

**US-China relations**

## US-China decoupling is hurting innovation, World Bank warns

Multilateral lender warns on the costs of limiting tech flows as it sets out lower Asia growth forecast for 2023



The World Bank said that export controls on technology between the US and China could 'reduce the global availability of knowledge' © Adam Glanzman/Bloomberg

**Edward White** in Seoul and **Mercedes Ruehl** in Singapore YESTERDAY

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The World Bank has warned that technology decoupling and trade restrictions stemming from US-China tensions are hurting knowledge generation and innovation in both superpowers, posing a long-term threat to growth across Asia.

The deepening division between the world's two biggest economies now poses "the most immediate challenge" in Asia-Pacific, according to the bank's semi-annual economic update for the region released on Friday.

"Bilateral restrictions on technology flows and collaboration between large countries could reduce the global availability of knowledge," the [World Bank](#) said, adding that empirical evidence showed the "adverse effects of recent restrictions" on companies in China and the US as well as their top trading partners.

The warning came as [US-China relations](#) have sunk to their lowest level since the nations normalised diplomatic ties in 1979.

China's president Xi Jinping has become increasingly assertive towards Hong Kong and Taiwan, as well as in the South China Sea, and has supported Vladimir Putin despite Russia's invasion of Ukraine.

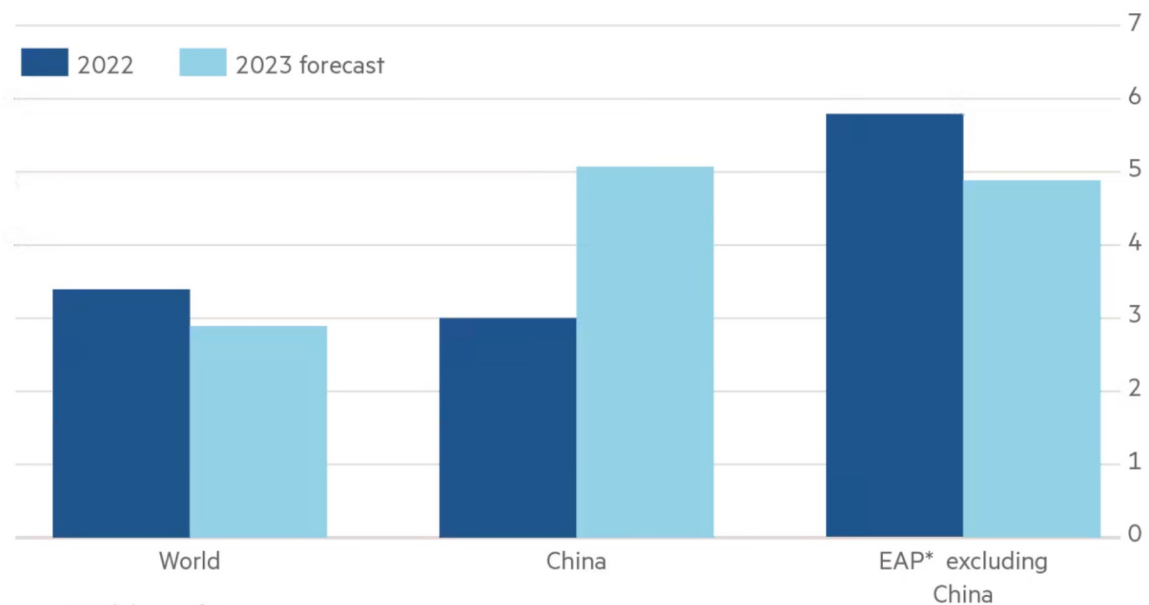
In the US, Joe Biden has adopted many of his predecessor's more hawkish policies

in the US, the Biden administration has adopted many of the protectionist measures that have been pushed towards China, including tariffs and [sweeping export controls](#) intended to cut off Chinese companies' access to critical technologies such as semiconductors.

In the latest sign of deepening divisions between China and the west, European Commission president Ursula von der Leyen on Thursday called for the EU to [develop "new defensive tools"](#) for trade in sensitive technologies such as quantum computing and artificial intelligence, as part of "de-risking" the bloc's industries from China's ambitions.

### China's economic growth is projected to jump in 2023 while Asia's more broadly falls

Per cent



\* East Asia and the Pacific  
Sources: Haver Analytics; IMF; World Bank  
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The World Bank's findings, based on an analysis of patent trends in the US and China, found that post-2018 measures taken by Beijing and Washington have damaged corporate innovation in both countries. This in turn threatened to undermine decades of stable economic growth in the Asia-Pacific region, as well as co-operation in the fight against climate change, the bank said.

"Once you move away from open, integrated markets which are governed by predictable trade rules to protectionism, trade division [and] politically influenced choices, you introduce uncertainty, which is to nobody's advantage," said Aaditya Mattoo, the World Bank's chief economist for East Asia and the Pacific.

Other countries would struggle to exploit economies of scale if they had to comply

with [conflicting technology standards](#) set by different governments, Mattoo added.

While a push to diversify manufacturing and technology supply chains away from China initially provided a boost to India and countries in south-east Asia, the World Bank warned that deeper problems were emerging.

“On the face of it . . . new opportunities have been created. You see a dramatic increase in Vietnam’s exports, especially to the US, and also a dramatic increase in Indonesia exports, especially to China with metal,” Mattoo said.

But those opportunities could be eroded by further US-China decoupling, which is disrupting trade flows and raising costs for companies by forcing them to separate their supply chains to avoid violating export restrictions. The uncertainty could lead to less investment.

This is particularly the case with providing [access to emerging green technologies](#), as developing countries in Asia, many of which remain deeply reliant on fossil fuels for growth, look to transition to renewable energy.

“We need to not do what happened with vaccines,” Mattoo said, referring to unequal access to Covid-19 inoculations. “We need to ensure that these green technologies become genuine public goods.”

The World Bank projected economic growth in the region of 5.1 per cent this year, up from 3.5 per cent last year and reflecting a 0.5 percentage point increase from its October forecast.

The bank also said it expected China would [achieve its 5 per cent growth target](#) for 2023, forecasting an expansion of 5.1 per cent as the economy rebounds from Xi’s zero-Covid policy.

But its experts cautioned that China could face a structural shift to slower growth if it failed to implement economic reforms to shift from a reliance on exports and investments to consumption.

Excluding China, the region’s economic growth is projected to fall to 4.9 per cent in 2023, from 5.8 per cent last year, as slowing global growth hits Asia’s export-dependent economies, high commodity prices eat into domestic consumption and financial tightening by policymakers inhibits investment.

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