Transshipment crackdowns won't fix US-China trade imbalance



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OPINION

US-China trade relations continue to enjoy a fragile détente, but recent dialogues between Washington and Beijing have not resolved underlying tensions. One point of friction is the White House's condemnation of Chinese "transshipment" of trade goods, articulated most clearly in its August 2026 report The Great Transshipment Scam. The report critiques a wide range of trade practices that it argues constitute a coordinated strategy to illegally avoid US tariffs imposed on Chinese goods. In doing so, it sets the stage for future actions toward China and other commercial partners.

The "transshipment scam" report reflects the Trump administration's continued dissatisfaction with the United States' and China's respective roles in the global trade landscape. Despite the flurry of US actions against China since early 2025, Beijing's export-oriented economic growth model continues to perpetuate global trade imbalances, stoking political backlash in Washington, Brussels, and other capitals around the world. Moreover, the overarching US trade balance has not durably shrunk, and concerns of threatened US industrial competitiveness vis-à-vis China remain as strong as ever. US-China relations are likely to remain strained as long as these factors persist. The White House muddies the policy debates surrounding these issues, however, by blaming them all on transshipment. The most novel contribution made by the report is an attempt to stretch the definition of transshipment beyond its traditional definition — i.e., the rerouting of unmodified goods through intermediate countries — to include substantive overseas manufacturing using Chinese-origin inputs. The analysis below examines the extent to which transshipment is taking place, both in the traditional sense and under the White House's expanded definition, and unpacks potential policy options for addressing these respective phenomena.



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Empirical evidence on rerouting Chinese-origin products

A core aspect of the White House report's argument is that Chinese-origin products are continuing to flow into the United States even though direct bilateral trade has shrunk. This allegedly takes place through more than 40 economies that reroute intermediate or final Chinese goods from China to the United States to benefit from lower tariff rates. CSIS's own analysis shows that some of these economies have indeed experienced disproportionate growth in imports from China and in exports to the United States since 2024, a signal that these countries may be serving as "connectors" of US and Chinese economic activity (see Figure 1). These countries, which fall into the top-right quadrant of Figure 1 below, are thus sometimes referred to as connector economies.

The first part of the White House's claim has strong empirical support. A 2026 Peterson Institute for International Economics policy brief examines the share of US import value that originated in China, either through direct imports from China or from Chinese upstream inputs embedded in products imported from elsewhere — a measure known as "value added." It finds that Chinese value added flowing into the United States has grown since 2018 even as US direct imports from China have fallen (see Figure 2), meaning that Chinese value added increasingly enters the United States via third countries. The Peterson paper and other analyses identify Mexico and Vietnam as two prominent conduits linking US and Chinese supply chains, providing a pathway for 23 percent and 15 percent of indirect Chinese value added entering the United States in 2024, respectively.

The key question is how this value added reaches the United States. A factory in Mexico exporting specialized products using Chinese inputs may simply reflect an efficient supply chain responding to comparative advantages. This is a wholly different phenomenon than a logistics company importing products from China and directly re-exporting them without modification (i.e., the traditional definition of transshipment). Legal and policy implications are determined by how Chinese goods pass through connector economies, and specifically whether or not they have been substantially transformed along the way.

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One way to assess the predominance of rerouting versus substantial transformation is investigating whether the six-digit Harmonized System (HS-6) code — the international standard taxonomy for classifying traded goods — changes for a certain good between its import from China and its export to the United States. If a country's imports from China and exports to the United States are both growing, and a growing share of its US-bound exports match its Chinese imports, transshipment may be occurring. On the other hand, a flat or declining share of overlapping trade suggests transshipment is not growing as a share of that country's total trade activity.

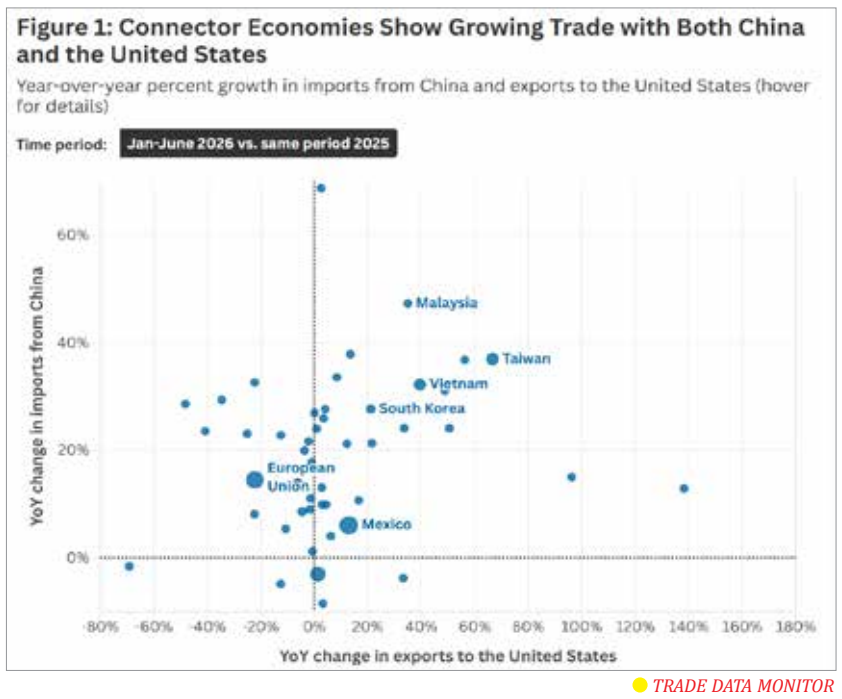
Building on prior research, CSIS analysis shows that for many economies singled out in the White House report, the overlap in imports from China and exports to the United States has not meaningfully grown. Figure 3 shows the percentage-point difference in overlapping Chinese imports and US-bound exports by identical HS-6 product code from 2024 to 2026, measured with the Finger-Kreinin Export Similarity Index. This analysis challenges the view that transshipment is the dominant way that Chinese-origin products end up in the United States. Some economies, such as Laos and Cambodia, do show a growing trade overlap, but several other economies show the opposite trend.

Mexico, Canada, and several Southeast Asian economies have particular scrutiny for their potential role in transshipment networks, and it is worth examining them more closely to assess these critiques. Of this group, US-bound exports from Cambodia and Laos, and to a lesser extent from Singapore and Indonesia, increasingly overlap with the product categories these countries import from China (see Figure 4). Particular areas of overlapping growth in these countries include photovoltaic cells and steel products — both of which have been identified by Commerce Department duty circumvention investigations.

More surprising, Malaysia, Mexico, Thailand, and Vietnam show no overall rise in their share of overlapping US and Chinese trade; Malaysia and Thailand even show a decline. The divergence appears to be driven largely by specialization within electronics supply chains, in which these countries import simple electronics components from China and export advanced electronics to the United States. Some transshipment is still occurring in these economies — as illustrated by the investigations cited above — but it does not appear to be growing as a share of these countries' trade.

Overlapping HS-6 baskets provide clues to where transshipment might be occurring, but identifying illegal or problematic activity requires more granular analysis. Many HS-6 codes cover broad baskets of goods, and products can often be substantially transformed without changing HS-6 codes. Conversely, different HS-6 codes might be used for the same product in different contexts or by different countries. Also, analysis of government-reported trade statistics cannot account for instances of misreported value, classification, or origin — which recent research suggests have spiked since new tariffs were levied on China in early 2025. Products as diverse as tungsten carbide, quartz, plastic bags, and batteries have all been found by investigations to have been involved in illicit rerouting schemes.

These examples are plainly fraudulent, but transshipment itself is not inherently illegal or undesirable from



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