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The Economics-Security Nexus in the US-China Trade Conflict decoupling dilemmas

Abstract

For more than two decades, China was enmeshed in transnational trade and investment networks. The complex interdependence that characterised the relationship between the United States and China is now threatened by policies that incentivise decoupling, including the partial unwinding of multinational supply chains. Since 2018 the ‘trade war’ between the US and China has taken on elements of a ‘tech war’, in which national security concerns replace economic logic. The area for win-win gains is reduced, as both countries pursue policies of greater technological autonomy. The bilateral rift creates challenges for companies and third parties who have no wish to take sides and complicates APEC’s goal to promote growth and accelerate regional economic integration.

Keywords United States, China, trade, decoupling, security, technology

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Introduction: the economics–security nexus

For nearly half a century after World War Two, a bipolar international system encouraged Western policymakers to operate on the liberal assumption that economic policy, at least as regards non-adversaries, involved the pursuit of absolute gains. Such win-win thinking differs from the zero-sum logic of competition for relative gains that drives conventional security policy. Although the economic foundations of military power put forward in modern realist classics (Gilpin, 1981) never disappeared from sight, liberal thought tended to prevail. To be sure, energy policy was never divorced from security concerns, and notions of ‘comprehensive security’ in many East Asian countries, such as Japan, fused economic, security and technological mastery goals (Samuels, 1996). But, for the most part, economic policy and international economic cooperation in the non-communist world proceeded on the basis that distributive conflicts over economic matters would be insulated from core national security concerns.

Liberal analyses suggested a positive relationship between economic

interdependence and reduced interstate security conflict. The world's rising power, China, was enmeshed in trade and investment networks which dispersed the production of manufactured goods across national borders, creating a condition of complex interdependence. By the end of the 20th century the world economy was more tightly linked than ever before. Transnational production networks had fragmented production across national borders, qualitatively changing the nature of interdependence in ways that would substantially raise the costs of any disruption as a result of international conflict (Ravenhill, 2013, p.12).

United States trade and investment policy settings tolerated this interdependence until around 2016. Criticism of China focused on barriers to accessing the Chinese market or unfair trade practices. Policy did not aim to disrupt the complex interdependence that characterised the United States' economic relationships with both allies and China. This is no longer the case. Since 2016 the US policy establishment has embarked on a radical reversal of previous policy. China is now viewed as a strategic rival and economic policy has become infused with security concerns. This means that economic competition is no longer contained within a sphere where absolute gains make win-win compromises viable.

The US-China 'trade war' of tit-for-tat tariffs is only one element of this competition. Although economically perverse, this element does not suggest an enduring economic rupture: on the US side, it is predicated on a neo-mercantilist desire to sell more to China, not to separate the two interdependent economies. The 'tech war', in contrast, suggests a different dynamic at work. There is a strong current in policy circles which aims at some form of 'decoupling' of the two countries. This could be narrow, with limited restrictions on trade and investment relating to sensitive technologies, but there is potential for more extensive unwinding of supply chains and inter-firm linkages. This would substantially erode the complex interdependence that has characterised global trade and production networks for the last two decades.

The rest of this article first summarises the change in the American policy stance

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towards China. We then present the major elements of the Chinese policy, with a focus on China's own aspirations for technological leadership and autonomy. Section three reviews firm-level responses to US and Chinese policy. It shows that some firms are altering their supply chains and business partnerships both reactively and pre-emptively. The concluding section draws out some policy dilemmas created by the US-China conflict for other APEC members. To what extent will they be forced to take sides in the US-China conflict as they make decisions around public infrastructure and IT systems standards? What kinds of shared rules and procedures may third countries put in place to manage the trade-offs they face?

The US: hardening attitudes and policies

Calls for the US to reduce its economic ties to China have increased since the Trump administration came to office in January 2017. On the campaign trail Donald Trump railed against China's 'outrageous theft of intellectual property', 'illegal dumping' and 'devastating currency

manipulation' (Rauhala, 2016). In office his administration introduced a series of measures that signalled a sharp change in American posture and policy towards the PRC. As one recent analysis notes:

Although the Trump administration does not openly embrace the idea of decoupling, its various policies – restrictions on high-tech exports to China, expanded investment limits, and efforts to have American companies move production out of China and on-shore manufacturing in the United States – effectively add up to a decoupling strategy. (Kennedy and Tan, 2020)

Unlike many of the Trump administration's actions over the last four years, the tougher posture towards China has widespread support in Congress and across the national security and foreign policy establishment. As Gurtov and Selden note:

A bipartisan consensus in Congress seems to have concluded that the era of engaging China is over. ... a hard line on China seems to be the single policy on which liberals and conservatives are in general agreement with one another and with President Trump. (Gurtov and Selden, 2019)

The business community has been more ambivalent: while US firms have longstanding complaints about unfair commercial competition from China, many are also significantly dependent on sales in China.

In the policy sphere, the new hard line against China is reflected in a host of official announcements. In December 2017 the congressionally mandated US National Security Strategy talked about 'a new era of strategic competition', referring to China as an 'adversary', a 'rival' and 'a strategic competitor' (Department of Defense, 2017). In a speech in October 2018, Vice President Mike Pence accused China of using 'an arsenal of policies inconsistent with free and fair trade', threatening its neighbours and covert efforts to cultivate political influence inside the United States. Pence said: 'America had hoped that

economic liberalization would bring China into a greater partnership with us and with the world. Instead, China has chosen economic aggression, which has in turn emboldened its growing military' (Pence, 2018).

The new approach to the economic–security nexus is visible in three distinct areas of policy: trade, foreign investment and emerging technologies.

Trade

In mid-2018 the Trump administration announced new tariffs on a range of Chinese products, following an investigation into unfair trade practices pursuant to section 301 of the 1974 Trade Act. The initial targets were solar panels, washing machines, steel and aluminium. China duly retaliated with tariffs of its own. After talks between the two sides broke down in June 2019, the US hiked the tariff on \$200 billion of Chinese goods from 10% to 25%, with China again responding. In September 2019 Trump announced duties on additional goods, taking the average US tariff to 21%. He told a rally that 'anyone who doesn't want to pay the tariffs has a simple solution: build your product in America, bring your factories back' (Politi, Wong and Edgecliff-Johnson, 2019).

In December 2019 the two sides announced agreement of phase one of a deal in which China committed to increasing purchases of US goods and services by \$200 billion over 2017 levels, stopping currency manipulation, tightening intellectual property rules, and refraining from forced technology transfer. In exchange, the US agreed to halve the tariff increase that had been introduced on \$120 billion of Chinese products. More difficult, structural issues were saved to be dealt with in 'phase two'.

Although the deal was sprung by the administration, the further deterioration in ties between Beijing and Washington over the Covid-19 pandemic has raised doubts about whether the phase one commitments will be honoured (Johnson, 2020). Furthermore, notwithstanding the deal, a swathe of tariffs remain in place (by one estimate, on around \$370 billion of US imports from China). As Chad Brown notes, many of these are intermediary goods:

The [US] Department of Commerce has employed its 'Entity List' under the Export Administration Regulations to impose restrictions on a number of Chinese companies, cutting off their access to the US market and American technologies.

Over 90 percent of parts and components imported from China will continue to be hit. Tariffs on intermediate inputs make it more costly for American companies to integrate with supply chains in China. For these products, the result is continued pressure for some decoupling of the US and Chinese economies. (Brown, 2019)

Investment

Washington has identified Chinese investment as another area of concern. A key instrument here is the Department of the Treasury's Committee on Foreign Investment in the United States (CFIUS), the inter-agency committee tasked with reviewing foreign investments to determine their effect on national security. In recent years, CFIUS has taken on a more expansive understanding of national security and has been more active in reviewing foreign investment. The 2018 Foreign Investment Risk Review Modernization Act gave CFIUS

additional powers to review mergers and acquisitions. New regulations set out rules for how investments in 'critical technologies', 'critical infrastructure', sensitive personal data, and certain real estate and non-controlling investments would be scrutinised (Jackson, 2020). The result has been that CFIUS has been increasingly willing to block transactions and force divestiture in cases involving Chinese firms. For example, it blocked Beijing Kunlun Tech's purchase of the dating app Grindr and the sale of Moneygram to the Chinese firm Ant Financial, apparently because of data privacy concerns (Danzman and Gertz, 2019).

Technology

A third and crucial area of US concern is control of emerging technologies, in particular AI, robotics, quantum computing, nanotechnology and biotech (Johnson, 2020). In a speech in February 2020, Attorney General William Barr described what he called China's 'sustained, highly-coordinated campaign to replace the United States as the dominant technological superpower': 'the dictatorship has mobilized all elements of Chinese society – all government, all corporations, all academia, and all of its industrious people – to execute seamlessly an ambitious plan to dominate the core technologies of the future' (Barr, 2020).

The US has introduced a raft of measures to try to counter this perceived threat. The Department of Commerce has employed its 'Entity List' under the Export Administration Regulations to impose restrictions on a number of Chinese companies, cutting off their access to the US market and American technologies. The highest profile case, Huawei Technologies, is discussed in greater detail below, but, as James Lewis from the Center for International and Strategic Studies noted at the time, 'the Entity List is reserved for our most dangerous opponents. It used to be you had to be a terrorist supporting nation or a proliferator, so this is a new chapter' (Swanson and Mozur, 2019).

The Department of Commerce has also expanded export restrictions on other items, including chemicals, micro-organisms and toxins; materials processing; electronics design, development and production; computers; sensors and lasers;

marine technologies; and propulsion systems, space vehicles and related equipment. Although the regulations are designed to deny transfer to a military end user, the definition is sufficiently broad that it would include Chinese state-owned enterprises and private companies with indirect links to the PLA (People's Liberation Army) (Panda, 2020).

Finally, the Trump administration has introduced new restrictions on research collaborations. Federal agencies have tightened rules around transparency and conflict of interest, requiring that grant recipients not have links to China's talent recruitment programmes. In May 2020 the US government announced plans to cancel the visas of and expel students with links to universities affiliated with the PLA (Wong and Barnes, 2020). Legislation has been introduced to Congress that, if passed, would ban Chinese nationals from receiving student visas for science, technology, engineering and mathematics research (Petti, 2020).

Across these three interrelated areas – trade, investment and technology – the Trump administration and the 116th Congress have shown that they are determined to pursue a very different relationship with the PRC. The overall impression is of a zero-sum approach to bilateral ties in which all the instruments of national power are used to counter China in what has been described as 'a long-term strategic competition between our two systems' (White House, 2020).

China: nationalism and internationalism

Chinese economic policy seeks to make China a leading technological nation (see, for example, State Council, 2018). This threatens the leading position of existing multinational tech companies and creates the structural conditions for tech rivalry between China and the US. China has publicly championed multilateral commitments to globalisation, but is also expanding its vision of national security and reassessing the risks of interdependence (Gewirtz, 2020). The resultant policy pushes the two economies towards decoupling.

As discussed here, China's innovation drive covers three areas: first, domestic policy which seeks to build up and protect

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nascent companies through subsidies, preferential investment and protection from foreign competition; second, guidance of China's tech companies to go abroad and invest in leading technology firms to reduce strategic vulnerabilities and acquire leading technology; third, efforts to develop and capture market share in developing markets.

Chinese policymakers are keenly aware of the limits of the growth strategy that drove growth from the 1980s. This strategy involved relaxing restrictive labour migration regulations, attracting foreign investment through preferential policies, and huge investment in infrastructure. As China became the 'factory of the world', multinational companies, including tech companies, were attracted by the promise of lower production costs. Their investment and activities helped build China's industrial capacity, upskill its workforce and facilitate the development of large-scale production. But the dividend from this strategy has run its course (Whyte, 2020).

As a 'catch-up' economy, China faces an 'innovation imperative': 'the need to acquire and develop new technologies in

order to overcome the structural challenges facing middle-income states and continue its international ascent' (Kennedy and Lim, 2018, p.554). In order to confront this challenge, China has invested in domestic innovation, science and technology and research and development (Kennedy, 2018), and implemented policy to develop high-tech industries to claw its way up the value chain and avoid the so-called 'middle-income trap'. The 'pursuit of innovation' threatens the position of existing multinational tech companies and creates the structural conditions for tech rivalry between China and the US (Kennedy and Lim, 2018, p.571). How China pursues innovation and tech catch-up exacerbates these concerns.

China's earlier focus on 'economic reform and marketization' has been steadily replaced with 'stronger state intervention to shape the ongoing structural transformation of the economy' (Naughton, 2011, p.313). In the technology area, policymaking is driven by 'a strong belief that innovation can be "decreed" or steered by the government' (Sergier and Breidne, 2007, p.136). Such beliefs have led to industrial policies like Made in China 2025 which 'signal an evolution and intensification of China's state-led approach' and put the United States and China 'on a path of separation rather than integration in critical commercial areas' (US Chamber of Commerce, 2017; see also BDI, 2019 and Glaser, 2019).

China's regulatory and legal practices are improving in some areas (Baeder, 2019), giving the impression of the type of regulatory system expected of a market economy. However, it is naïve to assume that a Leninist party state would withdraw from control and guidance of such an important sector. Science and technological innovation are central to Xi Jinping's vision for China to become a 'strong country' (see CPUCPC, n.d.) and to military modernisation and national security (Cheung, 2019).

China's tech ambitions are also closely linked to its relations with the global economy. The opening up in the 1980s attracted multinational companies to the Chinese market, sought to bind them to Chinese economic interests, and sought to hedge against overdependence on the US

market through foreign acquisitions. China then made efforts to pivot towards domestic innovation, and leverage economic engagements to acquire leading tech and internationalise Chinese companies (Friedberg, 2018). This has been a remarkably successful strategy, which has spurred the rise of leading tech companies like Huawei, ZTE, Tencent and Alibaba. At the same time, however, China has not provided reciprocal conditions for leading tech companies such as Google and Facebook to operate in the Chinese market, putting them at a global disadvantage due to China's growing market power.

With the pushback on investment in and partnership with American technology companies, there has been a strong reaction in China to double down on domestic innovation and reduce their over-reliance on the US. Chinese commentators argue that the trade war and 'relentless assault' on Huawei and 'Chinese high-tech companies in AI, robotics and quantum computing' has 'taught this country a good lesson' (Sheng, 2020). The 'lesson', as articulated by Cai Fang, a leading Chinese economist and vice president of the Chinese Academy of Social Sciences, is that China can no longer rely on cooperation with leading US tech companies and will therefore need to focus even more on domestic innovation and diversification (Tang, 2020). Capturing market share in developing economies and other non-US economies has become central to developing China into a leading technology nation.

Scholars have been arguing that China should implement a diversified export strategy and actively expand exports to emerging markets and developing countries for many years (Cao, 2013). Chinese tech companies have made an impressive push into developing markets in the Middle East, Africa, Asia, the Pacific and Latin America (Link, 2019). In these markets, companies like Huawei have two major advantages over international competitors. First, while production and labour costs are increasing in China, Chinese companies remain highly competitive on price. Second, because tech innovation is a national strategy, their activities have the diplomatic backing of the state as well as domestic support for innovation and technology development.

For many companies, isolating China from their supply chains appears prohibitively costly.

Overall, there is a disjuncture in Chinese understandings of the 'decoupling' debate. Chinese academic writing and media use the term mostly in a pejorative sense, to describe the trade war and US tightening of entry requirements for Chinese tech companies, and very seldom to describe Chinese actions. State commentaries even describe decoupling arguments as 'fools dreaming' (Zhong, 2020). China has employed industrial policy and sought to leverage relationships with US companies while also pursuing an aggressive policy to decrease dependence on US tech companies and break into new markets. Such policies have not only created major pushback from the US, but are in themselves effectively a policy of Chinese economic decoupling.

Firm responses: shifts in trade and investment partnerships

Even as US-China trade conflict worsened over 2019, liberal analysis of complex interdependence remained optimistic, believing that the economic links forged in global supply chains would be too costly to disrupt. Such voices pointed out, for example, that a quarter of components used in Huawei's products are produced by leading US companies (Garrett, 2019). Even in sensitive high-tech areas, new links have been forged. The OpenPower Foundation, for example, in which Google and IBM executives have played central roles, has facilitated a collaboration between IBM, Chinese company Sempron and US chip manufacturer Xilinx. The collaboration

aims to develop advanced microprocessors for analysis of large data sets (Gallagher, 2019). An analysis of Apple's supply chain data from 2015 to 2019 showed that, despite Apple's primary contract manufacturer, Foxconn, having opened facilities outside China, in India and Brazil, these locations were outmatched by the increase in manufacturing capacity added in China. Apple's suppliers were also increasingly concentrated in China: from 44.9% of all supplier locations being in China in 2015, to 47.6% in 2019 (Reuters, 2019).

For many companies, isolating China from their supply chains appears prohibitively costly. A survey of American companies in China in early 2020 found that 44% of them regarded economic decoupling of the US and China to be 'impossible' (Tong, 2020). However, this was a sharp drop from 66% in a similar survey only six months earlier. Other surveys of European and American companies show that the overwhelming majority remain committed to their China investments (Kennedy and Tan, 2020).

Despite such evidence that foreign firms are persisting with 'in China, for China' investment strategies, other indicators show that firms have reacted to the US-China security and trade conflict by unwinding parts of the complex web of supply chain links that made for complex interdependence (*Economist*, 2019). Chinese investment in the US has fallen sharply since flows peaked in 2016. The American Enterprise Institute tracks investments of over \$100 million by Chinese entities in US assets (excluding bonds), and finds that such investments soared to reach \$54.1 billion in 2016, and dropped sharply thereafter to \$24.6 in 2017, \$9.7 billion in 2019 and \$2.5 billion in the first half of 2019 (Scissors, 2019). A more expansive measure of Chinese foreign direct investment (FDI) in the US shows a similar sharp fall from 2016, with total Chinese FDI in the US dropping to \$5 billion in 2019, its lowest level since 2009. US FDI in China, in contrast, remained stable at an annual value of \$14 billion, focused in sectors targeting Chinese consumer demand (Hanemann et al., 2020, p.9).

Trade flows suggest that some decoupling is occurring. The Kearney Reshoring Index, which captures the sourcing patterns of US manufacturing companies, rose to a new high in 2019 (Van den Bossche et al., 2020). The index compares US manufacturing output with imports of manufactured products from 14 Asian countries. Although the 2019 index showed overall ‘reshoring’ of domestic supply chains, driven by a sharp fall in US imports of manufactured products from China, this occurred alongside a large increase in imports of such products from Vietnam and Mexico – a pattern attributed by the report’s authors to US companies shifting their sourcing strategies in response to the US-China conflict (PRNewswire, 2020).

Firms were starting to reshore some activity before the current escalation of US-China conflict, due to increased automation and a rise in nationalism in many countries (*Economist*, 2017). Rising labour costs in China meant that some labour-intensive production was leaving the country for lower-cost locations before the increase in US-China tension from 2016. The exhaustion of China’s earlier growth strategy described above was thus driving a shift in trade and investment patterns quite independently of national security concerns or conflicts.

It is equally clear, however, that some of the decoupling under way is driven by strategic competition between the US and China. Huawei Technologies – in many ways China’s champion of high-tech globalisation – is the most prominent example of how US restrictions have reconfigured supply chains and corporate strategy. Huawei was placed on the US Department of Commerce’s ‘listed entity’ blacklist announced in May 2019. Along with a presidential executive order issued in the same month, this restricted US companies and government agencies from technology transactions with a ‘foreign adversary’ deemed to pose an ‘unacceptable risk to the national security of the United States’, unless they received a license to do so. Although the restrictions were subsequently eased, they did prompt many firms to announce that they would restrict sales to Huawei and its affiliates, while

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Huawei itself launched a legal case against the US administration (Lim and Ferguson, 2019).

A year later, Huawei was found to be using an array of components made by US companies in its newest flagship phone, in breach of the US rules for companies on its blacklist (Yang and Liu, 2020). Apparently in response to revelations that Huawei was continuing to use American technology, the US Commerce Department announced in May 2020 that it would further tighten the restrictions (Politi and Stacey, 2020). The new rules would cut off Huawei and its affiliates from access to chips that had been made or designed with US equipment – a move that Huawei claimed threatened its survival (Hille, 2020). According to the same press report, companies manufacturing chips for Huawei with US tools would have to apply for a licence to do so. This creates a significant restriction, given that

US machines from the likes of Applied Materials and Lam Research are used by about 40 per cent of the world’s chipmakers, while software from the

likes of Cadence, Synopsis and Mentor is used by 85 per cent ... it would be almost impossible to find a fabrication plant, or fab, that could still work with Huawei. (ibid.)

The rules threaten HiSilicon, Huawei’s chipmaker affiliate and China’s largest chip design company, which relies on chip manufacturing by Taiwan Semiconductor Manufacturing, as TSMC would be vulnerable to US sanctions unless an exemption or waiver is granted (Capri, 2020).

These moves threaten Huawei’s direct-to-consumer sales. Its share of global smartphone shipments peaked at 18% of the total market in the third quarter of 2019 (Counterpoint Research, 2020). Huawei is also under pressure in its mobile infrastructure sales in many markets, with its role in the development of 5G infrastructure increasingly thwarted. Following outright bans by the US and Australia, more muted reactions in other Western countries, such as the United Kingdom and Germany, seemed to open the door to a restricted role for Huawei. However, market players seem to be treating Huawei as a risky partner. Vodafone, for example, announced in February 2020 that it would remove Huawei technology from the core of its European networks at a cost of more than \$200 million, following the UK’s decision to restrict Huawei’s role in its 5G infrastructure (Reuters, 2020b).

Huawei has bitterly contested its exclusions from key markets, but also adopted a placatory stance, promising to fix technical security problems. In Europe, Huawei promised to develop a wholly European manufacturing capacity for 5G in Europe (Agence France Presse, 2020). However, Huawei executives have repeatedly said that they have the capacity to develop autonomously, without American technology. Its alternative to Google’s Android operating system is under development. Along with the other principal Chinese mobile phone companies, Oppo, Vivo and Xiaomi, it has formed a new alliance aimed at creating an alternative platform to Google Play and attracting software developers (Reuters,

2020a). As US policy put pressure on Huawei's partnerships with university research laboratories and companies in the US, the company was reportedly seeking new collaborations to develop AI and other sensitive technologies with partners in Russia (McCarthy, 2019).

At present, Huawei and other Chinese technology companies still rely on chipmakers such as Taiwan's TSMC for high-end chips, making them acutely vulnerable to tightened US controls (Capri, 2020). This dependence is unlikely to persist in the medium term, given China's longstanding push to develop more autonomous high technology capacity. As American pressure has ratcheted up, so has the Chinese response, both at the firm level and through government directives. Most recently, in May 2020, Chinese state funds invested US\$2.25 billion in a wafer plant owned by Chinese chipmaker Semiconductor Manufacturing International Corp (SMIC), a move perceived as an attempt to shore up China's independent chip manufacturing capacity in response to tightened US controls (Bloomberg, 2020).

The dramatic consequences of the Covid-19 pandemic in 2020 are likely to reinforce the decoupling trends described here. Supply chain resilience through diversification has become a new mantra (PRNewswire, 2020). China's shutdown in early 2020 highlighted discomfiting dependence on China for many goods, including critical medical supplies. Thus, the decline in sourcing from China across a wide range of products seen before the pandemic is likely to continue (Tan, 2020). Incentives to de-risk and shorten supply chains are in principle compatible with continued interdependence involving Chinese participants in global networks, particularly as many Chinese suppliers have the capacity to continue their own geographic diversification strategies. However, because the pandemic is taking place against a backdrop of heightened US-China tension, it will be hard to insulate responses to the pandemic from this conflict. When the US announced the formation of a 'trusted supplier network' to avoid the disruption caused by the Covid-19 shutdowns, its membership (Australia, India, Japan, New Zealand,

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South Korea and Vietnam as US 'allies') noticeably excluded China (Sachdeva, 2020).

Policy dilemmas for APEC members

After more than two decades of economic alignment which fostered complex interdependence, tensions between the US and China have risen. The two countries now have an adversarial relationship and no longer view deep interdependence to be in the national interest. Both countries seek a degree of decoupling and to diversify their global engagement. This shift is especially significant in the area of technological innovation and information technology, but is also evident in other trade areas, as well as financial, health and education services. Businesses are responding by seeking to limit their economic exposure or are being forced to exit the market. Companies are attempting to restructure and rationalise global value chains to accommodate the new normal. This partial decoupling is unlikely to be temporary, thereby presenting a series of challenges for organisations like APEC.

Leaders of APEC economies do not wish to choose between a China-led technological sphere and an American-led sphere. Such decoupling of complex interdependence is not only economically costly; it makes a deteriorating security environment even more fragile. If the complex interdependence crafted by deeply enmeshed supply chains is 'incompatible with war' (Garrett, 2019), unwinding this

interdependence can only weaken the moderating effect of shared interests. Nonetheless, companies and governments are increasingly forced to make a choice between China and the US. As noted with respect to the American moves against Huawei:

For the companies caught in the middle, decoupling will not be a neutral process. Firms will need to make decisions regarding on which side of the 'economic Iron Curtain' they want to fall, guided by considerations of profitability and political risk. (Lim and Ferguson, 2019)

Large companies such as TSMC are able to promise parallel supply chains; smaller enterprises may be forced to choose a side.

Governments are faced with choices about which players they admit to play roles in critical infrastructure development. Even when their decisions are explicitly not grounded in nationality-based security concerns, the current environment means that their decisions will be perceived as carrying such connotations. They will continue to need to make such potentially fraught decisions on issues relating to technical standards, public procurement and digital trade.

There may be some potential for APEC and other multilateral groupings to develop standards in sensitive areas. Multilateral rules and standards can insulate countries from allegations of 'taking sides' in the US-China conflict when they make unavoidable regulatory decisions. If APEC can foster consensus on standards and appropriate areas for national discretion, it may prevent a limited decoupling in particularly sensitive technologies from escalating to a broader decoupling that could extend to virtually all industries. The APEC senior officials' Steering Committee on Economic and Technical Cooperation has a telecommunications and information working group which could potentially establish agreed-upon guidelines that depoliticise national decisions, away from the limelight of political leaders' meetings. Such APEC guidelines cannot resolve the US-China conflict. To the extent that either

the US or China ultimately aims for such neutral rules and standards. standards or decision rules may limit the decoupling, they will have little interest in Nonetheless, for other APEC members, potential for secondary fallout from the developing, applying or even respecting coming to a consensus on appropriate US-China conflict.

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