Capital Markets Strategy

Essential inCights for the C-Suite

MUFG

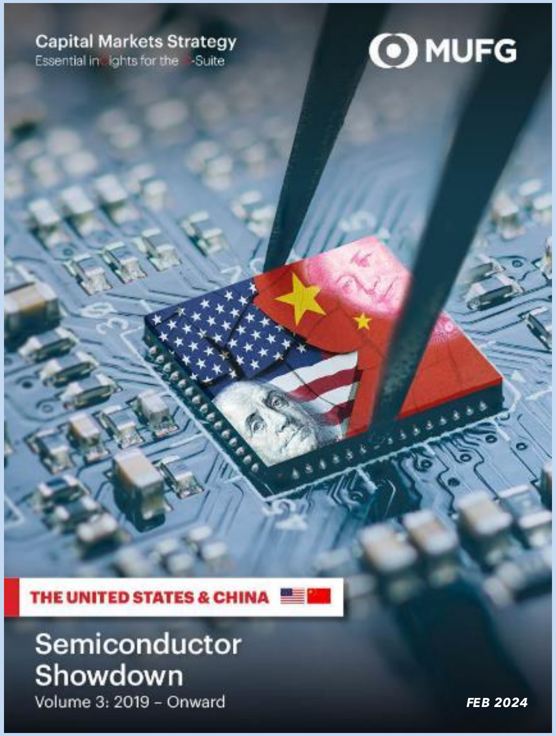
THE UNITED STATES & CHINA

Structural Rivalry, Trade & Tech Decoupling

Volume 2: 2013 – Onward

FEB 2024

The United States & China



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Global Corporate & Investment Banking Capital Markets Strategy Team

Tom Joyce

Managing Director
Capital Markets Strategist
New York, NY

Tom.Joyce@mufgsecurities.com
(212) 405-7472

Hailey Orr

Managing Director
Capital Markets Strategist
New York, NY

Hailey.Orr@mufgsecurities.com
(212) 405-7429

Stephanie Kendal

Vice President
Capital Markets Strategist
New York, NY

Stephanie.Kendal@mufgsecurities.com
(212) 405-7443

Angela Sun

Analyst
Capital Markets Strategist
New York, NY

Angela.Sun@mufgsecurities.com
(212) 405-5891

AUTHORS

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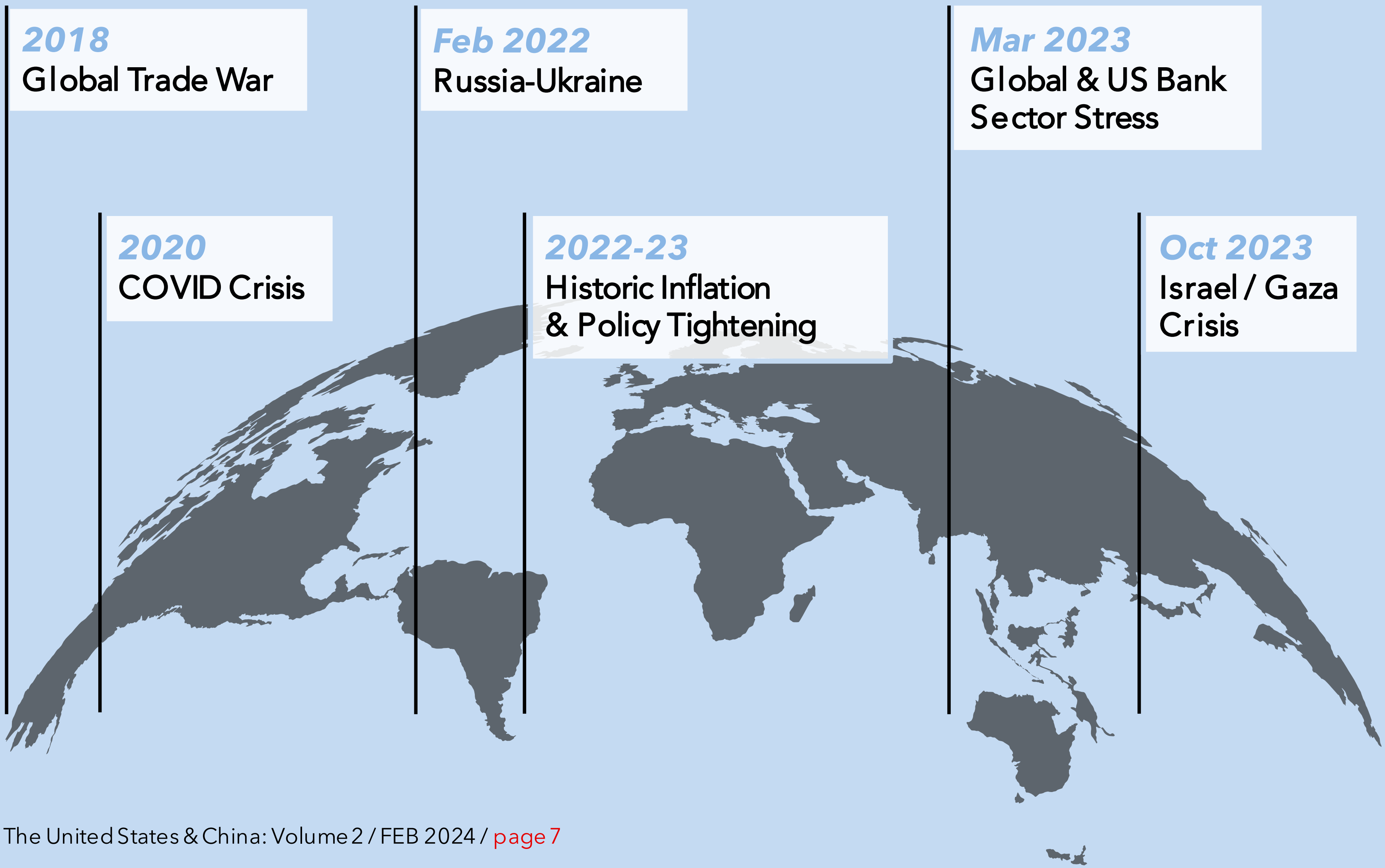
New Era of
“Higher Friction”
Geopolitics

“When somebody writes the history of our time 50 or 100 years from now, it is unlikely to be about the Great Recession of 2008, or about the fiscal problem that America confronted in the second decade of the 21st century. It will be about how the world adjusted to the movement of the theater of history toward China.”

Lawrence Summers, Economist & former US Secretary of the Treasury

Low Visibility Macro Backdrop

Low probability, high impact events have been occurring more frequently, and are nearly impossible to forecast.



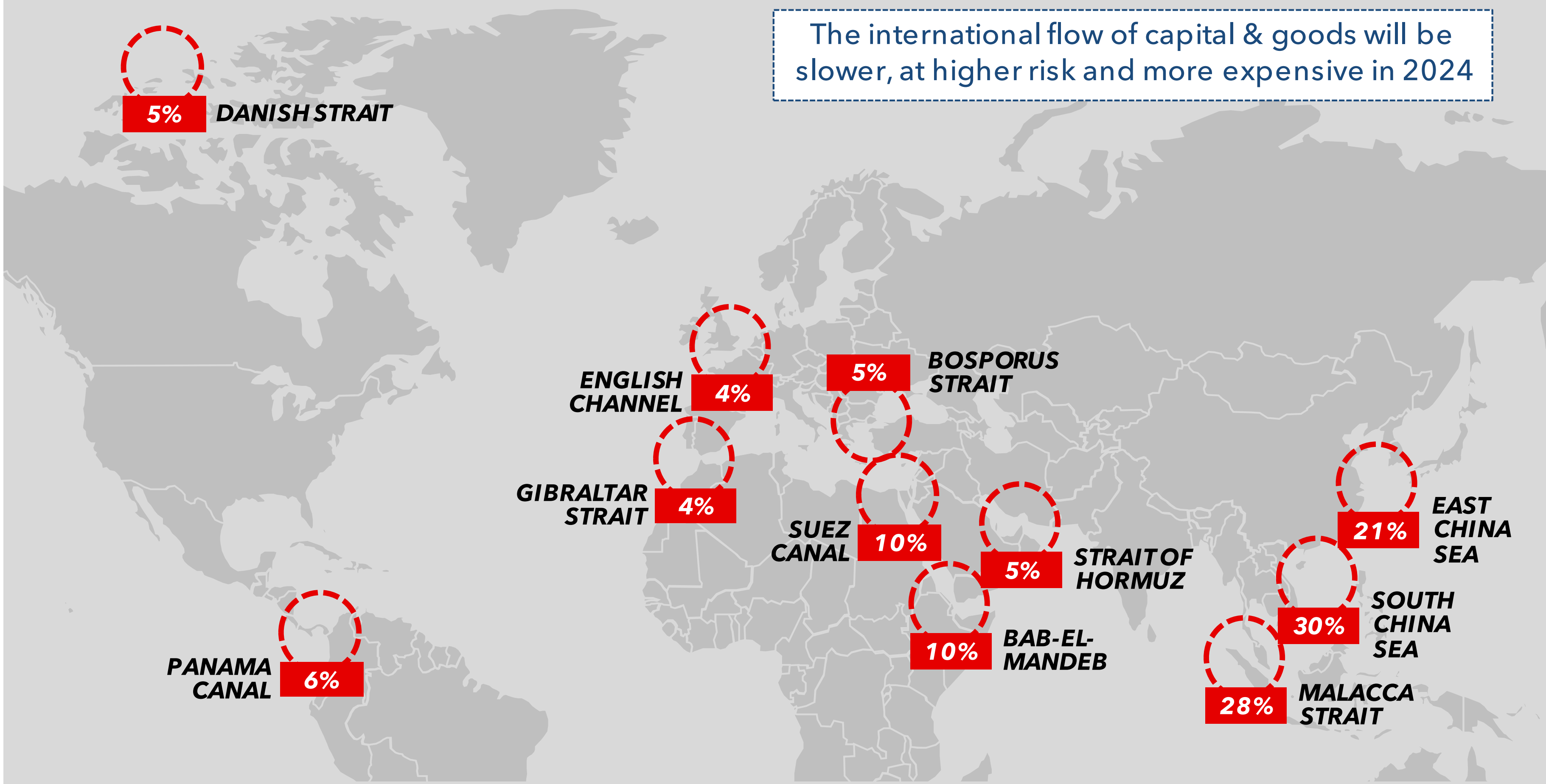
2024: Geopolitical Recession

> “It’s what I consider a geopolitical recession. The institutions that we have globally, which are meant to create a level of governance, no longer align with the underlying balance of power of the world. The same institutions also no longer align with the world's policy or leadership needs.
>
> As a result, businesses need to be much more thoughtful about how they operate on both sides of geopolitical tension.”
>
> **Ian Bremmer, Founder & President of Eurasia Group, a political risk research firm**

Global Maritime Chokepoints at Risk in Decade Ahead

Military conflict in the 21st Century is quickly shifting to maritime theaters. Over 90% of global trade is conducted at sea (95% for US), while 75% of the global population lives within 200 miles of the sea. Further, over 60% of global oil is transported by sea. Climate, geopolitical risk and de-globalization will thereby pose significant challenges to the world's most important geopolitical chokepoints in the decade ahead.

Share of global trade by 2019 value



Source: Lincoln Pratson of Duke University. GPS locations from OpenStreetMap. Statista. Percentages don't sum to 100 as a ship may pass through multiple chokepoints.

The World's Most Contested Sea

Critical Geo-strategic Chokepoint

World's Most Contested Sea

- 80% of China's oil imports
- Massive oil & gas reserves
- 1/3 of global trade
- Center of global supply chains
- World's largest arms race
- World's 2 largest navies (US & China)
- Taiwan risk

The Indo-Pacific: 21st Century Geostrategic Epicenter

From both an economic and geopolitical perspective, the broader Indo-Pacific region has emerged as the geo-strategic epicenter of the great powers in the 21st Century

The Indo-Pacific Region

> 50% of global population

65% of the world's oceans

25% of world's land mass

7 of the world's largest militaries

~ **2/3** of global GDP

Nearly $2 trillion of US & Indo-Pacific trade

~ **3 million** US jobs

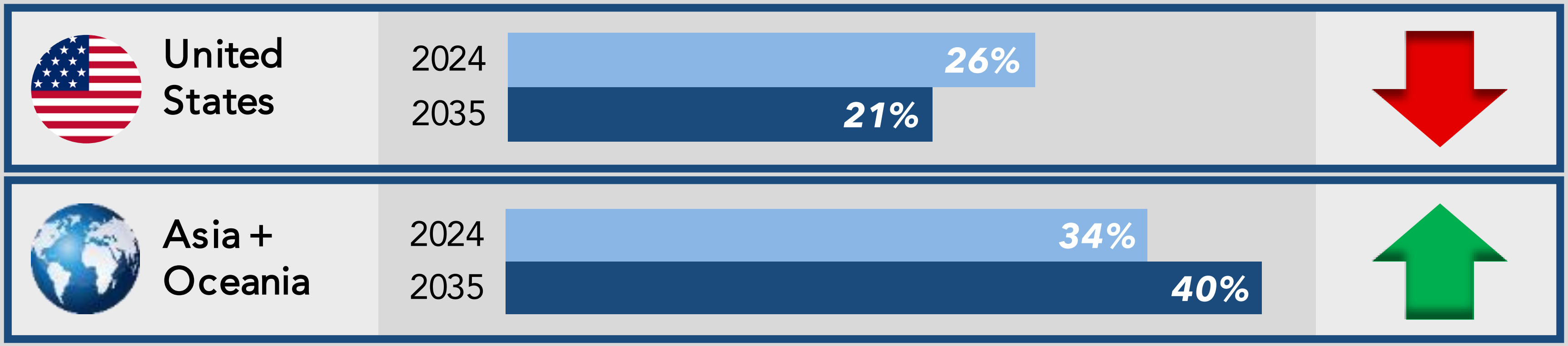
Nearly $1 trillion of <u>inbound</u> US FDI

Over $1 trillion of <u>outbound</u> US FDI

Tectonic Shifts in Economic Power Underway

Over the next 10 years, the Asia-Pacific region will grow to account for approximately 40% of global GDP, while US share will decline closer to 20%. China and India will be among the three largest economies in the world, while Japan will hold its position in the top 5.

Nominal GDP as share of global GDP



GDP, nominal, USD tn

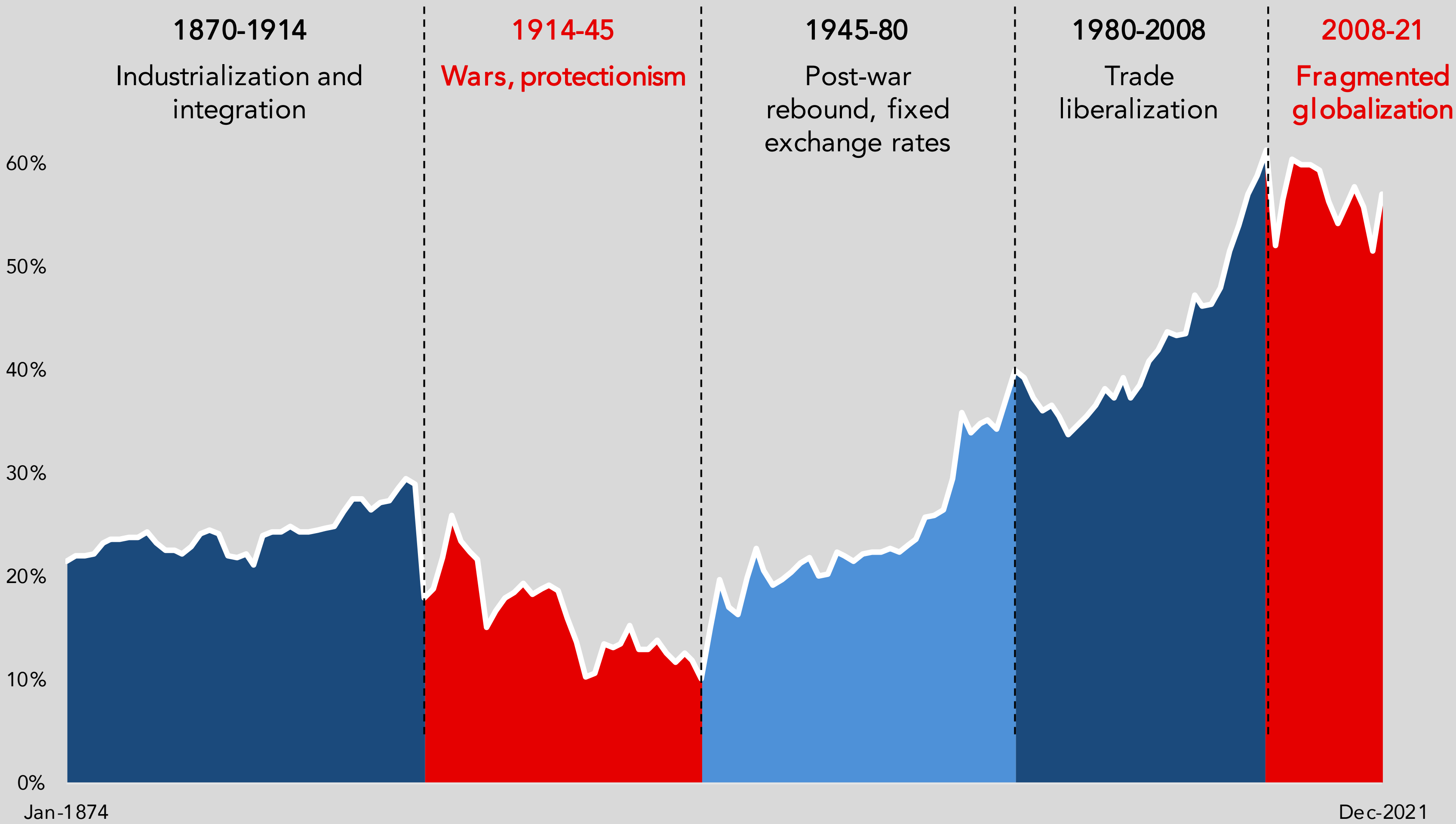
Top 5 economies in the world, ***2024***		
1	US	$28.0 tn
2	China	$18.9 tn
3	Germany	$4.4 tn
4	Japan	$4.0 tn
5	India	$3.9 tn

Top 5 economies in the world, ***2035***		
1	US	$42.4 tn
2	China	$42.4 tn
3	India	$11.7 tn
4	Germany	$7.2 tn
5	Japan	$6.5 tn

Source: (1) Oxford Economics. Data as of December 2023.

New Era of Fragmented Globalization

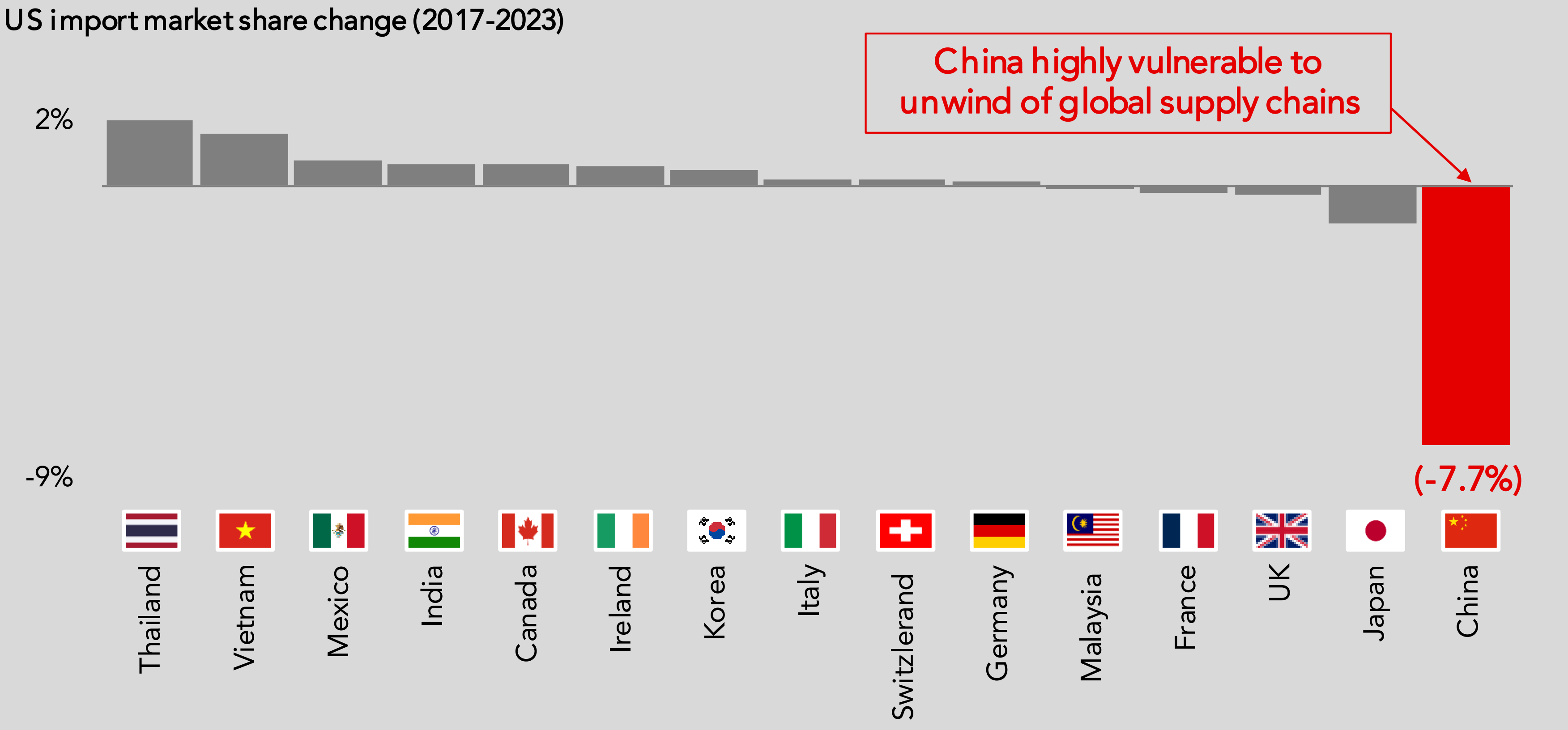
Trade openness (sum of global exports and imports as percent of GDP)



Source: (1) PIIE, "Globalization is in retreat for the first time since the Second World War" (October 2022). Trade openness index is defined as the sum of world exports and imports divided by world GDP. 1870-1949 data is from Klasing and Milonis (2014). 1950-1969 data is from Penn World Tables (10.0). 190 to 2021 data is from the World Bank.

Restructuring of Global Supply Chains

Following the US-China trade wars in 2018 - 2019, China's share of US imports began a steady decline as US Government policy and the COVID crisis encouraged US companies to reallocate sourcing patterns across partner countries. While the total volume of Chinese imports into the US has increased over this period, China's market share has experienced a sharp 8% decline in just 6 years.



Source: (1) "Global Supply Chains: The Looming Great Reallocation" (Alfaro, Chor). Prepared for the Jackson Hole Symposium, Aug 24-26, 2023 organized by the Federal Reserve Bank of Kansas City. UNComtrade. Data as of November 13, 2023. 2023 import data is through the end of September.

2 US-China Structural Rivalry

“The origins of hot wars lie in cold wars, and the origins of cold wars are found in the anarchic ordering of the international arena.”

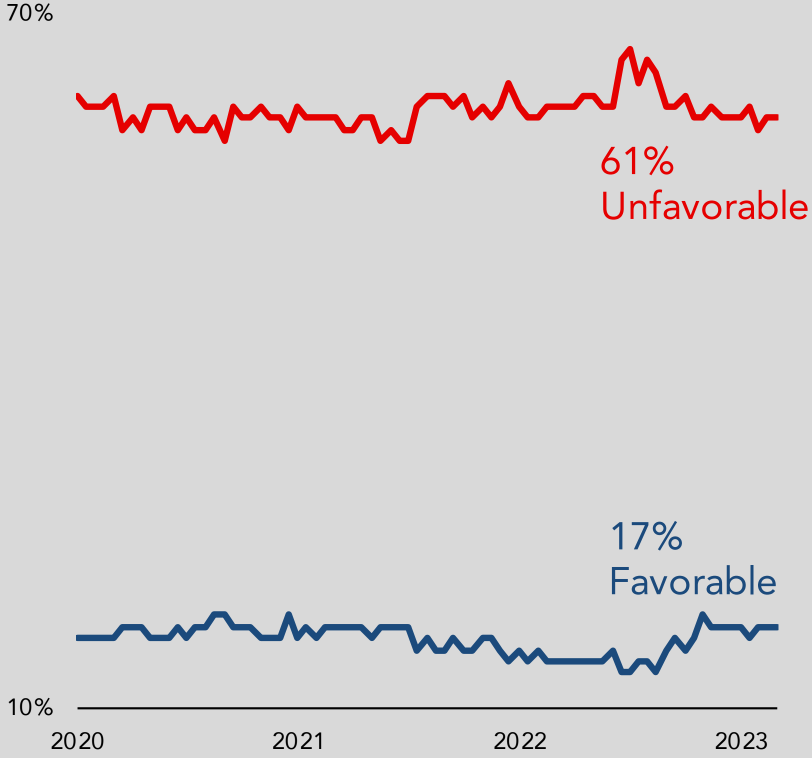
Kenneth N. Waltz, acclaimed American political scientist (1988)

High “Unfavorable” Views for US & China

Americans’ “unfavorable” view of China outweighs the “favorable” view by nearly 45 percentage points. The same is true of Chinese perceptions of the US which have been volatile but elevated in recent years. Meaningful near-term improvement is unlikely given ongoing policy decisions by both governments.

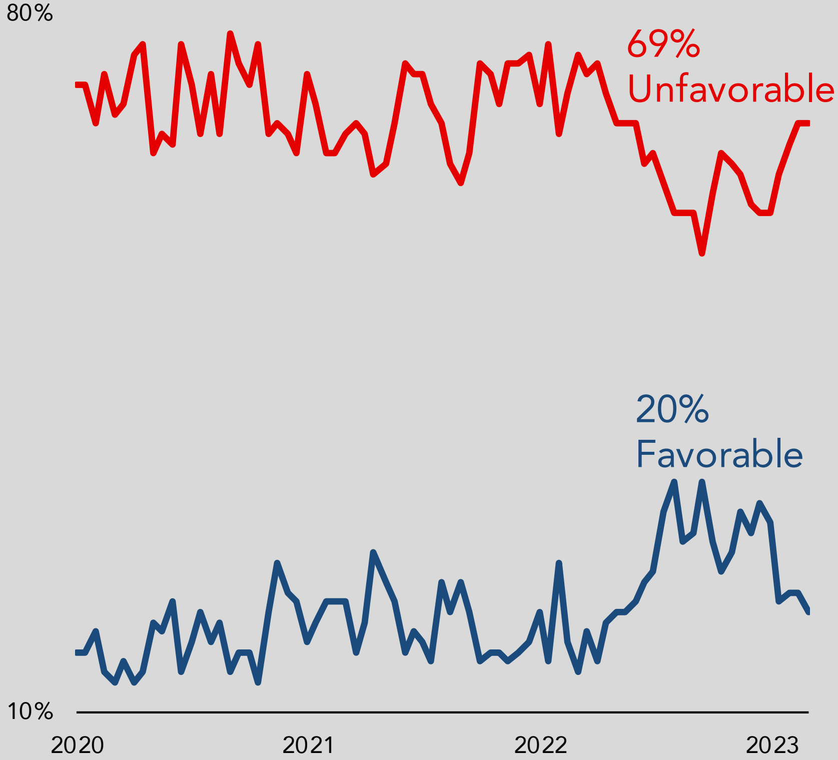
US perceptions of China

What is your overall opinion of China?



China perceptions of the US

What is your overall opinion of the US?

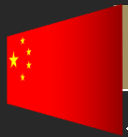


Source: (1) Morning Consult, “U.S.-China Relations Barometer”. Data as of November 3, 2023.

New "Economic Iron Curtain"

US decoupling from China

1. Trade wars, tariffs
2. Technology licensing restrictions
3. Capital Wars: FDI, M&A and Equities
4. Reducing dependence on China "rare earths"
5. Supply chain movement "away from China"
6. Restrictions on inbound & outbound China FDI
7. Reduced policy dialogue and cooperation across broad range of issues (tech, health, energy)
8. Expand regional alliances in Asia (Quad, Indo-Pacific, tri-lateral, AUKUS, etc.)
9. Diminish integrity of China growth model (cyber, IP-tech transfers)
10. Geopolitical, regional and military strategy



"After 30 years of globalization, we now face the very real prospect that an economic iron curtain may descend."

Former US Treasury Secretary, Henry Paulson, in Singapore in November 2018

China decoupling from US

1. Transition to consumer driven economy
2. Made in China 2025
3. Slowing pace of UST purchases
4. Reducing dependence on US agriculture
5. Belt & Road Initiative, AIIB & BRICS Bank
6. Xi pivot to State sector & Party (CCP)
7. Reduced policy dialogue and cooperation across broad range of issues (tech, health, energy)
8. Strategic realignment away from West (Russian, Iran, Saudi)
9. Pivot to global South (BRICS expansion)
10. Geopolitical, regional and military strategy

Key Differences in "Cold War 2.0"

To the extent US-China relations devolve into a broader geo-economic conflict, there are numerous reasons why a Cold War 2.0 may proceed differently than the post WW2 experience between the United States and former Soviet Union.

Notable Differences in Potential Cold War 2.0

Geography of conflict
More likely to be maritime (S. China Sea) than land-based

Channels of conflict
More tech and geo-economic centric than ideological, land-grabbing proxy wars

Comparative military advantage
China's military budget more sustainable

Comparative economic advantage
China a more formidable geo-economic competitor than USSR

Ideology
Less ideological competition; more nationalism

Co-dependencies
US & China, and global economy, more inextricably-linked

US-China Structural Rivalry

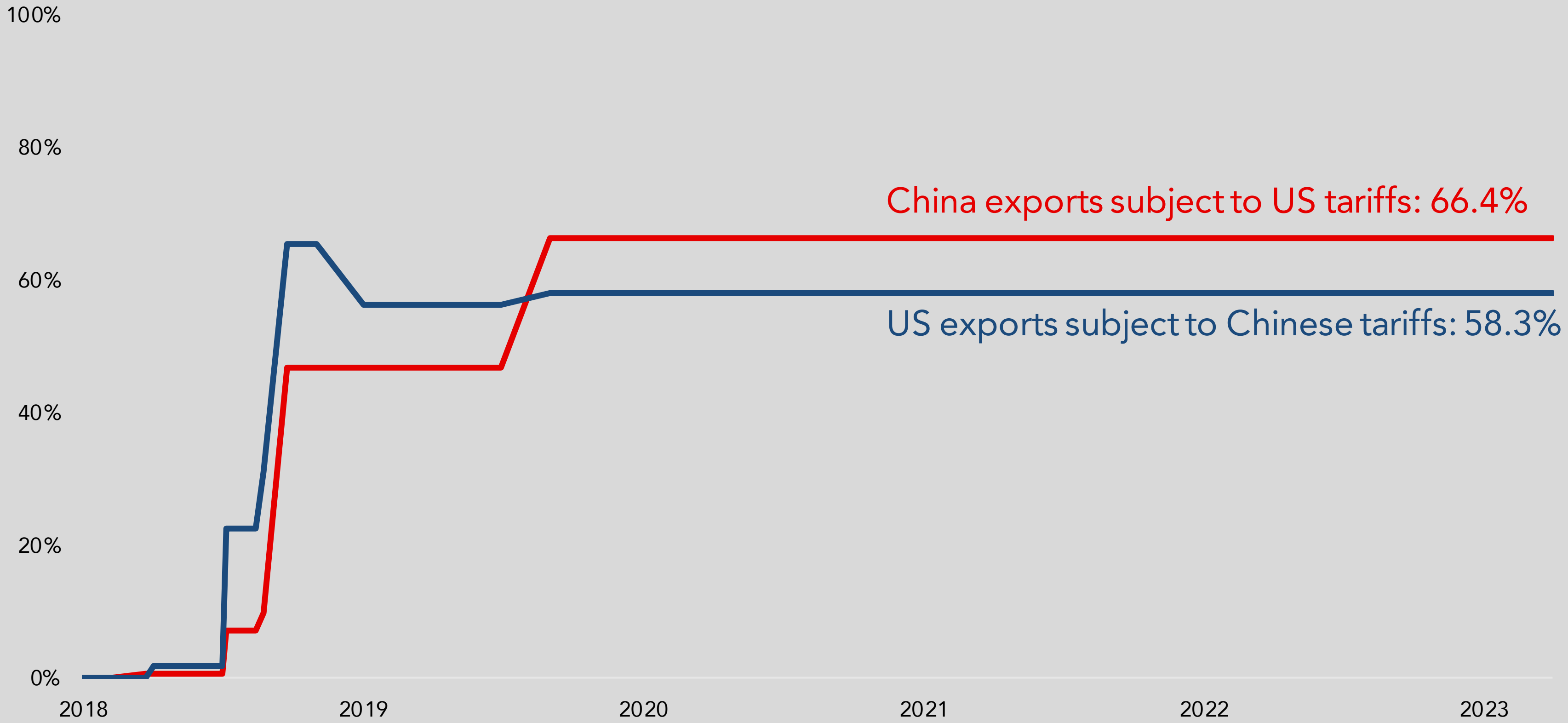
Trade War → Tech War → Geo-Economic "Cold War"

2018 - Onward | 2019 - Onward | 2023 - Onward

US-China Trade Wars

Despite their ideological and leadership style differences, President Biden has largely maintained Trump era-tariffs. However, whereas President Trump's China policy adopted a direct bilateral approach, President Biden has instead focused on influencing China's competitive landscape through regional alliances (Quad, Tri-lateral, AUKUS) and domestic US legislation designed with China in mind (CHIPS Act, IRA).

Percent of US-China trade subject to trade war tariffs



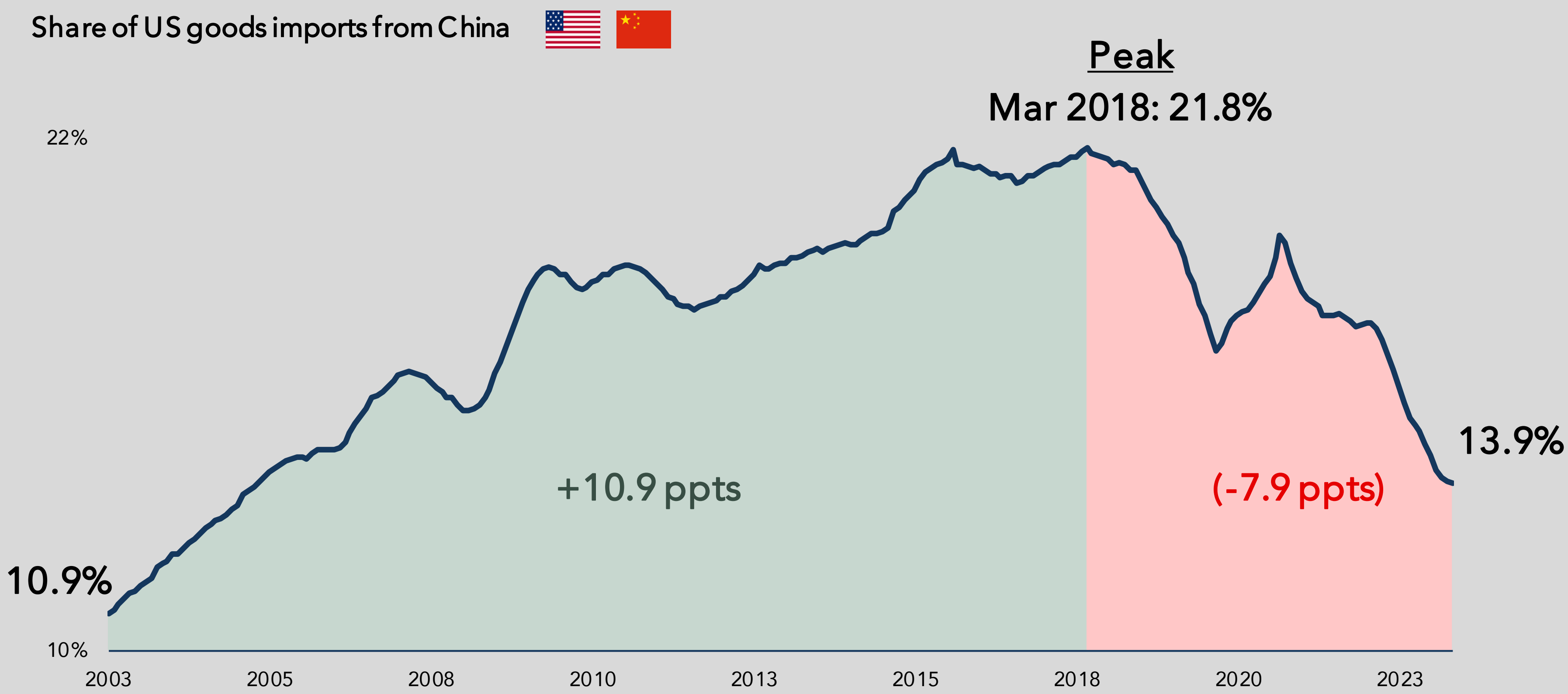
Source: (1) Peterson Institute for International Economics, "US-China Trade War Tariffs" (Chad Bown)

President Trump and Xi at the G20 meetings held in Osaka, Japan in June 2019, just three months before de-escalating a two year trade war by signing a Phase 1 trade deal, and less than 6 months before China and the world would be over-run by the COVID-19 virus.

Supply Chain Wars a Real Concern

Following their accession into the WTO in Dec 2001, China's market share of US imports more than doubled from about 10% to nearly 22% in just 15 years. Since the peak of the trade wars in 2018, China's market share of US imports has declined from approximately 22% to 14% in just 5 years as US MNCs restructure supply chains and diversify production into Mexico, Europe and Asia. While Vietnam and India have been the largest beneficiaries of China's five year net decline, supply chain shifts are occurring across dozens of industries and countries concurrently.

Share of US goods imports from China



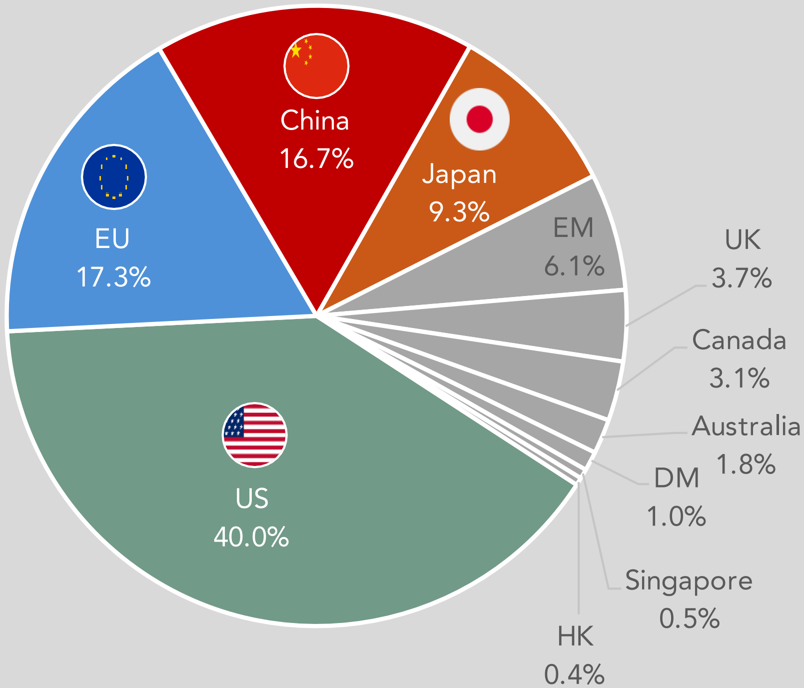
Source: (1) US Census Bureau. Data is rolling 12-month average through November 2023.

Capital Access & Financial Market Friction

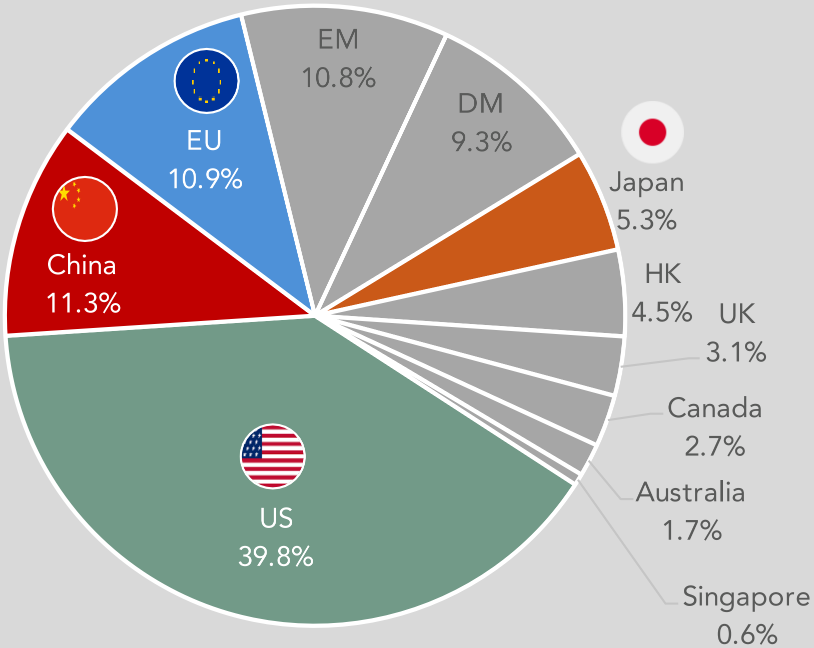
The US fixed income markets account for approximately 40% of the more than $130 trillion debt securities outstanding globally, which is over 2x the next largest market, the EU. Bond markets in the US, EU, China and Japan represent over 80% of total global fixed income securities outstanding.

The US equity markets also represent approximately 40% of more than $100 trillion in total global equity market capitalization, which is 3.5x the next largest market, China. Equity markets in the US, China, EU and Japan represent over 65% of global equity market cap.

Global fixed income securities outstanding



Global equity market cap

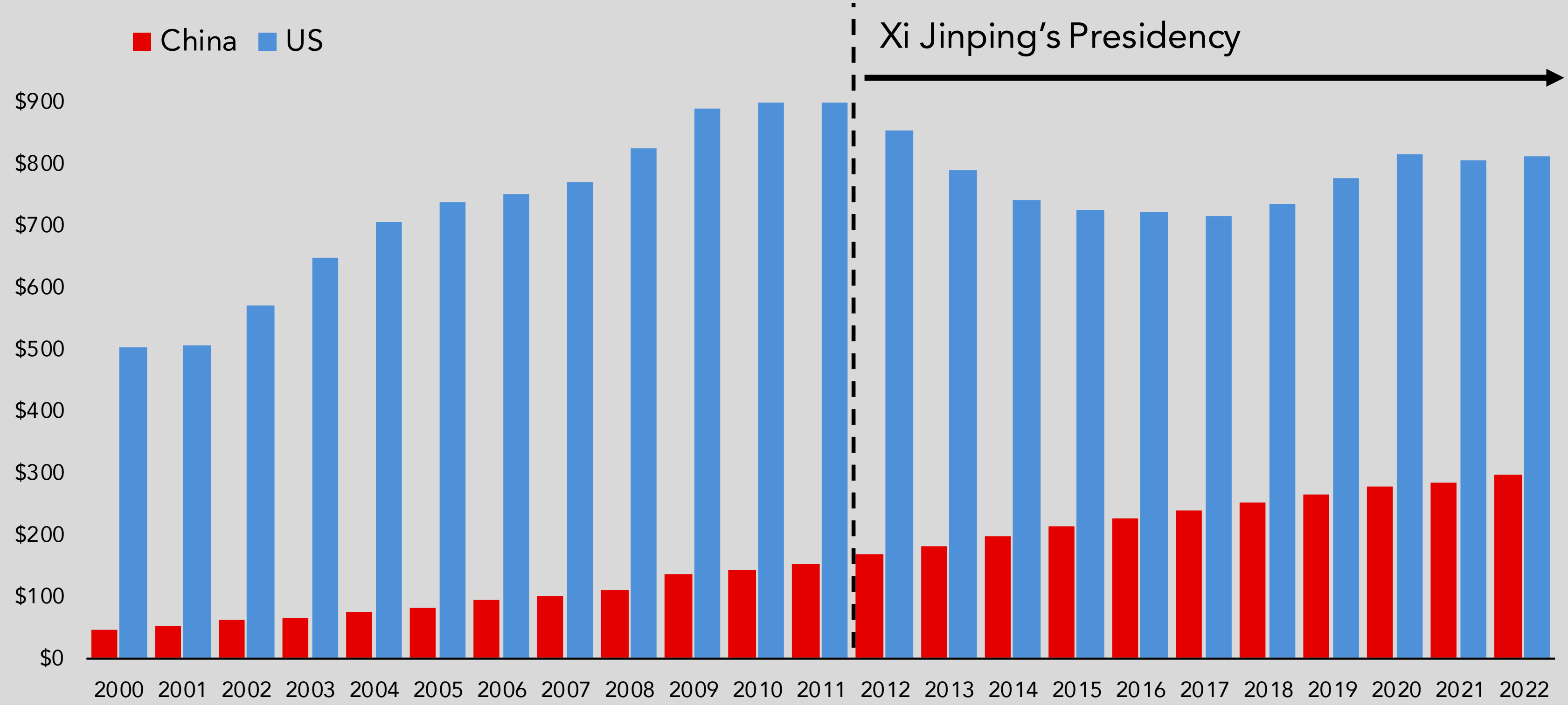


Source: (1-2) SIFMA Research (2023 Capital Markets Fact Book, July 2023). Data is full year 2022.

US & China Military Spending

China today boasts the world's largest standing army and navy, but is still a regional military power well behind the capabilities of the United States. President Xi, however, has been closing the gap quickly. Through an aggressive anti-corruption and modernization campaign, he is transforming the leadership, structure and capabilities of China's military from a large but low tech domestic Army to a high tech land, air and maritime force. The near-term goal is to project China's power well beyond its own contiguous borders and shores; and ultimately, displacing US military control of the South China Sea and greater Indo-Pacific.

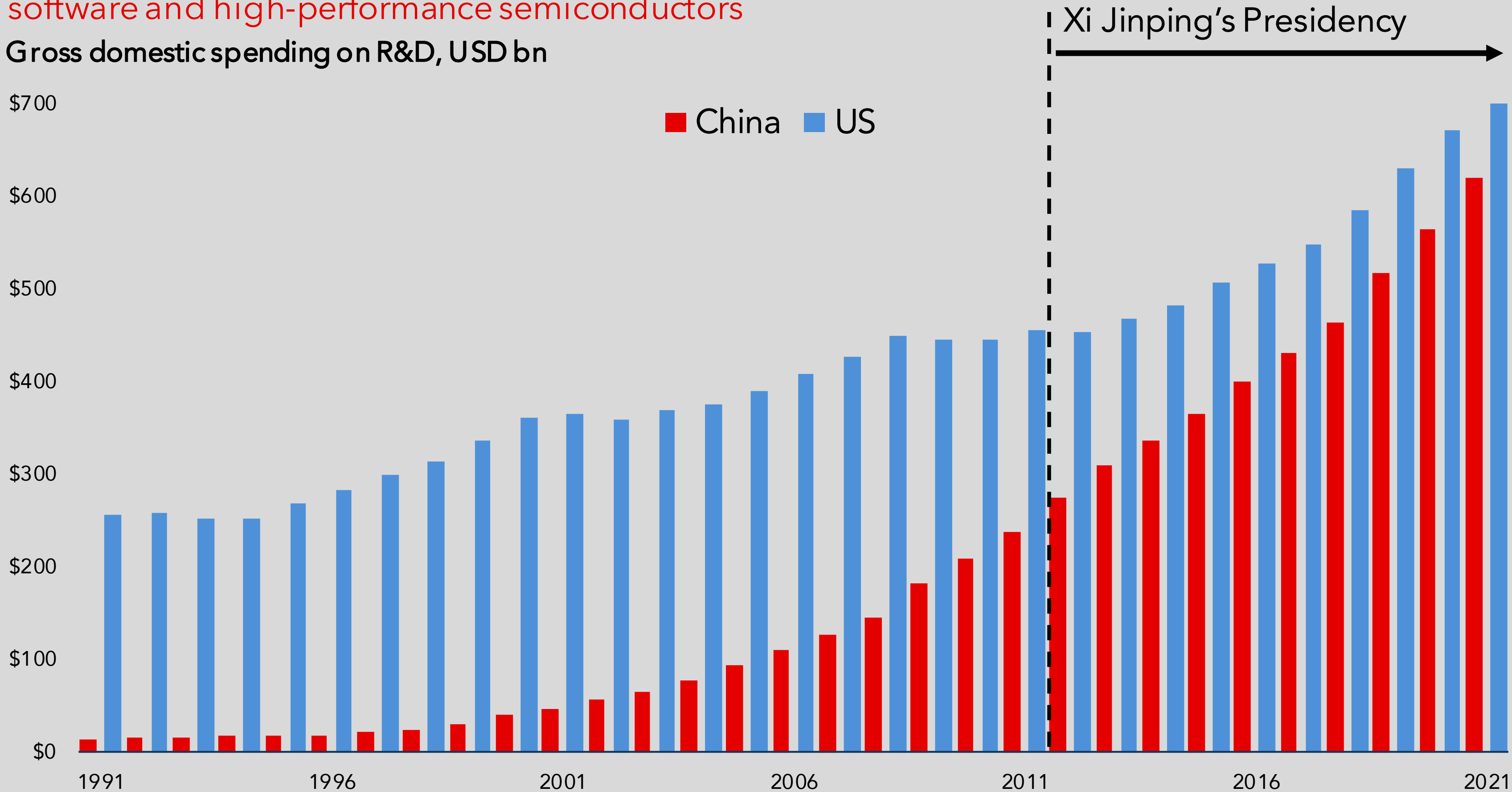
Military spending, USD bn



Source: (1) WSJ. SIPRI estimates in constant 2022 prices.

US & China R&D and Tech Spending

As noted by Nigel Inkster at the IIS, technology is at the heart of a contest between the United States and China for global dominance which is likely to shape the global geopolitical landscape in the first half of the 21st Century. Against the backdrop of increasingly restrictive US tech policy, China is moving rapidly, and is highly vulnerable, in trying to close its technology deficits – most notably in software and high-performance semiconductors



Source: (1) OECD. Bloomberg Government. Latest data available as of January 2024 is YE 2021.

3 "Xi Jinping Thought"

“当今世界正处于百年未有之大变局”

The world today is undergoing major changes unseen in a century.

Frequent phrase use in speeches by China’s President Xi Jinping

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Numerous policy experts in China have noted the frequent use of this phrase by China’s President Xi Jinping, to capture the complex interplay of global factors that influence China policy

"Xi Jinping Thought"

"Xi Jinping Thought" is an ideological doctrine created by Chinese president Xi which combines the concepts of Chinese Marxism and national rejuvenation. Initially mentioned at the 19th National Congress of the CCP in 2017, it has since been codified into China's constitution.

10 Defining Principles in "Xi Jinping Thought"

1. Re-establish centrality of the **Chinese Communist Party (CCP)**
2. Maintain and strengthen **China's territorial integrity** (mainland borders, Taiwan, S China Sea)
3. **Economic growth and security.** "Common Prosperity" (reduced inequality). Reduce outside dependencies and vulnerabilities (Made in China 2025).
4. **Environmental sustainability** tied to economic and national security
5. **Modernizing the military.** Leadership, technology, anti-corruption, maritime focus.

Source: (1) Council of Foreign Relations. Kevin Rudd in "The Avoidable War" (2022).

"Xi Jinping Thought"

10 Defining Principles in "Xi Jinping Thought" (Cont'd)

6 Managing **China's 14 neighboring states.** Strengthen and secure relationships (compliant where possible).

7 **Secure China's maritime periphery** in East China Sea, South China Sea, Taiwan and Indo-Pacific. Geopolitical, energy and trade security.

8 **BRI strategic expansion** across Pan-Eurasian Continent (land, maritime, digital)

9 **Leverage infrastructure projects** and natural resources across the developing world (Middle East, Africa and South America)

10 **Restructure, rewrite and dominate** post WW2 Western-dominated global institutional architecture

Source: (1) Council of Foreign Relations. Kevin Rudd in "The Avoidable War" (2022).

The image of former Chinese leader Hu Jintao's removal from the 20th National Congress of the CCP in October, 2022, in front of global media coverage, has been watched by millions globally. The moment has come to symbolize the massive consolidation of power in China under Xi Jinping, viewed by most as more controlling domestically, and more assertive internationally, than his predecessors.

Establish Technology Leadership & Security

Announced in 2015, President Xi Jinping's "Made in China 2025" plan was an initiative to firmly establish China's technology leadership and security by striving toward an ambitious 70% market share objective across 10 key foundational and emerging technologies.

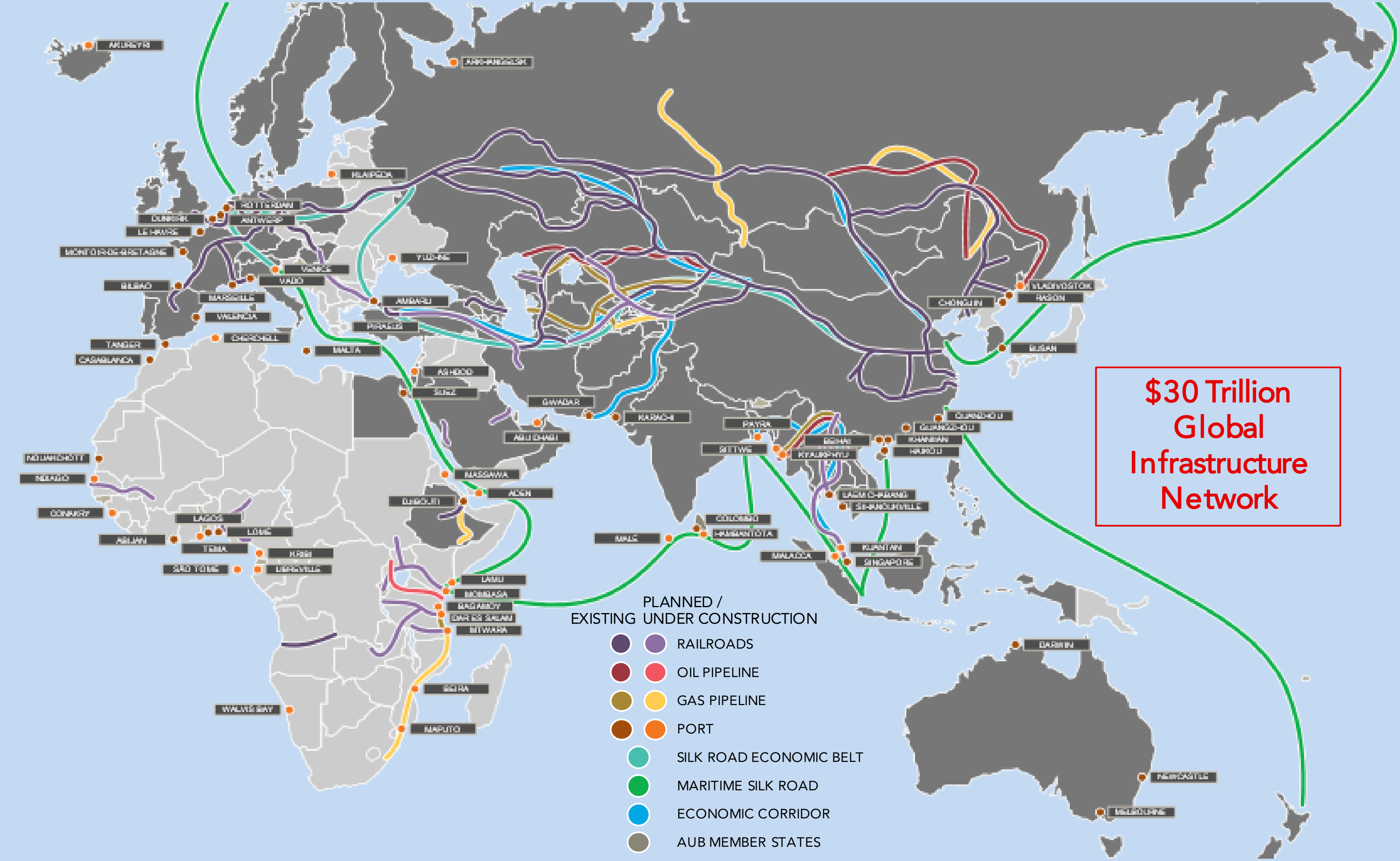
Xi Jinping's "Made in China 2025" policy initiative

- New & Advanced IT
- High tech maritime equipment & ships
- Aerospace & Aeronautical
- Energy savings & New-energy vehicles
- Agricultural equipment
- New materials
- Numerical control tools & Robotics
- Biopharma & medical devices
- Power equipment
- Rail transport equipment

MADE IN CHINA 中国制造 2025

Expand China's Global Geostrategic Footprint

China's Belt and Road initiative



President Xi announcing his signature foreign policy initiative, the landmark Belt & Road Initiative (BRI), in Kazakhstan in September 2013. Ten years later, the BRI has become a $30 trillion global infrastructure project across land, maritime and digital theaters.

Strategic Rationale of China's BRI

Announced in 2013, China's Belt and Road Initiative (BRI) has become President Xi's signature foreign policy initiative to position China at the center of a $30 trillion global network of economic relationships. Comprised of multiple channels - land, maritime, digital - the BRI represents a global infrastructure strategy (physical and digital) to expand China's geopolitical and economic power through investments in more than 155 countries globally.

Rationale for President Xi's Belt & Road Initiative

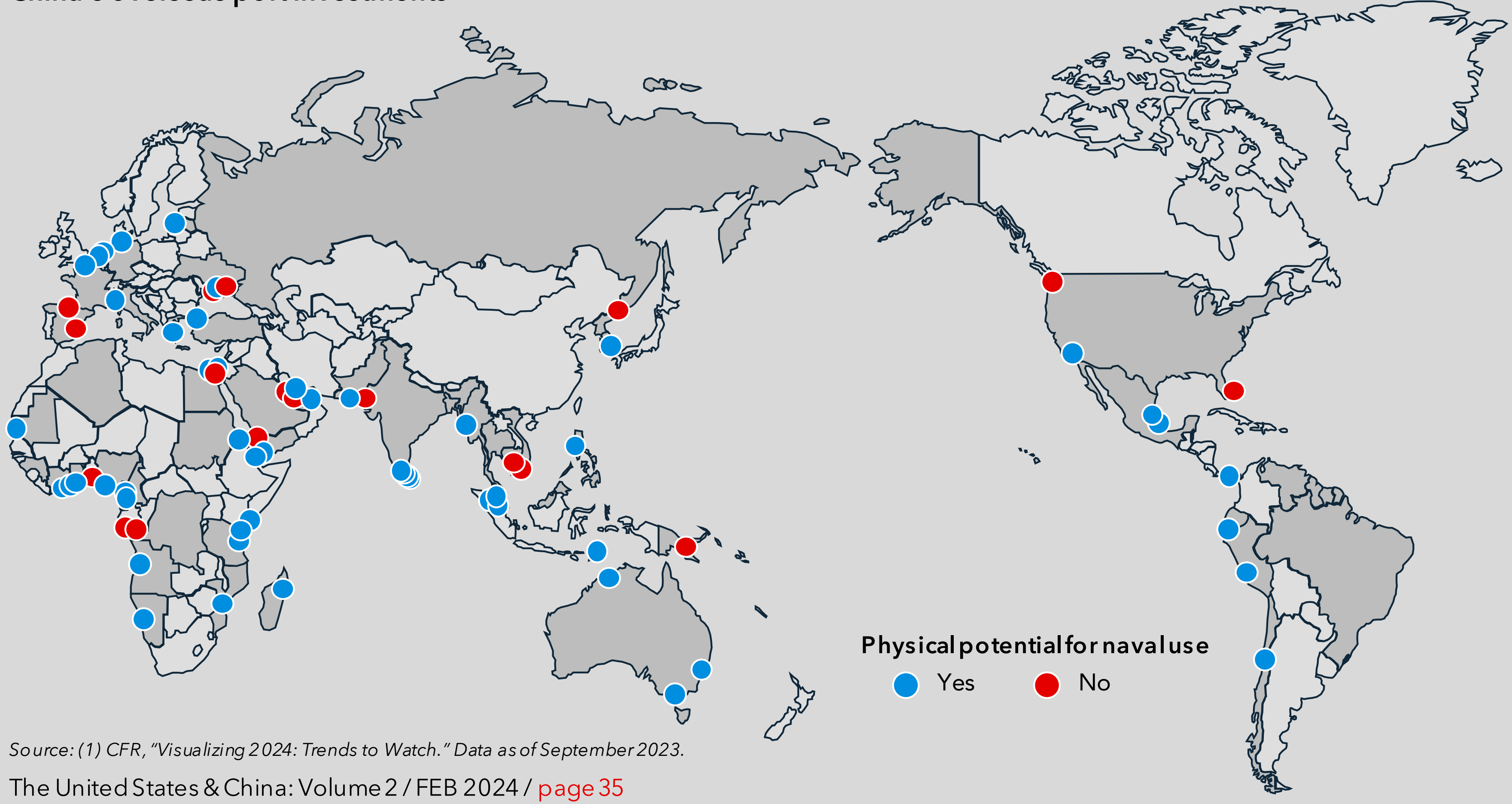
- **Soft Power:**
  Expand China's influence across EurAsia and globally
- **Architecture:**
  Provide an alternative geo-economic framework to the Western-dominated Post WW2 system
- **Surplus:**
  Expand offshore markets for China's surplus production capacity
- **Technology Bifurcation:**
  Increase adoption of Chinese technology products, network platforms and technology standards
- **Access:**
  Secure access to raw materials, energy, ports and transportation networks
- **Environment:**
  Augment clean energy domestically; transfer carbon-creating activity offshore

Source: Council of Foreign Relations. The International Institute for Strategic Studies (IISS): "China's Belt & Road Initiative (A Geopolitical and Geo-economic Assessment).

Expand China's Global Port & Naval Infrastructure

As measured by number of ships, China became the world's largest navy in 2020, though is not yet on par with the United States as a global naval power. According to the CFR, China currently has more than 90 port projects underway, part of its strategic plan to dominate global port infrastructure and support its position as the world's largest trading economy. More than half of these development projects have physical potential for naval use (and more than a dozen are China majority-owned).

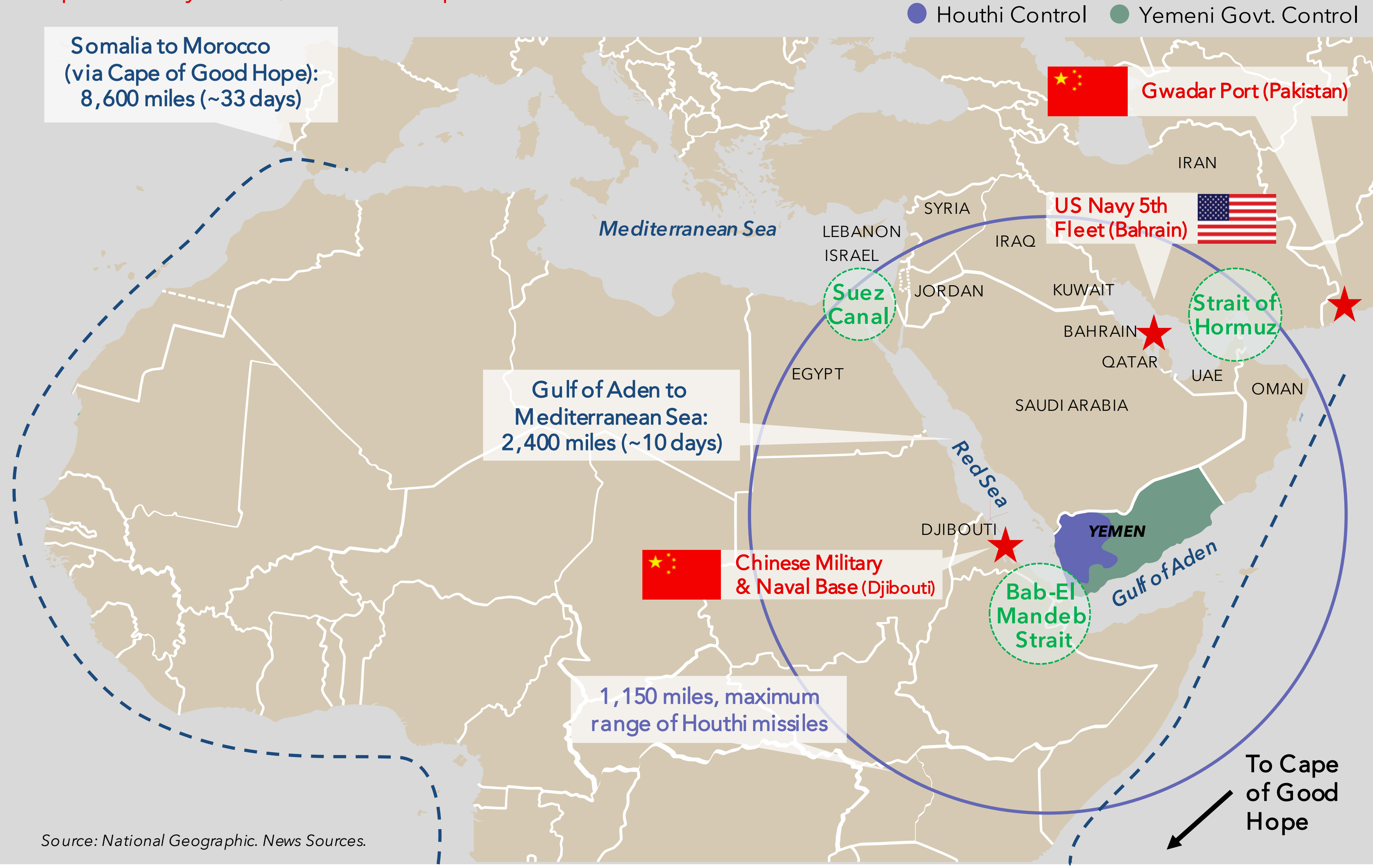
China's overseas port investments



Source: (1) CFR, "Visualizing 2024: Trends to Watch." Data as of September 2023.

Address Vulnerabilities in China's Energy Security

As the world's largest oil importer, energy security is a key strategic priority. Owned by Pakistan and operated by China, the Gwadar port allows China to circumvent Strait of Malacca & South China Sea risk.



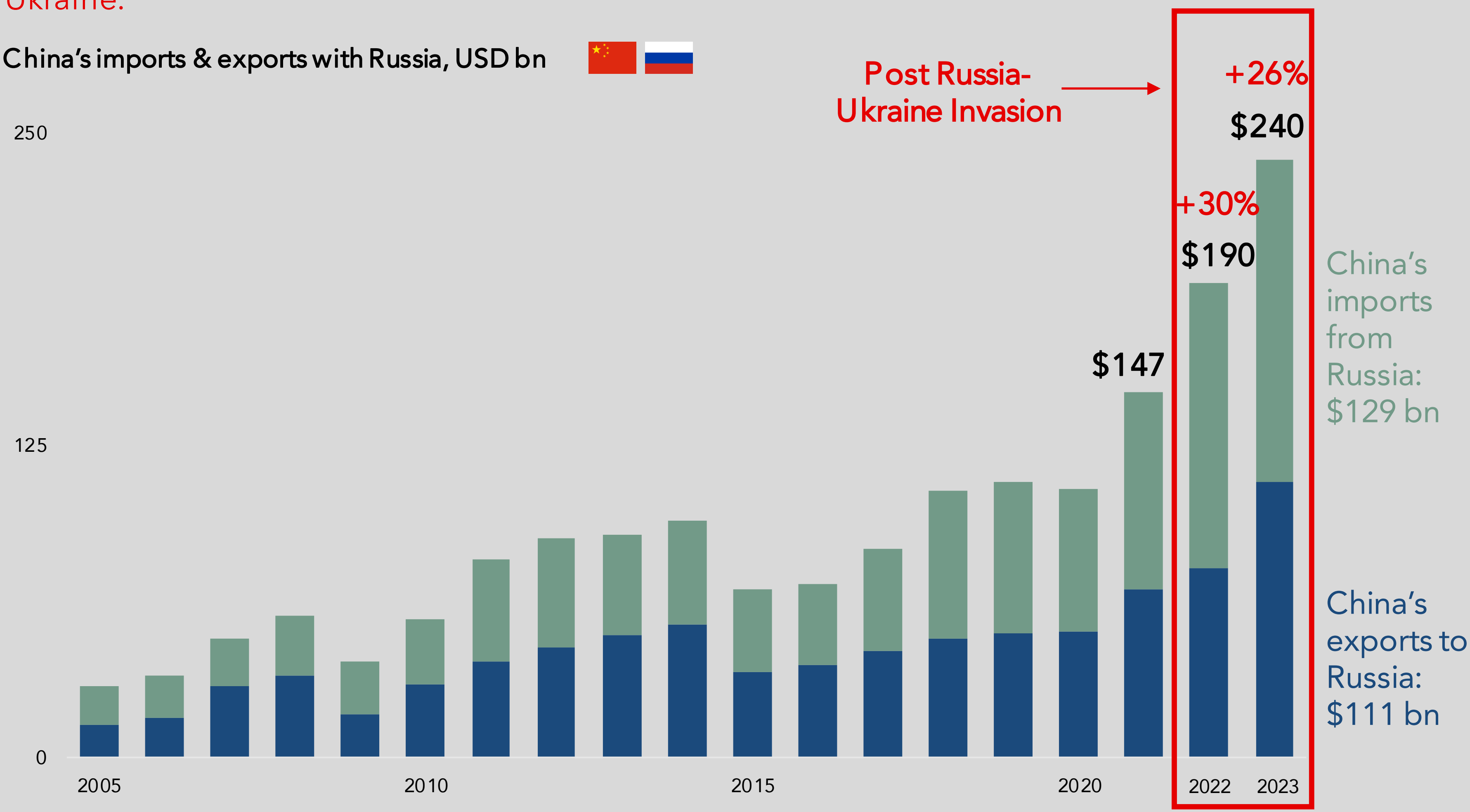
Source: National Geographic. News Sources.

Russia's President Putin and China's paramount leader Xi Jinping, on the sidelines of the Beijing Winter Olympics in February 2022, just one week before Russia's invasion of Ukraine. Trade, economic activity and geopolitical cooperation between the two countries have surged in a strategic realignment over the last two years.

Strategic Pivot to Russia & Non-Western Allies

Annual bilateral trade between Russia and China surpassed $200 billion in 2023. Bilateral trade between the two nations has increased roughly 30% y/y in each of the two years since Russia invaded Ukraine.

China's imports & exports with Russia, USD bn



Source: (1) Bloomberg, "Taiwan is not ready for a war with China: Balance of Power." China's General Administration of Customs. Year to date calculated through November.

Strategic Pivot to Global South (BRICS Expansion)

The BRICS economic group expanded in January 2024 with 6 additional members in "Phase 1" of a multi-year expansion process. The expanded 11 member group, with an enlarged presence across the Global South, accounts for 29% of global GDP (37% on a PPP basis), and 46% of the world's population. The expanded bloc, which will meet again in Kazan, Russia in October 2024, seeks to offer an alternative to the post WW2, Western-dominated, global financial and economic architecture.

USA
$26.9tn GDP
336mn Pop.

EU
$17.8tn GDP
448mn Pop.

JAPAN
$4.4tn GDP
125mn Pop.

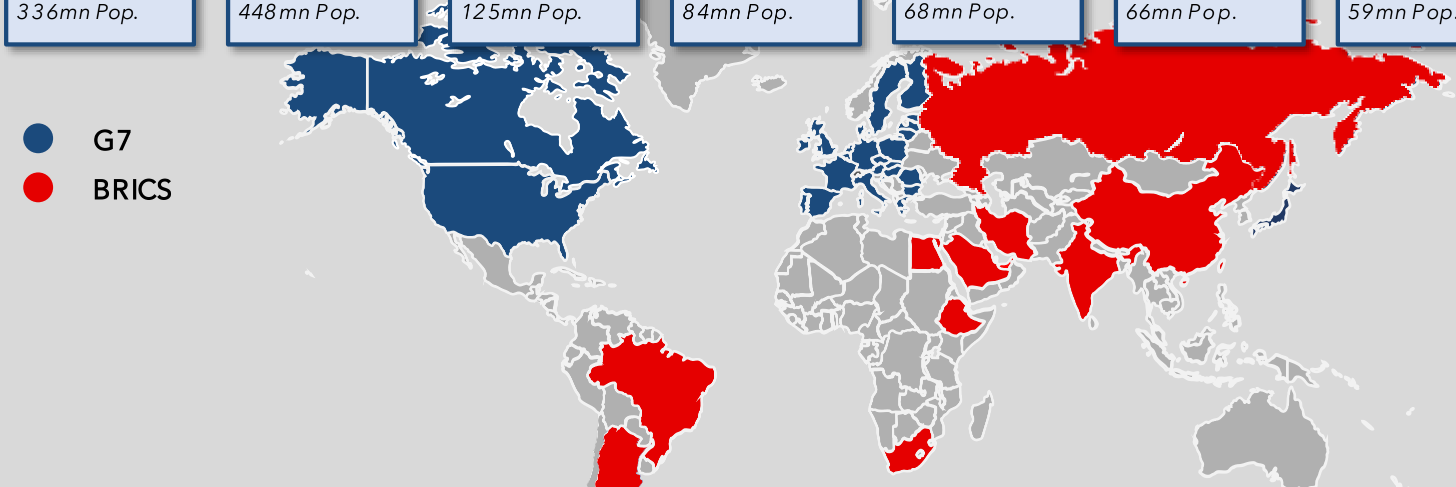
GERMANY
$4.3tn GDP
84mn Pop.

UK
$3.2tn GDP
68mn Pop.

FRANCE
$2.9tn GDP
66mn Pop.

ITALY
$2.2tn GDP
59mn Pop.

CANADA
$2.1tn GDP
40mn Pop.



CHINA
$19.4tn GDP
1.4bn Pop.

INDIA
$3.7tn GDP
1.4bn Pop.

BRAZIL
$2.1tn GDP
215mn Pop.

RUSSIA
$2.1tn GDP
143mn Pop.

SOUTH AFRICA
$399.0bn GDP
62mn Pop.

Prior BRIC Members

SAUDI ARABIA
$1.1tn GDP
35mn Pop.

ARGENTINA
$641.1bn GDP
47mn Pop.

UAE
$499.0bn GDP
11mn Pop.

EGYPT
$387.1bn GDP
106mn Pop.

IRAN
$368.0bn GDP
87mn Pop.

ETHIOPIA
$156.1bn GDP
106mn Pop.

BRICS as of Jan 1, 2024

**By convention, although the EU is a member of the G7, only GDP of Germany, France and Italy is included in aggregate G7 GDP statistics.*
Source: (1) IMF. World Economic Outlook Database. 2023 estimates. GDP in USD based on GDP in national currency converted to USD using market exchange rates.

4 Washington’s Policy Pivot

“There cannot be two suns in the sky, nor two emperors on the Earth.”

Confucius, Chinese philosopher and politician (551-479 BC)

Whole of Government Approach to China

The US has adopted a "whole of government approach" on China policy, a rare arena of general agreement among Democrats and Republicans. Notably, US-China policy is emanating from a broad range of institutions with comparatively high and low China expertise, as well as from those with relatively more and less active dialogue with China counterparts and US allies.

Selected branches and agencies of the US government driving China policy

CFIUS
Committee on Foreign Investment in the United States

US Committee for the Assessment of Foreign Participation in the US Telecommunications Services Sector

NIH
National Institutes of Health

National Science & Technology Council

Source: White House. National Archives. "US Strategic Approach to the People's Republic of China". Council on Foreign Relations "Timeline: US-China Relations"

Chip Policy as National Security Policy

In a speech in September 2022, US National Security Advisor, Jake Sullivan highlighted that US policy on protecting technology was an essential part of national security policy. In his remarks, he highlighted the importance of investing in science and technology domestically while working with allies to utilize export controls to protect technological advancement.

"Advancements in science and technology are poised to define the geopolitical landscape of the 21st century."

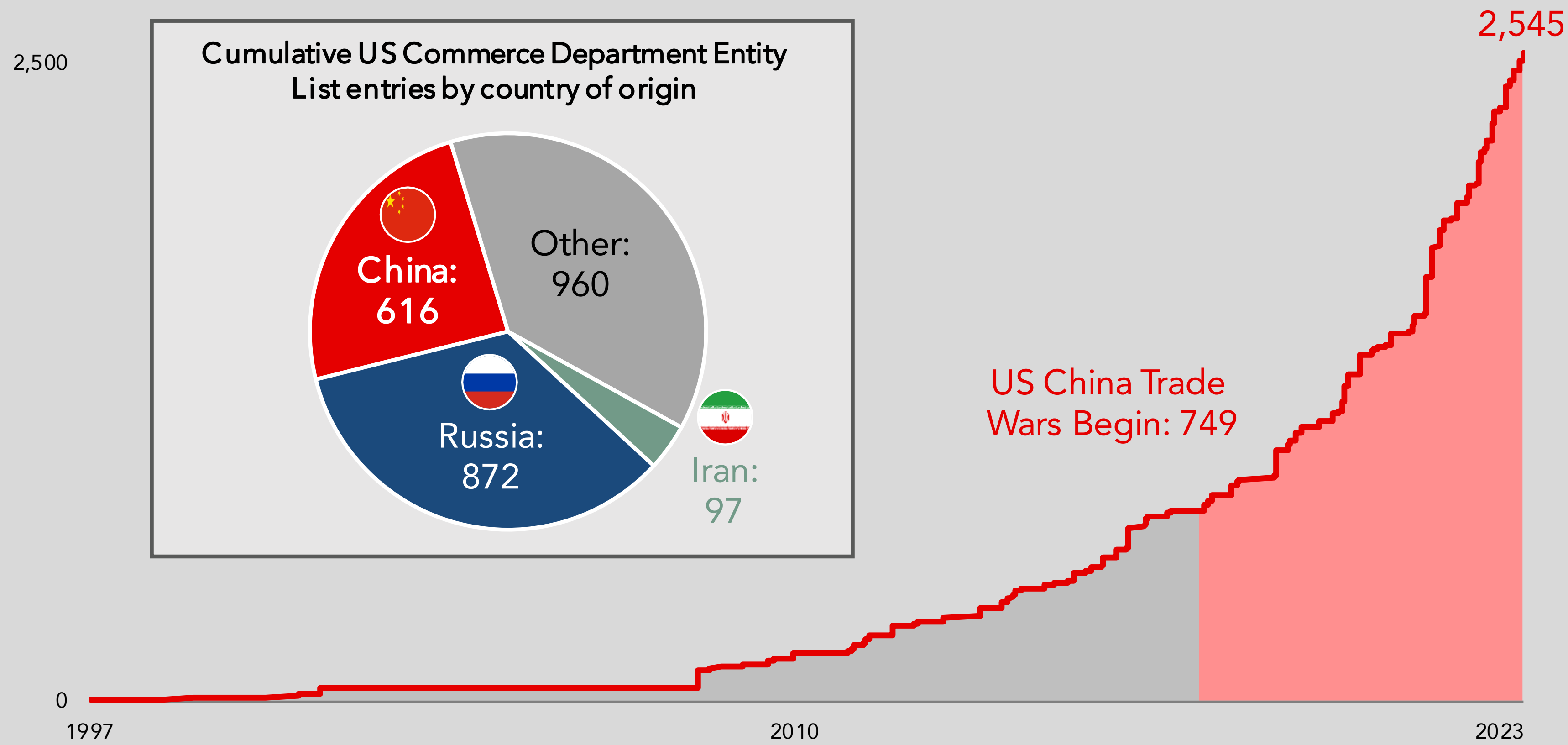
"Advancements in computing hardware, algorithmic design, and large-scale datasets are leading to new discoveries in virtually every scientific field. They are new sources of economic growth. They are also driving advanced military modernization efforts."

"Technology export controls can be more than just a preventative tool. If implemented in a way that is robust, durable, and comprehensive, they can be a new strategic asset in the U.S. and allied toolkit to impose costs on adversaries, and even over time degrade their battlefield capabilities."

US Commerce Department's Entity List

Since inception in 1997, the US Commerce Department's Entity List has grown to over 2,500 entities and sub-entities. Members of the Entity List are subject to specific licensing requirements which may limit their ability to transact with US entities. Since the trade wars began in 2018, and Russia invaded Ukraine in 2022, China and Russia based companies have dominated new additions to the list.

Cumulative additions to the US Commerce Department Entity List (1997 – 2023)

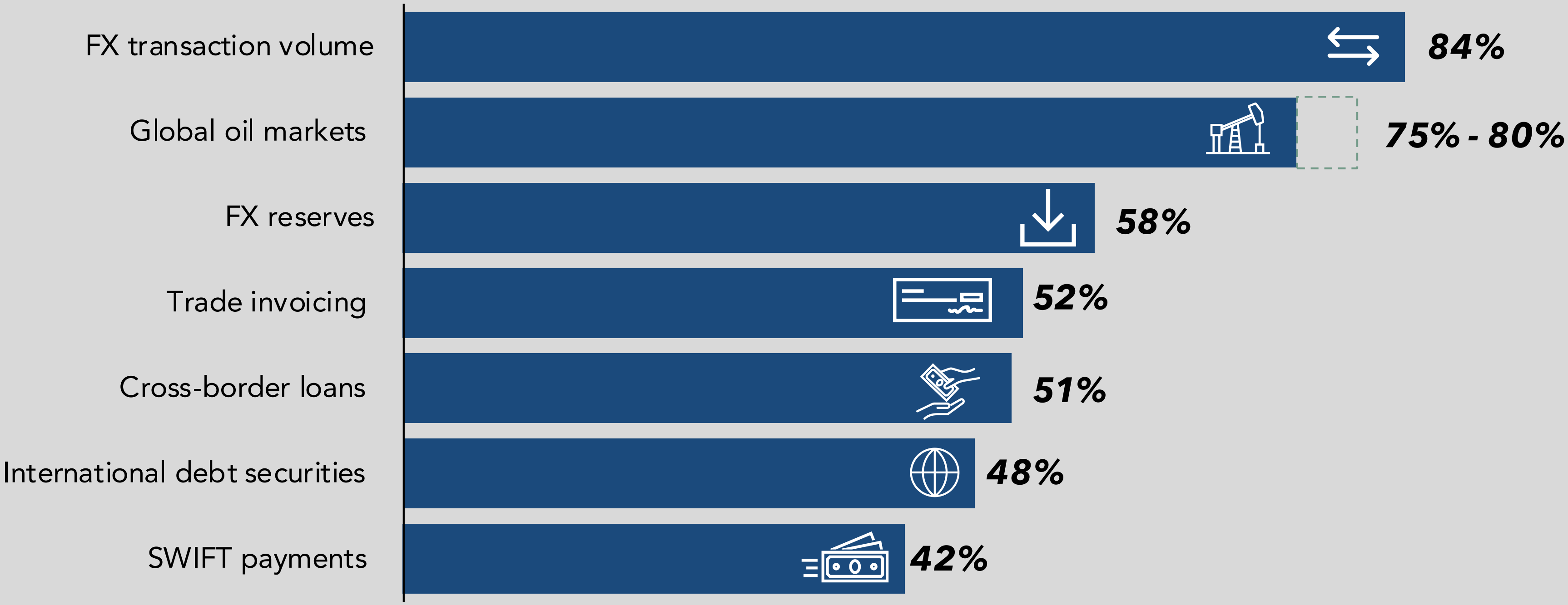


Source: (1-2) Commerce Department. Includes entities and sub-entities but removes duplicate entities. Entities added to the list multiple times are included from their first effective date. Excludes entities with no specified effective date. Data through December 2023. China figures include Hong Kong. Undated entries excluded.

Weaponization of the US Dollar

More than 50 years after President Nixon closed the door on Bretton Woods, the US dollar continues to play a dominant role in the global financial system. In the absence of sufficient alternatives, we expect the primary tenets of this system to continue. However, due to unsustainable imbalances and accelerating geopolitical shifts (US-Russia-China-Saudi), we expect a continued increase in multicurrency settlement across numerous global trading and financial markets in the years ahead. Wholesale replacement of dollar dominance by another currency? Highly unlikely. Increased financial fragmentation in the years ahead? Yes.

USD share of global markets



Source: (1) BIS, "The Global Foreign Exchange Market in a Higher-Volatility Environment" (December 2022). G Gopinath, "The international price system", NBER Working Papers, no 2164, 2015; IMF; Bloomberg; CPB World Trade Monitor; SWIFT; BIS debt securities statistics; BIS locational banking statistics; BIS Triennial Central Bank Survey. Foreign Affairs ("Great Powers Don't Default: The Dangers of Debt Ceiling Brinkmanship" by Matt Pottinger and Daleep Singh)

House Select Committee on China

The House Select Committee on Strategic Competition between the United States and the Chinese Communist Party was founded on January 10, 2023 with strong bipartisan support. Representative Mike Gallagher (R – WI) chairs the House Select Committee, with Representative Raja Krishnamoorthi (D – IL) as the top Democrat, focusing on economic and security competition with the Chinese Communist Party.

Republican members:

Mike
Gallagher
WI Chair

Robert J.
Wittman
VA

Blaine
Luetkemeyer
MO

Andy
Barr
KY

Dan
Newhouse
WA

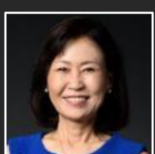
John R.
Moolenaar
MI

Darin
LaHood
IL

Neal P.
Dunn
FL

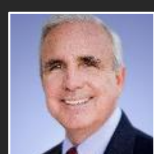
Jim
Banks
IN

Dusty
Johnson
SD



Michelle
Steel
CA

Ashley
Hinson
IA



Carlos A.
Gimenez
FL

Democrat members:

Raja
Krishnamoorthi
IL

Kathy
Castor
FL

André
Carson
IN

Seth
Moulton
MA

Ro
Khanna
CA

Andy
Kim
NJ

Mikie
Sherrill
NJ

Haley M.
Stevens
MI

Jake
Auchincloss
MA

Ritchie
Torres
NY

Shontel M.
Brown
OH

Soft Power: Strengthen Regional Alliances

US-China policy has largely been an area of continuity between US Presidents Trump and Biden. However, whereas President Trump pursued a more bilateral, direct approach with China, President Biden has instead sought to strengthen existing alliances, and create new regional frameworks, to reshape China's competitive landscape more in favor of US strategic interests.

Selected US Alliances & Frameworks:

Indo-Pacific Economic Framework for Prosperity (IPEF)

Economic initiative launched in May 2022. 14 founding members exclude China, and represent 40% of global GDP and 28% of trade.

US-Netherlands-Japan Semiconductor Agreement

January 2023 agreement outlining strict semiconductor export controls with China.

American-Japanese- Korean Trilateral Pact (JAROKUS)

Historic security alliance announced in Camp David in August 2023, including a formal *casus foederis* (a threat to one member constitutes a threat against all), though does not mirror the NATO Article 5 language.

Five Eyes (FVEY)

Anglosphere intelligence alliance between the US, Australia, Canada, New Zealand & the UK. Widely utilized during the Cold War, the alliance has strengthened since Huawei escalation in 2018, with increased cooperation with France, Germany & Japan.

The Quadrilateral Security Dialogue (the Quad)

Initially formed in 2007, but "reborn" in 2017 to counter China's military expansion across the Indo-Pacific, The Quad is a formidable "strategic security dialogue" between the US, India, Australia, and Japan.

Soft Power: Strengthen Regional Alliances

Selected US Alliances & Frameworks (Cont'd):

US-Taiwan Initiative on 21st Century Trade

Intended to reinforce the existing trading partnership between the US and Taiwan, negotiations launched in June 2022 have progressed toward a phase one agreement.

AUKUS

Trilateral security partnership announced in 2021 between Australia, the UK and the US. The agreement deepens defense, intelligence and technology sharing between the three countries, and paved a path for Australia's acquisition of highly sensitive nuclear-powered submarines.

India-US Major Defense Partnership

Launched in 2016 to advance trade and security. Elevated to Tier 1 strategic trade status in 2018, permitting license-free access to military and dual-use technologies. Progressed to bilateral military exercises in Nov 2019.

Clean EDGE Asia (Enhancing Development and Growth through Energy)

Launched in December 2021, Clean EDGE Asia is a US whole-of-government initiative for "sustainable and secure" energy market growth in the Indo-Pacific region.

Pacific Deterrence Initiative (PDI)

Introduced in July 2020 as part of the National Defense Authorization Act, aims to counter China's military strength through a series of targeted investments with other regional militaries in the Indo-Pacific.

Soft Power: Strengthen Regional Alliances

Selected US Alliances & Frameworks (Cont'd):

Maritime Security Initiative (MSI)

Originally a five-year program initiated in 2016, the Maritime Security Initiative aims to increase the maritime security and domain awareness of foreign countries for seven ASEAN Members. It aims to defend US interests, deter military aggression, and promote regional security. It has expanded to include a provision for personnel from Taiwan, Singapore and Brunei to also take part in trainings, and is a way to prevent these nations from relying on support from China.

Pacific Region Infrastructure Facility (PRIF)

Launched in 2008 for investment and technical advice on infrastructure development throughout the Pacific region. The facility includes 13 members: the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, Nauru, Palau, the Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Papua New Guinea is an associate member.

Compacts of Free Association Agreements

Investment program launched in December 2023 between the US, the Federated States of Micronesia and the Republic of the Marshall Islands to strengthen US partnerships in the Indo-Pacific.

NATO

At the 2022 NATO Summit in Madrid, announced a strengthening of its security dialogue with Indo-Pacific partners – Australia, Japan, Korea and New Zealand.

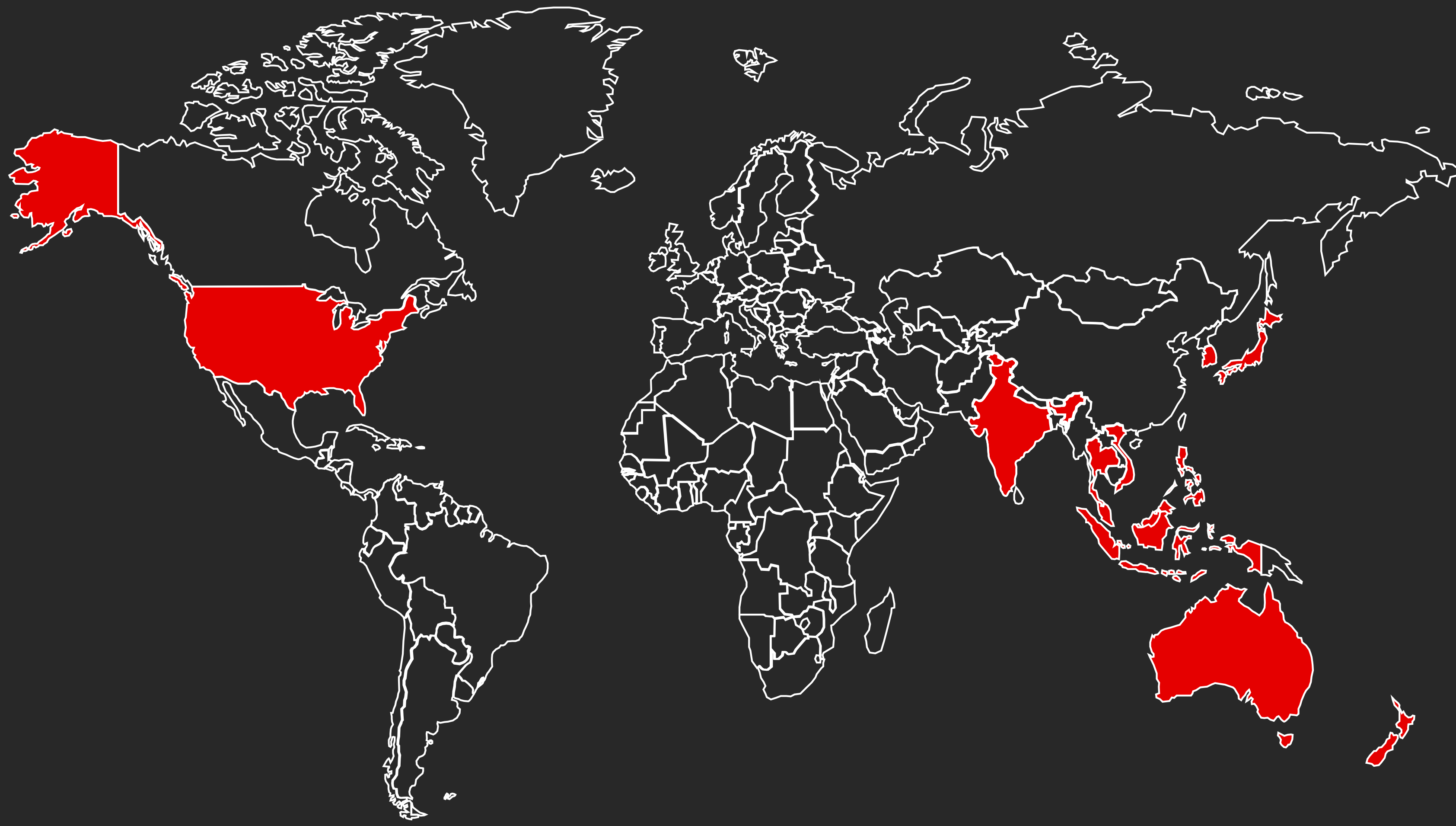
Direct Bilateral Treaty Alliances

The US has direct bi-lateral treaty alliances with Japan, Australia, South Korea, the Philippines and Thailand

US President Biden, Japanese Prime Minister Kishida and South Korean President Yoon announce a new era of “trilateral” partnership after a weekend retreat at the 125-acre Camp David presidential compound in Maryland in August 2023.

The Indo-Pacific Framework

The Indo-Pacific Economic Framework (IPEF) is an economic initiative launched by the US under the Biden administration with 14 founding member nations representing 40% of global GDP. The IPEF is divided in four pillars; trade; supply chains; clean energy, decarbonization and infrastructure; and taxes and anti-corruption.

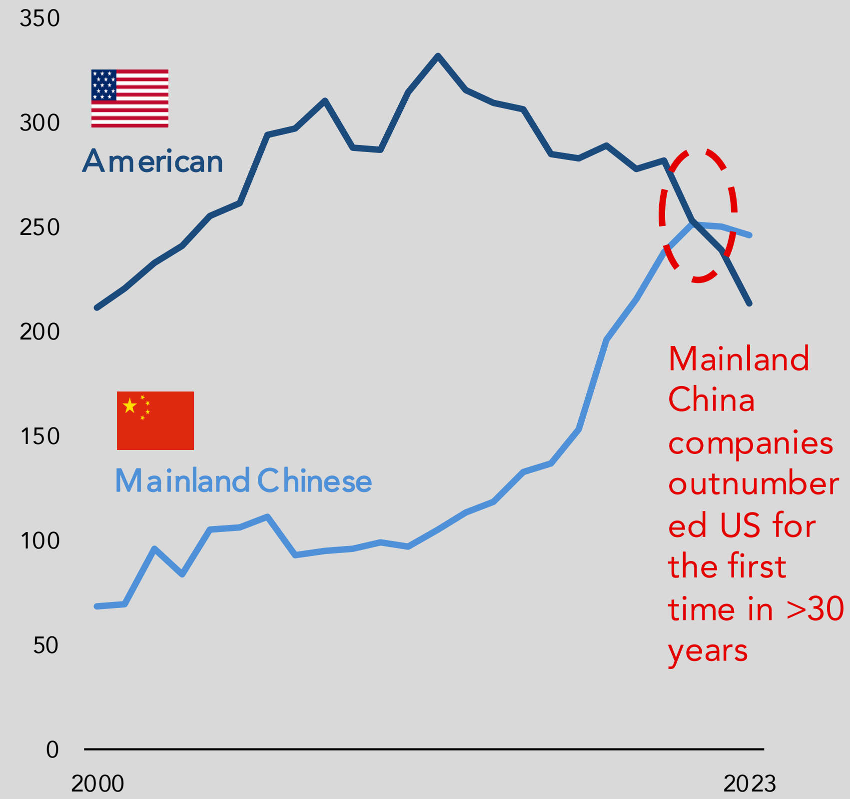


Source: Bloomberg Government, US to Start Economic Talks With 13 Nations to Counter China". IISD.

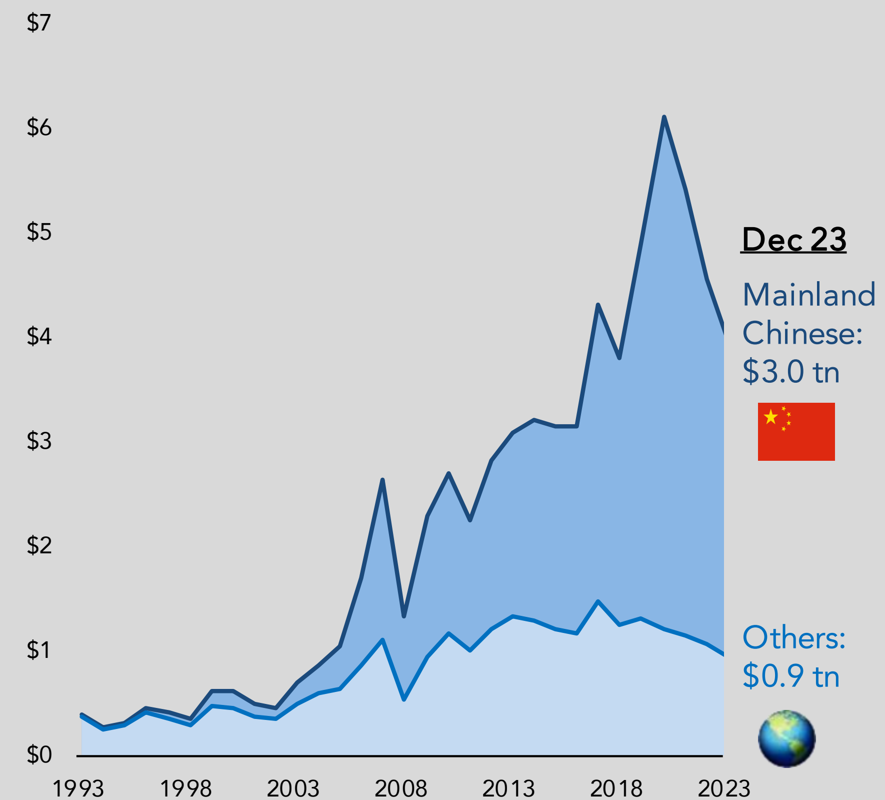
Corporate Pull-Back from Hong Kong

The number of US companies operating in Hong Kong has fallen for four consecutive years and is now back to 2004 levels as mainland China tightens ties with the island city. Mainland China incorporated or controlled companies also now dominate the Hong Kong Stock Exchange, rising from roughly 17% of the exchange's market capitalization in 1997 to 78% today.

Companies with regional headquarters in Hong Kong



Market capitalization of Hong Kong's stock exchange, USD tn



Source: (1-2) Hong Kong's Census and Statistics Department. Bloomberg. WSJ. "The Corporate Retreat from Hong Kong Is Accelerating". Data as of December 31, 2023.

About the Authors

Tom Joyce

Managing Director
Capital Markets Strategist
New York, NY

Tom.Joyce@mufgsecurities.com
(212) 405-7472

Role

Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Tom has over 25 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Over the last 15 years, Tom created and built the Capital Markets Strategy role, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

Education

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

Personal

Tom resides in New Canaan, CT with his wife and four sons, where he serves on the Board of Trustees of the New Canaan Library as well as the Holy Cross College President's Council.

About the Authors

Hailey Orr

Managing Director
Capital Markets Strategist
New York, NY

Hailey.Orr@mufgsecurities.com
(212) 405-7429

Role

Hailey Orr is a Managing Director in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Hailey has a decade of Wall Street experience, including three years as a Consumer Sector Specialist in Equity Sales and seven years as a Capital Markets Strategist. Hailey is also a member of MUFG's Inclusion & Diversity Council and has devoted years to participating in and developing Wall Street recruiting programs.

Education

Hailey graduated with honors from the University of Michigan's Ross School of Business with a BBA and a minor in International Studies.

Personal

In March 2020, Crain's New York Business Magazine named Hailey one of the "Rising Stars in Banking and Finance".

About the Authors

Stephanie Kendal

Vice President
Capital Markets Strategist
New York, NY

Stephanie.Kendal@mufgsecurities.com
(212) 405-7443

Role

Stephanie Kendal is a Vice President in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Stephanie has spent over six years as a Capital Markets Strategist. She is an active member of the University of Michigan recruiting team and is focused on the diversity recruiting effort at MUFG. Stephanie is also a part of MUFG's DEI, Culture & Philanthropy (DCP) Council.

Education

Stephanie graduated with honors from the University of Michigan's Ross School of Business with a BBA.

Personal

Stephanie is actively involved in NYC's iMentor program, mentoring high school students with their journey to college graduation. She also volunteers at Experience Camps, a free summer camp program for grieving children.

Angela Sun

Analyst
Capital Markets Strategist
New York, NY

Angela.Sun@mufgsecurities.com
(212) 405-6952

Role

Angela Sun is an Analyst in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

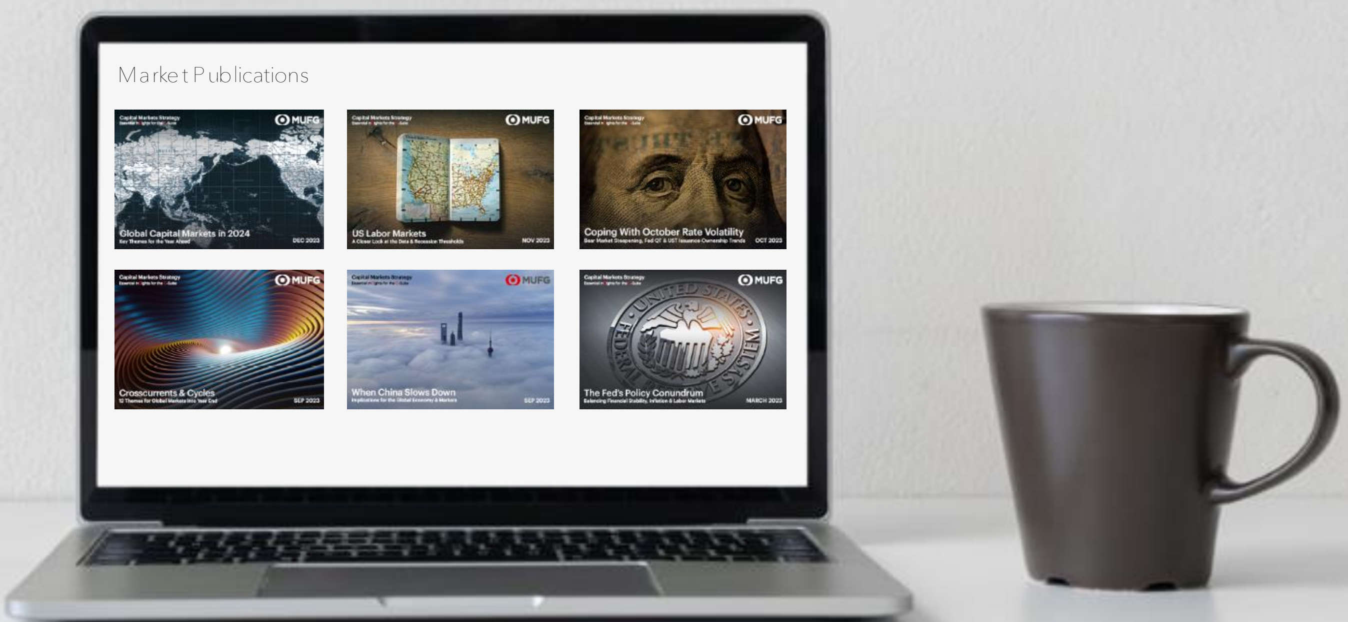
Angela previously interned at MUFG working in Capital Markets within the Equity Capital Markets and Leveraged Finance divisions. She is also an active member of the Carnegie Mellon University recruiting team.

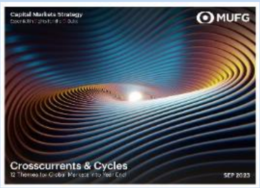
Education

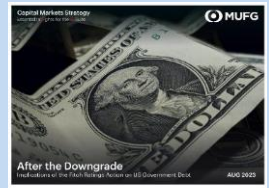
Angela graduated with honors from Carnegie Mellon University's Tepper School of Business with a BS in Business Administration with an additional major in Statistics and a minor in Media Design. She was a member of Alpha Kappa Psi business fraternity and the Undergraduate Entrepreneurship Association.

GCIB Capital Markets Strategy

Click or scan the QR code to view past reports, policy notes and more.







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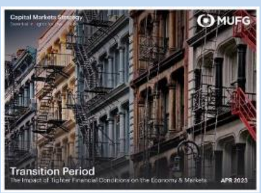

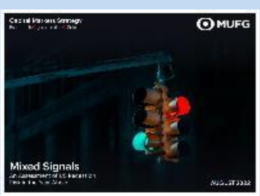

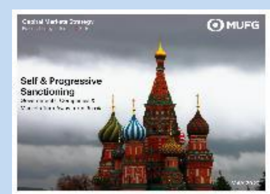

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