Is the U.S. leaning towards recoupling?

June 18, 2025 **by Manik Mehta**

President Donald Trump's tariffs have evoked a debate on decoupling's repercussions, amid concerns over declining growth, high inflation and rising unemployment in the US. The New York-based Council on Foreign Relations (CFR) recently held two events – one on decoupling/de-risking and the other one on tariffs. The first, with four panelists, was presided by John Donvan, Moderator-in-Chief, Open to Debate; two of the panelists – Isaac Stone Fish, CEO and founder of Strategy Risks, and Derek Scissors, senior fellow at the American Enterprise Institute - supported decoupling while the other two panelists – Susan L. Shirk, Research Professor and Director Emeritus, 21st Century China Center, University of California, San Diego, and Benn Steil, Senior Fellow and Director of International Economics at the CFR – argued against decoupling, highlighting the chaos and turmoil it would unleash worldwide.

While acknowledging that decoupling would cause pain amongst consumers not only in the US but also China, Fish said: "(Chinese President) Xi Jinping has shown a great willingness to inflict a lot more pain on his citizens than American leaders have," Fish said.

Steil predicted that decoupling in the longer term would exert considerable pressure on the U.S. dollar and undermine its special international status which "President Trump has pledged to defend".

Scissors, in contrast, reminded that the US as a society was better off 25 years ago before Chinas joined the World Trade Organization (WTO), adding that "... if we can't go back in time 25 years, we can at least try to identify what caused the weaknesses in our economy which, in turn, have had profound social and political weaknesses caused by tying ourselves too closely to China".

Shirk called decoupling a "losing strategy" because China is "far more prepared than the US for (such) action".

On de-risking, Steil suggested that the US can do this by "identifying specific sectors and specific products where you put up specific import barriers or export barriers", by enforcing export controls on AI and chip-related technology.

Decoupling aims at reducing economic interdependence on an adversarial country, particularly in sectors such as technology and supply chains, while de-risking seeks to minimize exposure to potential economic or geopolitical risks while continuing some degree of engagement.

The CFR held another event, a few days later, on tariffs; Michael Froman, the CFR President, quizzed the guest Robert E. Lighthizer, former US Trade Representative (2017-2021).

Lighthizer highlighted that foreign powers had exploited the US economy to strengthen their economic and security interests. Considering the asymmetrical transfer of wealth from the US to adversarial countries, the fundamental solution would lie, Lighthizer believed, in freeing the US trade balance from huge deficits.

Lighthizer argued that "because of other people's industrial policy, one was transferring the wealth of one's country and the future earnings of all that wealth overseas in return for current consumption, some of which is going to a geopolitical adversary ... some to friendly (countries)". He estimated this negative figure at $ 26.5 trillion, with $ 20 trillion of the wealth transferred in the last 20 years.

Pragmatism or Something Else?

After his April 2 announcement on tariffs, Trump has, meanwhile, softened his tough stand. He has reduced the tariffs against China after it signaled its willingness to cut down tariffs on US exports to China and resume Chinese exports of rare earth minerals to the US. The world watches in bewilderment, not knowing what to make of the switch from the initial US intransigence to pragmatism.

US tariffs could significantly impact global trade. Indeed, a recent WTO report predicted that US tariffs would shrink global trade to 0.2% instead of the pre-tariff forecast of 2.7% growth rate.

Indeed, the Fed chair Jerome Powell stated at the Economic Club of Chicago that tariffs would lead to a much weaker economic growth, higher unemployment and galloping inflation.

But will the recent US-China compromise herald the onset of recoupling or a reset of their trade ties?

Former USTR Katherine Tai, while addressing the Center for Strategic and International Studies in October 2023, had called for a U.S.-China recoupling while distancing the then Biden administration from decoupling, even though the Biden administration retained Trump's tariffs on Chinese steel and aluminum imports.

Gina Raimondo, the former Commerce Secretary, had also told journalists after the US-European Trade and Technology Commission's meeting in Pittsburgh that the US would work with its allies on China's innovation and technology advancement, implying that China would be excluded from the semiconductor supply chain, and that it would be recoupled only after the US and its allies had created adequate protection of the high-tech supply chains.

US businesses will closely monitor the reset of trade relations or recoupling.