ECONOMIC FOCUS n2

How China expanded its trade surplus amid protectionism: What lessons for developing countries?

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Takeaways

- China's diversification of export markets has reduced its vulnerability to bilateral trade tensions. Rerouting its trade toward faster-growing markets with lower barriers has offset its losses in the U.S. market and sustained overall export growth.
- The shift toward advanced technologies and more complex products has reduced price sensitivity and strengthened China's position in global demand networks.
- China has retained control over high-value-added intermediate production while offshoring final assembly, enabling it to maintain its ability to generate surpluses despite the restructuring of the supply chain.
- Coordinated public policy has played a central role and offers lessons for developing countries. China's experience shows that trade resilience depends on sustained investment, industrial strategy, and diversification—not on short-term protectionism.

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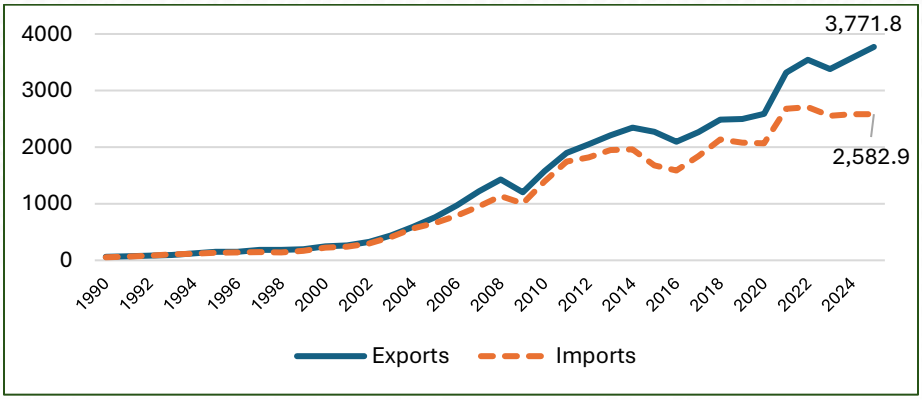
1. Overview: A Paradox of Protectionism

The release of China's international trade figures for 2025 allows us to assess the effectiveness of the tariff war launched by the U.S. Contrary to expectations, China recorded the largest trade surplus in its history, approximating $1.18 trillion.

According to ttd.wto.org platform, which provides detailed information on tariff measures, the average simple rate of tariffs imposed by the United States on Chinese imports rose sharply in 2025, from 20% in January to 142.95% on April 2, before gradually declining to end the year at approximately 31.3%, noting that this tariff escalation represents only one facet of the broader trend of trade protectionism that has been ongoing for some time, including non-tariff barriers (NTBs) such as technical/sanitary and phytosanitary measures, imports quotas or regulatory/administrative barriers.

International trade data of the 2025 released by UNCTAD in March 2026 paint a different picture than expected. Not only did Chinese exports withstand the pressure, but they actually accelerated, rising from $3.57 trillion in 2024 to $3.77 trillion in 2025. At the same time, imports remained virtually unchanged, hovering around $2.58 trillion. This resulted in a widening trade surplus and a consolidation of China's position as the world's leading exporter of goods (Figure 1[1]).

Figure 1: Chinese goods exports and imports (USD millions)



Source: prepared using UNCTAD,2026

This outcome calls for a more in-depth analysis of the structural and policy factors that have enabled China to strengthen its trade position amid rising protectionism, with the aim of drawing key lessons for developing countries on how to counter protectionism and,

[1] These figures don't include services exports and imports, reaching 501.6 and 623.7 USD billions, respectively in 2025, leading to reducing overall trade surplus to 1,065 USD billions.

potentially, turn it to their advantage. This economic focus does not underestimate the role of exchange-rate policy, which certainly helped establish undeniable price competitiveness, especially in the early stages, but emphasizes above all the combined strength of the sophistication of China's exports, the modernization of its industry, its deep integration into global value chains, and the systematic diversification of its trading partners—all structural advantages that have made it possible to maintain surplus growth despite rising wages and the appreciation of the renminbi[2].

2. Strategic Foundations of China's Trade Resilience

The sustained growth of China's trade surplus—even in the face of substantial tariff pressure from its main trading partner—is neither a coincidence nor a mere short-term adjustment. Rather, it reflects the cumulative result of a long-term, multi-layered strategic framework that has been iteratively refined over successive economic cycles. Each period of external disruption has allowed this approach to be refined and recalibrated, making it progressively more resilient and adaptable. This framework underwent rigorous stress tests during the first U.S.-China trade conflict and was further consolidated throughout the COVID-19 pandemic. By 2025, these accumulated experiences had been crystallized into a coherent, institutionally anchored system organized around three main strategic pillars[3].

Trade rerouting in 2025

One of the key pillars of China's strategy has been to reduce its dependence on the U.S. market: exports to the US fell by about 20%. However, this decline did not lead to an overall slowdown in trade. On the contrary, losses incurred in the U.S. market were not only offset but, overall, exceeded by increased trade volumes with Southeast Asia, the Middle East, Africa, and Latin America. ASEAN member states, in particular, absorbed a large portion of these redirected export volumes, benefiting from relatively lower trade barriers and more dynamic demand, allowing China's total exports to maintain a steady upward trajectory.

Another aspect of this diversification strategy—which served both as a deliberate retaliatory measure and as a structural response to rising reciprocal tariffs on american goods—involved systematically redirecting China's demand for imports from the US,

[2] The renminbi appreciated by roughly 35% in real effective terms between 2005 and 2015, yet the surplus remained large and export volumes continued to grow. More recently, renewed renminbi weakness amid capital outflows in 2022–2024 has reignited currency-manipulation debates, suggesting that exchange-rate management still operates at the margin.

[3] This focus synthesizes insights from the academic and policy literature on the topic; selected references are listed at the end.

which had fallen by 14.6%, toward other trading partners, notably India, Taiwan, Japan, New Zealand, and several African countries. This reorientation had a dual objective: to preserve the continuity and resilience of the supply chain while reducing China's exposure to U.S. trade restrictions (Figure 2[4]).

Figure 2: China exports and imports growth in 2025 (in %)

Source: prepared using data from General Administration of Customs of China,2026

Upgrading Exports Structure

Data from the Atlas of Economic Complexity provide particularly valuable insights into the evolution of China's export basket between 1995 and 2024 (Figure 3). It highlights a marked and sustained rise up the technology ladder, as the composition of Chinese exports has undergone a fundamental transformation: from a profile dominated by low-value-added, labor-intensive goods, it has shifted toward an increasingly sophisticated range of technology-intensive products.

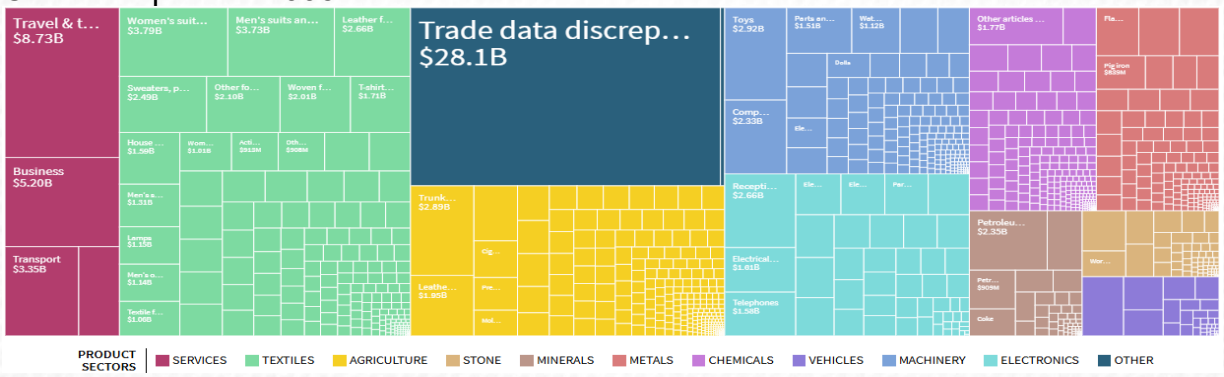
In 1995, China's export structure was heavily concentrated in categories typical of an early stage of industrialization: apparel (including men's and women's suits, knitwear, and basic clothing), footwear, toys, leather goods, and basic plastic products, as well as raw materials such as crude oil and relatively rudimentary electronic products, notably radio receivers. Over the next three decades, this structure underwent a marked and qualitative shift toward higher-value-added manufacturing and advanced industrial products. By 2024, the export basket consisted primarily of computers, telecommunications transmission equipment, electronic integrated circuits, and semiconductor devices, supplemented by more complex manufactured goods such as passenger vehicles,

[4] The Association of Southeast Asian Nations (ASEAN) includes Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam; / The Regional Comprehensive Economic Partnership (RCEP) includes Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Japan, South Korea, Australia, and New Zealand./ Jointly build the Belt and Road countries: from the "China Belt and Road Network"（https://www.yidaiyilu.gov.cn）Listed countries and regions.

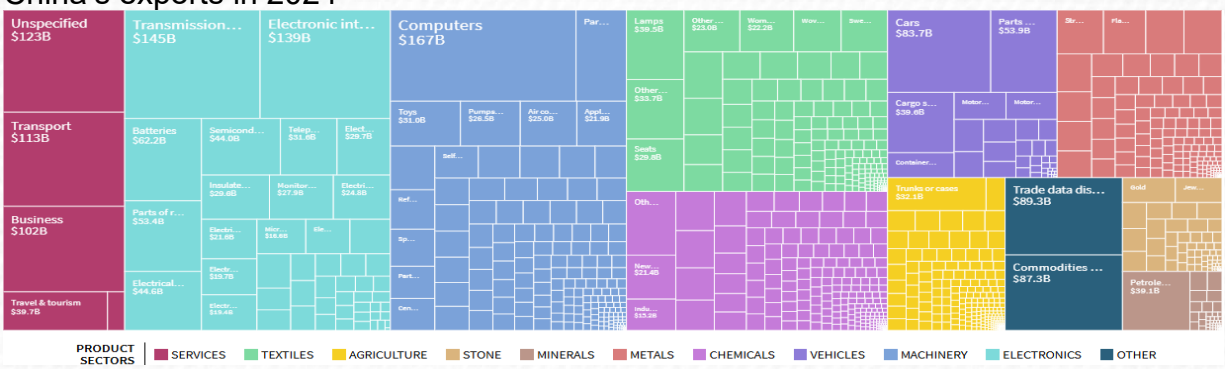
industrial batteries, electrical transformers, and precision components for both the automotive and office machinery sectors. For instance, China has established itself as a leader in the automotive sector, generating $142 billion in 2025, and in the computer sector, where it reached $250 to 400 billion in the same year (according to General Administration of Customs of China,2026).

Figure 3: China's exports basket over 1995-2024

China's exports in 1995



China's exports in 2024



Source: Atlas of Economic Complexity

This structural transformation reflects the overall success of China's industrial modernization program, its growing integration into global value chains, and the strengthening of its technological capabilities in the field of highly complex manufacturing. In essence, China has gradually shifted from a role focused on assembly operations and low-skilled manufacturing to participation in innovation-intensive sectors—a shift that has profound implications not only for its trade competitiveness but also for the broader architecture of global production networks.

This structural transformation is reflected in China's evolution as measured by the Economic Complexity Index (ECI), as documented by the Atlas of Economic Complexity. Over the same period, China moved from a relatively modest ranking—typical of economies with limited productive knowledge and a relatively narrow export base—to a position among the world's most complex economies. By 2024, China's ECI score had

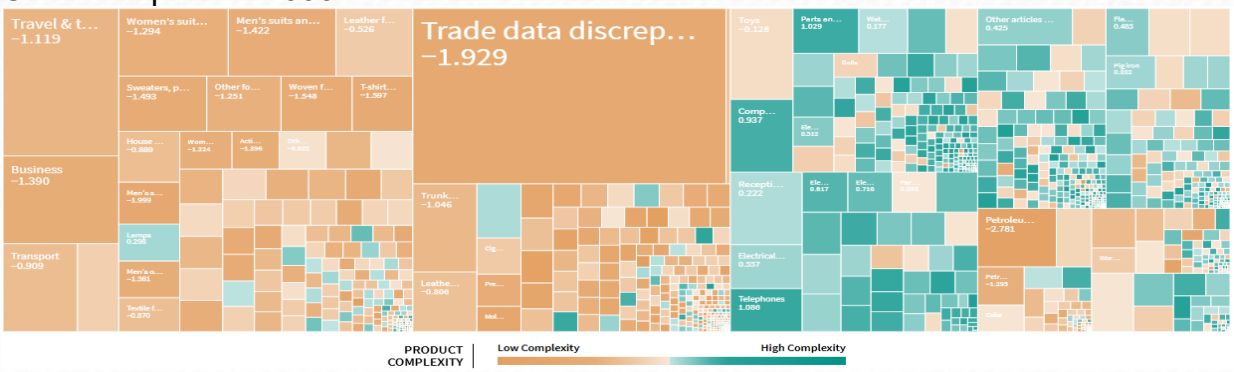
risen significantly to approximately 1.26, ranking it tenth among 145 countries. This upward trajectory reflects not only a shift in the composition of Chinese production but also the deep accumulation of productive capacities, specialized skills, and industrial knowledge that, together, enable the manufacture of a broad and technologically sophisticated range of goods.

This trend is clearly illustrated in the product space diagram shown in Figure 4, where the predominance of blue-green hues -which denote more complex products- has supplanted the previous prevalence of orange-beige shades associated with low-complexity goods. This shift in color distribution intuitively illustrates how China's export portfolio has increasingly focused on complex, knowledge-intensive industries. According to WIPO, the number of patents filed by China reached 1.8 million in 2024, compared with 19K in 1990. Over the same period, the United States recorded 182K and 501K patents, respectively.

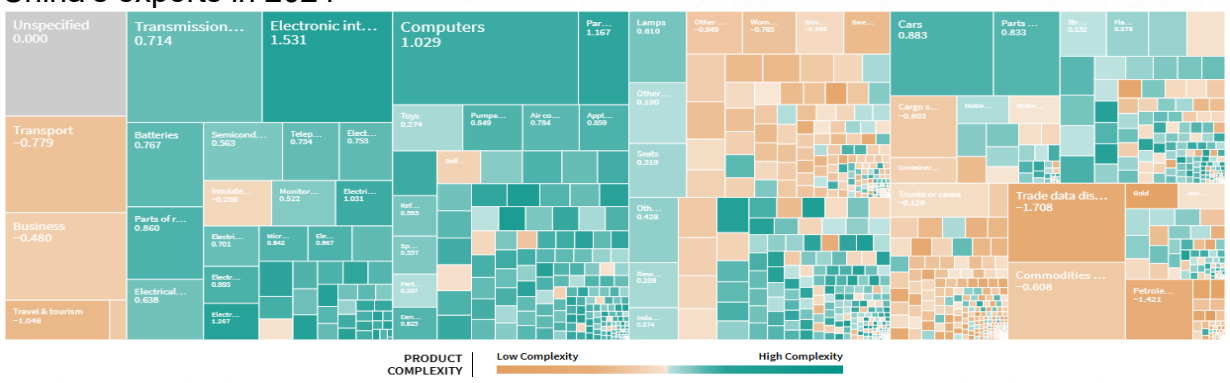
Taken together, these indicators reinforce a coherent narrative: China has undergone a fundamental repositioning, shifting from its historical role as a low-cost manufacturing hub to its current status as a leading center of advanced industrial production—a transition with profound implications for global trade patterns and competitive dynamics.

Figure 4: China exports' economic complexity

China's exports in 1995



China's exports in 2024



Source: Atlas of Economic Complexity

Transition from Backward to Forward Participation in Global Value Chains (GVC)

The upgrading and diversification of China's production and export capacities have been accompanied by a gradual but decisive shift away from dependence on imported inputs - including intermediate goods- toward the consolidation of robust domestic production capacities. This transition is clearly reflected in the marked increase in the share of domestic value added in gross exports, which rose from 0.28 in 1990 to 0.83 in 2022 (according to UNCTAD-Eora and OECD-TiVA databases), a trajectory indicating a substantial reduction in dependence on upstream linkages and signaling an advanced degree of internal capacity building and productive self-sufficiency.

At the same time, China's functional role within global production networks has undergone a similar evolution. With approximately 51% of its exports now consisting of intermediate goods, China has established itself as an indispensable supplier in downstream production processes, thereby strengthening its upstream ties within GVC. This dual transformation—characterized by a decreasing reliance on foreign inputs alongside an increased supply of intermediate goods to other economies—indicates that China has transcended its previous role as a mere assembly hub to evolve toward technologically sophisticated and increasingly self-reliant modes of production. Overall, China has transitioned from being a GVC actor heavily constrained by its dependence on foreign inputs to a more upstream, diversified, and technologically autonomous actor, exerting substantial influence on downstream linkages within the global economy.

Strategic Supply Chain Reconfiguration through State-Led Interventions

Another key source of China's trade resilience, from an economic policy perspective, lies in the coordinated public policies and state-backed institutional initiatives. In response to the escalation of trade barriers - particularly in the wake of the first U.S.-China trade conflict - China undertook a deliberate restructuring of its production networks, relocating final assembly operations to third-country hubs such as Vietnam, Malaysia, and Mexico, while retaining the production of essential intermediate goods within its domestic industrial base. Empirically, this configuration is reflected in China's share of global manufacturing output reaching approximately 18%, alongside its dominant position in the production of intermediate goods. The complementary expansion of Vietnamese exports to the US, which increased by more than 150% between 2017 and 2023, further supports the interpretation of a partial rerouting of final assembly. Essentially, this arrangement ensured that Chinese value added remained integrated into GVC, even as the geographic distribution of gross export flows appeared to shift.

This restructuring has been strongly supported by China's proactive industrial policy, which combines rigorous state planning with market mechanisms to stimulate production and exports. Through long-term strategies such as "Made in China 2025," the government targets key sectors for development. It provides substantial subsidies, tax incentives, and low-interest loans to help companies grow rapidly and compete globally. Export-oriented measures, including trade infrastructure and tariff advantages, reinforce China's dominant position in global markets. Special economic zones (7 in addition to many other FTZs, development zones, high-tech zones) attract foreign investment while encouraging technology transfer and local production. Industrial clustering and large-scale manufacturing reduce costs and improve efficiency. Massive investments in infrastructure strengthens logistics and the supply chain. State-owned enterprises and "national champions" receive support to play a leading role in strategic sectors. At the same time, China is investing heavily in education and skills to retain its workforce. Overall, this coordinated approach enables continuous industrial modernization and global competitiveness.

Beyond these macroeconomic tools, China has embedded its trade relations within broader geopolitical and financial frameworks through flagship initiatives such as the Belt and Road Initiative (BRI). Since its official launch, the cumulative value of BRI-related investments and construction contracts has exceeded one trillion U.S. dollars, spanning more than 140 countries. These commitments generally fall under trade, energy, and financial agreements, making demand for Chinese products relatively insensitive to short-term tariff fluctuations or one-off market disruptions. The cumulative effect has been the maintenance of relatively stable export growth trajectories, as illustrated in Figure 1.

On the other hand, it is important to note the collective efforts led by many Western countries as a coordinated initiative to weaponize NTBs, such as the U.S. "CHIPS and Science Act" (2022), and the local content provisions in the Inflation Reduction Act, the European Union's "Strategic Technologies for Europe" platform, and the broader "friendshoring" program, with the aim of limiting China's ability to advance in the fields of semiconductors, clean energy equipment, and pharmaceutical products. China's pursuit of technological self-sufficiency—in the semiconductor sector, for example—is a partial acknowledgment of this risk. Consequently, the sustainability of China's surplus strategy will depend heavily on its ability to maintain its role in GVC, even as Western economies actively seek to reduce their exposure to these chains.

Taken together, these dynamics demonstrate how China's proactive and state-coordinated strategic posture has enabled it not only to cushion external shocks but also

to actively reshape the architecture of GVC, thereby strengthening its systemic importance, enhancing its role in capturing a larger share of national value added, and, in doing so, consolidating its technological and economic autonomy.

3. Conclusion

The increase in China's trade surplus is attributable more to a long-term, strategy-driven structural transformation than to a short-term adaptive response to external shocks. Previous sustained investments in infrastructure, industrial modernization, sophistication of production processes, and trade diversification have equipped China with the systemic capacity needed to expand its existing capabilities in response to intensifying tariff pressures, thereby minimizing adjustment costs at the macroeconomic level. Consequently, the tariff escalation failed to significantly reduce China's surplus and its leading role in international trade market, as the country had already diversified its export market base, secured strategically crucial positions within GVC, repositioned itself in higher-value-added production segments, and deployed a range of macroeconomic instruments to maintain its competitive positioning. Rather than eliminating external pressures, China effectively mitigated their impact by shifting toward a more globally diversified and structurally resilient growth model.

For developing economies facing similar external pressures, the key lesson is that protectionist shocks do not necessarily spell decline. Through strategic investments in diversification, long-term capacity building and moving ahead along the value-chain, countries can significantly improve their ability to adapt and, under favorable conditions, emerge from such episodes with a stronger and more competitive economic position—a particularly important consideration in an increasingly fragmented and contested global trade environment.

However, it is worthnoting that some of these lessons are difficult to apply to the vast majority of developing countries because many of the favorable conditions underpinning them are impossible to replicate, given, for example, the extraordinary capacity of the Chinese state and its institutional coherence, the depth of its domestic market, which allowed companies to reach critical mass before entering international competition. Other elements, however, are more easily transferable: the logic of export processing zones, investments in infrastructure as a lever for logistical competitiveness, the deliberate establishment of industrial clusters, and the selective use of incentives to attract FDI and encourage technology transfer. For most developing economies, the lesson to be learned is therefore not to "replicate the Chinese model," but rather to identify which elements of the logic of diversification, modernization, and resilience are compatible with their own

institutional frameworks, resources endowments, and stage of development—and to implement them selectively rather than comprehensively, while trying to avoid some costly choises especially environmental and demographical once.

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