EMERGING MARKETS

Emerging markets and the new geoeconomics

ROBECO
The Investment Engineers

- Emerging markets are proving agile enough to thrive in a mercantilist world
- Keeping a neutral stance amid China-US rivalry is key
- Geoeconomics is influencing our country allocation in EM

The rules-based international order is breaking down, but some emerging markets are exploiting US-China rivalry rather than suffering from it.

A new era of geopolitical competition

One of the themes Robeco's EM team has written about extensively is performance dispersion between emerging market countries from the perspective of equity market structure, policy frameworks, the strength of institutions, demographics, technology adoption and resource endowments. To add to this, a new and powerful source of differentiation is manifesting itself: the new era of geopolitical rivalry. For some countries like India, Vietnam and Mexico, US-China rivalry is already proving a structural advantage. By maintaining different forms of strategic flexibility, these countries have been able to capture investment, trade and manufacturing flows from both sides of the US-China rivalry. This ability to conduct trade and foreign policy effectively among competing economic blocs is now an increasingly important criterion in our country selection.

Quantum geoeconomics or a return to realism

However, the new landscape of global trade is not just a function of great power rivalry, with the 'China-plus-one' supply chain strategy only part of a much bigger geoeconomic picture. Ravi Menon, a former MAS[1] Managing Director, argues that this is now a "Quantum world" – an era of intensified geoeconomics, in which trade policy serves strategic rather than purely economic ends.[2] This can encompass:

- Tariffs or subsidies to protect strategic domestic industries
- Export controls restricting another country's access to critical inputs or technology
- Sanctions and limits on access to banking, capital markets, or payment systems
- Screening or blocking foreign investment in sensitive infrastructure, resources, telecoms, or data
- Supply-chain 'friend-shoring' to reduce dependence on potential rivals
- Competition for critical minerals, energy security, data infrastructure, and industrial standards

Rather than governed by a single coherent set of rules, the new era of shifting alliances means countries can be economic partners in one area and strategic rivals in another. A more conservative perspective would say this is

[1] Monetary Authority of Singapore, Singapore's central bank equivalent
[2] The New Geoeconomics in a Quantum World – July 28 – Hinrich Foundation

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just a return to realism in international relations with conditions reverting to the pre-World War II norm, with statecraft, military power and control over land and physical resources driving policy. Either way, we believe some emerging markets have the economic fundamentals and strategy to navigate this new environment successfully.

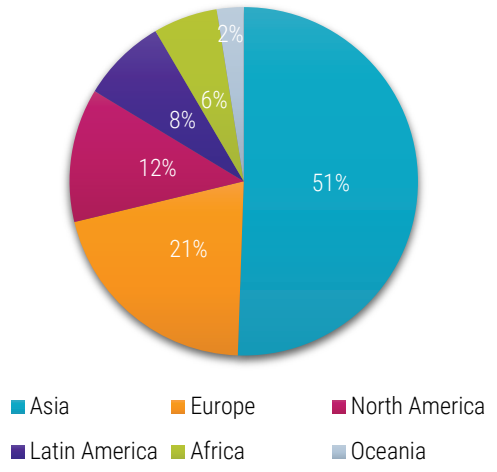
It's already reflected in trade flows

This changing landscape is already apparent in trade flows. In 2016 the United States conducted more trade with China than with any other nation, with total bilateral trade accounting for over 13% of America's global commerce; by 2025 China's share had collapsed to roughly 6.4%, and Mexico and Canada had become the top two US partners.[3] A World Bank analysis found China's share of US imports fell more than five percentage points from 2017 to 2023, and that six economies captured essentially all of it: Vietnam (+1.9 ppt), Taiwan (+1.0), Canada (+0.75), Mexico (+0.64), India (+0.57) and South Korea (+0.53).[4] For these economies the rapid construction of a tariff wall between China and the US has been to their benefit.

> *"Rapid adoption of new technology and systems from China is likely a net positive for many developing countries*

While China has lost some access to the US market, its goods exports to emerging and frontier markets have doubled since 2015 to 44% of total exports in 2024, worth USD 1.6 trillion,[5] and it now claims to be the largest trading partner of more than 160 countries.[6] China's export-driven model is considered unbalanced and in the long term unsustainable by many economists. The country's dominance in novel sectors like renewable energy and electric vehicles has been termed 'China Shock 2.0' with Europe's industrial sector proving especially vulnerable to disruption. From the emerging markets perspective though, the situation is more complex, with supply chain relocation, and rapid adoption of new technology and systems from China, likely a net positive for many developing countries.

Figure 1: Destination of China exports in 2025 and % change (table)



	YoY change
Asia	+10.6%
Europe	+5.7%
North America	-18.1%
Latin America	+7.4%
Africa	+25.8%
Oceania	+8.2%

Source: General Administration of Customs of the People's Republic of China (GACC), 1 August 2026.

In addition, while emerging markets are importing more from China, their exports to the US have grown, validating the relocation thesis. For example, in 2025 Vietnam's exports to the US grew 41%, Thailand's 43%, India's 11% and Indonesia's 34%, despite the generalized imposition of tariffs by the US.[7]

[3] U.S. and China seek to repair damage from tariff war that sent trade into a freefall – PBS – 13 May 2026
[4] Is US Trade Policy Reshaping Global Supply Chains? – World Bank – October 2023
[5] China's exports, investments to Global South surge in 'age of tariffs' – South China Morning Post – 19 August 2025
[6] How China is turning Western trade pressure into Global South momentum – China Diplomacy – 26 January 2026
[7] Southeast Asia Exports to the US: Full Country and Product Breakdown With Section 301 Risk Context – Ytrade – 11 August 2026

More intra-EM trade

Trade is also deepening between emerging markets, independent of the US and China. According to the IMF, this trade has grown from about 5% of total global trade in 1990 to 21% in 2024. Intra-EM trade now accounts for nearly half of total EM trade, up from just 24% in 1990. Excluding China, intra-EM trade represents 38% of emerging markets' total trade. This matters for the EM investment case because a broadening of trade relationships may reduce EM economies' direct dependence on US demand, although financial conditions and global business cycles remain closely interconnected. Economic progress in EM is also reflected in a growing share of global GDP as we have discussed extensively.[8]

Five emerging markets navigating the new geoeconomics

From the perspective of the new geoeconomic landscape, we have analyzed five emerging markets taking different approaches. Top-down country selection represents a key element of Robeco's emerging markets process, reflecting the diversity of the opportunity set and the broad risk spectrum, and the new global geoeconomic architecture makes this element even more important.

The trade data in Figure 2 shows how diverse the emerging markets landscape is. While Vietnam and Mexico are highly sensitive to trading relations with both the US and China, others like India and Argentina remain relatively closed with a balanced exposure to both.

Figure 2: China and US trade data for select emerging markets

Country	Total goods trade with China (USD bln)	Surplus/ deficit with China (USD bln)	Trade with China, % of GDP	Total goods trade with US (USD bln)	Surplus/ deficit with US (USD bln)	Trade with US, % of GDP	Nominal GDP 2025 (USD bln)
Vietnam	296.1	-100.2	59.9%	209.5	+178.3	42.4%	494
India	155.6	-116.1	4.0%	149.1	+58.4	3.8%	3,916
Mexico	109.4	-68.9	6.0%	871.6	+197.0	47.6%	1,833
Brazil	188.0	+44.8	8.2%	94.2	-14.4	4.1%	2,280
Argentina	23.5	-5.4	3.5%	18.3	-1.7	2.7%	681

Source: Robeco, IMF World Economic Outlook, April 2026, General Administration of Customs of China, US Census Bureau.

Mexico – a nearshoring success story

Despite political friction with the US over water rights, drugs and migration, Mexico has doubled down on its role as a key US supplier of both manufactured products, components and primary resources in the past decade, with exports to the US worth 48% of GDP in 2025. In 2023, Mexico overtook China as the largest source of US goods imports for the first time in over two decades via the United States-Mexico-Canada Agreement (USMCA). The IMF estimates that between 2017 and 2023, about 45% of Mexico's export gains were directly attributable to US tariffs on China.[9] Mexico's dependence on the US market leaves it exposed to political and trade-policy uncertainty, including the 2026 USMCA joint review. Nevertheless, being a nearshoring hub for the world's biggest economy is a privileged position which has accelerated the country's economic development.

Mexico's trade relationship with China is not as economically significant, but no less complex. Imports of electronics, machinery, electrical equipment and automotive components support production for the US market, while Chinese finished goods, particularly cars and trucks, have met stronger resistance. From 1 January 2026, Mexico raised MFN tariffs across 1,463 product lines imported from countries without a preferential trade agreement, including China, with rates reaching 50% for selected automotive products. The government said the measures would protect domestic manufacturing jobs and address US concerns that Chinese goods could enter

[8] Emerging markets' strength comes from within – Robeco – 2 March 2026
[9] Mexico: The manufacturing hub of North America – London Stock Exchange Group, 8 May 2026

its market through Mexico. From an investor perspective we believe Mexico is managing its delicate trade relationships with some skill, and Robeco's Emerging Markets Equities strategy holds a small overweight position in the country, while we are monitoring for further opportunities.

Vietnam – Walking the line

Vietnam is the China-plus-one champion, leveraging the US-China tariff walls to become an alternative supply chain location and transshipment hub for China, simultaneously building an enormous trade surplus with the US in the past decade (Figure 2). Whether this is sustainable over the medium to long term is a matter for debate, but the positive impact it has had on Vietnam's economic development is clear already, and its rapid industrial upgrade and the emergence of highly efficient and profitable companies is attracting investor attention. This is highlighted by its recent inclusion in a major emerging markets index[10] which will increase investor flows via passive vehicles. Despite the risks inherent in this balancing act between the US and China, Vietnam's combination of advantageous demographics with rapid industrialization and financialization will make it an increasingly important country in the emerging markets universe.

India – Multi-alignment

India is the purest expression of geoeconomic neutrality. New Delhi calls it 'multi-alignment', a policy of engaging all parties on its own terms without subordinating itself to any.[11] For example, it relies on discounted Russian oil[12] and Russian defense systems while simultaneously trying to deepen semiconductor, space and security cooperation with the US. Moreover, India and the EU concluded FTA negotiations in January 2026, although entry into force remains subject to legal review, signature and ratification.

There is also an India-US trade agreement still being negotiated, with implementation depending on the US giving India an improved tariff arrangement and providing assurances around further US trade actions. India's emergence as a manufacturing hub, vital to its interests as it opens its economy to more imports, is most visible in electronics. In Q2 2025, India-made smartphones made up 44% of US smartphone imports, up from 13% a year earlier, as India-based production jumped 240% and overtook China as the top supplier to the US.[13]

India has a significant goods deficit with China, mainly in electronics components, industrial machinery and some renewable energy technology, but is less dependent economically than markets of similar size, reflecting its relatively closed status through the era of globalization. Current relations are more focused on the border dispute and China's security relationship with Pakistan, than specifically on trade. India's position as the world's fifth largest economy with advantageous demographics means its influence on global trade and politics is only likely to grow. Nevertheless, Robeco is maintaining its underweight position in Indian equities on continued valuation concerns and an absence of catalysts given high energy prices.

Brazil – forging its own path

Brazil follows a similar strategy to India, with multi-alignment, and like India it has the political weight and economic scale to pull this off successfully. China is by far Brazil's dominant trade partner, particularly for commodity exports and manufactured imports; the US is smaller in trade volume but remains highly important for investment, advanced manufacturing, services, finance and technology.

In the past, Brazil was viewed as predominantly a commodity exporter, but the economy has become increasingly diversified, with growing opportunities across financial services, technology, consumer sectors, aerospace and infrastructure. The country has also made progress in developing deeper domestic capital markets and pension reforms that have increased local investment participation. Fiscal challenges remain, but Brazil's corporate sector continues to demonstrate resilience and adaptability. For active investors, periods of macro uncertainty often

[10] Vietnam set for $6 billion inflows after securing long-awaited emerging market status – Reuters 8 April 2026
[11] India's Multi-Alignment and Rising Geopolitical Profile – Hudson Institute -
[12] India's reliance on Russian oil hits all-time high –FT - 23 August 2026
[13] India overtakes China in smartphone exports to the U.S. as manufacturing jumps 240%, report shows – CNBC – 29 July 2025

create attractive valuation opportunities, and the Robeco Emerging Markets Equities strategy remains overweight Brazil. If and when the fiscal and monetary outlook improves, there is potential for further re-rating.

The key event in late October 2026 will be the presidential election, which could provide additional upside. Even if the right-wing US-aligned challenger wins, we believe Brazil will maintain and profit from its strategic autonomy, given its close trading ties with China.

Argentina – US-aligned but not dependent

Argentina is currently a strong political ally of the US, but as Figure 2 shows it's not very dependent on either the US or China in trade terms. In October 2025 the US helped bail out the Argentine government with a USD 20 bln currency swap of which approximately USD 2.5 bln currency swap was drawn and subsequently repaid, buying President Milei vital time to continue his reform program, a unilateral and rapid intervention that would have been unlikely under the previous rules-based international order. Despite its alignment with the US politically, Argentina retains geoeconomic optionality. China remains an important destination for Argentina resource exports and the two countries' central banks renewed a bilateral currency swap agreement for five years worth a potential CNY 130 bln (~USD 19 bln).

Inflation, capital controls and recurring sovereign crises have long undermined investor confidence so Milei's recent reforms have focused on restoring fiscal discipline, reducing market distortions and rebuilding credibility with investors. While the adjustment process remains challenging, subject to significant internal criticism, and risks remain elevated, the direction of policy has finally changed significantly, which we think is welcome. The deregulation has been blamed for consumer indebtedness, with lower inflation making peso debt harder to repay, while an increase in smuggling has followed a new digital customs regime. For investors though it is so far so good, Argentina is increasingly transitioning from a perpetual crisis story to a market where reforms could unlock substantial long-term value if implementation is successful. The Robeco Emerging Markets Equities strategy now has a small exposure to Argentina, a country which remains outside emerging markets indices.

Implications for investors

For investors, the key conclusion is not simply that emerging markets will benefit from the new geoeconomic order. Rather, geopolitical fragmentation is increasing the differences between countries, sectors and companies, strengthening the case for an active approach to EM allocation.

At the country level, the ability to navigate relations with the US, China and other major economic powers is becoming an increasingly important investment characteristic. Countries that combine strategic flexibility with credible institutions, competitive infrastructure, skilled labor and access to energy or critical resources are better placed to attract manufacturing capacity and foreign investment. By contrast, countries that are heavily dependent on a single trading partner, lack policy credibility or are vulnerable to sanctions and trade restrictions may face a higher structural risk premium.

Geoeconomics is therefore becoming an additional input into our top-down country allocation. Alongside valuations, monetary and fiscal policy, institutions, demographics and the earnings outlook, we assess how countries are positioned within changing trade corridors, technology ecosystems and supply chains. This can help identify markets where geopolitical change is creating durable economic opportunities, as well as those where the risks are not adequately reflected in asset prices.

Country allocation alone, however, is not sufficient. Companies within the same market can have very different exposures to tariffs, export controls, Chinese inputs, US demand and supply-chain relocation. Corporate domicile is consequently becoming a less reliable guide to economic exposure. Investors need to understand where companies generate their revenues, source critical components, locate production and depend on government support or market access. This reinforces the importance of bottom-up research and selective stock picking.

The resulting environment is likely to produce greater dispersion rather than a uniform rise in EM assets. Some countries and companies will gain market share, investment and pricing power, while others will face higher costs, restricted access to technology or pressure on existing business models. For active investors, this creates opportunities to allocate capital toward the beneficiaries while limiting exposure to the more vulnerable parts of the EM universe.

The breakdown of the rules-based trading system therefore does not provide an indiscriminate case for buying emerging markets. It provides a stronger case for actively allocating within emerging markets. In our view, the combination of rising country dispersion, shifting corporate exposures and increasingly differentiated policy outcomes should expand the opportunity set for active country allocation and stock selection. This supports a strategic allocation to EM equities, but one implemented through a research-intensive approach that can distinguish the beneficiaries of the new geoeconomics from those that may be left behind.

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