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Supply Chain Restructuring and Economic Development in the New Global Trading Order

W. Milberg and L. Johnston[1]

Abstract

In this paper we present a broad overview of issues that are emerging for developing countries as a new trading system comes into existence, with new rules and new sourcing strategies by lead and higher-tier supplier firms. We first consider economic reasons why the trade war erupted. We then look at the challenges of restructuring global value chains given today's technology, scale of production, skills requirements and existing production networks. We find little "reshoring," "nearshoring" or "friendshoring" and little change in the major global imbalances that have been the focus of much concern in the past. Nonetheless, there are already significant shifts in global trade patterns at the country and industry level, and we look at the US tariff impact and the Chinese efforts to redirect exports. These changes may have a longer-run negative impact on developing countries' export growth and import propensity and thus on their rate of economic growth that is so crucial for development and the success of a just green transition.

JEL codes: F13, F15, O14, O19

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1. Introduction

The US imposition of tariffs across the world in 2025 represented a sharp retreat from the global trading system that the US itself had championed for decades. In this paper we present a broad overview of issues that are emerging for developing countries as a new trading system comes into existence, with new rules and new sourcing strategies by lead and higher-tier supplier firms. To date, the US tariffs and the response (a combination of investment promises and retaliatory actions) are not leading to a major change in the overall level of payments imbalances in the world. However, they are likely to lead to a shift in the direction of trade and investment, with the US continuing to rely less on imports from China, creating possible openings for other developing countries in the US market. At the same time, China is actively redirecting its exports from the US market to other countries and regions, building on the impressive infrastructural and trading networks developed under the Belt and Road Initiative, as well as easing market access for some developing countries and providing new renmimbi-based credit lines. Between the US protectionism and the export redirection by China, some developing countries may experience downward pressure on wages, profit margins and investment as a result of increased competition for exports and heightened imports. This, in turn, will affect the sources of demand in developing countries that will be key for future economic growth and development.

Trump's tariff and deglobalization moves are a symptom more than a cause of a changing international division of labor. Manufacturing production has globalized since the 1980s, with a corresponding deindustrialization in high-income countries such as the United States. Economic insecurity in the US rose during the period of globalization. By the time that "hyperglobalization" began to level off in the early 2010s (see Figure 1), deindustrialization and income inequality in the US had reached historic levels.[2]

Given the increased international trade in intermediate inputs over the past few decades, tariffs will reduce US firms' price competitiveness by raising production costs. In the past, tariffs, combined in most cases with other industrial policies, were effective tools of industrialization in the 19th century in the US and Europe, in some Latin American countries in the 1950s and 1960s, and in East Asia in the 1980s and 1990s.[3] But they have never been sufficient for import substitution *re-industrialization*, where a rich economy sought to reverse a trend of deindustrialization. Tariffs are unlikely to reverse deindustrialization in the US and other high-income economies today. Indeed, to date, and despite the proclamations of the Trump administration, the tariffs appear to be associated with a *decrease* in manufacturing employment in the US.[4]

[2] Rodrik (2011) coined the phrase "hyperglobalization."
[3] For an overview of this history, see Chang (2002).
[4] Federal Reserve Bank of St. Louis (FRED).

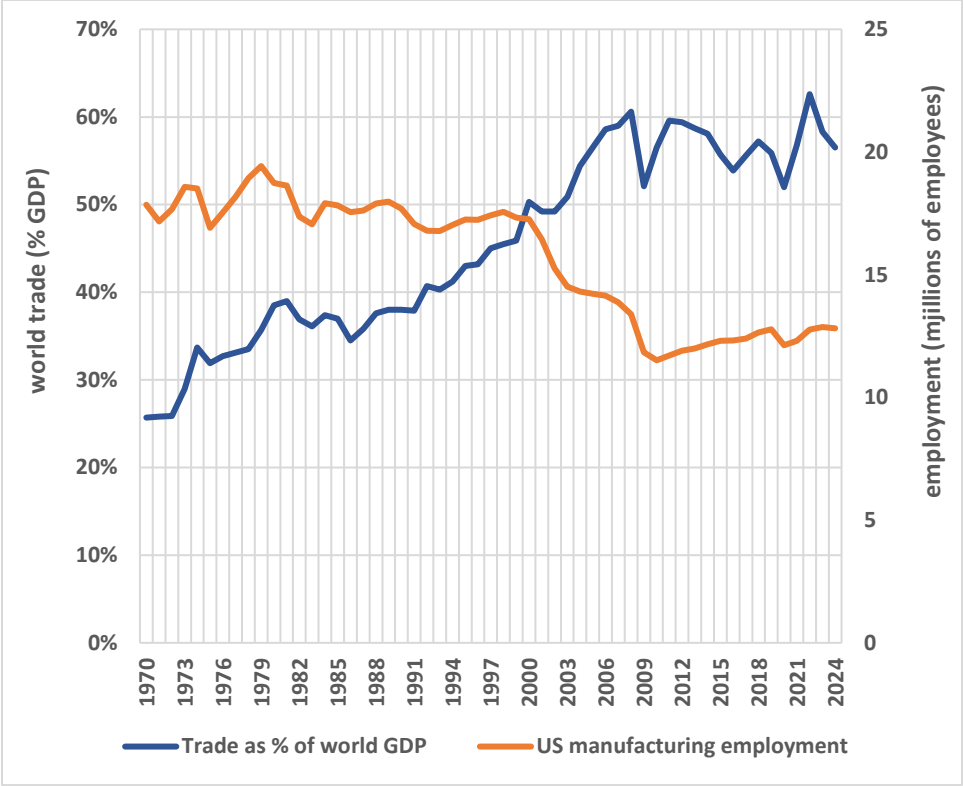


Figure 1: World Trade as a Share of World GDP and US Manufacturing Employment, 1970-2024

Source: Authors' illustration. Data on global trade and GDP from the World Bank. Data on US manufacturing from FRED.

In the sections that follow we first consider economic reasons why the trade war erupted. We then look at the challenges of restructuring global value chains given today's technology, scale of production, skills requirements and existing production networks. We find little "reshoring," "nearshoring" or "friendshoring" and little change in the major global imbalances that have been the focus of much concern in the past. Nonetheless, there are already significant shifts in global trade patterns at the country and industry level, and we look at the US tariff impact and the Chinese efforts to redirect exports. These changes may have a longer-run negative impact on developing countries' export growth and import propensity and thus on the rate of economic growth that is so crucial for the success of a just green transition.

2. Why the US Retreat from Global Free Trade? An Economic Rationale

The entry of China to the WTO in 2001 began a surge of Chinese international trade and especially an embedding of Chinese manufacturing into US-led global value chains. China became increasingly important in both producer-led chains and buyer-led chains.[5] This mutually agreeable relation served to rapidly expand manufacturing output and employment in China and to provide low-cost inputs and labor for US firms and thus to boost US firms' cost markups and profits in sectors as varied as automobiles, textiles and apparel, household appliances, laptop computers, cell phones and furniture much of whose output

[5] Gereffi et al. (2022).

was bound for the US market. Between 2001 and 2018 the US trade deficit with China rose five-fold boosting China's foreign exchange reserves, much of it held in the form of US Treasury bills. "Chimerica" was the name for this hand-in-glove trade relationship.

Quantitative change in imports eventually became a qualitative shift, as China's manufacturing and technological capacity grew with a combination of state support and an expansion of private enterprise, the latter often boosted by joint ventures with foreign multinational corporations. This qualitative change occurred over a decade and altered the relation between Chinese and US firms, as China began to *compete* with US firms in a variety of sectors rather than *complement* the production structure of US firms. US firms were losing market share in important sectors, such as electronic equipment, machinery manufacturing, green technologies, chemicals and transportation equipment.[6] Moreover, rising profits earned by US firms in the Chinese markets were also being competed away. Figure 2 shows that the profit share of US non-financial corporations was positively correlated with US imports from China from 2002-2010 and then the correlation became *negative* after 2011. Milberg and Johnston (2025) describe Chinese imports as "capital supporting" in the early period and "capital competing" in the more recent period.

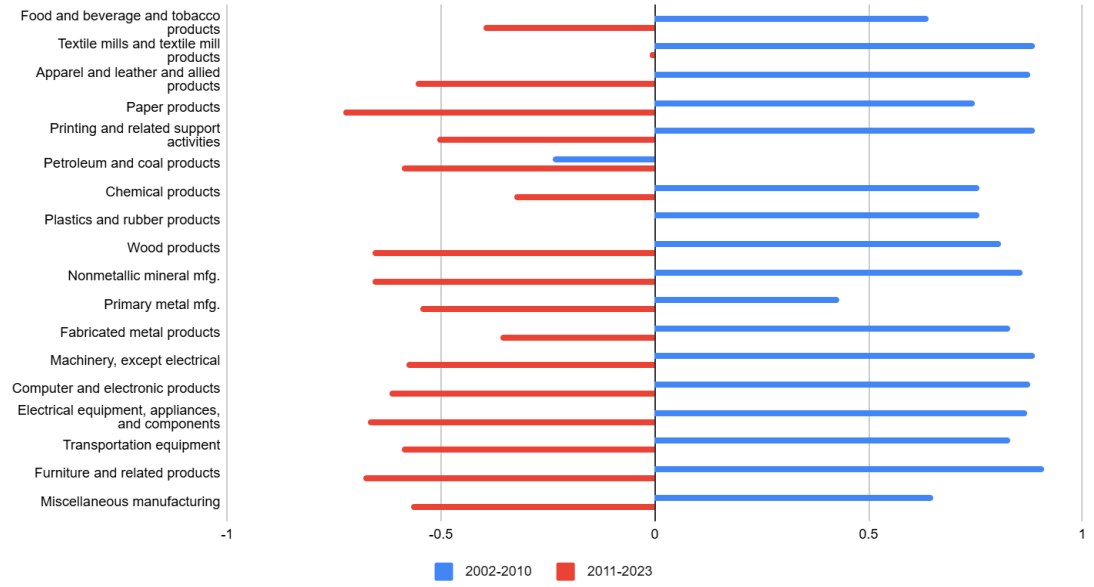


Figure 2: Correlation between aggregate U.S. profit share in private industry and Chinese import penetration per sector, 2002-2010 and 2011-2023

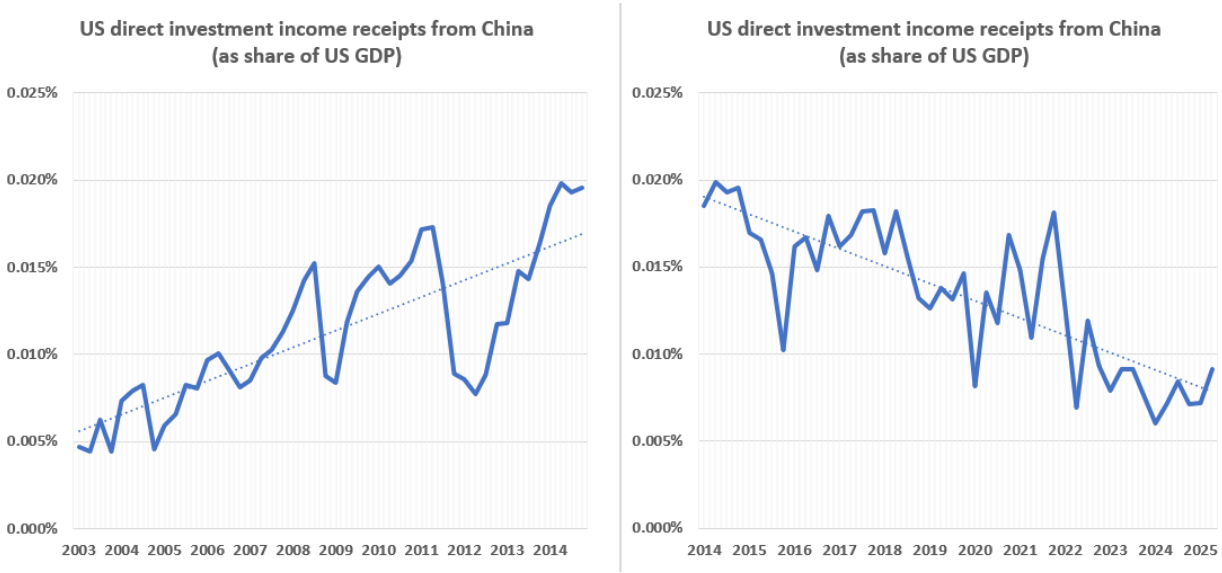
Source: Milberg and Johnston (2025)

The same result is found regarding competition *within* China, as seen in the trends in US firms' profits repatriated from their Chinese-based operations. Figure 3a shows the upward trend in US direct investment receipts from China from 2003-2014. Receipts from China fall after 2014, as seen in Figure 3b.

[6] For details, see Milberg and Johnston (2025).

The evidence moreover shows a distinct pattern of Chinese industrial upgrading in global value chains. Since 2014, the industries where Chinese import penetration in the US grew the most were electronic equipment, machinery, chemicals and transportation equipment, while those imports that declined the most included furniture, apparel and accessories and leather products.

(3a) 2001-2014 **(3b) 2014-2025**



Figures 3a and 3b: US Direct Investment Income Receipts from China as a Share of US GDP, 2001-2014 (3a) and 2014-2025 (3b)

Source: Authors' graphs. Data from U.S. Bureau of Economic Analysis, International Transactions, Expanded Detail by Area and Country (link). Trend lines added by authors. Income receipts are divided by GDP to control for price level changes.

3. The Challenge of Unwinding Global Value Chains

The shift in the role of US imports from China, from capital-supporting to capital-competing, is a story of upgrading in global value chains. Analysts of global value chains have distinguished among different kinds of upgrading: process, product, functional, and chain. China's move into dominant positions in many high-tech and green tech sectors is a dramatic case of rapid chain upgrading, in which they have established their own lead firms. They have transformed mass manufacturing by expanding to unprecedented scale, through an extensive introduction of robots in production. Amidst all the turmoil over tariffs and import penetration, multinationals from the US and the EU continue to invest in China to take advantage of this capacity to produce at massive scale and to access the large Chinese domestic market. And while China's wages have risen more than in many East Asian countries and Mexico, China's unit labor costs in manufacturing are still about one-third of US levels, making China an attractive location for production for US and EU headquarter firms.

Changes in the nature of manufacturing and in the sectoral composition of output towards more intangible capital-intensive goods, including software, data management, and R&D, has shifted the types of skills needed for effective manufacturing. This shift has implications for jobs growth and educational training.

Many high-tech sectors rely less on low-skill labor than was true at the beginning of the era of globalization and instead require skilled work in robotics, handling of dangerous materials, software development and applied skills in electronics, pharmaceuticals and advanced machinery.

Given this, the impressive qualitative change in the structure of US imports from China identified above is not surprising. The leading firms in the US today are the knowledge-intensive tech and massive retail firms rather than the manufacturing firms that dominated at the beginning of the globalization era. The US remains uncompetitive in the low-wage manufacturing (apparel, furniture, toys) that launched the era of fragmented production and outsourcing, and now lacks the robotics and scale and even labor skills of higher end production in auto parts and a variety of green technologies. The deportation of over 300 Korean nationals constructing a Hyundai EV and battery factory in Georgia in September 2025 revealed that the Koreans brought skills in construction and operations that are now scarce in the US. The US is now seeking to woo the Hyundai workers back to Georgia.

The complexity, scale, technology and skill demands make it very difficult and probably inefficient to unwind global value chains, despite US efforts to "reshore", "friendshore" and "nearshore". Both Nike and Adidas have in recent years made efforts to reshore footwear production — Nike to North America and Adidas to Europe — and at the same time to automate and speed the delivery time of new products to market. Both efforts failed and have been shut down.[7]

Beyond issues of technology and scale, shifting to new suppliers and networks is challenging. Apple's efforts to move assembly of iPhones to India by outsourcing to Foxconn's Bengaluru factory and Tata Electronics' factory in Hosur has raised costs and experienced difficulty because of Indian tariffs on inputs and US tariffs on Indian shipments. Apple's India operations did raise iPhone exports to the US by $10 billion from January to June of 2025, a 75% increase over 2024. However, Foxconn India continues to import Chinese-made machinery and phone components. And it is not certain they will reach production targets in 2026 to meet all US demand, as the Trump administration is hostile to the move from China to India (rather than to the US), and threatens higher tariffs. Moreover, China has now recalled the Chinese engineers and technicians that Foxconn contracted in setting up the Bengaluru operation.[8]

Another factor contributing to the endurance of existing production networks is their complexity. The combination of multiple suppliers, new technologies and skill changes has transformed global production into something more intricate than just a value chain into what one study of consumer electronics calls a "massive modular economic system," in which "the modules and sub-systems in these ecosystems can—albeit with significant engineering effort, because they are complex—be reused, connected, and layered to drive innovation and deliver products and services with immense complexity at scale." (Thun et al. 2022) The complexity and efficiency of the networks in these areas are not easily (or efficiently) unwound or "de-coupled." As Baldwin (2025) writes:

> [E]ven if the United States succeeds in reshoring specific technologies, or building domestic redundancy in strategic arenas, unwinding its broader industrial interdependence with China is unlikely to happen any time soon. This is the 'Omelette Problem.' Having cooked the 'eggs' of

[7] Regarding the failure of the Adidas effort, see YouTube (2025). Regarding Nike, see Emont (2025).
[8] Doshi (2025).

America's industrial base in an international supply-chain 'omelette,' there is no getting back the individual eggs.

Even simple commodities are complex in terms of scale, logistics and supply chain management. Consider the Wilson tennis ball, used in the US Open, and produced by Wilson Sporting Goods Inc., with headquarters in Chicago, Illinois. Wilson was bought in 2019 by a Finnish conglomerate, Amer inc. In 2024, Amer inc. was bought by a Chinese investment consortium, Mascot Bido Oy, led by Chinese athletic equipment company Anta and private equity firm FountainVest. Wilson outsources its tennis ball production to Asia Sports Company (ASC), headquartered in China and with a massive tennis ball factory in Thailand that produces 90 million tennis balls every year. ASC relies on Thai workers, on Indonesian rubber, and on the US firm TTI for the felt used for the ball covering, as well as on Taiwanese machinery manufacturers for its custom machinery. TTI, headquartered in Portland, Maine in the US, opened a new factory in Thailand in 2024 in order to better serve the ASC factory there. In his first term, Trump tariffs on China included tennis balls. This resulted in a situation in which, as the *Washington Post* reported, "the primary beneficiary of the Trump administration's proposal to tariff Chinese tennis balls will likely be . . . a Chinese company."[9] To add to the complexity, a part owner of Wilson, FountainVest, has an office in the Cayman Islands — a popular tax haven for multinational corporations.[10]

The data on trade in 2025 shows continued US reliance on Chinese goods. First, there is the issue of transshipments, discussed below. But even putting that issue aside, in product areas that show a major decline in Chinese trade, the US continues to be the top trading country for China. Despite huge percentage declines in US imports from China of video game consoles (-47%), women's overcoats (-27%), electrical appliances (-25%) and electrical lamps (-22%), China continues to rely on the US in each of these cases as its leading export market.[11] On the other hand, US reliance on China and China's main trading and investment partners is likely to persist due to China's highly competitive production capacity, as described above.

The decrease in Chinese exports to the US over the last few years is matched by the increase from other countries, raising the prospect that much of this increase is transshipments of Chinese goods through Vietnam, Thailand and Mexico. If the increased exports to the US are indeed Chinese goods passing through other countries, then these export changes are more evidence that supply chains are difficult to unwind. But there are no hard data on the extent of transshipments. Based on aggregate trade data, the Trump administration claims transshipments account for one-third of increased US imports from Vietnam, but another study, using sectoral data for Vietnam export growth for 2018-2021 puts the amount at under 10%. What is clear is that trans-shipments are hard to monitor and that the US has not yet issued clear guidelines for its definition of transshipments or its monitoring mechanism. Rules of origin rely on the notion of "last substantial transformation", generally a change in tariff heading following the HS product codes. While the US has tightened its efforts to control for "origin fraud," the October 2025 China-ASEAN agreement facilitates the transfer of origin emerging from Chinese trade to ASEAN neighbors, with a new effort at documentation, the ASEAN "Single Window". The pact puts great emphasis on the

[9] Rampel (2019).
[10] Drawn from Milberg (forthcoming).
[11] See Appendix 1.

quality of certificates of origin, turning ASEAN "into a standards-based corridor for re-routing goods and rebooking value. It softens the impact of US tariffs on China without breaking any rules."[12]

Not only are production networks complex and changing, but also ownership structures and profit flows are also becoming more difficult to follow. Use of tax havens continues to rise. An important feature of a new trading system will not only be technological cooperation and improved labor standards, but also the elimination of profit shifting that draws value and tax revenue from where it is earned. According to reports, multinational corporations book about 35-40% of their net income in tax havens and US firms closer to 60%.[13]

With all the challenges to unwinding global value chains today, we are not saying that the direction of trade and location of production is not going to shift. It is. The US tariffs have created significant changes in the composition of imports. And China is rapidly shifting its exports from the US market to the rest of the world. All of this policy turmoil and shifts in production and trade may have significant consequences for developing country growth in the medium and longer run. We review each of these developments below.

4. Tariffs and US Import Demand

In 2025, the US abandoned the longstanding Most Favored Nation principle of equal national treatment and announced different tariff rates against different trading partners. Tariffs brought a continuation of the decline in imports from China, as the bilateral tariff rate was initially announced at 125% and then reduced and paused at 20% pending future negotiations. Other countries facing tariffs have also experienced a decline in exports to the US, although in total the decline is small (1.3% by our calculation).

Figure 4 shows the longer-term pattern for selected countries. Chinese decline continued in 2025 and has been matched by increases in Mexico, Vietnam, Thailand and India. So while there appears to be only limited "re-shoring" (return of manufacturing to the US) or nearshoring (shift to imports from nearby countries), there is evidence of "friendshoring" in a shift away from China, and towards Mexico, Vietnam, Thailand, Japan and Korea, as "China + 1" strategies begin to take hold. The shift away from China of course also reduces the green transition in the US, since China's competitiveness in EVs, batteries and solar panels is well known, and tariffs of 50-100% or more on these items from China (and much higher on panels from Cambodia, Thailand and Vietnam made by Chinese companies), have kept those products from being adopted at rates that would have occurred otherwise.

[12] Khalid and Khalid (2025).

[13] Saez and Zucman database, Data F4b, available at https://taxjusticenow.org/appendix, Wright and Zucman (2018), Appendix Tables A14 and 11b. Also see Garcia-Bernardo and Janský (2024)

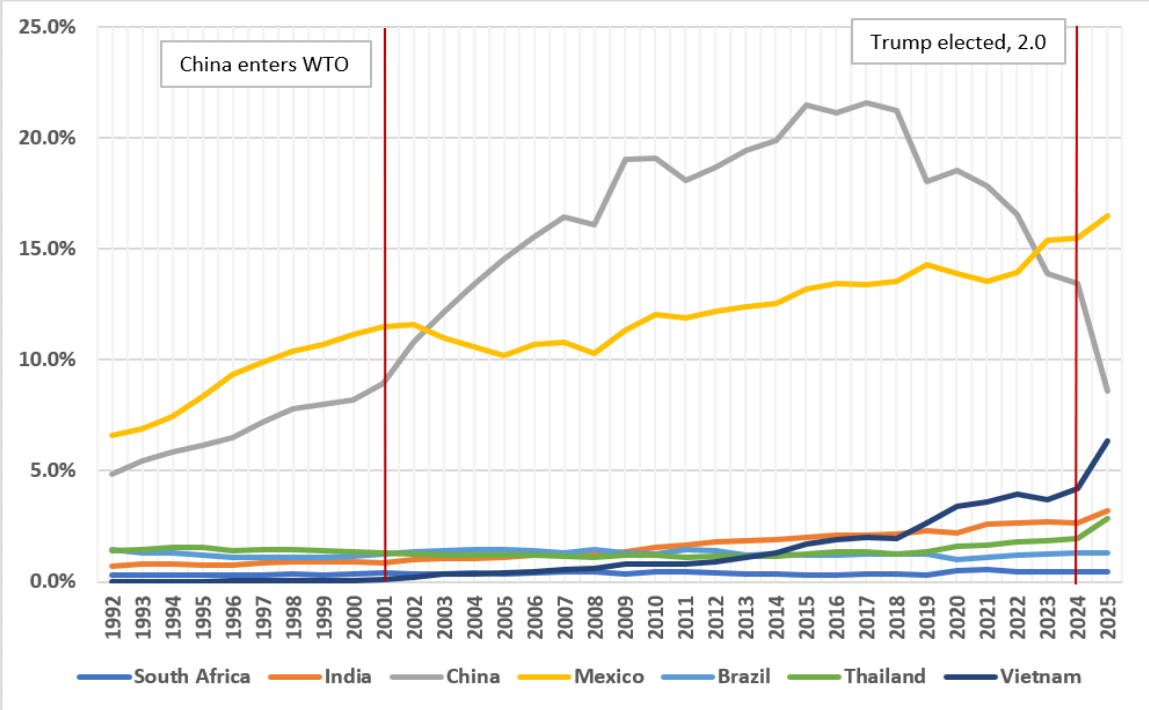


Figure 4: Share of US imports from selected countries, 1992-2025

Source: Authors' construction. Data from U.S. Census Trade Bureau

Figure 5 shows the average tariff rate on US imports and the change in imports in 2025 compared to 2024. We have based the calculation on a comparison of imports in June-August of 2025 compared to the same period in 2024 in order to not give excessive weight to the early 2025 rise in imports aimed at filling inventories in advance of the tariffs taking effect. Chinese imports fell 38.6% from 2024-2025, and these are likely to return to higher levels as US-China negotiations continue to eliminate trade barriers. A number of countries quickly filled the gap from the Chinese export drop-off, including Vietnam (47.4% increase), Thailand (46.9%), and India (27.8%). Mexican imports rose almost 6% and Mexico became the largest exporter to the US.

Country/ Region	% change in US imports 2024-2025	US tariff rate (ad valorem)
World total	-1.3%	18.5%
Brazil	-1.6%	50%
China	-38.6%	34%
Vietnam	47.4%	20%
Thailand	46.9%	19%
India	27.8%	50%
Mexico	5.9%	25%
South Africa	-9.7%	30%
South Korea	-0.9%	≤15%
Japan	-0.7%	≤15%
EU	-12.2%	--
ASEAN	30.2%	--
South America	-2.9%	--
Africa	11.2%	--

Figure 5: Tariff Rates and change in US Imports, by Country and Region, 2025 vs. 2024

Notes and sources: Import data are Jun-Aug 2025 imports compared to the same period in 2024, from US Bureau of the Census. Tariff levels from Peterson Institute for International Economics and ReedSmith. Tariffs represent additional ad valorem rates announced and implemented as of December 2, 2025. Previous general and anti-dumping duties stack on top of the tariffs listed in the table with exceptions as noted below. All countries are subject to the global baseline tariff rate of 10%, but may be subject to higher country-specific tariff rates. The following goods have a blanket exemption from reciprocal tariffs: agricultural products (e.g. coffee, cocoa, and fruit), beef, copper, pharmaceuticals, semiconductors, electronics (e.g. smartphones, routers, and laptops), lumber articles, certain critical minerals, and energy and energy products. The following goods have sector specific tariffs: aluminum (50%, UK: 25%, Russia: 200%), automobiles (25%, Japan and EU: combined additional tariffs and Column 1 duty rate of at least 15%), semi-finished copper and derivatives (50%, exemptions on certain aircrafts and parts from the EU and Japan), lumber and timber (10%), steel and derivatives (50%, UK: 25%, exemptions on certain aircrafts and parts from the UK, EU, and Japan), trucks and parts (25%). Country notes: **Brazil:** Some fuels and aircraft parts are exempt from the 40% tariff, but still subject to the baseline 10% tariff. **India:** Reciprocal (25%), and secondary (25%) due to Russian oil imports. **Mexico:** Potash: 10%, USMCA goods: 0%. **South Korea and Japan:** Up to 15% for all products with Column 1 duty < 15%, except aerospace.

There are a few reasons why import levels have not changed by more, given that US tariffs have dominated the headlines in 2025. One is simply that the dramatic tariffs announced in April 2025 were much higher than the actual tariffs eventually imposed. According to one estimate, the announced tariffs averaged 17% against the world economy and after unilateral changes and bilateral negotiations, this fell to an average of 7%.[14]

A second reason is that the tariff can be absorbed in part before it reaches the consumer, and thus only a fraction of the tariff is felt by buyers. In this case, the full amount of the tariffs has not translated one-

[14] Krugman (2025).

for-one into US prices because there are multiple points where the tariff can be absorbed. In fact, the tariff is paid by the importing firm, but the tariff may be absorbed at different points in the chain, including (1) the tariff can be absorbed by the exporting firm as a lower markup; (2) the tariff can be absorbed by the importing firm as a lower markup and; (3) the tariff can be passed on to the consumer. In reality, it is some combination of the three. According to a study by Goldman Sachs (2025), the incidence of the tariffs is changing among these three. At the outset (April 2025), US consumers absorbed only 22% of the tariff, as most was absorbed by US importers (64%). By 2026, the study predicts, US consumers will absorb most of the tariff (67%) while foreign exporters will absorb 25%, leaving only 8% absorption by importing firms.

If this prediction is correct, it implies a marked reduction in profits by exporting firms. These firms may in turn seek to suppress wages to maintain cost markup. An example is Walmart. According to press reports, Walmart demanded that its Chinese suppliers absorb 66 percent of the tariff increase and 66 percent of the shipping costs (which had also increased).[15] Nonetheless, Walmart has warned customers that it may raise prices, as has another big retailer, Target (Saporito, 2025).

A third reason that the impact of the tariffs on overall trade volumes and the trade balance is muted is that price changes from tariffs are swamped by income effects that are driven by home country GDP growth. Or, as James Tobin quipped many years ago, "It takes a lot of Harberger triangles to make up one Okun gap,"[16] implying that what matters most for import demand is national income, not market price distortions resulting from tariffs. We return to this issue of the demand constraints on growth in the final section of this paper.

5. China's Redirection of its Export Surplus

China accounts for 35% of global manufacturing, rising to a projected 45% by 2030.[17] 18% of total manufacturing exports globally come from China, with its own exports totaling 5% of China's GDP.[18] The US average tariff rate on China is 34%, much higher than in other countries, and China has moved away from the US market due to the ups and downs in tariff announcements by the Trump and Biden administrations. We therefore analyze the potential impact that China's trade redirection may have on other countries.

Andreoni et al. (2025) estimate the amount of redirected exports from China towards Africa based on past trade patterns. The authors write:

> Based on current trade patterns, we anticipate only a limited redirection of trade toward African countries for products initially intended for the American market. However, entrepreneurs may see an opportunity to move beyond existing trade patterns and target new markets in Africa, especially as African markets offer more open access and fewer regulatory barriers compared to the US and the EU. It will thus be important to closely monitor changes in trade flows into Africa in the coming years. (Andreoni et al, 2025, p. 36)

[15] Wong and Chen (2025)
[16] See Tobin (1977) and an empirical analysis largely supporting Tobin by Gerritson (2016).
[17] UNIDO (2025).
[18] UNIDO (2025).

Enough time has now passed that we are beginning to get data on the amount of trade being redirected as a result of US tariffs. And while the dollar amount of Chinese exports redirected from the US to some countries may be relatively low, the percentage increase for those countries can be quite large, with significant impacts on their economies (see Appendix 2 for a sample of African countries).

Figure 6a and 6b shows the dollar value and percentage increase in Chinese exports to various countries in 2025. Data are through October, and the November data (just released as this paper was submitted) reveal that the pattern continues, with China's trade surplus exceeding $1 trillion. In dollar terms (Figure 6a), the increases are greatest to Vietnam and Thailand, where transshipments are suspected to be highest. But if we look at the 2025 increase in percentage terms (i.e. as a percentage increase of each country's imports from China) as shown in Figure 6b, then a different picture emerges, with Argentina, Nigeria, Angola, Zimbabwe and Ecuador topping the list. In these cases, the exports are a combination of consumer and capital goods, and may be speeding the green transition in these countries with increases in EVs and solar panels. In the US and EU, longstanding protection against the import of new technologies including electric vehicles, solar panels, and lithium-ion batteries closes these markets to China. Chinese exports are thus a mix of these capital-intensive goods and traditional labor-intensive manufacturers such as apparel, footwear and furniture. In the case of the latter, these exports may be displacing local production. According to a recent press report, "More than 300,000 people in Indonesia's garment factories and textile mills have lost their jobs to Chinese imports over the past two years."[19]

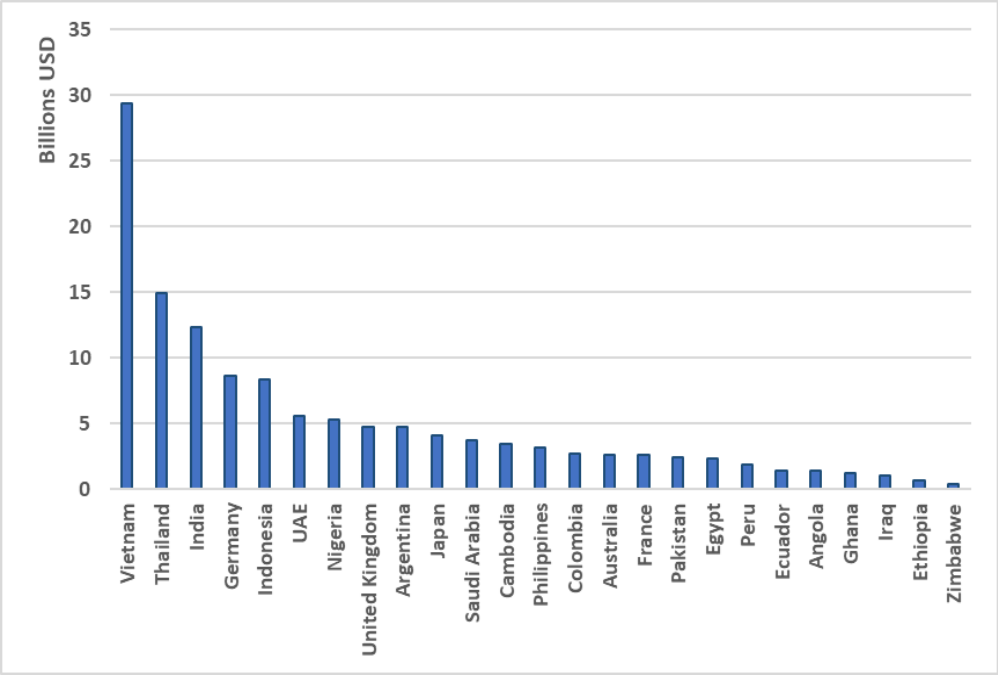


Figure 6a: Redirection of Chinese Exports in 2025, by country. Change in total value of imports from China, Jan-Oct 2025 vs. Jan-Oct 2024

[19] Stevenson (2025).

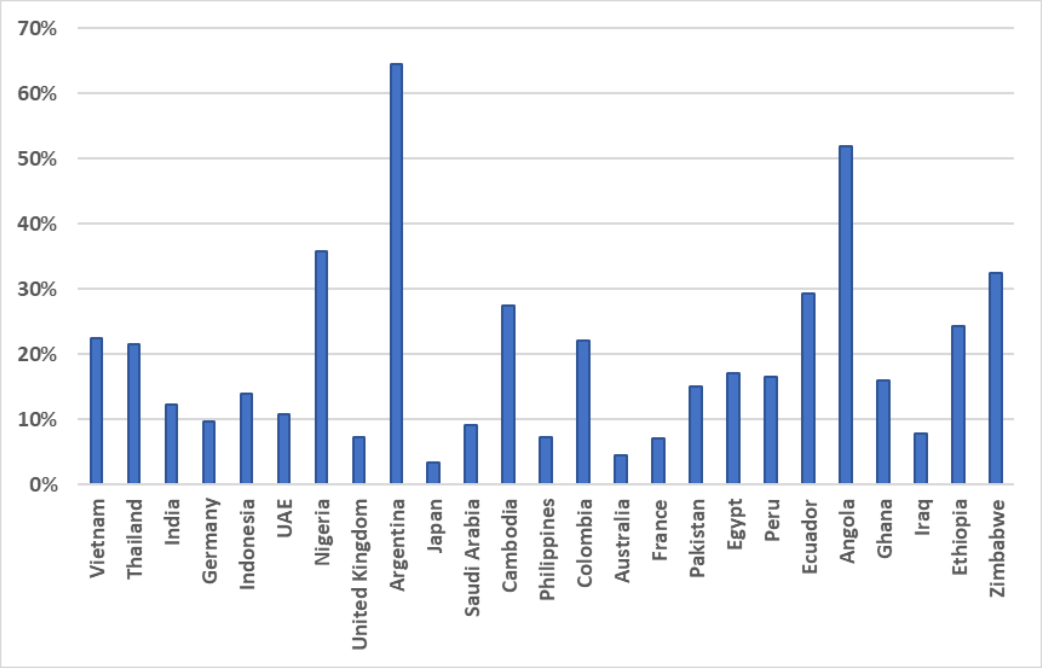


Figure 6b: Redirection of Chinese Exports in 2025, by country
Percent change in value of imports Jan-Oct 2025 vs. Jan-Oct 2024

Source: Authors' construction, using data from Trade Data Monitor.

Only 5 countries in our sample experienced a decline in imports from China in 2025: The US (-18%), Russia (-13%), Brazil (-3%), Mexico (-2.8%), and South Korea (-1.6%). Mexico recently adopted a 50% tariff on numerous Chinese imports, likely as a signal to the US about its determination to not provide a platform for Chinese transshipments.[20]

The capacity of China to rapidly redirect its exports and its growing manufacturing output has been facilitated by two decades of overseas investment in construction and infrastructure, a trend that accelerated with the Belt and Road Initiative that began in 2013. The BRI and other overseas investments have created market connections to China, and have directly enhanced the trading capacity of many countries and their demand for Chinese goods, and more generally has built market connectivity between China and these investment recipients. Starrs (2019) writes that the BRI was in part designed to absorb excess Chinese capacity, noting that China's "investment-driven growth is itself slowing since 2013, which is one of the impetuses of the BRI in the first place: to provide overseas opportunities for its behemoth SOEs and reduce their chronic overcapacity in heavy industry" (Starrs, 2019, p. 185).

We consider the accumulation over the past 20 years of China's BRI and construction investments overseas in relation to the redirect of its exports in 2025. Figure 7 is a scatterplot of Chinese BRI and construction investment and redirected Chinese exports in 2025. It not only appears that the investment effort over two decades created a welcome market for Chinese exports, but that greater investment

[20] Nicas and Wagner (2025).

(relative to a recipient country's GDP) is associated with a greater boost to Chinese exports this year. This is not a surprising result, and loosely mirrors the experience of the US after World War II with its Marshall Plan aid and the ensuing US export expansion in Europe.

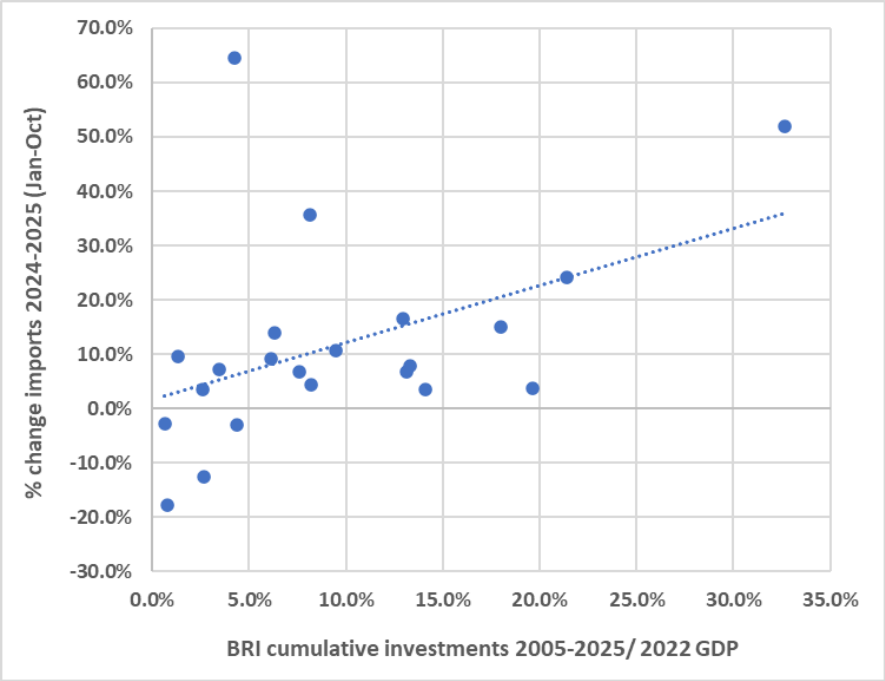


Figure 7: China's Export Redirect in 2025 and Accumulated BRI and Foreign Construction Investment since 2005 (Each dot represents a country)

Note: Countries included in the graph are the leading destination countries, by region, for Chinese investment between 2005-2025: Canada, Mexico, United Kingdom, Germany, Switzerland, Australia, Pakistan, Russia, Kazakhstan, Indonesia, Singapore, Malaysia, Brazil, Peru, Argentina, Nigeria, Angola, Ethiopia, Saudi Arabia, United Arab Emirates, Iraq. Sources: Authors' creation. Data on the percent change in Chinese exports from Trade Data Monitor, calculated by comparing total Chinese exports to each country between January-October 2024 to January-October 2025. Data on cumulative BRI investments come from Scissors (2025). To control for the size of the economy, cumulative investments between 2005-2025 are divided by 2022 GDP, the latest year for which country-level GDP data are available for all countries in the World Bank dataset.

6. The Persistence of Global Payments Imbalances

Despite the turmoil in international trade, the global payments imbalances -- that many cited as the justification for the latest round of trade protectionism -- have changed very little over the course of 2025. The US current account balance remains relatively constant as a share of US GDP, with indications late in 2025 as the tariffs take effect that imports are falling. Although the bilateral deficit with China has fallen, the net foreign income balance has turned negative. China's trade surplus has even increased slightly,

surpassing $1 trillion for 2025, despite US efforts to reduce Chinese export market access in the US and elsewhere.[21]

Why do global imbalances matter? Deficits are not bad *per se* and surpluses are not good *per se*. A deficit on the current account must be matched by a surplus on the capital account. This has meant that while the US has run a chronic current account deficit, serving as a global "consumer of last resort," it has been matched by (or, some would argue, caused by) a capital account surplus. This has meant a long period of net capital inflow to the US, contrary to the principle that capital should flow from rich to poor countries, not vice versa. Global imbalances matter because they reveal different consumption capabilities across the world.

Figure 8 shows current account balances by country as a share of world GDP. It shows that the level of imbalances in 2025 (using three quarters of data at an annual rate) is largely stable since the post-Covid period although China's global surplus has grown in 2025 compared to 2024.

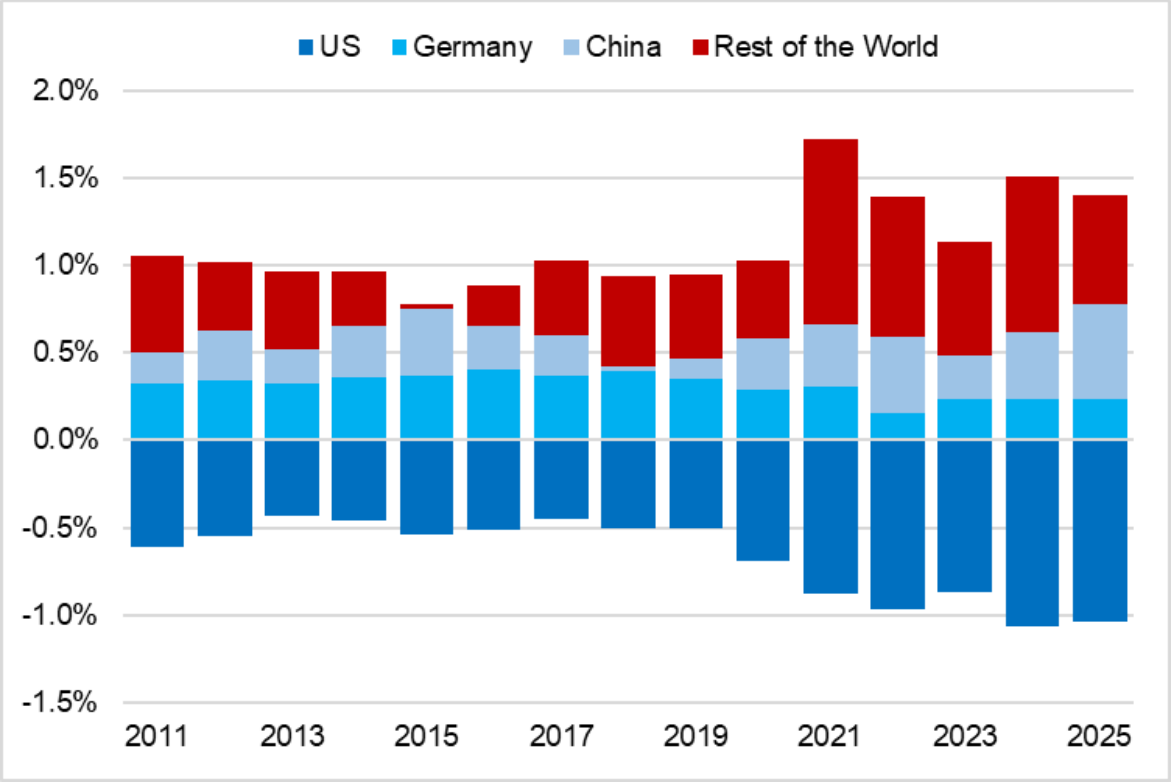


Figure 8: Global imbalances, 2011-2025 (Current account balances by country as % of world GDP)

Source: International Monetary Fund: *World Economic Outlook*, October 2025. Forecasts for 2025.

[21] Bradsher, K. (2025).

The US has run a current account deficit and a capital account surplus for a long time. Many viewed the Trump tariffs as a strategy to close the gap on the current account, i.e., to reduce US imports and to increase US exports, by bringing production back to the US. As discussed earlier, however, it is unlikely that tariffs can cause full or even partial supply chain unwinding.

The announcement of the US tariffs instead created a temporary surge in US imports as importers sought to build inventories of foreign products in advance of the tariffs. With the tariffs taking hold in April 2025, US imports have fallen back to recent trend levels and the US current account deficit has returned to 3.3% of US GDP as of the second quarter of 2025 and was reduced further in September 2025. Imports fell slightly, but exports also dropped, presumably because of the increased input costs that hurt US competitiveness. A slight improvement in the balance on goods has, however, been offset by a deterioration in the net foreign income balance. Net foreign income has historically been a surplus item in the US balance of payments, due to a relatively high US rate of return on its outward FDI and thus a significant surplus on primary income (primary income is mainly investment income – income on equity, i.e. ownership of foreign corporations, and interest payments. Secondary income is gifts and grants to other countries). This profit rate differential has diminished to almost zero, and at the same time dividend payments to foreign holders of US equities have grown.[22] The result is that the net foreign income balance for the US is now negative (notwithstanding statistical discrepancies that may be adjusted at the end of the year), adding to the current account deficit in goods trade (see figure 9).

While the US administration complains that bilateral trade deficits reflect countries "ripping off" the US and must be wound down, US macroeconomic policy serves to maintain the foreign deficit. The current account balance is equal to private savings over private investment and public savings over public investment. The US tax cuts passed in 2025 thus put downward pressure on the foreign balance by lowering private saving.[23] An alternative accounting for the current account balance is the opposite of the capital account balance. Here again, US efforts to leverage tariff reductions in return for investment guarantees works against US rebalancing. Foreign countries pledged over $5.45 trillion as part of US bilateral trade negotiations, but doubts have been raised about the likelihood that these investments are truly new commitments or that they will ever materialize.[24] To add to this source of capital inflow, the Trump administration is promoting cryptocurrency Stablecoin in order to raise demand for dollar-denominated assets.[25]

[22] See Bureau of Economic Analysis, U.S. Direct Investment Abroad vs. Foreign Direct Investment in the U.S.

[23] The current account balance, CAB = Y - (C+I+G-T) = (S - I) + (T - G), where Y is national income, C is consumption, I is investment, G is government spending, T is government tax revenue and S is saving. That is, the CAB is the sum of private savings over private investment and public saving over public investment. Considerable research has shown that reduced public savings over public investment does not translate into current account deficits at a one-for-one rate. Estimates put it closer to a three-for-one rate. See Blecker (2013).

[24] Press reports put the investment promises as follows: UAE ($1.5 trillion), Qatar ($1.2), EU ($600 million), EU energy purchases ($750 million), Saudi Arabia ($600 million), Japan ($550 million), Korea ($350 million).

[25] See Miran (2025).

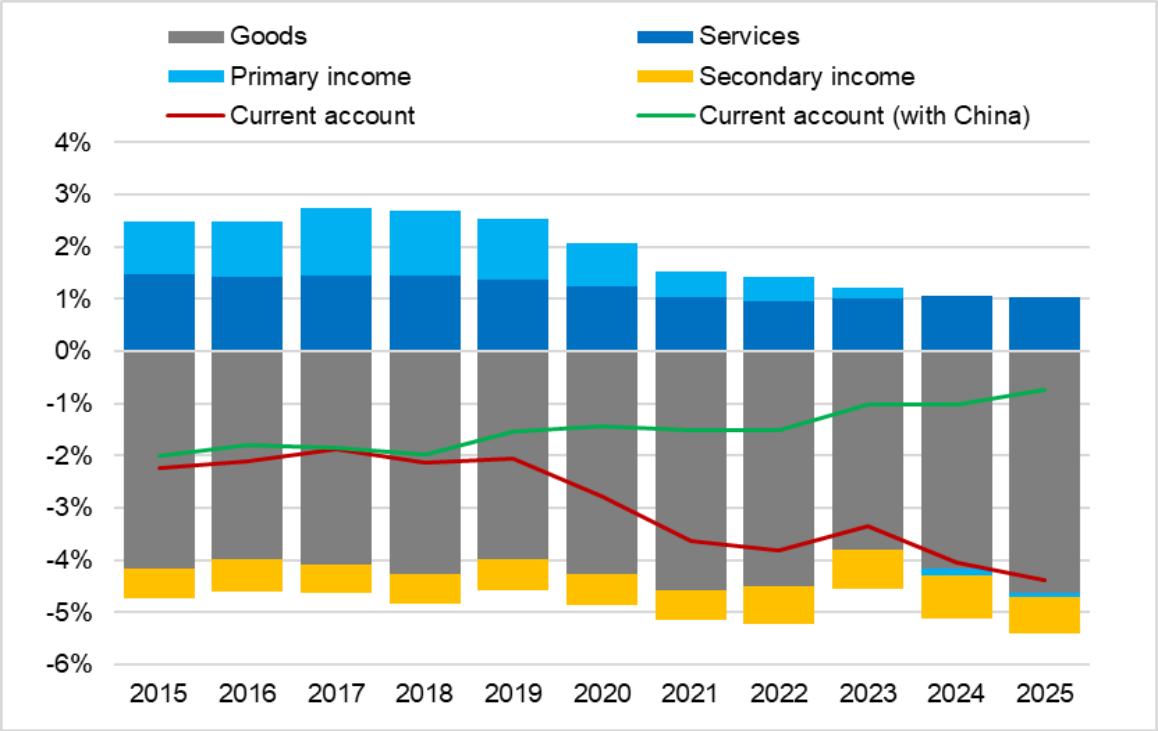


Figure 9: United States Current Account Balance and Components (% of GDP)

Note: Data for 2025 are through June 30. Source: U.S. Bureau of Economic Analysis.

On the side of China, the export redirect described above has meant a slight increase in its current account surplus. A temporary slowing of exports to the US, the result of some trade and production diversion by Chinese and multinational corporations from China to India, Vietnam, Cambodia, Thailand, and Mexico, may soon come to an end as US-China trade negotiations have resulted in a pause in any tariffs, a temporary end to China's export ban on processed rare earth minerals, magnets and batteries, and a resumption of China's purchase of US soybeans. In addition to shifting into new export markets, China is looking to raise investment in production and technology. Announced plans to raise household consumption (which would raise imports) have not been matched by movement in household spending. Pension benefits, for example, remain inadequate and skewed to the urban population, and calls for RMB devaluation have not been embraced by the government.[26] It is unlikely for China to pave the way for rebalancing in the near future given its current trajectory.

In sum, the tariff surge in 2025 has so far not created a major change in global payments imbalances. But the policy shift is changing the direction of trade and investment, away from the US and towards the Global South and this will have consequences for the sources of demand that will be key for future growth and development.

[26] On pensions, see Frazier (2024). On devaluation, see Shan (2025).

7. Conclusion: Multipolarity Meets the Dynamics of International Trade and Economic Growth

The new face of globalization creates new challenges for economic development. While the Trump tariffs have accelerated the establishment of a new trading system, it is not likely that such a chaotic new tariff arrangement -- varied across countries, changing weekly, with few rules in place -- will in itself be the driver of fundamentally new development strategies. Private investors are holding back because of the current uncertainty, but countries have no choice but to move forward. Moreover, the period of expansive liberalization of trade and investment is ending, but tariffs mainly lead to small changes in prices paid by importers. We have seen that such price changes can be absorbed at different stages in the supply chain, thus diminishing their impact on final users. And we have seen that predictions of the effect of tariffs on trade flows can be offset by changes in demand and in the sourcing strategy of leading firms in supply chains. Tobin's quip about the importance of Okun gaps -- changes in aggregate demand -- over Harberger triangles -- price distortions -- is appropriate to our moment.

Thus, the bigger issue for developing countries is what the new trading system means for trade as a source of demand and economic growth. Thirlwall (1979) shows that if a country is to establish international stability, with its current account remaining near balance and its exchange rate relatively stable, then trade patterns can impose demand-side constraints on economic growth. The constraint on the growth rate in this scenario depends positively on the country's ability to expand exports and negatively on its reliance on imports. More precisely, the balance of payments constrained growth rate can be approximated by the ratio of the income elasticity of demand for exports and the income elasticity of demand for imports.[27] The situation is more complicated when production is fragmented and export success hinges on imports, and thus import growth can possibly raise export growth. Domestic value added in exports must be rising relatively for this delicate balance to raise the rate of economic growth.

The new world trading system is putting pressure on both the export and the import sides of the ratio. US tariffs are narrowing access to the important US market, which alone accounts for about one-fourth of global demand. China's redirecting of its exports from the US to the rest of the world is pushing up countries' import propensities. Adding to this squeeze is the increased market access that developing countries are offering the US in an effort to dampen US import tariffs. The overall implication of these changes in the world trading system may be consistent with slower growth rates for developing countries, who will need to identify other sources of demand growth apart from exports in order to boost economic growth.

Moreover, the new trading order puts downward pressure on the main sources of value added, wages and profits, with negative implications for tax collection. With China ramping up its sale of manufactured goods while the US becomes less open to international trade, there will be heightened competition in exports, particularly for light manufactures such as textiles, resulting in downward pressure on wages in the traded goods sector of many developing countries. In addition, the tariffs from the US are being absorbed increasingly by exporting firms in the form of lower profit margins.

The new phase of multipolar competition in the global economy -- with the US and China in powerful positions, but with other countries and regions having considerable influence -- is a work in progress.

[27] Setterfield (2011).

Supply chains are difficult to unwind and change will not be immediate, but transformations *are* underway. Chinese firms especially are acquiring lead-firm positions in global supply networks, China is redirecting its exports away from the US and towards other markets, and the Global South in general is continuing to navigate its disadvantaged position in the global division of trade and labor. There are a number of directions the new phase of global competition could go, including a reversal of US tariffs and a transformation of the structural features of China's macroeconomy. The rules for globalization are in flux, not just about tariff rates, but also about exchange rates, key currencies and capital flows, the elimination of tax havens, and the adoption of carbon-reducing technologies. Collaboration in building a new set of norms is preferable to the downward pressures of the current competitive moment.

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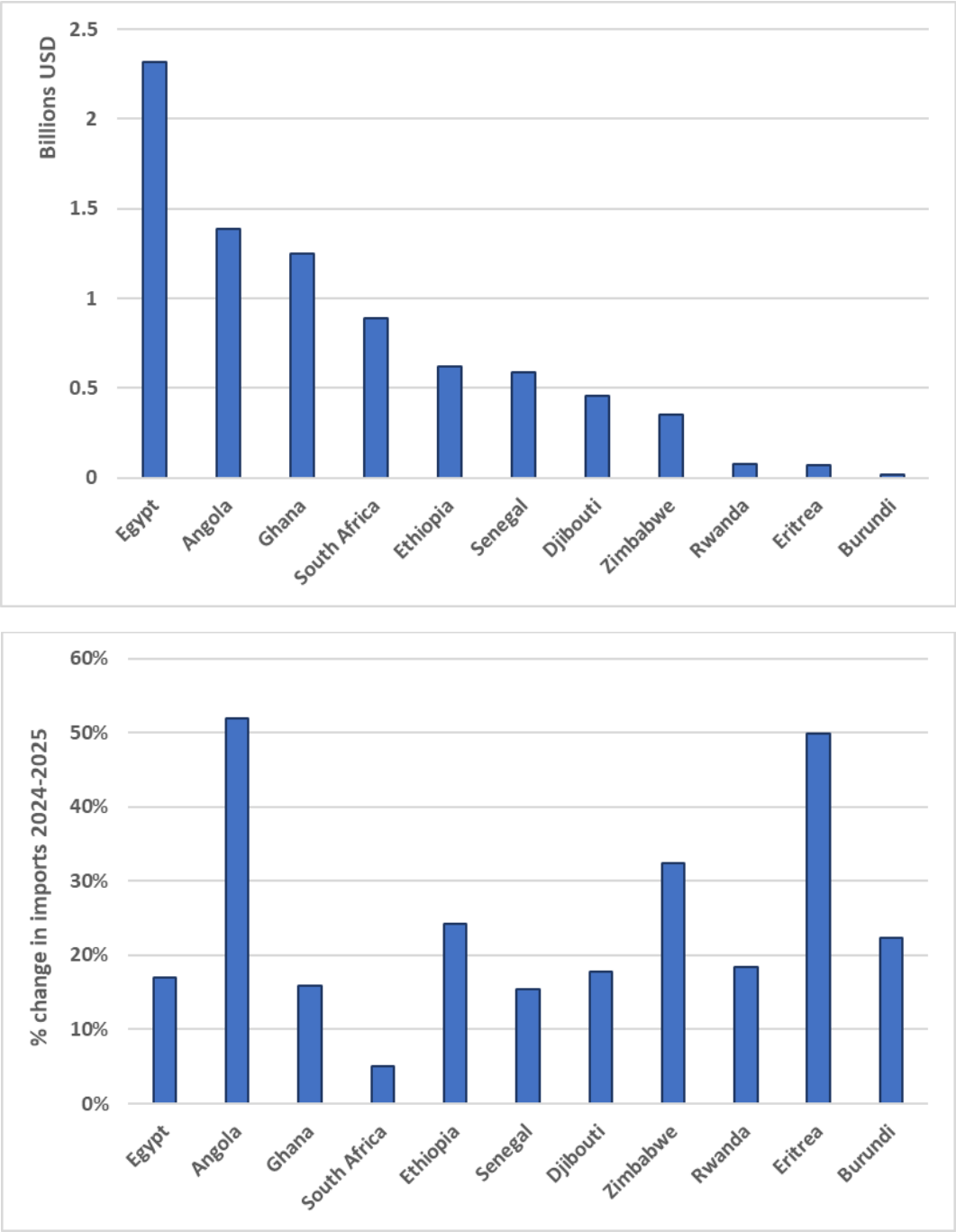
Appendix 1: Chinese exports to the US
Sectors with largest and smallest % changes 2024-2025 (Jan-Oct)
HS 4-digit sectors where Chinese exports to the US increased and decreased most for exports valued over $100 million

HS Code	Description	Value of Chinese exports to US 2025	% change exports to the US 2024-2025	% of Chinese market share 2025	Top export market 2025
9406	Prefabricated buildings	$397 million	21.5%	11.22%	Hong Kong (14.76%)
9102	watches	$139.8 million	12.42%	7.95%	Hong Kong (38.49%)
6193	Mens' or boys' suits, jackets, blazers, trousers	$887 million	8.76%	19.73%	US
3401	soap	$293 million	8.57%	21.75%	US
3004	medicaments	$931 million	7.54%	13.81%	France (17.35%)
3808	Insecticides, rodenticides, fungicides, herbicides	$397.3 million	6.55%	4.7%	Brazil (25.69%)
3005	Bandages and similar articles, impregnated or coated with pharmaceuticals	$579.6 million	5.57%	30.77%	US
8204	Hand-operated spanners and wrenches	$350 million	3.3%	25.29%	US
9507	Fishing rods; line fishing tackle; nets	$453 million	3.29%	27.54%	US
8409	Parts for spark-ignition reciprocating or rotary internal combustion piston engines	$1.527 billion	2.11%	18.43%	US
9504	Video game consoles and machines; articles for arcade; table or parlor games	$2 billion	-46.84%	15.52%	US

3801	Artificial graphite; colloidal graphite	$139.3 million	-45.84%	12.28%	Indonesia (16.61%)
7304	Tubes, pipes and hollow profiles, seamless, of iron (other than cast) or steel	$132 million	-31.81%	2.19%	United Arab Emirates (13.08%)
8303	Armoured or reinforced safes, strong boxes, doors and safe deposit lockers	$163 million	-30.87%	8.67%	Germany (12.85%)
8508	Vacuum cleaners	$783.4 million	-28.54%	11.1%	Germany (13.13%)
6202	Women's or girls' overcoats, raincoats, cloaks, ski jackets	$442 million	-26.83%	9.82%	US
8407	Spark-ignition reciprocating or rotary internal combustion piston engines	$182.4 million	-26.3%	6.1%	South Korea (17.64%)
9505	Festive, carnival or other entertainment items	$3.4 billion	-25.82%	44.52%	US
8509	Electric-mechanical domestic appliances	$2.29 billion	-25.12%	21.94%	US
9405	Lamps and lighting fittings and parts	$6 billion	-22.3%	19.61%	US

Source: Data from Trade Data Monitor.

Appendix 2: Level (USD) and percent increase in Chinese exports to selected countries in Africa, 2024-2025



Source: Authors' construction, using data from Trade Data Monitor.

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