



# Strategic Decoupling and Its Implications for US-China Relations

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## **Strategic Decoupling and Its Implications for US-China Relations**

*By Da Wei*

### **SYNOPSIS**

*US–China relations under Trump's second term have entered a fragile stalemate. While complete economic decoupling remains elusive, both sides are shifting toward strategic and psychological disengagement – reducing reliance on each other's long-term strategies. This trend may reduce incentives for negotiation, heighten uncertainty over Taiwan, yet also enable future bilateral reorientation.*

### **COMMENTARY**

Since the beginning of Donald Trump's second term as President, US-China relations have experienced a new round of intense trade conflict. Following three rounds of negotiations in Geneva, London, and Stockholm, the relationship has now entered a relatively stable phase. Both sides appear to be preparing for a possible leaders' summit later this year. If all goes well, progress may be achieved on trade negotiations ahead of the summit. However, if talks break down or new crises emerge, another storm in bilateral relations could erupt.

Following the April 2, 2025, "Liberation Day" tariff announcement by the Trump administration, a round of tariff exchanges ensued. Negotiations resumed in Geneva, indicating that complete decoupling in the trade domain remains unfeasible.

Nevertheless, after nearly eight years of trade disputes, including the somewhat surreal imposition of tariffs as high as 145 per cent on Chinese goods earlier this year, a more consequential shift may be underway – both sides are increasingly embracing a form of strategic and psychological decoupling.

Strategic decoupling refers to the gradual disengagement of China and the US at the level of national development strategy. Each country is playing a diminishing role in

the other's long-term strategic planning – or, in some cases, disappearing entirely from the other's grand strategy. This shift could lead to a form of psychological decoupling, in which both policymakers and the broader public grow more accepting of a worsening relationship.

As a result, there is either little expectation for a meaningful improvement in US-China relations or a general lack of motivation to pursue such improvement. This shift could have complex and far-reaching implications for the relationship.

### **Coupling: Then and Now**

To understand strategic decoupling, one must begin with strategic coupling.

Since the 1980s, China and the US have developed deep interdependence across financial, economic, and societal spheres. From the beginning of its reform and opening-up, China has held a national consensus that long-term development and prosperity require its integration with the global system – particularly with the West and, most notably, the United States.

Similarly, beginning in the 1990s, American policymakers broadly agreed that the 21st century would be the “Asia-Pacific century”. To sustain its prosperity and global leadership, the US would need to remain deeply engaged in the Asia-Pacific. China, as the largest and most consequential player in the region, was therefore central to America's long-term interests. From this perspective, a productive US-China relationship was essential for America's own strategic success.

This strategic interdependence has endured repeated shocks over the past eight years. During Trump's first term, Washington labelled US-China relations as a strategic competition, launched a trade war, and struck at Chinese high-tech companies like Huawei. These policies were largely maintained or escalated under President Joe Biden, who coordinated with allies to tighten technological restrictions.

In Trump's second term, tariff battles have restarted. The key difference this time is that Trump has directed tariff pressure at a broader range of countries, not just China. Strategic competition has remained the central pillar of Washington's China policy across three consecutive administrations. Within the US policy community, a tough stance on China has become both a strategic consensus and a form of political correctness.

While different presidents, whether Republican or Democrat, have employed different tools and approaches, many in China believe that the US is not merely competing, but is actively trying to obstruct, or at least delay, China's development. After three consecutive administrations, expectations in China that the US might reverse course have dropped significantly. Even the most engagement-oriented Chinese analysts no longer expect Washington to shift its strategic posture in any meaningful way. The debate within China now centres on the best response to the new reality.

### **A Strategic Reorientation**

Unlike his first term, Trump's second-term economic strategy targets the entire world.

The April 2 tariffs on most major economies underscore his economic nationalism targeting not just China but the global trading system. This reflects a broader and longer-term shift in US strategic thinking.

The US now aspires to reanchor its growth model domestically, rebuilding domestic manufacturing and high-tech industries. Even during Biden's tenure, it was proposed that national security, social equity, and environmental justice may be as important, if not more important, than economic efficiency. While the Democratic and Republican parties differ significantly in many aspects of policy, both have come to believe that economic returns – especially the profits of large corporations – should no longer be the central focus of national economic policy.

As of this writing, the US has concluded tariff negotiations with the EU, Japan, and the UK, with all parties accepting a new, higher tariff baseline. This will inevitably reshape international trade, likely leading to stagnation, or even a decline, in US-EU trade. The resulting protectionism will ripple across global supply chains. No matter how actively China engages, it cannot reverse this trend of partial decoupling between the US and the rest of the world.

### **Growing Confidence in Beijing**

Over the past eight years, China has grown more confident in navigating its economic challenges. When the US first began imposing steep tariffs and suppressing Chinese technological advancement, there was considerable pessimism within China. Some feared that without access to external resources, particularly those from the US, China's development would stall. But now, many believe that China's difficulties stem more from domestic policy challenges than external shocks.

Since September 2024, Beijing has launched more proactive stimulus policies, and by late 2024, Chinese firms like DeepSeek have achieved notable breakthroughs in AI, robotics, pharmaceuticals, and defence technology. This has boosted national confidence considerably. Although China's development still faces daunting challenges, social sentiment has indeed shifted compared with eight years ago.

Moreover, recent months have revealed the unpredictability of Trump's foreign policy, with erratic behaviour toward allies, blatant threats to foreign territories, and the dismantling of post-WWII institutions. These developments have likely reinforced Chinese confidence in its own model and strategic direction.

The deteriorating global economic environment has reinforced Beijing's commitment to a "dual circulation" strategy, emphasising domestic consumption and investment over exports.

Increasingly, Chinese policymakers and analysts view it as both feasible and necessary to de-link national development from dependence on any single external power. This has led to an intriguing shift – Washington and Beijing are now redirecting their long-term strategies inward, abandoning previous expectations that economic interdependence would serve as a growth engine.

This may explain why, in April, both sides escalated tariffs to irrational levels – 145 per

cent by the US, 125 per cent by China. While such moves may be tactical, neither side appears confident in de-escalating the crisis. It is plausible that both leaderships are psychologically prepared for the severance of trade ties, believing that their respective development trajectories remain viable even in the absence of bilateral trade.

Another example is the White House's decision to ease export restrictions on NVIDIA's H20 chips to China in July 2025. For Chinese companies that rely on US semiconductors, this was undoubtedly a welcome development. At the same time, however, a different voice could be heard within China's public discourse arguing that the US was merely seeking to re-establish China's dependence on American chips. In their view, China should resist the temptation and remain firmly committed to the path of independent research and development.

### **Decoupling and Its Dangers**

What, then, are the implications of this strategic and psychological decoupling for US-China relations?

First, in the short term, strategic and psychological decoupling may dampen both countries' willingness to engage in negotiations or de-escalate tensions. If interdependence is seen as undesirable (from America's perspective), unattainable (from China's perspective), or expendable (by both), the incentive to pursue stabilisation or economic reconnection diminishes.

While tariff pain has driven both governments to the negotiating table, deep mutual distrust and limited political motivation have made progress fragile and slow. Expectations for breakthroughs are low. Even if some tariff reductions occur, US tariffs on China will likely remain significantly higher than those on the EU, UK, or Japan. The real question is whether US tariffs will stabilise at a moderately elevated level or stay at economically prohibitive levels.

Second, strategic decoupling could significantly affect security issues between China and the US, particularly Taiwan, one of the most sensitive dimensions of US-China relations. For decades, Beijing exercised restraint, predicated on its peaceful reunification strategy and a desire to avoid rupturing ties with Washington. But if psychological and strategic decoupling takes root, Beijing's concern about breaking ties may recede, potentially leading to a more proactive posture on Taiwan.

The danger is compounded by Trump's unpredictable approach to foreign affairs, including brinkmanship tactics. At times, he may appear indifferent to the Taiwan issue, as if willing to use Taiwan as a bargaining chip with Beijing. At other times, he abruptly plays the "Taiwan card" without fully grasping the risks such a move entails.

In Taipei, the Lai Ching-te administration has adopted increasingly provocative rhetoric toward Beijing while marginalising the opposition – moves that alarm Beijing and raise the risk of miscalculation among Washington, Beijing, and Taipei. Taiwan is likely to remain a major flashpoint in the forthcoming years and must be carefully managed.

## Upside to Strategic Reset?

Decoupling may also generate some positive effects. Whether the US should reorient its economic strategy inward is a question for American scholars. From China's perspective, however, decoupling may "force" painful but necessary policy changes, namely, energising the domestic market and improving the innovation and business environment.

Unlike the US, which faces industrial hollowing-out, China maintains a robust manufacturing base. The key lies in better aligning innovation and production with domestic demand, rather than global markets. Moreover, technological decoupling has catalysed genuine advances in China's science and tech sectors. Many now view US pressure as an unexpected blessing that spurred indigenous innovation.

If Chinese decisionmakers increasingly recognise that the US strategic shift is rooted in broader global recalibrations – not just anti-China sentiment – and if Chinese confidence continues to rise, this may lead to greater strategic composure. That, in turn, could reduce the securitisation of economic and technological policymaking, allowing for more balanced, market-oriented decisions.

Historically, what undermines the weaker side in great power rivalry is not necessarily pressure from the stronger power, but internal policy distortions driven by fear. From this angle, strategic decoupling may not be entirely negative. A strategy that focuses on internal resilience while seeking tactical connectivity in the economy, society, and technology may ultimately serve all parties' long-term interests best.

Rather than engaging in constant recriminations and zero-sum confrontation, China and the United States would be better served by helping one another navigate their respective transitions in international economic strategy. Strategic decoupling could proceed at the macro level, even as both sides work to manage security and sensitive issues such as Taiwan. In the economic, technological, and societal spheres, efforts should be made to preserve as much connectivity as possible – for the benefit and wellbeing of both peoples.

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