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Global Economic Consequences of the US–China Trade War: Macroeconomic Fragmentation, Supply Chain Reconfiguration, and Geoeconomic Rivalry

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ABSTRACT

This article reviews the systemic effects of the US-China trade war beyond the bilateral tariff, not only focusing on macroeconomic, trade and supply chain aspects, but also geoeconomic aspects. The conflict has lowered estimated global GDP growth to 2.8 3.0% (2025 2026) and dampened growth in global trade to an estimated 1.8% in 2025. Tariffs have caused cost push inflation, such as in the United States, while China continues to diversify exports and improve its industry, achieving a record trade surplus (≈$992 billion in 2024). Global value chains have experienced a significant reshaping, as companies have shifted to "friend shoring," "nearshoring" and diversification strategies, and part of the "collateral shift" of trade away from US China to regional value chains. The impact of trade diversion for countries in Southeast Asia (Vietnam, Malaysia) and the tightening of rules of origin by the USA for them, the nearshoring hub of Mexico under political pressure, and the opportunities and structural constraints for Central Asian economies such as Uzbekistan are heterogeneous. The article also discusses geoeconomic aspects: semiconductors have established a hierarchical governance framework of the global technology industry that excludes China, and China has spent more than $150 billion on building parallel technology chains. At the same time, China has weaponized its monopoly over rare earth elements (RREEs) a dominance it holds due to its 91% share of the refining market – and has recently implemented export licensing measures in 2025 that leave target countries, particularly in advanced economies, exposed to China's advanced technologies and green and digital transitions. The results reveal that the trade conflict is not just a bilateral conflict, but one that is contributing to economic fragmentation across the globe.

Introduction

The trade war between the United States and China that had escalated dramatically in 2018 has turned into a systemic impact on the global economy as a whole, across almost all regions and sectors. The conflict is essentially driven by the convergence of hegemonic struggle, offensive mercantilism and reconfiguration of global value chains (GVCs) as described in Article 1 of this series. Next, in this second article, we will look at the empirical implications the impact of the conflict on global trade flows, on GDP growth, on inflation, on supply chains, on third party countries, and on strategic technology sectors.

What are the measurable macroeconomic effects on global trade, growth and inflation? (2) What is the impact on the global financial system? (3) What are the implications for the economy? (2) What has been the reconfiguration of global value chains and what are the spill-over effects of third countries? (3) What has made semiconductors and rare earths such key

geoeconomic flash points and what does this mean for the security of the global supply chain? The article offers a thorough impact assessment answering these questions, and informing policy makers and businesses in a disunited global economy.

Macroeconomic Consequences: Trade, GDP, Inflation, and Value Chains

Slower Global Growth and Trade

A slowdown in global economic activity has been ongoing as a result of the US–China trade war. IMF and World Bank projections have been lowered for the global GDP growth forecast for 2025 2026 to 2.8 3.0%, lower than they were before the conflict. The global trade grew moderately by around 3.4% in 2024, but is projected to grow at 1.8% in 2025 (Hossen, 2025; Naqvi & Hamid, 2024; Nawaz & Lyu, 2026). The drop is due to direct tariff impacts as well as increased uncertainty, investment uncertainty, and disintegration of production chains. There is a close historical association between trade growth and GDP growth, which has diminished, suggesting the trajectory of trade growth is more fragmented, so-called "slowbalisation" (Emegha et al., 2025).

Inflationary Pressures

A tariff is an indirect tax on foreign factors of production and thus leads to cost push inflation. Tariffs on Chinese intermediate goods in the US have pushed up production prices in the electronics, automotive, machinery and consumer goods sectors. Either they absorb the cost (which means that they cut their margins) or they charge consumers for the cost. In addition to tariffs, geopolitical tensions have also caused disruptions in the global supply chain, leading to rising costs and compliance requirements and causing more uncertainty, all of which drive up inflation (Salah, 2025; Sharma & Sinha, 2025).

China's Counterintuitive Trade Surplus

In 2024, China managed to trade at a surplus of around $992 billion despite the prolonged trade restrictions. This paradoxical appearance is due to the diversification of exports toward other areas like the expansion of trade with ASEAN (exports to the region rose by 14%) or with the EU (exports to the EU increased by 8%) and the trade expansion with Africa (exports to Africa rose by 17%) and Latin America (exports to Latin America rose by 27%), for this last destination at least (Morales et al., 2025). Furthermore, China has successfully achieved the upgrading of its industry and shifted from low-cost production to more high-value industries like electric vehicles, renewable energy and advanced machines (Li, 2018; Yeung, 2019). Such structural change, along with the considerable degree of embedment in GVCs, has enabled China to maintain export activity in the face of geopolitical headwinds.

Restructuring of Global Value Chains

The repercussion of the tariff induced disruption has made multinational companies rethink their sourcing strategies. The impact of the tariff induced disruptions has compelled multinational companies to rethink their sourcing strategies. Key mechanisms include:

The disruptions in integrated supply chains in electronics and transport equipment, which involve multiple crossings (Nawaz, 2026). The cumulative cost of tariffs increases with each step (Gereffi et al., 2021; Giovannetti et al., 2023).

- "Collateral shift" in trade patterns: US imports from China fell 19% (Jan Nov 2025), Chinese exports to EU and ASEAN grew with a strong momentum (Fakour & Gholamnia, 2025; Fang et al., 2020).
- Friend shoring and nearshoring: Companies are relocating production to countries that are politically supportive, or in the same geographic region. Mexico has gained, as has Vietnam and Malaysia; and copycat protectionism is spreading (e.g., EU trade defence measures on EVs electric vehicles, Mexico's consideration of tariffs on 1400 Chinese imports) (Mengüaslan, 2025; Saridakis et al., 2025; Wu, 2025).

As a result, worldwide optimized production chains are being broken apart, and regional supply chains are becoming more political, which is a fundamental structural shift that will be inefficient in the long term (Vlados, 2020; Xing, 2022).

Spillover Effects on Third-Party Countries

The trade war is not bilateral; it generates winners and losers across the globe.

Southeast Asia: Trade Diversion Under Scrutiny

Two of the biggest winners from the diversification of supply chains are Vietnam and Malaysia. Vietnam has encouraged FDI investment in the electronics assembly industry and the textiles industry; Malaysia has enhanced the capability of

semiconductor assembly and testing (Huang et al., 2021; Qi, 2025). But the USA has beefed up rules of origin and taken anti-circumvention steps to stop the transshipment of Chinese products through Southeast Asia. The economies in these countries are thus required to balance the trade diversion benefits with regulatory pressure from the United States (Zapata et al., 2023).

Mexico: Nearshoring Hub with Political Constraints

Due to its proximity and involvement in the USMCA, Mexico has become a major nearshoring option, particularly in the automotive and electronics assembly industry (Guillén & Torres, 2025). But the U.S. is concerned that a backdoor entry by China through Mexico could help them evade tariffs. Mexico is thus subject to more stringent rules of origin and trade compliance obligations, resulting in a complicated landscape in which positive economic effects intermingle with potential regulatory risks (Cedillo-Campos, 2025; Duran-Fernandez, 2024).

Central Asia and Other Emerging Economies: Mixed Prospects

The trade war gives opportunities as well as challenges to Central Asian countries, including Uzbekistan. The negative aspect is that GVCs may get fragmented, which can lead to an influx of FDI, development of new GVCs via transit corridors, and opportunities for participation in re regionalised production networks (Kalyuzhnova & Holzhacker, 2021; Vinokurov et al., 2022). On the down side, they face constraints in their industrial capacity, logistics, institutions and technology to take advantage of these changes. Furthermore, more intense competition of the developing world countries for the same investment flows can lead to net benefits (Amirbek et al., 2020; Umarova, 2024). However, the countries of Central Asia cannot ignore the geopolitical balancing act between the US and China, as they risk becoming too dependent on a single power (Cheong & Turakulov, 2022; Sultonov, 2026).

Geoeconomic Dimensions: Technology Decoupling and Resource Weaponisation

Semiconductor Decoupling: Hierarchical Governance and Parallel Ecosystems

The US and China are now engaged in a technological war with semiconductors as the main draw card. The US and its allies are the masters of the following three choke points: electronic design automation (EDA) software, extreme ultraviolet (EUV) lithography, and advanced chip architecture (Zhang, 2025). The purpose of the export controls is to prevent China from obtaining front-line components or technology for AI, defence or high performance computers, such as sub 7nm nodes. To counter this, China has put more than $150 billion into developing its own semiconductors sector, encompassing everything from chip design and manufacturing to materials and talent development (Ernst, 2022; Gao et al., 2023; Park, 2023).

The progress has been uneven, however. China is still missing out on the advanced nodes, but it is estimated that by early 2026, it will command 70% of the sales of mature node (legacy) chips globally (Malik, 2025; Sharma, 2023). This is a paradoxical interdependence, whereby the West limits China's access to high-end technology, and China is the source of the chips that are used in cars, industry and consumer electronics. This can lead to structural interdependence and intensified fragility of supply chains (Li, 2025; Yue et al., 2024).

Weaponisation of Rare Earth Elements

Rare earth elements (REEs) are vital for the production of electric vehicles, wind turbines, defence systems and electronics. China's share of the mining industry is around 61%, cracking/leaching industry 87%, refining industry 91% and magnet making industry 91% (Çevik, 2026; Göktepe, 2025). New export licenses were issued by China for seven heavy rare earth elements (HREEs) in April 2025. This does not prohibit exports, but provides an administrative control mechanism that enables Beijing to fine-tune exports, monitor end user and adjust flows according to geopolitical conditions (Munshi, 2026; Pokorny, 2026).

The EU's digital, green and defence transitions are deeply reliant on REEs (Hamed et al., 2024; Hyyryläinen, 2025). Systemic risks arise with the concentration of the chain, which leads to diversifications (e.g., strategic stockpiling, recycling and seeking alternative sources), but diversification is not likely in the short term due to the high capital costs and technological challenges (Depraiter et al., 2025; Vekasi, 2023). As such, rare earths are a strategic instrument of economic statecraft, an instrument that exemplifies how dependence on these resources can be weaponised in great power competition.

Conclusion

This article has provided a comprehensive analysis of the US–China trade war’s impact on the global economy. Macroeconomic slowdown: Slowdown in world GDP growth has been revised downwards and trade growth has slowed

substantially. Tariffs have caused cost push inflation, particularly in the United States, while China has been able to keep a relatively strong trade surplus by diversifying and upgrading industries.

From globally integrated value chains to regionally concentrated and politically aligned value chains. Trade geography is changing, with friend or nearshoring trends and losses in efficiency and uncertainty. Southeast Asia and Mexico. The economies of the Central Asian region — Uzbekistan in particular have a range of opportunities and constraints, such as new investment, transit corridors, and structural limitations in the industrial sector and institutions.

Semiconductor decoupling has constructed an ecosystem of technology governance that is hierarchical, with China developing its own parallel ecosystem and being left out of the advanced nodes. Rare earths have been weaponised by China, exposing vulnerabilities in advanced economies' strategic sectors.

Taken together, the results confirm that the US–China trade war is not a short-term issue but a structural factor of economic fragmentation worldwide. The new, more complex, less predictable, and geopolitically fractured world economy requires a new approach to policy and business. The third paper in this series will discuss the adaptations and policy suggestions of developing economies, especially Uzbekistan.

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