

WEBCAST

# US/EU-China Futures for 2022 and Beyond

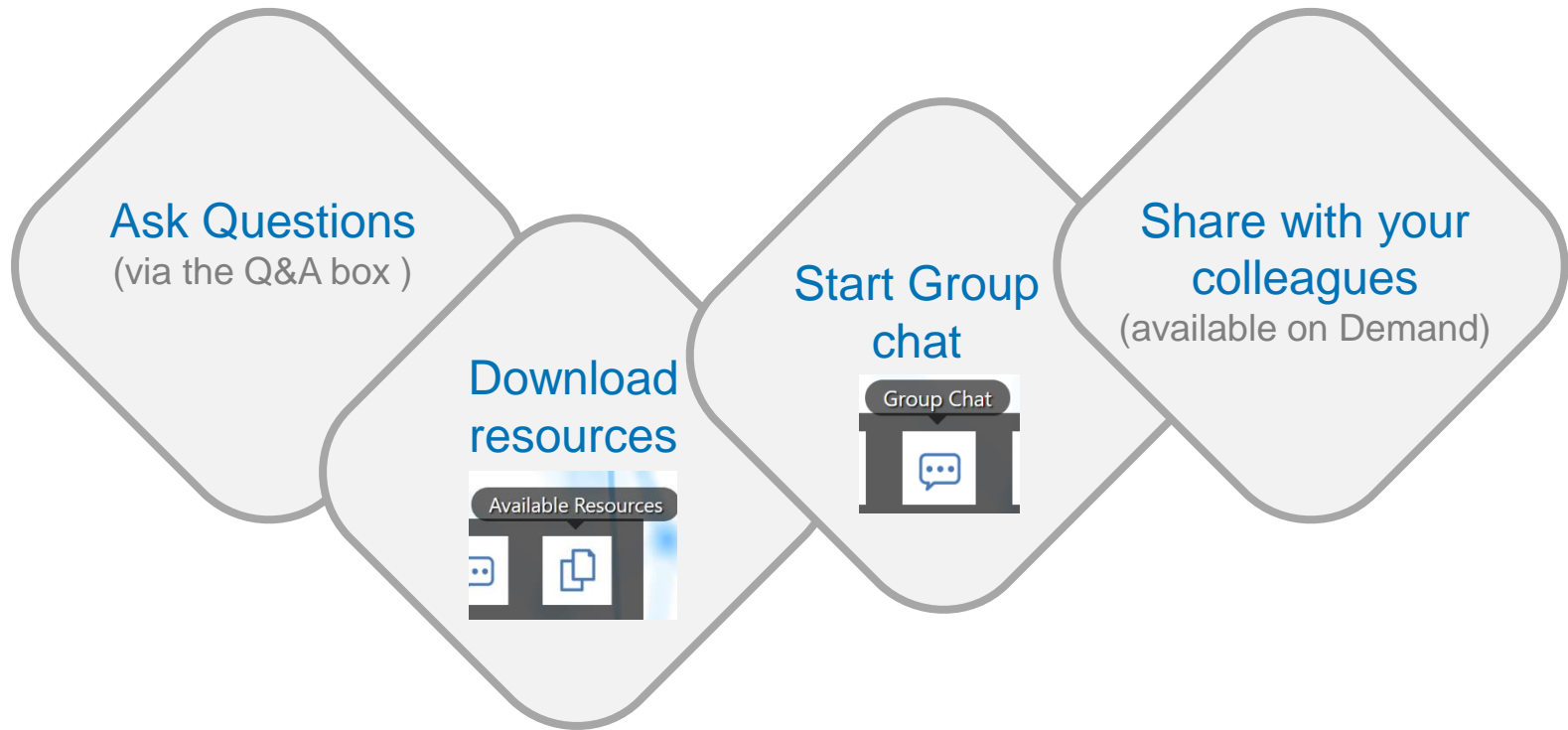
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# Making the most of the webcast

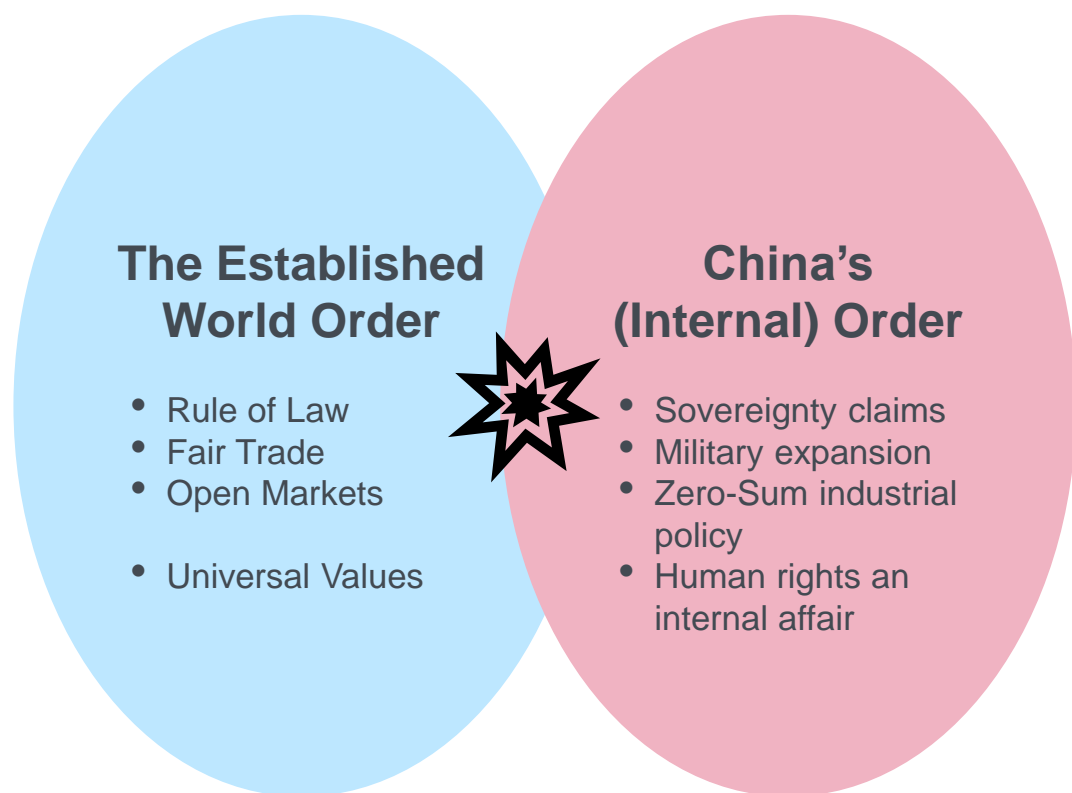


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# The trendlines in US/EU-China relations are increasingly fraught

The tensions are structural – an incompatibility of governance and economic systems...

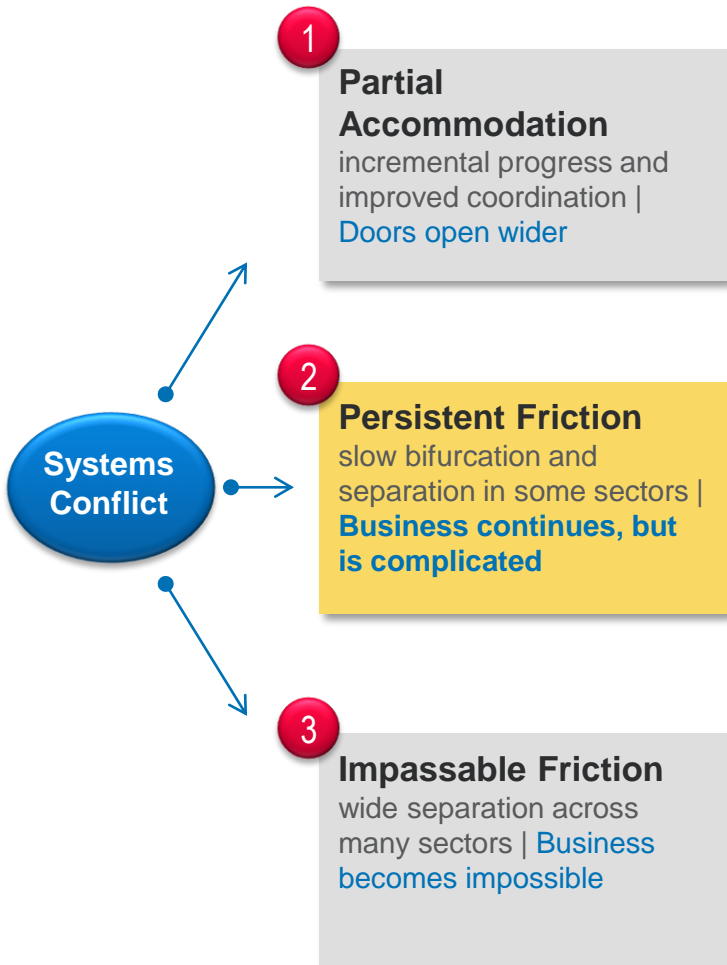


- A hostile external environment “for a prolonged period” is the Party’s stated planning assumption.
- US-China tensions are blamed on US containment intentions.
- The sentiment is provoking two response functions:
  1. Isolate from the outside
  2. Insulate the inside

**And then came the Ukraine crisis...**



# US/EU-China Relations – The Long View



## Assumptions

### China Selectively Reforms

- ✓ Improved reciprocity in market access and operating conditions
- ✓ Strengthened IP protection
- ✓ Cessation of obvious state subsidies to competing Chinese firms
- ✓ Some de-militarization

### Pragmatism Prevails

- ✓ No wide-scale, hard policy actions that prevent business/commerce
- ✓ Navigable public opinion, HR, ethics, and compliance environments
- ✓ Controllable military tensions

### Unilateral Rebuff or Gray Swan- Provoked Schism

- ✓ Hard sanctions - sectors or firms
- ✓ Actions on firm assets or executives
- ✓ Military escalation

## Five Key Future Influences



## Poll 1

In your view, the long-term outlook for US/EU-China relations is...

- a. Eventually the two sides will find common ground and ways to accommodate one another. Operating conditions will improve.
- b. Tensions will be persistent indefinitely, but business will continue, nevertheless.
- c. We're looking at a bi-polar world and operating environment: a Western bloc and a China bloc. Business will need to bifurcate.
- d. Military conflict and hostile relations are probably inevitable. Thereafter who knows?



## The Ukraine crisis will likely make matters worse

Deservedly or not, China risks being repositioned from “strategic competitor” to “adversary” in the eyes of US and EU policy makers...

### Assumptions:

- More hawkish trade, national security, and ESG policy proposals will come into mainstream policy debate.
- The degree of hawkishness and pace of enactment will depend on the degree of Chinese support for Russia.
- Outright sanctions evasion support from China is not expected but will face strong rebuke from the US/EU if it happens.
- China will try to walk a middle line, but the optics of complicity will bear significant influence on both policy orientation and on public opinion.
- The strengthened US-EU and NATO alignment generated by the Ukraine crisis will endure and foster closer US-EU cooperation and coordination on China.
  - This “coalition” will face strong, persistent condemnation from China.
  - Chinese regulators will pressure western firms to support and lobby for China’s position.



# Key Guideposts

The sustainability of China's "neutral" positioning will depend on:

1. **The Progress and Nature of the War:** The human cost and optics of the war matter. The uglier the war gets, the riskier it becomes for China to support Russia.
2. **The Intensity of Western Sanctions:** The more intense the US/EU sanctions, the more difficult it will be for China to support circumvention.
3. **Allied Support for US Sanctions:** The broader the support for US and EU sanctions, the harder it will become for China to support circumvention.
4. **NATO Cohesion:** China won't want to accelerate pro-NATO trends by virtue of its support of Russia.
5. **Russian Retaliations:** If Russia embarks on brazen and destructive retaliatory actions – e.g. cyber-attacks – it will become increasingly difficult for China to support the Russian cause without recrimination.



# Headline Policy Developments for 2022

The four headline policy developments to monitor and prepare for in 2022 are:

1. The severity of US enforcement of the **Uyghur Forced Labor Prevention Act** (UFLPA) when enforcement operations come into effect on June 21.
2. The scope and forcefulness of the US Trade Representative's (USTR) pending **Section 301 Investigation** of Chinese subsidies and industrial policies.
3. Deliberations in the US and Europe on previously stalled **outbound investment screening** policies for China.
4. The risks of **secondary sanctions** on Chinese firms and/or sectors.





# Ukraine developments notwithstanding, western MNCs have an increasingly difficult middle ground to navigate on China

In some sectors, complying with new US regulations may become unmanageable...

– PRINCIPAL CONCERNS –



## Poll 2

Over the next 12-24 months, you expect US/EU restrictions or sanctions on China trade and investment to:

- a. Increase significantly
- b. Increase incrementally
- c. Stay the same
- d. Loosen incrementally
- e. Loosen significantly



# CALL TO ACTION: Commit to a much higher level of risk monitoring, management and cross border, cross functional coordination

## Know your risks... Some key questions...

1. What future US or EU sanctions or restrictions could impact China commercial operations?
2. What international public opinion trends could impact our China commercial operations?
3. What nationalistic swings could provoke discrimination?
4. How sensitive are secure and controllable supply and self sufficiency issues for our customers and regulatory stakeholders?
5. What US-China or other geopolitical “gray swans” could provoke regulatory or market disruption, discrimination, or retaliation?
6. ...

## Employ a higher level of risk management and regulatory engagement...

- ✓ Cross border/cross functional scope – macro to micro
- ✓ Sufficient expert resources in DC, Brussels, China, and elsewhere for intel gathering and preemption
- ✓ Advanced risk monitoring processes and systems
- ✓ Cross functional teams: GR, corporate comms, legal, compliance...
- ✓ Game-planned and rehearsed scenarios
- ✓ Clarity on who makes final call on communications?



# Related Research & Analysis from the China Center

## **Updating Assumptions About US- and EU-China Futures for 2022 and Beyond**

MNCs in China are facing an increasingly fraught geopolitical landscape as US- and EU-China tensions reach new highs. The space that once existed between business and politics has narrowed dramatically. How will geopolitics, trade and domestic policy developments shape the China business environment for MNCs in 2022 and beyond?

## **Sino-Russian "Friendship" and the Ukraine Situation - A Slippery Slope for China**

Over-supporting Russia's Ukraine position risks greatly exacerbating ongoing US-China/Sino-western tensions and inviting tougher restrictions on China trade, investment, and commerce from the US and Europe. This Commentary frames the current situation and outlines the key guideposts members should be monitoring to gauge risks.

## **Political Economy Factors Point to a Long-Lasting Zero COVID Policy Stance**

When will China relax its "Zero COVID" policy and ease related travel restrictions? What guideposts should MNC executives be monitoring for policy cues?

## **GEOPOLITICS HUB - War in Ukraine: Insights and Guidance for You and Your Company**

Geopolitical events are a key driver of economic and business decisions. Here you can find a 360° view of geopolitical crises, starting with the Russo-Ukrainian war, and insights for what's ahead. New resources are being added regularly to help you lead with confidence.

## **China Consumption Outlook | Q1 2022**

The China Consumption Outlook is a quarterly series that helps companies better understand the complex dynamics of China's consumer market by providing insight and analysis of important consumption trends and underlying drivers in China.

## **What Does China's Update of its Anti-Monopoly Law and New Regulations for the "Platform Economy" Mean for Business?**

The revisions to China's Anti-Monopoly Law, and its extensive provisions for regulating China's "platform economy" - i.e., fintech and ecommerce platforms - are consequential for foreign investors in China, bearing both upside and downside risks.



## Questions? Contact Us

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Founded in 1916, [The Conference Board](#) is the member-driven think tank that delivers trusted insights for what's ahead. To be durably successful in China, you need continuous and reliable foresights on China's economic trends, political economy influences, consumer market shifts, trade and geopolitical factors, and business environment dynamics specific to MNCs in this market.

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