FIM Partners

The New World Trade Order: From Disruption to Opportunity

A Frontier Emerging Markets Perspective

White Paper | May 2025

By Mohammed Ali Hussain, Head of Research at FIM Partners

Executive Summary

The April 2nd Reciprocal Tariff ("RT") regime introduced by President Trump signals more than a policy shift – it potentially represents a structural transformation in global trade dynamics if it remains in its original form. This paper looks beyond tariff rates and delves into the deeper undercurrents that will shape economic fortunes across Frontier Emerging Markets ("FEM") [1].

Key insights include:

- Direct exposure to U.S. trade is limited for most FEM economies, with select ASEAN countries being notable exceptions.
- Global supply chains aren't plug-and-play systems but rather intricate ecosystems which cannot be easily uprooted.
- Commodity exporters such as GCC countries face indirect consequences through oil price volatility, but structural reforms offer resilience buffers.
- Commodity importers like the Philippines and Pakistan stand to benefit from lower commodity import costs and trade deficits that should contain inflation.
- Country selection is critical. Structural attributes, reform momentum, and policy flexibility will separate the winners.

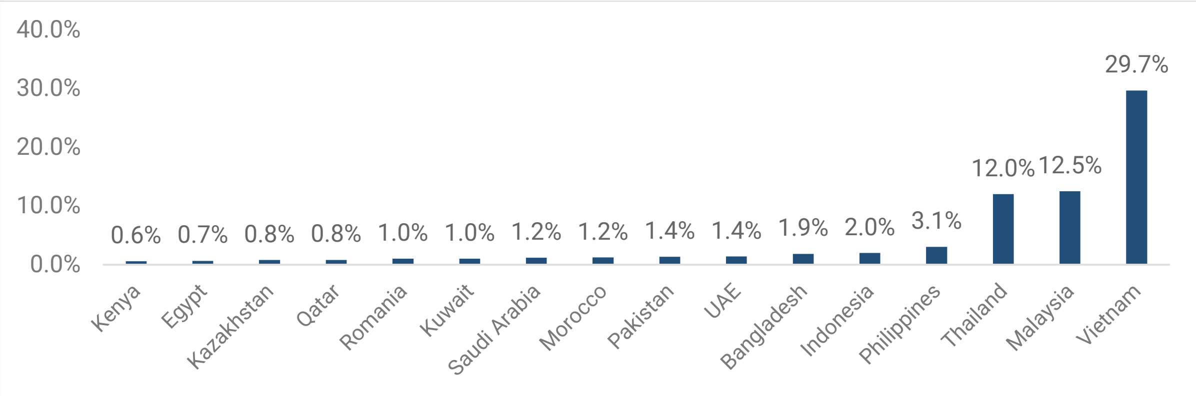
While uncertainty may dominate headlines, selective exposure to well-positioned FEM economies presents a compelling investment opportunity that mandates focus on fundamentals, optionality, and resilience.

[1] The FEM universe primarily comprises of the ASEAN (Indonesia, Philippines, Vietnam, Thailand, and Malaysia), MENA (Saudi Arabia and UAE) regions, and parts of Central Eastern Europe.

Beyond First Impressions

On the surface, the RT regime presents two concerns: (i) the potential loss of exports to the US; and/or (ii) losing market share to countries facing lower absolute tariffs. Before delving into these specific concerns, understanding the relevance of US exports for individual countries is pertinent. Except for select ASEAN countries, the majority of FEM countries have a low degree of GDP tied to U.S. exports, limiting direct economic vulnerability (Figure 1).

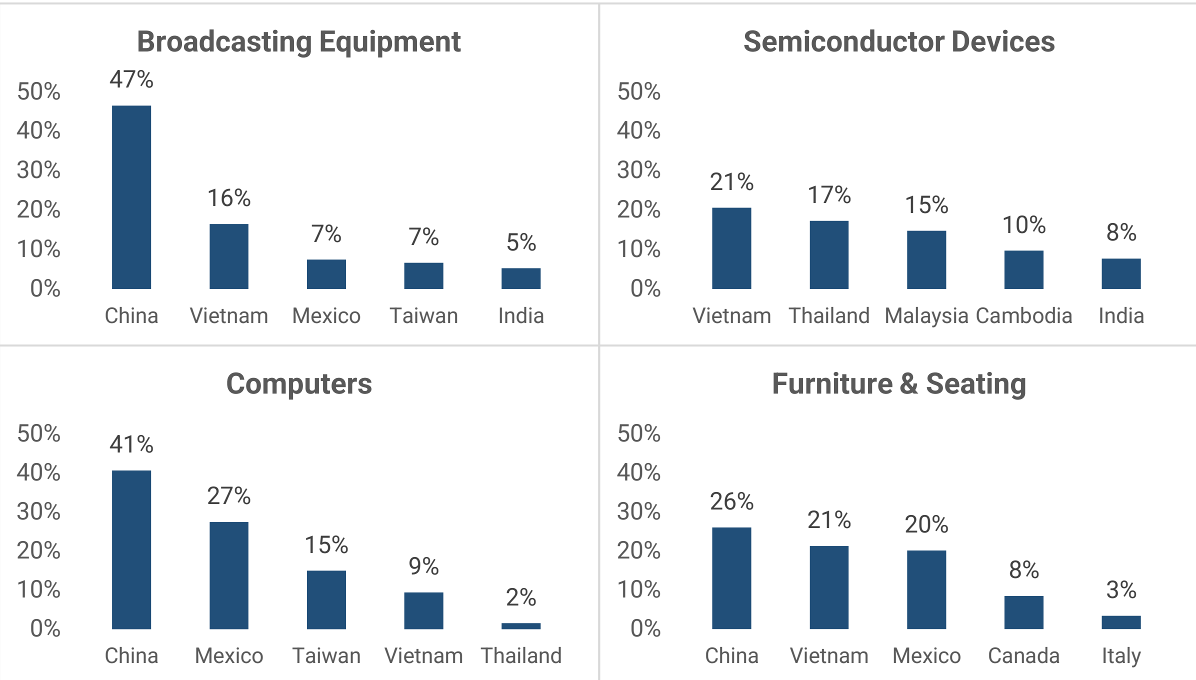
Figure 1: US Exports to GDP



Source: IMF World Economic Outlook (April 2025), US Census Bureau

Vietnam's relatively higher exposure is not surprising with the country's top US export product categories showcasing its dominant supplier market share (Figure 2). But with the country facing a higher tariff rate relative to fellow Trade War 1.0 (2018-19) beneficiaries like India and Mexico, the potential economic fallout for its $137 billion export juggernaut to the US demands a closer look.

Figure 2: Supplier Market Share in Vietnam's Top 5 US Export Products[2]

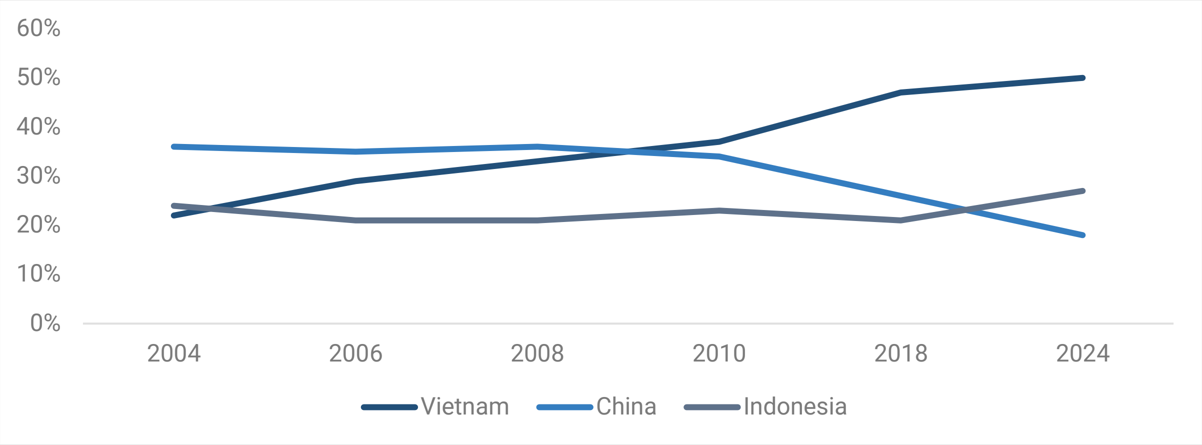


Source: OEC World Trade Statistics (2023)

[2] Furniture & Seating have been merged into a single category.

Focusing solely on tariff percentages overlooks the intricate machinery that powers global supply chains. Factors such as infrastructure quality, supply chain reliability, labour productivity, and the regulatory environment play a far more decisive role than mere labour cost arbitrage. If lower wages were the only factor, India—where labour costs are roughly one-third those of Vietnam and Mexico[3]—would command a higher share of US imports versus Vietnam and Mexico. Vietnam's ascent as a global manufacturing force predates the tariff wars, driven by reforms that have attracted global giants like Apple, Samsung, Toyota, and Nike. In fact, Nike's sourcing history shows Vietnam overtook China as its top footwear supplier as early as 2010 and now accounts for nearly 50% of its global supply (Figure 3).

Figure 3: Nike Footwear Source by Country



Source: Bloomberg

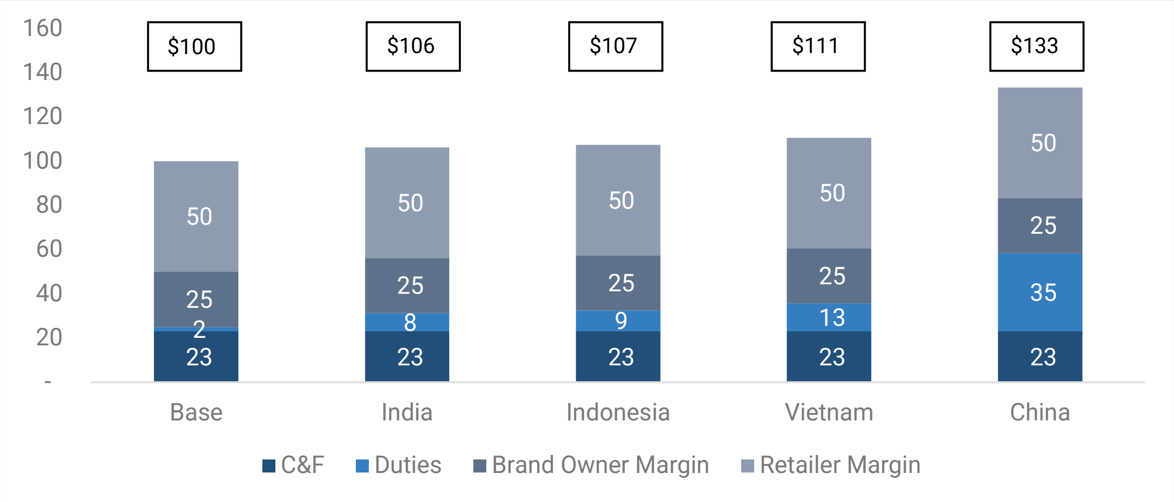
Global supply chains aren't plug-and-play systems but rather intricate ecosystems which cannot easily be uprooted. The developments in the US leather & textile footwear imports category are instructive in assessing the potential disruptive impact of the RT regime amongst existing suppliers.

We tested the impact on a $100 pair of sneakers by applying the respective RT rate at the import custom duty level for the top suppliers (Figure 4), while assuming equal manufacturing costs; an admittedly oversimplified assumption given the relative market share dominance of Vietnam and China versus peers in the category.

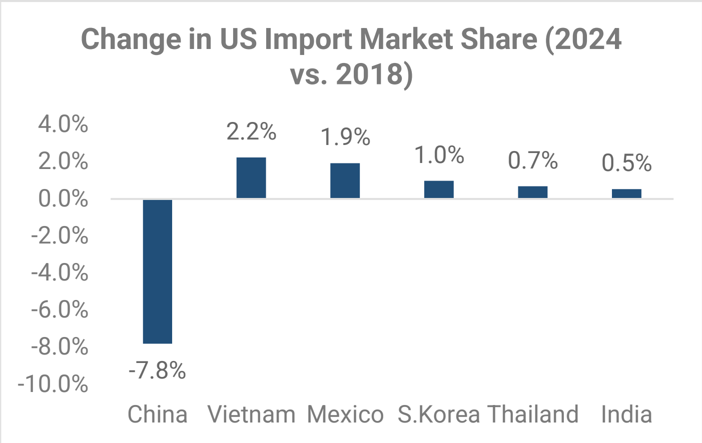
Source: OEC World Trade Statistics (2023)

[3] International Labour Organization statistics

Figure 4: US Athletic Shoe Import Cost Comparison



Source: Shoemakers Academy, Sole Review



Source: US Census Bureau

Aside from China which faces the steepest tariff, the final import cost differential between the other suppliers appears insignificant to justify large-scale supply chain shifts given sizeable margin buffers at the brand owner and retailer level. In fact, China's relative disadvantage could likely accelerate US import market share gains for other suppliers in line with the trend from Trade War 1.0. While export share losses cannot be completely ruled out, particularly in lower margin and/or less sophisticated products, supply chain realignment is far from trivial with key considerations including quantum of relocation capex, time to replicate efficiencies, and available capacity in the destination country.

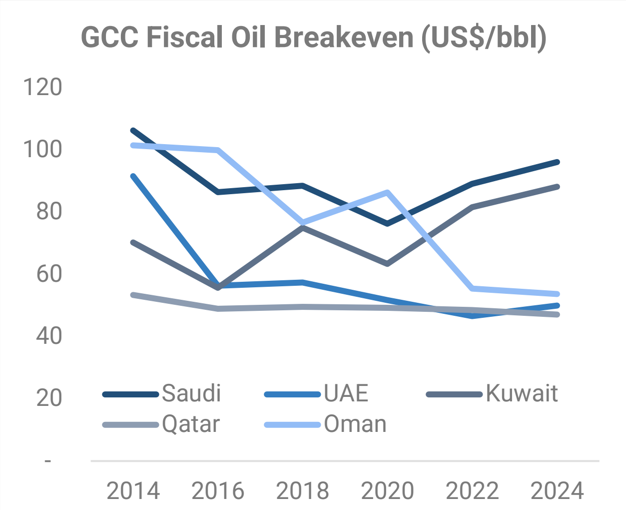
Secondary Impact: Global Slowdown and Commodities Set the Stage

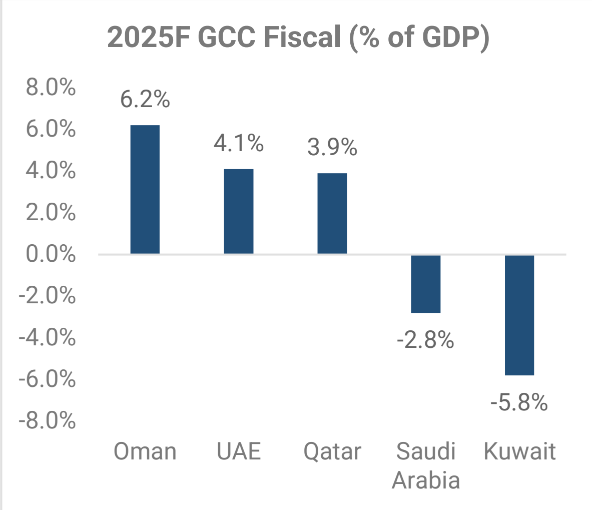
Even for countries not directly in the line of fire, the indirect tremors from slowing global demand to sliding commodity prices will be hard to ignore.

Despite facing the lowest RT rates and limited direct trade linkage with the US, GCC countries[4] are exposed to weakening commodity prices. However, focusing on absolute oil price levels ignores unique individual structural attributes and recent developments which could limit the

[4] Gulf Cooperation Council (GCC) countries include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the U.A.E.

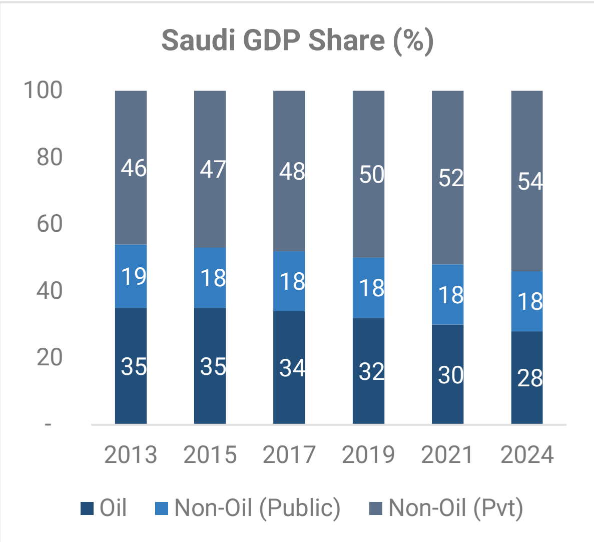
downside relative to prior cycles. For example, the UAE's fiscal oil breakeven is now half of what it was a decade ago, and together with Qatar, both countries can sustain balanced budgets at relatively modest oil prices (~ $45/bbl for the UAE and $50/bbl for Qatar) while continuing to post healthy fiscal surpluses.

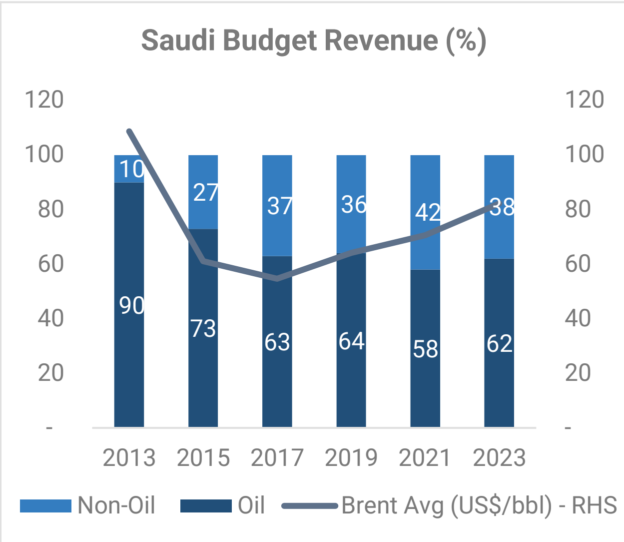




Source: Bloomberg, IMF

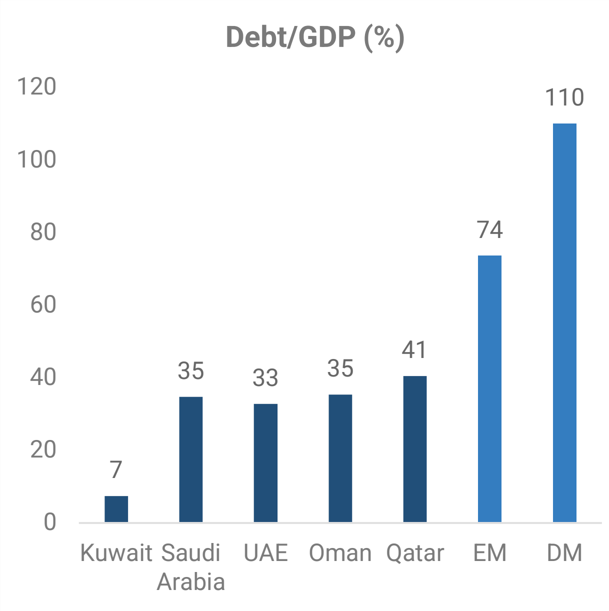
But what separates this commodity cycle from the last is one word: reform. Saudi Arabia's Vision 2030 and the UAE's Vision 2031 aren't just blueprints—they're action plans which aim to enhance economic diversification by reducing their commodity dependence. The impact of these programs is palpable in the growing share of the non-oil sector in Saudi GDP, burgeoning non-oil exports, and the stark improvement in the share of non-oil budgetary revenues.



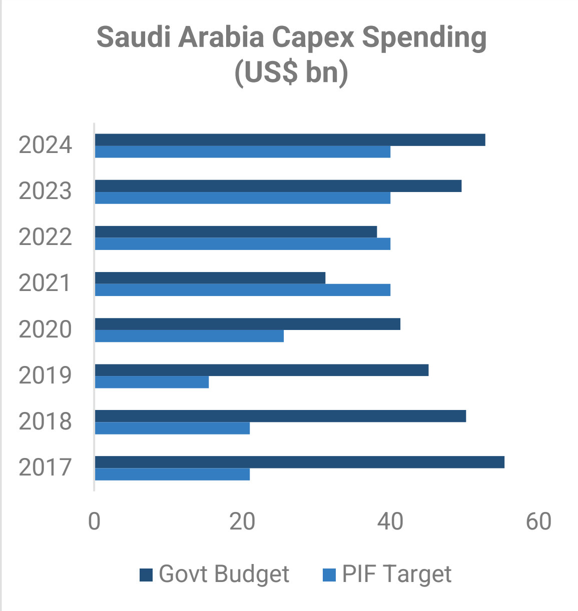


Sources: Morgan Stanley, GASTAT

Reforms however come with a hefty price tag; Saudi Arabia's rising fiscal breakeven oil prices are a case in point. Fortunately, most GCC countries have ample debt headroom relative to Emerging and Developed markets to support their ambitions complemented by the largess of their respective Sovereign Wealth Funds (SWFs). GCC SWFs account for 38% percent of the $13 trillion of global SWF AUM holding ample liquidity buffers for counter-cyclical investment and internal economic support if needed. With nearly $1 trillion in assets—roughly equal to the national GDP—the Saudi PIF has become a cornerstone of Vision 2030, steadily increasing its share of national capital expenditure as it bankrolls the Kingdom's flagship Giga projects.



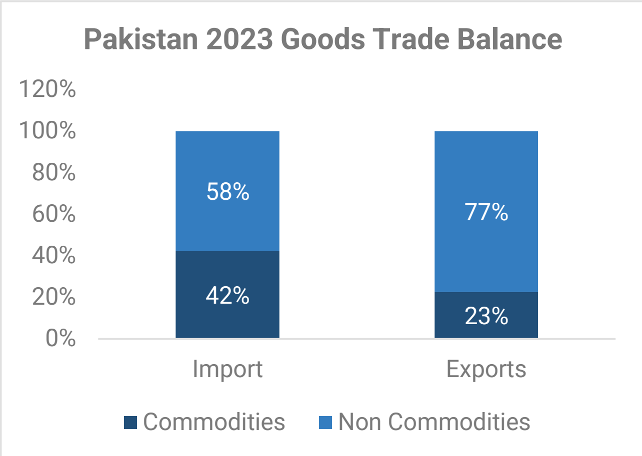
Source: IMF, World Bank



Source: PIF, GASTAT

The GCC energy complex isn't entirely out of the woods though. While meaningful reforms are underway, the transformation is still a work in progress. That said, relative to previous cycles, the region is far better equipped to navigate a commodity downturn. Fiscal buffers are stronger, breakeven oil prices are lower in some cases, and policy frameworks are more forward looking.

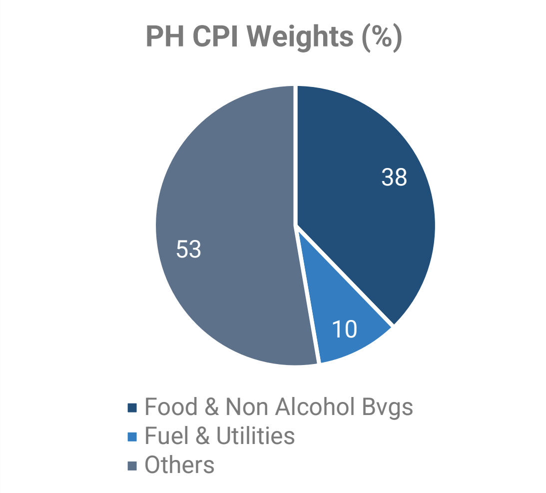
However, in a protracted commodity downcycle the advantage may tilt towards net commodity importers such as the Philippines and Pakistan. For these economies, softer global commodity prices ease import bills and relieve pressure on foreign exchange reserves, particularly critical for those with significant trade deficits. In 2023, Pakistan ran a $22 billion goods trade deficit (6% of GDP) with its import basket skewed towards agricultural and hydrocarbon commodities. Ceterus paribus, a 10% reduction in commodity prices translates to a +40bps Trade balance/GDP improvement but more importantly represents a meaningful cushion against potential US exports losses from the RT regime.

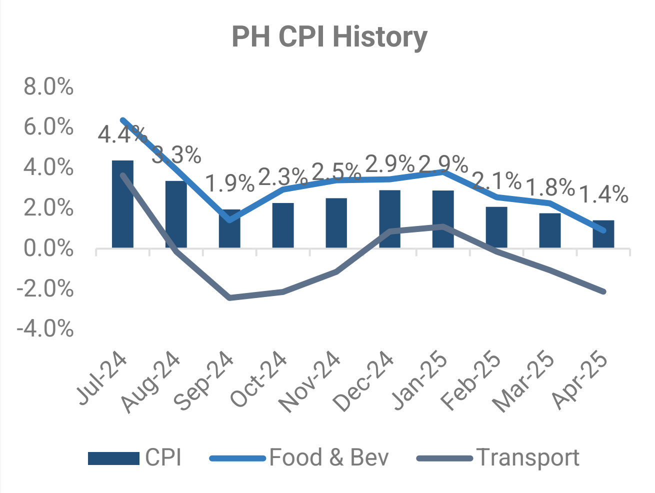


Pakistan Goods Trade Balance 2023- (In US$ bn)			
Original Trade Balance	**Imports**	**Exports**	**Net**
Commodity	24.6	8.1	(16.5)
Others	33.6	27.7	(5.9)
Total	**58.2**	**35.8**	**(22.4)**
Commodity Price Change (%)	**-10.0%**		
Revised Trade Balance			
Commodity	22.2	7.3	(14.9)
Others	33.6	27.7	(5.9)
Total	**55.7**	**35.0**	**(20.7)**
Savings			**1.7**
Exports to US			**5.2**
% of US Exports			**32%**

Sources: OEC Statistics, Pakistan Bureau of Statistics, FIM Partners Analysis

Inflationary dynamics may also offer a silver lining for these economies as high commodity weighting in CPI baskets implies softer global commodity prices could keep inflation contained and support domestic consumption. The Philippines offers a timely example: food and fuel account for nearly 50% of its CPI basket and since the second half of 2024, a roughly 30% drop in global rice and oil prices has led to inflation levels more than halving since July 2024.



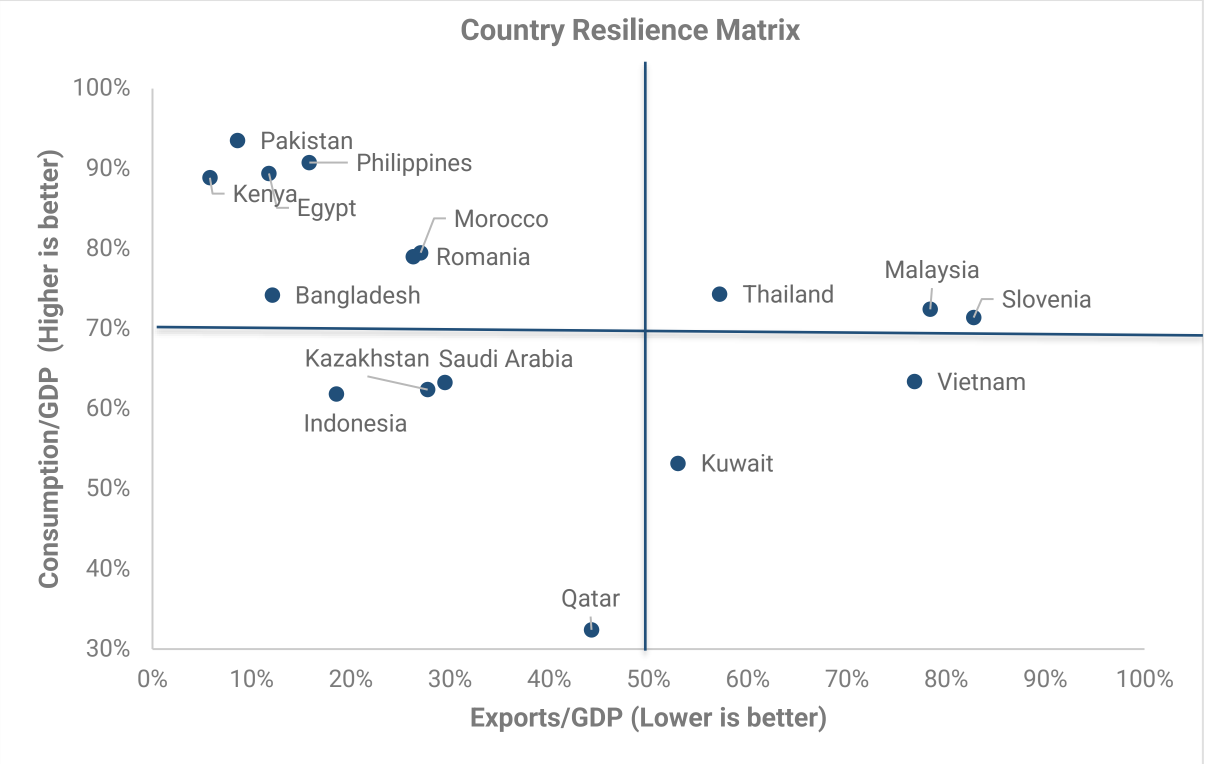


Source: Philippines Statistics Authority

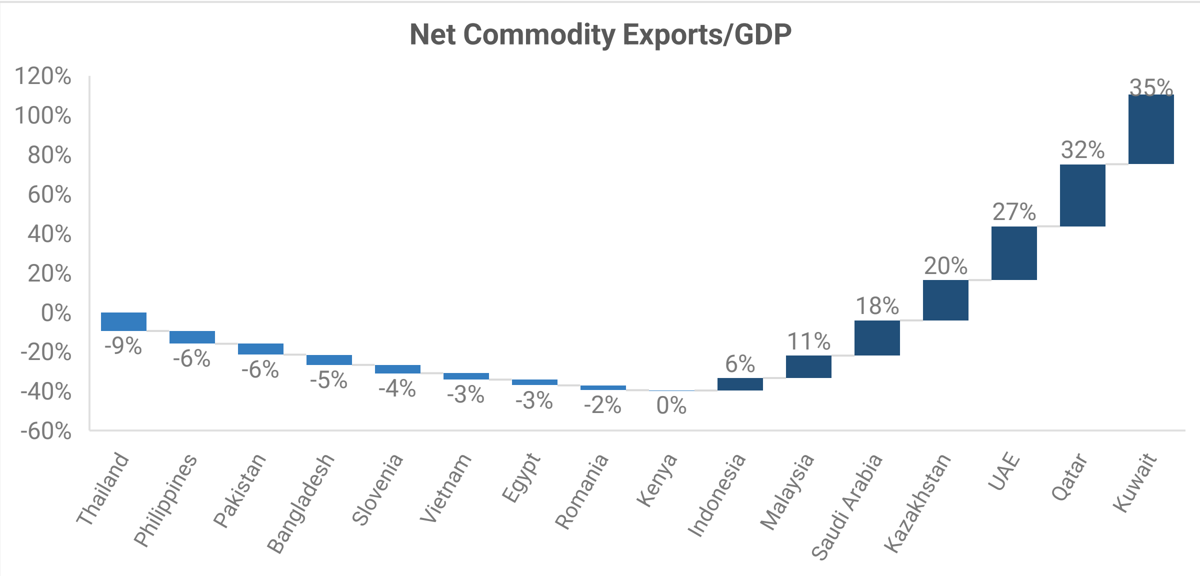
Creating the Wishlist

Economic activity is rarely contained within neat national borders. Even countries facing minimal direct RT exposure will feel the tremors of a global economic slowdown. But the FEM space is not a monolith; the resilience or fragility of countries will hinge on individual structural attributes with the best positioned countries being those that can stimulate domestic demand without facing inflationary constraints while maintaining resilient financial buffers to absorb external shocks. Our preferred attributes in this scenario include:

- A high reliance on domestic consumption, and thus lower vulnerability to external trade shocks. In essence, domestic demand will become a critical buffer
- Net commodity importers will fare relatively better in terms of external position and keeping inflationary pressures in check. The caveat is commodity exporters with reasonable fiscal breakeven levels and reform momentum as offsetting factors.
- Policy flexibility will differentiate winners from losers. Countries with high real interest rates and fiscal surpluses can deploy stimulus tools if global conditions worsen.



Source: World Bank, UN Comtrade Statistics



Source: OEC Statistics, World Bank

We don't need to look far in the rearview mirror to grasp the potential fallout of a permanent RT regime. The extended COVID-related lockdowns in China during 2022 offer a vivid precedent—supply chain disruptions, product shortages, and surging prices rippled across the globe. While uncertainty may dominate headlines, selective exposure to well-positioned FEM economies presents a compelling investment opportunity that mandates focus on fundamentals, optionality, and resilience.

Contact Details:

Mohammed Ali Hussain
Head of Research
+971 4 237 9222
malihussain@fimpartners.com

Kyal Mapara
Investor Relations and Business Development
+971 4 237 9226
investorrelations@fimpartners.com

Raya Majdalani
Investor Relations
+971 4 237 9239
investorrelations@fimpartners.com

Website:
www.fimpartners.com

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