USCBC 2016 Membership Survey: The Business Environment in China

— Key Findings —
Business outlook reflects slowing growth

- China’s growth slowdown is impacting American company financials and market sentiment. Nearly 20% of survey respondents expect revenue to decline this year, though two-thirds anticipate continued growth.
- Companies are responding by doing what would be expected — cutting costs, slowing investment, controlling hiring … but not pulling out.
- Despite slowing revenue growth, 90% of companies remain profitable, but at reduced rates that reflect increasing competition, rising costs, regulatory impediments, and, in some sectors, overcapacity.
- Business confidence continues to soften. Almost three-quarters of companies have an optimistic or somewhat optimistic five-year outlook, the lowest total over the past decade. Pessimism remains low (10%), however.

Policy uncertainty undermining confidence

- Three years after China announced significant reform goals, most American companies are not seeing significant changes in the business environment.
- The biggest driver of reduced confidence is the policy and regulatory environment, followed by the market slowdown and profit margins squeezed by increasing competition, rising costs, and overcapacity.
- Of the Top 10 challenges, six would be improved by a high-standard US-China Bilateral Investment Treaty.

China still outpaces other markets

- Despite the challenges of a slowing economy and increasing domestic competition, China remains a priority market for American companies. 91% of companies say China growth prospects are the same or better than other emerging markets.
- USCBC estimates that China is a $400 billion market for US companies — tied with Mexico as the second-largest foreign markets for American goods, services, and farm products, after Canada — but it should be more. Addressing market access, intellectual property protection, and level-playing-field concerns in China must continue to be a priority during the remainder of the Obama administration and for the next president.
Revenue from China Business in Past Year

China’s growth slowdown is reflected in slowing revenue growth.
The economic slowdown is impacting revenue projections — nearly 20% expect revenues to decline this year, though ⅔ anticipate growth.

Companies are responding by doing what would be expected — reducing hiring, cutting costs, slowing investment.
Are Your China Operations Profitable?

Despite the slowdown in revenue growth, companies remain profitable in China.

Profitability Compared to Previous Year

But profitability is at deteriorating rates that reflect increasing competition, rising costs, and regulatory impediments.
72% are optimistic or somewhat optimistic; pessimism remains low (10%); but … a clear trend of declining optimism and softening confidence continues.
Declining optimism driven by 1) the policy and regulatory environment, 2) slowing market growth, and 3) profit margins squeezed by rising competition and rising costs.

Multiple responses allowed
Despite the headwinds of the economy and competition, China remains a priority market for most American companies.

At the same time, market and policy headwinds have slowed investment overall. Fewer companies are accelerating investment in China—although The number reducing investment remains small.
Few companies are halting investments in China, but those that do cite market access restrictions and better business opportunities in other markets as top reasons.
View of China’s Growth Prospects vs. Other Emerging Markets

- Better: 73%
- Same: 18%
- Worse: 9%

View of China’s Policy Environment vs. Other Emerging Markets

- Better: 34%
- Worse: 32%
- Same: 33%

Context is important:
91% say China growth prospects are the same or better than other emerging markets; on the other hand, views on China’s policy environment versus other markets are mixed.
Why does a Bilateral Investment Treaty with China matter?

Challenges in red addressed in full or in part by a BIT

Six of the Top 10 challenges would be impacted by a BIT; A high-standard BIT is a business community priority.
Concern about Chinese Policies on Information Flows and Technology Security

- Very concerned: 43%
- Somewhat concerned: 36%
- Neutral: 11%
- Not very concerned: 10%
- Not concerned: 0%

Concerns Regarding Cyber-Related Issues

- Internet service within China: 51%
- Inability to use global IT solutions in China: 50%
- IP theft: 49%
- Restrictions on cross-border data flows: 43%
- US-China political tensions: 38%
- Restrictions on VPN use: 30%
- Loss of sales in China due to national security/protectionism: 22%
- Plant and worker safety risks from cyber-intrusion: 14%
- Other: 1%

80% of companies are concerned about China’s data and IT security policies, including the impact they have on day-to-day business operations.
Most foreign companies are not seeing benefits from China’s economic reforms, which is consistent with the limited overall progress on reform that USCBC has found.
Challenges vary by sector, but competition with Chinese companies remains the No. 1 concern among US companies.
USCBC 2016 China Business Environment Survey

Demographics of respondents
119 companies

- US- and China-based perspectives
- Balance of industry sectors
- Experience: 90% in China for 10 years or more
- ~20% are tech companies in manufacturing or services

LOCATION

- China 62%
- United States 34%
- Other 4%

YEARS DOING BUSINESS IN CHINA

- More than 20 years 65%
- 11-20 years 26%
- 5-10 years 7%
- Less than 5 years 2%

INDUSTRY

- 60% Manufacturing
- 53% Services
- 8% Primary industries (agriculture, mining)
- 2% other