

# Shifting Currents: China's Import Realignment

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The views expressed here are solely mine and do not reflect those of Banco de Mexico.

# Main Takeaways

- I liked the paper because it is very well written, addresses an important question, and is thought-provoking!
  - ▶ China's rapidly advancing technological and production capabilities have deepened global reliance on its resources across multiple sectors.
    - This growing dependency has raised concerns among Western nations, prompting them to adopt measures to curb it (e.g. by deepening trade ties among like-minded partners and tightening controls on technology transfers to China.)
    - China, in turn, has leveraged its dominance in critical materials and technologies, at times hinting that it may restrict access for countries outside its geopolitical sphere.
    - Aim of China's Dual Circulation Statrategy: to strengthen the role of the domestic market as the primary driver of economic growth, while selectively engaging with global markets (allied countries) to support innovation, trade, and

# Main Takeaways

- **Research Question:** Using a dynamic diff-in-diff approach, the authors investigate whether **China reduced its imports from countries aligned with the West (i.e. nations not supporting China's claims over Taiwan)** following two major events: President Xi's April 2020 speech emphasizing self sufficiency and decoupling from Western countries, and Russia's invasion of Ukraine.
  - ▶ **Period under analysis: January 2018 - July 2025.**
- **Main Findings:** China began reducing its imports from **West-leaning countries** at the start of 2020, with this trend intensifying after Russia's invasion of Ukraine. The most pronounced declines are observed in base metals and minerals.
- **Authors present several robustness checks.**

Comment No. 1: Identifying two separate events is difficult.

- **The authors analyze two major events:** 1.) Xi's self-sufficiency and decoupling speech in April 2020 and 2) Russian's invasion of Ukraine in February 2022.
  - ▶ However, their model includes one treatment interaction per year, not per event.
- To isolate two shocks you need: separate treatment x event indicators (e.g.  $T \times \text{Post 2020}$ ,  $T \times \text{Post 2022}$ ) or separate event-study structures.
- Because treatment variable does not change across events (West vs. non-West stays the same), the model cannot use variation in treatment to identify each shock separately.
- Thus, both events trigger the same treatment response.

## Comment No. 2: Possible reverse causality

- **The authors argue:** China shifts its imports because of foreign countries' political alignment toward the West or the PRC. **So the causal direction they assume is: Political alignment → China's import sourcing.**
- **However, the opposite may also occur:** countries may adjust their political stance because they depend on China for exports or investment. Hence, they are less likely to adopt a West-leaning position. **China's trade relationships → Countries' political alignment**
- **Reverse causality may be biasing the estimated treatment effects upward.**

Comment No. 3: Many other shocks occur around the same time.

- **On top of the two geopolitical events, many other shocks occurred around the same time. 2020-2022 includes:**
  - ▶ COVID-19 disruptions
  - ▶ Supply-chain collapse
  - ▶ Dramatic shipping cost changes
  - ▶ Commodity price spikes
  - ▶ Sanctions imposed in 2022
  - ▶ Inflation surges
- **Without controlling for these factors, the model risks overstating the role of geopolitical alignment.**
- Year level interactions cannot disentangle these forces.

## Comment No. 4: Country fixed effects may not fully control for unobserved heterogeneity.

- **The specification includes country and year fixed effects, which control for time-invariant country characteristics and common global shocks, respectively. However, this structure cannot account for time-varying bilateral factors — bilateral sanctions, bilateral geopolitical shocks, changes in bilateral tariffs, China's selective import reductions, etc.**
  - ▶ Your estimates could partly be reflecting: 1) China penalizing certain countries; 2) bilateral sanctions or political tensions; 3) time-varying trade costs specific to each country - China pair, etc., not just the treatment effect of West-leaning.

Comment No. 4: Country fixed effects may not fully control for unobserved heterogeneity.

- **Suggestion:** include China - country pair F.E. (together with time F.E.), or explicit bilateral controls (e.g. bilateral tariff rates, bilateral sanction indicators, shipping cost indices, diplomatic tensions indices, supply chain shock indicators, COVID restrictions (stringency indices, lockdowns).
  - ▶ Why they matter? China's imports from a country might change due to: logistic bottlenecks, shipping cost spikes, tariffs, sanctions (especially in 2022). Without controlling for these factors, the estimated geopolitical alignment effect may be spurious.



## Comment No. 5: Year fixed effects are too broad to capture geopolitical shocks

- **The authors have monthly data, but they use year fixed effects and annual interactions.**
- **This reduces precision, why?**
  - ▶ Events occur at specific months: 1) Xi's speech was in April 2020, not January; and 2) Russia-Ukraine War started in February 2022, not January.
- **Compresses all variation into one number and ignores:**
  - ▶ COVID lockdown cycles
  - ▶ mid-year supply chain disruptions
  - ▶ sanctions or retaliations that roll out month by month
  - ▶ differences between early and late 2020
- **Consequences:** 1) the model may attribute changes to the wrong period, 2) estimated treatment effects may be diluted or artificially concentrated.

## Minor Comment

- **Throughout the manuscript, you include many links for the reader to access additional information.** I suggest briefly explaining the points in a few lines, as it can be exhausting for the reader to visit all of these links.