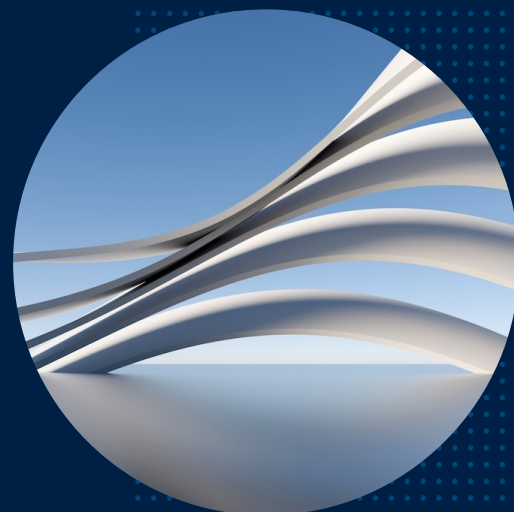


EMERGING MARKETS SERIES | PART 2

THE REWIRING OF GLOBAL SUPPLY CHAINS

Supply chains are diversifying, creating a new phase of emerging-market opportunity



- Supply chains are diversifying, not deglobalising
- EM advantages now extend well beyond labour and commodities
- Durable winners will build capacity, skills and domestic value
- Greater dispersion strengthens the case for active allocation

Emerging markets have outgrown the old script: cheap labour and commodity beta no longer differentiate winners. The next force reshaping the asset class is the rewiring of global supply chains, as tariffs and geopolitical conflicts have exposed the fragility of a cost-minimising model built on concentrated production.

Companies are diversifying across locations based on energy, resources, geopolitical alignment, domestic demand and labour costs. Emerging markets offer not just sites and workers but technology, expertise and financial and human capital.

REGIONAL PRODUCTION CHAINS TAKE SHAPE

While broad equity exposure and the location of new infrastructure projects provide visible evidence of supply-chain shifts, they reveal little about the depth or durability of those changes. The stronger signal is whether an economy is building domestic production capacity, supplier networks and skills, since gains based largely on rerouted trade can disappear when rules of origin tighten.

The harder question is which economies can convert manufacturing migration, human capital and technology into durable cross-asset value by building fixed assets,

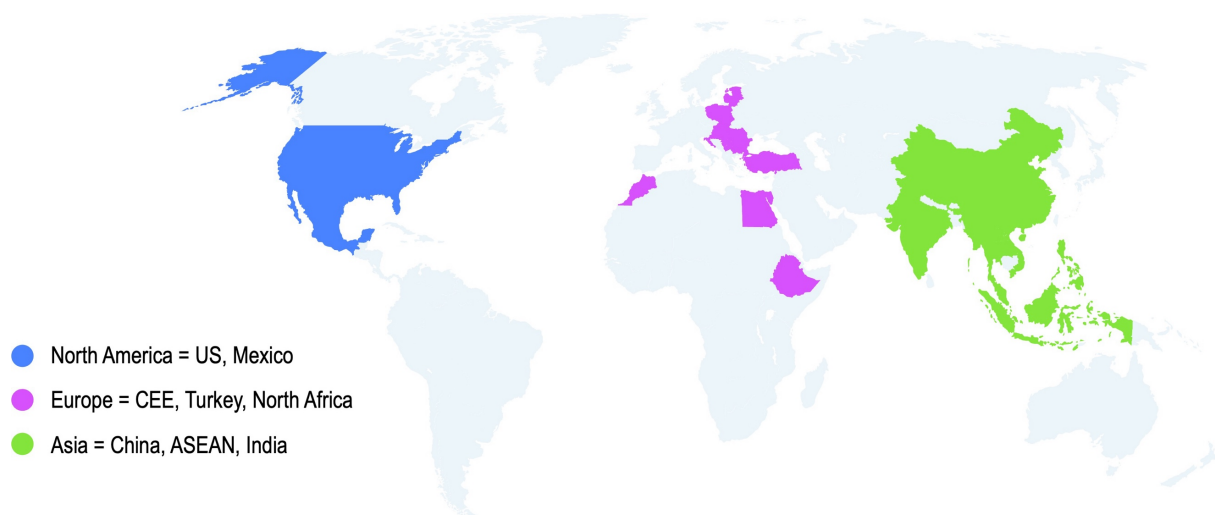
supplier networks and skills that raise domestic value added, strengthen external balances and deepen local capital markets, rather than merely relabelling exports.

The IMF's work on ASEAN is instructive here¹: the region has simultaneously gained U.S. import share and increased its imports of Chinese intermediate goods, yet its domestic value added has also risen, which suggests genuine deepening of skills and production (see appendix).

ASEAN's gains in global supply chains since 2018 reflect both genuine capacity formation and China's relocation of lower-value production as its costs rise and domestic industry moves up the value chain. Similar shifts are appearing elsewhere, including the movement of Turkish textile and clothing production to Egypt. The investment signal is the accumulation of fixed assets, supplier networks and skills, not export growth alone.

Three regional production systems are taking shape. North America is deepening around Mexico. Europe is adding capacity in Central and Eastern Europe, Western Balkans, and North Africa. Asia is adopting a China-plus-many model, with China remaining essential for inputs and advanced manufacturing while ASEAN and India capture incremental capacity.

¹ International Monetary Fund, June 2026, ASEAN's Trade and Investment in a Fragmented World



Source: PGIM

Capital flows already reflect this. UNCTAD data show emerging and developing economies attracted around USD 901 billion of FDI in 2025, with strategic sectors such as AI infrastructure, semiconductors, critical minerals and energy-transition technology now accounting for 44% of global greenfield project value, up from just 16% in 2020.²

However, fragmentation is not an unqualified gain. Emerging markets will not benefit as a bloc because fragmentation changes the distribution of gains and losses. Some countries will capture factories, supplier networks and skills, while others face higher import costs or displaced production. AI supply chains illustrate this dispersion, with Korea and Taiwan occupying critical positions in the semiconductor ecosystem.

THE AI STACK

The AI build-out is reshaping the opportunity set across emerging markets. Rather than focusing primarily on the familiar themes of domestic consumption and financial deepening, investors increasingly have access to EM companies embedded within the global infrastructure underpinning AI adoption.

Taiwan and Korea sit at the centre of this ecosystem through leadership in advanced semiconductors, memory and packaging technologies, with production capacity that remains difficult to replicate elsewhere despite efforts to expand manufacturing in developed markets with other electronics producers and their suppliers also benefiting.

The most direct beneficiaries are EM companies supplying critical inputs to hyperscalers, where investment spending supports earnings visibility. Across parts of the semiconductor and memory supply chain, the relationship between earnings growth and valuations

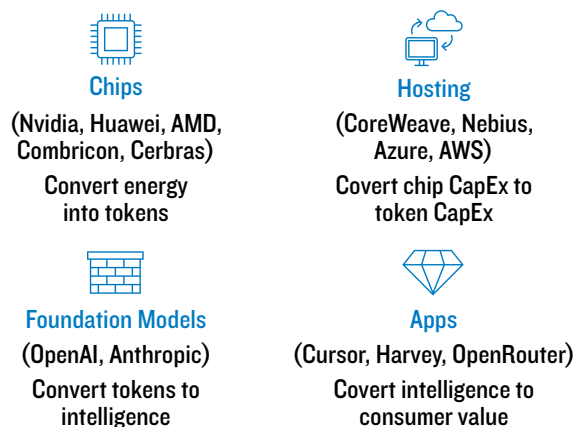
creating opportunities, but it requires careful issuer-level assessment.

Beyond semiconductors, the investment opportunity extends across the broader physical infrastructure required to support AI and electrification. Power equipment manufacturers, grid infrastructure providers, industrial electrical businesses and producers of critical metals such as copper are benefiting from rising electricity demand driven by data centres, industrial automation and the energy transition.

Emerging markets remain central to these supply chains, serving as both manufacturers and suppliers of essential components. This has also created selective opportunities in China, particularly in industrial automation, robotics and specialised component manufacturing, where domestic companies occupy important positions within global value chains.

The most direct EM exposure to long-term AI growth lies among businesses supplying scarce components, infrastructure and materials, where structural demand and improving earnings can support attractive investment opportunities.

The stack turns capital and energy into cognitive work



² UNCTAD, World Investment Report 2026

TRADING WITH CHINA 2.0

The new global order

Old order



New order



Source: PGIM

China dependency is being redistributed rather than unwound. The likeliest policy path is selective de-risking: governments will seek alternatives for critical inputs while continuing to buy cheaper less strategic goods from China. Domestically, export controls are pushing Chinese labs towards domestic tech and testing tools, allowing local equipment makers to gain share and redistributing semiconductor dependencies within China.

African and Latin American markets are importing more Chinese solar panels, vehicles and consumer products, while ASEAN production chains are becoming more tightly integrated with Chinese intermediate goods and capital equipment. Tariffs on Chinese components and trans-shipment points may reinforce trading blocs, pushing economies excluded from the U.S. market towards deeper emerging-market trade.

That helps explain why reshoring is selective rather than a wholesale move of jobs to developed or emerging markets: governments and companies are concentrating scarce capital on security-sensitive goods such as semiconductors, critical-mineral processing and supplies vulnerable to disruption.

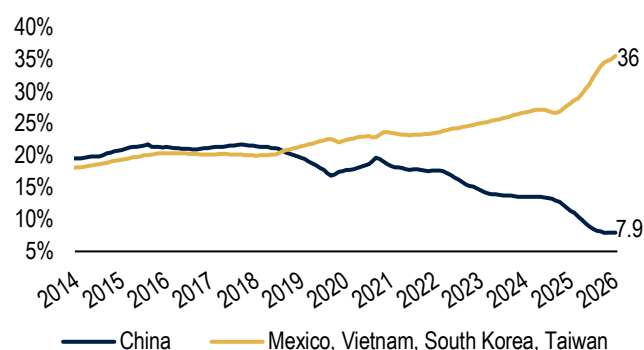
Moreover, geopolitical tail risk, particularly around Taiwan, remains genuinely difficult to price into global technology supply chains. Investors can assess more directly the pace and credibility of alternative capacity being built elsewhere as a form of self-insurance.

European defence spending is already creating another industrial policy cycle, supported by new funding mechanisms and closer regional integration. Because defence supply chains require stable, long-term finance and secure inputs, they are likely to reinforce reconfiguration across strategic manufacturing, steel, electronics and dual-use technologies.

Existing defence and defence-adjacent producers in Poland, the Czech Republic, Turkey and South Korea are among the potential EM beneficiaries. Central and

Eastern Europe could gain further if automotive capacity, engineering skills and supplier networks could be redeployed towards defence production.

U.S. imports from China vs others, % of total imports

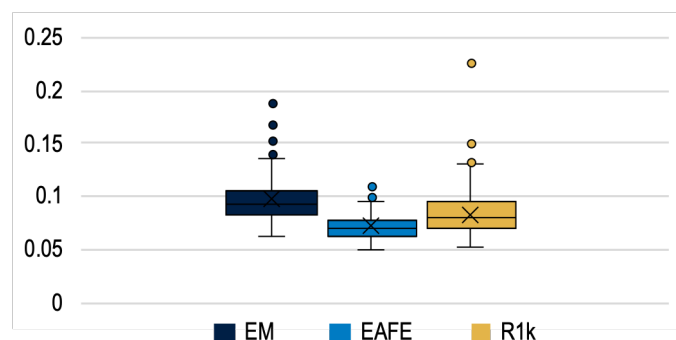


Source: U.S. Census Bureau, 30 September 2026

INVESTMENT IMPLICATIONS

[Correlations between individual EM equities tend to rise less sharply](#) during periods of stress than correlations within developed-market indices, reflecting greater dispersion across EM economies. Supply-chain rewiring could widen that dispersion further as it creates opportunities across EM equities, sovereign and corporate debt, currencies and real estate. We believe at a fundamental equity level, the strongest expression of the rewiring is at the chokepoints (advanced chips, memory, power equipment, precision components), where constrained capacity is driving pricing power and upward earnings revisions.

Emerging markets stand out in return dispersion and outcome variability



Past performance is not a guarantee of future results.

Source: FactSet. Standard Deviation of 1-month returns for MSCI EAFE, MSCI Emerging Markets, and S&P 500 indexes. Data from Nov 2014 – Nov 2024

Active allocation is central to separating structural beneficiaries from temporary conduits and capturing that dispersion. The investment case therefore rests on active country and issuer selection grounded in local industrial capacity, policy credibility and external vulnerabilities.

The next article in our series examines how critical minerals and energy security are reshaping emerging-market economies and investment opportunities.

APPENDIX

Domestic value added exported to final buyers, % GDP

% exporters GDP, corrected for re-exports and multi-country production chains

	Total, United States	China	EU 19	World
Mexico	25.0	1.9	2.3	39
Canada	21.2	2.3	2.7	36
Singapore	15.7	16.6	11.4	109
Switzerland	12.4	4.4	21.3	67
Taiwan	12.0	17.8	5.4	62
Thailand	10.1	8.7	4.6	55
Israel	9.3	3.1	8.7	42
Malaysia	9.2	12.4	5.3	59
South Korea	7.9	8.3	3.3	38
UK	7.4	2.6	11.6	39
Chile	7.4	11.0	3.1	36
Philippines	6.5	4.9	3.2	33
Colombia	6.4	2.3	3.0	23
India	6.2	2.1	3.5	26
Sweden	6.0	3.6	16.6	53
Germany	5.9	3.8	13.0	45
Hungary	5.6	3.1	25.4	61
Peru	5.6	7.9	3.4	31
Norway	5.2	3.5	17.0	54
Japan	4.9	4.5	2.6	24
New Zealand	4.6	7.9	2.4	31
Turkey	4.5	1.9	9.6	39
Poland	4.2	1.9	25.1	56
Czech Rep.	4.1	2.4	26.5	55
Indonesia	4.0	5.9	1.9	28
Saudi Arabia	4.0	6.3	4.3	37
Brazil	3.8	5.7	2.9	24
South Africa	3.7	4.6	5.4	34
Romania	3.2	1.8	20.1	45
Australia	3.0	7.8	2.3	30

Source: OECD, PGIM

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