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Beijing's Evolving Use of Leverage Against Western Corporates

Please note this has been abridged from the original client version.
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Executive Summary

US-China relations are at their lowest in 25 years. Washington has used financial sanctions, export controls and more to mitigate perceived security risks and deter hostile acts from Beijing (e.g., Taiwan).

Beijing has often been predictable in the leverage and tools it uses to pursue its interests, often targeting industries where the costs to China are low and when its relations with a country are poor. **This has made it easier to discern which industries would likely be targeted** with coercive measures.

It has so far **not enacted large-scale countermeasures against the US or US corporate interests** in reaction to geopolitical pressure. It targets foreign firms who draw Beijing's attention by crossing its 'red-line areas' (e.g., Xinjiang or Taiwan), but this is often limited to the company itself.

Beijing may change its pattern of behaviour given growing friction with the US, rising self-sufficiency in key sectors and other factors.

By altering its toolkit and focus, **new industries may become vulnerable to Chinese actions.**

Although operating in China has always carried risk, the nature of this risk is changing as national security increasingly trumps economic priorities. Previous assessments of acceptable risk may no longer be viable. Corporates may need to rethink their exposure given the shifting geopolitical landscape.

MAP can:

- Evaluate a firm's unique vulnerabilities with respect to Chinese countermeasures;
- Provide tailored advice to increase resilience; and
- Identify overlooked corporate opportunities created by the changing landscape.

Beijing has an observable pattern in the leverage and tools it uses to pursue its interests

Leverage

Beijing typically uses six forms of leverage, each with its own diplomatic, reputational and economic costs, to change the behaviour of others (detailed on the next slide).

For example, China will often leverage access to its domestic market to extract concessions from foreign corporates.

Tools

Beijing generally has three types of tools – financial, economic and the use of state pressure (detailed in following slides).

China deploys these tools when the fallout for Beijing is expected to be minimal.

The tools used depend on the outcome Beijing is pursuing; they are not tied to a specific form of leverage.

Targets

Beijing most frequently targets **companies and countries where there are readily available alternatives** (mapped on following slides).

It has traditionally avoided targeting US interests directly, preferring to pressure US partners instead. However, this could change if US-China relations continue their downward trajectory.

Drivers: What could prompt Beijing to deviate from its traditional use of tools and leverage?

Trigger events	• **Events that challenge Chinese sovereignty, threaten the Chinese Communist Party's (CCP) rule or boost China's confidence could push Beijing to act outside of the norm**. • Examples of challenges include domestic social unrest or President Xi falling ill, creating a power vacuum at the top.
Passive leverage becomes less effective	• **As the Chinese market has liberalised, fewer 'untapped' opportunities remain for foreign companies. This reduces Beijing's ability to deepen ties with foreign companies who might advocate on its behalf at home**. • As a result, China may be forced to more frequently use exclusive or coercive leverage to press its interests.
Increased self-sufficiency	• China has long aimed to reduce its dependence on the US for certain technologies, and boost its self-sufficiency. It has succeeded in some areas (e.g., EV batteries) but not in others (e.g., AI chips). • **China achieving self-sufficiency and dominance in other industries may make Beijing more liberal in its use of exclusionary, coercive or diplomatic leverage**.
US-China ties are viewed as zero-sum	• Political conditions in the US could yield a more aggressive policy against China in the short-term. • **If China concludes that the US is determined to slow its modernisation, it may view competition as zero-sum, with China willing to accept setbacks to its economy to counter the US.**

Focus of the next four slides

There are other high impact macro drivers that may change Beijing's cost calculus

RMB devaluation	Beijing may devalue the renminbi (RMB) to improve its trade balance and stimulate its economy. **Faster growth may revive China's passive leverage as its economy becomes more attractive.**
Sweeten its CPTPP bid	China could take steps to increase its chances of being accepted into the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). **Membership would allow Beijing to reshape regional supply chains and trade rules in its interest, increasing its economic influence.**
Broker peace	China could use diplomatic capital to settle disputes in Sudan and between Russia and Ukraine. **A bigger role as an international mediator could increase its diplomatic clout over international institutions, systems and norms, and boost its status as a global power with non-US allies.**
Get the RMB in oil deals	Beijing wants to enhance the role of RMB as a reserve currency by encouraging Gulf oil contracts to be denominated in RMB. Although oil producers in the region prefer the dollar for its stability and convertibility, **China could capitalise on a decline in US-Gulf relations to press for RMB contracts.**
Signal a likely Taiwan war	China could accelerate steps to demonstrate its ability to annex Taiwan. **A zero-sum game could ensue, in which both the US and China would utilise their most disruptive and consequential tools in their respective arsenals.**
Divesting US Treasuries	While unlikely to rapidly sell off US debt as a tool to damage the US economy, China could gradually reduce its US bond holdings to reduce its exposure to the US economy and financial sanctions threats. **Over time, this may make Beijing freer to adopt other measures with less concern of the side effects.**

Beijing is only likely to use these macro tools in extreme scenarios given likely blowback

Firms should ask the following questions to determine whether Beijing's actions create risks or opportunities

- Do I maintain strong relationships with officials in relevant local and central government departments in China?
- Does China have domestic or foreign alternatives to my product or service? Is my industry a priority for Beijing?
- Do I access data from government or SOEs in conducting business? Does that data leave China?
- Do I have a good understanding of Beijing's red-lines, and a strong sense of how my firm can engage around them?
- Have senior-level officials in my country recently engaged with their Chinese counterparts?

Where MAP can help

What we do

We provide our clients with **a competitive advantage in a global decision-making context increasingly defined by macro factors**.

Each sphere of our advisory practice areas informs the other, leveraging the skills and networks of the team to reduce risks and enhance our clients' performance.

Our China expertise

MAP's China expertise draws on a group of senior advisors with backgrounds in both the private and public sectors and expertise in:

- Doing business in China
- Chinese foreign policy
- US foreign policy
- US sanctions

There is no one-size-fits-all approach to managing China risk. MAP's advice can:

- Evaluate a firm's unique vulnerabilities with respect to Chinese countermeasures;
- Provide tailored advice to increase resilience; and
- Identify overlooked corporate opportunities created by the changing landscape.

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