



China and the US are headed towards a 'decoupling'

But any rupture is likely to fall short of the separation the word implies.

The 'Line of Actual Control' is the name for the unformalised border that separates Indian-controlled and Chinese-controlled territory in the disputed area where the Asian neighbours meet and where in 1962 the pair fought a war. In June, violence flared up again and at least 20 Indian soldiers (and an unknown number of Chinese troops) were killed. The response of India's government? New Delhi banned 59 Chinese mobile applications, including ByteDance's popular video-sharing TikTok and Tencent's messaging, social media and mobile payment WeChat.

The Indian government's move to ensure the "safety and security of Indian cyberspace" was yet another incident to strain the relationships between China and the US and their respective allies. Tension between China and the US over data, Hong Kong, military reach, human rights, investment, the South China Sea, Taiwan, technology and trade is fashioning talk of a 'decoupling' between the pair.[1]

If globalisation is the free flow of goods, capital, people, information and ideas, how to define a decoupling? One extreme would be another Cold War-like separation between the world's two most powerful countries and their allies where economic ties almost evaporate. The benign extreme might be a token split. The term could cover any division in between.

The China-US decoupling is likely to be a mild separation for five reasons, even if their antagonism flares at times. First, their rupture is not the ideological and existentialist clash that was the Cold War of 1945-1989.[2] The China-US tussle is more a mercantilist power struggle between economically interwoven and flexible countries that have different political systems and values. Such scuffles typically find an equilibrium where rivals coexist, even cooperate.[3]

Second, it's an oversimplification to view the world as settled into two groups. The US and Europe have disputes over data privacy and the regulation and taxation of tech companies.[4] It's a simplification, too, to talk of the Belt and Road Initiative as a

China-led bloc. The countries involved have no common ideology and nor is China, which has the challenge of sharing borders – and handling disputes – with 14 countries, able to impose one. [5]

Third, the fact that China and the US (and their allies) are so financially and economically entwined means it would be too costly, time-consuming and complicated for the powers to separate. The US relies on China to buy its government debt and for rare-earth materials. Western companies have production, commercial and investment ties to China. For its part, China depends on western banks, universities, agricultural produce, raw materials and tech parts such as microprocessors.[6] Many Chinese companies such as Huawei Technologies, Lenovo and drone-maker SZ DJI Technology depend on foreigners for much of their revenue. Chinese companies own or have stakes in many western household names that include GE Appliances, Motorola, Pirelli and Volvo.

Fourth is that China and the US face common financial and economic challenges. Both are keen to reinstall sustainable economic growth, repair their finances and trade with each other. Fifth, the pair face common challenges away from finance and economics that can be better met in a cooperative fashion. The coronavirus pandemic is but one. Others are health issues over and above the pandemic, the environment including climate change, failed states, global terrorist organisations and nuclear proliferation.[7]

Even though the decoupling will be mild, it will consist of two noticeable tears. The first is broadly around technology and will be most noticeable in how the internet will segment. But the internet was rupturing anyway because governments were always going to extend regulatory powers and security measures to cyberspace – China first moved against the freedom of data flows on the internet in 1994 when Beijing passed the 'Regulations for the safety protection of computer information systems' law.[8] The fractured internet or 'splinternet' with the notable 'Great Firewall of China' that helps Beijing control the internet within China means that some countries could exclusively use US or Chinese tech for critical spheres.

The other tear, helped along by the pandemic highlighting the importance of 'health security', is that production will drift from China because western countries and companies are unwilling to rely for critical supplies on a country with divergent interests and opposing values. Over time, the production capacity shifted could be noticeable.



These tears come with costs. Western consumers will face reduced choice and higher prices as friendly companies producing essentials are protected and Chinese tech stars are blocked. Global production networks will be less efficient. Personal ties between China and the US will be lower than otherwise, which might come with the cost of, say, reduced tourism and foreign students. The internet will serve national and regional interests, not global ideals. Cyberattacks might become even more common. Spikes in China-US tensions could trigger gyrations on financial markets. But the costs are likely to prove mild. People will know that, while insults and feints between China and the US might look divorce-like, the pair are likely to remain untrusting and squabbling competitors rather than turn into foes.

To be sure, the UK and Germany were each other's biggest trading partner before World War I. Like in 1914, miscalculations could trigger a proper decoupling nowadays. China's large economy and tech savvy backed by nuclear weapons make it a bigger threat to the west if things go wrong than was the USSR, which only had an arsenal. Other tears in the China-US relationship could be the Chinese public boycotting US brands, Beijing targeting a specific item (such as Australian wine) over alleged trade breaches and Washington, exploiting US dominance of the world's finance system, expanding financial sanctions on the Chinese – but these rips are unlikely to get too large. Western companies were shifting production from China anyway because Chinese labour costs have risen and concerns about climate change, tech advancements and other shocks to global trade could have hastened that trend anyway.[9] Let's not mythologise globalisation pre-2020; there were many impediments to the free flow of things.

The latest iteration of globalisation is forming now. Even allowing for the barbs between Beijing and Washington, flashpoints over key technologies and the production of essentials shifting from China, it might be hard for most westerners to notice the difference of any China-US decoupling in daily life.

THE INEVITABLE SPLIT

In 2009, the deadliest riots China had seen for 20 years broke out in Ürümqi, the capital of the northwestern region of Xinjiang. The government identified that tech-savvy pro-independence youths were communicating via the web and cracked down on the internet.[10] The upshot was that Beijing banned Facebook and Twitter, decisions that perhaps can be taken as the start of the splinternet.[11]

The China-US spat is hastening steps towards the day when the internet, even one with global standards that allow for interoperability, will feature separate China-led and US-led sets of hardware and software for the internet, telecommunications, social media, apps and data storage.[12] Allow for Europe's push for 'digital sovereignty' and the worldwide web could easily be a discernible three-way split.[13]

Does it matter? For app celebrities, employees and owners it does. People in countries that censor the internet will miss out on some benefits even if that's only using Wikipedia. Affected tech companies face limits to the economies of scale they can achieve. Ecommerce is impeded. Meeting different regional standards adds to company costs. Reduced competition boosts prices for consumers. Supply networks might become regionalised, which could lift production costs. Countries that shun the 5G-trendsetter Huawei might take longer and pay more

to reach 5G standards. Tech companies can more easily shut out companies from rival powers for self-serving reasons. The need to set global standards on future technology will add to tensions between countries.

These costs will need to be accepted. The idea that the worldwide web would live up to its global name was always naïve. Governments were bound to extend their regulatory powers and security steps to cyberspace. A one-party state like China that seeks to control its population was never going to tolerate the unregulated flow of information on what is effectively the US-controlled internet (as the intelligence operator Edward Snowden confirmed in 2013 when he revealed the US and its allies were conducting global surveillance). Europe, which has few global tech champions, was always likely to protect its public. Thus Brussels has sought to impose limits on artificial intelligence, uphold privacy standards, and police data use including the 'right to be forgotten'.[14] The US is more alert to the threat data flows contain for national security – the White House in August said data can be misused to "blackmail" federal employees and "conduct corporate espionage".[15] Other countries have noticed that China's digital protectionism has allowed Chinese tech companies to flourish. Walling off the internet is arguably better for cybersecurity. China-US tensions are just another nudge to entrench the internet's inevitable splits.

GLUED TOGETHER

Italy's medical system in March, overwhelmed by the coronavirus, ran low on essentials. EU partners such as France and Germany refused to help. In what was almost a propaganda stunt, the Chinese Red Cross sent Italy a planeload of facemasks, respirators and other medical supplies.[16]

The episode was one of many during the pandemic that showed how many vital goods including medicines are sourced from just-in-time production networks that run through China.[17] While one solution would be to hold bigger stockpiles at home, the most touted response is to shift – decouple – production from China. "The coronavirus shows the importance of bringing manufacturing back to America," President Donald Trump said as the White House in July arranged a loan for Kodak to produce medicines in the US.[18]

But departing China won't be easy. Modern supply networks are of such complexity they are likened to "biological systems". [19] They are so entangled that they are compared to "Siamese twins"[20] or likened to an economic "superfusion".[21]

To help understand a world where it's more accurate to say 'Made globally' than 'Made in China' or any other country,[22] the OECD analyses trade in 'value-added terms' along the production line to understand the "true nature of economic interdependence".[23] Such analysis shows that Chinese exports have a foreign content (or components) share of more than 33%, second only to Korea within the G20.

Another way the OECD looks at a country's contribution to final output is to assess the 'domestic value add' of exports. Such analysis finds that as China matured from exporting textiles to sophisticated tech products the domestic value-added content of China's exports jumped across nearly all sectors (measured by the decline in the foreign value-add of Chinese exports from 26.3% in 2005 to 16.6% in 2018).[24] Such findings show that the money, time and effort required to decouple from China would almost need to match the decades of investment and exertion it took to couple with the country.[25]

The reality is China and the US know they are so financially entwined it would be too costly not to coexist. At a conference in July, Graham Allison, the author of *Destined for War: Can America and China escape Thucydides's Trap*, which refers to how rising and incumbent powers often clash, said China and the US needed to adopt a modern version of the 11th-century "frenemy" relationship between the Song Emperor of China and

the Liao kingdom on China's northern border.[26] And China needs such a functional friend-enemy relationship over that disputed border with India too.

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[1] China-US trade tensions, US-led moves to exclude Chinese telecom Huawei Technologies from 5G networks, China's new security law that ended Hong Kong's political autonomy, the US response to revoke Hong Kong's special trading status, China's maritime claims over the South China Sea that the US and others reject, Chinese threats against Taiwan, Washington's accusations of industrial espionage and cyberattacks, a US blacklist of Chinese companies accused of human-rights violations on the Uighur people in western China, US moves to restrict investment in US-listed Chinese stocks, and calls for US companies to shift production facilities from China show the breakdown between Beijing and Washington.

[2] See Dan Coats, US director of national intelligence and former senator. 'There is no Cold War with China – and if there were, we couldn't win.' *The Wall Street Journal*. 29 July 2020. [washingtonpost.com/opinions/2020/07/28/new-cold-war-between-us-china-is-dangerous-myth/](https://www.washingtonpost.com/opinions/2020/07/28/new-cold-war-between-us-china-is-dangerous-myth/)

[3] See Foreign Affairs. 'Competition with catastrophe. How America can both challenge and coexist with China.' September/October 2019. [foreignaffairs.com/articles/china/competition-with-china-without-catastrophe](https://www.foreignaffairs.com/articles/china/competition-with-china-without-catastrophe)

[4] In July, for instance, Europe's highest court ruled invalid a widely used EU-US data-transfer accord that allowed information on European citizens to be stored on US computers. See Court of Justice of the European Union. 'The Court of Justice invalidates Decision 2016/1250 on the adequacy of the protection provided by the EU-US Data Protection Shield.' 16 July 2020. curia.europa.eu/jcms/upload/docs/application/pdf/2020-07/cp200091en.pdf. In 2019, the US threatened retaliatory tariffs on US\$2.4 billion of French imports if Paris imposed a tax on French-sourced digital revenue, a tax that other countries including Australia are considering. See BBC. 'US threatens a tax on Champagne and French cheese.' 3 December 2019. [bbc.com/news/business-50636521](https://www.bbc.com/news/business-50636521). There are even disputes within the EU over taxing Big Tech as the Brussels failed moves against Ireland's low tax rates show. See Court of Justice of the European Union. 'The General Court of the European Union annuls the decision taken by the commission regarding the Irish tax rulings in favour of Apple.' 15 July 2020. curia.europa.eu/jcms/upload/docs/application/pdf/2020-07/cp200090en.pdf

[5] See Robert Kaplan. 'China doesn't want to conquer, just do business.' 26 July 2020. [bloomberg.com/opinion/articles/2020-07-26/china-doesn-t-want-to-conquer-just-do-business?utm_medium=email&utm_source=newsletter&utm_term=200731&utm_campaign=sharethetview](https://www.bloomberg.com/opinion/articles/2020-07-26/china-doesn-t-want-to-conquer-just-do-business?utm_medium=email&utm_source=newsletter&utm_term=200731&utm_campaign=sharethetview)

[6] See David Ignatius. 'The US has a stronger hand in its tech battle with China than many suspect.' 22 July 2020. [washingtonpost.com/opinions/the-us-has-a-stronger-hand-in-its-tech-battle-with-china-than-many-suspect/2020/07/21/76129704-cb79-11ea-91f1-28aca4d833a0_story.html](https://www.washingtonpost.com/opinions/the-us-has-a-stronger-hand-in-its-tech-battle-with-china-than-many-suspect/2020/07/21/76129704-cb79-11ea-91f1-28aca4d833a0_story.html)

[7] China is the world's biggest exporter of renewable equipment such as solar panels, holds the most renewable patents and is the biggest market for and producer of electric cars. John Kerry, US secretary of state 2013 to 2017, and Ro Khanna, US House of Representatives, member for Silicon Valley. 'Don't let China win the Green race.' 9 December 2019. [nytimes.com/2019/12/09/opinion/china-renewable-energy.html](https://www.nytimes.com/2019/12/09/opinion/china-renewable-energy.html)

[8] See Laws of the People's Republic of China. 'Regulations for the safety protection of computer information systems'. asianlii.org/cn/legis/cen/laws/rfspocis719/

[9] See McKinsey & Company. 'Risk, resilience and the rebalancing in global supply chains.' 6 August 2020. [mckinsey.com/business-functions/operations/our-insights/risk-resilience-and-rebalancing-in-global-value-chains#](https://www.mckinsey.com/business-functions/operations/our-insights/risk-resilience-and-rebalancing-in-global-value-chains#)

[10] Reuters. 'China tightens web screws after Xinjiang riots.' 6 July 2009. [reuters.com/article/us-china-xinjiang-internet-idUSTRE5651K420090706](https://www.reuters.com/article/us-china-xinjiang-internet-idUSTRE5651K420090706). See also '80 pct of netizens agree China should punish Facebook.' *People's Daily Online*. 10 July 2009. en.people.cn/90001/90776/90882/6697993.html. The splinternet could conceivably be said to have started when China blocked YouTube in March 2009 or even when it blocked YouTube in 2007. Reuters. 'Unafraid' China apparently fears YouTube.' 24 March 2009. [reuters.com/article/us-china-youtube-idUSTRE52N1VN20090324](https://www.reuters.com/article/us-china-youtube-idUSTRE52N1VN20090324)

[11] For a list of websites blocked in Mainland China, go to: wikipedia.org/wiki/List_of_websites_blocked_in_mainland_China

[12] In one week in July, for instance, the UK performed a U-turn to announce it will phase out the involvement of China's telecom Huawei from the country's 5G network.

Days later, South Korea's largest internet portal Naver said it would move its data storage centre to Singapore from Hong Kong, making it the first foreign tech firm to pull out of the former UK colony now that Hong Kong's internet has moved to within China's firewall. See *The South China Morning Post*. 'National security law: Naver moves data centre from Hong Kong to Singapore.' 21 July 2020. [scmp.com/week-asia/politics/article/3094084/national-security-law-naver-moves-data-centre-hong-kong](https://www.scmp.com/week-asia/politics/article/3094084/national-security-law-naver-moves-data-centre-hong-kong). At the same time, the US House of Representatives voted to ban government employees from downloading TikTok on an official device, to stop China's government getting hold of US personal data. Politico. 'House votes to ban TikTok on federal devices.' 20 July 2020. [politico.com/news/2020/07/20/house-tiktok-federal-phones-374315](https://www.politico.com/news/2020/07/20/house-tiktok-federal-phones-374315). Washington is mulling over a country-wide ban on TikTok, and other Chinese apps going global such as Likee and Zynn could face the same fate.

[13] See Charlene Barshefsky, a former US trade representative 'EU digital protectionism risks damaging ties with the US.' 3 August 2020. [ft.com/content/9ede4f5-5f34-4e17-89cd-f9b9ba698103](https://www.ft.com/content/9ede4f5-5f34-4e17-89cd-f9b9ba698103)

[14] See Martin Sandhu. 'Europe should not be afraid of the 'splinternet.' 3 July 2019. [ft.com/content/e8366780-9be5-11e9-9c06-a4640c9feebb](https://www.ft.com/content/e8366780-9be5-11e9-9c06-a4640c9feebb)

[15] The White House. 'Executive order on addressing the threat posed by TikTok.' 6 August 2020. [whitehouse.gov/presidential-actions/executive-order-addressing-threat-posed-tiktok/](https://www.whitehouse.gov/presidential-actions/executive-order-addressing-threat-posed-tiktok/)

[16] Reuters. 'China sends medical supplies, experts to help Italy battle coronavirus.' 13 March 2020. [reuters.com/article/us-health-coronavirus-italy-respirators-idUSKBN2101IM](https://www.reuters.com/article/us-health-coronavirus-italy-respirators-idUSKBN2101IM)

[17] See Rosemary Gibson and Janardan Prasad Singh. *Exposing the Risks of America's Dependence on China for Medicine*. Prometheus. 2018. To view, go to: [amazon.com/China-Rx-Exposing-Americas-Dependence/dp/1633883817](https://www.amazon.com/China-Rx-Exposing-Americas-Dependence/dp/1633883817). A review can be found at 'China's lock on drugs'. *USNews.com*. 8 May 2018. <https://www.usnews.com/news/best-countries/articles/2018-05-08/trumps-quest-for-lower-drug-prices-may-provoke-china-trade-war-experts-warn>

[18] The White House in July brokered a US\$765 million loan for Kodak to help it produce pharmaceuticals in the US. See 'President Donald J Trump is committed to ending America's reliance on foreign countries for vital supplies.' White House media release. 31 July 2020. [whitehouse.gov/briefings-statements/president-donald-j-trump-committed-ending-americas-reliance-foreign-countries-vital-supplies/](https://www.whitehouse.gov/briefings-statements/president-donald-j-trump-committed-ending-americas-reliance-foreign-countries-vital-supplies/)

[19] Amit Surana and others. 'Supply-chain networks: A complex adaptive systems perspective.' *International Journal of Production Research*. October 2005. [researchgate.net/publication/245330962_Supply-chain_networks_A_complex_adaptive_systems_perspective](https://www.researchgate.net/publication/245330962_Supply-chain_networks_A_complex_adaptive_systems_perspective)

[20] Foreign Affairs. 'The folly of decoupling from China.' 3 June 2020. [foreignaffairs.com/articles/china/2020-06-03/folly-decoupling-china](https://www.foreignaffairs.com/articles/china/2020-06-03/folly-decoupling-china)

[21] Foreign Policy. 'There's no cold war with China.' 14 August 2020. [foreignpolicy.com/2020/08/14/cold-war-china-misuse-of-history-united-states-soviet-union/](https://www.foreignpolicy.com/2020/08/14/cold-war-china-misuse-of-history-united-states-soviet-union/)

[22] See Pascal Lamy, director-general WTO. 'Made in China tells us little about global trade.' 24 January 2011. [ft.com/content/4d37374c-27fd-11e0-8abc-00144feab49a](https://www.ft.com/content/4d37374c-27fd-11e0-8abc-00144feab49a)

[23] OECD. 'Trade in value added: China.' December 2018. [oecd.org/industry/ind/TIVA-2018-China.pdf](https://www.oecd.org/industry/ind/TIVA-2018-China.pdf). Domestic value added in gross exports is an estimation of value added, by an economy, in producing goods and services for export, simply defined as the difference between gross output at basic prices and intermediate consumption at purchasers' prices. The measure is a percentage share of value.

[24] OECD. 'Trade in value added: China.' December 2018. [oecd.org/industry/ind/TI-VA-2018-China.pdf](https://www.oecd.org/industry/ind/TI-VA-2018-China.pdf). See also, OECD and WTO. 'Trade in value added: China.' October 2015. [oecd.org/sti/ind/tiva/CN_2015_China.pdf](https://www.oecd.org/sti/ind/tiva/CN_2015_China.pdf)

[25] For a view that decoupling from China is possible, see opinion piece: 'Think it's too hard to decouple from China? Think again.' *Bloomberg News*. 15 July 2020. [bloomberg.com/opinion/articles/2020-07-15/u-s-companies-can-and-will-decouple-from-china](https://www.bloomberg.com/opinion/articles/2020-07-15/u-s-companies-can-and-will-decouple-from-china)

[26] Niall Ferguson. 'America and China are entering the dark forest.' *Bloomberg News*. 5 July 2020. [bloomberg.com/opinion/articles/2020-07-05/is-the-u-s-in-a-new-cold-war-china-has-already-declared-it](https://www.bloomberg.com/opinion/articles/2020-07-05/is-the-u-s-in-a-new-cold-war-china-has-already-declared-it)

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