Rhodium Group

China

Why Isn't Europe Diversifying from China?

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In the past seven years, the US has actively diversified its trade, sourcing, and investment away from China. Japan, too, is distancing itself from China. The European Union (EU), in contrast, has deepened its trade and investment relationship with China, even as European concerns about economic dependencies grew in the wake of the COVID pandemic and rising geopolitical tensions.

Three factors explain this gap. First, Europe has maintained much greater openness to Chinese clean tech imports in the context of an early and fast-paced green transition agenda. Second, high energy prices in Europe in the wake of Russia's invasion of Ukraine have fueled a rise in lower-priced Chinese chemicals imports. Third and finally, the US and Japan have diversified away from China faster in low-tech goods like textiles and furniture. Above all, though, a key difference lies in a lack of European regulatory carrots and sticks of sufficient strength to convince EU companies to rethink their manufacturing and sourcing networks.

No diversification in sight

Since 2017, the US has reduced the share of Chinese products in its overall imports by a stunning 8.4 percentage points (pp), excluding oil and gas (Figure 1).[1] It has been replaced by a range of countries, especially Vietnam and Mexico (see "A Diversification Framework for China"). Some of that diversification has relied heavily on Chinese inputs and might even involve a certain degree of transshipped Chinese goods. Yet, the structure of US imports today is markedly different from the past.

Over the same period, Japan also reduced China's share in its imports, though more gradually, from 29.6% in 2017 to 27.3% in 2023. This was despite a COVID-year rebound

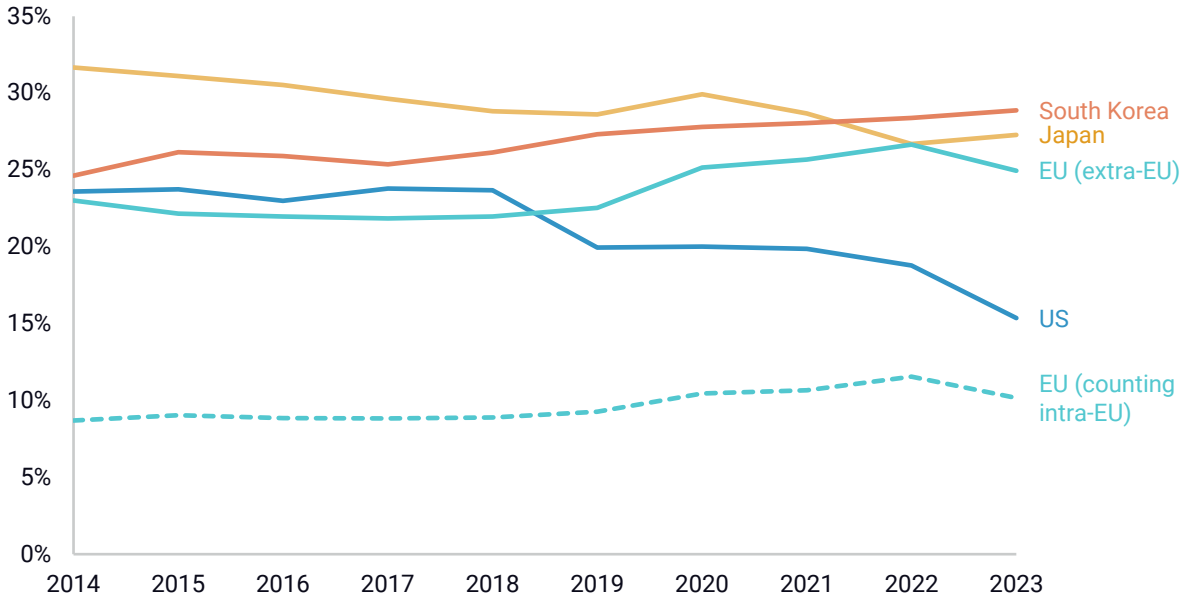
[1] We exclude oil and gas from our calculations throughout this note to focus on industrial and manufacturing trade and avoid overestimating the effect of energy price fluctuations over the period.

that saw most global economies ramp up China-origin imports as Chinese factories remained open for business and produced the goods that the world most needed at scale.

In contrast, China gained more ground in the EU's import share than any other country between 2017 and 2023 (again, excluding oil and gas, see Figure 2). The trend holds both for imports from countries outside the EU ("extra-EU imports," + 3.1pp) and when including imports from EU member states ("counting intra-EU," +1.3pp). No other country aside from China gained even half a percentage point of extra-EU imports over the period. The second and third largest gains came from Turkey and Taiwan, with +0.4pp each. Within the EU, Poland's share increased the most, by +1.5pp.

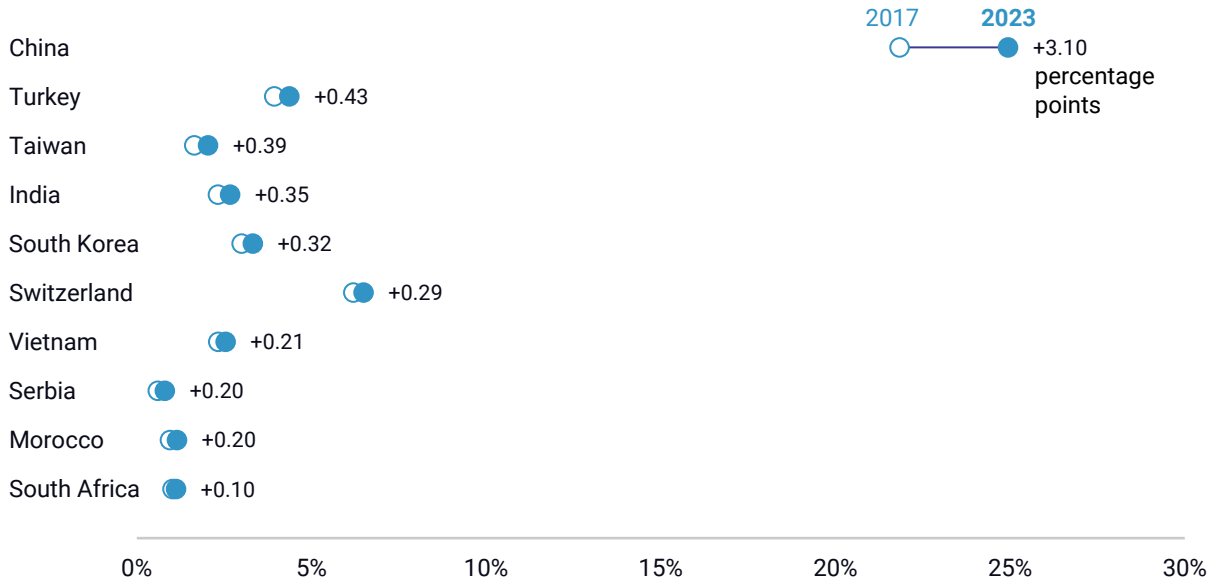
The EU is a strange beast, of course. Taken together, European countries are a lot less dependent on China for their imports than the US or Japan because they trade significant amounts between themselves—as would US states or Chinese provinces. However, looking at the EU as a whole and considering trade with non-EU partners, we see that the EU's dependence on China for imports has increased over the past five years, rising from 22% in 2017 to a peak of near 27% in 2022, and then leveling off to 25% in 2023. In 2019, EU import reliance on China overtook that of the US—as China imports came under broad US tariffs—and has since become gradually closer to levels seen in Japan or South Korea, two economies highly intertwined with neighboring China.

FIGURE 1
China's share of partner imports, excluding oil and gas, 2014-2023
Percent



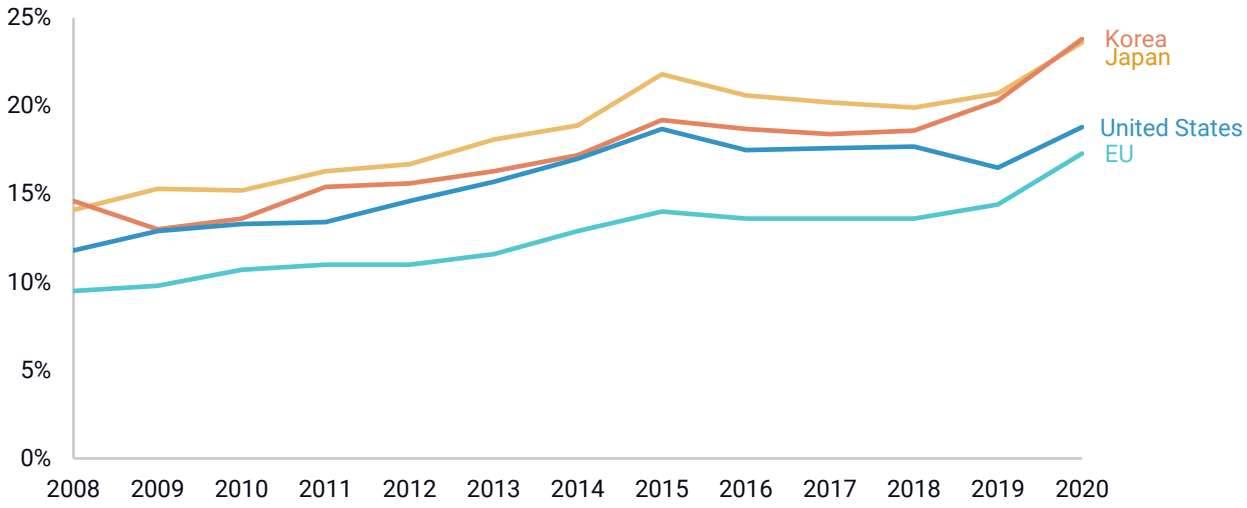
Source: International Trade Centre

FIGURE 2
Countries with the largest positive change in their share of EU imports, excluding oil and gas, 2017 and 2023
Percentage point change, extra-EU imports



Source: International Trade Centre. Extra-EU trade only. HS product codes 2709, 2710, and 2711 (oil and gas) excluded.

FIGURE 3
Share of Chinese value added in country's final demand, 2014-2020
Percent



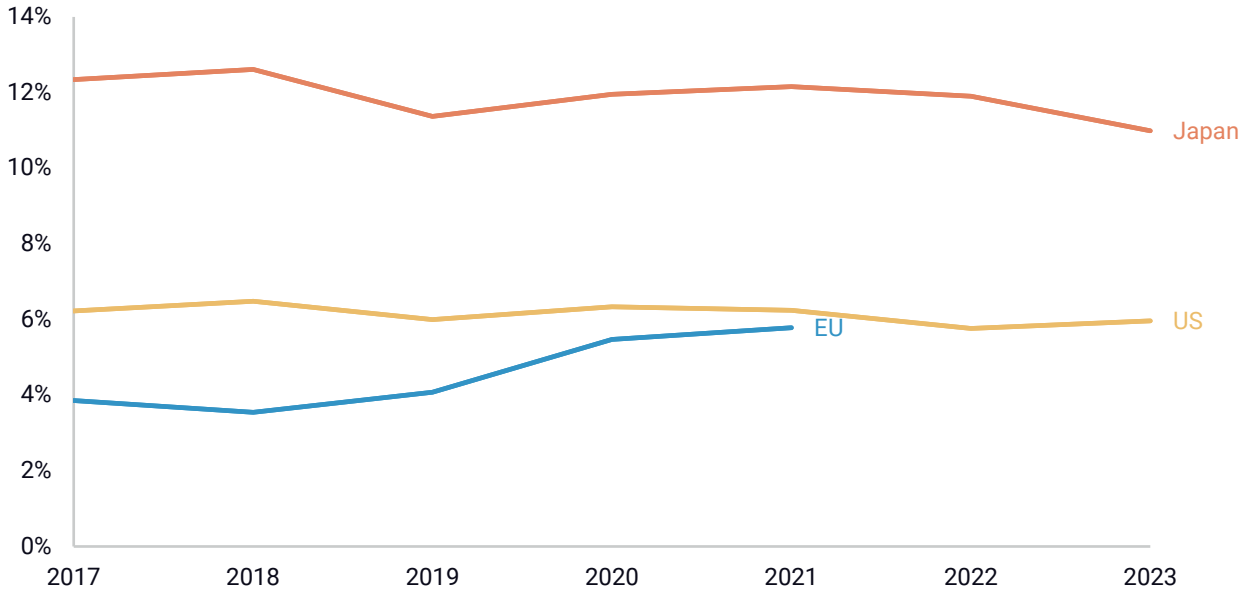
Source: OECD

OECD Trade in Value Added (TiVA) data shows a similar trend (Figure 3). The EU's dependence on Chinese value-added for final demand increased from 13.6% in 2017 to 17.3% in 2020, quickly approaching US levels. The US, in contrast, saw its reliance on Chinese value-added remain roughly stable during the 2015-2020 period. By 2020, Japan

and South Korea still showed a much stronger reliance on Chinese value-added than both the EU and the US, but South Korea saw the fastest increase (+5.4pp).

Finally, China's share of the EU's outward manufacturing FDI stocks rose by 2pp from 2017 to 2021, albeit from a relatively low base of 4% (Figure 4). EU statistical delays obscure the picture somewhat, but more up-to-date Rhodium Group data suggest that EU manufacturing FDI has continued to flow into China since 2021, with a record high in EU greenfield FDI registered in Q2 2024. Meanwhile, over the past several years, China's share of manufacturing FDI stocks has declined slowly for the US (-0.2pp) and fast for Japan (-1.3pp).

FIGURE 4
China's share of EU, US, and Japan outward manufacturing FDI stocks, 2017-2023
Percent



Source: Eurostat, Bureau of Economic Analysis, Bank of Japan

In short, the EU has seen China's share of its imports, value-add, and investment increase over the past six years, in contrast to the US and Japan, which have decreased their China exposure on most or all fronts. Of course, aggregate import reliance does not equal critical input dependency—arguably the more substantial type of exposure—but it shows how Europe has been at odds with a broader trend in Japan and especially in the US.

Recent analysis by the Peterson Institute for International Economics reinforces this view, showing that while US sourcing of manufactured goods has substantially diversified away from China over the past five years, EU manufacturing imports have only become more concentrated in the aggregate—a pattern that holds for both low- and high-tech products. A deeper historical analysis by MERICS, focusing on critical EU import dependencies on China, also emphasizes the EU's dramatically increased exposure to Chinese imports over the past 20 years, particularly in electronics. A separate Oxford Economics study acknowledges that the US and Japan have lowered their share of intermediate goods imports from China while the dependence of European economies has notably increased.

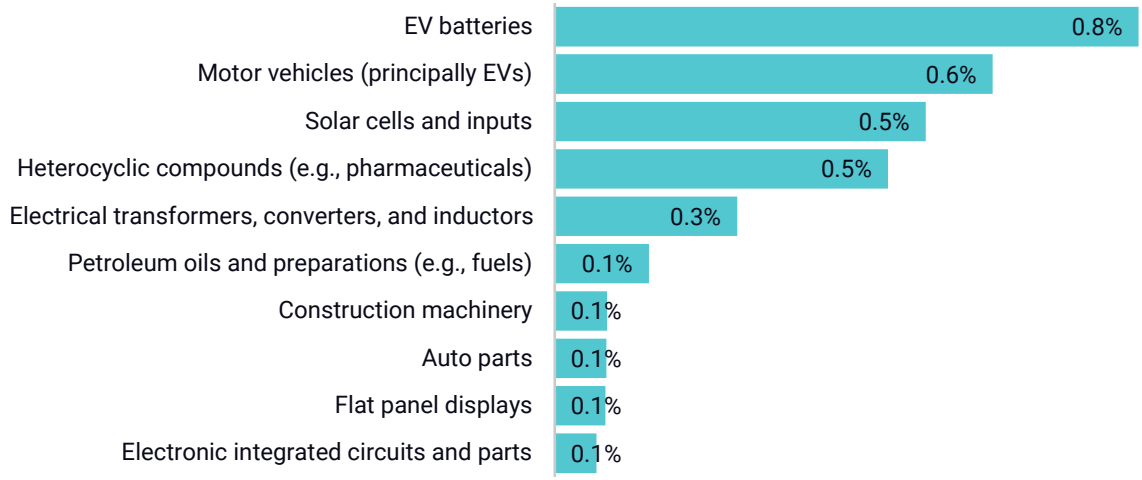
Explaining the differences

These findings beg the question: given that the EU, the US, and Japan are all pursuing efforts to reduce their economic dependencies and diversify their trade patterns, especially from China, what explains the EU's increasing rather than decreasing trade, value-add, and investment exposure to China in recent years?

A China-powered green transition

A first way to explain this gap is to identify the product categories where the EU's reliance on China has increased the most since 2017, the year before the US imposed its first round of Trump tariffs on China (Figure 5).

FIGURE 5
Top 10 contributors to the increase in China's share of EU imports, 2017 to 2023
Percentage points



Source: International Trade Centre. Analysis at the HS 4-digit product level.

Batteries and electric vehicles (EVs) contributed over a third of the increase in China's share of EU imports, reflecting China's growing competitiveness in both fields and increasing dominance of the global EV supply chain. In fact, China's share of battery imports increased across the EU, US, and Japan (Figure 6A), but the value increase in Europe was much greater (Figure 6B). The same is true of **solar cells**. Both the US and the EU registered increases in the absolute and relative value of China-origin imports, but for the EU, this happened on a completely different scale (Figure 7A and 7B).

The fact that Europe was an early mover in rolling out policies to support the green transition probably explains some of this disconnect. In batteries, the EU lacked credible domestic competitors (unlike Japan or South Korea) or an industrial policy that attracted such producers onshore (as in the US). More broadly, this reflects Europe's greater openness to Chinese clean tech imports over the period. By contrast, tariffs and provisions in the Inflation Reduction Act (IRA) made it harder and/or costlier for Chinese clean tech manufacturers to export to the US.

FIGURE 6A
China's share of battery imports, 2016-2023
Percent

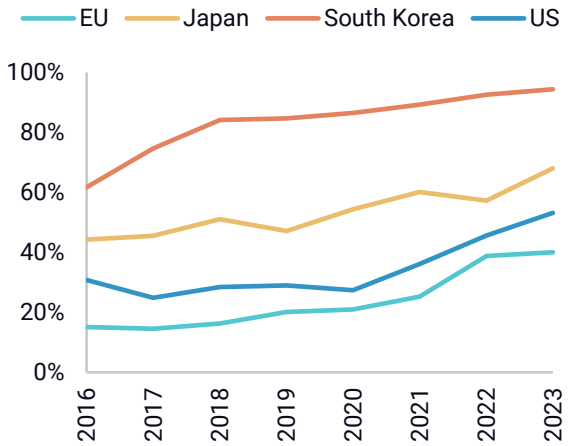


FIGURE 6B
Value of battery imports from China, 2016-2023
USD billions

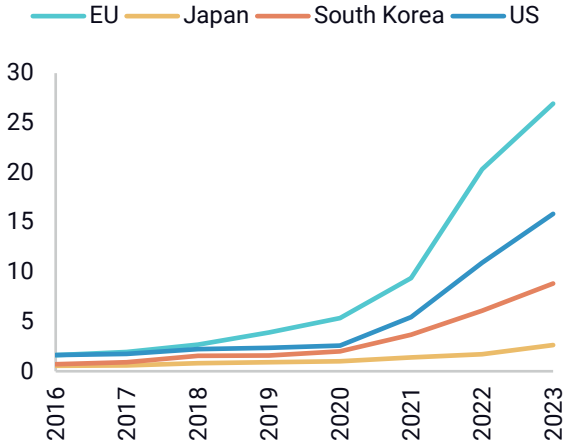


FIGURE 7A
China's share of solar cells imports, 2016-2023
Percent

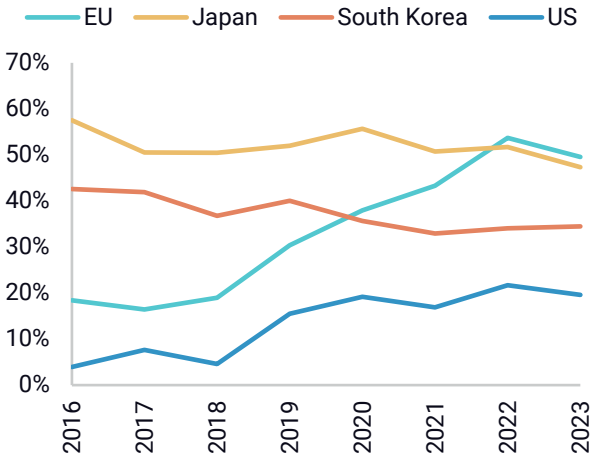
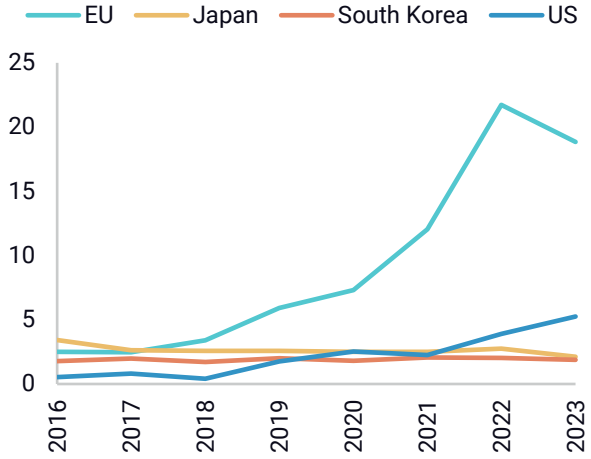


FIGURE 7B
Value of solar cells imports from China, 2016-2023
USD billions



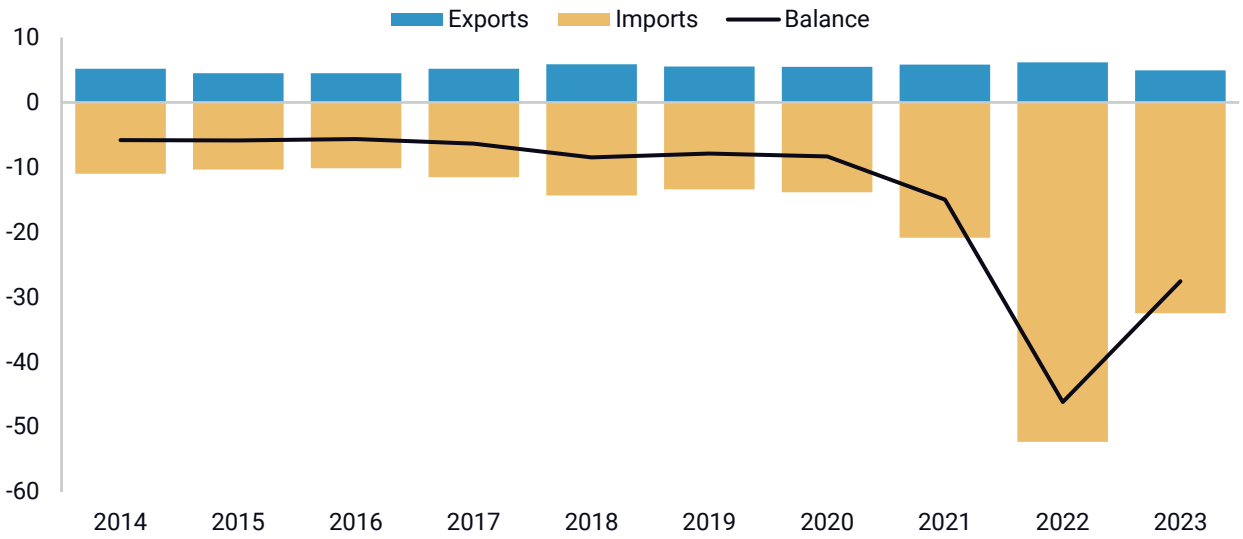
Source: International Trade Centre

An energy crisis

Another explanation for Europe's growing entanglement with China is the energy crisis triggered by Russia's invasion of Ukraine in February 2022. In recent years, China's share of EU imports increased quickly and significantly in chemicals—especially organic compounds used in pharmaceuticals—and fuels such as jet fuel and kerosene. Rising energy costs in Europe made importing these chemicals from China—instead of producing them at home—much more attractive. At the same time, rapid production capacity growth in China pushed down Chinese chemicals prices and facilitated export market share gains.

Together, these two factors worsened the EU's trade deficit with China, with key EU chemicals imports more than doubling from 2020 to 2023 (Figure 8). The shift is already triggering EU reactions. Over the past year, Brussels has opened a series of trade defense cases against Chinese exports of chemicals used in food products, cosmetics, and cleaning products, all on the back of industry complaints.

FIGURE 8
EU exports to China, imports from China, and trade balance in chemicals (organic, inorganic, and fertilizers)
USD billions



Source: ITC, Comtrade

No tariff shock

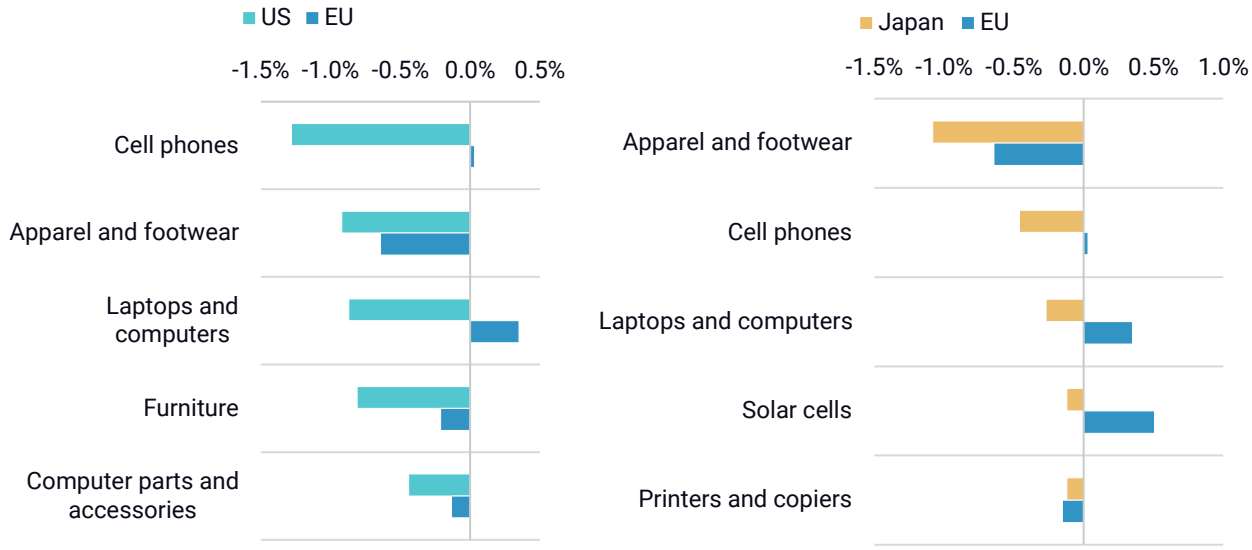
Another way to look at the question is to explore which areas saw significant diversification from the US and Japan but not from the EU (Figure 9). Some of the largest contributors to US and Japanese diversification are labor-intensive, low-value-added sectors such as apparel, footwear, and furniture. In these categories, China's high global export share began a gradual, structural decline even before the trade war, as it started undergoing a process of "graduation" to higher-tech activities. Although the EU has shifted its sourcing somewhat—to many of the same markets as the US and Japan, including Vietnam and Bangladesh—it has not done so nearly as quickly. The US and Japan have also quickly diversified their consumer electronics imports since 2017. Yet, here again, China's share of EU imports has either hardly budged (computer parts, cell phones) or increased (laptops, solar cells).

It is worth noting that these sectors are often perceived as less strategic than others, like green tech or specialty chemicals. It is unclear that the EU is even seeking to de-risk from China in these areas. Yet they did contribute to the US and Japan's import diversification over the past half-decade or so, and hence, they explain part of the gap with Europe.

FIGURE 9

Key contributors to decreases in China's share of US and Japan imports, 2017 to 2023

US and Japan bars represent percentage point decreases in China's share of the country's imports; EU bars represent EU change for comparison.



Source: International Trade Centre

Policy choices likely explain much of the difference. Starting in 2018, US tariffs on a range of consumer goods imports from China, including some textiles, furniture, and consumer electronics, have redirected production and assembly from China to third countries like Mexico, Vietnam, and Bangladesh. Japan's subsidy schemes, strong political signaling to domestic firms to diversify production and sourcing away from China, and greater historical footprint in Southeast Asia might have impacted diversification progress, too.

Re-shoring vs. near-shoring

Focusing on trade, lastly, underestimates the fact that China gained important ground while Europe also started producing more *domestically*. In fact, the jump in China's share of EU imports is much greater for extra-EU imports (+3pp) than imports including intra-EU trade (just +1pp). This difference indicates that EU member states have quickly picked up market share from non-EU importers. US trade diversification happened largely thanks to external players, including Mexico, Vietnam, and Taiwan. But in sectors like semiconductors, massive new investments in the US also suggest diversification is or will be happening through a ramp-up of local production.

In Europe, some degree of diversification is similarly happening on the back of production increases in select EU member states—including and especially Central and Eastern European economies, who share some of the manufacturing appeal of ASEAN or Mexico. In the battery sector, for example, Poland, Hungary, and Czechia have emerged as significant players, increasing their share of total EU battery imports from 7% in 2017 to 35% in 2023. While this does not negate the fact that the EU's import dependency on China increased over the past five years, it indicates greater "friendshoring" activity than topline trade numbers indicate.

EU policies: More bark than bite

Could structural differences between the US and EU economies, finally, help explain some of the observed differences? What if Europe were intrinsically more dependent on global trade than the US? Or what if the US was significantly more service-oriented than Europe? A closer look shows that both economies have, instead, similar levels of manufacturing output as a share of GDP, a comparable degree of reliance on intermediate input imports in their manufacturing sectors, and a similar level of imports as a share of their overall economy. Both economies are major markets for (and importers of) autos, batteries, solar PV, and chemicals.

This leads us to the conclusion that the variation in results is due to policy differences between the EU and the US between 2017 and 2023. On the surface, both EU and US policymakers have adopted diversification as an overarching policy principle—especially as the COVID pandemic and Russia's war on Ukraine underlined the risks of excessively concentrated supply chains or supply sources. Both EU and US officials have raised specific concerns over excessive exposure to Chinese imports, especially to certain China-made critical inputs. Yet policy reactions have been very different. For one, the US took action several years before the EU. The first major wave of US tariffs against China was rolled out by the Trump administration in 2018, years before the EU started using its defensive toolbox in full or defining "de-risking" as a policy objective. Also, US policies, including export controls, industrial policy support, and ICTS measures, have involved a much more robust set of carrots and sticks than their European equivalents (Table 1).

Trump-era tariffs are an obvious example. They brought the effective tariff rate on Chinese imports to the US to around 11-12% and affected about two-thirds of Chinese exports to the US before a series of exemptions were introduced. In contrast, the EU's largest case to date, on China-made EVs, covers about 2% of China's exports to the EU.

Consider major state support programs. Both the EU and the US have launched major sectoral and decarbonization support schemes in recent years. Yet US initiatives have come with stringent, *binding* conditions and guardrails meant to encourage diversification of related supply chains away from China. In contrast, the EU's main regulatory framework for critical raw materials and cleantech diversification, the Critical Raw Materials Act (CRMA) and Net Zero Industry Act (NZIA) offer *non-binding targets* for EU's manufacturing of clean technologies and extraction, processing, refining, and recycling of raw materials.

Finally, in certain sectors, the US is simply choosing to ban some Chinese goods and technologies in ways that will fully reshape US-bound supply chains—as is the case with the latest ICTS rules on Chinese and Russian connected vehicles.

This is in addition to an intense and bipartisan US regulatory agenda on China and a highly China-skeptical political environment, both of which are sending clear and credible signals to US companies that they need to diversify *now* or face costly consequences. The draft BIOSECURE Act is a potent example. This bill would prohibit US federal agencies from procuring or obtaining biotechnology equipment or services from certain "biotechnology companies of concern" (currently, five Chinese biotech firms) or contracting with any entity that uses such equipment in the performance of federal contracts. While the act has yet to be passed by Congress and signed into law, it has already created a powerful enough signal that some US companies are reconsidering their ties to Chinese biotech firms. In October 2024, Wuxi AppTec, one of the listed firms, was reportedly considering the sale

of some US laboratories and manufacturing plants in response to growing regulatory pressures.

Japan presents another successful example of policy-driven diversification, focused mainly on encouraging companies to de-risk through positive incentives. Like the EU, Japan's de-risking programs do not explicitly target China, but many Japanese firms have dubbed these government incentives as a "China exit subsidy." Programs such as the Program for Strengthening Supply Chains and the Program for Promoting Investment in Japan to Strengthen Supply Chains provided substantial financial support to firms reshoring their operations to Japan or relocating production to other Southeast Asian countries. Japan's subsidies to attract investment in key sectors such as semiconductors and electric vehicles also far exceed EU funding. Overall, Japan is expected to disburse about $65 billion in subsidies to support the semiconductor industry by 2030, compared to $57 billion in the US and only about $9 billion in the EU.[2]

Outlook: What about the next five years?

In 2023, China's share of EU imports (excluding oil and gas) was down almost two percentage points from its 2022 peak. The question is whether this signals a longer-term shift or just a short-term correction after particularly high Chinese export prices in 2022.

In the short run, we think the EU's dependency on Chinese imports is likely to deepen further. China's economic weakness will perpetuate the gap between consumption and production and compound the urge to grow exports as a lever of growth. As a major global market, the EU will be on the receiving end of these flows. Trump's decision to impose further tariffs on China will likely accentuate the trend. The first iteration of "Trump tariffs" had a significant impact on US-China trade flows and global supply chains more broadly. On the 2024 campaign trail, Trump promised to slap 60% tariffs on Chinese exports to the US. Whether or not these are implemented in full and at these levels, additional US tariffs will end up redirecting some Chinese exports to Europe. China's responses, which will likely involve significant RMB depreciation, will further amplify the trend and significantly increase the cost of diversifying manufacturing or sourcing to other emerging markets.

Because Brussels is already concerned about Chinese overcapacity and a potential influx of low-price Chinese products, it is unlikely to sit idle, of course. We would expect the Commission to launch its own series of trade defense cases. These could involve more drastic measures like safeguards, already used to shelter Europe from the effects of US tariffs in 2018. Yet because Brussels is still intent on using WTO-compliant tools, at least in the short run, and because these necessitate a sectoral focus, EU officials will need to prioritize their defensive efforts. Primacy will likely be given to large value-add and job contributors, like chemicals, machinery, or select clean tech equipment—in addition to EVs, which are already in focus. Sectors where the EU does not have as much of a local industrial base—such as textiles, furniture, and electronics—will likely remain open and see a rise in Chinese imports. Because exporting hubs like Vietnam, Bangladesh, and Thailand will redirect production capacity to serve the US, Europe's needs might end up being addressed, even more so than in the past, through China-based capacity.

[2] According to the European Chips Act website, the Initiative will be supported by €6.2 billion of public funds, of which €3.3 billion from the EU budget agreed in 2023 the period until 2027, the end of the current multi-annual financial framework. This support will come in addition to €2.6 billion in public funding already foreseen for semiconductor technologies.

In the long run, Europe might shift back to diversification. Product categories that have seen major upticks in Chinese import exposure over the past five years could progressively become the target of more defensive action from Brussels. Given the EU's dependency on China for solar PV supply, it is unlikely that the Commission would launch a major trade defense case for solar. Brussels, however, already launched an ex-officio FSR case against Chinese firms active in Europe's wind sector. If European battery champions continue to face financial difficulties, the Commission could consider additional action on battery imports—if just to foster greater investment on the ground in Europe. These actions, and possibly more, would constrain Chinese firms' EU market share, including through exports.

Beyond trade and subsidies cases, Europe might also start using more stringent regulations and public procurement criteria to force a diversification of vendors away from China. Lithuania and the Netherlands have already introduced laws that bar certain Chinese technologies and products in wind and solar projects on cybersecurity grounds. The NZIA and CRMA allow resilience criteria in public auctions, which could de facto limit Chinese supplier access to a range of publicly procured contracts in Europe. The EU is currently revising its public subsidies rule to similar effect. Finally, certain member states like France are introducing their own standards-based criteria for access to certain public funding schemes—namely environmental standards-based tax credits for EV purchases—in ways that make Chinese imports less competitive.

In short, measures from member states are likely to further restrict Chinese firms' access to the EU market. These moves will probably persist even as member states seek to hedge against Trump through greater China outreach. They could even be fast-tracked if further evidence emerges of the cyber and resilience risks attached to using Chinese goods, technologies, or systems, such as evidence of Chinese firms sending sensitive data back to China or Beijing, significantly restricting access to certain critical inputs or raw materials.

Positive inducements to diversify European manufacturing and sourcing at scale have been harder to deploy for the EU, but they are not out of the question. European Commission President Ursula Von der Leyen's political guidelines include pledges for pan-EU funding for key areas of European competitiveness, and certain member states like France have long argued for more forceful financial support to European industry and innovation. Germany and a few other member states will prove major obstacles, but increasing pressures from the US and China could drive a step change in approach.

Finally, US regulatory bans on certain Chinese goods and inputs, like the new ICTS rule (see October 8, "Car Trouble"), will create incentives for European firms to diversify their supply chains away from China faster than they have so far.

In that context, EU diversification could pick up on the back of US, Japanese, and Chinese diversification. As investment continues to flow to ASEAN and other "alt China" destinations, non-China production capacity will expand in ways that will make it much easier for European firms to procure or manufacture outside of China in the long run.

TABLE 1

Comparison of select US and EU de-risking policies

Includes tools specifically meant to spur de-risking, as well as tools that have among some of their effects to encourage de-risking

	EU	US
Trade	**Trade defense cases or safeguard measures** on select exports that threaten injury. The recent anti-subsidy investigation into BEVs, with duty rates ranging from 7.5% to 35.3% is the EU's largest trade defense case to date and covers around 2% of China's exports to the EU.	**Trade defense cases or safeguard measures** on select exports that threaten injury. **Section 201** allows for tariff and non-tariff barriers on Chinese exports based on threats of injury to the US market. A tariff-rate quota of 14.25% currently applies to Chinese solar panel exports. **Section 232** allows for tariff and non-tariff barriers on exports on national security grounds. Section 232 tariffs of 25% and 10% currently apply to Chinese steel and aluminum exports, respectively. **Section 301** allows for tariffs on countries deemed to engage in unfair trade practices. Around 40% of Chinese exports to the US are currently covered by Section 301 tariffs.
Industrial Policy	The **EU Chips Act** mobilizes €43 billion in public funds in total, of which **€3.3 billion comes from the EU's budget**. Pillar 2 aims to attract investments in semiconductor manufacturing by offering special status to qualifying investments (either Open Foundries or Integrated Production Facilities), which confers benefits like fast-track permitting. **Due to the EU's competition rules, state aid from member states is restricted to "first-of-a-kind facilities "and only covers 100% of the proven funding gap for an investment to take place in the EU versus elsewhere.** Pillar 3 establishes a supply chain monitoring and crisis response mechanism, allowing for central purchasing, priority rated orders for critical sectors, and export controls in emergency situations.	The **US CHIPS Act** appropriates **$39 billion in grants, loans, and loan guarantees** to incentivize domestic chip manufacturing (with $2 billion earmarked for the legacy chips in the auto sector), $11 billion for semiconductor R&D, and **an additional 25% equivalent in tax credit for qualifying investments**. **Recipient companies must abide by *guardrails,*** restricting them from expanding semiconductor investments in countries of concern and engaging in research or technology licensing effort with foreign entities of concern.
	The **Net Zero Industry Act (NZIA)** and the **Critical Raw Materials Act (CRMA**) *set* **non-binding targets** for EU manufacturing of clean technologies and extraction, processing, refining, and recycling of raw materials. The NZIA and CRMA **offer "strategic project" status** to qualifying projects, effectively streamlining access to funding and permitting processes, **but do not mobilize additional funding**.	The **Inflation Reduction Act** allocates **$369 billion toward climate and energy investments** over ten years. This includes **$216 billion in corporate tax incentives** for clean energy production and clean technology manufacturing, with **additional bonus tax credits available for projects that utilize specific "domestic content" levels**. The IRA also includes **$43 billion in consumer tax credits** to incentivize the purchase of ZEVs, energy-efficient appliances, solar panels, geothermal heating, and batteries. The $7,500 consumer tax credit for the purchase of ZEVs is restricted to models meeting certain local content and assembly requirements and **excluding inputs by foreign entities of concern**.

	Important Projects of Common European Interest (IPCEI) enable member states to pool state aid for large, strategic projects that support the EU's industrial policy goals, which may otherwise be restricted under EU competition rules. **The ten approved IPCEIs to date—covering microelectronics, batteries, hydrogen, cloud infrastructure, and healthcare—have provided €37.2 million in state aid.**	
	The amended **Temporary Crisis and Transition State Aid Framework (TCTF) loosens EU state aid rules** to boost investment in clean technologies. The TCTF allows for member states to support specified strategic net-zero sectors through **direct grants, tax advantages, or loans/guarantees of up to 15% of the eligible costs and capped at €150 million per undertaking per member state**. On a case-by-case basis, and subject to strict criteria, the TCFC also allows member states to provide 'matching aid' to meet the amount of subsidies available outside of the EU for an equivalent investment.	
Cybersecurity	The NIS2 Directive provides binding measures to boost overall cybersecurity across member states. Under this NIS2 Directive, the NIS Cooperation Group can undertake **security risk assessments** of specific critical ICT services, ICT systems, or ICT products. The EU's The NIS Cooperation Group is currently conducting a security risk assessment of China-made connected vehicles.	**The ICTS rule** entitles Commerce to review and mitigate any transactions in information and communications technology and services (ICTS) involving foreign adversaries. The most recent proposed ICTS rule on connected vehicles would prohibit the import and sale of connected vehicles containing hardware or software items tied to China or Russia from 2027 onwards.
	The NIS Cooperation Group formulated **the 5G Toolbox,** which issued a set of **non-binding risk mitigation measures** for member states to ensure the security of mobile networks, including assessing the risk profile of vendors and limiting any dependency on a single vendor. The Commission's 2023 Communication on the Second Progress Report of the 5G Toolbox announced that **high-risk vendors (Huawei and ZTE) will be prohibited from participating in any 5G rollout projects backed by EU funds**.	**The FCC Covered List** identifies communications equipment and services by entities deemed to pose an unacceptable risk to US national security. Designated entities are de facto restricted from importing, marketing, or selling in the US market.
Procurement	The **Net Zero Industry Act (NZIA)** requires the EU to adopt **non-price criteria** in public procurement of clean technologies and renewables auctions. This includes sustainability, labor, resilience, and cybersecurity criteria. Per the NZIA, the **EU's second hydrogen auction** requires projects to **limit the sourcing of electrolyzer stacks from China to 25% of total capacity**.	**Section 889 of the NDAA FY 2019** prohibits federal agencies from **procuring any covered telecommunications and video surveillance equipment** or containing such equipment **produced by specified companies** (currently five Chinese companies). The provision also prohibits federal agencies from contracting or providing funds to any entity that *uses* the covered technological equipment and services of listed entities, **even outside of the performance of government contracts**.
	The Foreign Subsidies Regulation (FSR) requires companies participating in tenders of a contract value of €250 million or more to notify whether they have received over €4 million in "foreign financial contributions" (i.e., subsidies) in the past three years. The Commission may then investigate whether such	**Section 5949 of the NDAA FY 2023** prohibits federal agencies from procuring any **semiconductors or products that include semiconductors produced by specified companies** (currently three Chinese chipmakers).

	subsidies have a distortive effect on the bid and can require mitigating measures or prohibit the company from participating in the tender. Note the FSR also applies outside procurement. Acquisitions of companies generating above €500 million in the EU also require the disclosure of "foreign financial contributions" above €50 million in the past three years. The Commission can also launch ex-officio cases where it suspects foreign financial contributions are distorting the internal market.	
Human rights and forced labor	The **Corporate Sustainability Due Diligence Directive will require large companies to identify and take appropriate measures** regarding the adverse human rights and environmental impacts of their supply chains.	The **Uyghur Forced Labor Protection Act (UFLPA) restricts imports of all goods** produced in Xinjiang or by entities on the UFLPA Entity List.
Outbound investment		**Treasury's Outbound Investment Security Program prohibits or requires notification** of US investment in semiconductors and microelectronics, quantum information technologies, and AI systems in China.

Source: Rhodium Group compilation

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