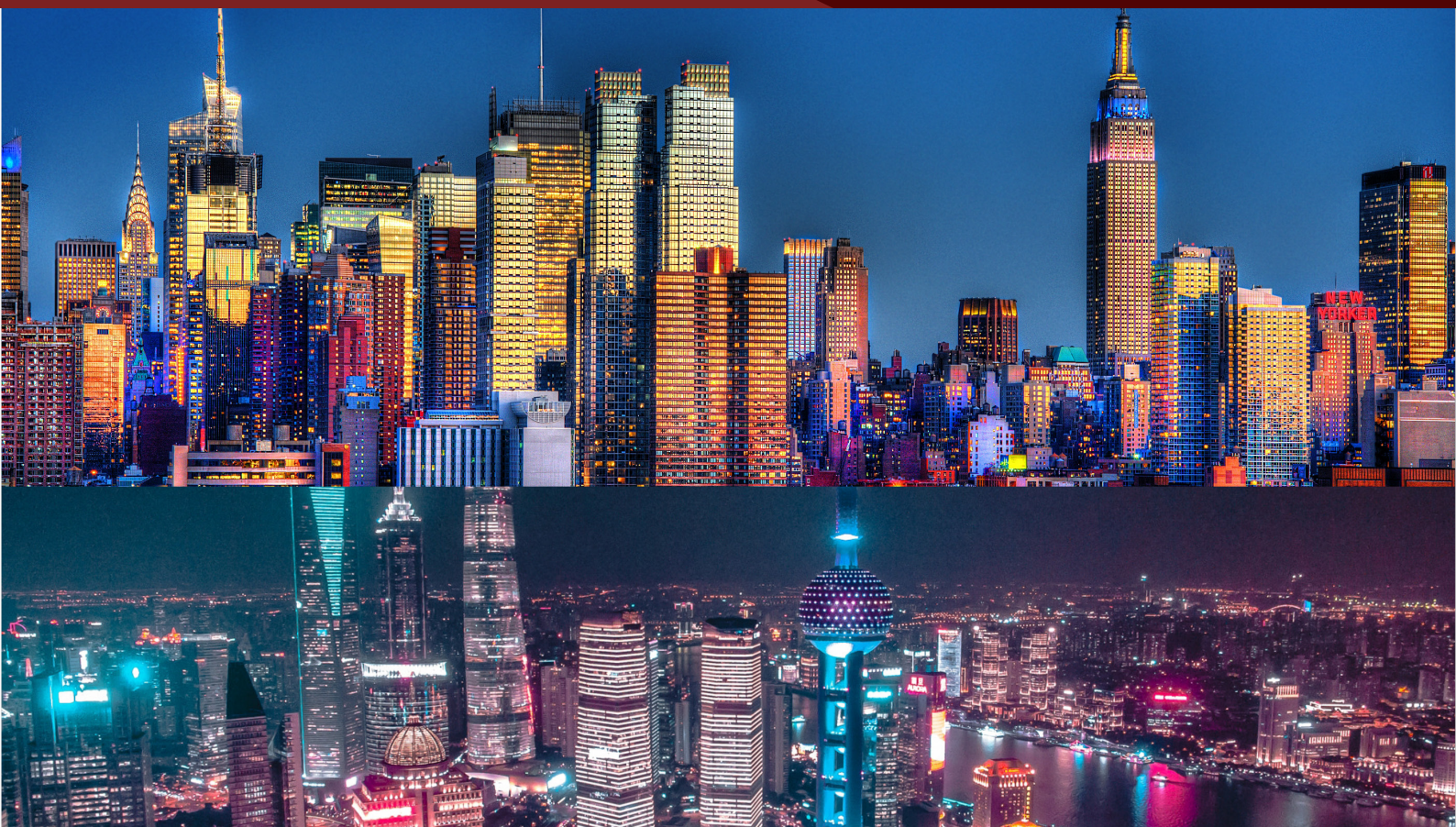


# Decoupling: a path of no return between China and the United States?

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# Decoupling: a path of no return between China and the United States?

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A 2021 article in Harvard Business Review noted that “in the first 10 months of 2020 the exact phrase “decouple from China” or “decoupling from China” appeared in three times as many articles as in the previous three years combined.”<sup>1</sup> over US policies toward China. In November 2022, US Secretary of Commerce Gina Raimondo remarked that the United States isn’t seeking to decouple from China, but emphasised that steps the United States is taking are oriented toward safeguarding its technology to ensure its economic competitiveness.<sup>2</sup> Regardless, either as a metaphor for government policy or as a vernacular characterisation of regulatory environment for trade and investment, “decoupling” has taken firm root in the United States’ China policy.

In China, “decouple from the United States” as an expression of intent can hardly, if ever at all, be found in government policy statements. As the title of its “Anti-Foreign Sanctions Law” (passed and enacted in June 2021) indicates, Chinese government authorities would rather justify restrictive measures on commerce and investment as being reactive in nature. The phrase “decoupling from the United States” does make it into unofficial Chinese deliberations about the China-US relationship, but mainly to express concerns about results from policies taken abroad and the unintended consequences of domestic actions.

The contrast in the level of public rhetoric over decoupling – between but not limited to – China and the United States, ironically, further complicates observations of overall relationships between the two countries and beyond. For example, one study that situates the bilateral dynamics as a more broadly international phenomenon concludes that “China started to decouple from the United States in the mid-2000s, earlier than commonly realized. Certainly, in recent years, China has been open about its desire to decouple.”<sup>3</sup>

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1 Stewart Black and Allen Morrison, The Strategic Challenges of Decoupling: Navigating your company’s future in China, *Harvard Business Review*, May 2021, <https://hbr.org/2021/05/the-strategic-challenges-of-decoupling>.

2 US Department of Commerce, “Remarks by U.S. Secretary of Commerce Gina Raimondo on the U.S. Competitiveness and the China Challenge,” November 2022, <https://www.commerce.gov/news/speeches/2022/11/remarks-us-secretary-commerce-gina-raimondo-us-competitiveness-and-china>.

3 Michael A. Witt, et al., “Decoupling in international business: Evidence, drivers, impact, and implications for IB research,” *Journal of World Business*, 2023, 58, 1, 5.

Differences in characterising the nature of Chinese policy papers such as “Made in China 2025”, issued in 2015 and with goals including becoming at least 70% independent of foreign technological supplies in industries designated as strategic, contribute to the difficulty of agreeing on which party is the first mover of punitive policy actions on the other.

Still, decoupling, as an expression of either policy intent or an angle for making sense of the ongoing state of affairs in the bilateral relationship between China and the United States, merits continuing discussion. Let’s begin by going over how the term can be understood.

### **Decoupling: possible understandings**

**History:** It is useful to begin by reminding ourselves that decoupling is not new in the history of relations between China and the United States. From 1949 to 1970, the trade embargo placed by the U.S. on China was “the longest self-imposed ‘refusal to deal’ in recent history.”<sup>4</sup> The embargo was designed to isolate China and to inhibit its economic and military growth but failed to produce the desired results. Before the Nixon-Mao détente that began in 1971, in trade, China did manage to connect with markets in Canada, Australia, Japan, and Western Europe, including in technology through the import of machines and equipment, however limited in the level of sophistication. As the Chinese economy was mostly agrarian, those technology imports played important roles in China's pursuit of economic modernisation. In the military sphere, when China detonated its first atomic bomb on 16 October 1964, the United States by and large lost its leverage over China to constrain its behaviour. The rest is history.

Still, in a historical sense, the embargo did not eliminate the potential for re-coupling. One example is the exchange and collaboration in basic as well as applied scientific research between Chinese and American institutions and individuals during those decades of mutual exclusion at the geo-strategic level. The human and societal networks that formed helped lay the groundwork for the normalisation of diplomatic relations.<sup>5</sup>

It is not my intention to convey any sense of triumph, much less defiance, by mentioning this episode in history. Quite the opposite, post-1949 China paid uncalculatable prices in every conceivable sense of its domestic development and foreign relations due to the past US economic embargo. Today and tomorrow, China must maintain direct interactions with the United States to prevent another round of total embargo or full-scale decoupling.

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4 Luke Lee and John McCobb, Jr, “United States Trade Embargo on China, 1949-1970,” *New York University Journal of International Law and Politics*, 1974, 4, 1.

5 Kathlin Smith, “The Role of Scientists in Normalizing U.S.–China Relations: 1965-1979,” *Annals of the New York Academy of Sciences*, 1998, 866, 1, 114-136.

**Trade dependence:** A second, if only somewhat narrower understanding of decoupling comes from considering the level of dependence between a pair of countries. In this connection, decoupling can be thought of as a natural phenomenon or a policy-induced outcome. When country A's balance of trade with country B decreases due to shifts in market forces rather than trade policy intervention, decoupling is occurring. Country A could also adopt policies to drive country B away as a major trading partner for particular products and/or in those sectors deemed to affect national security. Beyond trade in products and services, it would be a stretch of the imagination to use the comparison between a pair of countries' Gross Domestic Product (GDP) as an indicator of coupling or decoupling. For each country, numerous domestic and external factors are at work. This multitude of factors makes it challenging or even impossible to come up with measurable signposts of necessary or sufficient levels of decoupling.

Voices in support of decoupling arising out of concerns about overall economic dependence, too voluminous to cite, can be found in both China and the United States. Suffice to observe that what we are witnessing today is the climactic moment of a trend that started before China joined the World Trade Organization in 2001. The notion of a "China Shock"<sup>6</sup> – the impact of rising Chinese exports on manufacturing employment in its major trading partners – is not limited to the United States, either. Meanwhile, trade imbalances have traditionally been a factor in US foreign economic policy vis-à-vis its major trading partners, most notably with Japan in the 1980s and early 1990s. Measures taken as a part of what are often called "trade wars" can be characterised as decoupling as well.

On the Chinese side – perhaps due to the fact that for most of the five decades since 1971, China has seen a surplus in its total trade with the United States – concerns about dependence on the United States as an export destination rarely led to calls for decoupling. In the Asia-Pacific regional ecology of manufacturing, China depends on access to the United States for advances in science and cutting-edge technologies. As a result, a focus on "indigenous innovation" (such as Made in China 2025) is treated as self-protection partly due to the Wassenaar Arrangement, a continuation of policies by the Coordinating Committee for Multilateral Export Controls (CoCom). When China takes actions to limit the power of vertical integration with US and other foreign companies at the top, Chinese policies and practices are viewed in the West as proactive decoupling as well.

**Technology:** This brings us to technology as the third focus in discussions about decoupling, where competing definitions and interpretations of security factor in. In the 2000s, digital technologies and services became the most competitive among major countries in the world.

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<sup>6</sup> David Autor, et al., "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade," *The National Bureau of Economic Research*, 2016, <https://www.nber.org/papers/w21906>.

“The Americans argue that it was, in fact, China that began the decoupling process as long as a decade ago, when it started to block US tech companies such as Facebook and Google from accessing Chinese consumer markets” as one explanation holds.<sup>7</sup> American high-tech companies such as Google had their share of controversies when operating in the Chinese market, however.<sup>8</sup> In the wake of revelations by Edward Snowden in 2013 that “the NSA [National Security Agency of the United States] was hacking computers in Hong Kong and mainland China, few of which were military systems”,<sup>9</sup> it was inevitable for China to see the country’s firewall against unfettered data flows as necessary and view the United States as a source of data insecurity.

A particularly complicating factor in viewing technology as a driver for proactive decoupling has to do with dual-use technologies, those that have both civilian and military applications. An impetus for self-protection goes beyond those technologies that are formally applied to weapons for battlefield use. Biotechnology has dual-use dimensions too and requires continuous enhancement in the quality of governance. On one hand, transnational information-sharing and action review is essential for improvements in biotech governance on the domestic front. On the other hand, exposure to foreign partners’ governmental and scientific systems is complicated by associated considerations of risks to a country’s biosecurity. Still, movement of biological organisms across nation-state borderlines is so difficult for governments to control that cooperation in monitoring is a must, not choice.

These three understandings of decoupling – which are certainly not exclusive – inform everyday policy deliberations and adoption of punitive policies. My point here is that it can be tempting to see decoupling as simply an act of malign intent with negative consequences, but the phenomenon is more complex. When decoupling moves from impetus to action, both sides stand to lose, either in the immediate or long term. But it is a reality of life in world affairs. The forces that can reverse decoupling will need to come from the respective domestic contexts and less from diplomatic dialogues focused on persuading the other party to change its overall strategy or take a specific action.

Below, I will briefly lay out some considerations for decisionmakers on both sides.

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7 Gideon Rachman, “Worlds apart: how decoupling became the new buzzword”, *The Financial Times*, 13 December 2019, <https://www.ft.com/content/9f50fe40-12a5-11ea-a7e6-62bf4f9e548a>

8 G. Elijah Dann and Neil Haddow, “Just Doing Business or Doing Just Business: Google, Microsoft, Yahoo! and the business of censoring China’s internet,” *Journal of Business Ethics*, 2008, 79: 219–234. DOI 10.1007/s10551-007-9373-9.

9 Paul Szoldra. 2016. “This is everything Edward Snowden revealed in one year of unprecedented top-secret leaks,” *Business Insider*, 16 September 2016.

## Unlocking the Current Path of Decoupling between China and the United States

In China-US relations today, decoupling involves a wide range of political, economic, cultural, and non-governmental issues and is intended to reduce ties and weaken relationships. It is practiced in a unilateral manner. Consideration of rules are cast aside. In theory, the two governments can pursue a bilateral investment treaty, which at the very least can provide a road map for their respective agencies of domestic governance to relate to each other. But that effort, initiated in the early 1980s, has lost traction. Multilaterally, both China and the United States are consequential actors who have agreed on certain rules, such as those for dispute resolution in multilateral economic institutions, e.g., the World Bank, the International Monetary Fund, and the World Trade Organization. But decoupling ignores the binding role those institutions are meant to play. Instead, what we are witnessing is that both governments seek to build coalitions in dealing with the other and thus contributing to further disruption of normalcy in exchanges in the world. In other words, decoupling is harmful to both governments in winning confidence and trust from the rest of the world.

To ameliorate this costly and worrisome trend, China should pay serious attention to the logic behind negative employment effects and other social challenges that come with increase in exports to high-income economies, the United States included. Even if it is politically difficult for China to accept “voluntary constraints” on product exports to the United States, as Japan once did, it should still counter-offer with promises of greenfield investments in the United States by Chinese companies. Voices of rejection by some US politicians and the commentariat should not be mistaken as the totality of American views on China. Job creation by foreign business entities – of course subject to the same American regulatory requirements – still brings direct benefits to American workers. If anything, with a meagre stock and declining flow of Chinese Foreign Direct Investment (FDI) to the United States, one possible consequence is America’s elected officials lost a chance to tangibly feel “China” or observe Chinese business practices in their home districts.

The US government has demonstrated its propensity of self-correction, as well. One prime example is the Biden administration’s termination of the “China Initiative”<sup>10</sup> which had been charged with unfairly targeting scientists in American educational and research institutions. Biden’s termination of the China Initiative leaves space for human ingenuity to play its role in dealing with the lingering negative side effects on exchanges in basic science. Indeed, there is no moral justification or punishing bilateral exchange on those technologies that

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10 The “China Initiative” was started by the Trump administration, see: Margaret K. Lewis, “Criminalizing China”, *The Journal of Criminal Law and Criminology*, 2021, 111, 1, 145–225.



show promise for enhancing health and other human welfare indicators in both societies and beyond. This is true for the Chinese side as well.

In addition to the realm of natural sciences, currently the governments of both China and the United States seem determined to limit the “influence” of ideas from the other. Academic decoupling is harmful to both sides, as progress in scientific research relies on access to data from anywhere in the world, including from countries deemed as adversaries. Furthermore, for any country the meaningful purpose of investing in social science research is to help emancipate people from ignorance or unfounded fears of the outside world. For both China and the United States, it is in their respective interests to specify “national security” guidelines for educators, scientists, and researchers while still encouraging exchanges among them.<sup>11</sup>

For both American and Chinese geo-strategists, it is advisable to note that self-perceptions like “the rising East” (in China or the “US/West in decline” (in the United States are both incorrect. The United States remains unrivalled in the global economy: it faces no real competition in finance and banking, research and development, or data-driven growth. Unlike the early 1980s, the last time when talk of decline was in vogue, today the United States is a net exporter of fossil energy. The main challenge for the US economy lies in domestic income inequality. For China, faced with a declining population, structural dependence on imported energy, and concerns about a “middle income trap”, there is every reason to reject explanatory power in such characterisations as the fall of the US or Western civilization.

In conclusion, decoupling, whether viewed through the lens of history, trade-dependence, or technology, is costly to both China and the United States. But there is plenty of space to reverse this worrying trend – it does not have to proceed on a path toward a point of no return. In this sense, the real competition between the two governments is over the fine-tuning of their policies toward convincing observers from around the world that they are capable of taking action to reduce the harm created by decoupling.

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<sup>11</sup> Junbo Jian, “The Constructive Role of Scholarship in the China-US Relationship,” Asia-Pacific Leadership Network, February 2023.

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## The APLN China-US-Asia Dialogue

The relationship between China and the United States has deteriorated significantly with the potential to worsen still. The security dilemma that this generates is fuelling fear, mistrust, and arms racing, impacting countries across the Asia-Pacific and globally. Potential repercussions include military confrontation and the possibility of nuclear escalation while undermining attempts at global cooperation on a range of 21st-century challenges.

Through a series of scholarly exchanges and publications, APLN's project China-US-Asia Dialogue evaluates what steps are necessary to improve understanding, reduce misperceptions, de-escalate risks and tensions, and build trust. The project is aimed at devising pragmatic policy recommendations for decision-makers and policy communities across the Asia-Pacific, and Washington and Beijing in particular.

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The mission of APLN is to inform and stimulate debate, influence action, and propose policy recommendations designed to address regional security threats, with an emphasis on nuclear and other WMD (weapon of mass destruction) threats, and to do everything possible to achieve a world in which nuclear weapons and other WMDs are contained, diminished, and eventually eliminated.



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