

# The US fails to friend-shore

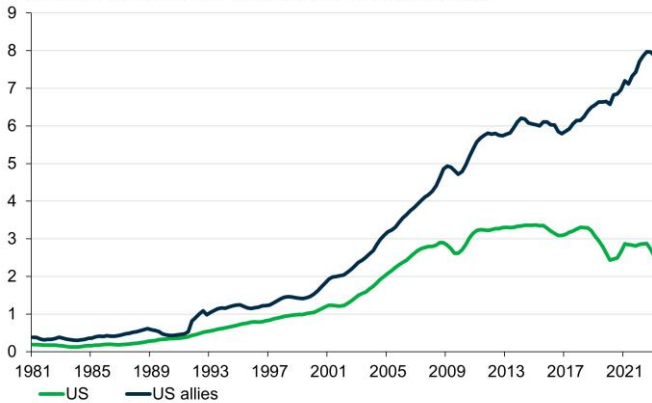
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- Fathom has repeatedly warned of the headwinds facing China's economy, from excess capacity (especially housing) and the demise of its export-led growth model, aggravated by rising geopolitical tensions, to the demographic time bomb that is looming<sup>1</sup>
- And yet, despite these headwinds, our expectation remains that China's catch-up will continue, threatening the US-led global order
- There are, of course, risks to that view, such as China's housing market, as Fathom has previously discussed here
- Another impediment would be if other countries followed the US's lead and de-risked from China
- To date, the US has largely acted alone, with its allies increasing trade with China, as shown in the chart below

## Gross trade with China

Per cent of domestic GDP, four-quarter moving averages



\*US allies include NZL, EU, KOR, NOR, CAN, AUS, UK, JPN, TUR

Source: LSEG Datastream / Fathom Consulting

- Arguably, it's one thing for the US to punch itself in the face and disentangle its economy from China's, but asking others such as the euro area to do the same when economic output has all but stagnated since the global financial crisis, is another ask entirely
- Friend-shoring, which would involve the US rerouting its trade with China to its allies, could help offset some of the economic pain associated with that de-risking, thereby encouraging allies to join forces

<sup>1</sup> Clients can access past research via the Insights page on Fathom's website, [here](#)





- But there is little evidence of friend-shoring to date: as the chart below shows, the US's trade deficit with China has narrowed (green line), while US allies have failed to benefit (light-blue line)

### US visible trade balances by country

USD, billions, 12-MMA, current prices, DS seasonally adjusted



- Instead, the deficit between the US and the rest of the world excluding China (dark-blue line) has widened considerably, implying that countries not historically considered as being close US allies have benefitted the most from the re-routing of US supply chains
- It is likely that this is a reflection of the type of goods that China produces, and the alternative producers of those
- Nevertheless, in shining a spotlight on China, the US's strategy at a very minimum raises awareness of the risks posed by the Middle Kingdom and establishes precedent for taking action, with Germany the latest to harden its stance





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