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INTERVIEW

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How US-China Trade War is Reshaping Global Production, Interview

Interview with Jan Schymik

- US and Chinese tariffs had contrasting effects on third countries
- Economists analyzed more than 200,000 multinationals in 50 major economies
- Interview with Jan Schymik, EPoS Economic Research Center

Bonn, Mannheim, 23. September, 2026 - **In today's global value chains, many goods are both an industry's output and another industry's input. That is why the US-China trade war has substantial effects, not only on targeted manufacturers, but also on their suppliers, customers, and foreign affiliates in third countries. Economists analyzing these knock-on effects find that US and Chinese tariffs had contrasting effects. The study covers more than 200,000 multinationals in 50 major economies, focusing on the years 2018–2022. The EPoS Economic Research Center at the Universities of Bonn and Mannheim publishes the findings in the discussion paper "The U.S.–China Trade War and the Geography of Global Production".**

Mr. Schymik, you examined a wide range of effects on global trade, which finding surprised you most?

Jan Schymik: The truly striking finding is that US and Chinese tariffs had completely contrasting effects on third countries. While US tariffs on Chinese goods led to substantial increases in production elsewhere, Chinese tariffs on US goods actually reduced manufacturing activity. Ultimately, this demonstrates how a trade war between two major economies can reshape production far beyond their borders.

How can these contrasting outcomes be explained?

Jan Schymik: Let's look at the details: US tariffs made Chinese exports less competitive relative to products from third countries. Chinese and US multinationals partly responded by using locations such as Mexico or Vietnam as export platforms. They continued to serve the US market while avoiding punitive tariffs. The effect could be described as "trade diversion" to third countries, where production then increased.
By contrast, Chinese tariffs weakened the competitive position of US producers. This had knock-on effects for firms in third countries whose products complement US exports. For example, when a US car manufacturer exports vehicles to China, it may rely on German engines and transmissions, Japanese electronic components, or specialized parts from suppliers in Mexico and Europe. As Chinese tariffs reduced US car exports, demand for complementary third-country inputs fell as well and manufacturing activity slowed down.

INTERVIEW

Which region or industry was hit hardest?

Jan Schymik: On average, our estimates suggest that third countries in Asia and North America were most negatively affected by the first phase of the trade war. However, regional averages conceal substantial differences across industries and firms.

As to the effects on global value chains, the clearest losses occurred in the intermediate stages. The producers were squeezed from both sides: they faced higher costs when they relied on inputs from China or the United States, while also finding it harder to sell to Chinese firms whose competitiveness was reduced by US trade-war tariffs. In contrast, the industries at the beginning and end of the value chain tended to gain overall.

Has the EU learned a lesson from the first phase of the trade war?

Jan Schymik: European and German firms have increasingly recognized the importance of diversifying their production and supply networks. However, meaningful diversification takes time.

Based on your research, which findings could be important for multinationals and policymakers?

Jan Schymik: In the period we studied, multinational firms were best able to adapt to the trade war by shifting production, sourcing, and sales across their global networks. For policymakers, our findings underscore that the effects of tariffs travel through global value chains and foreign affiliates, often producing unintended consequences beyond the countries directly targeted.

The presented discussion paper is a publication without peer review of the Collaborative Research Center Transregio 224 EPoS. Access the full discussion paper here:
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Authors
Harald Fadinger, Professor of Economics, University of Vienna
Lei Li, Professor of Economics and Politics of China, University of Göttingen
Sophia Praetorius, Postdoctoral Researcher, Institute of Economics and Econometrics, University of Geneva
Jan Schymik, Acting Professor, Department of Economics, University of Mannheim and member of EPoS Economic Research Center

The Collaborative Research Center (CRC) Transregio 224 EPoS
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Press Contact
econNEWSnetwork Sonja Heer
Tel. + 49 (0) 40 82244284
Sonja.Heer@econ-news.de

Contact
Jan Schymik
Department of Economics
University of Mannheim
jan.schymik@uni-mannheim.de

CRC TR 224 office, Marja Eisheuer

phone +49 228 73 7926
email crctr224@uni-bonn.de

www.crctr224.de