

Opinion **Globalisation**

Strategic interdependence is rewiring the global economy

It is no longer sufficient for the US-China trade relationship to be driven solely by cost and efficiency

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Workers on the production line of a toy factory in Shenzhen. Investments US firms now choose to make in China must be significantly more selective than in the past © Qilai Shen/Bloomberg

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Trade tensions between the US and China have de-escalated in recent months. Still, as I speak with corporate leaders and government officials in each country, it is increasingly clear that the economic relationship between the two nations has fundamentally changed. Geopolitics, security and supply chain resilience are now shaping economic decisions in a manner that could be as profound as cost and efficiency once were.

Globalisation is not going away. Comparative advantage will continue to play an important role in shaping trade patterns, and after decades of investment, a substantial decoupling is not practical. But it is no longer sufficient for a trade relationship to be driven solely by lowest-cost production, just-in-time inventory and seamless, direct supply chains.

Instead, corporate leaders are weighing these advantages against questions that a decade ago would have barely registered: What are the national security implications? Am I overly exposing my operational platforms to cyber risk? How flexible are we in responding to unforeseen geopolitical tensions?

In practice, this means that the investments US firms now choose to make in China must be significantly more selective than in the past. The relationship between the two countries is developing into one of clear strategic interdependence.

This next phase of globalisation is more complex and challenging. Multinationals that previously focused on efficiency now centre their strategy on resilience and diversification. Companies are increasingly paying for the insurance policy of availability and scalability of supply, prioritising security over cost. Inventories are deeper and less efficient. Costs are higher, as is geopolitical scrutiny.

This shift is visible in the numbers. China's share of US imports has dropped from an all-time high of 22 per cent in 2017 to 13.4 per cent in 2024. At the same time, Vietnam's share has doubled and Mexico is now America's largest trading partner. While no single market can replicate China's scale, companies are now building multi-node networks, often bringing their Chinese partners with them to new markets to buffer against disruption.

Though most of the current focus is on trade, capital flows are similarly fragmenting. Foreign direct investment flows into China have fallen by more than 90 per cent over the past four years to the lowest level in three decades. Western investors have retrenched, particularly in sensitive sectors like technology — partially driven by concerns about the Chinese economy, but more likely in order to hedge their geopolitical bets. In fact, most firms are now exploring a China for China strategy.

While capital flows into China have rebounded slightly this year, this has largely come from portfolio, rather than direct, investments — perhaps a response to greater monetary and fiscal stimulus and the increase in listings on the Hong Kong stock exchange.

At the same time, China's domestic economy is itself advancing. It has rapidly climbed the advanced manufacturing curve, and it is clearly committed to cementing its position as a global leader in technology.

Still, FDI remains low. In my conversations with Chinese officials, I regularly hear a desire to attract more foreign capital. Policymakers should work towards this worthy goal, so long as it is done consistently with US national security interests.

On the outbound side, new Chinese investment in the US has dropped by more than 95 per cent from its peak in 2016. Capital is being rapidly redirected towards partners in south-east Asia, the Middle East and Latin America. Future trade negotiations should provide guidance on sectors of the US economy where Chinese investment is permissible.

Operating in China today means weighing many structural complexities that weren't always part of the equation. Regulatory uncertainty, data localisation mandates, national security reviews and capital controls are all part of this calculus.

Capital is being deployed with more caution, with an emphasis on the short term. Firms are investing in optionality: diversifying footprints, building local compliance strategies and planning for abrupt policy shifts.

This is the world of strategic interdependence. It's not about undoing global connections — but redefining them around new variables. The firms that I see succeeding are those that develop more granular intelligence, more versatility and a deep understanding of local conditions.

The US-China relationship remains the most important of our time. Companies will need to embrace complexity and adapt to this new dynamic.

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