

China's Opportunities: Western partners and allies

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The evolving rift between Washington and Beijing is reshaping international trade and diplomacy. As the United States promotes a strategy of "de-risking" from China, aimed at reducing economic exposure without complete disengagement, Beijing is reinforcing its position as a necessary global partner.



China continues to be as open for business as ever, offering investment opportunities across Asia, Africa and Europe. This approach is causing tension among Western allies, who are under pressure to support US policy, while also protecting their trade ties with China. Some export-driven countries are hesitant to fully back Washington's push to contain China.

For many European governments and companies, cutting ties with China is not practical. Instead of full alignment with US policy, they are quietly scaling back in some areas, while staying engaged in others. It is a cautious approach shaped by economic realities, not political loyalty.

Who is still trading heavily with China?

Despite growing pressure from Washington to reduce reliance on China, several Western economies continue to maintain strong commercial ties. For many, the Chinese market remains too valuable to ignore, both as a buyer and a manufacturing base.

Germany is one such country. As noted by experts, China is a top export destination for German autos, chemicals and machinery. Volkswagen, BASF and Siemens maintain major operations inside China, and their revenue from the Chinese market often surpasses what they earn in the US, making full disengagement unrealistic.

France also remains engaged. Airbus has expanded its final assembly operations in Tianjin, and luxury brands such as LVMH benefit from steady demand among China's growing middle class.

Italy, despite formally exiting China's Belt and Road Initiative in 2023, is pursuing direct economic co-operation. In July 2024, Rome announced new trade and investment deals with Beijing, targeting energy and manufacturing sectors.

Outside the EU, Switzerland maintains a free trade agreement with China. Its pharmaceutical and watch exports continue to perform strongly. The Netherlands, home of chipmaking leader ASML, is walking a careful middle path, restricting some advanced chip technology exports under US pressure, while continuing other commercial activity.

In the UK, trade with China remains high in areas like finance, education and property, according to UK government risk assessments. Meanwhile, Australia's iron ore and LNG exports to China continue to anchor the bilateral relationship amid diplomatic strains. For these countries, commercial ties with China are less about loyalty and more about economic self-interest.

Stepping back from China and aligning more closely with the US

Some Western countries are starting to pull back from China due to security concerns and political pressure. The US is leading this effort, putting controls on semiconductor exports and working with Japan, South Korea and Taiwan to limit China's access to advanced chip technology. These actions are changing how global tech supply chains operate and forcing allied companies to fall in line.

Japan's change in policy stands out. In 2023, it restricted exports of chip-making equipment to China, bringing its position closer to the US and South Korea, though still dependent on China for some materials, and has also limited tech exports and increased its involvement in US-backed efforts like the "Chip 4" alliance.

Germany's 2023 China Strategy says the country should depend less on Chinese imports and build other supply options. But, in reality, not much has changed. German companies are still growing in China because the demand is there, and the infrastructure is already in place. There is a clear gap between what the government says and what businesses are doing. France has also warned about relying too much on China, especially in areas seen as sensitive.

Some US tech firms are starting to pull back from China. Apple is speeding up its move to shift assembly to India, Indonesia and Vietnam. Other companies in clothing and electronics are also moving supply chains out of China. They point to problems with data rules, IP concerns and higher labour costs.

These shifts are not just about caution; they are a reaction to real legal and reputational risks. China's tougher cybersecurity rules and unpredictable regulations are making foreign companies nervous.

Opportunities for Western businesses in China

Even with rising tensions, China is still looking to attract foreign investment in areas that support its own development goals. It has lowered entry barriers in sectors like cars, finance and healthcare, and is offering tax breaks and faster approvals in new free trade zones.

Growth for China is strongest in electric vehicles, AI, green energy and advanced manufacturing sectors, backed by government policy. Foreign firms that set up in-country offices, create joint ventures and build local relationships are likely to get better support and access.

Spending in smaller cities is growing. Tier 2 and 3 markets are seeing more demand for foreign brands, especially in luxury goods, electronics and healthcare. Some global brands are scaling back, but some are seeing positive trends.

Even though China has also opened up more sectors, firms that treat China as a key market, not just a place to cut costs, stand a better chance of long-term success.

China's economy: still on track for 5% growth?

China says it will hit 5% growth in 2025. President Xi has repeated the target, and state media like Xinhua and China Daily are pointing to strong exports, infrastructure and industrial output. But outside analysts are less confident, and there's a growing gap between what's being reported and what is happening on the ground.

The economy grew 5.4% year-on-year in the first quarter, but most of that came from government stimulus and a rebound in exports, not local demand. Household spending is still weak, making up less than 40% of GDP. Many families are saving instead of spending because of high debt and job insecurity.

Youth unemployment remains high with some estimates putting it over 20%. The government stopped releasing the data in 2023, which has only raised more questions. Real estate is also still a problem. Developers like Evergrande are struggling, and investment in property has not picked up.

China's spending on infrastructure remains unmatched globally. In 2018 alone, it invested over €100 billion in rail projects, more than half of all global rail infrastructure spending that year. This represented nearly 1% of its GDP, far above the 0.3% average in other countries. Since Xi Jinping took office, China has built almost 30,000 miles of high-speed rail, with plans to extend that to 45,000 miles by 2035. The cost of this expansion has exceeded US\$500 billion in recent years. In 2023, China averaged 10.7 billion yuan (about US\$1.47 billion) per day in transport infrastructure investment, setting a new record.

This level of spending not only reflects Beijing's long-standing preference for state-led growth but also explains why infrastructure remains a cornerstone of its stimulus approach, even as returns diminish. Infrastructure spending activity is slowing but still happening. However, it is not driving growth like it used to. Many areas already have more than they need, and new projects are not having the same impact. Prices are also falling, which points to weak demand, and deflation has now become a factor, making it harder for policymakers to respond.

That said, manufacturing is steady thanks to state help and some reshoring, yet private sector confidence is low. Many local and foreign businesses report mixed conditions. State-backed firms are active, but consumer-facing ones are struggling. For foreign investors, the headline growth numbers matter less than what is actually happening in the market. The gap between official targets and local realities shows why it is important to look beyond the surface.

Conclusion

China remains a major force in the global economy, but perceptions have shifted. For Western policymakers, balancing economic ties with national security concerns is becoming increasingly difficult. For businesses, the considerations are more direct, opportunities are available, but the operating environment is questionable. The reality between official growth claims and ground-level conditions is also widening.

De-risking does not mean cutting ties completely, and full decoupling remains extremely unlikely.

However, firms that stay in China without regularly reassessing risk exposure, risk falling behind. China is not just another growth market, it is a politically sensitive, tightly managed system where rules can shift with little notice. It boils down to knowing when to lean in, and when to hold back. China still offers potential, but tapping into it now requires sharper judgment and better, workable intelligence than ever before.

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