

USCBC 2008 Member Priorities Survey Executive Summary

US Companies' China Outlook: Market Growth...But Where Do We Go from Here?

The US-China Business Council's (USCBC) annual survey of the China business environment finds that its member companies continue to increase sales and profitability in the third-largest market for US exports – a market that is significantly larger when goods that are made and sold in China by US companies operating there are included.

At the same time, companies remain frustrated by bureaucratic barriers to market expansion and shortages of local managerial and other personnel. And, though optimistic about growth prospects, USCBC companies express rising concerns about PRC government policies under development that might restrict future growth in many key industries.

Some highlights of the 2008 survey:

Top Issues

- **Administrative licensing** Last year's number-two issue, companies find China's business- and product-licensing bureaucracy a major headache, with no improvement over the past 12 months. The slow, opaque, and inconsistent licensing process impedes both market entry and subsequent expansion.
- **Human resources** Finding and keeping top and mid-level local talent in a competitive hiring environment remains a day-to-day challenge. Salary increases in some fields can top 20 percent per year. This was the top issue in the survey for the past three years.
- **Rising costs** As forecast in last year's survey, rising costs rocketed into the top 10 this year, in the form of higher costs for labor, materials, and taxes.
- **Rule of law** Legal issues remain firmly in the top 10, with insufficient regulatory transparency, uneven enforcement of laws, and inadequate intellectual property rights protection all in the top 10 – despite some improvements in all three.

USCBC Members' Top 10 Issues

1. (Tie) Administrative licensing
1. (Tie) Human resources:
Talent recruitment and retention
3. Cost increases
4. Transparency
5. Uneven enforcement of PRC laws
6. Intellectual property rights enforcement
7. Competition and overcapacity
8. Developing sales and distribution channels
9. PRC Customs and trade administration
10. Protectionism in China

The Path Ahead: Optimism, Yet Rising Concerns about Economic Nationalism

- **USCBC members remain optimistic about expanding their businesses in China**, with 90 percent optimistic or somewhat optimistic about prospects over the next five years.
- **Concerns about protectionism in China remain a top 10 issue**, however. Policies under development that might restrict investment expansion, favor domestic technologies and product standards, and protect

certain “pillar” industries and “national champions” have 82 percent of respondents very or somewhat concerned.

Once Again, Some Results Correct Popular Misperceptions

- **US companies invest in China to reach the China market** Ninety-two percent of respondents cite this as their main objective for establishing operations there. Far behind are investments made to export to other markets (26 percent) or the US market (23 percent). So, who is doing all that exporting from China? Much of it is from Asian companies that have been exporting to the United States for decades – but that now have facilities in China. The rising costs cited above may be affecting those companies most.
- **Companies can make money in China** Eighty-eight percent of respondents say they are profitable in China, and 81 percent say their profit margins in China are the same or better than their company’s global margins.
- **US companies serve as models for better business practices and working conditions in China** Eighty-three percent of respondents pay higher wages than their domestic counterparts. More than 90 percent bring their global workplace safety practices to their China facilities, which two-thirds say exceed local requirements.

The full report of the survey responses follows.

The US-China Business Council (USCBC, www.uschina.org) is the leading organization of US companies engaged in business with the People’s Republic of China. Founded in 1973, USCBC provides extensive China-focused information, advisory and advocacy services, and events to roughly 250 US corporations operating within the United States and throughout Asia.

USCBC 2008 Member Priorities Survey Results

The US-China Business Council (USCBC) surveys its membership each year on the business climate in China to determine prominent operating trends and priorities for USCBC member services in the coming year.

Overall, USCBC member companies report positive financial results for their China operations and are optimistic about future growth opportunities. Companies note success in building brand awareness, strengthening local sales, developing stronger supply chains, and maintaining double-digit growth rates. Nevertheless, bureaucratic delays, a tight labor market, and rising costs present business challenges that companies must address. In addition, companies have significant concerns about PRC policies that favor domestic companies over foreign ones and unequal enforcement of laws and regulations for foreign and domestic companies.

Importance of China to Global Operations

China continues to grow in importance as a key market for USCBC members' global operations. Despite rising costs across the board for their China operations, most companies plan to expand their China investments – a consistent response for every year in which USCBC has reported its survey results.

China as a business priority

The survey asked respondents to assess how important China is to their company's global operations. More than 85 percent reported that China was at or near the top of their companies' priorities (see Figure 1) – about the same as in 2006 and 2007.

Objectives in China

USCBC members are clear about why they invest in China: to access and serve China's domestic market. Ninety-two percent of members cited this as their top investment objective (see Figure 2), about the same as last year. Some companies, of course, have multiple goals of doing business in China: About one-quarter of respondents noted that they also use China as an export platform to

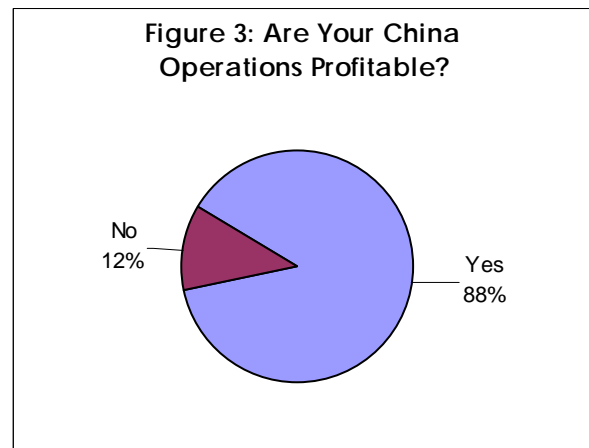
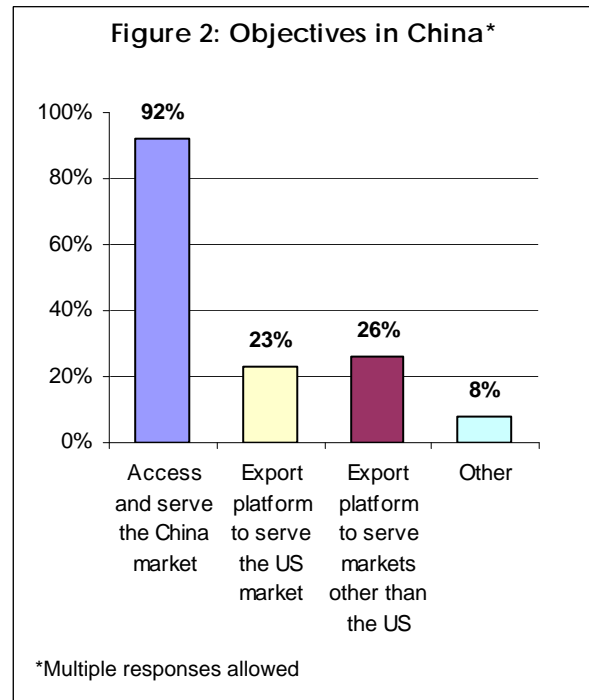
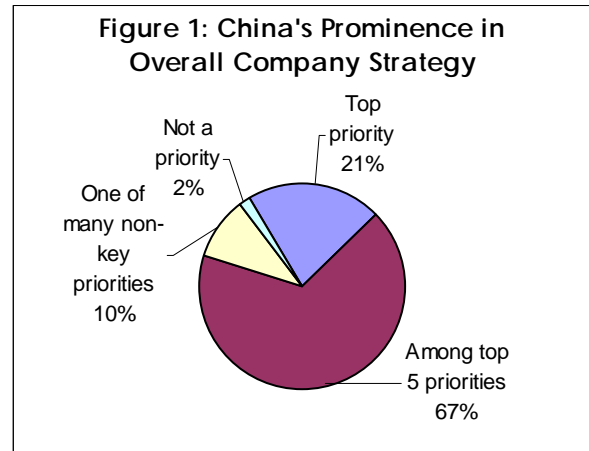


Figure 4: Profitability of China Operations in 2007 vs. 2006

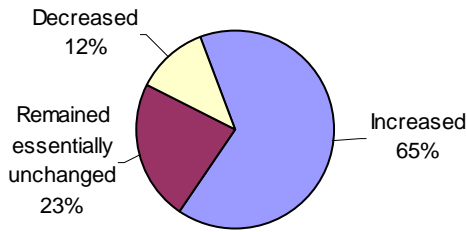


Figure 5: Profitability Rate of China Operations vs. Company's Global Rate

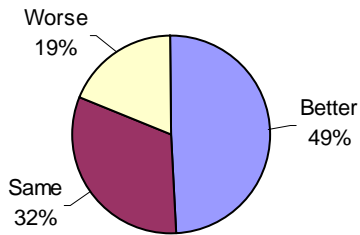


Figure 6: Revenue from China in 2007 vs. 2006

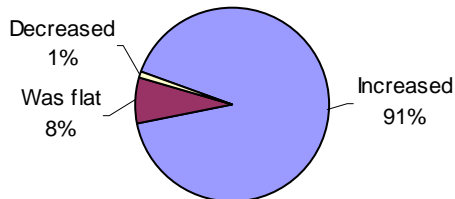
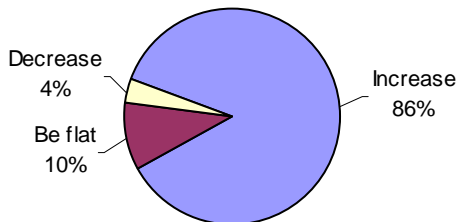


Figure 7: 2008 Revenues Are Expected to...



serve the United States or other markets. These combined purposes are a strong indication of the critical role that China plays in the global strategies of US companies.

Financial results and resource commitment

Contrary to common perceptions, an overwhelming majority of companies report that their China operations are profitable, though rising costs are a growing concern, as noted below. The 2008 survey again posed the simple question to assess companies' performance: Are your company's China operations profitable? Eighty-eight percent of respondents said yes, a slight increase over responses in 2006 and 2007 (see Figure 3).

In addition, respondents were asked how their profit margins in China compared to their company's margins elsewhere in the world (see Figure 5). Nearly half said their margins in China were better than their margins globally, and another 32 percent said their China margins were comparable to their company's global margins. Only 19 percent said their margins in China were worse than their profitability rates elsewhere.

Corporate revenues are also rising in China. Ninety-one percent of respondents said their revenue rose in 2007, and 86 percent expect revenues to increase in 2008 (see Figures 6 and 7). Around 10 percent of companies said their revenues were flat last year and would likely remain so this year. Only 4 percent of survey respondents expected revenues to decrease in 2008.

As a result, USCBC companies continue to expand their resource commitment to China's market (see Figure 8). Seventy-three percent of respondents reported plans to accelerate their allocations of capital, human, and other resources in the country – up five percentage points from 2007, with most of the rest of respondents planning to maintain their commitment at the same level. Only 1 percent of respondents said they would cut back their resources in China within the next year.

Given widespread reports of higher costs in China, the 2008 survey asked survey respondents what specific factors were affecting their companies' profitability in China (see Figure 9). Though companies cited rising costs in response, they also cited PRC government regulations and competition from domestic and international

companies. (For more analysis on rising costs, see “Top Operating Issues”).

Finally, the survey asked respondents to assess their five-year outlook for their China operations (see Figure 10). The overwhelming majority, 90 percent, are optimistic or somewhat optimistic. Only 3 percent are somewhat pessimistic about their prospects in the near future.

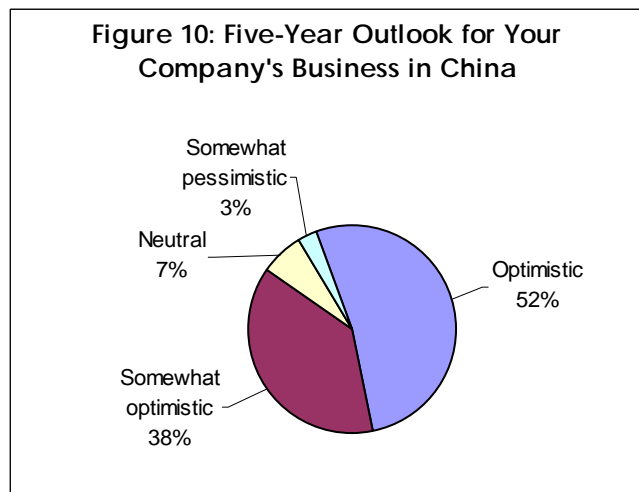
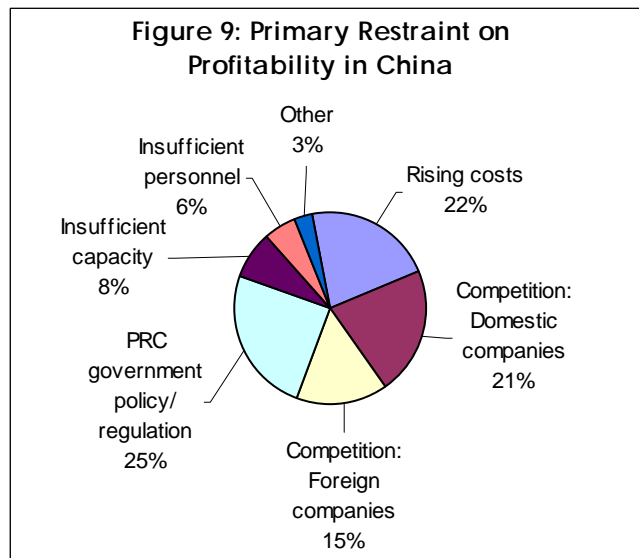
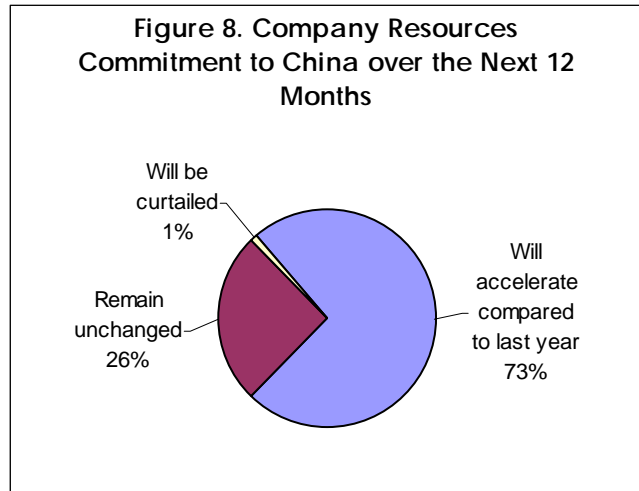
Top Operating Issues in China

USCBC is, at its core, an organization focused on helping companies navigate the operational challenges of business in China. To that end, each year’s survey seeks to assess how USCBC member companies are faring in China’s market at the operational level. As in previous years, the survey asked respondents to rank the top five issues of importance to their China operations. Respondents were then asked to assess the progress that China has made in the last year in addressing those issues. The results are listed below and ranked in order of importance (see Figure 11). Of note: there was no clear differentiation between the two highest-ranking issues on the list, administrative licensing and human resources. As a consequence, this year’s results include a tie for the number-one operating issue for companies.

The most common response to the question of progress on the top issues is “no change.” Many of the issues are not solvable with a single fix, so a response of “no change” may not be unusual for systemic challenges that take time to correct, such as a tight market for local mid- and senior-level managerial personnel. In addition, it is clear that, on balance, some improvements have occurred in the last year. For example, more companies reported better transparency and intellectual property rights (IPR) enforcement than reported worsening in these areas. Others areas, such as cost increases and protectionism in China, generally, worsened rather than improved.

Careful observers of China’s transformation realize that, though China’s overall commitment toward economic reform remains unchanged, the precise direction and focus of reform is subject to intense debate among officials, academics, and other decisionmakers. China is creating its own economic system, one still marked by significant government ownership and policy-directed intervention in the economy. In areas as diverse as

environmental regulations, standards, and anti-competition policy, China is making progress, but is also diverging from international practice in ways that companies find troubling.



Given the immensely positive impact of US investment and business on China, there are significant benefits to identifying the core problems US companies face in China and providing constructive input to policymakers to remove those barriers. The purpose of this survey report is to identify and explain these key issues, the resolution of which would directly benefit China in its development of a modern, innovative economy.

1. (Tie) Administrative licensing and business approvals

Rank in 2007: 2
 Rank in 2006: 2
 Rank in 2005: Not asked
 2007 Progress: Unchanged

Every company doing business with China encounters the administrative licensing and business approvals system at multiple points throughout the business process. It covers everything from securing central-level government approval for the business scope of a multi-billion dollar investment to opening a bank account in a small third-tier city. The virtually endless licensing and approval process remains a constant challenge

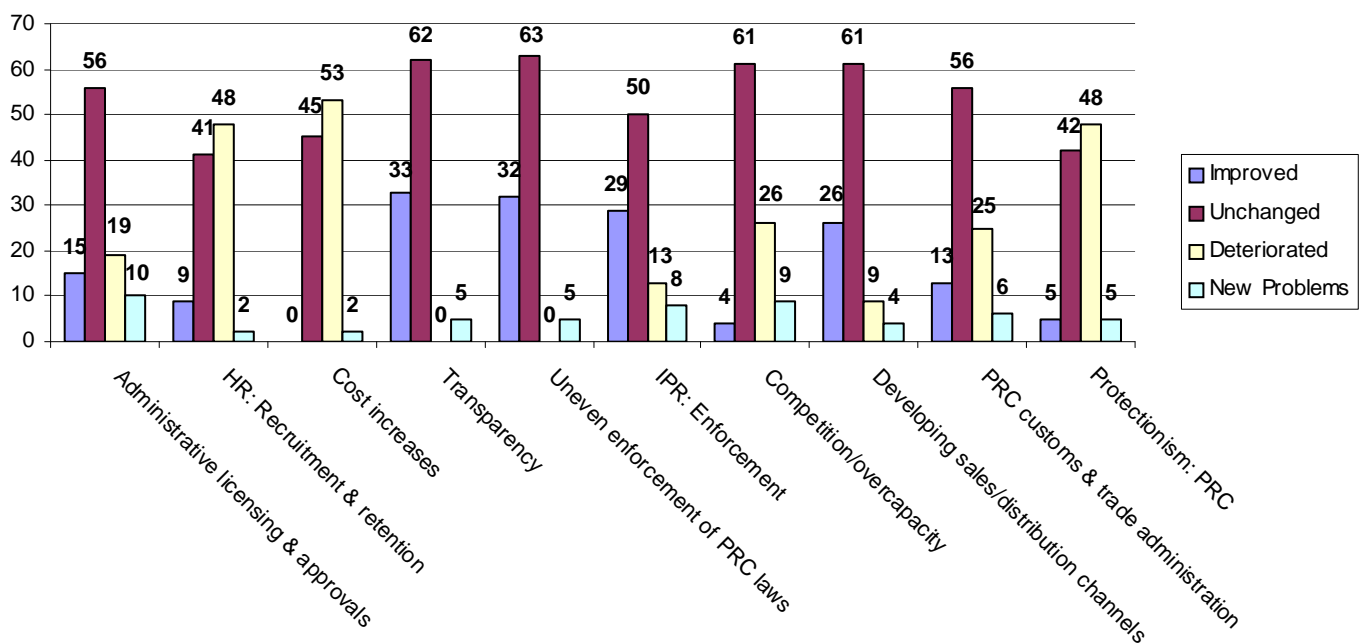
in China. Companies' global business models are geared toward leveraging China's market scale, but their ability to implement those plans is hindered by bureaucratic barriers to expansion.

Some examples of licensing hurdles include

- Requiring multiple approvals from different agencies to set up a joint venture;
- Having to reapply to agencies every time a company's business scope changes or more capital is injected into an entity;
- Changing requirements for companies to qualify as a "high-tech" enterprise;
- New requirements to renew representative-office licenses each year rather than every three years; and
- Lengthy product-license approvals that limit the introduction of new products.

Only 15 percent of survey respondents said the licensing and approval process had improved in the past year, with most of these respondents noting that government approval waiting periods are still too long. More than half of survey respondents said the approval process remained unchanged, and another 29 percent reported that the situation had worsened or that new problems had emerged. One respondent said:

Figure 11: Degree of Progress on Top Concerns of USCBC Members* (%)



*Multiple responses allowed

“We need to go through procedures for administrative licensing and approval at relevant government departments at each level (central, provincial, municipal, and district). It usually takes months or even years to get all required procedures done. Simplifying the procedures is vital for promoting further cooperation.”

1. (Tie) Human resources: Recruitment and retention

Rank in 2007: 1

Rank in 2006: 1

Rank in 2005: 4

2007 Progress: *Unchanged/Deteriorated*

Though administrative licensing was cited by more 2008 survey respondents as their top concern, human resources was cited more broadly as a problem, resulting in a statistical tie for this year’s top issue. Concerns about human resources are not focused on the multitude of new rules and regulations put into place in the past year; regulatory changes in human resources ranked 20th in the survey. Instead, recruiting and retaining qualified personnel vexes employers in all sectors because demand for qualified employees outstrips supply and raises personnel costs.

The continuing problems in this area are pushing companies to become more creative in the employment packages they offer. One respondent noted:

“Career path and professional development have become more important for local staff [retention] instead of salary. [Multinational companies] need to develop competitive talent development programs in order to retain talent.”

3. Cost increases

Rank in 2007: *Not asked*

Rank in 2006: *Not asked*

Rank in 2005: *Not asked*

2007 Progress: *Deteriorated*

Each year, USCBC’s survey is modified slightly to inquire about new concerns identified by member companies in their interactions with USCBC over the course of the year. The 2007 survey report cited

cost increases as one such concern on the horizon, and this year the cost issue entered the top 10 concerns, as did two other new issues: uneven enforcement of PRC laws (number 5) and developing sales and distribution channels (number 8).

Figure 12: Are Rising Operating Costs in China a Concern?

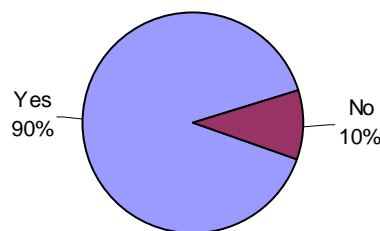


Figure 13: Cost of Most Concern

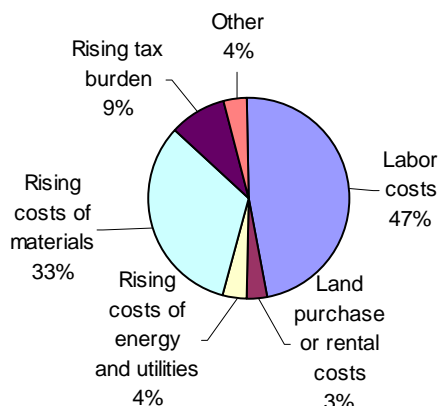
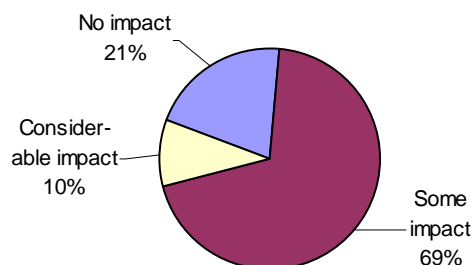


Figure 14: Impact of Rising Costs on Long-Term Planning



Cost increases ranked only slightly below licensing and human resources as a top issue. Ninety percent of survey respondents said that rising operating costs were a concern for their companies (see Figure 12). Labor and material cost increases were cited most frequently, although tax, energy, and land costs were also listed (see Figure 13).

Rising costs could ultimately affect companies' investment plans in China, with almost 70 percent of respondents indicating that it would have some impact on their long-term investment strategy (see Figure 14). Only 10 percent, however, said rising costs would have a major impact on their investment plans, likely reflecting the fact that most USCBC companies invest in China to reach the China market, not to establish a low-cost export manufacturing base.

4. Transparency

Rank in 2007: 5

Rank in 2006: 5

Rank in 2005: 3

2007 Progress: *Unchanged/Improved*

Transparency covers the full extent of a country's rule-making system, including the drafting of new laws and regulations and the solicitation of public comments, government decisionmaking on policies and licensing, and the availability of information on costs and markets. Transparency concerns are also related to a host of other issues that affect companies' daily operations, such as administrative licensing, uneven regulatory

enforcement, product standards, IPR protection, and investment policy.

Though more than half of 2008 survey respondents have yet to see significant changes in China's legal transparency (62 percent report the situation unchanged), many changes were put into place in early 2008 that may improve transparency in 2009 and beyond. In fact, about one-third of survey respondents reported improvements.

Among the changes announced in 2008, the PRC State Council in late April released long-awaited regulations that require all government agencies to publicize government information that is of "vital interest" to citizens, legal persons, and organizations. At the fourth round of the Strategic Economic Dialogue (SED) in June, China also agreed to three points long-advocated by USCBC: to publish for comment all draft economic regulations and rules, not just those related to trade; to allow at least 30 days for public comment instead of the week-long or 10-day periods frequently used to date; and to publish these measures in a single location, the PRC State Council Legislative Affairs Office's (SCLAO) Legislative Information Website, which was created earlier this year. One survey respondent said:

"The regulators have been better at providing notice and comment... [and] reach out to international regulators for best practices prior to implementing new regulations. However, it is still difficult to

Figure 15: Adverse Treatment vs. Domestic Companies

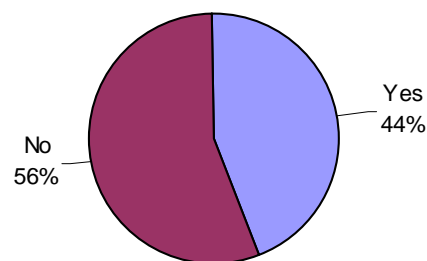
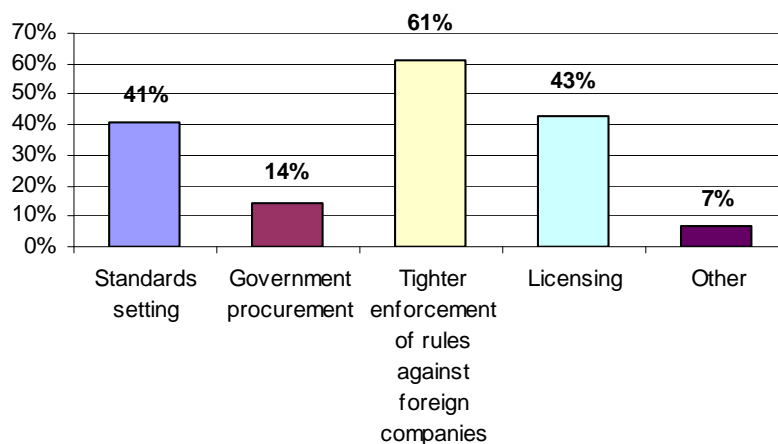


Figure 16: Areas of Discrimination*



*Multiple responses allowed

decipher what the regulators are doing in terms of new business areas (e.g. products, investments and distribution) before regulations are released.”

5. Uneven enforcement of PRC laws

Rank in 2007: Not asked

Rank in 2006: Not asked

Rank in 2005: Not asked

2007 Progress: Unchanged

US companies often report that PRC regulators discriminate against them versus domestic companies. Almost half of survey respondents say they are treated differently from (or more harshly than) domestic companies, particularly in areas such as enforcement of rules, standards setting, and licensing approvals (see Figures 15 and 16).

Companies also report continuing problems with inconsistent enforcement of PRC laws across various provinces and regions of the country. Tax, labor, customs, and other regulations are often vaguely written and open to interpretation, which allows officials to apply those regulations in widely varying and inconsistent ways.

Respondents note that ensuring equal enforcement of all environmental, health, and safety (EHS) policies and standards is important for maintaining a level playing field for foreign and domestic competitors. Though the overwhelming majority of USCBC companies report that their operations comply with or exceed local EHS rules (see “Positive Presence of US Companies” for more on this issue), many respondents say that they are at a competitive disadvantage vis-à-vis domestic companies that may not only be failing to meet China’s minimum standards but may be violating China’s EHS laws without repercussions.

The problem goes beyond EHS laws: One respondent noted concerns about not being treated fairly by China’s legal system if a dispute between Chinese and foreign parties were to arise. Though this specific concern is anecdotal, it reflects a widespread worry among companies operating in China.

Figure 17: Over the Past Year, China's Protection of IPR...

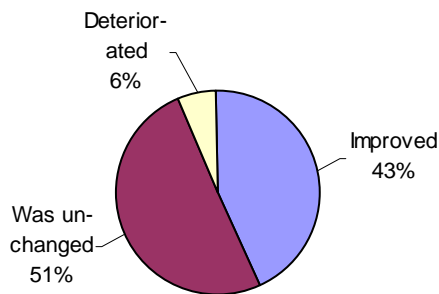
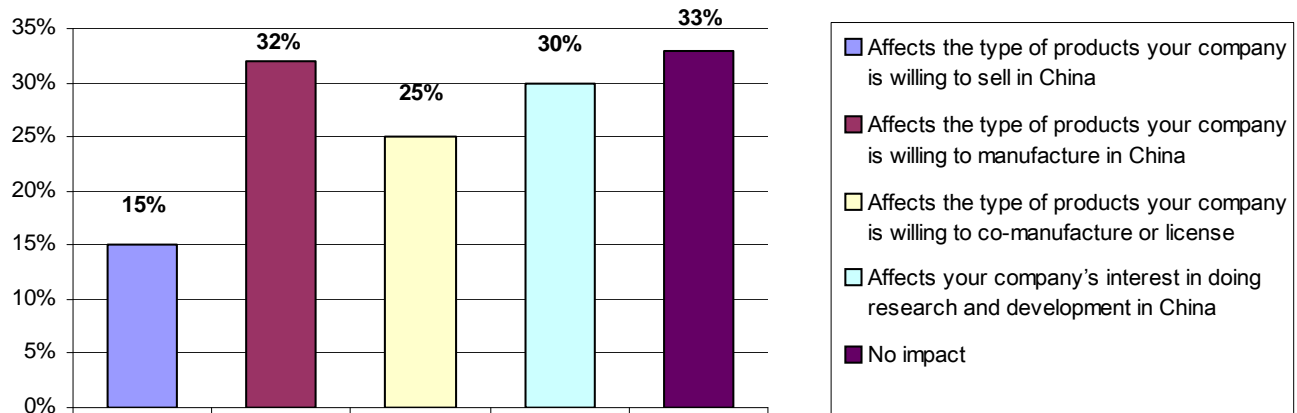


Figure 18: How Does China's Level of IPR Enforcement Negatively Affect the Type of Activities that You Undertake?*



*Multiple responses allowed

6. Intellectual property rights enforcement

Rank in 2007: 3

Rank in 2006: 3

Rank in 2005: 1

2007 Progress: Unchanged/Improved

Despite falling from third to sixth rank in the survey, IPR enforcement remains a top concern for USCBC members. In some industries, such as software, film, and music, piracy remains rampant. In other areas, however, some progress has been made (see Figure 17). Companies noted that local officials and Chinese courts appear to understand the importance of protecting IPR better, resulting in better enforcement in some areas. But even respondents who noted improvements cited the need for more effective IPR enforcement across the board.

Perhaps a better indication of the difficulty of IPR enforcement is reflected in the types of activities that companies are willing to undertake in China (see Figure 18). Only one-third of respondents stated that IPR concerns have no impact on their operations, the same as last year. Most respondents answered that poor IPR enforcement affects the products or technologies they are willing to sell, license, or manufacture in China, as well as their research and development plans.

7. Competition and overcapacity

Rank in 2007: 4

Rank in 2006: 4

Rank in 2005: 10

2007 Progress: Unchanged/Deteriorated

Sixty-one percent of survey respondents said competition and overcapacity in China's market remained unchanged in the previous year, but about one-third noted that the situation had deteriorated or had experienced new problems.

PRC companies are increasingly moving up the value chain and aggressively looking to capture market share, both within China and globally. Though US companies in many sectors retain a significant technological edge, the ability of Chinese companies to draw on support from local officials and national domestic policies that encourage "indigenous innovation" and national champions assists them in gaining market share. In addition, policy lending by domestic banks is

believed to contribute to over-capacity in some industries.

8. Developing sales and distribution channels

Rank in 2007: Not asked

Rank in 2006: Not asked

Rank in 2005: Not asked

2007 Progress: Unchanged/Improved

As noted in last year's survey, one of the clear successes of China's market openings has been in distribution rights – the ability of a foreign company to directly sell in China products it imports from facilities overseas or sources from third parties domestically, without using a Chinese intermediary. With those rights, companies are now developing sales and distribution channels based upon a sounder mix of production in China and product sources elsewhere, allowing them to expand their domestic customer base.

Though more than 60 percent of respondents claimed there had been no change in the past year on this issue, over one-quarter noted that their ability to develop these channels had improved. This issue is, in many ways, linked directly to the top operating issue of administrative licensing and approvals, because one of the major factors slowing the expansion of US companies in China is the numerous bureaucratic procedures and approvals required.

Companies also face logistical hurdles that prevent them from streamlining their sales and distribution channels. Poor roads, inadequate container facilities, and local trucking restrictions often prevent companies from moving goods as cost effectively as possible within China. The fragmented nature of China's domestic logistics industry also increases the complexity of transport routes and the administrative costs for companies, which often use a wide array of small service providers.

9. PRC Customs and trade administration

Rank in 2007: 13

Rank in 2006: 15

Rank in 2005: 8

2007 Progress: Unchanged

China's enforcement of its customs and trade laws dropped out of the top 10 over the previous two

years but made a return this year. Though more than half of survey respondents said China's enforcement of its customs and trade laws had not changed in the previous year, almost one-third noted deterioration or new problems. Only 13 percent saw an improvement in China's implementation of its customs regime.

PRC Customs regulations often remain unclear and subject to sudden changes or uneven application. In particular, Customs authorities in different localities often have seemingly arbitrary and varying interpretations of the same statutes, causing difficulties for companies that seek consistency across their China operations.

In addition, the government can unexpectedly increase or roll back export value-added tax rebates to address larger economic issues such as gross domestic product (GDP) growth and inflation. This is because China's relatively fixed system for managing currency flows and the exchange rate leaves it with fewer tools than most other major world economies. As a result, PRC macroeconomic planners sometimes try to manage trade flows to influence swings in GDP growth and inflation.

10. Protectionism in China

Rank in 2007: 7
Rank in 2006: Not asked
Rank in 2005: Not asked
2007 Progress: Deteriorated

In 2007, protectionism in both China and the United States made USCBC's top 10 list. Though Chinese protectionism remains a top issue, US protectionism slipped out of the top 10 to number 12. Almost half of survey respondents noted that protectionism in China deteriorated in the past year, and another 5 percent experienced new problems.

Respondents mentioned a wide range of issues that concern them, including mergers and acquisitions, government procurement, standards, industrial policies, IPR, and technology. For example, the central government recently issued regulations that appear to favor domestic over foreign goods by imposing an extra, onerous review process on government procurement of imported goods. Other policies designed to promote "indigenous innovation" and high- and new-technology

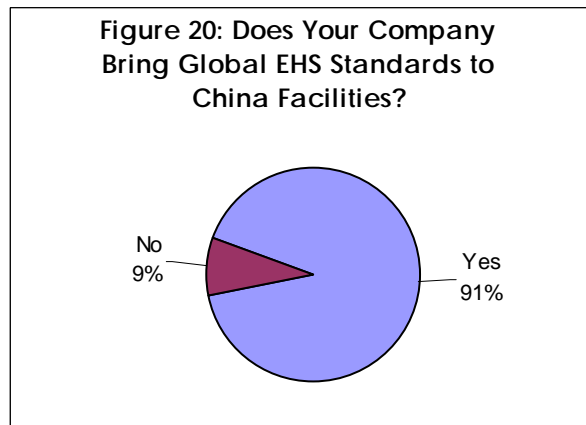
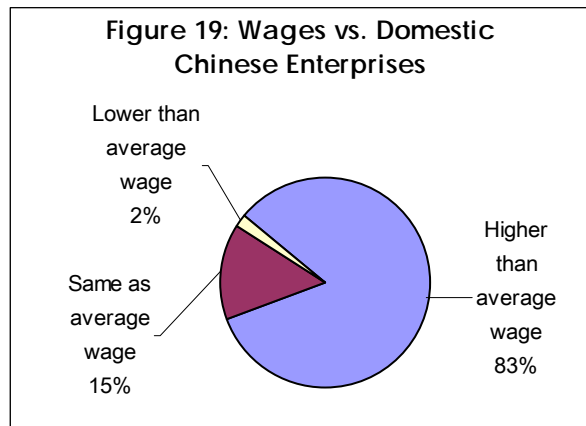
companies may eventually require foreign companies to disclose proprietary information or transfer more technology to maintain access to the China's market. China has also indicated that it could restrict foreign companies' ability to participate on panels that determine standards for Chinese goods and services.

Positive Presence of US Companies

US companies continue to serve as models in China for better business practices and working conditions. In line with last year's survey results, 83 percent of respondents pay higher wages than their domestic competitors (see Figure 19). In addition, the overwhelming majority of respondents indicated that they bring their global environmental, health, and safety practices to their China facilities (see Figure 20). Two-thirds say those practices exceed local standards and practices.

Other Issues to Watch

The issues ranked highest in the survey are of course those that impact the broadest segment of



USCBC membership. Other, more narrowly focused issues, such as China's government procurement practices or US technology export controls, did not make the list of top issues, but nonetheless are of great concern to companies affected by them.

In addition, two other issues should be watched for their potential to rise onto next year's top 10 list.

Standards

Though concerns about product standards as a market-access barrier did not make this year's top 10 (it ranked 13, just below US protectionism), most companies report that they have unsatisfactory access to the standards-setting process in China (see Figure 21). Sixty-three percent of respondents felt they had only "fair" access to the process, while another quarter classified their access as poor. Though this is an improvement over 2007 (last year, 47 percent of companies said they had fair access, and one-third reported their access as poor), an unfavorable regulatory change is on the horizon.

The Standardization Administration of China (SAC) has proposed draft regulations to limit the participation of foreign companies in standardization committees, subcommittees, and working groups that develop technical standards in China. Though the proposal has not yet taken effect, companies are concerned that such a change could affect their ability to take part in a central

process for product development and market access and that other industry-specific moves to impose onerous certification requirements in areas such as information security could prove burdensome. The pursuit of unique product standards also poses a risk for China of incompatibility with global standards.

In their efforts to participate in the development of Chinese standards, companies use a variety of approaches, both in China and the United States (see Figure 22). Half of respondents said they work through PRC or US industry associations. Companies also go directly to PRC regulators or seek assistance from the US government.

Investment

When China entered the World Trade Organization (WTO) in 2001, it was required to reduce trade barriers and open more sectors of its economy to foreign participation. The overwhelming majority of respondents, 92 percent, said that China's operating environment has improved since WTO accession (see Figure 23).

More recently, however, China has released several policies that continue or strengthen restrictions on foreign direct investment. These measures include an updated investment catalogue that limits investment in certain sectors, designated "pillar industries" with restrictions on foreign ownership, the promotion of "indigenous innovation" policies, and protection of "national economic security" in its reviews of mergers and

Figure 21: Ability to Participate in China's Standards-Setting Process

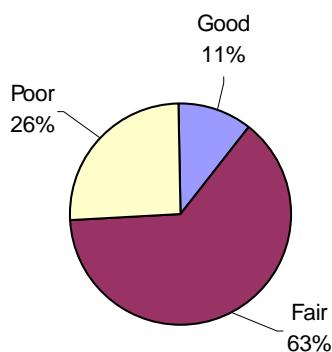
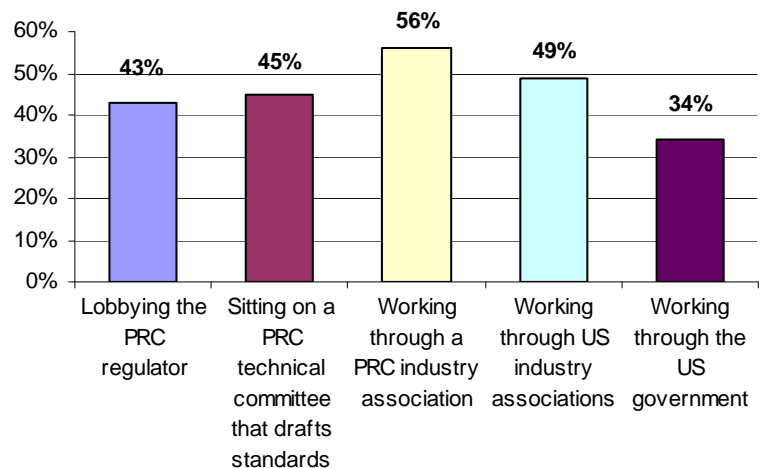


Figure 22: Avenues for Participating in China's Standards-Setting Process*



*Multiple responses allowed

acquisitions. About half of the survey respondents indicated that it was too early to tell what the exact impact of these measures would be, but more than 75 percent are concerned about the future direction of investment and other policies (see Figures 24, 25, and 26).

In June 2008, the United States and China launched negotiations for a bilateral investment treaty (BIT) that would give US and Chinese investors equal treatment in both markets. USCBC supports the launch of these negotiations and urges negotiators to seek a robust, comprehensive BIT that would lift ownership restrictions and treat US investors the same as domestic investors.

Demographics of Respondents' China Operations

Respondents' location

Survey respondents were almost equally divided between China and the United States, making the survey's results representative of both on-the-ground and broader, global perspectives. Fifty-three percent were based in China; 44 percent were based in the United States; and the remaining 3 percent were based elsewhere in Asia.

Respondents' business sector

USCBC member companies are engaged in a variety of, and sometimes multiple, sectors (see Figure 27). Survey respondents are fairly evenly divided between manufacturing (53 percent) and services (51 percent), with some companies engaged in agriculture, resources, and other areas.

Experience in China

USCBC members have a long track record of doing business with China (see Figure 28) and that experience informs their answers to the survey. Almost half of the 2008 survey respondents' companies (48 percent) have been doing business in China for more than 20 years—a significant history given that relations with the United States were normalized only 30 years ago. Another 36 percent of respondents have had business in or with China for 10-20 years, and the rest of respondents were comparatively new entrants.

Employees in China

The 2008 survey respondents' companies ranged widely in size. Almost half employed more than 1,000 people, and nearly 10 percent employed over 10,000. This reflects an increase in employment

Figure 23: Operating Environment Today vs. Pre-WTO

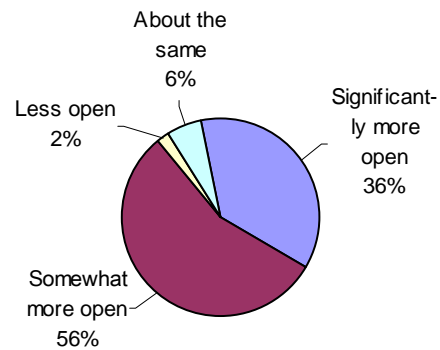


Figure 24: Effect of Investment/Innovation Measures on Doing Business in China

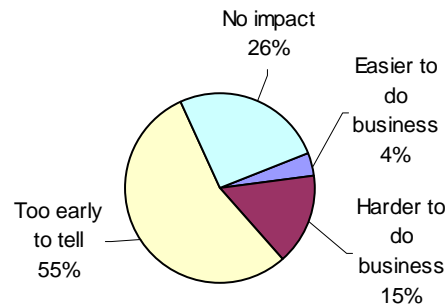


Figure 25: How Concerned Is Your Company about These Policies?

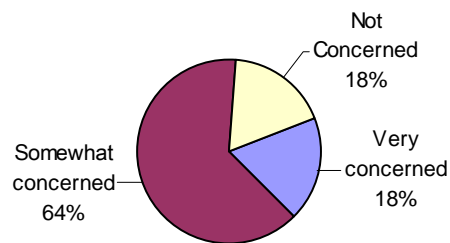
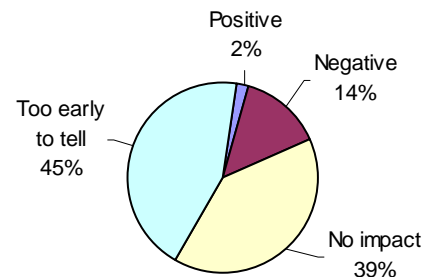


Figure 26: M&A Rules' Impact on Opportunities in China



base in China since last year's survey; in 2007, 37 percent of respondents said their companies employed more than 1,000 people in China.

Corporate structure for China operations

As China has allowed foreign companies to structure their operations in the country in new ways, USCBC members have taken advantage of those options (see Figure 29). Wholly foreign-owned enterprises are clearly the vehicle of choice, but the variety of legal entities established has grown.

A trend to monitor in coming years will be the emergence of research and development (R&D) centers in China. Thirty percent of respondents indicated they have an R&D center in the country, up from 23 percent in 2007. But recent changes to China's tax code may make this option less attractive in the future. As noted earlier, 30 percent of respondents also said China's poor IPR enforcement record negatively affected their company's interest in doing R&D in China. Both of these factors may hinder China's ability to attract technology development.

Figure 27: Business Category*

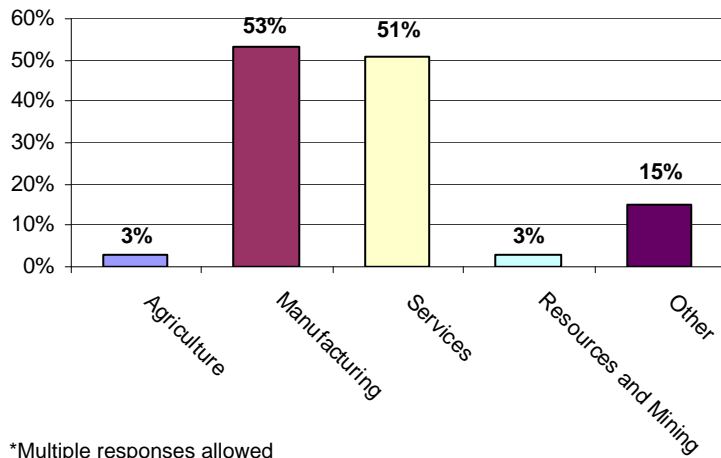


Figure 28: Experience in China

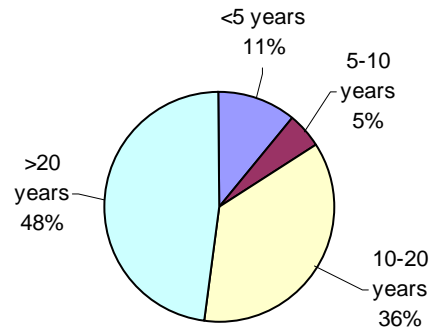


Figure 29: Legal Entities*

