

China's Bermuda Triangle?

Chief economist's comment

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- When looking at trade between two countries, the value of exports should be lower than the value of imports (because in between the two are costs for shipping and insurance).
- In recent years, the value of China's exports to the US have exceeded the value of US imports from China. This anomaly suggests up to 30% of China's exports to the US are disappearing before they arrive.
- The anomaly is not evenly distributed across sectors, and it did not start at the same time for all sectors. The pattern suggests that it is closely linked to trade tariffs.
- Trade tariffs do not affect the value of US imports (as the tax is paid by US consumers after the imports arrive and their value has been assessed). However, taxing trade may encourage rerouting of supply chains. What China considers an export to the US may be considered an import from somewhere else in the US data. The patterns in the data anomaly support this scenario.
- This means that in assessing the economic impact of any future trade taxes on China (or other countries), US import data is probably a more reliable measure than other countries' export data.
- In calculating the damage from trade taxes, it does not matter who is *actually* selling to the US. What matters is who the US *thinks* they are buying from.



US President-elect Trump has stated an intention to aggressively tax US consumers of goods from China. Trade tariffs have been a recurring theme of Trump's social media posts in recent weeks. But there is a specific problem in calculating the economic impact of such a tax. In recent years, a large amount of China's exports to the US seem to go missing somewhere on their journey across the Pacific. When looking at Sino-US trade, the value of China's exports to the US should be less than the value of US imports

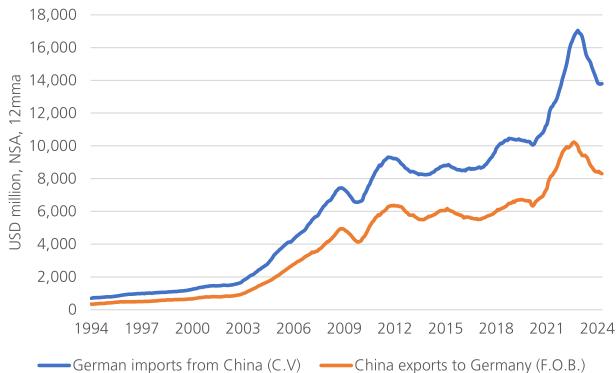
from China. This is true for any bilateral trade relationship. Export numbers record the value of the goods exported when sitting on a ship about to leave a country. Import numbers record the value of goods when they arrive in a country. In between the two is the cost of transporting and insuring those goods, so the import values will automatically be higher than the export values. Critically, import values do not include any trade taxes—those are paid by domestic consumers after the goods have arrived.

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If we look at China's exports to Europe, or US exports to China, this is exactly what we find. The value of exports and imports move in sync (fairly obviously), with the value of imports somewhat higher than the value of exports.

China's export value to Germany, less than German import value

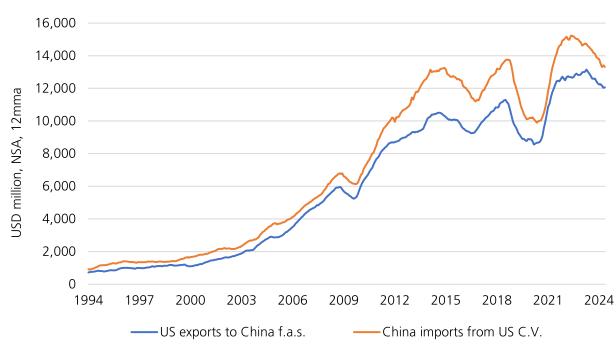
12-month moving average of data from China and Germany



Source: UBS calculations, Haver

US export value to China, less than China import value

12-month moving average of data from US and China

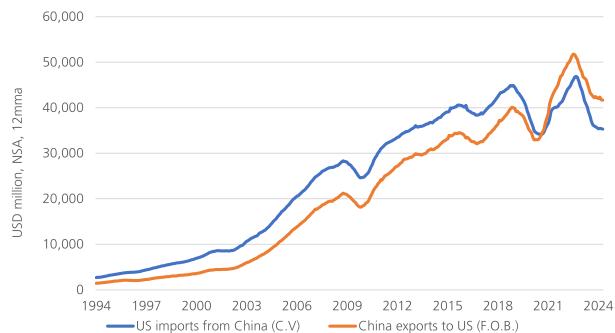


Source: UBS calculations, Haver

This used to be true for China's exports to the United States. But in recent years, China's customs data has shown China to be exporting more than the US is importing. The shift is not small—China claims to export almost 19% more than the US claims to be importing. Even that large gap understates the problem—China's export values should be about 15% lower than US import values, given transport costs. Therefore, this change in the data either overstates China's exports or understates US imports by over 30%.

The anomaly – China suddenly sells more than the US is buying

12-month moving average of data from China and the US



Source: UBS calculations, Haver

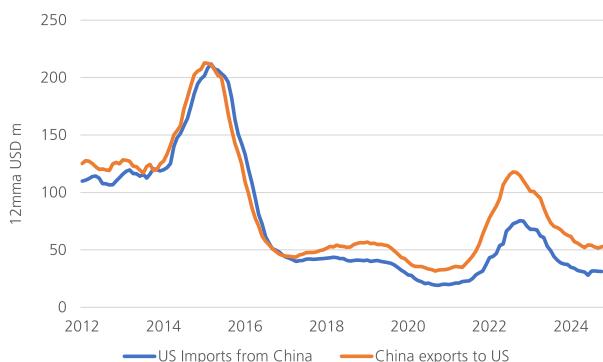
Unless 30% of ships are disappearing in some kind of mid-Pacific equivalent of the Bermuda triangle, this suggests mismeasurement of the data. This anomaly is something that only happens with China's exports to the US (not with US exports to China, or China's trade with other countries). It also does not apply evenly across all sectors—furniture, machinery and equipment, electrical equipment, and plastics are areas where significant anomalies take place.

China's export figures cited here are the customs data, and are no longer used to calculate China's GDP. Since 2020, China has used a different data set with a revised methodology, which is inclined to overestimate both export and import numbers. (Import numbers are likely distorted more, reducing the reported trade surplus.)¹. The anomaly in the customs data does not necessarily matter to China's GDP calculation, but it will matter to the real world economic impact.

Tariffs do not *directly* affect the values measured by the data, because US consumers pay trade taxes on the value of imported goods (i.e., after the import data cited here has been calculated). However, rerouting supply chains in response to this might have led to this anomaly. Goods from China that are routed via Vietnam or Mexico (for example) may be classed as exports to the US by China, but as imports from Vietnam or Mexico by the US.

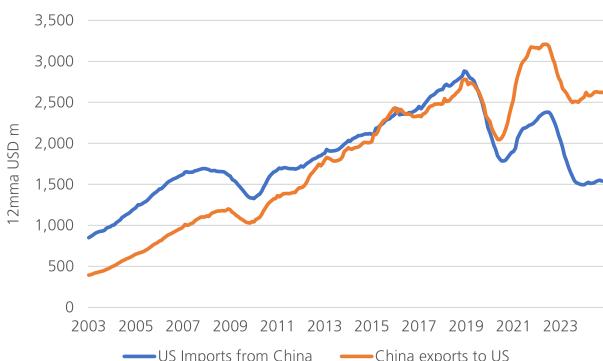
Sector-based trade data supports the idea that rerouting supply chains is creating these anomalies. China's exports of iron and steel have exceeded US imports (taking a 12-month moving average) since 2017, following the US imposition of tariffs in 2016. Furniture imports into the US have one of the largest anomalies today, but this only emerged from 2019 (after tariffs of up to 262.18% were imposed in 2018).

Supply chain rerouting? – China selling more iron and steel than the US is buying
12-month moving average of data from China and the US; **tariffs 2016**



Source: UBS calculations, Haver

Supply chain rerouting? – China selling more furniture than the US is buying
12-month moving average of data from China and the US; **tariffs 2018**



Source: UBS calculations, Haver

If these trade patterns are caused by supply chain rerouting, it emphasizes how quickly selective tariffs can decay. The gap between China's exports and US imports has widened over time, suggesting that more and more of the bilateral trade is being rerouted to avoid the tariffs.

Apparent supply rerouting increases over time
The trade anomaly (US import value less China export value) as a percentage of US imports from China



Source: UBS calculations, Haver

Furthermore, when considering the impact of the Trump trade taxes, it is the US data that should be used. Tariffs will be paid by US consumers and calculated off US import data, so what matters is not what China thinks it is exporting to the US but what the US thinks it is importing from China. If the US believes the goods come from somewhere else, they will not be impacted by China-specific tariffs.

When calculating the impact of US trade taxes on global economic activity, therefore, export data should be ignored. Using US import data, and adjusting the values lower to reflect transport costs, will give a better indication of any damage arising from trade taxes.

¹ See Sester, Brad, "China's imaginary trade data," Council on Foreign Relations, 14 August 2024, <https://www.cfr.org/blog/chinas-imaginary-trade-data>

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