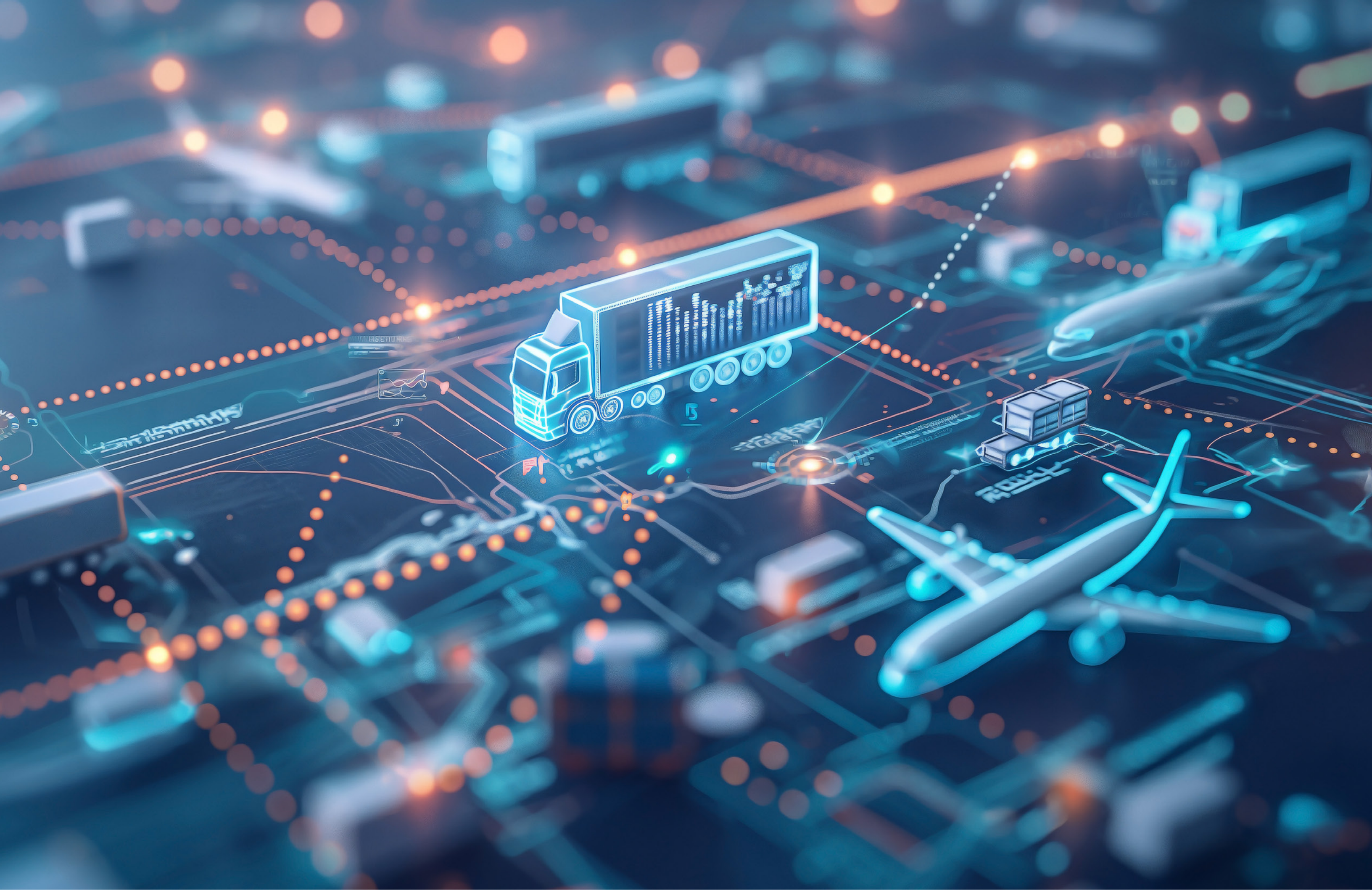

Rewiring Global Trade for Resilience and Growth

PREPARED BY EURASIA GROUP & LSEG

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Executive summary

Global trade is not deglobalizing—it is rewiring. Trade patterns are being redrawn by a mix of geopolitics, policy shifts, and security concerns. The result is a more complex trade landscape defined by strategic realignment and adaptation. Governments are layering national security considerations onto economic decisions. New tariffs, export controls, and investment restrictions are reshaping how—and why—countries trade.

US President Donald Trump's expansive tariff policy marks a new era in American trade policy. But it also reflects a broader global shift toward narrower definitions of national interest. Across advanced and emerging economies, governments are reconfiguring trade ties, reshoring production, and seeking greater economic self-reliance in strategic sectors.

In this environment, middle powers are emerging as key players—not by picking sides, but by pursuing strategic multi-alignment. Countries such as India, the Gulf states, and ASEAN members are navigating uncertainty with pragmatism. They are separating economic engagement from political disputes, diversifying trade relationships, and leveraging their position in shifting supply chains. Their adaptability is becoming a competitive advantage as they balance relationships with multiple major powers simultaneously.

Sectoral shifts are occurring along the fault lines of geopolitics, policy, and resilience. In defense, Europe's rearmament drive is fueling a divergence in stock market performance, with EU- and UK-listed firms surging while US defense giants lag—raising questions about future procurement priorities and supply chain exposure. Energy—particularly LNG—has become a bargaining chip in trade diplomacy, with US trade partners ranging from India to the EU offering increased purchases to offset tariffs, although performance across the value chain varies sharply. Technology sits at the center of national security concerns and industrial strategy, with semiconductors, biotech, and critical minerals increasingly treated as strategic assets. This security framing is driving both fragmentation and opportunity: new manufacturing hubs are emerging, and firms that can navigate regulatory divides and deliver compliant, localized solutions are gaining a competitive edge.

This is not a temporary disruption—it is a structural transformation. The line between economic and geopolitical strategy is blurring. The most successful organizations will be those that combine geopolitical insight with market-based analysis to spot where opportunity is emerging—despite, or because of, the global trade rewiring.

Introduction

The global trade system is rapidly evolving in ways that do not fit simple narratives about deglobalization or fragmentation. Today, we see a more complex global landscape characterized by disruptive trade policies, competing integration models, emerging regional hubs, and clashing geopolitical and economic objectives.

The world is experiencing what Eurasia Group President and Founder Ian Bremmer terms a "geopolitical recession," a period in which international institutions, diplomatic norms, and governance practices are misaligned with the underlying balance of global power. That misalignment is driving instability across the global economic and financial system. Leading governments are increasingly viewing trade and investment through both national security and economic lenses. Expanding tariffs, export controls, and investment restrictions are disrupting established trade and investment patterns. President Donald Trump's enacted and proposed sectoral and reciprocal tariffs—which some call a "new equilibrium" in US macroeconomic policy and global trade—is just one example of the rapid shift occurring across major economies.

These changes are also establishing new patterns of global connectivity. Regional manufacturing nodes, specialized service hubs, and novel financial centers are gaining new footholds. The search for strategic positions in this shifting commercial landscape has become increasingly urgent in the context of adverse market reactions—sharp equity declines, significant currency movements, and bond market volatility.[1]

This paper identifies opportunities in a changing landscape by examining the ongoing reconfiguration of global trade across regions and sectors. Rather than focusing on immediate market reactions to recent tariffs, we analyze longer-term strategic positioning and the factors that will determine success in a new environment characterized by shifting alignments and adaptation instead of rigid blocs or inevitable confrontation. Our analysis draws on both geopolitical assessments and market data to provide a macro-level view of emerging trade patterns and their implications for growth and resilience over the coming years.

The growing complexity of the international economic system and the impact of evolving US trade policy

Trade rewiring in context

For the past decade, states have been moving toward greater economic resilience and self-sufficiency. Governments are working to reduce supply chain vulnerabilities exposed during the pandemic, address energy and technology sovereignty concerns, and respond to changing geopolitical conditions. In practical terms, this means that:

- Economic incentives may drive deeper trade and investment ties despite political tensions
- Security concerns are creating new and sometimes unexpected economic alignments
- Domestic political pressures, such as calls to reshore manufacturing, are shaping trade policy decisions

In short, narrower interpretations of national self-interest are driving new and more interventionist government policies, which in turn are creating a more complex and uncertain global trade landscape.

This environment has fueled the rise of "strategic multi-alignment," particularly among middle powers. These states have some geopolitical influence but are not in the top tier of global powers nor strategically aligned solely with the US or China. ASEAN countries, the Gulf states, and India, for instance, are resisting rigid bloc alignment, instead maintaining productive relationships with multiple major powers simultaneously. Vietnam is deepening security ties with the US while maintaining strong economic linkages with China.

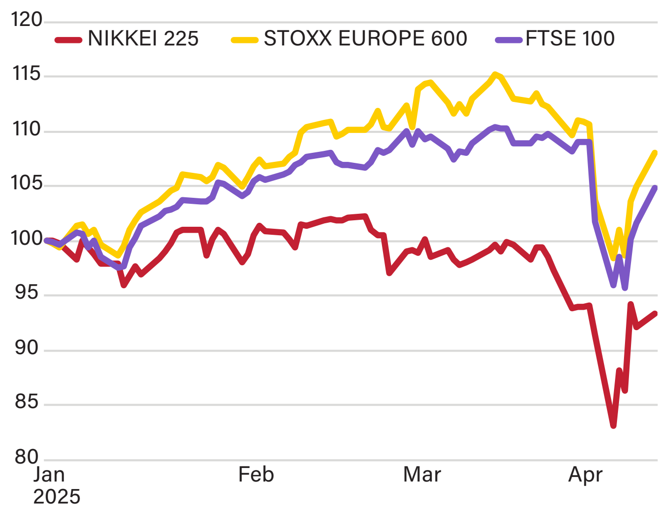
1 FTSE Russell (an LSEG business), Global Investment Research, "Asset Allocation Insights" (March 2025), p. 2.

National trade policies as an accelerant

The US's trade policy is an accelerant of these pre-existing trends—a major driver of ongoing shifts in the global economy, as seen in the charts below. But it is not alone in redrawing trade and investment patterns to reshore production. The "Make in India" initiative, China's "Dual Circulation" policy, and the EU Chips Act, for example, are all policy-driven attempts to reshore industrial production and increase economic self-reliance in key sectors.

US equity performance and bond yields (ytd)

Global equity performance (ytd)

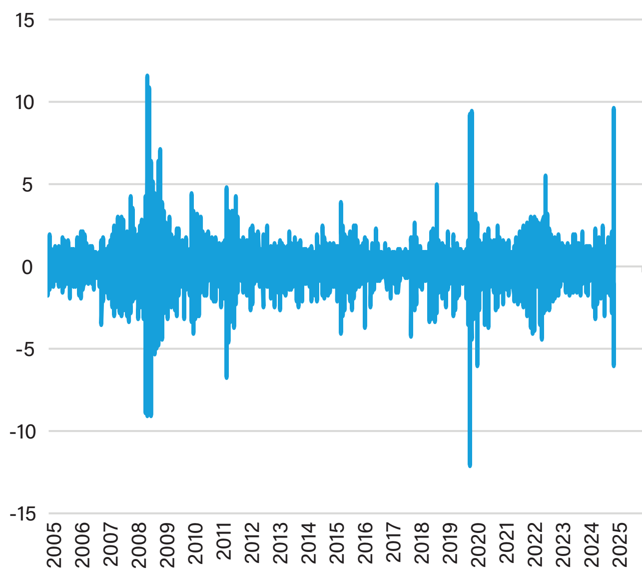


Source: LSEG Datastream

The Trump administration differs in its multi-track approach to tariffs. It is targeting nations with large trade surpluses with the US regardless of security ties, pursuing product-specific tariffs aimed at revitalizing domestic manufacturing and restricting China's market access (an issue of bipartisan consensus in the US). It has also launched Section 232 investigations into semiconductors and pharmaceuticals, designating these sectors as national security priorities. Wherever the new tariff policy ultimately settles, it is a source of short-term market volatility. It signals an unprecedented US effort to reconfigure international trade patterns over the longer term, with risks to US and global growth and inflation outlooks.[2]

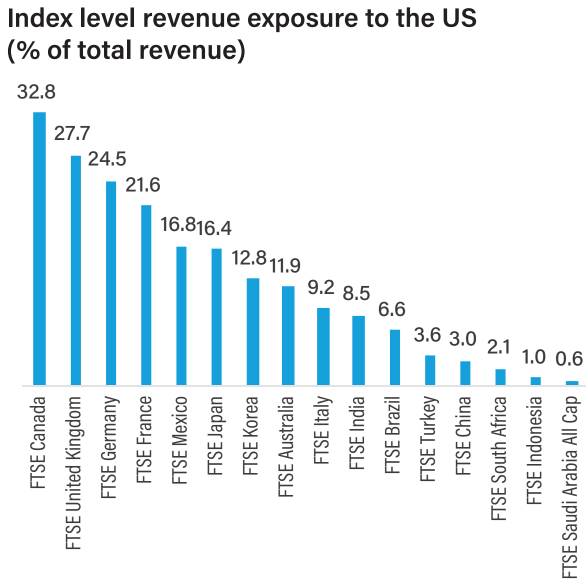
As other countries weigh their own responses—ranging from proposals for bilateral deals to retaliatory measures—they may raise trade barriers to prevent the dumping of goods rerouted away from the US. This will accelerate the global shift toward "country first" policies, resulting in a deep restructuring of trade relationships. We are also likely to see alternative trading arrangements within and among regions and corporate supply chain restructuring that reinforce the rewiring of global trade.

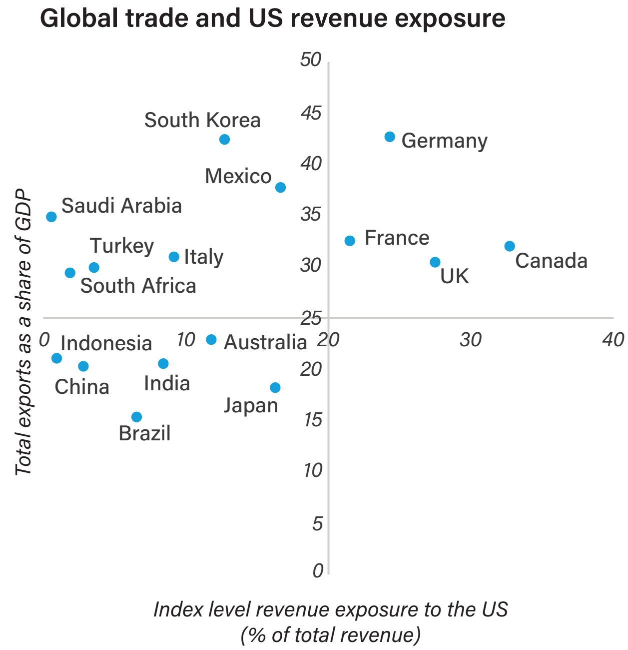
S&P 500 volatility (daily percentage change)



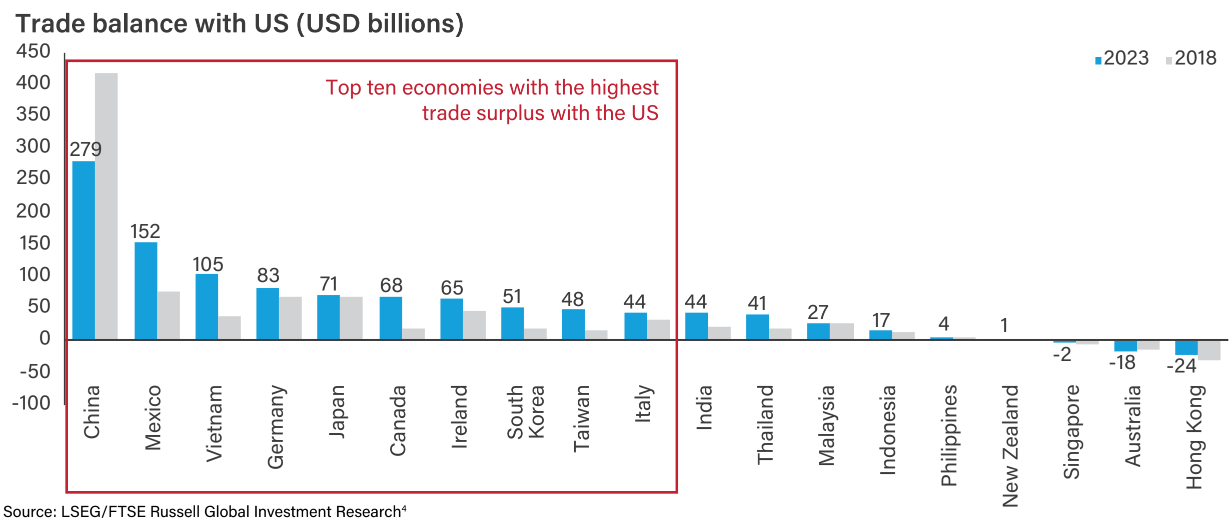
Source: LSEG Datastream, Fathom Consulting

2 Eurasia Group, "Top Risk #4: Trumponomics and Top Risk #7: Beggar Thy World," Top Risks 2025





Source: LSEG/FTSE Russell Global Investment Research[3]



Source: LSEG/FTSE Russell Global Investment Research[4]

Three key factors affect a country's vulnerability in the current trade environment, independent of its diplomatic or security positioning:

1. **Trade balance with the US:** Countries with large trade surpluses and existing import barriers to US goods face increased risk of tariff measures
2. **Dependency on the US market:** Higher dependency on exports to the US increases sensitivity to policy shifts
3. **Non-trade tensions:** Disagreements on security, immigration, or other issues can trigger trade actions unrelated to economic concerns

3 FTSE Russell (an LSEG business), Global Investment Research, "Asset Allocation Insights" (March 2025), p. 5, Chart 1 and Chart 5

4 FTSE Russell (an LSEG business), Global Investment Research, "APAC Financial Markets Spotlight" (February 2025), p. 3, Chart 1

Mexico, **Canada**, and the **EU,** jurisdictions with which the US has significant trade deficits—have been subject to targeted trade measures, regardless of their historic political or security ties. Each has developed distinct approaches to the new trading conditions. Canada has created negotiating space with strong initial countermeasures. The EU has pursued a calibrated, phased approach while offering to purchase increased amounts of LNG and cooperate more closely on security issues. Mexico has refrained from retaliation while seeking to address US concerns about migration and drug trafficking.

The **UK** is attempting to chart a post-Brexit course by balancing trade and security relationships with the EU and the US while pursuing expanded trade relationships with ASEAN, India, and the Gulf. These efforts are paying off: In Trump's 2 April announcements, the UK had a lower tariff rate than other longstanding allies while discussions continue for a new US-UK bilateral trade agreement.

Against a backdrop of longer-term tariffs and export controls, a comprehensive range of factors put **China** at the center of US tariff policy: the largest trade surplus with the US, significant dependency on the US market, allegedly unfair trade practices, and acute geopolitical competition. China has responded with countermeasures, including retaliatory tariffs and controls on critical mineral exports, leading to an escalatory spiral and an emerging trade war. As yet, however, China has not exhausted its potential retaliatory measures, which could include additional rare earth and critical component export restrictions, large-scale US Treasury selloffs, and greater market access restrictions for US companies.

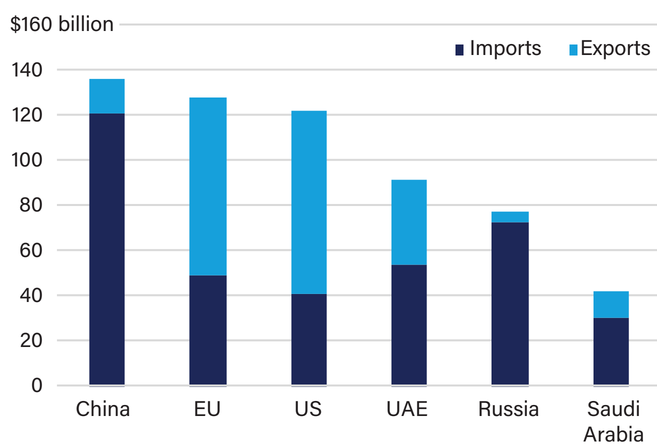
Markets to watch: Strategic multi-alignment in the rewired world

The rewiring of global trade and investment is creating a landscape in which simple narratives about "winners and losers" fail to identify and explain how strategic positioning and adaptability by states and firms are shaping economic outcomes. Middle powers are increasingly positioning themselves through "strategic multi-alignment" in which they resist rigid alliances to navigate economic uncertainty and seek to maximize commercial and security benefits.

Effectively positioned markets in this environment demonstrate several common characteristics:

1. **Pragmatic, transaction-focused diplomacy** that seeks to separate economic engagement from broader geopolitical tensions
2. **Trade relationship diversification** that reduces dependency on any single market
3. **Supply chain positioning** that offers specific advantages amid shifting production networks
4. **Institutional adaptability** that enables rapid responses to evolving trade conditions

India trade value (USD, June 2024)



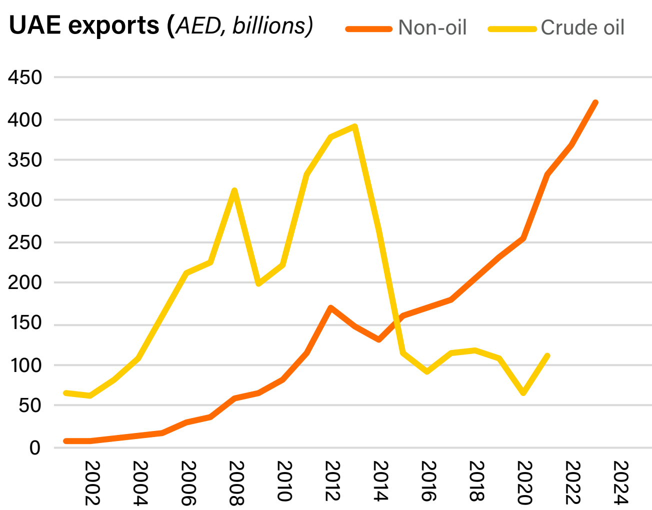
Source: LSEG Datastream

Considering these factors, our analysis explores the strategic positioning of three middle state and regional powers in the rewired world.

India is employing strategic balancing by pursuing its first bilateral trade agreement with the US while simultaneously advancing negotiations with the EU, the UK, Australia, New Zealand, and others. Following the 13 February summit between Trump and Indian Prime Minister Narendra Modi, India announced concrete measures aimed at solidifying trade ties, including a $10 billion increase in US LNG purchases and reduced tariffs on US-made whiskey and motorcycles.

India's pragmatic engagement comes despite tensions over technology policy, where US demands for a "level playing field" for tech firms clash with India's support for national champions and data localization requirements. India's parallel negotiations with the EU gained momentum during European Commission President Ursula von der Leyen's February visit to Delhi, potentially using India-UK trade negotiations as a template for fast-tracking agreements. As the new US tariff policy creates pressure for supply chain relocation, India's strategic positioning between major powers may offer significant advantages.

Gulf states are pursuing strategic diversification at a crucial moment marked by both energy transitions and trade disruptions. Saudi Arabia's Vision 2030 represents an ambitious plan to reduce its dependency on oil revenue by developing its tourism, technology, aviation, logistics, and manufacturing sectors. The kingdom's economic output over the last three years has been bolstered by growth in non-oil activities, with a program of domestic investment led by its Public Investment Fund.[5] These efforts are yielding results; for instance, Aramco is partnering with California-based AI startup Groq to build a data center that will run AI systems across the Middle East, Africa, and India.



Source: LSEG Datastream, Fathom Consulting

With oil prices falling sharply following OPEC's larger-than-expected production increase and broader market instability, Gulf states' diversification efforts take on greater urgency. Saudi Arabia's economic diversification helped to offset a sharp 9.0% decline in oil activities in 2023.[6] The UAE has also advanced in its diversification journey. As a leader within the Gulf Cooperation Council (GCC) in technology investment and infrastructure, the UAE has ambitions to become a global leader in AI, cloud computing, 5G, and fintech. Its strategic positioning is attracting substantial investments, exemplified by Microsoft's $1.5 billion agreement with Abu Dhabi tech company G42 in April 2024 after G42 severed ties with Chinese tech partners.

Given their strategic investments in economic diversification, advanced technology, and financial services, combined with agile diplomatic maneuvering between major powers and established energy leverage, Gulf states are uniquely positioned to thrive as hubs for trade, investment, and technology in the rewired global economy.

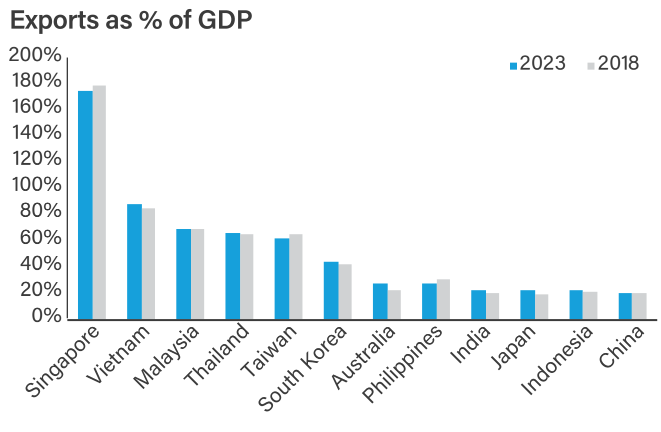
ASEAN nations are in a difficult position, caught between the US and China. Trump's recent 90-day pause in the reciprocal tariffs announced on 2 April offers temporary relief, although the region still faces considerable uncertainty. Nonetheless, ASEAN's ability to maintain productive relationships with both the US and China creates strategic leverage, allowing it to fill supply gaps created by US-China trade tensions. Parallel advances in deepening intra-regional and cross-regional trade relationships afford additional economic flexibility in the rewired global trading system.

Singapore, Vietnam, Malaysia, and Thailand are among the five economies most exposed to global trade uncertainty, with exports accounting for more than 40% of their GDP.[7] Malaysia, the largest supplier of US semiconductors, is especially vulnerable to potential tech-focused tariffs and non-tariff barriers. It is expected to walk a fine line in pushing to deepen commercial links with China without disrupting US technology ties.

5 FTSE Russell (an LSEG business), Global Investment Research, "Saudi Arabia's story of change – milestones in its long-run transformation" (October 2024)

6 Ibid.

7 FTSE Russell (an LSEG business), Global Investment Research, "APAC Financial Markets Spotlight" (February 2025), p. 3, Chart 2

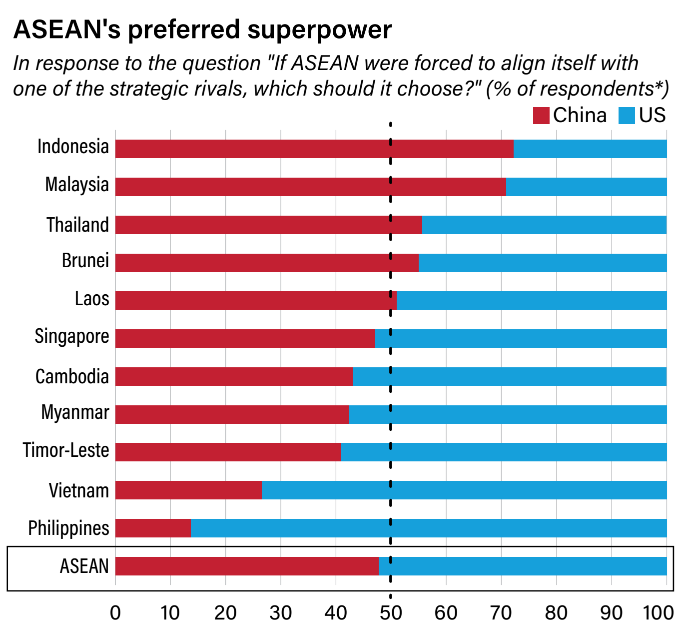


Source: LSEG/FTSE Russell Global Investment Research[8], World Bank

Meanwhile, US policymakers remain concerned about Chinese goods destined for the US being rerouted through ASEAN countries, with a particular focus on Vietnam.

Before the 90-day pause, ASEAN members faced the threat of high tariffs, especially Cambodia (49%), Vietnam (46%), Thailand (36%), Indonesia (32%), and Malaysia (24%). Currently, a 10% tariff applies across these nations while negotiations with the US continue. Singapore was relatively shielded, receiving only the baseline 10% tariff owing to its trade deficit with the US.

Each ASEAN member presents a unique mix of risks and opportunities in the evolving trade landscape. **Singapore** is well-positioned as an energy hub with strengths in semiconductors and pharmaceuticals and a trade deficit with the US. **Malaysia** offers potential in semiconductors and as a commodity exporter that could fill the void in China created by Chinese tariffs on US goods, particularly in energy and natural resources. **Indonesia** may have similar opportunities as a commodity exporter amid US-China tensions, though like other ASEAN nations, it faces challenges from low-cost Chinese imports flooding the region. **Vietnam** has signaled its willingness to increase purchases of US-manufactured planes, LNG, and high-tech items. This interest includes a possible investment in SpaceX. Moreover, it has offered to reduce trade barriers to US goods. Similarly, **Thailand** has said it can purchase more US chemicals and soybean meal. However, these nations all face challenges in sectors targeted by separate US sectoral tariffs, whether anticipated (semiconductors and pharmaceuticals) or already in place (automobiles, steel, and aluminum).



*Respondents include Southeast Asian opinion-makers and thought leaders
Note: The study also includes Timor-Leste, which is on a pathway to ASEAN membership
Source: State of Southeast Asia 2025, ISEAS–Yusof Ishak Institute

This diverse positioning, combined with ASEAN's collective ability to balance relationships with multiple major powers while developing regional trade networks, will be key to navigating the rewired global trading system. Emerging markets, including many ASEAN economies, have significantly reduced their dependency on developed markets. Emerging market exports to advanced economies declined from 71% of total trade in 2000 to just 52% in 2024. This shift offers some protection from US-driven disruption and boosts resilience under the new equilibrium, though specific outcomes will likely vary considerably by country.[9]

8 FTSE Russell (an LSEG business), Global Investment Research, "APAC Financial Markets Spotlight" (February 2025), p. 3, Chart 2

9 FTSE Russell (an LSEG business), Global Investment Research, "Asset Allocation Insights" (March 2025), p. 5, Chart 5

Sectors to watch: Industry-specific impacts

Beneath broader macro trends, commercial sectors are experiencing varied effects from trade policy shifts. Some face **direct impacts** as deliberate targets or beneficiaries of government policies; others face **indirect disruption** through supply chain linkages or as collateral damage in trade disputes. **Forward-looking companies** across all industries are preemptively reshaping operations to mitigate risks and create competitive advantages.

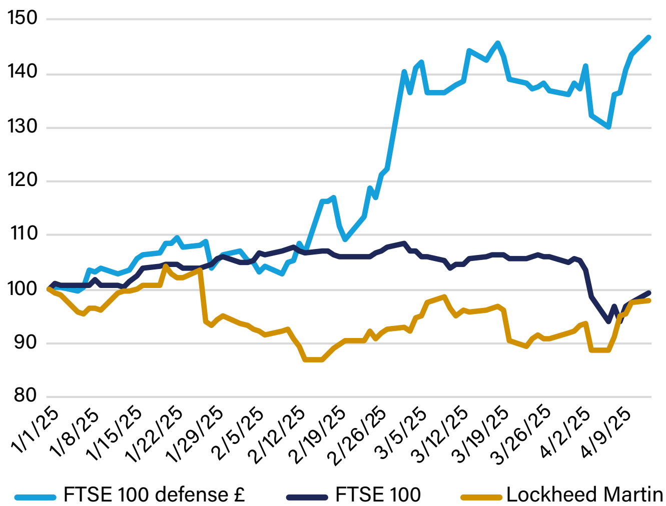
Factors determining company performance in a rewired trade environment include:

1. **Supply chain flexibility** to enable rapid adaptation to changing trade conditions
2. **Geographic diversification** of both production and sales to reduce policy vulnerability
3. **Strategic positioning** in sectors deemed important for national or economic security
4. **Pricing power** allowing for absorption or pass-through of increased trade costs

Our analysis highlights three key sectors affected by strategic multi-alignment. These sectors are experiencing significant transformations owing to their centrality to national security, trade policy realignment, and role in economic diversification.

Defense is seeing regional divergence amid changing trade dynamics. The EU's €800 billion "ReArm Europe" plan (presented in March 2025) has triggered dramatic market responses: European and UK-listed defense stocks have surged between 35% (BAE Systems and Babcock International) to 70% (broader European defense stocks) since the beginning of 2025, while US giant Lockheed Martin has declined around 8% over the same period.[10] Aerospace and defense have contributed significantly to FTSE 100 performance so far this year, outperforming FTSE 250 counterparts, and the first European Defense ETF was listed on the London Stock Exchange in March 2025.[11]

FTSE 100 defense index outperformance



Source: LSEG Datastream

As trade tensions escalate following the 2 April policy announcements in the US, the defense sector's strategic importance is likely to further increase, potentially insulating it from broader market pressures. However, Europe's defense ambitions face critical supply chain vulnerabilities, particularly dependency on Russia and China for essential metals such as nickel, platinum, and vanadium. These metals are needed for armor, ammunition, electronics, and nuclear applications.[12] Deeper trade and defense partnerships with countries such as Canada could begin to address that strategic vulnerability.

10 LSEG, "Rearming Europe: The Battle for Critical Defence Metals" (February 2025), p. 1.

11 FTSE Russell (an LSEG business), Global Investment Research, "Monthly Performance Report Europe" (March 2025), p.8

12 LSEG, "Rearming Europe: The Battle for Critical Defence Metals" (February 2025), pp. 2-3.

Another pivotal question is whether European defense spending will favor EU or US suppliers. This is a strategic choice that may depend on US-EU tariff negotiations and whether Europe offers to increase US defense purchases. This decision also carries significant implications for global defense industrial relationships. Traditional US allies such as Canada are now considering European alternatives to US defense suppliers. This suggests a potential restructuring of defense supply chains, which may create both risks and opportunities across the sector.

Oil and gas (particularly LNG) is serving as diplomatic currency amid global trade tensions. However, it exhibits significant subsector differentiation that defies simple narratives. Projections for 2025 indicate a 15.8% growth in US storage/transportation demand, which starkly contrasts with a 13.2% decline in refining and marketing demand.[13] LSEG's LNG Summer Outlook forecasts a 7.3% increase in global supply in 2025, driven by the US, as LNG increasingly features in trade negotiations.[14]

Multiple countries are ramping up LNG purchases to address trade imbalances with the US. India committed to a $10 billion increase following the February 2025 Modi-Trump summit, while the EU and Vietnam have offered to increase purchases in tariff negotiations. The diplomatic leverage created by US LNG exports complements the US energy position, already strengthened by record domestic oil production reaching 13.4 million barrels per day in 2024. While the US has achieved crude oil self-sufficiency, its growing role as an LNG exporter enhances its geopolitical influence in addition to addressing traditional energy security concerns.

Ongoing market uncertainty, combined with OPEC's larger-than-expected production increase and the resulting oil price drop (Brent trading below $70), are driving significant sectoral disruption. Gulf states are particularly affected as they leverage energy revenue for economic diversification—Kuwait's LNG imports are projected to rise more than 15% in the summer months of 2025, supported by a new Qatari contract.[15] This strategic importance in trade diplomacy creates both opportunities and vulnerabilities, with the sector's positioning at the intersection of trade tensions, price volatility, and regional diversification strategies generating highly divergent outcomes across its value chain.

Technology is highly exposed to national security concerns and international developments. LSEG's research highlights US technology firms' reliance on international earnings, which are expected to rise 23.9% in 2025, while domestic earnings are forecast to increase by 14.7%.[16] The April announcements of US reciprocal tariffs and Section 232 investigations into semiconductors and pharmaceuticals, combined with expanding US export controls on semiconductors, AI, and quantum computing, are fragmenting global supply chains. However, these measures are also creating strategic opportunities. Malaysia ($9.7 billion in US semiconductor exports in 2024), Vietnam, and India are emerging as alternative tech manufacturing hubs to China.

Critical minerals essential for advanced technologies also exemplify the risk-opportunity duality. LSEG reports from the first quarter of 2025 documented rising prices amid supply chain pressures, with nickel rising 4% and copper increasing 12% in the first quarter. Companies developing alternatives and securing diversified sources are gaining competitive advantages.[17] Trade rewiring is set to continue in this context, with the Trump administration shoring up domestic supply and striking deals with international partners as China uses its rare earth production as leverage over the US.

Firms that can effectively navigate this shifting landscape—including technology sovereignty initiatives and regulatory divides—will be strategically positioned for success. This interplay of security concerns and market adaptation is reshaping the sector's global footprint.

13 LSEG, "2025 Year-Ahead US Outlook: Macro, Equities, Funds, RMBS, CMBS, and CLO Insights," p. 14.

14 LSEG, "LNG Summer Outlook 2025: Mind the Gap" (March 2025), p. 5.

15 LSEG, "LNG Summer Outlook 2025: Mind the Gap" (March 2025), p. 6.

16 LSEG, "2025 Year-Ahead US Outlook: Macro, Equities, Funds, RMBS, CMBS, and CLO Insights," pp. 16-17.

17 LSEG, "Base Metals Monthly" (March 2025), pp. 1-6.

The tariffs' impact extends across multiple interconnected subsectors. Biotech and pharmaceuticals, for instance, have emerged as national security priorities following the Section 232 investigation launched on 14 April, mirroring strategic concerns over digital technologies. The investigation covers pharmaceuticals, active pharmaceutical ingredients (APIs), and derivative products including both generic and non-generic drugs.

Meanwhile, the elimination of duty-free status for low-value Chinese imports may exacerbate the shortage of generic drugs and medical supplies in the US. The US government views pharmaceuticals as a strategic sector, similar to semiconductors, given its complex global supply chains, major foreign dependencies, and concentrated manufacturing hubs. Ireland alone supplies more than 25% of US drug imports, while China is estimated to produce more than 50% of the world's supply of APIs, including many that are essential for the US market.

Regarding biotech, officials argue the sector has dual-use implications, with tools and data that can be leveraged for both civilian healthcare and biological weapons development. This security framing is accelerating reshoring efforts. Several companies have announced multi-billion-dollar investments in US manufacturing. However, the transition may encounter regulatory and capacity challenges, especially for companies without an existing US industrial presence.

Conclusion

The rewiring of global trade is not a temporary disruption but a structural shift with enduring implications. In an increasingly complex and disrupted trade environment, forward-looking organizations will recognize the tensions between geopolitical objectives and economic realities, seizing the opportunities that emerge, often in unexpected places.

Although short-term reactions to changing trade policy will dominate the headlines, understanding long-term strategic positioning will ultimately predict success. Financial markets can provide early warning signals about the sustainability of policy directions, long before official economic data confirms outcomes. But as our analysis shows, the fundamentals of different companies, sectors, markets and regions leave some better placed than others to remain resilient in the rewired world.

Organizations should focus on specific capabilities, adaptation strategies, and emerging connectivity patterns. New regional hubs are gaining a foothold with the reconfiguration of supply chains, and the outlook for growth in different sectors is shifting as national security and industrial policy become increasingly intertwined. The factors identified by this paper provide a starting point as leaders identify opportunities for growth. For example, a willingness to engage with new economic partners and adaptability to supply chain shifts will be strategic differentiators across sectors and markets.

The most successful organizations will resist short-term thinking and will combine geopolitical insight with market-based analysis to identify economic opportunities amid shifting trade patterns. Resilient growth in a volatile environment demands a nuanced understanding of strategic positioning over the long term.

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