

Chart of the Week

Decoupling between China and the United States

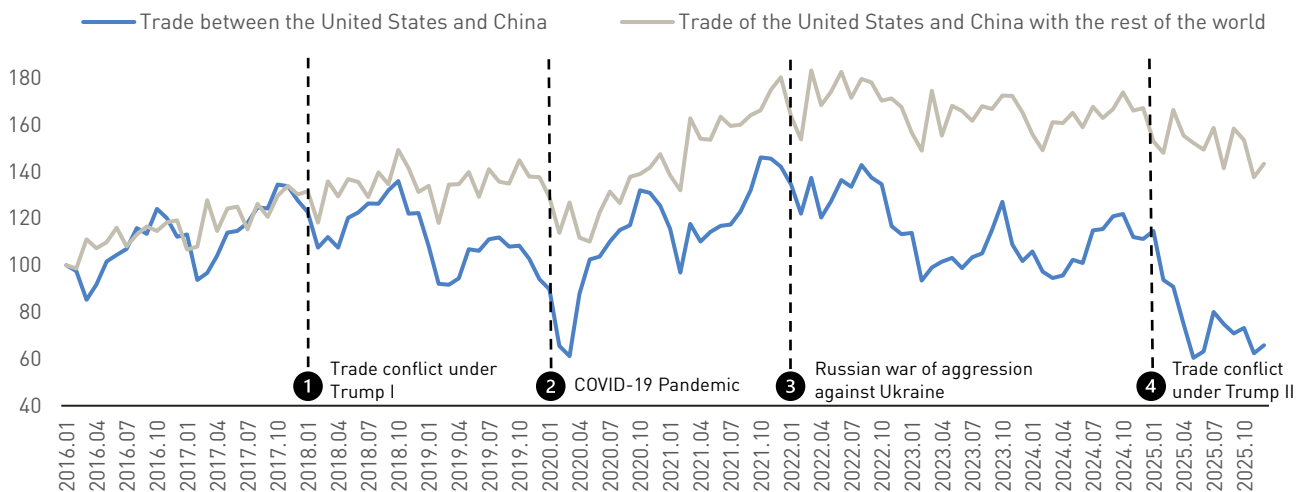
Geopolitics at the Expense of Businesses

The strategic rivalry between the United States, the world's leading power to date, and China, a rising superpower, over who will shape the key rules, technologies, security structures, and economic dependencies of the 21st century is increasingly influencing global economic relations. This growing divide between the two economic blocs is particularly evident in trade. Bilateral trade between China and the United States has declined by 38% since 2016, while both countries' trade with the rest of the world has increased by 43% over the same period.

Trade in goods between China and the United States has declined by 38% since 2016

Trade in goods between China and the United States as well as with the rest of the world

Index, 2016 = 100



Source: Own calculations, COMTRADE

US-China decoupling has unfolded in several geopolitical phases, each with distinct dynamics: **(1)** An initial divergence began in the context of the trade conflict between the two economic powers during the first term of US President Donald Trump. **(2)** Following the COVID-19 pandemic, bilateral trade temporarily expanded again due to sharply increased US demand for Chinese healthcare goods. **(3)** After Russia's war of aggression against Ukraine, geopolitical bloc formation intensified, further accelerating trade decoupling. **(4)** With the massive expansion of US tariffs following the "Liberation Day" and additional tariff measures, bilateral trade has most recently declined significantly. Companies are increasingly caught in the crossfire of geopolitical rivalry. According to a survey by the European Chamber of Commerce in China, more than half of European companies in China state that the business environment is becoming increasingly politicized. 76% of surveyed firms report growing political pressure from the US government; 46% report increasing political pressure from the Chinese side.

Take: Europe's strategic dependencies on the two rival powers, the United States and China, increase its vulnerability to political pressure from both sides. Much of this pressure ultimately falls on businesses. To mitigate these risks, most firms are seeking to diversify supply chains. For this to succeed, however, appropriate framework conditions must be put in place and structural constraints removed. Key measures include expanding raw material partnerships and industrial alliances, reducing regulatory barriers, concluding new trade agreements, and better coordinating European industrial policy.



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