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Global Institute

# Geopolitics and the geometry of global trade

Olivia White

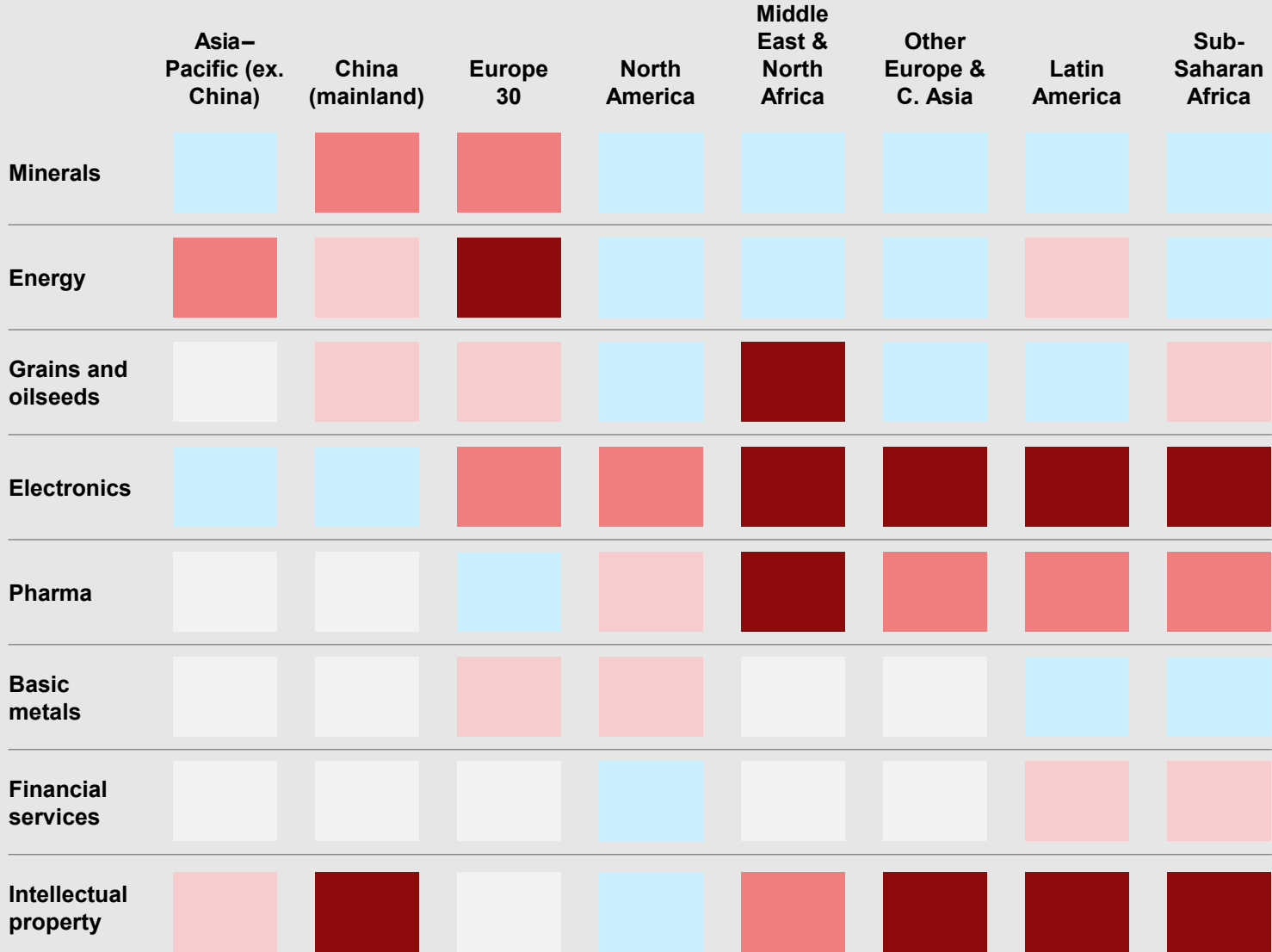
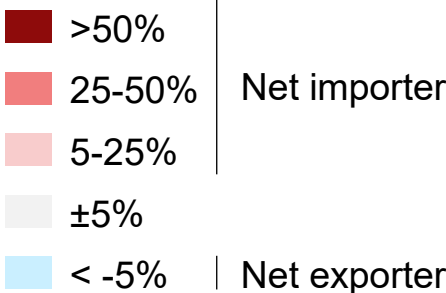
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# Today's world is deeply interconnected

## Net imports as share of domestic consumption

%, 2023 or most recent available



Note: Intellectual property net import share of domestic consumption is calculated as net imports as a share of total trade. Data for Sub-Saharan Africa are based on a limited sample (5 countries) for manufactured goods and services.

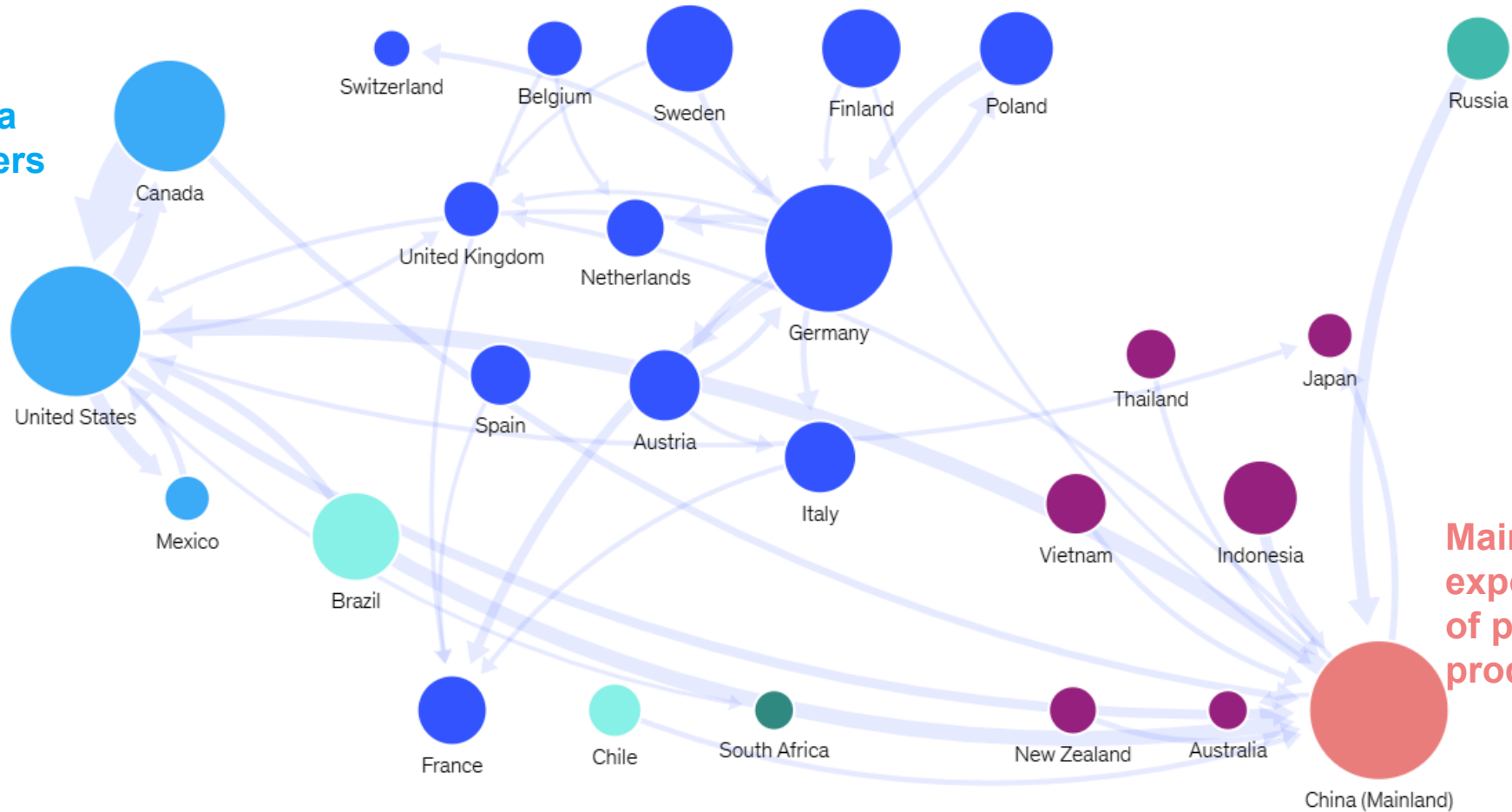
Source: IHS Markit, WTO-OECD Balanced Trade in Services, FAOSTAT, International Energy Agency World Energy Balances; McKinsey Global Institute analysis

# Wood and paper:

Gross exporters of electronics; top 40 corridors, 2023, \$

Circle size = value of economy exports  
Line thickness = value of flows

US and Canada  
largest exporters  
in the world



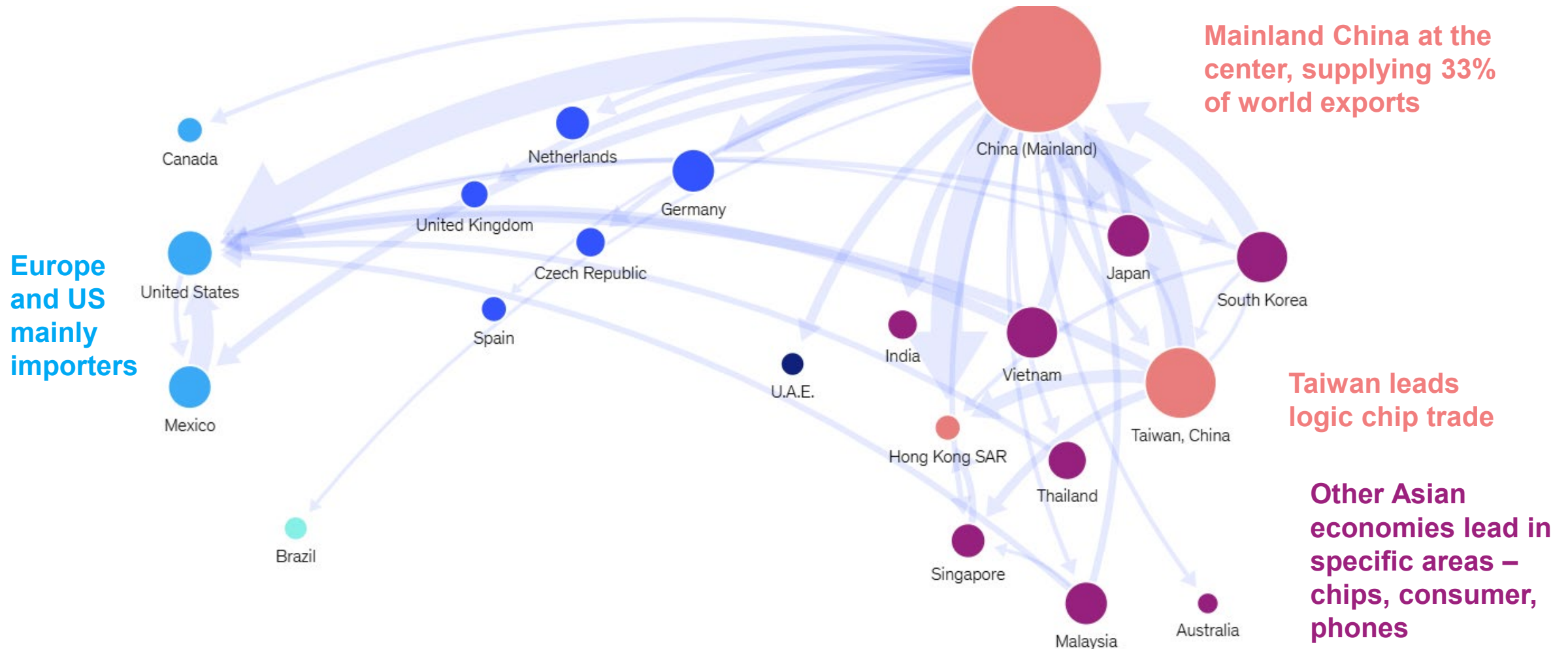
Mainland China major  
exporter, particularly  
of processes  
products

# Electronics: Asia is the factory of the world

Gross exporters of electronics; top 40 corridors, 2023, \$

Circle size = value of economy exports

Line thickness = value of flows

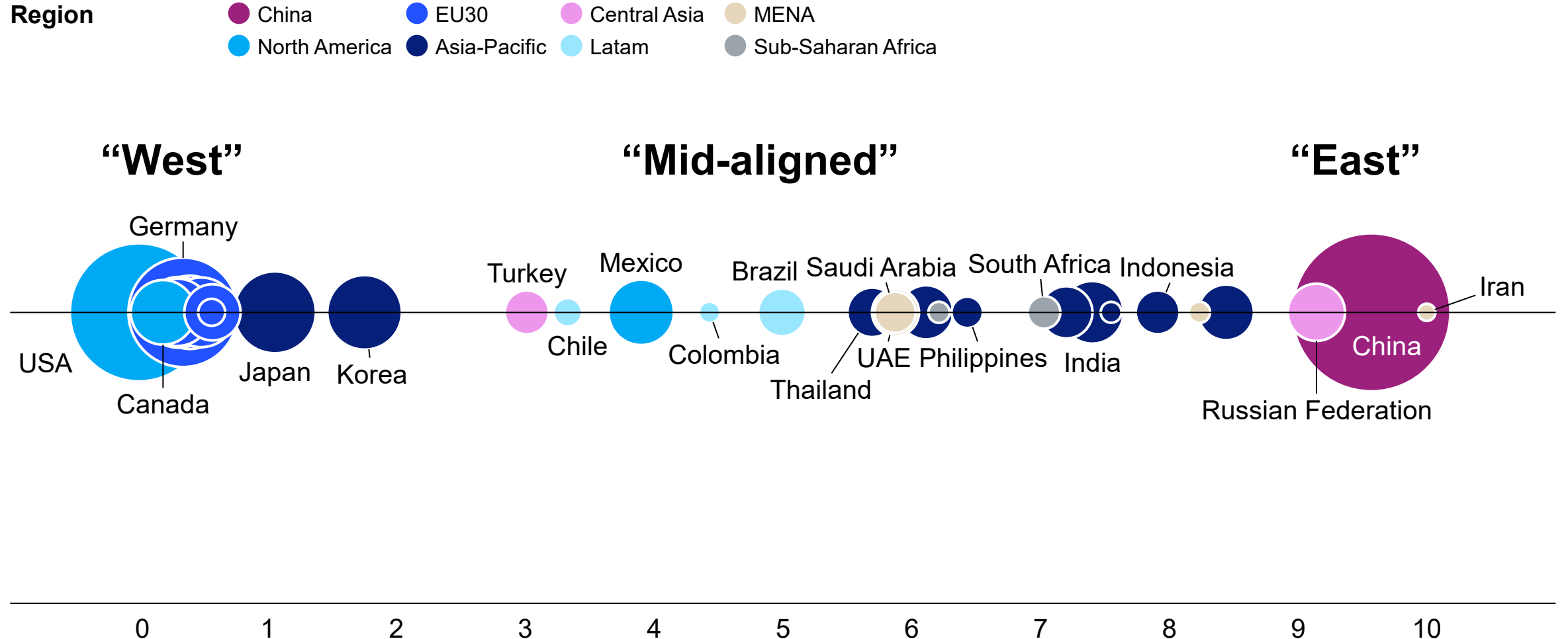


Source: UN Comtrade

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# Economies hold different geopolitical positions

Goods trade relationships, 2021, and UN General Assembly voting patterns, 2005–22



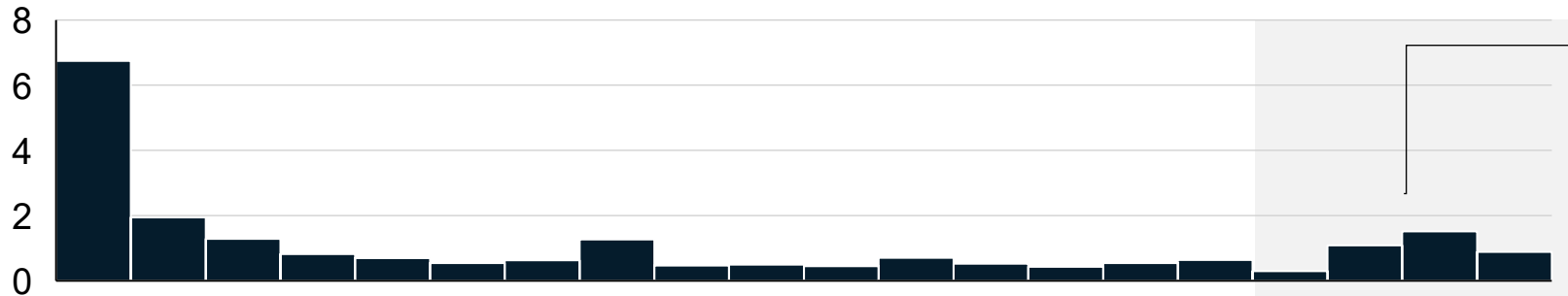
**Geopolitical position**

# Concentrated products bind geopolitically more distant economies

Goods trade, by geopolitical distance travelled, 2021

## All products

~\$22 trillion

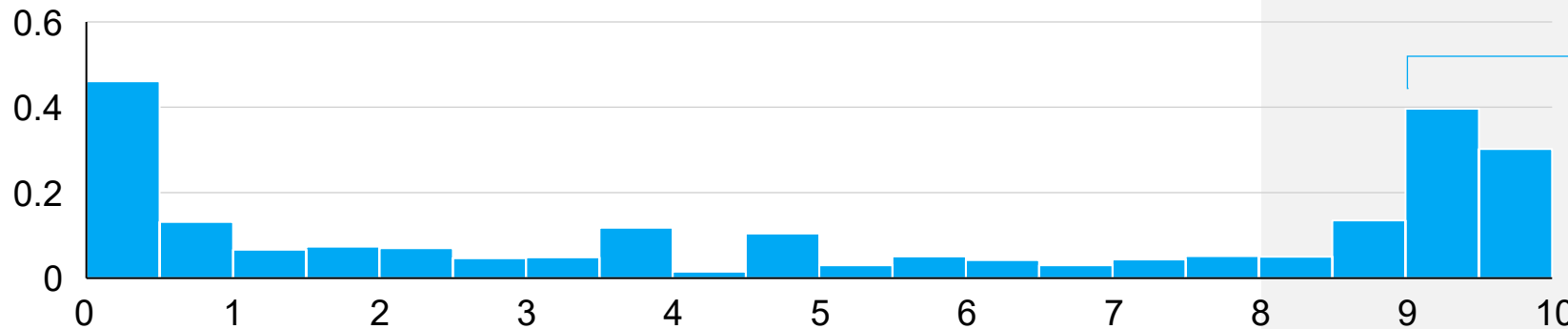


**17%**

Share of trade between geopolitically more distant economies

## Globally concentrated products<sup>1</sup>

~\$2.3 trillion



**39%**

Share of trade between geopolitically more distant economies

**Geopolitically closer economies**

*E.g., US–Germany, China–Russia*

**Geopolitically less distant economies**

*E.g., US–Brazil, Germany–India*

**Geopolitically more distant economies**

*E.g., US–China, Germany–Russia*

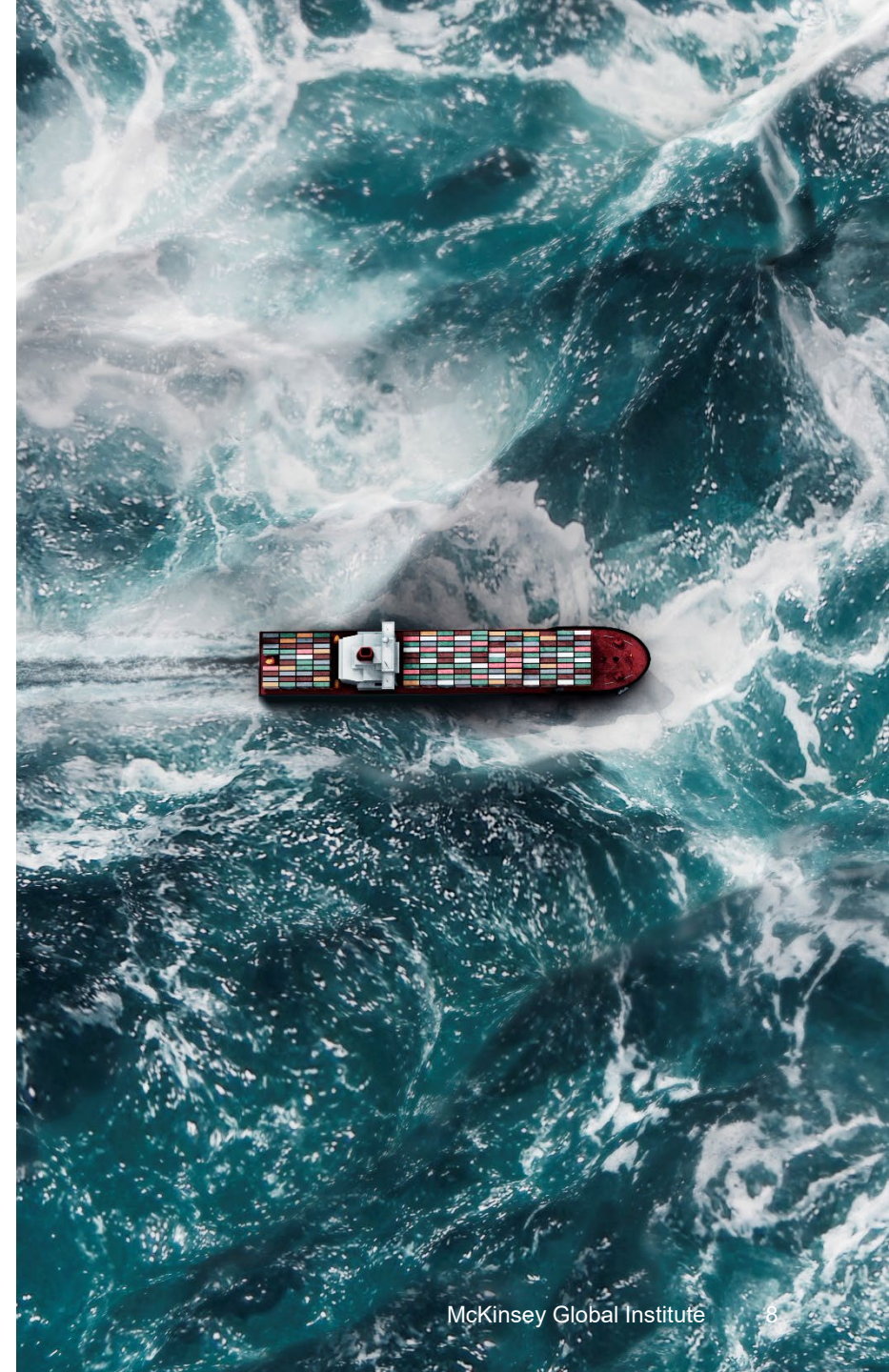
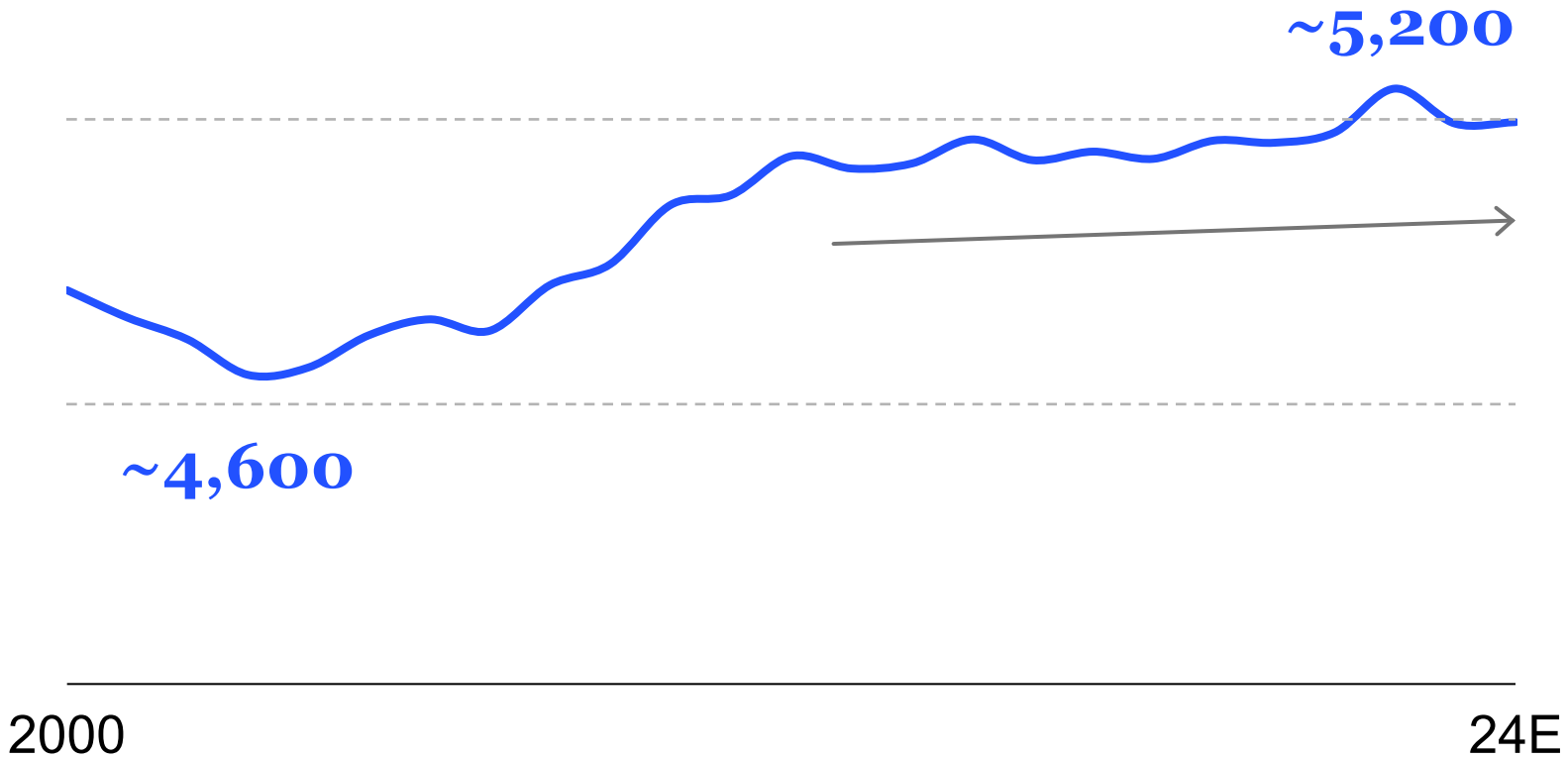
**Geopolitical distance**



**Trade reconfiguration underway...**

# Trade is traveling further than ever

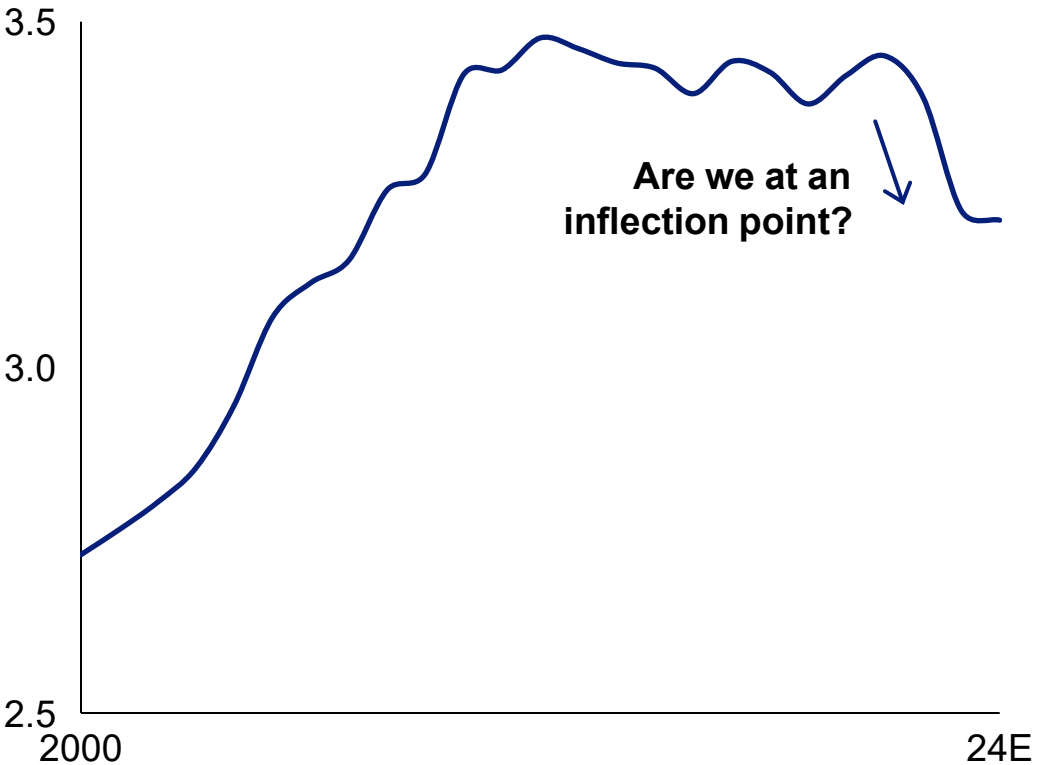
Geographic distance travelled by trade, Km



# For many countries, geopolitical distance of trade has been decreasing...

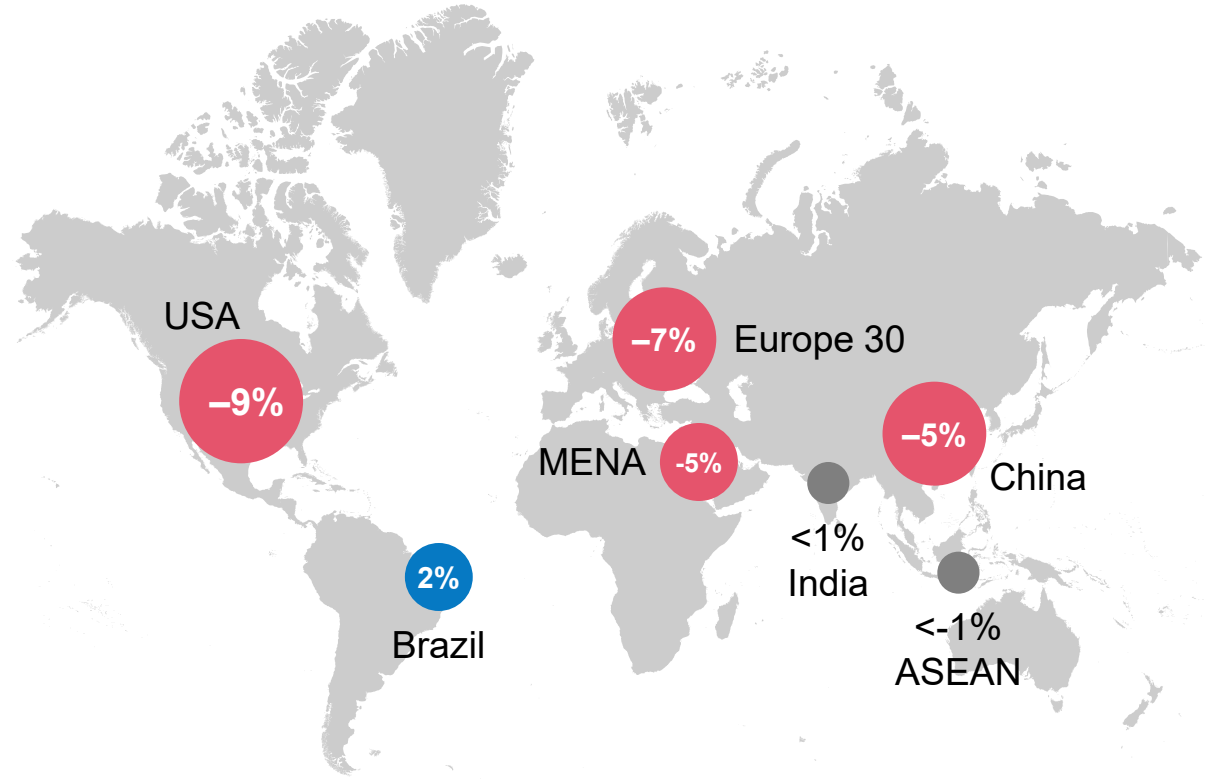
## “Geopolitical distance” travelled by trade

0-10 scale



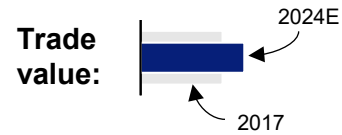
## Geopolitical distance

% change, 2017-24E or most recent



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

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



Region: Asia-Pacific (ex. mainland China) China (mainland) Europe 30 Mexico Other economies

Total US imports, US\$ billion

Sector	0 200 400 600				Change in import share, pp, 2017–24E	Largest share changes, pp	
						Share decline	Share gain
Machinery <sup>1</sup>					-16	4, 13	China: -16 pp; Taiwan, China: 9 pp
Electronics					-16	12, 2	China: -16 pp; Vietnam: 6 pp
Chemicals and pharma <sup>2</sup>					-3, -5	3, 5	China: -3 pp; Ireland: 4 pp
Transportation equipment					-6	7	Canada: -5 pp; Mexico: 7 pp
Contract manufacturing					-11	2, 6, 2	China: -11 pp; Vietnam: 4 pp
Energy resources					-15	14	Saudi Arabia: -5 pp; Canada: 14 pp
Metals and minerals					-5, -4	2, 2, 4	China: -5 pp; Mexico: 2 pp
Textiles and apparel					-14	10, 2, 2	China: -14pp; Vietnam: 5 pp
Food and beverages					-8	5, 4	France: -2 pp; Mexico: 5 pp
Agriculture					-3	2, 1, 3	China: -2 pp; Mexico: 2 pp
Glass and ceramics					-5, -6	2, 4, 5	China: -5 pp; Switzerland: 5 pp
Lumber and paper					-9, -3	6, 3, 2	China: -9 pp; Vietnam: 3 pp

Note: 2024 data until October 2024. Figures excludes trade under special provisions with no clear sectoral specification. 2024 trade totals are extrapolated using the available 2024 data and the historical ratio of annual total trade to the value of trade between January and October..

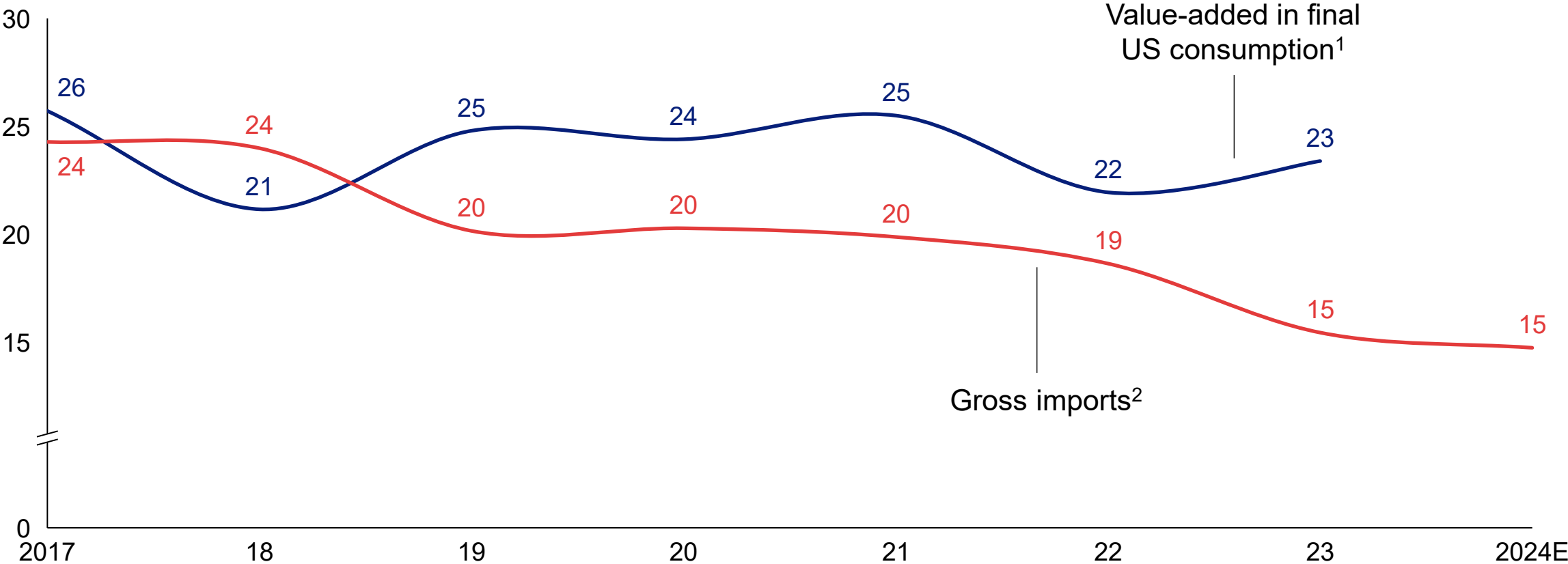
1. An approximate label for Harmonized System Chapter 84: however, this broad sector also includes many electronic products. 2. Includes rubber and plastics.

Source: US Census Bureau; McKinsey Global Institute analysis

# Ties are not easy to unwind

Change in share of US manufactured goods imports, 2017–24E

### Mainland China share of US manufactured goods imports, %



1. China's share of value added in US final consumption of imported manufactured goods. This includes value added originating in China that is imported by the US from another economy.

2. China's share of total imports of manufactured goods into the US.

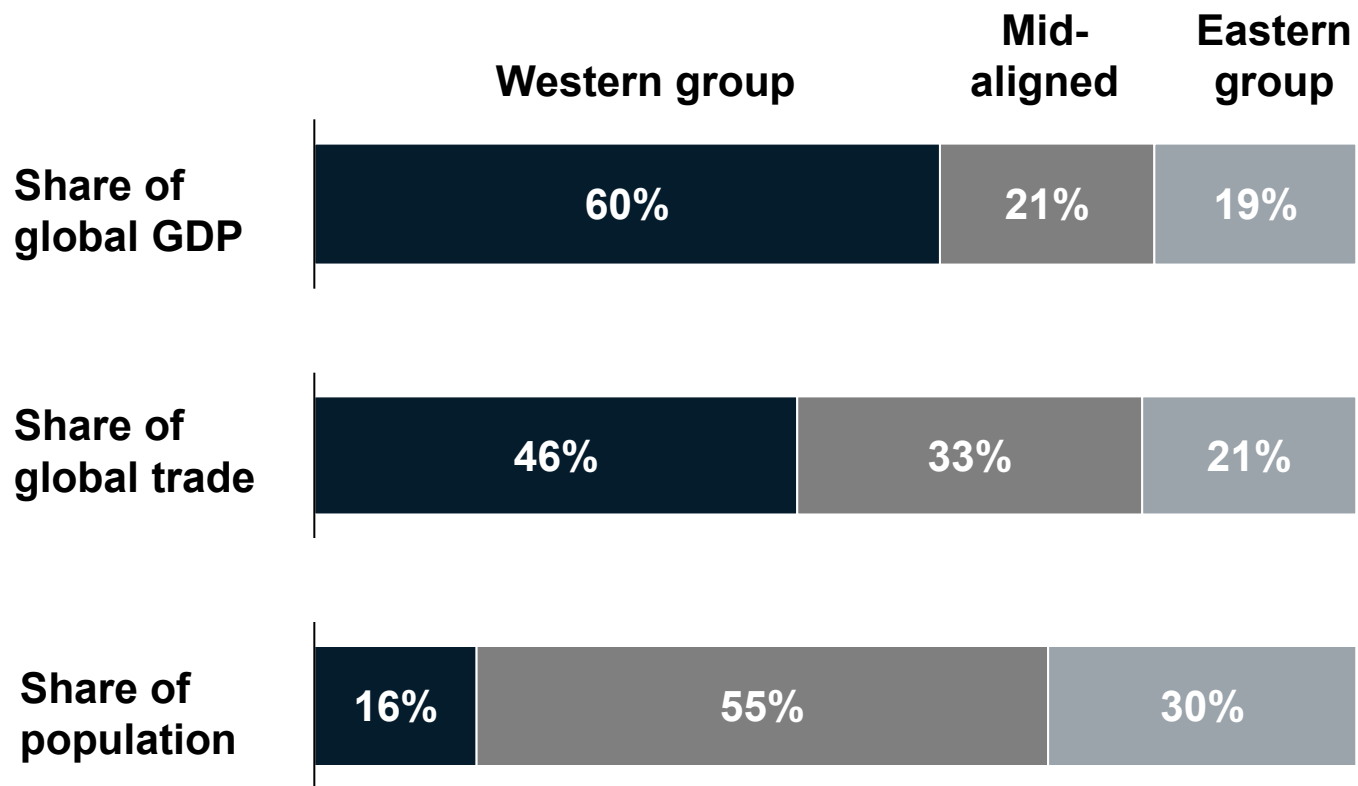
Note: 2024 data are through October 2024

**Different  
futures,  
different  
trade-offs**



# We explored two types of reconfiguration path

Three economy groups, defined by geopolitical ties



## 1. Fragmentation

Significant trade frictions arise between Eastern group and Western group economies, which mainly affect flows of critical goods and services



## 2. Diversification

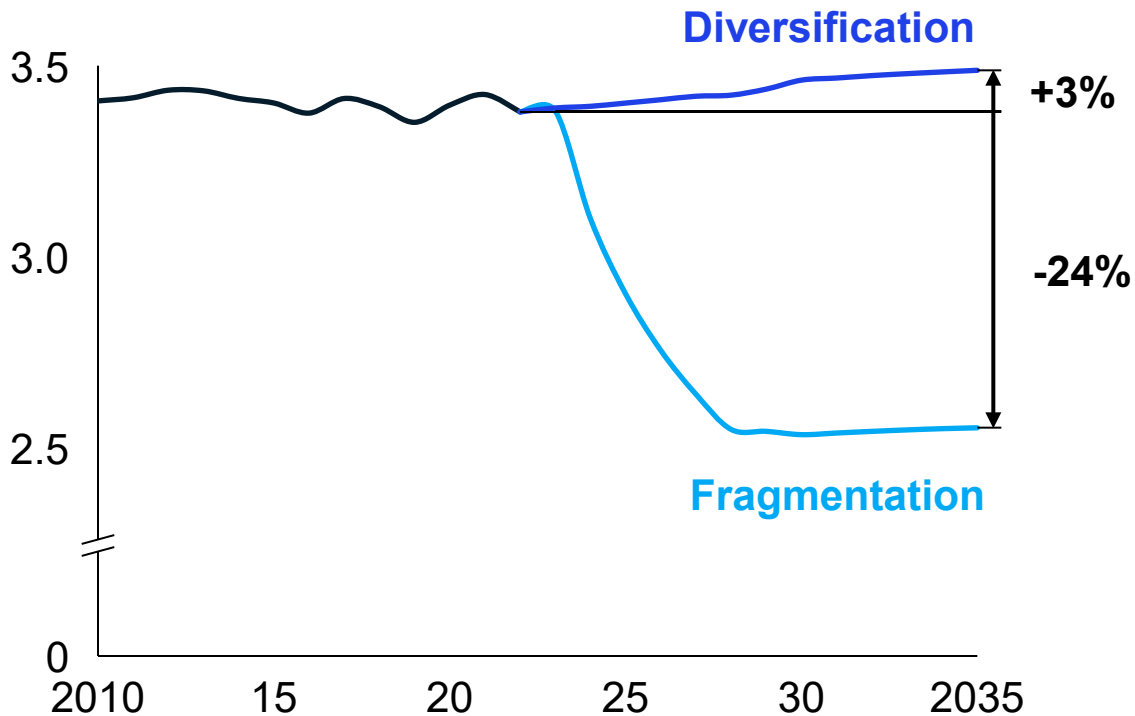
Firms systematically diversify their trading relations where concentrated relationships exist in order to boost resilience, without a geopolitical lens

# Both types of path come with trade-offs

Evolution of goods trade indicators, 2022–35, across illustrations

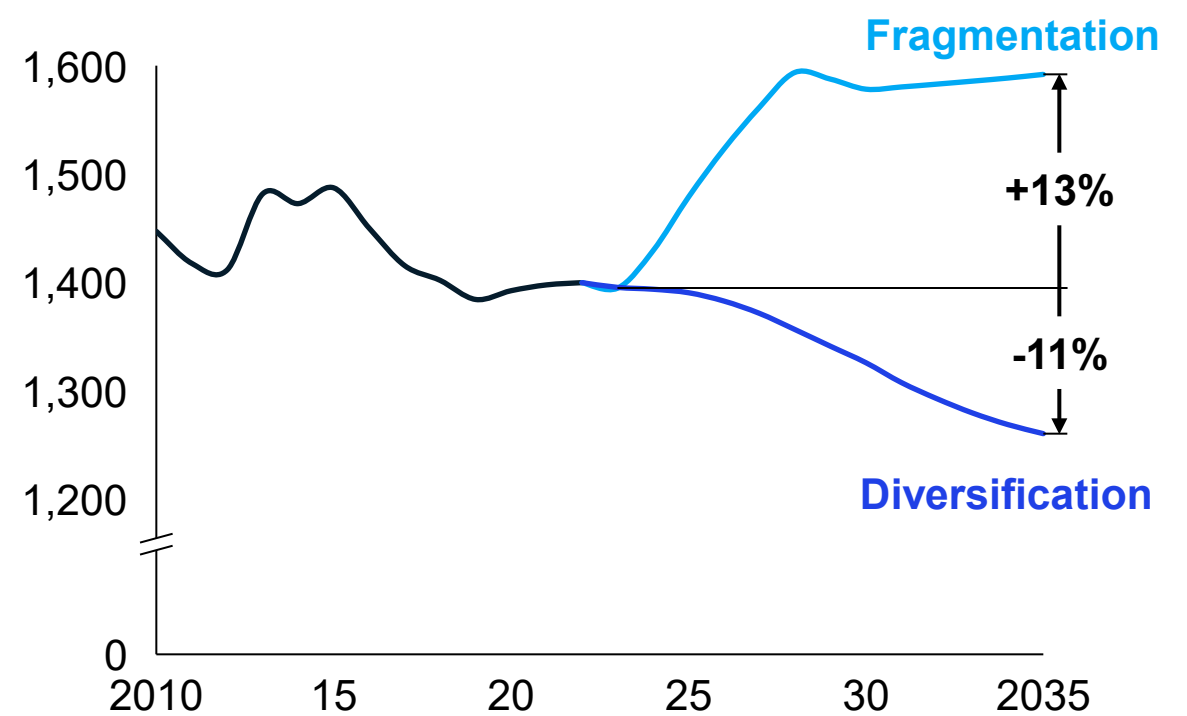
**Trade reconfigures along geopolitical lines in fragmentation, but not diversification**

Average 'geopolitical distance' goods trade travels



**Fragmentation meaningfully increases import concentration**

Goods import concentration, HHI



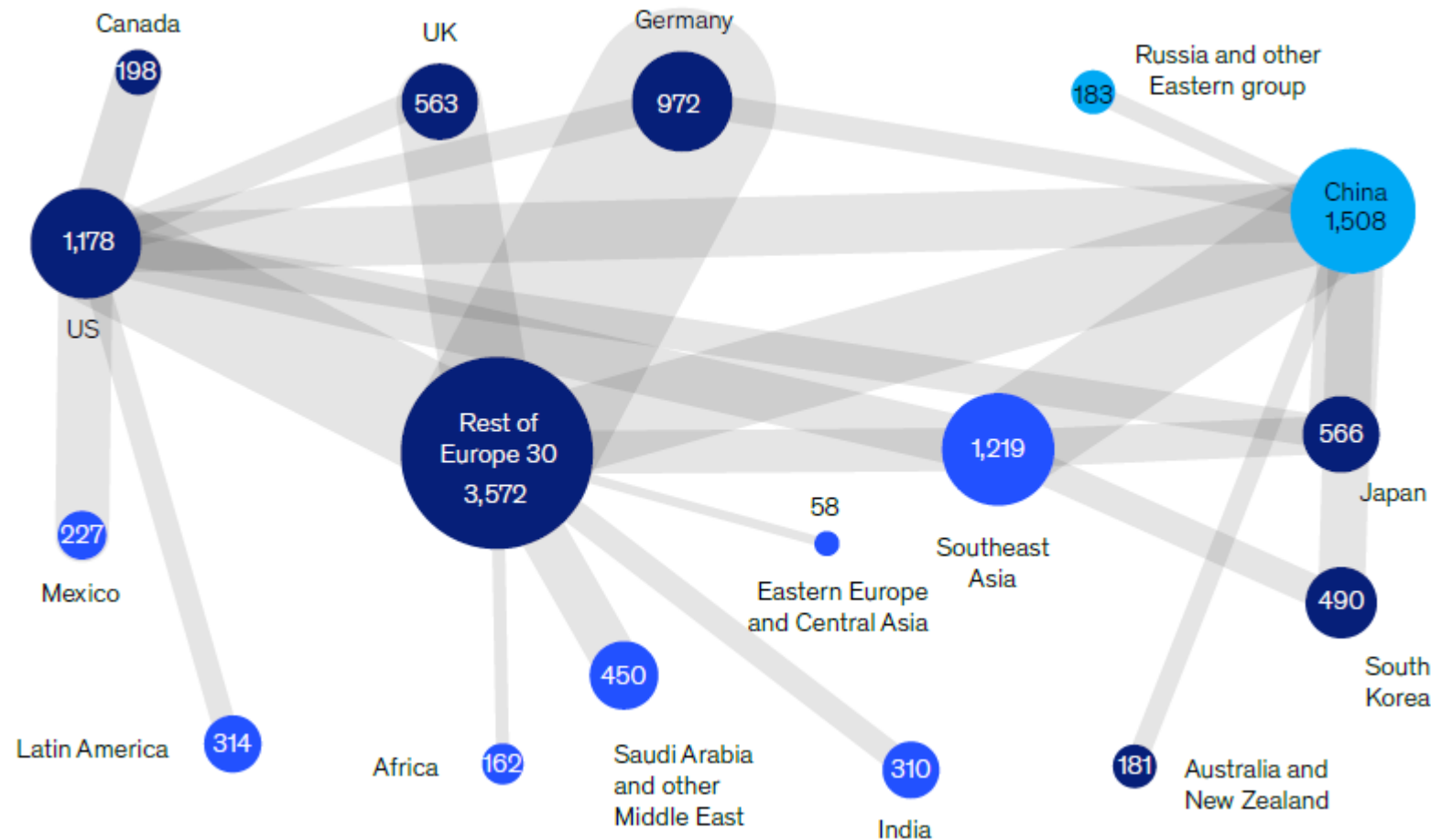
# Large economies are deeply interconnected today

Largest trade flows, more critical goods and services

**Economy:** ■ Eastern group ■ Mid-aligned group ■ Western group

● Circle size is proportional to total exports and line thickness is proportional to bilateral trade value

2022



15%

Trade between Eastern and Western group as a share of global trade, for more critical goods and services

16%

Mid-aligned economies' exports as a share of global exports, for more critical goods and services

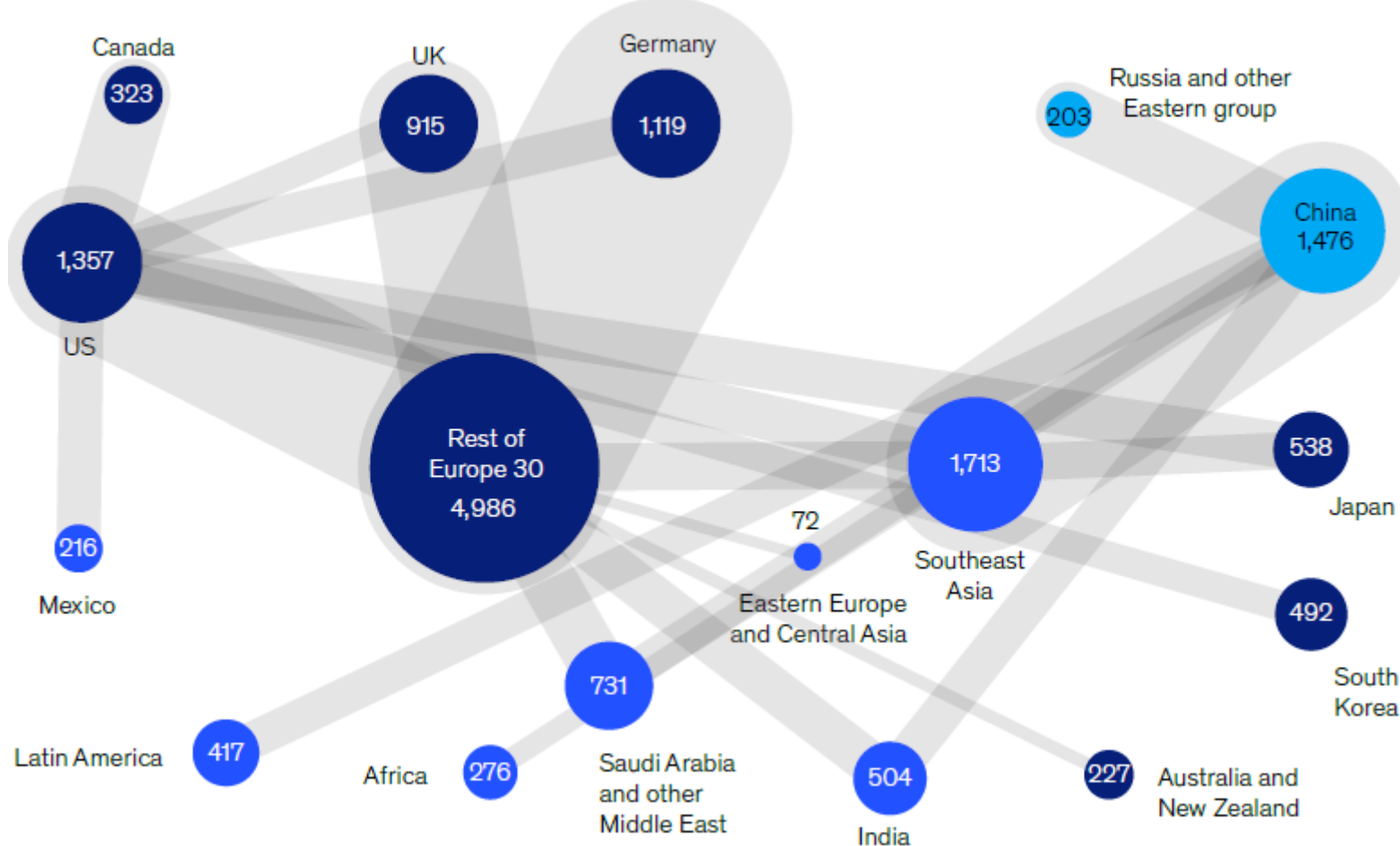
# Many connections unwind in fragmentation

Largest trade flows, more critical goods and services

**Economy:** ■ Eastern group ■ Mid-aligned group ■ Western group

● Circle size is proportional to total exports and line thickness is proportional to bilateral trade value

## Fragmentation illustration, 2035



2%

Trade between Eastern and Western group as a share of global trade, for more critical goods and services

15%

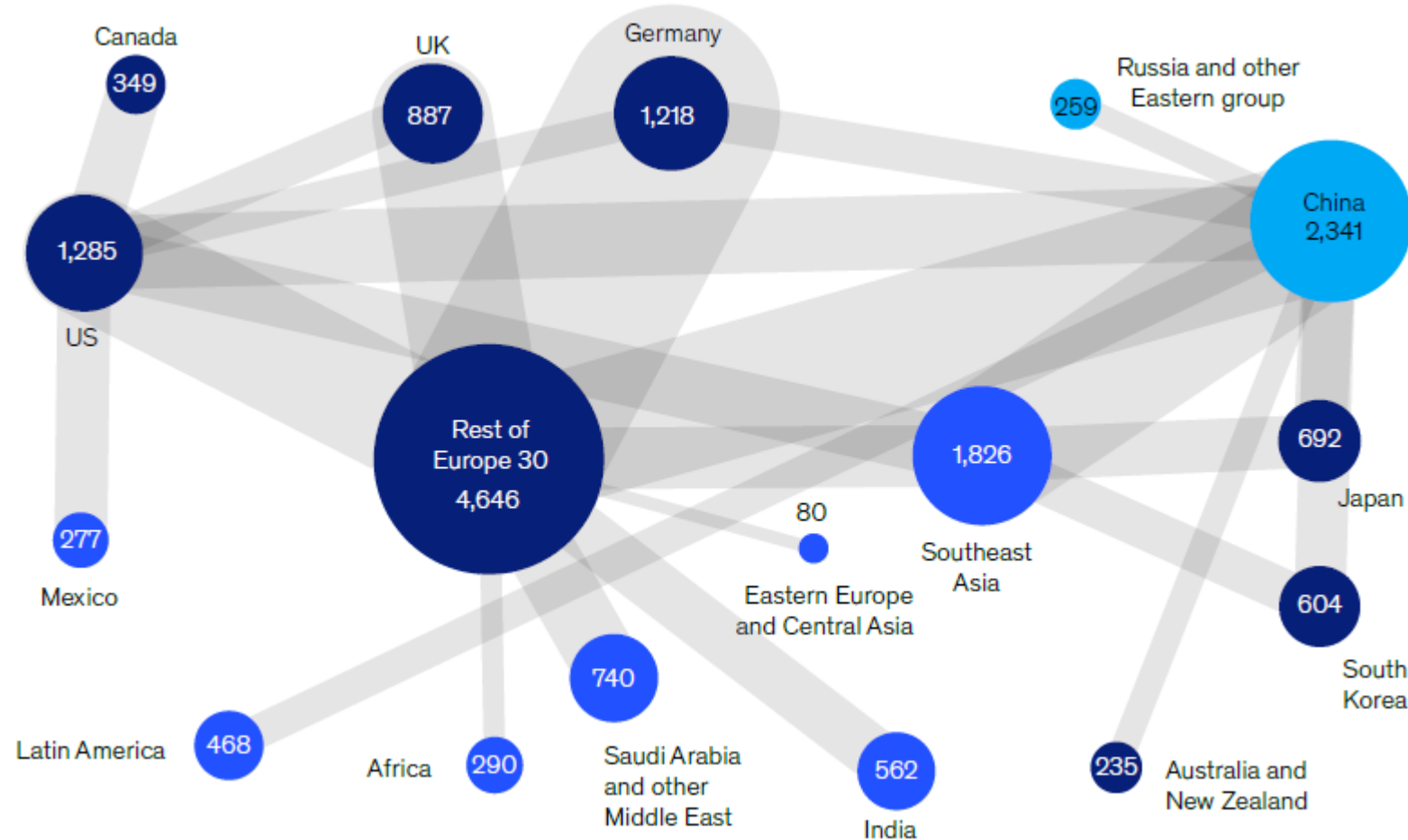
Mid-aligned economies' exports as a share of global exports, for more critical goods and services

# The contents of trade corridors shift in diversification

Largest trade flows, more critical goods and services

**Economy:** ■ Eastern group ■ Mid-aligned group ■ Western group      ● Circle size is proportional to total exports and line thickness is proportional to bilateral trade value

## Diversification illustration, 2035



15%

Trade between Eastern and Western group as a share of global trade, for more critical goods and services

16%

Mid-aligned economies' exports as a share of global exports, for more critical goods and services

# MGI Global Flows series

**Global flows:**  
The ties that bind in an interconnected world



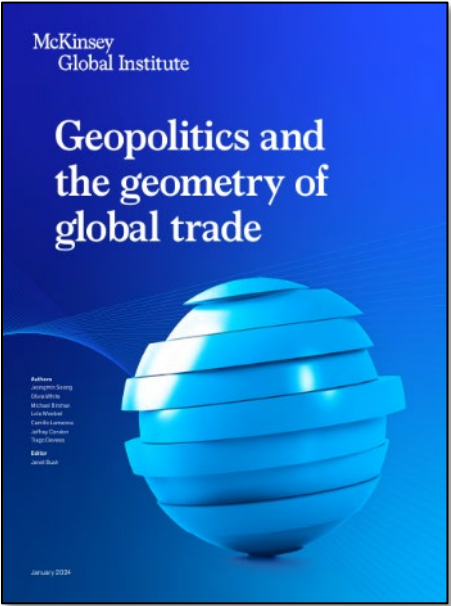
[mck.co/GlobalFlows](https://mck.co/GlobalFlows)

**The complication of concentration in global trade**



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