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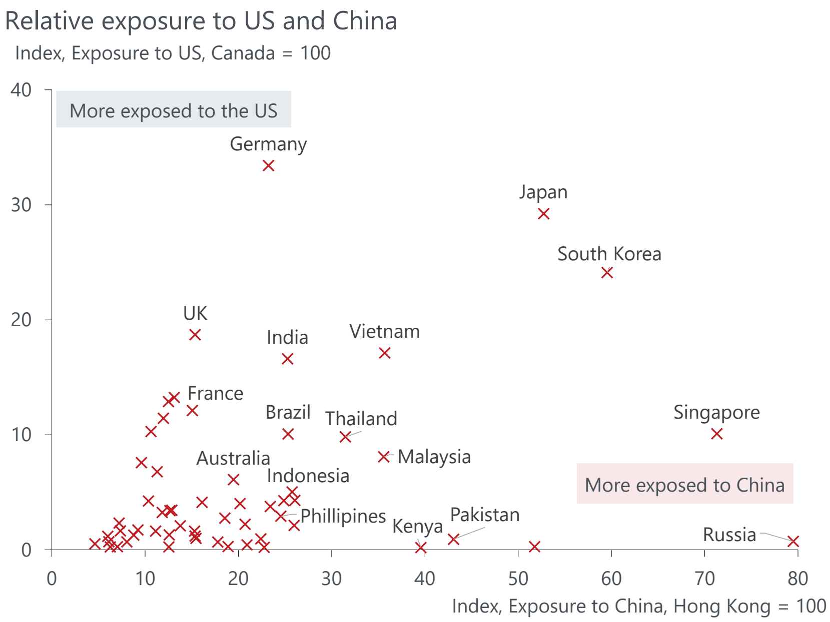
# Research Briefing | Global

# US–China standoff: Sanctions and supply chain risks

- **As geopolitical tensions rise following the raft of US tariffs, and trade policy with China is yet to be finalized, we conducted a global cross-country analysis of US-China economic exposure and reliance to assist strategic planning and supply-chain risk management. Trade policy escalating beyond tariffs to sanctions poses significant risk to global supply chains, with concerns that other nations could be pulled into the geopolitical standoff.**
- **We identify Japan and South Korea as the most likely to be entangled as the US and China look to gain influence through foreign policy. Key supply-chain hubs Vietnam, Singapore, Malaysia, Thailand, and the Philippines will probably also be in the crossfire, as will India because of its growing regional importance. Conversely, Mexico is more insulated to US-China fallout.**
- **Taiwan – a semiconductor supply-chain lynchpin – is often the focus of US-China altercations, with the US recently asking its allies how they would respond to a war with China over Taiwan. A major disruption in Taiwan would be a fast-acting, existential threat to high-tech manufacturers and firms dependent on these goods; existing supply chains could be severed in less than a year.**
- **We updated our analysis of global exposure to Taiwan conducted amid peak tensions in 2024, and find vulnerabilities have since risen among the most-exposed nations, such as South Korea, China, Japan, and the US. This research extends beyond China-Taiwan tensions and highlights how sanctions – the likely policy response – could magnify the fallout across countries.**

Businesses currently view geopolitical tensions as the primary downside risk, as per the latest Oxford Economics Global Risk Survey. A sudden escalation in US-China relations beyond tariffs to sanctions, countersanctions, and potentially graver outcomes threatens global supply chains and creates uncertainty about future global trade flows and investment decisions. Our analysis reveals which countries are exposed to being caught between the US and China if relations deteriorate, with severe implications considering their strong trade and investment connections with both nations (**Chart 1**). Provoking the wrath of either economic giant jeopardizes business investment, affecting demand and financial market results.

**Chart 1: Double-exposed nations face the brunt of US-China policy breakdowns**




*Source: Oxford Economics*

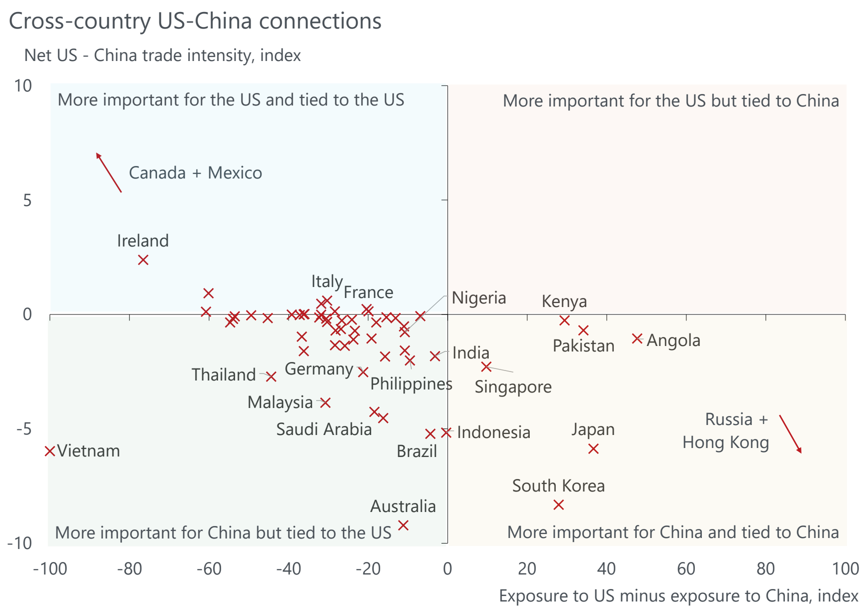
**Thomas Rudgley - Senior Economist - trudgley@oxfordeconomics.com**

Taiwan has often been the focal point of US-China flare-ups. We assume that meaningful disruptions there would be met by a policy response from the US and its allies, given their repeated security assurances. If the US applies sanctions on China and threatens penalties for non-complying countries, like the enacted third-party sanctions on Russia, all nations will face a choice of whose sanctions and other policy measures should be followed, and to what degree. The conundrum for supply-chain and risk management is determining which countries follow US sanctions and curtail their trade with China, and which align with China and face US penalties. National policy responses will need to be decided quickly, spurring a rapid reshaping of supply chains that could leave unprepared firms stranded without inputs.

To investigate countries' potential responses, we compare each nation's economic exposure to the US and China, assuming nations align with their closer economic partner. Exposure to the US is gauged through bilateral trade intensity. Regarding China, we aggregate each nation's China Economic Reliance Index (CERI) and Taiwan Exposure scores such that scoring high in both metrics yields a higher total than scoring high in just one. For more information on these measures, see the **Appendix**.

South Korea and Japan are the most notable double-exposed nations, followed by Vietnam, India, Thailand, Malaysia, and Brazil (**Chart 1**). These countries bear the brunt of a US-China breakdown and jointly represent almost 13% of global trade, ensuring their decisions will impact supply chains and trade flows across various industries and regions.

### Chart 2: Economic importance and exposure to the US and China




*Source: Oxford Economics*

But double exposure is a double-edged sword. Although nations caught in the middle are most vulnerable due to their strong economic connections to both countries, they also may benefit from targeted foreign policy implemented by the US or China with the goal of gaining additional influence. We expect the recipients of any beneficial policy or exemption will be those most important for the US and/or Chinese economies. Mapping the economic importance of each nation to the US and China using trade intensity, and comparing this against their own economic exposure (**Chart 2**), we draw these conclusions:

- South Korea and Japan are the most likely to get a policy reprieve and exemptions given the size of their economies, industry mix, and strong trade linkages with the US and China; both nations have already received carve-outs from US semiconductor restrictions. Additional policy will likely feature additional clauses for these two nations, in particular for Japan given the renewed US military linkages.
- Nations in Southeast Asia, integral to global supply chains, face significant exposure but are potentially not vital enough for either country to warrant additional policy. Geography exposes them to South China Sea trading routes; disruptions during Covid lockdowns had severe consequences. Among this group, Vietnam has a higher exposure to the US due to its role as a primary export destination. Singapore, Malaysia, and Thailand face greater exposure to China; the Philippines and Indonesia are

more neutral. These nations hold greater importance for China's economy than the US, potentially making them targets for US intervention to influence outcomes.

- Major iron ore exporters Australia and Brazil remain crucial to satisfy China's steel demand, but with Australia a close US ally and US-Brazil relations tense, Brazil may see additional policy from China to help secure this iron supply; conversely, this may be a catalyst for the US-Brazil relationship to improve.
- The other BRICS nations lean more towards China, with Russia a firm ally. India has strived to remain neutral, but a recent surge in electronics imports from China and a recent souring of US-India relations blurs the picture.
- Europe remains firmly in lockstep with the US; renewed defence commitments among NATO nations shores up this relationship. Enacted US tariff measures are unlikely to severely harm ties.
- OPEC remains neutral between the US and China, but oil is crucial for both; China's oil supply from Russia reduces its reliance, while Saudi Arabia has been under increasing US focus after President Donald Trump's recent visit to the Kingdom and other OPEC nations, along with subsequent signings of defence and investment pacts.
- Despite simmering tensions, Mexico remains a close US ally and economic partner. It is one of the few manufacturing bases highlighted in our navigating global supply-chains research that is relatively insulated to Taiwan.

The recent tumultuous geopolitical period pushes these risks to the forefront of decision-making and keeps uncertainty elevated. Taking the US response to Russia’s invasion of Ukraine and the restrictions on advanced semiconductor exports to China as benchmarks, we believe economic sanctions remain the primary tool for the US to confront China. These will be implemented well before any potential military intervention. Although we perceive significant geopolitical upheaval between the US and China as a tail-end risk, it's important for senior corporate leaders of businesses highly exposed to US-China and Taiwan risks to consider balancing supply-chain resiliency with efficiency when planning long term.

## Updating our Taiwan Exposure Index

Refreshing our previous research, we pinpoint countries highly vulnerable to disruptions in Taiwan, the source of more than 90% of high-end semiconductors worldwide. Exposure depends on trade intensity, industry composition, and the price impacts of shortages and disrupted shipping. Advanced economies with robust high-tech and auto industries, particularly in the Asia-Pacific region, are the most vulnerable.

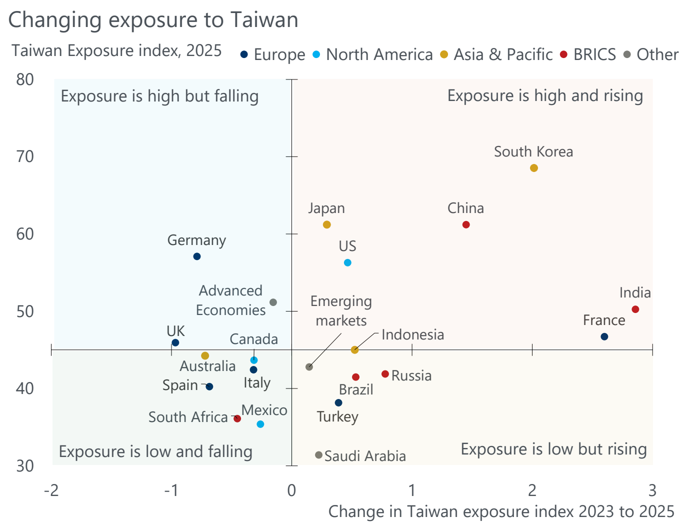
### Chart 3: Exposure to Taiwan is concentrated in auto and high-tech manufacturers

| Country<br>G20 nations shown | Taiwan exposure<br>2015 | 2019 | 2022 | 2023 | 2025 | Change<br>2023-2025 |
|---|---|---|---|---|---|---|
| South Korea | 65.1 | 66.3 | 66.2 | 66.5 | 68.5 | 2.0 |
| China | 60.0 | 58.8 | 57.9 | 59.8 | 61.2 | 1.4 |
| Japan | 61.6 | 61.0 | 60.5 | 60.9 | 61.2 | 0.3 |
| Germany | 56.0 | 56.6 | 56.9 | 57.9 | 57.1 | -0.8 |
| United States | 55.7 | 55.4 | 56.5 | 55.8 | 56.3 | 0.5 |
| **Advanced Economies** | 50.5 | 50.6 | 51.3 | 51.3 | 51.2 | -0.2 |
| India | 52.8 | 49.0 | 46.0 | 47.4 | 50.3 | 2.9 |
| France | 44.7 | 44.7 | 45.2 | 44.1 | 46.7 | 2.6 |
| United Kingdom | 45.9 | 45.7 | 46.0 | 46.9 | 45.9 | -1.0 |
| Indonesia | 44.4 | 44.0 | 44.7 | 44.5 | 45.0 | 0.5 |
| Australia | 44.8 | 44.4 | 45.8 | 45.0 | 44.3 | -0.7 |
| Canada | 44.3 | 43.9 | 44.7 | 44.0 | 43.7 | -0.3 |
| **Emerging markets (exc. China)** | 41.7 | 41.7 | 42.6 | 42.7 | 42.8 | 0.1 |
| Italy | 42.4 | 42.0 | 42.3 | 42.8 | 42.4 | -0.3 |
| Russia | 38.1 | 38.0 | 39.8 | 41.1 | 41.9 | 0.8 |
| Brazil | 39.4 | 40.5 | 41.6 | 41.0 | 41.5 | 0.5 |
| Spain | 38.3 | 38.7 | 39.7 | 40.9 | 40.3 | -0.7 |
| Turkey | 37.2 | 35.9 | 37.1 | 37.8 | 38.2 | 0.4 |
| South Africa | 35.6 | 36.0 | 36.6 | 36.6 | 36.1 | -0.5 |
| Mexico | 36.2 | 36.0 | 36.5 | 35.7 | 35.4 | -0.3 |
| Saudi Arabia | 31.4 | 30.7 | 31.5 | 31.2 | 31.4 | 0.2 |
| Argentina | 34.4 | 33.8 | 34.7 | 34.2 | 29.8 | -4.4 |

*Source: Oxford Economics*

Taiwan exposure scores have eased from the 2023 peak among advanced economies. However, the most exposed nations are now more vulnerable as their economies increasingly rely on high-tech goods. The permeation of technology throughout all industries ensures that firms with supply chains in highly exposed countries face a higher risk of themselves being disrupted, regardless of which industry they operate in. Supply-chain disruptions raise uncertainty, threaten investment growth, increase producer costs, impact consumer demand, and may spill over into financial markets.

### Chart 4: Exposure to Taiwan has risen among the most exposed nations since 2023




*Source: Oxford Economics*

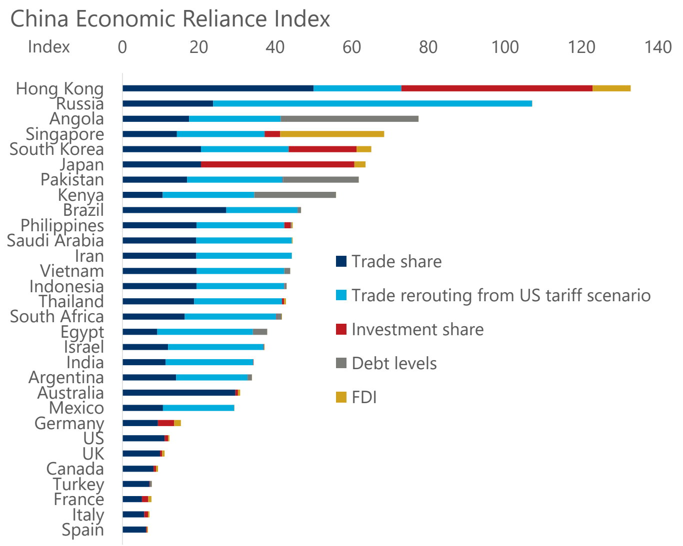
Looking at the 10 most exposed countries:

- The Asia-Pacific region faces significant exposure due to high trade integration and close geographic proximity. Disruptions in the Strait of Taiwan, among the world's busiest shipping lanes, would have catastrophic consequences for these nations. South Korea (1), Hong Kong (2), China (3), and Japan (4) hold the highest exposure scores, followed closely by Malaysia (6) and Thailand (8).
- The European Union has experienced a decline in exposure due to reduced import intensity. This is particularly significant for Germany (5), with its high Taiwan exposure stemming from the large auto manufacturing sector. Germany contrasts with the increasing exposure of other auto giants ─ Japan, South Korea, and the US. France, an outlier among European nations, had a notable rise in exposure due to a relative expansion of goods imports containing electronic components sourced from Taiwan.
- US (7) exposure to Taiwan has increased since 2023. Focusing on onshoring electronics production elements and persuading firms to invest in US capacity could reduce exposure. However, our research indicates that reshaping manufacturing flows will demand significant government investment, industrial policy adjustments, and patience, not just tariffs.
- Pakistan (9) and India (10) scored highly due to their strong trade linkages to China. India's exposure has increased significantly since 2023, attributable to a surge in electronics imports.

## Appendix: Measuring economic exposure to China

We developed the China Economic Reliance Index (CERI) to evaluate countries' economic exposure to China. The CERI gauges China's significance in trade, investment, and debt flows of a nation, and considers modeled trade rerouting from a US-China tariff trade war. Countries with high scores have strong trade and investment ties with China or depend on China for debt, aid, or foreign investment. Importantly for risk and supply-chain management, these nations are less inclined to jeopardize these connections by opposing China in geopolitical events compared to those with lower scores.

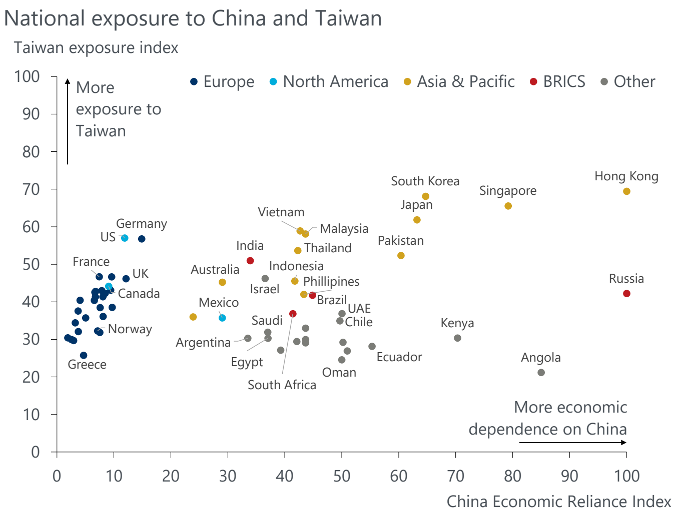
**Chart 5: Economic reliance on China highest among those who benefit from US trade diversion**




*Source: Oxford Economics*

Countries scoring highly in the CERI and Taiwan Exposure Index face significant exposure to regional disruptions, incentivizing them to avoid inflaming their relations with China. The Asia-Pacific nations, unsurprisingly, exhibit the highest exposure due to extensive trade penetration, while Europe and North America show the least exposure (**Chart 6**). Among the other BRICS nations ─ Brazil, Russia, India, and South Africa ─ economic ties with China are moderate; Russia's dependence has increased post EU and US sanctions. The Middle East and Africa demonstrate a relatively higher reliance on China, attributed to increased Chinese trade, investment, and debt in the region, notably in sub-Saharan Africa.

**Chart 6: Asian advanced economies are the most exposed to China and Taiwan**




*Source: Oxford Economics*

The CERI score combines data from the World Bank, Comtrade, and the International Monetary Fund. We average China's share in a nation's total goods trade — imports plus exports — and its share of total FDI provided to that nation. To that figure, we add the share of total debt owed to China and FDI from China as a share of that nation's GDP. Those two measures are minimal in most countries but significantly higher in select developing economies heavily reliant on Chinese debt and FDI for development. Excluding these metrics prevents distortion of predominant trade and FDI flows. To analyze how nations would fare under a US-China geopolitical event and the associated reshuffling of trade flows, we incorporate the improvement in goods trade for countries expected to see increased demand for exports. This analysis is based on scenarios conducted using the Global Trade Analysis Project model. Each indicator value across 84 nations in the Oxford Economics Global Economic Model is constrained to fall between 0 and 100.

 Thomas Rudgley - trudgley@oxfordeconomics.com