

Decoupling and De-risking in the US-China Technology Competition: An Analysis of Strategies, Implications, and Future Trajectories

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1. Abstract

Since the Trump era, the world has seen a significant deterioration of relations between the US and China. Post-COVID-19 and the Russia-Ukraine war, Chinese technological advancement and the Western narrative of the rising threat from China have been in the limelight for a long time. The subsequent trade war between the US and China and its impacts on the semiconductor industry has revealed a much more intricate web of technological competition between the two countries that has since taken the form of decoupling and de-risking economic ties. One side (USA) seeks to preserve the status quo because it places its country at the centre stage of global geopolitics, while the other side (China) seeks to change it to allow for greater economic development and political domination and shift from hegemonic singularity to bipolarity. This paper traces the US-China relations from the beginning to the current century and explores the driving factors behind the decoupling. It examines the viability of this decoupling and looks at the possible ramifications of this process, the role of Asian countries, and its impacts on technological innovation as a whole. Since the semiconductor industry is one of the key industries besides 5G and AI, the paper also analyses the role and future of the industry in a case study. Finally, the paper delves into possible future scenarios for both the US and China and the world as a whole.

2. Introduction

The 21st century is the era of increasing reliance on technology. In the words of Eric Schmidt, “Technology is the engine that powers superpowers”.¹ The US has historically been a hegemon post World War 2. Following the end of the Cold War, no country could hold light to America’s technological innovation that powered not just its military but also its economic stronghold over the Globe. There existed an “American Dream” as it was popularly known back then because there was an arena of endless opportunities in the US.

In the subsequent years, the world saw an era of globalisation or a “world without borders”. Increased cooperation in areas of science and technology propelled new players into the international arena, the most significant of which was China. The Asian giant offered massive economic opportunities for American firms seeking to maximise profits. They had access to cheap labour and a myriad of untapped resources. While both countries benefited from establishing deeply intertwined global technology supply chains, China had a relatively greater advantage in terms of shrinking its gap to the US GDP.²

By the time the US saw China as a threat, the country had already become a nuclear power, too dominant in the global economy for the US to eliminate the competition actively. This technological growth of China that powered its rise as a global economy also translated into multiple initiatives like the BRI and military aggression in the South China Sea over disputed territories.

The BRI (Belt and Road Initiative) aimed at developing new trade routes in the regions of Africa, Latin America and South Asia. The US however sees this as an attempt by Chinese authorities to establish dominance within the regions by exploiting unstable political, social and economic conditions. This has enabled America to label the initiative as a “debt-trap policy”, alleging that China’s status as a lender allowed it to secure access to crucial resources to propel its economy forward. Military aggression, on the other hand, has manifested as escalating air incursions over Taiwan, deployment of sophisticated military technology in the Indo-Pacific area and increased suppression of rebellions in Hong Kong to facilitate its integration with Mainland China.

Technological decoupling or derisking started back in 2008 under the Obama administration. This essentially implied reducing dependence on China or de-tangling the globalised network from China, to reduce the country’s pre-eminence in the global arena. The process was not as aggressive as it is now, nor was there the existence of new players like India on the horizon. In recent years, starting with the Trump administration, the changing geo-political landscape has had a

¹ https://carnegieendowment.org/files/Bateman_US-China_Decoupling_final.pdf

² <https://doi.org/10.3929/ethz-b-000621474>

considerable role in technological collaborations. Coupled with increasing concerns regarding national security, not just on the part of the US but also on multiple other actors like India and the EU, there has been a gradual distancing from ties with China.

This paper thus delves into the historical context of US-China relations, the role of decoupling and de-risking in technological competition and the strategies adopted by both countries to protect their concerns. The main aim of the paper is to analyse the implications of decoupling and de-risking from China and the role of the global south in this regard. Lastly, this paper emphasises the need for policy synergy and cooperation between the two countries in order to secure global supply chains.

3. Literature Review

The paper is based primarily on secondary data drawn from a variety of resources. The issue of decoupling and de-risking between the two countries has become the subject of extensive study in recent years. To understand the conceptual frameworks, this paper relies primarily on Jon Bateman's report on US-China technological decoupling which has also discussed strategies implemented by the US to distance itself from China.

Similarly, to understand the concept of de-risking, its difference from decoupling, and its implications on US-China relations, articles from the Institute of Security+Technology such as "De-risking beyond China: Prescriptive Diversification & Allied Engagement" have been used. The article talks about how the shift from decoupling to derisking is not just strategic but also positive in the sense that policy actions have expanded beyond the application of sanctions on China. It also analyses the role of the private sector in being the primary driver of the process of de-risking.

To understand China's perspective and subsequent response to decoupling, papers from CSIS: Interpret China like "Faced with Technology Decoupling by the United States, China Must Establish an Industrial Base for Integrated Circuits" have been used. The paper emphasises China's position in the global economy and incentivises it to develop greater integrated supply chains excluding the US. It also briefly talks about the strategies implemented by the administration as a counter-response to the US.

Lastly, to supplement the analysis with real-time economic dynamics between the two countries, this paper uses several news reports to gather data regarding the domestic situation of both the US and China, alongside popular perception within the countries.

4. Historical Context of US-China Relations and Conceptual Framework

The stage for limited relations between the US and China was set in 1949 when the People's Republic of China was established in Beijing under a communist leader and a Nationalist government settled in Taiwan. Over the next couple of years, there was a silent struggle between the two governments for official leadership of China and a direct threat of nuclear confrontation between the US and PRC in the spring of 1955. It was only in 1971 with Henry Kissinger's secret visit to the country and the subsequent grant of a permanent seat in the UNSC to China that relations took a warmer turn.

During this period of increased cooperation, China received access to technological grants, outsourced material and everything that would ultimately play a significant role in its rise as one of the most powerful economies of the world, second only to the US. Between 1980 and 2004, China's trade with the US increased from USD 5 Billion to USD 231 Billion. A major reason behind this was the US-China Relations Act of 2000 which allowed China access to WTO in 2001. In 2008, China became the largest holder of US debt and in 2010, it broke America's 110-year streak as the largest manufacturer.

It is from here that the idea of 'decoupling' with China took root in the US. The word emerged during Obama's rule, gained traction during the Trump era, and was strictly enforced under Biden. Decoupling in itself is a rather contested word. Sometimes it refers to a full, complete divorce of relations. However, in so far as the US and China are concerned, technological decoupling refers to the "undoing" of cross-border technological relations due to concerns regarding IP theft, national security protection, etc.³ It is important to understand that this phenomenon is not restricted to a dyadic relationship between the two countries. In simple words, the world is involved in a technological web where the US and China are the two strongest threads, but not the only ones.

The question now arises - *what is driving this decoupling after decades of close-knit trade relations between the two countries?* China has, over the years, developed enormous technological synergy with the US. About 1/3rd of the revenue from the semiconductor industry in the US comes from China. Companies like Apple and Tesla have used China as a critical manufacturing hub, attracted by the profit-maximizing incentives the country offers.

At the same time, however, two things have happened. **Firstly**, there has been an increased deterioration of US-China relations in every possible field starting with the militarisation of the South China Sea, increased "aggression" from the Chinese side over Taiwan and Hong Kong, the sustained presence of communism and one-party rule in the country, human rights violations on part of China, and lastly the perceived use of economic dominance to push unfair trade practices over dependant countries. **Secondly**, is the rise of techno-nationalism. The US has always been the

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<https://www.imf.org/en/Publications/WP/Issues/2021/03/12/Sizing-Up-the-Effects-of-Technological-Decoupling-50125#:~:text=IMF%20Working%20Papers&text=This%20paper%20proposes%20channels%20through>

technological driver of the global economy. It is the US that has emerged as the largest and most profitable hub of entrepreneurship opportunities and it is the US that is perceived to have the greatest military power because of technological backing. A new wave of strategic technologies, namely 5G and AI, entered the race of techno nationalism in the 21st century where technology guides not just economic but also political, diplomatic and military competition. When China emerged as a potential threat to the power and position of the US, decoupling was seen as the only solution to maintain the status quo.

There have also been multiple instances wherein the West has accused China of state-sponsored cyber theft of information concerning national security. One example is the GE case. General Electric is a conglomerate in charge of producing everything from refrigerators to aerospace technology. It primarily works in the healthcare, energy and aviation sectors. One of its workers, Zheng, was a Chinese nationalist who used a technique called steganography to steal sensitive data and transfer it to the Chinese authorities. In another instance in May 2017, the DOJ (Department of Justice, US) released a press statement claiming that a Chinese spy stole data storage technology, thus engaging in economic espionage. The spy was later indicted and pleaded guilty to all charges. These are a few examples of the accelerating cases of IP theft, not just in the US but in Europe as well, wherein China stands accused.

All of these occurrences, alongside China's bid for a Digital Silk Road (DSR), have contributed to America's increasing push against China and the Western narrative of decoupling. However, decoupling in itself is not very viable in a highly globalised world. China is deeply entrenched in the global trade network and if the US wants to eliminate it as a potential threat without destabilising the world economy, there needs to be an alternative. While several strategies have been implemented in search of this alternative, the US and the G7 in May 2023, announced that instead of decoupling from China, they intend to move towards de-risking and diversifying from China. Prez. Biden, in a statement after the Hiroshima summit, said "This means protecting a narrow set of advanced technologies critical for our national security".⁴

De-risking, as described by the US State Department, refers to the "phenomenon of financial institutions terminating or restricting business relationships with categories of clients to avoid, rather than manage, risk."⁵ Broadly, the implications of the new term are not very different from de-coupling and they are merely meant to strike a moderate tone of the West against China to not damage ties entirely. However, the major push that has come out of de-risking is the increased efforts of diversifying production in the form of the China Plus One strategy, something that will be discussed in later sections.

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<https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/05/21/remarks-by-president-biden-in-a-press-conference/>

⁵ <https://www.state.gov/de-risking/>

Two major acts have been implemented as a part of increasing the economic competitiveness of the US. Firstly, there is the CHIPS and Science Act of 2022. Major provisions of the act include an allotted 280 billion USD for scientific research and development, increased focus on semiconductor manufacturers, investment and funding for the STEM workforce and lastly government push on the creation of regional high-tech hubs. Another act is the Inflation Reduction Act which centres around cutting-edge technology for environmental justice i.e., investments in carbon and related green technology. The next section will discuss in detail the strategies within which these acts have been implemented.

5. Strategies in the US-China Technology Competition

A) US Strategies

As a part of technological decoupling, Bateman recognised two pushes from the US government and he categorised these into ‘defence’ and ‘offence’ strategies. Defensive strategies refer to trade restrictions like tariffs, export controls, investment restrictions on tech industries, visa restrictions, and increased use of Federal State resources to monitor access and use of the technological web. Defensive strategies have been in place since the start of globalisation to ensure that domestic manufacturing is not hampered by the inflow of competitive foreign products. Even so, defensive strategies have become significantly bold with the US placing 5 G-associated companies like Huawei on the Entity List, the Non-SDN (Specially Designated National) Chinese Military-Industrial Complex Countries List, the Covered List etc. thereby manoeuvring all companies to seek different options, preferably in Europe. This effectively stopped Huawei and related companies from expanding their dominance in the 5G market and allowed the introduction of other players into the competition.

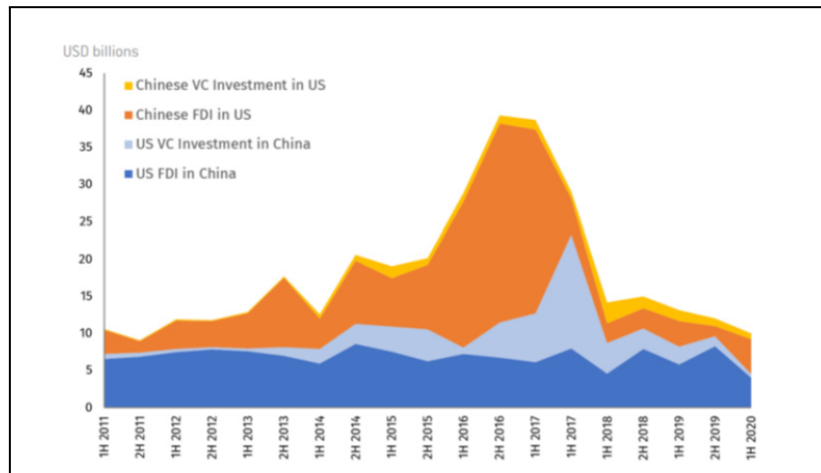
Offensive strategies have gained traction only since the Biden era. These include the CHIPS and Science Act and the Inflation Reduction Act to accelerate control over key industries like the semiconductor industry and ensure that supply chains are dominated by the US, as they have been for decades.

Besides this focus on R&D initiatives, one main strategy that has been the primary push of the West as part of the de-risking strategy is called the China Plus One (C+1) strategy. As the name suggests, the aim is to diversify production and manufacturing beyond China, while retaining a presence within the country. While this strategy has existed in theory for a long time, it is only in recent years that the implications of its practice have come forward. There are two ways in which the strategy is implemented: reducing US FDI in China and moving towards India and ASEAN, both of which have emerged as strong competitors against China.

American investment in China has seen a sharp decline since the Trump era when multiple sanctions and tariffs were placed against Chinese companies to reduce their influence in the global

economy and allow other competitors to fill the space. The diagram below shows investment by both China and the US from 2011-20.

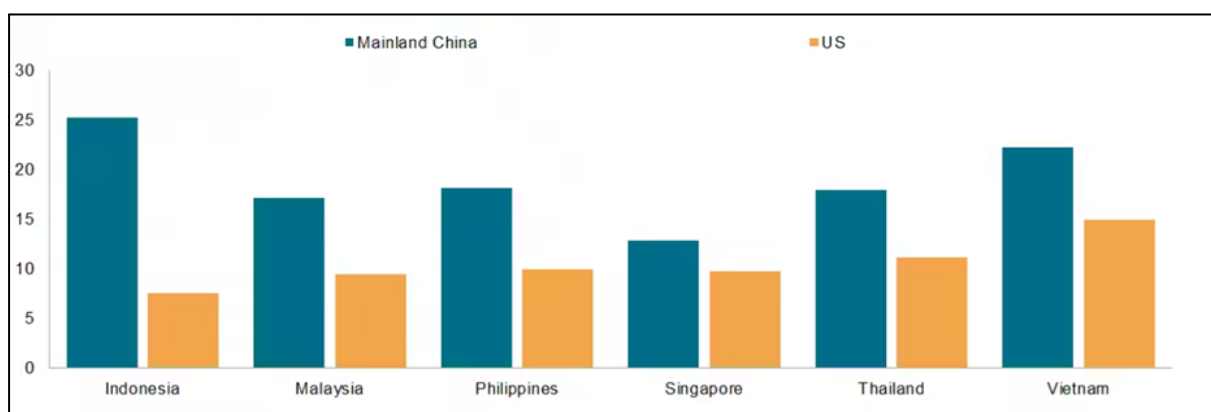
Image 1: American and Chinese Investments from 2011-20 (in %)



Source: <https://www.spglobal.com/marketintelligence/en/mi/research-analysis/asean-china-plus-one-destination-current-situation-risk-outlook.html>

Vietnam, in particular, has attracted American attention due to its export-oriented economy and stable internal situation. Its share of US imports jumped to an all-time high of 3.4% in 2020 and the country moved at least five places up in terms of world rankings of FDI inflows. While India has emerged as one of the leading countries for electronics, Vietnam is focusing on rapidly growing textile and manufacturing sectors.

Image 2: FDI in ASEAN from the US and China in 2022 (in %)



Source: <https://www.spglobal.com/marketintelligence/en/mi/research-analysis/asean-china-plus-one-destination-current-situation-risk-outlook.html>

B) Chinese Strategies

China isn't far behind the US when decoupling and de-risking are concerned. The country has also implemented multiple measures to retain its market position where technology is concerned. For China, decoupling means a shift in focus from economic growth towards economic control. In order to do so, it has implemented what is called a "dual circulation strategy". This policy was first introduced as a part of China's 14th Five-Year Plan. There are 3 elements to dual circulation:

- Eliminate dependence on foreign countries for critical raw materials and technology
- Facilitate dominance of indigenous firms domestically
- Leverage domestic dominance into global dominance

With the start of an all-out trade war with the US in 2018, China has responded with equal force. It has expanded production to Asian countries and its investments grew to 975 billion USD in 2022. Chinese acquisition of US firms grew to 376% in 2016 ⁶, which is when the country came up as a threat on American radar. The country has also emphasized its BRI (Belt and Road) initiative to increase its presence in Africa, Latin America and other countries.

"Technology transfer initiative" is another strategy of China which involves the following:

- Investment in cutting-edge technology in the realm of AI, autonomous vehicles, gene editing technology and augmented and virtual reality
- Enforcement of FTT (forced technology transfer) where foreign companies based in China have to share sensitive information with the government as part of the SEZ laws
- Acquisitions of global firms that work in R&D on technology-related matters.

China's actions have, however, remained relatively passive as opposed to their American counterpart. The administration is hesitant to actively create a narrative that would discourage American investors within the country.

6. Implications of Decoupling and De-risking

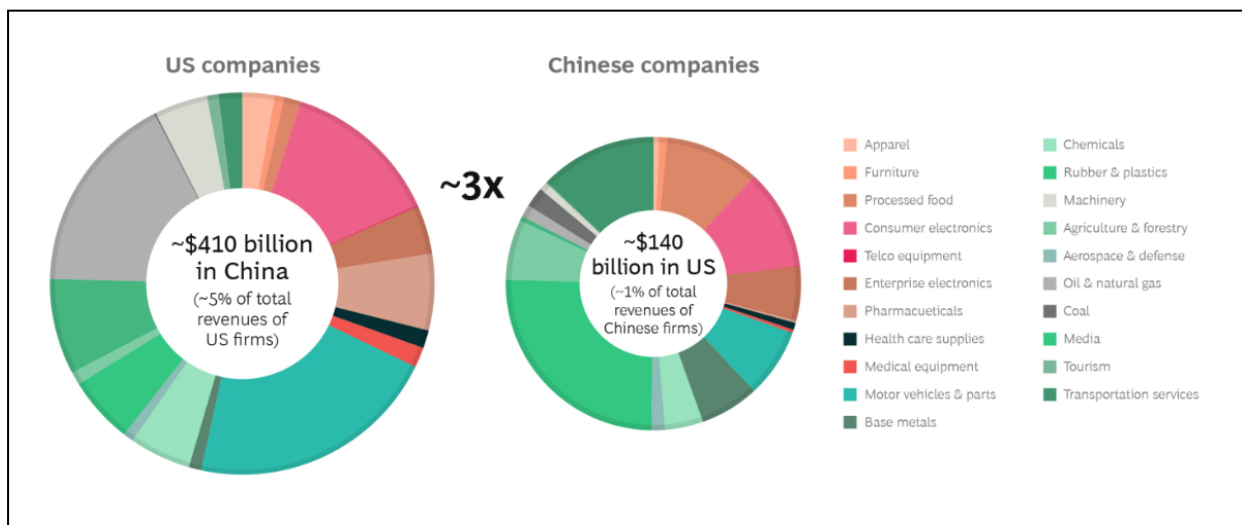
The decoupling of US-China technology ecosystems presents significant challenges for both sides and the global community. Since the primary concern of the US has been to prevent data transfer via restrictions on Chinese access to US technology, there has been a tighter control of Chinese FDI in US tech companies, blacklisting of companies like Huawei, and greater scrutiny of Chinese scientists' work in the US. Multilateral efforts have been made to complement unilateral instruments, as the US no longer has control over complex and globalised technology industries.

⁶ <https://apps.dtic.mil/sti/trecms/pdf/AD1200420.pdf>

The short-term costs of decoupling to the US economy can be assessed at two levels: the National Level - in terms of trade, investment, the flow of people and flow of ideas - and the Industrial Level - in terms of decoupling semiconductors, aviation, medical and chemical industry. On a national level, the hostility against Chinese people, especially post-COVID has reduced immigration significantly. In 2019, Chinese immigration peaked at 2.5 million but the number shrank to 2.4 million in 2021 owing to the Trump administration's strict restrictions and has yet to pick up pace.⁷ This shrinkage reduces the flow of ideas and people and impacts the innovation rate within the US to a certain extent.

In terms of industries, American corporations now have to find new bases for manufacturing wherein the cost of setting up industries will be much higher than the revenue inflow, given that the level of expertise they require for manufacturing is limited. They also do not have much say in the choice of country they wish to relocate to, since options are highly restricted, given China's economic strength. As per Accenture's estimates, decoupling IT could alone cost the US 30% of its global revenues.⁸

Image 3: Revenue Risk for US Companies VS Chinese Companies



Source: <https://www.bcg.com/publications/2020/high-stakes-of-decoupling-us-and-china>

China is comparatively at a greater disadvantage in the short-term ramifications of this decoupling. It is increasingly losing out on FDI, start-up investments are slowing down, labour costs are going up, and companies are closing down on R&D labs, however, slow the process may be, and all of this combined with a poor global image is straining the country's economic growth. Considering that it is the second largest economy in the world, the impact of this decoupling can be absorbed by

⁷ <https://www.migrationpolicy.org/article/chinese-immigrants-united-states>

⁸ <https://english.ckgsb.edu.cn/knowledge/article/the-future-of-china-us-tech-competition/>

ground-level innovation to a certain extent, but souring diplomatic ties also impacts the level of collaborations it requires to advance at the same pace as the US.

The long-term implications of decoupling are highly uncertain. Some studies have suggested that this decoupling can result in China coming out on top. A study by Hwang and Weinstein (2020) posed significant questions and brought to light the dangers of stronger Russia-China technological cooperation for the US and allied countries. One implication, that is certain, however, is the stifling of technological innovation due to a decrease in market access and restrictions for both the US and China. There is an ongoing disruption of talent flow because of visa restrictions and that inadvertently affects R&D efforts.

As far as Europe is concerned, it is not really in the region's interests to de-risk China, given the extreme economic implications as a result of the ongoing Russia-Ukraine war. Europe as a whole is already reeling from the sanctions it placed on Russia that have caused an energy crisis on the continent and it has been predicted that growth in 2023 will only be 0.3%. Should the EU attempt to de-risk from China, at this particular point in time, its supply chain will be negatively impacted, something it cannot afford, given the current hostile political climate that is accompanied by a receding economy.

It is safe to say that Asia or the Global South as a whole is on the significantly better side of the decoupling. New competitors like India are emerging as market hubs for the West thereby allowing them a bigger opportunity to develop their economies. Taiwan is also taking a global lead in semiconductor and chip manufacturing, something that puts the country at the top of the US radar for investments given its strategic geo-political location.

The problem lies in the fact that China has significantly more control over the area than the US due to its long-standing presence. Countries like Myanmar already have formal DSR agreements with China which means that opening their markets to the US manufacturers would invite political tensions. It is important to keep in mind, however, that the South Asian region is also experiencing military aggression from the Chinese which allows them to increasingly fall under the purview of American investments and distance themselves from China, thereby harming Chinese interests.

7. Semiconductor Industry: A Case Study

Semiconductors, also known as microchips or computer chips, are integral components of electronics and are heavily used in telecommunications, automotive, healthcare etc. These are used for powering various devices such as computers, cellphones and industrial machinery. They play a crucial role in the development of emerging technologies such as Artificial Intelligence, IoT, 5G networks and autonomous vehicles. The semiconductor sector generates high-paying employment in manufacturing, research, and allied disciplines, while also making a sizable GDP contribution.

The chip business is a global one that involves intricate supply chains. Companies create chips in one place, manufacture them in another, and then market them globally.

A) COVID-19 and Global Chip Shortage

The unprecedented crises of the COVID-19 pandemic brought forth sudden chip shortage that led to extensive worldwide supply chain disruptions owing to viral outbreaks, labour issues and geopolitical unpredictability.⁹ The worst impacted sectors due to the global chip shortage were the automobile, electronics, and healthcare, causing production delays and increased costs as the chips played a crucial role in infotainment systems as well as engine management. Consumer goods and electronics, including gaming consoles, laptops, and cellphones, witnessed massive price surges and postponed product launches. This scarcity brought attention to weak points in international supply networks, and vulnerabilities in defence and aerospace industries which has, since then, forced businesses and governments to reconsider resilience and diversification.

B) Impact of Decoupling

The chip industry is one of the key industries facing threat due to the US-China standoff. The semiconductor industry has 3 chokepoints to it. The problem is only a few companies in the world can produce cutting-edge chip technology and none of them are in China, which does produce semiconductors but older versions only. Only 3 American companies make the software to design the chips. Turning those designs into real chips can be done only by a machine that is in the possession of ASML which is in the US. Lastly, only companies in Taiwan and South Korea can assemble all the parts.

The US Department of Commerce, exploiting the choke points, has placed Chinese technology companies (including Huawei), on the Entity List as a result of which, they cannot access key U.S. innovations, technologies, products and their designs. To counteract the American ban on the sale of chips, China is limiting the exports of gallium and germanium metals, which are crucial for semiconductor manufacturing. These measures have forced both China and the US to shift orders to Taiwanese foundries to secure supply amid high global demand. Japan and the Netherlands have also joined the US effort in restricting exports of semiconductor manufacturing equipment to China.

Taiwan's centrality in manufacturing over 90% of advanced chips, coupled with worsening relations with China, makes it difficult for governments and companies to ignore potential economic blockades or military takeovers, emphasising the need for increased resilience and diversification in global supply chains. The industry, today has developed contingency plans and strategies to enhance supply chain resilience in response to uncertainties and disruptions.

⁹ <https://www.weforum.org/agenda/2022/02/semiconductor-chip-shortage-supply-chain/>

Semiconductor suppliers have formed long-term agreements and partnerships, often involving pre-payments and co-investments, to ensure supply and support capacity expansions.

C) India's Potential

India aims to become a major player in the global semiconductor supply chain by promoting domestic chip manufacturing, research, and development. The government has launched a \$10 billion incentive program to boost its semiconductor manufacturing sector and launch itself as a lucrative alternative to China. India is also promoting the development of semiconductor manufacturing hubs by offering incentives and investing in fabrication plants while partnering with universities and research institutions to advance semiconductor technology through research and development.

This initiative faces significant challenges like quality standards, talent retention and cybersecurity threats. The biggest challenge, however, comes from the fact that alternative bases already exist in Taiwan and South Korea. Establishing a base in India would require high capital investment and the industry will take significant time to flourish, which gives way to disruptions in the supply chain since the attention will be divided over multiple areas.

The government has taken multiple steps to mitigate these risks, including establishing a collaboration with Foxconn, a Taiwan-based semiconductor corporation. There is yet a need to prioritise environmental sustainability and information regulatory clarity, but so far the policy framework aims to foster a potential hub for the chip industry.

8. Future Trajectories: Scenarios and Projections

As stated before, the technological landscape is something that transcends economic and political ties as well. Any major steps on the part of either the US or China have the potential to destabilize the global economy. The direction towards where we are heading is currently a hostile one that has pushed a greater Russia-China alliance which is perceived as a threat to the US, but also towards a new era of Cold War. While the future trajectory is highly uncertain, given the multifaceted nature of factors at play and the unstable global economy, 3 things can be laid down definitely.

A) A New Cold War?

This weakening of ties between the 2 countries is something that has been long foreseen. China is officially viewed as the biggest threat to the US position as a world leader in technological innovation and the strong offense coming in from the American side has reduced the potential of restoring previous levels of interdependence. While China has not been as aggressive in implementing measures allowing decoupling, the US is actively looking for alternatives to China. Combined with the military stand-off in the Indo-Pacific region and the formation of QUAD,

America is fast pushing for greater technological innovation without compromising national security via increased levels of sanctions. Certain lines have been drawn in the sphere of IR and this has the potential to turn into a new Cold War, should China act equally as aggressively.

B) Unstable Supply Chains

China is one of the world's largest manufacturers. To decouple would mean finding new supply chains but given the global slowdown of population, the non-existence of strong industrial bases in Asia and the shortage of resources will strain supply chains in the future. All of this, coupled with the increasing levels of export and import restrictions from both countries is affecting global demand and has the potential to reduce global trade flows beyond the technological realm which will impact the developing world negatively. The slowing world economy is already tethering at the edge of a recession and the strain on supply chains is likely to accelerate the process.

C) Global Technological Landscape

The US and China comprise the two major drivers of the global economy and technological growth. Every advancement made so far has been possible because of cooperation between the two countries, regardless of any political standoff. Today, this cooperation itself is under threat. Before the efforts to de-risk from China, the country captured the number 1 spot when it came to foreign student applications and collaborative research. Notwithstanding the increased hostility towards China and its citizens, the increasing visa restrictions create an environment wherein it becomes difficult to indulge in cross-border knowledge diffusion which negatively impacts innovation as well.

Decoupling and de-risking are two terms that have extremely blurred boundaries. Neither country can afford to muddle up this process because they both have important stakes in the technological competition. The US seeks mainly to protect its national security while China recognizes it is not the country's economic interest to decouple. This is the primary reason that despite aggressive measures from America, China has not actively tried to de-incentivize cooperation between the two countries. One can also expect China to attribute a major chunk of its resources towards improving its global image. Perception matters a lot when it comes to diplomatic ties which in turn are highly significant for cooperation in the field of technology. Rational policy formulation along with reigning in techno-nationalism is in the interest of both countries if they wish to continue evolving technology dynamically.

9. Recommendations

A. Diversification of Supply Chains

The need of the hour is the diversification of supply chains. Technological decoupling has put a strain on these chains which has impacted economies worldwide. It is important to secure the

supply of semiconductors by creating alternatives beyond Taiwan and South Korea, which face constant risk of military blockades from China. India is fast emerging as a potential player in the core ICT (Information and communications technology) layer. It is thus important for the US to invest in the country to stabilise future supply shocks.

India also needs to foster partnerships with semiconductor companies in order to establish a strong manufacturing base. This would allow the country to not only enter the “chip 4 alliance” but also reduce its dependence on China for semiconductor imports that pose significant security concerns.

Expanding resource extraction from Australia can help counter China’s restrictions on silica, gallium, etc., materials which are important for the manufacturing of semiconductors. There is potential for the formation of a new chip block consisting of Australia for resources, and India for manufacturing and assembling semiconductors.

B. Alliances and Partnerships

ASEAN has recently brought out what it calls FOIP (Free and Open Indo-Pacific) which essentially counters the QUAD block and the assertive military policy of China in the region. The policy calls for free, equitable and open sea lanes and communications, good governance that is free from coercion, free and reciprocal trade and finally, open logistics via infrastructure.

While the US and China strive to form partnerships with like-minded partners and allies to mitigate the impact of tariff barriers, export controls, sanctions, and blacklisting, it is in the interest of Asian regions to ensure that they can pursue a foreign policy that emphasises their national interests. This is to say that ASEAN should be able to pursue relations with both the US and China in a manner that allows it to develop an industrial base, free from diplomatic coercion from either side and thus uplift economic development within the region. To do so, policies emphasising the consensus of the nations for a more equitable Indo-Pacific need to be implemented.

C. Addressing the Perception Gap

China’s image wasn’t well perceived by the world even before decoupling, but ever since the US has formally initiated the process, it has taken a significant hit. A widely held negative perception by the West has created a gap between China and the rest of the world which has caused several misconceptions and the breakdown of diplomatic talks. This gap needs to be bridged. China holds the power to leverage a soft power mechanism in countries where it has a strong presence due to the BRI scheme, which can overturn the narrative of the ‘debt trap policy’ as dubbed by the US. Additionally, the implementation of a greater transparency mechanism can allow the rest of the world to understand domestic affairs which will help foster greater trust and collaboration.

D. Role of the Global South

The LAC (Latin America and the Caribbean) has become an important battleground in the ongoing decoupling. Their proximity to the US has resulted in significant Western diplomatic influence (for eg: recognising Taiwan as a sovereign nation) and yet China's expansion into the area has increased the exchange of data, hardware and digital infrastructures. This essentially means that the foreign policy of these countries is engaged in a tug-of-war between 2 global superpowers. It is important to ensure that increased dependence on either side does not result in malicious political influence that can affect the sovereignty of the region. They must balance diplomatic influences and prioritise their own interests above all.

Going ahead, one must also keep in mind that while the Global South has now an avenue to come up as an important player in the global economy, the region must not do so at the expense of its citizens or the environment. Decisions must be made after thorough research into the potential of industries and the subsequent impacts on the countries themselves.

10. Conclusion

Decoupling and de-risking in the US-China technological competition has thus created a highly volatile environment of collaboration between the two countries. A vacuum has emerged, seeking to replace China as America's biggest trading partner and technological competitor. As far as India is concerned, a robust economy and availability of resources both in terms of labour and raw materials make it a viable and highly profitable option, thereby incentivizing the country to capitalise on these advantages. The supply chains that have been disrupted by COVID-19 and the Russia-Ukraine war must not be destabilised by the standoff between the US and China. It is in the interest of both countries to continue cooperation but also regulate access to sensitive data that can pose a threat to national security. Tariffs and sanctions are short-term solutions, the countries must work on improving diplomatic ties that would allow them both to foster technological innovation.

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