# The Analysis of the Decoupling between China and the United States

Bowen Luan
Whitgift School , London ,CR2 6YT , United Kingdom

**Abstract.** Since the 2018 Sino US trade war, decoupling from China has gradually become an important policy orientation of the US towards China. Starting from reducing the linkage between the two countries' economic relations, the scope of this policy has now extended far beyond the economic and trade fields, to areas such as technology, the internet, society, and even global governance. From an economic perspective, this article analyzes the respective impacts of the gradual decoupling between China and the United States, and points out that the continued development of both countries requires joint exploration of a better path of harmonious and sustainable development.

**Keywords:** China-US Relationship; China-US Trade War

## 1. Introduction

Alfred Marshall once said, "Cooperation between different countries is one of the most potent causes of improvement in civilization." However, since 2018, the decoupling of China US economic and trade relations has gradually become an important policy direction for the United States to handle China relations. This trend of decoupling has gradually become a consensus at home and abroad. Starting from reducing the linkage between the two countries' economic relations, the scope of decoupling between China and the United States has now extended far beyond the economic and trade fields, to the fields of technology, the internet, society, and even global governance. The main parties involved in the "decoupling" policy of the United States towards China are not limited to both China and the United States, but also involve American allies and a large number of participants in the global industrial chain. From the perspective of the overall interests of the country, The United States' current push for decoupling is outside the country's best interest. Additionally, if tensions between the two nations continue to rise and the decoupling process continues, it could create more uncertainties and challenges for the world. This paper will make a critical discussion from the perspective of international relations and the current changes in major economic indicators, proving that the decoupling will be harmful to US's interests.

## 2. The Concept of Decoupling

As geo-economic relations continue to change, the concept of decoupling has gradually become the key discussion point. It is a 'situation in which two or more activities are separated, or do not develop in the same way'; in this case, it will be the removal of China's market from the US (Han et al.,2021; Witt et al.,2023). In the history of the development of the US, decoupling is not an uncommon event. By evaluating historical events, we can get a better understanding of what an event such as US-China decoupling may lead to, for example, the Smoot Hawley Act in 1930, when the US raised the tariffs of thousands of goods by 50% from countries such as Canada, Spain, and Italy. One of the first was Canada, raising their tariffs by 300% on US imports. Furthermore, that initiated a trade war that later impacted the world. In 1932 the Dow Jones Industrial Average closed to a historic low of 41.22. Trade frequencies plummeted; from 1929 to 1934, world trade shrunk by 66% (Irwin, 1998). This decoupling-liked event kicked off a worldwide recession.

## 3. The Impact of Economic Decoupling Between China and the United States

The decoupling of the United States from China began during the Trump administration. In 2016, during his presidential campaign, Trump proposed to weaken his dependence on China's trade chain to address issues such as manufacturing hollowing out and job loss in the United States. In 2018, the Trump administration provoked trade frictions between China and the United States by imposing large-scale tariffs on Chinese goods. Since 2021, although the Biden administration has been emphasizing its hope for stable Sino US relations, its actual policy towards China has continued the main tone of "decoupling".

As a target of decoupling, China's response to decoupling is particularly noteworthy. Although the decoupling between China and the United States has had a certain impact on China's foreign trade in the short term, China has buffered the adverse effects of the Sino US trade war through various means and further established closer trade relations with other countries. The Belt and Road Initiative ensures supply chain continuity and regional integration, reducing the impact of decoupling with the US (Lee & Shen, 2020). Moreover, China has become more focused on developing its domestic businesses; China's 'domestic-international dual circulation' strategy emphasizes a robust domestic market to reduce foreign markets' leverage over China, it re-orientates the economy towards domestic production and self-innovation (Guo et al., 2020). China has increased its research and development on technology and expanded its partnership further with other countries. At present, China's domestic products are well able to meet the needs of its people; forty-nine per cent of Chinese citizens believe that Chinese products are of better quality, and 23 per cent said the reverse (Goldman Sachs Consulting, 2023). Although MNCs in China experienced a rise in revenues from 924 billion to 3.3 trillion, their shares of all revenues earned in China declined from 16 per cent to 10 per cent from 2006 to 2020 ( Figure 1) (García-Herrero& Tan, 2020). The decoupling of the United States ceded the enormous Chinese market to companies from other countries and made China's internal cycle self-sufficient. Otherwise, China's industrial policy, such as the "Made in China 2025", seeks to catch up and lead in crucial technology domains; this highlights scientific and technological self-reliance to reduce US leverage over China in the technology sector (Liu, 2016). China has recently increased its focus on financial decoupling, with many major Chinese state-owned firms leaving the NY stock exchange; for example, Didi Chuxing's decision to move its stock market from NY and Hong Kong underlines China's incentives (John, 2021).

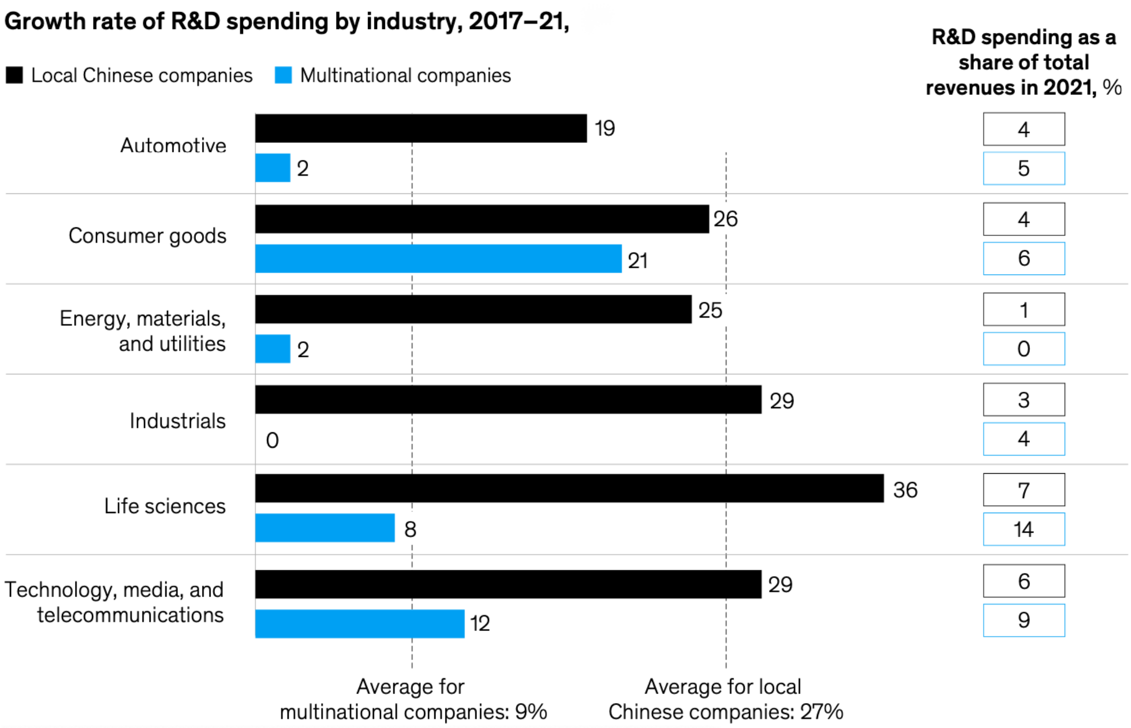


Figure 1 Compiled and modified by the author based on web data.

Compared to the situation in China, the decoupling between China and the United States is more likely to have a negative impact on the US economy than a positive one. The changes in economic indicators brought about by decoupling are a good illustration of the impact of decoupling on the US. The industrial effect of decoupling is essential to consider for the US. Firstly, Due to the restriction of flights and the strict review of Visas, the loss of the Chinese population travelling abroad. This affects not only the Tourism industry but also the education industry (Witt et al., 2023). Suppose the US continues to implement decoupling policies and apply all restriction known to date. The US will experience a loss of 50% of students and 50% of tourists from China, adding to a loss of around 15 billion and 30 billion a year in reduced US services trade exports (Wei, 2019). This will be a sizable loss for the US each year (see Figure 2).

| Indicator | Exposure |
|---|---|
| Chinese visitors to the U.S. annually | 2.9 million |
| U.S. travel exports to China (excluding education) | $17 billion |
| Tuition and living expenses contributed by mainland Chinese students (undergrad and above) in the U.S. | $13.8 billion |
| Mainland Chinese students in the U.S. (undergrad and above) | ~370,000 |
| Mainland China share of all international students in the U.S. | 33.7% |
| High-skilled professionals from China in the U.S. (H1B visa holders) | 27,482 |

Figure 2 Compiled and modified by the author based on web data.

From an industrial perspective, taking the aviation industry as an example. Currently, China is dependent on foreign aviation industry. It maintains the most significant trade deficit in this industry, accounting for 8% of global industry activities compared to 49% of the US (Zhang &Wang, 2023). However, due to the US government's requirement to decouple the relevant industry chain from China, China will have to develop its aviation industry through self research. In the short term, this will undoubtedly increase the cost of China's aviation industry, but on the other hand, it means that the US will cede its huge Chinese market, leaving huge development space for China's domestic aviation industry. The Chinese aviation industry will leverage this huge market to complete the industrial upgrading of the aviation industry, and the United States will permanently lose this part of the market. From 2019, as China's fleet continues to expand and develop, the US will lose up to 277.2 billion in forgone revenues in the next decade by 2029 if China decides to buy planes from elsewhere (Lu& Zhang, 2021). This means the US will lose its 45% market share of China's aviation industry and the extra costs (Yuan, 2020). The third notable industry will be the semiconductor industry. As the US is leading the world in technological advancements, it cannot bear to lose its advantage, which will cause it to lose its dominant position in the world. Investigations show that a loss of China's market for the US will equate to around 13% of the global market share in the semiconductor industry as China increases its imports of semiconductors worldwide (See figure 3). As the semiconductor market is predicted to grow from 470 billion to 730 billion from 2018 to 2027, a loss of 13% of global market share will equate to 95 billion forgone (García-Herrero& Tan, 2020). Similarly, due to the US blockade of Chinese semiconductors, there will be a huge market for the development of domestic semiconductor production capacity in China. Once the domestic semiconductor industry in China successfully grows, the United States will not only lose its market in China, but is more likely to lose more market share in the future due to competition with domestic semiconductor companies in China.

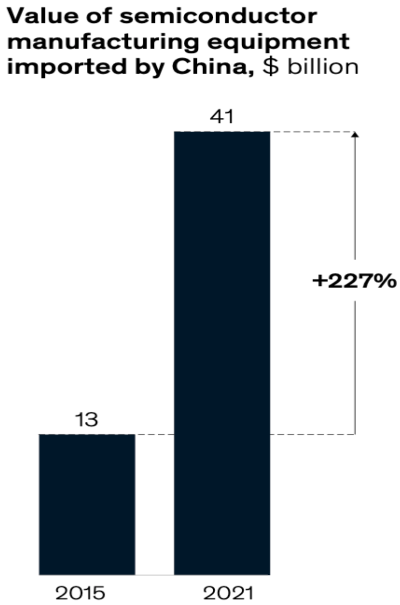


Figure 3 Compiled and modified by the author based on web data.

At the present stage of decoupling between the U.S. and China, bilateral trade between the two has already started to decrease, and this means that other countries might benefit significantly as the missing market between US-China can be filled by trading further with them. From 2020 to 2022, China's share in the U.S. goods trade fell from 14.8 per cent to 12.9 per cent. There was an even steeper decline in China's share in imports from 21.4 per cent to 16.4 per cent from 2017 to 2022 (John, 2021; Zhang, 2023). The current data shows that the U.S. is not gaining substantial growth in economic indicators. This means that even though China and the United States are continuously decoupling, the United States has not been able to benefit from the decoupling, and may face huge risks. From the perspective of risk return, further decoupling between China and the United States may not necessarily be in line with the national interests of the United States.

## 4. Conclusion

E.F. Schumacher said, "Cooperation is a more powerful force than competition. Competition, in its classic sense, is the conflict of the strong with the strong." (Schumacher, 1943). The butterfly effect brought about by decoupling has been initially revealed as unfavorable to the short-term interests of the United States and China and for the long-term development of the hidden dangers. In the international political arena, China's response to decoupling will not make a massive difference in the short term. Still, in the long run, it will have a significant impact that will further challenge the United States' current leading position. Meanwhile, both countries are experiencing slow economic growth, due to the US-China decoupling. Multinational companies are struggling to maintain their interests in this climate of uncertainty. The return of U.S. firms has brought more local jobs, and the shift in supply chains has increased jobs and incomes in some developing countries. Although this paper criticizes the decoupling initiative, it is not a defeatist attitude; on the contrary, it is hoped that the two countries will continue to explore a better path to harmonious and sustainable development.

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