



## **The Edge Economic Update**

# **Global Trade Shifts: Moving Away from the U.S.**

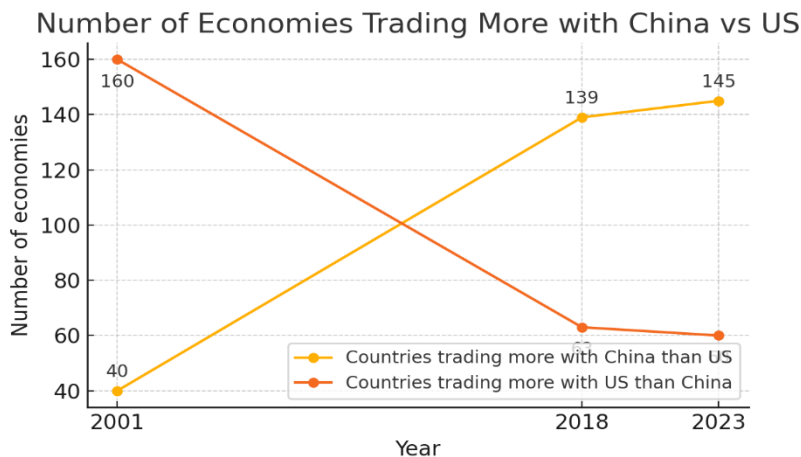
**January 2026**



# Global Trade Shifts: Moving Away from the U.S.

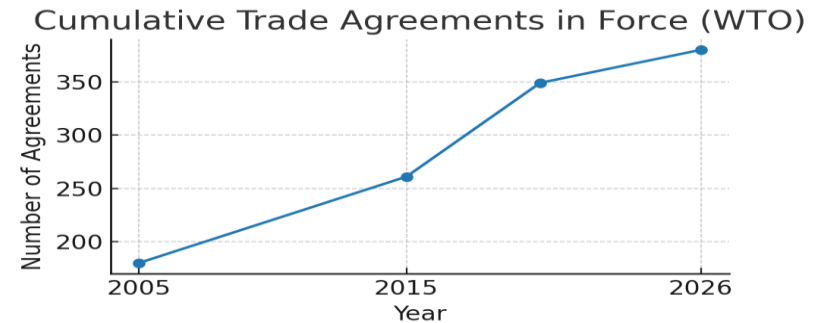
## Historical Overview: A Decade of Diversification

Over the past ten years, global trade patterns have undergone a marked diversification. Emerging markets increasingly trade with each other and with China, reducing their reliance on the United States. In 2001, over 80% of countries traded more with the U.S. than with China; by 2023, about 70% of the world (145 out of 205 economies) traded more with China instead. The U.S. share of emerging economies’ total trade has fallen to roughly 12% today from around 20% in the 1990s. South-South commerce now makes up nearly half of emerging market trade, illustrating the rise of intra-Asia, Africa, and Latin America trade linkages. Multiple regional trade agreements have propelled this shift – from the African Continental Free Trade Area to Asia’s RCEP and the Trans-Pacific CPTPP – creating alternative frameworks as U.S.-led multilateralism stalled. Notably, the United States’ retreat from mega-deals like the original TPP in the late 2010s opened the door for others to form new partnerships. The result has been a new trade architecture in which emerging economies are gradually moving away from U.S.-dominated trade dynamics and strengthening their resilience through diversified markets.



*Previous Chart: Number of countries trading more with China than with the U.S. has surged over the past two decades, reflecting China’s rise as a top trade partner worldwide. Countries trading more with the U.S. have dwindled in number (data for 2001–2023).*

This diversification is reflected in the proliferation of trade agreements worldwide. As of early 2026, a record 380 regional trade agreements are in force globally, nearly five times the number in 2000. Many countries have dramatically expanded their FTA networks: for example, the UK now leads in number of trade deals (39 agreements, mostly secured post-Brexit), surpassing traditional leaders like the EU or U.S.. Other mid-sized economies such as Chile (31 agreements) and Singapore (28) also boast extensive trade pact networks. In contrast, the United States has not added any major new free trade agreement in the past decade, contributing to a relative decline in its centrality.



*Above Chart: Cumulative number of regional trade agreements in force (globally). Trade agreements have proliferated in the past decade as countries seek new partners and insurance against trade conflicts (WTO data).*



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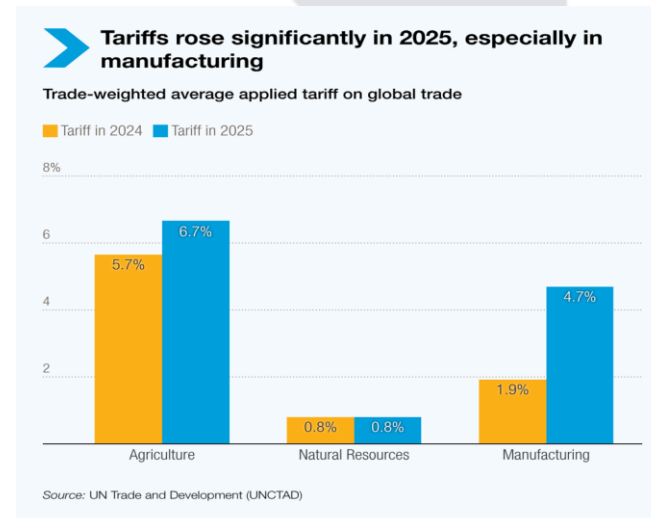
## Key Drivers of Recent Trade Realignments

Several current forces are accelerating these trade realignments away from a U.S.-centric model:

**U.S. Tariff Escalation Threats:** In the last year, the United States has frequently leveraged tariffs and tariff threats, prompting partners to seek more stable alternatives. Since early 2025, the U.S. government has imposed sweeping import tariffs not just on strategic rivals but also on close allies. For instance, in February 2025 a new administration in Washington shocked markets by ordering 25% tariffs on imports from Canada and Mexico (and 10% on Chinese goods) as part of a unilateral policy shift. Throughout 2025, tariffs were raised or threatened on a global scale – including duties on European automobiles, blanket tariffs of 10% on nearly all imports, and special levies on countries from Vietnam to India. While some ad hoc deals temporarily reduced certain tariffs, by mid-2025 even U.S. allies were facing higher baseline tariff rates on their exports. This culminated in an extraordinary episode in January 2026: the U.S. vowed to impose new tariffs on eight European allies (starting at 10% and rising to 25%) unless the U.S. was “allowed” to purchase Greenland. Such unpredictable escalation of tariffs and aggressive negotiating tactics have rattled the global trading system. The instability has pushed many nations and blocs to deepen trade ties with one another, hedging against U.S. trade uncertainty. As one EU leader remarked, countries are increasingly choosing “fair trade over tariffs” and partnerships over isolation in response.

**Supply Chain De-risking:** Companies and governments worldwide are actively restructuring supply chains to reduce over-reliance on any single country, a trend amplified by the U.S.-China trade war and the pandemic. This “de-risking” often means sourcing more from regional or like-minded partners instead of exclusively from U.S. or Chinese suppliers. For example, high tech and manufacturing supply chains have been relocating production from China to Vietnam, India, Mexico and others – a shift that gained momentum after 2018 and continues today.

Likewise, European and Japanese firms have sought to diversify away from sole dependence on U.S. inputs or markets. The goal is to ensure resilience against geopolitical shocks or tariff hikes. Governments have encouraged this with “*friend-shoring*” strategies (favoring trade with trusted partners) and incentives for domestic production. While de-risking improves security, it also diverts trade flows. As nations strive to “mitigate risks and diversify their supply chains,” it has introduced “*a pervasive sense of fear and instability within the global supply network,*” spurring the formation of new trade alliances. In short, supply chain security concerns are driving trade diversification as much as pure economic efficiency did in the past.



*Average applied tariff rates on global trade rose sharply in 2025 (especially on manufactured goods), reversing a longstanding trend. Higher U.S. import duties were a major factor behind this increase, contributing to greater trade policy uncertainty worldwide (UNCTAD data).*



## Global Trade Shifts: Moving Away from the U.S.

**Global Geopolitical Shifts:** Broader geopolitical realignments are reshaping trade relationships. The fracture in great-power relations – notably the strategic rivalry between the U.S. and China – has encouraged many countries to pursue a more *non-aligned, multi-partner* trade strategy. For instance, U.S. allies like the EU now balance their American ties with robust trade links to China and other emerging economies. Meanwhile, China’s diplomatic outreach (e.g. the Belt and Road Initiative and brokering peace between Gulf rivals) has translated into stronger commerce within the Global South. The war in Ukraine and related sanctions have also forced regions like Europe to find new suppliers (for energy, commodities, etc.) and to deepen intra-Europe cooperation. Middle Eastern and Asian powers are forging South-South links partly to hedge against U.S. or EU political pressures. Canadian Prime Minister Mark Carney recently noted that many multilateral institutions and rules are being eroded by the decisions of major powers (the U.S. included), and thus countries feel compelled to seek “*plurilateral deals*” with reliable partners. The expansion of blocs like BRICS and new strategic agreements (e.g. India-Russia, China-Gulf states) reflect a more multipolar trade environment. In this climate, nations choose to “step up and lead” by cooperating with a wider range of partners, aiming to safeguard their economic interests amid great-power tensions.

These drivers have collectively pushed global trade into a new phase – one characterized by realignment and diversification away from a singular dependence on the U.S. market or U.S.-led frameworks. The effects have become especially visible in the past six months, detailed below.

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# Global Trade Shifts: Moving Away from the U.S.

## Recent Developments

In the second half of 2025 through early 2026, many countries accelerated trade initiatives that reduce their relative reliance on the United States. Key developments across regions include:

**Canada:** Canada has taken notable steps to diminish its overwhelming dependence on the U.S. market (which still accounts for about 67% of Canadian exports). In late 2025, the Canadian government set a goal to double non-U.S. exports over the next decade, positioning Canada as a bridge between Western and Asian markets. Prime Minister Carney moved boldly on this agenda: in January 2026, Canada signed a new trade pact with China, marking the first such deal for Canada with a major Asian economy. He also visited Beijing (the first Canadian leader to do so since 2017), remarking that China has become a “more predictable partner” for trade than the U.S.. Canada additionally concluded trade agreements with Indonesia and Ecuador in recent months, and signed an investment protection deal with the United Arab Emirates. Looking ahead, Canadian trade officials are targeting agreements with the Philippines, Thailand, Mercosur, Saudi Arabia, and India as next priorities. These moves underscore Canada’s strategic push to open new markets in Asia and Latin America, thereby reducing vulnerability to U.S. policy shifts.

**European Union:** The EU has likewise intensified efforts to diversify its trade ties beyond the U.S. (which currently takes about 20% of EU goods exports). In late 2025, the EU achieved a historic breakthrough by finalizing its free trade agreement with the Mercosur bloc of South America, concluding 25 years of negotiations. The EU-Mercosur deal – signed in Paraguay in January 2026 – creates the world’s largest free trade zone and symbolically “reflects a deliberate choice... fair trade over tariffs” in the face of global tensions. EU officials fast-tracked this pact despite internal concerns, in part due to U.S. tariff threats aimed at Europe. (Notably, on the very day of signing, the U.S. administration warned it would raise

tariffs on multiple EU countries unless its geopolitical demands were met.) Beyond Mercosur, Europe concluded a comprehensive trade deal with Indonesia in September 2025 and updated agreements with Mexico and Chile. Brussels also rebooted FTA talks with partners like Malaysia, the Philippines, India, and the Gulf states (UAE) that had stalled in previous years. These initiatives are part of an EU strategy to strengthen supply chains and export markets independent of U.S. trade policy. Europe’s trade diversification drive gained urgency as U.S. foreign economic policy turned more protectionist in 2025. By securing new deals across Asia and the Americas, the EU aims to ensure its exporters have continued growth opportunities even if transatlantic trade frictions worsen.



Above infographic summarizes recent key trade agreements in the past six months away from the U.S.

**United Kingdom:** The UK has pursued an active independent trade policy post-Brexit, and the latter half of 2025 saw major milestones. In



## Global Trade Shifts: Moving Away from the U.S.

July 2025, the UK signed a landmark FTA with India, its first with a large emerging economy. This UK-India pact (not yet in force as of early 2026) promises to boost bilateral trade by substantially cutting tariffs and opening services and investment – a significant shift for the UK toward Indo-Pacific partners. Britain also joined the CPTPP trade bloc in 2024, further embedding itself in Asia-Pacific supply chains. During late 2025, the UK reached an updated trade agreement with South Korea (concluded December 2025) and launched a new economic working group with Canada to enhance market access. London even negotiated a limited “Economic Prosperity” deal with the U.S. in mid-2025, but notably this was a modest arrangement that left U.S. tariffs on UK goods largely intact. With a comprehensive U.S.-UK FTA off the table for now, Britain has shifted focus to deals elsewhere: negotiations with the Gulf Cooperation Council are ongoing, and talks with Switzerland and Turkey progressed in 2025. The flurry of UK deals reflects a broader repositioning – the country is seeking commercial alliances beyond its traditional trans-Atlantic sphere, in line with its “Global Britain” strategy.

**China & ASEAN:** Trade between China and Southeast Asia (ASEAN) has been soaring, underscoring a regional integration that lessens reliance on Western markets. China has been ASEAN’s top trading partner for over a decade, a position cemented by the Regional Comprehensive Economic Partnership (RCEP), which took effect in 2022 and includes China and all 10 ASEAN members (among others). By 2025, China-ASEAN two-way trade was on track to exceed \$1 trillion annually, an unprecedented volume. Deepening supply-chain links – for example, electronics, machinery, and commodity flows within Asia – are driving this growth. In November 2025, ASEAN and China agreed on new measures to expedite the implementation of their upgraded free trade area, aiming to further reduce barriers. Chinese foreign direct investment into Southeast Asia has also jumped, reinforcing economic ties. Meanwhile, ASEAN countries have diversified their own partnerships: members like Vietnam and Malaysia benefit from RCEP as well as deals with the EU and CPTPP membership, thereby not depending solely on exports to the U.S. For the broader Asia-Pacific, the absence of the U.S. in RCEP or CPTPP means regional trade rules are increasingly set in

forums where the U.S. is not present. This shift is evident as trade between emerging Asia-Pacific economies is growing faster than trade involving the U.S. market. China’s role in Asia’s trade network thus continues to rise, while America’s relative influence declines – a trend at the heart of global trade realignment.

**India:** India has emerged as a proactive deal-maker in recent years, reversing its earlier reticence on trade agreements. The latter half of 2025 saw New Delhi sign multiple high-profile trade pacts that expand its connections outside the U.S. orbit. Besides the India-UK FTA mentioned above, India clinched a Comprehensive Economic Partnership Agreement (CEPA) with Oman in December 2025 – a strategic link between South Asia and the Gulf. Under this deal, 98% of Indian exports will enter Oman duty-free, greatly improving India’s access to Middle Eastern markets. India also finalized an FTA with New Zealand (talks concluded in Dec 2025) and brought into force a major trade and investment pact with the EFTA states in Europe on Oct 1, 2025. Furthermore, India and Brazil agreed in October 2025 to expand their preferential trade agreement, aiming to double trade by 2030. Perhaps most significantly, India formally launched FTA negotiations with the Eurasian Economic Union (Russia and its neighbors) in August 2025, signaling a turn to non-Western partners amid Delhi’s ongoing trade frictions with the U.S.. These agreements align with India’s strategy of securing critical supply chains (energy, minerals, etc.) and export markets across diverse regions. India had been subject to U.S. tariff pressure in 2025 (the U.S. imposed a 25% tariff on Indian goods citing India’s Russia oil links), which further motivated India to solidify alternative partnerships. With a dozen FTAs now in force – including ones with Japan, South Korea, Australia, and the UAE – India is less tied to any single trading partner and better insulated from U.S. trade policy changes.

**Gulf States (UAE & Oman):** The Gulf countries have been actively pivoting to new trade alliances as part of their economic diversification agendas. The United Arab Emirates in particular has championed a series



## Global Trade Shifts: Moving Away from the U.S.

of Comprehensive Economic Partnership Agreements beyond its traditional oil customers. In 2022 the UAE signed CEPAs with India and Indonesia, and in 2023 it struck deals with Turkey, lowering tariffs and setting new investment rules with each. Building on this, the UAE is currently negotiating trade agreements with more partners – the EU initiated talks with the UAE/GCC in late 2025, and countries like Brazil and Canada have engaged the UAE for deeper trade arrangements. As a result, the Gulf's trade linkages are broadening east and south. Oman, for its part, joined this trend by signing the aforementioned CEPA with India, which gives its exporters improved entry to the vast Indian market. Both Oman and the UAE are also part of the GCC-wide FTA negotiations with the UK, which are ongoing. The geopolitical winds (like Gulf states' closer ties with China, and uncertainty over U.S. commitment in the region) reinforce the Gulf's interest in diversified trade relationships. In sum, the Gulf economies are leveraging new trade deals to integrate with Asia, Africa, and Europe, thereby reducing any over-reliance on commerce with the U.S. and its sphere.

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### Conclusion

The global trading system is unmistakably evolving toward a more multipolar and decentralized framework. The past decade's trends – amplified in the last six months – show trade volumes and agreements increasingly shifting away from the United States and toward a wider array of bilateral and regional channels. This does not mean the U.S. has become unimportant; it remains a major market and trade participant. However, countries are clearly hedging their bets. Unilateral U.S. trade actions and unpredictable tariff escalations have accelerated competitors' and allies' decisions to diversify markets. At the same time, emerging economies have grown in size and confidence, enabling them to craft trade deals among themselves that bypass traditional hubs.

For businesses and investors, these developments present both challenges and opportunities. Supply chains and trade corridors are being re-routed: as much as one-third of world trade (around \$14 trillion) is

projected to shift to new routes over the next decade, according to recent analyses. Companies will need to adapt to a patchwork of trade agreements and ensure they can tap into growth in regions outside the U.S. For policymakers, the task is to navigate this more complex trade environment while maintaining the benefits of globalization. International bodies like the WTO face pressure to reform, as more trade is governed by regional pacts and ad hoc arrangements.

In summary, global trade is entering a period of realignment reminiscent of a new “Great Divergence,” but in trade relationships. Diversification is the new watchword. Economies are not waiting for a single hegemon to set the rules; instead, they are securing their own networks of trade partners to safeguard prosperity. The shift away from U.S.-centric trade is likely to continue in the coming years, driven by both strategy and necessity. How the U.S. responds – whether by re-engaging in multilateralism or further retreating – will influence the speed and extent of these global trade shifts. For now, the momentum is clear: around the world, nations are actively broadening their trading horizons, ushering in a more distributed and perhaps more resilient era for international trade.



## Global Trade Shifts: Moving Away from the U.S.

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