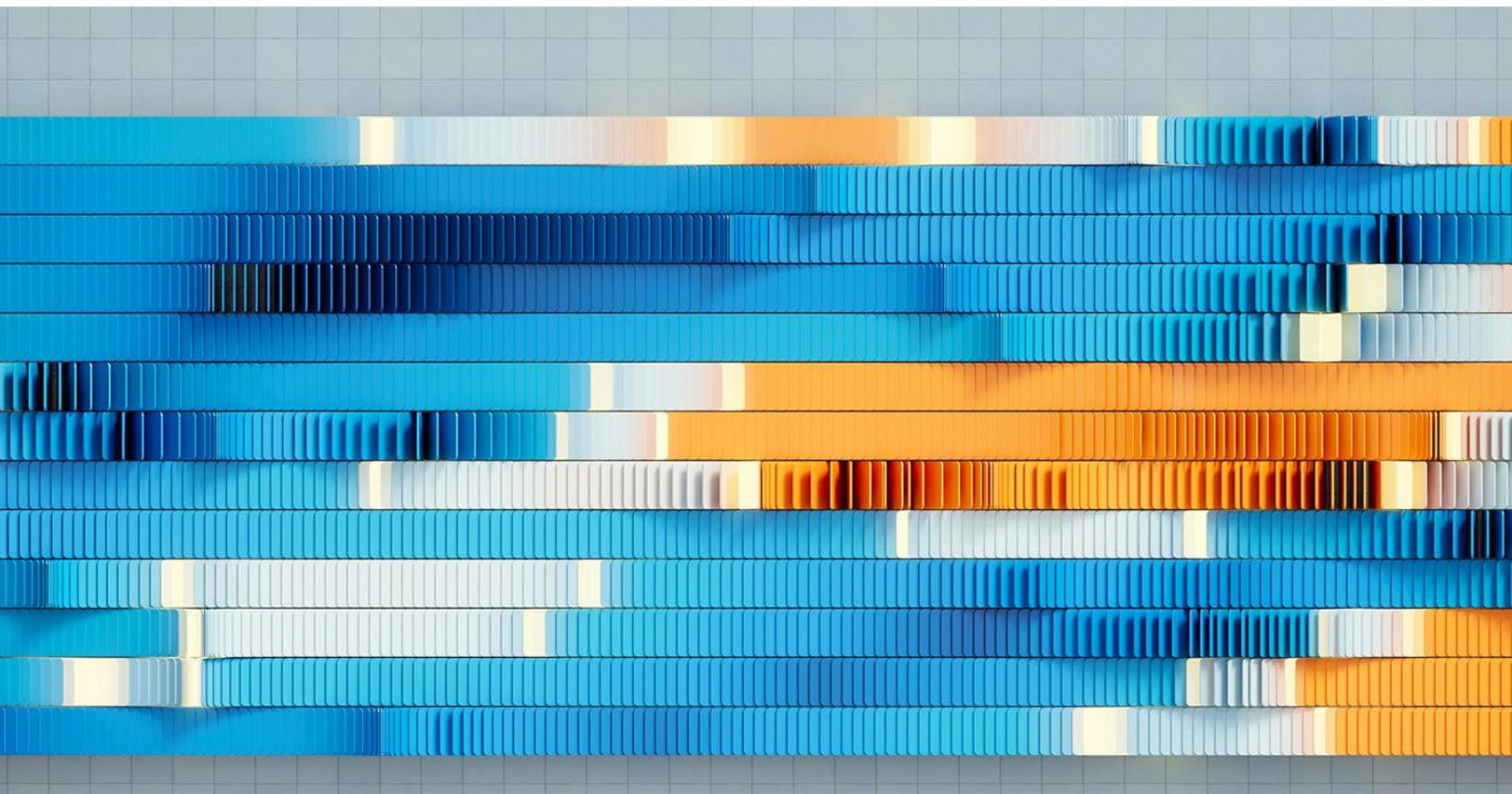


Future of Asia

The great trade realignment: Asia rising

Trade flows worldwide are reconfiguring as geopolitical alignments fragment and future-shaping industries grow in importance, potentially leading to a generational shift in global trade patterns.

by Gautam Kumra



Traditional trade flows are transforming. Although global trade enjoyed a decade of robust growth from 2014 to 2024, expanding from \$24 trillion to \$33 trillion, an unpredictable geopolitical landscape put this resilience to the test last year.¹

The geopolitical uncertainty, along with ongoing conflicts, has significantly impacted the complexity and interconnectivity of global trade. This has accelerated a substantial trade realignment among nations, the likes of which has not been experienced in decades. Businesses around the world find themselves having to plan for continued change as strategic shifts in investment and sourcing emerge, and trade realignments become clearer (see sidebar, “Three future trade scenarios”).

Yet, as one door shuts, another opens. This dynamic, albeit uncertain and disruptive, environment offers an unprecedented scale of opportunity for nations and businesses to reorient themselves toward new partners and industries.

¹“UNCTAD Data Hub, latest statistics,” UN Trade and Development (UNCTAD), accessed November 2025.

Three future trade scenarios

Global trade is projected to grow by 30 to 40 percent to between \$42 trillion and \$45 trillion by 2035.¹ However, this growth will likely be uneven: The global realignment currently underway will flow along new and more specific corridors. The impact of this could be profound. Up to 30 percent of global trade—\$14 trillion in value—could move from one corridor to another through 2035.²

The United States is currently attracting more foreign direct investment (FDI) than advanced Asia and Europe as the focus on future-shaping industries intensifies. Advanced economies, China, and the Middle East and North Africa (MENA) have all increased investment in these sectors, with China pivoting from investee to investor—shaping global competitiveness and influencing how new trade corridors will form.

McKinsey has identified three future trade scenarios and what their outcomes may be for trade volumes. In a baseline scenario, with no change to current tariffs and trade barriers, growth is expected to reach \$45 trillion; in a fragmented scenario, with 60 percent tariffs between advanced economies and China and Russia, and 10 percent with mid-aligned countries, growth only reaches \$42 trillion; but in a diversification scenario, where businesses diversify supply chains for all concentrated imports, it reaches \$44 trillion.

Emerging trade corridors can be evaluated within these scenarios as safe bets (resilient, fast growing), cautious bets (positive, but slow under a fragmentation scenario), or uncertain bets, which shrink materially in at least one scenario based on their growth prospects and geopolitical exposure. The implications of this for trading volumes and relationships cannot be overstated.

¹ International Monetary Fund; “UNCTAD Data Hub, latest statistics,” UN Trade and Development (UNCTAD), accessed November 2025; McKinsey Global Institute analysis.

² International Monetary Fund; “UNCTAD Data Hub, latest statistics,” UN Trade and Development (UNCTAD), accessed November 2025; McKinsey Global Institute analysis.

Asia is at the heart of this strategic trade shift. Corporates in the region are set to drive the evolution of global trade through their early embrace of industries of the future and insightful expectations for coming demand. The region's contribution to global growth already stands at 60 percent, with its share of global exports growing from 33 percent in 2010 to 55 percent in 2023.² Asia's importance will likely only rise as prosperity spreads: Two-thirds of the global middle class is expected to be based in Asia by 2030.³

As trade and investment shift toward new industries and sectors, Asia has the additional advantage of being one of the most highly integrated trading regions in the world. This interconnectivity, coupled with Asia's preeminence in future growth sectors, such as AI and other disruptive technologies, means that the region's leaders have the opportunity to drive the evolution of new trade alliances and corridors—reshaping the geometry of global trade itself.

Geopolitics and foreign direct investment: Rewriting trade relationships

Foreign direct investment (FDI) is currently focused on future-shaping industries, such as data centers and semiconductor fabs, driving the concentration of FDI in certain geographies and sectors. And as FDI announcements for conventional industries in emerging Asia, China, Latin America, the Middle East and North Africa (MENA), and sub-Saharan Africa hit a 20-year low, a profound shift in trading patterns will no doubt emerge.⁴

Industrial policy and competition for critical raw materials have spurred stronger domestic industrial policies worldwide, causing early shifts in FDI that are starting to reshape traditional business corridors. Established trading relationships are fragmenting, leading to a rise in bilateral and regional trade agreements globally—from 291 in 2017 to 375 in 2025, an increase of 30 percent.⁵ US tariffs are at their highest level since the 1940s, and the number of government domestic incentives in place around the world has risen threefold over the past five to seven years.⁶

Such incentives are prevalent across all trading blocs, including Asia. In 2024, South Korea pledged 9.7 trillion won (\$7.1 billion) in financial aid to domestic electric vehicle (EV) battery manufacturers.⁷ India launched its Production Linked Incentive (PLI) scheme across 14 industry sectors in 2020.⁸ A \$9 billion incentive program for India's semiconductor industry has helped establish a 15 to 17 percent CAGR for the sector, and it is now set to expand from \$40 billion to \$45 billion in 2023 to between \$100 billion and \$120 billion by 2030.⁹

Sustainability: Another FDI attraction

Geopolitics is not the only factor reshaping trade. Corridors may also shift in response to sustainability factors. Already, 20 percent of greenfield FDI globally is now going into renewables.¹⁰ And one in four global emissions is embedded in traded goods such as steel, cement, and electronics, and will likely attract greater regulatory scrutiny in the future.¹¹

²Gautam Kumra and Yuito Yamada, "Asia's emerging business corridors: New highways to growth," McKinsey, January 20, 2025.

³Gautam Kumra and Yuito Yamada, "Asia's emerging business corridors: New highways to growth," McKinsey, January 20, 2025.

⁴"The FDI shake-up: How foreign direct investment today may shape industry and trade tomorrow," McKinsey, September 22, 2025.

⁵"Regional trade agreements," World Trade Organization, accessed November 2025.

⁶"New Industrial Policy Observatory (NIPO)," Global Trade Alert, January 2025.

⁷"Korea pledges \$7 billion aid package for EV battery supply chain," Bloomberg, May 7, 2024.

⁸"PLI scheme: Powering India's industrial renaissance," Ministry of Commerce and Industry, Government of India, August 24, 2025.

⁹"Private investment of Rs 11 lakh crore needed to boost MMR economy: Niti Aayog," *Express News Service*, August 23, 2024.

¹⁰"UNCTAD Data Hub, latest statistics," UN Trade and Development (UNCTAD), accessed November 2025.

¹¹"UNCTAD Data Hub, latest statistics," UN Trade and Development (UNCTAD), accessed November 2025.

‘...33 of the world’s 40 largest chip corridors involve Asia alone.’

The sustainability focus has important implications for fast-growing Asian economies, as their energy demand is predicted to grow to nearly 50 percent of the global total by 2040.¹² With investment being directed into decarbonization technologies, significant opportunities will emerge along green corridors in renewable energy and sustainability in the region.

Asia’s potential dominance in trade shifts

As business corridors reconfigure, how countries embrace the realignment will likely dictate their growth for decades to come. Those in Asia are well positioned for this—over the past decade, they have accounted for 52 percent of global growth in technology company revenues, 51 percent of R&D spending, and 87 percent of patents filed globally.¹³ The region dominates the trade and manufacture of chips for most electronic devices, and 33 of the world’s 40 largest chip corridors involve Asia alone.¹⁴

This reflects the interregional nature of trade in Asia, particularly between the Association of Southeast Asian Nations (ASEAN) and China. In 2023, Vietnam exported nearly \$172 billion’s worth of agriculture, electronics, and footwear to China, and imported heavy machinery, construction materials, and chemicals in return.¹⁵ Indonesia’s total trade with China reached \$139.4 billion in the same year, with over 60 percent of its exports to China consisting of coal, liquefied petroleum gas, and nickel.¹⁶

As the use of gen AI grows and evolves, Asia has already differentiated itself as a leader in its production and use. It is these and other future-shaping industries that will unlock new sources of growth.

Additionally, Asia is favorably placed with its manufacturing prowess in emerging technologies that are undergoing quick, disruptive change, such as advanced displays and gen AI. Asia–Pacific is the fastest-growing region globally for gen AI usage, with 65 percent of businesses regularly employing it in at least one function.¹⁷

The drivers of future growth

The opportunities are immense—the challenge leaders face is how to move fast enough to unlock new sources of growth in the industries of the future, while maintaining a flexible approach in a more contested operating environment.

FDI patterns and data can offer strategic insights into how industries, trade routes, and national competitiveness will evolve. The impact of new hubs extends beyond sectoral boundaries, influencing infrastructure, logistics, and business services, and often drives growth in a host of other industries.

¹² Gautam Kumra and Yuito Yamada, “Asia’s emerging business corridors: New highways to growth,” McKinsey, January 20, 2025.

¹³ Gautam Kumra and Yuito Yamada, “Asia’s emerging business corridors: New highways to growth,” McKinsey, January 20, 2025.

¹⁴ Gautam Kumra and Yuito Yamada, “Asia’s emerging business corridors: New highways to growth,” McKinsey, January 20, 2025.

¹⁵ Gautam Kumra and Yuito Yamada, “Asia’s emerging business corridors: New highways to growth,” McKinsey, January 20, 2025.

¹⁶ Gautam Kumra and Yuito Yamada, “Asia’s emerging business corridors: New highways to growth,” McKinsey, January 20, 2025.

¹⁷ Gautam Kumra and Yuito Yamada, “Asia’s emerging business corridors: New highways to growth,” McKinsey, January 20, 2025.

Farsighted industry leaders now have the chance to identify new industrial hubs and take advantage of the opportunities that they present.

The realignment of trade corridors opens white space as relationships strengthen or weaken between specific regions or countries. Paying attention to investment flows can assist in understanding which future trading scenarios are becoming more probable and how corridors are being redrawn.

These flows can further highlight specific corridors that may see accelerated growth, making them proportionately safer bets for stakeholders, such as logistics providers and shipping businesses, or companies providing payments and trade finance. For example, recent investments by companies from Japan and South Korea in India's automotive sector for EV assembly and battery manufacturing could further integrate India into value chains across advanced Asia.

Sectors such as AI, biopharmaceuticals, electrification, robotics, and semiconductors dominate current FDI volumes globally, but nations that can identify the range of domains from which future economic growth can come could see longer-lasting growth.¹⁸

Asia's AI growth story

McKinsey estimates that AI's global economic potential could be between \$15.5 trillion and \$22.9 trillion annually by 2040.¹⁹ Asia sits at the center of this growth story: AI investments in the region are projected to reach \$110 billion by 2028, reflecting a 24 percent compounded annual growth rate from 2023.²⁰ AI centers of excellence (CoEs) are also expanding across the region—Singapore alone hosts more than 26.²¹

Asian governments have identified the technology's potential and have moved quickly to develop AI strategies, fueling the rapid expansion of the technology across the region. Take, as an example, India's IndiaAI Mission, which was launched in March 2024 to drive AI adoption throughout the country. This, combined with deep engineering talent and population-scale digital rails, such as the Unified Payments Interface (UPI), makes the country well positioned to benefit from AI investment.²² The country is home to 16 percent of the world's AI talent, with AI talent concentration having grown by 263 percent since 2016.²³

India also ranks first globally in AI skill penetration with a score of 2.8, more than the United States at 2.2 and Germany at 1.9, according to the Stanford AI Index 2024.²⁴ Data center capacity is expanding rapidly, with 97.9 megawatts (MW) of net take-up in the first half of 2025 amid demand from hyperscale cloud providers; banking, financial services, and insurance (BFSI) sector digitalization; and AI workload requirements.²⁵

¹⁸ Bhavesh Mittal, Kevin Russell, Rajat Dhawan, and Mamta Deswal, "India's future arenas: Engines of growth and dynamism," McKinsey, June 19, 2025.

¹⁹ *The next big arenas of competition*, McKinsey Global Institute, October 2024.

²⁰ "AI and generative AI spending guide," International Data Corporation Worldwide, September 2024.

²¹ "AI and generative AI spending guide," International Data Corporation Worldwide, September 2024.

²² Chirag Chopra and Piyush Gupta, "India's digital leap: The unified payment interface's unprecedented impact on the financial landscape," World Economic Forum, June 16, 2023.

²³ "India's AI revolution: A roadmap to Viksit Bharat," Ministry of Electronics & IT, Government of India, March 6, 2025.

²⁴ "India's AI revolution: A roadmap to Viksit Bharat," Ministry of Electronics & IT, Government of India, March 6, 2025; 2024 AI Index report, Stanford HAI, April 15, 2024.

²⁵ Jitesh Kartekar and Rachit Mohan, *India's data centre market dynamics report*, JLL, September 2024.

‘As the use of gen AI grows and evolves, Asia has already differentiated itself as a leader in its production and use. It is these and other future-shaping industries that will unlock new sources of growth.’

Additionally, as it is home to 1,700 global capability centers (GCCs) focused on innovation in AI, engineering, and software design, India is set to generate exports of \$105 billion from these activities by 2030, up from \$65 billion today.²⁶ Half of the world’s top 50 life sciences companies have set up GCCs in India, transforming the country into a global innovation nerve center.²⁷

Such momentum is building across the whole of Asia. Earlier this year, Japan passed legislation designed to position the country as “the most AI-friendly country in the world,” an initiative that has attracted interest from multinational firms.²⁸ NVIDIA is one such example, investing in AI factories in Japan and localizing AI models tailored to national priorities.²⁹ And TSMC, the Taiwanese semiconductor company, has invested over \$20 billion in semiconductor facilities in the country.³⁰

As investment into future-shaping industries grows, its geographical distribution will change. Advanced economies have increased FDI into one another, while flows to China have fallen by nearly 70 percent, reflecting the reconfiguration of semiconductor production toward the United States and the move of EV assembly and EV battery production away from China.³¹

Investment is currently moving away from traditional hubs for many future-shaping sectors. New FDI-driven data center capacity outside Mainland China and the United States is set to nearly double from its 2022 level, and EV battery manufacturing capacity outside China could grow fourfold.³² And while semiconductor and EV companies from Japan, South Korea, and Taiwan are investing in the United States, they have largely stopped any new investment into China. This reconfiguration could see semiconductor manufacturing outside of South Korea and Taiwan increase to five times its 2022 level.³³

²⁶ “Director General, ILO, Mr. Gilbert F. Hougbo visits one of largest global capability centres (GCC) in Gurugram,” Ministry of Labour & Employment, Government of India, February 25, 2025.

²⁷ Urvashi Mishra, “Half of world’s top 50 life sciences firms now base GCCs in India; here’s what’s driving the surge,” *Fortune India*, September 1, 2025.

²⁸ “AI white paper: New strategies in stage II: Toward the world’s most AI-friendly country,” Digital Society Promotion Headquarters of the Liberal Democratic Party, Japan, April 11, 2024.

²⁹ *NVIDIA blog*, “NVIDIA to help elevate Japan’s sovereign AI efforts through generative AI infrastructure build-out,” blog entry by Masataka Osaki, May 14, 2024.

³⁰ Peter Landers and Yang Jie, “TSMC lifts chip investment in Japan above \$20 billion,” *Wall Street Journal*, February 6, 2024.

³¹ “The FDI shake-up: How foreign direct investment today may shape industry and trade tomorrow,” McKinsey, September 22, 2025.

³² “The FDI shake-up: How foreign direct investment today may shape industry and trade tomorrow,” McKinsey, September 22, 2025.

³³ “The FDI shake-up: How foreign direct investment today may shape industry and trade tomorrow,” McKinsey, September 22, 2025.

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Reading the trade routes of the future

As new global forces rewrite traditional trade rules, the ability to navigate FDI signals and changes in the ecosystem of new products will be crucial. The new map of competition will shift trade corridors and generate fresh waves of growth in certain economies. Many of these will be in Asia, where multinational corporations looking to diversify supply chains have nearly doubled FDI inflows for future-shaping industries.³⁴ India and Malaysia account for over 60 percent of announced inflows, while Indonesia and Vietnam have also benefited.³⁵

Corporates within Asia have a once-in-a-generation opportunity to drive the change they want to see. This will require adaptability and resilience, together with the ability to pivot at speed when needed. But the rewards for the region from the strategic shift toward these new industries could bring greater benefits than imaginable a few decades ago.

By paying close attention to investment flows, industry leaders can read the early signals about how and where global economic ties may form or fray and how the geometry of global trade may evolve. Corporates that use this intelligence, combined with a robust and forward-looking strategy, could be the success stories in the reshaped global markets of the future.

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³⁴ “The FDI shake-up: How foreign direct investment today may shape industry and trade tomorrow,” McKinsey, September 22, 2025.

³⁵ “The FDI shake-up: How foreign direct investment today may shape industry and trade tomorrow,” McKinsey, September 22, 2025.

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