Global Growth in Transition: Divergence, Policy Choices, and Risks

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[1]The views expressed here are strictly those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.

Introduction

The "Great Reallocation": No Longer "Looming", Alfaro & Chor *Jackson Hole, 2023*

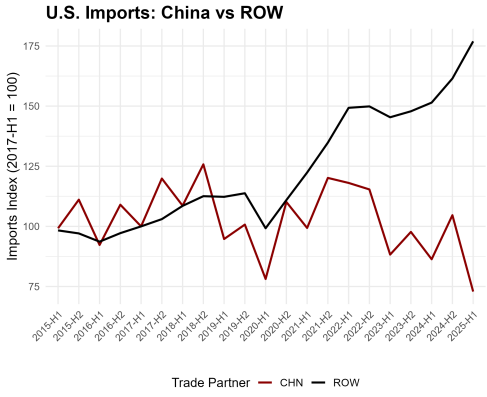
Update on the "Great Reallocation" in patterns of US import sourcing (Alfaro & Chor, *IMF's Jacques Pollack, 2025*):

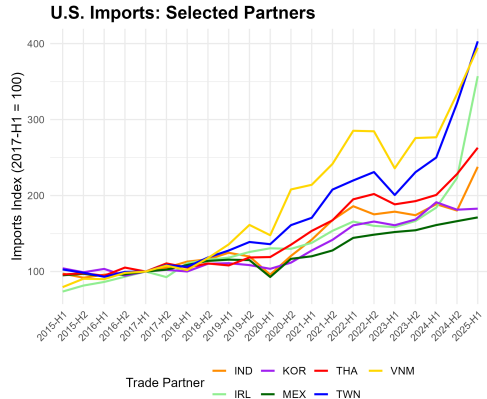
- **Trump 1.0 tariffs:** Enacted 2018-2019.
  - Around 20 percentage points of additional US tariffs on China.
  - Largely kept in place under the Biden administration (2020-2024).
  - **Document:** Short- to medium-run responses to these tariffs.

    More granular look at HS6 products. Heterogeneity in responses: across countries, timing, margins, product characteristics.
- **Trump 2.0 tariffs:** Announced on 2 April 2025.
  - "Liberation Day" tariffs ranged from 10%-50%. For China: 34%.
  - **Document:** Preliminary responses to these announcements (with necessary caveats).

Fact 1: Not Deglobalization Yet

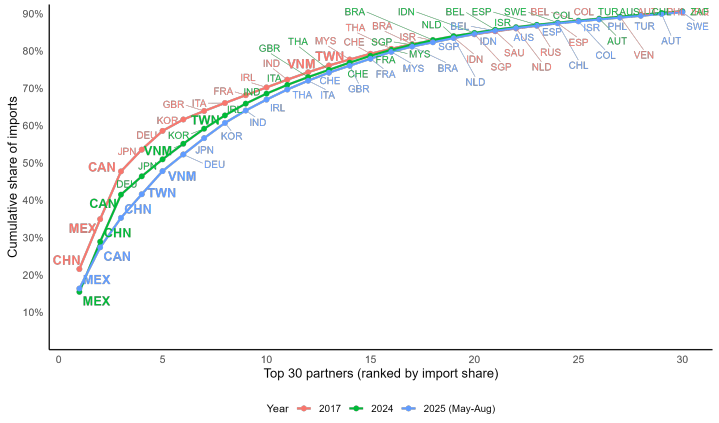
- US imports from China have slipped in levels, particularly since 2023.
- But this decoupling is specific to China. Imports from the rest of the world continued to rise, even into 2025H1.





Fact 2: Diversification, but Limited

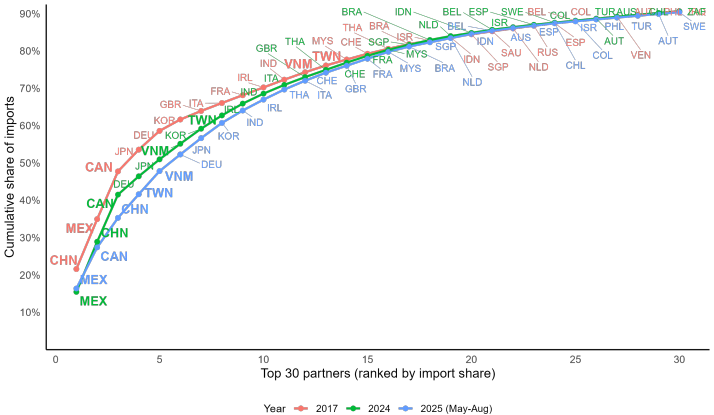
- Cumulative import share accounted for by the top import trade partners has fallen.
  - CHN no longer in the top spot; but MEX not as dominant as CHN was.



Fact 2: Diversification, but Limited

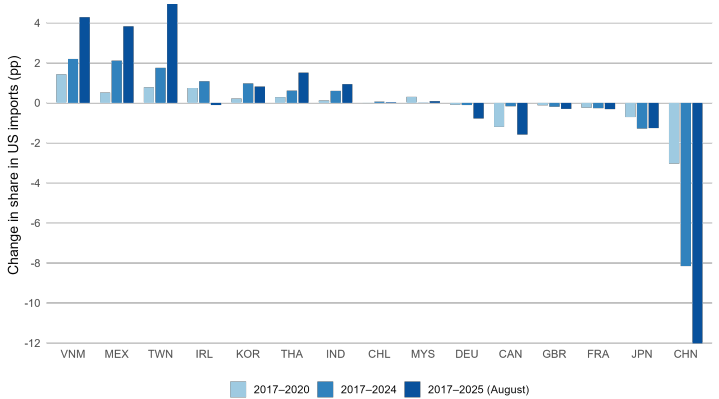
- A reshuffling among a stable cast of the top-20 import trade partners.
  - Only "newcomer" in the top-20: NLD
  - Limited entry by new actors outside of established industrial clusters

▸ By industries



Fact 3: Reallocation in Import Shares

- Since 2017, China has seen a large, persistent decline in its share of the US import market.
- Main gainers have been Vietnam, Mexico, and (more recently) Taiwan.



Fact 3: Reallocation in Import Shares

Remarks:

- Between 2017-2024: Top-ten products by fall in imports from CHN include: (i) electronics (e.g., routers and comms equipment, computer parts, laptops, mobile phones); (ii) furnishings (e.g., electric lamps, upholstered wood seats)
  - Notably: Section 301 tariffs on laptops and mobile phones was 0!
    $\Rightarrow$ Supply chains are moving out of China, even with no tariffs on the final good.

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  - Notably: Section 301 tariffs on laptops and mobile phones was 0!
    $\Rightarrow$ Supply chains are moving out of China, even with no tariffs on the final good.
- Overlap with products in which VNM saw the largest export growth: Is this rerouting?
  - Available evidence suggests that VNM's exports to the US appear to contain a significant amount of domestic value added (Iyoha et al. 2024, Freund 2025)
- MEX saw gains in a more diversified range of products, including: electronics, furnishings, auto parts, and vehicles.
- TWN's import share increase comes later in the sample period: AI investment boom?

Fact 4: Margins

Decomposition into Intensive vs Extensive Margins

Let X_{ct}/X_t be the share (by value) of US imports from trade partner c at time t. Then:

$$\begin{aligned}\frac{X_{c,t+h}}{X_{t+h}} - \frac{X_{ct}}{X_t} &= \frac{N_{c,t+h}\bar{x}_{c,t+h}}{N_{t+h}\bar{x}_{t+h}} - \frac{N_{ct}\bar{x}_{ct}}{N_t\bar{x}_t} \\ &= \underbrace{\left(\frac{N_{c,t+h}}{N_{t+h}} - \frac{N_{ct}}{N_t}\right)\frac{\frac{\bar{x}_{c,t+h}}{\bar{x}_{t+h}} + \frac{\bar{x}_{ct}}{\bar{x}_t}}{2}}_{\text{Extensive margin}} + \underbrace{\left(\frac{\bar{x}_{c,t+h}}{\bar{x}_{t+h}} - \frac{\bar{x}_{ct}}{\bar{x}_t}\right)\frac{\frac{N_{c,t+h}}{N_{t+h}} + \frac{N_{ct}}{N_t}}{2}}_{\text{Intensive margin}}.\end{aligned}$$

where:

- N_{ct}: Number of HS6 products imported, from c at time t
- $\bar{x}_{ct}$: Average imports per active HS6 product, from c at time t

Fact 4: Margins

Decomposition into Intensive vs Extensive Margins

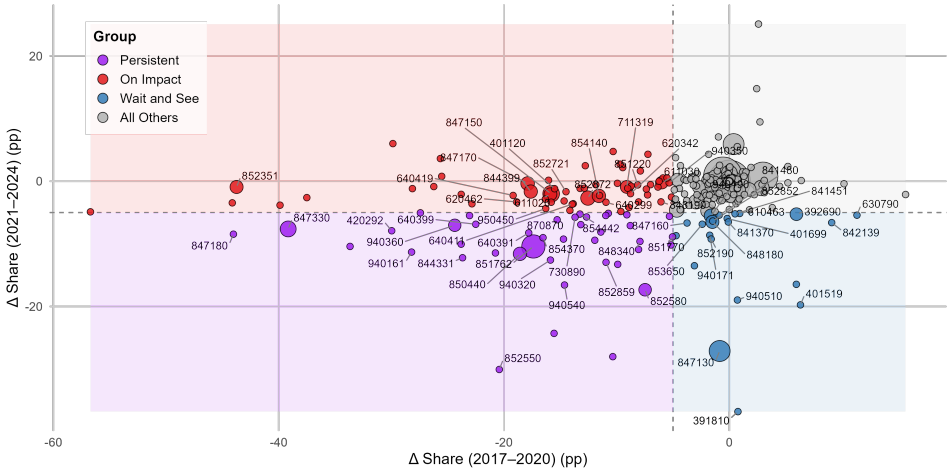
	Δ share (pp)	Extensive margin	Intensive margin
Period: 2017–2020			
China	-3.04	-0.14 (4.6%)	-2.90 (95.4%)
Vietnam	1.43	0.37 (26.2%)	1.05 (73.8%)
Mexico	0.51	0.19 (37.5%)	0.32 (62.5%)
Taiwan	0.78	-0.04 (-5.0%)	0.82 (105.0%)
Ireland	0.74	0.04 (5.0%)	0.71 (95.0%)
Korea, South	0.21	0.00 (0.8%)	0.21 (99.2%)
Thailand	0.28	0.01 (1.8%)	0.28 (98.2%)
India	0.12	0.06 (49.0%)	0.06 (51.0%)
Period: 2021–2024			
China	-4.40	-0.11 (2.5%)	-4.28 (97.5%)
Vietnam	0.57	0.27 (47.7%)	0.30 (52.3%)
Mexico	1.95	0.13 (6.8%)	1.82 (93.2%)
Taiwan	0.84	-0.12 (-14.3%)	0.96 (114.3%)
Ireland	0.55	-0.17 (-30.7%)	0.72 (130.7%)
Korea, South	0.67	0.06 (8.7%)	0.61 (91.3%)
Thailand	0.26	0.01 (4.9%)	0.25 (95.1%)
India	0.08	0.08 (92.0%)	0.01 (8.0%)

- Intensive margin responses accounted for the bulk of import share shifts.
- (Net) entry on the extensive margin played a prominent role in the gains by VNM, IND, and to a lesser extent, MEX.

  (Gains by other trade partners mostly through existing capabilities.)

Fact 5: Timing ("On Impact" vs "Wait and See")

Heterogeneity in timing of CHN import share responses: (i) "On Impact" (2017-2020); (ii) "Wait and See" (2021-2024); (iii) "Persistent" drop; (iv) All Others.



Fact 5: Timing ("On Impact" vs "Wait and See")

Dep. Var.:	(1) Δ CHN share (pp) 2017-2020	(2) Δ CHN share (pp) 2021-2024	(3) Δ CHN share (pp) Mar-Jul 2025
Addl. CHN tariff (wtd.)	-0.003***	0.000	0.003***
	[0.001]	[0.001]	[0.001]
Capital intensity	-0.009	-0.005	-0.012***
	[0.013]	[0.008]	[0.003]
Skill intensity	-0.066***	-0.029***	-0.015**
	[0.021]	[0.010]	[0.007]
Quality differentiation	0.001	-0.005	-0.006
	[0.005]	[0.004]	[0.004]
Contracting intensity	0.017	-0.047*	-0.057***
	[0.072]	[0.025]	[0.022]
Relationship stickiness	-0.010	-0.032***	-0.009**
	[0.011]	[0.010]	[0.005]
Upstreamness	0.025**	0.014**	0.009**
	[0.010]	[0.006]	[0.004]
Δ CHN import share (pp), 2015-2017	-0.151**	-0.072	0.014
	[0.070]	[0.055]	[0.043]
Δ CHN import share (pp), 2017-2020		-0.055	-0.043
		[0.064]	[0.035]
Δ CHN import share (pp), 2021-2014			0.191*
			[0.103]
Observations	4,220	4,220	3,864
R-squared	0.293	0.213	0.284
In-sample mean	-0.0401	-0.0178	-0.0171
In-sample sd	0.142	0.134	0.163
HS 2-digit FE	Y	Y	Y

- Since 2017, steady shift away from China for skill-intensive products.
- Starting in 2021, this reallocation spread to goods with higher sunk costs for forming supply chain links: contract-intensive, relationship-sticky products. ("Wait and see" phase over).

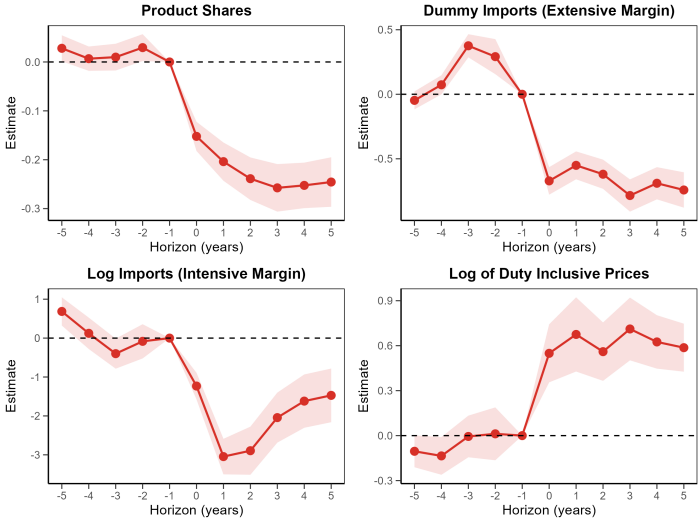
Local Projections: Specification

$$y_{p,t+h}^{i\to US} - y_{p,t}^{i\to US} = \beta_{\tau}^{h} \Delta \ln\left(1 + \tau_{p,t}^{CHN\to US}\right) + \delta_P + \delta_t + \varepsilon_{p,t}.$$

- $y_{p,t}^{i\to US}$:
  - (i) import share: i's share in US imports;
  - (ii) extensive margin: indicator variable;
  - (iii) intensive margin: log imports per active product;
  - (iv) duty-inclusive unit values.
- $\tau_{p,t}^{CHN\to US}$: Additional China tariff imposed by the US on product p at time t
- β_{τ}^{h}: Cumulative response at horizon h to the China tariff shock
  Note: $t = 0$ is 2018-2019.
- δ_P: HS2 fixed effects; δ_t: time fixed effects

Local Projection Responses

China's Imports in the US (2013-2024)

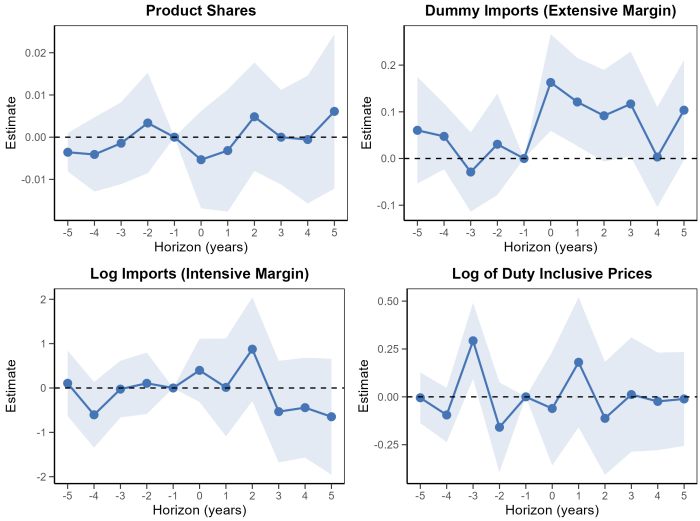


Following US tariffs on CHN:

- Big reaction of CHN import share, on both intensive and extensive margins
- At its peak ($h = 3$), implies around a 5pp decrease in import share of the typical tariffed product
- Pass-through ≈ 0.71. (Amiti et al. 2019, 2020; Fajgelbaum et al. 2019; Cavallo et al. 2021)

Local Projection Responses

Vietnam's Imports in the US (2013-2024)

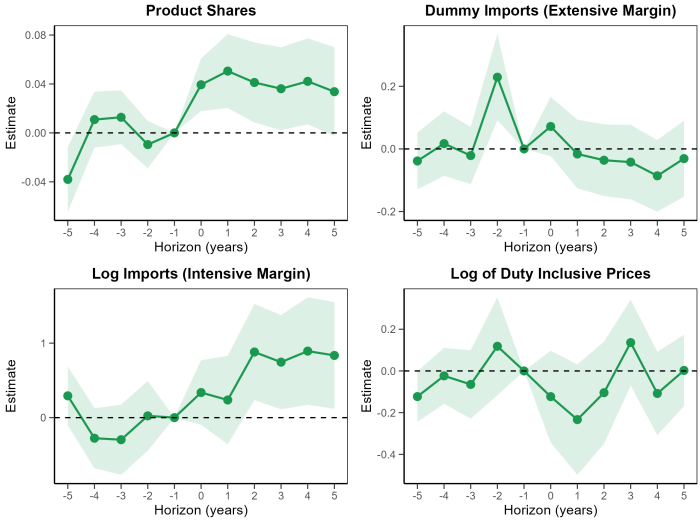


Following US tariffs on CHN:

- Response of Vietnam's exports to the US mainly on the extensive margin.
- Significant increases in import share seen among products with low capital intensity Go

Local Projection Responses

Mexico's Imports in the US (2013-2024)



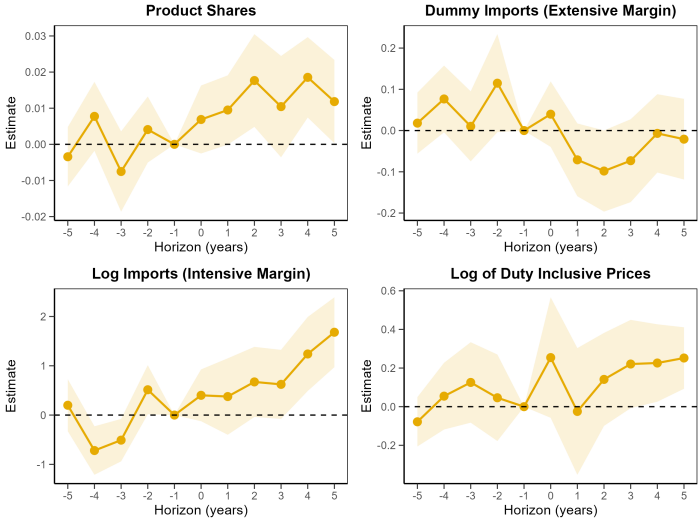
Following US tariffs on CHN:

- Intensive margin response of Mexico's exports to the US, later in the sample period (unlike VNM)
- Particularly products with above-median contracting intensity

▸ Go

Local Projection Responses

Taiwan's Imports in the US (2013-2024)



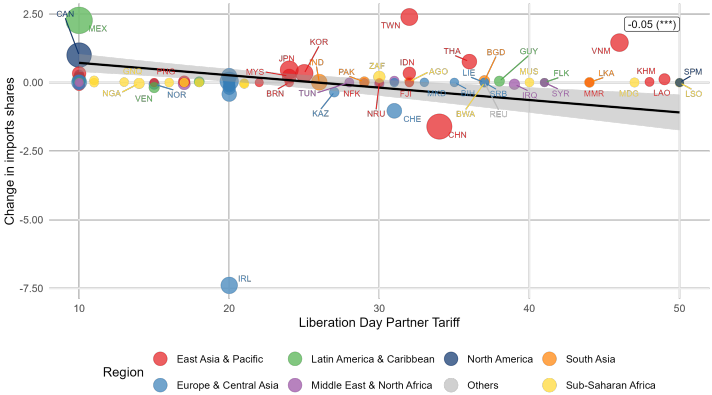
Following US tariffs on CHN:

- Taiwan's import share in the US rises toward the end of the window
- Driven by intensive margin rise in computer-related products, particularly those with above-median relationship stickiness
  ▸ Go
- Accompanying increase in unit values

Fact 6: Post-Liberation Day

- Reallocation away from China accelerated in the months after April 2025, shifting toward trade partners (esp., CAN and MEX) who saw lower Liberation Day tariffs.
- Dramatic unwinding in China's import share back to 2001 levels ($\approx 9\%$).

Figure: Changes in US Imports by Major Trade Partners (March to July 2025)



Fact 6: Post-Liberation Day: Back to 2001

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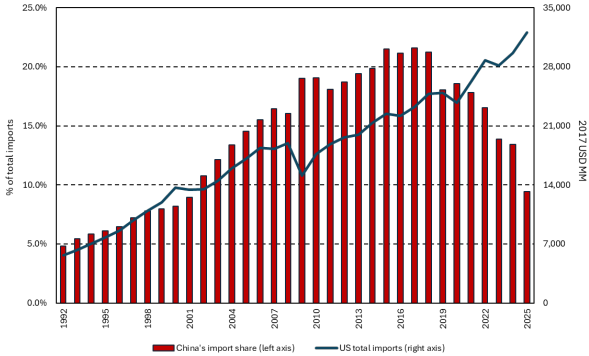
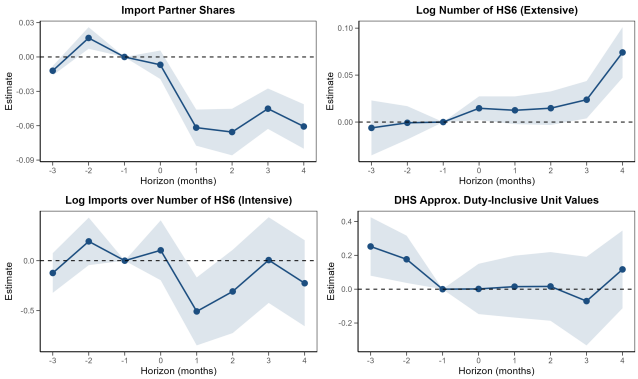
Figure: US: Total Real Imports and Imports Share from China (1992-Aug 2025)



Fact 6: Post-Liberation Day (cont.)

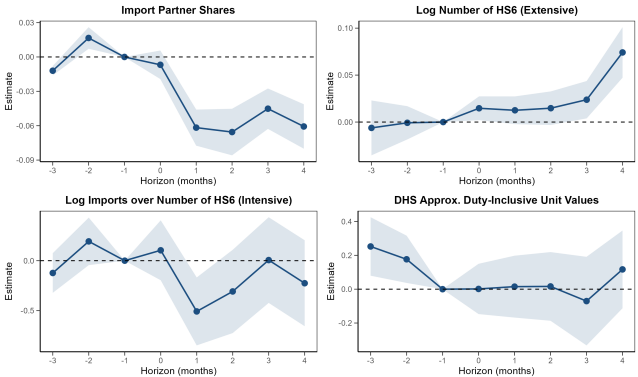
Figure: Local Projection Responses: Cross-Country (Mar-Aug 2025)



- Faster reaction in US import shares compared to the Trump 1.0 tariffs
- . . . even though not all Liberation Day tariffs have been enacted

Fact 6: Post-Liberation Day (cont.)

Figure: Local Projection Responses: Cross-Country (Mar-Aug 2025)



- Faster reaction in US import shares compared to the Trump 1.0 tariffs
- . . . even though not all Liberation Day tariffs have been enacted
- Despite uncertainty about details, no uncertainty about protectionist intent
- Suggests firms had incurred sunk costs during earlier phases of the trade war, to search out and plan alternative sourcing and supply chain arrangements, that could be activated at short notice.

Concluding Thoughts

What Lies Ahead with the Great Reallocation?

A full circle moment? With some takeaway messages...

- Surprising resilience in US supply chains, even under heavy policy and geopolitical strain
  - Decoupling specific to China (Fact 1); Diversification (Fact 2)
  - Growth in imports from ROW (Fact 1) means tariffs per se not likely to close the US trade deficit (Obstfeld 2025; Itskhoki and Mukhin 2025)
  - But clear centrifugal forces: shifts out of China in contract-intensive, relationship-sticky goods (Fact 5); persistence (Fact 3) and acceleration after Liberation Day (Fact 6)
- Reallocation can in principle present opportunities for other trade partners, but extent to which this is occurring appears limited
  - Shifts largely on the intensive margin (Fact 4), and toward a stable cast of established trade partners and industrial clusters (Fact 2)

Concluding Thoughts
What Lies Ahead with the Great Reallocation?

A full circle moment? With some takeaway messages...

- Can global trade bounce back?
  - Will largely depend on what features of US trade policy endure, even outliving the second Trump administration
  - Conjecture: Some forms of protection against China likely to persist.

    Given as: concerns about trading with China quite entrenched, even among the US general public (Alfaro et al. 2023)

- Can the rules-based multilateral trading system bounce back?
  - US' willingness to take on a leadership role in such a system vs. direct bilateral dealings as the "new normal"

Appendix

Fact 2: Cumulative Share of US Imports by Top Trade Partners

For key industry clusters

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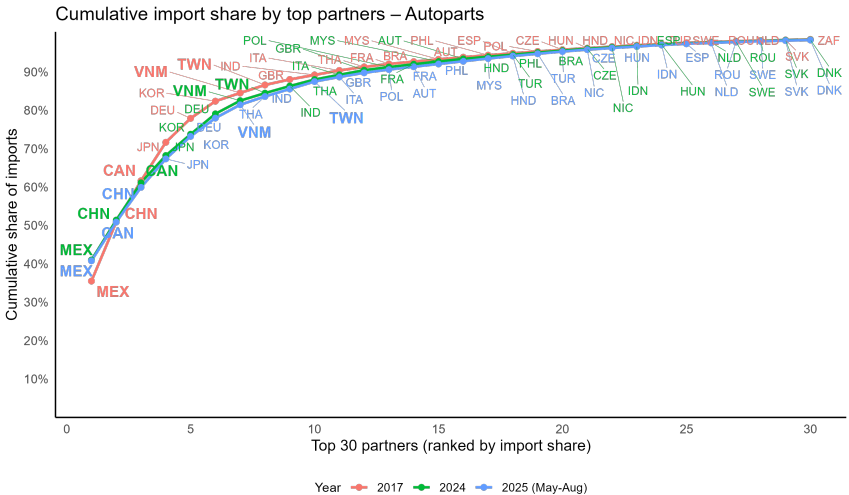

Fact 2: Cumulative Share of US Imports by Top Trade Partners

For key industry clusters

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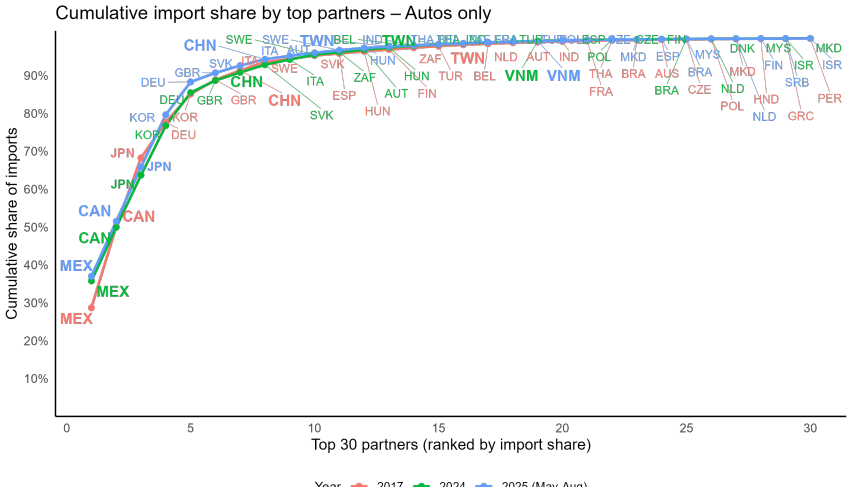

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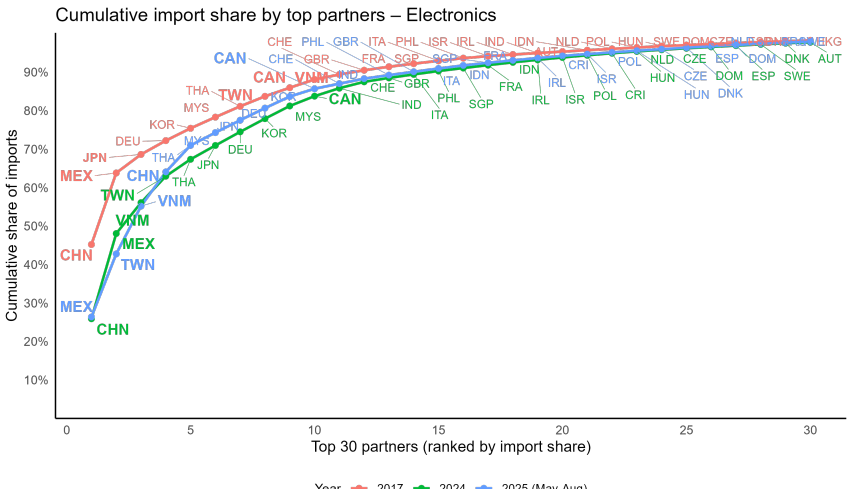

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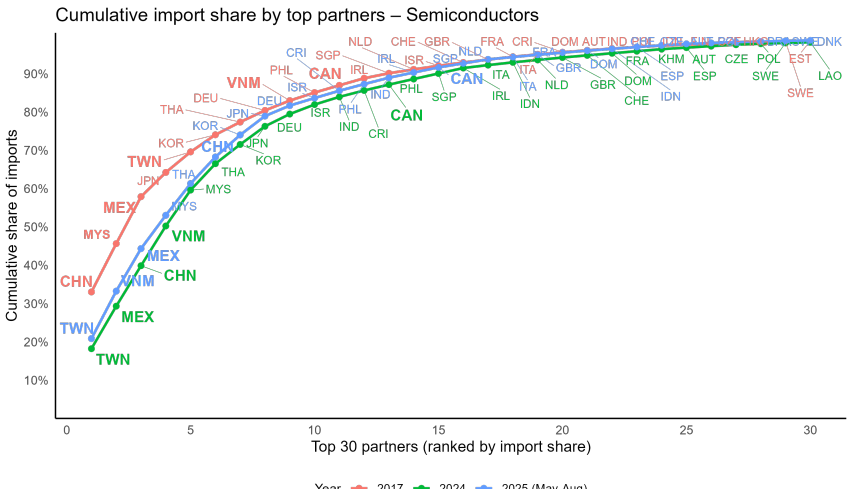

Local Projection Responses

Vietnam's Imports in the US (2013-2024): By Capital Intensity

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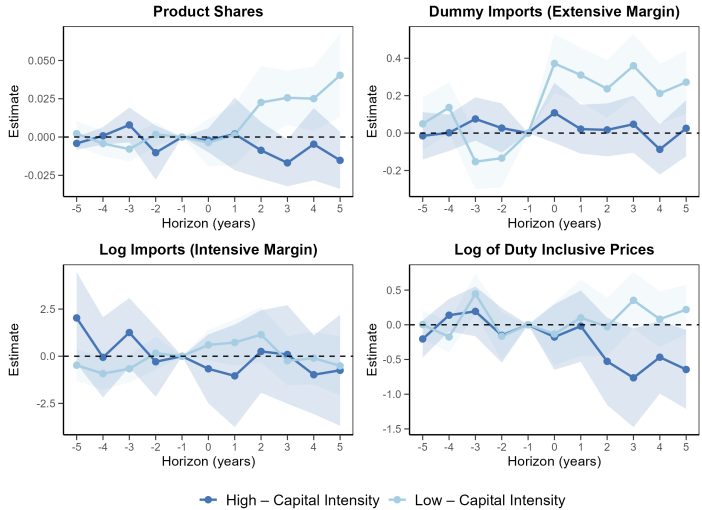

Local Projection Responses

Mexico's Imports in the US (2013-2024): By Contracting Intensity

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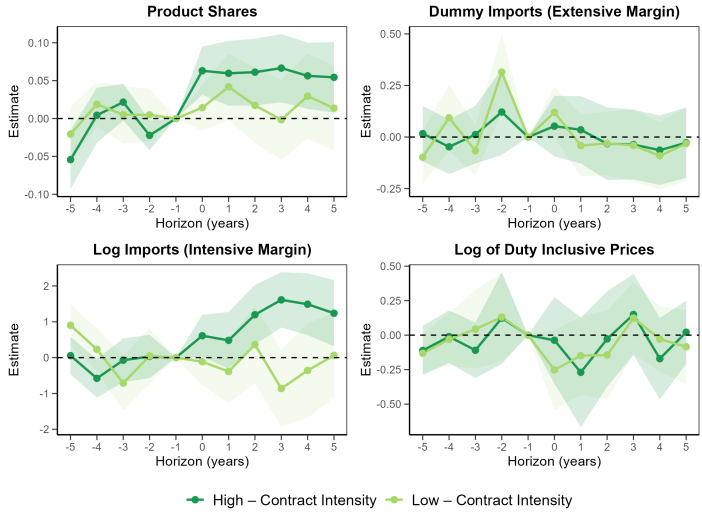

Local Projection Responses

Taiwan's Imports in the US (2013-2024): By Relationship Stickiness

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