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INTERNATIONAL ECONOMICS

How US Reciprocal Trade Agreements Build a Framework for Indirect Decoupling from China

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Geopolitics and global value chains: Implications for trade policy
and development in Asia

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What are Agreements on Reciprocal Trade (ARTs)?

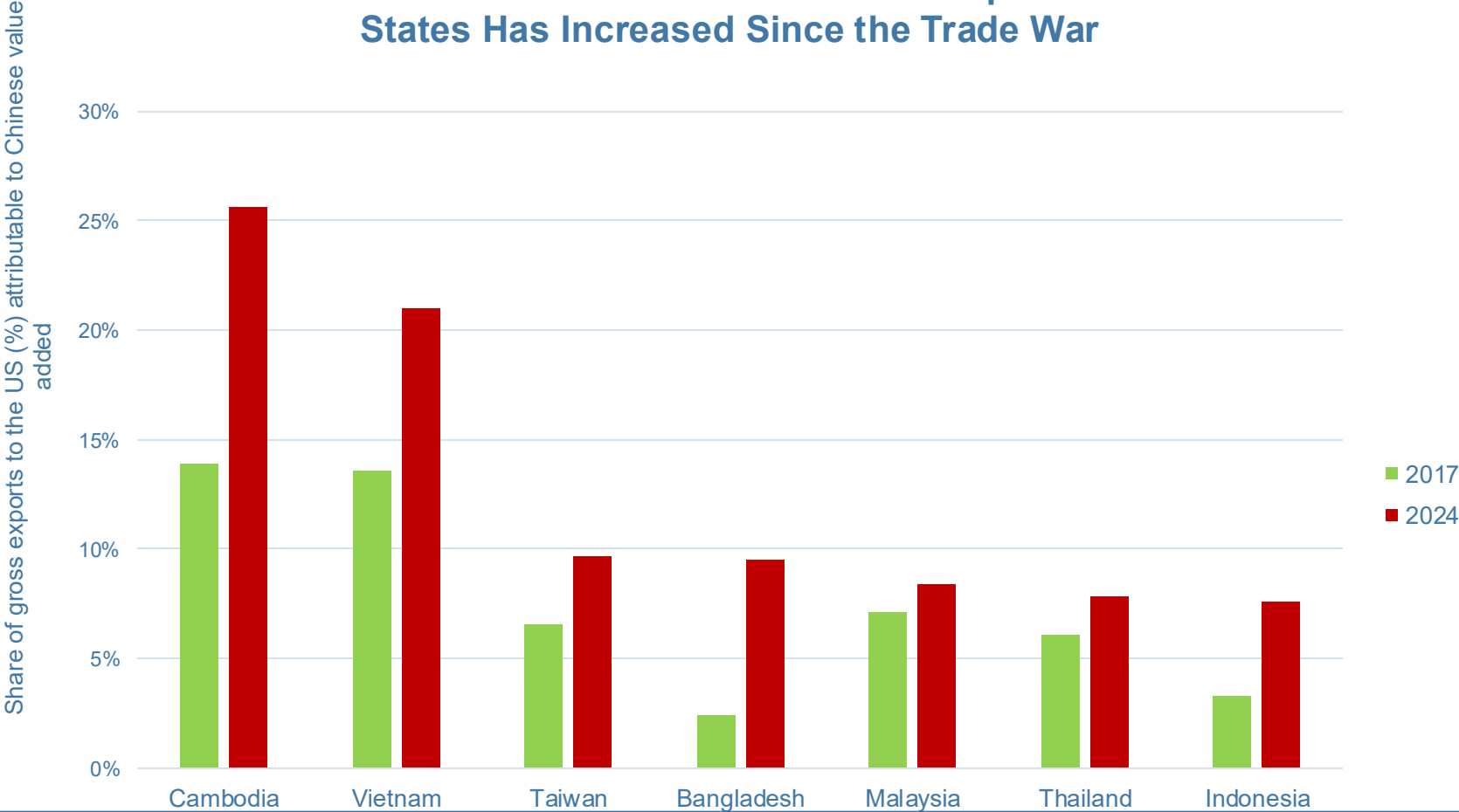
- US bilateral trade deals negotiated under reciprocal tariff pressure
- Nine signed partners as of May 2026, including five in Asia
- Go beyond market access to include commitments on trade, technology, investment, and supply-chain commitments
- Provide new legal tools for pushing partners away from China and advancing US indirect decoupling

Why this matters: Chinese value added reaches the US through Asian partners

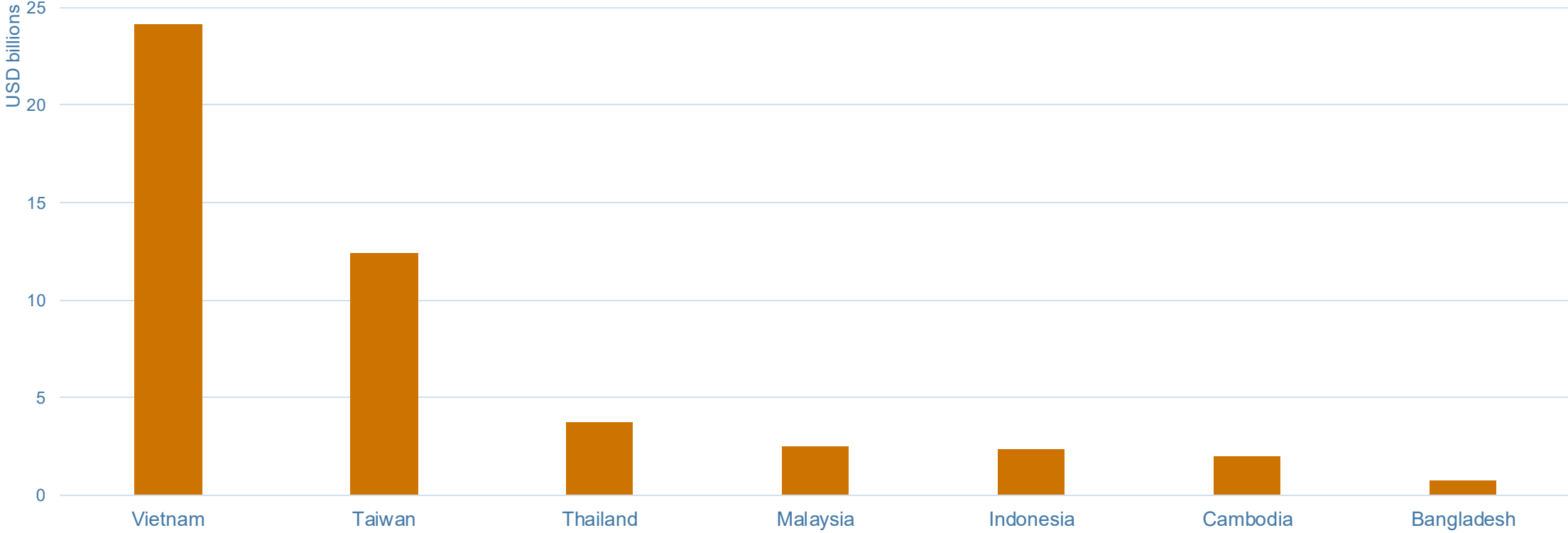
	2017	2024
Cambodia	14%	26%
Vietnam	14%	21%
Taiwan	7%	10%
Bangladesh	2%	10%
Malaysia	7%	8%
Thailand	6%	8%
Indonesia	3%	8%

Source: Authors' calculations using ADB MRIO tables

Chinese Value Added in Asian ART Partners' Exports to the United States Has Increased Since the Trade War



Chinese value added in selected Asian countries' exports to the US in 2024, current USD billions



Source: authors' calculations using ADB MRIO

How ARTs respond: policing indirect channels

- **1. Forced-labor import exclusions**
 - ART partners agree to prohibit imports of goods made with forced or compulsory labor.
 - Most agreements link partner-country enforcement to US determinations under Section 307 of the Tariff Act of 1930 (19 U.S.C. § 1307), the legal basis for the UFLPA.
- **2. Coordinated restrictions on third-country trade**
 - Partners are required to adopt restrictions with equivalent effect when the United States imposes trade measures on a third country.
 - In practice, these provisions are overwhelmingly China-facing, covering tools such as Section 301 tariffs, antidumping and countervailing duties, forced-labor import bans, and transaction prohibitions linked to the SDN List.
- **3. Third-country-controlled firms**
 - Partners are required to address unfair practices by third-country-controlled firms operating in their jurisdiction.
 - Target China's FDI and Chinese firms in global production networks.

How ARTs respond: policing indirect channels

- **4. Export control alignment**

- The strongest national security mechanism in the ARTs.
- Taiwan stands out for commitments on FDPR alignment, anti-circumvention, catch-all controls, and research security. Anti-circumvention is addressed here, not in "rules of origin" as in other Southeast Asian ARTs.

- **5. Investment security**

- Requires screening of inbound and, in some cases, outbound investment.
- Extends the logic of US FIRRMA to investment linked to Chinese firms and sensitive sectors.

- **6. Rules of origin**

- Southeast Asian countries go further by requiring action against transshipment and other forms of duty evasion.
- Target China's rerouting of trade through third countries.

- **7. Penalty clauses**

- US may terminate the agreement if partner signs a new trade deal with a third country that undermines US interests.
- In practice, this language is aimed primarily at China ("covered nation" or "country of concern")

Some agreements impose more demanding obligations while others contain narrower or more limited language.

- Taiwan faces especially extensive commitments on export control alignment.
- Argentina and El Salvador do not appear to include penalty clauses.
- Indonesia, Cambodia, and Malaysia are specifically required to combat transshipment.

The US has negotiated trade deals to push countries away from China to varying degrees

Levels of stringency of US Agreements on Reciprocal Trade (ARTs) commitments across partner countries

← Most stringent ————— Least stringent →

Prohibit/Terminate
 Restrict/Combat
 Maintain/Adopt/Establish/Address/Regulate
 Review/Cooperate/Provide information

Mechanism	Argentina	Bangladesh	Cambodia	Ecuador	El Salvador	Guatemala	Indonesia	Malaysia	Taiwan
Forced-labor import exclusions	Prohibit/Terminate	Prohibit/Terminate	Prohibit/Terminate	Prohibit/Terminate	Prohibit/Terminate	Prohibit/Terminate	Prohibit/Terminate	Prohibit/Terminate	Prohibit/Terminate
Coordinated restrictions on third-country trade	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate
Third-country-controlled firms	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate
Export control alignment	Maintain/Adopt/Establish/Address/Regulate	Restrict/Combat	Restrict/Combat	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Restrict/Combat	Restrict/Combat	Restrict/Combat	Prohibit/Terminate
Investment security	Review/Cooperate/Provide information	Review/Cooperate/Provide information	Review/Cooperate/Provide information	Review/Cooperate/Provide information	Review/Cooperate/Provide information	Review/Cooperate/Provide information	Review/Cooperate/Provide information	Review/Cooperate/Provide information	Review/Cooperate/Provide information
Rules of Origin	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Restrict/Combat	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Maintain/Adopt/Establish/Address/Regulate	Restrict/Combat	Restrict/Combat	Maintain/Adopt/Establish/Address/Regulate
Penalty clauses	Review/Cooperate/Provide information	Prohibit/Terminate	Prohibit/Terminate	Prohibit/Terminate	Review/Cooperate/Provide information	Prohibit/Terminate	Prohibit/Terminate	Prohibit/Terminate	Prohibit/Terminate

The deal of the ART may be hard to sustain

- China remains deeply embedded in many Asian production networks and may be the only supplier of certain parts and components.
- Partners are placed in a difficult bind: meet US demands and risk Chinese punitive measures or defy the United States and endure a snapback of the "reciprocal" tariff rates.
- The legal and enforcement basis for ARTs may also prove fragile
 - IEEPA-based authority is struck down, Washington may need to rely more heavily on other trade tools, including Section 301. The actual enforcement mechanism is not yet clear.



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The Deal of the Art

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