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**ONYX**  
STRATEGIC INSIGHTS

# **Global Responses to Surging Chinese Exports**

Policies & Trade Barriers

February 2025

# Our vision

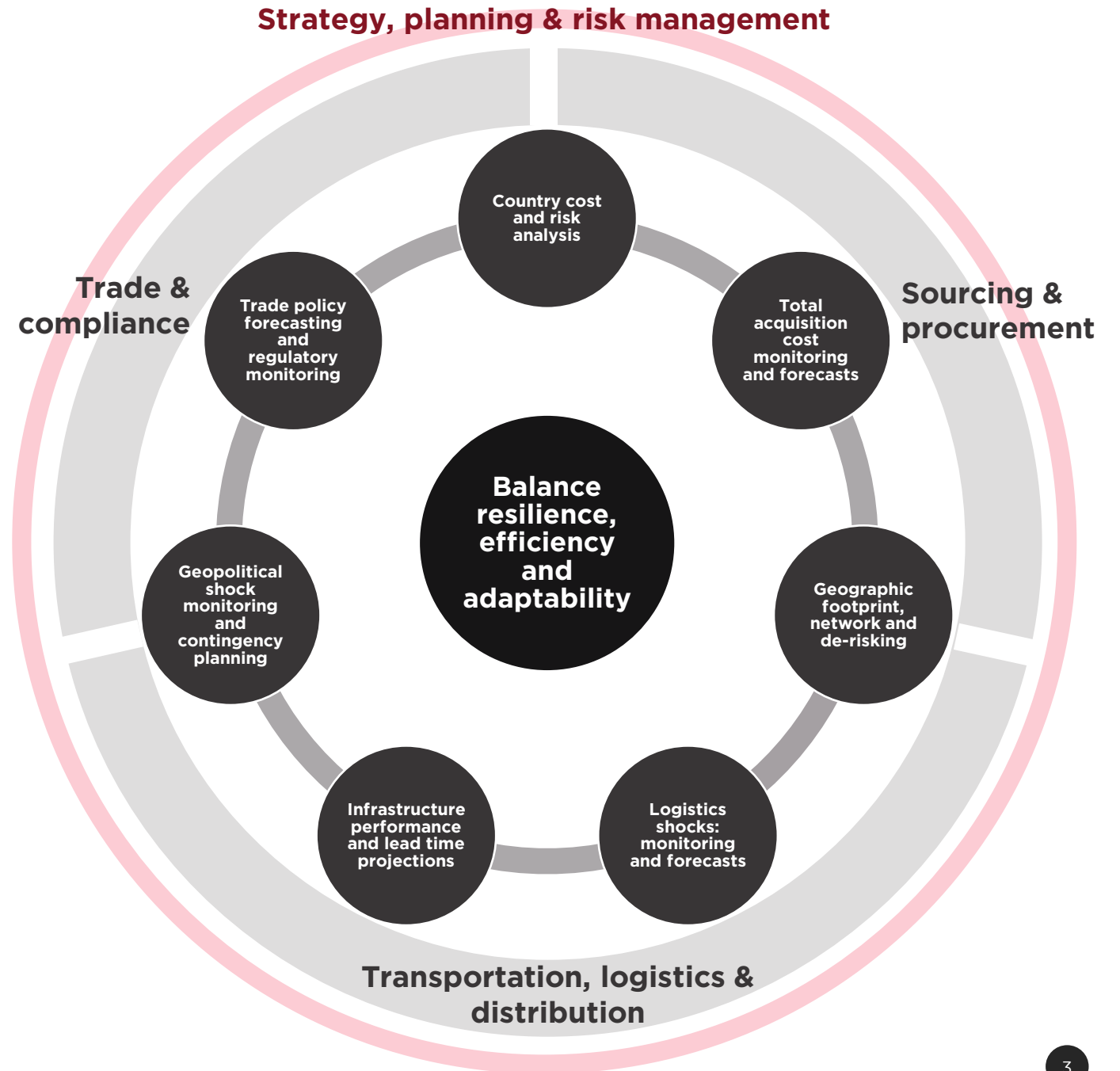
Help clients build more resilient, efficient and adaptive supply chains

... focusing on geopolitical, economic and operational disruptors

... through advisory engagements and insights

# Our service lines

Bringing together political and economic insights in service of global supply chains



# Agenda

## **SECTION I** US and EU policies spur Rest of World (RoW) trade and investment rethink with China

- Emerging US protectionism and potential EU policy pivot
- RoW reassessment of China's role as trading partner

## **SECTION II** Trade barriers to Chinese goods are rising in developing world

- US and EU scrutiny of trade diversion
- Domestic protectionism

**SECTION I**

**US and EU policies spur  
RoW trade and investment  
rethink with China**

# Opening volley in trade policy towards China is still measured

Trump appears interested in negotiating for a deal but there are complications

WHAT WE KNOW SO FAR FROM THE JANUARY TARIFFS		POTENTIAL DEVELOPMENTS IN THE COMING YEAR		
	Policy aim	Policy impact	Signposts For escalation	Constraints On escalation
Tariffs	<ul style="list-style-type: none"> <li>Fundamental focus on tariffs as a tool to correct global trade imbalances</li> </ul>	<ul style="list-style-type: none"> <li>Trade-weighted avg. US tariffs on Chinese exports increase from 3.1% at start of 2018 to 19.3% in 2023</li> </ul>	<ul style="list-style-type: none"> <li>China: Phase 1, Section 301, and PNTR studies are due April 1</li> <li>Taiwan: 25-100% semi tariffs possibly in mid-Feb</li> </ul>	<ul style="list-style-type: none"> <li>Trump interested in negotiating with Xi</li> <li>Ideological dissonance within Trump's China team</li> </ul>
De minimis	<ul style="list-style-type: none"> <li>Address synthetic opioid flows through de minimis packages</li> </ul>	<ul style="list-style-type: none"> <li>Impact to consumer demand vary due to product-specific tariffs</li> <li>Modal shift from air to ocean</li> </ul>	<ul style="list-style-type: none"> <li>Even without EO, strong Congressional action on revoking de minimis for China outbound parcels</li> </ul>	<ul style="list-style-type: none"> <li>Effectiveness of revoking de minimis eroded by localization of DCs/warehouses, inventory pre-positioning</li> </ul>

# China's response is correspondingly restrained and surgical

With much more room for escalation or concessions

 IN EFFECT

PRODUCT LEVEL ESCALATION				FIRM LEVEL ESCALATION	POTENTIAL CONCESSIONS
	IMPORT TARIFFS, BANS, QUOTAS, LICENSING	EXPORT TARIFFS, BANS, QUOTAS, LICENSING	INTERNAL TAXATION OF IMPORTS		
<b>MINERALS</b>		✓		<b>UNRELIABLE ENTITY LIST</b> List-based countersanctions that allows for a range of punitive measures	<ul style="list-style-type: none"> <li>• <b>FULFILLING PREVIOUS TERMS OF PHASE ONE DEAL</b> <ul style="list-style-type: none"> <li>○ Purchases of US agricultural goods</li> </ul> </li> <li>• <b>INVESTMENT IN DOMESTIC US MANUFACTURING</b> <ul style="list-style-type: none"> <li>○ But investment curbs coming into place</li> </ul> </li> <li>• <b>REMOVING SANCTIONS FROM US FIRMS AND INDIVIDUALS</b></li> <li>• <b>PLAZA ACCORDS-STYLE CURRENCY AGREEMENT</b> <ul style="list-style-type: none"> <li>○ Increase in yuan valuation and impacts on exports</li> </ul> </li> <li>• <b>OPENING UP CHINESE MARKETS</b> <ul style="list-style-type: none"> <li>○ Access to Chinese consumers, removal of non-tariff barriers, stronger IP protections for US firms</li> </ul> </li> </ul> <p style="text-align: center;"><b>...IN RETURN, GEOPOLITICAL CONCESSIONS ON SOUTH CHINA SEA AND TAIWAN?</b></p>
<b>ENERGY</b>	✓				
<b>AUTOS</b>	✓		✓	<b>ANTI-FOREIGN SANCTIONS LAW</b> Penalizes compliance with foreign sanctions and violation of national interests	
<b>MACHINERY</b>	✓	✓	✓		
<b>ELECTRONI.</b>	✓	✓	✓	<b>ANTI-TRUST INVESTIGATIONS</b> Based on the Anti-Monopoly Law, directed towards both local and foreign firms	
<b>AGRI.</b>	✓				
<b>PHARMA</b>	✓	✓	✓	<b>ASSET FREEZES, MOVEMENT RESTRICTIONS</b> Direct, unilateral sanctions against individuals and companies	
<b>CONSUMER</b>	✓	✓	✓		

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# EU prepares groundwork to pivot on China policy with much hesitation and uncertainty

Dependent on direction of US trade policy towards EU

US		TRUMP'S GRIEVANCES WITH THE EU ARE PLENTIFUL...	...AND ACTION IS IMMINENT
<b>Market access</b>		EU trade deficit and purchases of US goods	<ul style="list-style-type: none"> <li>• 14 Mar: steel and alum tariffs take effect</li> <li>• 1 Apr: VAT and America First Trade Policy studies due</li> <li>• 2 Apr: 25% tariffs on autos, pharma, chips</li> <li>• 15 Aug: reciprocal tariff study due</li> </ul>
<b>Defence</b>		Defence spending, NATO, Ukraine	
<b>Regulatory barriers</b>		VAT, CBAM, tech regulations (Digital Services Act, AI privacy guideline)	
<b>Domestic politics</b>		Rise of far-right parties, EU institution and structures	

EU	DE-ESCALATION	ESCALATION
<b>Outcome</b>	<ul style="list-style-type: none"> <li>• Visible concessions providing political wins</li> <li>• Incl. purchases of US goods, investment in US manufacturing</li> <li>• Focus on shared interests</li> <li>• Increase in defence budget</li> </ul>	<ul style="list-style-type: none"> <li>• Crackdown on Big Tech through anti-coercion instrument</li> <li>• Counter tariffs</li> </ul>
<b>Signals</b>	<ul style="list-style-type: none"> <li>• Pre-emptive negotiations e.g., trade commissioner Sefcovic in Washington</li> </ul>	<ul style="list-style-type: none"> <li>• Limited contact with US</li> <li>• Unilateral US moves</li> <li>• Member division</li> </ul>

## A TRANSATLANTIC TRADE WAR WOULD BE PAIRED WITH A SOFTENING EU POLICY STANCE ON CHINA

### DRIVERS

- Concern over two-front trade war
- Softening language from EU
- China's diplomatic wooing of EU members

### CONSTRAINTS

- Longstanding trade and political tensions
- Member division



# Reciprocal tariffs will prompt RoW to diversify trading partners

As tariffs are expected to hit Korea, Mexico, and Japan the most

## FAIR AND RECIPROCAL TRADE PLAN

FEBRUARY 13, 2024

Determining an equivalent tariff based on:

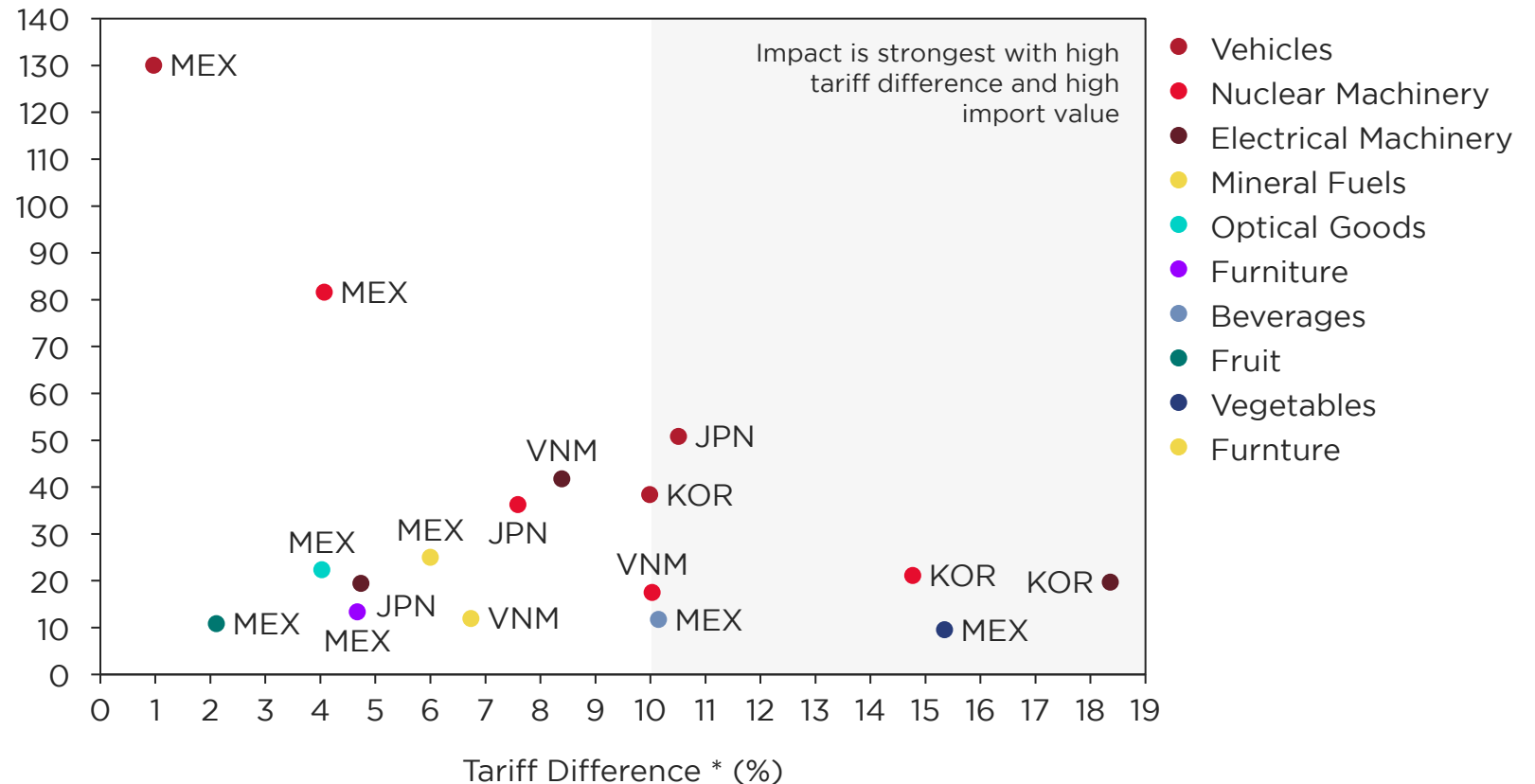
- Tariffs
- Taxes (including VAT)
- Subsidies and burdensome regulations
- Currency manipulation
- Other measures deemed by USTR as unfair

Process:

1. USTR and Commerce led investigation
2. OMB fiscal impact assessment within 180 days
3. Presidential determination

## TOP EXPORTER-PRODUCT PAIRS BY VALUE OF US IMPORTS

US Imports at Risk (US\$bn)



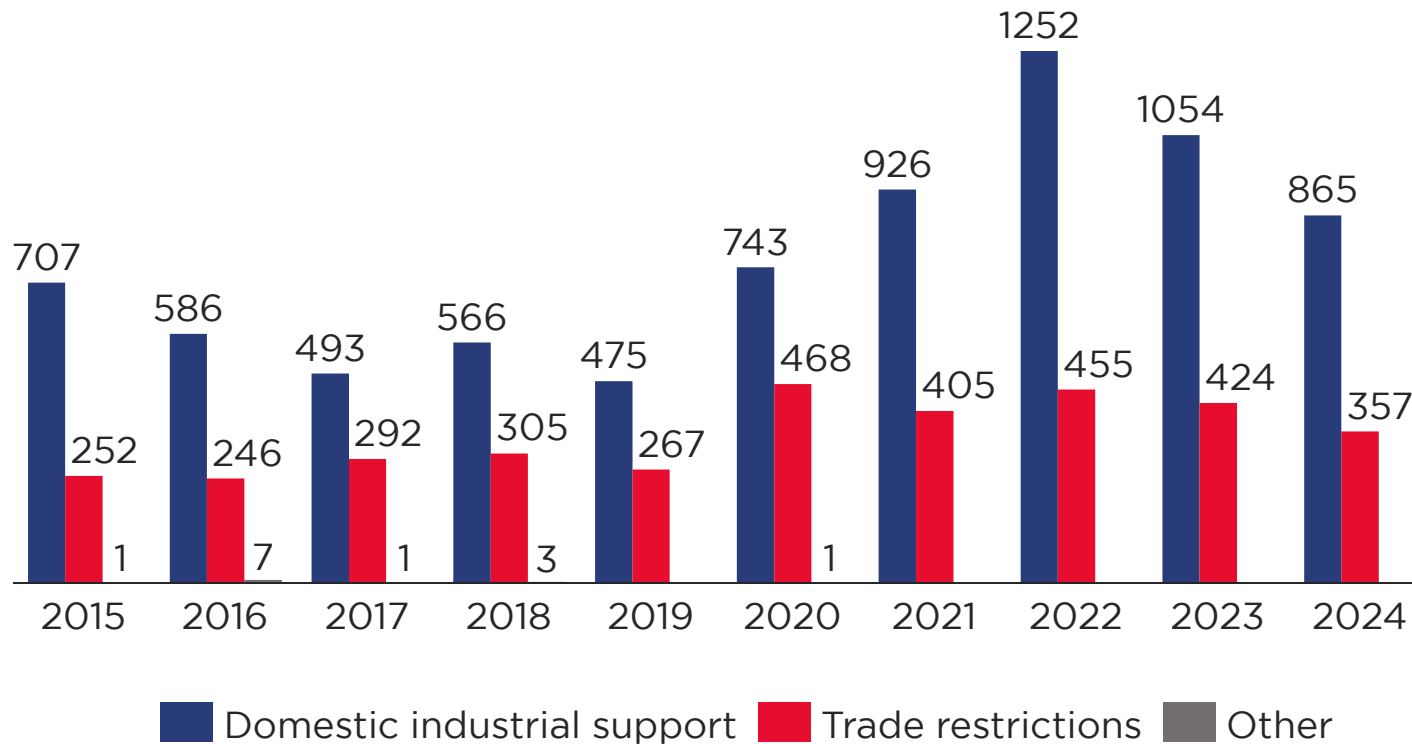
**SECTION II**

**Trade barriers to Chinese goods are rising in developing world**

# Global markets are increasingly concerned over trade with China

Domestic industrial support remains the main tool, but trade restrictions are also rising post-COVID

## NO. OF HARMFUL INTERVENTIONS IMPOSED GLOBALLY AGAINST CHINA



TYPES OF INTERVENTIONS	
DOMESTIC INDUSTRIAL SUPPORT <i>Not specific to China</i>	TRADE RESTRICTIONS <i>Specific to China</i>
<ul style="list-style-type: none"> <li>• Production subsidy</li> <li>• Financial grant</li> <li>• Local content incentive</li> <li>• Local labour incentive</li> <li>• State aid</li> <li>• Loan guarantee</li> </ul>	<ul style="list-style-type: none"> <li>• Anti-dumping</li> <li>• Import tariff</li> <li>• Import licensing requirement</li> <li>• Technical barrier to trade</li> </ul>

# But this hasn't translated into higher global tariffs yet

Average tariffs remain flat across all trade in various regions

## WEIGHTED AVERAGE TARIFFS ON CHINA ACROSS TOTAL TRADE (%)

	AUS	IND	IDN	JPN	KOR	MYS	PAK	PHL	SAU	TUR	CHL	COL	EGY
2015	2.95	5.93	0.71	2.07	5.77	4.98	12.05	0.98	4.43	1.8	5.99	4.49	10.85
2016	0.45	5.91	1.01	2	5.9	4.99		1	4.51		6	4.61	10.16
2017	0.05	5.74	1.3	1.89	5.46	4.56	11.93	0.87	4.09		5.66	4.51	9.78
2018	0.02	9.47	1	1.81	5.49	4.64	11.82	0.58	3.98		6	4.11	9.17
2019	0	9.69	0.7	1.77	5.25	4.77	11.13	0.62	3.8	0.56	0.19	4.14	9
2020	0	10.51	0.66	2.07	5.14	4.77	10.67	0.67	4.17	2.98	5.99	4.57	
2021	0	9.94		1.9	4.73	4.59	9.27	0.71		6.63	6	4	
2022	0	10.69	0.75	1.68	5.54	4.62	8.62	0.82		7.41		4.16	

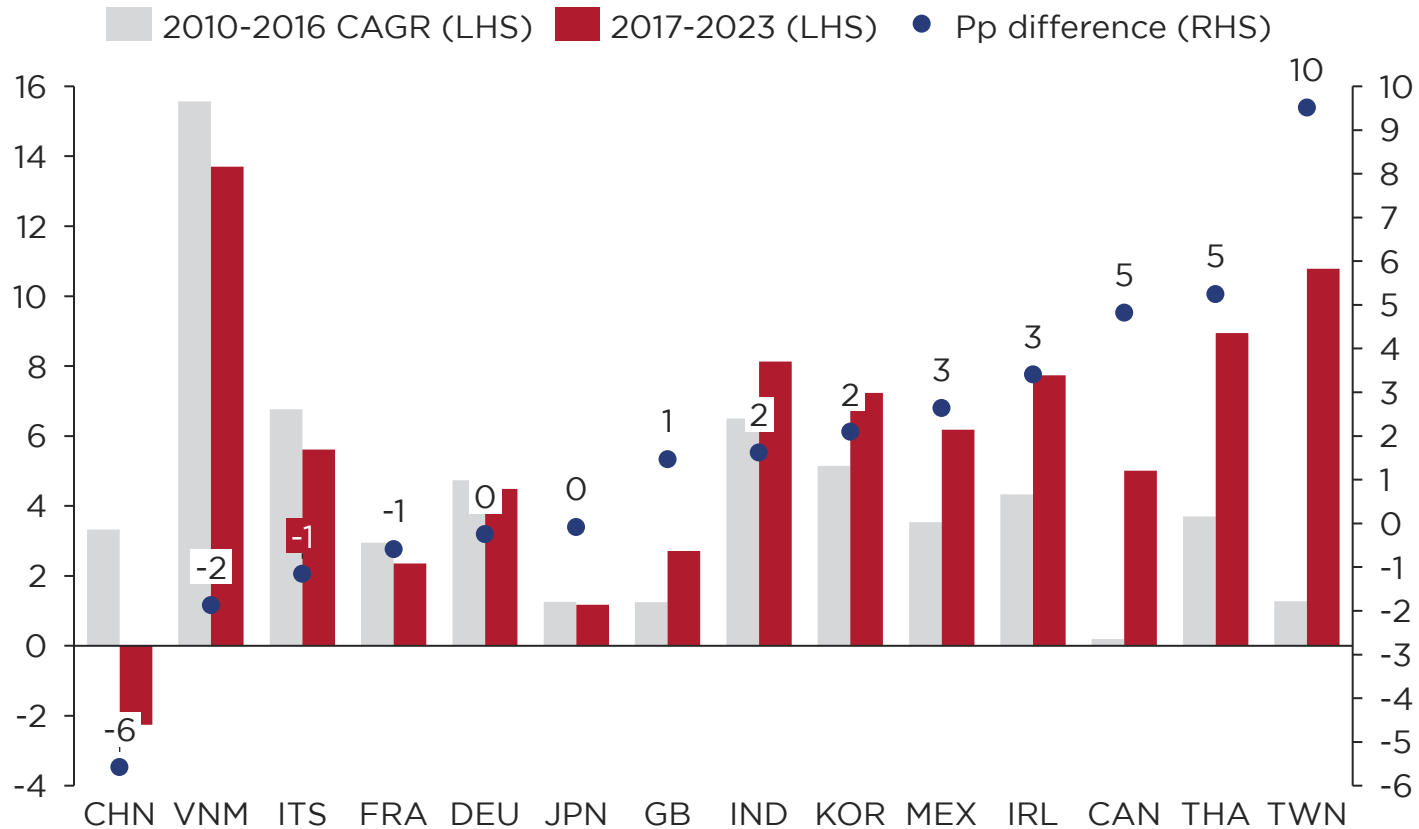
Data availability is dependent on country reporting gaps and HS code revisions.

# Nonetheless, the impetus for more trade restrictions persist

As emerging markets are under US pressure to clamp down on trade diversion

## US GOODS IMPORTS BY EXPORTER

%



**Trump admin will be very interested in tracking how much of the growth in US imports from other economies is Chinese companies routing goods through third countries.**

<b>METHODS</b>	<ul style="list-style-type: none"> <li>• Anti-dumping</li> <li>• Anti-subsidy</li> <li>• Anti-circumvention</li> <li>• Punitive import tariffs</li> <li>• Renegotiation or cancellation of FTAs</li> </ul>
<b>TARGET COUNTRIES</b>	ASEAN, Taiwan, Mexico

**Third countries incentivized to crack down on diversion as a condition for continued access to US market, with a focus on lower-value goods**

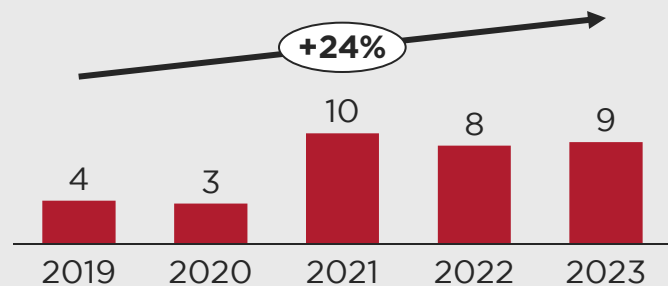
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# And domestic protectionism rises in developing markets

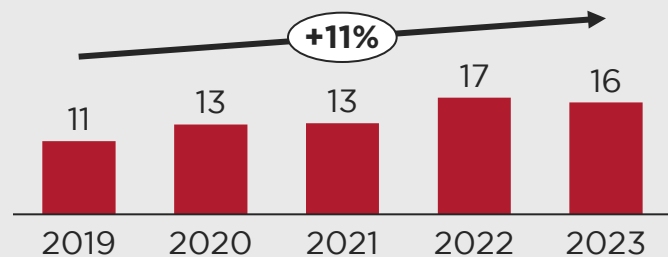
As policymakers try to push for Chinese investment rather than exports

**Developing markets will wield import tariffs surgically, defending against the inflow of commodities and low-value goods...**

**CHINESE IRON & STEEL EXPORTS TO LATAM**  
US\$ BILLION

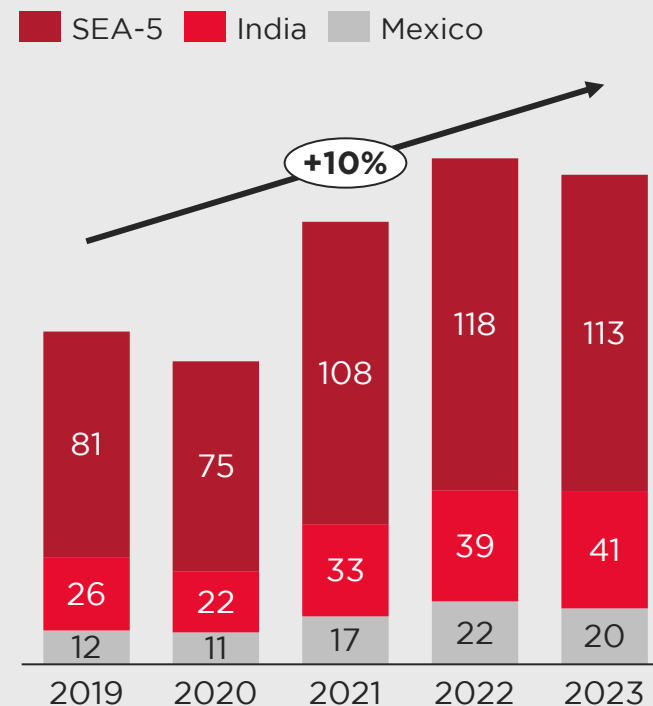


**CHINESE FURNITURE EXPORTS TO SEA-5**  
US\$ BILLION



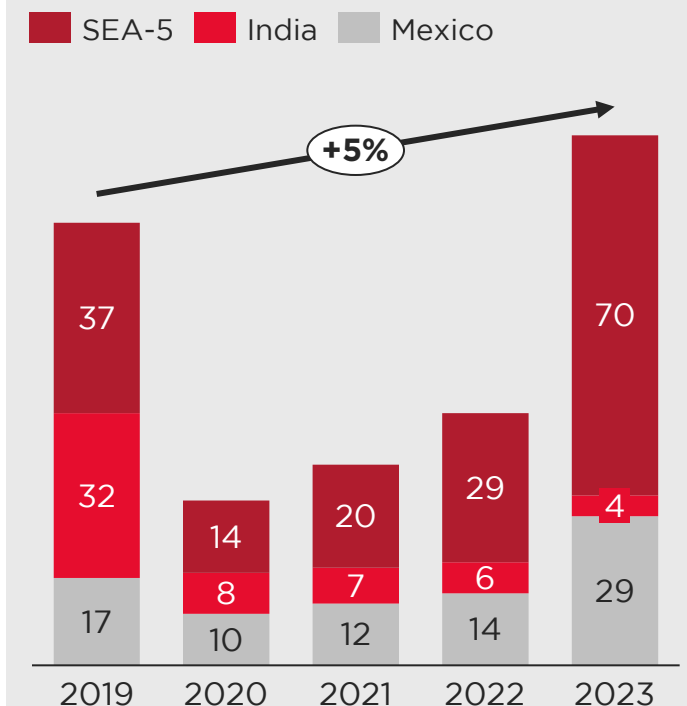
**...while allowing Chinese intermediates that are needed for domestic manufacturing to enter**

**CHINESE INTERMEDIATES EXPORTS**  
US\$ BILLION



**But attracting Chinese greenfield investment is still a key goal**

**CHINESE MANUFACTURING INVESTMENTS**  
NUMBER OF PROJECTS



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# Rising global trade barriers will further fragment supply chains

Looking ahead: companies need to prepare for uncertainty

## 1 **TARIFF RISKS ARE PRESENT AND STILL GROWING IN FRIENDSHORING LOCATIONS**

- Supply chain teams have to grapple with (1) US tariffs and non-tariff barriers on friendshoring countries, and (2) tariffs from these countries on Chinese final goods

## 2 **THE DEVELOPING WORLD IS DIVERSIFYING THEIR TRADE PARTNERS BEYOND THE EU AND US**

- Developing world is increasingly looking to each other for free trade and investment as the US and EU erect barriers
- Regionalization of trade a growing possibility

## 3 **CHINESE FIRMS ARE EMERGING AS VERITABLE COMPETITORS IN FOREIGN MARKETS**

- Particularly in clean tech, personal care, and auto industries due to aggressive outbound FDI in other markets

### **PREPARING FOR UNCERTAINTY**

- Daily monitoring of rapid and unpredictable trade policy changes at the HS-6 level
- Pursuing inventory pre-placement
- Forecasting of trade and investment policy direction in friendshoring markets
- Exploration of new sourcing and end markets that are geographically or geopolitically proximate
  - Carry out n-tier identification and data gathering

# Get in touch

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