

Dealing with Decoupling from China: Business Strategies in a Changing World

Synopsis

This research project by the Leiden Asia Centre in the Netherlands and the East Asian Institute in Singapore explores the extent and impact of economic decoupling from China.

FDI flows, greenfield investments and M&A flows largely reflect the growing global pessimism toward China, showing a distinct shift away from China. China's exports are shifting from advanced markets towards emerging markets, with ASEAN becoming a growing intermediary in US-China trade. Despite this, China still remains an important trading partner to the US, EU and Japan; contributing a significant and rising share of value-added in total imported value for these economies.

Discussions on US-China decoupling often view the issue through a US or a Chinese lens. This study presents another perspective to the discussions by providing firm-level insights on the impact of decoupling on foreign companies in China from four advanced economies – Singapore, the Netherlands, Germany and Japan.

Comprising almost 100 interviews with firms and business associations, the authors seek to answer 4 key questions: (1) what is the impact of decoupling on FDI in China? (2) What are the risks of decoupling (from China) to foreign firms? (3) are there the mitigation strategies for these risks, and (4) where do they lead?

Concerns of firms about US-China tensions are less about the current measures and sanctions and more about what might happen in the future. Foreign firms active in China operate in a highly uncertain and potentially volatile policy environment, not just in China itself but also in their home countries and the United States, with potentially grave consequences for the global company as a whole.

Nevertheless, most firms do not intend to withdraw from China, nor do they expect to do so in the future. Coping strategies range from (1) adopting an “In China, for China” localisation strategy to insulate their Chinese operations and reduce foreign dependence, (2) limiting any further exposure to China, (3) diversifying supply chains or production to other countries, or, in many cases, (4) adopting a wait-and-see attitude while, for the time being, not doing anything at all.

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Authors Profile

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At the Leiden Asia Centre, Pieke's most recent projects are *China's Influence on the Chinese Diasporas in the Netherlands* for the Ministry of Foreign Affairs and Trade and the Ministry of Justice and Security of the Netherlands (2020-2022) and together with Nana de Graaf (Free University Amsterdam) the project *Chinese-European Business Elites, Enterprises and the Chinese Communist Party*, funded by the China Knowledge Network of the Netherlands.

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He has extensive experience in advising governments on a wide range of development issues, and published on fiscal policy, debt issues, and China's and Indonesia's recent economic history.

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