Center for Geopolitics | JPMorganChase

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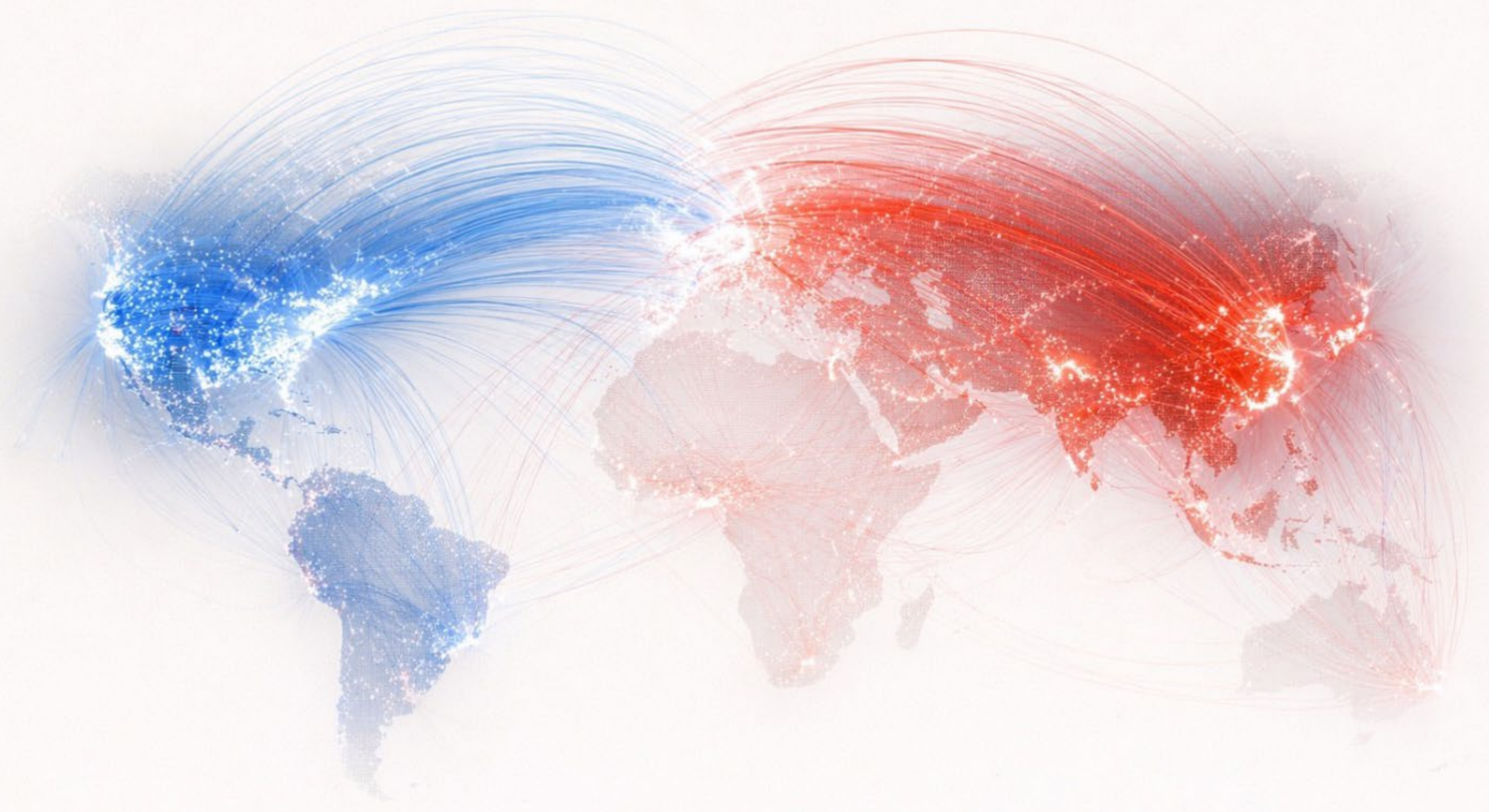
Helping Clients Navigate Global Challenges

A Global Contest: How U.S.-China competition is disrupting global business and investment



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Key Takeaways:

- → **The impacts of U.S.-China competition are increasingly spilling over onto third countries**, materially impacting their business and investment environment.
- → **Countries are attempting to navigate U.S.-China competition pragmatically**, shifting from a world where they could avoid choosing between the two countries to one where such choices are increasingly required.
- → **Securitization of trade and investment flows will continue**, making the global economy ever more fragmented and conditional on geopolitical alignment. This fragmentation will challenge the ability of multinationals to execute global strategies and operations.
- → **Companies should continue to invest in new capabilities to anticipate and respond to geopolitical developments**, including deepening supply chain visibility and embedding early warnings into strategic and operational planning

Introduction

The intensifying strategic competition between the United States and China is reshaping the business and investment environment for countries globally. As both countries recalibrate their policies, firms are finding it more difficult to operate seamless global strategies and integrated operating models. Commerce is being disrupted across multiple markets even as new pockets of commercial opportunity emerge.

U.S.-China competition is far from the only geopolitical challenge facing third countries and multinational companies – but it is uniquely persistent and far-reaching, cutting across markets like few others. Indeed, **many of the forces that will drive the evolution of global economy still run through the two countries: from their respective growth outlooks to their influence over the development of artificial intelligence, energy and climate systems, and key technologies that underpin modern industrial capacity.**

The events of a single week in October 2025 illustrate the scale of these spillovers. As the U.S. and China exchanged threats over new tariffs and rare earth export controls, the most immediate effects were playing out elsewhere. The Netherlands seized control of semiconductor firm Nexperia, amid broader U.S. efforts to slow China's progress, in response to concerns that the company's assets would be stripped by its Chinese owner. American board members resigned from several European shipping firms after Chinese retaliation to new U.S. shipping fees. Chinese authorities also sanctioned the U.S. subsidiaries of a major Korean shipbuilder for allegedly assisting Washington probe Chinese rivals, triggering new port fees.

These impacts are not isolated country-specific episodes but manifestations of broader structural forces set in motion as the U.S. and China compete. This competition is fragmenting the global marketplace, with market access increasingly conditional on geopolitical alignment. Countries are being exposed to greater, more frequent geopolitical shocks and, in some cases, responding with increased defense spending. Others risk the headwinds of flight to safety if conditions reduce appetite for risk.

For businesses, this environment presents a growing set of trade-offs. Many companies are weighing whether they need to duplicate supply chains to serve increasingly segmented markets or accelerate investments in their own resilience. Decisions previously considered purely commercial – such as payments infrastructure or currency of denomination – are now being evaluated through a geopolitical lens. Firms are both subject to, and increasingly expected to help enforce, a widening array of extraterritorial economic-security measures, from sanctions to export controls.

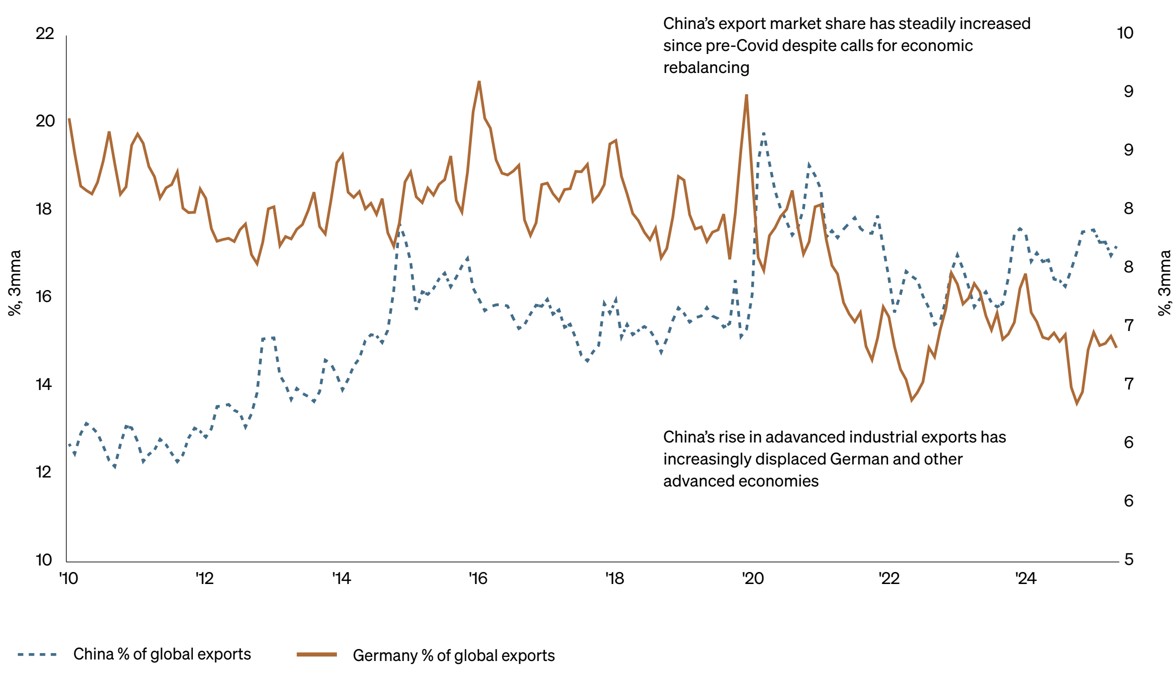
These impacts are being felt across markets as well. Restrictions on market access and a focus on supply chain resiliency are being felt in corporate margins, impacting the share price outlook. In addition, restrictions on public listings and capital flows are reshaping how global investors access international investment opportunities.

U.S.-China spillovers are also no longer confined to technology or other traditionally sensitive sectors. Panama has faced heightened scrutiny over Hong Kong-based CK Hutchison's ownership of key ports along the canal with Panama's Supreme Court recently invalidating the Hong Kong-based operator's concessions. Brazilian soybean farmers have benefited as China shifts purchases away from the United States. Across industries, companies are confronting a more complex, politically conditioned environment for global operations.

Forces of volatility

A set of interconnected forces is shaping the volatility that third countries experience as U.S.-China competition intensifies. Foremost is the uncertainty created by the United States' recalibration of its once-unconditional support for the post-Cold War rules-based international order. As U.S. engagement becomes more selective, negative externalities are emerging in places where American presence or guarantees have receded.

China export market share



Source: Haver Analytics

Other countries are being drawn in more directly. Some face coercive pressure because their strategic choices are interpreted as alignment with a geopolitical rival. In others, long-standing territorial or political flashpoints are being reframed through the lens of U.S. alliance commitments. Meanwhile, many economies are encountering indirect spillovers – such as surges of Chinese exports redirected away from the United States by tariffs, affecting local industries and political systems.

Experiences are rarely uniform. **A number of countries are benefiting as de-risking drives the reconfiguration of global supply chains, attracting new investment in manufacturing, logistics, and strategic sectors**. And a select set of countries are being actively courted by the U.S. and China as each seeks to expand influence across regions ranging from Latin America to the South Pacific.

Emerging archetypes

Most attempts to categorize countries along a single continuum of "leaning U.S." or "leaning China" miss two critical dynamics:

1. the distinct, non-equivalent toolkits both governments use to shape outcomes, and

2. the significant agency of the countries being shaped by U.S. and Chinese influence.

China pairs large-scale initiatives like the Belt and Road alongside instruments including embargoes, informal sanctions, and consumer boycotts. The United States relies on the attractiveness of its domestic market and security guarantees, while increasingly applying tariffs, export controls, investment screening, and other extraterritorial economic-security tools. The expansion of resourcing for the U.S. International Development Finance Corporation is a recent effort to add more options to its toolkit.

An alternative framework that takes into account both the nature of U.S. and Chinese engagement and the agency of third countries yields the following six archetypes:

- **Pressure-zone countries** – facing negative or destabilizing impacts from both the United States and China, with limited options for strategic diversification.

- **Strategic winners** – benefiting economically or politically from U.S.-China competition and actively seeking to maximize those gains.

- **Recalibrating countries** – shifting their alignment incrementally toward one power or the other.

- **Affirming countries** – doubling down on an established orientation, even at the cost of foregone opportunities or tangible penalties from the other side.

- **Hedging countries** – balancing relationships to preserve flexibility and extract value from both powers.

- **Diversifying countries** – intentionally reducing exposure to both Washington and Beijing by broadening partnerships and supply chains.

Implications for business

These distinctions have direct implications for commercial strategy. Pressure zone states are likely to see contracting trade and investment opportunities with both major powers. Strategic winners may see certain corridors – manufacturing, logistics, energy transition, digital infrastructure – accelerate rapidly. **Countries that lean clearly toward one side will become more dependent on that power for economic and national security, while coming under greater counter-pressure from the other.**

As U.S.-China competition intensifies, fewer countries are able to act as true hedgers. Other countries, which are making concerted efforts to diversify exposure away from one or both countries, are running up against the reality that growth gets harder when the 45% of global GDP controlled by the U.S. and China is taken off the table.

Measures by the US and China, as well as responses by third countries themselves, can materially impact the business/investment environment

Trade

- Preferential trade
- Tariffs
- Pressures to reduce political alignment/economic exposure to rival country
- Transshipment
- Boycotts / supply disruptions

Government Procurement

Promotion of preferred solutions and/ or pressures to block procurement of rival country solutions (e.g., 5G)

Technology

Efforts to drive alignment with a particular country's technology stack

Markets

- Foreign listings (and attempts to discourage) by Chinese firms on third-country exchanges
- Foreign bonds (Yankee, Euro, Panda)

Infrastructure

Efforts to secure privileged access to infrastructure and/or block rival country access

Sanctions and Export Controls

Pressures to comply with sanctions and export controls

Foreign Direct Investment

- Efforts to encourage/ discourage investment by home country companies
- Pressures to impose security reviews on rival country investments
- Regulatory harassment
- Visa access/restrictions

Payments / FX

Efforts to promote / discourage specific payments infrastructure and currency usage (e.g., swaps)

Concessional Finance

Offers of concessional finance and/ or pressures to reject rival country solutions

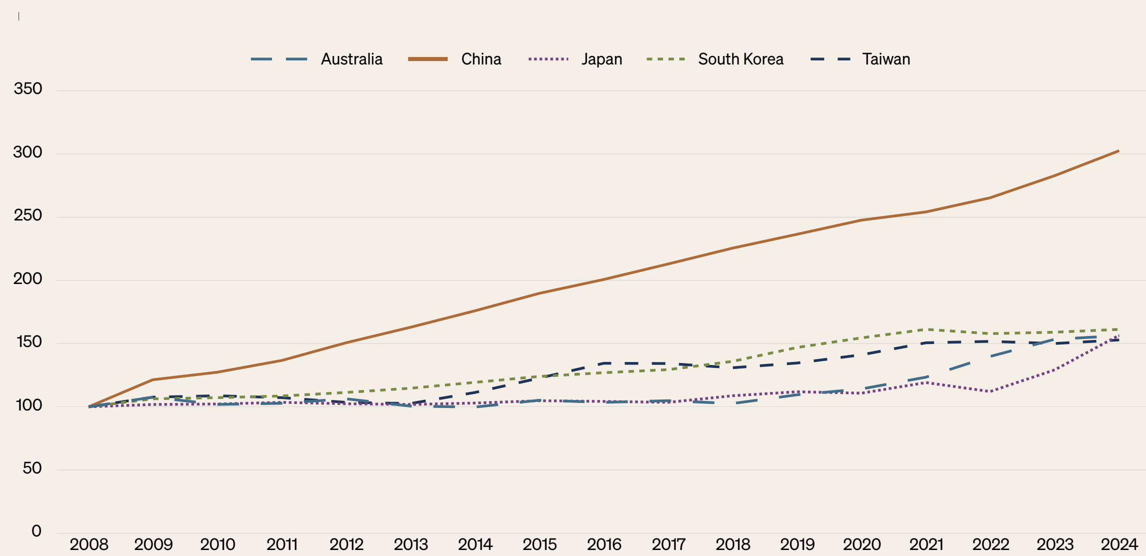
Variations on a theme

How U.S.-China competition is playing out by region

The intensifying U.S.-China rivalry is reshaping global dynamics well beyond the realm of direct bilateral competition. Its influence extends across regions, creating spillover effects for third countries—transforming trade patterns, supply chains, security priorities, and the functioning of international institutions. Understanding and measuring these regional impacts is essential, as third countries are increasingly confronted with difficult choices, emerging risks, and unexpected opportunities arising from the shifting strategic landscape shaped by U.S.-China competition.

Asia: Asia stands as the frontline of U.S.-China competition as China seeks to enhance its regional position and the U.S. aims to preserve its status as a Pacific nation. While the region resolutely 'does not want to choose,' between the two powers, each nation is wrestling with the relative weights of China's market and America's security umbrella. Developing countries in the region are positioning themselves as beneficiaries of China+1 supply chain diversification strategies. Directly implicated by Taiwan tensions and other territorial disputes, defense expenditures continue to rise in a region anxious about the durability of American defense commitments.

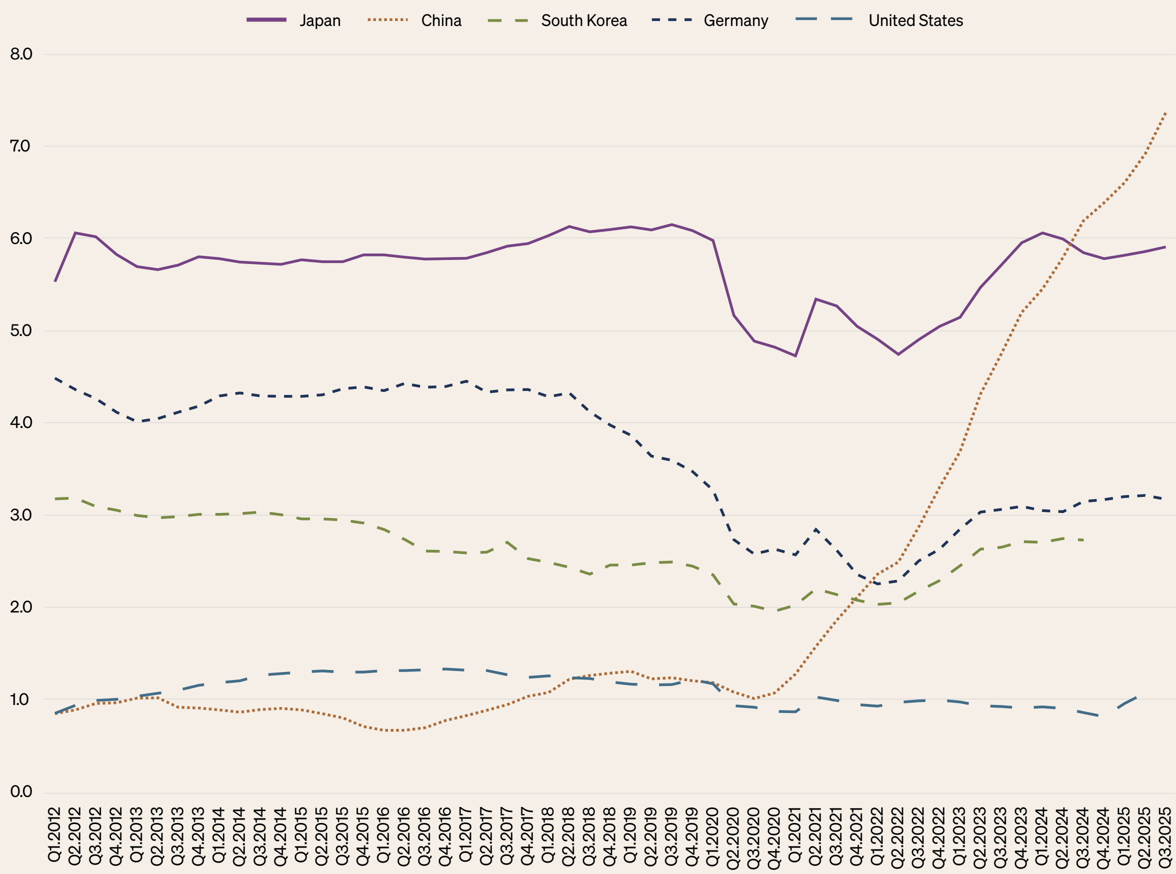
Asia defense spending trends (2008=100)



Source: SIPRI

Europe: Europe increasingly recognizes China as a systemic competitor, even as the transatlantic relationship faces challenges from rising U.S. unilateralism. The U.S. continues to press Europe to be more self-sufficient in its defense as the U.S. seeks to prioritize the Indo-Pacific and Latin America. China's active enablement of Russia's war in Ukraine and growing challenge to Europe's industrial foundations, particularly in autos (see chart), have deepened concerns – and divisions within Europe about how to address them.

Auto exports by country

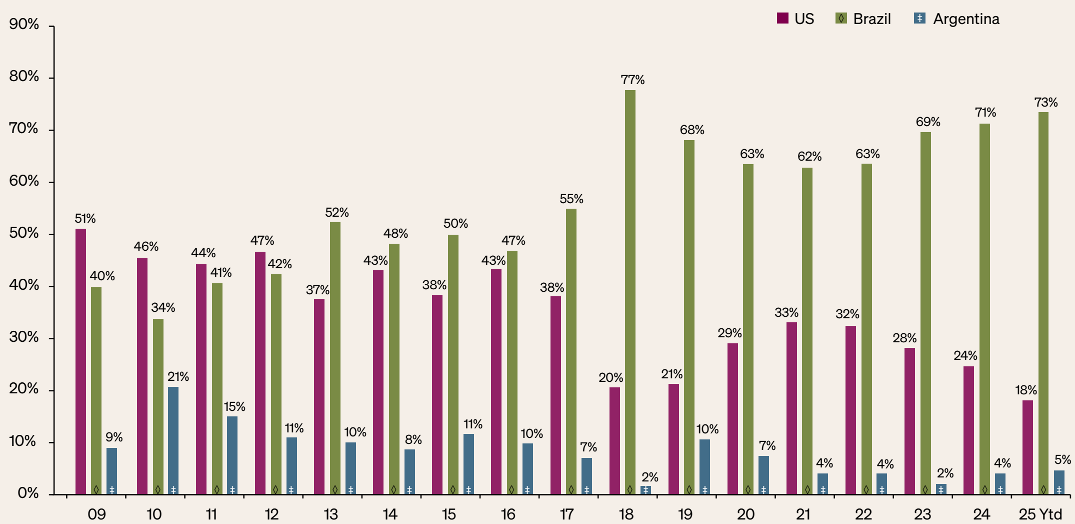


Source: National customs authorities

The Middle East: In the Middle East, regional tensions have consistently thwarted U.S. efforts to reduce its obligations. China is heavily reliant on the Middle East for oil imports and is selectively involving itself in regional disputes, for example, by playing a role in efforts to normalize relations between Saudi Arabia and Iran. The Middle East has courted China as a partner in its diversification efforts, but also sees a continued role for American financial and technology firms and defense commitments. The U.S. has leveraged advanced semiconductors as a means to moderate exposure to China's technology stack in the UAE and Saudia Arabia.

Africa: In Africa, China has made extensive investments focused on the continent's resources and has responded to U.S. aid cuts and tariffs with commitments of tariff-free access to its markets. China's ties to many African nations date back to the Cold War-era nonaligned movement; nonetheless, many would welcome the U.S. stepping up to provide a credible alternative to China. China operates its only official overseas military base in Djibouti.

China soybean imports by country



Source: China General Administration of Customs

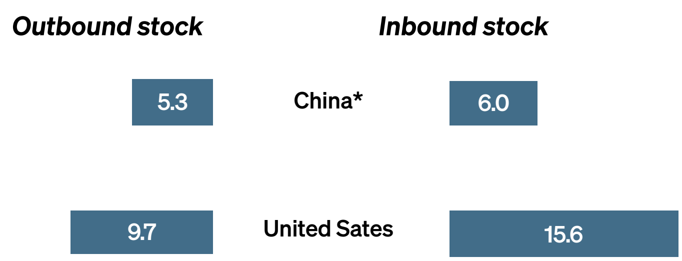
The Americas: In the Americas, the U.S. is asserting a neo-Monroe doctrine of hemispheric influence after years of deepening Chinese trade and investment activity. Recent outreach by Canada and key European partners to Beijing reflects a cautious recalibration as they seek to ease tensions with China rather than shoulder the full weight of mounting U.S. coercion and unpredictability. The U.S. intervention in Venezuela disrupts China's influence in that country, where it is a major lender and primary purchaser of Venezuelan oil, although the extent of that disruption in the China-Venezuela relationship remains to be seen. Upcoming renegotiation of the USMCA agreement with Canada and Mexico is expected to include strict rules of origin requirements that limit China's access to the market. The U.S. has extensive security partnerships across the region, and has raised concerns about China's influence over regional port infrastructure, most notably in Panama. Surging Chinese imports of Brazilian and Argentine soybeans have come at the expense of America's farmers.

Cross-Regional Takeaways: Across regions, China is taking a multi-faceted approach to global governance. Beijing is simultaneously making a selective push for leadership in UN and Bretton Woods institutions by courting friendly countries; establishing parallel institutions, norms, and infrastructures; and maintaining normal economic and diplomatic relations with Russia and Iran.

Differential exposures, differential responses

It is no surprise that many countries feel caught in the middle of U.S.-China competition. Some 64 countries conduct at least 5% of their total trade with both powers; 25 countries exceed the 10% threshold with each; and seven countries – Japan, Vietnam, Cambodia, Chile, Peru, Ecuador, and Panama – conduct 15% or more of their trade with both. The United States remains the largest export destination for many countries, while China has become the primary source of imports for a large swath of the globe. From an investment standpoint, and despite China's financing through the Belt and Road Initiative, the United States continues to be the leading source and destination of FDI for most third countries.

The US remains a top source of and destination for foreign investment $t, 2024



*includes Hong Kong

Source: UNCTAD

As markets fragment, companies' strategic calculations increasingly diverge based on their country of origin. Chinese firms are navigating a difficult domestic environment characterized by weak consumer confidence and intense competition. Those seeking a global footprint recognize the growing challenge of building or expanding a direct presence in the United States. Many are shifting production overseas to maintain access to the U.S. market. Yet Washington's concerns transcend China's borders: the U.S.' 40% transshipment tariff signals that assembling Chinese inputs in third countries is no longer seen as credible derisking. Recent analysis by McKinsey & Company shows that while global trade volumes remain resilient even among countries that are geopolitically at odds, foreign direct investment is increasingly flowing toward markets aligned with the investor's home country.[1]

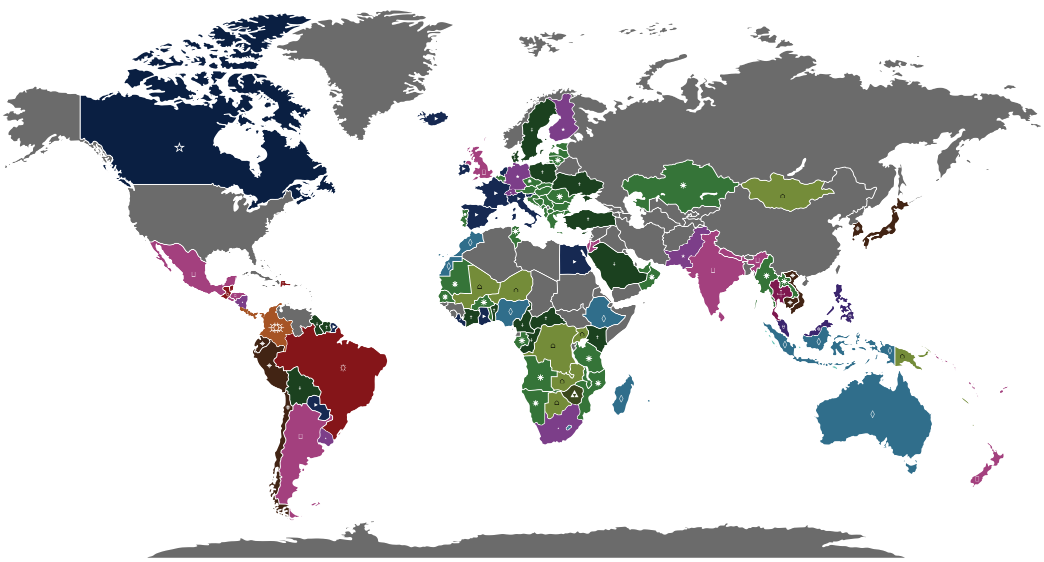
Even Chinese tech companies relocating to hubs such as Singapore have encountered a wary Washington, whose outbound investment framework treats Chinese ownership or management as potential vectors of risk. American companies see continued value in having a China presence, even as they face increasingly intense local competition. Many are simultaneously diversifying supply chains to serve non-China markets. But reliance on Chinese upstream suppliers persists – and with it, exposure to geopolitical risk. **Reports of China slowing or restricting flows of inputs, equipment, or personnel to facilities in third countries underscore how deeply embedded China remains in global production systems.**

[1] https://www.mckinsey.com/mgi/our-research/the-fdi-shake-up-how-foreign-direct-investment-today-may-shape-industry-and-trade-tomorrow

Many countries are highly exposed to US-China spillovers via trade...

Share of trade with US and China
Highest percentage threshold of trade both countries meet, 2023

0-1% | 1-2% | 2-3% | 3-4% | 4-5% | 5-6% | 6-7% | 7-8% | 8-9% | 9-10% | 10-11% | 11-12% | 12-13% | 13-14% | 14-15% | 15%



- China and the US each constitute >5% of 64 countries' total trade
- 25 countries have greater than 10% of their trade with both China and the US
- Seven countries have greater than 15% of their total trade with both:
  - Japan
  - Vietnam
  - Chile
  - Peru
  - Ecuador
  - Cambodia
  - Panama

Source: UN Comtrade, APAC Policy and Strategic Competitiveness

Third-country companies experience this landscape in highly varied ways – but a common political dynamic is emerging. **Increasingly, geopolitical alignment between the U.S. or China is refracted through domestic politics**. The 2022 election of Ferdinand Marcos Jr in the Philippines produced a sharp swing in that country's relations away from China back towards its traditional partner, the United States.

Argentina's President Javier Milei has taken a more pragmatic approach to China than his campaign rhetoric suggested, while still benefiting from strong support from the U.S. This dynamic extends well beyond the emerging markets. In South Korea, the Democratic Party's victory brought to power a president expected to adopt a less hawkish approach to Beijing than his conservative predecessor. Across Europe, the rise of populist parties is introducing more unorthodox China policies. France's National Rally pairs economic protectionism with closer alignment with Russia, while Germany's AfD advances a realpolitik foreign policy distinct from the current government's de-risking approach.

Beyond trade and investment

U.S.-China competition's impacts on third countries transcend trade and investment, including competition in the Arctic and Antarctic, on and under the seas, and in space.

At the poles, China has asserted itself as a "near-Arctic state" – seeking to grow influence as climate change opens that ocean to greater shipping and extraction activity. Canada's geostrategic role is consequently poised to grow. At the other end of the Earth, China sees Antarctica as a potentially valuable source of resources. A Cold War-era treaty currently governs activities on the continent that sidesteps sovereignty claims that existed at the time of signing. Until a 2048 renegotiation, "science is the currency of the Antarctic," and China is investing heavily to position itself for future influence.[2]

On and under the seas, third countries have been implicated in several contexts. The U.S. has opposed Chinese attempts to wrest control of disputed territories, several involving treaty allies including Japan and the Philippines. Under the sea, competition is also playing out in subsea cable infrastructure. The U.S. has also expressed support for countries confronting China's role in illegal, unreported, and unregulated fishing in their exclusive economic zones.

And in space, both the U.S. and China are poised to dominate a space economy that McKinsey forecasts to be worth $1.8 trillion by 2035. China has now become the United States' principal rival in space, with both countries expected to attempt to return humans to the moon over the next decade. China and the EU have both launched alternatives to the U.S.-based GPS system. A 2007 anti-satellite test by China was widely condemned internationally for the large and hazardous debris cloud it created. The U.S. has expressed concerns about Chinese observatories in third countries, including Argentina and Chile.

Conditional access

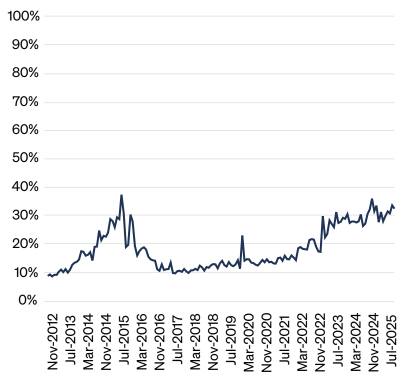
The global economy is increasingly bifurcating into Chinese and American-anchored spheres of influence. **Well before China's recent assertion of global economic leverage – most visibly through its control of rare earths – it was the United States that made the most assertive use of economic statecraft.** Washington's sanctions regime, anchored in the chokepoint of the dollar-based financial clearing system, expanded dramatically in scope and sophistication in recent decades. This catalyzed Beijing's efforts to reduce its exposure by building parallel financial infrastructure, most notably the Cross-border Interbank Payment System. Today, more than a third of China's cross-border payments are settled in renminbi, and at the 2025 Lujiazui Forum, People's Bank of China Governor Pan Gongsheng signaled a renewed push to advance the internationalization of the country's currency.

[2] Brady, Anne-Marie, "China as a Polar Great Power," Cambridge, 2017.

Currency adoption: China is pushing for greater internationalization of RMB and CIPS as a payment platform

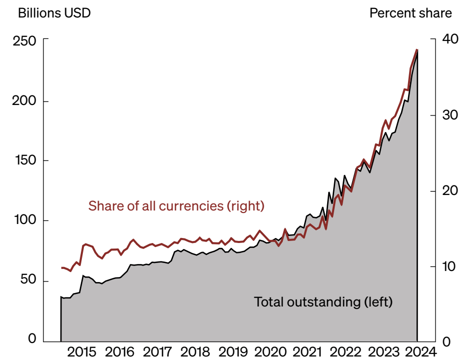
China has reduced the share of its trade conducted in dollars

% goods trade settled in RMB



Source: People's Bank of China

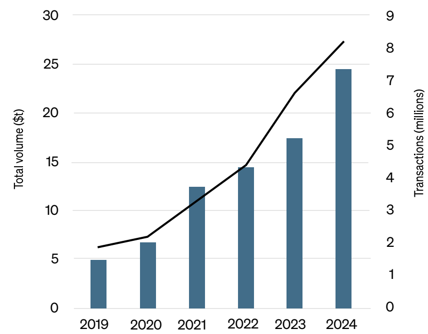
Chinese banks' overseas RMB loans overseas
Billions USD and %



Source: Federal Reserve, People's Bank of China, Haver Analytics

Use of the CIPS payment system continue to grow

Annual volume and transactions, 2019–2024



Source: FXC Intelligence

Sanctions have been coupled with increasingly proactive use of export controls – now concentrated most intensely on denying China access to the most advanced semiconductors and semiconductor equipment. The combination of diplomatic pressure and the application of the foreign direct product rule, which extends U.S. jurisdiction to foreign products containing or derived from American technology, has brought Dutch, Japanese, Korean, and Taiwanese firms into broad alignment with American restrictions. Rounding out the toolkit is an outbound investment regime that limits U.S. investment into China's AI, quantum, and semiconductor sectors.

The White House's "America First Investment Policy" signaled a de facto presumption of denial for Chinese investment into the United States (not unlike China's own "negative" investment list). President Trump himself has on several occasions expressed his openness to Chinese investment in certain sectors. Even before this shift, the United States has also heavily influenced other countries' economic security policies. American officials have pressed foreign governments to exclude Chinese equipment provider Huawei from their telecommunications networks – with mixed success. More recently, several key partners have modernized their investment-screening mechanisms, including Japan, Australia, South Korea, and the United Kingdom, while the European Commission has proposed strengthening the EU's screening framework.

For companies and countries, these dynamics mean diminishing room to pursue a "best of world" approach. Instead, the world is trending towards parallel U.S. and Chinese technology and financial architectures – and, in some cases, toward explicit choices. A recent example: the UAE's access to cutting-edge chips was conditioned on its agreement to remove Chinese equipment from its networks.

For investors, **capital markets are also at risk of greater conditionality**. In the United States, various proposals to delist or divest from Chinese equities, or punitively tax Chinese exposures, have been proposed in recent years. Hong Kong has benefited as many companies have pursued secondary listings or chosen the city over international exchanges. Family offices and high net worth individuals the world over are also mindful of U.S.-China spillovers, even if most outside of Asia maintain limited direct exposure to China.

Not just companies, individuals too

Migration flows of Chinese nationals are emerging as an underappreciated dimension of global economic change, with potential implications as significant as the globalization of Chinese firms. China has become one of the world's largest sources of high-net worth outmigration: according to Henley & Partners, some 15,000 millionaires left China in 2024 alone. These individuals often bring capital, entrepreneurial experience, and technical expertise to their destination markets; in some countries, however, these people flows are being increasingly viewed through a political and national security prism.

What's a country, let alone a company, to do?

With no durable equilibrium in sight between Washington and Beijing, the spillovers from their competition are likely to intensify. **For many countries, the most practical response is diversification at meaningful scale – pooling economic weight through broader trade arrangements or regional partnerships that can help cushion against external shocks and moderate the most destabilizing impulses of the major powers.**

Companies are making similar adjustments. Many are investing in new capabilities to anticipate and respond to geopolitical developments, from re-mapping supply chains to building early warning systems for policy change. Yet, major gaps persist: fewer than 40% of firms report having a good understanding of risk beyond their first-tier suppliers.[3] As governments increasingly expect firms not just to comply with, but to help enforce extraterritorial economic-security policies, these gaps carry growing operational and financial risk.

The firms that invest now – deepening supply chain insight, geopolitical risk functions, and developing channels to inform government decision making – will be better positioned to navigate uncertainty. They will also be more agile in identifying and capturing the global economy's still-considerable opportunities, even amid persistent geopolitical headwinds.

How U.S.-China competition's global spillovers are playing out by sector

The technology sector is often viewed as the epicenter of U.S.-China strategic competition, but the ripple effects extend far beyond semiconductors and AI. U.S. tariff actions, investment restrictions, and competing industrial policies are reshaping global supply chains and altering commercial landscapes in diverse sectors. In many cases, Chinese production diverted by U.S. restrictions has surged into third-country markets, prompting new defensive measures and raising fears of de-industrialization. Across sectors, distinct spillover patterns are beginning to emerge:

Energy: U.S. shale production has transformed the U.S. into a net exporter of energy, reinforcing its geopolitical influence. China's continued dependence on Middle Eastern suppliers, by contrast, heightens its exposure to instability in the region and drives its engagement along key transit corridors. These dynamics have global implications for shipping security, investment flows, and energy pricing. (See CfG's Geopolitics of Energy report.)

Transport, logistics, and infrastructure: the Trump administration's concerns about China's control of strategic infrastructure around the world has prompted new scrutiny of port and logistics assets. One recent example: a Blackrock-led consortium's effort to acquire Hong Kong-based CK Hutchison's port assets has reportedly been slowed by Beijing, which is said to be seeking a role for state-owned Cosco. The Trump administration has also prioritized shipbuilding as a priority of its industrial policy efforts, whose success will depend in no small part on the partnership of allies such as South Korea. Indeed, after the U.S. began imposing fees on Chinese ships docking at American ports, China sanctioned the U.S. subsidiaries of Korea's Hanwha Shipping.

Communications: The U.S. has worked to restrict Chinese participation in sensitive communications networks, including 5G and subsea cables. While U.S. efforts to exclude Huawei from 5G critical infrastructure have seen only partial uptake outside of its closest allies, the U.S. has had somewhat more traction in slowing China's involvement in undersea cable construction and landing-station operations.

Technology: the U.S. continues to expand coordination with allies - including the Netherlands, Japan, and South Korea - to restrict China's access to advanced semiconductors and chip-making equipment. China, for its part, is supporting the development and global diffusion of lower-cost open source AI models, providing an alternative pathway for developing economies seeking access to frontier capabilities.
(See CfG's Geopolitics of AI report.)

[3] https://www.mckinsey.com/capabilities/operations/our-insights/supply-chain-risk-survey

Automotive: U.S. restrictions have effectively closed the American market to Chinese electric vehicles, upending planned investments in Mexico intended to use that country as a production base. Meanwhile, the rapid rise of Chinese EV manufacturers has eroded market share for European firms not only in China but in third countries – and increasingly within Europe itself. It has also compounded internal divisions within Europe itself as some countries welcome Chinese investment for local assembly, while others hold out for more substantive technology transfers.

Financial services: Chinese banks continue to grow their international footprint amid a stated goal by the country's securities regulator to have 2-3 globally competitive investment banks over the next decade.[4] Since the imposition of U.S. sanctions on Russia following its invasion of Ukraine, Chinese banks have moved to scale down cross-border lending in dollars and activity on the country's alternative payments platform, CIPS, has grown. These adjustments are reshaping patterns of capital flows, correspondent banking, and financial interdependence.

Biotechnology/pharmaceuticals: Long-standing concerns by the U.S. and other countries about their dependence on China for a host of active pharmaceutical ingredients are now being joined by a new dynamic: China's emergence as a source of innovative therapies. China's share of global clinical trial starts surged more than nine-fold from 2013-2023, reaching 28% - eclipsing Europe.[5] This shift could reshape global R&D pipelines and challenge U.S. and European leadership in high-value biomedical innovation.

Education: Chinese and third country nationals have been impacted by tighter U.S. visas and administration scrutiny of colleges and universities. In response, many Chinese students who might previously have defaulted to U.S. universities are increasingly considering alternatives across Europe, Canada, Australia and Asia —redirecting talent flows and reshaping international education markets.

[4] https://www.scmp.com/business/china-business/article/3255904/chinas-broker-butcher-regulator-lead-effort-nurture-mainland-competitors-morgan-stanley-goldman

[5] https://www2.itif.org/2024-chinese-biotech-innovation.pdf

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