USCBC

THE US-CHINA BUSINESS COUNCIL
美 中 贸 易 全 国 委 员 会

2015 USCBC MEMBER SURVEY REPORT

Growth Continues Amidst Economic Slowdown, Rising Competition, Policy Uncertainty

THE US-CHINA BUSINESS COUNCIL
美 中 贸 易 全 国 委 员 会

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EXECUTIVE SUMMARY

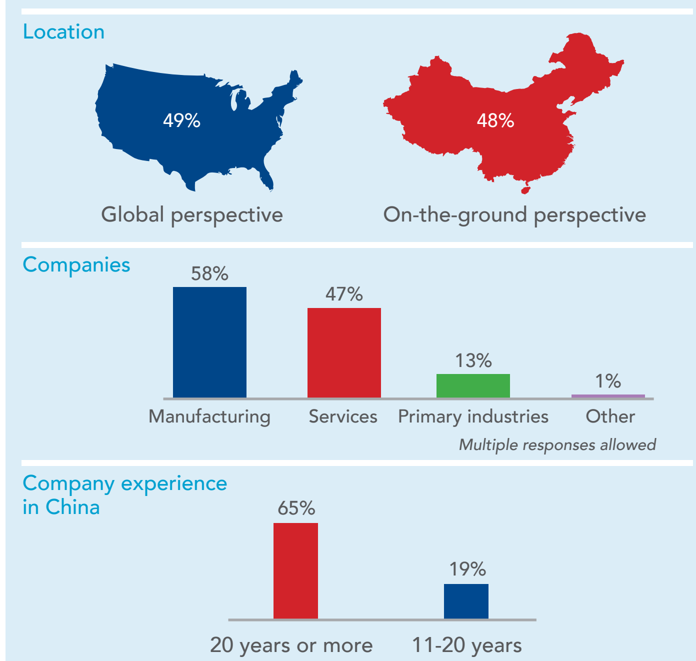
- China remains a priority for American companies, despite the slowing economy and challenging business environment, but the growth slowdown and policy uncertainty are undermining confidence.
- Growth in China is slowing for American companies, but 41 percent still report double-digit revenue growth in the last year. While two-thirds project revenue growth in 2015, 20 percent expect a revenue decline, up from 11 percent in last year's survey.
- The number of companies reporting that their China operations are profitable remains high and unchanged from our previous surveys—85 percent. However, cost increases and rising competition continue to squeeze margins.
- American executives' confidence in their prospects in China continues to moderate, however, reflecting uncertainty about the direction of Chinese policies, limited progress on economic reforms, increased competition, and slowing growth.
- At the same time, 90 percent of companies say their growth prospects in China are the same or better than in other emerging markets—in spite of a policy environment that 80 percent say is the same or worse than other markets.
- Any benefit from China's ambitious economic reforms so far? Nearly half say no, although an equal number have seen some impact. But US companies generally are not seeing it in one of the areas commonly highlighted by the Chinese government: streamlined licensing and red tape reductions—77 percent of companies have seen no impact of reforms in these areas.
- Top sources of competition for American companies in China: other foreign companies, private Chinese companies, and Chinese state-owned enterprises (SOEs), in that order—a consistent finding of the US-China Business Council's (USCBC) annual survey.

Top 10 Challenges

1. Competition with Chinese companies in China
2. Foreign investment restrictions
3. Cost increases
4. IPR enforcement
5. Transparency
6. Licensing
7. Human resources
8. Data flows
9. Uneven enforcement
10. Overcapacity in China market

- 97 percent of companies know or think that their SOE competitors get benefits they do not, such as preferential financing, access to government contracts, and preferential licensing—but nearly 80 percent think their non-SOE Chinese competitors also receive these benefits. The clear message is that Chinese companies get preferential treatment over foreign competitors, not just SOEs.
- USCBC's annual membership survey reflects a unique mix of US- and China-based executives.

Respondents



2015 USCBC MEMBER SURVEY REPORT

Introduction

The China market remains a priority for American companies, despite its slowing economy and its challenging business environment, although confidence continues to weaken about the business outlook.

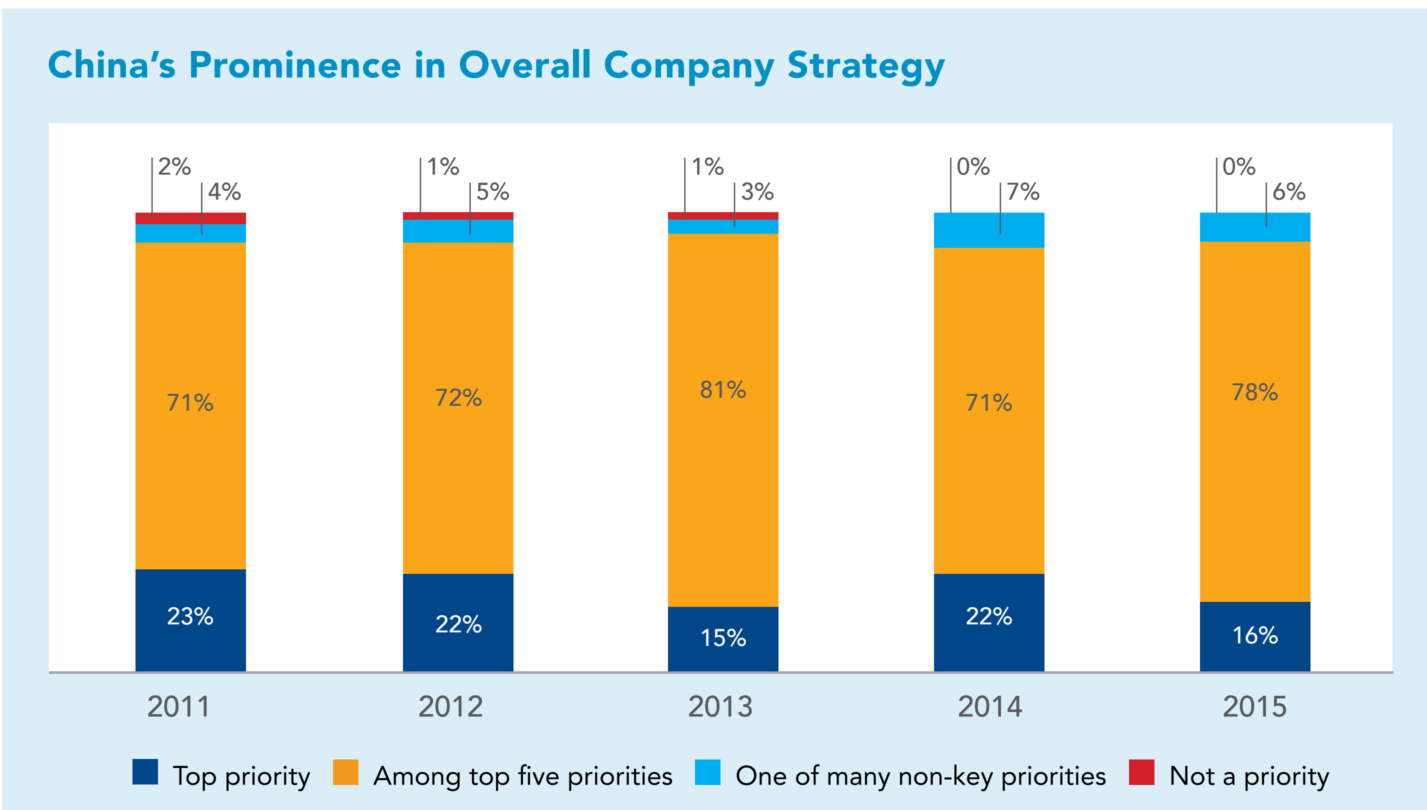
The US-China Business Council (USCBC)'s latest member survey provides valuable context to the bilateral commercial relationship, as well as an inventory of key issues that China's government should take note of as the country's economic reforms continue.

Business outlook

For the last 10 years, USCBC has annually polled its members on their business performance in China and their priority issues. Several points have remained consistent over that period, despite a global economic downturn in 2009-2010 and moderating growth of China's economy in more recent years:

- China remains a priority market for the majority of companies, with 94 percent citing it among their companies' top five global priorities.
- Most companies' China operations are profitable—85 percent operate in the black, consistent with USCBC survey outcomes for the last 10 years.

Fig. 1



- While profitable, companies are seeing reduced profit margins—not a surprise in a slowing market with increasing costs and rising competition. Thirty percent report reduced profitability over the past year, a steady increase from prior years. However, a greater percentage still saw profit growth.
- Despite the margin pressures, roughly two-thirds of respondents report that profit margins in China are the same as or better than in other markets. Margins are down versus the years of the global downturn, when China outperformed, but largely in line with recent years.
- Forty-one percent of companies reported double-digit revenue growth in the past year, despite the economic slowdown. Looking ahead, two-thirds of companies anticipate revenue to increase in 2015, while 20 percent expect revenue to decline, nearly double versus the previous year.
- Most companies plan to maintain or accelerate their resource commitment to China in the coming year. While only 11 percent of companies plan to reduce their resource commitment, that percentage is the largest reported in the survey's 10-year history.

Fig. 2

Revenue from China Business in Last Year

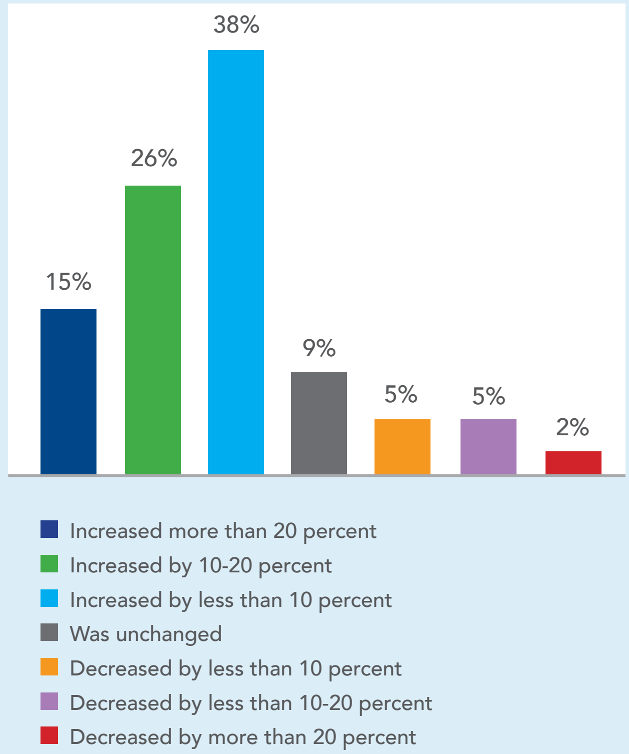


Fig. 3

Resource Commitment for the Next Year

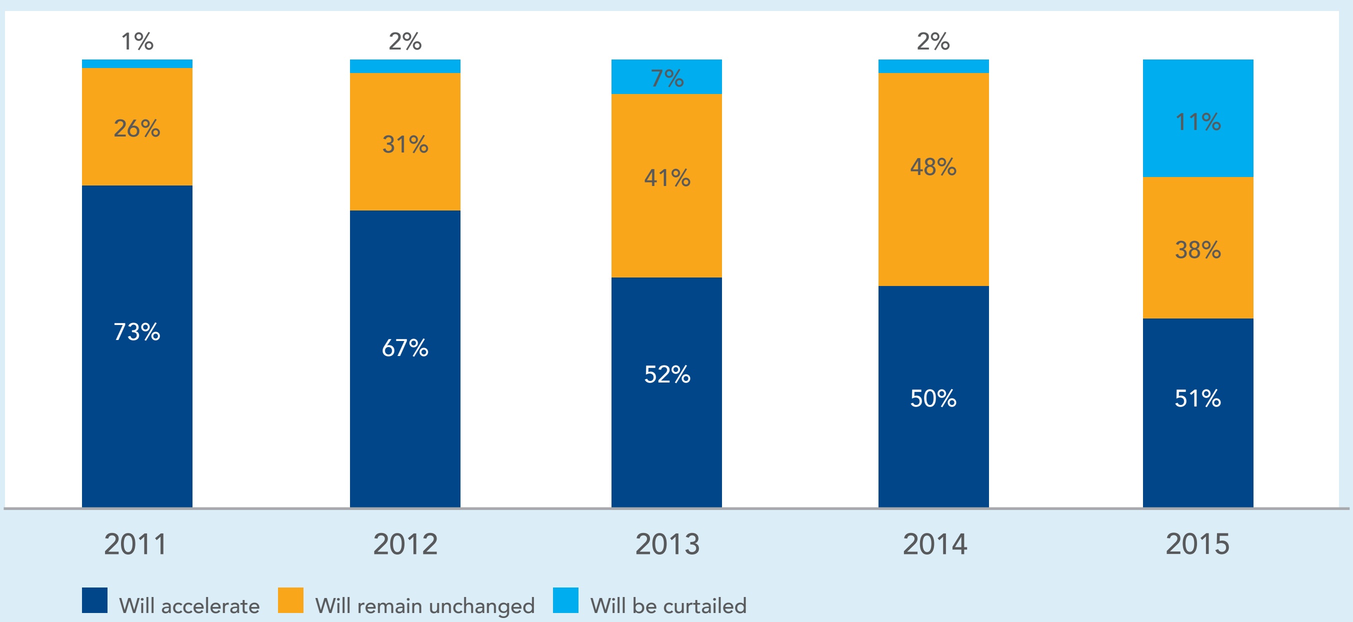


Fig. 4

2015 Revenue from China is Projected to...

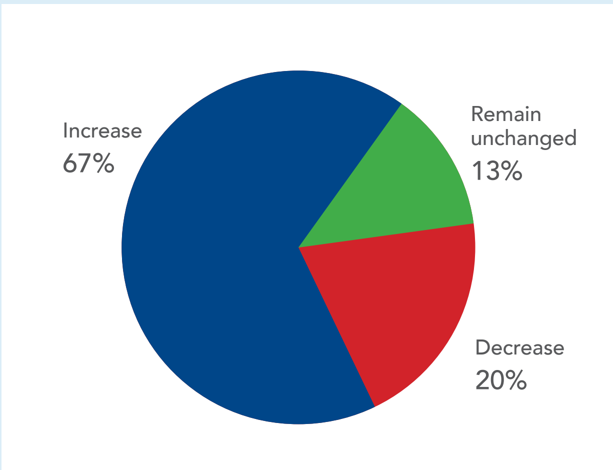


Fig. 5

Are Your China Operations Profitable?

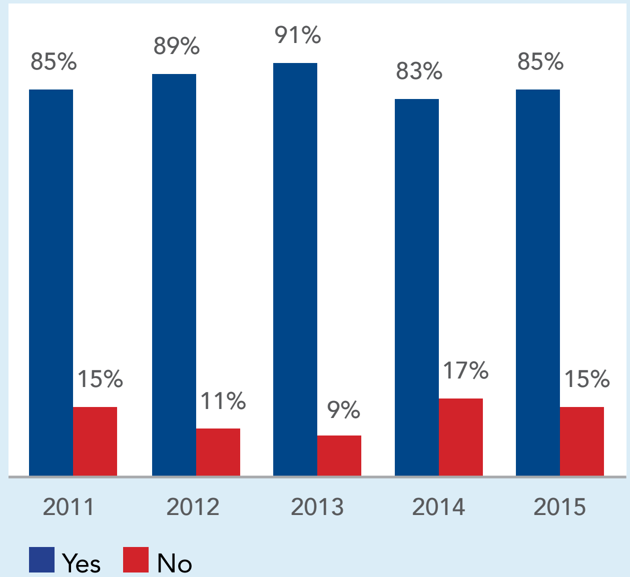


Fig. 6

Profitability Compared to Previous Year

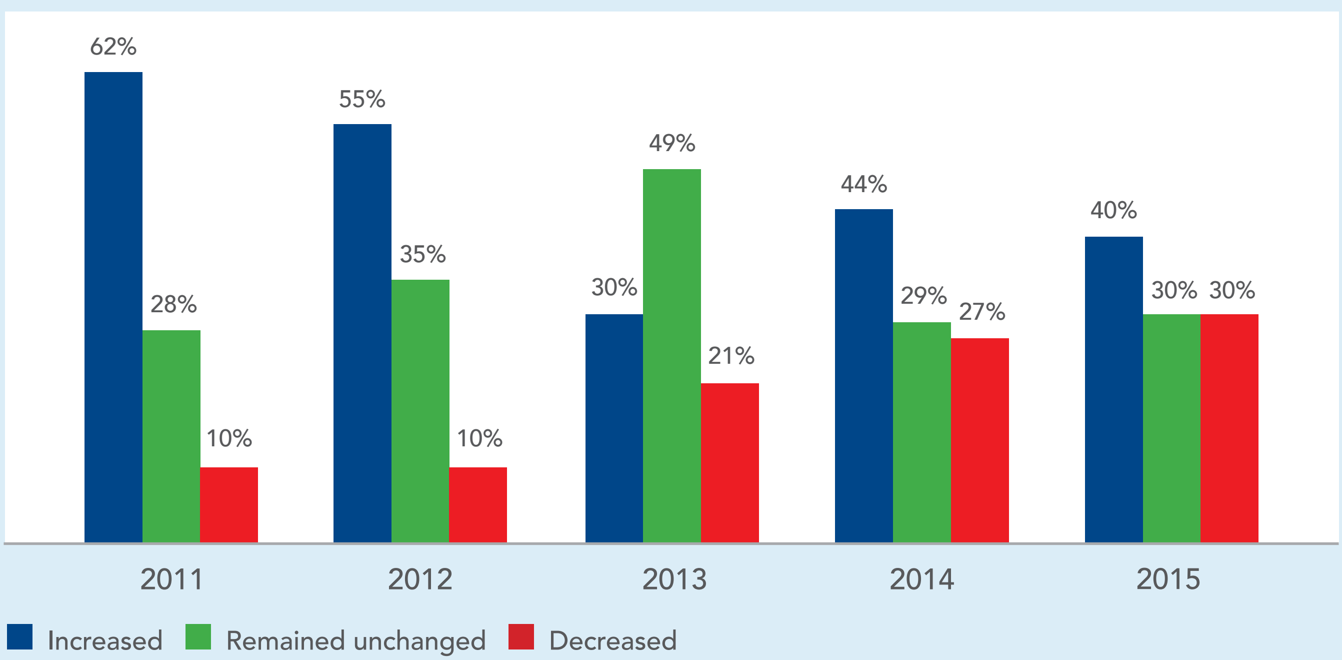
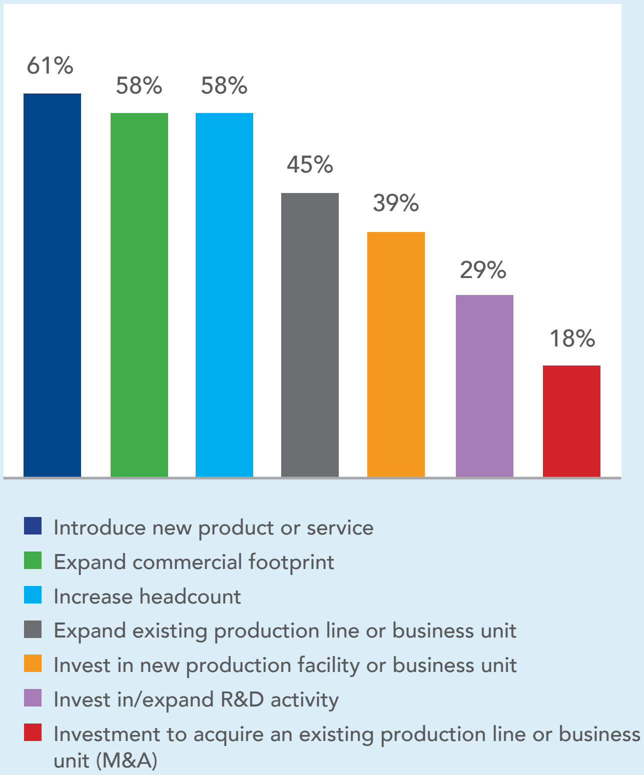


Fig. 7

How Company Will Accelerate Resources in the Next Year



Multiple responses allowed

Impact of policy environment on market optimism

Despite these positive trends, the confidence of American companies in their future prospects in the China market has softened. Only 24 percent of companies remain fully confident in their future prospects in China—the lowest number reported in 10 years—with 52 percent saying they are somewhat optimistic. While few companies have become pessimistic, uncertainty about China's policy environment, increasing competition, and slowing growth are tempering optimism.

For context, 90 percent of companies view their growth prospects in China as the same or better than other emerging markets, but the majority view China's policy environment as the same or worse than other markets (79 percent). For many of these companies, the policy environment has a strong impact on company outlook:

- A quarter of companies cite PRC policies and regulations as the primary constraint on increased profitability in China.
- 70 percent of companies name China's policy and regulatory environment as having the greatest impact on their five-year outlook for the market.
- In the services sector, 75 percent of companies cite China's policy direction as the top constraint on growth in the sector.

Fig. 8

Five-Year Outlook for Business in China

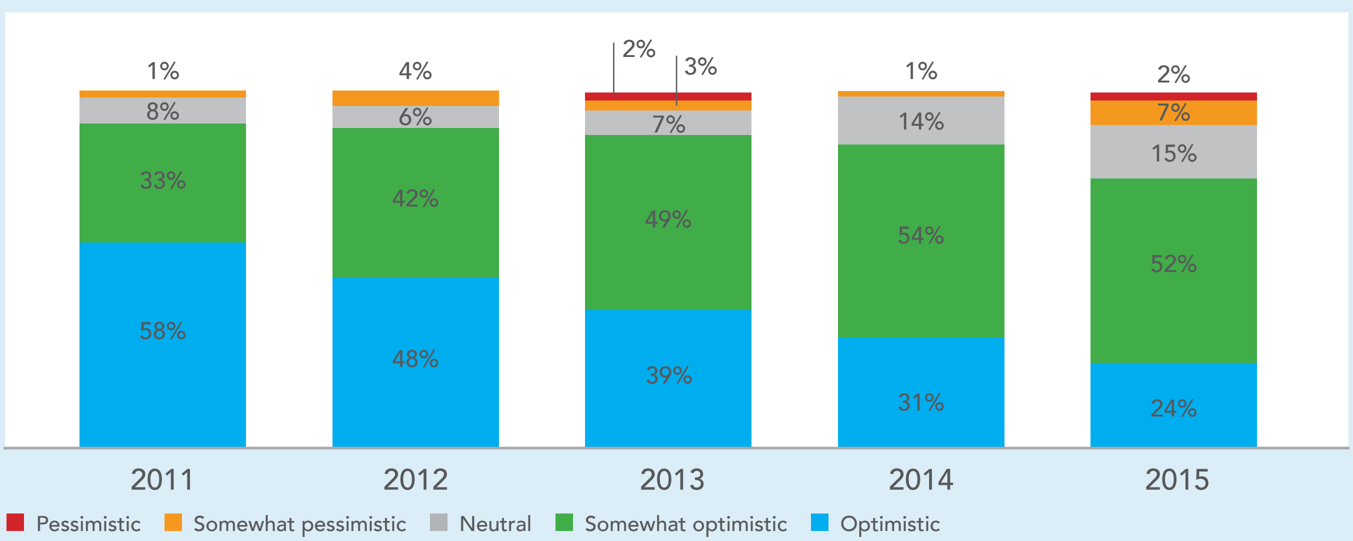
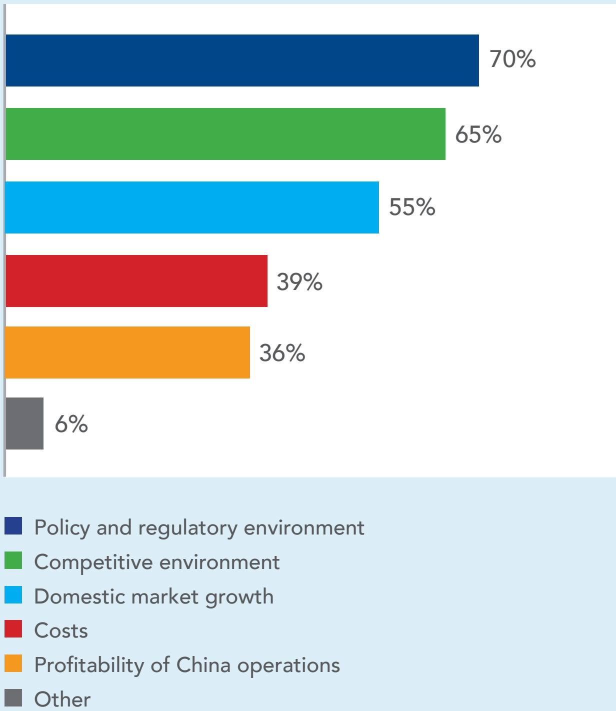


Fig. 9

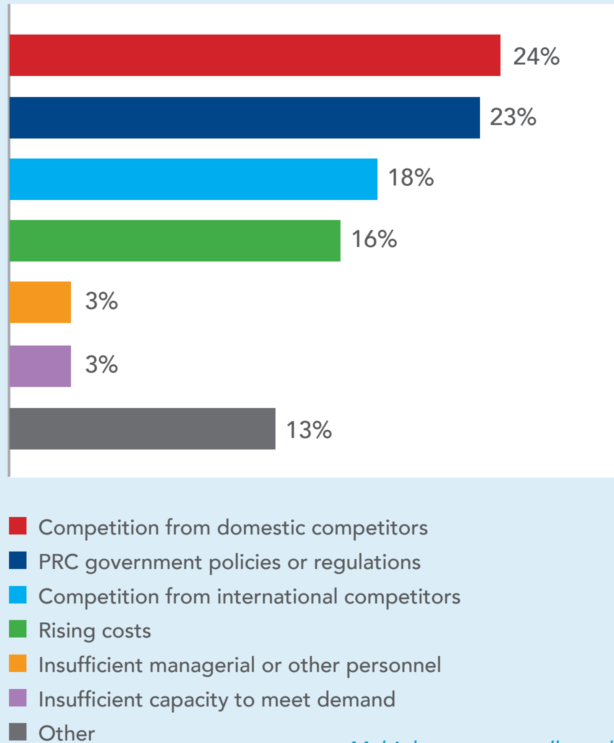
Issues Impacting Five-Year Outlook



Multiple responses allowed

Fig. 10

Primary Restraint on Increased Profitability in China



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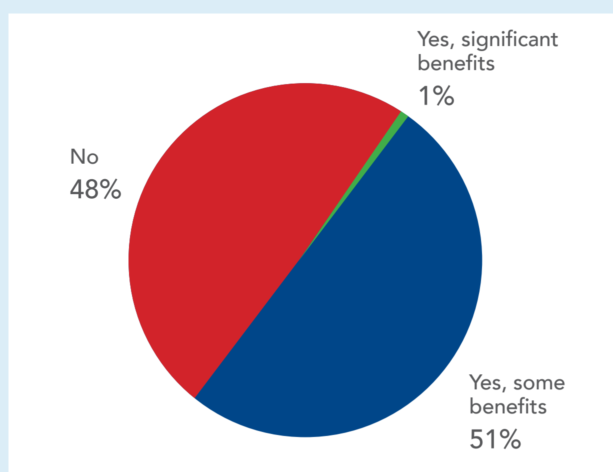
Limited benefits from economic reforms

This year's survey comes two years into China's push for economic reforms. While half of companies report that they have seen some tangible benefits from the reforms, almost an equal number have not.

For example, over three-quarters have seen no impact from the government's work to streamline licensing processes and reduce red tape. This mirrors USCBC's ongoing analysis of China's economic reforms, a report that reveals little progress on addressing foreign company concerns. In this latest USCBC member survey, almost 60 percent of companies report that they continue to experience licensing problems in China—primarily with the central government, rather than at the local or provincial level. It is unclear if those challenges are unique to foreign companies or simply systematic—half of respondents say their domestic competitors do not face the same problems, but nearly half say their domestic competitors do.

Fig. 11

Has Your Company Seen Benefits from PRC Economic Reforms?



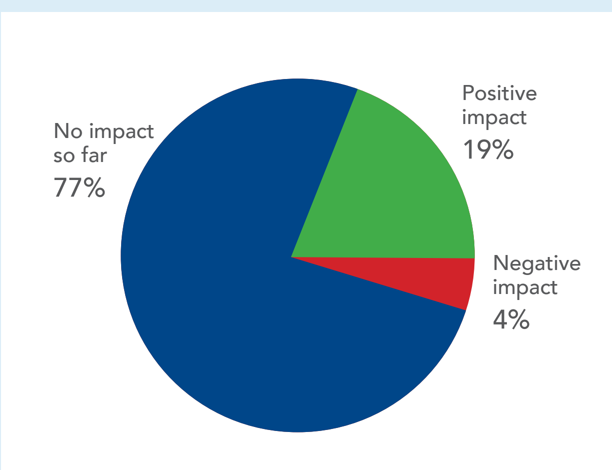
2015 Top 10 challenges: Many recurring issues, with one important addition

The top 10 challenges identified by companies remain largely unchanged from 2014, though are ranked in a somewhat different order this year. Competition with Chinese companies—both private and state-owned—remained the top concern for American companies. The issue has never been out of the list of top 10 concerns in the history of USCBC's survey, and has been the top concern for the last two years. China's foreign investment restrictions, the impact of cost increases, and IPR enforcement also remain at the top of the rankings.

Amongst the top 10 this year is an issue that has attracted much media attention in the last year: Chinese policies on information flows and technology security now rank eighth among US company concerns in China—and first among technology companies (more on this below). The issue has become prominent in recent months, due to both new policies that have been proposed or implemented that will impact companies in a wide variety of sectors, as well as instances in which access throughout China to networks and the Internet have been significantly slowed or halted. In addition to multiple ways that these issues impact companies' day-to-day operations in China, the primary concern that companies across all sectors cite is the US-China political tension stemming from cybersecurity issues.

Fig. 12

Impact of China's Licensing Reforms



Challenges in the services sector

Despite regular announcements by the Chinese government stating that services sector development is a priority, US companies continue to be frustrated by market access barriers. Lifting the numerous ownership and licensing restrictions that limit foreign company participation in the services sector would bring a significant driver of services sector growth. As noted in last year's survey report, China has already demonstrated how an open investment environment can benefit its domestic companies—the Chinese manufacturing sector, which was largely opened to foreign companies when China joined the World Trade Organization in 2001, became a significant driver of China's growth. China's services sector will likely experience similar growth if the market is opened more fully to foreign companies— and Chinese consumers stand to benefit from increased competition among service providers.

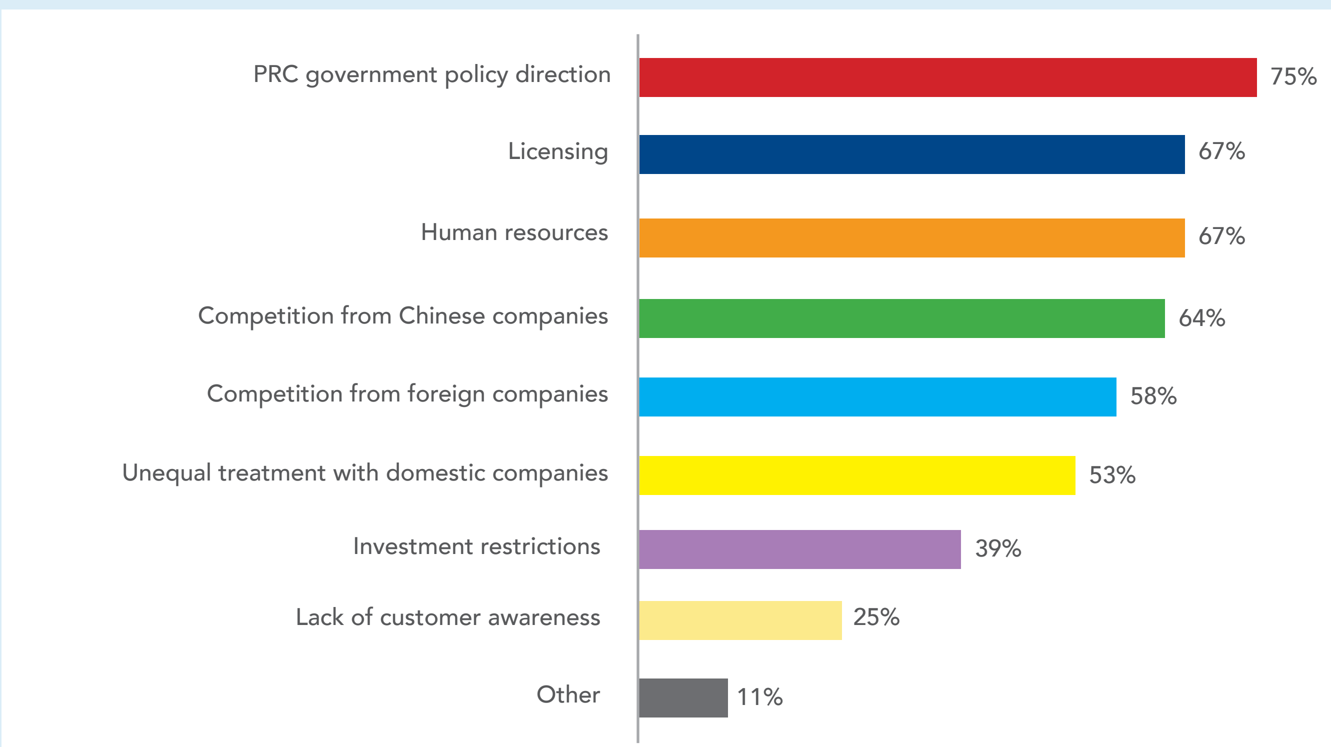
American services companies face many of the same challenges in China as foreign companies doing business in other sectors. The regulatory environment, however, has an even larger impact on their business. While 23 percent of companies overall say that Chinese policies and regulations are the primary restraint on their profitability in China, 75 percent of services companies cite these hurdles as the top constraint for their sector.

Top 10 Challenges – Services Sector

1. Foreign investment restrictions
2. Licensing
3. Competition with Chinese companies in China
4. Data flows
5. Transparency
6. Human resources
7. Cost increases
8. Nondiscrimination/national treatment
9. Uneven enforcement
10. IPR enforcement

Fig. 13

Top Constraints on Growth in the Services Sector



Multiple responses allowed

Challenges for technology companies

American technology companies have faced significant challenges in China over the past year, reflecting both Chinese policies to promote domestic competitors and the proliferation of policies that use national security as a justification to favor domestic products over foreign ones. As a consequence, the top challenges identified by technology companies differ in many ways from the top issues of survey participants as a whole.

It is important to keep these differences in mind when considering the competitive environment for foreign companies in China: companies in some sectors—technology in particular—are facing challenges that impact their ability to fundamentally access the market. For instance, despite repeated assurances by Chinese officials that its innovation policies are open to both domestic and foreign companies, few American companies (only 1 percent) have seen a positive impact of these policies on their sales and operations in China. In contrast, 55 percent of companies view these policies as a strategic concern or have seen a significant negative impact.

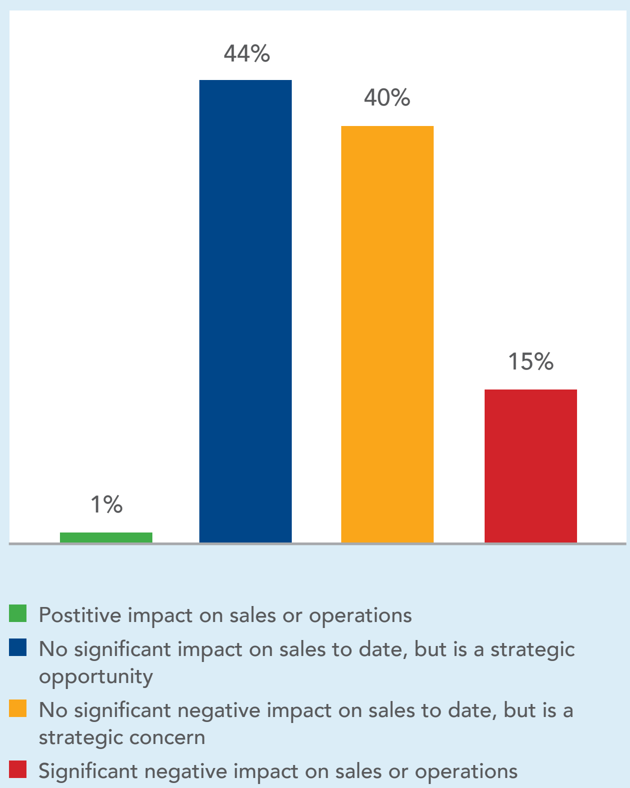
More broadly, China should embrace the transformational power that a truly open economy creates. Innovation—a top priority for China's government—thrives under such conditions, but is stifled when governments seek to limit how and where it occurs, or place undue limits on how and where companies deploy the fruits of their innovation, such as intellectual property. Sustainable economic growth also flourishes best in an economy that allows real competition and broad participation by foreign companies.

Top 10 Challenges – Tech Sector

1. Data flows
2. Innovation policies
3. Competition with Chinese companies in China
4. Cost increases
5. IPR enforcement
6. Cybersecurity
7. Government procurement policies
8. Standards and conformity assessment
9. Tax issues
10. Antitrust/Anti-Monopoly Law

Fig. 14

Impact of China's Innovation Promotion Policies on Sales and Operations



What's not in the top 10?

A few of the issues that did not make the top 10 concerns are worth noting.

- Cybersecurity ranked 14th in this year's survey, roughly the same as last year's ranking (13). However, responses to separate questions in the survey reveal that most companies show some level of concern about China's policies on information flows and technology, as well as the impact of related US-China political tensions. Those issues are discussed below with data flow restrictions.
- Technology transfer issues fell out of the top 20 concerns in 2015, ranking 23rd out of 30 for survey respondents. However, it must be noted that companies impacted by pressures to transfer technology feel the issue very acutely, and the issue remains on the watch list of the majority of companies in our survey. This issue is discussed at the end of the report.
- Currency issues, though a focus of some members of Congress, remain a minor concern to US companies. China's exchange rate and its impact on American companies in China once again ranked near the bottom of the list (number 25 out of 28). China needs to continue financial reforms and move toward a fully convertible, market-driven exchange rate, but the issue has limited impact on the competitiveness of American companies in China and on the US global trade balance.

Ultimate challenge: How to address concerns?

This year's report is issued in the days before PRC President Xi Jinping makes his first state visit to the United States. President Xi's trip comes at an important time in US-China commercial relations. Indeed, as evidenced by USCBC's survey results, American business confidence in the direction of China's economy and the role of foreign companies in broadening China's economic reforms is waning.

Both governments need to find a path forward to address the wide range of concerns that foreign companies have in China's market. China's economic reforms will not be successful if the problems that foreign companies face in the market are not addressed, nor will China be able to sustain the projected economic growth targets for 2015 and beyond without opening more fully to foreign investment.

The reality is that there is no simple fix to the challenges that American companies face in China. A true level playing field for foreign companies will require changes to China's investment rules, improved transparency in rule making and government procedures, continued attention to improving intellectual property rights enforcement and equal treatment in regulatory enforcement more broadly—to name but a few specific areas.

In addition to these individual changes, an overall framework for openness is needed. An important component of this framework will be a strong and comprehensive bilateral investment treaty (BIT). While a BIT will not address every concern that American companies have in China, a high-quality US-China BIT will codify the basic principles of a level playing field, including national treatment and transparency. The successful conclusion of the BIT negotiations should be the top priority in the US-China economic relationship.

CHALLENGE #1 Competition with Chinese companies

Progress on Issue in Past Year: Unchanged/Deteriorated

Rank in 2014:	1
Rank in 2013:	2
Rank in 2012:	3
Rank in 2011:	4
Rank in 2010:	1 (tie)
Rank in 2009:	4
Rank in 2008:	7
Rank in 2007:	4
Rank in 2006:	4

The competition landscape in China is frequently characterized as being dominated by Chinese state-owned enterprises (SOEs). The reality is that many Chinese SOEs operate in the market, but so do privately owned Chinese companies—and both are increasingly competitive with American companies.

Some Chinese companies thrive because they produce competitive, high-quality goods and services. At the same time, Chinese policies and practices provide a leg up in many ways to domestic companies but not to foreign ones, as can be seen in several of the issues in this year's top 10 concerns: foreign investment restrictions that limit foreign company access to the market (#2); lack of transparency (#5); preferential treatment in licensing (#6); and uneven enforcement of rules and regulations (#9). In addition, domestic companies also receive preferential access to financing and government contracts.

It is important to keep in mind that nationality often trumps ownership structure, as these benefits are given to both domestic SOEs and private companies. As a consequence, policies to level the playing field for foreign companies should focus on true national treatment—that is, equal treatment of foreign companies with all forms of domestic companies, regardless of ownership.

Fig. 15

Who Are Your Competitors in China?

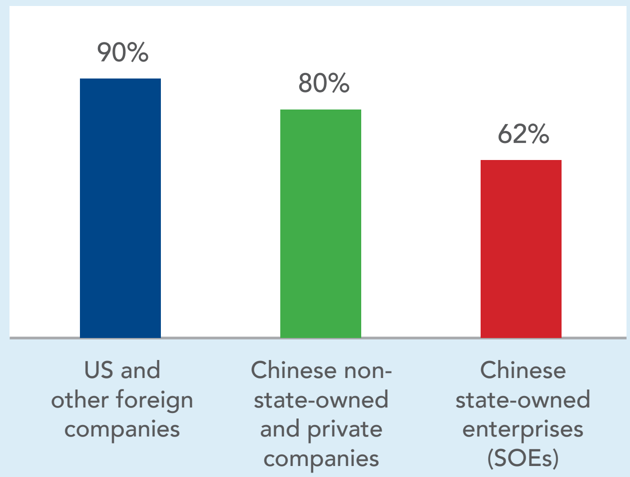


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Fig. 16

Are State-Owned Competitors Receiving Tangible Benefits?

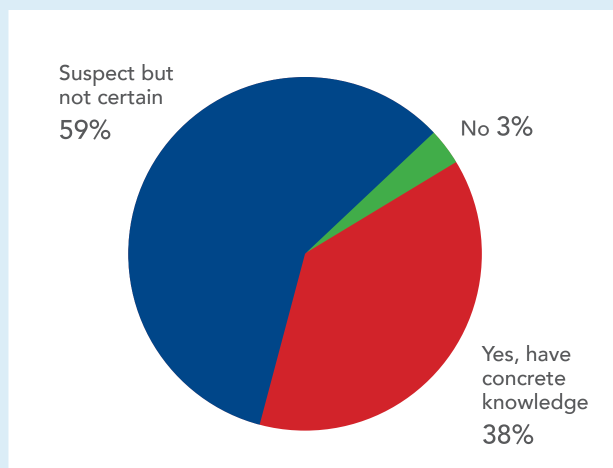
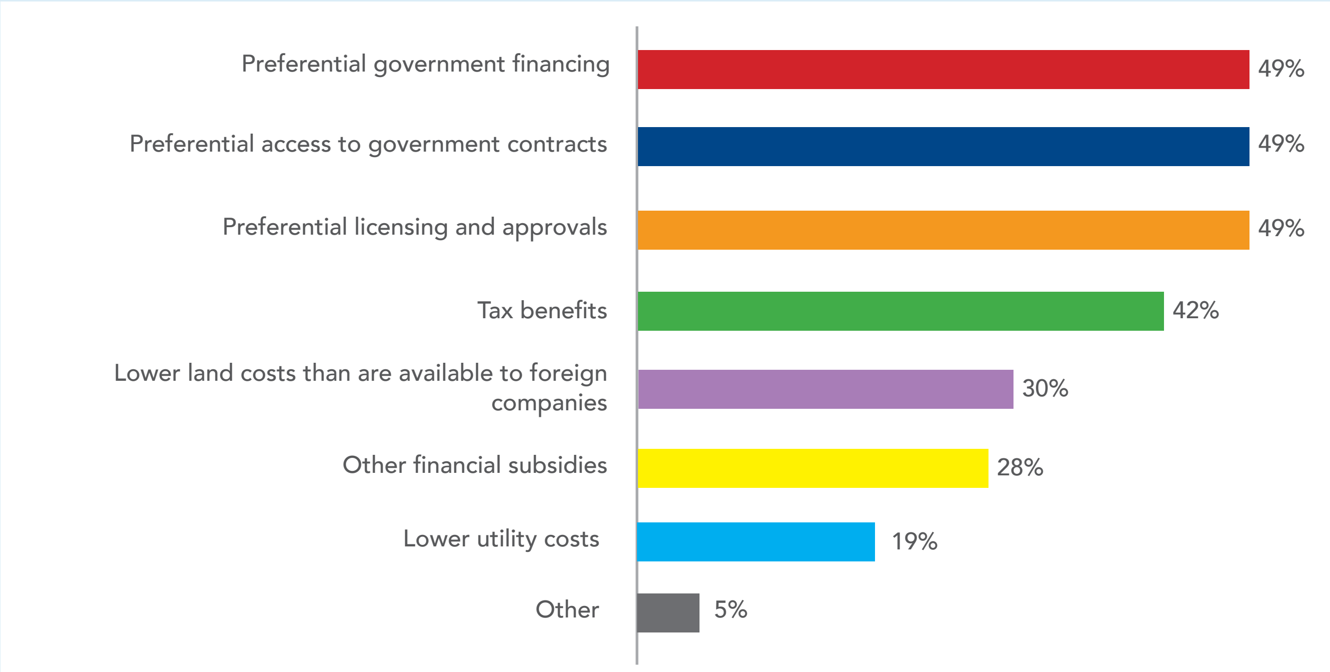


Fig. 17

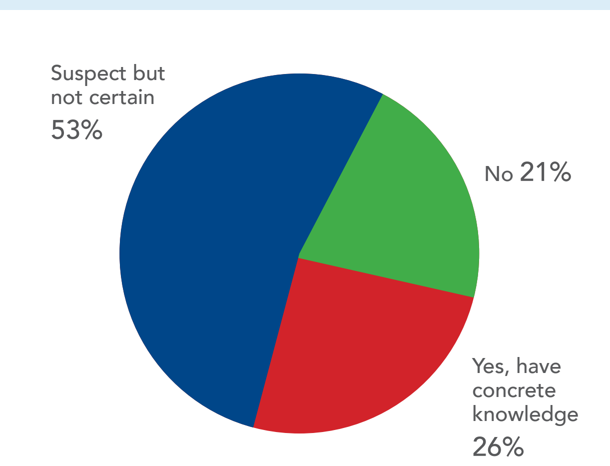
Types of Benefits SOE Competitors Receive



Multiple responses allowed

Fig. 18

Are Non-SOE Chinese Competitors Receiving Tangible Benefits?



CHALLENGE #2 Foreign investment restrictions

Progress on Issue in Past Year: Unchanged

Rank in 2014:	3
Rank in 2013:	10
Rank in 2012:	7
Rank in 2011:	7
Rank in 2010:	14
Rank in 2009:	*Not asked*
Rank in 2008:	*Not asked*
Rank in 2007:	*Not asked*
Rank in 2006:	*Not asked*

Even after the most recent revisions to its foreign investment catalogue, China maintains restrictions in approximately 90 sectors in manufacturing, services, agriculture, and resources. American companies overwhelmingly invest in China to reach the China market, so investment ownership barriers are in fact market access barriers.

While some moves over the last year to streamline foreign investment approval processes have been helpful, China's remaining investment caps and other restrictions continue to have a significant impact on the country's investment environment. As a consequence, a high-standard bilateral investment treaty (BIT) that significantly reduces foreign investment restrictions with a narrow list of excluded sectors is essential to addressing American companies' concerns in the market.

That said, China should begin reducing foreign ownership restrictions immediately. Doing so is the only way to demonstrate that China is genuinely committed to following through on market openings, rather than using the BIT negotiations as a way to delay reforms.

CHALLENGE #3 Cost increases

Progress on Issue in Past Year: Deteriorated

Rank in 2014:	4 (tie)
Rank in 2013:	1
Rank in 2012:	4
Rank in 2011:	3
Rank in 2010:	5
Rank in 2009:	13
Rank in 2008:	3
Rank in 2007:	*Not asked*
Rank in 2006:	*Not asked*

As China's economy has grown, the cost of doing business has increased. Almost all companies report they are concerned about continued cost increases in China. Human resources continues to be the top challenge in this area, though companies also cite land and rental costs, regulatory compliance, taxes, utilities and materials as concerns. Human resources costs are discussed more fully in the #7 challenge: human resources. Of note: the issue is among a few in the top 10 that equally impact domestic and foreign companies, along with overcapacity.

Despite the consistent challenge of rising costs, few companies report that they are leaving the China market entirely. Instead, they are focusing on market-based solutions. As one company explained, "Cost increases remain a major issue, especially given that market-level competition is very intense and there is very little scope for any downstream price increases. Productivity and efficiency have become more important than ever."

Fig.19

Are Rising Costs in China a Concern?

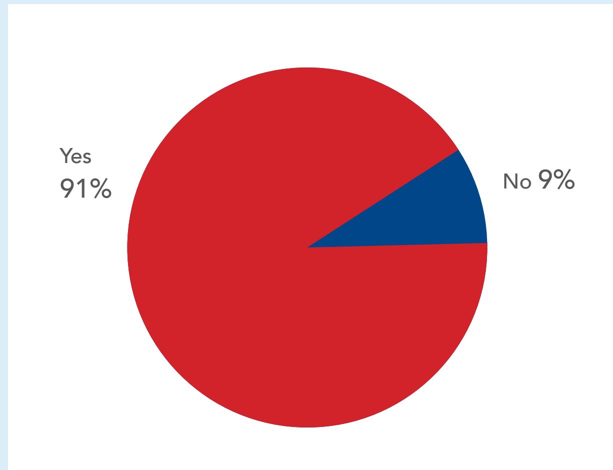
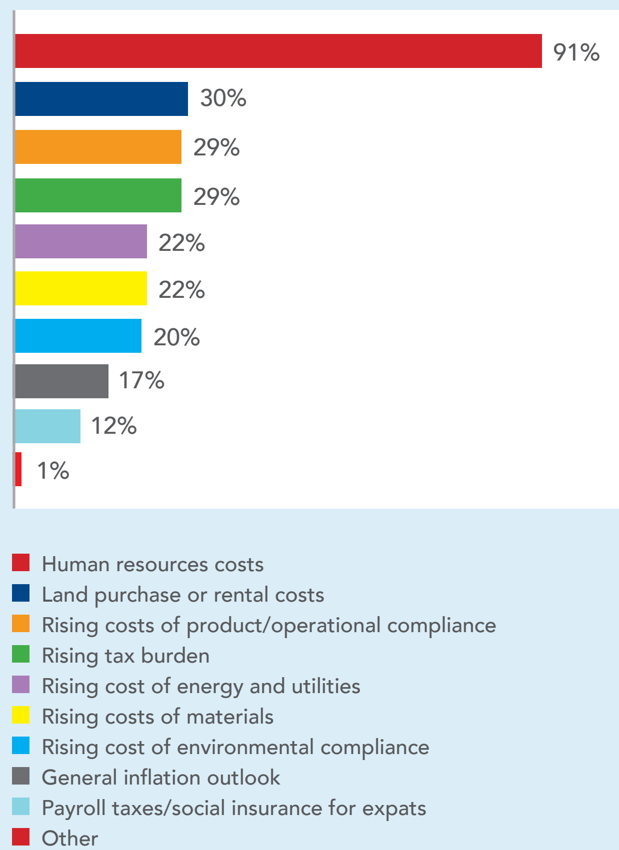


Fig. 20

Top Cost Concerns



Multiple responses allowed

CHALLENGE #4 IPR enforcement

Progress on Issue in Past Year: Unchanged/Improved

Rank in 2014:	2
Rank in 2013:	5
Rank in 2012:	5
Rank in 2011:	5
Rank in 2010:	4
Rank in 2009:	8
Rank in 2008:	6
Rank in 2007:	3
Rank in 2006:	3

Intellectual property rights protection is a perennial issue for American companies doing business in China. While few companies report significant enforcement improvements year to year, companies report that they continue to see modest improvements each year.

As with cost increases, almost all companies have at least some level of concern about IP protection in China. There are no one-size-fits-all solutions to these issues, as companies' concerns about IP differ. The largest group of respondents indicated that trade secrets were their top area of IP concern, followed by trademarks, patents, and copyrights.

Different types of cases can also lead to different enforcement channels, including administrative, civil, and criminal cases. Companies report that, to date, China's courts have proven a viable enforcement channel only in some cases, though the success rate of cases varies.

China's government should take note of an important aspect of continued IP enforcement challenges: 75 percent of companies report that they limit the types of products made, sold or developed in China because of the IP environment. Those decisions guide investment choices, and reflect a lost opportunity for job creation in China, a top priority for the government.

Fig. 21

Level of Concern about IPR Enforcement

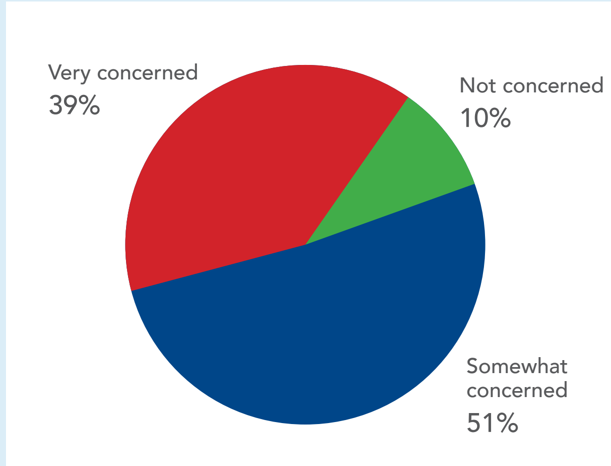


Fig. 22

Greatest IP Infringement Concern

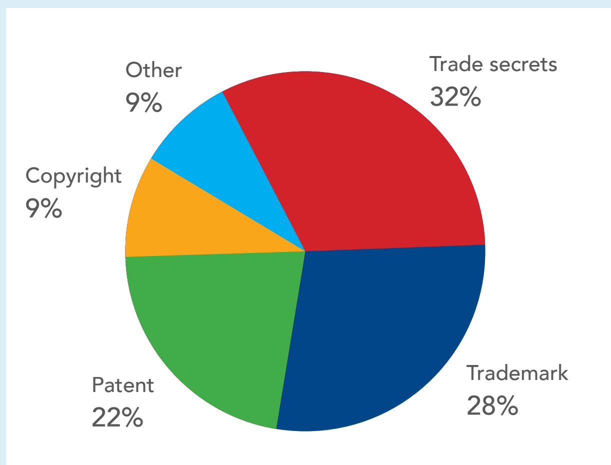
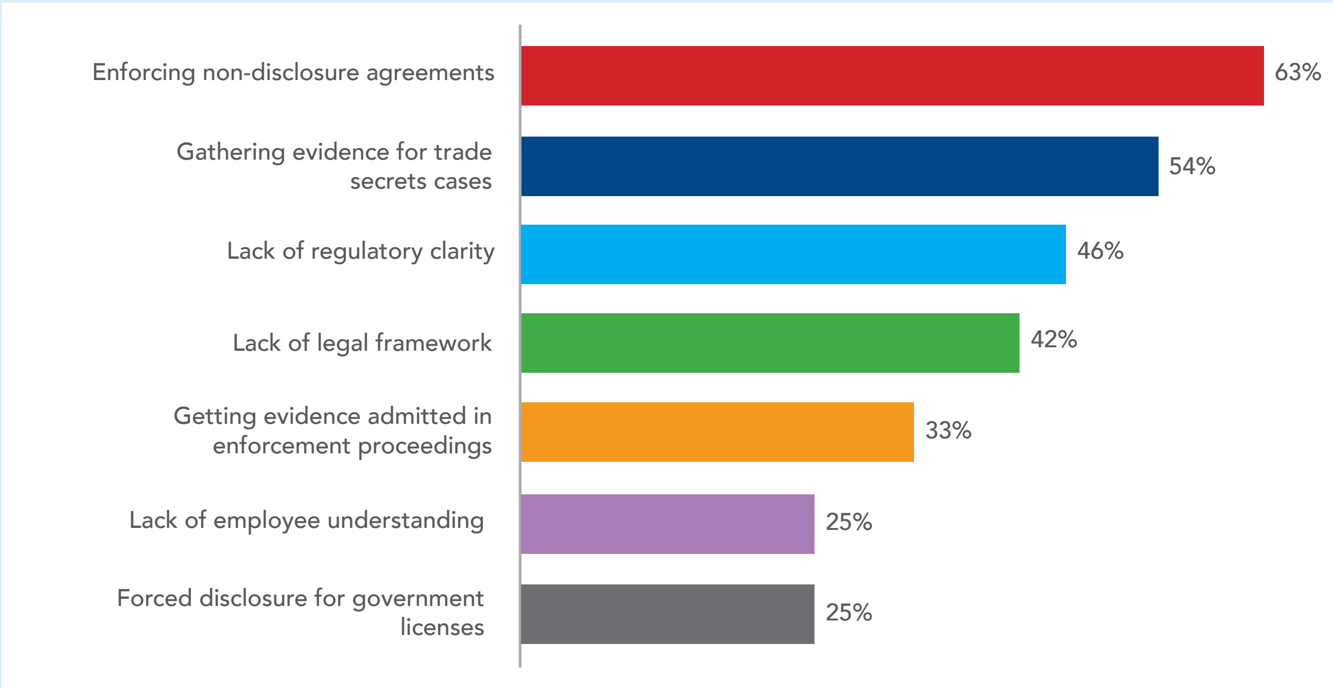


Fig. 23

What Aspect of Trade Secret Protection in China is of Greatest Concern?



Multiple responses allowed

Fig. 24

Over the Past Year, China's Protection of IPR Has...

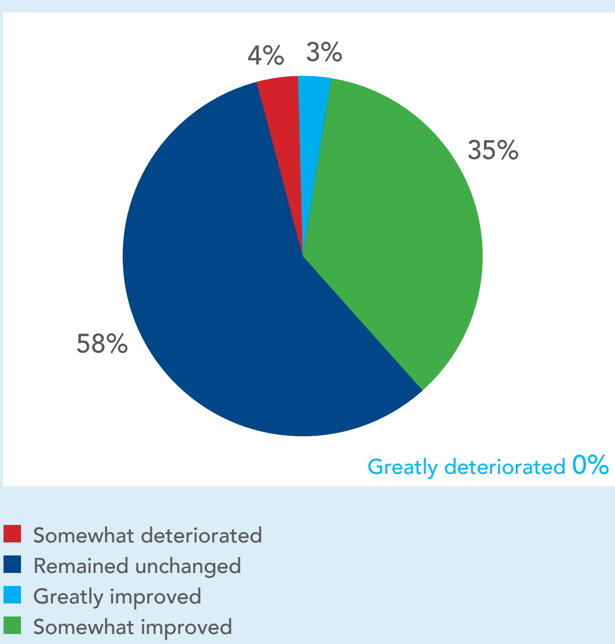
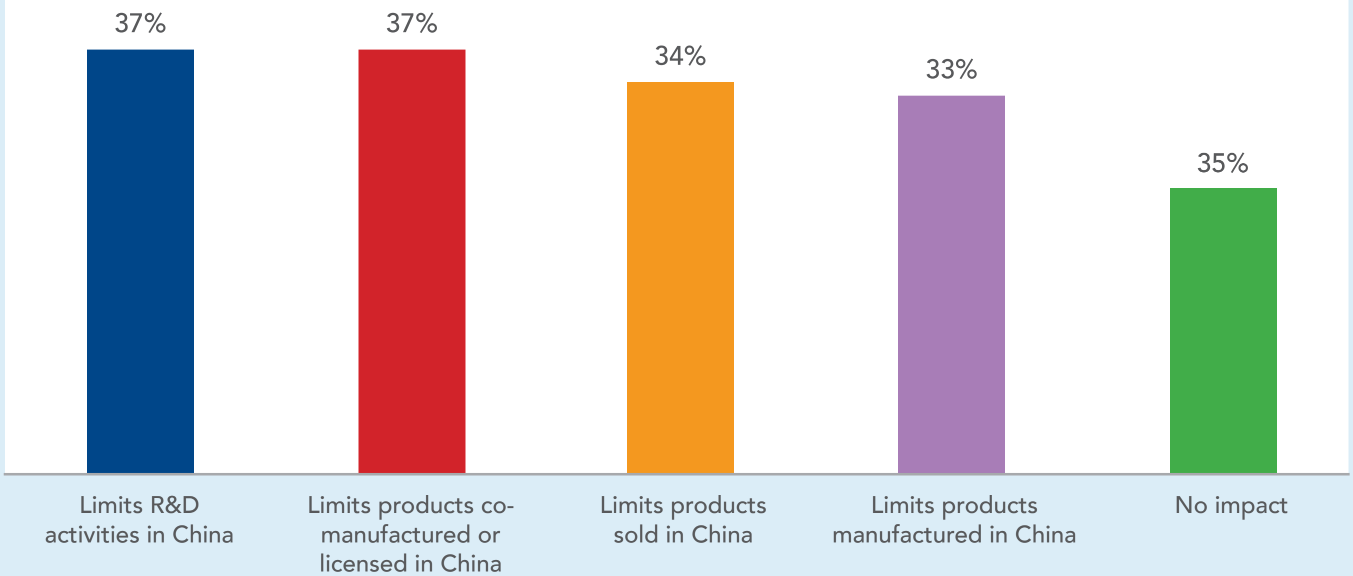


Fig. 25

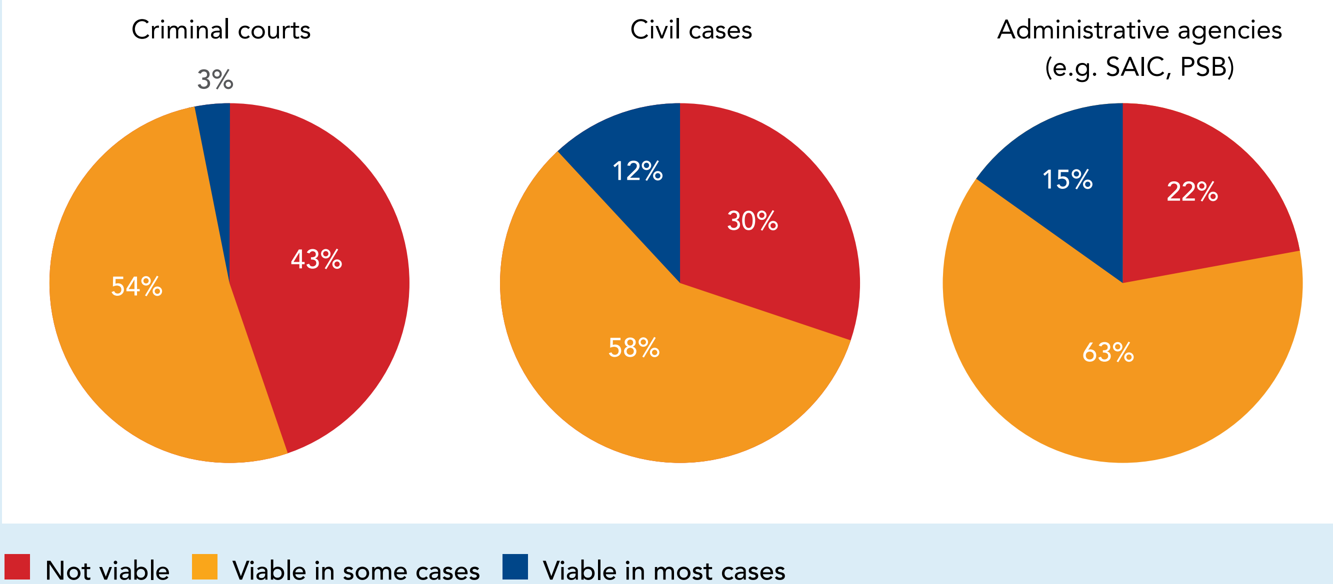
Impact of China's Level of IPR Enforcement on Types of Activities Companies Undertake in China



Multiple responses allowed

Fig. 26

Viability of China's IPR Enforcement Channels



CHALLENGE #5 Transparency

Progress on Issue in Past Year: Unchanged

Rank in 2014:	8
Rank in 2013:	8
Rank in 2012:	11
Rank in 2011:	9
Rank in 2010:	7
Rank in 2009:	8
Rank in 2008:	4
Rank in 2007:	5
Rank in 2006:	5

Regulatory and rule making transparency remains a challenge in China. The issue is not limited to just the release of draft rules and regulations for public comment—the ability of companies to get accurate information on the status of licensing applications, participate in the standard-setting process, and provide input on government decisions is also a part of these concerns.

Despite the importance of this issue, USCBC's most recent report on China's transparency compliance found that almost all Chinese governmental entities fell short of the government's commitment to improve transparency. Progress on this issue, including better and more open engagement with all stakeholders—including foreign companies—is essential if China is to meet its own goals of having a market-based, competitive economy.

CHALLENGE #6 Licensing

Progress on Issue in Past Year: *Unchanged*

Rank in 2014:	7
Rank in 2013:	3 (tie)
Rank in 2012:	2
Rank in 2011:	2
Rank in 2010:	2 (tie)
Rank in 2009:	1
Rank in 2008:	1 (tie)
Rank in 2007:	2
Rank in 2006:	2

Almost 60 percent of American companies report that they have experienced licensing challenges in China. The problems have occurred in a variety of areas, including product approvals, renewing business licenses, and even routine business activities.

Despite efforts by the central government to reform the licensing processes, over three-quarters of companies report that the problems they encountered happened at the central level. China's licensing reforms to date have yet to address most companies' challenges, though about 20 percent of companies have seen a positive impact.

Notably, over half of companies say that their domestic competitors do not face the same licensing problems as foreign companies.

Fig. 27

Has Your Company Experienced Challenges with Administrative Licensing in China?

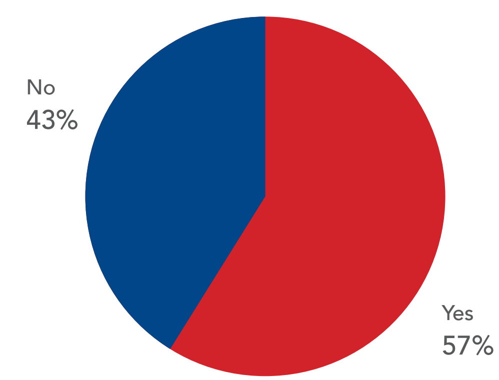


Fig. 28

Are Domestic Competitors Experiencing the Same Licensing Problems?

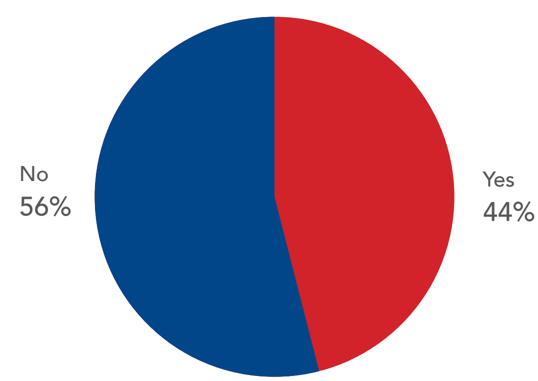
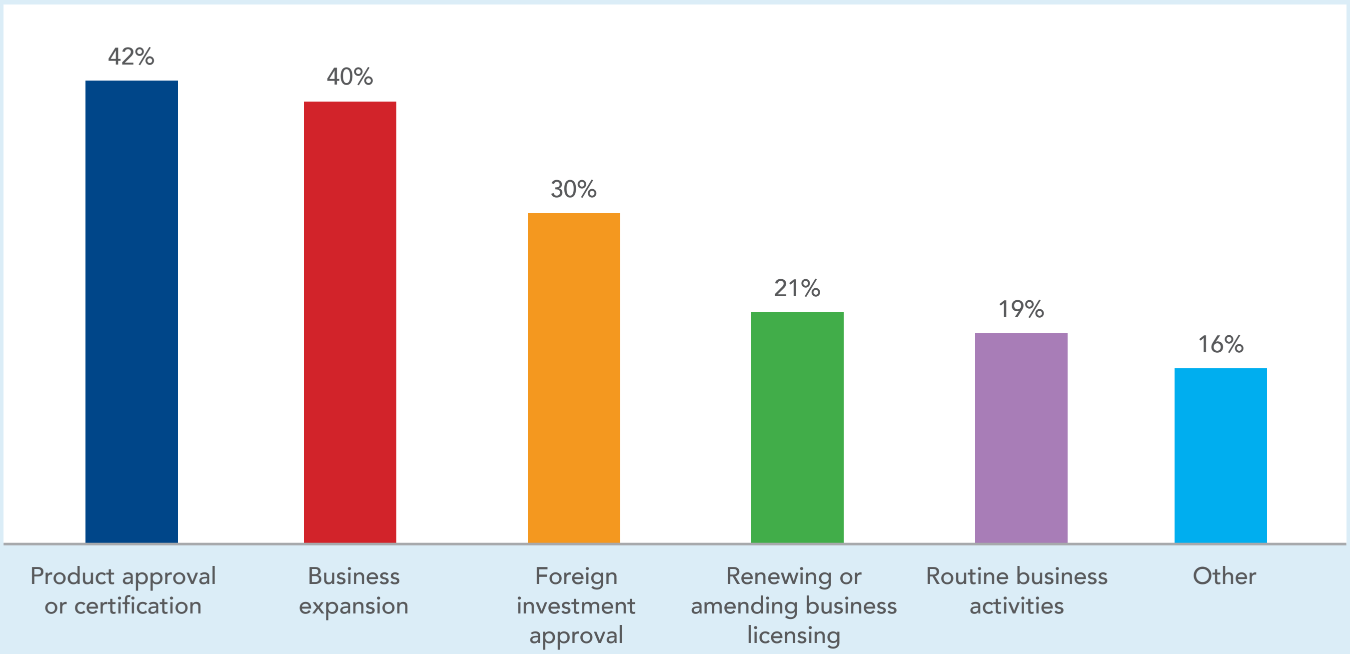


Fig. 29

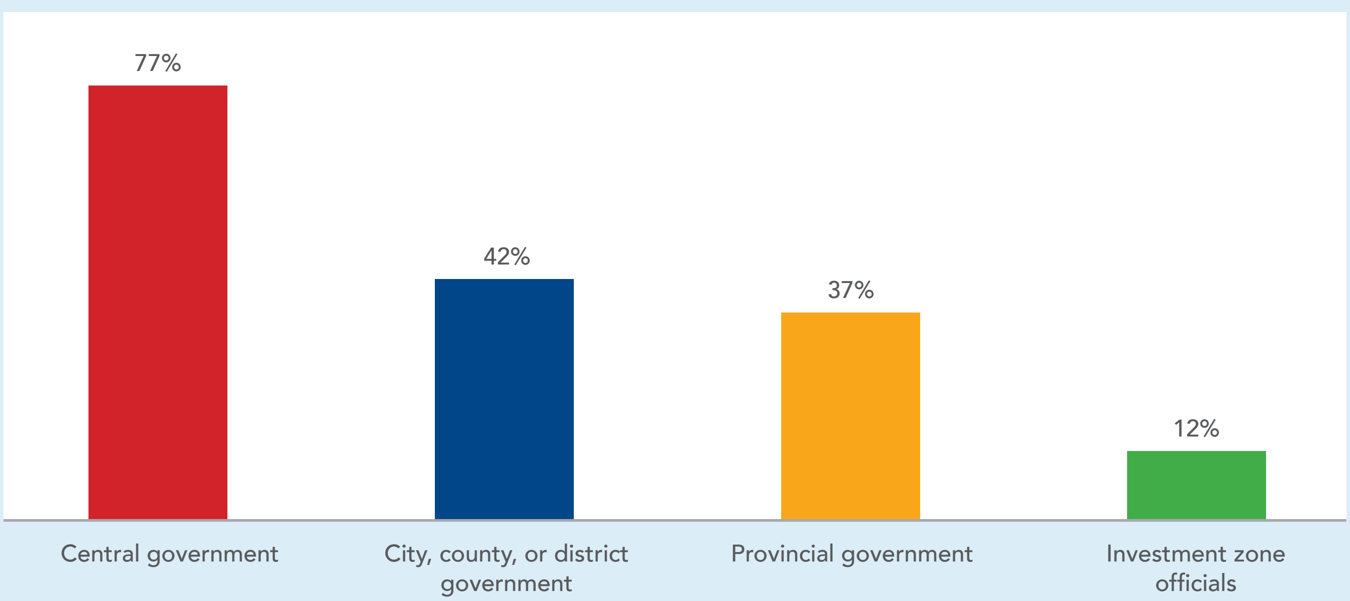
Types of Licensing Problems Experienced



Multiple responses allowed

Fig. 30

Where Licensing Problem Occurred



Multiple responses allowed

CHALLENGE #7 Human Resources

Progress on Issue in Past Year: Unchanged/Deteriorated

Rank in 2014:	4 (tie)
Rank in 2013:	3 (tie)
Rank in 2012:	1
Rank in 2011:	1
Rank in 2010:	3 (tie)
Rank in 2009:	3
Rank in 2008:	2 (tie)
Rank in 2007:	1
Rank in 2006:	1

Companies continue to experience the challenges of China's tight labor market. Wages continue to grow between 5 and 10 percent each year—though they are rising the fastest for middle management positions and skilled technical and engineering staff. Most companies report that they pay equal or higher wages than their domestic counterparts.

Despite these cost increases, 46 percent of companies report that they plan to expand head count in the next year. Filling some of those positions may be a challenge, however: companies note that the highest turnover rates were in white collar entry-level positions and middle management—suggesting that wage increases alone are not encouraging managers to stay longer with an employer.

Fig. 31

Wages Versus Domestic Chinese Enterprises

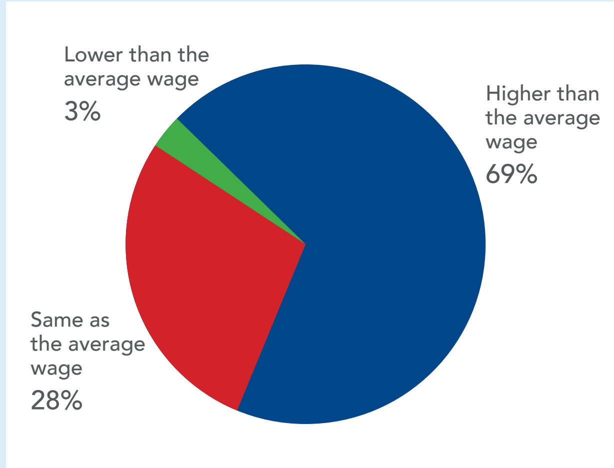


Fig. 32

Company Head Count in Next Year Expected to…

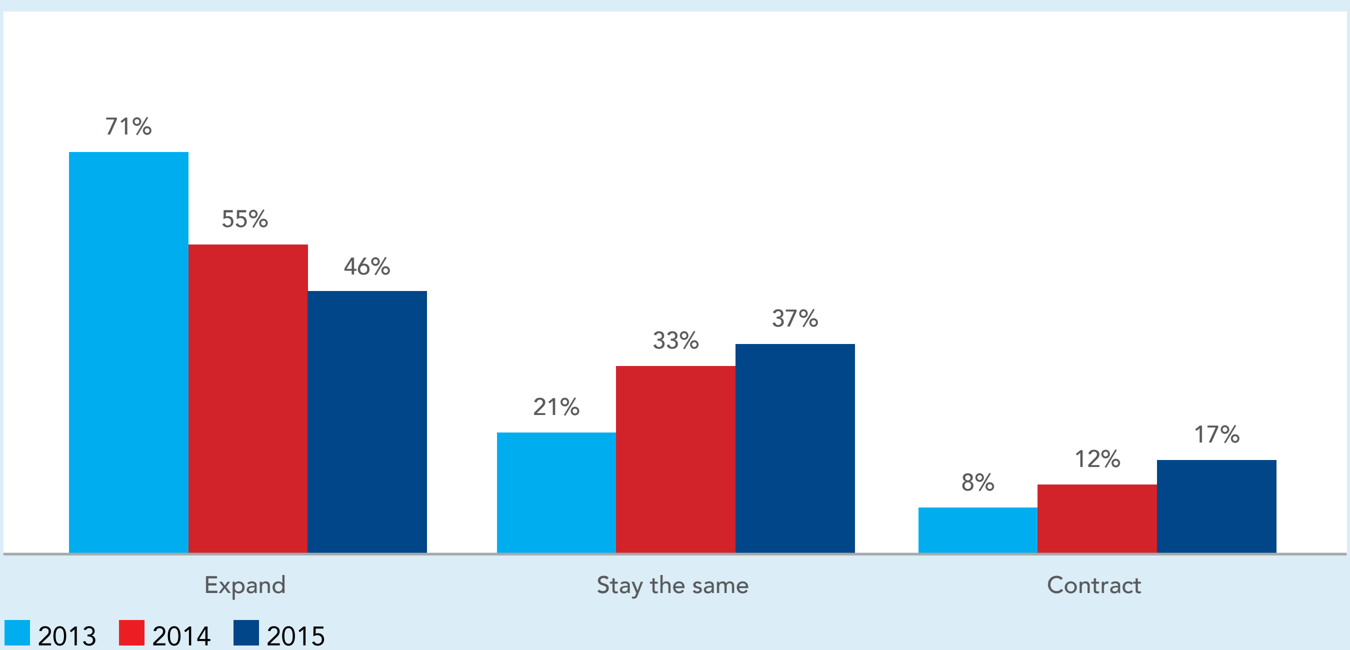


Fig. 33

Wage Increases in the Past Year

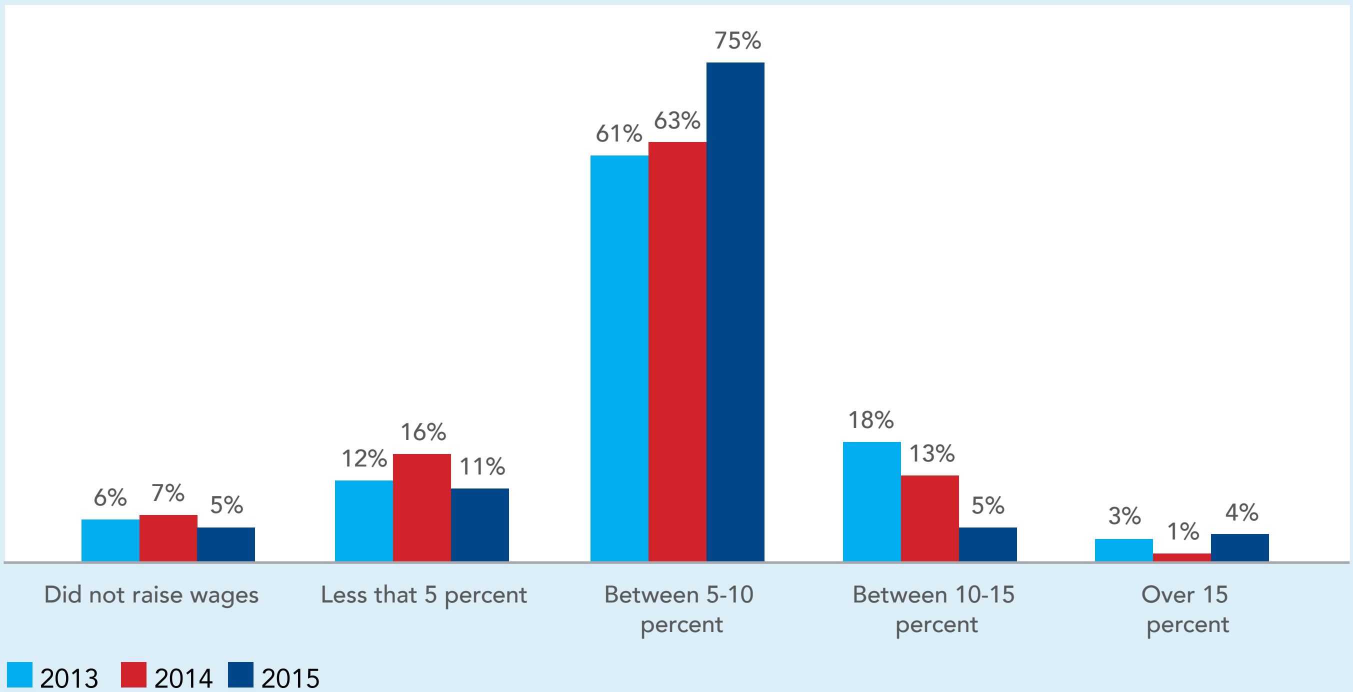


Fig. 34

Estimated Percentage of Wage Increases in Next Year

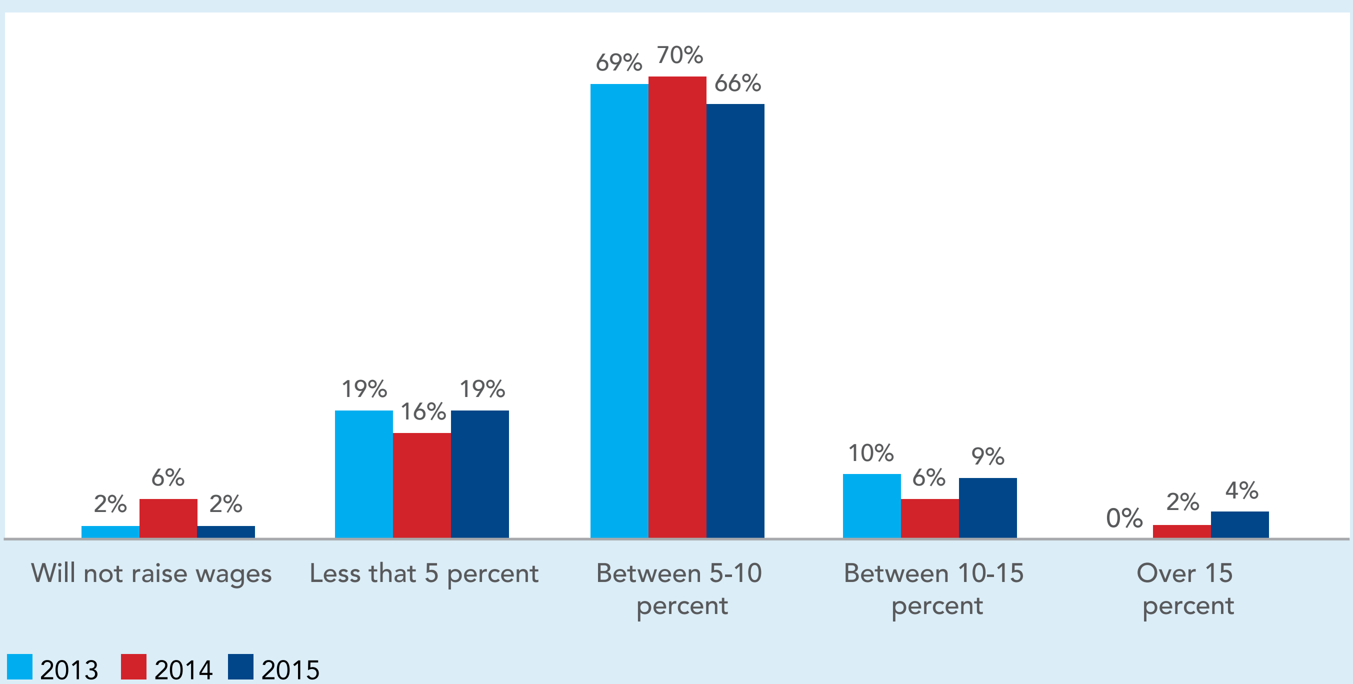


Fig. 35

For Which Positions Are Wages Rising Fastest?

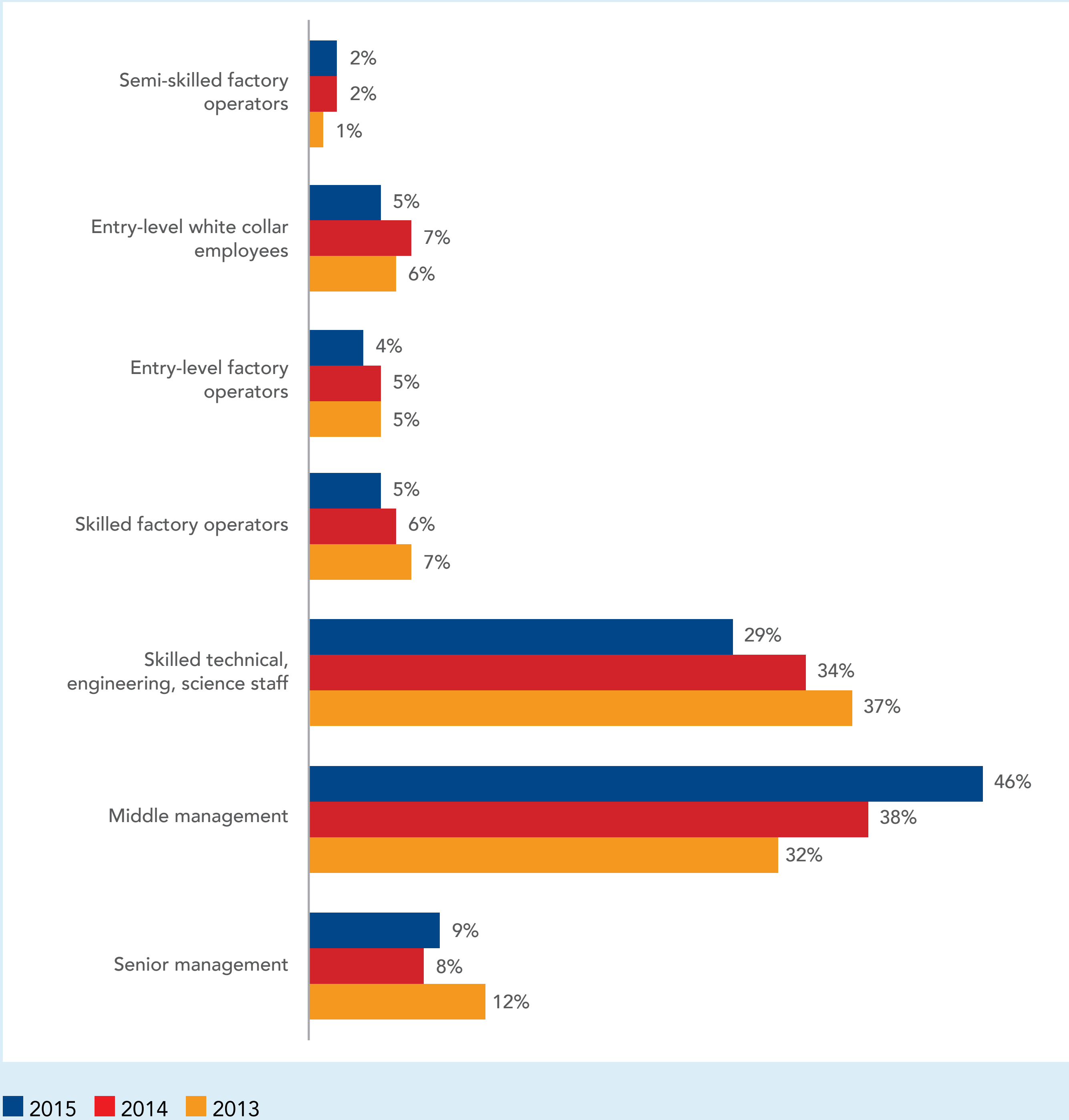
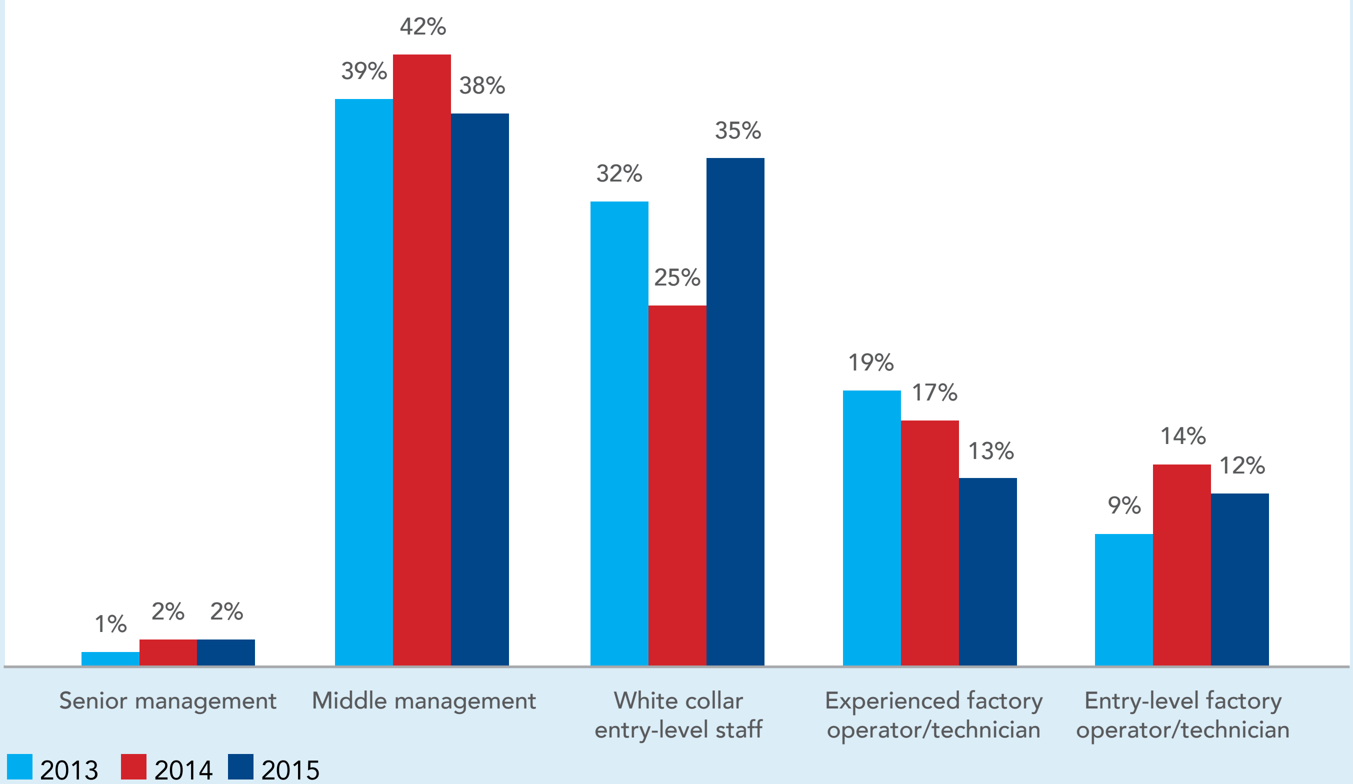


Fig. 36

At What Level Was Turnover Highest?



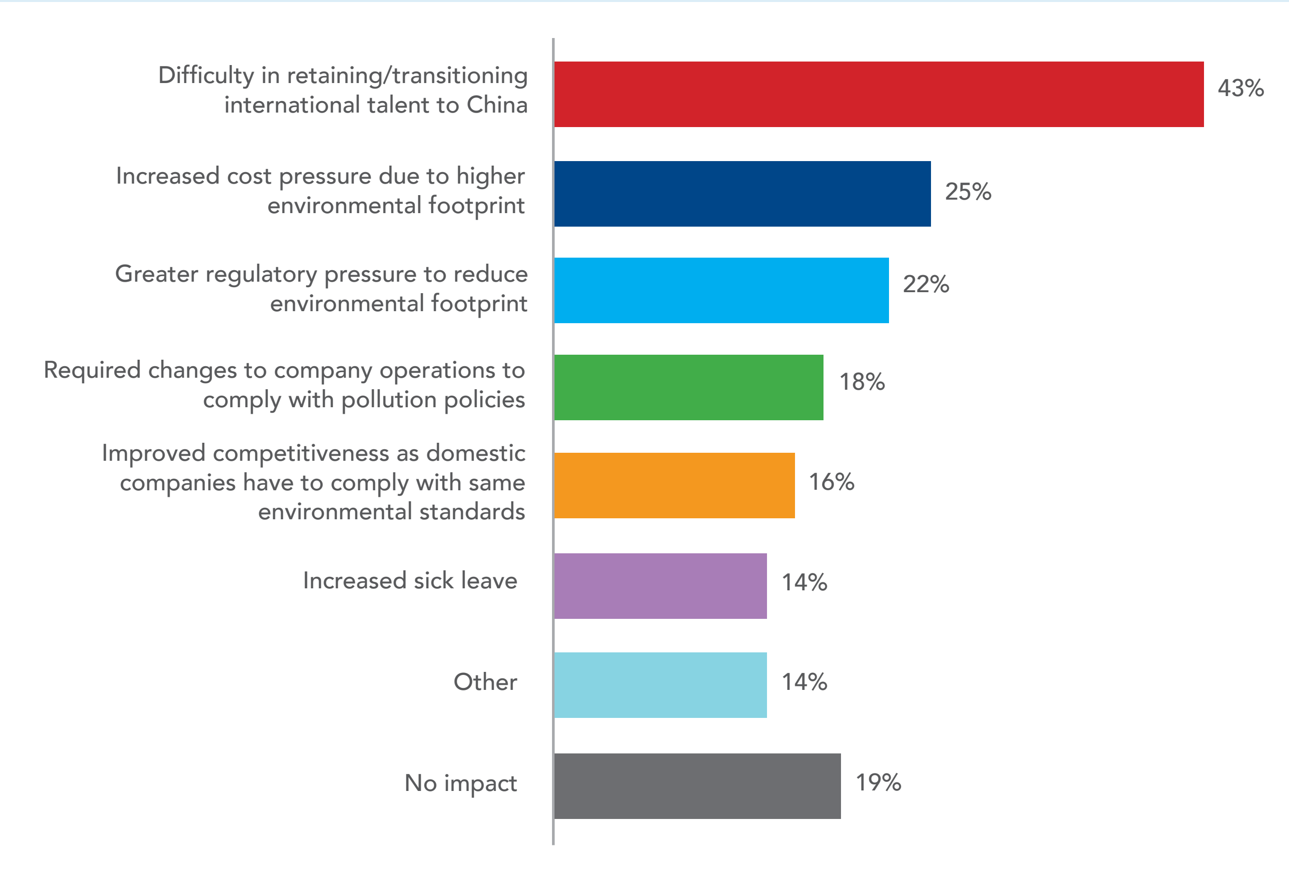
IN FOCUS: Impact of China's environmental pollution

Human resources is one of many operational areas impacted by China's challenges in tackling environmental pollution. Forty-three percent of companies report that air and environmental issues have made it difficult to retain and transition international talent to China—ranking this issue as the top impact of environmental pollution in China. In addition, companies note increases in the use of sick leave by staff in China.

Environmental pollution also impacts the cost of doing business in China: higher environmental standards have increased cost pressures on companies, accompanied by greater regulatory pressure to reduce companies' environmental impact, and required operational changes to company operations to ensure compliance. A minority of companies—16 percent—indicated one positive outcome, noting that tighter environmental compliance helped make their companies more competitive versus their domestic counterparts.

Fig. 37

Impact of China's Air and Environmental Pollution



Multiple responses allowed

CHALLENGE #8 Data flows

Progress on Issue in Past Year: Deteriorated
No previous ranking: 2015 is the first year this question has been identified

Internet and cyber-related issues impact almost all companies in China, and are not just a concern for technology firms. As one company explained, "Working with a VPN connection just keeping up with company emails can at times be next to impossible due to very much slowed down Internet traffic." As a consequence, it is not surprising that data flows appears in the top 10 issues this year, the first time the issue has specifically been queried in USCBC's survey.

In addition to periodic restrictions on access to company VPNs, in the past year China has implemented or proposed a number of requirements for the use of unique Chinese technology standards, as well as data localization requirements, and restrictions on cross-border data flows. Many of these policies include provisions that foreign companies either could not or would not comply with, creating a situation in which the best technologies may remain unavailable in the second-largest economy in the world.

While China's intent may be to create more secure networks, the impact of these policies will be the opposite. Many foreign technologies are still the most secure and resilient technologies available commercially, and many of these requirements would undermine the security that global information and communications technology (ICT) companies are currently building into their products. As a consequence, these types of policies actually create more widespread vulnerabilities in Chinese networks, with the risk that compromised networks will undermine China's broader economic security and development goals.

Though cybersecurity did not make the list of top 10 concerns, the majority of companies—over 80 percent—report that they are somewhat or very concerned about China's policies on information flows and technology security.

While 57 percent of companies cite China's restrictions on data flows as a specific cyber concern, even more—62 percent—cite the impact of US-China political tensions on cyber-related issues. It is essential that the US and China find ways to reduce cyber-related tensions. For several years, USCBC's board of directors has advocated in its annual priorities statement that the two governments should work together on addressing cyber-related criminal activity or deterring industrial facility cyber intrusions that could harm worker or public safety. It is time for action on that recommendation.

Fig. 38

Concern about Chinese Policies on Information Flows and Technology Security

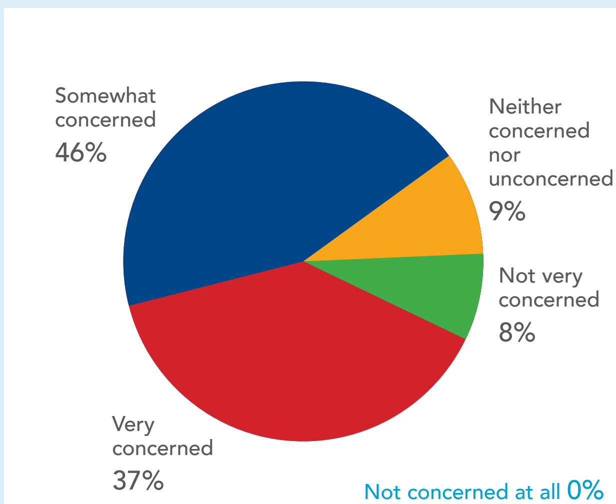
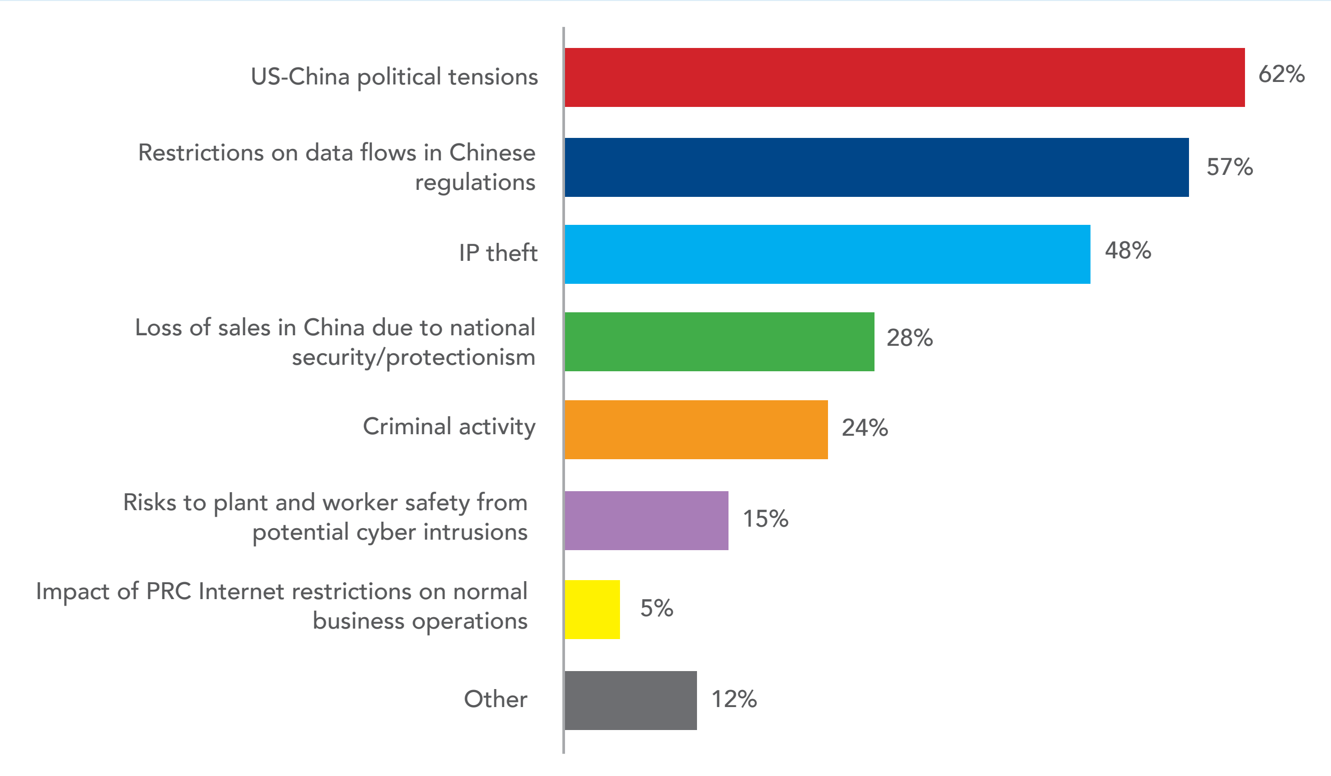


Fig. 39

Concerns Regarding Cyber-Related Issues



Multiple responses allowed

CHALLENGE #9 Uneven enforcement

Progress on Issue in Past Year: Deteriorated

Rank in 2014:	6
Rank in 2013:	6
Rank in 2012:	6
Rank in 2011:	13
Rank in 2010:	13
Rank in 2009:	11
Rank in 2008:	5
Rank in 2007:	*Not asked*
Rank in 2006:	*Not asked*

While the issue of uneven enforcement of Chinese laws and regulations moved down in rank in this year's survey, companies report that that the problems are persistent and the issue worsened in the last year. Moreover, enforcement differs not only between foreign and domestic companies, but also across sectors and provinces. These concerns come up in a variety of areas, including competition enforcement, tax auditing, licenses and approvals, and regulatory compliance.

IN FOCUS: Competition enforcement

Some progress has been made in the past year on China's implementation of the Anti-Monopoly Law (AML), China's antitrust regime. There has been a slowdown in the number of cases that have been announced since fall 2014, though China's antitrust authorities have indicated plans to increase investigations in some sectors. Regardless of the number of cases initiated, further progress is needed to ensure investigations are conducted in ways that promote due process and transparency. USCBC's updated report on competition policy and enforcement includes detailed recommendations on these issues.

While 80 percent of companies are somewhat or very concerned about China's antitrust environment, most companies say that they have not had any direct experience with AML enforcement—though about a quarter have concerns they will be targeted in the future.

Many foreign company concerns about AML enforcement are likely similar to those faced by domestic Chinese companies: lack of transparency, lack of clarity in the legal criteria for cases, lack of due process, and the inability to have legal counsel present in proceedings. That said, half of US companies report that their biggest concern is with the excessive focus of enforcement agencies on foreign companies.

Fig. 40

Concern about China's Competition and Antitrust Legal and Enforcement Environment

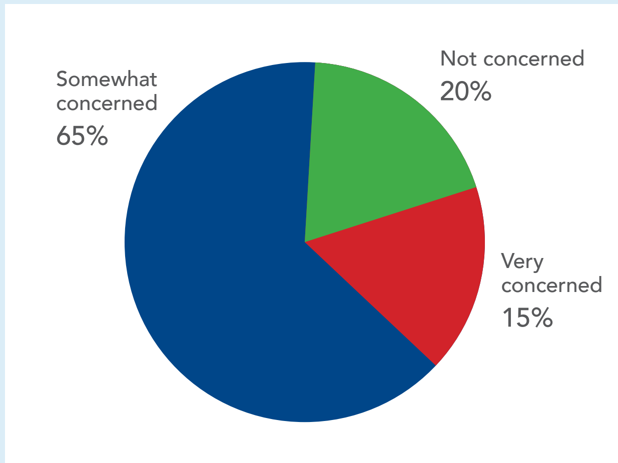
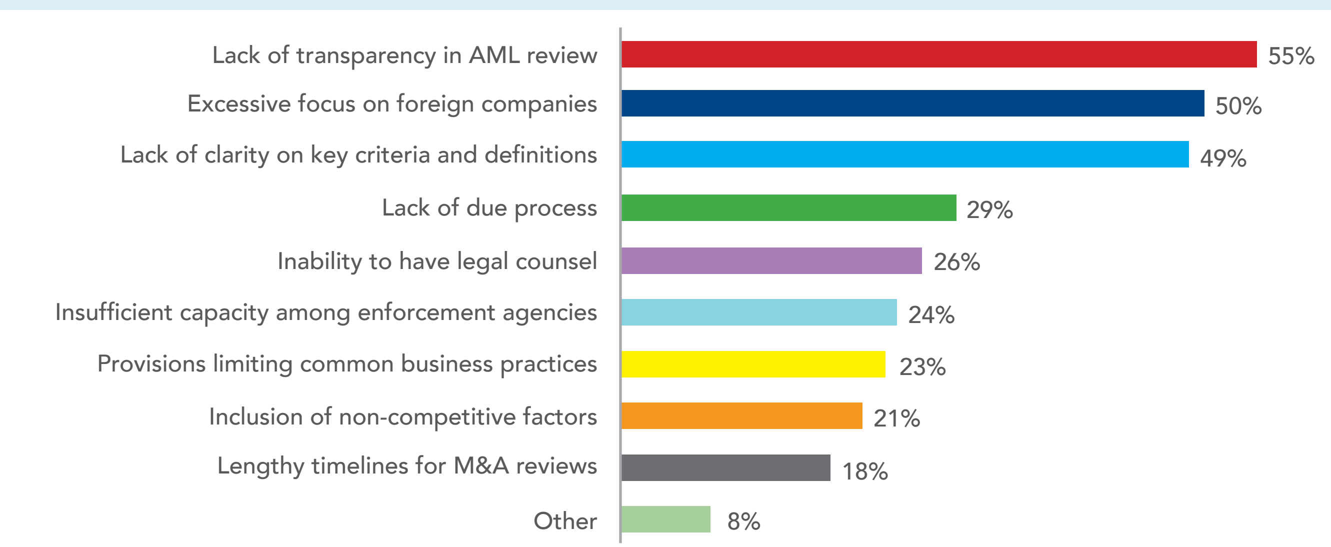


Fig. 41

Biggest Challenges in AML Enforcement



Multiple responses allowed

CHALLENGE #10 Overcapacity in China Market

Progress on Issue in Past Year: *Deteriorated*

Rank in 2014:	10
Rank in 2013:	11
Rank in 2012:	21
Rank in 2011:	21
Rank in 2010:	18
Rank in 2009:	4
Rank in 2008:	7
Rank in 2007:	4
Rank in 2006:	4

In USCBC's 2014 survey report, companies identified overcapacity as a significant issue in China. Unfortunately, companies report that the issues have gotten worse since then. Despite policies to implement market-determined prices for energy, Chinese companies continue to make products even with a significant slowdown in consumer demand, creating competitive distortions that have an important impact on the market. Companies report that overcapacity is an issue in a range of industries, from chemicals to construction products.

As one respondent explained, "Overcapacity for our industry and value chain appears to be deteriorating due to lack of meaningful, concrete action to eliminate government practices that incentivize continual investment in overbuilt sectors."

The push and pull of supply and demand is a basic market force, and an inevitable outcome as China seeks to have the market play a larger role in its economy. More must be done in this area to set new policies and implement existing policies that allow the market to dictate supply and demand. These efforts will also require China to eliminate policies and practices that foster overcapacity.

China's leaders should keep in mind that this issue goes beyond basic economics, however: overcapacity was cited by companies as a sign of local protectionism in China's economy, and a reason why they were less optimistic about their prospects in the market or had stopped or reduced planned investment in China. As a consequence, addressing overcapacity is among the needed steps to improving the overall business environment.

OTHER ISSUES OF INTEREST

Technology transfer

As part of China's drive to become more innovative, foreign companies have been encouraged and, in some cases, pressured to transfer technology to their China operations or Chinese companies. Almost 60 percent of companies report that they are concerned about transferring their technology to China, particularly because of concerns about the protection of intellectual property rights and proprietary information, as well as concerns about enforcing technology licensing agreements.

While most companies—77 percent—have not been asked to transfer technology to China in the last three years, nearly a quarter have. Of those that were asked to transfer technology, a little less than half would retain control of the technology in their China operations. The same number said the technology would be jointly shared with a Chinese company; 14 percent report that the technology would be controlled by a Chinese entity. Companies have had mixed success in mitigating these technology transfer requests and receiving adequate compensation.

Nonetheless, the issue is an acute concern of affected companies in key sectors, who often must make difficult choices about managing the trade-off of technology sharing and market access. This is another area where a bilateral investment treaty could have a positive impact.

Fig. 42

Is Your Company Concerned about Transferring Technology to China?

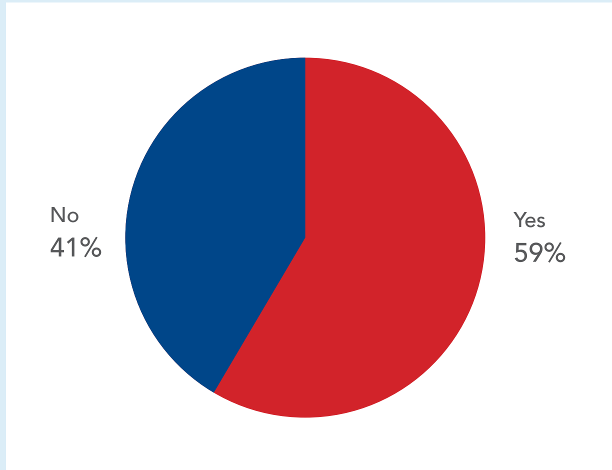


Fig. 43

In the Past Three Years Has Your Company Been Asked to Transfer Technology to China?

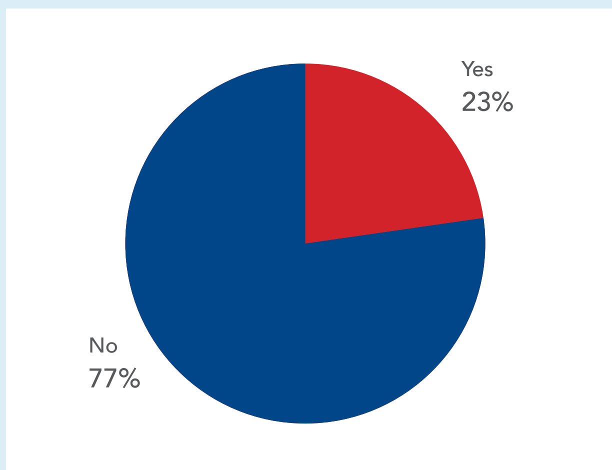
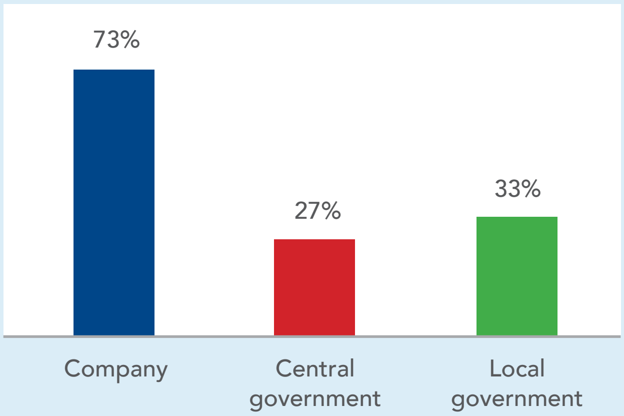


Fig. 44

Who Asked that Technology Be Transferred?



Multiple responses allowed

Fig. 45

Who Would Control the Technology in China?

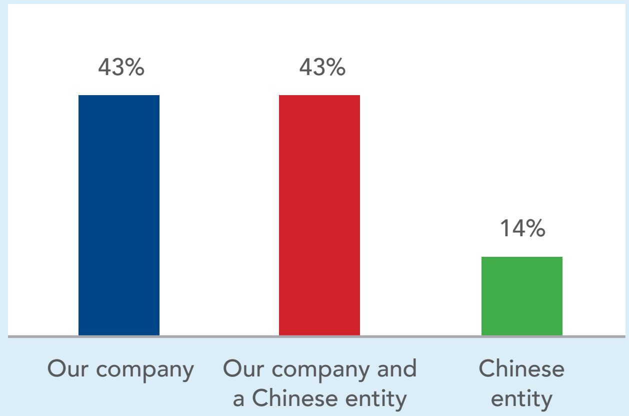
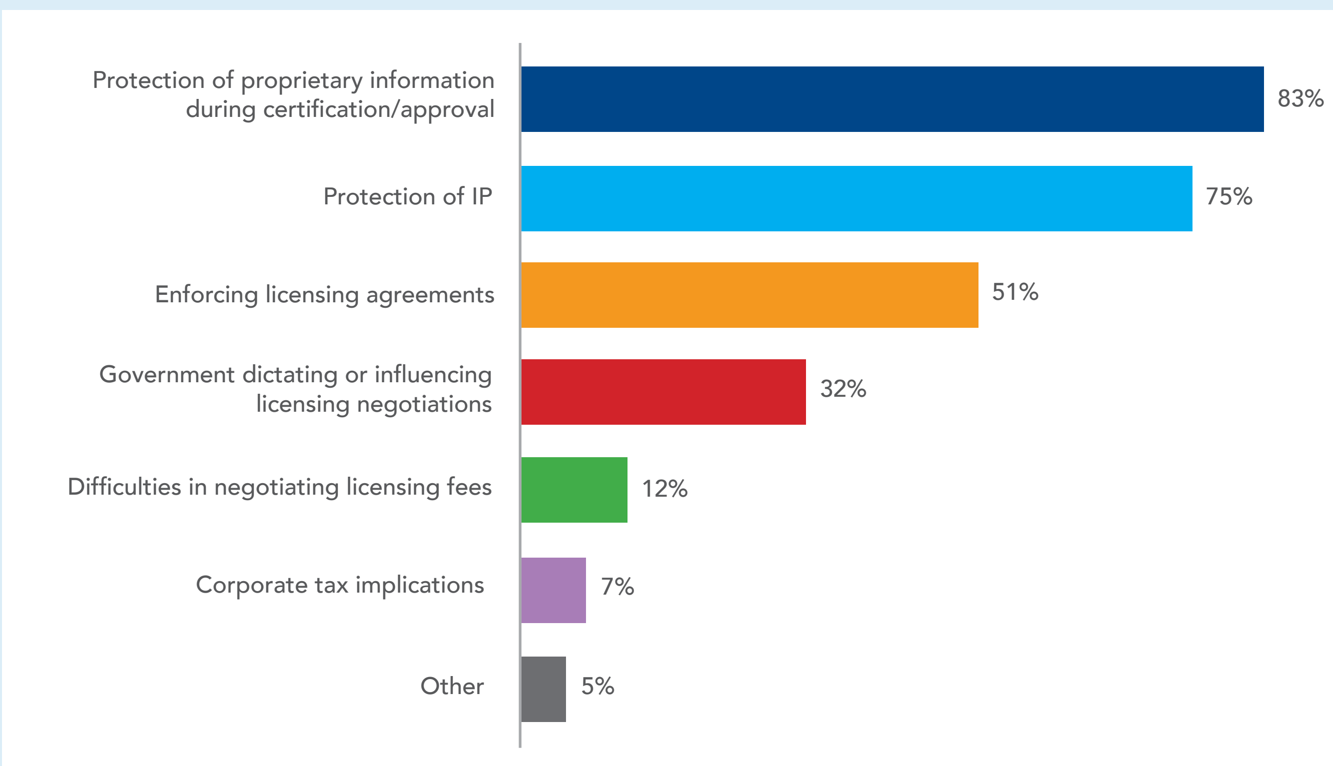


Fig. 46

Top Concerns about Transferring Technology to China



Multiple responses allowed

COMPANY PROFILE

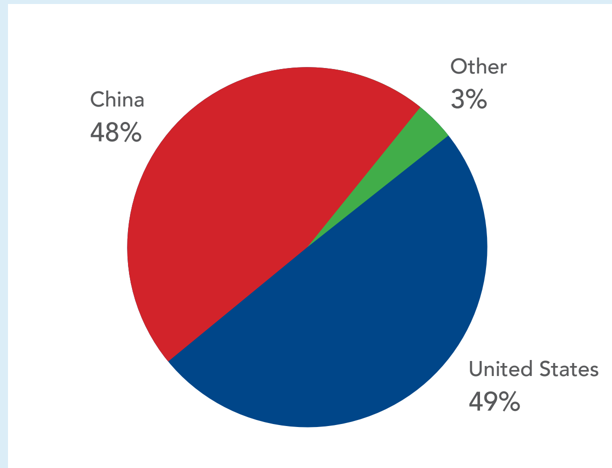
US- and China-based executives

The annual US-China Business Council (USCBC) annual membership survey incorporates a unique mix of US- and China-based executives. Respondents were roughly equally divided between those based in China with an on-the-ground perspective, and those based in the United States, with a view of the China business environment from a global perspective. The remainder of survey respondents were located elsewhere in Asia.

In addition, respondents range from CEOs of global corporations to executives based in the field. Survey results as a consequence incorporate both strategic and tactical perspectives.

Fig. 47

Respondent Location

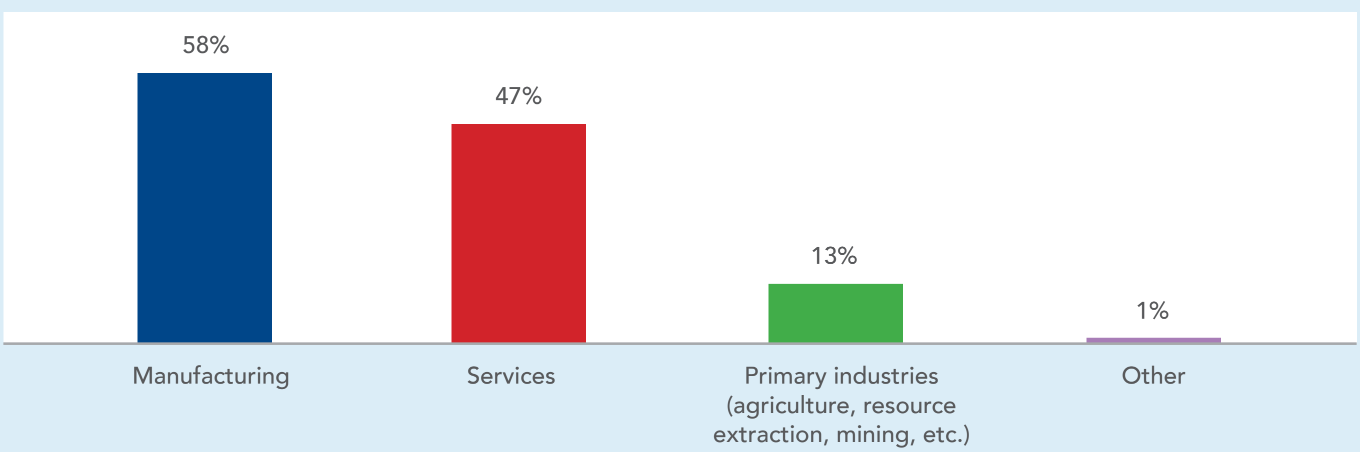


Cross-sector representation

USCBC members who completed the 2015 survey represented a cross-section of US companies doing business in China. Fifty-eight percent of respondents represented manufacturing companies, and 47 percent represented service providers—and many respondents' companies are active in both sectors. A total of 106 USCBC member companies participated in the survey—or roughly half of USCBC's membership.

Fig. 48

Type of Operations in China



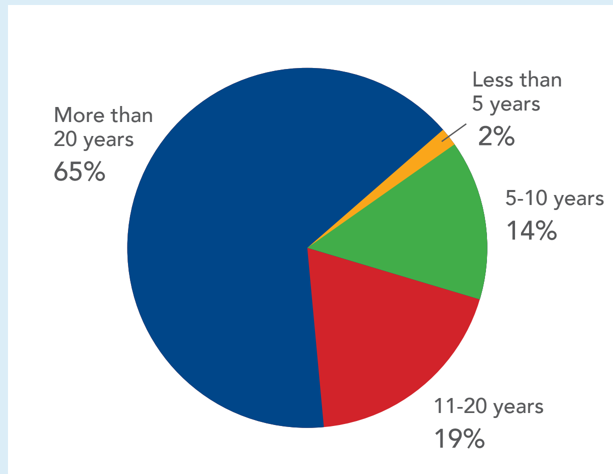
Multiple responses allowed

Long experience in the China market

USCBC member companies have a long history of doing business in China: 65 percent of respondents' companies have been in China for more than 20 years, and 19 percent have been in China for 11 to 20 years.

Fig. 49

Years Doing Business in China



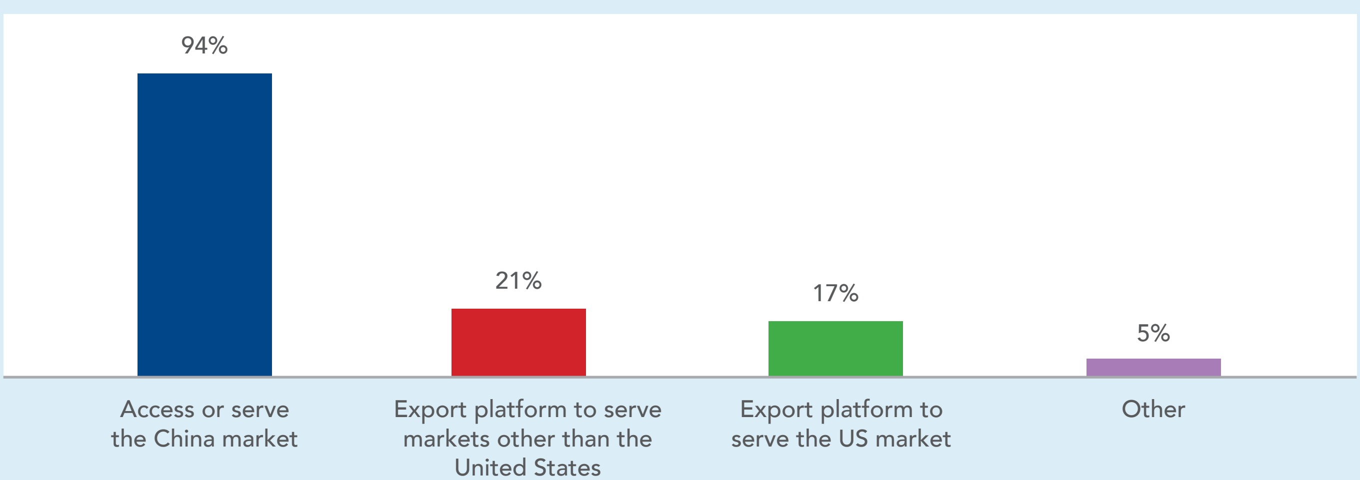
In China to access Chinese customers

The overwhelming majority of USCBC member companies report that they are doing business in China to access China's domestic market.

Twenty-one percent use China as an export platform to reach other markets around the world, though only 17 percent use their China operations to produce products that are shipped back to the United States.

Fig. 50

Objectives for Existing and Future Investments in China



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