

# Is US-China decoupling possible?

## Adherence to Trump's value-based stance against China (Communist Party)

In the first eleven months of the Biden administration, some aspects of its policy towards China have become more noticeable.

## The perspective of the values conflict - democracy versus autocracy

However, the diplomatic moves to encircle China have gone further than the Trump administration. Increased engagement in the Indo-Pacific region has been a key element of the AUKUS (US-UK-Australia military technology sharing) and Quad (US-Japan-Australia-India strategic dialogue) have been held one after another.

The withdrawal from Afghanistan was also aimed at focusing on the Asia Pacific region with an eye on China. In addition, the Biden administration has focused on human rights issues such as forced labor. In March, the USTR made human rights abuses in the Xinjiang Uyghur Autonomous Region a top priority and suspended all imports of cotton and tomato products from the region. In June, it introduced some restrictions on imports of solar panel-related products.

## Staging a scene of US-China cooperation

On the other hand, there are many factors that appear to be softening the attitude toward China. Talks have resumed in areas such as climate change, military, trade, and security. There are more and more collaborative situations, such as the joint declaration at COP26 in Scotland and the online talks by US-China leaders on November 16 to create collision avoidance rules.

## Exclusion of China in the semiconductor supply chain has not worked at all

What is particularly surprising is that the construction of an international supply chain (EPN) that excludes China is likely to cause the sign to collapse. It is said that the Biden administration has followed the path of the Trump administration 1. export control, 2. strengthening of investment examinations for the United States, and 3. exclusion of Chinese goods in government procurement due to security requirements. However, in reality, semiconductor-related products have hardly been decoupled. Except for the most advanced equipment such as EUV (extreme ultraviolet) equipment, there has been little decoupling in the semiconductor sector. The WSJ reported that between November 2020 and April 2021, the Commerce Department has approved \$61 billion in exports to Huawei (69% approved) and \$42 billion to SMIC (90% approved), totaling more than \$100 billion. (Oct. 22). The WSJ reported that between November 2020 and April 2021, the Commerce Department has approved \$61 billion in exports to Huawei (69% approved) and \$42 billion to SMIC (90% approved), totaling more than \$100 billion. (Oct. 22).

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**Figure 1: Semiconductor equipment sales (SEMI)**

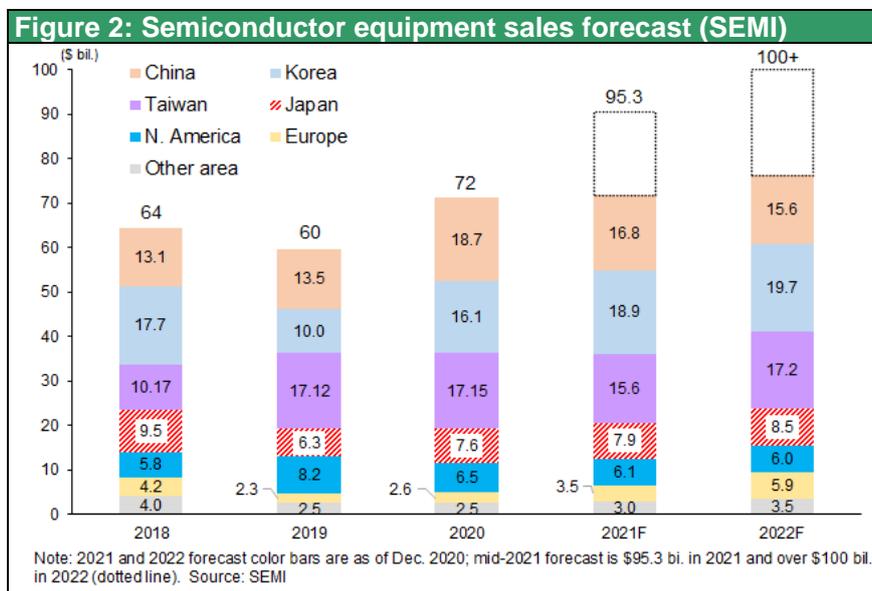
	3Q2021	2Q2021	1Q2021	3Q2020	2Q2020	1Q2020	1-3Q2021 Total	1-3Q2021 Share	1-3Q2021/1-3Q2020
China	7.27	8.22	5.96	5.62	4.59	3.5	21.45	28.5%	56.5%
Korea	5.58	6.62	7.31	4.22	4.48	3.36	19.51	25.9%	61.8%
Taiwan	7.33	5.04	5.71	4.75	3.51	4.02	18.08	24.0%	47.2%
Japan	2.11	1.77	1.66	2.24	1.72	1.68	5.54	7.4%	-1.8%
N. America	2.29	1.68	1.34	1.37	1.64	1.93	5.31	7.1%	7.5%
Europe	0.87	0.71	0.58	0.58	0.46	0.64	2.16	2.9%	28.6%
Other areas	1.35	0.84	1.02	0.6	0.37	0.44	3.21	4.3%	127.7%
Total	26.79	24.87	23.57	19.38	16.77	15.57	75.23	100.0%	45.5%

Unit: \$ bil., %  
Source: SEMI

**Semiconductor equipment exports to China soar**

Exports of semiconductor manufacturing equipment to China are increasing rapidly. Global semiconductor manufacturing equipment sales in the first to third quarters of 2021 were \$ 75.23 billion, up 45.5% year-on-year, of which China was \$ 21.45 billion, up 56.5% year-on-year, above average. China's global share for the first three quarters was 29%, far exceeding South Korea's 26%, Taiwan's 24%, Japan's 7%, and North America's 7%, making it the largest in the world. Applied Materials, the leader in the US semiconductor manufacturing equipment industry, had sales of \$ 23.1 billion in 2021, up 34.1% year-on-year, of which \$ 7.53 billion (33% of the total) was destined for China. This can be confirmed by the fact that the total export of high-tech products to China from January to September 2021 was 27.8 billion dollars, up 27% from the previous year, which is much higher than the overall growth rate of 16% according to the US customs statistics.

Figure 2 shows the SEMI (Semiconductor Equipment and Materials International Association) forecast for shipments of semiconductor manufacturing equipment as of December 2020. China was expected to become the world's largest market in 2020, but to decline significantly from 2021 onwards due to US restrictions on exports to China. However in fact, it has continued to grow at the highest rate in the world.



As semiconductor investment is seen as a leading indicator of future semiconductor production share, US approval of semiconductor equipment supply to China will further strengthen China's ability to supply high-tech products.

It may be pushed by the lobbying activities of various industry groups. "If the U.S. semiconductor industry loses access to Chinese customers, up to \$124 billion in production would be lost, more than 100,000 jobs would be at risk, \$12 billion in R&D spending and \$13 billion in capital expenditures would be threatened. If we lose access to China for aircraft, we will lose \$51 billion in annual sales" (Barron's)

**Surge in securities investment in China**

Wall Street has also seen a significant increase in investment in China. There is competition for the enormous amounts of savings held by Chinese households.

The Chinese government is opening up to foreign investment by approving 100% ownership of Chinese subsidiaries of financial institutions such as JP Morgan Chase, Goldman Sachs and BlackRock.

As of the end of September, the total amount of yuan-denominated stocks and bonds held by foreign investors exceeded US\$1 trillion, according to the Nikkei reports. According to China's international investment position, over the past year (3Q2020 - 2Q2021), equity and investment trust inflows into China have surged to \$1.2 trillion. U.S. public pension funds and university foundations also appear to be channeling funds via venture capital into Chinese private equity.

**Visa issuance restrictions for Chinese are also relaxed**

In addition, universities that depend on Chinese students to pay tuition fees, high-tech companies that depend on Chinese researchers, etc. have requested deregulation of Chinese researchers and international student visas. It is said that 50,000 visas have already been issued.

**A striking contrast with Congress's hardline stance on China**

Contrary to this, a bipartisan annual report submitted to Congress by the US-China Economic and Security Investigation Commission (USCC) in mid-November contained a rigorous analysis of economic security and was hard-lined in 32 areas. A plan has been proposed. In particular, the tightening of regulations in the financial sector is emphasized. "Chinese authorities are working with foreign capital and fund managers to make China's capital markets function as a means of funding the Chinese Communist Party's technological development goals and other policy goals."

The 32 new recommendations include the following hardline measures:

- i. Restricting investment in variable interest entities (VIEs) linked to Chinese companies,
- ii. Requests for disclosure of procurement and investment from companies using forced labor in Xinji, companies registered in the US Department of Commerce's company list and the Ministry of Finance's military-industrial complex company,
- iii. It is obligatory to report whether the Chinese Communist Party Committee exists somewhere in the business activities of US companies. It has also been proposed to limit the use of cloud computing and data service businesses owned by Chinese companies.

If this happens, it may have such an impact that the flow of capital between the United States and China will be blocked. There appears to be a growing divergence of views between Congress and the administration and business and finance.

**Figure 3: U.S. Trade in advanced technology products by tech group and selected countries**

**U.S. Trade in Advanced Technology Products by Technology Group and Selected Countries and Areas**  
In millions of dollars. Details may not equal totals due to rounding. (-) Represents zero or less than one-half of measurement shown.

Technology Group	2021									2020		
	September			August			Year-to-Date			Year-to-Date		
	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports
<b>Total</b>	<b>-19,742</b>	<b>30,762</b>	<b>50,504</b>	<b>-16,074</b>	<b>29,489</b>	<b>45,563</b>	<b>-138,324</b>	<b>257,130</b>	<b>395,455</b>	<b>-131,906</b>	<b>221,345</b>	<b>353,251</b>
Advanced Materials	-65	273	338	-90	271	361	-295	2,393	2,688	44	2,042	1,998
Aerospace (1)	4,296	7,524	3,228	4,647	7,304	2,658	38,125	64,219	26,094	33,832	63,003	29,170
Biotechnology	-1,147	5,032	6,179	-2,219	3,680	5,899	-18,820	27,542	46,362	-25,179	16,776	41,955
Electronics	462	5,047	4,585	349	5,213	4,865	6,717	45,066	38,349	8,300	37,558	29,257
Flexible Manufacturing	709	1,980	1,271	665	1,962	1,297	8,425	19,235	10,809	4,890	14,609	9,719
Information and Communications (1)	-20,054	7,288	27,341	-15,035	7,453	22,488	-139,511	66,924	206,434	-120,119	58,695	178,813
Life Science	-1,705	2,860	4,564	-2,094	2,897	4,991	-16,113	25,511	41,623	-19,067	22,413	41,479
Nuclear Technology	-150	66	216	-243	80	323	-1,180	689	1,869	-587	775	1,362
Opto-Electronics (1)	-2,191	477	2,668	-2,157	436	2,594	-16,506	3,788	20,294	-15,535	3,248	18,783
Weapons	101	216	114	103	192	89	833	1,763	931	1,514	2,228	714

Selected Countries and Areas	2021									2020		
	September			August			Year-to-Date			Year-to-Date		
	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports
<b>Total</b>	<b>-19,742</b>	<b>30,762</b>	<b>50,504</b>	<b>-16,074</b>	<b>29,489</b>	<b>45,563</b>	<b>-138,324</b>	<b>257,130</b>	<b>395,455</b>	<b>-131,906</b>	<b>221,345</b>	<b>353,251</b>
North America	-2,042	5,649	7,691	-857	5,923	6,780	-6,851	52,145	58,996	-6,886	46,212	53,098
Canada	851	2,363	1,511	1,433	2,439	1,005	12,456	22,215	9,759	9,759	19,726	9,968
Mexico	-2,893	3,286	6,179	-2,290	3,484	5,774	-19,307	29,930	49,237	-16,644	26,486	43,130
European Union	-1,428	7,307	8,734	-2,912	6,311	9,223	-21,685	54,630	76,315	-24,779	48,457	73,237
France	218	969	751	210	950	740	873	7,631	6,758	1,796	8,483	6,688
Germany	-788	1,763	2,550	-1,040	1,722	2,762	-6,617	13,975	20,592	-6,417	13,224	19,641
Ireland	-1,931	707	2,638	-2,238	631	2,868	-20,405	4,530	24,935	-18,952	2,674	21,262
Italy	-98	299	398	-226	242	468	-371	3,272	3,642	-251	3,208	3,459
Other	1,171	3,568	2,397	382	2,766	2,384	4,835	25,223	20,387	-954	20,868	21,823
Pacific Rim Countries	-16,702	10,094	26,796	-12,912	9,684	22,597	-111,324	90,385	201,709	-97,439	75,952	173,390
Australia	259	418	159	236	457	222	2,630	4,055	1,425	1,793	3,498	1,704
China	-11,291	2,871	14,161	-7,412	3,001	10,413	-75,637	27,825	103,462	-66,276	21,959	88,236
Hong Kong	1,009	1,034	25	946	973	27	9,245	9,456	212	7,451	7,669	218
Indonesia	-24	86	110	-88	36	124	-815	379	1,194	-766	346	1,111
Japan	-547	1,194	1,741	-1,004	1,142	2,146	-4,283	11,574	15,857	-3,403	12,010	15,413
Korea, South	-1,148	1,160	2,308	-1,102	962	2,063	-6,114	10,526	16,640	-5,963	8,733	14,696
Malaysia	-2,038	594	2,632	-2,345	555	2,899	-19,453	4,766	24,220	-15,771	3,691	19,462
Philippines	-235	346	581	-293	248	541	-2,143	2,235	4,378	-1,661	1,897	3,558
Singapore	-616	1,020	1,636	105	926	822	321	8,612	8,291	-614	7,148	7,763
Taiwan	-2,139	1,282	3,421	-2,035	1,290	3,325	-15,704	10,154	25,858	-12,637	8,396	21,033
Other	67	88	21	80	95	15	629	803	174	408	605	196
South/Central America	2,839	3,219	380	2,789	3,113	324	19,785	22,923	3,137	13,209	15,702	2,494
Brazil	1,458	1,534	76	1,434	1,511	77	8,752	9,634	882	6,034	6,714	680
Other	1,381	1,685	303	1,355	1,602	247	11,033	13,289	2,256	7,175	8,988	1,813
Other Countries	-2,410	4,493	6,904	-2,181	4,458	6,639	-18,250	37,047	55,297	-16,011	35,022	51,033
India	77	365	287	25	325	300	57	2,752	2,695	340	2,991	2,651
Israel	14	317	303	216	525	309	155	2,909	2,754	-557	1,953	2,510
Thailand	-1,385	251	1,637	-1,267	231	1,499	-10,468	2,117	12,585	-8,491	2,091	10,581
United Kingdom	-25	856	882	73	1,093	1,020	1,371	8,788	7,416	905	8,746	7,841
Other	-1,091	2,704	3,795	-1,229	2,284	3,512	-9,364	20,482	29,846	-8,208	19,240	27,449

(1) Export statistics for certain commodity classifications related to the aircraft industry are subject to suppression and have been aggregated in a manner that prevents the disclosure of confidential information. As a result, Advanced Technology Product exports are overstated by \$759 million in September 2021. For additional information, see [www.census.gov/foreign-trade/statistics/notices/aircraft/](http://www.census.gov/foreign-trade/statistics/notices/aircraft/).

NOTE: Data are not available on a BOP basis. For information on data sources, nonsampling errors, and definitions, see the explanatory notes in this release or at [www.census.gov/t900](http://www.census.gov/t900) or [www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services](http://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services).

Figure 4: China International Investment Position

China's International Investment Position (quarterly)

Unit : in 100 million of US dollars

MSCI inclusion ratio increased Nov. 2019

HK National Security Law Jul. 2020

Item	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2021Q1-2022	2021Q2-2022	
<b>Net International Investment Position</b>	18015	19404	19879	19849	18933	19000	18653	20652	18421	19993	20821	21075	19159	20057	21302	22996	23562	25682	21503	21400	19860	21400	19600	21400	-3136	-4321	
<b>Assets</b>	62549	63812	65367	65388	65939	67547	68934	71913	72734	72832	73490	74327	75033	75921	76132	78464	77778	83446	87039	88776	90278	88776	88776	90278	+11814	+10045	
1 Direct investment	1286	12948	13706	14237	14186	14445	14755	18450	18728	19092	19561	20015	20469	20831	21155	22366	22262	22737	23571	24154	24319	24620	24620	24319	+2254	+1884	
1.1 Equity and investment fund shares	10661	10851	11447	11938	11907	12159	12477	15949	16191	16429	16618	17023	17396	17736	17976	19541	19231	19622	20375	20844	21006	21180	21180	21006			
1.2 Debt instruments	1925	2097	2258	2300	2279	2286	2278	2301	2337	2363	2393	2413	2393	2373	2393	3026	3032	3115	3197	3290	3315	3315	3315	3315			
2 Portfolio investment	3139	3212	3251	3274	3283	4236	4610	4992	5257	5295	5378	5065	5556	5702	5946	6575	6517	7150	7890	8999	9658	10132	10132	9658	+3557	+2982	
2.1 Equity and investment fund shares	1866	1905	2141	2207	2414	2502	2775	3044	3382	3188	3155	2786	3070	3133	3286	3853	3734	4249	4977	6043	6655	6949	6655	6949			
2.2 Debt securities	1272	1306	1410	1518	1514	1734	1835	1948	1975	2187	2224	2279	2488	2659	2722	2783	2900	2913	2955	3003	3183	3183	3183	3183			
3 Financial derivatives (ex.reserves) & employee stock options	50	58	43	52	48	60	68	59	78	66	66	58	62	85	80	74	67	105	144	191	165	143	165	143	+4697	+4109	
4 Other investment	14020	14563	15629	16797	16730	17302	17457	16055	16267	16338	16922	17305	16962	17055	16933	17226	17092	17814	19029	20149	21662	21923	21662	21923			
4.1 Other equity	1	1	1	1	1	55	54	54	54	69	69	69	69	69	84	84	84	88	88	89	89	89	89	89			
4.2 Currency and deposits	3396	3569	3550	3633	3711	3876	3931	3611	3648	3728	3736	3896	3734	3901	3859	3962	3876	4159	4507	4865	5292	4795	4795	5292			
4.3 Loans	4790	5006	5361	5768	6314	6566	6404	6373	6938	6836	6987	7097	7381	7047	6688	6963	7315	7488	8033	8389	9355	9836	9355	9836			
4.4 Insurance, pension, and standardized guarantee sc	189	132	135	123	103	105	109	101	111	109	107	106	122	118	118	135	148	164	177	166	178	195	195	178			
4.5 Trade credit and advances	4820	4937	5509	6145	5820	5849	6209	5319	5018	5192	5679	5972	5273	5382	5656	5604	5136	5290	5602	5972	5850	6013	5850	6013			
4.6 Other accounts receivable	814	919	1073	1107	800	851	749	597	479	404	344	364	483	524	548	479	532	628	621	668	897	990	897	990			
5 Reserve assets	33054	33052	32639	30978	31028	31504	32044	32359	32403	32061	31771	31680	31961	32222	32045	32229	31803	32433	32812	33565	32971	33459	33565	32971			
5.1 Monetary gold	715	714	737	736	736	760	765	784	741	703	763	785	873	930	954	1008	1108	1182	1182	1182	1059	1105	1105	1105			
5.2 Special drawing rights	105	104	101	97	98	100	102	110	112	109	108	107	107	108	108	111	110	110	112	115	113	114	114	113			
5.3 Reserve position in the IMF	107	104	99	96	96	95	91	79	77	85	85	85	84	82	84	84	81	96	97	108	103	103	103	103			
5.4 Foreign currency reserves	32126	32052	31664	30105	30091	30560	31085	31399	31428	31121	30870	30727	30988	31192	30924	31079	30606	31123	31426	32165	31700	32140	31700	32140	+1061	+1017	
5.5 Other reserve assets	44534	44408	45888	45940	47005	48546	50281	51263	54313	52859	52669	53252	55874	55863	54830	55468	54416	56051	59764	65536	67375	70418	65536	70418			
<b>Liabilities</b>	26775	27109	27343	27551	27776	27897	28181	27257	29037	28046	27286	28271	29539	29135	28818	27964	27767	28173	29718	31793	32386	33650	32386	33650			
1 Direct investment	24981	25298	25349	25370	25637	25765	26018	25150	26825	25229	25098	26888	26676	26167	25296	25109	25470	26880	28814	28415	30593	28415	30593	28415			
1.1 Equity and investment fund shares	1793	1811	1794	1811	2119	2132	2163	2107	2212	2217	2188	2413	2471	2459	2451	2668	2658	2704	2838	2979	2971	3056	2971	3056			
1.2 Debt instruments	8436	7805	8501	8483	8924	9425	10544	11775	12502	11981	12121	11628	13401	13534	14526	15363	14528	16056	19545	20289	20890	20890	20890	20890			
2 Portfolio investment	6298	5615	6562	6168	6561	6885	7469	8405	8318	7953	7919	7506	9103	8920	8335	9497	8326	9215	9910	12543	12803	13534	12803	13534			
2.1 Equity and investment fund shares	2138	2190	2239	2316	2363	2541	3075	3370	3784	4028	4203	4122	4298	4614	4738	5029	5037	5312	6146	7002	7486	7557	7486	7557			
2.2 Debt securities	81	72	47	60	47	49	48	34	41	67	80	60	50	77	114	65	119	107	113	122	104	85	104	85			
3 Financial derivatives (ex.reserves) & employee stock options	9243	9423	9796	9844	10238	11175	11508	12197	12933	12765	13182	13294	13064	13117	13025	12913	13166	13244	13878	14076	14596	15593	14596	15593			
4 Other investment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
4.1 Other equity	3320	3390	3418	3166	3682	4239	4312	4365	4826	4629	4649	4833	4933	4417	4322	4245	4606	4545	5021	5266	5682	6217	5682	6217			
4.2 Currency and deposits	2943	3030	3096	3205	3585	3930	4024	3922	4249	4154	4170	4169	4207	4799	4641	4605	4722	4827	4787	4555	4575	4755	4575	4755			
4.3 Loans	96	94	91	88	91	95	99	100	102	99	104	109	119	125	123	135	142	147	154	167	178	220	178	220			
4.4 Insurance, pension, and standardized guarantee schemes	2381	2414	2683	2883	2682	2544	2782	3233	3446	3538	3863	3931	3515	3463	3607	3644	3267	3241	3498	3719	3691	3863	3691	3863			
4.5 Trade credit and advances	405	396	411	408	124	269	192	188	209	246	299	154	193	216	236	189	334	383	318	267	372	438	267	372			
4.6 Other accounts payable	98	98	98	94	95	97	99	100	102	98	98	97	97	97	95	97	95	96	98	101	99	100	99	100			
4.7 Special drawing rights																											
<b>Current account quarterly</b>	455	591	720	147	209	538	432	708	-398	-26	176	490	223	198	306	302	-405	973	933	1238	694	533	1238	694	+3967	+3399	
<b>Foreign Currency Reserves monthly</b>	1912	20101	20002	20003	20004	20005	20006	20007	20008	20009	20010	20011	20012	21001	21002	21003	21004	21005	21006	21007	21008	21009	21010	21011	21012	21013	21014
<b>Foreign Currency Reserves monthly</b>	31079	31155	31067	30606	30915	31017	31123	31544	31646	31426	31280	31785	32165	32107	32050	31700	31982	32218	32140	32356	3232	3201	32356	3232	3201		

Source: China State Administration of Foreign Exchange