Opinion **US-China trade dispute**

The west is in the grip of a decoupling delusion

Trying to move production from China is much harder than many companies and governments think

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French president Emmanuel Macron, left, and Ursula von der Leyen meet Xi Jinping in Beijing. The European Commission president has said the EU should 'de-risk', not decouple, its Chinese ties © Ludovic Marin/Pool/Reuters

James Crabtree YESTERDAY

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Two recent Beijing trips by global leaders have shed light on the many paradoxes of a future age of economic decoupling.

A visit by Emmanuel Macron, president of France, and Ursula von der Leyen, European Commission president, last week generated waves of controversy in the west. Another, by Anwar Ibrahim, prime minister of Malaysia, went almost unnoticed but in many ways proved more illuminating of the challenges of decoupling.

Macron travelled to Beijing with von der Leyen to present a united European approach to China. But he also brought a phalanx of business leaders, opening Paris up to accusations of mercantile foreign policy and leaving Europe looking divided.

A few days earlier, von der Leyen had delivered a speech in which she argued that Europe should "de-risk" rather than decouple its Chinese ties. Full decoupling was undesirable, she said, so the west should instead reduce risks in strategic sectors such as semiconductors, batteries and critical minerals. This week G7 finance ministers also talked up the need for supply chain "diversity" with plans to "empower" emerging economies.

Anwar’s visit to Beijing could hardly have been more different. Here there was no talk of decoupling. Rather, Malaysia’s leader hailed China’s economic prowess and encouraged greater investment. He took a group of Malaysian businesses too, returning with deals worth almost $39bn, on paper at least.

The sight of leaders from the “global south” streaming back to Beijing should alarm the west. Having previously focused on solving China’s Covid-19 crisis and securing his own third term, Xi Jinping is once again flexing his diplomatic muscles — from peace deals in Ukraine and the Middle East to investment deals for south-east Asian neighbours.

While western leaders are trying to unpick decades of globalisation, Asian nations from Bangladesh and Indonesia to Malaysia and Thailand view China as central to their economic future. Rather than decoupling, they seek more trade with Beijing. And, paradoxically, this is an outcome western policies might actually deliver.

Global businesses now talk about “friend-shoring”, meaning moving production towards geopolitical partners such as India, Mexico or Poland. Alternatively, they might set up facilities in south-east Asia, where most nations are geopolitically neutral between Beijing and Washington. The likes of Malaysia and Vietnam are often predicted to be winners from decoupling, able to hoover up western businesses as they leave China.

There are problems with this account, however, the first being that so far decoupling has barely begun to happen. Semiconductors are one notable exception, given successful American attempts to stop global chipmakers selling to China. But for all the talk of supply chain de-risking and resilience, similar moves in other sectors are hard to spot.

Western multinationals talk more often about a “China plus one” strategy, in which they keep making things in China but also pick another manufacturing base, Malaysia say, as a hedge.

But imagine for a second that geopolitical events take a further turn for the worse, western companies get spooked, and decoupling does begin to move forward more quickly. What then? Here, many in the west assume that shifting production will make them less reliant on China, while the decoupling process will probably draw countries such as Malaysia and Vietnam closer to the west itself. Both assumptions are questionable, to say the least.

Take Samsung. Its decision in 2020 to shift production to Vietnam means the South Korean giant now assembles millions of phones in Vietnamese factories each year. Many are then exported to the west. Many components that go into those phones are still made in China, however, so Vietnam must also import more of those too.

Vietnam's bilateral trade with China has rocketed in recent years, with similar patterns discernible in the rest of what is sometimes called "factory Asia". Forthcoming research from Aaditya Mattoo, an economist at the World Bank, suggests that east Asian nations have lately been exporting more to the US but also importing much more from China.

The result is a double paradox. First, rather than connecting emerging economies more tightly to the west, decoupling often leaves countries in regions such as south-east Asia more economically dependent upon China, not less. Second, while shifting supply chains around the world appears to leave the west less reliant on China, the continuing need for components that still mostly come from there means the fundamental vulnerability remains.

Before her recent Beijing visit, von der Leyen argued that "it is neither viable — nor in Europe's interest — to decouple from China". She is right. And given the complex and intertwined structure of modern globalisation, even the task of partially reducing dependence on the Chinese economy is likely to turn out to be much harder than it looks.