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INTERNATIONAL ECONOMICS

Made with China: The limits of US trade decoupling

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Geopolitics and Global Value Chains

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US tariffs have reduced *direct* exports from China

- Until SCOTUS ruling, US tariffs on China: 2018-19 tariffs PLUS an additional 20% on all goods. After SCOTUS ruling, weighted average of ~34%
- Tariffs have reduced US reliance on *direct* imports from China
 - 2017: 22% of US goods imports came from China directly.
 - 2025: 9% of US goods imports came from China directly
- How did this rapid supply rearrangement happen? Multinational adaptation, Chinese outward FDI, and indigenous capabilities → **using Chinese content in third countries.**
- **Given these indirect flows, how much decoupling has actually occurred?**

Gross Exports: total value of goods and services as they cross the border.

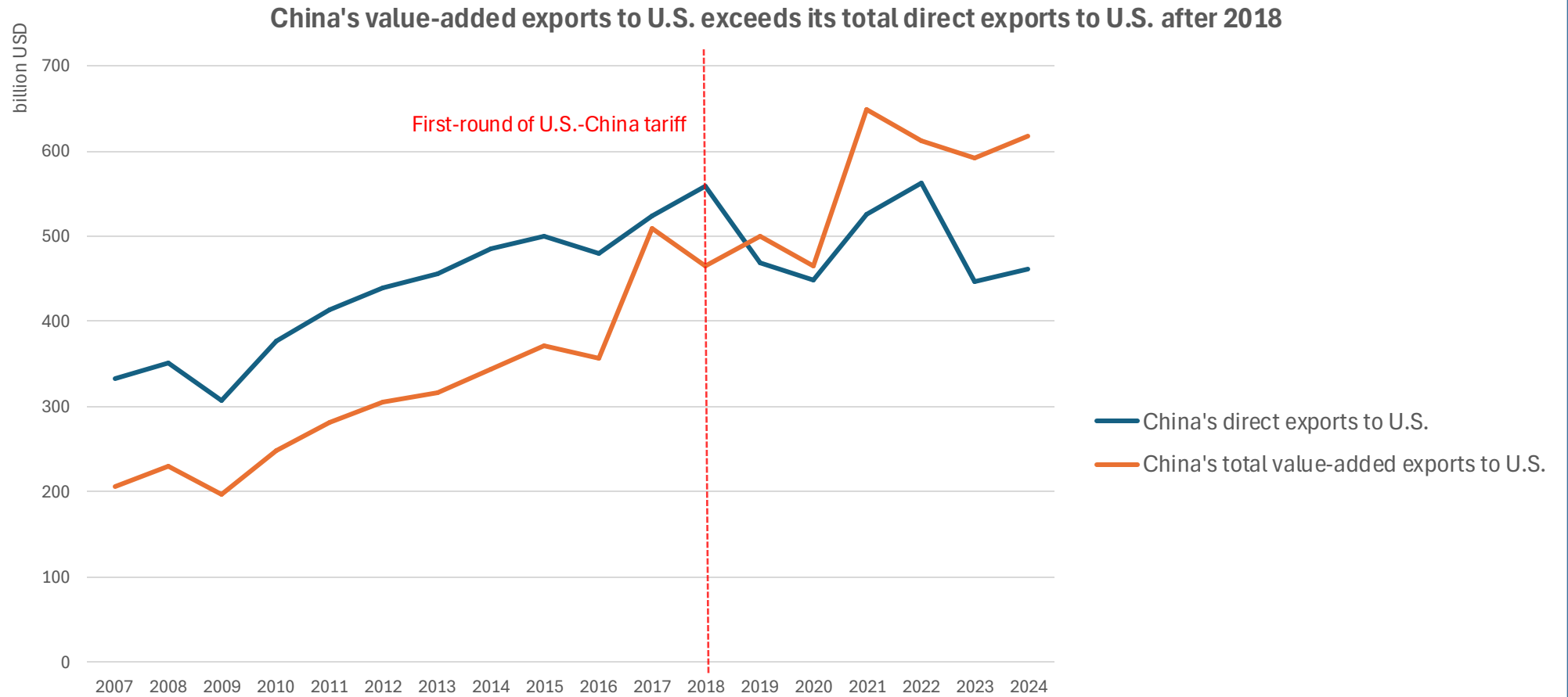
- Gross exports do not distinguish between domestic value and foreign value embedded in exports (e.g., China exports a laptop with a Korean memory chip inside).

Value-added Exports: measure only the value created domestically

- Value-added exports net out imported intermediates used domestically and add in Chinese content used in exports from other countries.
- **Value-added exports are a better measure of dependence on Chinese suppliers than gross exports.**

Typically, gross export value exceeds value-added export value.

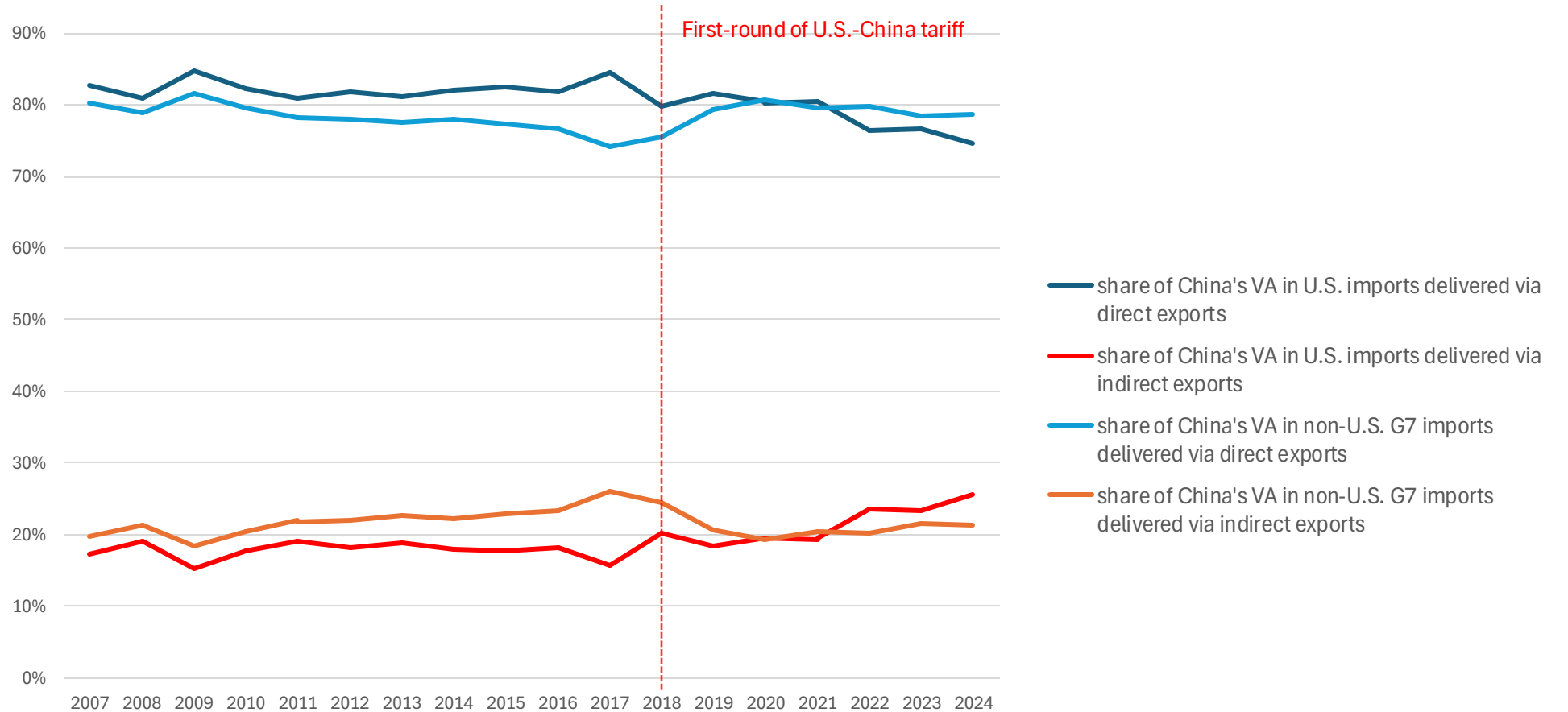
Value-added exports are 34% higher than direct exports in 2024. This gap is growing. Before 2017, value-added exports were 30 to 40% lower than direct exports.



Source: Authors' calculations using ADB MRIO tables and Bureau of Economic Analysis data. China's total value-added exports include both goods and services. China's direct exports to the United States also include both goods and services, based on U.S. import data from the Bureau of Economic Analysis.

In 2017, 16% of Chinese value in U.S. imports came indirectly. By 2024, 25% of Chinese value came via third countries. This pattern does not appear in the rest of the G7.

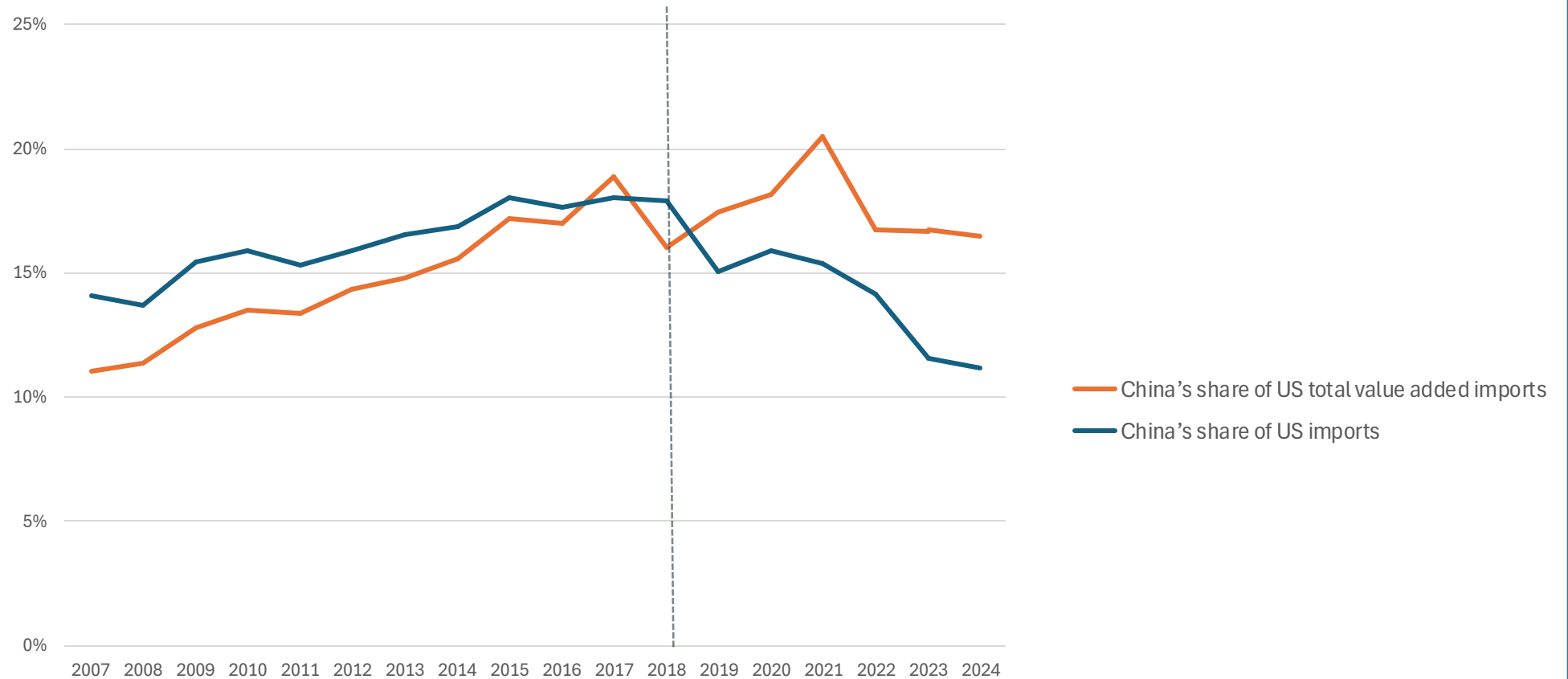
US imports from China have shifted to indirect channels but it's not happening in the rest of the G7



Source: Authors' calculations using ADB MRIO tables. MRIO trade includes both goods and services.

Value-Added Import Shares Show Less Decoupling Than Direct Import Shares

While direct imports from China fell 7 percentage points from 2017 to 2024, when measured in value added, China's share fell only 2 percentage points.



Source: Authors' calculations using ADB MRIO tables and Bureau of Economic Analysis data. China's share of total U.S. value-added imports is calculated as value added originating in China divided by total foreign value added embodied in U.S. imports. China's share of total U.S. imports is calculated as U.S. imports from China divided by total U.S. imports from the world, including goods and services trade, using data from the Bureau of Economic Analysis.

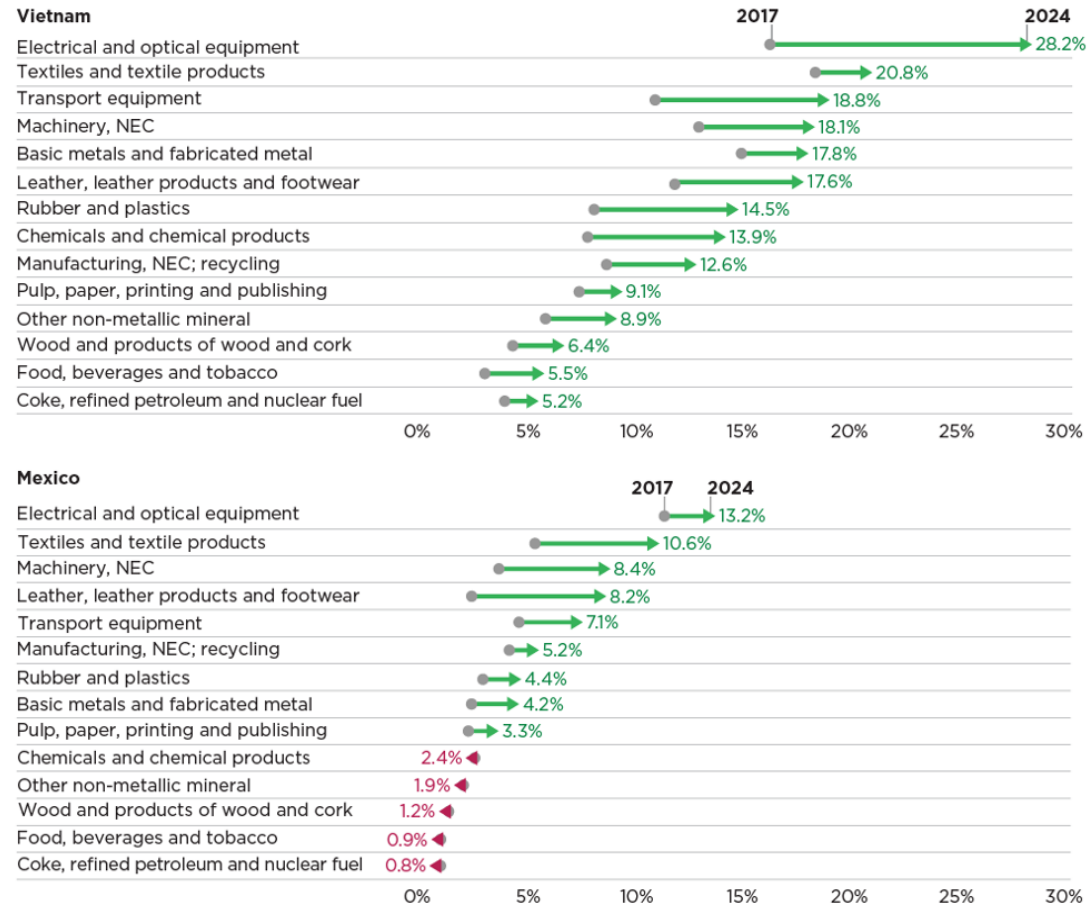
Mexico and Vietnam are main pathways



Source: Authors' calculations using ADB MRIO tables

Mexico and Vietnam play different roles in global value chains. Electrical and optical equipment and textiles are major export sectors to the US for both, but within these broad sectors Vietnamese exports include a higher share of Chinese value than Mexican exports.

China's value added as a share of Vietnam's and Mexico's manufacturing exports to US, 2017 vs 2024



NEC = not elsewhere classified

Source: Authors' calculations using ADB MRIO tables.

Implications of the results

Decoupling from China is happening more slowly than seen in gross trade.

US supply chains have become longer and almost surely more costly.

Adjustment of US supply chains not shared with other G7 countries.

Removing China from US supply chains not as simple as levying broad tariffs.

Where there are shared interests, the US must prioritize and target.



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The Limits of US-China Decoupling

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