Shifting Trade Ties of the United States and China with Their Partner Countries: Changes Over the Five Years of Turbulence

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Abstract

In this paper, we track the shifts in economic ties of the United States and China with partner countries in the context of commodity and service trade. We propose the grouping of major partner countries and regions: China, the US, North America (excluding the US), Europe, ASEAN, Chip 4 alliance countries (South Korea, Japan, Taiwan), India, and other countries. The dynamics of trade ties is broken down into three stages: active phase of the US—China trade war (July 2018 – January 2020); post-COVID recovery of the global economy (February 2020 – January 2022); geopolitical turbulence (February 2022 – present).

Regarding commodity trade, we document the changes in trade ties of the US and China with key groups of partner countries during each stage; apart, we examine the US trade in services with partner countries. A steady decline in commodity trade between the US and China was observed only during the third stage, while the drop during the trade war had turned out to be temporary. Trade in services between the US and China started to fall a bit earlier, during the second stage. At the third stage, the US commodity trade deficit with China declines in parallel with an increase in the commodity trade deficit with ASEAN, the Chip 4 alliance, and North America (partly due to re-exported Chinese goods). In 2020, China has reached a record share in global commodity exports (about 16%) and continues to hold strong.

We propose the short list of countries and regions that may have the strong impact on growth and restructuring of world trade in the long term, in particular: China, ASEAN, North America, Russia, and India. The list relies on the following facts: retention of China's extraordinary position in world trade even under the increasing pressure from the West; active integration and exceptional trade connectivity of ASEAN countries; significant efforts by the US to reintegrate North America and reshoring high-tech production back to the continent; Russia's very high interest in developing cooperation within BRICS and decentralizing international payments; the rise of India as a major sales market.

Introduction

Notable shifts have occurred in the foreign trade relations of the world's two largest economies, namely China and the United States, since the conclusion of 2018. First and foremost, this was reflected in shifts in the geographical structure of their foreign trade in goods. This structural adjustment can be periodized into three stages.

The initial phase aligns with the active phase of the trade conflict between the United States and China (from July 2018 to January 2020[1]), was characterized by a reciprocal escalation of import tariffs, and culminated in a trade agreement. However, this did not signify the conclusion of the confrontation, but rather its transfer to alternative formats. Immediately following the adoption of the trade agreement, the second phase commenced, during which international trade was significantly impacted by the implementation of lockdown measures in response to the global spread of the coronavirus and the subsequent recovery of the world economy in the wake of the pandemic.[2] By the beginning of 2022, this momentum had effectively been exhausted. In February, the third stage of this process commenced, characterized by a heightened geopolitical tension, set against the backdrop of the eruption of the Russia—Ukraine conflict. This was followed by an

[1] The first large-scale tariffs in the trade war were imposed on July 6, 2018, and on January 15, 2020. The US and China formalized the first phase of the trade deal [Bown 2021].

[2] An important consequence of the active recovery, including the fiscal stimulus measures implemented during the pandemic, has been the rise in inflation in developed countries unprecedented for the 21st century [Chau et al. 2024].

intensification of existing contradictions in other regions of the world, including the China—Taiwan and Israel—Palestine confrontations, the latter have directly impacted navigation in the Red Sea.

The objective of this study is to provide a comprehensive overview of the evolving foreign trade relations between the United States and China and their key partner countries, with a particular focus on the driving forces behind prospective structural changes in global trade. In order to achieve this objective, the author employs a methodology based on statistical analysis, the grouping of objects by geography and industry, and the expert assessment of prospects based on trend extrapolation.

Section 1 presents and justifies the author's classification of the United States' and China's partner countries. Section 2 elucidates the stages of the dynamics of international trade of the two countries in the context of key groups of partner countries, with a focus on the features of each of the three stages (based on the analysis of national statistical data of the US and China on trade in goods and WTO data on trade in services). Section 3 presents the author's perspective on the potential future trajectory of global trade.

1. Principles of grouping partner countries of the US and China

In order to facilitate comprehension and present information in a clear and concise manner, this article employs the paired analysis approach. This entails examining trade relations with partner countries from the perspective of the two most prominent economies in the world, namely the United States and China. Concurrently, a number of partner countries are categorized in accordance with the following criteria.

Firstly, data pertaining to trade with the other largest competitor country (for the United States, China; for China, the United States) are explicitly reported. This approach enables us to identify the impact of a trade war and other external shocks on US-China direct trade, which is a key area of focus in global trade discussions.

Secondly, estimates of trade with North America (Mexico and Canada) are presented. The selection of this region allows for the monitoring of the processes of reintegration of North America within the framework of the USMCA agreement, which replaced NAFTA and entered into force in July 2020 [Brookings 2024]. In the case of China, the concentrated examination of trade relations with North America enables the documentation of indirect trade with the United States via Mexican and Canadian enterprises.

Thirdly, this approach delineates the dynamics of trade between the United States and China with European countries (the European Union, the United Kingdom, Switzerland, Norway, and Iceland[3]), representing the third party in the balance of major economies. This allows for the illustration of the evolving dependence of Europe on China, which is particularly pronounced in sectors such as electric vehicles and solar energy

[3] In the US and Chinese national foreign trade statistics, the groupings of countries by world region differ. For example, while in the US grouping Turkey belongs to Europe, in the Chinese grouping it belongs to Asia. In both groupings, Russia, Ukraine and Belarus belong to Europe, but for the purposes of this study it seems more appropriate to define Europe as a narrower community of developed countries oriented toward Western values. Thus, Russia, Ukraine, Belarus and several other countries (such as Serbia, Moldova and some others) are categorized as other countries in this study.

equipment [Mazzocco 2023] and its interconnections with the US. From the perspective of the European Union, China's robust position in international trade has emerged as a significant geopolitical concern. In response, the European Commission has allocated funding to the China Horizons research project, a collaborative endeavor involving nine research centers,[4] to examine this issue in greater depth.

Fourth, the rapidly developing Asian region is divided into three groups: ASEAN members, countries involved into the Chip 4 alliance, and India. The countries of the ASEAN[5] integration bloc are experiencing dynamic growth. For the United States, they represent a potential substitute for at least some Chinese imports. For China, they constitute a large and close integration grouping with good logistics.[6] The countries of the Chip 4 alliance, which includes South Korea, Japan, and Taiwan, have been gravitating toward Western countries in recent years. They are also involved in the United States' project to coordinate the supply of chips.[7] India is a traditional partner of the United States in Asia.[8] It also represents a counterweight to China, which views India as one of its emerging potential competitors.

Finally, all other partners, including Russia, are classified as belonging to the "other" group. It is important to note that the categorization of Russia as a distinct entity would not correspond to the purpose of this analysis. The United States does not consider Russia to be a significant supplier, except for a limited range of raw materials. Despite the intensification of cooperation between China and Russia in 2022–2023, Russia remains a relatively minor market for China, particularly in comparison to India (except for selected goods, such as automobiles).

The paper primarily relies on national US and Chinese merchandise trade statistics, CPB World Trade Monitor data to estimate the respective shares of the two largest economies in global trade, UN Comtrade data to provide a sectoral breakdown of merchandise trade, and WTO data on trade in services.

2. Stages in US—China trade dynamics

2.1. Trade in goods

In the initial phase of the US—China trade conflict, the United States, the instigator of the dispute, formally achieved a reduction in imports from China (and, consequently, a reduction in the trade deficit with China). However, the overall balance of US trade with all partner countries remained largely unaltered during this period,

[4] https://chinahorizons.eu

[5] The bloc consists of 10 countries: Indonesia, Malaysia, Singapore, Thailand, Philippines, Brunei, Vietnam, Laos, Myanmar, and Cambodia.

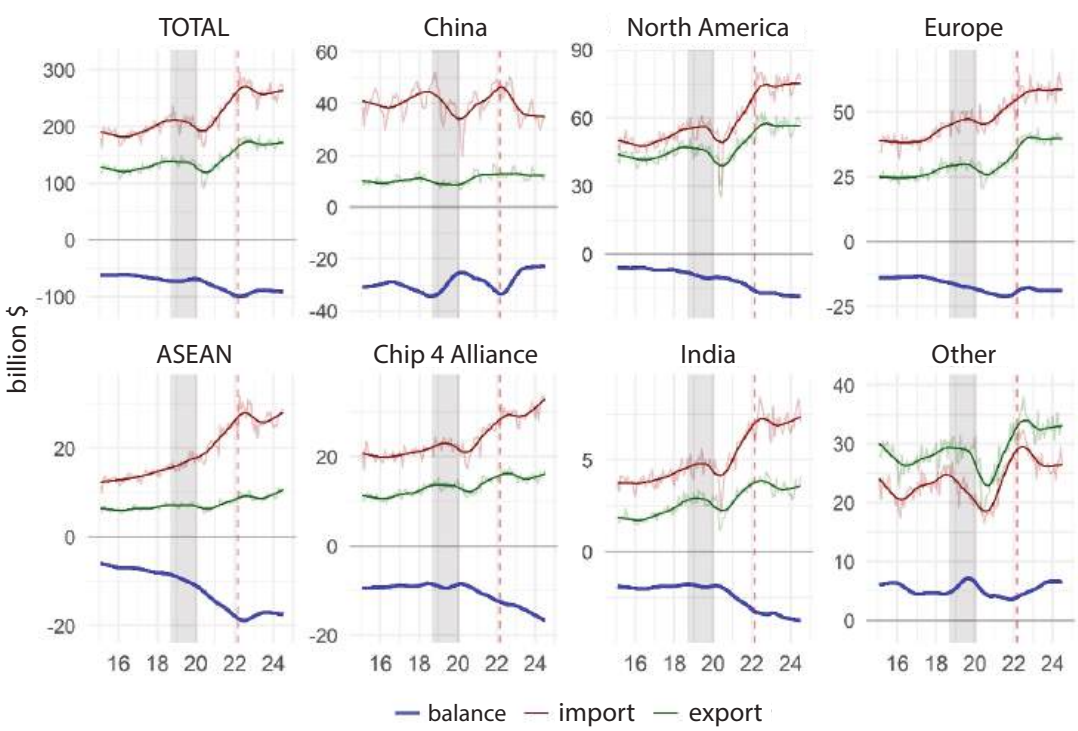
[6] China and ASEAN are now each other's largest trading partners. Importantly, China has publicly announced the possibility of jointly developing infrastructure projects with ASEAN: in particular, within the framework of Xi Jinping's proposed 21st Century Maritime Silk Road initiative [Bi 2021].

[7] The strategies of individual countries in the chip market are explored, for example, in [Kim and Rho 2024].

[8] Adjusted for India's retention of its "strategic autonomy" [Vanvari 2024].

despite a cessation in the growth of imports (see Figure 1 on p. 29). The conjunction of these factors suggests that imports from China have been supplanted by imports from other countries. Nevertheless, the actual substitution was merely partial, as the re-export routes of Chinese products to the United States via ASEAN countries (predominantly through Vietnam) and North America (Mexico, Canada)[9] commenced simultaneously. This is indirectly evidenced by the observed increase in China's foreign trade surplus with the aforementioned regions. Compared to the July 2018 level, the estimated trend growth of China's trade surplus with ASEAN is 46%, while that with North America is 17% (see Figure 2 on p. 30). Europe experienced a degree of benefit from the trade war, with an increase in exports to the United States. However, it is probable that re-exports from China were also a factor in this growth. It is crucial to acknowledge that re-export activities were not exclusive to the initial phase. Subsequently, these processes not only persisted but, based on indirect evidence, may have even intensified.

Figure 1. Dynamics of US foreign trade in goods by key groups of partner countries, January 2015 – June 2024

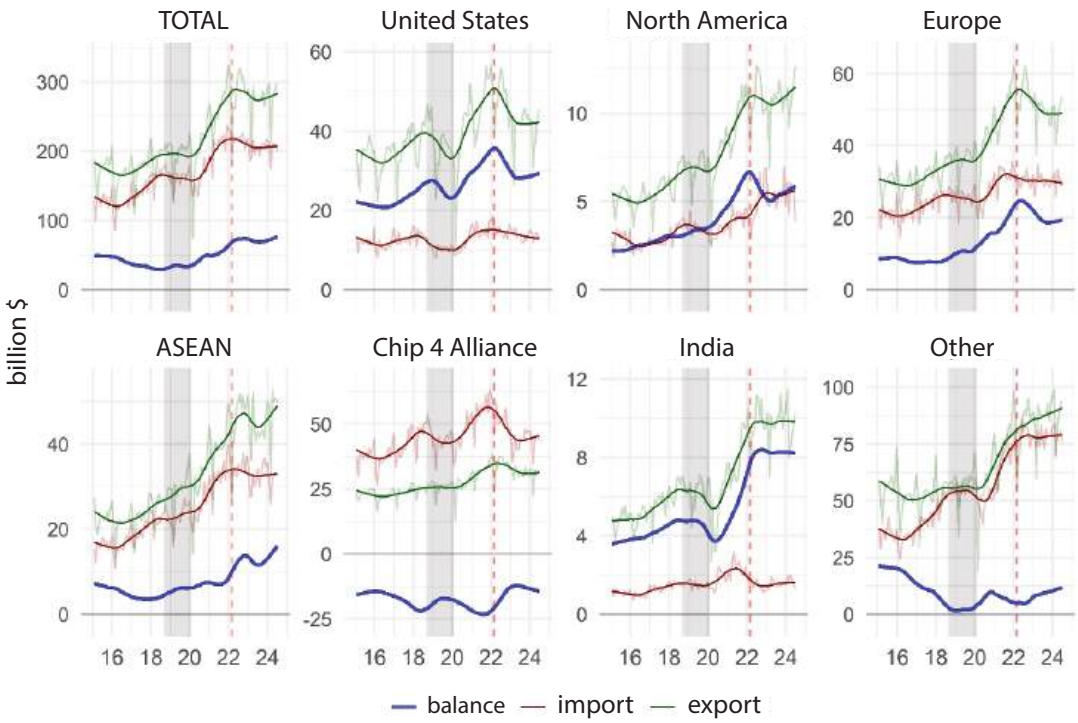


Note: the red dotted line is the beginning of the Special Military Operation in Ukraine, the gray fill is the active phase of the US-China trade war.

Source: Author's calculations based on data from the US Census Bureau.

[9] See in particular the analysis of Nikkei Asia [Kitazume et al. 2019].

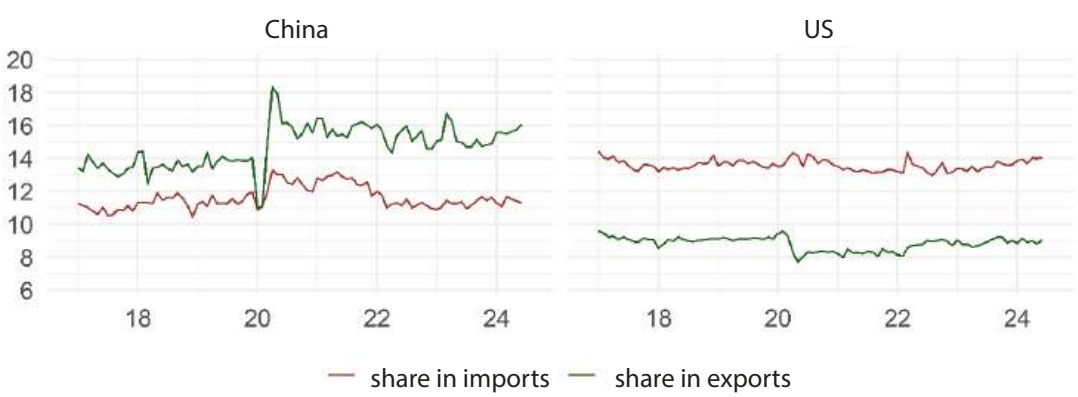
Figure 2. Dynamics of China's foreign trade in goods by key groups of partner countries, January 2015 – June 2024



Note: the red dotted line is the beginning of the Special Military Operation in Ukraine, the gray fill is the active phase of the US-China trade war.

Source: Author's calculations based on data of the General Administration of Customs of the PRC.

Figure 3. China's and the US share of world merchandise imports and exports, January 2017 – June 2024 (%)



Source: Author's calculations based on CPB World Trade Monitor data.

In the second phase, which encompasses the period of the global economic pandemic and the subsequent period of global economic overheating, import growth has outpaced

recovery in much of the world, including the United States. This has allowed China to substantially increase its merchandise exports and reach a record share of global exports, from 14% in 2019 to 16% in 2021 (see Figure 3 on p. 30).[10] Subsequently, China's share exhibited a slight decline in 2023. However, by mid-2024, it recovered to a relatively elevated level, reaching 15.8% in the second quarter of that year. This figure was slightly higher than the US share of world imports, which stood at 14.0%.[11]

At this juncture, the United States' additional demand for imports was predominantly satisfied by goods from the ASEAN and the Chip 4 alliance. During the period of heightened trade tensions, the latter group did not notably expand exports to the United States. In the course of the post-pandemic era, imports of Taiwanese and Korean electronics[12] to the US increased significantly. Imports from Europe continued to increase at a gradual pace, while North American shipments accelerated, and there was a notable intensification of cooperation with India. Although the volume of shipments in this latter case is minimal, their rapid growth suggests a deepening of collaboration, particularly in imports of precious stones and metals, as well as engineering products. Conversely, the results of the trade war in terms of reducing the trade deficit with China have been unsuccessful. By the conclusion of 2021, the deficit had nearly reached the level observed prior to the trade war (and, according to Chinese data, significantly exceeded this level).

During the 2020–2021 period, China observed a notable surge in exports to North American countries, indicating active re-export activities within this region. The primary target for expansion was Mexico, with Chinese exports to this destination demonstrating a 44% increase from 2019 to 2021. This was predominantly attributable to augmented exports of machinery, metallurgy and plastics products. The growth in Chinese exports to Canada was less pronounced, reaching 37%. This was predominantly attributable to machinery and metal products. By the conclusion of the period, China's trade surplus with Europe and India had reached its highest point. In addition to machinery and equipment, which constituted a significant contribution to China's export growth in both directions, there was a considerable increase in shipments of chemical products to India and metal products and automobiles to Europe. China's engagement with ASEAN countries was comprehensive, resulting in a notable increase in both exports and imports from ASEAN to China during the post-COVID recovery period. In contrast with the prevailing trend, China's trade deficit with the Chip 4 countries reached a low point by the end of the period. This was attributable to the active acquisition of high-tech products. Trade with other countries, as well as with ASEAN countries, developed in a balanced manner, with both exports and imports demonstrating consistent growth.

In the third stage, which was characterized by rapid geopolitical and structural changes, there was a notable cooling of trade relations between the two largest economies

[10] Estimates of China's share of world exports are from the CPB World Trade Monitor.

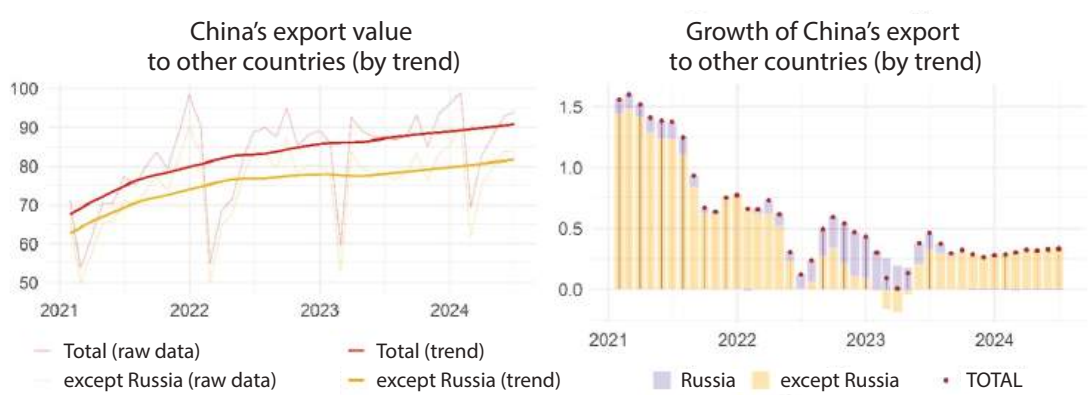
[11] This should be kept in mind when interpreting periodically published negative news about China's exports, such as was the case in March 2024 (see: https://www.reuters.com/markets/asia/chinas-march-exports-imports-shrink-miss-forecasts-by-big-margins-2024-04-12/).

[12] Hereinafter, the sectoral breakdown of trade is based on annual UN Comtrade data at the 2-digit HS Code level. It is beyond the scope of this study to explore deeper sectoral details.

in the world. By 2023, the United States had already significantly reduced its imports from China, particularly in machinery, electronics, plastics, and metal products. The direct trade deficit with China (excluding potential re-exports) was the smallest it had been in recent years, while the aggregate US trade deficit remained at the same elevated levels. Concurrently, the US deficit with ASEAN, the Chip 4, and North America has deepened to the extent that, as of early 2024, it turned out to be only slightly below the US trade deficit with China for each of these groups of countries, while the combined US trade deficit with all these countries substantially exceeded the US trade deficit with China. A notable exception is the trade relationship between the United States and European countries, where a structural shift has occurred, resulting in a slight increase in exports to the EU. This shift can be attributed primarily to the substitution of Russian fuel for other sources.

In the context of the geopolitical structural changes, China has significantly increased its exports to ASEAN. The most significant contribution to this growth was made by Singapore, Malaysia, and Thailand. In terms of products, the most prominent were vehicles, chemical products, plastics, metal products, and petroleum products. Additionally, China sustained a considerable level of shipments to North American countries. In both instances, indirect evidence suggests that these supplies were subsequently re-exported to the United States. Concurrently, there was a discernible reduction in the exports of Chinese goods to Europe (in conjunction with the slow growth of imports), as well as the considerable decline in the imports of goods from the Chip 4 alliance countries to China (as a consequence of their reorientation toward the United States). Consequently, the growth of China's trade with other countries has decelerated following an acceleration between 2020 and 2021. Imports have reached a plateau, while exports are exhibiting moderate growth.

Figure 4. Dynamics of China's exports to other countries, January 2021 – June 2024 (US$ billion)



Source: Author's calculations based on data of the General Administration of Customs of the PRC.

Russia continues to represent a relatively minor market for Chinese goods, apart from automobiles that witnessed more than a fivefold increase in imports from China

over the past two years. Russia assumed a notable role during the latter half of 2022 and the initial six months of 2023. During this period, China's exports to the United States, Europe, and even the ASEAN countries experienced a decline, while exports to the group of other countries except Russia ceased to grow (see Figure 4 on p. 32). Until mid-2023, Russia was one of the few countries demonstrating a consistently rising demand for Chinese goods, driven by the urgent need to substitute products from Western countries.

However, in the second half of 2023 and the first half of 2024, China's export growth to Russia stopped, while exports to other countries, conversely, demonstrated a recovery. This suggests that the spontaneous structural adjustment of the Russian market after the implementation of sanctions has now came to an end. It is anticipated that further trade growth will be contingent upon the development of novel formats of interaction with friendly countries, including within the BRICS framework.

2.2. Trade in services

The limited data on international trade in services by partner country do not allow for the same detailed analysis for services. Therefore, in this part, the dynamics of external trade relations are considered only from the US side (data for China are not presented by partner country). Calculations are based on 2023 WTO data, latest available at the time of analysis.[13]

Overall, an important feature of US foreign trade has been the persistently positive balance of trade in services—as opposed to goods—reflecting the unique role of the US as a provider of intellectual property products, financial and consulting services, and the country's attractiveness as a tourist destination.

2020 marked a turning point in the structure of US trade in services with other countries: the positive balance of trade in services with China and the Chip 4 countries fell sharply, while that with the ASEAN countries continued to rise (see Figure 5 on p. 34). In the years that followed, this process continued actively: by 2022, imports of services from the Chip 4 countries had increased to the point where they were equal to exports.

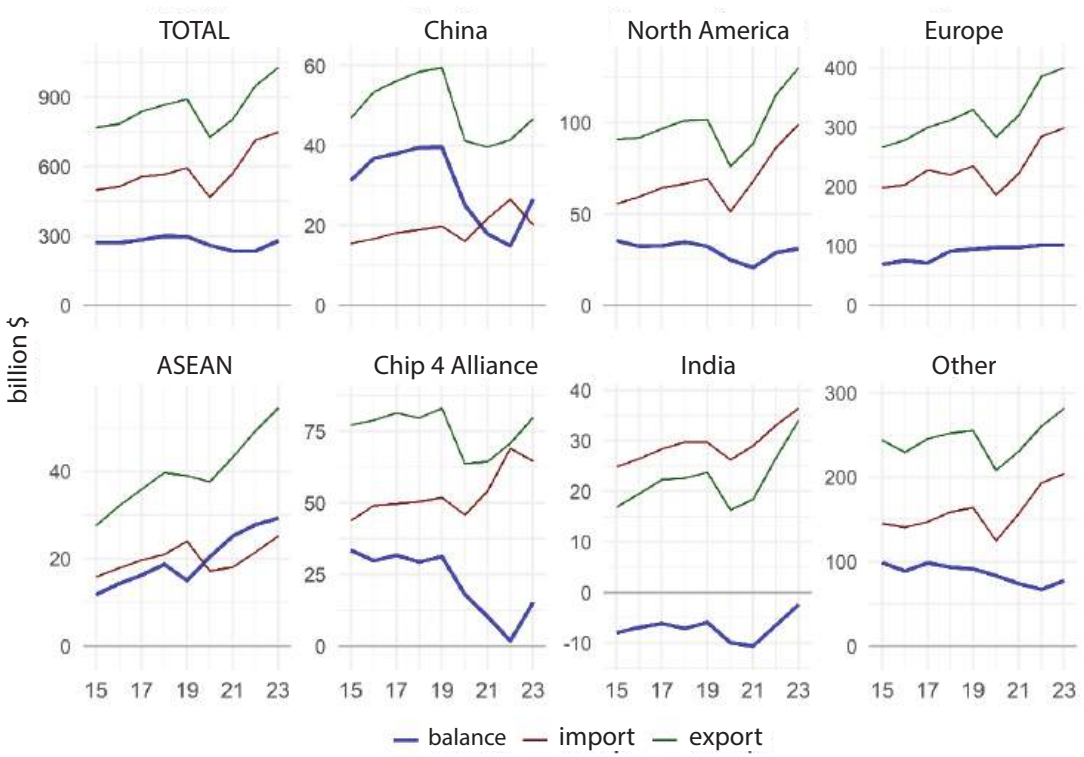
However, the overall picture masks extremely heterogeneous dynamics by type of service (a visualization of the dynamics of US foreign trade by major categories of services is presented in Appendix A on pp. 39–41). The sharp deterioration in the services trade balance in 2020, and its continued decline thereafter, is largely driven by two sectors—transportation services (see Figure A1), the dynamics of which tend to follow those of goods trade, and travel (see Figure A2), which was constrained first by severe coronavirus restrictions and then by an incomplete recovery in demand.

A more balanced view of changes in US trade in services with other countries emerges when these two types of services are excluded from the analysis (see Figure 6 on p. 35). With this focus, the cessation of growth in services exports to China from 2020 is also evident; at the same time, however, the decline in this indicator does not begin until 2022–2023 (while Chinese services imports increase, although they remain small in volume). After 2020, the evolution of US exports to China by type of service diverges: while exports

[13] Trade in services annual dataset, updated July 2024: https://www.wto.org/english/res_e/statis_e/trade_datasets_e.htm

of insurance and financial services (see Figure A3) and charges for the use of intellectual property (see Figure A5) decline steadily, exports of telecommunications, computer and information services (see Figure A4) grow rapidly until 2023; China's dependence on the United States remains low for research and development services[14] (see Figure A6).

Figure 5. Dynamics of US foreign trade in services by key groups of partner countries, 2015-2023



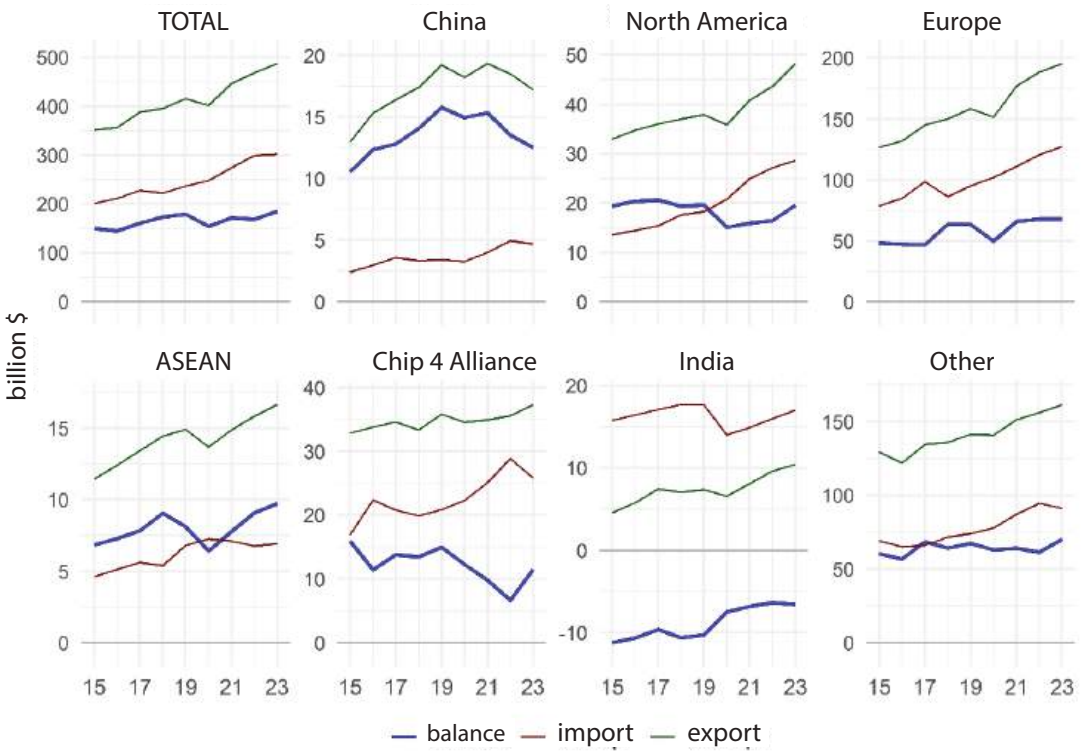
Source: Author's calculations based on WTO data.

Since 2021, the growth of US foreign trade in services with North American countries has accelerated, while that with Europe and a group of other countries has maintained the same pace as in previous years. On the other hand, the dynamics of foreign trade in services with ASEAN countries and India slowed down (and imports from India declined due to the displacement of Indian computer and information services by North American services). The most striking post-COVID structural change was the sharp increase in services imports from the Chip 4 alliance countries, driven mainly by telecommunications, computer and information services, and charges for the use of intellectual property (in the latter case, the growth was not sustained and was not

[14] Research and development services stand for the sales of the results of research and development (R&D) activities, including those formalized by patents; charges for the use of intellectual property stand for the sales of the rights to use the R&D results, as well as intellectual property objects. China's lack of dependence on the US for research and development indicates a self-reliance in scientific work.

observed until 2022). This is probably due to the start of the process of relocation of a number of high-tech industries from developed Asian countries to the US.

Figure 6. Dynamics of US foreign trade in services by key groups of partner countries, 2015-2023 (excluding transport and travel)



Source: Author's calculations based on WTO data.

3. Contours of the outlook for world trade

The analysis of trade statistics shows that China's position in world merchandise trade remains exceptional—its share of world exports starts to rise again after a temporary decline in 2023 and remains almost 2 pp higher in April–May 2024 than before the coronavirus pandemic.

Undoubtedly, China's dynamism will remain the main determinant of changes in world trade in the future. In this respect, it is difficult to agree with the findings of the Boston Consulting Group study [Gilbert et al. 2024] that the main impact on world trade on the horizon up to 2032 will be the industrialization and reintegration of North America (see Table 1 on p. 36). Such projections do not take into account the factor of re-exports from China to the United States: the degree of integration of the United States, Canada and Mexico is clearly overstated in direct trade statistics. If the growth of Chinese exports slows down, the activity of integration processes in North America will also decrease.

Table 1. Five geopolitical drivers of world trade through 2032

Driver	Geopolitical processes	Trade growth, 2032 to 2022, US$ billion	Impact assessment	
			BCG	author
US	Industrial and trade policies strengthen integration in the USMCA	with China -197 with Canada/Mexico +466	1	3
China	Trade barriers with the West deflect trade in other directions	with ASEAN +616 with the West -62	2	1
ASEAN	Beneficial shifts in supply chains, keeping costs low and trade cohesion intact	with China +616 with Japan/Korea +210	3	2
India	Emergence of the country as a major market and supply chain player	with the West +180 with China +124	4	5
Russia	Trade reorientation toward friendly countries after Western sanctions	with China +134 with India +26	5	4

Source: [Gilbert et al. 2024]; last column is the author's expert judgment.

At the same time, it is difficult to disagree with the expectation that ASEAN countries will play a major role in shaping the future of world trade: their active development of cooperation with all the "poles" of the global economy (the US, China, other Asian countries including India) and their unique logistical capabilities make them the second most important force in shaping global trends. Low costs—the factor that is now driving the relocation of production from China—may not be sustainable in the long term,[15] but, as the Chinese experience shows, this does not always lead to a critical slowdown in growth.

The third force is North America: despite its declining share of world GDP, this bloc of countries still has a good chance of bringing back a number of industries, especially high-tech ones, especially if it actively cooperates with the countries of the Chip 4 alliance. Although the process of relocating production facilities may take more than a year, indirect evidence of the seriousness of such intentions is provided by the data on a significant increase in imports of high-tech services from the alliance countries to the United States in 2022.

Russia, despite its relatively small GDP on a global scale, can act as a fourth force: firstly, it will influence international trade in key markets (fuel, metals, fertilizers, food); secondly, as an interested actor, it will drive the process of decentralization of global trade settlements in cooperation with the BRICS countries and the Middle East. It is important to note that interest in BRICS is actively growing—in June, for example, the intention of a number of ASEAN countries to join the association was announced[16]—which in the long term will make BRICS the main platform for consolidating the interests of the countries of the so-called "Global South." And given the important role played by ASEAN in the

[15] Thus, the prices of imported products from Vietnam to the United States are already beginning to rise [Alfaro and Chor 2023].

[16] In June, Russian presidential aide Yuri Ushakov confirmed applications for BRICS membership from Thailand and Malaysia - see: https://www.interfax.ru/russia/967942.

dynamics of world trade in recent years, this circumstance could boost the already active growth of South-South trade.[17]

Finally, India, as the world's most populous country, will undoubtedly also shape the global trade landscape (mainly as a major market), but there are currently doubts about the extent to which it will be able to spearhead global change. It is likely to act more as a participant in broad coalitions (especially with ASEAN countries).

Conclusion

This paper identifies three stages in the dynamics of foreign trade interactions between the world's two largest economies: the active phase of the US—China trade war, the post-COVID recovery of the world economy, and geopolitical turbulence. For each phase, changes in US—China interactions with North America, Europe, ASEAN, the Chip 4 alliance countries (South Korea, Japan, and Taiwan), India, and other countries are described.

A steady decline in US—China trade in goods was observed only in the third stage (as the trade decline during the trade war was temporary and offset by re-export schemes and the subsequent increase in US imports from China), while in services—from the second stage, immediately after the introduction of the coronavirus restrictions (although trade excluding transport and travel services rather stagnated than declined). Both the US and China developed foreign trade cooperation with other suppliers and markets. The US trade deficit with ASEAN, the Chip 4 alliance, and North America deepened; China significantly increased its interaction with ASEAN, India, and other countries.

According to the author's assessment of the importance of countries and regions of the world for the future growth and restructuring of global trade, China, ASEAN, North America, Russia and India are likely to be the most dynamic countries and regions in the long run.

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[17] South-South trade is trade between developing countries. According to the UNCTAD Trade and Development Report [UNCTAD 2023], the share of such trade has increased from 11% in 1995 to 25% in 2020.

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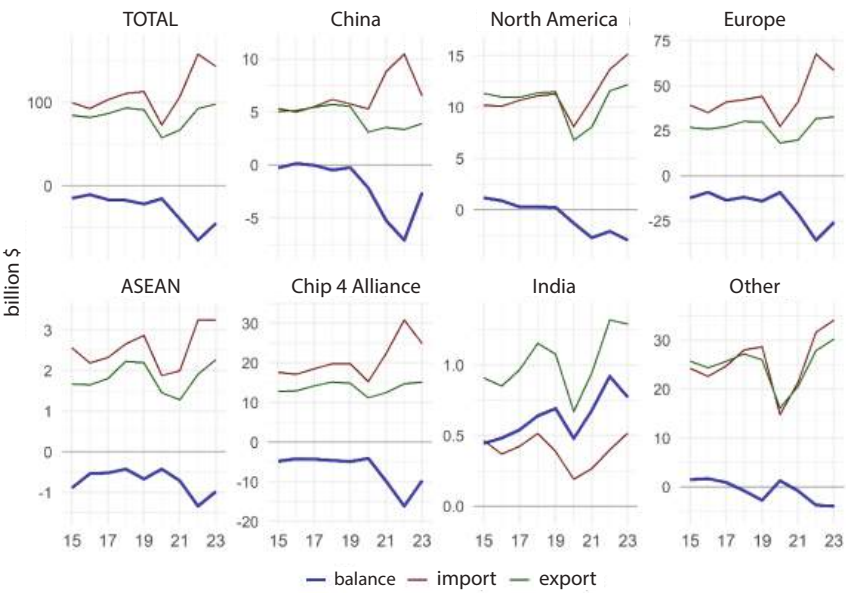
Appendices

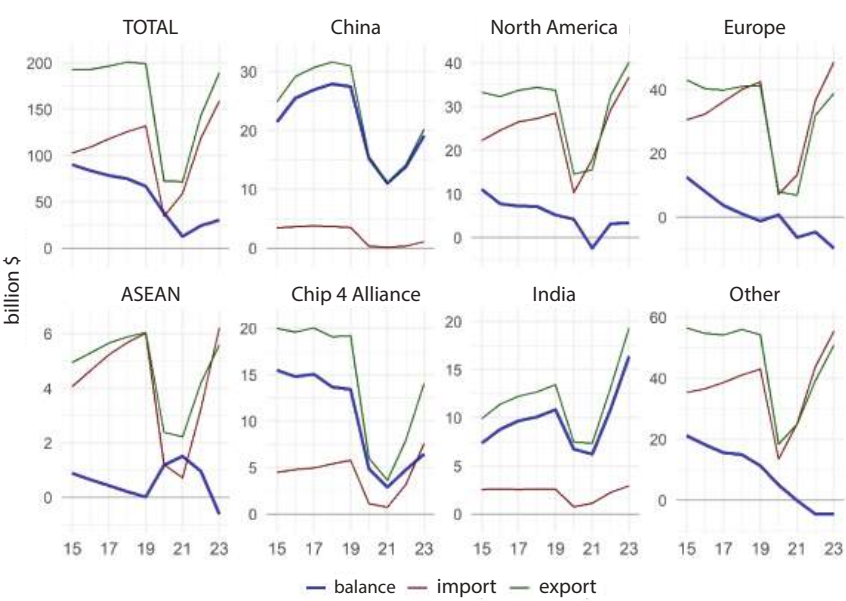
Appendix A

Figure A1. US foreign trade in services by partner country group, 2015–2023: transport



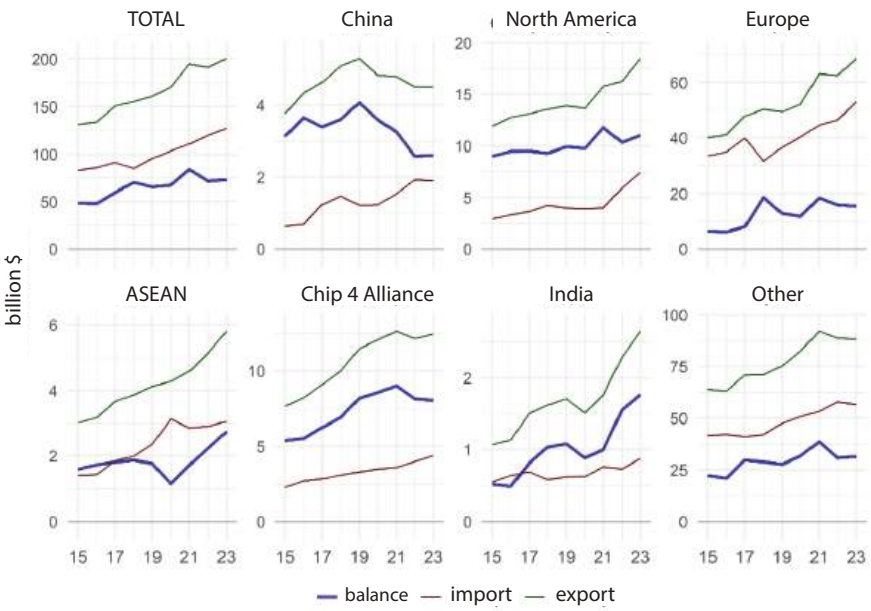
Source: Author's calculations based on WTO data.

Figure A2. US foreign trade in services by partner country group, 2015–2023: travel



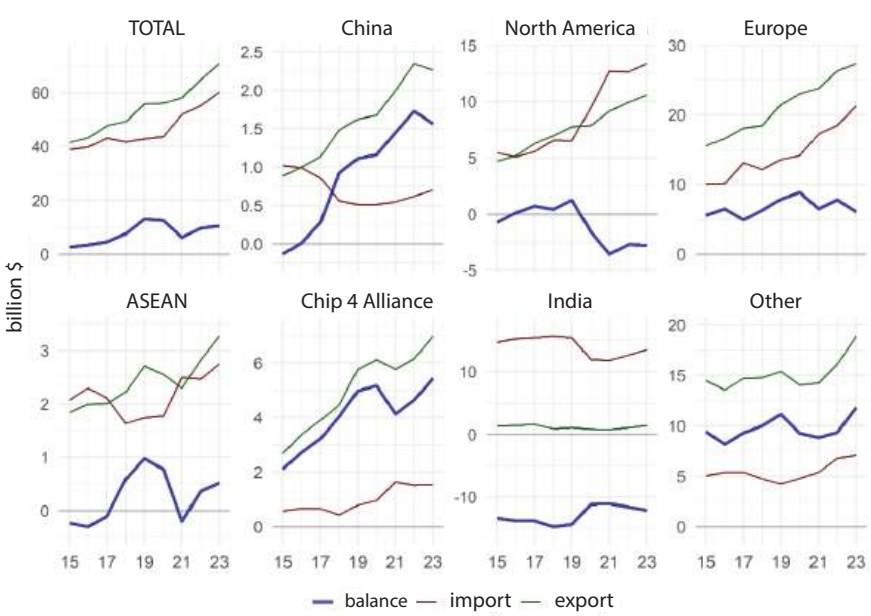
Source: Author's calculations based on WTO data.

Figure A3. US foreign trade in services by partner country group, 2015–2023: financial and insurance services



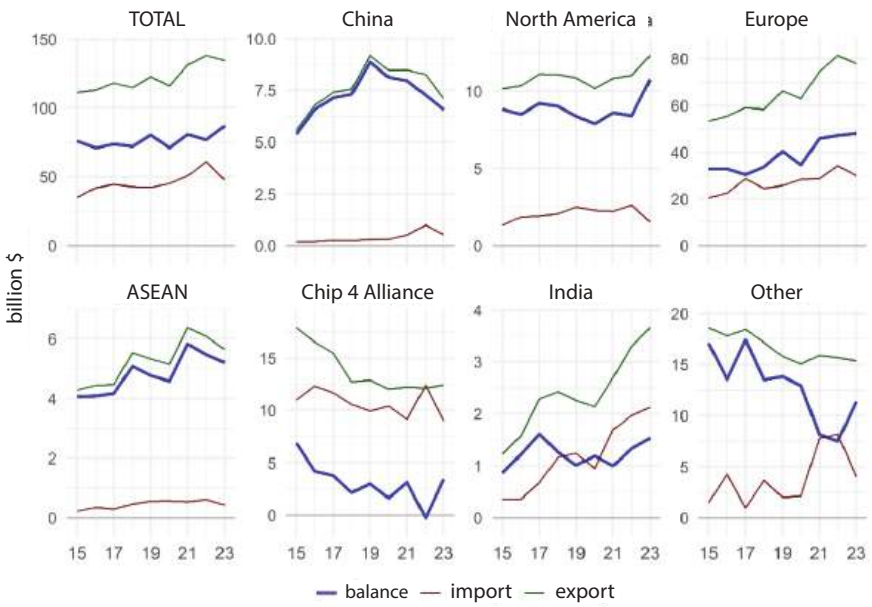
Source: Author's calculations based on WTO data.

Figure A4. US foreign trade in services by partner country group, 2015–2023: telecommunications, computer and information services



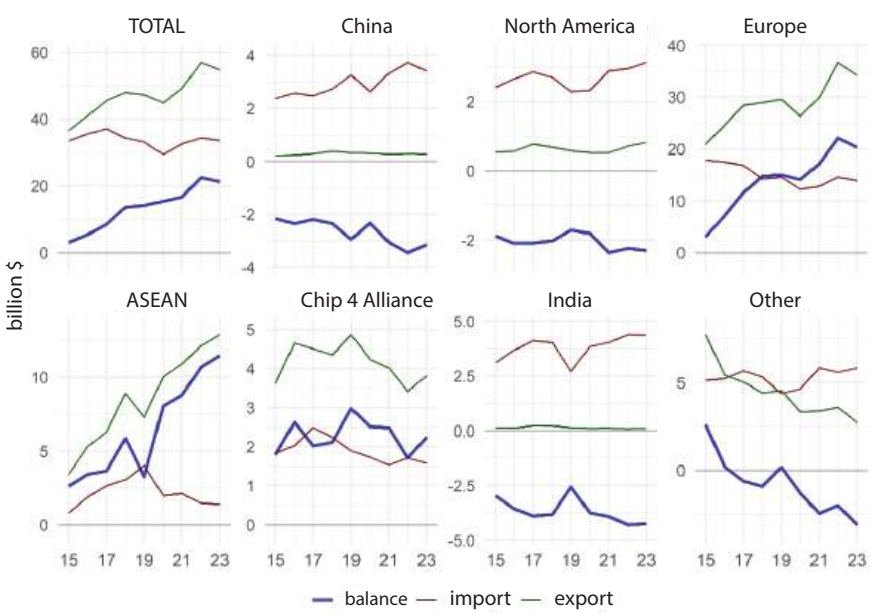
Source: Author's calculations based on WTO data.

Figure A5. US foreign trade in services by partner country group, 2015–2023: charges for the use of intellectual property



Source: Author's calculations based on WTO data.

Figure A6. US foreign trade in services by partner country group, 2015–2023: research and development services



Source: Author's calculations based on WTO data.