

Decoupling in the USA and China

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Abstract

The research explores the concept of economic and ideological decoupling between the United States and China, focusing on the increasing self-reliance of both nations and the impact on global trade. It delves into institutional theory, examining how organizations adapt to new norms and regulations in response to geopolitical tensions. The paper analyzes the historical evolution of US-China relations, the role of social movements in institutional change, and the effects of decoupling on organizations. The study highlights the challenges and opportunities arising from this decoupling, emphasizing the need for adaptive strategies and cooperation to mitigate global risks.

1. Introduction

The growth of economic decoupling between the United States and China has been constantly increasing. Decoupling refers to the process where countries like the US and China become more self-sufficient and reduce their dependence on each other (Black et al., 2021). Decoupling in the United States and China reduces dependencies in each country for various industries like technology, trade, and chip manufacturing. It can be problematic because it increases costs for each country and increases tensions between them. It has led to an increase in manufacturing capacities in each country as they try to diversify their production (Black et al., 2021). This self-reliance can lead to a tradeoff between efficiency and legitimacy.

Institutional theory is a significant conceptual structure in the study of organizations which helps us understand how institutions shape organizational behavior, practices, and norms within economic systems (Meyer and Rowan, 1977). Although prior work has examined how social movements create institutional change, most of this work has focused on how a single social movement creates change. This paper delves into how two social movements come together to create institutional change. In particular, this paper will discuss how social movements have resulted in a decoupling between the USA and China.

Initially, the paper explores institutional theory and examines its evolution over time. Then, it lays out the timeline of events between US and China that started with a stable economic relationship of economic collaboration in 1979 and ended with strained diplomatic and economic relations, finally resulting in decoupling. Finally, it delves into the analysis of the US-China Decoupling.

2. Literature review - Institutional Theory and Institutional Change

Institutional Theory

Institutional theory enables us to understand how formal structures arise in organizations and their evolution within the context of society. This theory is based on the concept of rationalized institutional rules and highlights the role of myths and institutionalized practices in shaping organizational behavior (Meyer and Rowan, 1977).

The theory affirms that organizations align with current practices, ethics and regulations in their environs to gather resources, gain legitimacy and increase its prospect of survival. These regulations influence

organizational practices even though they may not increase the organization's efficiency. In today's world, when formal establishments work within institutional context, adherence to institutional rules is highly crucial for legalities and survival (Meyer and Rowan, 1977).

The social norms in the United States and China are a significant factor that are increasing trade tensions leading to decoupling (Tolbert et al., 2011). Organizations try to advocate for more flexible policies that ease their international trade and communication, but this opposes protectionist and isolationist ideologies. However, some organizations pressure local interests and enforce taxes and control all the important things into the country and try to protect their country. Organizations will try to protect their market and they try to avoid violation of social rules (Tolbert et al., 2011).

Institutional Change

The creators of new firms must also make decisions about external things influencing how a business works. This entails things like which suppliers to use, what other companies to partner with, where to obtain funding for ongoing operations, and how to increase the customer base (Tolbert et al., 2011).

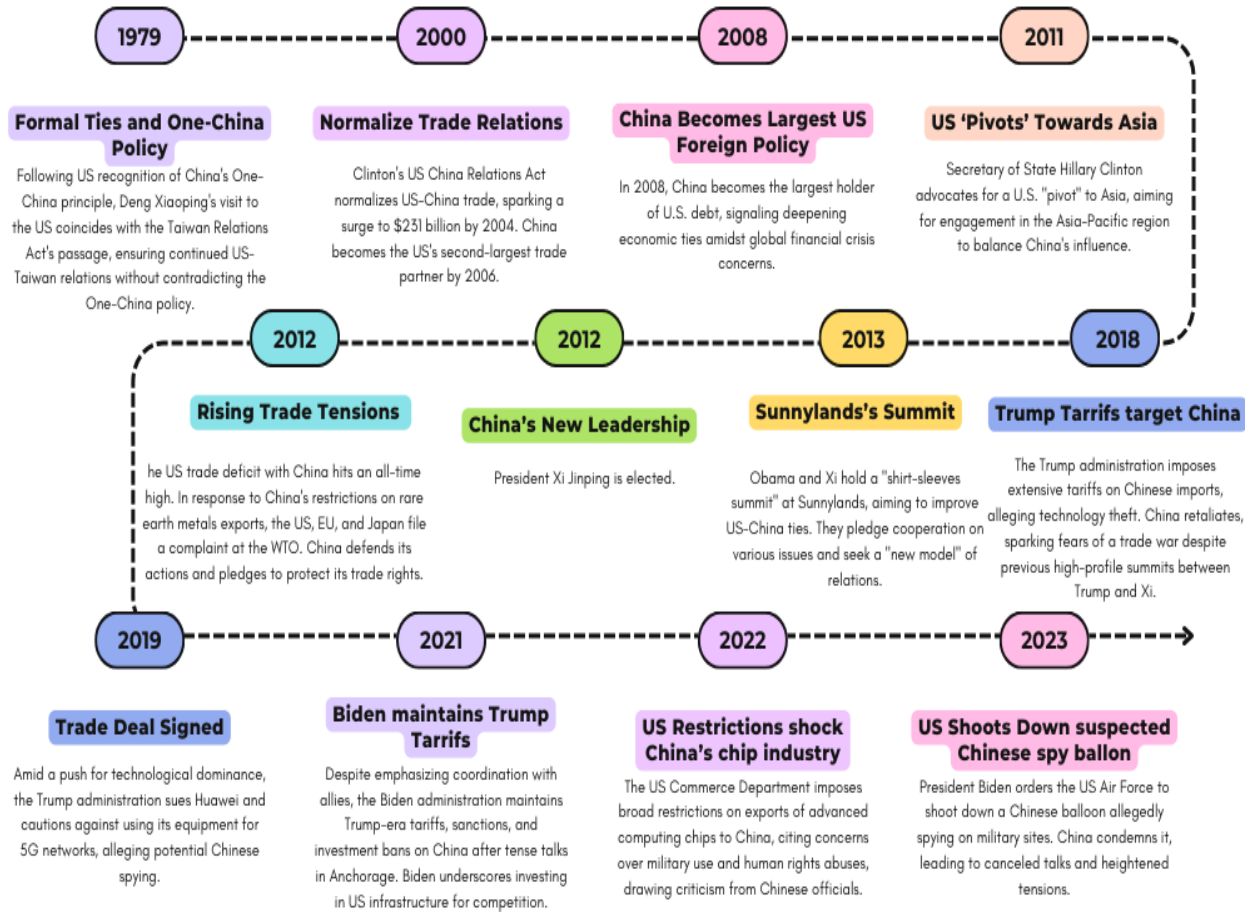
Social movements serve as one external factor that influence organizations indirectly change beliefs and understanding of what business operations are negatively impacting the business. These social movements determine what's "right" for an organization in terms of the way they operate (Tolbert et al., 2011).

If we assume the example of banks when we talk about institutional logics, there are 2 types of logics. On one hand, is the banking logic where you listen to what the customer says, and the other is more of an efficiency logic or business logic where you don't spend a lot of time with your customers and you're just trying to efficiently manage as many accounts as possible. This results in different interpretations of how banks impress their customers. Similarly, when 2 leaders come together with different logics and different ways, the differences create change by causing conflict, and when people come into conflict, you have to question the way the industries are run so that you come together and examine the institution (Tolbert et al., 2011). American ideology is very pro- premarket and pro-capitalism, whereas China is extremely communism and prostate ownership (Collinson, 2019).

Institutional Change can help us understand how institutions have changed to align with an organization's interdependence. The different trade agreements that have resulted from the US-China Trade War lead to an adaptation of new social norms. This leads to the abandonment of old norms and the creation of new institutional logic which shows institutional change (Tolbert et al., 2011). By studying how decoupling is influenced by institutional change, we can gain information into the changing nature of institutions and their evolution with norms (Meyer and Rowan, 1977).

3. Context - US China Relations

US-China Relations TIMELINE



Before president Xi Jinping was elected, president Deng Xiaoping was a pro-American and pro-capitalism leader. Under Deng's rule, China grew into an economic superpower. China saw a growth in education, jobs, and advancements in future opportunities (Britannica). However, when president Xi was elected, a lot of China's cultural capital was eroded and China was more westernized. Xi's behavior was the result of Chinese people losing their cultural identity (Garrick, 2019).

In 2017, Donald Trump's recent call with Xi Jinping on the "One China" issue came as their tensions were slowly escalating (Garrick, 2019). Contrastive cultural norms and political systems have always been an issue that hindered communication between the two countries. The potential of conflict is now greater after the election of Trump and Xi's consolidation for authority (Collinson, 2019). This is not because of their differences, but because of the similarities in their aspirations and future goals (Huang, 2017).

One of the primary reasons for the escalation of tension between Xi and Trump is their shared ambition to consolidate power in their respective political designs and empower their respective countries (Huang, 2017).

These tensions are worsened by economic reflections. The economic safeguard deployed by Trump and his abandoning of international agreements such as the Trans-Pacific Partnership measures have played a vital role in reducing America's economic leverage over China. (Huang, 2017). Additionally, China's

initiatives such as the Asian Infrastructure Investment Bank and the “One Belt, One Road” campaign are in direct defiance of Western dominance, paving the way for a China-centric global market (Collinson, 2019).

In addition to the above factors, the deployment of military in the South China Sea has further intensified tensions, as both nations try to prove their dominance (Murray & Al-Rikabi, 2023). As visible from Trump’s push for a stronger US presence and Xi’s assertion for Chinese domination, it is obvious that neither of the countries is willing to back down, thus increasing the risk of a potential conflict (Collinson, 2019).

The escalation of tensions between Xi and Trump is an indication of a dangerous path in the direction of decoupling, pertaining to economic, political and military confrontation. The rise and overpowering of either of them will mean disastrous consequences for the rest of the world (Murray & Al-Rikabi, 2023). In order to avoid decoupling, it is essential to address the concerns of respective nations and to employ diplomacy to resolve the issues rather than pushing the situation to the edge of disaster. Both leaders must cooperate to prioritize dialogue over confrontation, communicate effectively, listen actively and appreciate the fact that it would be catastrophic for the world to suffer the consequences of a break-down in US-China relations (Huang, 2017).

Factors such as conflicting national ambition, economic interest and populist narratives have contributed to the alarming levels which the tension between President Xi Jinping and former President Donald Trump have reached (Collinson, 2019). The trajectory towards decoupling poses a major threat to international economic stability and prosperity and urgently requires diplomatic initiatives to de-escalate tension and create a positive environment of mutual respect, collaboration, and constructive engagement between the two superpowers (Huang, 2017).

In October 2022, President Joe Biden instituted an experiment to decrease China's access to high-end semiconductors for military modernization purposes. The aim was not to hamper China's economic growth but to impose limits on access to dual-use technology to avert any potential discord in the future (Luce, 2024). The US strategy of limiting export of semiconductors to China could pave the way for non-Chinese companies facing challenges and potential closures (Leibovici & Dunn, 2024). China is working on revamping worldwide chip supply chains locally, which could lead to challenges in sustaining US sanctions. US companies are worried about losing their monopoly to Chinese competitors due to the accelerated growth in Chinese chip development. Chinese chip makers are gaining momentum in high-end products, narrowing the gap with dominant companies like Nvidia. Although Chinese companies have not yet been able to produce cutting-edge 3-nanometer chips, some companies aim to launch a 5nm chip soon. This momentum that China is gaining in technology is a major challenge for US domination in the semiconductor market (Luce, 2024).

Since labor in China is comparatively cheaper, many Americans were worried that there will be less jobs in the US and more jobs in China since they were sending more jobs to China because of cost-efficiency (Leibovici & Dunn, 2024). When Donald Trump got elected, he promised that he would rectify this issue and his actions resulted in more trade tensions between the two countries (Leibovici & Dunn, 2024).

The US spent trillions of dollars to build more chip manufacturing facilities to be free from China and started participating in decoupling. However, the US chip companies will not have the same capacity as China so this will result in more competition. Due to this issue, the US will want to buy products from China because they make it cheaper since the US has smaller manufacturing capacities (Leibovici & Dunn, 2024).

4. Analysis

The concept of economic and ideological decoupling within institutional theory improves our understanding of the tension between President Xi Jinping and former President Donald Trump. Economic decoupling refers to the dissociation of economic exchange between two establishments, often caused by political or strategic rivalry (Black et al., 2021). Regarding U.S - China relations, economic decoupling may involve endeavors to minimize mutual dependence and minimize the risk linked to imbalance in trade and competition in the field of technology (Murray & Al-Rikabi 2023).

On the other hand, ideological decoupling refers to the differences in ideologies, beliefs and values between the establishments. In the case of Xi and Trump, ideological decoupling is visible in their contradictory vision for their respective nations and world (Collinson, 2019). Xi's mission of the "Chinese Dream" and Trump's "America First" agenda showcase contrasting ideological narratives that shape their policies and reciprocation on the global stage (Huang, 2017).

The tensions between Xi and Trump can be understood through the lens of institutional theory, particularly in terms of legitimacy and decoupling (Meyer and Rowan, 1977). Both leaders seek to maintain legitimacy within their domestic constituencies and the international community by conforming to institutionalized norms and practices (Collinson, 2019). However, their divergent economic and ideological agendas have led to increased decoupling, as evidenced by trade disputes, geopolitical rivalries, and military posturing. Additionally, relying on myths and institutionalized rules may increase tensions by strengthening ideological differences and legitimizing combative approaches (Meyer and Rowan, 1977). Trump's protectionist measures and one-sided actions challenge established norms of international cooperation, while Xi's assertive foreign policy and domestic eliminations on dissent raise concerns about China's adherence to global standards of human rights and governance (Collinson, 2019).

Tariffs and exports have affected multiple sectors, with unpredictable effects across industries. Some imports from China have decreased significantly due to tariffs, while others have increased (Murray & Al-Rikabi 2023). While significant shifts aren't evident yet, there are multiple indications of decoupling, with the share of imported goods from China declining over the years. Apart from the tensions between the 2 countries, the COVID-19 pandemic has created vulnerabilities in international supply chains, prompting companies to look for more diversified strategies (Murray & Al-Rikabi 2023).

Trump was an outcome of nationalism and he always tried to put America first and this happened due to Americans feeling left behind after globalization. This feeling was because they thought that their local jobs were being taken away from them from Asians and this posed threats to American identities. Due to this, Trump advocated for protectionist policies in order to protect American sovereignty and their jobs (Leibovici & Dunn, 2024). Trump blamed free-trade agreements like the North American Free Trade Agreement (NAFTA) and said that these were outsourcing jobs for Americans to countries like China and India. This is what led to tariffs on Chinese imports which was a key aspect of his protectionist movement (Leibovici & Dunn, 2024). One thing that the US initiated was the Chips Act which happened when the US spent trillions on dollars to build more chip manufacturing facilities to be more self-reliant (Council on Foreign investment).

President Jingping has promoted his own ideology called "The Jingping Thought" which pursues the "Chinese Dream" (Garrick, 2019). This means that the Communist Party has the most control. There has also been the presence of Chinese Nationalism which is correlated with the historical greatness of China and its power as a global leader. Jingping has tried to make China more self-sufficient after President Deng's belief in capitalism. Jingping tried to make China more self-reliant and this was a response to the

tensions with the US for technology, especially in the chip industry (Garrick, 2019). Jingping also had the “Made in China 2025” act which reduced dependence on important imports (Garrick, 2019).

Tracing new ideological differences creates a model of decoupling between US and China which links their economic differences, geopolitical drifts, and economic outcomes, leading to economic decoupling. Both leaders have nationalist initiatives with different ideologies and different policies. They both focus on self-reliance and sovereignty (Huang, 2017).

According to the Harvard Business review (2021), China has been tactically minimizing its dependency on foreign technology and products since 2005, and has been targeting to attain economic brawn and worldwide aggression. One of the initiatives taken by China is the Made in China 2025 plan, which motivates and stimulates indigenous products in significant industries and technology sectors (Garrick, 2019). There are 3 core techniques that China plans to apply to achieve its objectives: purchasing and investing, subsidizing and financing, and extrication of technology (Black et al., 2021). However, there are some repercussions of these strategies for businesses, including heightened competition and rivalry from local Chinese corporations and obstacles linked to technological dissemination and safeguarding of intellectual property. Several business administrators are unwilling to decouple due to the considerable investment and effort spent on instituting a presence in China (Black et al., 2021).

Besides China’s decoupling, another influencing factor has been a consistent decline in US import dependence on China, specifically in domains such as communication and information technology (Leibovici & Dunn, 2024). Although this drift signifies progress in decreasing reliance on China, there are latent costs linked with such shifts and the complex nature of incidental dependence. These indications show that there is a requirement for conscious deliberation of commercial risks and the wider implications of decreasing dependence on China (Leibovici & Dunn, 2024).

The United States has imposed restrictions on technology based exports and investments in China, while China is prioritizing stability and is trying to reduce dependency and be more self-reliant in trade, investment, and technology (Leibovici & Dunn, 2024). This shift has led to inflationary pressures, financial instability, and hindered progress on sustainability and green-energy transitions (Spence, 2023). Currently, the decoupling between the two countries is still ongoing, as Biden still has restrictions on companies like Huawei and has multiple efforts to bolster local production (Collinson, 2019). However, he has also tried to bond with China on issues that they’re both dealing with such as climate change. According to the United States Department of State, the United States and China have both agreed to work together to address the climate issue.

President Xi’s hope of the “Chinese Dream” and President Trump’s commitment to “Make America Great Again” highlight their individual goal of showcasing the strength of their countries’ identity on international grounds (Garrick, 2019). Both leaders wish to strengthen their power bases, with Xi demonstrating his command as a visionary leader and Trump gaining robustness from his electoral victory (Collinson, 2019).

However, there is a stark difference in the way nationalism is showcased in each country (Collinson, 2019). The main aim of Trump’s “America First” is to establish the superiority of the U.S. and has been demonstrated by policies such as travel ban on primarily muslim nations (Leibovici & Dunn, 2024). Xi’s nationalism, on the other hand, is based on his desire to garner international recognition for China as the dominant nation. In order to achieve this target, China has put policies in place that curb Western influence, strengthen domestic production and assert China’s global leadership (Garrick, 2019).

These tensions are further fueled with Trump's appeal to abandon rural and white middle-class Americans, and Xi addressing issues related to corruption and income disparity within China (Leibovici & Dunn, 2024). The statements and actions of these leaders advocate and shape policies such as economic defense in the U.S. and anti-corruption movement in China.

The effects of Decoupling on Organizations

The forces of isomorphism lead to organizational changes. Isomorphism is how an organization incorporates rationalized myths into their operations. As they incorporate rationalized myths, they become more isomorphic to their environment (Meyer and Rowan, 1977). You have to be isomorphic to your environment in order to adapt to the new norms that have been exposed to the organizations. These new norms evolve after trade wars and trade tensions with various social movements changing how adaptive organizations get (Tolbert et al., 2011). It also has to do with the shifting of social values which leads the nations to reevaluate current strategies and the efficiency of their dependencies. The revaluation results in newer norms as the countries will try to prioritize their nation first with an extreme sense of nationalism (Tolbert et al., 2011).

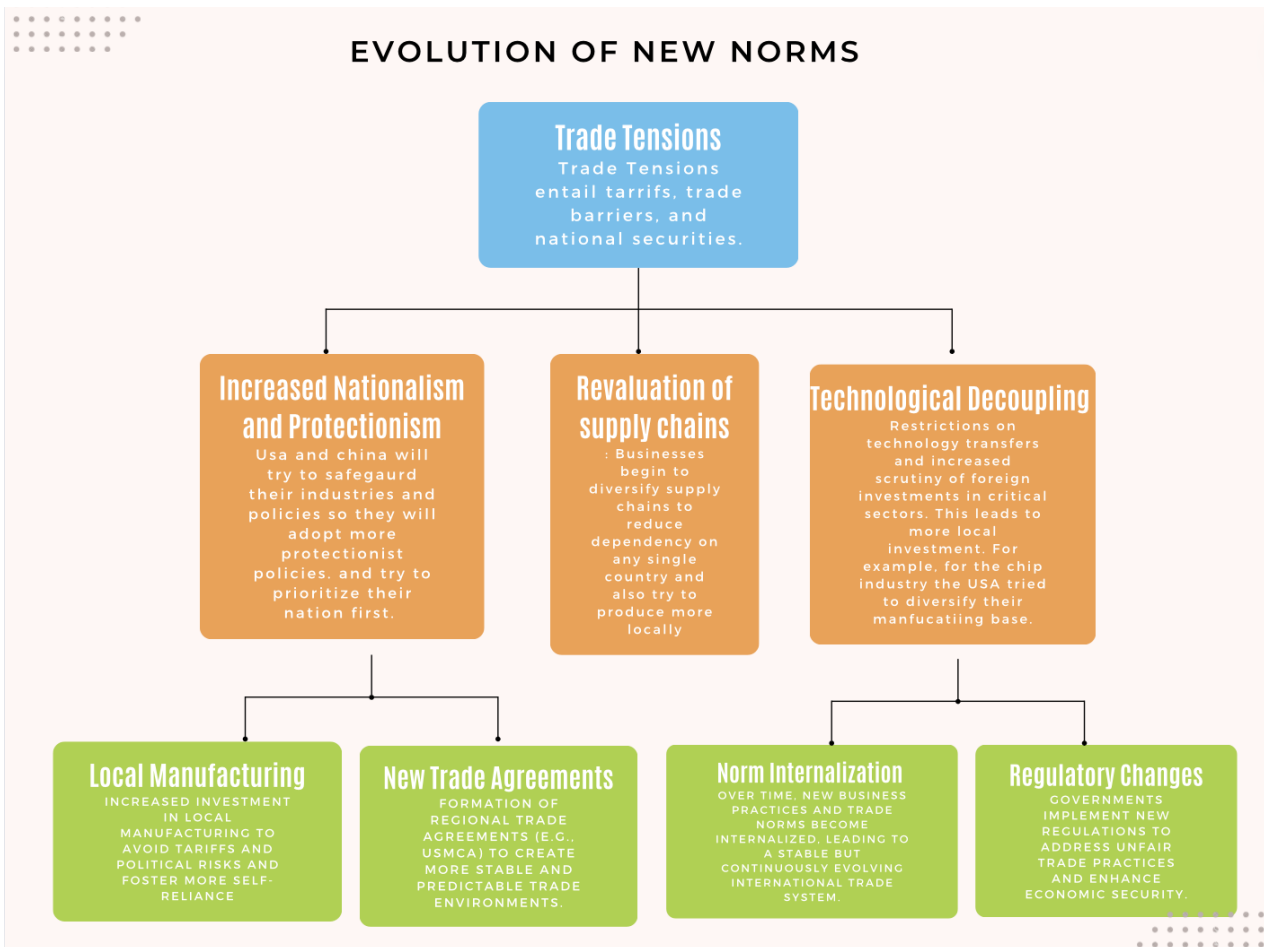
Concerns about tariffs leads to countries being more protective of imports and fuels their self-reliance. So this newer strategy marks their adaptation of newer norms which have shifted from globalization and trade to autonomy and reduced dependence (Tolbert et al., 2011). Isomorphism refers to how organizations, over time, become similar with their processes and ideologies which leads to homogeneity. As organizations become more isomorphic, they become more legitimate and their survival increases (Meyer and Rowan, 1977).

After trade tensions are further fueled, organizations tend to become more inward facing and try to function more locally. They try to comply more with social norms as well as meeting internal expectations (Tolbert et al., 2011). This balance causes them to try to maintain legitimacy and be more isomorphic to their environment so they can adapt to external expectations and preserve their efficiency as an organization (Meyer and Rowan, 1977). Organizations will leave previous norms and try to adapt to new practices like having newer investment strategies and supply chain management leading to greater alignment with these norms (Tolbert et al., 2011). Trump and Xi changing their organization's practices will lead to greater internal collaboration with local industries and stakeholders (Collinson, 2019).

The self-reliance caused by decoupling may lead to a variety of products as organizations try to increase their product mix and reduce their dependence (Garrick, 2019). This diversification is caused by new norms (Tolbert et al., 2011). In order to maintain their self-reliance, they could increase investments to streamline their operations and reduce dependence on imports (Leibovici & Dunn, 2024). This could lead to a reduction in disruptions caused by global and political changes.

Decoupling could also result in strategic partnerships. Some organizations increase their corporate social responsibilities as a way to increase adaptability to new norms, showing commitment to their environmental responsibilities. This improves their relationships with customers and results in the betterment of their reputation (Leibovici & Dunn, 2024). Additionally, organizations might try to partner with other organizations to complement their strengths so they can address geopolitical issues together. This results in pre-scenario planning to prepare for potential outcomes from the new norms (Faure, 2023). Decoupling could also result in increased allocation of resources since production is on a local scale and they can focus on specific functions of the organization (Faure, 2023). Through this allocation, they can prioritize investments and cover potential gaps in production. By breaking down interconnected operations, organizations can simplify and prioritize their operations.

These dynamics are summarized below in the model.



5. Conclusion

Trump and Xi’s leadership has significantly influenced trade tensions between the United States and China. This paper delves into institutional theory and examines its evolution of institutions in the USA and China over time. It examines the history and timeline of events between US and China that started with a stable economic relationship of economic collaboration in 1979 and ended with strained diplomatic and economic relations. It analyzes the pre, during, and post era of president Trump and XI analysis and the overall effects of decoupling on organizations.

With escalating taxes on imports and exports and geopolitical challenges, and social movements, organizations have been forced to reanalyze their strategies and comply with new norms. Decoupling has led organizations to a newer strategy of self-reliance. By reducing their dependence on other businesses and special markets, they enhance their resilience in political uncertainties. The dynamic relationship that resulted from Xi and Trump’s presidency has led to challenges as well as opportunities for specialization. Organizations must stay adaptive to keep track of social movements and changing norms.

After examining the effects of the trade war on the relationships between 2 countries, it is also important to acknowledge the effect it has on the evolution of product manufacturing. After the trade war, American and Chinese founders, especially Chinese founders, tried to make newer products and form new businesses. Chinese founders tried to make products with historical approaches.

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