



NAVIGATING THE UNFORESEEN TWISTS OF AMERICA'S TRADE JOURNEY WITH CHINA

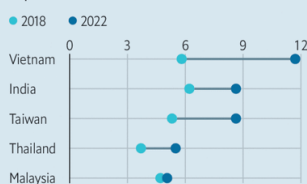
By APILASH BALASURESHWARAN

Shifting Global Trade

Landscape

Foxconn, the world's largest contract manufacturer, offers a unique lens into global supply chains. Expanding across India, Mexico, Thailand, and Vietnam, it signals a shift away from once-favored Chinese sites. With strained relations between the U.S. and China, trade dynamics are changing. In H1 2023, U.S. trade with Mexico and Canada surpassed that with China for the first time in two decades. The uptick in trade with these newfound allies paints a promising picture of diversification. Surging forward with vigor, the percentage of American imports originating from China within "low-cost" Asian nations dropped from 66% during the inception of the Trump administration's tariffs five years ago to a notable 51% just last year—a tangible shift documented by Kearney, a respected consultancy. However, there's a nuanced challenge at play: the expanding trade between America's allies and China. This intricate choreography often renders these allies as packaging conduits for products that, beneath the surface, remain intrinsically tied to Chinese origins.

The White House always wins
United States, manufactured goods, % of total imported from selected countries*



*Bangladesh, Cambodia, China, India, Indonesia, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand and Vietnam
Source: Kearney

Complex De-Risking

Efforts

U.S. policymakers, led by Trump and Biden, have introduced tariffs and rules to weaken China's influence. Recent measures, like an August 9th executive order, aim to curb Chinese involvement in sensitive sectors. However, despite shifts in trade stats, the supposed decoupling is nuanced. Instead of severing ties, trade between the U.S. and China is evolving into intricate forms.

Intricate Trade

Transformations

U.S. collaboration with countries like India, Mexico, Taiwan, and Vietnam reflects a push for "friendshoring" production to replace Chinese imports. Although only 51% of U.S. imports from low-cost Asian nations came from China last year, trade with allies like Taiwan and Vietnam is growing. Yet, they also act as packaging hubs for Chinese goods, highlighting interdependence. In the intricate realm of trade rerouting, a diverse tapestry emerges, with strategies finely tuned to industries and nations. Within this intricate dance, China emerges as a focal point for specific products, notably within the rare earths and metals sector—a domain dominated by Chinese enterprises. In the past year Chinese companies exported \$300m a month in parts to Mexico, more than twice the amount they managed five years ago. In central and eastern Europe, where the car industry has boomed in recent years, phoney decoupling is even more conspicuous.

Dependency and

Realignment

This phenomenon can be observed in China's neighboring regions. Official data from 2018 suggests that 7% of the exports by the Association of South-East Asian Nations (ASEAN) were linked to Chinese production. This figure is likely an underestimate due to the complexity of trade disentanglement. Recent data indicates that China's importance has only grown since then, with Chinese sales of electronic goods surging in Indonesia, Malaysia, Thailand, the Philippines, and Vietnam.

This complex interdependence extends to other regions and industries, particularly the automotive sector. Mexican reports highlight that 40% of nearshoring investment in the country comes from Chinese sites, particularly in the electric vehicle segment. These trends highlight the intricacies of supply chains that extend beyond headlines.

Caroline Freund's research shows strong trade relationships with China in specific sectors benefit from trade redirection.

To summarize, the evolving trade landscape between the U.S. and China is intricate and multifaceted. While attempts to reduce reliance on China persist, complex trade interdependencies challenge straightforward decoupling efforts, emphasizing the intricate and multifaceted nature of modern global trade dynamics.



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