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**Research Article/Araştırma Makalesi**

## **From Decoupling to De-Risking: A New Era in Trade Between the West and China**

*Ayrışma'dan Risk Azaltma'ya: Batı ile Çin Arasındaki Ticarete Yeni Dönem*

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**Abstract**

Since the Second World War, the welfare level of world societies has increased with the peace period brought by economic interdependence and the acceleration of globalization. However, the 2008-09 financial crisis, strained relations between the USA and China, the global pandemic, the Russia-Ukraine War and geopolitical tensions continue to negatively affect international trade and the global economy. Western and allied countries have experienced the effects of their dependence on the supply chains of countries with which they have bad diplomatic relations, in major shocks. Governments and policymakers of Western developed countries, especially the US, stated that it would be in line with national security interests for companies to move their production to allied -friendshoring- countries. Decisions taken by policy makers in the world's developed economies have also prompted businesses to take new steps.

In this study, which was prepared using secondary data, the economic decoupling of the US and allied countries from China was examined and concluded that the complete decoupling of economies will disrupt the world's economic stability and lead to a loss of global welfare.

**Jel Codes:** F13, F40, F62

**Keywords:** Decoupling, De-Risking, Globalization, Geopolitics, International Trade

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## Öz

İkinci dünya savaşından bu yana ekonomik karşılıklı bağımlılığın getirdiği barış dönemi ve küreselleşmenin hızlanmasıyla dünya toplumlarının refah düzeyi artmıştır. Ancak 2008-09 finansal krizi, ABD Çin arasındaki gerilen ilişkiler, küresel salgın, Rusya-Ukrayna Savaşı ve jeopolitik gerilimler uluslararası ticareti ve küresel ekonomiyi olumsuz etkilemeye devam etmektedir. Batı ve müttefik ülkeleri, diplomatik olarak ilişkilerinin kötü olduğu ülkelerin tedarik zincirlerine bağımlı olmalarının etkilerini, yaşanan büyük şoklarda tecrübe etmişlerdir. Başta ABD olmak üzere Batılı gelişmiş ülkelerin yöneticileri işletmelerin üretimlerini dost ülkelere taşınmasının ulusal güvenlik çıkarlarıyla uyumlu olacağını ifade etmişlerdir. Dünyanın gelişmiş ekonomilerindeki politika yapıcıların aldığı kararlar işletmeleri de yeni adımlar atmaya sevk etmiştir.

İkincil veriler kullanılarak hazırlanan bu araştırmada, ABD ve müttefik ülkelerin Çin'den ekonomik olarak ayrışması incelenmiş ve ekonomilerin tamamen ayrışmasının dünyanın ekonomik istikrarını bozacağı ve küresel refah kaybına yol açacağı sonucuna varılmıştır.

**Jel Kodları:** F13, F40, F62

**Anahtar Kelimeler:** Ayrışma, Riski Azaltma, Küreselleşme, Jeopolitik, Uluslararası Ticaret

## 1. Introduction

Robert Schuman, the former prime minister of France, proposed the European Coal and Steel Community in 1950 to prevent a new war by making potential conflicts on the continent impossible thanks to economic integration (Lynn 2002: 38). A similar approach was put forward as “Wandel durch Handel”, the idea of transformation through trade, which is the main basis of economic diplomacy in some Western countries, especially in Germany, in France during the Age of Enlightenment, it was expressed as “Doux”, which was put forward by the French philosopher Montesquieu, meaning that trade leads to dialogue and interdependence deters conflict (Krugman, 2022; Moens, 2022).

For the last 70 years, policy makers from all over the world have recognized the power of economic interdependence and have prevented major wars and ensured a long period of peace by connecting their countries in a dense network of economic connections (Okonjo-Iweala, 2023). In addition, globalization has gained an impressive momentum with the decrease in transportation costs and the advancement of technology in the last century. Increasing economic interdependencies with globalization have provided unprecedented prosperity to our world by removing trade barriers. The globalization, which was disrupted by the 2008-2009 global financial crisis, the Covid 19 pandemic, the Russian-Ukrainian war and its slowdown due to increasing geopolitical risks continue to be the subject of many research (Irwin, 2020). Economic and non-economic multiple crises (polycrisis) that have emerged on an unprecedented scale in the last fifteen years continue to be experienced (Tooze, 2022). These shocks, which also hit international trade, brought the issue of reorganization of global supply chains back to the political agenda. Because, while the decrease in international transportation and communication costs with the development of technology accelerates globalization, politics determines whether companies and individuals can benefit from the opportunities provided in this way (Witt, 2019: 1054). Geopolitical tensions started to get stronger with the trade war against Chinese goods started by the then US President Donald Trump in 2018, the pandemic that affected the world two years later, and Russia’s invasion of Ukraine. These tensions have prompted policy makers and businesses in the world’s three major economic powers (US, EU, and China) to pursue new strategies. With these shocks affecting the whole world, countries have had difficulties in accessing strategic inputs in their supply chains and have begun to review their dependence on China, the world’s factory.

The experiences during the pandemic, geopolitical factors such as the Ukraine war, have led to more sweeping and potentially long-lasting changes in the activities of companies from raw material procurement to production and distribution. In this process, some countries are taking steps to secure access to critical production inputs in their supply chains, such as reshoring “bringing production back to home country”, friendshoring “manufacturing in allied countries or obtaining inputs from suppliers in allied countries” or nearshoring “manufacturing close to home country” (Boeckelmann, Meunier & Attinasi, 2023).

These measures first brought about the decoupling of global trade from China, and then de-risking discussions in the following days, and prompted the world’s leading companies to make new investment decisions. In the Global Risks Report published by the World Economic Forum in 2023, it was stated that there would be crises arising from geopolitical and economic trends

in the next ten years. Among the most serious global risks in the two- and ten-year projections was geoeconomic confrontation, defined as “...the decoupling of economic interactions between states by global or regional powers...” (World Economic Forum, 2023).

While supply chains were designed for efficiency until the 2000s, interruptions in supply chains with the Covid 19 pandemic highlighted the importance of flexibility and resilience; the geopolitical, economic and energy shocks caused by the Russia-Ukraine war and the increasing trade tensions between the US and China highlighted security in supply chains. Supply chains have become a national security issue in the US, EU and other Western governments.

## 2. Literature Review

The decoupling process in the global public opinion started with the trade tariffs in the US President Trump era and became a trend with the problems experienced in the supply of medical equipment's in the Covid 19 pandemic that coincided with the same period.

In the Google Trends analyzes conducted by Liu (2023) with the keywords “decoupling China”, the search results between January 2020 and June 2021 peaked in August 2020. Since decoupling is a subject that covers not only the fields of economy or trade but also international relations, there are studies carried out in many different fields. While Gao et al. (2023) examined the decoupling in the context of the global semiconductor industry, Eppinger et al. (2021) investigated the decoupling in global value chains, and Tang et al. (2021) investigated the effects of the deteriorating US-China relations on the decoupling in science and education. Witt et al. (2023), in their study, which emphasized that the decoupling between the US and China will continue for a long time, expressed the factors that cause the decoupling as politics, economy and technology. Bateman (2022), on the other hand, in his comprehensive study examining the US-China technological decoupling, emphasized that America's strategies and policies regarding the technological decoupling from China are very complex and uncertain. García-Herrero & Tan (2020), in their study investigating the phenomenon of deglobalization in the context of the US-China decoupling, concluded that the strategic rivalry between the US and China in recent years forced both countries to decouple from each other in terms of trade, FDI and technology. In their influential articles in the *Foreign Affairs* journal in (2020), Farrell and Newman emphasized that the decoupling between China and the US is not possible, and that both countries will suffer from it in a possible decoupling scenario. In a recent study of the IMF (2023a), it was concluded that while the economic decoupling has an effect up to 7% of the global GDP, this loss will reach 12% in some countries if the technological decoupling also occurs.

Although discussions about the beginning of the decoupling between the USA and China have an important place in the global public opinion, some authorities also claim that there is no decoupling. It is stated that US-China dependence continues, especially in some commodity groups. Decoupling in the field of green energy does not seem possible (Sanderson, 2024).

According to Graham and Rashid from the Atlantic Council, dependence continues in some areas, such as personal protective equipment in healthcare, energy products and critical minerals, and batteries (Graham & Rashid, 2023). Robin Brooks from the Institute of

International Finance, states that there is no decoupling, arguing that China's trade surplus with countries such as Mexico and Vietnam has increased and these goods are being shipped to the USA (Brooks, 2023, 2024). Similarly, The Economist suggests that supply chains are getting longer and more complex, but there is not much change in their point of origin (The Economist, 2023a).

### 3. Method

This research was prepared using secondary data. Secondary data revealed by primary research in this area constituted the data source of the study. Secondary data has become important in recent years for research in various disciplines such as sociology, economics and political science (Trzesniewski, Donnellan & Lucas, 2011: 13). Through the analysis of secondary data, the researchers provided answers to important research questions that reinterpreted or expanded the important results in the field (Greenhoot & Dowsett, 2012: 5).

The data constituting the source of the study were obtained as a result of the searches made using keywords such as "US-China Economic Relations", "decoupling", "US-China de-risking" on the websites of international organizations and mainstream international media, as well as the reports of electronic scientific databases, scientific journals and international financial institutions.

The research questions of the study are as follows:

- R.Q. 1: How did geopolitical shocks affect the economic decoupling?
- R.Q. 2: In which direction is the decoupling between the US and China heading?
- R.Q. 3: Is a full decoupling between the US and China possible?

### 4. The Slowbalization

As the decrease in international maritime and air transportation costs, and the development of communication and other technologies, the level of global connectivity increased until the 2010s. International business activities have grown considerably, with companies sourcing their inputs from overseas suppliers with a just-in-time supply chain philosophy. However, debates continue about the slowdown of globalization in the last decade (Delios, Perchthold & Capri, 2021; Shih, 2020; The Economist, 2019).

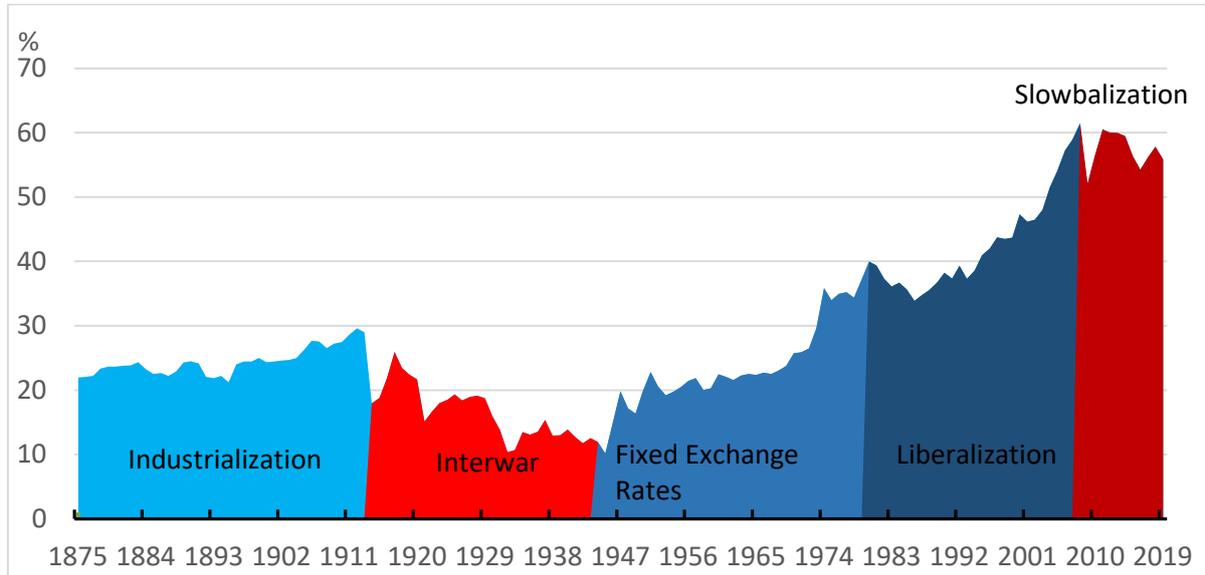
Globalization can be defined as the changes in communication and transportation technologies, internationalization in financial flows, and the transition of trade and economy to global markets (Chase-Dunn, 2006: 82).

There are many different definitions of globalization in the literature. According to the IMF (2008), economic globalization is "a process of innovation and technological progress, the increasing integration of goods, services and capital in the global economy".

When the data for the last 150 years of world economic history are examined, the main stages of globalization can be clearly seen using the "trade openness index", which is the sum of the exports and imports of the world economies according to the global gross domestic product

(Aiyar & Ilyina, 2023). Globalization has followed a horizontal course in the fifteen years since the 2008-2009 global financial crisis, and this period has been called “slowbalization”.

**Figure 1: Eras of Globalization (Sum of Exports and Imports as Percent of GDP)**

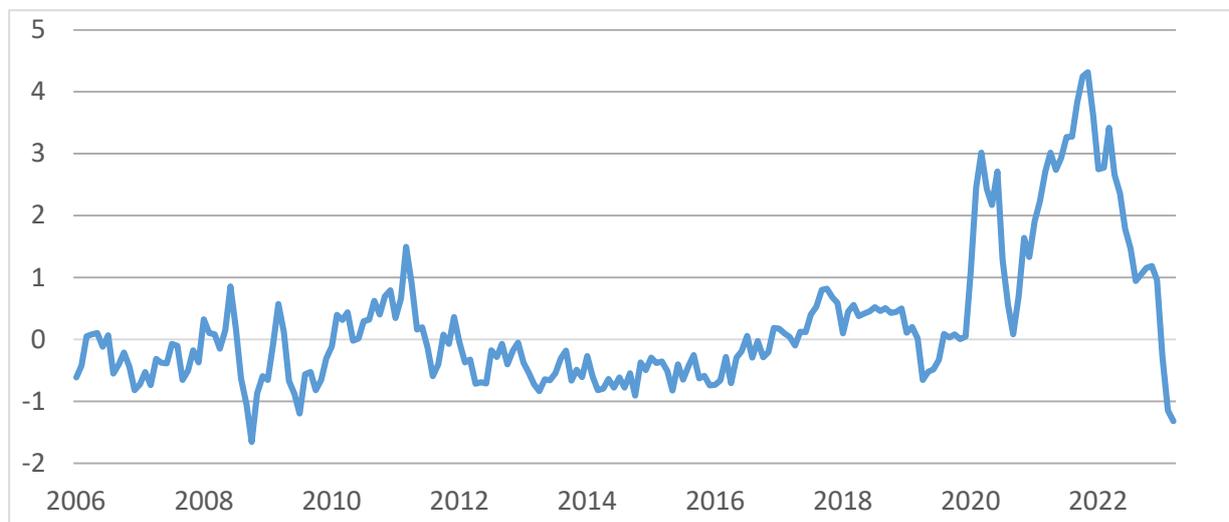


**Source:** Ourworldindata.org, 2023; IMF, 2023a.

Global shocks such as Brexit, the global pandemic, the Russia-Ukraine War, the US-China trade war have emphasized the ruptures in politics and economy in the current debates on globalization. Developed by the Federal Reserve Bank of New York, the Global Supply Chain Pressure Index (Figure 2) is a simple global indicator designed using 27 different variables, including sea and air freight costs, to detect supply chain disruptions.

As shown in this index, global economic connectivity has been interrupted, albeit temporarily. Although the index has returned to normal, it has led to major changes in the future of supply chains.

**Figure 2: Global Supply Chain Pressure Index**



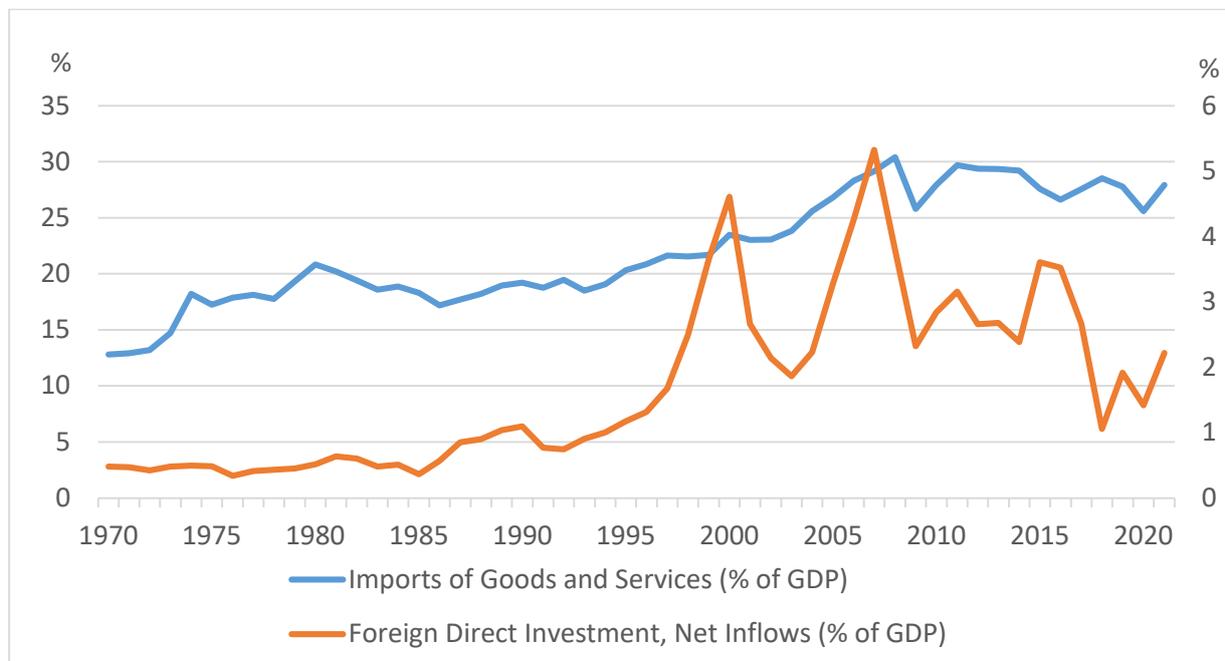
**Source:** New York FED, 2023.

The higher the index, the more unstable the supply chains are. The index, which fluctuated during the 2008-2009 financial crisis, from 2006 to the present, followed a course between -0.5 and 1.0 on average until before the pandemic.

However, after the COVID-19 pandemic affected the whole world, the pressure index reached 3.02 in April 2020, and reached a record level of 4.3 in December 2021 with the historical peak of shipping costs in international maritime transport. With the easing of coronavirus restrictions as of 2022, the pressure index started to decline and decreased to -1.3 levels in April 2023.

Another measure of the level of trade globalization in the world system is the share of total imports to World GDP (Chase-Dunn, Kawano & Brewer 2000:82).

**Figure 3: Imports of Goods and Services (% of GDP) and Foreign Direct Investment, Net Inflows (% of GDP)**



Source: World Bank, 2023a; World Bank, 2023b.

The decline in FDI has become particularly noticeable, with global FDI falling from 4% of GDP in the 2000s to around 1% in the last 5 years (Figure 3). The most significant reason for this slowdown trend is that capital flows are affected by geopolitical tensions and global shocks. Similarities to the global trend are also observed in FDI flows between the US and China. According to the data of the research company Rhodium Group (2023), the total amount of FDI between the world's two largest economies between 1990 and 2020 has reached approximately 460 billion dollars. However, in 2020, the amount of FDI in both countries has decreased to pre-2005 levels.

Countries have started to implement policy measures such as bringing production and manufacturing "back home" (reshoring), production in allied countries (friendshoring) or moving manufacturing to a nearby country (nearshoring) aiming to increase the resilience or



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robustness of their supply chains in order to protect themselves from geopolitical risks that have become more clear in recent years.

## 5. Decoupling

The origin of the first “segregation” dates back to about a hundred years ago. The decoupling that resulted in the war when the US increased economic pressure on Japan in the 1930s is still on the agenda today as the US administration enters into an economic and geopolitical conflict with China, another Asian and also the world’s second largest economy (Johnson & Gramer, 2020).

Globally increasing geopolitical tensions in recent years due to the deterioration of diplomatic relations between the US and China and Russia’s invasion of Ukraine have intensified concerns about the decoupling of global trade (IMF, 2023c). The underlying reasons for the idea of decoupling that have emerged in recent years are the lack of transparency of the Chinese government in the Covid-19 pandemic that emerged in China and affected the whole world in a short time, complaints about China’s human rights violations and the claim of collective intellectual property theft from Western companies (Constable, 2023).

The Covid-19 pandemic has shown the world’s dependence on China more than it does on each other. In the study conducted by the European Union Chamber of Commerce (EUCCC) in China in 2021, 77% of the participants reported that if these practices continue, China’s attractiveness for future investment would decrease (EUCCC, 2022). Among the corporate businesses that participated in the survey conducted by the insurance company WTW on western businesses in (2023), the rate of those who predicted that the economic decoupling between the world’s two largest economies will “greatly strengthen” was below 15% in 2022, while this rate exceeded 40% in 2023. The great decoupling between the US and China could manifest itself in the geopolitical storm between the two countries, over technology, trade, finance and people, all four of which are interconnected (Mishra, 2023: 52).

On May 14, 2020, US President Donald Trump threatened to break the economic relationship of the US with China, and in an interview on a news channel, he said, “There are many things we could do, we could cut off the whole relationship” (Fox Business, 2023). The official start of the decoupling process started with Trump's announcement that Chinese technology company Huawei would be included in the “Entity List”, the trade restriction list. This has meant banning US companies from supplying core components to China’s top AI company (Tsang, 2020: 3).

According to the US Congressional Research Service’s (2020) report, the decline of medicines and equipment supplied from China has increased the shortage of critical medical supplies, as the US government strives to contain the spread of Covid-19. According to the Executive Order on supply chains issued by the White House in (2021), 73% of manufacturing facilities producing active pharmaceutical ingredients (API) from drugs regulated by the US Food and Drug Administration (FDA) are located outside the United States. On the other hand, China accounts for approximately 20% of the global medical product market (Wu et al., 2022).

Another of the global shocks is the war that broke out in the center of Europe. The Russian invasion of Ukraine in February 2022 has severely strained the political and economic relationship between Russia and the West. When Russia, which supplied more than 40% of the EU's natural gas imports before the war, reduced Europe's gas supply, fuel prices rose and put the economies of Ukraine's allies in trouble (The Economist, 2022). According to a study by Yale University (2023), more than 1000 American companies voluntarily reduced or stopped their activities in Russia. More than 35 states, including the US, EU, UK and Canada, have frozen of some \$300 billion in Russian Central Bank overseas assets and banned transactions with the Central Bank of Russia. The US has imposed sanctions on Russia's two largest commercial banks and numerous oligarchs, as well as other elites close to President Putin. The US and EU also prevented seven major Russian banks from using swift, the financial communication system that facilitates worldwide money transfer. Bruno Le Maire, the French finance minister, described the swift ban as a "financial nuclear weapon" (Comfort, 2022).

These developments have led the West and its allies to question their dependency on China. In 2021 and 2022, The European Commission has published reports on "Strategic Dependencies", which it defines as "dependencies that are considered of critical importance to the EU and its Member States' strategic interests such as security, safety, health and the green and digital transformation" (European Commission, 2021, 2022a). These reports identify 137 products on which the EU is heavily dependent on imports, particularly from China, and provide an in-depth analysis in six strategic areas: raw materials, active pharmaceutical ingredients (API), li-ion batteries, clean hydrogen, semiconductors, and cloud and edge computing. Similarly, in a 250-page report, in which the White House Administration published the findings of its 100-day review of US supply chain vulnerabilities in 2021, it presented the analysis and recommendations of institutions responsible for assessing supply chain vulnerabilities in four critical industries. These priority sectors are; semiconductor manufacturing and advanced packaging, large-capacity batteries, critical minerals and materials, pharmaceuticals and active pharmaceutical ingredients (API) (White House, 2021).

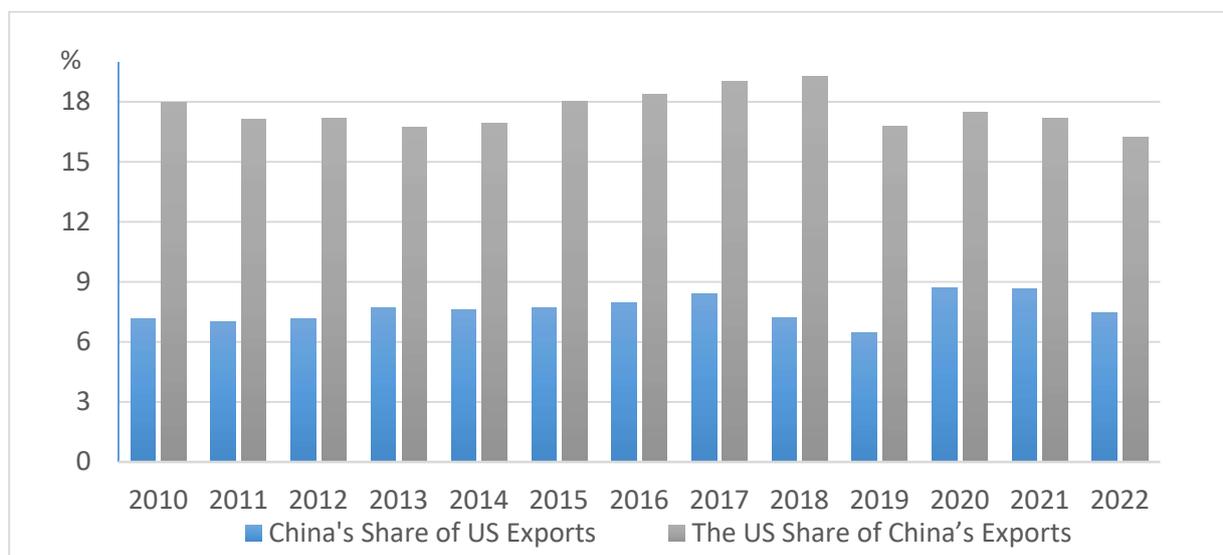
In October (2022), the US administration introduced significant chip export controls in order to slow down China's progress in advanced artificial intelligence, defense industry and modern technology. It has decoupled its competitor from many of the key components needed to power advances in the field of artificial intelligence. American companies are prohibited from exporting state-of-the-art chips and the software and equipment required to design or make them to China, and even US citizens working on the production of advanced semiconductors, providing support and technical information. With this decision, the US government has clearly revealed its plan to decouple from China, especially in the technology sector. The effect of this great technology decoupling between China and the US has begun to be seen. After US export controls aimed at slowing Beijing's technological progress, China's chip imports fell by nearly 20 percent in the first five months of 2023 (Cao, 2023).

The presence of semiconductors, critical raw materials and components used in clean energy among strategic industries that are important to Western governments indicates that future dependency in these areas will pose more risks. Although studies and reports that emphasize the reduction of dependencies have been prepared, the change is relatively visible when it

comes to trade data. Both the EU and the US continued to increase their imports from China, and even in 2022, their trade volumes reached a record level.

Figure 4 shows the export shares of the US and China each other from 2010 to 2022. Between 2010 and 2022, China’s average share in US exports was approximately 7.63%, while the US share in China’s exports was approximately 17.56%. In the last three years, the share of exports between both countries continued to decline. China is currently the third largest export market for the United States, while the United States is China’s largest export market. In addition, the two countries are each other’s biggest trading partners.

**Figure 1: Shares of Exports of Goods Between the US and China (%)**

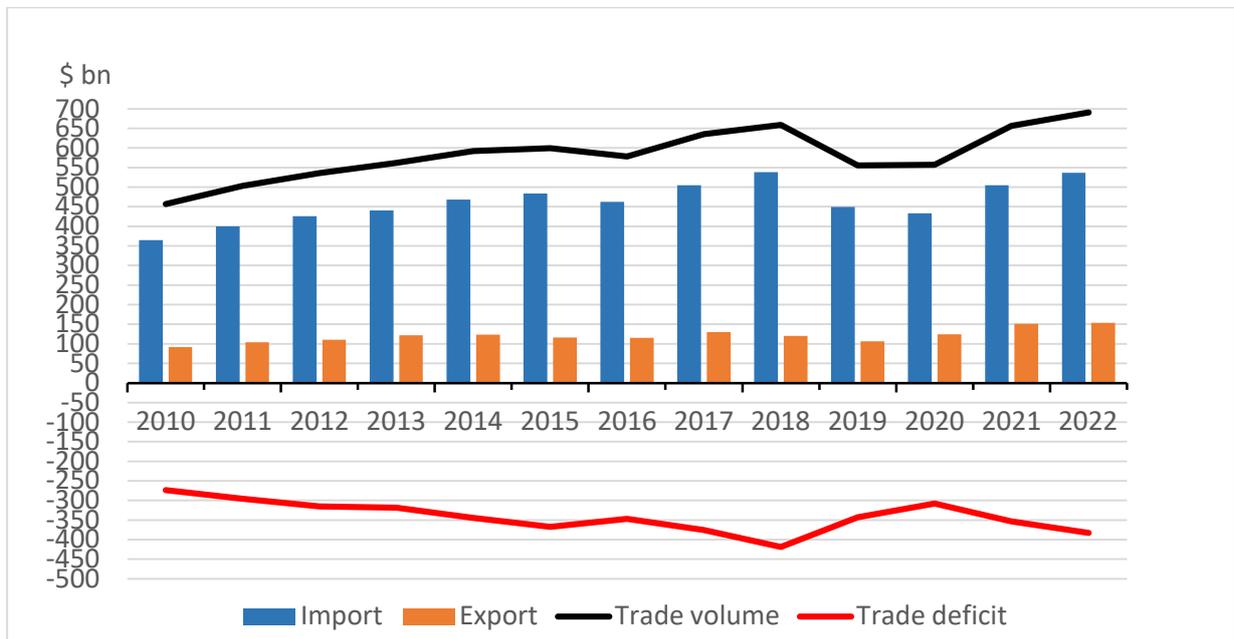


**Source:** Trade Map, 2023; World Bank, 2023c.

The trade in goods between the two sides of the Pacific (Figure 5) continues to increase in recent years, and even in 2022, the trade volume between the two countries broke a record with 690 billion dollars. However, the foreign trade deficit of the US also tends to increase.

In the light of these data, the US and China continue to enhance their trade volumes despite several disagreements.

**Figure 2: US, Trade in Goods with China**



Source: Census.gov, 2023.

The trade volume of the US with other trading partners in Southeast Asia is also increasing. This region also offers an alternative supply chain to China. The Economist (2023b) used the term “Altasia”, an abbreviation of Alternative Asian Supply Chain, for 14 countries in Asia, which are alternative locations for new production sites of global manufacturing companies as a result of the growing geopolitical tensions between America and China. The goods trade data of the Altasia countries shown on the map in Figure 6 with the US are given in Figure 7.

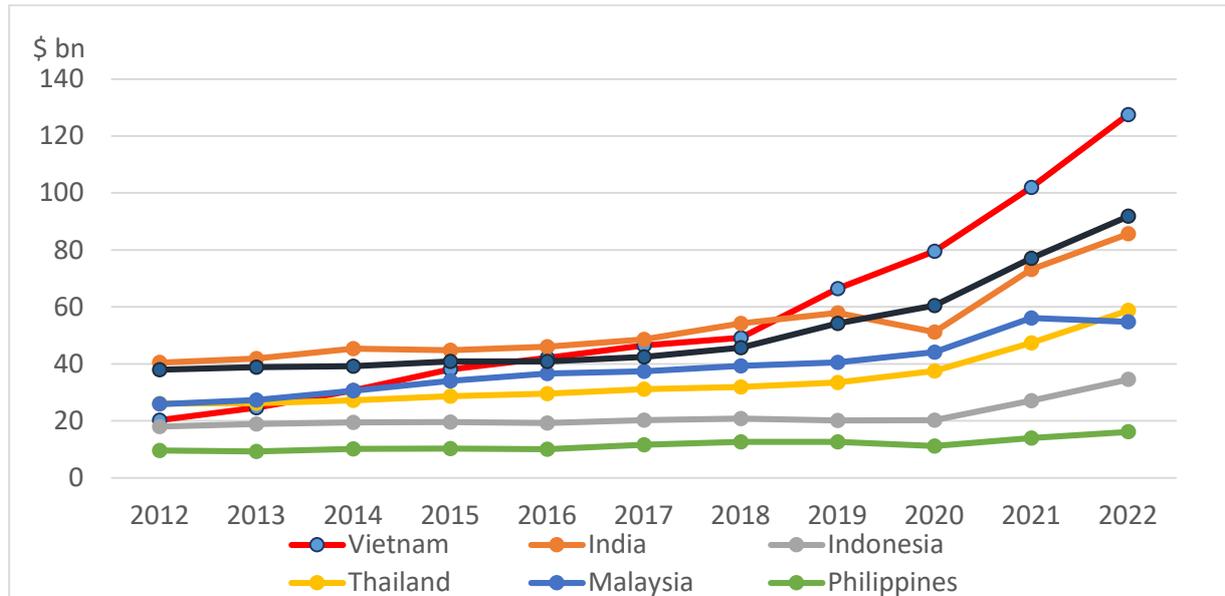
**Figure 3: Some of the Altasia Countries**



Source: MapChart.net, 2023.

A rapid increase is observed in the imports of goods made by the US from the 7 Asian countries shown in Figure 6, notably after 2020. In fact, the rate of increase in imports in 2022 compared to 2020 was over 50% in six countries excluding Malaysia, with an increase of approximately 71% in Indonesia, 67% in India and 60% in Vietnam. The average increase rate of US imports from seven Asian countries was approximately 53%.

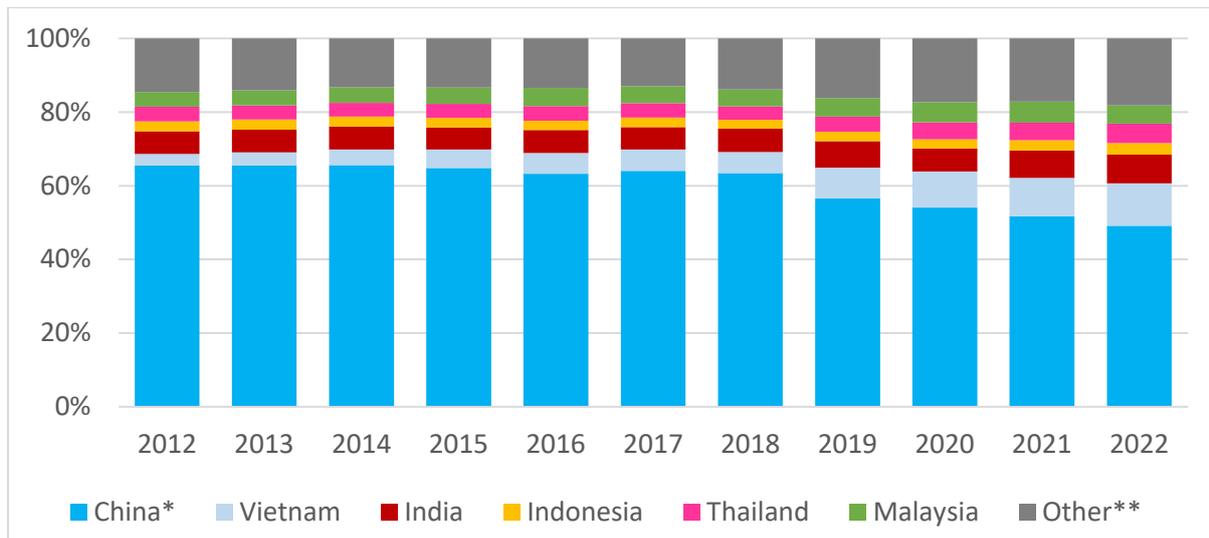
**Figure 4: US Goods Import from Asia**



**Source:** US Department of the Treasury, 2023c.

According to the goods trade data of the US with China in Figure 5, the increase rate of the imports of the US from China in 2022 compared to 2020 is around 24%. With all seven trading partners in Asia achieving greater growth in exports to the US than the increase in exports from China, we can conclude that for US supply chains, the relative importance of alternative countries in Asia has increased. However, the value of imports from China continues to increase. In 2022, the trade volume between the world's two largest economies broke a record by exceeding 690 billion dollars, and the imports of the US were realized slightly below the record in 2018. Therefore, in absolute terms, China continues to maintain its importance for the US supply chain.

**Figure 5: Asia’s Share of US Goods Import**



**Source:** US Department of the Treasury, 2023c. \* Includes Hong Kong, \*\*Other: Philippines, Taiwan, Pakistan, Sri Lanka, Bangladesh, Singapore, Cambodia, Laos, Brunei

While China had a share of approximately 70% in the US total imports of goods from Asia in 2012, this share decreased to 50% in 2022. While Vietnam’s share has doubled in the past five years, it has nearly tripled in the last ten years. While the share of US imports from Asia excluding China was 35% ten years ago, it has increased to 50% in 2022 (Fig. 8). In addition, for many years, Asia’s trade with the West was one-way. At the end of the 20th century, more than 70% of Asian exports in value moved to other parts of the world, while today about 60% of Asia’s exports take place within the continent (The Economist, 2023c). Although there is an increase in the exports of Asian countries to the US today, the trade volumes of these countries are also increasing.

A full decoupling from China may not be very possible, as the world’s dependence and interconnections in China are so intense. However, businesses continue to diversify their supply chains due to geopolitical risks. Some companies continue to follow the “China Plus One Strategy”, where they continue to work with suppliers in other parts of Asia, while maintaining some of their production in China.

## 6. Friendshoring and Nearshoring

As the European continent experienced the shocking consequence of being dependent on a single country, Russia, for energy during the Russia-Ukraine war, European policy makers continue to constantly bring the reduction of economic dependencies to the agenda.

However, governments acknowledge the significance of cooperation and mutual trade. In a report on supply chains early in 2022, the American administration stated that “The United States cannot make, mine, or manufacture everything ourselves. We must cooperate with our allies and partners to foster and promote collective supply chain resilience.” (White House, 2022). By enhancing trade with countries that share their values and interests, advanced



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Western economies plan to maintain access to a variety of goods and markets for both businesses and consumers while reducing vulnerabilities.

There is a significant increase in the interest of enterprises in shifting their production to friendly countries or their home countries (reshoring) where they will not be affected by geopolitical tensions in accordance with the national security interests of the states (IMF, 2023d: 92). In Newsweek magazine, Dezenski & Austin first used the term “ally-shoring”, which means production in an allied country, in their article in July (2020). In a 250-page report on building durable supply chains published by the White House in June (2021), the terms “ally and friend-shoring” were used. US Treasury Secretary Janet Yellen (2022) emphasized friendshoring in her speech at the Atlantic Council, describing this concept as “We have a group of countries that have strong adherence to a set of norms and values about how to operate in the global economy...”. Production in friendly countries actually means reorienting supply chains to countries that are seen as politically and economically safe or low-risk so that trade activities can run smoothly (Ellerbeck, 2023). It means that companies produce in countries where their homeland is compatible in foreign policy and national security.

There are many reasons why businesses want to reduce their dependence on China. Some of these are China’s intellectual property infringing regulations, uncertainties regarding supply chains such as the Chinese government’s dual circulation policy and zero covid policy, trade tariffs, and general geopolitical tensions (Kearney, 2023). In addition, the increasing tensions in international relations in recent years and the moves made by foreign policy decision makers also affect the decisions and plans of the business world.

In her speech at the Atlantic Council, U.S. Treasury Secretary Janet Yellen emphasized securing trade and stated that choosing supply chains in reliable countries would reduce risks, rather than manufacturing in countries where the U.S. has geopolitical tensions, which can use strategic goods against its own interests. Not only the US, but also different economies of the world emphasize their own economic security. For example, with the dual circulation strategy, which is within the scope of the Made in China 2025 plan and expressed in the fourteenth five-year plan, which Chinese leaders have long emphasized, China aims to reduce its dependence on other countries and increase its dependence on itself (Tran, 2022). On the other hand, in the document “Strategic Autonomy 2013-2023” published by the European Union in 2022, it was emphasized that the EU should take decisions in strategically important policy areas such as defense and economy without being dependent on other countries (Damen, 2022).

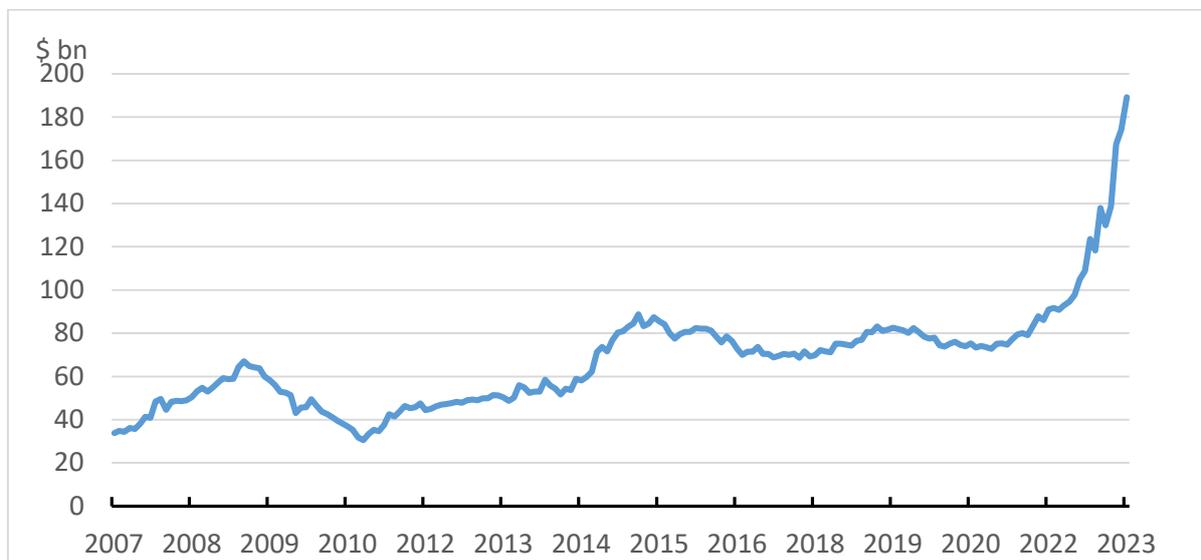
Companies trying to avoid China’s tensions with the west and China’s steps that affect their supply chains have started to position their production facilities in or near their countries. At the same time, the West and its allies have enacted legal regulations that include some loans, grants and other incentives to attract production to the country.

The first of such regulations was “The Creating Helpful Incentives to Produce Semiconductors and Science Act” (CHIPS Act), which was signed into law in August 2022 to protect national security and increase competitiveness in technology. With this regulation, a budget of 280 billion dollars was allocated for technological production, research and development and the development of semiconductor technology (McKinsey, 2022). One week after the Science

Law, the Inflation Reduction Law was enacted and a loan of 391 billion dollars was allocated to be used in the transition to clean energy and green technology (Tankersley & Plumer, 2023). In another arrangement, with the Chip Law enacted by the European Union at the beginning of 2023, 43 billion Euros has been allocated for investments in new generation technologies, especially semiconductors, with the aim of increasing the continent's share in global chip production capacity from 10% today, to 20% (European Commission, 2022b).

The world's leading technology manufacturers have announced their new investments in the US in order to benefit from these incentives. In September 2022, Intel, one of the world's leading chip manufacturers, announced its plan to establish two new factories with an investment of 20 billion dollars to produce semiconductors (Clark & Swanson, 2023). In October of the same year, Micron, a US-based semiconductor manufacturer, announced an investment of 100 billion dollars in a period of more than 20 years related to the construction of a large chip factory in New York (Lohr, 2022). In December, the \$40 billion investment plan of Taiwan-based TSMC, one of the world's largest chip manufacturers, for its second chip factory in Arizona, became one of the largest foreign investments in US history (Kinery, 2022). In a television program he attended in April 2023, the US Secretary of Commerce stated that more than 200 companies from many different industries are considering applying for CHIPS Act funding (Goswam, 2023).

**Figure 6: Construction Spending on US Manufacturing**



**Source:** FRED Economic Data, 2023.

It is seen in the construction expenditures in the country that the industrial policies produced by the US government are successful (Fig. 9). Construction expenditures in the manufacturing industry, which was 90 billion dollars in January 2022, increased more than twice in April 2023 and reached 189 billion dollars.

The interruption of international transportation with the global pandemic that affected the world, the increase in the cost of transporting goods in the Pacific between China and the US by about seven times, and the densities in the ports clearly showed the risks of being dependent on a distant country. Businesses have started to shift production to friendly/allied



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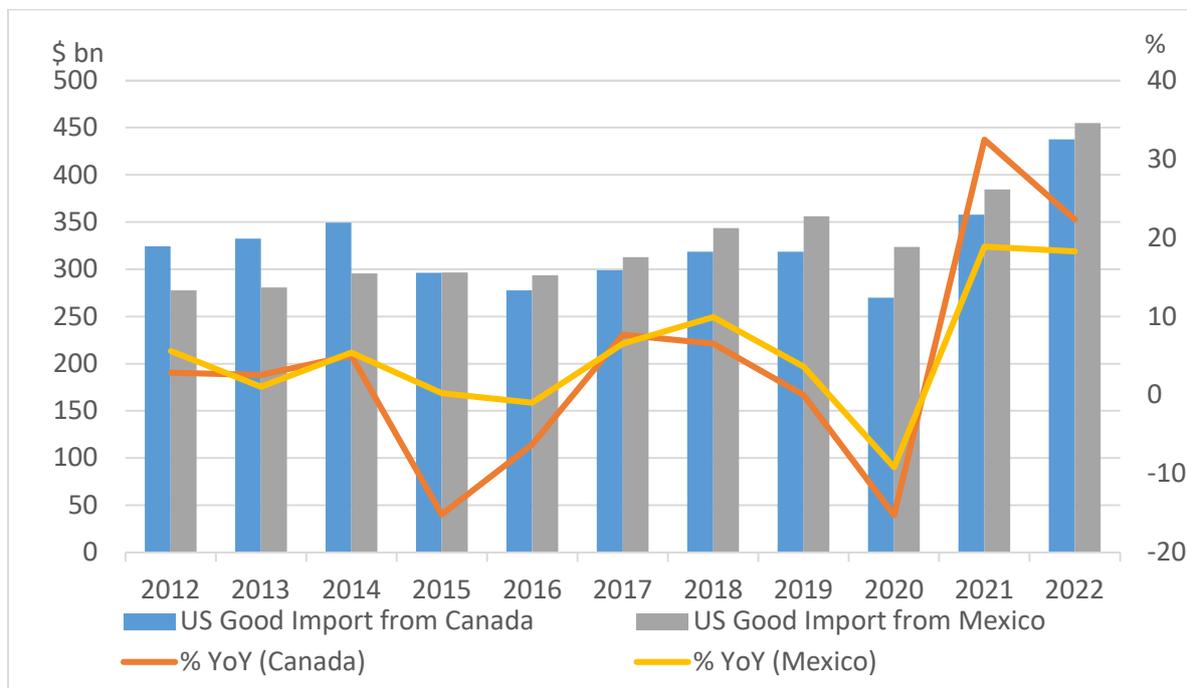
countries in order not to experience this difficult experience in their supply chains again in the future. It is seen that Mexico, which is the border neighbor of the US, has also benefited from this activity in recent years. Both US and foreign companies move the manufacture of products they produce for the US market to Mexico.

In (2022), the Mexican Minister of Foreign Affairs announced on the social media application Twitter that US companies plan to invest 40 billion dollars in Mexico by 2024. In 2023, another Mexican official stated that the electric vehicle manufacturer Tesla Company plans an investment of 10 billion dollars in Mexico (Averbuch, 2023). Mexican economy minister has announced that more than 400 companies are considering moving their production from Asia to Mexico (Mahoney, 2023). Chinese companies are also investing more in manufacturing activities in Mexico to avoid supply chain disruptions with high trade tariffs on US imports from China and to provide tax-free access to the US market. China's FDI inflows to Mexico peaked at \$386 million in 2021, from \$38 million in 2011 (Heritage, 2023).

The US government is also promoting regional production as part of its plans to support supply chains and US manufacturing. At the North American Leaders' Summit held in Mexico in early 2023, the United States, Canada and Mexico agreed to strengthen their regional supply chains and encourage investment in some high-tech sectors (Parti & Harrup, 2023).

The America's neighbor to the north, Canada, is benefiting from moves by the US and its allies to reduce their reliance on China for the supply of strategic mineral resources used in electric vehicle batteries and the transition to clean energy. Different companies, including the world's leading automobile manufacturer Volkswagen, General Motor and major chemical companies, announced that they invested more than 10 billion dollars in projects related to electric vehicles in Canada in 2022 (Monga, 2023). According to the data of the Canadian National Statistics Agency (2023), FDI inflows to the country has increased by about 30% in the last five years.

**Figure 7: US Goods Import from Canada and Mexico and % Change YoY**



Source: US Department of The Treasury, 2023c.

The trade data of Mexico and Canada, the two countries from which the US imports the most after China, are given in Figure 10. In 2022, imports from Canada increased by 22% compared to the previous year and became 437 billion dollars, while imports from Mexico increased by 18% compared to the previous year and reached 455 billion dollars.

## 7. De-Risking

Policymakers in both Europe and the US are also moving away from the term “decoupling” with China. Instead, the term “de-risking” is used when describing relations with the world’s second largest economy. In fact, this phrase is defined as “to mean actions taken by a financial institution to terminate, fail to initiate, or restrict a business relationship with a customer, or a category of customers, rather than manage risk associated with that relationship consistent with risk-based supervisory or regulatory requirements” according to the U.S. Department of the Treasury (2023).

At the World Economic Forum held in Davos on 17 January 2023, the term “de-risking” was used by the President of the European Commission, Ursula von der Leyen, for both the European and global economy. Referring to the signs of Europe’s economic philosophy, von der Leyen said in her speech that China heavily subsidizes its industry and restricts EU companies’ access to its market. “...especially when it comes to this transition. So, we need to focus on de-risking rather than decoupling” she said, explaining the new economic approach towards China (European Commission, 2023a).

Ursula von der Leyen, in her speech on 30 January 2023, summarized her view on the future EU-China relations. Mentioning that the EU’s relationship with China is one of the most

complex and important anywhere in the world, she emphasized that China could make itself less dependent on the world but more dependent on China. She also said that Beijing's clear goal is "a systemic change of the international order with China at its center" (European Commission, 2023b). In her speech, she stated that decoupling from China is not viable and in Europe's interest, and that relations are not black or white, so the focus should be on eliminating risks, not on decoupling. She explained that the first of Europe's China strategy is to reduce risks through diplomacy, and the second is to reduce economic risks on four pillars. The first pillar focuses on reducing Europe's over-reliance on China for critical raw materials needed for future technologies that enable green and digital transition. The second pillar is the more effective use of trade instruments to address security concerns, such as deterring export controls and economic pressures. The third pillar focuses on ensuring economic security in the investments or exports of some critical sectors. The last pillar is based on close cooperation with global partners to protect the economic security of the EU.

In her speech on April 20, 2023, US Treasury Secretary Janet Yellen emphasized that the US is not trying to "decouple" its economy from the Chinese economy and that a complete decoupling of economies would be disastrous for both countries and destabilizing the rest of the world (US Department of the Treasury, 2023a). On April 27, 2023, US national security adviser Jake Sullivan emphasized in secure, resilient and effective supply chains by saying, "We are for de-risking and diversifying, not decoupling" in an important policy speech using the word "de-risking" (White House, 2023b). In recent weeks, the effect of the more moderate statements of US Treasury Secretary Janet Yellen and national security adviser Jake Sullivan towards China has also been seen on a global scale. China was one of the agenda items of the G7 Leaders' Summit held in Hiroshima on 19-21 May 2023, and "de-risking" was among the most important agenda items of the summit. In the final declaration of the summit, the leaders emphasized that there is no decoupling in the global economy, and also stated that they are aware of the fact that economic resilience requires de-risking and diversification. Among the concrete steps to be taken in the aforementioned declaration were the diversification of partnerships and the adoption of a secure economic approach, which prioritizes de-risking rather than decoupling (White House, 2023a).

Although the relations between the US and China are extremely strained, the rulers of the world's two largest economies continue to take steps to thaw the relations. As the last step to be taken in this direction, the cancellation of the trip planned by US Secretary of State Antony Blinken to Beijing after the Chinese surveillance balloon was noticed in the US airspace, diverted relations from their course again. About four months after the balloon incident, in May 2023, US national security adviser Jake Sullivan met with China's senior diplomat, Wang Yi, in Vienna, and US officials responsible for East Asian and Pacific affairs visited Beijing to meet with their Chinese counterparts (Leahy & White, 2023).

## 8. Conclusion

Since the second world war, societies have experienced that economic interdependence prevents wars and contributes to the increase of welfare. In this long period of peace, the decrease in transportation costs and the development of communication technologies led to

the acceleration of globalization. The slowdown of globalization, which was interrupted by the 2008-2009 financial crisis and as a result of the Covid-19 pandemic, the Russia-Ukraine War and geopolitical tensions, has begun to be discussed. Notably in the last five years, these large-scale shocks that the world has witnessed are called “Polycrisis”. The share of global imports of goods and services and global inward FDI inflows to global GDP, which are indicators of the slowdown in globalization, are on a downward trend.

While the geopolitical tension between the US and China has increased in recent years, investment flows between the two countries have slowed down. Tariffs on Chinese imports, initiated by President Trump and maintained by President Biden, have encouraged companies to move production from China to countries such as Vietnam, India, and Mexico. The pandemic, which led to the suspension of production activities in China and increased transportation costs, accelerated the trend of moving production out of China. Increasing global geopolitical tensions in recent years, such as the deterioration of relations between the US and China and Russia’s invasion of Ukraine, have increased concerns about the decoupling of global trade. The lack of transparency of the Chinese government in the Covid-19 pandemic, which emerged in China and affected the whole world in a short time, complaints about human rights violations in China and claims of collective intellectual property theft from Western companies are among the underlying reasons for the idea of decoupling that has emerged in recent years. The increase in the share of businesses reporting that doing business in China will become “more difficult in the future” in various surveys supports the decoupling.

The beginning of the decoupling between the US and China started with the US President Donald Trump’s speech to cut off the economic relationship of the US with China, and shortly after, the Chinese technology company Huawei would be included in the “Entity list”, which is the trade restriction list. Dependence on China has become a priority issue for US administrators, with the US having difficulty in accessing drugs and equipment supplied from China during the global pandemic and the emergence of critical medical supplies shortages. Another point where the increasing dependency was questioned was Russia’s cutting off gas supply to the EU in response to the sanctions imposed after Russia’s invasion of Ukraine.

After these experiences, the European Union published a report on its “Strategic Dependencies” by listing the products that are considered to be of significant importance for its strategic interests and on which it is highly dependent on imports. Similarly, in 2021, the White House Administration published a supply chain report in which the US evaluated supply chain vulnerabilities in critical sectors regarding supply chain vulnerabilities. In this process, the West and allied countries began to question their dependence on China, and the steps taken for this were also reflected in the foreign trade data. Although the trade volume between the world’s two largest economies peaked in 2022, the share of the US imports and exports from/to China in its total trade has been on a downward trend for the last three years. The trade volume of the US with other trading partners in Southeast Asia, which offers an alternative supply chain to China, is also increasing. In fact, the share of imports by the US from some countries in the region has doubled compared to two years ago. In the period from 2012 to 2022, while China lost about 20% of the US total imports of goods from Asia, the share of alternative Asian countries increased.



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Western companies operating in China have started to take new decisions against geopolitical tensions, and the most important of these decisions has been to plan to move production out of China. The interest of businesses in shifting their production to friendly countries (friendshoring) or their home countries (reshoring) where they will not be affected by geopolitical tensions in accordance with the national security interests and foreign policy strategies of the states has begun to increase. A high-level statement was made for the first time when US Treasury Secretary Janet Yellen mentioned the concept of friendshoring in a speech in 2022. Not only the US, but also other major economies, even China, have taken steps to reduce the increasing interdependence. The West and its allies have enacted legal regulations including some loans, grants and other incentives to attract production to their countries. Some of these are The Creating Helpful Incentives to Produce Semiconductors and Science Act and the Inflation Reduction Act in the US, the Chips Act in the European Union. The world's leading technology manufacturers have announced their new investments in the US in order to benefit from these incentives. Businesses have started to shift production to friendly/allied countries in order not to experience the difficult experience in their supply chains again in the future. It is seen that Mexico, which is the border neighbor of the US, has also benefited from this activity in recent years.

Western policy makers have started to use de-risking expressions, emphasizing that the decoupling will have negative consequences for global trade, especially for the Western and Chinese economies.

Since the world's dependence on China and interdependencies are very intense, it does not seem very possible to completely decoupling from China. However, businesses continue to diversify their supply chains due to geopolitical risks. Some companies continue to follow the "China Plus One Strategy", where they continue to work with suppliers in other parts of Asia, while maintaining some of their production in China. Although trade data show that dependence on China has decreased, albeit relatively, full decoupling does not seem possible due to the nature of global trade. A complete decoupling of economies would be devastating for the world's two largest economies, while at the same time destabilizing the rest of the world. In case of full decoupling, existing supply chains will be disrupted, delays and costs will increase in deliveries at each link of the chain, and growth figures will decrease in the long run, leading to a slowdown in globalization. On the other hand, it is impossible to change the place of global production in a short time, while today's trade system is based on nearly half a century of knowledge and investments of hundreds of billions of dollars.

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**Ethical Approval:** The author declare that ethical rules are followed in all preparation processes of this study. In the case of a contrary situation, Fiscaeconomia has no responsibility, and all responsibility belongs to the study's author.