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# US-China Relations and Geopolitical Uncertainty

BCG Perspectives

JULY 2024

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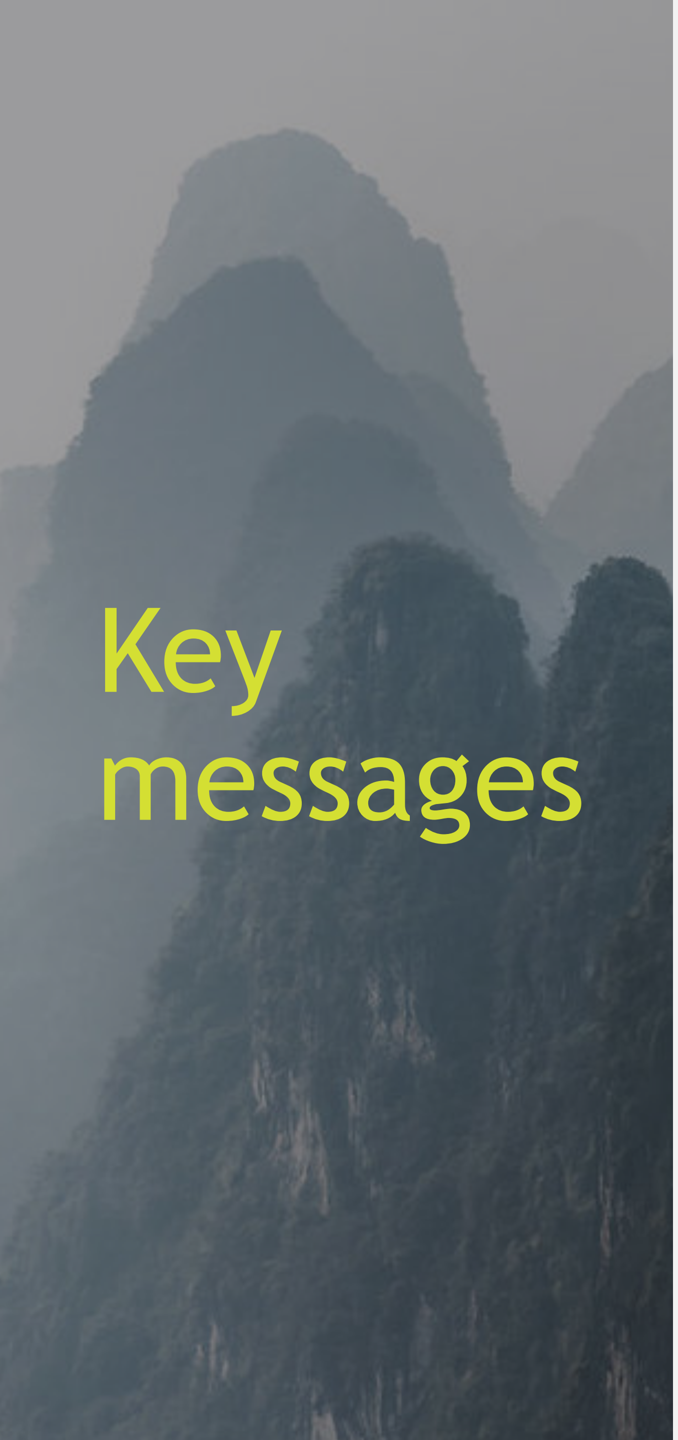


# Key messages

## China's rise

China is slowing but already a heavyweight (Trade, Tech, F500…)

Expanding influence & market presence, also creating frictions

EVs a flashpoint as China seeks to lead in higher-tech industries

## US-China dynamics

"Trade war" persists Trump<->Biden, multiple trade barriers

US has substantially reduced trade with China since 2018, but level of China dependence, "reshoring" potential vary by sector

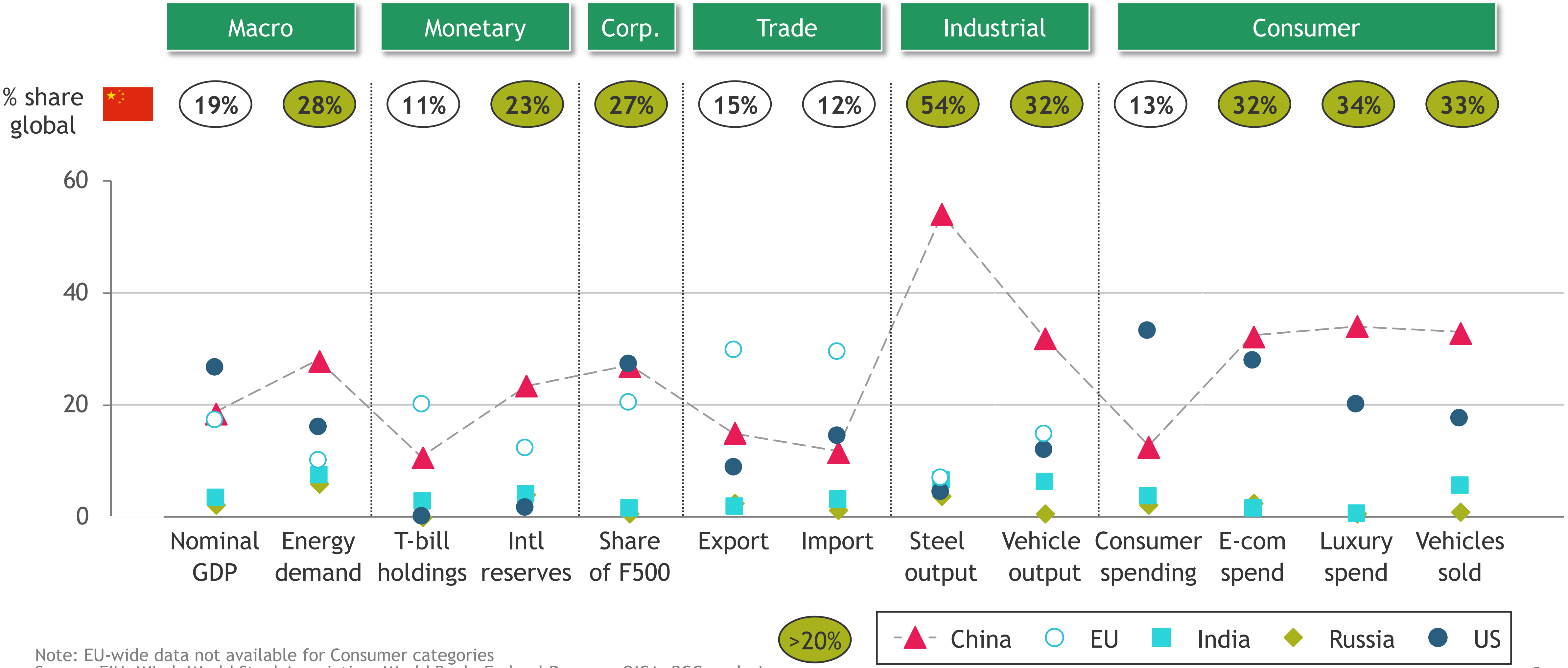
## Business impacts

MNCs find China doing business tougher

Some still "all-in" on China supply chain, others "+1" or "Reshore"

MNCs building risk sensing muscle to make contingent moves

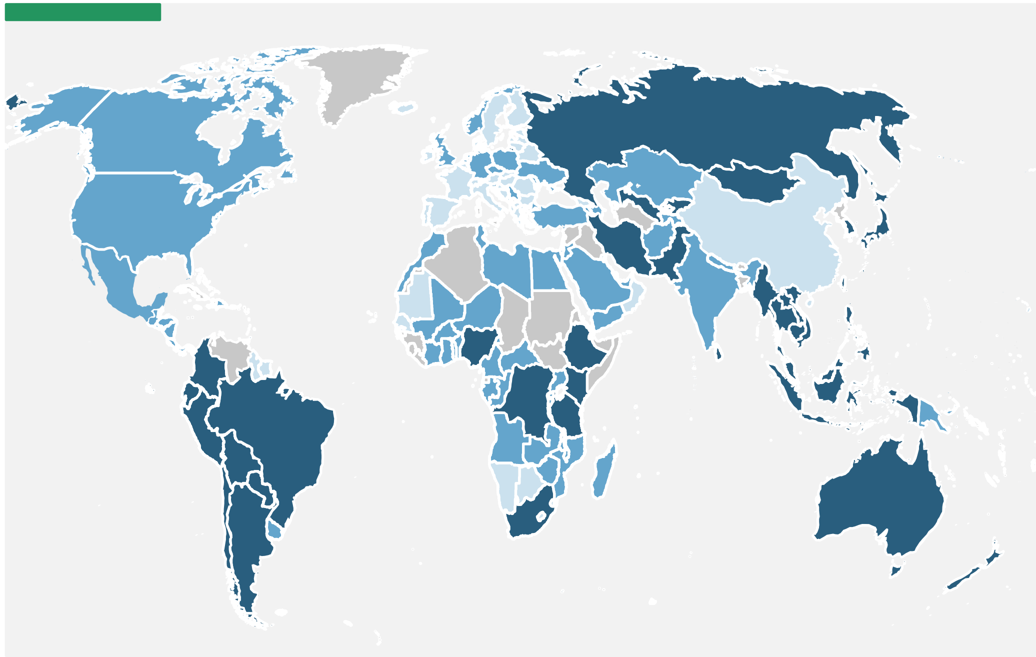
# Economic giant | China >20% share in many dimensions, rivaling US & EU



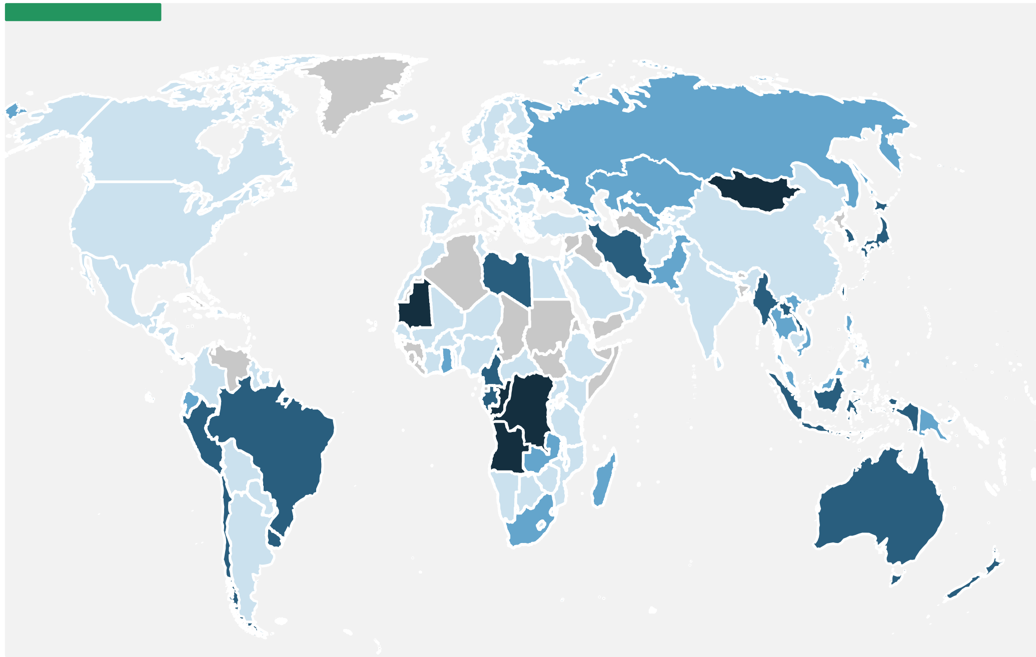

Note: EU-wide data not available for Consumer categories
Source: EIU, Wind, World Steel Association, World Bank, Federal Reserve, OICA; BCG analysis

# Trade locus | Emerging & industrialized economies trade extensively with China

## Import reliance on China



## Export reliance on China

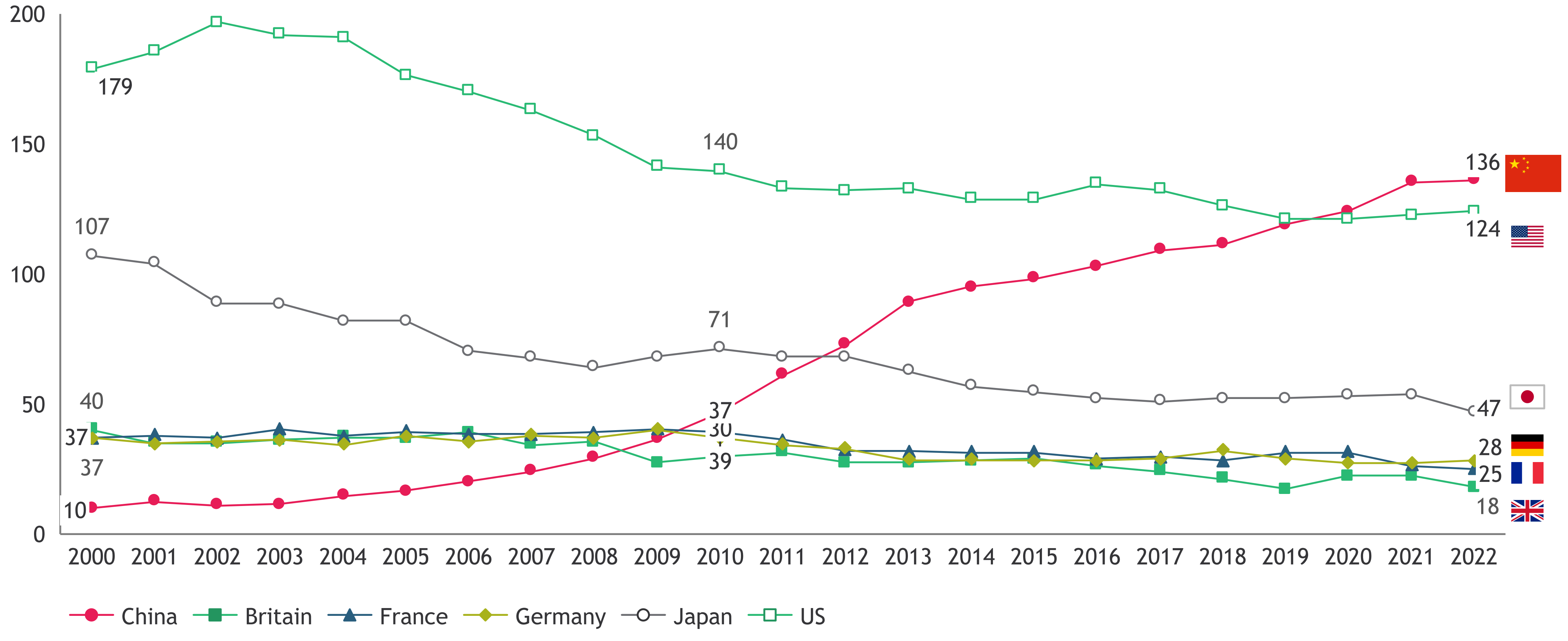


| # of countries (out of 169) | 0-10% | 11-20% | 21-40% | >40% |
|---|---|---|---|---|
| Import reliance on China | 61 | 72 | 35 | 1 |
| Export reliance on China | 122 | 21 | 20 | 6 |

Note: Based on 2021 trade data, 2019 data was used for Libya, Ghana, Afghanistan, Mali
Source: UN Comtrade; BCG analysis

# China Inc | More Chinese companies in Fortune 500 now than US / Europe Big3

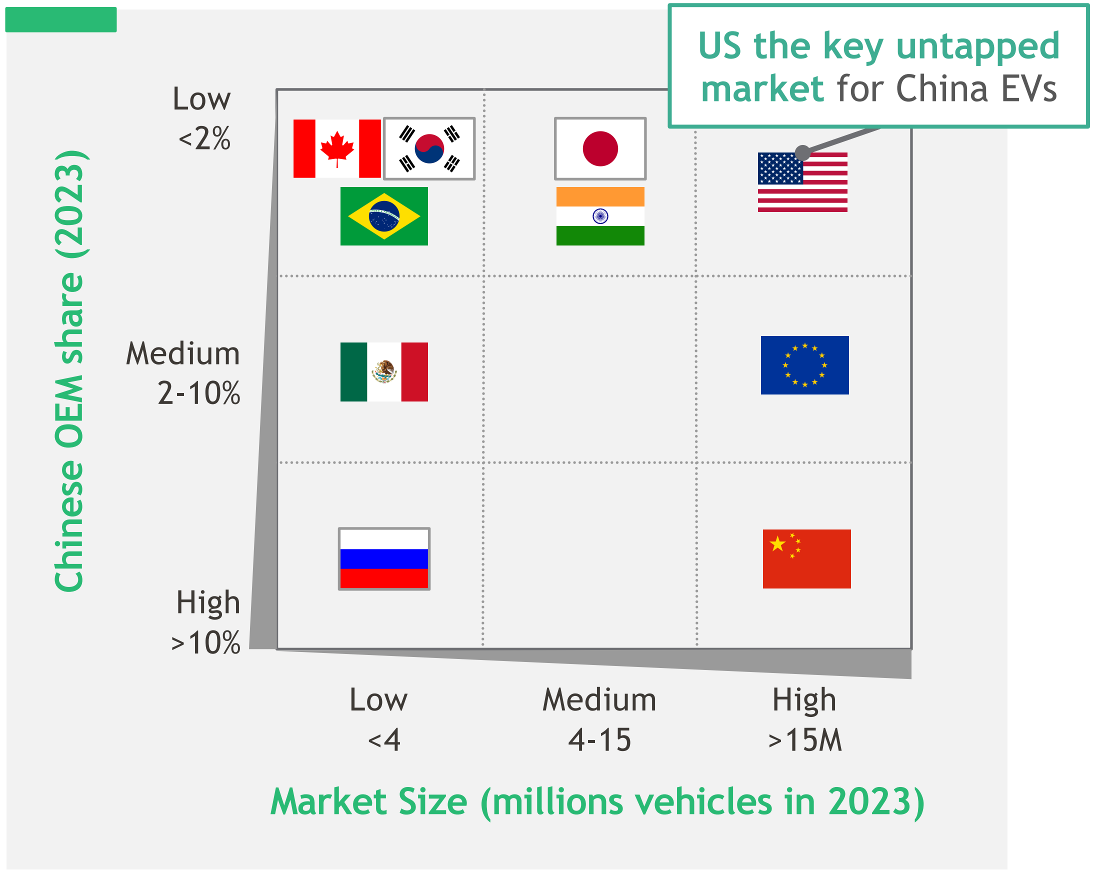
Number of companies in Fortune 500, by HQ country



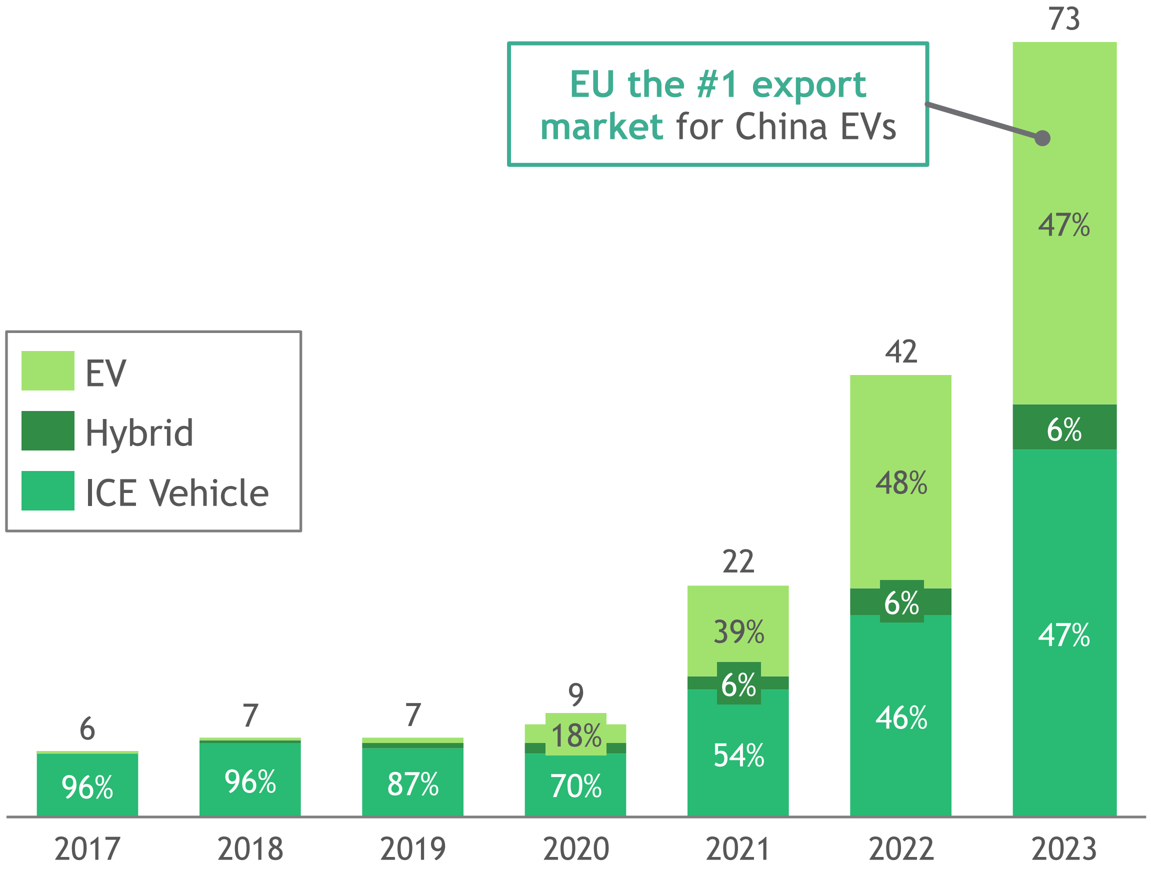

Source: Center for Strategic and International Studies; Fortune Global 500 (2022)

# *Ex. EVs:* China OEMs and China exports penetrating global EV market

## China EV market penetration



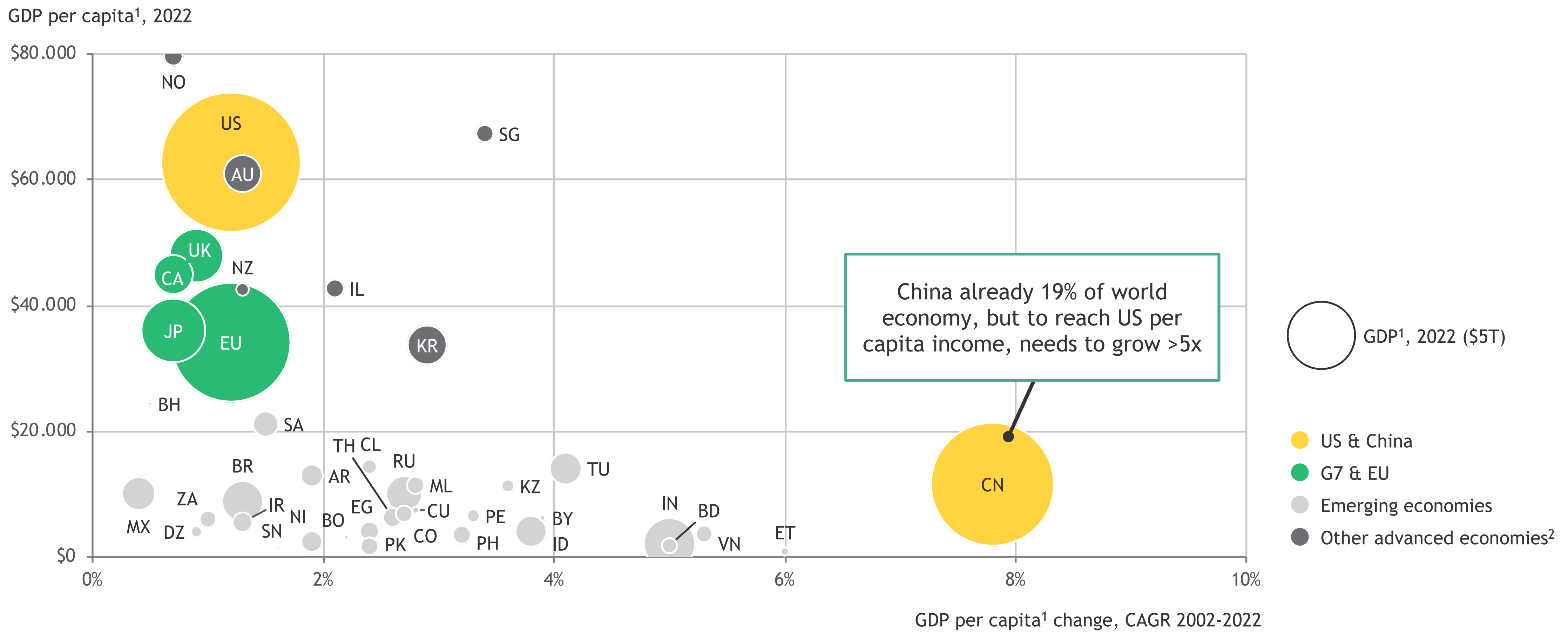

## China exports of passenger vehicles ($B)




Note: Volvo & Polestar counted as Chinese OEMs
Source: IHS February 2024

# China's growth x size x middle-income is an outlier, long-term challenge to US

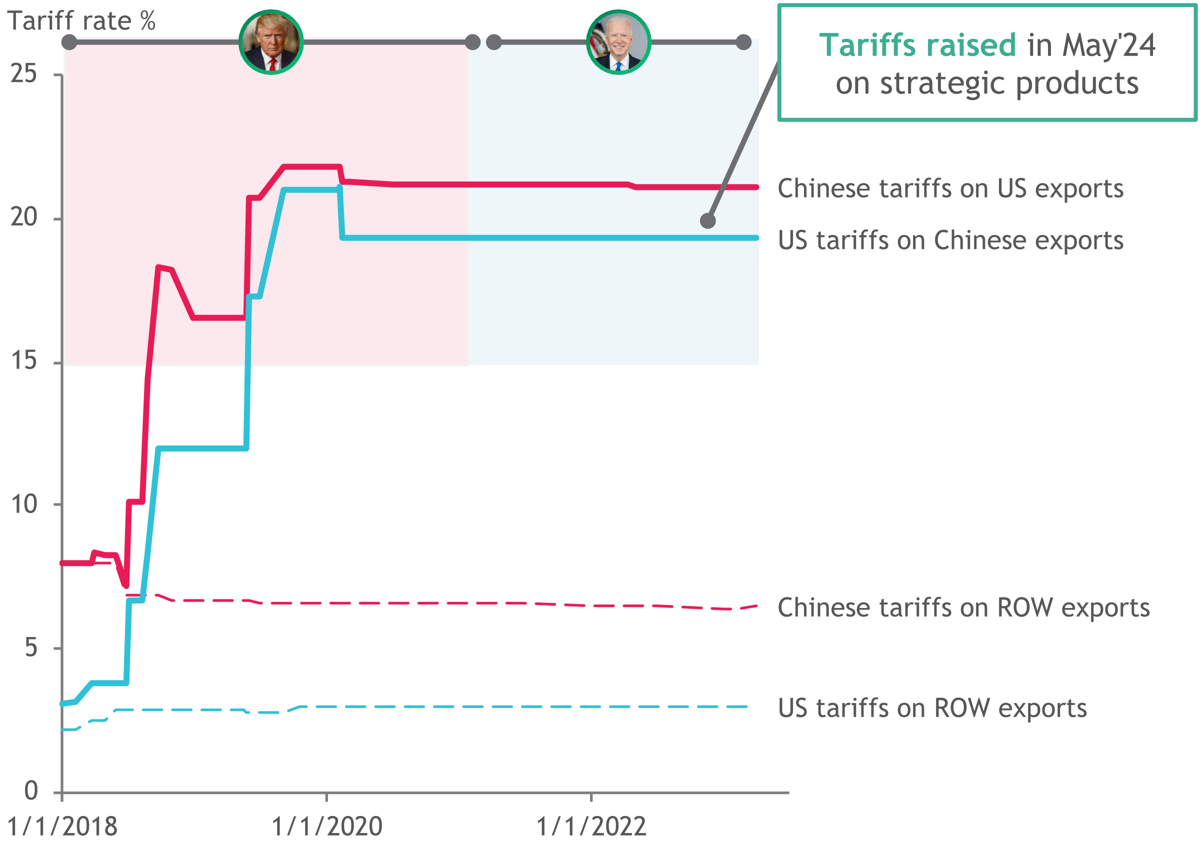
## GDP per capita trend and GDP by country




1. 2015 constant dollars 2. Other countries in global top50 economies. Source: World Bank; BCG analysis

# China-US frictions | Tough US policy toward China persists, multiple policies

## US-China trade barriers have carried over from Trump to Biden




## Tough China laws have broad support in US Congress

| | |
|---|---|
| EAR[3] | Exports of US technology (incl. tech offshore) to 100+ China entities restricted |
| UFLPA[4] | Embargos on imports with content originating in Xinjiang |
| IRA[5] | To get EV subsidy, China ("foreign entity of concern") cannot be used to source components |
| IIJA[6] | Tougher "Buy American" provisions to qualify for US government procurement |
| Chips Act | "Guard-rail" provisions restricting grant recipients from large investments in China |
| "Reverse CFIUS[7] " | *Proposal to begin screening US outbound investment on national security grounds* |

In law | Proposed

1. In 2018 constant dollars (inflation-adjusted) 2. Japan, Korea, Chinese Taipei 3. Export Administration Regulations 4. Uyghur Forced Labor Prevention Act 5.Inflation Reduction Act 6. Infrastructure Investment and Jobs Act 7. Committee on Foreign Investment in the United States
Sources: WTO, Peterson Institute; BCG Global Trade Model 2021; UN Comtrade; OECD; WEF; IHS; Global TradeAlert; BCG analysis

# Biden has built on Trump-era tariffs – different degrees of potential impact

| Impacted sectors | | Section 301 tariff rate | | | US imports From China ($B, 2023) | US imports China share of US total |
|---|---|---|---|---|---|---|
| | | Original Section 301 rate | May 2024 addition | Total | | |
| Electric Vehicles | | 25% | 75% | +100% | 0,4 | 1% |
| Semiconductors | | 25% | 25% | +50% | 2,3 | 6% |
| Solar Cells[1] | | 25% | 25% | +50% | <0.1 | 0% |
| Medical products | Syringes and Needle | 0% | 50% | +50% | 0,2 | 10% |
| Medical products | Masks and medical gloves | 0-7.5% | 18% | +25% | 0,4 | 25% |
| Batteries | Li-ion battery (for EVs) | 0-7.5% | 18% | +25% | 2,3 | 65% |
| Batteries | Li-ion battery (for non-EVs) | 0-7.5% | 18% | +25% | 10,8 | 72% |
| Batteries | Other batteries and parts | 0-7.5% | 18% | +25% | <0.1 | 7% |
| Critical Minerals | Graphite and Magnets | 0% | 25% | +25% | 0,5 | 78% |
| Critical Minerals | Certain critical minerals | 0% | 25% | +25% | 0,2 | 5% |
| Steel and Aluminum | | 0-7.5% | 18% | +25% | 1,3 | 3% |
| Ship-to-shore Cranes | | 0% | 25% | +25% | <0.1 | 4% |

Original Section 301 rate | May 2024 addition | Top3

Note: Based on USTR's proposed modification list on May 22, 2024. 1. Photovoltaic cells, assembled and not assembled in modules or made up into panels
Source: S&P GTA, US Department of Commerce, USTR, BCG CEI Analysis

# US has significantly reduced trade with China since start of "Trade War" (2018-)

| Change (abs.) in US imports[1] ('18-'23) US imports 2018 – 2023 (real 2010 $B USD) | | 2018 imports | EU27 | Mexico | China | Canada | ASEAN | Japan | India | Mercosur[3] | RoW[4] | Net change | 2023 Imports |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total 2018 Imports | | 2,298 | 413 | 327 | 536 | 234 | 182 | 141 | 51 | 30 | 383 | | |
| Industrial Goods | Auto - Components | 228 | 6.4 | 21.6 | -10.9 | 2.7 | 6.9 | -2.7 | 2.3 | -0.1 | 5.6 | 31.9 | 260 |
| | Auto – Vehicles | 206 | 8.9 | 12.5 | 0.3 | -3.9 | 0.1 | -4.1 | -1.1 | 0.1 | 11.5 | 24.4 | 230 |
| | Metals | 155 | 3.7 | 3.5 | -7.1 | 11.4 | 1.5 | -0.2 | 1.7 | 0.9 | 12.0 | 27.5 | 183 |
| | Electrical machinery | 147 | 7.3 | 10.6 | -9.6 | 1.3 | 12.4 | 0.5 | 1.3 | 0.6 | 7.6 | 32.0 | 179 |
| | Chemicals | 154 | 4.3 | 3.7 | -5.6 | 3.8 | 4.8 | -0.4 | 1.7 | -0.2 | 6.0 | 18.1 | 173 |
| | Mechanical machinery | 152 | 7.3 | 3.2 | -16.8 | 2.4 | 5.1 | 1.0 | 1.2 | 0.5 | 4.9 | 8.8 | 161 |
| | Agribusiness | 89 | 1.8 | 5.9 | -1.4 | 6.7 | -1.3 | 0.2 | -0.3 | 1.9 | 5.8 | 19.2 | 108 |
| | Aerospace | 63 | -3.9 | 0.9 | -0.6 | 3.3 | -1.2 | -3.1 | 0.3 | -0.5 | 0.2 | -4.7 | 59 |
| | Non-metals | 24 | 0.6 | 0.9 | -3.3 | 0.1 | 1.1 | -0.2 | 0.6 | -0.1 | 1.0 | 0.7 | 25 |
| | Mining | 4 | -0.1 | 0.0 | 0.0 | 0.2 | -0.1 | 0.0 | 0.0 | 0.0 | -0.1 | 0.1 | 4 |
| Tech, Media & Telco | Consumer Electronics | 194 | 1.5 | 1.1 | -25.0 | 0.1 | 16.8 | -1.1 | 4.6 | 0.2 | 7.8 | 5.9 | 199 |
| | Data Center Eqpt. | 84 | 0.7 | -2.0 | -22.1 | 0.3 | 16.6 | 0.7 | 1.0 | 0.0 | 14.6 | 9.8 | 94 |
| | Semiconductors | 43 | 1.4 | -0.1 | -2.3 | -0.5 | 6.1 | -0.5 | 1.6 | 0.0 | 6.9 | 12.7 | 56 |
| Consumer Goods | Consumer Durables | 84 | 1.6 | 4.3 | -15.7 | 0.6 | 8.1 | -0.2 | 0.3 | 0.1 | 1.7 | 0.8 | 85 |
| | Fashion & Luxury | 156 | 1.6 | -0.2 | -25.9 | -0.4 | 3.5 | -0.3 | 0.6 | -0.1 | 2.5 | -18.8 | 137 |
| | Packaged Food | 66 | 1.0 | 7.7 | -1.5 | 5.8 | 1.2 | 0.1 | 0.4 | 0.7 | 2.8 | 18.2 | 84 |
| Health Care | Bio-Pharma | 137 | 40.6 | 0.1 | 3.0 | 0.4 | 4.1 | 3.1 | 3.7 | 0.3 | -2.6 | 52.6 | 190 |
| | MedTech | 66 | 2.1 | 5.7 | -0.9 | 0.2 | 1.8 | -0.5 | 0.1 | 0.1 | 4.0 | 12.5 | 79 |
| Other | | 246 | 8.9 | 2.3 | -4.2 | 0.4 | 9.1 | -0.7 | 0.5 | -1.4 | -1.1 | 13.8 | 260 |
| Total/Change in trade value | | | 95.8 | 81.6 | -149.6 | 34.8 | 96.8 | -8.2 | 20.5 | 2.9 | 90.9 | 265.6 | |
| Total 2023 Imports | | | 509 | 409 | 387 | 268 | 279 | 133 | 71 | 34 | 474 | | 2,564 |

| <-5B | -5B to -1B | -1B to 1B | 1B to 5B | >+5B |
|---|---|---|---|---|

1. Energy excluded, 2.Japan + Korea, 3. Argentina, Brazil, Paraguay, and Uruguay, 4. Rest of World;
Source: S&P Global Trade Atlas, EIU; BCG analysis

# MNC business sentiment in China unfavorable, geopolitics a key factor

## US-China Business Council Member Survey, 2023

| 2023 Rank | 2022 Rank | Change | Top challenges for US businesses |
|---|---|---|---|
| 1 | 2 | ↑ | US-China relations: Geopolitics or domestic politics |
| 2 | 6 | ↑ | Data, personal information, and cybersecurity rules |
| 3 | 7 | ↑ | Export controls, sanctions, and investment screenings |
| 4 | 12 | ↑ | Competition with Chinese companies (state owned or private) |
| 5 | 13 | ↑ | Licenses and approvals |
| 6 | - | ↑ | Uneven enforcement of laws and regulations |
| 7 | 16 | - | International travel |
| 8 | 16 | ↑ | Transparency |
| 9 | 10 | ↑ | Intellectual property protection |
| 10 | 8 | ↓ | Industrial policy |

Source: US China Business Council Member Survey 2023; EU Chamber of Commerce in China

## Key facts on declining sentiment

**52%** Of US businesses surveyed remain optimistic about 5Yr China outlook, a record low

**60%** Of firms cite China's economic slowdown as a significant business challenge

**64%** Of EU companies reported doing business in China was more difficult in past year

**30%** Of European respondents reported YoY revenue decreases, the highest on record

Items related to geopolitics

# MNCs weighing options to diversify beyond China -- no perfect solution

*Degree of change*

## All-in on China

*Double-down on China as base for sourcing and manufacturing*

- \+ Maximize scale efficiencies, deep supplier networks
- – High exposure to geopolitical and other China risks
- – Rising labor costs

## China +1

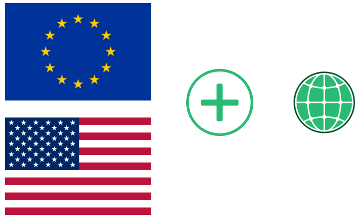
*Moving some sourcing and production beyond China, with key inputs still China-origin*

- \+ Multi-sourcing, redundant capacity
- \+ New platforms to export to core markets
- – China sourcing risk persists
- – Relocation challenges, greater cross-border complexity

## Global supply chains

*Expand sourcing options across a variety of locations*

- \+ Significantly less China risk
- \+ Local-for-local solutions
- – Partially higher costs
- – Significant supply chain overhaul



## Reshoring

*Produce in or close to the core end-markets*

- \+ Minimize China risk
- \+ Take advantage of onshoring incentives
- – Much higher costs
- – Significant supply chain overhaul with uncertain results, supply constraints

# Companies are developing "risk sensing" to monitor carefully, act quickly

## Example – US MedTech player

### Specific signposts for client to track

| | | |
|---|---|---|
| 1 China border impassable | Escalated military maneuvers in Taiwan Strait | ⚠ |
| | Escalated military maneuvers in South China Sea | |
| | Renewed lockdowns in China (e.g., pandemic, protests) | |
| 2 Loss of China production license | MedTech peer accelerates China exit over license refusal | ⚠ |
| | China announces forthcoming revisions to license regime | |
| | Chinese government favors local MedTech, accelerates VBP | |
| 3 Disrupted production at China sites | MedTech peers report rise in Chinese gov't site inspections | |
| | Staff in China report rumors about public health lockdowns | |
| | China suppliers report labor shortages in key cities/regions | |
| 4 US raises tariffs on [Client] China products | US competitor petitions US tariffs (e.g., anti-subsidy/dumping) | ⚠ |
| | [Client] products added to US tariff retaliation lists | |
| | US gov't declares MedTech products "national security" items | |
| 5 Staff issues at China sites | Competitor staff detained in espionage investigation | |
| | Expat staff express concerns about their families living in China | |
| | Difficulty recruiting & retaining China staff due to US HQ | ⚠ |

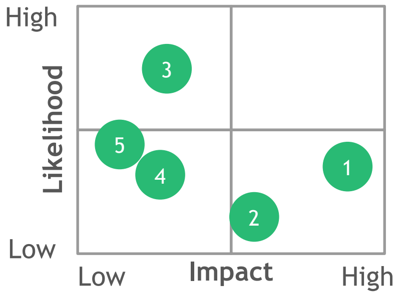
*Actors*

Government Market Internal

Red flag - Immediate need for action

### Process to monitor and act on signposts

- Define "sensing" work **owners** and potential cross-functional and/or regional **teaming structures**
- Define overall resource **commitment**, reporting **cadence**, degree of **formalization**
- Optimize **data & tools**, use of outside **vendors**
- Classify **adverse events** per impact on business and likelihood




*Note: Approximate position, to be refined and recalibrated per monitoring*

Source: BCG analysis

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