Why 'Decoupling' Is a Fatally Flawed Concept

The U.S. and Chinese economies rely on each other, and the people of both nations are the beneficiaries

by George Koo

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A recent issue of *Bloomberg Businessweek* said, "Despite the heated national-security rhetoric in Washington and talk of 'decoupling' in policy circles, the world's top two economies remain firmly intertwined." The article goes on to say that bilateral trade between the U.S. and China for year ending 2022 is likely to be the highest ever recorded.

The failure to decouple is likely good news for China, but even better news for the American public. However, anyone with a dollop of common sense would realize that the talk about decoupling was just so much balderdash.

For the sake of introducing clarity to what and how decoupling might actually mean, let us address the many facets of this elephant in the room.

Decoupling would mean the opposite of economic integration. Each would have nothing to do with the other. This means Americans would have to stop buying manufactured goods from China. But this is contrary to actual bilateral trade data, wherein despite the added import tariff to the retail price, the American public can't buy enough products Made in China.

That's the reality to date. In order for the U.S. not to buy from China, we Americans would have to make these products in America. Former President Donald Trump struck on the brilliant idea of bringing manufacturing back to America. He ordered, cajoled and dangled sweet deals to entice American companies back to the U.S.

Americans Don't Know How Any More

The idea basically flopped for a host of reasons. The manufacture of widgets left the U.S. decades ago, first to the four tigers such as Taiwan and Hong Kong and then to mainland China. The basic skill sets needed on the production line haven't been seen in America for many decades and could not be replaced overnight on demand.

Some lament that Washington is at fault for not having the vision to craft an industrial policy that would encourage retention of the manufacturing of run-of-the-mill products, such as toys, televisions, personal computers or mobile phones. Our political leaders, busy getting elected, did not envisage that making widgets was a necessary precursor step to making increasingly higher valued goods, as China has done.

Actually, most of the blame belongs to America's abiding faith in capitalism as executed by Wall Street. It is not for nothing that Corporate America is known as "multinational." Multinational corporations (MNCs) go to where the production costs are the lowest and sell where the profit is highest. "National interest" does not figure in their boardroom discussions.

As Trump's successor, President Joe Biden lacked the courage to remove the tariffs on imports from China, which could have only benefited the American consumer. Washington, along with the compliant mainstream media, has so thoroughly demonized China in the minds of the American public that Biden dare not risk even an appearance of apparently acting soft on China.

However, Biden apparently understands that bringing manufacturing back is not quite as simple as a Trumpian clarion call. For one thing, the American

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wage-scale would raise the cost of production, perhaps by as much as 50%, for semiconductors, according to Morris Chang, founder of Taiwan Semiconductor.

In the case of high-end products, production also needs a complete supply-chain of parts and components, which would also need to be transplanted from somewhere.

Biden Wins at the Expense of Europeans

So instead of counting on American MNCs to make America great again, Biden is dangling subsidies to appeal to foreign MNCs, from any country except China, to move their plants to the U.S. European companies find the prospects tempting. Their economies at home face shortages and inflation thanks to the Ukrainian war, and they find America's stability and market appealing.

Just like their American counterparts, European companies owe their allegiance to their shareholders. But enticing European MNCs to the U.S. means taking jobs away from their home country, which is making the European leaders very unhappy, hardly a way to treat America's allies.

Biden's other approach is to outright hijack Taiwan Semiconductor Manufacturing Company plant from Taiwan and transplant it to Phoenix, Arizona. The first group of TSMC staff came willingly and accompanied the equipment disassembled from Taiwan. They were convinced by their own government that invasion from China was imminent and this was the opportunity to get out.

Mere weeks later, some troubling signs are developing. The staff from Taiwan are used to working 10-12 hour shifts and they were promised that they do not have to work night shifts. Well, their American colleagues don't want to work night shifts either, and eight hours per day is their normal stint.

The difference between the Taiwan-based wage scale and that of the U.S.-based also creates tension and resentment. Presumably, the difference would eventually be harmonized, but the manufacturing cost would go up.

The question will be whether TSMC customers such as Apple and others would pay for these higher-priced chips for the sake of national interest or just keep buying from the TSMC plant remaining in Taiwan. Want to hazard a guess?

When the Soviet Union sent aloft the first man-made satellite in 1957, America woke up in shock, and 12 years later we sent men to the Moon. That was America's first Sputnik moment. When China showed that it had caught up or even surpassed the U.S. in certain technologies, that was another Sputnik moment.

Demonizing Is Easier Than Competing

But this time, our leaders in Washington must have decided that rather than compete head-on, it was cheaper to allocate a few hundred million dollars to the media and ask them to continue to mislead the American public and demonize China as a human-rights violator incapable of innovation and technological advances.

While the U.S. has been going around the world promoting armed conflicts in the name of imposing "rule-based international order," China makes the rounds offering its Belt and Road Initiative to underdeveloped and developing countries.

If the much-talked-about decoupling were suddenly to occur tomorrow, the U.S. would pay a much dearer price than would China. China would continue to be the most important trading partner to every country except for perhaps the U.S.

Ironically, in middle of last month, Treasury Secretary Janet Yellen flew to Europe just to intercept Chinese Vice-Premier Liu He as he was on his way to the Davos summit. Apparently, the gist of their three-hour meeting was for Yellen to pitch the importance of China holding on to the dollars and continuing to buy U.S. debt.

Most likely decoupling was not part of their conversation.

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