ECONOMIST IMPACT

Trade in Transition 2025

Global Report

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FIVE YEARS OF Trade in Transition

DP WORLD FOREWORD

The age of agility: balancing risk and resilience in global trade

Sultan Ahmed bin Sulayem
Group Chairman and CEO, DP World

Profound disagreements between major powers and a more transactional approach to national interests are fast redefining global trade. As our own customers navigate an increasingly fragmented trade landscape, it has become clear that agility is not only a necessity but a strategic advantage. Companies that can balance reliability with flexibility will find themselves more resilient and better positioned to manage the complexities of today's global supply chains.

This understanding forms the foundation of our support for *Trade in Transition*, an Economist Impact research series now in its fifth edition. By highlighting the critical role of agility in building resilience, this research equips businesses with actionable insights to navigate the evolving trade environment with confidence.

Consider the transformations underway. Political shifts and trade wars are accelerating changes in global supply chains. In the US, the election of a new Republican administration has prompted a significant shift, with around 40% of firms increasing domestic sourcing to mitigate disruptions and streamline their supply chains. At the same time, we're seeing dual supply chains become more prevalent. Around a third of businesses—DP World's customers among them—are adopting this strategy to remain flexible and resilient to region-specific risks. Further, as cargo owners' confidence waivers, a similar proportion of companies are turning to friendshoring, leaning on politically aligned allies to expand their options and enhance supply-chain security. These new alliances also highlight the overreliance on long-established routes such as the Panama and Suez Canals—dependencies that have made global trade more vulnerable when navigating climate change-induced droughts and conflicts.

That said, times of change also present opportunities. Through our own global footprint, we've seen non-aligned countries rise in prominence as businesses seek greater stability and choice. Emerging markets such as Mexico, Vietnam and the UAE—the home of DP World—are becoming indispensable trade partners, offering resilience and new paths for growth.

Technology, too, has emerged as a critical enabler of agility. Across our international network, we're seeing digital tools such as AI and blockchain drive automation, streamlining disruption responses and ensuring secure transactions. These innovations empower companies to evolve confidently in line with whatever strategy they see fit.

With the findings from *Trade in Transition 2025*, businesses have access to critical insights that will enable them to continue this journey of evolution. As a global provider of smart logistics solutions, DP World will continue to leverage these assets to tailor solutions to our customers' unique needs. I believe the insights from this year's report will empower businesses to navigate complexity and thrive in an evolving trade landscape. Whatever your industry, and wherever your ambitions lie, resilience begins with the strategies we build today.

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About this report

Now in its fifth edition, Trade in Transition, a research programme led by Economist Impact and supported by DP World, continues to explore the forces shaping global trade and supply chains. It seeks to unravel the complexities of global trade and equip businesses with practical insights to adapt to a fragmented world. By linking these findings to major global events, the programme brings meaning to the priorities and strategies that are likely to define the future of trade and supply chains. A separate article is devoted to a longer-term challenge facing businesses: to advance sustainability in their trade practices as demanded by climate change.*

Our research draws on a **global survey of 3,500 senior executives** across six industries and all major regions (North America, Europe, Asia Pacific, the Middle East, Africa and South America). It asks about their sentiments towards global trade for the year ahead and queries the supply-chain strategies their firms are adopting.

To complement the survey, the research programme uses **natural language processing (NLP)** to analyse shifts in global narratives on trade and supply chains. By breaking everyday language into quantifiable data, NLP enables a measurement of the frequency of key terms across a vast body of text. When these results are mapped against major global events, they reveal changing trade priorities over time. The analysis draws on reports from the Economist Intelligence Unit (EIU) spanning 1996 to 2024, distinguishing two pivotal eras: the Washington Consensus and New Globalisation. Each era is associated with specific trade-related terms. Words linked to New Globalisation include geopolitics, climate change and artificial intelligence, reflecting the core factors driving this chapter of global trade. By contrast, words associated with the Washington Consensus include multilateralism, deregulation and open markets.

The findings from both our survey and NLP analysis were supplemented by an **interview programme** with trade experts and senior executives from various regions and industries. We would like to thank the following experts for their time and insights:

- **Leila Afas**, director of global public policy, Toyota
- **Sreejith Balasubramanian**, head of the centre for supply-chain excellence, Middlesex University
- **Nadia Boumeziout**, head of sustainability, Zurich Insurance
- **Ed Brzytwa**, vice president of international trade, Consumer Technology Association

*Will become available as part of the Trade in Transition 2025 programme in the coming months.

- **Daniel Enache**, director for parts & accessories logistics, Dacia
- **Jan Havenga**, professor of logistics, Stellenbosch University
- **Sneha Susan Jacob**, head of supply-chain development and CapEx for eastern emerging markets (Russia, Middle East, Africa, Turkey and Eastern Europe), KraftHeinz
- **Anderson Martins**, head of supply chain, Nestle Philippines
- **Juerg R. Meier**, managing director, Kuehne+Nagel
- **Marko Kovacevic**, managing director, Digital Supply Chain Institute
- **Simon Lacey**, head of digital trade and geopolitics, World Economic Forum
- **Sulaiman Pallak**, general manager of sales operations, General Motors
- **Asif Salam**, professor of marketing & supply-chain management, King Abdulaziz University
- **Sandeep Sharma**, director of group procurement & international markets supply chain, Alamar Foods
- **Sabine Weyand**, director general for trade, European Commission

The report was produced by a team of researchers at Economist Impact, including:

- **John Ferguson**, project advisor
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- **Eddie Milev**, analyst

Executive summary

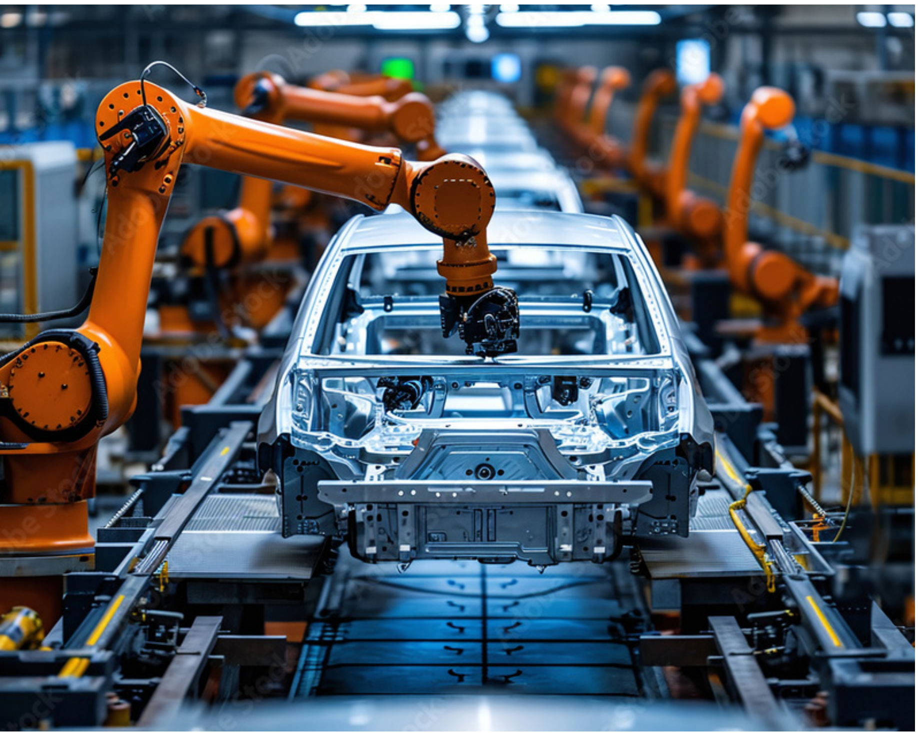
Boardroom conversations have changed markedly over the past decade. Trade and supply chains, once niche concerns, are now often on corporate agendas, as businesses worldwide are grappling with disruptions to their procurement, production and logistics operations. The culprits are many: trade wars, geopolitical tensions, climate events and a global pandemic. In 2024 alone, bridges collapsed, earthquakes struck, the wars in Ukraine and the Middle East raged, US-China tensions rose, EU-China relations soured and Donald Trump was re-elected as the president of America. Looking ahead to 2025, many of the challenges to trade will persist and new ones will undoubtedly emerge. However, businesses are not retreating from international trade, they are stepping up.

There are reasons for optimism. Companies are finding ways to navigate political fragmentation, while technologies such as artificial intelligence are improving efficiency and opening up new opportunities for growth. Those that adapt quickly to these shifting dynamics will set themselves apart from their competitors. In this fifth edition of Trade in Transition, we continue exploring how businesses perceive and respond to the new era of globalisation.

Key findings

1. **Firms brace for deeper protectionism as global trade may face its most turbulent era since the 1930s**

   Donald Trump's return to the White House suggests an intensification of American protectionism is imminent, with tariffs wielded to pursue other policy goals. The world of trade is no longer one of international rules, but of mercantilist confrontation. Mr Trump has proposed a 10% tariff on all imports, levies of up to 25% on goods from Mexico and Canada, and even steeper duties on Chinese products. Although such measures are unlikely to be implemented in full overnight, their mere suggestion is already reshaping business strategies. Almost 40% of firms globally are increasing US-based sourcing to avoid disruptions, while others are focusing on cutting costs or lobbying governments to mitigate risks. However, the impact might be harder to contain, as the countries Mr Trump will target are better prepared to retaliate. Their responses might include trade incentives to woo US allies, and export restrictions on vital resources (which China has already imposed plenty of). This tit-for-tat retaliation threatens a new era of global trade fragmentation, comparable to the trade wars of the 1930s.



2. **Dual supply chains are now also a two-way street**

   Establishing dual supply chains—one tied to China and another entirely independent—has become increasingly common among Western firms, but they are not the only ones adapting. About 32% of businesses are pursuing this approach to hedge against region-specific risks. Western companies like General Motors and TSMC use dual supply chains to keep tapping China's profitable market while protecting themselves from the associated geopolitical risk. Meanwhile, Chinese firms, especially in the auto industry, are doing the reverse: setting up parallel supply chains to navigate growing trade restrictions in the West while strengthening operations at home. Western firms are focusing on profitability and resilience, whereas Chinese firms are prioritising market access. The strategies may look similar, but the different motivations highlight the increasingly fragmented world of trade.

3. **Non-aligned countries emerge as important trade partners, but not without concerns**

   In a divided global trade system, non-aligned countries like Vietnam, the United Arab Emirates (UAE) and Mexico are increasingly seen as supply-chain safeheavens. According to 71% of the executives we interviewed, these countries can help firms manage risks by acting as politically insulated trade partners. However, scaling up trade with non-aligned countries poses challenges: 63% of businesses worry about regulatory inconsistencies, which could undermine the ability of non-aligned countries to serve as reliable intermediaries. Consequently, only 27% of firms see expanding into more stable markets as the best way to deal with geopolitical tensions.

4. **Friendshoring is more political than it is practical**

   Relocating supply chains to politically aligned countries, or "friendshoring", is the most popular strategy to reduce geopolitical risks, with 34% of firms adopting this approach. Western governments, particularly in the US, are nudging businesses toward friendlier markets through policies like export controls and tariffs on Chinese goods. However, businesses will struggle to bet on long-term "friends". As Mr Trump's tariffs-based approach to international relations takes hold, determining which nations qualify as allies (and how long they will remain so) will become an increasingly complex calculation for supply-chain planners. Furthermore, whether friendshoring will work in practice remains unclear. Although American firms are shifting production to Vietnam or Mexico to reduce dependence on China, many of these countries still rely heavily on Chinese inputs.

5. **Finding the sweet spot: balancing diversification and localisation**

   Businesses are split between spreading supply-chain risk across regions and staying close to home. Almost 46% are diversifying geographically to enter new markets and hedge against disruptions, while 42% are localising supply chains to cut transport costs and improve oversight. A calculated mix between the two approaches might be the right answer. Each approach has its limits: diversification can be complex and expensive, whereas localisation risks cutting off global opportunities. However, enjoying the best of both approaches can work, by sourcing materials from multiple regions to reduce reliance on any one geography while shifting production closer to key markets for greater control and agility. In the fractured world of trade, firms that combine global reach with local responsiveness are most likely to thrive.

6. **Diversification trumps inventories: less hoarding, more hedging**

   The days of stockpiling goods in sprawling warehouses are fading. Only 20% of executives see building inventories as the best strategy for resilience, compared with 42% who favour diversification across suppliers and regions. However, it isn't about picking only one solution. The majority of firms are trimming their inventory buffers—down from 10.2 weeks in 2022 to 8.6 weeks in 2024—while casting a wider net for suppliers to ensure flexibility when shocks occur. About 37% of executives feel that inventories and diversification are equally effective. The solution seems to be balance: leaner inventories free up some cash, while diversified suppliers reduce reliance on any single source and offer room for growth. In a trade landscape where adaptability is fundamental, hoarding is out and strategy is in.

7. **More suppliers, more flexibility; fewer suppliers, more control**

   Firms favour working with a greater number of suppliers for intermediate goods, raw materials and services. Three-quarters of businesses are diversifying their supplier base, spreading risk and increasing resilience by working with more partners. However, not everyone is casting a wider net. About 25% of firms prefer to work with fewer providers as a deliberate strategy. For these firms, the benefits of working with fewer suppliers include higher quality and consistency (38%), stronger, trust-based relationships (35%) and lower administrative costs (28%). Although diversification reduces the chance of disruption, consolidation offers reliability and simplifies oversight. Choosing suppliers is yet another balancing act facing supply-chain strategists.

Free trade, fraught times

In the world of trade, the past few years have been anything but quiet. Businesses have contended with a series of disruptions, from the trade wars initiated during Donald Trump's first term in office, to the snarl-ups of the covid-19 pandemic and the shockwaves caused by the wars in Ukraine and the Middle East. Sporadic disruptions, such as collapsed bridges, disrupted waterways and natural disasters intensified by climate change, have added a layer of complexity for supply-chain managers. These have unfolded against a rising appetite for protectionism, notably in the US, and are reshaping the contours of trade itself, ushering in a new era of globalisation (see Box 1).

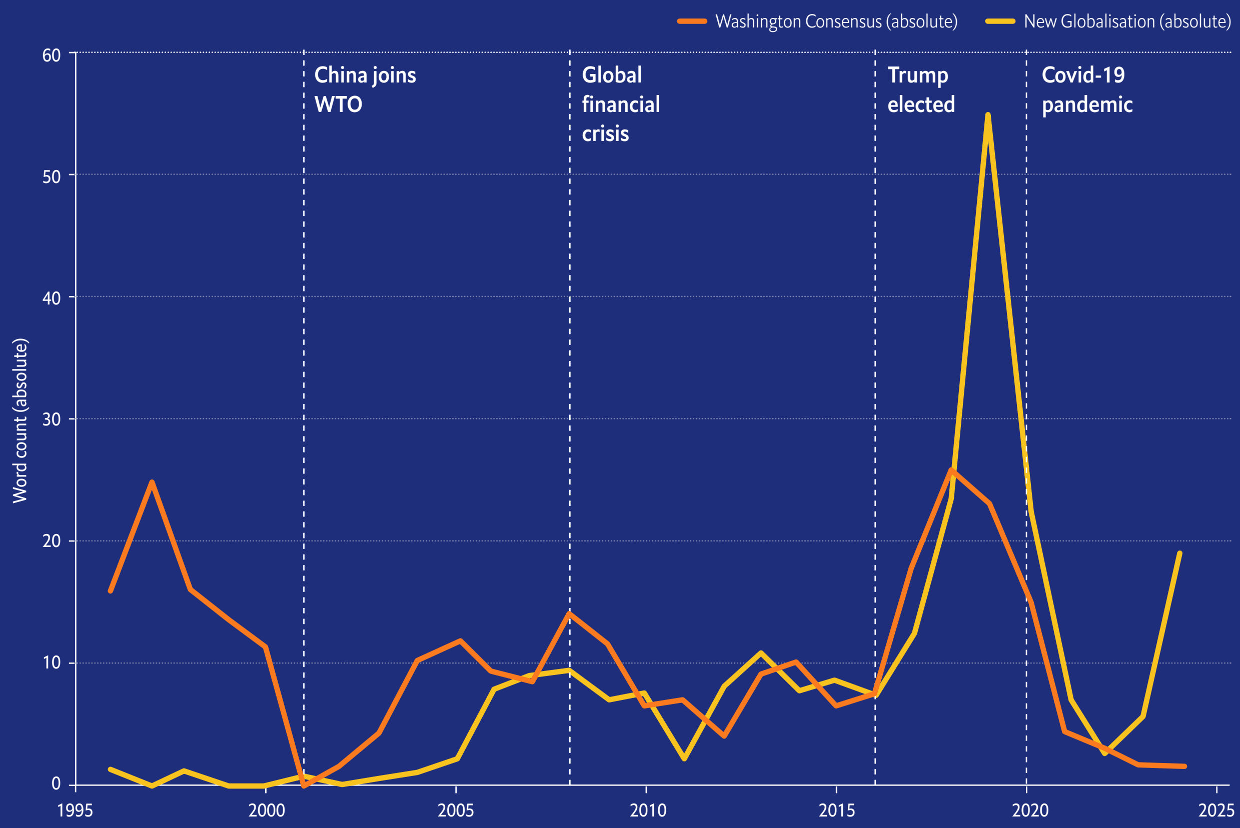
The trouble is unlikely to dissipate. A particular challenge for 2025 stems from the re-election of Mr Trump, a self-described "tariff man", as president of the United States. Protectionist policies are expected to spike, with suggestions of tariffs of 10%-20% on all American imports, with much higher rates applied to perceived foes. Although these sweeping measures may take time to materialise—if they do at all—countries are already bracing for what could become one of the most damaging trade wars, marked by tit-for-tat tariffs, since the 1930s.

China, the world's second-largest economy and prime economic competitor to America, is the main target of Mr Trump's approach to global trade. The new administration has suggested applying a 60% tariff on all Chinese goods, five times the current average rate. Other countries will also be affected. Amid Mr Trump's re-election, BDI—Germany's main industry association—warned that, with Mr Trump back in the White House, "the tone will become harsher and the protectionist course will consistently be pursued". The European Union (EU) will face the daunting task of navigating the Sino-American stand-off. The EU will have to do this while facing its own complex relationship with China, with whom it needs to uphold vital trade ties as it addresses unfair competition.

One relative beneficiary might be non-aligned countries—those steering geopolitical divides without aligning with either side—as global supply chains shift towards "safer" geographies. However, non-aligned countries, particularly those in Asia and Latin America, will also confront a more complex mix of risks and opportunities. Mr Trump has been hawkish on tariffs towards Mexico, America's now-largest trading partner and primary beneficiary of diversification away from China.

Box 1: New Globalisation Transition Index

From the Washington Consensus to New Globalisation



To explore how the nature of global trade has evolved over the past three decades, Economist Impact analysed The Economist Intelligence Unit's (EIU) quarterly Global Economic Outlook reports from 1996 to 2024 , searching for terms associated with two distinct trade paradigms: the Washington Consensus and New Globalisation.

The results tell a clear story. In the late 1990s, terms linked to the Washington Consensus dominated trade talk, reflecting the ascendancy of ideals such as liberalisation, privatisation and deregulation. This culminated in perhaps the most consequential moment in the recent history of free trade: China's admission into the WTO in late 2001.

Since the 2008 global financial crisis, however, the dominance of such terms began to wane, marking the start of a transition period characterised by rising concerns about globalisation. We define this period as New Globalisation, shaped by three forces: geopolitical tensions, climate change and technological advances, now dominated by artificial intelligence (AI). We saw a spike in New Globalisation as trade wars and protectionist sentiment intensified amid the election of Mr Trump and the early stages of the pandemic. After a brief reprieve (largely due to the pandemic), we saw a resurgence in New Globalisation-related terms in the run-up to the 2024 US elections, as both the Democratic and Republican parties positioned themselves to be tough on China. With Mr Trump in the White House, it is likely that two paradigms will continue to diverge, with New Globalisation trends accelerating.

For supply-chain executives, this signals a period of heightened uncertainty requiring constant scenario planning and recalibration of short-, medium- and long-term plans. It will require the use of predictive analytics to identify potential risk, generative AI for dynamic supplier negotiations and supply-chain reconfigurations, and blockchain for traceability and executing smart contracts. These efforts to drive efficiency and agility must be matched with creative strategies for cost management. Firms that stay agile and cost-efficient will be best placed to thrive in this era of new globalisation.

Despite the gloomy geopolitics, global trade still shows signs of resilience. EIU estimates that trade in goods increased by 2.5% in 2024, and forecast that it will increase by 3.3% in 2025 and 3.1% in 2026.[1] Similarly, in October, the World Trade Organization (WTO) updated its global merchandise trade growth 2024 forecast to 2.7% —a slight uptick from earlier projections.[2] However, the WTO has tempered its optimism by revising its 2025 growth forecast to 3% from 3.3%, citing rising geopolitical tensions and economic uncertainties as substantial risks.[3]

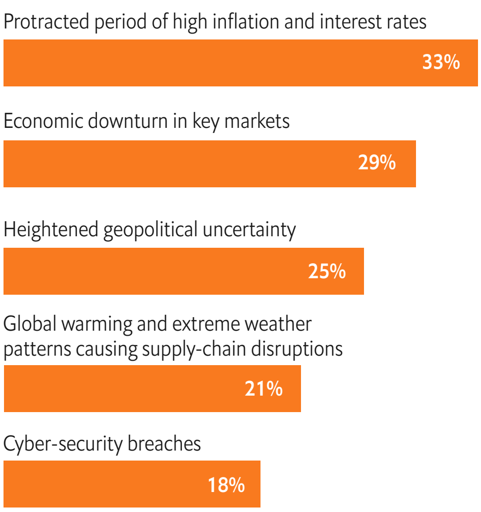
Trading on thin optimism

Businesses are apprehensive about the turbulence ahead. The executives surveyed in our Trade in Transition research programme share a mix of pessimism and cautious optimism. Economic concerns loom largest, with about 33% of business leaders worldwide citing a protracted period of high inflation and interest rates as their chief concern (see Figure 1). Projections from EIU suggest that global inflation will moderate to 4.5% in 2025 and 3.7% in 2026, compared with 6% in 2024. However, the International Monetary Fund warns that price pressures—particularly in the services sector—remain stubbornly high.[4,5] A potential global tariff war could stoke further inflation in coming years.

Compounding macroeconomic concerns, 29% of surveyed business leaders worry about downturns in important markets. Their caution is justified: EIU forecasts that global GDP growth will remain steady at an average of 2.7% between 2025 and 2029.[6] The World Bank predicts that 80% of the world's population is likely to experience slower growth in this period compared with the pre-pandemic decade.[7] However, there is a silver lining: economic stability is a source of optimism, with about 34% of executives citing increased stability and growth as a main reason for their positive trade outlook over the next two years (see Figure 2).

Figure 1: Top five reasons for pessimism

Respondents ranked their top two reasons for pessimism



Source: Economist Impact Trade in Transition survey, August-November 2024

Figure 2: Top five reasons for optimism

Respondents ranked their top two reasons for optimism

Source: Economist Impact Trade in Transition survey, August-November 2024

Government trade policy is another focal point of business sentiment in 2025. On the positive side, nearly 24% of businesses express that they are optimistic due to increased attention and support from national governments. However, 15% of respondents are worried about the prospect of rising government protectionism. These dual business sentiments reflect a world where trade is increasingly a tool for domestic politics as support for multilateralism wanes.

Geopolitical tensions are casting a shadow over the future of global trade. Heightened geopolitical uncertainty—including ongoing conflicts and trade tensions—is cited by 25% of executives as a primary source of pessimism for the next two years. This reflects their experience of trade disruptions caused by the wars in Ukraine and the Middle East, but possibly also a sober vision of the world to come. It is one where the fragmentation of global trade into competing blocs intensifies, making instability the new normal. Daniel Enache, a director at Dacia, a Romanian car manufacturer, is clear on this: "Disruption is becoming the new constant; previously, disruptions happened once a decade, now we face several every year."

When disruption persists, resilience becomes a must. As Jan Havenga, professor of logistics at Stellenbosch University, notes, "Shocks, whether from climatic or geopolitical events, underscore the need for resilient supply chains that can withstand both external disruptions and sustainability demands." The forces shaping the world of trade invite a closer look at what businesses are—and should be—doing in 2025. This report provides it.

Navigating a fractured world

Economic interdependence—once seen as the world's great unifier—now finds itself weaponised in the geoeconomic tug-of-war of the 21st century. In this fractured world, governments are turning to protectionist measures with renewed vigour, aiming to safeguard (or, sometimes, revive) domestic industries and ensure that vital supply chains remain unhindered by perceived rivals. Policies restricting access to technologies and resources deemed critical, such as semiconductors, pharmaceuticals and rare earth minerals, are becoming commonplace, reflecting a broader trend of preserving economic sovereignty. The principles of free international trade have been abandoned; we are in a new era of globalisation.

Mr Trump's administration views significant trade surpluses with the US as evidence of unfair practices, leading to a "zero-sum" approach to commerce where any country's gain is seen as America's loss.

Businesses, whose supply chains and intellectual property are caught in the crossfire of geopolitics, are seeking strategic recalibrations. Despite the odds, they are not abandoning globalisation altogether. Many are relocating existing supply chains, others are duplicating them, in order to capitalise on opportunities and minimise risks. This has created relative winners: non-aligned countries, such as the UAE, Vietnam, India and Brazil. They offer geopolitical havens for businesses seeking to avoid entanglement in great-power rivalries. As trade becomes a battleground for influence, this chapter explores how geopolitics is reshaping business priorities.

More friends, fewer foes

It is true in trade as it is in life, that in times of trouble, one turns to their friends. It is no surprise, then, that a prominent strategy businesses are adopting in response to geopolitical uncertainties is "friendshoring", that is, to relocate supply chains to countries that are politically aligned, or those they have favourable trade agreements with. According to our survey, 34% of businesses are turning to friendshoring as a way to mitigate geopolitical risks (see Figure 3). This approach allows companies to reduce their exposure to sudden policy changes or trade barriers that may arise from deteriorating relations between major powers.

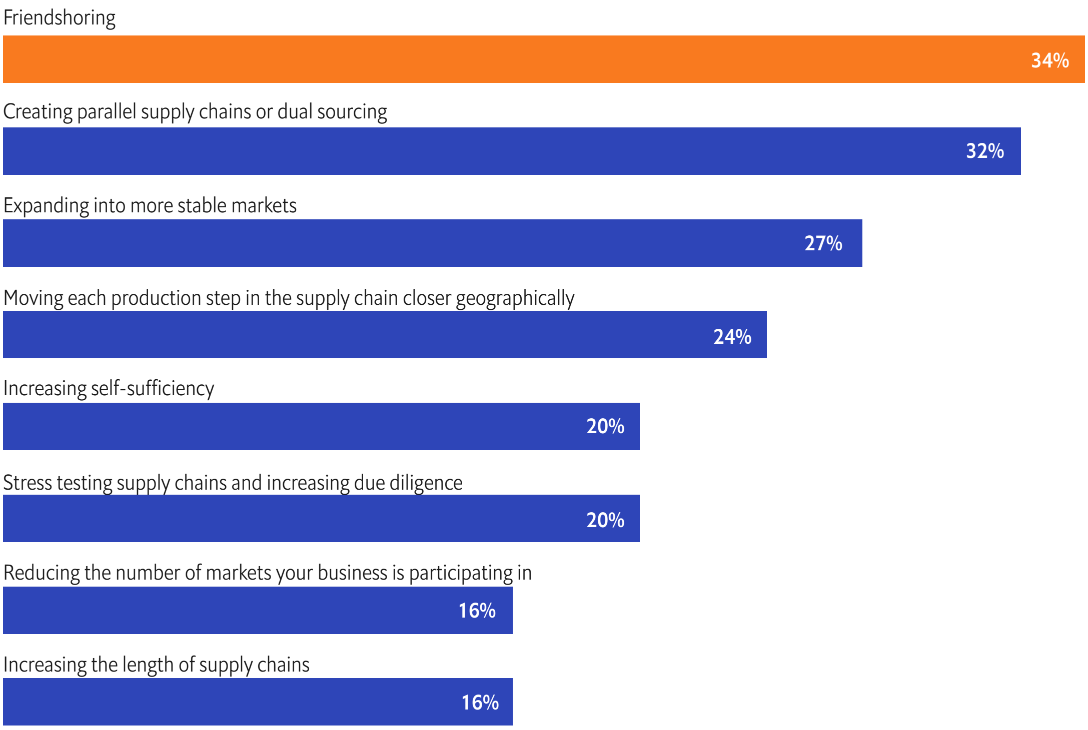
Friendshoring is often encouraged by governments, rather than businesses choosing it on economic grounds. This can sometimes cause trouble. For instance, the Biden administration has been promoting friendshoring as a means to "de-risk" from China, implementing tariffs and export controls to nudge firms towards "friendlier" markets. One example is the ban on American firms investing in Chinese technology, on national security grounds. Under a Trump administration, this encouragement is likely to take a stronger form, and which countries qualify as "friends" will be contested. Indeed, Mr Trump's administration views significant trade surpluses with America as evidence of unfair practices, leading to a "zero-sum" approach to commerce where any country's gain is seen as America's loss.

Furthermore, friendshoring may only end up diverting supply chains through friendly markets, rather than truly divesting from perceived foes. Simon Lacey from the World Economic Forum provides a clear example of this: "Many of the processes moving to Vietnam or Mexico are essentially proxies for Chinese manufacturing in one way or another." So, although American imports from China have, on paper, decreased, China's exports of intermediate goods to countries like Vietnam, Mexico and other South-East Asian nations have surged. These countries then assemble final products that are exported to America, meaning that China's role in Western supply chains continues to remain significant, even if less visible.

America will probably try to stop this rerouting. Before Mr Trump took office, the Biden administration raised duties on solar panels from South-East Asian nations, including Cambodia, Malaysia, Thailand and Vietnam, where Chinese firms have been setting up branches to sidestep other American levies.[8] Mr Trump is likely to continue, and build upon, such moves. He has already threatened to scrutinise the rerouting from China as part of the review of the United States-Mexico-Canada Agreement (USMCA), which is due in 2026, pointing to surging trade deficits between the US and Mexico, and Chinese investment in Mexico.[9] However, as Leila Afas, the director of global public policy at Toyota, notes, "if the US misdiagnoses the problem, they're going to come up with the wrong remedy". This poses risks to firms like Toyota without, in her view, addressing the underlying issues.

Figure 3: Responses to geopolitics

The impact of geopolitical events on trade and supply-chain strategies



Source: Economist Impact Trade in Transition survey, August-November 2024

Double the chain, double the gain?

Besides those that are friendshoring, about 32% of the businesses we surveyed are creating parallel supply chains or engaging in dual sourcing (see Figure 3). This involves establishing two separate supply chains to serve different markets while hedging against region-specific risks. This is, in essence, an expensive form of diversification without the risk-opportunity balance: businesses stay in risky markets where their consumer bases remain lucrative, while also maintaining another set of operations that are less risky.

General Motors (GM), an automotive firm based in the US, maintains dual supply chains to cater to the American market. They are reshoring some operations, such as battery production for electric vehicles (EV), and regionalising operations to Mexico to serve US consumers, while also maintaining ventures in China to cater to markets around the world. "We manufacture in [China] and send products to Mexico, for example," explains Sulaiman Pallak, the general manager of sales operations at GM. As part of this strategy, the Middle East arm of GM has increased the volumes they import from China. "We used to bring in 70% of our vehicles from North America and 30% from China; now we have increased that to 40% from China and 60% from the US", he adds.

TSMC, the Taiwanese semiconductor giant, also illustrates this approach by balancing demands from both the United States and China—its two largest markets—amid rising geopolitical tensions. The company is investing in manufacturing facilities in the US, to align with American interests, while maintaining production in Taiwan and other locations to serve global markets. This dual strategy helps TSMC navigate trade restrictions and political pressures from both sides.

The allure of non-alignment

Amid the turbulence, some businesses are seeking refuge in non-aligned countries such as Vietnam, the UAE, India and Brazil. In response to geopolitical tensions, about 27% of firms are expanding into more stable markets that are not necessarily political allies (see Figure 3 above). These non-aligned countries offer opportunities for expansion and diversification without the baggage of great-power rivalry.

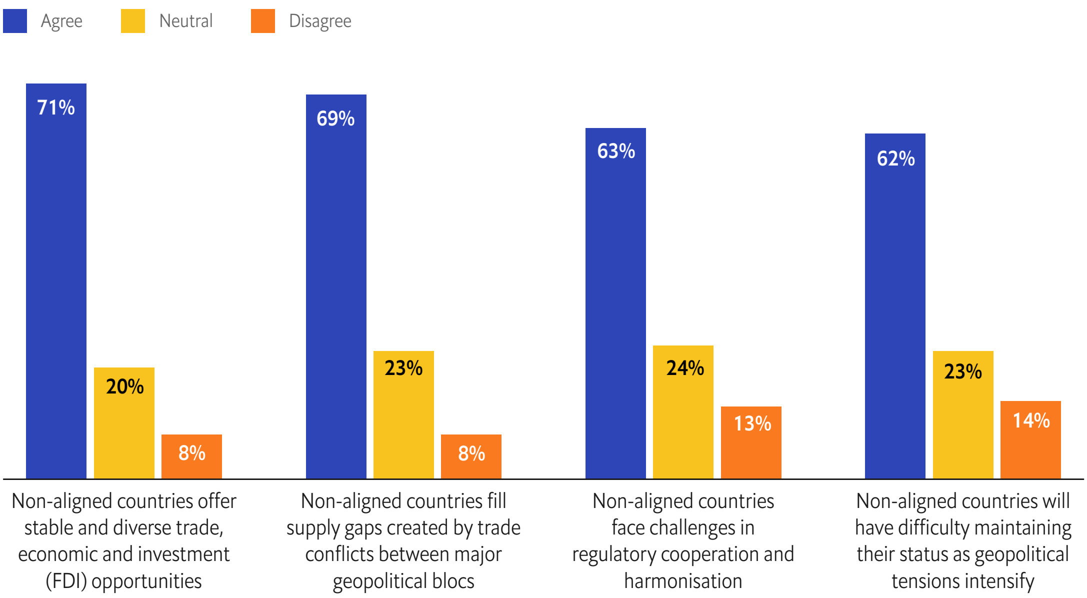
Our survey reveals that 71% of executives agree that non-aligned countries offer stable and diverse trade, economic and investment opportunities (see Figure 4). Moreover, 69% believe that non-aligned countries play an intermediary role, filling supply gaps created by trade conflicts between major geopolitical blocs.

Non-aligned countries offer opportunities for expansion and diversification without the baggage of great-power rivalry

However, operating in non-aligned countries is not without challenges. About 63% of surveyed executives agree that non-aligned countries face difficulties in regulatory co-operation and harmonisation, which can limit the potential scale of trade (see Figure 4). Additionally, 62% believe that these countries will have difficulty maintaining their "non-aligned" status as geopolitical tensions intensify, potentially exposing businesses to new risks.

Figure 4: The role of non-aligned countries

The role of non-aligned countries in global trade and supply chains



Source: Economist Impact Trade in Transition survey, August-November 2024

South-East Asia, for instance, has been seen by many big firms as an attractive region due to its strategic location and growing markets. Vietnam has become home to many new tech-focused factories over the past five years, established by the likes of Foxconn and Pegatron, Apple's biggest suppliers, as well as Dell and Hewlett-Packard.[10,11] However, as the region becomes a battleground for influence between America and China, maintaining non-alignment is bound to become increasingly harder. The case is similar for countries in the Middle East. The chief executive of Alat, a manufacturing hub in Saudi Arabia, has claimed the company will divest from China if the US permits American firms to set up operations in the kingdom.[12] In any case, businesses must navigate complex regulatory environments and be prepared for potential shifts in political alignments.

America and the world (of trade)

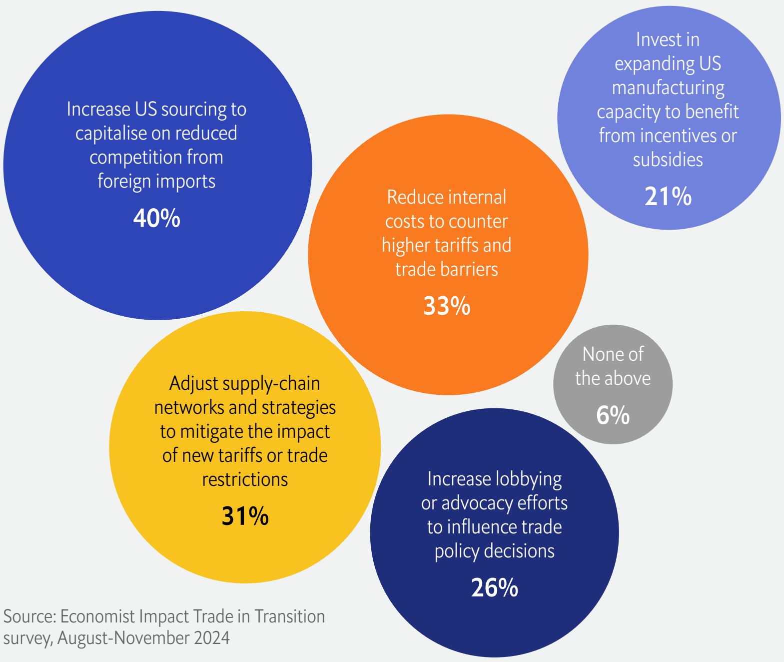
Donald Trump's return to the White House signals a fundamental shift in global trade policy, with protectionism—spurred by tit-for-tat tariffs—poised to reach levels unseen since the 1930s. Although Mr Trump's suggestions to impose tariffs may not materialise, their prospect has already unsettled the fundamental principles of world trade.

Mr Trump's take on trade is rooted in a hardline belief: that the global trade system has disproportionately burdened American workers while enriching perceived rivals. His administration is likely to prioritise bilateral trade deficits, targeting countries with large surpluses like China, Mexico and Germany. The president has hinted at tariffs as high as 60% on Chinese goods and 25% on Mexican imports (at the time of writing in December 2024). These measures would severely harm those economies, while driving up costs for American consumers. In Europe, Mr Trump's re-election could reignite dormant trade tensions. The EU's substantial goods surplus with America (of roughly US$165bn goods-trade) makes it a potential target for punitive tariffs, especially on industries like automotive and steel.[13] During Mr Trump's term, closer allies, like Britain and Australia, might find themselves in a more favourable trade position, leveraging their "special relationships" to secure exemptions.

Boardrooms worldwide are preparing for the ripple effect. Tariff escalations could become a catalyst for a new wave of supply-chain restructuring. Our survey reveals that with Mr Trump in the White House, almost 40% of businesses plan to increase American sourcing to capitalise on reduced competition from foreign imports, aligning with the domestic incentives likely under the new administration's protectionist policies. At the same time, 33% of firms are focused on reducing internal costs to counter higher tariffs and trade barriers, while 31% expect to adjust their supply-chain strategies to mitigate the impact of new restrictions. More than a quarter (26%) anticipate ramping up lobbying efforts to influence trade decisions, reflecting the high stakes and significant uncertainty around how Mr Trump's trade policies will unfold. In any case, businesses are already bracing for higher costs and greater complexity in global trade, with strategies from this report poised to take centre stage.

Figure: Business and trade in Trumpworld

How companies approach a Republican administration in 2025



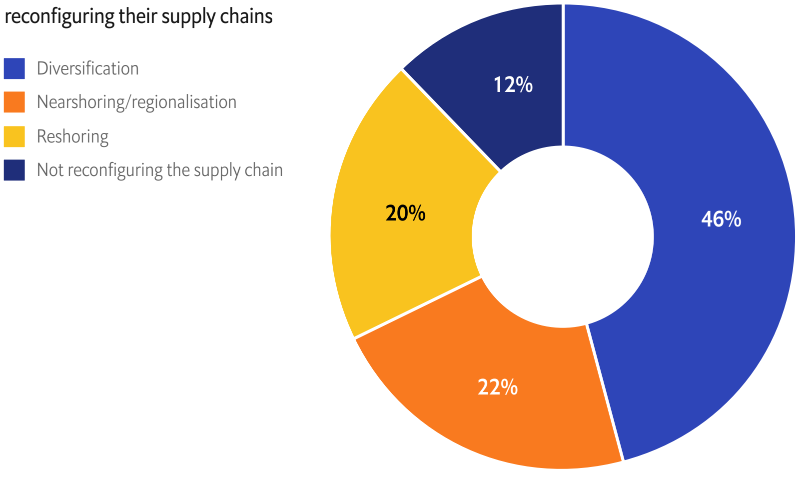
Source: Economist Impact Trade in Transition survey, August-November 2024

Supply-chain restructuring: don't just manage, strategise

Supply-chain roles come in two broad categories: managers and strategists. The former focus on improving current supply chains by optimising processes. Strategists, on the other hand, formulate a long-term supply chain vision that, through resilience and innovation, increases competitive advantages. Businesses should prioritise both. Supply-chain management alone may help to optimise current operations, but the benefits might not be future-proof. Similarly, supply-chain strategising without well-managed execution will not optimise business potential. In 2025, the ability to blend operational excellence with strategic foresight will be tested, as supply-chain configurations will need to address immediate demands while preparing businesses for long-term trends.

Figure 5: Geographical reconfiguration strategy

How companies are geographically reconfiguring their supply chains



Source: Economist Impact Trade in Transition survey, August-November 2024

Split decision: diversify or localise?

The scale of change in supply chains is impressive. Businesses are responding to geopolitical tensions and climate change, while preparing for unforseeable bottlenecks, drawing on their experience with the global pandemic and other recent disruptions. Up to 88% of businesses plan to reconfigure their supply chains in 2025, with the two main focuses being diversification and localisation. Nearly half of the businesses we surveyed (46%) are diversifying geographically (see Figure 5). They are seeking to balance risk and opportunity by sourcing inputs from multiple regions. Executives say they are doing so to enter new markets and grow revenue streams (cited by 39%) and reduce dependency on individual markets, such as China (37%)—two long-term strategic priorities (see Figure 6). This reflects strategists' mandates to reduce vulnerability and expand their consumer base. However, the success of this diversification will hinge on the managers' ability to execute expansion efficiently and cheaply.

"Supply-chain diversification is not a short-term project."

Simon Lacey, head of digital trade and geopolitics, World Economic Forum

However, spreading operations across borders is no easy task. As Mr Lacey points out, "supply-chain diversification is not a short-term project". In his view, "These efforts will show results over a decade; it took Tim Cook ten years to build Apple's supply chain in China—reconfiguring it will not take three years." This complexity is why a senior official at the European Commission expressed skepticism: "when you speak to businesses, they see the point in theory, but few are doing precautionary diversification; they diversify only when they actually need to, when they have no choice".

Figure 6A: Top five motivations for diversifying supply chains
Respondents ranked their top two motivations

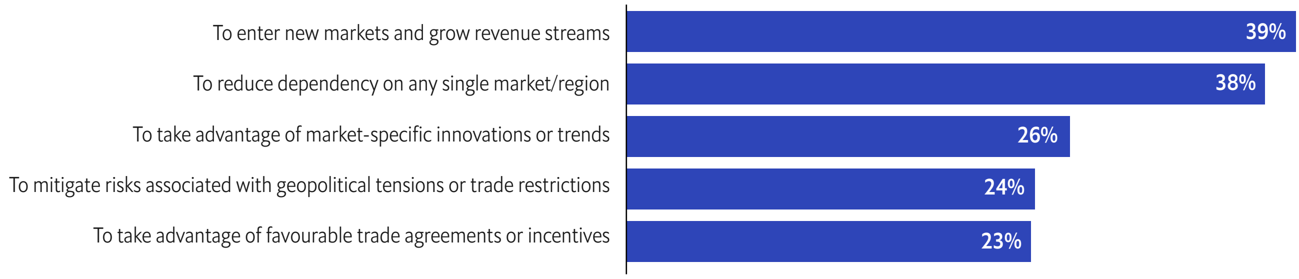


Figure 6B: Top five motivations for nearshoring supply chains
Respondents ranked their top two motivations

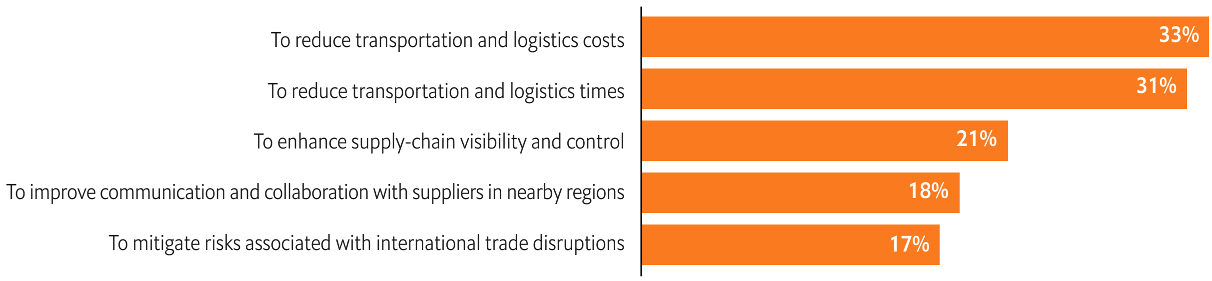
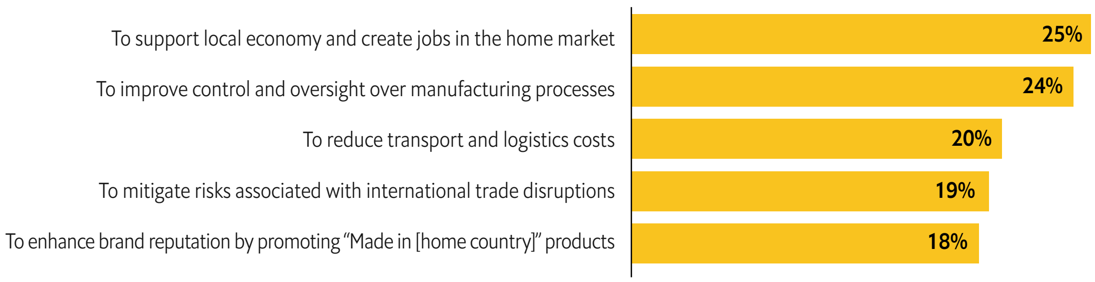
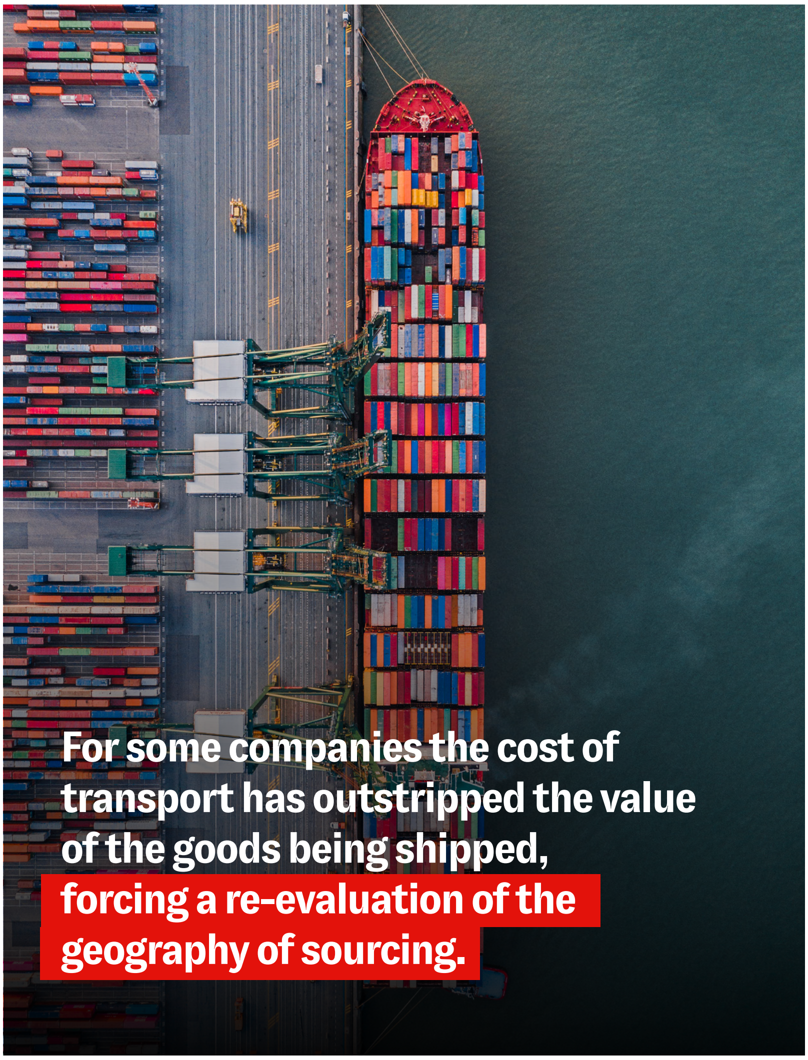


Figure 6C: Top five motivations for reshoring supply chains
Respondents ranked their top two motivations



Source: Economist Impact Trade in Transition survey, August-November 2024

Motivated by efficiency and control, some firms seek to shorten their supply chains, either through regionalisation (22%) or reshoring (20%) (see Figure 6). Regionalisation, which entails switching to closer-to-home suppliers, is predominantly motivated by a need to reduce transport and logistics costs (33%) and times (31%). Reshoring, which entails shifting manufacturing and sourcing to the home (or end) market, is primarily driven by a desire to improve control and oversight, and support the local economy (each reason cited by nearly a quarter of respondents).



Efficiency and control, to many, come with reduced risk and increased resilience, aligning management priorities with strategic goals. A senior executive managing supply chains for a major food operator in the Middle East and North Africa stated that bringing suppliers closer was a necessity rather than merely an efficiency objective. This approach, they explained, gained traction in response to escalating freight costs and persistent logistical bottlenecks, particularly in places with limited agricultural production. The executive noted that in some instances, the cost of transport has outstripped the value of the goods being shipped, forcing a re-evaluation of the geography of sourcing.

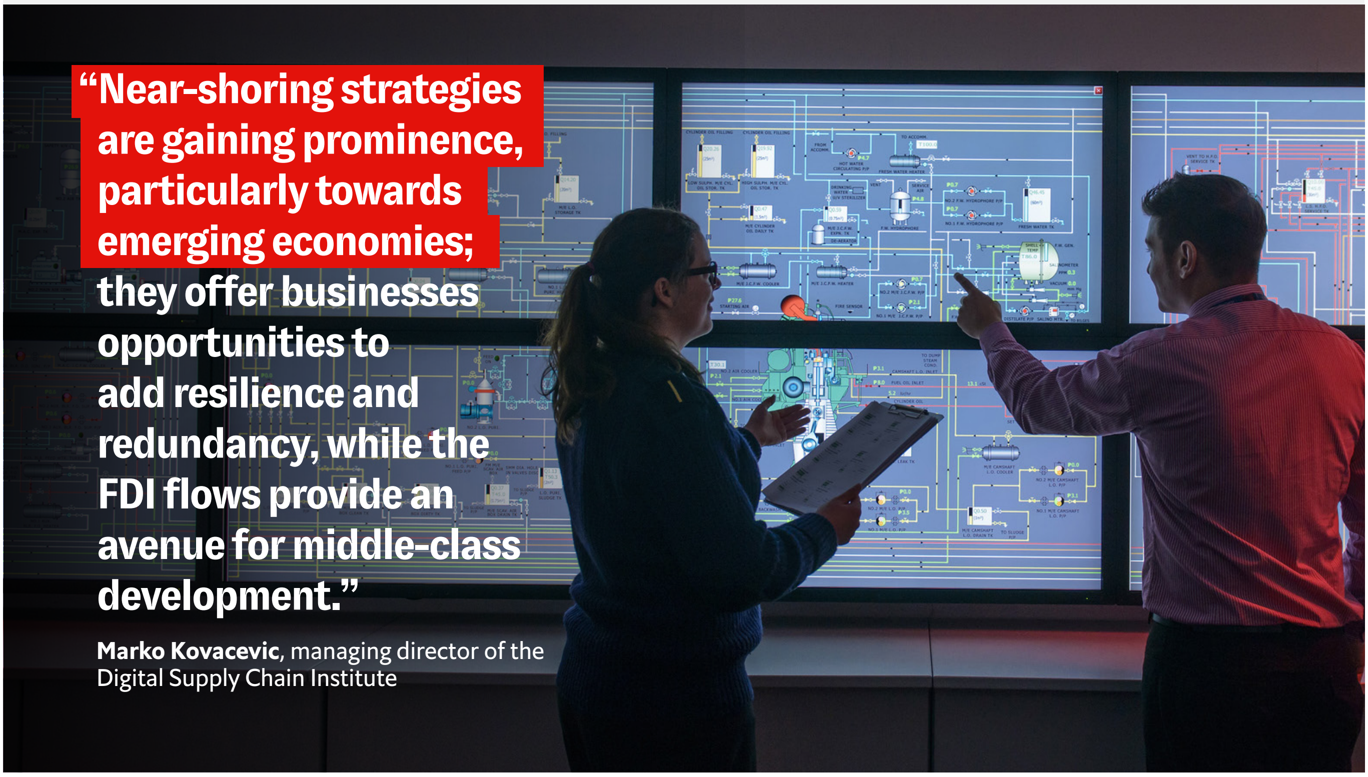
Excessive localisation, however, may tip the balance. A senior supply-chain executive at a global food and beverage company observes that some firms are experimenting with insourcing—that is, bringing production in-house. “It is not going to be as easy as everybody thinks it will be, but if not now, then when?”, they say. The company has initiated proof-of-concept projects for insourcing, which have helped it “uncover key insights and opportunities for improvement,” the executive explains. This, they add, has drawn the company closer to achieving its insourcing goals within the next couple of years. By doing so, the executive notes, the company has been able to “identify exactly what’s wrong and implement measures to fix the issues. It’s all about building the base for the future now.” This underscores that although efficiency and control may motivate localisation, extreme forms—such as full insourcing or reshoring—can be complex and time-consuming.

Therefore, a midway approach that integrates elements of both diversification and localisation may be optimal. By diversifying their sourcing of raw materials and components in the early stages of the supply chain, businesses can tap into global innovation and cheaper markets while mitigating risks associated with relying on a single sourcing region. Subsequently, regionalising the production and assembly links of their supply chain can enhance later-stage efficiency and control while also increasing responsiveness to customer demand. Finding the right balance for each business will require a blend of strategic foresight and operational excellence, aligning long-term vision with practical execution.

The weight of geopolitics

In some cases, geopolitical factors are the impetus for regionalising supply chains. Our survey indicates that 24% of businesses are moving production steps geographically closer to reduce exposure to geopolitical disruptions, and 20% are increasing self-sufficiency by reducing reliance on external suppliers. As Marko Kovacevic, managing director of the Digital Supply Chain Institute, points out, "Nearshoring strategies are gaining prominence, particularly towards emerging economies; they offer businesses opportunities to add resilience and redundancy, while the foreign direct investment flows provide an avenue for middle-class development."

Such reconfigurations create a new type of beneficiary, such as eastern European countries where nearshoring is abundant. Slovakia, for example, has emerged as a major player in the automotive industry, hosting manufacturing plants for major carmakers such as Volkswagen, PSA Peugeot Citroën, Kia Motors and Jaguar Land Rover. Similarly, Hungary has attracted significant investment from a number of Chinese companies, including the EV producer BYD, who opened their first European facility there.



Nike: swooshing supply changes, across geographies

In practice, businesses tailor their supply-chain strategies to their specific needs. Take Nike, the sports apparel behemoth, which produces about 800m shoes annually.[14] Before the pandemic, about half of the brand's shoes and 30% of its apparel were produced in Vietnam—a supply location that, in the years of unfettered international commerce, lowered costs without significant risks.[15]

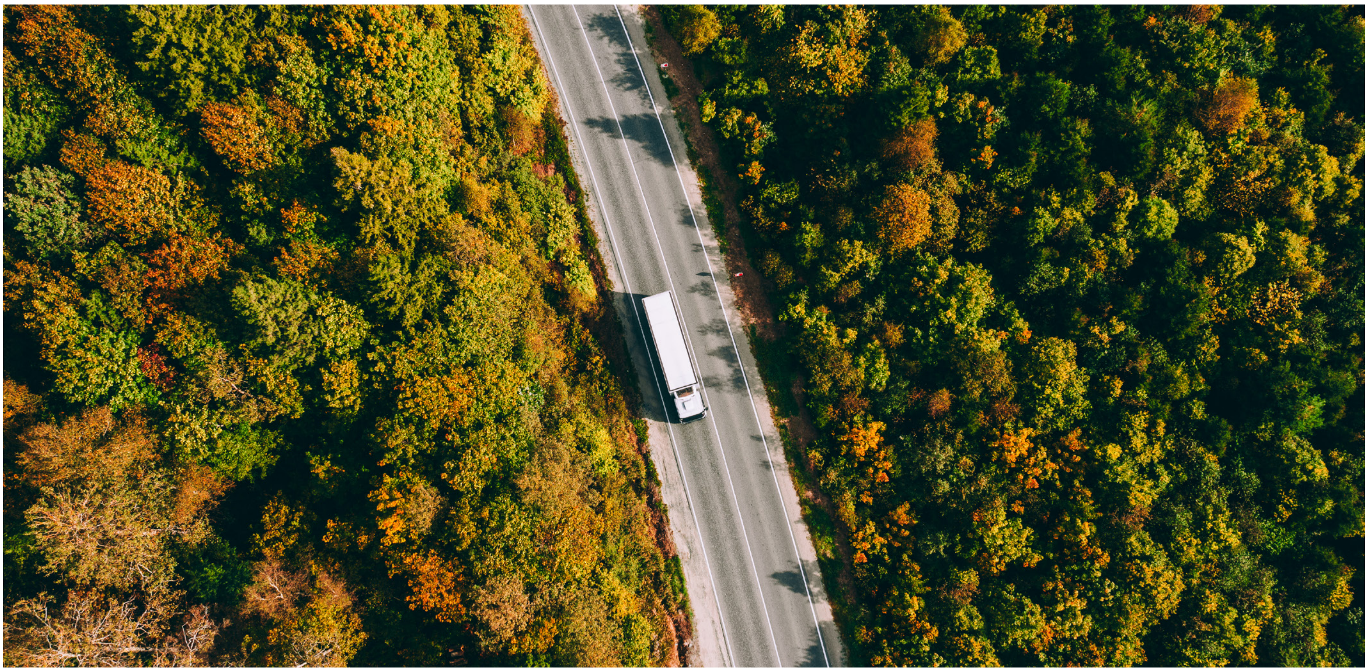
Mandated factory shutdowns during the covid-19 pandemic, along with worldwide port congestion and shortages of labour and containers, changed this. Nike adapted its strategy to regional needs. In the short term, Nike increased its use of air freight for meeting demand faster and moved more of its inventory to North America and EMEA, which are further from Nike's primary sourcing bases, to buffer against delays.[16] In the longer term, Nike will shift some of its North America-bound production to Mexico, while some of its production for its South-East Asian market will move to India in an effort to regionalise. Nike applies localisation logic to raw inputs too: where available, materials are sourced within the countries of manufacturing to cut down transport time and risk.[17]

All the eggs, not in one basket

Beyond geographic reconfiguration, firms are also weighing how many suppliers to work with. Overall, a vast majority (75%) are diversifying their supplier base, preferring to work with more suppliers. The primary motivation of doing so, executives say, is to improve supply-chain flexibility and responsiveness (42%) (see Figure 7B). For strategists, this approach is not only about mitigating supply shocks, but also having wider access to unique capabilities across different suppliers. For managers, working with more suppliers means higher operational complexity, but can still be preferable, as this approach avoids a bottleneck with one supplier affecting the whole chain.

Companies choosing to work with fewer suppliers (25%) are doing so to ensure higher quality and consistency in products (19%) and build more strategic relationships (18%). The preference for working with fewer, more tightly integrated suppliers reflects a deliberate trade-off: although it may limit flexibility, it enhances control and accountability. In these cases, strategists do not view supplier relationships transactionally, but rather as collaborative partners with whom shared goals—such as process improvement, innovation and sustainability—can be achieved. Over time, fewer, more deeply integrated partnerships can serve as a cornerstone of competitive advantage, offering alternative ways to mitigate risks compared to diversifying the supplier base.

Businesses do not have to choose just one approach, though. The right approach will vary across industries and supply-chain segments. Our survey results show that a majority of firms prefer diversification, and that this is expected to remain the dominant strategy. However, some firms will have compelling reasons to opt for fewer, more deeply integrated



supplier relationships. One such reason is the advancement of technology, in particular the proliferation of generative AI, which will lighten the workload of supply-chain officers. By automating routine administrative tasks, generative AI will enable these functions to shift their focus toward strategic priorities, such as cultivating stronger relationships with important suppliers. This will enhance productivity and boost operational efficiency, but also allow companies to better balance the benefits of diversification with deeper supplier partnerships.

Figure 7A: Top five motivations for working with more suppliers

Respondents ranked their top two motivations

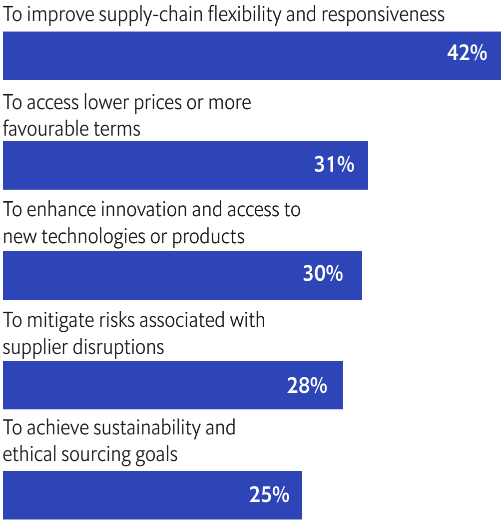


Figure 7B: Top five motivations for working with fewer suppliers

Respondents ranked their top two motivations

Source: Economist Impact Trade in Transition survey, August-November 2024

Thinking outside the [cargo] box

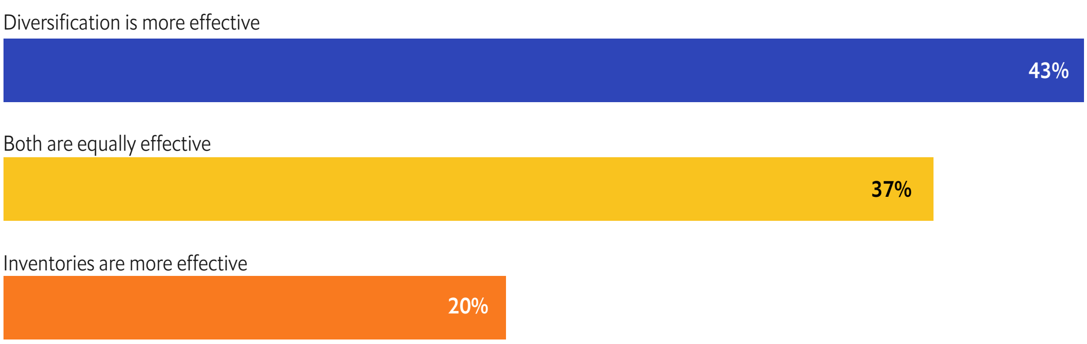
When it comes to mitigating supply shocks, companies choose more cost-effective options over inventories—the traditional way of building buffers. About 42% of executives believe that diversification is more effective than holding inventories to enhance supply-chain resilience, whereas only 20% view inventories as more effective (see Figure 8). Diversification enables companies to achieve the dual goals of growth and resilience (see Figure 6), whereas inventories increase the cost of working capital. Another 37% see diversification and inventory-building as equally effective. As such, firms are shifting to leaner operations: on average, inventories have decreased from a peak of 10.2 weeks in 2022 to 8.6 weeks in 2024 (see Figure 10).[18]

The sentiment towards inventories is reflected in real-world data. For American businesses, inventories relative to sales have remained relatively stable over the past decade (with the exception of the pandemic spike), despite the increased emphasis on resilience after the supply-chain disruptions that arose during covid-19.[19] This suggests that rather than relying on large inventories to buffer against supply shocks, businesses are instead looking to diversify their supplier bases. In times when high interest rates make borrowing expensive, this approach is unsurprising: capital tied up in warehouses is better spent elsewhere.

Companies can aim for more optimised inventory levels using AI and supplier collaboration.

One way to bridge the gap between the trade-offs of different supply-chain strategies is through digital tools. Anderson Martins, head of supply chain at Nestlé Philippines, suggests that, although he does not foresee a return to just-in-time-centric models, companies should aim to optimise inventory levels using AI and supplier collaboration. By leveraging advanced analytics and platforms that co-ordinate the supply chain, firms can fine-tune their inventory management, reducing the need for extensive stockpiles while maintaining flexibility and responsiveness. Put simply, digitalisation allows companies to mitigate risks without relying on supplier diversification or large inventories.

Figure 8: Inventories v diversification as an effective strategy for building resilience



Source: Economist Impact Trade in Transition survey, August-November 2024

Trade in 2025 and beyond

The era of global supply chains dictated by the laws of economic gains and efficiency has come to an end. Businesses face a world of constant trade disruption, where geopolitical tensions, economic uncertainty and climate-related crises converge. However, far from retreating, firms are adapting their operations to thrive in this new normal: the era of new globalisation.

Ask supply-chain officers about their favourite word and "resilience" will be top of mind. Companies are pursuing this through diversification and localisation, each of which come with trade-offs. Diversification spreads risk by sourcing across geographies, but demands efficient execution to avoid ballooning costs. Localisation offers control and reduces transport bottlenecks, but has high initial costs and can lead to overdependence on regional suppliers. Success lies in getting the balance between the two right.

Geopolitics adds another layer of difficulty to supply-chain management. As the world fragments into competing blocs, trade surfers and firms are adopting strategies such as friendshoring and dual supply chains to reduce risk. However, these strategies can be costly and require precise execution to avoid inefficiency. Non-aligned countries with stable trading environments have gained from this shift, but their positions are precarious as pressure mounts to take sides.

Additionally, as climate change disrupts the world of trade, the demand for sustainable practices in supply chains grows. A separate article as part of the Trade in Transition programme explores this subject and outlines how businesses should respond to the climate crisis.

The world of trade in 2025 will be defined by difficult choices and competing priorities. Businesses must choose between diversification and localisation, and flexibility and control. Supply-chain strategists must craft long-term visions that balance resilience with efficiency, while managers must execute those plans and navigate trade-offs. Firms that can unite ambition with practicality in making these choices will be best equipped to thrive amid constant disruption in the era of new globalisation.

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