

China's economic reboot adds fuel to trade tensions with US

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Commodity Insights



In his March 7 State of the Union address, US President Joe Biden condemned China's economic policies, saying the US wanted "competition with China, but not conflict."

Source: Chip Somodevilla/Getty Images News via Getty Images North America.

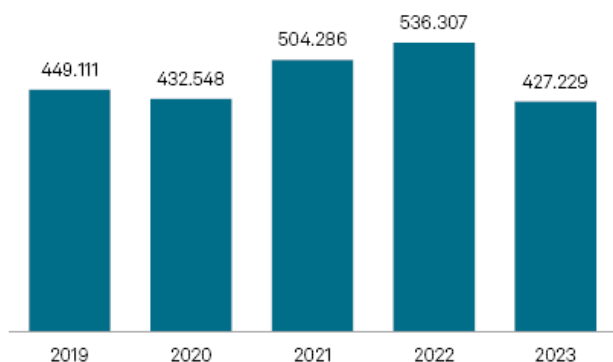
Trade ties between the US and China are under pressure as plans to boost the major Asian economy intersect with geopolitical rivalries, new tariffs and an ongoing push to diversify sourcing.

China's economic stimulus efforts come as its real estate sector continues to face challenges, deflationary risks and concerns that Chinese government efforts to subsidize industries — including [electric vehicles](#), [solar panels](#) and [semiconductors](#) — raise the competitive stakes against those industries of the country's key trading partners. Meanwhile, US President Joe Biden called for [existing tariff rates on US imports of Chinese steel and aluminum to be raised to 25%](#) April 17 in response to "unfair competition" from Chinese products, extending a protectionist stance and tariff deluge that began under the prior administration.

Many of the largest companies remain reliant on China, which has focused its efforts on reviving sagging consumer demand. Still, recent political tensions are putting further strain on the US-China trade relationship.

"We're seeing the 'China plus one' strategy become a 'China plus many' approach, as retailers and manufacturers look for multiple import sources," said Daniel Hackett, partner at international trade consulting firm Hackett Associates. "There's been an increased focus on resilience, leading to a gradual shift in input origins."

US imports from China, 2019-2023 (\$ trillion)



Data compiled March 20, 2024.
 Analysis includes total imports from China by the US between Jan. 1, 2019, and Dec. 31, 2023.
 Source: S&P Global Market Intelligence.
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China's industrial push

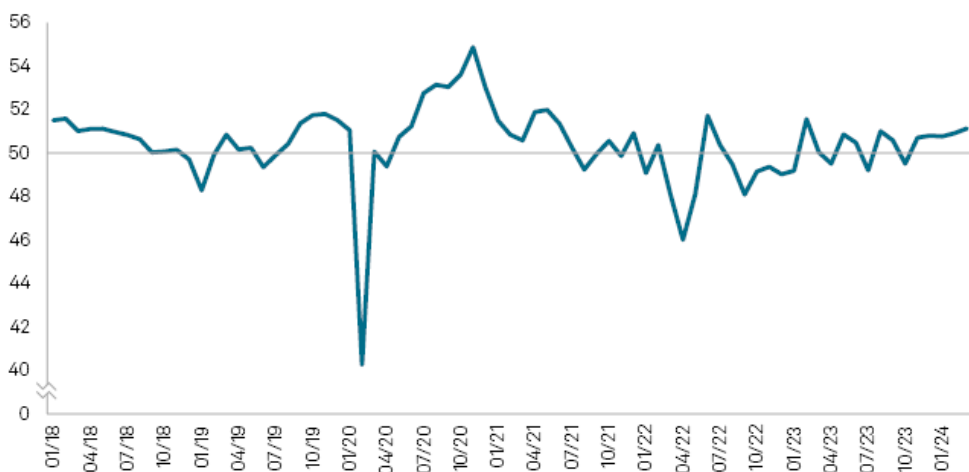
China's efforts to reinvigorate its economy and manufacturing base have included [subsidies for strategic industries](#) and fanned the flames of global trade protectionism.

China produced 53.9% of the world's crude steel in 2023, over 12.5 times the amount produced in the US last year. The country has struggled to [adjust production](#) and rein in falling steel prices amid waning demand from the property and construction sectors, with the property sector alone accounting for nearly a third of the country's steel consumption in 2023, according to S&P Global Commodity Insights data.

"The larger problem with China's current policy mix is the pursuit of supply-side industrial policy at a time when weak domestic demand is already causing China's global trade surplus to reach new highs," said Logan Wright, a partner and director of China markets research at research firm Rhodium Group. "There is a limit to the capacity of both developed and developing economies running ever-expanding deficits to accommodate the consequences of China's slowing economy."

China set its growth target for 2024 at 5% and recent manufacturing activity suggests tentative support for the goal. The country's manufacturing PMI reached its highest reading in a year in March at 51.1 and has remained above 50 — indicating growth — since November 2023, according to S&P Global Market Intelligence data.

China's manufacturing activity has been expanding since November



Data as of April 24, 2024.
 Monthly manufacturing purchasing managers' index for mainland China. A PMI reading of 50 indicates no change in activity from the prior month.
 Source: S&P Global Market Intelligence.
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The increasing dominance of state-owned companies has led to a significant shift among China's largest corporations. According to a January study by the

Peterson Institute for International Economics, the private sector's share of aggregate market capitalization among the 100 largest listed companies declined from a peak at 55.4% in mid-2021 to 36.8% by the end of 2023, with state-owned and mixed-ownership companies accounting for the remainder.

Property sector weighs on consumers

The floundering property sector and low consumer confidence remain two of the country's greatest stumbling blocks on the path to economic recovery in the year ahead.

"The property market is likely to remain sluggish and continue to be a key uncertainty to China's economic recovery in 2024 due to the weak prospect of economic and income growth, as well as the government's cautious attitude toward stimuli," said Yating Xu, principal economist at Market Intelligence.

Although the housing sales market is likely to bottom out amid the measured government stimulus measures, property investment may remain a drag on the outlook for the construction market, Xu said.

"There's a legitimate argument at this point that most of this adjustment is already complete and activity is already close to long-term equilibrium levels," said Wright with Rhodium Group. "Prices will likely continue to decline before transactions pick up, but the land market seems to be recovering from a very low base, and property construction activity may stabilize this year."

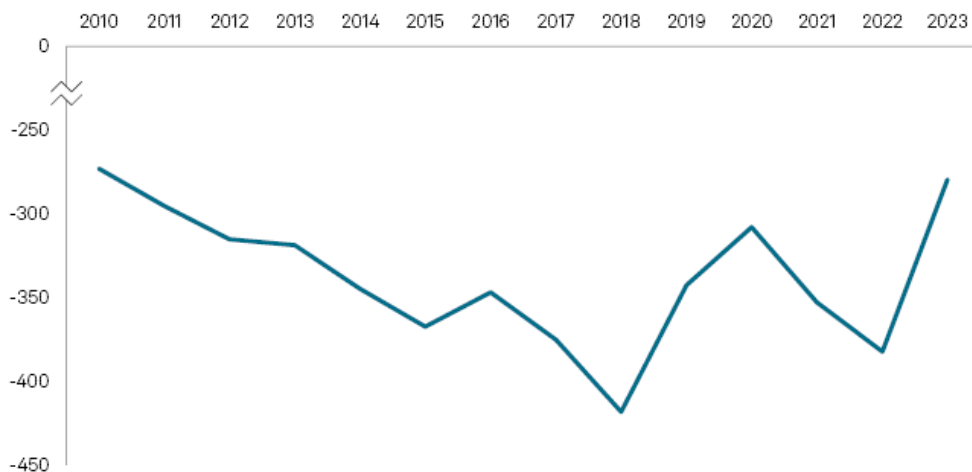
Consumer confidence deteriorated in early 2022 and has yet to show signs of recovery, with the index measuring consumer confidence mostly registering below 90 of 200 possible points with 100 being the neutral level, according to data published by China's National Bureau of Statistics.

"We continue to see weakness in household spending, driven by a lack of household support during the pandemic and deteriorating confidence in the real estate market, given high homeownership rates in China," said Alejandra Grindal, chief economist at Ned Davis Research.

S&P 500 companies reliant on China

As it aspires to shorten supply chains through nearshoring, the US has also welcomed the dramatic narrowing of its trade deficit with China. The deficit fell by over \$100 billion from 2022 to \$279.4 billion in 2023, its lowest extent in 12 years.

US trade deficit with China shrank to 12-year low in 2023 (\$B)



Data as of April 19, 2024.
 US trade deficit with China, net balance of US exports minus imports.
 Source: US Census Bureau.
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Still, many of the world's largest companies remain deeply reliant on the region.

Among the S&P 500, semiconductor companies including [Applied Materials Inc.](#), [KLA Corp.](#) and [Lam Research Corp.](#) are among the most exposed to China based on revenue, while "Magnificent Seven" tech companies including [Tesla Inc.](#) and [Apple Inc.](#) also report significant business in the country, according to a Market Intelligence analysis of fourth quarter earnings data.

S&P 500 constituents with revenue exposure to China

Company (exchange:ticker)	March 19, 2024, market capitalization (\$B)	Total revenue exposure to China			Proportion of revenue exposure to China		
		Q4 2022 (\$M)	Q4 2023 (\$M)	YOY change (%)	Q4 2022 (%)	Q4 2023 (%)	YOY change (bps)
Applied Materials Inc. (NASDAQGS:AMAT)	167.29	1,145.0	2,997.0	161.7	16.99	44.68	2,769
KLA Corp. (NASDAQGS:KLAC)	92.10	681.7	1,027.8	50.8	22.85	41.33	1,848
Lam Research Corp. (NASDAQGS:LRCX)	122.06	1,263.5	1,493.4	18.2	23.94	39.74	1,580
Amphenol Corp. (NYSE:APH)	66.57	849.4	843.5	-0.7	26.22	25.35	-87
Tesla Inc. (NASDAQGS:TSLA)	545.62	4,577.0	6,103.0	33.3	18.82	24.25	543
Bio-Techne Corp. (NASDAQGS:TECH)	11.12	54.5	62.5	14.7	20.08	22.94	287
A. O. Smith Corp. (NYSE:AOS)	12.76	202.5	218.2	7.8	21.63	22.08	45
Apple Inc. (NASDAQGS:AAPL)	2,719.01	23,905.0	20,819.0	-12.9	20.40	17.41	-299
Otis Worldwide Corp. (NYSE:OTIS)	40.08	622.0	612.0	-1.6	18.09	16.91	-118
Pentair PLC (NYSE:PNR)	13.52	137.2	151.6	10.5	13.68	15.40	172
Synopsys Inc. (NASDAQGS:SNPS)	89.19	197.8	250.0	26.4	14.53	15.16	63
Tapestry Inc. (NYSE:TPR)	10.67	225.9	264.7	17.2	11.15	12.70	155
Teradyne Inc. (NASDAQGS:TER)	15.84	104.1	74.2	-28.7	14.22	11.07	-316
Fortive Corp. (NYSE:FTV)	29.99	188.0	172.5	-8.2	12.29	10.89	-140
Merck & Co. Inc. (NYSE:MRK)	309.49	1,234.0	1,480.0	19.9	8.92	10.12	119
Cummins Inc. (NYSE:CMI)	38.30	616.0	842.0	36.7	7.93	9.86	193
Skyworks Solutions Inc. (NASDAQGS:SWKS)	16.59	106.3	79.9	-24.8	8.00	6.65	-135
VeriSign Inc. (NASDAQGS:VRSN)	19.40	26.7	20.6	-22.8	7.23	5.42	-182
Zoetis Inc. (NYSE:ZTS)	79.19	91.0	65.0	-28.6	4.46	2.94	-152
Texas Instruments Inc. (NASDAQGS:TXN)	151.76	-2,933.0	-2,238.0	-23.7	-62.81	-54.89	791

Data compiled March 20, 2024.

Analysis includes constituents of the S&P 500 Index that have disclosed their revenue exposure to China in their financial statements. Excludes companies that had unavailable segment revenues.

Data based on GAAP filings.

Source: S&P Global Market Intelligence.

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Even amid more strained US-China relations, some companies have grown more optimistic about China's economic outlook and business climate. In a survey of members of the American Chamber of Commerce in China published in February, 50% of respondents said they considered China a top investment destination, though rising tensions in US-China relations were identified as the greatest business challenge facing respondents for a fourth consecutive year.

"Ultimately, the move to deglobalize will lead China as well as the US to produce more domestically, something China has already been doing since the global financial crisis," said Grindal at Ned Davis Research. "But whenever you reduce trade — holding all else equal — the obvious downside is a reduction in potential global growth."

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