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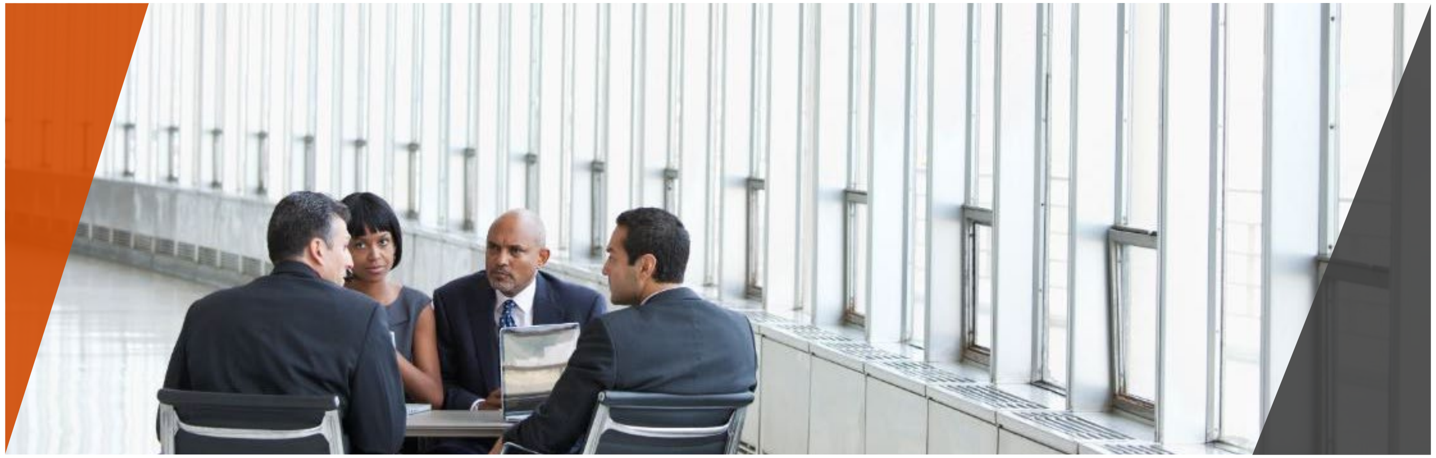
Diversification for a competitive advantage

pwc 普华永道

Diversification



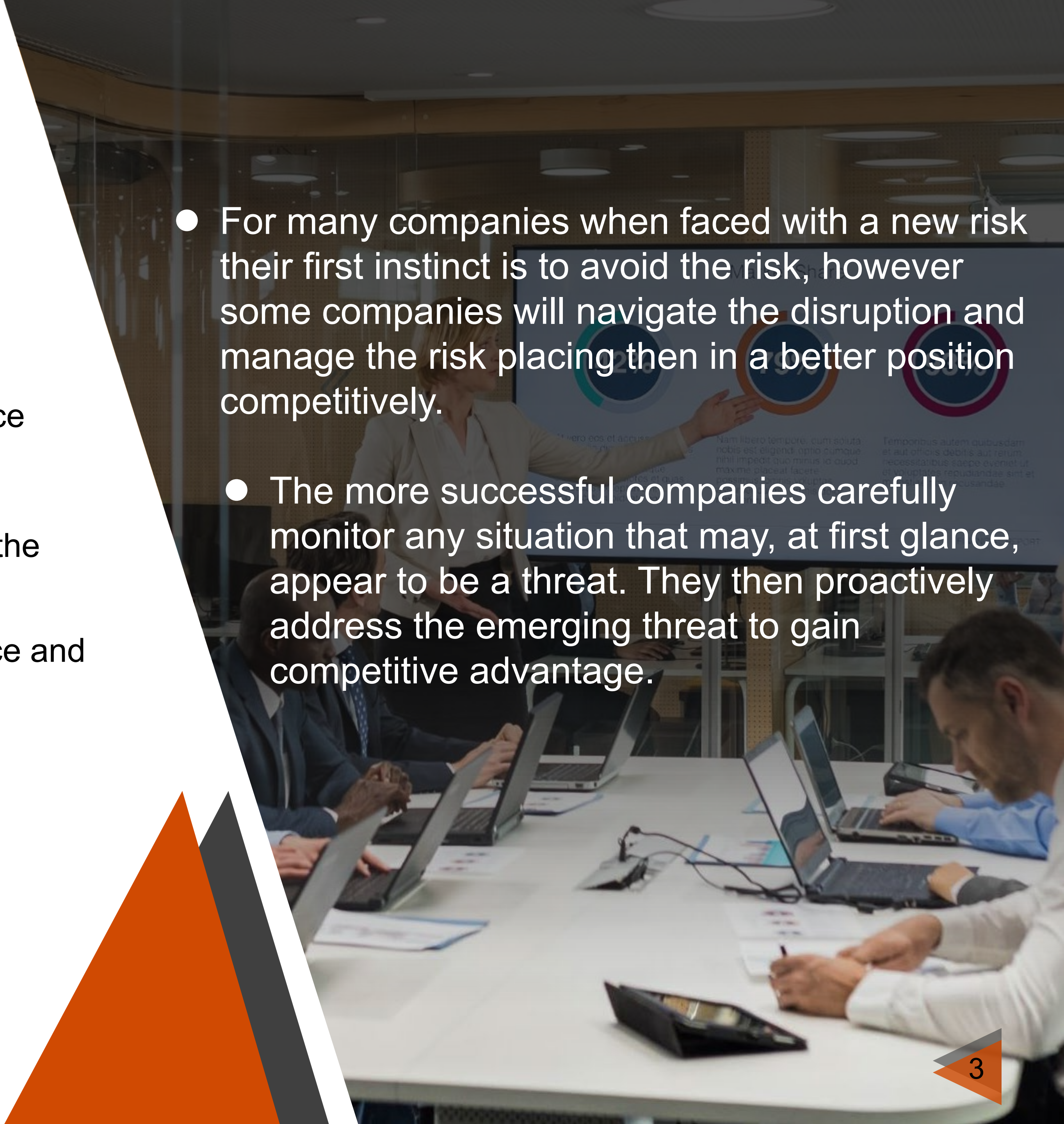
Geopolitical risk is on the rise, with emphasis being placed on de-risking by some countries including the USA and the EU. How can Chinese exporters take advantage of this risk and turn it into a competitive advantage?

What is De-risking?

- In a business context the steps to make (something) less risky or less likely to involve a financial loss. For business this could mean cutting ties and lessening relationships with categories of customers that are considered "high-risk". Companies may stop supplying goods or services to high-risk customers and may even choose to cease business with these customers. Companies may also choose to restrict the goods and services provided to high-risk customers carefully monitoring them and subjecting them to special conditions.
- De-risking can be defined as the phenomenon of companies terminating or restricting business relationships with customers or categories of customers to avoid rather than manage risk. The risk referred to in de-risking is a customer who could pose a higher-than-average risk of Sanctions or Export Controls or that processing supplies might result in a breach of money laundering regulations. De-risking can be caused by economic and regulatory concerns.

Diversification

- **What's driving Diversification threats?**
  - ➢ National security risks
  - ➢ Economic security risks
  - ➢ Complexity of Sanction and Export control compliance
  - ➢ Change in Policy and/or risk appetite
  - ➢ Perceived risk is greater than the expected value of the business
  - ➢ Inadequate budget to support increased due diligence and monitoring activities
  - ➢ High-risk categories designated by regulatory and government agencies
  - ➢ Hefty fines



- For many companies when faced with a new risk their first instinct is to avoid the risk, however some companies will navigate the disruption and manage the risk placing then in a better position competitively.
  - The more successful companies carefully monitor any situation that may, at first glance, appear to be a threat. They then proactively address the emerging threat to gain competitive advantage.

Diversification

- A company saw a troubling geopolitical trend in several key markets that could potentially threaten its growing business: e.g., imposition of Section 301 duties by moving aggressively to move certain manufacturing processes offshore thereby changing the origin of products manufactured by means of substantial transformation.

- As a result, the company was able to significantly expand its business and gain advantage over competitors that were slower to act.

- We see companies developing parallel supply chains as they seek to strengthen their operational resilience and react to the geopolitical forces at play. Markets in southeast Asia will likely be the preferred alternative destinations for duplicate production activities, given their strong growth potential and competitive labor costs. Countries with similar industry composition to China's export sector, and/or free trade agreements with the US, the EU and Japan, stand to benefit. Vietnam and Mexico are prominent among these.

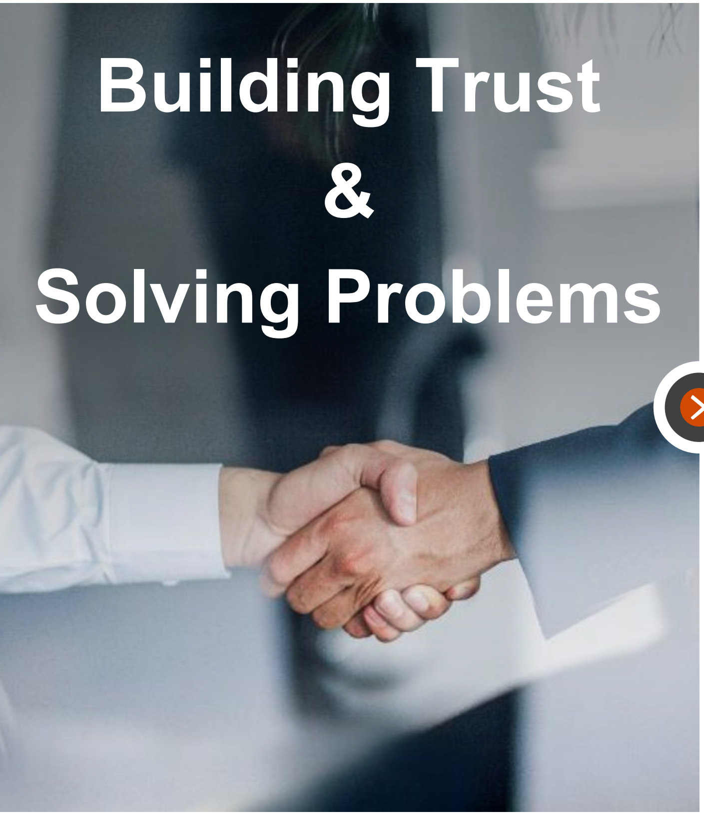
Diversification

- **Potential benefits of Diversification:**
  - Improved strategic decision-making due to ability to identify risks and cost of doing business in different jurisdictions.
  - Increased visibility into the company's processes along with increased business efficiency.
  - More transparency and clearer accountability.
  - Dynamic risk assessment framework to continuously identify emerging risk.
  - Robust early warning mechanism to alert the management on significant issues at an early stage.
  - Strong change management framework to stay current and upbeat with the emerging trends.

- **Is your business likely to be exposed to an unexpected geopolitical event?**

- **"In every risk there is also an opportunity" is a well-worn adage. Yet few companies consistently act on it. At PwC we have a team of supply chain transformation, tax and risk experts to help you gain a competitive advantage in your diversification/or supply chain transformation strategy.**

Supply Chain Transformation



Site selection and feasibility study

Suitable countries and regions/feasibility and risk of overseas investments

- Analyze cost, suitability, the macro investment and policy environment
- Study infrastructure and logistics connectivity and efficiency
- Research on land and labor costs
- Identify risks in overseas investment projects, assess risk levels, screen risks and develop management strategies.

Indirect Tax

Cash flow opportunities

VAT/GST advice on place and time of supply rules

VAT/GST advice on country specific registration and compliance reporting

Customs

Customs assessment and trade control risks.

Customs advice on original and targeted countries

Assess targeted country trade control and sanctions risk

Transfer pricing

Sustainable transfer pricing framework

Assess the impact of supply chain transformation on domestic entities

Evaluate feedback from governments across the territory on supply chain transformation/optimization programs and support implementation

Foreign exchange

Overseas direct investment

Clarify the management and reporting requirements for overseas investment projects

Advice on legal and regulatory compliant investment filing

Structure

Tax efficient investment, financing and operating structure

Study bilateral tax agreements, local tax laws and regulations to provide legal support for foreign investment restrictions.

Benefits

Host country’s investment and tax benefits

Study the compatibility of proposed investment project with the investment promotion policies of the host country

Analyze investment and tax incentives under different investment scenarios.

Contact us

Jeff Yuan

PwC APAC Transfer Pricing Services Leader

86 (21) 2323 3495

jeff.yuan@cn.pwc.com

Douglas Mackay

PwC China Supply Chain Advisor

86 (21) 2323 4084

douglas.d.mackay@cn.pwc.com

Thank you

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