Executive Briefing Note

23 October 2024

From: Dr Treston Wheat – Chief Geopolitical Officer

Subject: U.S.-China Decoupling

Overview:

The U.S.-China relationship remains central in global politics, marked by rising tensions and economic decoupling that corporations must respond to.

Economic decoupling refers to reducing interdependence between the two countries, especially in trade, investment, technology, and supply chains.

Initiated by the U.S.-China trade war in 2018, the trend has continued, with the Biden administration upholding tariffs and imposing further technology restrictions, including banning Huawei. The U.S. also targets critical tech areas like AI, 5G, and semiconductors to prevent China's strategic advancement.

China, in response, is creating financial alternatives to Western systems, like its own digital currency, aiming to lessen reliance on the U.S. dollar.

U.S. corporations are adjusting by relocating parts of their supply chains to countries like Vietnam, Mexico, and India. A 2023 survey revealed that 40% of American companies are redirecting investments away from China, indicating a trend that will likely intensify in the coming years.

Implications for Corporations:

Increased Costs: Setting up new supply chains in alternative countries incurs higher labor and production costs.

Production Delays: Shifting operations can cause delays, disrupting product launches and delivery schedules, especially in tech sectors.

Export Controls: Companies face strict regulations when exporting advanced technologies, increasing compliance costs.

Trade Barriers: Ongoing tariffs and potential retaliatory actions from China could further impact U.S. businesses.

Currency Risks: Greater volatility is expected if China reduces its reliance on the U.S. dollar, complicating financial planning.

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As decoupling progresses, businesses must prepare for evolving trade barriers and geopolitical risks in 2025.

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