**IPRPD**
**International Journal of Business & Management Studies**
ISSN 2694-1430 (Print), 2694-1449 (Online)
Volume 07; Issue no 06: June, 2026
DOI: 10.56734/ijbms.v7n6a1

# FROM CONVERGENCE TO DIVERGENCE: UNITED STATES AND CHINA DECOUPLING AND THE REWIRING OF GLOBALIZATION

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## Abstract

While the trend toward greater separation between the U.S. and China is not indicative of the end of globalization; rather, it is an example of how globalization will be "reorganized" through such means as specific restrictions to sectors, new routes for supply-chains and new arrangements of regions and institutions. In other words, while global economic interconnectivity may be diminishing at some levels, it is not necessarily being destroyed – merely being redirected or "filtered" via new forms of governance, public policy interventions and strategic decision-making by firms and through new alliances formed by governments. This article builds upon Gopinath's (2012) arguments regarding the nature of both convergent and divergent trends within globalization and upon those developed by Riveras & Harrison (2016). A three-tiered conceptual framework, focusing on: the degree of policy intervention into each respective sector; the degree of substitutability of Chinese upstream input supplies; and the sensitivity of technologies used to generate products to spillovers created by competitors.

Three key propositions frame the argument. Decoupling does not occur uniformly across all sectors of the economy; the separation between the U.S. and China can remain apparent in terms of visible separation even as significant dependence on China exists in many sectors due to reliance on China for upstream components; when separation occurs among select sectors, then trade, investment and institutional linkages can arise in new locations and among different actors. Such claims are supported by evidence related to dependence on imports from critical sectors, trade diversion, changes in foreign direct investment flows and dependence on supply chains involving third country suppliers. Ultimately, this study seeks to explain why separation is occurring but to what extent; why China's responses have been mixed and limited; and why multinational corporations will require customized sector-by-sector strategies for coping with the changing dynamics of globalization and cannot rely on developing a single "decoupling" plan. The fundamental claim made here is clear: decoupling represents a reorganization of globalization, not its termination.

## Keywords

United States and China Decoupling; Deglobalization; Convergence and Divergence; Supply Chain Resilience; Multinational Enterprise Strategy; Geopolitics

The past ten years have seen a reliance by U.S. policymakers upon tariffs, export controls and technology limitations to modify the nature of their economic relationships with China. As such, the goal was to reduce China's competitive position as an exporter and reduce U.S. dependency upon Chinese supply chains. To this extent, they did cause a separation, however, it was not a clean break from China, nor was it uniformly applied throughout all industries. High-technology products and communication were separated more significantly than consumer goods, finance, and the many upstream inputs used in those goods. Therefore, the separation is narrower, more complex, and less uniform.

China finished 2025 with its largest ever trade surplus at approximately $1.189 trillion (Reuters, 2026) whereas official U.S. Census Bureau statistics indicate that U.S. good imports from China fell to $308.4 billion in 2025 representing a 29.7% decrease in the same time frame for the prior year (U.S. Census Bureau, n.d.) Thus, the two pieces of information complicate the standard "decoupling" narrative. The shift toward decoupling has been limited, uneven and in some cases occurred via intermediate countries.

The authors' analytical approach is limited in its scope. This study does not seek to identify the impact of any particular government policy nor treat all changes in trade flow as an indication of the decoupling of global supply chains. Rather, it asserts a far narrower relationship: where declines in direct United States imports from China are observed along with the continued increase of exports from China into other markets and new trade flows via third-party countries, this suggests a pattern of supply chain realignment, rather than complete disconnection. Thus, some conclusions will have to be tentative, particularly regarding undetected intermediate inputs, although the overall pattern is analytically consistent.

This research project presents no original econometric or input/output testing. Rather the contribution is theoretical, providing a conceptual and narrative synthesis that explains how one might make sense out of disparate globalization trends. In synthesizing different types of data, namely: bilateral trade flows; sector-level dependence upon imports; levels of foreign direct investment; tariffs and trade diversion at specific product lines; and persistence of upstream input sourcing through third-party countries, the author provide a tripartite analysis that could be strengthened empirically should all three be concurrent: declining United States reliance upon imports from China within select industries, increasing usage of intermediary production sources and continued presence of Chinese sourced inputs within alternative production paths.

While the evidence supporting each assertion may be characterized as suggestive rather than definitive, there is also sufficient empirical basis to state each assertion more explicitly. For example, for Proposition 1, the most robust data points include sectors: US imports from China declined from approximately 62% to 44% in Communications and from 46% to 27% in Information Technology between 2016-2023. Similarly, non-sensitive sectors such as Healthcare, Food/Agriculture, Energy, and Metals were either stable or decreased to below 10% (Leibovici & Dunn, 2024.) Such uneven movement is supported by the focus of export controls and national security restrictions in Strategic Technologies. (Witt et al., 2023; Cui et al., 2023.) For Proposition 2, the key data points are China's diminishing share of US imports from 21.6% in 2017 to 13.9% in 2023; total US imports of goods from China in 2025 which was $308.4B; and evidence that Final Assembly has moved to Vietnam, Mexico, etc. while Chinese components and Supplier Capabilities continue to reside Upstream (Alfaro & Chor, 2023; Freund et al., 2023; Leibovici & Dunn, 2024; U.S. Census Bureau, n.d.). For Proposition 3, the strongest data points are China's trade surplus in 2025; China's expanded belt and road relationships; and growth of alternative regional and institutional arrangements such as RCEP (Reuters, 2026; UNCTAD, 2022; Witt et al., 2023). While the individual data points don't allow researchers to calculate the exact amount of causal influence, collectively they provide a clearly defined evidentiary base to the conceptual synthesis.

The actual question I should be asking isn't if this marks the end of globalization. Instead, I need to ask if this marks the beginning of a more political, more geographic, and more selective form of globalization. This framing makes sense because it frames the actual problem for companies and governments differently. The challenge now isn't to make a decision about leaving China or preserving the old version of globalization, but to determine where disengagement is required, where diversification is sufficient, and where interdependence will continue to generate value.

This solution builds upon a globalization framework where both convergent and divergent forces are simultaneously operating and pushing against one another. In order to illustrate this systems approach to thinking about globalization, Gopinath (2012) used a framework with two components: convergence and divergence. Building off Gopinath's work, Riveras and Harrison (2016) added additional elements to the original framework including neighboring countries' dynamic relationships, trade blocs, and international organizations. Riveras et al. (2018, 2022), and Riveras and Harrison (2023), further utilized this framework to study and compare Special Economic Zones, Regional Integration and Cross Border Dynamics. Therefore, based on the described systems approach to understanding globalization, the present moment doesn't represent an end to globalization. Rather, there appears to be a phase transition occurring in how integration is being distributed throughout the world economy. The globalization system itself has remained intact; however, how integration occurs is currently undergoing redistribution, filtering, and governance processes.

Based on this systems approach to understanding globalization, the remainder of this paper explores these themes. Section 1 describes decoupling versus deglobalization and provides the basis for the convergence/divergence model. It also outlines the three-tiered structure of the new globalization and

presents four propositions. Section 2 illustrates the development leading up to bilateral separation over a period of three separate stages. Section 3 evaluates empirical research that demonstrate where decoupling is most prevalent, where it remains incomplete and where apparent diversification continues to rely on Chinese upstream input. Section 4 assesses China's responses to decoupling and identifies that China is redirecting globalization rather than abandoning its role within it, albeit in a highly uneven manner with constraints imposed by national interests. Section 5 addresses company-level strategies. Section 6 synthesizes all previous arguments using the three-tiered structure of the new globalization.

## 1. Decoupling Is Not Deglobalization: Getting the Concepts Right

Conceptual clarity is needed on these issues since most public discourse regarding U.S.-China trade disputes uses similar terms as if they had equal meanings. If decoupling, de-globalization, diversification, and reshoring are considered synonyms in the discussion of trade tensions, then there will be less precision in the analysis and therefore the ability to evaluate the implications of policies. Decoupling, de-globalization, diversification, and reshoring represent different processes, different levels of analysis, and different effects for firms and governments. Therefore, defining these terms is not merely a matter of semantics. It is necessary to understand the actual changes taking place.

Witt (2019) defined de-globalization as a reduction in the interdependence among nations. De-globalization does not refer to the absolute volume of international trade or investment. Rather, it refers to the flow of goods and services across national borders as a percentage of Gross Domestic Product (GDP). An economy can exhibit very high volumes of international trade and yet be de-globalizing if international trade declines as a percent of GDP. Globalization refers to an increase in the interdependence of nations through international trade, foreign direct investment, technological advancements, and international institutions. Both globalization and de-globalization are directional measures and don't describe a static condition. Witt (2019) emphasizes that de-globalization does not mean that all forms of international economic activity cease. It means that there has been a sustained decline in relative interdependence.

Witt et al. (2023) define decoupling as the reduction in interdependence between two nations or blocks. The unit of analysis is bilateral or block-based, and not the entire global economy. Nations may choose to decouple from one partner and increase their relationship with another nation. For example, China's large trade surplus in 2025 occurred simultaneously with a decrease in U.S.-China bilateral trade. These two nations have distanced themselves from each other, but global trade did not contract. This conceptual differentiation is critical to the authors' arguments presented in this article.

A number of related concepts are deserving of equal attention. Gong et al. (2022) describe slowbalization as a slowing down of trade and investment growth since 2008, particularly when measured against world GDP. Slowbalization is not equivalent to full de-globalization. Rather it represents a slowing-down of globalization rather than its reversal. Diversification represents a firm or government's response to concentration risks. Thus, it indicates the direction of change which may or may not be realized. Reshoring represents the movement of production from outside the nation back to the home nation. However, experience has shown that many sectors find it difficult to reshore due to missing home-country based supplier networks, skilled labor, and manufacturing capacity. Nearshoring represents the relocation of production to neighboring nations with Mexico and Eastern Europe being prominent examples. Friends Shoring was added to U.S. policy terminology under President Biden, representing the redirection of production towards politically aligned partners. In doing so, some degree of cost efficiency is sacrificed for increased political trust and reduced geopolitical exposure.

Gopinath (2012) defined convergence as movements towards greater unification of the world economy, while divergence referred to movements towards maintaining or strengthening separation among economies. The two forces are mutually reinforcing and not sequentially dependent. Movement towards greater unification in one sphere can lead to resistance and generate new divergence in another sphere. Riveras and Harrison (2016) later developed the model further by incorporating neighboring country effects, trade blocs and global institutions into the framework. Further studies using this framework examined the impacts of Special Economic Zones, Regional Integration and Cross-Border Dynamics (Riveras et al., 2018, 2022; Riveras & Harrison, 2023). This study expands upon this line of research by identifying decoupling as a form of divergence that creates new forms of convergence as trade, investment, supply chains and strategic alliances redirect rather than eliminate themselves.

In this article, I treat both convergence and divergence as contemporary patterns of global integration with different partners. I don't see these as separate steps on a straight line. Future phases of

 

convergence should not be regarded as repeating past experiences. Decoupling represents one form of divergence however it can also produce new forms of convergence as trade, investment, supply chains and strategic alliances redirect themselves toward alternative partners. As such convergence and divergence are interconnected forces continually reconfiguring the architecture of globalization. Herrero & Tan (2020) show that prior to World War I there existed significant deglobalization pressure, which declined significantly during the inter-war period. Following WWII, multilateral reconstruction created a new era of post-war cooperation that eventually gave rise to the current wave of divergence. It is likely that the next phase of convergence will differ substantially from that experienced over the last three decades.

Teece & Petricevic (2019) identified governance incompatibility as a primary driver behind the structural reconfiguration of globalization. As liberal democracies and state capitalist models continue to diverge institutionally, the foundation for deep integration established during the 1990s-2000s continues to weaken. This provides additional support to the convergence-divergence framework by demonstrating how institutional differences can contribute to economic separation even absent a singular policy cause for decoupling. From this perspective decoupling is more than a policy choice. Decoupling occurs as well as a consequence of governance systems that previous assumptions about convergence failed to accommodate.

The author applies the convergence/divergence lens using a three-tiered framework. Each tier of the three tiers is based on three observable characteristics of a given sector: the intensity of government policy interventions, the degree to which Chinese upstream inputs may be substituted in the value chain and therefore whether they continue to provide unique economic opportunities for countries to diverge from them, and the sensitivity of the technologies or knowledge spillovers associated with increased integration. Tier-1 sectors have significant restriction on imports of products related to China, high spillover sensitivity and there exists a potential for "forced" separation. Tier-2 sectors experience considerable policy pressures; however, their upstream inputs remain embedded within Chinese-based ecosystems. Therefore, while the transition towards increasing levels of trade diversification continues, it represents an ongoing trend rather than an accomplished end product. Tier-3 sectors experience relatively low levels of direct policy pressure, possess high separation costs and therefore maintain a level of dependence on upstream Chinese-based input sources due to technological interdependencies resulting from previous levels of cooperation.

While the framework provides a means to identify the relative importance or difficulty of relocating sectors as part of the global decoupling process, it serves an additional function as well. Specifically, it describes how the two concepts of convergence and divergence operate in concert under conditions of policy pressure. Thus, Tier-1 provides the most obvious example of divergence. Tier-2 includes both the most evident examples of bilateral separation and deeper forms of convergence through both input sourcing and production networks. Tier-3 maintains a narrow, yet persistent interdependency, particularly when separating is expensive, partial or tactically unwise.

To enable empirical replication in the future, the three determinants for tier assignment may be defined heuristically (i.e., as rough guidelines) suitable for this conceptual research. High Policy Intervention Intensity is defined by the existence of export controls, listings on entity lists, legal bans on investing in certain sectors or companies originating from China, or tariffs specifically imposed upon Chinese origin goods and/or services. The definition of moderate policy intervention intensity refers to trade which is permitted by law; however trade is being scrutinized, there are selective restrictions, and/or increased tariff pressures. Low policy intervention intensity implies all trade is occurring under normal international trade conditions and there are no specific trade policies directed toward China. A high degree of substitutability among Chinese upstream input sources means that there already exists, or could be developed during a reasonable adjustment timeframe, alternative suppliers at equivalent levels of scale, quality and price. A low degree of substitutability means Chinese producers supply most of the relevant intermediate products, parts or capital equipment with no viable alternatives available for purchase at the required production scales. Technology spillover sensitivity is considered high if continued integration will create demonstrated risks of transferring intellectual property rights, diffusing dual use technologies, or capabilities that would potentially harm a nation's strategic or defense related advantage(s). On the other hand, technology spillover sensitivity is low when the types of goods and/or services being integrated into an organization have no significant dual use classifications and rely on non-proprietary strategic technologies. These definitions were not intended to provide a mathematical index, rather they are designed to be sufficient so that future researchers using industry trade, investment, and policy data could apply the tiers consistently throughout time and across multiple industrial areas.

### *1.1. The relation to weaponized interdependence*

Farrell and Newman's (2019) research demonstrated how states can use sanctions and/or legal measures to convert trade networks into tools of statecraft. While this concept has relevance to the current issue of U.S.-China decoupling, the above research goes further than merely describing chokepoints. The U.S. and China are not simply disassembling globalization, they are instead reframing it. Farrell and Newman explained how leverage and coercion could arise from weaponized interdependence. The framework described here examines a broader issue: how coercive force reconfigures differing sectors, geographic areas, firms and institutions in different ways. Moreover, it shows why entirely new types of convergence can occur as a result of interactions among other trade partners and supply chain configurations over which either Washington or Beijing does not have complete control.

These differences shape the hypothesis that follows. The decoupling of the U.S. and China mark a move away from convergence-led globalization based upon comparative advantage and efficiency and toward politically controlled and sector-specific divergence based on security, resilience and strategic independence. The claim is developed through a combination of existing empirical research rather than new econometric analysis. Globalization is not disappearing; it is being redesigned.

## *1.2 Theoretical propositions*

The framework yields three theoretical propositions that will serve as guidance during the rest of this study.

Proposition 1. The degree of decoupling experienced by various industries will differ depending on the combined effect of the strength of policy interference directed against China in terms of its upstream input procurement capacity in those industries, the degree to which such inputs can be replaced with those provided by non-Chinese suppliers, and the extent to which technology/knowledge spillovers increase with greater levels of integration.

Proposition 2. In cases where direct decoupling occurs but replacement Chinese upstream inputs remain hard to find, then even though decoupling occurs at the final stage of trade relations between nations, decoupling in many sectors can coexist with continued de facto convergence in terms of supply chains at deeper layers.

Proposition 3. Pressure to decouple in one country's bilateral relationship typically gives rise to new forms of convergence in other relationships because companies/firms/organizations redirected their investments, trade flows, etc., toward alternative business partners.

Table 1 specifies empirically what indicators are necessary to verify each proposition. This table cannot be considered a full-fledged empirical verification; it defines the type(s) of data necessary to determine if each proposition holds true.

Table 1: Propositions, Observable Indicators, and Evidence Logic

| Proposition | Observable indicators | Evidence logic | Core supporting studies |
|---|---|---|---|
| Proposition 1: Decoupling intensity varies across sectors. | Sector-level import dependence; policy restrictions; export controls; national security classification; feasibility of relocation. | The claim is strongest when strategically sensitive sectors show sharper import-share declines and heavier policy intervention than lower-sensitivity sectors. | Leibovici and Dunn (2024); Witt et al. (2023); Cui et al. (2023). |
| Proposition 2: Bilateral decoupling can coexist with upstream dependence. | Declining direct United States imports from China; rising imports from third countries; continued Chinese intermediate inputs in third-country exports. | The claim is strongest when final assembly moves to intermediary countries while Chinese components, machinery, or supplier capabilities remain embedded upstream. | Alfaro and Chor (2023); Freund et al. (2023); McKinsey Global Institute (2022). |

 

| | | | |
|---|---|---|---|
| Proposition 3: Bilateral divergence creates new convergence elsewhere. | Redirected trade flows; foreign direct investment relocation; regional trade agreements; institutional alignment with alternative partners. | The claim is strongest when separation in the United States and China relationship coincides with stronger connections among other countries, blocs, or supply-chain routes. | Garcia Herrero and Tan (2020); Gong et al. (2022); Witt et al. (2023); Kramer (2023). |

Note. The table identifies the empirical bridge between the conceptual propositions and the evidence reviewed in the article. The indicators are suggested measures for future testing, not new measurements produced in this manuscript.

### *1.3 Testable Extension of Proposition 2*

Proposition 2 has the clearest pathway for empirical validation (testing) in the future due to its testable (measurable) claim regarding the difference between direct bilateral trade and indirect (upstream) dependency on the part of China.

Hypothesis 1. As U.S. imports from China are reduced and when Chinese upstream inputs cannot easily be replaced; there should exist an association between increased U.S. imports of products/inputs from third-party suppliers and continued or increasing imports of Chinese intermediate goods/products/components/equipment/production inputs by said third-party suppliers.

The dependent variable would be U.S. imports from third-party suppliers into identified sectors such as Vietnam, Mexico etc. that could potentially become "China-plus-one" type of locations. The primary independent variable would be the decrease in U.S. direct imports from China in the respective sector(s). Third-country imports of Chinese intermediate goods/products/components/capital equipment etc. would be the mechanism indicator. The hypothesized pattern of U.S. sourcing does not involve simply withdrawing from China but rather a three-step process: 1) reduction in direct imports from China; 2) increase in imports from intermediary suppliers; and 3) continued Chinese upstream input usage within those intermediary production networks. Appropriate datasets for these purposes may include census bureau trade statistics for the U.S., UN Comtrade, OECD Trade in Value Added data, tariff line trade data, disclosure of firms' supply chain relationships and/or specific metrics related to sectoral dependencies on imports.

## 2. From Convergence to Strategic Rivalry: How We Got Here

A time of U.S.-China divergence did not begin with Donald Trump. Structural factors that allowed for the U.S. and China to separate began developing after a series of periods, each changing the nature of the economic and political relationship between the two nations. Focusing solely on a single political leader obscure much of the underlying history and structural influences that formed prior to the 2016 election.

### *2.1 Convergence and Deep Integration: About 1990-2008*

Prior to China's entry into the WTO in 2001, there existed optimism that China's membership would ultimately lead to an open marketplace and more open government. Those assumptions were overly optimistic. Segal and Gerstel (2021) provide evidence that between 2000-2017, China's share of world goods trade rose from 1.9% to 11.4%. As well, U.S. firms took advantage of cheap labor and significant government-backed investments in infrastructure to move substantial portions of their manufacturing bases to China. Additionally, supply chains for electronic components, apparel, machinery and other consumer products were heavily integrated into China-based production systems. The convergence logic was working in two ways. Efficiency dictated where firms located their production. At the same time, liberal engagement theory assumed that greater economic interaction would gradually move China towards established market principles and more open political institutions.

Those engagement assumptions were weak from the beginning. China utilized gaps in WTO dispute resolution mechanisms; provided state subsidies in key industries; heightened long-standing U.S. concerns regarding exchange rates and trade competitiveness; and maintained the Chinese Communist Party (CCP) above market forces while formally committing to liberalization. A 2006 USTR report on China's WTO compliance record concluded that China had lowered tariffs, but concerns continued to exist surrounding IP theft and discriminatory treatment of foreign businesses. Although the bilateral trade relationship was increasing through supply chains and investment flows, the institutional alignment envisioned by engagement theory was not occurring.

During this period Chinese wages experienced rapid increases. Witt et al. (2023) indicate that average monthly real wages in China increased approximately sixfold between 1993 and 2015, exceeding wage increases in several emerging markets in Southeast Asia and India. This rise in wages made China less competitive in some labor-intensive manufacturing activity and started to modify cost-based locational decision-making for manufacturing. An early foundation for the "China + 1" strategy emerged during this period, driven primarily by economics rather than geopolitics.

Within this framework, this time frame featured low policy intervention; highly integrated Chinese upstream suppliers with very few alternatives available at scale; and concerns over technology spillovers that had not yet become a central issue in policy circles. Together those elements generated widespread Tier 2 and Tier 3 dynamic processes within the bilateral relationship with little or no Tier 1 separation.

### *2.2 Slowbalization and Political Backlash: 2008-2016*

Hyperglobalization was interrupted by the global financial crisis of 2008. Gong et al. (2022) indicated that this shock contributed to a larger anti-free trade movement. Global trade values averaged an annual increase of approximately 2.7 percent between 2009-2018, significantly below the pre-crisis average of 12.6 percent (Garcia Herrero & Tan, 2020). Witt et al. (2023) noted that decoupling trends in U.S.-China trade and foreign direct investment ratios occurred during this time period, before the subsequent political divide, as well as measurably decreased during the later years of the time frame. That timing is important. While structural drivers of divergence existed before Trump, they were not solely responsible for the split.

The economic costs associated with the degree of integration during this period also became increasingly difficult to ignore. Using data from the Bureau of Labor Statistics, Acemoglu et al. (2016) estimate that the employment loss resulting from Chinese imports (the China Shock) totaled between 2.0 and 2.4 million jobs lost in U.S. manufacturing from 1999 to 2011. The losses were predominantly realized in localities lacking sufficient resources to mitigate these job losses. The researchers also demonstrated that job losses, downward wage pressure and diminished labor force participation in impacted regions resulted due to insufficient responses from traditional trade adjustment programs. Segal and Gerstel (2021) indicated that regions with greater exposure to the impacts of the China shock elected politicians with strong anti-trade stances and by 2012 public perceptions of China had taken a decidedly negative turn. Building toward a stricter trade stance was a gradual process throughout this time period, not a singular effort led by one individual.

An additional structural factor introduced under Xi Jinping further pressured China's direction alongside the evolving domestic politics in the U.S. Under Xi Jinping, state authority was asserted over privately owned enterprises; some privatizations initiated by previous administrations (Jiang and Hu) were reversed; and CCP committees were expanded into both state-owned and private companies. Xi launched Made in China 2025 with specific goals for achieving technological autonomy; initiated the Belt and Road Initiative (BRI) as a major geo-political development initiative; and pursued assertive claims to territory in the South China Sea despite losing cases through international arbitration. These actions provided little support for the convergence hypothesis, regardless of how the U.S. chose to respond.

Petricevic and Teece (2019) contend that the difference between China's state capitalist model and the liberal market economies of mature democracies represents a fundamental structural source of decoupling pressures. In their view, decoupling pressures would have been building regardless of an explicit trade conflict. Applying the proposed framework, the time span of 2008-2016 intensified policy intervention and technology spillover risks. However, upstream substitutability remained relatively low, therefore large-scale separation was expensive to achieve economically. Therefore, I find a transitional period characterized by enhanced Tier 2 tensions and initial Tier 1 dynamics appearing in strategically-sensitive technologies.

### 2.3 Policy Acceleration: 2017-Present

Trump's first administration converted pre-existing structural pressure into overt bilateral confrontation. By 2020 tariffs on Chinese imported goods averaged nearly 19.3%, six times higher than those before the trade war (Segal & Gerstel, 2021). Average tariffs paid by U.S. firms on imported Chinese goods averaged almost 20.3%, representing a near 14 percentage point increase since January 2018. Withdrawing from the Trans-pacific Partnership (TPP) in January 2017 terminated U.S. involvement in what had been the primary multi-lateral trade framework for Asia; creating an institutional void filled-in part by RCEP (Witt et al., 2023). Restrictions on technology exports expanded from Huawei and the entity list to include broader semiconductor export controls. Witt et al. (2023) identify those controls as a prime example of when national security logic has superseded economic efficiency considerations in bilateral trade policy.

 

The Biden Administration took a different policy path and cannot be conflated with Trump's tariff nationalism. Kramer (2023) describes Biden's approach as a new type of globalization based on selective decoupling, resilient supply chains, and coordinated allied economic security as opposed to returning to past levels of openness. The Creating Helpful Incentives to Produce Semiconductors and Science (CHIPS) Act of 2022 authorized tens of billions of dollars for bringing semiconductor fabrication back to the United States. Export controls on advanced chipsets, AI hardware and semiconductor manufacturing equipment restricted China's access to cutting-edge technology at the input level. Friend-shoring also became official policy language; indicating a move away from an open multilateral trade system toward a more politically influenced supply chain system. Trump's approach was primarily tariff-based and bilateral; Biden's approach was more institutionalized; sector-based; and aligned with his allies through CHIP-4 alliance and export control coordination with Japan and the Netherlands. Both approaches produced decoupling effects, albeit through different instruments and with differing implications for allies and the overall trade regime.

A comparison organized into three categories illustrates how different the policy tools employed by both administrations were. Rather than differing in terms of style, there was a clear and consistent distinction based upon the type of tool used in each category. Regarding the main policy instrument, the Trump administration relied primarily on tariffs, which can affect prices across a wide range of product categories. They do not directly address whether those products will be critical to future national security. Biden has relied more heavily on export control mechanisms and on mechanisms to screen foreign investments under the Committee on Foreign Investment in the United States (CFIUS) and has utilized domestic production subsidies to encourage U.S. companies to produce within the U.S. These are tools that can be directed toward specific sectors and can be designed to promote certain capabilities. In addition to the differences in the primary tools of each administration, the institutions through which they operate vary significantly. Trump’s approach relied almost exclusively on bilateral action against individual countries, and it was conducted largely outside of any multilateral framework. Biden’s approach has involved significant collaboration among allies to implement common policies. For example, Biden implemented semiconductor coordination with Japan, South Korea, and Taiwan. He also coordinated export-control mechanisms with the Netherlands and Japan. The fact that these controls were developed multilaterally makes them much harder for other nations to offset through simple trade diversion. Finally, there are obvious differences in the strategic implications of each of the approaches. Trump’s use of tariffs generated tangible levels of trade diversion and stimulated some of the trade rerouting through Vietnam and Mexico discussed previously. Biden’s controls over leading edge semiconductor equipment are intended to limit the ability of other countries to develop advanced technological capabilities in semiconductors. Therefore, unlike the case with tariffs, they do not necessarily intend to influence where final stage trade occurs or what route it takes.

Additionally, two other shocks accelerated this trend: the COVID-19 pandemic revealed how cost-efficient supply chains constructed primarily for efficiency purposes can become strategic vulnerabilities particularly during PPE shortages in early 2020 (Witt et al., 2023); the language of business/policy transformed from supply chain efficiency toward supply chain resiliency providing governments/enterprises a rationale for decoupling-related expenditures beyond those supported purely by cost-based logics.

Russia's invasion of Ukraine in February 2022 reinforced the security costs of deep economic dependence upon adversary states, particularly with respect to energy supplies (Gong et al., 2022). Subsequently, allied governments applied lessons learned from their experience with Russia to their assessment of China's status as an adversary-state as well as an energy supplier (Gong et al., 2022). Gong et al. (2022) show that both shocks accelerated pre-existing reconfiguring tendencies in GVCs rather than generating those pressures de novo.

Trump's second administration escalated tariffs again, deepened strategic rivalry, extended confrontational relations into its ninth consecutive year; tariffs totaling up to an additional 145% on numerous categories of Chinese goods by April 2025 represented some of the highest bilateral tariff levels in the post-WWII era (Peterson Institute for International Economics, 2025).

China's record-high trade surplus in 2025 was achieved under such conditions; thus, completing a cycle back to our initial puzzle problem posed at the outset of this article. Sustained pressure induced actual changes in the bilateral relationship, however, not all of them toward complete strategic separation that many policymakers anticipated. Trump certainly accelerated divergence: nonetheless, he did not initiate it. Understanding that distinction is vital for establishing accurate historical context, as well as for answering practically whether decoupling would revert if there were a change in leadership at the White House, deeper structural forces influencing divergence, including incompatible governance structures; security

competition; supply chain resiliency logics; and China's agenda for self-reliance, will probably persist regardless of who holds office in Washington.

## 3. The Evidence: Decoupling Is Real, But Partial and Asymmetric

Section 3 relies on existing research rather than providing new primary data to determine in which areas of production decoupling is strong and/or weak, and in which areas there may be an appearance of decoupling but with upstream dependence between the U.S. and China remaining. Table 2 provides connections between the empirical research referenced within section 3 and the tiered framework. While the evidence indicates that we can expect a differentiating outcome (i.e., not simply yes/no) regarding whether or not the United States has "decoupled" from China; several possible counterfactuals for interpreting the results presented above should also be considered prior to accepting the evidence as indicative of actual decoupling. These include increasing wages in China, the impact of automation, and other factors including disruptions to global supply chains due to the COVID-19 pandemic, risks associated with shipping, tariffs that have been avoided by companies, and company-specific decisions to pursue diversified sourcing strategies prior to the most recent geo-political tensions. Therefore, the author treat declines in direct import volumes from China as stronger indicators of decoupling from China when those are accompanied by changes in policy; attempts at substitution; concerns related to spillovers of technology; or demonstrable shifts toward alternatives in supply chain sourcing.

**Table 2 Structured Synthesis of Evidence Used in the Three Tier Framework**

| Study | Evidence base | Core finding | Tier implication |
|---|---|---|---|
| Leibovici and Dunn (2024) | Critical sector import data | Dependence on China fell most sharply in communications and information technology, with smaller shifts in other areas. | Strongest support for Tier 1 divergence, with mixed movement beyond it. |
| Freund et al. (2024) | Tariff line trade data | Trade diversion away from China toward other developing economies occurred, but reshoring remained limited. | Supports Tier 2 as partial rather than complete divergence. |
| Alfaro and Chor (2023) | Supply chain reallocation evidence | Moving final assembly often keeps Chinese upstream inputs and production links in place. | Supports Tier 2 hidden dependence and Proposition 2. |
| Garcia Herrero and Tan (2020) | FDI, portfolio, and lending flows | FDI decoupled faster than portfolio investment and cross border lending. | Supports Tier 3 interdependence under constraint. |
| McKinsey Global Institute (2022) | Cross regional flow analysis | No major region is close to being self-sufficient in key intermediates, capital goods, or specialized inputs. | Supports Tier 2 and Tier 3 persistence of interdependence. |

Note. Table 2 combines studies showing direct bilateral evidence of decoupling with studies showing indirect or upstream dependence that remains inside third country production networks. This distinction is central to Proposition 2 because visible divergence in final trade patterns can coexist with continued convergence at deeper supply chain levels.

### 3.1 Aggregate Trade and Investment Shifts

The U.S. trade deficit with China declined significantly between 2017 and 2023. Imports from China fell from a 21.6% share of U.S. imports in 2017 to a 13.9% share in 2023. U.S. Goods imports from China fell to $308.4 billion in 2025, representing a 29.7% decrease compared to the previous year (United States Census Bureau, n.d.). The trend observed across both administrations, including during COVID-19 related supply chain disruption and renewed tariff escalations, suggests that the structural shifts represent long-term decisions Made by companies regarding their sourcing of supplies and not simply changes in demand.

Foreign direct investment (FDI) trends also show a significant separation between the two countries. Witt et al. (2023) reported that by 2020, FDI flows out of China into the U.S. had declined to approximately 8% of the historical peak level of FDI flows into the U.S. from China, while Chinese FDI inflows into the

 

U.S. had declined to approximately 13% of its peak level. FDI is a measure of where companies expect opportunities to exist going forward, not merely where companies have invested in the past based on legacy supply chain relationships. Companies pulled back investment confidence from the bilateral relationship prior to the full adjustment occurring in bilateral trade flows. As such, the data related to foreign direct investment indicate a strong signal as to which way the relationship is trending.

**3.2 sector-level analysis**

Leibovici and Dunn (2024) analyzed U.S. dependence on Chinese imports across various sectors based on a framework established by the department of homeland security's cybersecurity and infrastructure security agency. Decoupling was greatest among sectors deemed most strategically significant by the U.S. government. In communications, the U.S.'s share of imports from China dropped from approximately 62% in 2016 to 44% in 2023, an 18-percentage-point drop from an already elevated baseline. In information technology, the share dropped from approximately 46% to 27%, which represents the largest absolute drop in any of the sectors measured in the study.

Based on these findings, Leibovici and Dunn (2024) concluded that these results support stronger policy pressure and corporate restructuring decisions being implemented in sectors of higher strategic value. These conclusions support those of Witt et al. (2023), who posited that any degree of decoupling in a given industry will depend upon its strategic national importance and whether there exists sufficient economic incentive to relocate production.

Sectors with greater clarity regarding national security risks, along with some degree of feasibility for domestic manufacturing, demonstrated greater rates of decoupling relative to sectors with lower degrees of strategic importance and/or where relocation of production appears to be impractical. The latter group includes Healthcare, food and agricultural commodities, energy, and metals, all of which did not demonstrate statistically meaningful increases or decreases in dependence on Chinese imports between 2016 and 2023 (Leibovici & Dunn, 2024).

Leibovici and Dunn (2024) also noted that imports of product categories that were exempt from tariffs imposed under the trump administration increased by about 50 percent relative to pre-tariff levels by the early 2020s, increasing from approximately 33 percent to approximately 47 percent of total imports of products Made in China. Categories that exhibited such behavior included laptops, smartphones, consumer electronics, furniture, and toys.

Financing interdependence persisted across both administrations. Although foreign direct investment decreased rapidly following the imposition of tariffs under the trump administration, portfolio investment and cross-border lending did so to a lesser extent (Garcia Herrero & Tan, 2020). Thus, despite growing tensions between the U.S. and China regarding trade issues, financial markets continued to exhibit deepening ties until late 2020, as evidenced by U.S. holdings of Chinese long-term securities remaining above $200 billion and Chinese holdings of U.S. treasuries exceeding $1 trillion during this same period. As such, capital market integration persisted throughout the decoupling period, notwithstanding the increasing political tensions between the two nations and ongoing efforts to restrict Chinese companies' access to U.S. equity markets via delisting initiatives (Garcia Herrero & Tan, 2020). The persistence of capital market integration across this period reflects the extensive integration of financial systems that developed over two decades preceding the beginning of decoupling efforts. Unwinding such deepened connections is extremely costly.

Freund et al. (2024) used detailed tariff line trade data to analyze how U.S. tariff policy transformed global supply chains. Their research indicated that tariff-driven trade diversion was indeed evident; however, replacement suppliers in emerging economies retained strong linkages with Chinese industrial networks as providers of upstream input materials.

In practical terms, while the U.S. relocated a significant amount of final assembly activity, it left substantial portions of its more complex upstream supply structures intact.

**3.3 indirect dependence via third-country supply chains**

Bilateral trade statistics may mask how little actual separation has taken place due to indirect dependence on Chinese input materials via third-country supply chains. Alfaro and Chor (2023) identified a coming "great reallocation" in global supply chains and demonstrated that apparent diversification of U.S. import sourcing away from China often masked continued reliance on Chinese upstream inputs within goods imported from Vietnam, Mexico and other alternate suppliers.

Therefore, aggregate trade statistics can report geographical diversification even though only the final assembly portion has relocated downstream while the upstream inputs remain primarily sourced from Chinese manufacturers.

Three different production chains show how Proposition 2 works in action. As for Vietnamese electronics, by 2017 final assembly of U.S.-bound products were being done primarily in Vietnam; thus, U.S. tariffs were avoided. However, many of the inputs (components) used in the Vietnamese assembly lines continue to come from China. Thus, even though a product may have entered the United States with "Vietnamese" origin it was likely to contain a significant amount of Chinese content from its previous stages of production. Similarly, an increasing number of automotive and electronics related manufacturing activities are moving into Mexico due to the location's proximity to the U.S. market and because of benefits derived from the new trade agreement called USMCA. Despite this increase in assembly-type manufacturing in Mexico, the tooling, capital equipment, etc., necessary to support such manufacturing is still coming from China. An example of the same pattern occurring is seen in Southeast Asia's textile and apparel industry. Garment assembly has been shifting towards lower cost countries; however, yarns and fabrics are still being produced by Chinese mills.

True resilience to disruption emanating from Chinese industrial networks necessitates substitution of upstream input materials, not simply relocation of final assembly activities. Establishing new supplier networks in substitute locations requires additional time, investment and development of supplier ecosystems capable of supporting large-scale production.

To date, building semiconductor fabrication capabilities in the U.S., as envisioned by provisions contained within the CHIPS act constitutes one of the only serious attempts to build true upstream resilience; however, this effort is currently limited to a single sector and will likely require multiple years before producing significant quantities.

Paterson (2026), writing in his role as an industry commentator, took the issue further. He suggested that if a second phase of U.S.- China decoupling occurs it will require enforcement mechanisms for rules-of-origin and penalties against transshipment since unilaterally imposing tariffs between two parties does not result in removal of Chinese content from third-party exports. While Paterson (2026) is not providing empirical data-based validation for his position, he provides conceptual insight into potential areas for future pressure on decoupling. Specifically, future pressure may transition from observable bilateral trade volumes to less visible patterns of upstream content and supply chain visibility/traceability.

This differentiation is relevant for evaluating policy effectiveness. If policymakers view decoupling solely in terms of declining shares of imports labeled as "Made-in-China," then they have achieved partial success. However, if policymakers assess decoupling based upon declining strategic vulnerabilities stemming from Chinese supply chain disruptions, then aggregate data suggest less cause for optimism. Upstream dependencies persist via intermediates located in third-party countries. Policymakers assessing success solely through declines in bilateral import shares may be measuring the wrong outcomes.

Boundary conditions matter. Decoupling would be considered limited or partial if direct bilateral trade declines while strategic dependence persists via upstream inputs (e.g., raw materials, intermediate goods), capital equipment, technological standards or third-country production networks. A stronger case for complete decoupling would need to include declining direct imports from China; declining Chinese content in intermediary-country exports; declining dependence on Chinese intermediate inputs; and establishment of new-scale alternative supplier ecosystems.

## 4. China’s Counter Strategy: Redirecting Globalization, Not Retreating From It

In addition to absorbing U.S. decoupling pressure, China employed a set of related actions to limit China's vulnerability to external pressure while expanding its presence in other areas of the economy, markets, institutions, and supply networks.

### 4.1 Dual Circulation

Xi Jinping introduced the concept of dual circulation in late May 2020. In March 2021, China’s 14th Five-Year Plan integrated dual circulation into China's economic structure. Internally focused circulation relies on China's domestic demand, consumption, and production for growth. Internationally-focused circulation maintains China’s international connectivity but selectively supports China’s influence over other regions’ economies rather than encouraging integration for its own sake. Kramer (2023) succinctly articulated the logic behind the strategy: "China wants to make global supply chains rely more heavily on China while reducing the world’s dependency on China." As Kramer continued, "This is not a retreat from globalization,"

within the broader convergence/divergence analytical framework, dual circulation represents China's effort to reroute convergence as opposed to ending it. China intends to create dependency surrounding Chinese industrial capabilities, Chinese finance, and Chinese technical standards rather than the liberal trade structures China joined in 2001.

As mentioned above, the internally-focused circulation aspect of this strategy has significant limitations. Domestic consumption has failed to meet official expectations. Growth was impacted by post-Evergrande crisis and subsequent developer defaults in the property sector debt crisis. Household income growth has trailed the growth of national output. Finally, there is demographic pressure associated with a decreasing size of the working-age population. While dual circulation describes the direction China intends to take, it does not provide evidence that China has yet reached that destination.

### 4.2 Technological Self-Reliance

Made in China 2025 established a goal of achieving 70% technological independence from foreign technology in ten key sectors, including semiconductors, artificial intelligence, aerospace, electric vehicles, and advanced manufacturing equipment, by 2030 (Kramer, 2023). However, the imposition of U.S. export controls on semiconductors presented a paradoxical challenge. Semiconductors were a critical component in creating a near-term limitation to China's advancement towards developing highly advanced semiconductor production. However, those same restrictions have compelled the Chinese state to increase investments in domestic alternatives. For example, Huawei developed the Kirin 9000S chip using nodes manufactured by China's SMIC domestically to adapt under constraint versus being defeated (Nikkei Asia, 2023).

China's position in electric vehicles provides insight into how technological self-reliance is resulting in real market strength. BloombergNEF (2024) reported that BYD eclipsed Tesla as the leading global electric vehicle manufacturer in 2023 and that Chinese firms now dominate global EV manufacturing capacity. Additionally, China's control over a large portion of the world's lithium processing and cathode materials and battery cell manufacturing capacity enhances its lead in battery supply chain strength. Nevertheless, such dominance cannot be confused with total technological independence. Advanced vehicle platforms remain dependent upon semiconductor-based systems with respect to upstream choke points that remain unevenly distributed globally.

Adaptation has its limits. Export controls coordinated by the U.S., the Netherlands and Japan have made advanced semiconductor tooling particularly extreme ultra-violet lithography equipment produced by ASML in the Netherlands unavailable to Chinese manufacturers. Consequently, without that tooling, Chinese manufacturers remain significantly restricted from producing chips smaller than approximately seven nanometers which are necessary for advanced AI-accelerators and high-performance computing systems.

### 4.3 Alternative Institutional Architecture

More than 140 countries across Asia, Africa, Latin America and the Middle East participate in the BRI, which was initiated in 2013. These countries are engaged in infrastructure financing and related economic agreements (Witt et al., 2023). According to Lewin & Witt (2022), BRI primarily represents a political initiative. Among its geopolitical roles include ensuring secure strategic supply lines, connecting physically and institutionally with non-Western controlled financial networks and increasing Chinese institutional influence to lower the dependency of both marine shipping lanes and financial systems on the United States.

Regional Comprehensive Economic Partnership (RCEP) entered into effect in January 2022. Fifteen Asia-Pacific member states comprise RCEP, which includes both China and nations involved in bilateral free-trade negotiations with the United States, e.g., Japan, South Korea, Australia and ASEAN. The absence of the U.S. is noteworthy. Combined GDP and population figures indicate it is the largest regional trade agreement ever negotiated (UNCTAD, 2022). Moreover, it strengthens an Asian trade structure where Washington no longer plays a primary role in setting institutional norms, a direct result of the U.S.'s withdrawal from TPP in 2017. A further step occurred when China and South Africa jointly expanded BRICS membership to include Egypt, Ethiopia, Iran, Saudi Arabia and the UAE in June 2023, raising BRICS' combined share of global GNP at PPP to approximately 35%. Additionally, BRICS increased its potential function as an alternative forum for economic coordination (IMF, 2024).

China is not withdrawing from globalization. Rather, it is building greater levels of convergence with a larger number of new partners while strategically diverging from the liberal international order led by the U.S. Building an alternative architecture for convergence around new groups of partners is exactly what

China is doing. According to Witt et al. (2023) many countries will be attracted to the greater availability of resources provided by BRI financing and RCEP trade arrangements or Chinese technology standards, while maintaining their existing economic relationships with the U.S. and its allies. The result is certainly not a separation from each other. Instead, interdependencies overlap across multiple centers, creating a more complex structure.

## 5. Multinational Enterprise Strategy in a Rewired Global Economy

Globalization isn't something that MNEs get to choose; instead, they're determining how and where they'll continue to connect. Geopolitical considerations are now influencing supply chain design, investment choices, technological platforms, and market strategies. Companies which will manage this transition most efficiently are moving past reactive "decoupling" responses towards more intentional geographical portfolio planning.

### *5.1 The Decision Framework*

As stated previously, Witt et al. (2023) determined that firm responses to decoupling rely on two primary variables: the strategic significance of an industry to national security and whether an industry can physically be moved out of China. Semiconductors represent an example of industries whose strategic importance are high due to the impact semiconductors have upon defense, artificial intelligence, communication networks, and critical infrastructure. In situations where an industry represents a high degree of strategic importance however, relocating the production to another country may be very difficult. Therefore, when there is high strategic importance to an industry and production cannot be easily relocated, reshoring pressure increases significantly. Conversely, when an industry represents low strategic importance and/or is difficult to relocate in addition to having low strategic importance, friend-shoring pressure decreases greatly. When an industry represents low strategic importance, decoupling pressure is lessened significantly as well since security-related concerns don't outweigh efficiency as significantly.

Techno nationalism and divided governance systems were analyzed by Petricevic and Teece (2019). These authors found that as liberal market systems and state capitalist systems continue to diverge and expand in distance from one another, MNEs increasingly find themselves forced to design innovation and production networks based on political risk as opposed to economic efficiency exclusively. Similar conclusions were reached by Cui et al. (2023), as these authors noted that while highly sensitive sectors (strategic sectors) are increasingly separated geographically into distinct camps, non-sensitive sectors are more likely to remain more interconnected. Thus, companies within highly sensitive sectors experience a unique set of strategic challenges compared to companies in non-sensitive sectors.

### *5.2 Tier-Specific Strategic Responses*

Building off this line of reasoning, the analysis links corporate responses to the three tiers identified above. The tier 1 sector requires the corporate entity to redesign its global supply chain in such a manner that complies with government regulations related to national security. This tier also includes duplicating critical capabilities, tightening control over corporate partners, access to data and technology. Tier 2 sectors include supplier mapping, upstream diversification and utilizing "China Plus One" strategies for sourcing materials outside of China while maintaining production in China. While utilizing "China Plus One" strategies allows corporate entities to maintain critical operations in China while creating additional capacity in other regions in order to mitigate single-source material risks, "China Plus One" does not create supply chain independence for the vast majority of corporate entities. Instead, it primarily serves as a resilience strategy versus a total decoupling strategy.

Regionalization and nearshoring refer to creating stronger supply chains located proximate to a company's principal markets. Mexico has developed into a leading nearshore location for U.S.-bound manufacturing due to its competitive labor costs combined with United States Mexico and Canada trade advantages and its proximity to the United States. The McKinsey Global Institute (2022) cautioned against the notion that any major region is capable of achieving self-sufficiency in intermediate inputs, capital goods or specialized components. Riveras and Harrison (2023) explained why Mexico was able to take on the leadership role of nearshoring far more successfully than many lower-cost alternative locations. They defined neighbor-country dynamics as the reciprocal influences generated through geographic closeness. Such influences produce economic/business impacts that are diminished when nations are farther apart than if the nations were closer together. Therefore, Mexico-based nearshoring is not solely based upon wage

levels/tariffs; rather, it is also built upon using geography as a competitive advantage.

Dual operating systems refer to the corporate-wide use of separate business infrastructures for China and all other parts of the world. China's data localizations laws (Cybersecurity Law of 2017 and Data Security Law of 2021) combined with export controls imposed by the U.S. and its allies create significant pressures for corporations to develop separate technological systems, data governance structures, supply chains and R&D pipelines. Apple is one of the few corporations that publicly exemplify large-scale dual operating systems. The costs associated with such a structure are quite significant because they add considerable management complexity/operational overhead/duplicated investments in capital expenditures.

Portfolio logic represents the most sophisticated form of current thinking regarding corporate response to deglobalization. Luo & Witt (2022) indicated that corporations experiencing deglobalization pressures must develop a new organizational framework. Corporations must identify areas where access to China's markets/production capabilities still present a positive value proposition and identify areas where security/governance-related risks are unacceptable. This framework aligns perfectly with recent actions taken at the industry-level by the U.S., specifically relating to the CHIPS of 2022. The act provides incentives for U.S.-based corporations to resurface semiconductor fabrication in the U.S., while allowing chip design/research & development/software development activities to continue as globally distributed. The key strategic insight presented here is that not all corporation activities possess equal amounts of geopolitical risk. Corporations possessing an understanding of how each activity possesses varying degrees of geopolitical risk will be better situated than corporations applying either a blanket decoupling strategy or blanket globalization strategy throughout the entire organization.

### *5.3 Knowledge/Talent/Locations Decisions*

Witt et al. (2023) concluded that continued decoupling will ultimately result in negative consequences for innovation both for individual corporations caught between conflicting regulatory systems as well as for individual economies. Restrictions placed by the U.S. on visa applications submitted by Chinese students/researchers employed in sensitive technologies have resulted in fewer individuals with relevant technical skills entering the U.S.'s innovation system. Simultaneously, increased detainment risks for senior technical/managers working in China on behalf of foreign corporations since revisions to China's Counter-Espionage Laws in 2022 have made foreign corporate employees/executives working in China increasingly hesitant to accept positions in China.

## 6. The New Globalization: Three Tiers of Divergence

The three-tier framework combines the historical, empirical and strategic elements of the article. To date there is little evidence supporting the proposition that globalization is coming to an end; rather there is evidence that suggests the nature of global interdependence is changing due to different political and economic factors. This section provides further evidence to support this proposition, by examining the three tiers using the framework to assess the degree of divergence within each tier.

**Tier 1: highest degree of divergence within sectors most important to national security.**

In sectors such as advanced semiconductors, ai infrastructure, quantum computing, defense supply chain systems and critical communications systems, the concern regarding national security takes precedence over considerations relating to the efficiency of operations. As such, government policy has created a structurally separate operational environment in these sectors. Witt et al., (2023) argue that the strongest and most enduring forms of decoupling are found in sectors that are strategically significant and/or capable of relocating production. As such, United States export controls on advanced chip designs, manufacturing equipment and electronic design automation software have emerged as key mechanisms in creating a government-directed decoupling environment within the U.S. semiconductor sector. These controls are reinforced through the CHIPS act's domestic production incentives, through the investment screening authority of CFIUS and the entity list. Overall, the U.S. government is establishing a decoupling structure in the semiconductor sector which is being coordinated among allied nations including Japan, South Korea, Taiwan and the Netherlands.

Cui et al. (2023) suggest that technology sectors with high sensitivity levels are likely to experience bifurcation into geographically-based groups. Petricevic & Teece (2019) arrived at similar conclusions through linking the differing forms of governance to differing innovation systems. The state-directed

technology model employed by China and the market-based innovation system employed by liberal democracies provide for significant separation pressures in those sectors where intellectual property and frontier technologies are most relevant. In effect, for firms operating in tier 1 sectors, decoupling is no longer merely a viable option, it is their operating environment.

**Tier 2: partial divergence in consumer goods and intermediate products.**

In sectors related to assembling consumer electronics products, automotive components, chemicals, textiles, intermediate products and a wide variety of other manufactured goods, supply chains are shifting away from China toward greater geographic diversity. Leibovici and Dunn (2024) demonstrated that the greatest declines in Chinese import share are observed in sectors exhibiting high initial dependence and greater security-related policy pressures. However, Alfaro & Chor (2023) demonstrated that although apparent diversification exists in U.S. imports related to China plus one strategies and near-shoring, these strategies don't necessarily result in complete decoupling. Instead, us imports of these goods are often dependent on upstream input sourcing from China via third country suppliers.

Therefore, while firms operating in Tier 2 sectors are experiencing a directional change towards decoupling from China, they have yet to experience completion of this process. Therefore, Tier 2 adjustment is occurring at a rate slower than many observers would like us to believe, and Tier 2 change is less extensive than implied by bilateral trade statistics. Firms that perceive themselves as employing full decoupling strategies vis-a-vis China plus one strategies may be misjudging their resilience levels. Similarly, firms that view the current shift as unnecessary will likely underestimate their need for geographic diversification of production activities which will likely become increasingly important over time.

**Tier 3: continuing inter-dependence subject to constraints.**

Garcia Herrero & Tan (2020) demonstrated that financial deglobalization was more evident in FDI flows compared to portfolio investment flows and cross border lending flows. In addition to financial markets, professional services, scientific exchange, climate cooperation and data flows, integration remains strong, and complete decoupling has not occurred between the U.S. and China. In fact, us and Chinese financial institutions remain connected through capital markets, corporate financing and sovereign debt holdings, even though certain Chinese companies have delisted from us stock exchanges due to regulatory pressure.

This connection does not operate in the same open environment that it did prior to recent policy pressures; data localization rules, sanctions exposure, regulatory limits and geopolitical risk management all create friction where once there was greater ease of movement. While there are growing pressures creating difficulty with respect to these connections, they have yet to be fully broken. Riveras et al., (2022) offered a useful comparison by analyzing the Pacific Alliance and demonstrated that diversion from the more protectionist position of Mercosur created convergence among member nations of an alternative bloc focused on open regionalism and external economic integration. The pattern observed is relevant because when one institutional center loses its capacity to integrate actors, states and enterprises don't simply stop integrating, rather they reorganize around other arrangements which better meet their strategic objectives.

## Summary

**Evidence supports propositions 1 and 2.**

Based upon the evidence reviewed thus far, decoupling will vary across different types of industries based on policy intervention opportunities to substitute Chinese upstream inputs and technology spillovers sensitivity level. Tier 1 industries such as semiconductors, communication networks and other security-limited technologies will experience higher degrees of divergence due to greater restrictive policies imposed by governments, greater encouragement of domestic alternatives regardless of cost and increased concern regarding loss of technology. Tier 2 industries such as final assembly manufacturing will experience lower degrees of divergence due to the availability of substitution options and relatively high costs associated with separation.

**Supporting proposition 2.**

Research also provides evidence supporting proposition 2. Specifically, research has consistently shown

that apparent decoupling between two countries at the bilateral level can coexist with continued dependence upon Chinese suppliers for upstream inputs via third-country-suppliers. As a result, tariffs used to redirect purchases away from China may only displace final assembly operations but not eliminate use of components or industrial materials provided by Chinese-based suppliers.

**Qualifying support for proposition 3.**

While the literature offers qualified support for proposition 3, decoupling creates new forms of convergence elsewhere via redirection of international trade and investment and institutional alignment, I observe that decoupling between the U.S. and China has already led to development of new forms of global integration via new partnerships between China and emerging markets including Mexico, Vietnam and other countries located along major trading routes between Asia and Latin America.

Firms and governments which apply a single logic for decoupling to every industry will over-invest in resiliency and lose competitiveness in areas where integration remains advantageous. Conversely firms and governments which ignore trends toward decoupling will find themselves behind in terms of strategic importance in areas where decoupling has become increasingly important.

The practical value of the three-tier framework lies in helping firms conduct self-assessments of their own exposure. Tier 1 sectors require active decoupling management. Tier 2 sectors require planned diversification. Tier 3 sectors should continue to employ global integration for efficiency purposes while managing grows political and regulatory frictions.

Similarly, the framework can help governments design better policymaking. Broad mandates for decoupling across all sectors impose excessive costs on both Tier 2 and Tier 3 activities and may fail to achieve goals related to security which motivated the policy, as compared to targeted sector specific decoupling initiatives that account for actual strategic significance and real limits on reshoring efforts, broad tariff or restrictive systems that treat a semiconductor fabrication plant equally to a furniture factory are likely to impose significant economic costs relative to achieving desired goals related to security

**Conclusion**

While globalization is far from dying, the type of globalization we have been experiencing since the end of the Cold War is crumbling. We have experienced approximately thirty years of global trade and investment based primarily upon efficiency (the ability of firms to efficiently produce goods and services), comparative advantage (countries producing products and providing services they can produce more cheaply than others), and the idea that further deepening of economic relationships among nations will reduce the potential for political conflict. This model of globalization is being replaced with a more fragmented, more security oriented, and more explicitly politicized form of globalization. While the U.S.-China decoupling process did not cause this change to occur, it is currently the most clear and prominent example of such change.

This trend was emerging prior to President Trump's decision to accelerate the decoupling process. It appears less likely to reverse direction simply due to changes in the administrations in either country. More importantly, the underlying drivers of this transition, namely, incompatibilities between national systems of governance, increasing security tensions between nations, growing concerns about the resiliency of global supply chains, and China's pursuit of greater independence, are more enduring than any single administration.

It seems there are three possible ways forward from here. The most probable future is managed multipolarity. Under this future, global economic relations will be characterized by multiple economic zones (or "blocs") anchored by the United States and China. Many "middle" countries will choose neither to commit fully to one zone nor refuse to engage economically with another. As such, globalization will continue to exist. However, it will be conducted in an environment in which the globalization experience will be divided among economic zones and subject to significant political influence. A second possible future is accelerated bifurcation. Such a future might emerge in response to a Taiwan crisis, a technological conflict between the two superpowers, or some form of financial rupture that causes countries to choose sides in their economic dealings. A third possible future is partial reconvergence.

Partial reconvergence refers to a situation in which the post-2017 de-coupled relationship between these two superpowers evolves toward a new system of cooperation. However, even under this possibility, the two superpowers will not return to their previous level of engagement with each other. The future scenarios are distinguished by their potential outcomes as well as the conditions necessary to

produce those outcomes. A managed multipolar future is possible if there is no immediate geopolitical event that will force a decision about which side to align with and if the cost of increased disengagement in Tier 2 and Tier 3 sectors continues to be high enough to impede political momentum. An accelerated bifurcation scenario is more likely if a significant crisis occurs (most likely in the Taiwan Straits or through a wider technology-based conflict) which causes governments and firms to commit to deepening alignment throughout the supply chain, standardization and investment rules. A partial reconvergence would require sufficient levels of political pressure at the national level in both nations combined with sufficient economic incentives for both nations to create an environment conducive to more formalized cooperation and thus provide opportunities for selective regulatory discussions and some loosening of constraints in non-sensitive areas.

The various futures differ significantly regarding how much separation occurs at the Tier 1 level (i.e., U.S.-China) and how extensive becomes Tier 2 diversification (i.e., countries' diversified sourcing strategies). They also differ regarding whether or not Tier 3 interdependencies (i.e., those involving non-U.S. and non-Chinese economies) are able to endure. If managed multipolarity emerges as a dominant model for organizing global economic relationships, it will allow for continued Tier 3 interdependency while solidifying Tier 1 and certain components of Tier 2 into competing but still interconnected economic zones.

Historical precedents provide little reason for optimism about achieving convergence after divergence. Divergence was followed by convergence during earlier episodes of history (e.g., after the collapse of globalization prior to World War I, when it led to the emergence of a new era of globalization after World War II). Historically, however, political conflicts often prevail over economic logic for extended periods. Thus, while historical evidence demonstrates that globalization can recover from major disruptions to the global economy, there is no guarantee that recovery will automatically occur. Therefore, for all stakeholders (firms and governments), the primary questions are no longer whether globalization will continue to play a role in shaping international economic relationships. Rather, the key questions are how globalization will evolve going forward (in terms of both what aspects of globalization are emphasized, through what types of institutions will globalization be organized, under what values will globalization operate, and within what distribution of economic and political power), and how firms and governments can position themselves optimally to benefit from whatever form(s) of globalization emerge.

Firms need to begin treating the new form(s) of globalization as a portfolio problem rather than as a binary decision (i.e., do you want to conduct business with China? No? Then you cannot use Chinese suppliers). Tier 1-based investments necessitate that firms establish compliance mechanisms for their activities in these markets, develop duplicate critical capabilities for their operations in these markets, and implement tight controls over technologies used in these markets. Tier 2-based investments necessitate that firms map out their suppliers and pursue upstream diversification. Simply relocating production processes for goods being sourced from suppliers in Tier 1 markets may not address the dependence upon suppliers in Tier 1 markets. Tier 3-based investments require firms to maintain selective continuity in their relationships with suppliers located in Tier 1 and Tier 2 markets, with corresponding safeguards against sanctions, data rules, and/or political risks associated with conducting business with entities located in Tier 1 markets. Governments confront a similar set of challenges. Widespread "decoupling" mandates may lead to unnecessary expenditures in areas where continued integration yields additional benefits. Targeted policies grounded in an understanding of sector-specific exposures are more defensible.
Thus, the conclusions return to the original question posed at the beginning of this report: globalization continues, the real issue is which form(s) of globalization are firms and states helping to build going forward.

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