

U.S. Economic Policy Towards China under the Biden Administration

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Abstract

Since the inception of the open-door policy in 1978, China has progressively become more integrated into the global economy through trade, foreign direct investment, and, more recently, outward direct investment. This economic integration has gained momentum with initiatives like the ‘Go Global’ strategy, China’s entry into the World Trade Organization (WTO) in 2001, and the launch of the Belt and Road Initiative in 2013. China’s economic ascent, coupled with its increasing political influence and military power, prompted the United States (US) to initiate a strategy of rebalancing in the Asia Pacific region, starting with the Bush administration and continuing through the Obama, Trump, and Biden administrations. During the Trump administration, this rebalancing strategy was supported by decoupling strategy, ultimately leading to a trade war with China. Despite its intention to avoid the initiation of a new Cold War and to adopt a more moderate stance towards China, the US-China trade war has evolved further into a tech war under the Biden administration. Given this context, this article aims to outline the primary characteristics of the US economic policy towards China during the Biden administration, comparing it to the Trump administration and assessing its impact on both nations. The central argument of this article is that the primary characteristics of the US economic policy towards China under Biden administration are rebalancing and decoupling, carried over from the policies of the preceding Trump administration, and there are clear signs that these characteristics are deepening. Furthermore, the article demonstrates that the extensive decoupling measures enacted by the US have proven effective in diminishing China’s role in global industrial and supply chains, particularly in industries related to semiconductors and chipmaking equipment.

Keywords: US-China Relations; Biden; Trump; Rebalancing; Decoupling

Introduction

Since the implementation of the open-door policy in 1978, China has progressively become more deeply integrated into the global economy through trade, foreign direct investment, and, more recently, outward direct investment. This economic integration gained momentum with the introduction of the ‘Go Global’ strategy and China’s accession to the World Trade Organization (WTO) in 2001. These strategic moves allowed China to establish itself as the world’s largest trading nation by 2013 and the second-largest source of investment in 2016, following the United States (US). Additionally, China became a significant provider of development finance and emerged as a leading source country for international contractors.

This trend of economic integration has been further accelerated by the launch of China's Belt and Road Initiative (BRI) in 2013. This ambitious infrastructure project comprises the overland Silk Road Economic Belt and the 21st Century Maritime Silk Road. As of January 2023, China has entered into over 200 BRI cooperation agreements with 151 countries and 32 international organizations¹, with the goal of enhancing five types of connectivity: policy coordination, infrastructure development, trade, financial cooperation, and people-to-people relations. China's economic ascendancy is accompanied by an increase in its political influence and military capabilities.

China's rise has prompted the US to implement a strategy of rebalancing in the Asia Pacific region, a process that began during the Bush administration. Despite the Bush administration's focus on conflicts in Iraq and Afghanistan, several initiatives were advanced, including the establishment of a strategic partnership with India, the development of the concept of a Trans-Pacific Partnership trade framework, and the need to broaden the geographic distribution of US military forces in East Asia. These initiatives were further developed in the Obama administration's rebalancing strategy, introduced in November 2011. Under this strategy, President Obama pledged to promote regional security, economic prosperity, and human rights. The Obama administration announced plans to shift military assets to the Asia Pacific region, worked closely with allies and partners (including the deployment of US Marines to Australia), intensified negotiations to finalize the Trans-Pacific Partnership (TPP) agreement, and maintained a consistent presence at multilateral meetings including ASEAN platforms.²

The rebalancing strategy continued during the Trump administration but with a different approach. Under the banner of 'Make America Great Again,' the Trump administration withdrew from the Trans-Pacific Partnership (TPP), initiated efforts to bring manufacturing back to the US, and initiated a trade war with China. Additionally, the Trump administration pursued a decoupling strategy, which involved imposing sanctions, export controls, and bans on investments in Chinese companies.

During the Biden administration, the trade dispute with China has transformed into a technological rivalry, even though the administration has declared its intention to avoid conflict or the initiation of a new Cold War, and toned down its earlier stance on China.³ In light of these developments, this article aims to address several key questions: what are the primary features of the US economic policy towards China under Biden administration? How does this policy differ from the approach taken by the Trump administration? To what extent has the US economic policy towards China impacted both China and the US? While studies conducted by Wei and Zhang, Sajjad, Mishra, Leoni, and Wang and Hewett have addressed certain aspects of these inquiries, they left several key topics underexplored.⁴

Specifically, these studies did not provide a comprehensive analysis of the following areas: the diverse range of measures introduced by the Biden administration to address China, particularly in the year 2023; a comparison between the policies pursued by the Biden administration and those of the Trump administration; an overview of the fundamental features of Biden's economic policy regarding China; and a thorough assessment of the ramifications of Biden's economic policy on both China and the US. To fully answer the questions, the article is structured into six sections: an introduction, a section on rebalancing and decoupling, an examination of the US economic policy towards China under Trump administration, an examination of the US economic policy towards China under Biden administration, an assessment of the impacts of rebalancing and decoupling, and a conclusion.

Rebalancing and Decoupling

A central aspect of the global economy is the division between two groups of countries: one set of nations has borrowed extensively from the rest of the world, mainly to fund increased consumption, while another group has supplied the goods and financing. Consequently, borrowing countries have accumulated substantial deficits, while lending countries have amassed significant surpluses. This has resulted in macroeconomic imbalances and corresponding international financial transactions. According to Frieden, the concept of “rebalancing” involves addressing these existing imbalances.⁵ Both deficit and surplus countries must reconfigure their relationships within the global economy. Frieden argues that rebalancing is not solely a technical or purely economic challenge; it is fundamentally a political one. Rebalancing can take place within individual countries, affecting both deficit and surplus nations, and also among countries.

Rebalancing among nations seeks to shift some of the adjustment burden onto other countries, as rebalancing within countries often leads to domestic conflicts between winners and losers. Efforts to rebalance include measures to reduce trade deficits, such as taking aggressive actions against imports, promoting exports by pressuring foreign markets to open through unilateral threats of retaliation, and encouraging trading partners to appreciate their currencies. Consequently, the challenge of rebalancing encompasses managing political conflicts within countries and addressing political disputes among countries.⁶

In a case study focused on China, Zhang outlines four key elements of rebalancing in China, which are interconnected and mutually reinforcing.⁷ These elements include external rebalancing, internal rebalancing, environmental rebalancing, and distributional rebalancing. External rebalancing centers on the role of external versus domestic demand. Internal rebalancing involves shifting from investment to consumption on the demand side, transitioning from industry to services on the supply side, and reducing credit intensity while improving allocative efficiency on the input side. Environmental rebalancing aims to decrease the energy and carbon emission intensity of output, as well as mitigate local air pollution. Income distribution rebalancing seeks to create a more equitable society by increasing the share of labor income in GDP and reducing income inequality. These elements collectively comprise China’s efforts to rebalance its economy and address various economic and environmental challenges.

According to Claessens, the rebalancing of the global economy involves various dimensions and their interrelationships.⁸ These dimensions encompass: contemporary current account imbalances, factors causing imbalances, systemic costs to global imbalances, lessons from previous attempts to rebalance, the need for policy change and collective actions, political viability of rebalancing, and the need for new system-wide accords to promote rebalancing.

In this article, “economic rebalancing” refers to the process of adjusting various components of an economy, including consumption, investment, and trade, with the aim of achieving a more sustainable and equitable economic structure. This restructuring supports long-term growth and development while addressing any imbalances that might disrupt economic stability. Key areas of focus in economic rebalancing include trade imbalances, the balance between consumption and investment, and government policy adjustments.

The term “decoupling” refers to the deliberate dismantling of cross-border supply chains, a fundamental aspect of globalization.⁹ In the context of emerging East Asia, decoupling signifies the divergence of the region’s economic cycles from those of other regions or the emergence of regional economic dynamics that are less dependent on economic fluctuations in other parts of the world, particularly major industrial countries.¹⁰ Decoupling extends beyond supply chains to encompass other domains like technology. Danial and Goyal note that it includes measures such as export or

import bans on certain new general-purpose technologies.¹¹

Cerdeiro et al. define “technological decoupling” as the unwinding of cross-border trade in high-tech goods and services.¹² This process is driven by concerns related to intellectual property protection, data privacy, national security, and a renewed emphasis on industrial policies. Regarding the US-China technological decoupling, Bateman argues that officials from both Republican and Democrat administrations in the US have sought to significantly reduce the flow of technology products, services, and inputs to and from China, although not necessarily in their entirety.¹³

In this article, “decoupling” is described as a process where multiple countries or economies decrease their level of interdependence or reliance on each other. This can manifest in various forms, including reduced trade, technology transfer, financial ties, and supply chain relationships. Additionally, it encompasses the concept of “de-risking,” which refers to efforts by the US government, businesses, and financial institutions to minimize their exposure to potential risks arising from the US-China relationship. These risks encompass various dimensions, including trade disputes, geopolitical tensions, regulatory changes, and national security concerns.

US Economic Policy Towards China under Trump Administration: Trends of Rebalancing and Decoupling

Tariffs

After seven months in office, during the Trump administration, the United States Trade Representative (USTR) launched an inquiry into specific actions, policies, and behaviors of the Chinese government concerning technology transfer, intellectual property, and innovation. The investigation determined that China’s trade policies were seen as “unfair” and “one-sided,” resulting in a trade deficit, compulsory technology transfers, theft of intellectual property, and the extensive use of non-tariff barriers. These concerns led to the belief that China was taking advantage of the US. Consequently, President Trump issued a memorandum outlining several actions: initiating a case against China at the World Trade Organization (WTO) due to their discriminatory licensing practices, placing restrictions on investment in critical technology sectors, and imposing tariffs on Chinese goods. As a result, the US imposed a 25 percent tariff on all steel imports, with exceptions for Argentina, Australia, Brazil, and South Korea, and a 10 percent tariff on all aluminium imports, with exceptions for Argentina and Australia.

In response to the US tariffs on steel and aluminium, China imposed tariffs, ranging from 15 to 25 percent, on 128 products valued at US\$3 billion, including items like fruit, wine, seamless steel pipes, pork, and recycled aluminium. Subsequently, in July 2018, the US began implementing tariffs specifically targeting Chinese imports by imposing a 25 percent tariff on 818 products (List 1) worth US\$34 billion, marking the first round of tariffs. The targeted goods in this initial round included iron and steel products, electrical machinery, railway equipment, instruments, and apparatus. In retaliation, China enacted a 25 percent tariff on 545 US products worth US\$34 billion, including agricultural items, automobiles, and aquatic products.

In August 2018, both the US and China introduced a second round of tariffs. The US imposed a 25 percent tariff on 279 Chinese products valued at US\$16 billion, focusing on items in List 2, which included semiconductors, chemicals, plastics, motorbikes, and electric scooters. China, in retaliation, implemented 25 percent tariffs on 333 US products worth US\$16 billion, encompassing commodities like coal, copper scrap, fuel, buses, and medical equipment. Moving to September 2018, the US and China enacted a third round of tariffs. The US imposed tariffs on US\$200 billion worth of Chinese goods listed in List 3, bringing the total amount to US\$250 billion. It was initially set at 10 percent

but later raised to 25 percent by January 1, 2019. In response, China imposed tariffs on US\$60 billion worth of the US goods also included in List 3.

In May 2019, the US increased tariffs on the US\$200 billion worth of Chinese goods listed in List 3 from 10 percent to 25 percent. China responded by raising tariffs to 25 percent, 20 percent, and 10 percent on US\$60 billion worth of American exports to China. In August 2019, the US announced plans to implement additional tariffs on the remaining US\$300 billion worth of Chinese goods, with some set to begin on September 1 (List 4A) and others on December 15 (List 4B). Additionally, starting in October 2019, the existing tariffs on US\$250 billion worth of Chinese goods were increased from 25 percent to 30 percent. In retaliation, China imposed tariffs on US\$75 billion worth of US goods.

Overall, the US imposed tariffs on US\$550 billion worth of Chinese products, while China retaliated with tariffs on US\$185 billion worth of US goods. As a response to these developments, China filed three cases with the World Trade Organization (WTO) challenging the US tariffs on Chinese imports. The series of US tariffs on Chinese exports aimed to exert pressure on China to negotiate a deal more favorable to US interests.

Sanctions, Export Controls and Investment Ban

In addition to imposing tariffs, the Trump administration also employed sanctions, export controls and investment ban in Chinese entities, citing concerns about US national security. A notable example of this was the action taken by the US Commerce Department when they determined that the Chinese telecom company ZTE had violated US sanctions. As a consequence, US companies were prohibited from conducting business with ZTE for a seven-year period. However, a later agreement between the US and ZTE allowed the company to resume its operations. Furthermore, the US placed Huawei Technologies Co. Ltd and its affiliated companies on its “entity list,” effectively preventing them from purchasing goods from US companies without approval from the US government. The Entity List significantly restricted Chinese companies’ access to commodities, software, and technologies.

The US Commerce Department expanded these measures by adding 44 Chinese entities to its export control list. In addition to these actions, the US Bureau of Industry and Security (BIS) introduced a list of proposed export controls on emerging technologies like artificial intelligence (AI), robotics, and quantum computing. These technologies were considered “dual-use,” meaning they could have both civilian and military applications. While the rules did not explicitly mention China, they were widely seen as part of US efforts to prevent China from acquiring sensitive technologies. As a result, five new Chinese entities, including a state-owned enterprise, were included on the entity list, effectively prohibiting them from purchasing US parts and components without prior approval from the US government. The entities affected by these restrictions were Sugon, the Wuxi Jiangnan Institute of Computing Technology, Higon, Chengdu Haiguang Integrated Circuit, and Chengdu Haiguang Microelectronics Technology.

In November 2019, the US introduced new regulatory guidelines for its telecom networks to safeguard them against national security threats. These guidelines granted the US government the authority to limit American companies from importing and utilizing foreign technology in their domestic supply chain infrastructure. Although the document did not explicitly mention equipment from companies like Huawei or ZTE, it had a significant impact on these two Chinese firms, which had already been placed on the US entity “blacklist” in May and November 2019. The implementation of export controls and restrictions on foreign technology further added pressure on China to make concessions in their negotiations with the US.

To address the issues related to tariffs, export controls, and various bilateral economic concerns, the US and China engaged in numerous rounds of mid-level talks and high-level consultations. In the 13th round of discussions, both nations reached a milestone agreement known as the “Phase One Deal” in October 2019, officially signed in January 2020. Under this agreement, the US committed to not imposing the previously planned 15 percent tariffs on US\$160 billion worth of consumer goods, which were scheduled to take effect on December 15. Additionally, the US agreed to reduce the September 1 tariffs on US\$120 billion worth of Chinese goods from 15 percent to 7.5 percent. However, the 25 percent tariffs on US\$250 billion of Chinese imports were to remain in place, with further reductions contingent on progress in future trade negotiations.

On China’s part, they pledged to increase their purchases of US goods and services by at least US\$200 billion over the following two years. This included US\$78 billion in additional manufactured goods, US\$54 billion in additional energy purchases, US\$32 billion in additional agricultural product purchases, and US\$38 billion worth of services. China also committed to suspending retaliatory tariffs, implementing intellectual property protections, and establishing a tariff exclusion process.

Indeed, the “Phase One Deal” illustrates that the use of tariffs, sanctions, and export controls was aimed at rebalancing the economic relationship between the US and China. The key objectives of these measures were to: increase US exports to China, reduce US trade deficits with China, and protect US companies in China. Overall, the agreement sought to address various economic and trade concerns while promoting a more balanced and mutually beneficial economic relationship between the US and China.

Reshoring Manufacturing and Rebalancing Financing

During the Trump administration, there was a clear focus on reshoring, which involves the process of relocating manufacturing and production activities from foreign locations to the US. This emphasis on reshoring was a key component of the administration’s broader economic and trade policy objectives, which were aligned with the “America First” agenda, emphasizing the interests of American businesses and workers.

Measures were undertaken to encourage companies to relocate their manufacturing operations to the US. These initiatives encompassed the enactment of the Tax Cuts and Jobs Act of 2017, which aimed to enhance the appeal of the US as a business destination. These provisions involved a reduction in the corporate tax rate, from 35 percent to 21 percent, with the goal of boosting post-tax profits for companies and potentially motivating them to invest in domestic manufacturing. Additionally, the administration introduced a one-time repatriation tax on the foreign earnings accumulated by US multinational corporations. This tax was crafted to provide an incentive for companies to repatriate profits earned overseas back to the US.

Additional initiatives involved the establishment of Opportunity Zones, which designated economically disadvantaged regions where businesses could benefit from tax incentives when investing in projects and ventures, including manufacturing activities within those zones. Various federal grant programs and endeavors, including those administered by the Commerce Department and the National Institute of Standards and Technology (NIST), were also launched. Furthermore, “Buy American” campaigns were implemented, obligating a specified portion of government procurement contracts to originate from domestic manufacturers. Workforce development schemes, regulatory adjustments, and the renegotiation of trade agreements such as the United States-Mexico-Canada Agreement (USMCA) were part of these efforts.

In respect of rebalance financing, the US government responded to China's Belt and Road Initiative (BRI) by passing the Better Utilization of Investment Leading to Development (BUILD Act), which established a new US development agency known as the US International Development Finance Corporation (USIDFC). This legislation was aimed at achieving several objectives: promoting American businesses, strengthening development finance, and providing funding amounting to US\$60 billion to support the operations of the USIDFC. One of the goals of the USIDFC is to attract private sector investment in low and lower-middle income countries. The agency is authorized by Congress to provide various financial instruments, including loans, loan guarantees, and equity investments in entities, often as a minority investor. It represents a market-based solution distinct from China's model of large state-to-state lending.

One noteworthy difference is that the USIDFC focuses on supporting small and medium-sized enterprises (SMEs) and local businesses in places such as Africa and Afghanistan. This emphasis on empowering local enterprises for growth and development is seen as a distinctive feature, as China's financing initiatives often prioritize large-scale infrastructure projects and may not directly benefit local businesses to the same extent.¹⁴ Overall, the BUILD Act was a response to China's BRI, offering a private sector-driven, market-based approach to development finance, with the goal of advancing US economic interests and foreign policy objectives while addressing specific gaps in China's financing initiatives.

US Economic Policy Towards China under Biden Administration: Deepening Trends of Rebalancing and Decoupling

Sanctions, Export Controls and Investment Ban

Under President Biden's administration, which began in January 2021, the US continued to address its trade relationship with China by implementing rounds of tariff exclusions for certain goods instead of imposing additional tariffs. However, the US through Commerce Department took action to ban imports of a crucial solar panel material from Hoshine Silicon Industry Co., Ltd., a Chinese company, due to allegations of forced labor practices in Xinjiang. This ban also had implications for US suppliers' relationships with several other Chinese companies, including Xinjiang Daqo New Energy, Xinjiang East Hope Non-ferrous Metals, Xinjiang GCL New Energy Material, and the paramilitary Xinjiang Production and Construction Corps (XPCC). Later on, the US imposed a ban on all imports from China's Xinjiang region in June 2022.

The Biden administration continued and, in some cases, deepened the sanctions and export controls on Chinese entities. The Commerce Department placed approximately 650 Chinese entities on the Entity List as of August 2022, with more than 150 added since the start of the Biden administration. Among these entities were Chinese supercomputing companies and organizations, such as Tianjin Phytium Information Technology, Shanghai High-Performance Integrated Circuit Design Center, Sunway Microelectronics, and various National Supercomputing Centers. These listings were made on the grounds that these entities engaged in activities contrary to US national security or foreign policy interests.

It also added 33 Chinese entities to the Unverified List (UVL). Entities on the UVL faced stricter regulations and scrutiny when receiving shipments from US exporters. Many of these entities were high-tech manufacturers, including those involved in laser components, pharmaceuticals, government research labs, and universities. However, 27 parties were subsequently removed from the UVL after being verified as legitimate and reliable recipients of US exports.

These measures were further escalated by the Commerce Department's implementation of comprehensive new export controls targeting advanced computing and semiconductor technologies destined for China. These controls mandated that companies obtain licenses to export US-made advanced computing and semiconductor items to China. The affected products included integrated circuits, specific computers and components, integrated circuit production equipment, and related software and technology. Additionally, these controls limited the ability of US individuals or entities to support integrated circuit development or production at certain semiconductor fabrication facilities in China without a license.

The US also encouraged other major suppliers of semiconductor-manufacturing equipment, such as Japan and the Netherlands, to take similar steps. Japan responded by adding 23 items to its export control list, including equipment related to EUV lithography, a critical process for advanced chip manufacturing. The Netherlands also planned to implement new restrictions in September 2023.

In response to these US actions, China imposed restrictions on the export of gallium and germanium, which are crucial materials in semiconductor production. Previously, China had imposed restrictions on purchasing products from US-based Micron Technologies and curtailed exports of drone-related equipment.

The decoupling measures were further deepened when Biden administration expanded the Trump-era ban on American investment in Chinese companies by introducing the "Outbound Investment Program." Under this program, US persons are required to notify the Treasury Department of certain transactions and are prohibited from investing in specific sub-sectors of advanced technology in China, as well as in the Special Administrative Regions of Hong Kong and Macao. The targeted areas include semiconductors and microelectronics, quantum information technologies, and certain artificial intelligence systems. These restrictions were imposed due to concerns about the role of these technologies in enhancing advanced military, intelligence, surveillance, and cyber capabilities. These decoupling measures reflect the ongoing tensions between the US and China in various technology-related sectors, with both countries taking actions to safeguard their national security interests and exert influence in critical areas of advanced technology and innovation.

Reshoring and Friend-shoring

The CHIPS and Sciences Act of 2022 represents a significant effort by the Biden administration to deepen the reshoring of semiconductor manufacturing and research and development in the US. This legislation, with an allocated budget of US\$280 billion, aims to enhance semiconductor production in the US, improve technology competitiveness, create jobs, secure supply chains, and address concerns related to China's technological advancements. The first major part of the Act, known as the Chips Act of 2022, focuses on supporting and promoting semiconductor manufacturing within the US by providing funding for and expanding the semiconductor manufacturing incentives. The Act appropriates US\$52.7 billion to provide financial incentives for semiconductor manufacturing in the United States. The Act also introduces a 25 percent tax credit for investments made in semiconductor manufacturing in the US or in special equipment used in semiconductor manufacturing.

To safeguard against any direct or indirect benefits to the Chinese semiconductor manufacturing industry, the Act includes important restrictions. Recipients of funds provided by the Act are prohibited from significantly expanding semiconductor manufacturing in China for a period of ten years from the receipt of the award. Taxpayers who engage in certain transactions, such as material expansion of semiconductor manufacturing capacity in China during the tax year, would not be eligible for the tax credit for that year. However, it is important to note that there are statutory exceptions built into the Act. These exceptions allow award recipients to expand their manufacturing capacity for legacy

semiconductors in China, utilizing their existing facilities or equipment that primarily serves the Chinese market. In essence, the Act encourages the development and manufacture of newer, cutting-edge technology within the US, while still permitting some investment in legacy semiconductor manufacturing in China.

Under the Biden administration, there has been a notable shift towards not only reshoring but also “friend-shoring,” which involves relocating supply chains to friendly countries. This strategy aims to strengthen alliances and partnerships while promoting domestic production in critical industries. President Biden has called for the restructuring of supply chains in key areas such as semiconductor chips and batteries. This initiative encourages American companies to reorganize their production networks to reduce dependency on foreign sources, particularly in regions with geopolitical concerns.

To carry out this measure, the Biden administration introduced the Initiative on Critical and Emerging Technologies in May 2022. This initiative seeks to integrate efforts between the US and India in areas including quantum computing, artificial intelligence, space, telecommunications, biotechnology, defense, and semiconductors. Collaboration in these critical technology fields is seen as a way to enhance technological capabilities and foster closer ties between the two countries. As a result of these efforts, several American companies have announced investments and collaborations in India. For instance, Micron Technology plans to invest US\$825 million in building a semiconductor assembly and test plant in Gujarat, Prime Minister Modi’s home state. Applied Materials is establishing an engineering centre in Bengaluru to develop new technologies for semiconductor manufacturing equipment. Moreover, military cooperation between the US and India is expanding, with agreements for the production of fighter jet engines and armed drones.¹⁵

The approach taken by the US under President Biden has also influenced other governments. The European Union and Japan, for example, have followed suit by implementing state incentive programs to build semiconductor supply chains that are less reliant on China. Taiwan Semiconductor Manufacturing Co. (TSMC) recently announced a substantial investment of US\$11 billion to build its first chip plant in Dresden, Germany, marking its first European facility. This decision comes in the wake of Intel’s significant US\$35.88 billion expansion in Europe and aligns with the European Commission’s investment plan to increase the EU’s share of the semiconductor market and reduce dependency on external sources.¹⁶ China, on its part, established a semiconductor fund worth US\$29 billion in 2019 and has invested a total of US\$100 billion in the semiconductor industry since 2015.

Overall, the shift towards reshoring and friend-shoring reflects efforts to bolster domestic production, strengthen international alliances, and ensure the resilience and security of critical supply chains in an increasingly competitive global landscape.

Trade and Financing Bloc

After the US withdrew from the Trans-Pacific Partnership during the Trump administration in 2017, the Biden administration has made it clear that it does not intend to revisit the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Recognizing that free trade agreements like the CPTPP faced opposition from the American public, the US and 13 partner nations introduced the Indo-Pacific Economic Framework for Prosperity (IPEF) in May 2022. The participating countries include Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam, collectively representing 40 percent of the global GDP.

IPEF aims to establish “high-standard commitments” that deepen partners’ economic engagement through four pillars: (1) Connected Economy, covering “fair and resilient trade”; (2) Resilient Economy, covering supply chains; (3) Clean Economy, covering clean energy,

decarbonization, and infrastructure; (4) Fair Economy, covering tax and anti-corruption. IPEF partners recently convened for negotiations in July 2023 and held a ministerial meeting on May 27, during which they announced the “substantial conclusion” of a significant supply chain agreement.

There are several challenges and complexities associated with the implementation of the framework. Firstly, India’s decision to opt out of the trade pillar of IPEF. This decision was primarily due to difficulties aligning with the trade and digital data flow standards outlined in the framework. This opt-out limits the synergy and potential impact of the connected economy aspect among IPEF members. Secondly, unlike typical Free Trade Agreement (FTA) negotiations, IPEF does not involve a “single undertaking.” This means that partners may conclude multiple agreements separately, rather than waiting to finalize all elements of a comprehensive deal. While this approach provides flexibility, it also raises questions about the level of commitment and the enforcement of specific agreements. It may limit incentives for trade-offs and compromises across the various pillars.

Thirdly, it remains unclear which commitments within IPEF will be binding and subject to enforcement. Establishing clear rules and mechanisms for enforcing these commitments will be essential for the effectiveness of the framework. Fourthly, IPEF includes a diverse group of countries with varying levels of economic development, priorities, and interests. Managing the expectations and interests of all member countries can be complex, as each country brings its own set of economic and political considerations to the table. Fifthly, the global trade landscape is rapidly evolving, with new challenges and opportunities emerging. Coordinating and aligning the economic interests and policies of 14 countries can be challenging, especially as external factors, such as geopolitical tensions and economic disruptions, come into play.

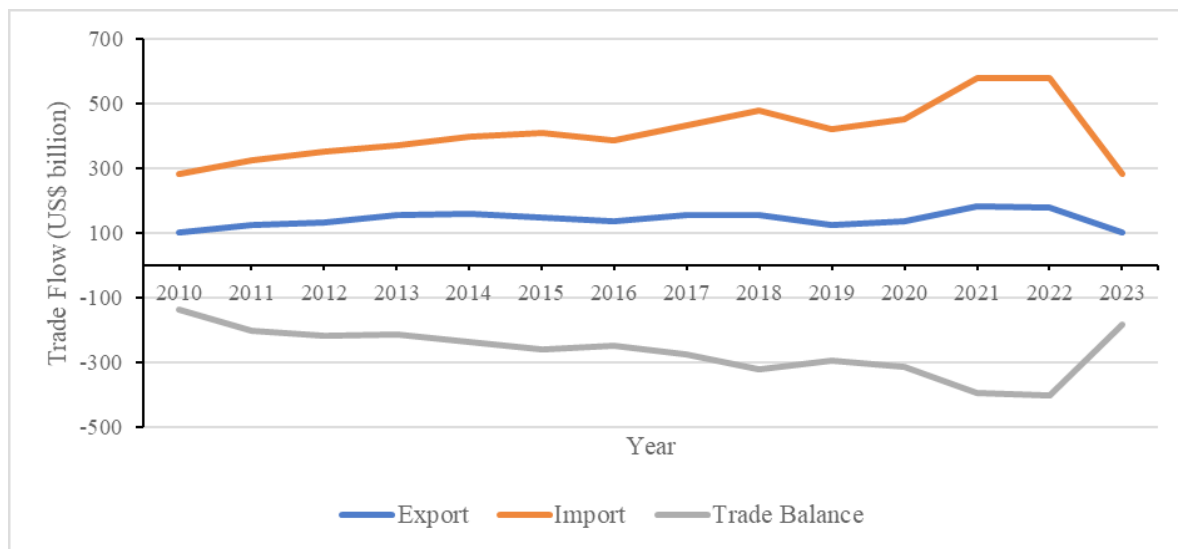
Sixthly, the absence of commitments on market access, particularly related to tariffs. Traditional Free Trade Agreements (FTAs), such as those pursued by the US in the past, typically include provisions on tariff reduction and market access. The omission of these provisions in IPEF may limit its economic significance and the incentives for countries to agree to provisions sought by the US.¹⁷ Seventhly, the durability of initiatives like IPEF can be a concern. To ensure the sustainability of such initiatives, governments often employ mechanisms like negotiating formal international agreements, holding annual summits, establishing secretariats or enforcement bodies, and securing funding for ongoing initiatives. As of now, IPEF does not incorporate any of these mechanisms to guarantee its long-term effectiveness and continuity.¹⁸

As part of the rebalancing efforts, President Biden and G7 leaders launched the Partnership for Global Infrastructure and Investment (PGII) to address infrastructure needs in developing countries, strengthen global supply chains, and promote US national security interests. The Biden administration aims to mobilize US\$200 billion for PGII over the next five years. This funding will come from a combination of grants, federal financing, and private sector investments. The broader goal is to mobilize US\$600 billion in global infrastructure investments by 2027, with contributions from G7 partners. PGII is essentially a rebranded and expanded version of the Build Back Better World (B3W) initiative that was initially announced at the 2021 G7 summit.

PGII has identified four priority pillars for its infrastructure investments: climate and energy security, digital connectivity, health and health security, and gender equality and equity. It recognizes the importance of private sector participation in infrastructure development. Executives from key companies, such as Citi, Global Infrastructure Partners, Japan Foreign Trade Council, and Nokia, have been invited to collaborate with G7 leaders to identify ways to leverage private capital for infrastructure projects. In summary, PGII is a major infrastructure initiative driven by the Biden administration in partnership with G7 nations. It seeks to address global infrastructure needs particularly in developing countries and represents a strategic response to China’s BRI.

The Impacts of Rebalancing and Decoupling under Trump and Biden

The rebalancing and decoupling efforts undertaken by both Trump and Biden administrations have brought some economic impacts on both nations. According to Figure 1, the US exports to China has shown a trend of slight increase in the period of 2010 to 2020 from US\$102.73 billion to US\$136.34 billion. The trend has shown a bigger increase in 2021 and 2022 to US\$180.97 billion and US\$177.57 billion respectively. In contrast to export, the US import from China is much bigger and has shown a trend of steady increase from 2010 to 2022 from US\$283.78 billion to US\$578.81 billion. However, its import from China did drop from US\$479.28 billion in 2018 to US\$419.32 billion in 2019 before it bounced back to US\$452.49 in 2020. The two-way trade in 2019 show that tariff war between the two nations brought heavier impact on Chinese export to the US than the US export to China, given that US tariffs on Chinese imports were more sizeable than vice versa.



Note: Data for year 2023 only covers from January to July

Figure 1: US Export, Import and Trade Deficit, 2010-2023 (US\$ billion).

Source: General Administration of Customs of the People’s Republic of China.

Figure 1 also shows that the impact of trade rebalancing on trade deficits is limited. The US’s trade deficits with China show a steady increase from US\$136.05 billion in 2010 to US\$316.15 in 2020. The trade deficit deepens to US\$396.15 in 2021 and further deepens to US\$401.24 billion in 2022. Scott suggests that the appreciation of the US dollar, influenced by the corporate profit tax reductions enacted during the Trump administration and the perception of the US as a ‘safe haven’ during the COVID-19 pandemic, has resulted in an increase in the cost of US exports while making imported goods cheaper, thereby contributing to the expansion of trade deficits.¹⁹ The impact of the trade deal is also limited. This is because the increase of Chinese export to the US (US\$124.64) is bigger than the US export to China (US\$44.63 billion) in 2021. In fact, the US export to China only increased US\$53.78 billion from 2019 to 2022, much lower than the US\$200 billion worth of US goods and services that needs to be purchased by China over the next two years as part of the trade deal.

On the other hand, the implementation of decoupling via export controls has reduced the US export of semiconductor products to China. According to General Administration of Customs PRC, the US semiconductor export to China – namely electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers, and parts and

accessories of such articles – has reduced from US\$20.93 billion in 2020 to US\$18.32 billion in 2022, a reduction of US\$2.62 billion.²⁰ This action has prompted major Chinese technology companies to procure high-performance Nvidia chips that are crucial for the development of advanced artificial intelligence systems. They have placed substantial orders totaling US\$5 billion, driven by concerns that the US might implement new export restrictions. Specifically, companies like Baidu, ByteDance, Tencent, and Alibaba have collectively invested US\$1 billion to acquire approximately 100,000 A800 processors from the US chip manufacturer, with deliveries scheduled for 2023. Additionally, these Chinese firms have committed an additional US\$4 billion for the purchase of graphics processing units, set to be delivered in 2024.²¹

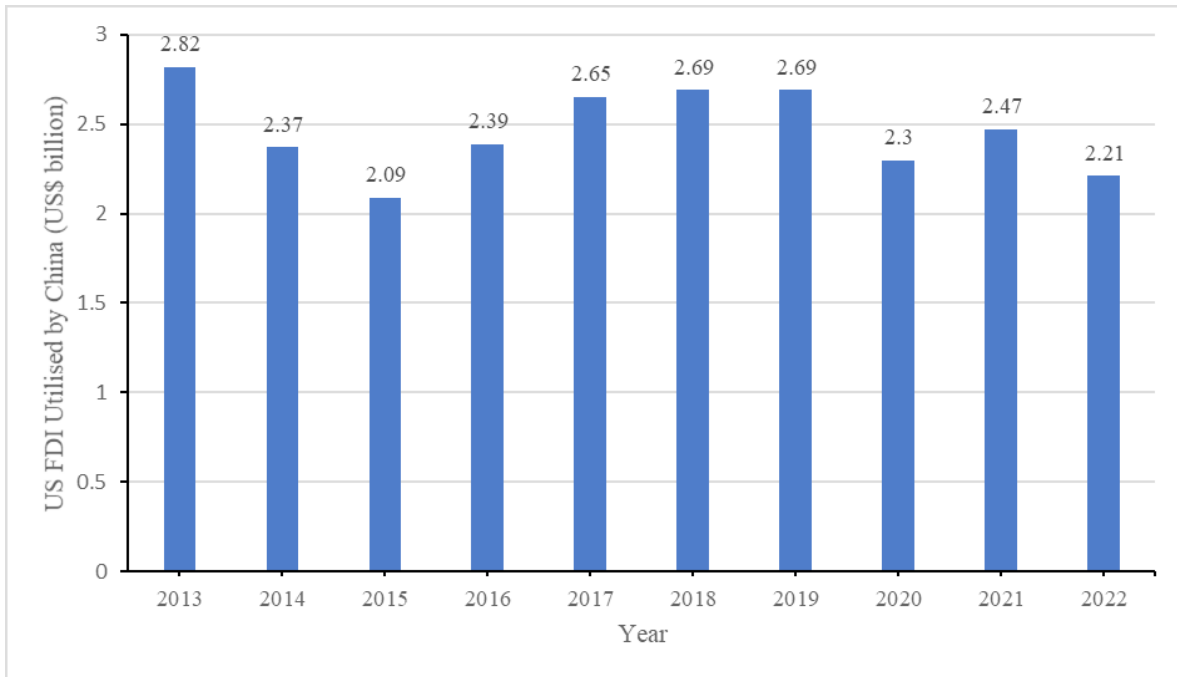


Figure 2: US FDI Actually Utilised by China (US\$ billion).

Source: National Bureau of Statistics of China.

The deployment of tariffs, export controls and investment ban also have an impact on two-way investments. Figure 2 shows that the US FDI utilised by China fluctuates between US\$2 billion to US\$3 billion from 2013 to 2022. Within this period, it shows an upward trend from US\$2.09 billion in 2015 to US\$2.69 billion in 2018, and a downward trend from US\$2.69 in 2019 to US\$2.21 billion in 2022. This pattern aligns with the findings of a study conducted by the American Chamber of Commerce in China (AmCham China) in the autumn of 2022. In this survey, around 320 member companies were queried about the business risks they encountered in the Chinese market. Notably, the most frequently cited response, mentioned by 66 percent of the respondents, was the impact of escalating tensions between the US and China.²² This underscores the notion that the increasing tensions between the two nations are causing a deterrent effect on corporate investment plans.

Similar trend is also evident for Chinese flow of outbound direct investment to the US. Figure 3 shows that the flow increases steeply from US\$3.87 billion in 2013 to US\$16.98 billion in 2016 before decreases steeply to US\$5.58 billion in 2022. The same figure also shows a steady increase of Chinese Overseas Direct Investment Stock in the US from US\$21.9 billion in 2013 to US\$80.05 billion in 2020, before slightly lowering to US\$77.12 billion in 2021. The decline in these investment trends is indicative of the pessimism and uncertainty surrounding the investment prospects of Chinese companies in the US. This sentiment arises from the growing utilization of sanctions and export

controls on Chinese firms, which have created a less favorable environment for Chinese investments in the US.

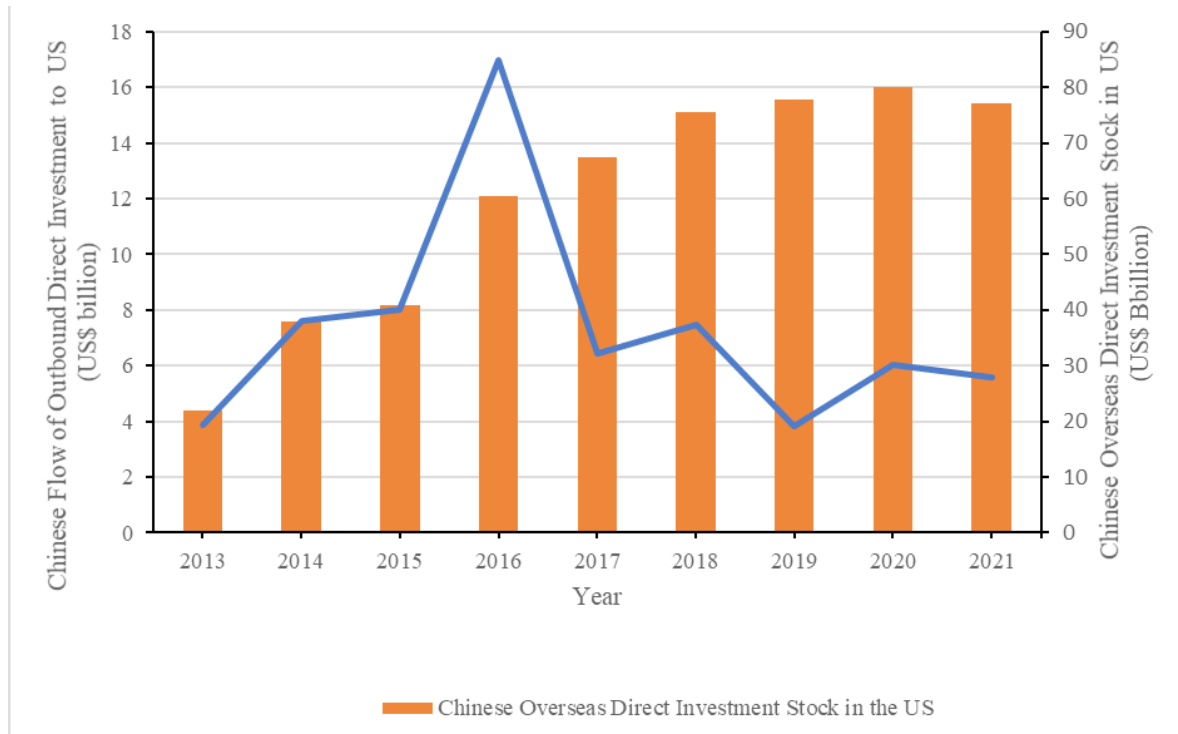


Figure 3: Chinese Flow of Outbound Direct Investment to US (US\$ billion) and Chinese Overseas Direct Investment Stock in US (US\$ billion).
Source: National Bureau of Statistics of China.

In respect of the impact of reshoring, Figure 4 shows that manufacturing employment rose steadily between January 2010 and December 2019 from 11.98 million jobs to 12.8 million jobs. However, recent years’ manufacturing gains were abruptly wiped out by the COVID-19 crisis with a staggering 1.38 million manufacturing jobs lost since January to April 2020. It took two years and six months or until June 2022 for the manufacturing jobs to be restored to pre-pandemic level. After hitting the lowest record during the crisis, manufacturing employment rose steadily from 11.65 million jobs in May 2020 to 12.9 million jobs in August 2022 before stagnating between 12.9-13 million jobs from September 2022 to August 2023. Overall, there is only an increase of 631,000 manufacturing jobs created under both Trump and Biden administrations. This data illustrates that the effects of reshoring under both administrations have been limited, more so with the additional focus on promoting friend-shoring under the Biden administration.

Regarding the impact of financing rebalance, the US has recently made several announcements related to the PGII. Thus far, the US has allocated US\$30 billion for PGII, which includes grants, federal financing, and leveraging of private sector investments. Notably, private sector representatives from Citi and Global Infrastructure Partners (GIP) are spearheading flagship projects valued at US\$4 billion. GIP alone is projected to invest more than US\$20 billion in projects that will contribute to the advancement of PGII over the next decade. The US is actively involved in supporting various initiatives through PGII, including the development of the Lobito Corridor in Africa, Small Modular Reactors (SMRs) in Indonesia and Romania, expansion of digital access in Costa Rica and the construction of Ecuador’s Yilport Port.²³

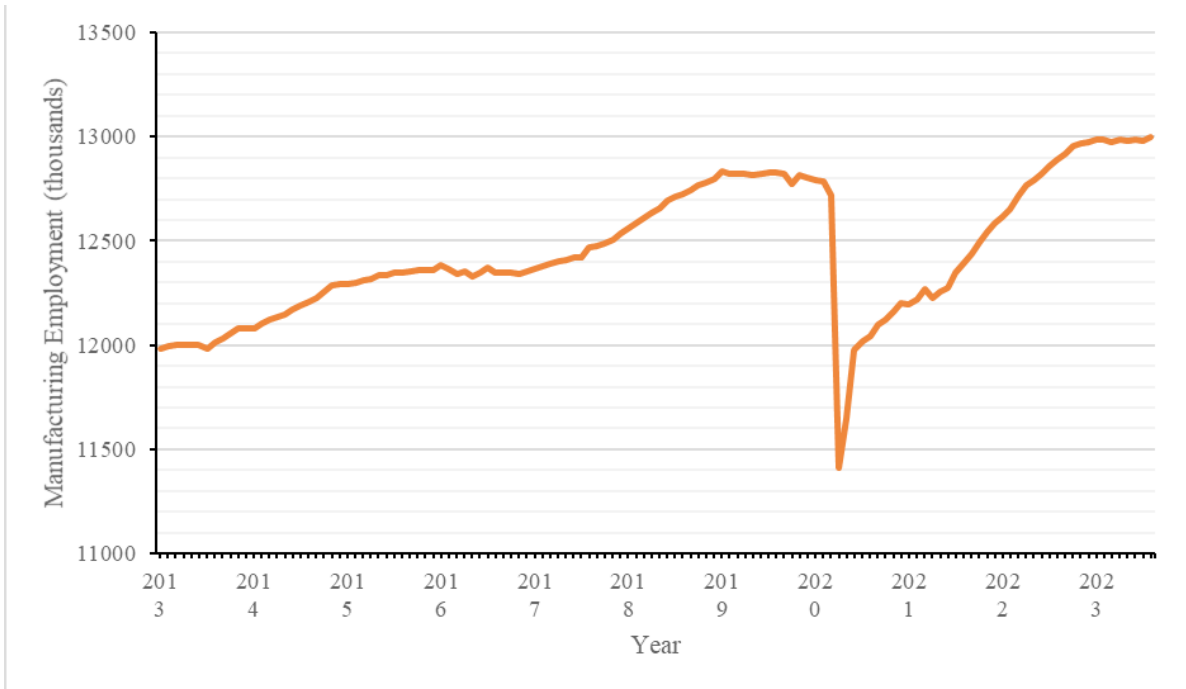


Figure 4: US Manufacturing Employment (thousands), January 2013-August 2023.
Source: US Bureau of Labor Statistics.

When comparing the PGII to its counterpart, China’s Belt and Road Initiative (BRI), it becomes evident that PGII, while a new and growing initiative, faces significant competition. In terms of financial commitments, the US, along with private sector contributions, has only allocated approximately US\$34 billion to PGII projects. Meanwhile, within the China-Pakistan Economic Corridor (CPEC) alone, BRI investments are estimated at around US\$60 billion. On a larger scale, China has already invested an estimated US\$1 trillion in various BRI endeavors. Some experts even predict that China’s total expenditure on the BRI throughout its lifespan could reach as high as US\$8 trillion, although these estimates may vary.²⁴ In summary, PGII has aimed to meet the demand for high-quality infrastructure financing in low- and middle-income countries, but it falls short of the expansive scope and financial commitment of the BRI.

Conclusion

This article provides several key findings in response to the three questions posed initially. Firstly, the primary characteristics of the US economic policy towards China under Biden administration are centered around protectionist measures, rebalancing efforts, and a strategy of economic decoupling. These measures include the continued imposition of tariffs on certain Chinese imports with exclusion provisions, import bans on products originating from Xinjiang province, the implementation of sanctions, export controls, and investment ban, with a particular focus on advanced technology sectors like quantum computing and semiconductors. Additionally, reshoring and friend-shoring initiatives, as well as the formation of trade and financing blocs, are integral to this policy.

Secondly, Biden’s approach to China exhibits similarities to the economic policy employed during the Trump administration, characterized by protectionism, rebalancing, and decoupling. However, there are notable differences between the two administrations. Under Biden, the rebalancing and decoupling aspects of the policy have deepened, a result from the implementation of wide-range

initiatives. Unlike Trump, Biden's administration has engaged allies and partners in its efforts to counter China, using a more collaborative approach. While Trump's trade tensions with China were primarily centered on trade, Biden's administration has shifted the focus toward technology-related concerns.

Lastly, the impact of rebalancing measures such as trade policies, reshoring, and friend-shoring, as well as financing initiatives, has been relatively limited and requires a longer period to yield significant results. In contrast, decoupling measures, including sanctions, export controls and investment ban, have proven effective in diminishing China's position in global industrial and supply chains, particularly in sectors like semiconductors and chipmaking equipment. These measures have also contributed to slowing China's economic growth and development.

In recent developments of the US-China relations, the US has initiated high-level visits to China in 2023 to improve bilateral relations and maintain open lines of communication. Although these efforts have not been reciprocated by China, the Biden and Xi summit taking place on the sidelines of Asia-Pacific Economic Cooperation meeting in November 2023 has slightly reduced the US-China tensions. Both leaders have agreed to establish dialogue mechanisms for anti-drug and artificial intelligence as well as to resume military dialogue. However, the core issues namely the economic and tech tensions between the two nations remain unresolved and are likely to persist, driven by larger concerns related to politics, military influence, and the potential challenge of China to US global dominance. Managing this competition responsibly remains a critical challenge for both the US and China.

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Notes

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