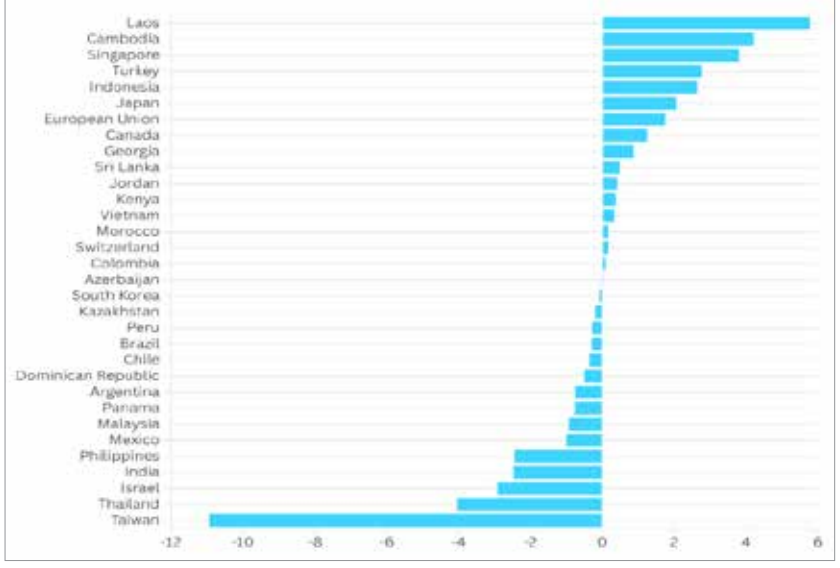
Figure 3: Some But Not All Scrutinized Countries Show Growing Overlap in U.S. and Chinese Trade

Percentage point change in overlap between baskets of imports from China and exports to the United States, year-ending June 2026 vs. June 2024. Negative or near-zero values are evidence against rising transshipment.



Note: Evaluates basket of overlaps in HS chapters 01–97, excluding chapter 27 (oil, gas, and coal).
● *TRADE DATA MONITOR*

Figure 4: Most Connector Economies Do Not Appear to Be Conducting Mass Rerouting—But Some Do

Percent of overlap between HS6 goods basket imported from China and goods basket exported to the United States, select economies (upward trend after 2025 indicates potential transshipment activity)



a policy perspective. Companies route goods through third countries for several legitimate reasons, including port access, logistics synergies, and inventory storage. Problematic behavior, by contrast, involves concealing or misrepresenting a product's true origin to evade regulation or obtain a lower tariff rate. Even then, trade practices may be undesirable from a policy perspective without necessarily being prohibited under current trade law. By branding all such undesirable activity as illegal, the White House report conflates entirely legitimate business actions with criminal behavior.

The evidence above suggests that transshipment activity as conventionally defined explains only a subset of Chinese-origin value added flowing into the United States. The remainder is likely explained by routing through more substantial transformation steps in a multistage supply chain. International Monetary Fund research illustrates how such trade reallocation can be driven by Chinese businesses investing abroad, foreign firms relocating from China overseas, and local firms in connector economies turning Chinese inputs into products for the US market. Other research reinforces this finding. A 2026 Federal Reserve study, for instance, found that Chinese production in Mexico accounted for about 14 points of Mexico's export gains after the 2018–19 tariffs, while direct transshipment accounted for less than 1 point.

Why have tariffs failed to reduce US imports of Chinese value added?

US tariffs and trade actions from 2025 onward have shifted supply chain contours but have not reduced underlying US-Chinese trade imbalances. Transshipment fraud explains part of this phenomenon but overlooks more fundamental macroeconomic determinants of the lopsided trade relationship. China's economic model accounts for much of the macroeconomic situation. As China's domestic economic performance continues to underwhelm, its leaders have remained committed to an export-oriented growth strategy that props up supply-side economic activity. An undervalued real exchange rate, tepid consumer spending, and entrenched state support for key technology sectors all contribute to China's widening trade surplus. Given these factors, blocked exports to the United States are unsurprisingly being diverted to other markets rather than absorbed domestically or curtailed by contracted production. Data from 2025 shows that China's total exports rose 5.5 percent even as its exports to the United States fell about 20 percent, with many displaced exports shifting to the European Union. Inverse factors contribute to the persistent US trade deficit. US domestic investment has risen on the back of a surge in AI infrastructure spending even as US household savings remain low and the public-sector fiscal deficit widens. This mismatch pulls capital in from overseas to finance the investment, widening net capital inflows and conversely depressing the trade balance. AI spending in particular has pushed imports higher, both from China directly — which dominates global manufacturing of key inputs such as electrical transformers and optical transceivers — and from connector economies that rely on Chinese supply chains for high-tech goods.

These macroeconomic fundamentals force the United States into the position of net importer and China into the position of net exporter, fueling imbalances in their bilateral relations. Such factors have not changed since Washington hiked trade barriers against Beijing in 2025. What has changed is the emergence of sizable tariff differentials — in other words, differences between US tariffs on Chinese products and those applied to other countries.

Historically, World Trade Organization most-favored-nation rates provided a broad ceiling to tariff rates that prevented the emergence of major tariff differentials. Now, many connector economies enjoy an average statutory tariff rate 10 to 20 percentage points lower than China's or more. This creates a powerful incentive for companies to relocate operations to lower-rate jurisdictions, even in instances when such shifts may not make much economic sense otherwise. Operating footprint changes in response to tariff differentials do not imply the existence of any central plan from the Chinese government to circumvent tariffs; such outcomes arise through decentralized profit-maximizing market logic, as several economists predicted shortly after earlier tariff announcements.

Implications for US policy

Curtailing the supply chain shifts described above puts the White House in the unenviable position of steering commercial activity against market incentives. The White House report concludes that countervailing market forces necessitate stronger statist intervention and a more extensive apparatus for policing trade activity, which it conceives of as an "AI Detective Border". The exact mechanisms of this new system remain unclear, but it will necessitate more government spending on customs enforcement, higher compliance costs for companies, and stronger demands for monitoring and policing from Washington's trading partners.

Yet this emphasis on compliance elides the more fundamental policy question of what should qualify as legitimate manufacturing operations in connector countries. Much of the White House's critique falls on supply chain behavior that is permissible under current trade agreements — e.g., "component integration," which US Customs and Border Protection (CBP) has often ruled constitutes substantial transformation. Moreover, the standards the White House report uses to critique alleged transshipment activity, including share of Chinese value in inputs and the presence of Chinese ownership or financing, have not historically been used to determine origin under substantial transformation rules. Enforcement action alone will have a limited effect on shaping supply chain behavior unless these policy questions are resolved.

Because rules of origin chiefly govern tariff applicability under trade agreements, changing them will likely involve trade talks with US commercial partners. This is no small feat. Rules of origin are complex legal standards that often are painstakingly negotiated product by product within a given trade agreement. The White House evidently anticipated such an undertaking when it included placeholder clauses in all 10 of the agreements on reciprocal trade finalized so far, which state that "if benefits of this Agreement are accruing substantially to third countries or third-country nationals, a Party may establish rules of origin necessary to achieve the Parties' intention for this Agreement" (or some variant of that language). As of early October 2026, there has been little motion on revisiting these clauses, but history suggests that the product of ongoing US-Mexico-Canada Agreement negotiations may provide a template for updated rules of origin that can be applied to certain goods under other trade agreements.

New demands on connector economies may not be limited to updated rules of origin. One way Washington could advance its CBP upgrading efforts is to call for its trading partners to collect and share more customs data. CBP has already taken steps to require more data sharing from companies themselves, per an advance notice of proposed rulemaking to implement Executive Order 14411, and government-to-government sharing would be an obvious extension of this approach. Washington may also push its trading partners to increase enforcement of transshipment fraud laws. Such efforts are already underway in many connector economies, but more state capacity could be warranted — particularly if new rules of origin require greater on-site scrutiny of manufacturing operations. Both measures would be costly to governments and industry actors in connector economies, and both may face political headwinds. Washington should be sensitive to these constraints when considering how to incentivize cooperation.

Though connector economies are the most likely target for US pressure to stop transshipment activity, the White House may also engage Beijing directly. China's own economic imbalances incentivize transshipment by pressuring Chinese exporters with thin profit margins to eke out overseas sales wherever possible — even when such activity may require falsifying customs information. One concrete measure to curb transshipment incentives would be to reduce refunds for China's value-added tax (VAT) on exported goods. Earlier in 2026, China's State Taxation Administration moved to reduce the previous 9 percent VAT refund offered on exported goods, particularly batteries and solar panels. This action could be expanded to other goods that are aggravating US transshipment concerns.

Agreeing with trade partners on substantive policy changes is challenging. Yet without these changes, efforts to achieve a more balanced economic relationship with China will fall short of their goals. The White House report misdiagnoses the challenges plaguing the US-China trade relationship, and its recommended enforcement actions are misaligned to resolve unintended consequences of US tariff differentials. A sustainable path forward involves more rigorous analysis of global trade patterns, reappraisal of the market-distorting effects of US tariff differentials, and frank dialogue with trade partners and industry leaders about the utility and feasibility of new trade rules.

Now, many connector economies enjoy an average statutory tariff rate 10 to 20 percentage points lower than China's or more. This creates a powerful incentive for companies to relocate operations to lower-rate jurisdictions, even in instances when such shifts may not make much economic sense otherwise. Operating footprint changes in response to tariff differentials do not imply the existence of any central plan from the Chinese government to circumvent tariffs. Curtailing the supply chain shifts described above puts the White House in the unenviable position of steering commercial activity against market incentives.



● *MOHD RASFAN/AFP*

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