

The graphic features a central white circle surrounded by thick, expressive brushstrokes in red and blue. The red stroke is on the left and top, while the blue stroke is on the right and bottom. The background is a light, neutral tone with a subtle circular gradient.

US-CHINA BUSINESS COUNCIL

2018 Member Survey

A horizontal blue brushstroke underline is positioned below the main title.



Executive Summary

Despite positive commercial gains in the last year, American companies have strong concerns about the increasingly rocky US-China relationship and implications for the business environment in China. American companies are less optimistic about China’s policy direction and the trajectory of the bilateral relationship. They remain concerned about discriminatory industrial policies and the advantages enjoyed by Chinese companies. These issues raise questions about American companies’ future competitiveness in the China market.

In this context, three major themes dominated the US-China Business Council’s 2018 member survey outcomes:

US-China trade tensions are affecting American companies.

- 73 percent of companies report their business has been affected by current bilateral trade tensions.
- Companies report increased scrutiny from regulators and loss of sales due to both US and Chinese tariffs and uncertainty about supply chains.

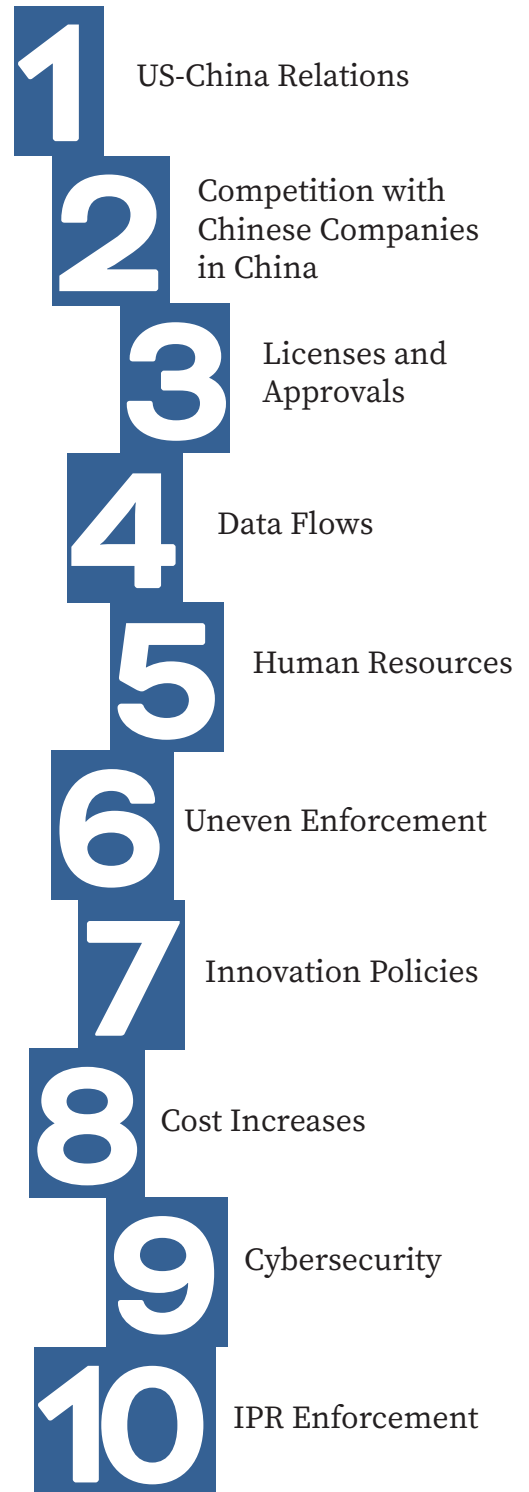
Regulatory issues in China continue to be a significant challenge for foreign companies.

- Since 2009, when USCBC began asking about signs of protectionism in China, companies have regularly reported that they see favoritism for Chinese companies in China’s licensing and regulatory processes. In 2018, almost 60 percent of respondents cite protectionism in licensing.
- While companies are generally still optimistic, China’s policy and regulatory environment affect American companies’ five-year business outlook for China.
- 88 percent of companies are concerned about China’s preferential policies for domestic companies.

Despite these challenges, China remains an important market for American companies.

- Most American companies invest in China to access and compete for Chinese customers.
- China remains among the top priority markets for 90 percent of US companies, and most plan to maintain or accelerate their resource commitment to China in the coming year.
- China’s government should not take that commitment for granted, however: China is no longer consistently outperforming other markets.
- If trade tensions begin to affect market access for American companies, or if alternative supply chains become a more effective way for companies to meet their business targets, investment may begin to shift to other markets that face fewer challenges.

Top 10 Challenges



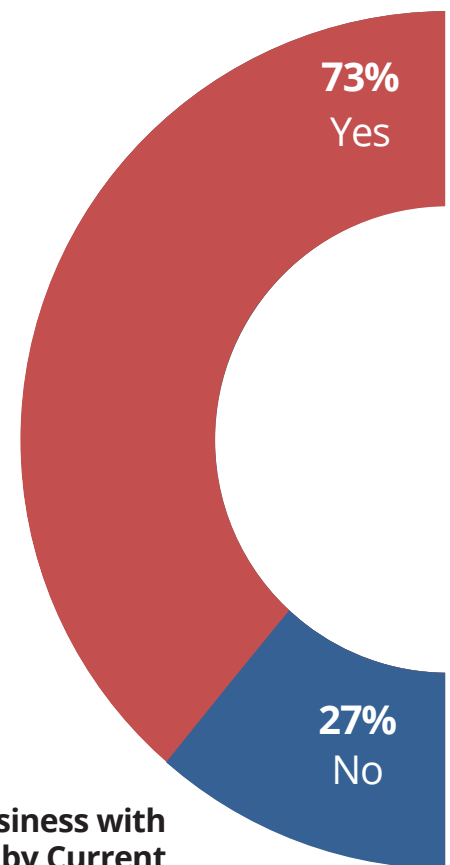
US-China Trade Tensions are Affecting American Companies

THE RELATIONSHIP BETWEEN THE US AND CHINESE GOVERNMENTS IS THE TOP CONCERN FOR A MAJORITY OF COMPANIES DOING BUSINESS IN CHINA – AND NOT JUST BECAUSE THE ISSUES ARE IN THE NEWS EACH DAY.

Political risk associated with the bilateral relationship ranked number one in this year’s survey for the first time, jumping up from its ranking of eighth in 2017. This is a significant change in view among US companies, as competition with Chinese counterparts has ranked as their top challenge since 2014.

With significant tariffs imposed by both the United States and China, and various “qualitative” measures imposed against US industry in China, almost three-quarters of American companies report that trade tensions have affected their business operations in China. Unfortunately, the types of effects they are experiencing are not new, and they are not unique to any sector.

Since 2009, when USCBC began asking about signs of protectionism in China, companies have regularly reported that they see favoritism for Chinese companies in China's licensing and regulatory processes. This year, almost 60 percent of respondents cite protectionism in licensing. Further information on these issues is detailed in the next section of the report.



Has Your Company's Business with China Been Affected by Current US-China Trade Tensions?

Specific to the current bilateral trade tensions:

- 28 percent of US companies report that they have been subjected to increased scrutiny from Chinese regulators as a result of bilateral trade tensions; 8 percent report increased scrutiny from US regulators.
- 15 percent report lost sales due to tariffs – either imposed or threatened by the US and China.
- 15 percent note slowed, delayed, or cancelled investment in the United States or China due to the uncertainty from heightened tensions.
- 13 percent report lost sales due to customer concerns about continued supply, which has driven some of their business to other foreign competitors.
- 11 percent report making changes in their suppliers or sourcing due to uncertainties about continued supply.
- 6 percent report lost sales due to concerns among Chinese customers about doing business with American companies.

Even before the 2018 survey was conducted, USCBC called on the US and Chinese governments not to engage in retaliation, but instead to do the hard work needed to address these problems.

USCBC has also regularly called for China to eliminate the designation of Foreign Invested Enterprises (FIE) in China – a designation that invites discriminatory treatment in the market. In addition, changes are needed to China’s regulatory process, which gives arbitrary authority to regulators that frequently lead to preferences for Chinese companies over foreign ones. That arbitrary authority can include regulators not “accepting” license applications when they are initially filed by foreign companies and instead seeking changes before the review process begins.

Addressing these issues will mitigate some of the problems that foreign companies face in China, and will also benefit Chinese companies and the overall Chinese economy.

Impact of US-China Trade Tensions on Business



Multiple responses allowed.

Regulatory Issues in China Continue to Be a Significant Challenge

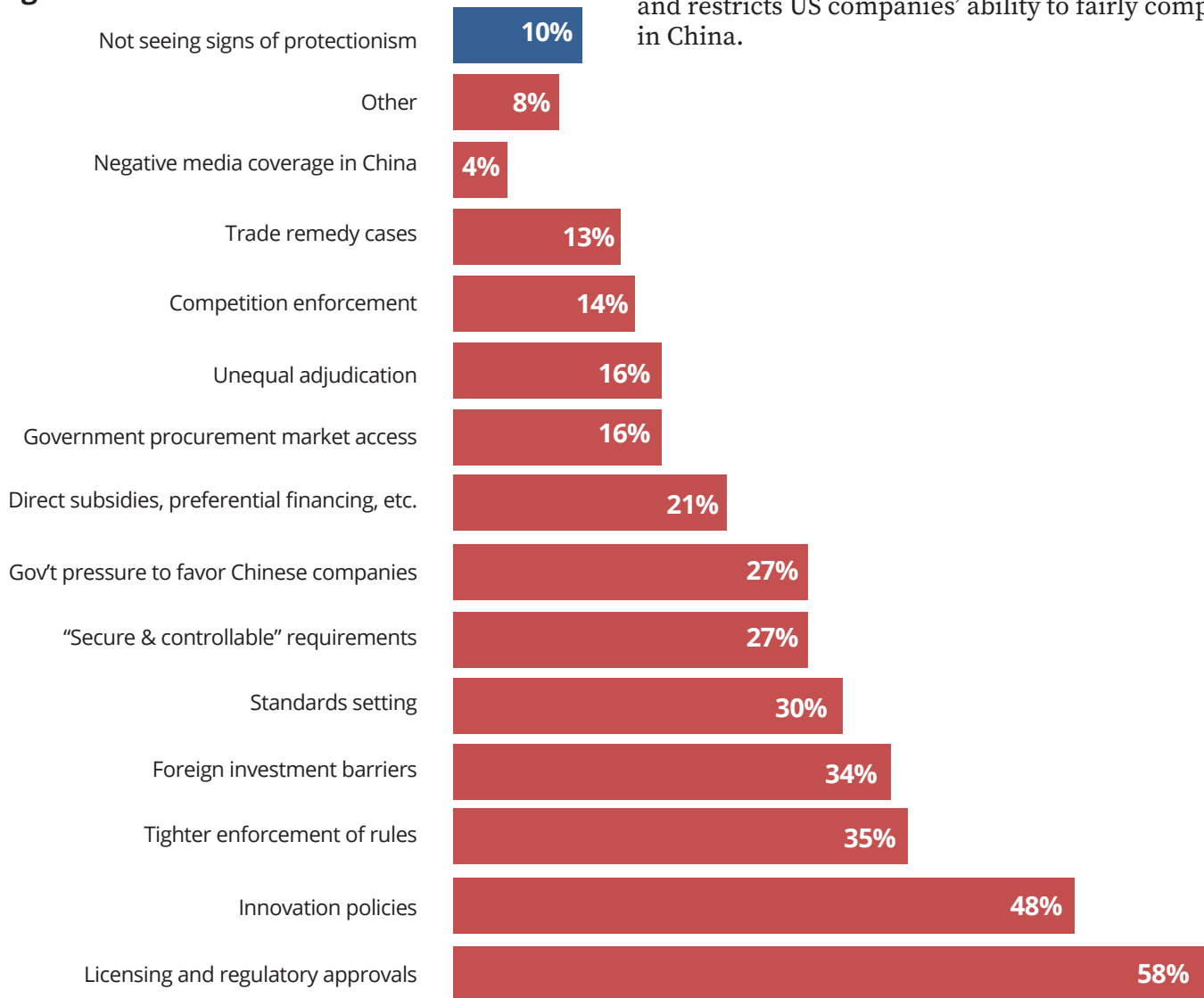
AMERICAN COMPANIES CONTINUE TO CITE REGULATORY ISSUES AMONG THEIR TOP CHALLENGES IN CHINA.

Of the top 10 issues identified in this year’s survey, many involve circumstances in which American companies report that they are treated differently from their Chinese counterparts regarding licenses and approvals, regulatory enforcement, innovation policies, cybersecurity, and intellectual property rights enforcement.

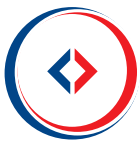
Competition with Chinese companies ranked second in the survey, an issue that US companies regularly cite in USCBC’s annual survey as including inherent discrimination in favor of domestic companies.

These issues are often rooted in protectionism. Many companies report that various actions and policies in China are calibrated in an effort to promote domestic companies at the expense of foreign ones. Increased regulatory scrutiny of American companies is yet another lever that can be used for protectionist purposes and restricts US companies’ ability to fairly compete in China.

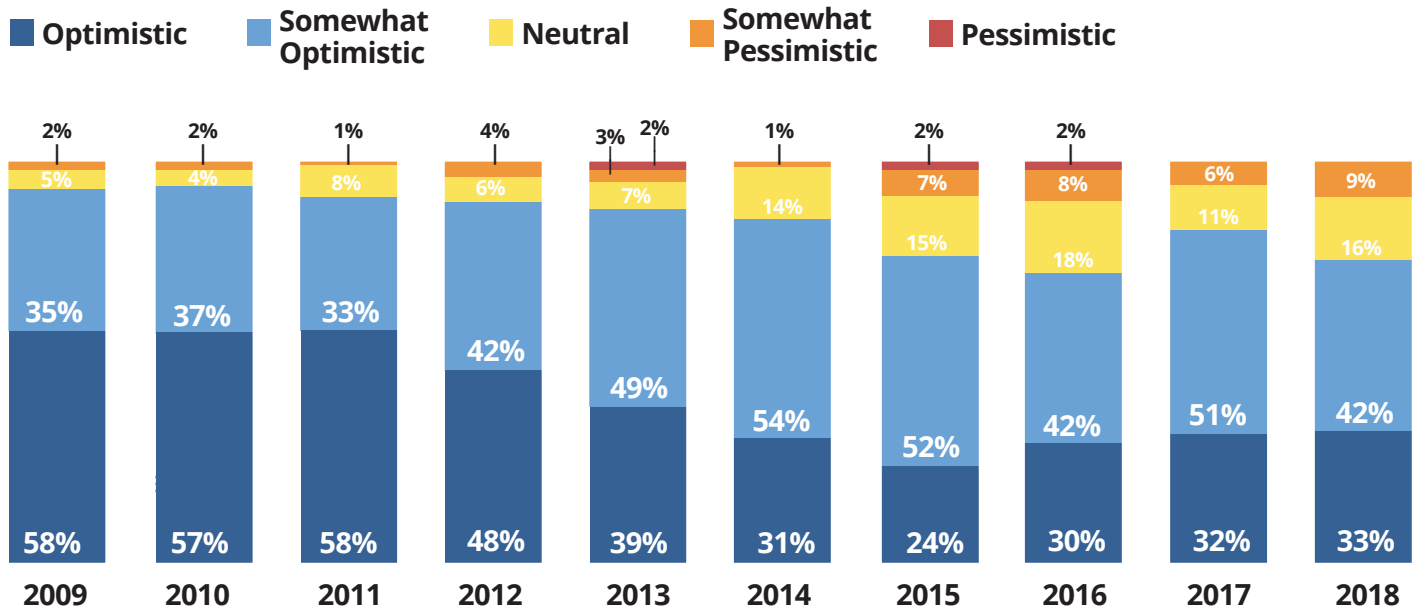
Signs of Protectionism in China



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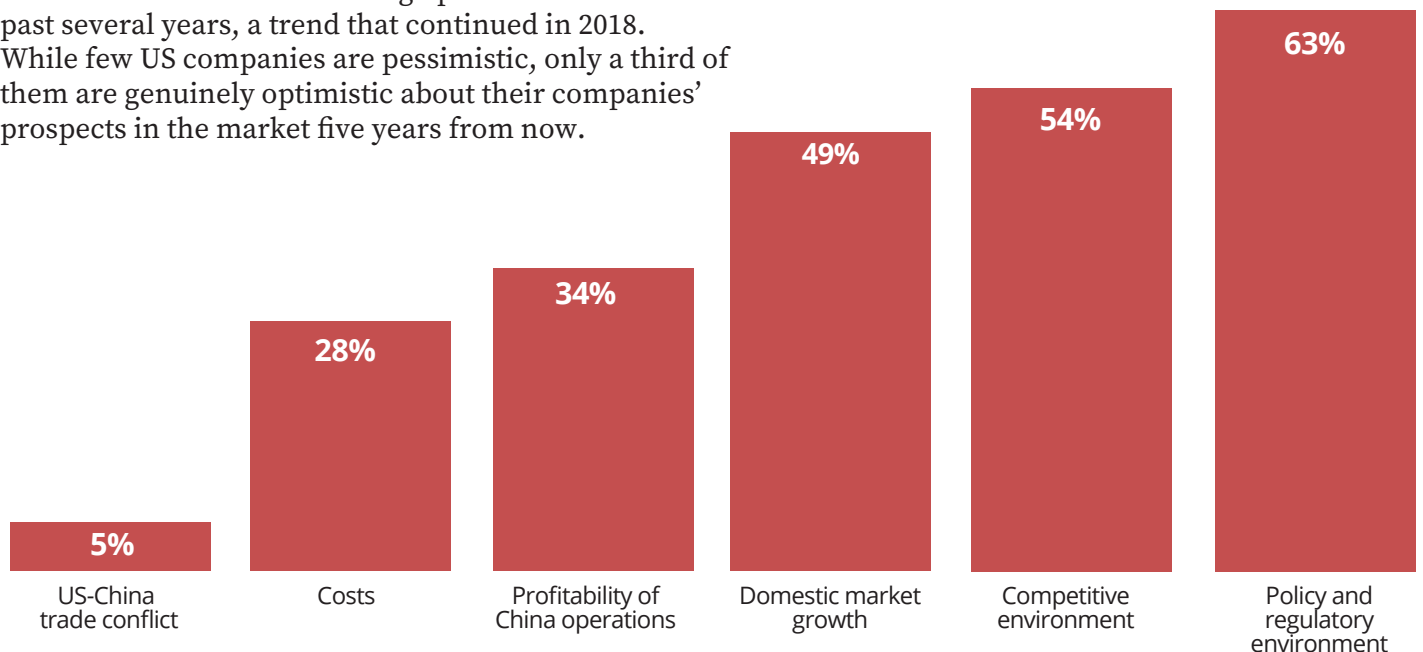


View of the Business Climate in China Over 10 Years



Regulatory and competition challenges are not new for US companies, but they have a real effect on companies' ability to do business. These challenges are among the issues that companies cite as primary restraints on their profitability in China. Companies also frequently cite these issues as affecting their five-year outlook for business in China. USCBC survey data have indicated moderating optimism over the past several years, a trend that continued in 2018. While few US companies are pessimistic, only a third of them are genuinely optimistic about their companies' prospects in the market five years from now.

Issues Impacting Five-Year Outlook

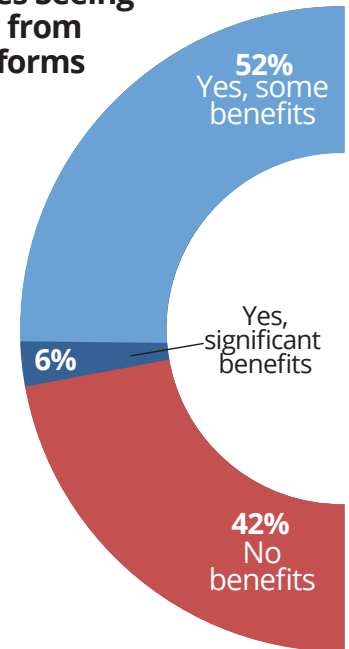


However, decreasing optimism is neither inevitable nor unsolvable. USCBC has regularly called for China to speed up implementation of its economic reforms, fully implement its pledges to improve IP protection, ensure equal treatment of foreign companies, and allow the market to play a stronger role in the economy. USCBC’s survey again finds that most companies have seen only a few benefits from reform efforts to date.

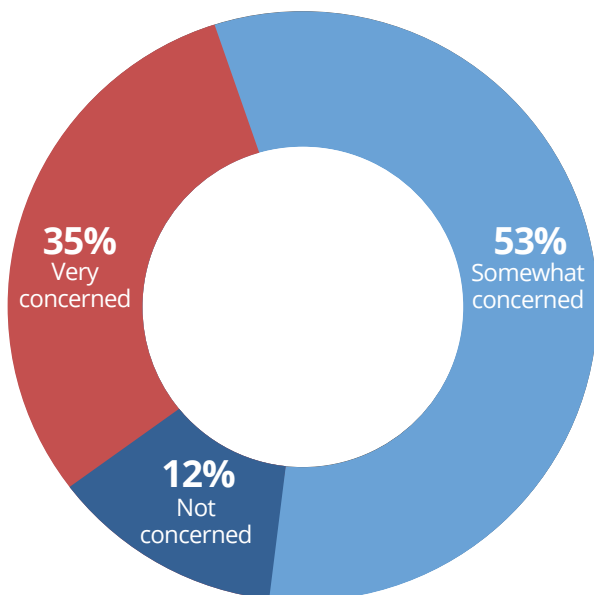
Implementing reforms that equalize treatment between foreign and domestic firms, improve IP protection, and address market-distorting factors that lead to unfair competition would be welcomed by foreign companies doing business in China and by China’s trading partners. Such reforms would also provide a solid response to critics by demonstrating that China has embraced its position as the second largest – and soon to be largest – economy in the world. China’s leadership also has regularly acknowledged that such steps are in its own economic interests.

Most American companies are concerned about the preferences that China provides to domestic companies through innovation and manufacturing policies, though most have yet to see an impact specifically from Made in China 2025 (MIC2025). Those that do report being affected by MIC2025 describe more limited access to the sectors outlined in the plan and increased competition from Chinese companies that were not previously competitors.

Foreign Companies Seeing Tangible Benefits from PRC Economic Reforms



Has *Made in China 2025* Impacted Your Company's Operations?



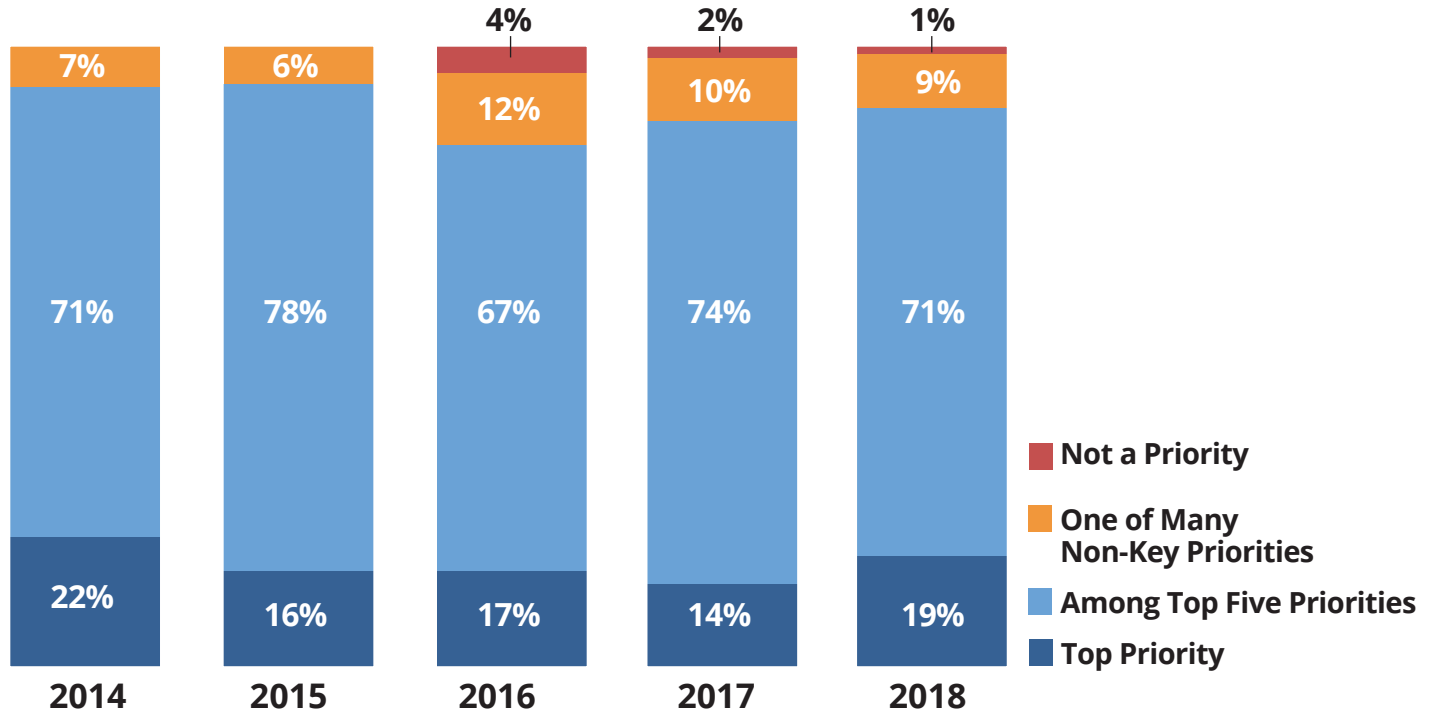
Level of Concern About China's Preferences for Domestic Companies



China Remains an Important Market for US Companies

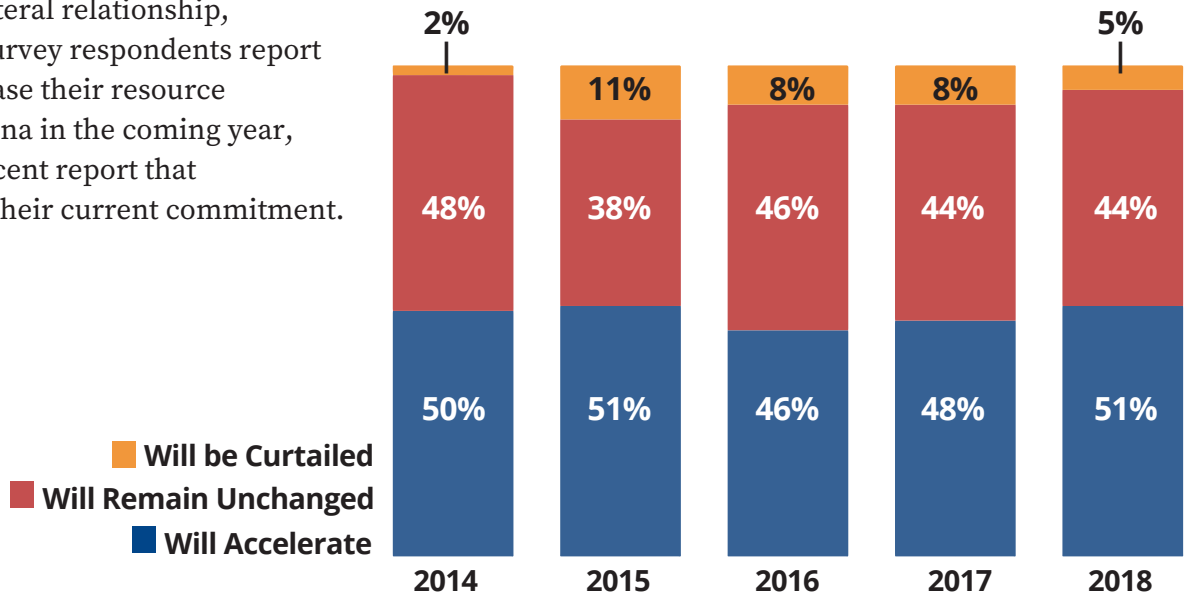
CHINA'S IMPORTANCE AS A MARKET FOR AMERICAN COMPANIES SHOULD NOT BE UNDERESTIMATED.

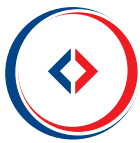
China's Prominence in Overall Company Strategy



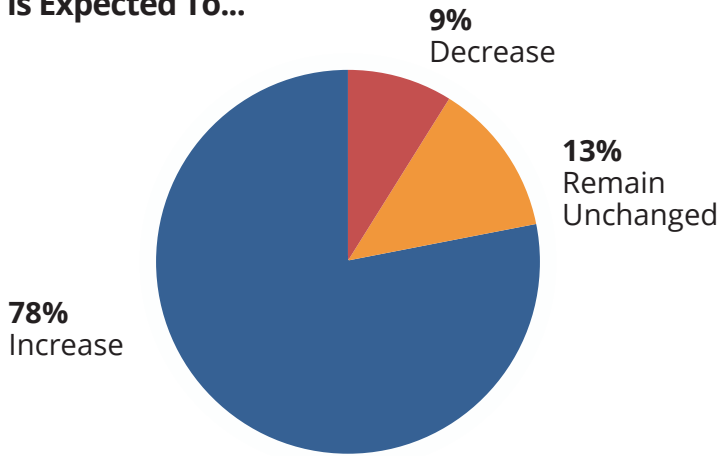
USCBC'S 2018 survey shows, yet again, that China continues to be among the top five global markets for American companies. Despite tensions in the bilateral relationship, half of this year's survey respondents report that they will increase their resource commitment in China in the coming year, and another 44 percent report that they will maintain their current commitment.

Resource Commitment for the Next Year

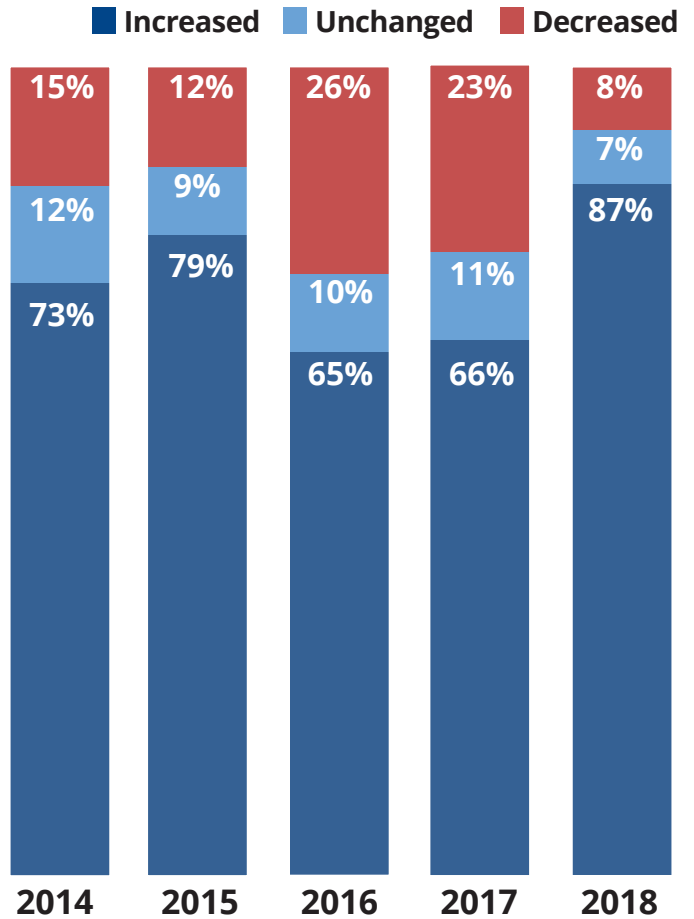




2018 Revenue from China is Expected To...



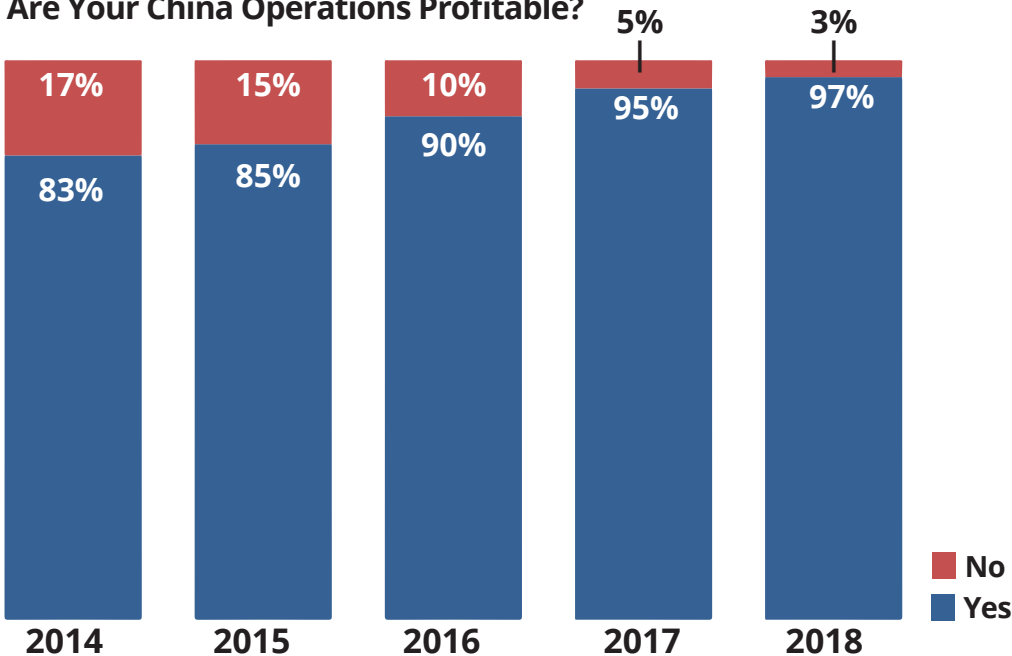
Revenue from China Business in Past Year

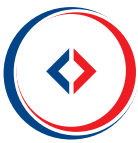


The priority that companies place on China versus other markets is due to its consistency as a revenue driver. The overwhelming majority of US companies report that their China operations are profitable.

The majority of companies also consistently report that revenue from their China businesses increased in the previous year, and most anticipate that revenue will increase in 2018, even in the face of trade tensions.

Are Your China Operations Profitable?



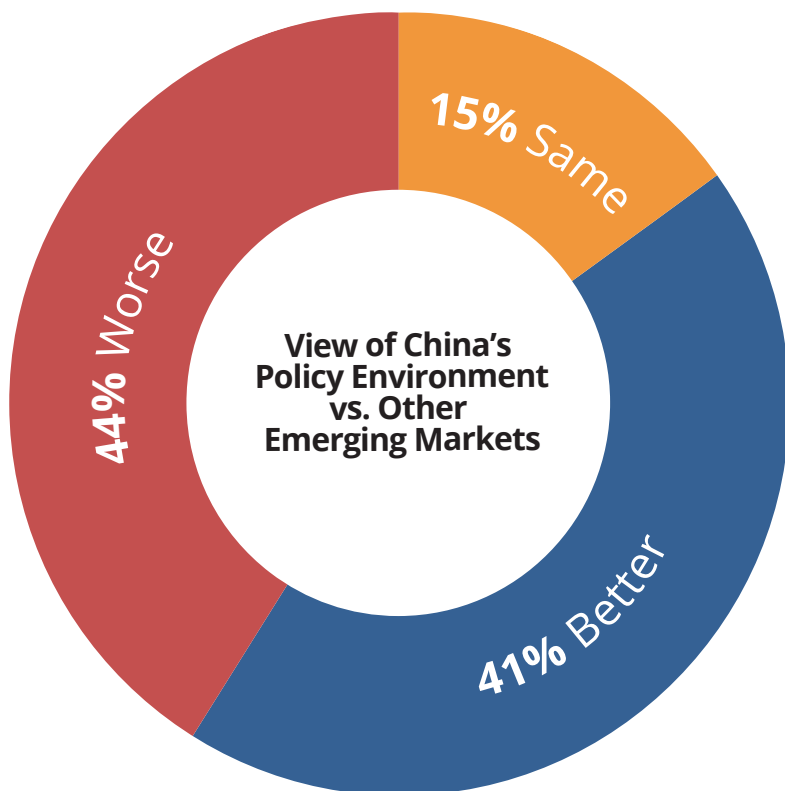
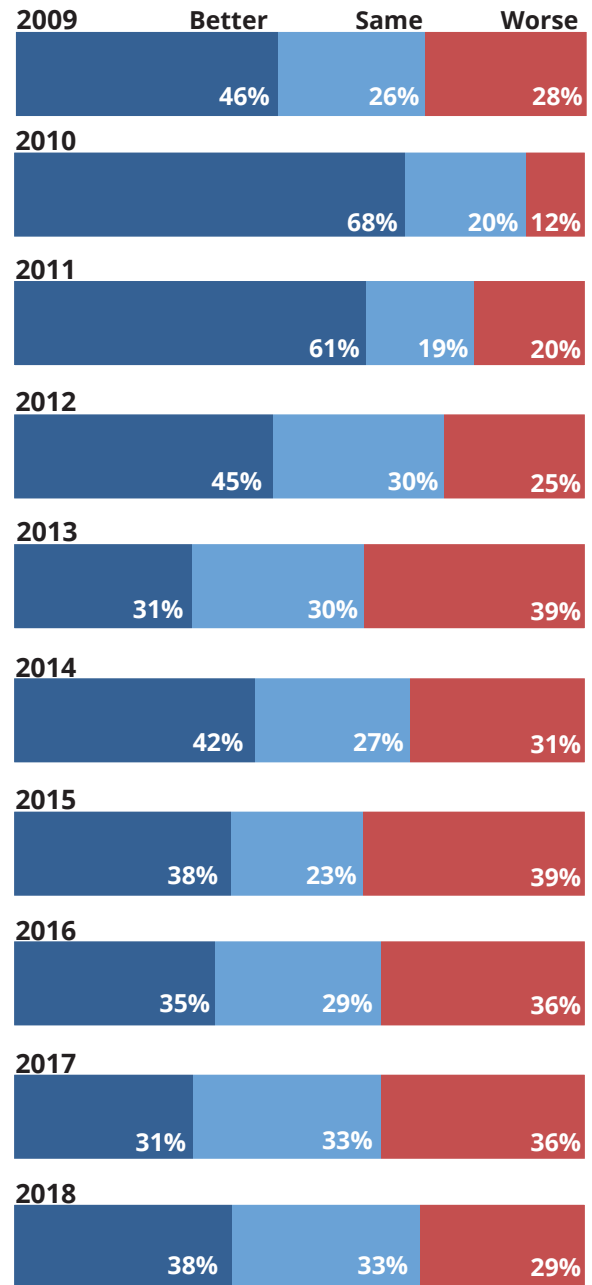


China's government should not take foreign companies' commitment to the market for granted, however. Companies report that revenue from their China businesses increased in the past year, but they also report that profit margins in China no longer consistently outperform overall company operations.

And while less than a quarter of respondents report that China's policy environment has gotten worse in the past year, more than 40 percent view China's policy environment as worse than that of other emerging markets.

If trade tensions begin to affect market access for American companies, or if alternative supply chains become a more effective way for companies to meet their business targets, investments may begin to shift to other markets that face fewer challenges.

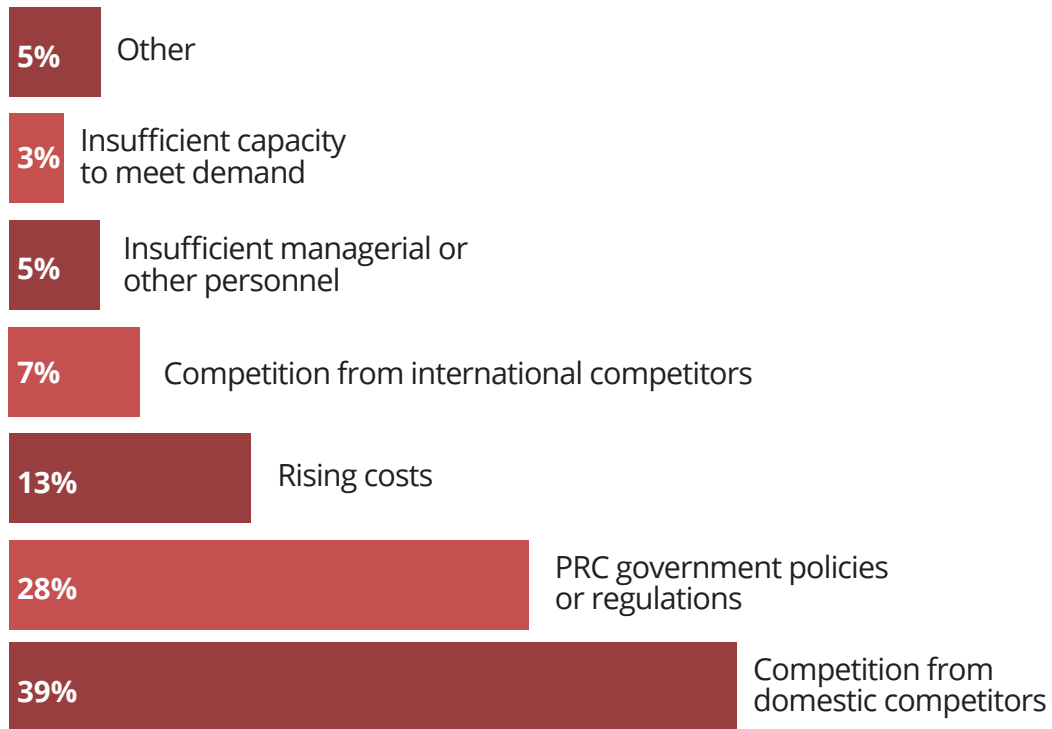
Profit Margin of China-Based Operations Compared to Overall Operations



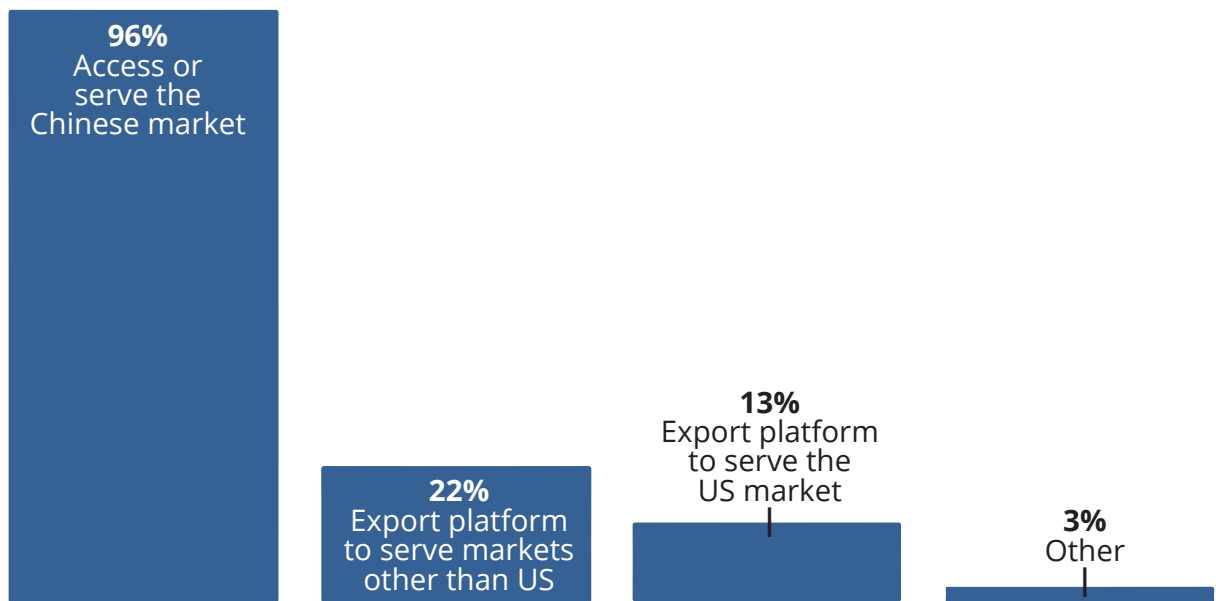


In the meantime, policymakers in both the United States and China should keep in mind why the vast majority of American companies invest in China: to access and compete in China for Chinese customers. Implementation of meaningful economic reforms could help address issues with access and competition, benefiting China's economy and Chinese consumers, and building confidence among companies operating in the market.

Primary Restraint on Increased Profitability



Objectives for Existing and Future Investments in China



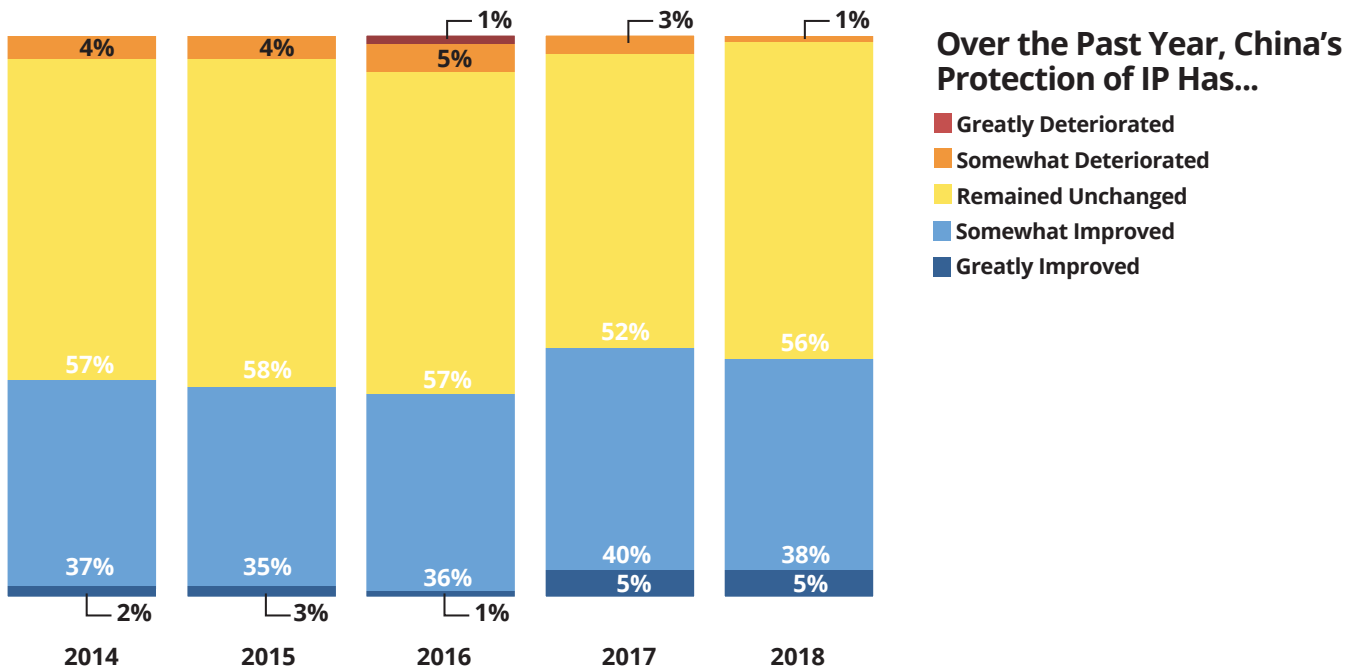
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Intellectual Property Rights

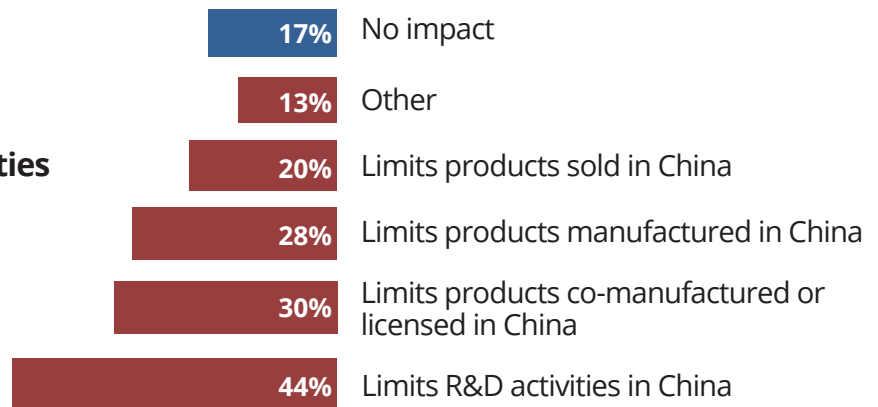
Intellectual property protection and technology transfer policies have received a great deal of attention in the past year due to the United States' Section 301 investigation.

As in previous years, USCBC's 2018 survey finds that most companies report China's IP protection generally remains unchanged from previous years. Enforcement and protection continue to improve, but very slowly, and most companies continue to be concerned about these issues as they consider their operations in China.



Most companies report that their IP concerns curtail what they are willing to do in China. This is yet another lost opportunity for market and economic growth that could be addressed if genuine reforms were implemented. Such changes would also help reduce tensions between China and its major trading partners – something that industry would welcome.

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



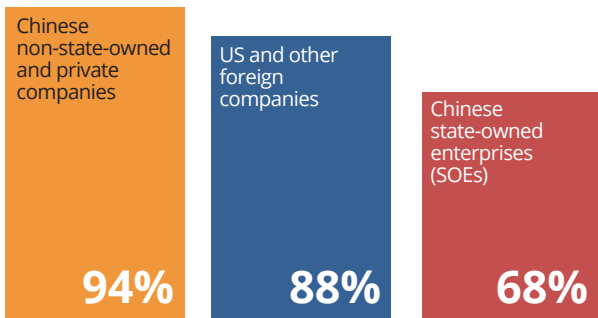
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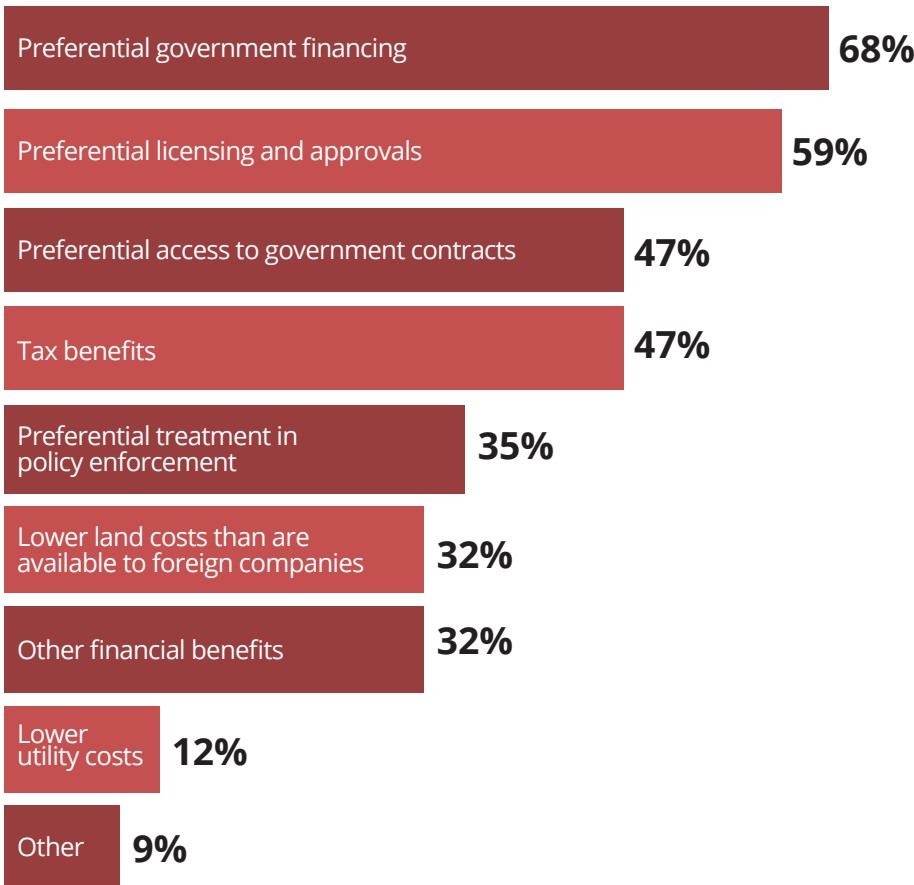
Competition with Chinese Companies

As in previous years, US companies report their top competitors in China are primarily Chinese private companies, followed closely by other foreign companies, though about 70 percent of companies compete with state-owned enterprises (SOEs). Companies report that they suspect or know their SOE competitors are receiving benefits not available to others. Those benefits include preferential access to financing, licensing, and government contracts, as well as tax incentives. Such preferences are not unique to Chinese SOEs, however: almost 70 percent of companies report that their privately owned Chinese competitors get similar benefits unavailable to foreign firms.

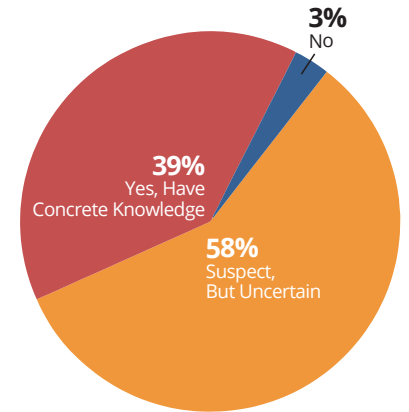
Who Are Your Competitors in China?



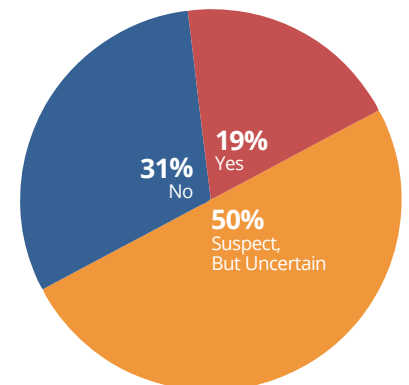
Types of Benefits SOE Competitors Receive



Are State-Owned Competitors Receiving Tangible Benefits?



Are Non-SOE Chinese Competitors Receiving Tangible Benefits?





Methodology

For the last 10 years, USCBC has annually polled its members on their business performance in China and their priority issues. This year's survey was conducted in June 2018 and reflects the input of roughly half of USCBC's 205 member companies. The Top 10 Challenges are calculated on a weighted basis, reflecting rankings by respondents of the most significant issues they deal with as part of doing business in China. The same methodology was used in previous years in order to ensure consistent analysis of the issues.

US- and China-Based Executives

USCBC's 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. Several companies submitted responses reflecting multiple locations of their operations.

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

Cross-Sector Representation

USCBC members who completed the 2018 survey represented a cross-section of US companies doing business in China. Fifty-five percent of respondents represented manufacturing companies, and 63 percent represented service providers. Many respondents' companies are active in both sectors.

Long Experience in China

USCBC member companies have a long history of doing business in China: 73 percent of respondents' companies have been in China for more than 20 years, and 20 percent have been in China for 11 to 20 years.