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The Impact of the U.S.–China Trade Conflict on Global Supply Chains: Tariffs, Trade Diversion, and Strategic Decoupling

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Abstract: *This structured review aims to draw together the empirical and policy literature on the impact of the U.S.-China trade tensions on global supply chains from 2018 to mid-2026. It covers tariff incidence, bilateral trade, trade diversion, relocation of production, export restrictions on semiconductors, restrictions on critical minerals, agriculture and macroeconomic spillovers. The evidence examined suggests that there has been significant pass-through of U.S. tariffs to importers and downstream users and a reduction in the amount of direct U.S.–China trade in a number of tariff-sensitive industries. Many of the adjustments, however, have been geographical – moving towards "connector economies", such as Vietnam and Mexico – but not a wholesale break from Chinese production networks. While the literature is most conclusive on tariff pass-through, bilateral trade contraction, and certain third-country gains, the findings on the effects of trade on labor markets are mixed. The findings regarding the effects of trade on labour markets are mixed, with the strongest evidence in the literature for tariff pass-through, bilateral trade contraction, and selected third-country gains. Information about the efficacy of new technology and critical-mineral controls in the long run is less developed and heavily dependent on institutional and policy information. The impact on most developing economies, such as Pakistan, is also poorly studied.The heart of the matter is that falling bilateral trade should not be confused as a sign of real diversification of supply chains. Decoupling in global production is limited by the need to continue using Chinese intermediate goods, processing capacity, technology, capital and ownership.*

Keywords: U.S.-China Trade Conflict, Global Supply Chains, Trade Diversion, Strategic Decoupling, Nearshoring, Export Controls, Critical Minerals, Global Value Chains

Introduction

Background and Context

Since the first Section 301 tariffs were levied by the U.S. in 2018, the U.S.-China trade relationship has gone through various periods of escalation and partial de-escalation. This conflict then grew into the tariffs, semiconductor and technology controls, investment limitations, and critical-mineral export controls. By 2025, firms were re-evaluating their inventories, production sites, sourcing, and exposures to focused supply chains, and both governments used a broader array of trade and security tools.

There's a significant impact from this shift. The U.S. imports hundreds of billions of dollars' worth of goods from China, such as consumer goods and intermediate and capital goods used in the production of goods in the U.S. The interdependence can then be broken by input–output linkages, leading to impacts on industries and markets that are remote, such as automotive parts, electronics manufacturing, pharmaceutical molecules, defense production, and agricultural products. The war has also had an impact on more than just the bilateral relationship, as shifts in U.S.- China trade have spurred companies to shift their sourcing, manufacturing, and investment to third countries like Vietnam, Mexico, and India. The transformations have led to new possibilities in some developing countries and new modes of dependence on Chinese inputs, investment, technology, and processing capacity.

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Research Gap

In the aftermath of the U.S.-China trade war, there are already a number of studies that focus on its effects; however, there remains a lack of research on the broader implications of global supply-chain restructuring. Previous studies have focused on the incidence of tariffs, import prices, trade diversion, adjustment of firms, reshoring, and geopolitical fragmentation, but these studies tend to be considered separately. Decoupling the direct trade between the U.S. and China does not necessarily imply the complete decoupling of the production chain, as the goods could be manufactured in a third country where intermediate goods, investments, technologies, or processing are provided by China. This is because there is a need to separate out bilateral trade reduction from geographical reallocation, rerouting of trade flows, and real reduction in dependence on underlying trade flows from the literature.

A new division is the placing of new advanced semiconductors and new critical minerals export restrictions into the old tariff war. These are added strategic supply chain risks which differ from the classical tariff impacts as they involve inputs for which there is a regional or technological concentration. Moreover, the impact on developing economies, agricultural markets, and third-country production networks has yet to be finalized. The aim of this review is to address these missing links by summarizing and synthesizing existing research on tariffs and trade diversion by firms, reshoring and nearshoring, friend shoring and export controls, critical minerals, and agriculture and third-country effects, all from a unified lens of the supply chain.

The main analytical insight of this review is to separate three outcomes that are often mixed up: bilateral decoupling, geographical reallocation, and actual supply-chain diversification. Trade decoupling does not necessarily mean production network decoupling, but it is manifested by a decline in direct trade between the United States and China. If production moves to other countries that continue to rely on Chinese resources, technology, capital, or processors, then it is more likely to be a reallocation or rerouting. Measurable diversification means a reduction in the concentration of supply-chain dependence.

Scope of the Review

Four broad themes are highlighted in this review, based on empirical and policy evidence: the direct impact of tariffs on trade, prices, firms and consumers; trade diversion and production restructuring via reshoring, nearshoring, friend-shoring and China Plus One policies; the increasing importance of semiconductor export controls and critical mineral restrictions; and the broader implications for agriculture, third country economies, economies of the Global South and macroeconomic conditions. In each of these aspects, the review distinguishes between reduction in bilateral trade and geographical reallocation or trade rerouting and actual diversification from the dependence on narrowly focused supply chains.

The review takes a broad approach since no empirical study, no matter how well it has been designed to identify the conflict, is able to encompass a conflict that has developed over a number of years and various policy instruments. The analysis triangulates evidence from various disciplines and from a variety of sources, in comparison with estimates from peer-reviewed research, and more recent customs, trade, investment and price data. Special focus is placed on those areas where the evidence is robust, where the evidence is beginning to emerge and where there are important geographical and sectoral gaps.

Organization of the Review

The article starts with a review of methodology and a conceptual framework, followed by a chronology, thematic synthesis, a quantitative trend, sector evidence, implications for third countries, a discussion, policy implications, limitations, future research directions, and finally a conclusion.

Review Methodology

Review Design

This study adopts a structured narrative review and thematic synthesis approach has been used for this study. The review is based on empirical and policy studies studying the impacts of the U.S.-China trade conflict on

bilateral trade, import prices, trade diversion, foreign direct investment, supply-chain restructuring, reshoring and nearshoring, friend-shoring, export controls, critical minerals, semiconductors, agriculture, and third-country spillover effects. Priority is given to publications that are peer-reviewed journal articles and well-established working papers series; then to publications from central banks, government agencies, international organizations, and well-established research institutes that offer evidence on developments which are not well reflected in academic literature.

Literature Search Strategy

The sources were found by conducting targeted searches with various combinations of terms, including "U.S.-China trade war," "pass-through tariffs," "trade diversion," "global supply chains," "reshoring," "nearshoring," "friend-shoring," "China Plus One," "semiconductor export controls," "critical minerals," "agricultural retaliation," and "Global South. The oldest literature was kept for theoretical or historical background, and the period of the core literature is 2018 to the middle of 2026. Where there is not yet peer-reviewed evaluation, recent institutional and policy sources were primarily relied upon to record current measures and descriptive trends.

Inclusion and Exclusion Criteria

Sources were utilized where they either directly addressed the U.S.-China trade dispute or its impact on prices, trade flows, production shifting, global value chains, strategic technologies, critical minerals, agriculture, and third countries' economies. The criteria for selection were empirical studies using clear methodology and authoritative primary data and institutional information. Findings, sources, and geopolitical comments were not included or were weighted less where no supply-chain mechanism was provided.

Source Selection and Quality Assessment

Evidence is assessed based on the type and quality of the sources. When evaluating causal effects, the highest priority is given to peer-reviewed empirical studies that have well-defined identification. To complement the academic literature, the academic papers are supplemented by working papers and institutional studies, especially when the evidence is recent. The primary purpose of government, industry and think-tank reports is to record policy changes, current market conditions and events that are emerging. Descriptive statistics and projections are not considered to be causal estimates. This hierarchy is important for the 2024–2026 evidence, because this evidence is relatively new and some of the estimates have yet to be independently replicated.

Data Extraction and Thematic Synthesis

The literature selected was arranged by geographical coverage, sector, time period, literature source, approach, major conclusion, and limitation. Evidence was collated on tariff incidence and prices, trade diversion, reshoring, nearshoring and friend-shoring, trade costs and resilience of supply chains, semiconductor and critical mineral controls, regional impact, agriculture and macroeconomic spillovers. The findings were compared to see where there were overlaps, differences, and uncertainty, especially focusing on the differences between bilateral trade reduction, geographic reallocation, and true diversification.

Limitations of the Review Methodology

This review is more of a narrative style and does not aim to give a complete list of the literature, as this would require a systematic or PRISMA analysis. It does not do that, however, but rather draws conclusions that link the key empirical results from the thematic areas and separates them into what is known, what is emerging, and what is contested. The unilateral trade reduction, unilateral trade diversion, unilateral shift of production, and unilateral reduction of reliance on China's inputs, technology, ownership, and processing capabilities are all the focus.

There is also a geographical divide with regard to those developing economies that have yet to be key players in the trade diversion game. Available scholarship is skewed towards the study of the more visible connector economies like Vietnam and Mexico and some commodity exporting economies like Brazil and India. This fact means that there are potential selection issues, as large investment or export gains are more likely to be published in the literature than effects via indirect supply chains. Thus, there is a need for increased focus on developing countries such as Pakistan in South Asia, the African continent, and Latin America. Specifically, further research should separate countries that experience a reorientation of the trade of finished goods away from China, countries that also have a reorientation of the trade of finished goods but do not attract new production, and countries where the firms continue to rely on intermediate goods and technologies from China regardless of the changes in the trade of final goods.

Conceptual and Theoretical Framework

Analytical Foundations

The review combines three complementary approaches: tariff-incidence theory, trade-cost theory, and economic geography theory, plus weaponized interdependence and economic statecraft. These viewpoints, taken together, help to understand the trade restrictions as drivers of higher costs, changing firm incentives, reallocation of investment and production, and uncovering strategic dependencies.

All three lenses highlight common trends in the experience: initial rise in the short-run cost, initial pass-through to prices; gradual and uneven reallocation of trade and production towards third countries, primarily in lower complexity manufacturing sectors; and increase in the role of targeted export restrictions on strategically important inputs where supply is geographically concentrated and alternatives are limited. Where there is not a simple theoretical prediction (e.g., where there is a continuing Chinese presence and ownership in reallocated trade flows), the review highlights this as a point which requires further development both theoretically and empirically.

Integrated Supply-Chain Adjustment Framework

Trade costs, supply risk and policy uncertainty are raised by tariffs, export controls, investment restrictions and retaliation. Firms react by diversifying their supplier base, China Plus One strategies, nearshoring, friend-shoring or reshoring. These responses shift trade, production and foreign direct investment between connector economies, but they result in real diversification only if reliance on upstream clustered inputs and capabilities is reduced as well.

Figure 1

Integrated Supply-Chain Adjustment Framework for Interpreting the U.S.–China Trade Conflict



Source: Author's conceptual framework based on the literature reviewed in Sections 3 and 5.

Evolution of the U.S.–China Trade Conflict, 2018–2026

The major developments affecting global supply chains from the first 2018 tariffs through the verified policy and trade evidence available for 2025–2026 are summarized in Table 1. The chronology shows repeated escalation and partial de-escalation, including the May 2025 Geneva tariff agreement, alongside a broader shift toward technology and critical-mineral controls.

Table 1

Timeline of Major U.S.–China Trade-Policy events Affecting Global Supply Chains, 2018–2026.

Period	Event	Primary Mechanism	Key Sources
2018 (Jul.)	First Section 301 tariff tranches on ~$34–200B of Chinese goods; China retaliates on soybeans, pork, sorghum	Tariffs (10–25%) + agricultural retaliation	Fajgelbaum et al. (2020); USDA (cited in Tax Foundation, 2024)
2019	Tariff escalation to ~19–25% average on covered goods; Phase One talks begin	Tariffs	Amiti et al. (2019); Flaaen & Pierce (2019)
2020 (Jan.)	Phase One Agreement signed; China commits to purchase targets; COVID-19 disruption compounds tariff effects later in year	Tariffs + pandemic shock	Handley et al. (2020)
2022-23	CHIPS and Science Act; expanded U.S. semiconductor export controls	Export controls (technology)	Sutter (2025)
2023–24	Trade-diversion literature matures; Vietnam/Mexico import-share gains documented	Trade diversion / reallocation	Alfaro & Chor (2023); Freund et al. (2023, 2024); Fajgelbaum et al. (2024)
December 2024	China prohibits exports to the United States of gallium, germanium, antimony, and superhard materials.	Critical-mineral export restrictions	Reuters (2024); U.S. Geological Survey (2025)
April 2025	China places selected medium and heavy rare-earth-related items under export-control licensing.	Critical-mineral export controls	Ministry of Commerce of the People's Republic of China and General Administration of Customs of the People's Republic of China (2025)
May 2025	The United States and China announce a temporary reduction in newly imposed bilateral tariff rates following talks in Geneva.	Partial tariff de-escalation	White House (2025); USTR (2025)
September-November 2025	BIS issues the Affiliates Rule in September and suspends its changes for one-year effective November 10.	Technology export controls	Bureau of Industry and Security (2025a, 2025b)
2025 trade data	U.S. goods imports from China total US$308.7 billion, 29.9 percent below 2024.	Bilateral trade contraction	Office of the United States Trade Representative (n.d.)
2025 agriculture	USDA data indicate U.S. soybean exports to China fell from 26.8 million metric tons in 2024 to 7.2 million in 2025.	Agricultural trade contraction	Li (2026)

Period	Event	Primary Mechanism	Key Sources
2025 critical minerals	Chinese yttrium-oxide exports to the United States decline by approximately 75 percent relative to 2024.	Critical-mineral supply disruption	Brunelli (2026)
2026 evidence	Recent working-paper and value-added evidence indicates that declining direct trade can coexist with persistent Chinese content in U.S.-bound supply chains.	Reallocation rather than full decoupling	Antràs, Kulesza, and Presbitero (2026); Lovely and Wan (2026)

There are two distinctive elements of the timeline that are significant. One is that the conflict has been a back-and-forth escalation and de-escalation process instead of a linear process that moves either up or down. First, the conflict has been a process of repeated escalation and partial de-escalation, not the simple linear escalation or de-escalation process. The key events include: 2018 – 2019: Tariff escalation; 2020: Phase One agreement; 2024 – 2025: Expansion of export controls; Further negotiations. Second, the nature of the instruments utilized in the conflict has expanded through the years. Tariffs have gradually been replaced by new technology export controls, critical mineral licensing, investment barriers, and agricultural countermeasures. This changing landscape also means that even if tariffs come back down in the future, supply-chain relationships may not be restored to their pre-2018 configuration as companies have already made investments in other suppliers and production facilities, inventories, and compliance systems.

Thematic Synthesis of the Literature

Direct Trade and Price Effects of Tariffs

The best empirical evidence is available for the direct effects of U.S. tariffs on bilateral trade, import prices, and welfare. In general, studies of tariff incidence have shown that U.S. tariffs had a high pass-through rate to U.S. import prices, which means that U.S. importers and consumers paid a large fraction of the tariff and foreign exporters paid a smaller fraction through price changes. There are also literature reports of negative impacts on exports to the U.S. and manufacturing jobs in tariff-affected sectors. The direct U.S.-China trade declines in a number of product groups have been found in more recent data, but the size of the declines is different across product groups and time. Reductions should not be taken as wholesale supply-chain decoupling, as a portion of the trade might have been diverted via third countries.

Trade Diversion and the "Great Reallocation"

A second body of literature, closely related to Alfaro and Chor's (2023) notion of a “looming great reallocation,” focuses on a shift in U.S. import demand from a return to domestic production to a shift to third countries. Instances of countries expanding their market share in the United States by expanding their imports from China in the same or similar product categories are indicated by the results of studies by Freund et al. (2023) and related studies (2024). It follows the trend of moving the final production stages and the ongoing use of Chinese intermediate inputs, including via Chinese manufacturing affiliates in third countries. These economies have been called “connector” economies as they enable indirect trade linkages between the major trading partners. A rise in trade via third countries should not, however, be taken as proof of the presence or existence of illicit transshipment or intentional origin bending. To determine if a production relocation is a legitimate production move or a transshipment and/or rules-of-origin violation, there must be proof available at the firm level and at the customs level.

Direct bilateral trade statistics can't completely capture the dependence on Chinese production. When combined with the rise of low-value de minimis shipments, there can be discrepancies between U.S. import data and the export data reported by China that can overestimate the extent of China's imports into the U.S.,

as Clark (2025) finds. Value-added evidence is in line with that: China's conventional content in the total U.S. imports declined by approximately 7 percentage points from its 2020 level to 2024, while the value-added content in the U.S. imports declined by only 2.3 percentage points, from 17.7 percent in 2017 to 15.4 percent in 2024. These are more in line with rerouting and geographical reallocation than with wholesale decoupling from the Chinese production networks.

Reshoring, Nearshoring and Friend shoring

Another line of study is the analysis of corporate sourcing decisions and the reaction of the firm in the face of trade-policy uncertainty. Many Chinese exporters sought to invest in third countries or make last-minute investments in third countries to manufacture products. On the other side, multinationals started to see the China Plus One strategies. These changes can reduce the direct bilateral exposure, though they might not reduce dependence on Chinese inputs and/or ownership networks.

Supply-Chain Costs and Resilience Strategies

There is evidence from firm- and product-level studies that tariffs impact supply chains in terms of increased input costs, less export growth, and changes in supplier relationships. This is in contrast to the adverse effects of exports found by Handley, Kamal, and Monarch (2020) if tariffs on imported inputs rise, and Freund et al. (2024), who show that import reallocation from China to third countries is not necessarily a dismemberment of China's supply chains. The findings indicate that diversification can increase the resilience of firms, but the adjustment process has search and conforming costs, and investment and coordination costs vary across firms and sectors.

Export Controls, Semiconductors, and Critical Minerals (2024–2026)

In recent years, there is some evidence of policy change from tariffs to tech and critical mineral controls. On 4 April 2025, China published its export licensing requirements for certain medium and heavy rare earth elements (MRHEEs), such as samarium, gadolinium, terbium, dysprosium, lutetium, scandium, and yttrium, and related products (Ministry of Commerce of the People's Republic of China & General Administration of Customs of the People's Republic of China, 2025). In September 2025, the U.S. Bureau of Industry and Security published an interim final rule expanding the scope of the Entity List and Military End-User List and adding some sanctions-related restrictions on foreign entities 50 percent or more owned by these listed parties. BIS then temporarily halted the implementation of these changes set forth by that rule for one year, as of November 10, 2025 (BIS, 2025a, 2025b). That is also reflected in the customs data, which indicate a decline in Chinese yttrium-oxide exports by around 75 percent compared to 2024, to the United States (Brunelli, 2026). The long-term impacts of these developments have not yet been confirmed via replicated causal studies, as these are recent.

Country-Level and Regional Impacts

On the country level, the study finds Vietnam and Mexico to be important trade diversion beneficiaries, but for different reasons. Vietnam has proven to be an attractive location for assembly jobs, and an attractive location for electronics manufacturing, while Mexico benefits from geographical proximity to the U.S. and has established manufacturing clusters and preferential access under the USMCA. In both cases, any export growth should be differentiated from the full diversification of the upstream.

Agricultural and Commodity Market Effects

There is stronger evidence of retaliation for the 2018-2019 episode of retaliation in the agriculture sector. USDA's Economic Research Service (ERS) estimates that retaliatory tariffs cost the U.S. agricultural exports over US$27 billion from mid-2018 to 2019, or an annual loss of US$13.2 billion. The estimated losses were greatest for soybeans (Morgan et al., 2022). These estimates are based on a government report on research that was identified and supersede the previously reported estimates in this section that were based on secondary sources which were not traceable to a government research report.

Another severe shock to agriculture occurred in the renewed escalation of 2025, the 2018-2019 agricultural shock. Soybean sales to China reportedly decreased sharply in the U.S., and even during some parts of the year, nothing was being sold. These new estimates may be viewed as preliminary, as they are based on very little causal evidence, but rather on policy and industry reporting. Another stream of literature looks at trade diversion on the supply-side of farm markets.

Brazil expanded its trade with China to help shift the buying habits of the world's biggest importer from the United States, a sign of trade and trade diversion having an impact on both the economy and the environment. The link between deforestation and trade diversion, however, is complicated and is not just due to the trade war between the U.S. and China. Changes in land use are influenced by regional agricultural expansion, infrastructure, domestic policies, commodity prices, and world demand. Therefore, environmental effects need to be considered as a significant potential spillover effect and not as a direct causal effect of trade diversion that has to be explicitly identified in an empirical model.

Macroeconomic and Inflationary Spillovers

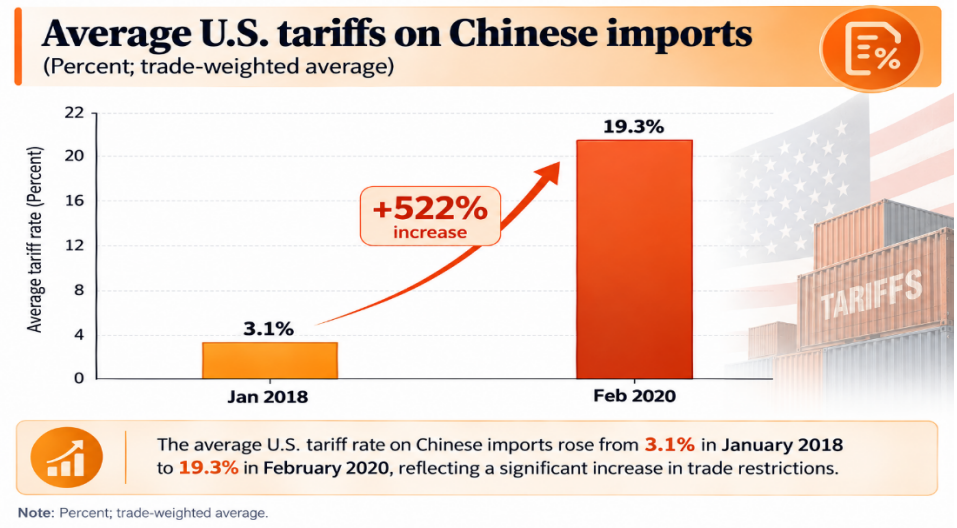
There is a growing literature that studies the macroeconomic effects of the conflict on import prices, investments, production networks, and trade fragmentation. Tariff-incidence studies have revealed that there is a significant pass-through at the border, and firm-level evidence has demonstrated that tariffs on imported inputs have led to slower export growth (Amiti et al., 2019; Cavallo et al., 2021; Handley et al., 2020). The economic effects on aggregate GDP are of course estimated using the model, and may change depending on the assumptions made; it is not appropriate to present a point estimate. The direction and mechanism of the macroeconomic effects are thus reported in this review, while the 2025 input-cost and labour-cost percentages are left unverified.

Quantitative Trends and Evidence

Numbers in this section are used to provide a descriptive synthesis of quantitative trends reported in the literature reviewed and in trade and investment data. They are not new econometric estimates developed by this review. Approximate values and reconstructed series are recognized in the notes on the figures, and the values from different sources are not necessarily considered directly comparable unless there is a degree of consistency in the definition, the unit, and the period.

Figure 2

Average U.S. Tariff Rate on Chinese Imports



Source: Bown (2019), continuously updated tariff calculations from the Peterson Institute for International Economics; retrieved September 15, 2026.

Figure 1, U.S. trade restrictions against China have risen sharply during the early stages of the trade conflict. The trade-weighted average U.S. tariff rate on Chinese imports rose from 3.1% in January 2018 to 19.3% in February 2020, which is an approximate increase of 522%. This significant increase in price made Chinese products more expensive to import and impacted intermediate goods as well as finished consumer goods for American companies. It illustrates the extent to which tariffs evolved into the key policy instrument in the early stages of the conflict, and drove up trade costs, reconfiguration of trade supply chains, and uncertainty for importers and producers.

Figure 3

China's Share of Total U.S. Goods Imports

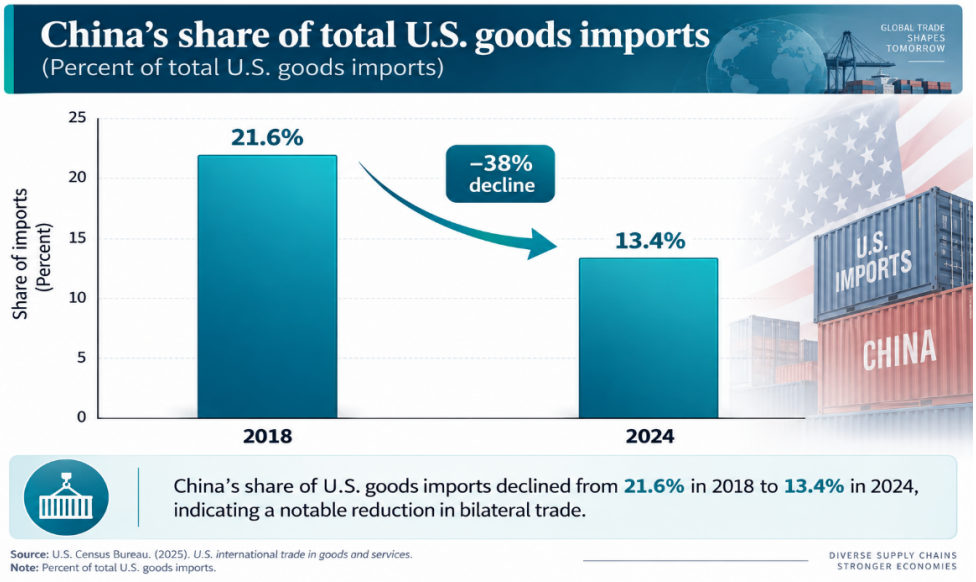


Figure 3, China's contribution to overall U.S. goods imports has decreased from 21.6% in 2018 to 13.4% in 2024, a drop of around 38%. This indicates that the direct bilateral imports are significantly lower since the tariff and other trade restrictions were put in place. But this drop is not necessarily a sign of a full supply-chain split.

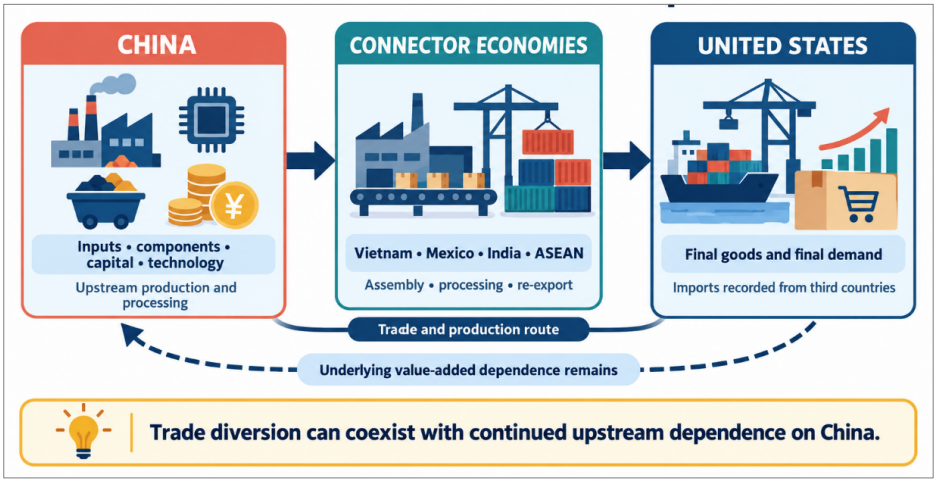
There could still be some Chinese inputs and value added that filter into the United States through connector economies and/or Chinese-owned production facilities in third countries. The figure represents visible bilateral trade reduction but not necessarily a corresponding reduction in dependence on Chinese production networks.

This is an explanation of how the connector economies can change the nature of trade without eliminating Chinese involvement in the supply chain. China is still continuing to supply inputs, components, capital, technology and processing capacity to production facilities in economies like the ASEAN member states, Vietnam, Mexico and India. The economies might assemble, process or even finish the production of goods for shipment to the United States.

In the process, it is possible that a large part of the value of the goods is added in China, but the data from U.S. customs may still classify the goods as imports from third countries. The figure shows that it is possible to have trade diversion and geographical reallocation while retaining the upstream reliance on investment and production from China.

Figure 4

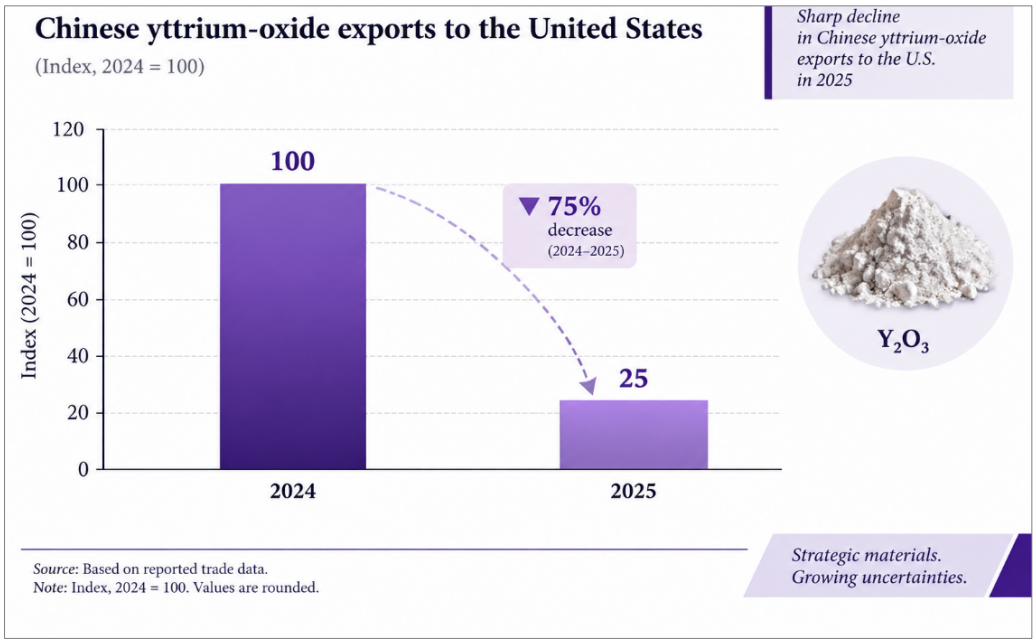
Connector Economies can Gain U.S. Market Share while Remaining Linked to Chinese Inputs, Investment, and Production Networks



Source: Author's synthesis based on Freund et al. (2024) and Gopinath et al. (2025)

Figure 5

Chinese Yttrium-Oxide Exports to the United States in 2025 were Approximately 75 Percent Lower than in 2024 (index: 2024 = 100).



The data in Figure 4 show the export volume of yttrium oxide to the United States reported by China from 2024 to 2025. The exports, measured as 25 in 2025 and 100 in 2024, were about 75% less. Yttrium's applications include ceramics, phosphors, the aerospace industry, high-performance lasers, and heat-resistant coatings, so its disruption is considered strategic. The steep drop reflects the fragility of centralized mineral processing and export. It also illustrates the importance of critical mineral controls to propagate supply risk to other industries in the value chain, and increase the need for diversified critical mineral sourcing, alternative processing options, recycling and strategic stockpiling.

Sector-Specific Evidence

Table 2 summarizes sector-level shocks and adaptation strategies drawn from the literature and recent industry reporting, illustrating the heterogeneous exposure of different industries to trade-war and export-control shocks.

Table 2

Sector-specific Impacts of the U.S.–China Trade Conflict on Global Supply Chains

Sector	Primary Shock	Observed / Reported Effect	Adaptation Strategy
Semiconductors	U.S. export controls on advanced chips, EDA software, lithography equipment (2022–2025)	Licensing restrictions and constraints on access to selected advanced technologies	Reshoring of fabrication (CHIPS Act); diversification of chip design supply
Rare earths & critical minerals	Chinese licensing/export bans on rare earths, antimony, gallium, germanium (2024–2025)	Documented export contraction and supply disruption; 2025 U.S.-bound yttrium-oxide exports approximately 75% below 2024	Diversification of mineral sourcing; stockpiling; new processing investment outside China
Automotive	Rare-earth magnet shortages; tariffs on parts and EVs	Exposure to tariffs and critical-mineral supply risk; effects vary across firms and locations	Supplier diversification; nearshored parts assembly in Mexico
Consumer electronics	Tariffs on finished goods and components	Cost pass-through to consumers; partial assembly relocation to Vietnam/India	"China Plus One" assembly strategies
Textiles & apparel	High labor-content, low-complexity tariff exposure	Significant relocation to Vietnam, Bangladesh	Full relocation of low-complexity manufacturing
Logistics & shipping	Tariff-driven demand volatility	Demand volatility, inventory adjustment, and route reconfiguration	Route diversification; nearshoring to shorten transit times

Semiconductors: From Tariffs to Technology Denial

Semiconductors are a good example of the move from tariffs to technology-access controls. The U.S. measures include transactions with certain restricted foreign companies and entities, advanced computing chips, and equipment for semiconductor manufacturing. In September 2025, BIS published an Interim Final Rule that expands certain restrictions on foreign affiliates controlled by parties listed. Those changes have since been halted for a year as of 10th November 2025 (Bureau of Industry and Security, 2025a, 2025b). The episode also demonstrates the ongoing development of the U.S. export-control policy; however, the impacts on capacity, innovation, and third-country supply chains are yet to be empirically tested in the long run.

Rare Earths: The 2025 Escalation as a Case Study

On 4 April 2025, the People's Republic of China (PRC) Ministry of Commerce (MoC) and General Administration of Customs of the People's Republic of China (GAC) issued an announcement to implement export licensing for a number of medium and heavy rare-earth (MHR) elements and related metals, alloys, compounds, oxides, targets, and permanent-magnet materials (FoC MoC GAC, 2025). According to the International Energy Agency (2025), China produced some 60 per cent of the world's magnet rare-earth mining output, some 91 per cent of its separation and refining, and some 94 per cent of its sintered permanent-magnet production. Brunelli (2026) also indicates that the exports of yttrium oxide from China to the United States decreased by around 75 percent in 2025 compared with 2024. The results in this report

illustrate the power that can be gained from consolidating processing and manufacturing power, but indicate the need for long-term investment in diversification and potential for more than short-term fluctuations in trade.

Automotive and Manufacturing Nearshoring

The auto industry is vulnerable to tariffs and a shortage of rare earth elements, and is an attractive investment destination for nearshoring in Mexico. Mexico's wage differentials with the United States (up to 80% lower in Mexico) and USMCA duty-free treatment for qualifying products are two big advantages for Mexico on the road to leading the automotive and electronics assembly and manufacturing value chain. Automotive and electronics assembly and manufacturing is becoming a more attractive business option in Mexico, and complex and capital-intensive manufacturing processes are still mostly outsourced to East Asia, and especially China.

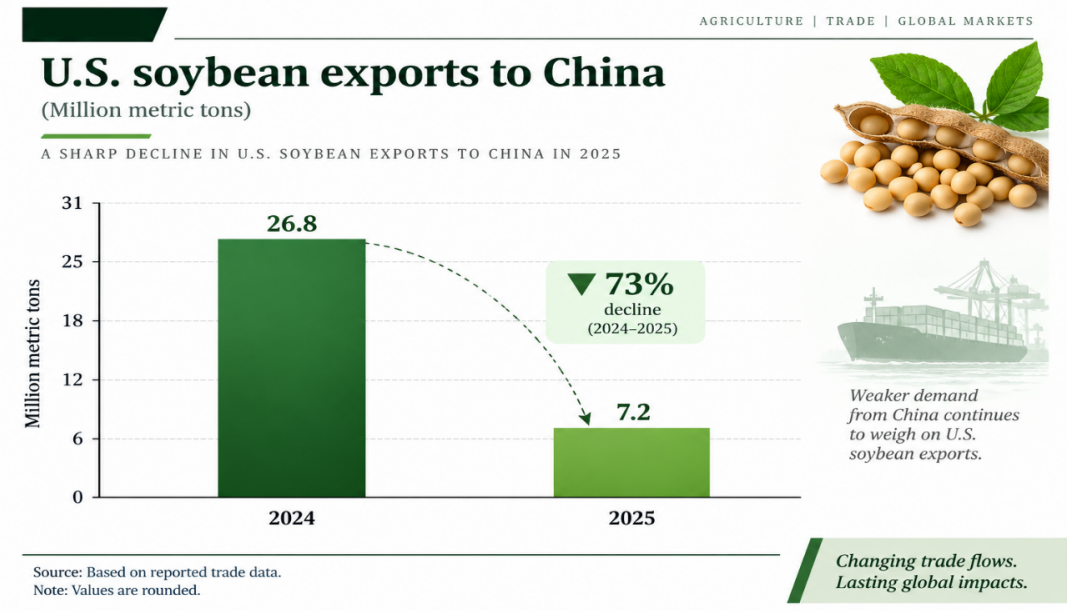
Agriculture: A Recurring Casualty of Escalation

Agriculture has been hit on a number of occasions with retaliation, with significant products such as soybeans relying heavily on the Chinese market. According to Li (2026), USDA data reported show that U.S. soybean exports to China fell by about 73 percent in 2025 from 26.8 million metric tons (mmt) in 2024. Exports bounced back to 10.3 million metric tons in January-May 2026, but this was not a record. These verified amounts are presented in a figure for each year (Figure 6).

This is true for both of China's two escalatory episodes, over more than five years apart, and with two different U.S. administrations, and agricultural retaliation is a low-cost, high-visibility option for China: soybeans are easily "replaced" by the supply from Brazil; the political salience of farm-state losses in the United States is high; and China's market power as the buyer of approximately 60% of global soybeans contributes to the sizeable leverage of such retaliation over U.S. consumers. The cyclical nature of the situation is a cautionary tale that could be extended to the U.S. side of export policy, both on the subject of mineral supplies concentration as a risk and on the U.S. side of supply-chain policy.

Figure 6

U.S. Soybean Exports to China Declined from 26.8 Million Metric Tons in 2024 to 7.2 Million Metric Tons in 2025.



Source: USDA Foreign Agricultural Service data reported by Li (2026).

This is the dramatic drop in U.S. soybean exports to China between 2024 and 2025 shown in Figure 5. The volume of exports was reduced by about 73% in 2025 compared to 2024 (7.2 million metric tons in 2025 and 26.8 million metric tons in 2024). The decrease highlights the fragility of agricultural exporters with a high percentage of total exports sold in one of the foreign markets. The decline was linked to new trade uncertainties between the United States and China, as well as less Chinese demand for U.S. soybeans in 2025. Changing buying patterns in China can have significant impacts on the American farmer, commodity prices, storage needs, and export revenue, given its significance as a U.S. agricultural export market. The contraction also helped competing suppliers, especially Brazil, to grow their market share in China's soybean market. The rebound in exports started in 2026, but it did not return to the level of exports that existed prior to the rebound. The figure thus illustrates the potential for agricultural trade as a retaliatory tool and the potential for the trade rivalry to have long-term effects on commodity-market relations and patterns of world sourcing.

Third-Country and Global South Implications

Macroeconomic Transmission Channels

Import prices, production costs, uncertainty of investment, and adjustment of financial markets are the four main macroeconomic channels of transmission. There is a very large share of border pass-through in empirical studies of tariff incidence, and research on imported inputs indicates that tariffs can impact downstream production and exports (Amiti et al., 2019; Cavallo et al., 2021; Handley et al., 2020). Gopinath et al. (2025) also report on the trade and investment linkages between geopolitically distant blocs being less substantial and the growing importance of 'connector economies'. The results offer more evidence than the previously mentioned consultancy surveys, and do not demand unverifiable statements of individual savings in capital expenditures.

Third-Country and Global South Effects

Most academic and policy papers are based on the experience of the United States, China, Vietnam and Mexico; however, to consider the effects of the supply chains around the world will necessitate the attention of a broader group of third countries, particularly in the Global South. The channels that can result in a positive direct trade-diversion effect, such as the gains in Brazil from its soybean exports, may include indirect effects, which may be less well documented, such as variation in import costs, availability of intermediate inputs, exchange rates, commodity prices, foreign direct investment, and access to international markets. However, net FDI inflows data is available at the country level from World Development Indicators, but FDI data cannot be used on its own to conclude that observed changes were due to the U.S.-China trade conflict (World Bank, n.d.). Causal interpretation needs supporting evidence in sectoral, ownership, production, and firm-level evidence.

Pakistan as an Under-Researched Case

In this wider context of the Global South, Pakistan is an under-researched case. There is not enough literature available to prove that there is any causal effect of the U.S.-China trade war on Pakistan's trade, investment, performance in manufacturing, and supply chain. Based on the evidence that has been considered so far, Pakistan should not be considered an established beneficiary or loser. Pakistan, on the other hand, offers as a case study valuable insight for future research on how an emerging economy, neither a key connector nor a key destination for trade diversion, can be caught up in the conflict indirectly through shifts in Chinese trade and investment, import prices, availability of intermediate inputs, global commodity prices, and competition in third-country markets.

In this context, the question is whether, instead of being considered as a "winner" or a "loser" of U.S.–China trade restructuring, Pakistan should be considered as an important case for future empirical studies. The key transmission channels remain unestablished at the country level and also at the firm level, and require further research on whether they are via trade diversion, dependence on Chinese intermediate input,

foreign direct investment, commodity-price fluctuations, export competition, and/or regional production networks.

There is a need to draw a similar distinction in other developing economies in South Asia, Southeast Asia, Africa, and Latin America. Effects can be heterogeneous depending on the industrial structure of the country, reliance on Chinese inputs, export concentration, domestic production capacity, and capacity to attract diverted investment in countries like Bangladesh, Sri Lanka, Indonesia, Malaysia, Cambodia, the Philippines, Kenya, Ethiopia, Egypt, etc. that are emerging manufacturing and commodity exporting economies. But the evidence available to date should not be interpreted as evidence of whether these countries are winners or losers. Therefore, future studies are needed to go beyond aggregate trade-diversion indicators and focus on the exposure of countries' supply chains, firms' adjustment, Chinese ownership and dependence on intermediate inputs, rules-of-origin compliance, employment effects, and environmental effects.

Table 3

Illustrative Channels of Exposure for Global South and Third-Country Economies

Region / Country	Primary Exposure Channel	Net Direction of Effect	Illustrative Evidence
Brazil	Agricultural trade diversion (soybean demand substitution)	Net gain (exports), environmental cost	Documented diversion of Chinese soybean demand toward Brazil; magnitude varies by period and dataset
India	Manufacturing diversification ("China Plus One"); potential agricultural retaliation target	Net gain (manufacturing); at-risk (agriculture)	Manufacturing-diversification opportunities; net effect requires sector-level evidence
ASEAN (Vietnam, others)	Manufacturing reallocation; transshipment / rules-of-origin scrutiny	Net gain, with compliance risk	Vietnam +2.1pp of U.S. import share since 2018
Sub-Saharan Africa	Indirect exposure via critical-mineral demand and commodity prices	Mixed / limited direct evidence	Emerging but thin literature on cobalt/mineral demand shifts
Latin America (ex-Mexico/Brazil)	Marginal trade diversion; limited FDI competition with Mexico	Limited net effect	Smaller, more localized gains relative to Mexico
Pakistan	Indirect exposure through Chinese intermediate inputs, trade diversion, investment patterns, commodity prices, and competition in third-country markets	Uncertain / under-researched	Insufficient evidence in the reviewed literature; requires country-level and firm-level investigation

Table 3 illustrates the uneven distribution of trade-diversion gains across nominal “winners.” Brazil’s soybean gains may carry environmental costs, while manufacturing gains in connector economies can coexist with dependence on Chinese intermediate inputs and greater rules-of-origin scrutiny.

Historical Perspective: Comparison with Smoot-Hawley and Prior Trade Conflicts

The historical perspective is useful to understand the dimensions of the current conflict and its unique nature. The Smoot–Hawley tariff was a comprehensive tariff during the Great Depression, while the U.S.-China conflict is a multi-front approach that includes bilateral tariffs, export restrictions, investment controls, and supply-chain security within a multilateral trading system, all subject to rules-based agreements. The comparison is therefore qualitative: retaliation and trade contraction are not unique features of the contemporary conflict but of the 1930s conflict as well. However, the contemporary conflict takes place in a different manner: in the 1930s, trade was hampered by tariff barriers and restrictions on access to technology, whereas in the contemporary conflict, trade is hampered by the fragmentation of production networks and restrictions on access to technology across the globe.

In recent history, the automobile and semiconductor trade conflicts between the United States and Japan in the 1980s are another parallel with numerous incidents of threats to impose tariffs, voluntary export restrictions, and transfer of technology. It was a lesson that highlighted the potential for negotiated settlement (as Japan ultimately achieved) and the difficulty of making the U.S. – Japan comparison since China is large, is now a major player in the global economy as a supplier of intermediate goods, rather than just finished consumer products, and the Chinese dominate certain key inputs in a strategic way, such as rare earth elements and processing.

Discussion

Reallocation, Not Full Decoupling

The body of literature suggests more evidence of geographical reallocation than that of netting out U.S.-China supply-chain decoupling. Several sectors affected by tariffs have seen a reduction in their share of direct trade with the U.S., and Vietnam, Mexico, India, and other production destinations have increased their U.S. import volumes. However, signs of growing imports of Chinese intermediates and growing Chinese investment in other production sites indicate that some of the changes are linked to rerouting or relocating final stages of production, instead of a separation from Chinese supply chains. The evidence thus suggests that visible bilateral decoupling and underlying decoupling—that is, dependence on less China in the value chain in terms of inputs, processing capacity, technology, capital, or ownership—are two different types of decoupling.

Winners, Losers, and Distributional Effects

Literature surveyed suggests the qualitative distribution of gains, losses, and uncertain effects are summarized in Table 4. Selected trade and investment benefits have been extended to Vietnam and Mexico, with benefits also varying between sectors, and potential for costs of compliance or a continuation of dependence in the upstream. Importing, consuming, and some exporters in the U.S. have paid dearly, while the evidence for Pakistan is not enough to determine the clear net impact.

Areas of Consensus and Disagreement in the Literature

There are a number of areas of consensus. Empirical evidence tends to suggest that tariffs have a high degree of pass-through to U.S. imported prices, that trade volumes for tariff-exposed categories display little direct response to the tariffs, and that tariffs cause significant diversion of trade through other countries but not to large-scale reshoring of trade to the United States. More uncertainty is related to the depth and longevity of restructuring. There is no consensus on whether the connector-economy exports are actually evidence of China's industrial upgrading, Chinese manufacturing moving to other countries, or the greater utilization of Chinese intermediate goods. Experimental evidence for recent semiconductor and critical-mineral controls is also less developed due to the short time scale of the controls that have been in existence, and the fact that many of these controls have not yet had sufficient time to evaluate. These differences in opinion are based on different time periods, sectors, data, methodologies, and definitions of decoupling and diversification.

Table 4

Qualitative Summary of Winners, Losers, and Net Effects Identified in the Reviewed Literature

Category	Net Effect	Evidence Strength
U.S. importers/consumers	Net cost increase	Strong
China–U.S. direct trade	Net decline	Strong/Moderate
Vietnam	Net gain in selected sectors	Moderate
Mexico	Net gain	Moderate/Strong
Global supply-chain reorganization cost	Cost increase	Moderate
Pakistan	Uncertain	Insufficient evidence

Limitations of the Current Literature

- The evidence published on export controls and rare earths is mostly from industry and think tank sources, meaning the conclusions drawn from these sources are preliminary findings and should be confirmed by academic research, and is relatively new.
- However, the number of firm-level panel data for the entire time horizon since 2018–2026 is still limited, which hinders the causal identification between long- and short-run tariff-contingent reallocation.
- For source studies, cost breakdowns are typically summed up at a macro-level, and this needs to be demonstrated at the micro-sectoral level to present these cost breakdowns.
- The majority of the studies focus on U.S. impacts, and the literature reviewed is relatively sparse on domestic economic impacts downstream in China.
- The environmental impacts of trade diversion (such as the effects of increased soybean acreage on Amazon deforestation) are just starting to be systematically considered, and spillovers to other regions of the world outside of Brazil, India, and the big ASEAN economies are poorly documented.
- The GDP effects for macroeconomic events (e.g., 0.5- 1 percent range) shown in this review are indicative of orders of magnitude and are computed in a few analyses and are not consensus estimates.
- 10. Policy Implications
- Restrictions on critical minerals and semiconductors take many forms and have proven to be a more effective and less easily neutralized policy tool than tariffs, and should be considered as such in policy discussions, rather than the more conventional trade remedy framework.
- In diversification policies, where Chinese inputs go through third parties, the positive effect of tariff policy may also be mitigated; hence, rules of origin should also be applied there to complement tariff policy.
- Structural problems are a critical-mineral supply concentration that “solve” themselves only through short-term truces and the investment of multi-year efforts in capacity for processing alternatives.
- In fact, the USMCA joint review is illustrative of a new development in regional trade agreements (RTAs) as they evolve into instruments beyond tariff preferences, as they are increasingly used in the policymaking process in relation to supply chains.
- The high dependence on one or a few important buyers in agricultural exports is a recurring point of leverage for China and can be reduced over time through export market diversification and diversification of export market demand (e.g., investments in biofuels).
- Macroeconomic spillovers of both tariffs and export controls should be looked at in conjunction with other macroeconomic goals and objectives; they are not a distinct area of trade and tech policy from macroeconomic policy.

Limitations of the Review

There are a number of limitations with this review. It is built on a structured story, is not totally systematic, and does not make any claim to exhaustivity. The evidence for the 2024-2026 period is more dependent on institutional reports and government publications, trade statistics, and industry analysis than the evidence

for the previous tariff period. Some estimates cannot be directly compared due to differences in methods, geographical units and sector classifications, and outcome measures. It is to be noted that it is not always possible to separate genuine production relocation from rerouting by looking at the aggregates of bilateral data; that separation will have to be made at the level of the firm, the owner, the input-output and customs data. Last but not least, the literature is geographically imbalanced and limited for many economies in the developing world.

Future Research Directions

Important opportunities for future empirical research exist as the conflict continues beyond the end of 2026, export controls become increasingly used, and regional trade arrangements are reviewed.

The U.S.-China clash has gone beyond trade tariffs to a multi-dimensional race for technology, critical minerals, investments, and farm products. The verified evidence indicates increased costs for importers, decreased direct bilateral trade, and increasing trade and investment via connector economies. Reduced direct imports from China, however, do not necessarily mean decreased China value added or dependence on upstream supply from China. Escalation and negotiation do not have to cancel each other out, as shown by the rare-earth controls from 2025 and the temporary tariff de-escalation in Geneva; and while the impact of these measures is felt in manufacturing and technology, there are also other sectors that are affected, such as agriculture, as seen in the agricultural retaliation.

Research is recommended to focus on: (1) longer firm-level panel data, distinguishing between structural relocation and rerouting; (2) rules-of-origin compliance and ownership linkages; (3) length of time and efficacy of critical-mineral diversification; (4) implications from the 2026 USMCA joint review with implications for North American nearshoring once official outcomes are available; (5) agricultural-market resilience; and (6) more granular evidence for developing economies including Pakistan. This type of work should incorporate the customs, ownership, input-output, investment, and firm-level data.

Conclusion

Overall, the literature indicates that the U.S.-China trade war has transformed the geography of global production, but not so far as to result in a complete separation of the supply chains. Tariffs impacted specific bilateral trade flows and increased costs, and firms acted by diversifying their suppliers, nearshoring some aspects of their production chain, friend-shoring, and relocating some aspects of their production chain to a third country. Geographical reallocation doesn't necessarily mean diversification, and reliance on Chinese intermediate products, technology, investment, and critical-mineral processing are proof. Because of tariff replacement policies with semiconductor controls and critical mineral restrictions, investment screening, and agricultural retaliation, supply-chain restructuring is being increasingly driven by strategic as well as economic factors. The post-2018 trading system is thus starting to be more geographically dispersed, strategically managed, and institutionally complex.

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