

“Decoupling China”

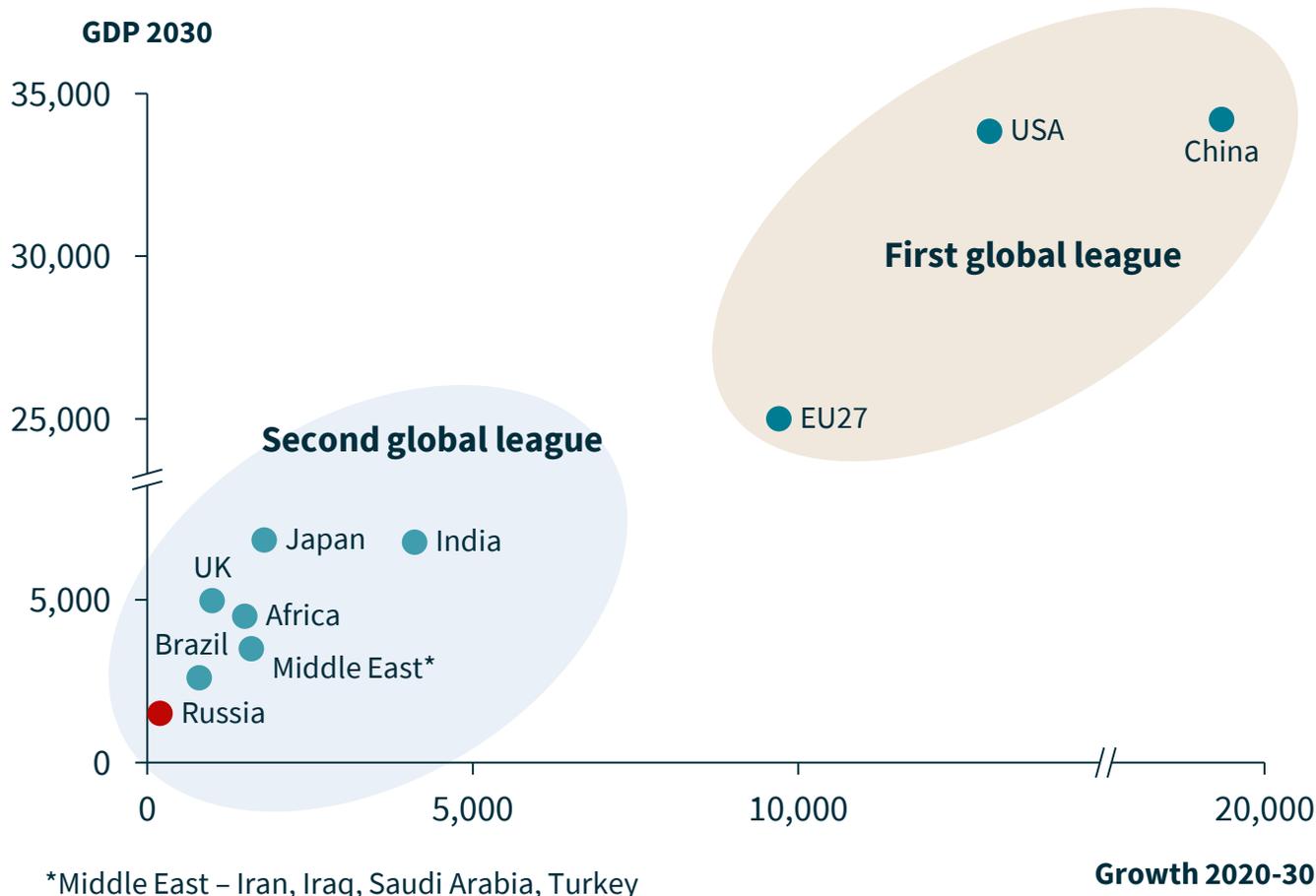
Impact & Action Demand
Foreign Companies

August 2022



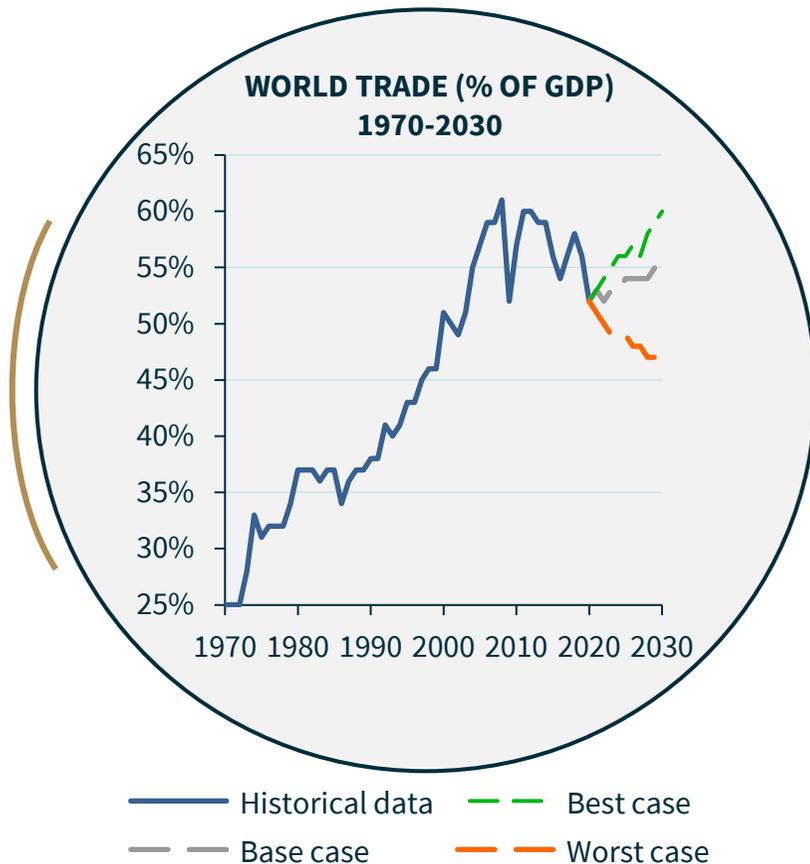
China will overtake the US to become the world's largest economy: current point of infliction in 2030 but depending on both global geo-political situation and domestic growth momentum

GROSS DOMESTIC PRODUCTS IN 2030 AND GROWTH 2020 TO 2030 (BILLION USD, CONSTANT PRICES)



- By 2030, **global GDP is predicted to double** (from 95 trn USD in 2021)
- The “**First global league**” will account for **50%** of global GDP in 2030
 - Share on absolute GDP increase of 46%, whereby **half is contributed by China**
- China continues to be **most important global growth market**

Long-term perspective: Globalization lives on but is going through a transformation with an increasing decoupling tendencies



- The era of ever-increasing **free-trade and decreasing tariffs comes to an end**
- **COVID increased protectionist trends** that already started pre-COVID
- **US-China conflict more and more serious and here to stay** – European companies often in difficult situation to please both sides
- **COVID accelerates technology race** – increasing chances for companies that can adapt
- Despite all differences between its members, **only a united Europe can keep its economical and political importance**

COVID will economically shape a significant part of the 21st century. We enter a new era – an era of disorder

WHAT DOES „CHINA DECOUPLING“ MEAN?

“Decoupling” is not only pushed by western countries, but as well intensively by China –
Face the reality and develop effective strategies!

WESTERN POSITION

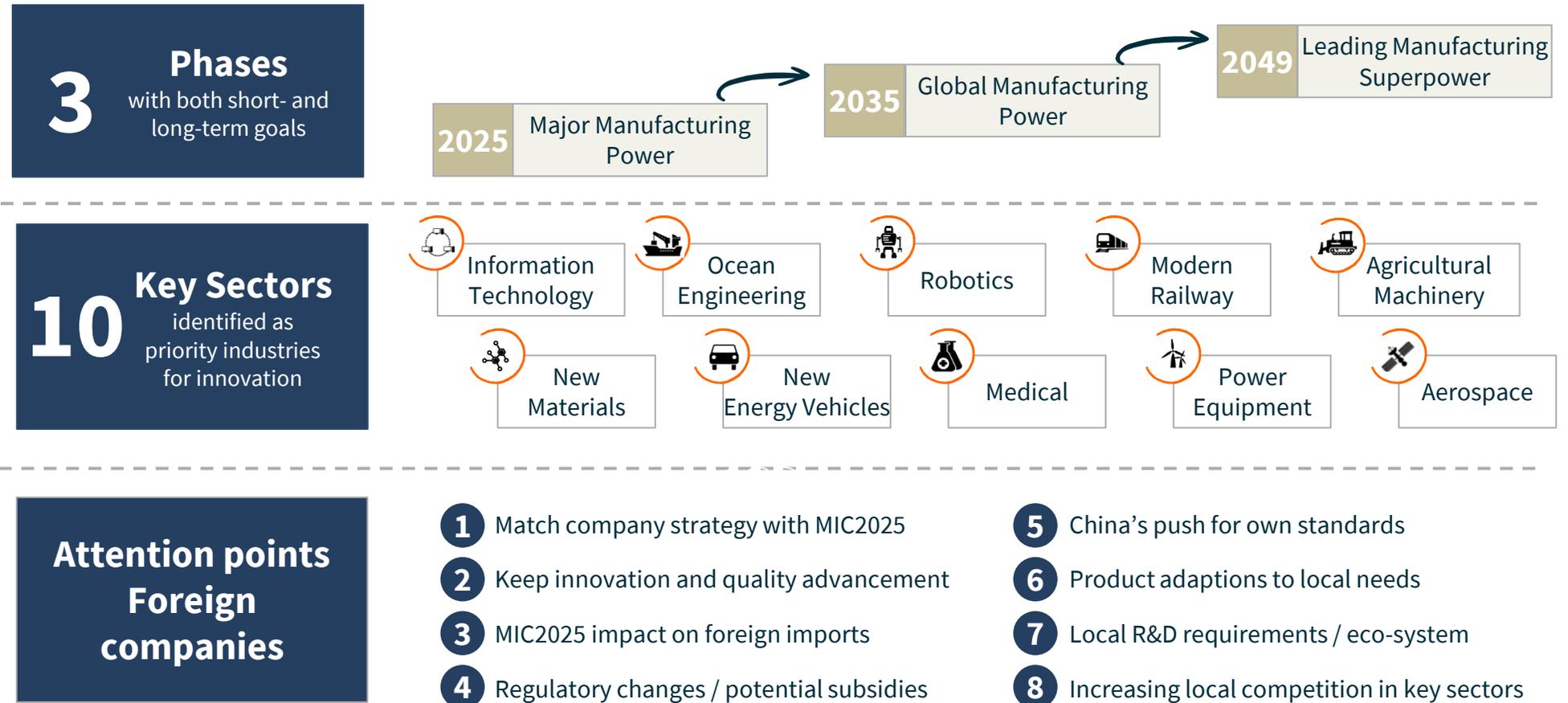
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- **Decrease dependency on China / supply chain risk**
 - Build-up of a **China-independent value chain**
 - **Counterbalance** to increasingly authoritarian China
 - Protection against unfair Chinese industry practices
 - **US sanctions against Chinese US exports** (Trade embargoes, punitive tariffs, technology import bans, „blacklisting“ tender participation, etc.)

CHINESE POSITION

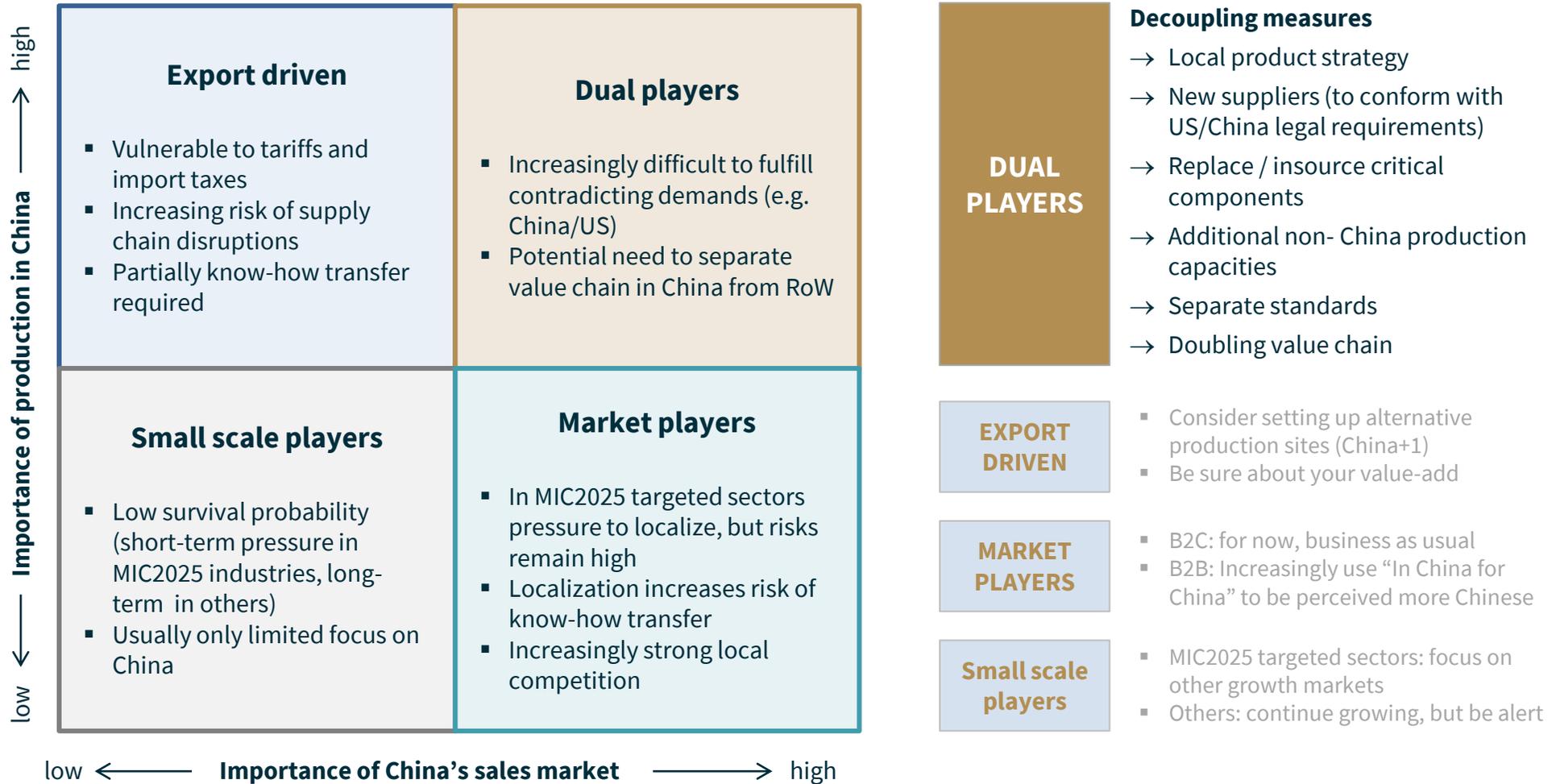
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- Safe-guarding of **economic and technological independence** through industry policies (Made in China 2025, 14 FYP) and through „local for local“
 - **Strengthening of own economy** and companies
 - Medium-term **stronger internationalization of Chinese companies** with increasing number of **global market leaders**
 - **Protection of Chinese interest** and reduction of risk of potential future sanctions (e.g. Like currently in Russia)
 - Avoidance of **negative exertion of influence of actors outside of China**
 - **Countermeasures to US sanctions**

China’s answer to “decoupling” already in swing for 10 years with recent geo-political frictions adding new momentum – foreign companies urged to revisit and match their China strategy to stay in the game

MADE IN CHINA 2025 AT A GLANCE (FORMULATED IN MAY 2015)



Depending on the importance of the Chinese market and its production capabilities, companies can be clustered into different China dependencies with different China risk profiles and counter measures



Illustrative

For a decoupling strategy several key points have to be considered – framework to be built and tailored to company specific situation

1. PRODUCT & SALES DECOUPLING

- Local for local
- Sales structure
- Export importance

3. SUPPLY CHAIN DECOUPLING

- Decoupled sourcing
- Sourcing partners and locations

5. IT DECOUPLING

- Independence of local IT
- Tasks, users and risks of local IT

7. MANAGEMENT DECOUPLING

- Shareholders and management of China cooperation
- Local vs. expat management

2. OPERATIONS DECOUPLING

- Local manufacturing
- Bonded warehouse

4. R&D/IP DECOUPLING

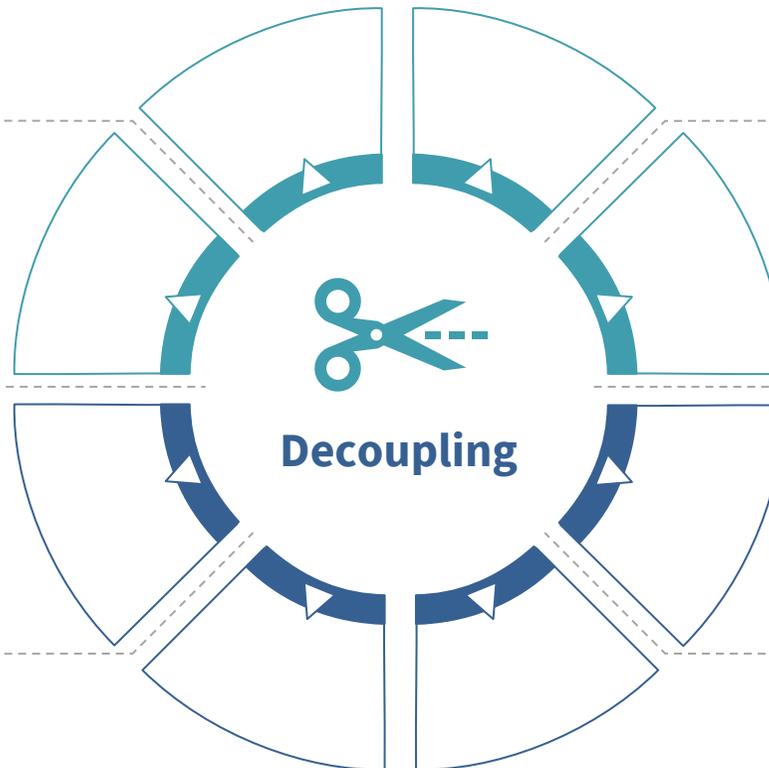
- IP protection
- Local R&D setup

6. ORGANISATIONAL DECOUPLING

- Cooperation form
- Strategic, administrative, financial and operative role

8. FINANCIAL DECOUPLING

- Cash management (e.g. cash repatriation)
- CAPEX – local debt financing



POTENTIAL CHINA DEVELOPMENT SCENARIO

Decoupling is here to stay, the degree and form of decoupling is to be seen - key question is how to assess the different scenarios and how to prepare for them

Illustrative

SCENARIO 1: BACK TO OPENING	SCENARIO 2: “CHINA FIRST”	SCENARIO 3: CHINA RECESSION	SCENARIO 4: BLOC FORMATION	SCENARIO 5: ESCALATION
				
<ul style="list-style-type: none">▪ Despite restrictions for foreign players remaining, no deterioration▪ Further opening up and market reforms in some areas possible▪ Limited decoupling	<ul style="list-style-type: none">▪ Increasing domestic focus with decreasing international collaboration & exchange▪ Unpredictable supply chain disruptions and travel restrictions▪ Continuous pressure on foreign companies and experts in China▪ Uncertainty in real estate industry	<ul style="list-style-type: none">▪ Sharp slowdown in Chinese economy (e.g. triggered by real estate crisis)▪ Increasing prioritization of local players▪ Shrinking government investments	<ul style="list-style-type: none">▪ Geo-political block building of western democracies vs. authoritarian states▪ Increasing risk for western companies to do business in China▪ Potentially forced to “choose sides”▪ Lower economic growth likely	<ul style="list-style-type: none">▪ Triggered by major geo-political events (tensions US) China will be isolated globally▪ Russia-like sanctions by western countries▪ Sharp economic slowdown in China likely

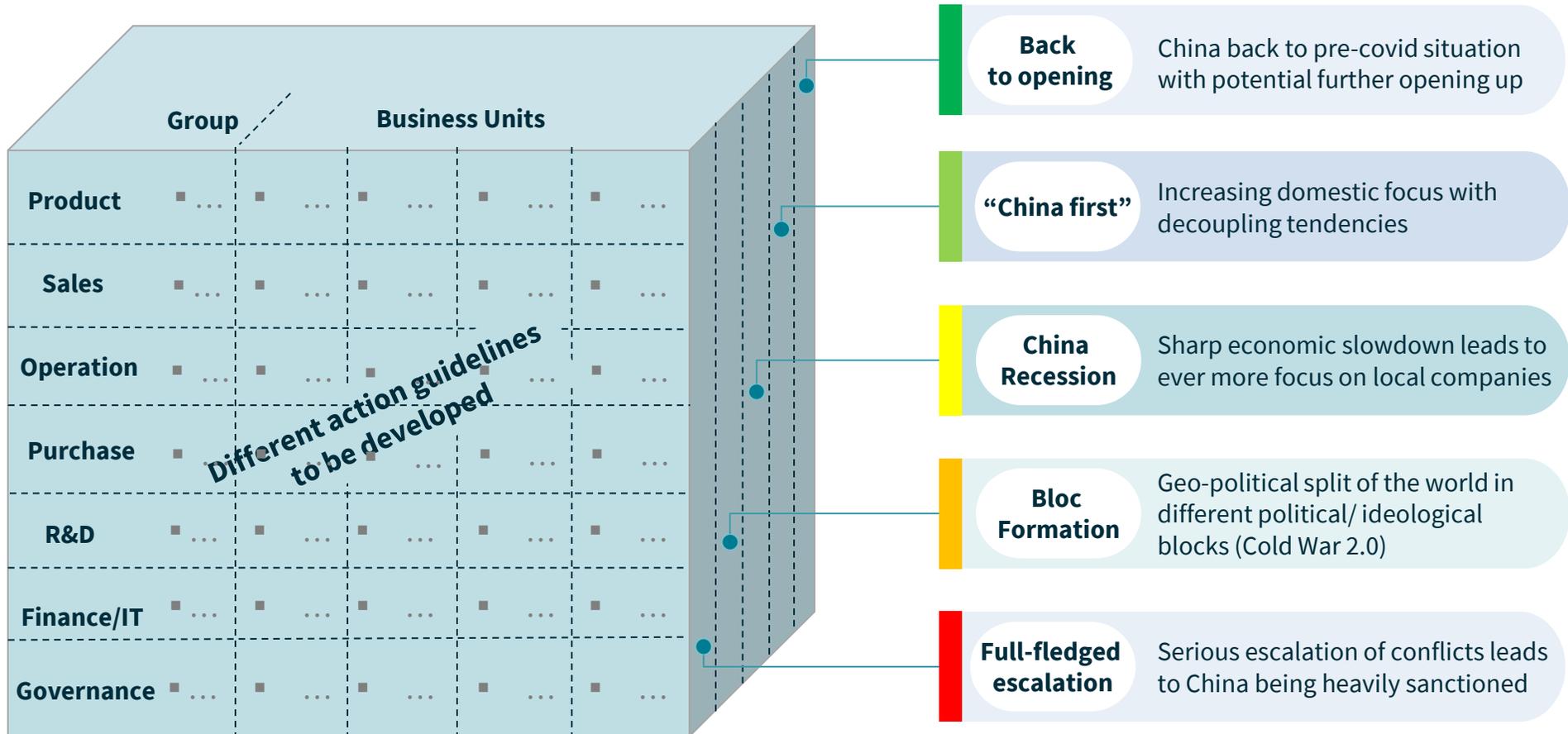
DECOUPLING

For the different scenarios specific action demands for different Business Units and corporate functions are required

Illustrative

SPECIFIC ACTION DEMANDS ARISE ...

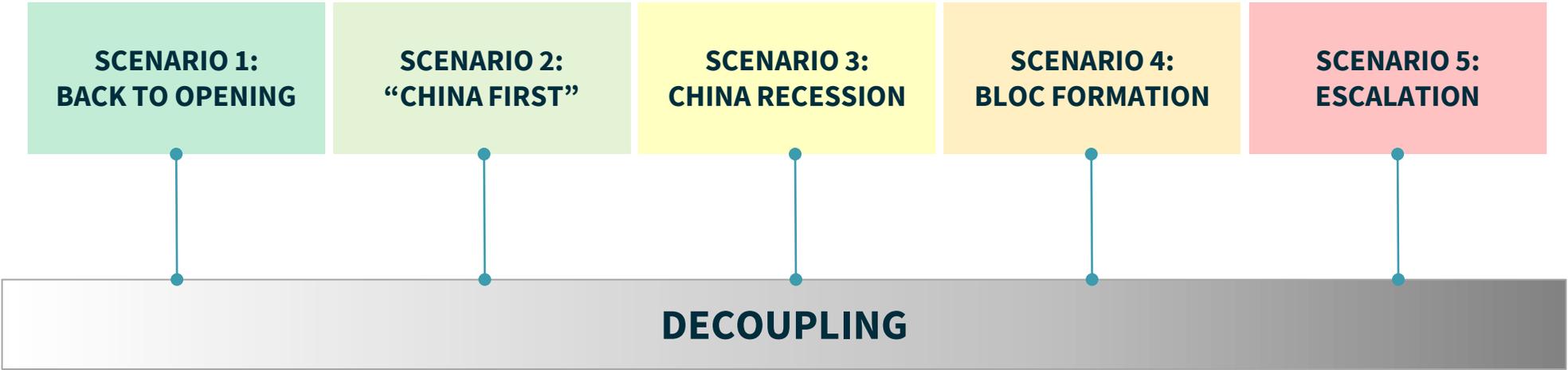
... DEPENDING ON THE DIFFERENT SCENARIOS



DECOUPLING – SCENARIOS AND IMPACT

Based on different possible future China scenarios, the degree of decoupling and impact on business functions will vary

Example



Product	Sales	Operation	Purchasing	R&D	Finance	IT	Governance
Global competence center	Push customer diversification	Expand local footprint	Global sourcing synergies	R&D push to market	Global cash management	Integrated set-up	Going concern
vs.	vs.	vs.	vs.	vs.	vs.	vs.	vs.
Maintain local product development	Remain core	Scale-down & alternatives (e.g. SEA)	Fully localized to demand (CN&TW), dual systems	R&D only for local, maintain local ecosystem	Fast cash repatriation, local financing	Separate IT set-up China (dual systems)	Closer HQ monitoring

China most likely to continue pushing own interests “China First” alongside increasing bloc formation definition of risk-oriented decoupling strategy inevitable



With decoupling trend given, most likely scenario foreseen as **combination between “China first” in a stronger bloc formation**



As result, **consequent formulation of China decoupling strategy inevitable** with highest level of risk mitigation, e.g.:

- Selective investment policy (seek country alternatives)
- Limited global product competence allocated to China (dependency)
- Local R&D initiatives (incl. utilization of start-up ecosystem)
- Dual sourcing strategy (i.e. China plus)
- Local loan financing (in consideration of financial costs)
- Export strategy China outbound (China “*friendshoring*”, e.g. RCEP)
- Supply China to US only for commodities/ non-critical parts

→ **Decoupling strategies to consider individual approach by business streams based on different exposure – with different priorities in time. Incorporation with corporate functions (finance, IT, HR and governance)**

In typical projects, EAC would start with a framework elaboration for the decoupling strategy and develop a client-tailored action roadmap



EAC relies on ~30 years China know-how and could serve as external sparring partner to support foreign companies in developing its “Decoupling China” strategy

VALUE-ADD OF EXTERNAL CONSULTANTS...

#1

Objective outside-in reflection of market potentials and clients positioning in China & Asia

#2

Retrieval of fact-based information: from competitors and un-biased customer feedback

#3

“Best Practice” sharing from other EAC projects with similar challenges

#4

“Sparring Partner” to translation of high-level growth vision into implementable actions

#5

Moderator in strategy development process and bridge between local and HQ aspirations

#6

Systematic consolidation of market information “flying around” in the organization

...AND WHY EAC?

No “off the shelf”-projects:

Tailor-made project solutions for the individual requests of our clients

Strong strategy partner – from strategy to execution:

Our project philosophy: “Walking the last mile”

Single-Shop-Services:

High cross-regional flexibility and no risk of “profit center” fences

Strong global network of independent experts:

Present in all relevant growth markets through EAC regional hubs

WHERE YOU CAN FIND US – EAC AROUND THE GLOBE

EAC MUNICH

**EAC - Euro Asia Consulting
PartG**

Widenmayerstraße 29
80538 München

Phone +49 89 92 29 93-0
eac-muc@eac-consulting.de

EAC SHANGHAI

EAC - Euro Asia Consulting

Sunyoung Centre, Rm. 801
398 Jiangsu Road
200050 Shanghai/ China

Phone +86 21 63 50 81 50
eac-sha@eac-consulting.de

EAC MUMBAI

EAC - Euro Asia Consulting Pvt. Ltd.

306-310 Peninsula Plaza
A/16, Veera Industrial Estate
Andheri (West), 400053 Mumbai / India

Phone +91 22 49 74 12 33
eac-mum@eac-consulting.de