



US-CHINA BUSINESS COUNCIL

# Member Survey

# 2026



## ABOUT THE US-CHINA BUSINESS COUNCIL

Founded in 1973, the US-China Business Council (USCBC) is a private, nonpartisan, nonprofit association of around 270 American companies that do business with China.

Our membership includes some of the largest and most iconic American brands, in addition to professional services firms and small and medium-sized enterprises. We are headquartered in Washington, DC, and maintain offices in Beijing and Shanghai.

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# Executive Summary

The US-China commercial relationship has continued to evolve since USCBC's last member survey. The United States and China are now in a trade truce set to expire in November, but their commercial and technological competition continues unabated. Across 175 responses to our 2026 Member Survey, the following four lessons emerged.

## Key findings

- **For US companies, China is not optional.** A generation of sophisticated, pressure-tested Chinese companies is going global. These competitors are advantaged by factors unique to China, including scale, local innovation networks, and speed to market. For a resounding 95% of respondents, China operations are somewhat to very important for staying competitive globally. The reasons vary by sector and industry but include US companies applying lessons learned in China to other markets, gaining insight into future competitors, and funding global expansion through profits earned in the country.
- **Tariffs continue to raise costs, boost inflation, and depress sales, exports, and profits.** Despite the detente, the number of companies affected by tariffs (72%) has risen over the last year, and the proportion of companies losing sales due to US and Chinese tariffs has spiked. Companies are only able to absorb some of these costs internally, and 42% are passing some costs downstream. The trade deficit with China may have narrowed, but it has not reinvigorated US manufacturing.
- **US export controls are not calibrated to empower American companies.** While intended to restrict access to critical technologies and inputs, export controls are less effective when Chinese or foreign competitors can readily backfill. Survey data show a growing share of companies reporting lost sales, which is raising alarm bells about US competitiveness. At the same time, China's expanding export controls and counter-sanctions regime are compounding these pressures.
- **American companies need signs that they are still welcome in China.** China's business environment for foreign companies is not improving. The country's support for domestic companies, including through industrial policy and preferential treatment in government procurement, is eroding the gains from formal market access openings. Just half of companies plan to invest in China this year.

# Introduction

In late 2025, American companies in China entered a period of relative stability as successive trade negotiations — ending in a truce the two presidents agreed to in Busan, South Korea — halted the tit-for-tat escalatory cycle that had defined US-China trade relations since March of that year. That stabilization was reinforced in February 2026, when the Supreme Court of the United States struck down the International Emergency Economic Powers Act tariffs, which were only partly replaced under a different tariff regime.

US-China relations remain companies' greatest challenge in the China market, and despite the truce, both governments continue to release new economic security policies. In March, the Office of the US Trade Representative announced two Section 301 investigations into global supply chains, and lawmakers proposed stricter controls on US semiconductor manufacturing equipment exports to China. In April, China's State Council issued Documents 834 and 835, buttressing the country's ability to counter trade restrictions imposed by foreign countries. These policies are placing significant strain on the truce, increasing the odds that the two countries will stumble into another escalatory cycle.

Against this backdrop, the business environment remains challenging for most companies. This year, China's macroeconomy returned as companies' second-biggest challenge.

## Top 10 Challenges

2026

2025

|                                                          |    |
|----------------------------------------------------------|----|
| 1. US-China relations                                    | 1  |
| 2. China's macroeconomy                                  | 5  |
| 3. Tariffs                                               | 2  |
| 4. Export controls, sanctions, and investment screenings | 4  |
| 5. Competition with Chinese companies                    | 3  |
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| 7. IP protection                                         | 10 |
| 8. Overcapacity                                          | 9  |
| 9. Government and SOE procurement policies in China      | 7  |
| 10. Transparency                                         | 12 |

N = 175

The tepid growth environment contrasts with rapid innovation in China. Although competition with Chinese companies fell two places to number five this year, their burgeoning capabilities, combined with the country's industrial and procurement policies, are fueling anxieties for many US companies.

As trade policies tighten and the business environment grows more complex, this year's survey also set out to understand why US companies continue to operate in China. The

answer is neither simple nor uniform — but it carries consequences for US competitiveness.

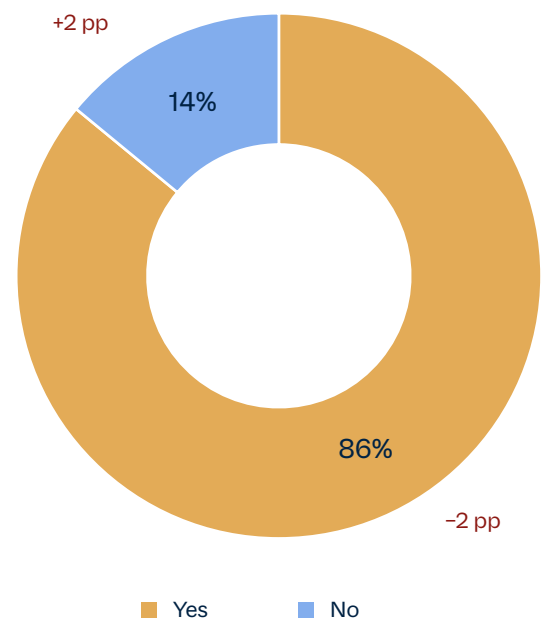
For many, the scale, sophistication, and dynamism of the market is its allure. Likewise, its position as a manufacturing hub makes running global supply chains without a China nexus challenging. China's role as an innovation center is also a deciding factor. These realities should underpin policy decisions in Washington and Beijing for years to come.

## Geopolitics

Tensions between the United States and China cast a long shadow over the business landscape, accounting for three of the top five challenges. Even as the two governments walked back triple-digit tariffs and China placed a one-year suspension on its October 2025 export controls on rare earth elements (REEs), both sides have elevated de-risking, supply chain security, and economic and national security concerns. This has reduced commercial connectivity, with direct bilateral goods trade last year falling to its lowest point since 2009 and US goods exports to China plummeting by \$36.9 billion, or 26%.

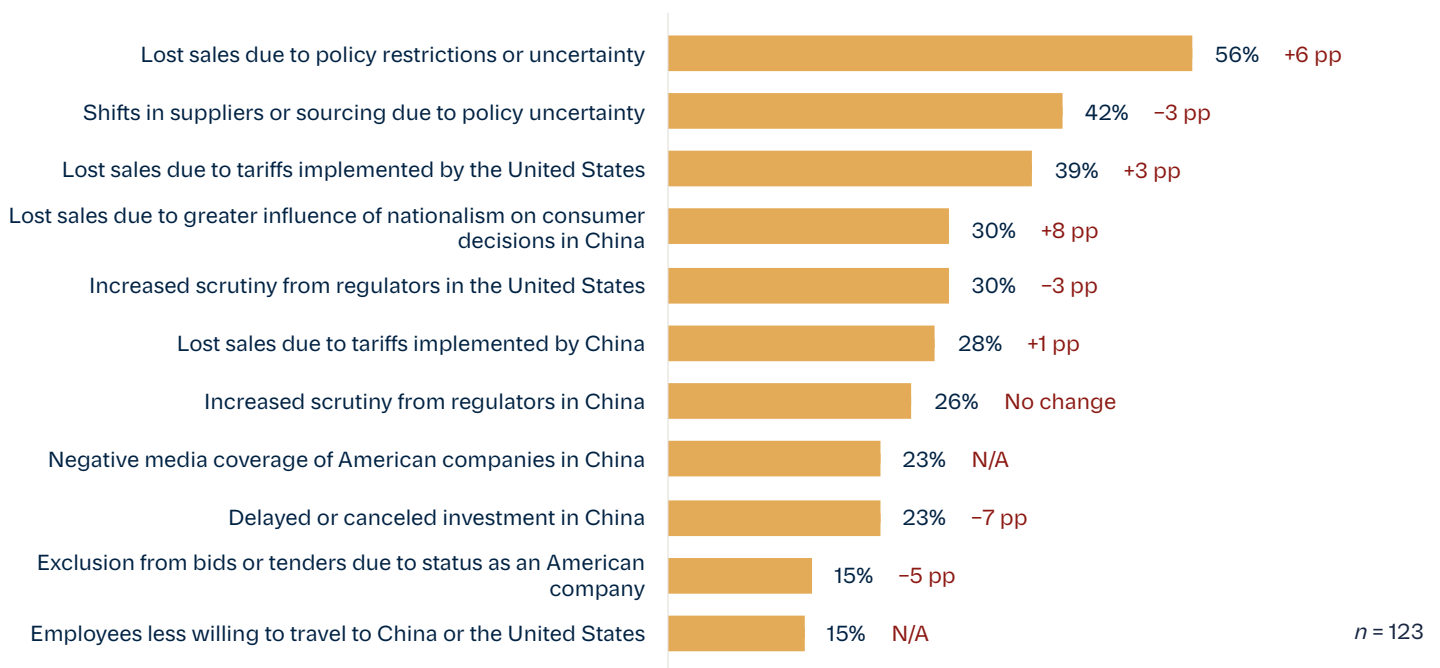
Eighty-six percent of respondents are affected by US-China relations, down slightly from last year, with 84% of affected companies reporting harmful or severely harmful impacts.

Have US-China tensions affected your company?



n = 171

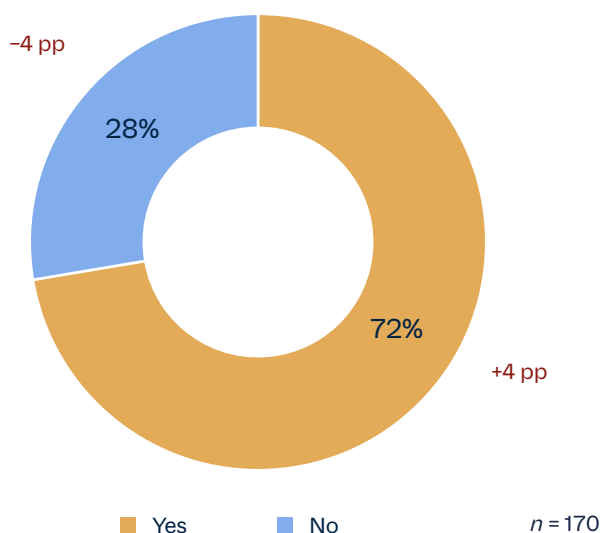
## Impacts of US-China tensions



There are widespread reports of lost sales as Chinese customers, including manufacturers, switch to non-US suppliers because of regulatory, reputational, or domestic political risks. US companies have also cut customer relationships to comply with US regulatory requirements, and the

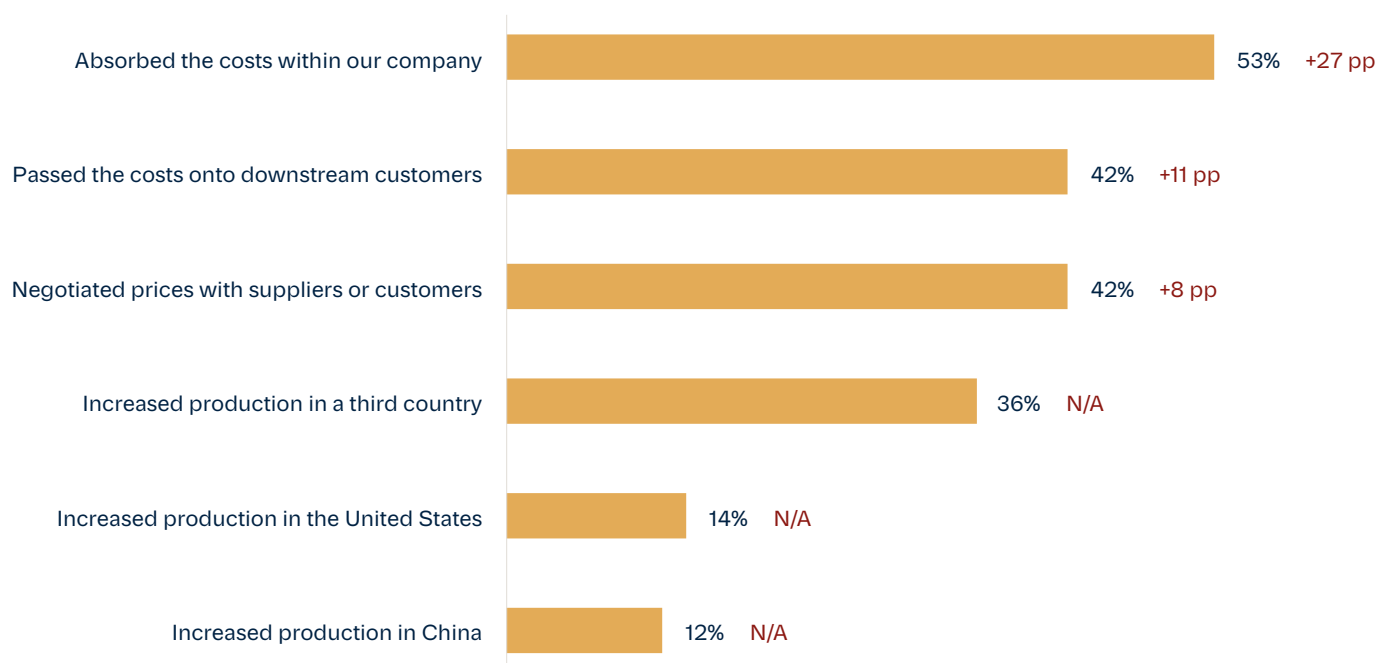
cloud of uncertainty makes it difficult to acquire new ones. Fifty-six percent of respondents have lost sales due to policy restrictions or uncertainty, while 30% cite the growing influence of nationalism on consumer decisions. These customer relationships are difficult to recover once lost.

## Has your company been impacted by tariffs on US-China trade?



Tariffs remain a major source of disruption and have yet to accomplish their stated purpose of reinvigorating American manufacturing. Since Liberation Day, there has been [no meaningful change](#) in the United States' manufacturing capacity or total import dependence. And despite tariff rates stabilizing last May, the percentage of companies impacted by tariffs (72%) has only expanded. Thirty-nine percent of impacted companies have lost sales due to US tariffs, while 28% have lost sales due to Chinese tariffs — both accounts are at their highest since the first trade war. These impacts are particularly common in the industrial and manufacturing sectors, in which over 90% of respondents are affected.

## How has your company responded to higher tariffs?



n = 118

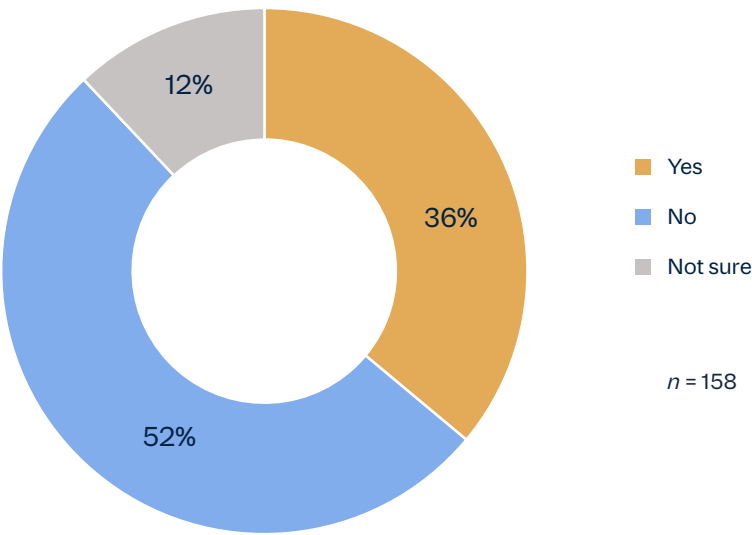
Based on the data, tariffs are driving pricing adjustments more than changes to production location. Those adjustments reach consumers, with the Federal Reserve [estimating](#) that US tariffs levied in 2025, including those on China, raised core goods prices by 3.1% through February 2026.

Most companies are coping through a variety of strategies, including absorbing costs (53%), passing them on to customers (42%), and renegotiating with suppliers (42%). Although 36% have increased production in third countries, far fewer have expanded production in the United States (14%) or China (12%), indicating incremental diversification and no strong reshoring trend.

## China's export controls add to trade tensions

Export controls are the fourth-ranked challenge for the third consecutive year. While the United States has largely paused new restrictions since last year's survey, China has expanded its dual-use export control regime in that time. Most consequential were the April 2025 restrictions on medium and heavy REEs and magnets, which sent shockwaves through US manufacturers' supply chains. Subsequent bilateral talks yielded incremental improvements in REE flows, and China eventually suspended its most extreme controls for one year.

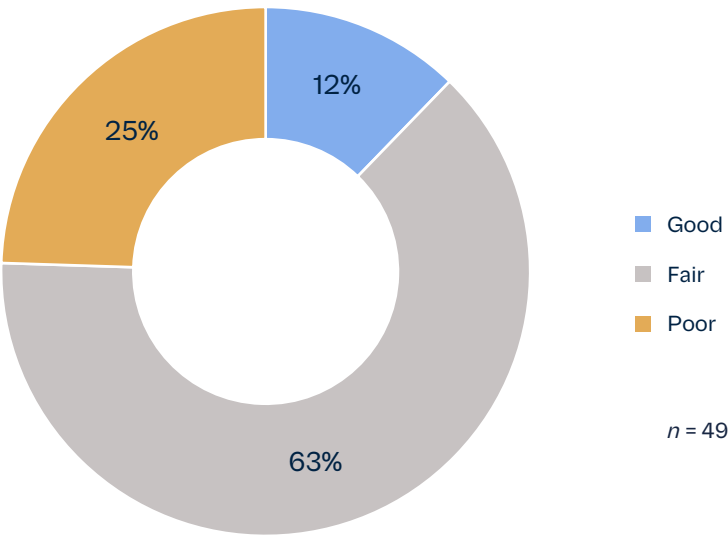
Has your company been impacted by Chinese export controls and sanctions?



Over a third of companies are impacted by Chinese export controls and sanctions, with auto and logistics companies hit the hardest (50%), followed by the industrial and manufacturing (40%) and life sciences (38%) sectors. According to a flash survey

USCBC conducted this year, access to REEs from China remains uneven amid operational challenges, including lengthy and opaque licensing processes, delays, and increasingly complex coordination with suppliers.

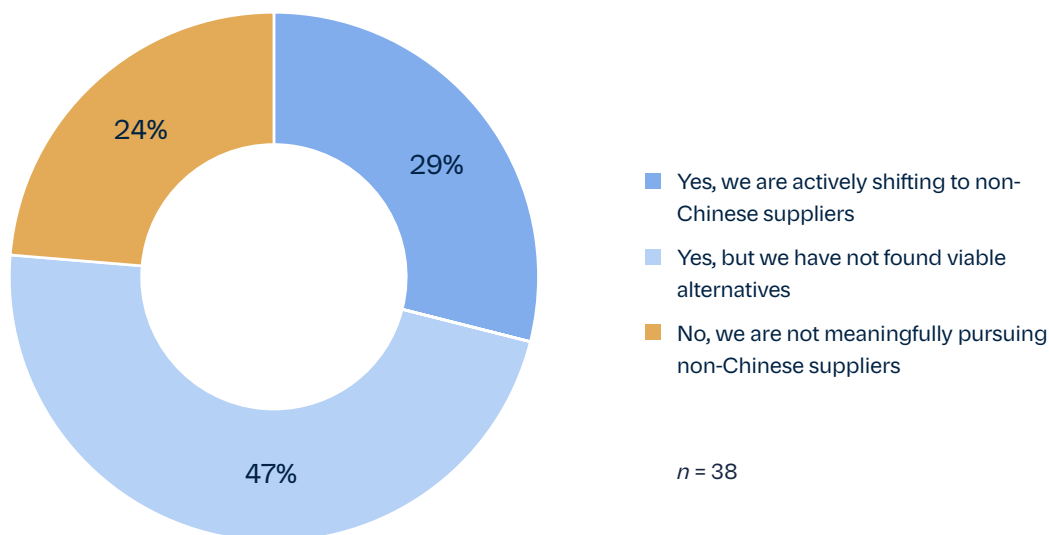
How would you characterize your company's access to Chinese-controlled items today?



Despite China issuing general licenses for recurring exports of some controlled items, progress has been mixed, with some REEs remaining nearly unobtainable. The general licenses are typically valid for one year, are based on historical shipment volumes, and are subject to rigid quarterly caps,

limiting their utility. Most companies rate their access to items subject to Chinese export controls as fair, with a smaller share reporting good access. Media reports suggest there have been severe shortages of certain elements, like yttrium and samarium.

### Is your company working to source REEs or critical minerals from suppliers outside China?



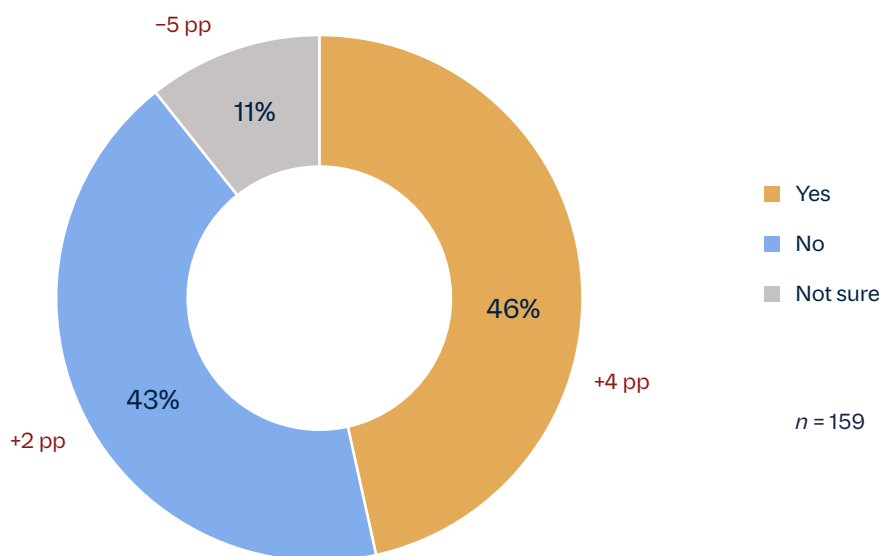
Despite some progress, confidence in longer-term access remains low. Roughly three quarters of respondents are looking for REEs and critical minerals from suppliers outside China. Of those, more than one third are actively shifting to non-Chinese suppliers.

Beijing continues to [prioritize](#) its export control framework, signaling that these measures are here to stay. Absent greater transparency and predictability, any [expansion](#) of export controls will push US firms to build new supply chains where alternatives are technically and commercially viable, though this will take years and require government support.

### US export controls risk ceding ground to Chinese competitors

Meanwhile, US export control policy is sending mixed signals. The Trump administration rescinded the Biden administration's AI Diffusion Rule, replaced it with the more pro-diffusion AI Action Plan, and relaxed restrictions on exports of certain advanced semiconductors. Yet Biden-era controls on semiconductor manufacturing equipment remain in place, and Congress is pressing for stronger export control measures and enforcement. Complicating matters further, license reviews under the Department of Commerce's Bureau of Industry and Security have stalled for several items due to administrative delays, capacity constraints, and internal disagreements over which policy direction to take.

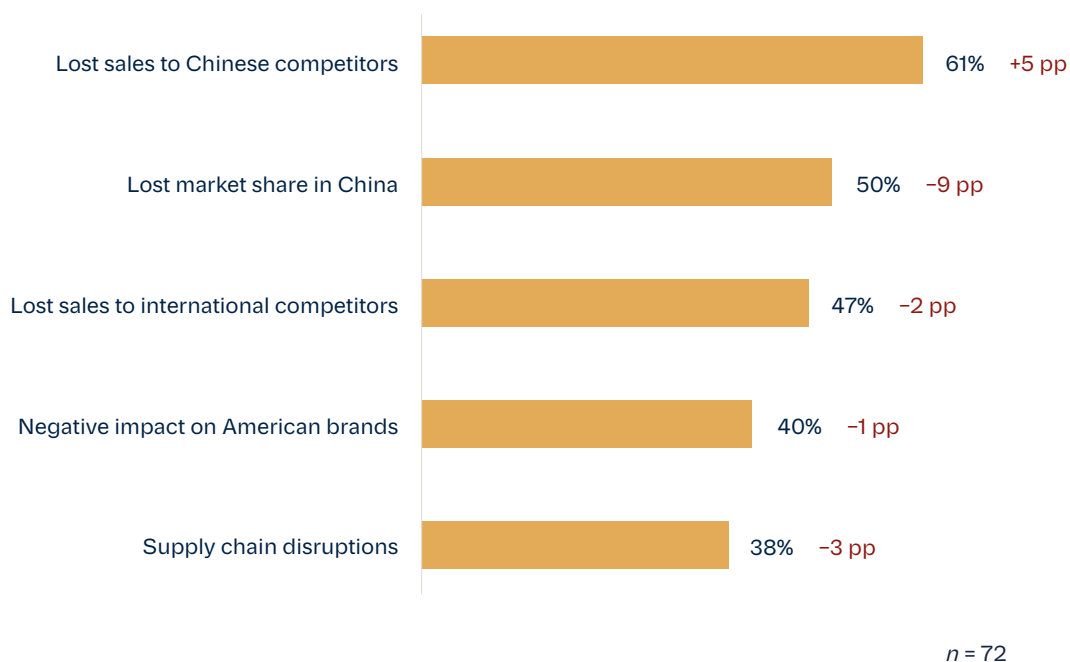
## Has your company been impacted by US export controls and sanctions?



The result is an operating environment that is no easier than before, despite the administration's attempt to recalibrate controls. Nearly half of respondents are impacted by US export controls

and sanctions, a share that has grown year over year, suggesting that export control impacts are spreading beyond the semiconductor industry.

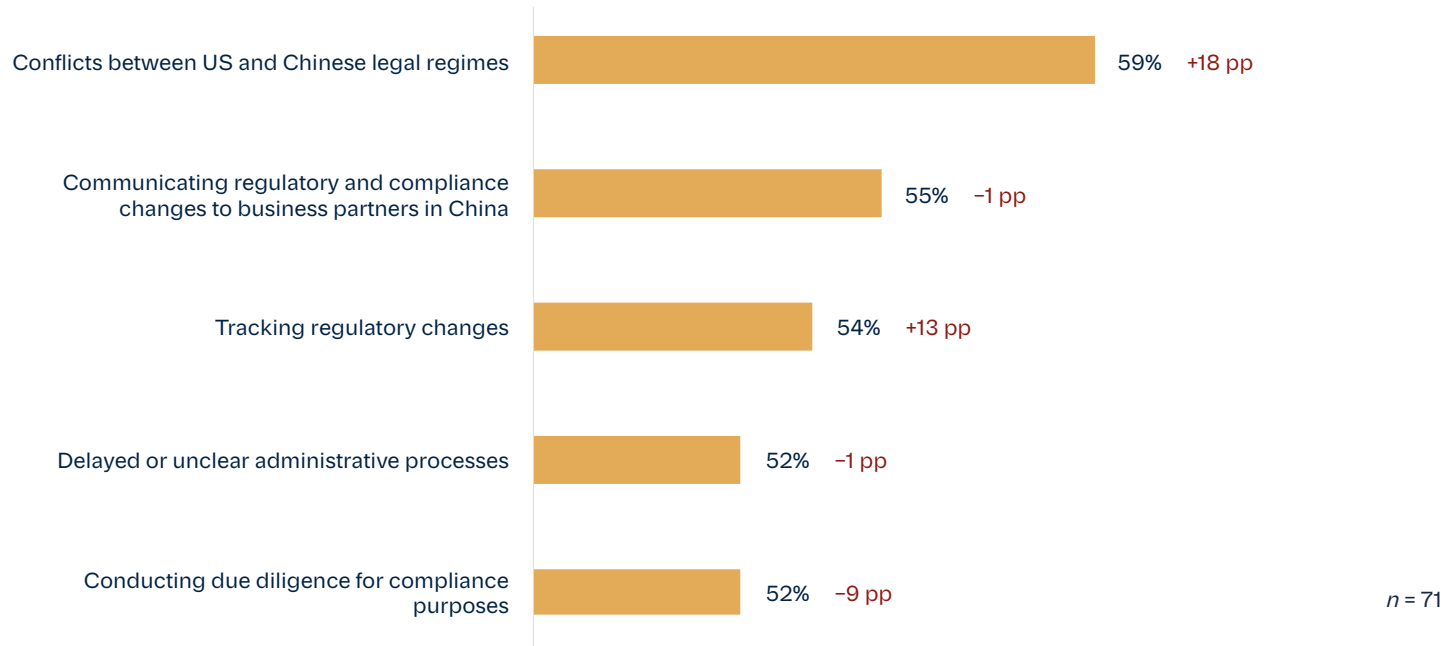
## Main impacts of export controls



Survey data confirm that export controls are failing at their stated objective of denying China access to US technologies. Instead, they are forcing buyers to go elsewhere. Sixty-one percent of affected respondents have lost sales to Chinese competitors, up five percentage points from last year, and 47% have lost sales to international competitors. The trend is also borne out in official data. In 2025, China’s direct imports of US chip-making equipment [fell](#) more than 34%, while

imports from Singapore and Malaysia surged and Japanese and Dutch suppliers made gains. Overall, half of respondents have lost market share in China due to US export controls, a punishingly high figure. Chinese firms’ technological advancements position them for greater market share unless US export control policy is recalibrated and coordinated with partners who also play a role in the semiconductor supply chain.

Main compliance challenges of US export controls



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As competitive pressures mount, companies are navigating an ever more complex compliance environment. These challenges are driven by conflicts between the US and Chinese legal regimes, cited by nearly 60% of respondents and up 18 percentage points from last year. The increase reflects two compounding pressures: sustained uncertainty over the direction of US export controls and China's expansion of economic security policies explicitly designed to counter them.

China once carefully avoided forcing companies into lose-lose compliance conflicts — this is no longer the case. The country has built an extensive countermeasures regime, including recent updates to the Anti-Foreign Sanctions Law and the Foreign Trade Law and an antidiscrimination investigation into US semiconductor policies.

Since our survey closed, compliance risks have grown. In April, the State Council issued new economic security regulations (Documents 834 and 835) that empower the authorities to monitor, intervene, and impose measures in response to perceived supply chain risks and pave the way for investigations, restrictions, and countermeasures against multinationals that comply with foreign export control laws. On May 2, China issued a blocking order to prohibit compliance with US sanctions that targeted five Chinese oil refiners, marking its first concrete use of this tool to counter foreign measures and setting up a clear conflict-of-laws risk.

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China once carefully avoided forcing companies into lose-lose compliance conflicts — this is no longer the case.

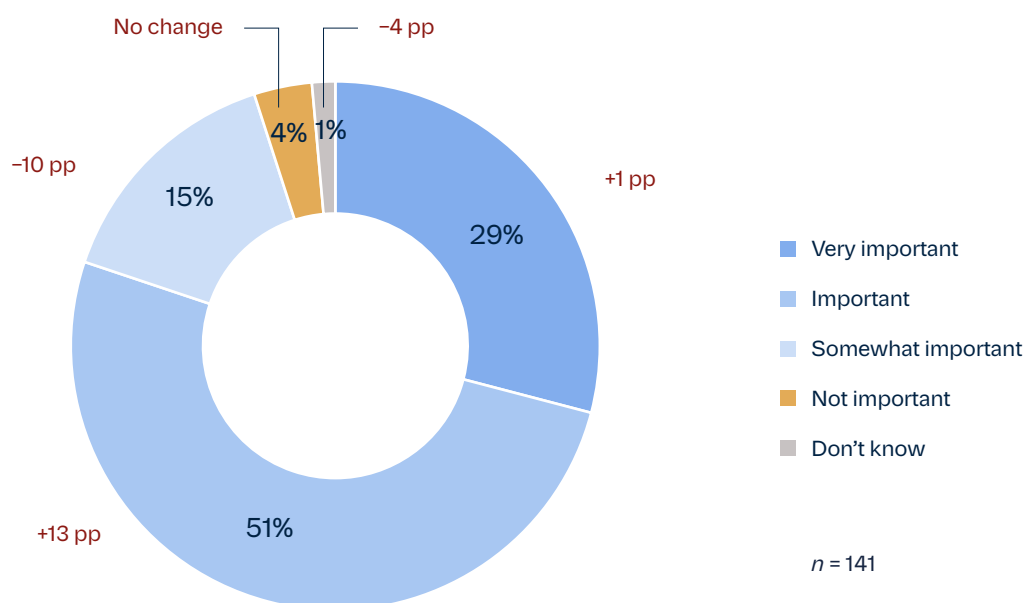
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# Innovation and Competitiveness

Despite geopolitical and regulatory challenges, American companies are not leaving China. The market remains important not only for scale but also for being a multifaceted source of global competitiveness for US firms. Internationally, companies are bracing for the arrival of Chinese

firms with skills and technologies forged in the fast-paced, sharp-elbowed Chinese market. This has led to one conclusion: in a fiercely contested global marketplace, companies need to pair their expertise and technology with the speed and efficiency of the Chinese ecosystem to remain competitive.

## China's importance to your company's global competitiveness

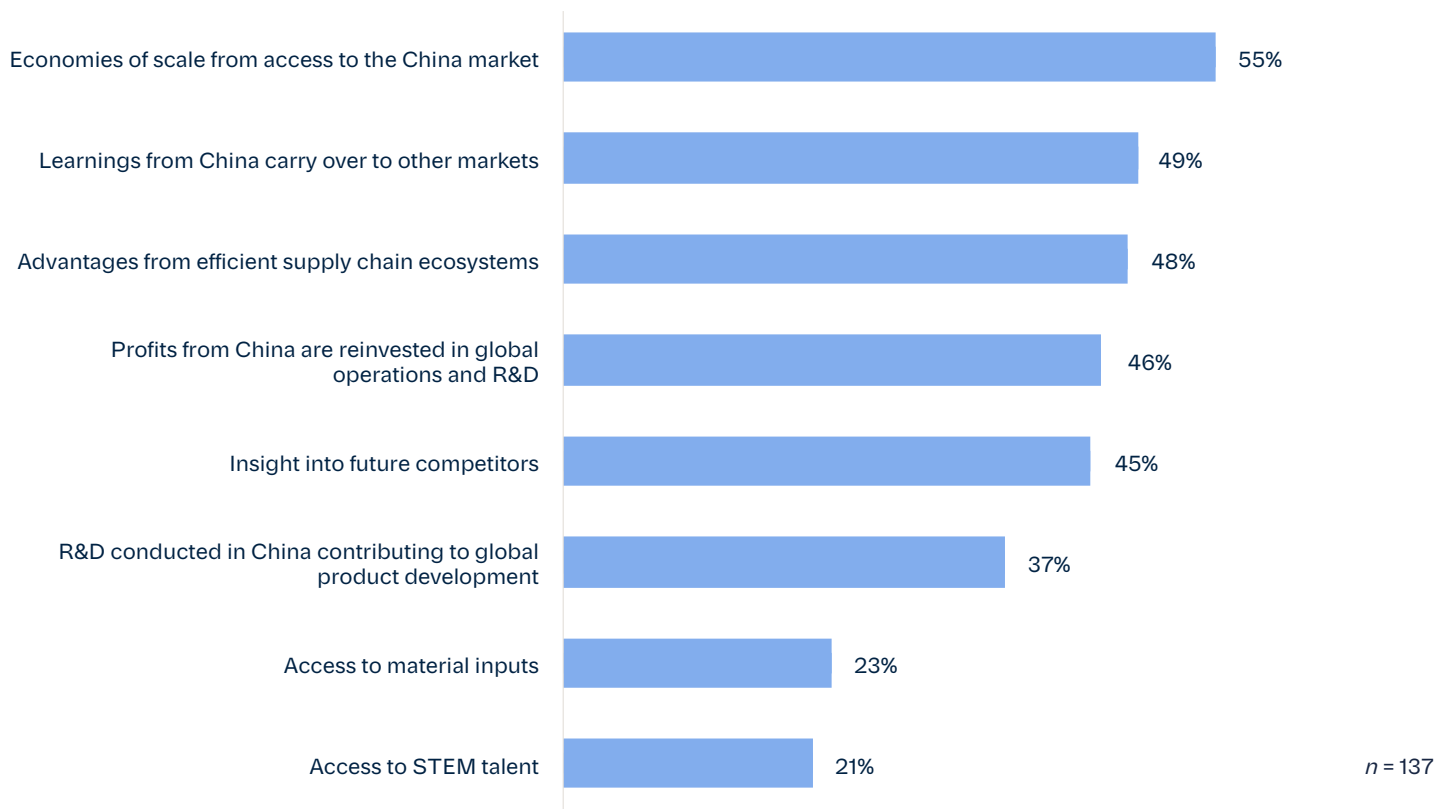


The percentage of companies that consider China to be very important or important to their global competitiveness has rebounded to 80%, up from 66% in 2025. This resurgence reflects China's position as a manufacturing powerhouse, consumption market, and test bed for new technologies and cutting-edge firms. Compounding these benefits are streamlined supply chain ecosystems and a growing capacity for world-class research and development (R&D).

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Internationally, companies are bracing for the arrival of Chinese firms with skills and technologies forged in the fast-paced, sharp-elbowed Chinese market.

## How does your China presence make your company more globally competitive?



Given the size and growth of China's consumer and industrial markets, most respondents (55%) unsurprisingly find that being in China is necessary to developing the economies of scale needed for global competitiveness. Likewise, the efficiencies gained from China's massive, vertically integrated manufacturing ecosystem — not yet replicable elsewhere — rank highly (48%). But with China ascending the technological value chain, other factors also rank highly and will grow in importance.

Almost half of companies (49%) find that lessons learned in China can be applied in other markets. China has become a boxing gym for Western companies — a place where only speed, endurance, and footwork can prepare them for less brand loyalty, greater cost pressure, faster product cycles,

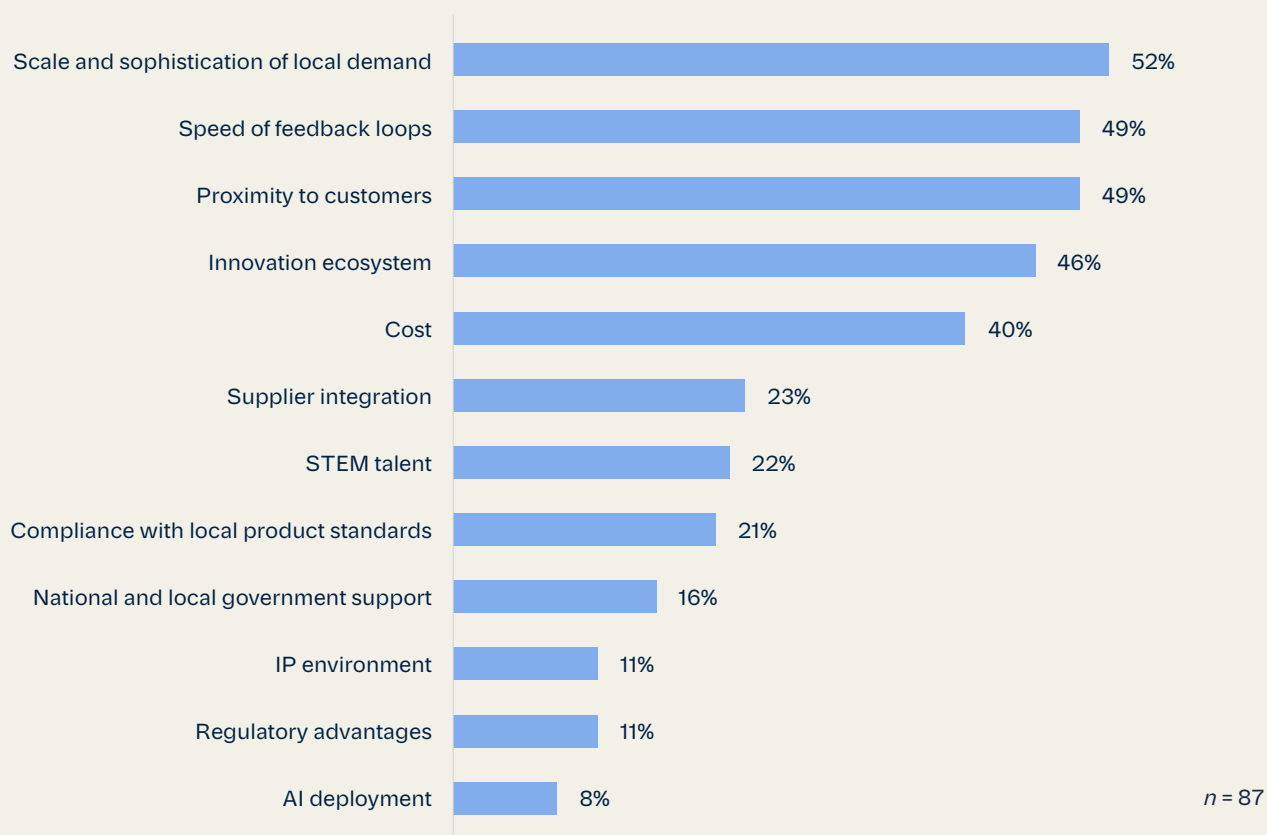
and ceaseless technological innovation. Competing with Chinese companies in their domestic market not only hones the skills and insights needed (45%) to contend with them in overseas markets but also sharpens capabilities against other battle-tested foreign competitors.

Another increasingly important factor is the role that R&D conducted in China plays in global product development (37%). With R&D or engineering centers in China often running at lower cost and feeding off a different ecosystem of ideas and innovations, they are now producing intellectual property (IP) that is being absorbed into global and US product portfolios. Similarly, collaborative supply chain relationships are creating process improvements that are applicable worldwide.

## R&D FACTORS UNIQUE TO CHINA

Companies overwhelmingly point to a set of interconnected, China-specific factors that drive their R&D in China. First is the scale and sophistication of local demand (52%), with Chinese consumers often more discerning than their Western counterparts. Tied for second are the speed of feedback loops (49%), a market feature in which social media and marketing tools are more entwined and prone to disruption, and proximity to customers (49%). The latter has two elements: digital proximity due to China's sophisticated e-commerce and business-to-business platforms and physical proximity to a market with hundreds of large, densely populated cities.

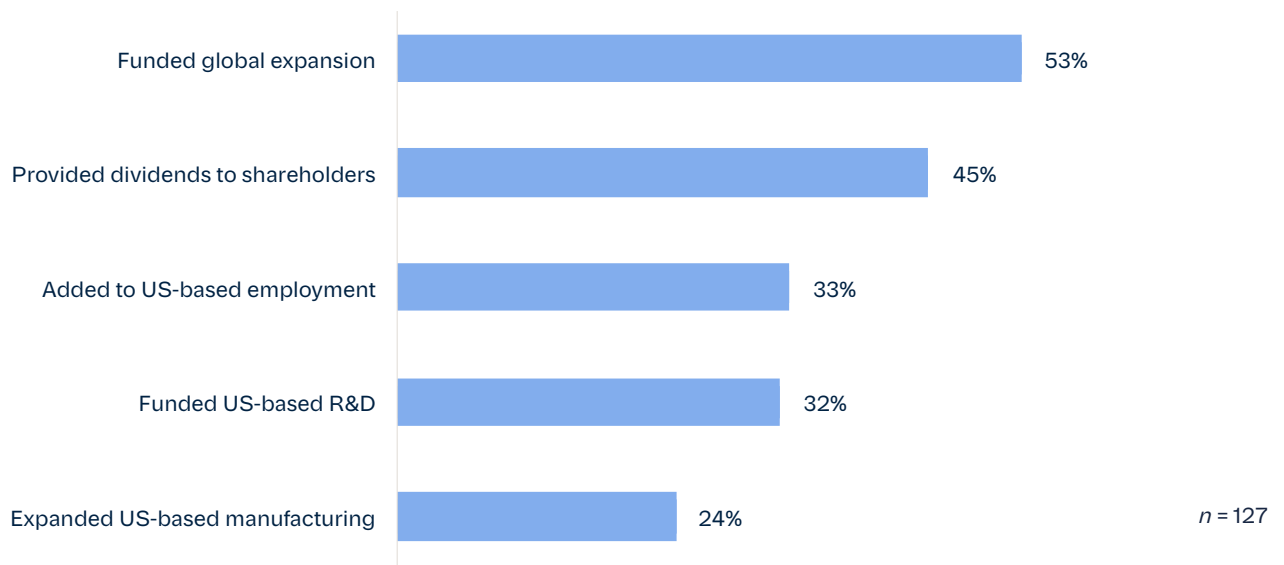
### What factors drive your R&D efforts in China?



Almost as important is the innovation ecosystem (46%), with its ability to develop and prototype new products and designs. This result underscores that researching and developing products and services for a market as fast paced as China cannot be left to teams stationed outside the country.

Government support and regulatory advantages are among the least-cited draws, rebutting the narrative that subsidies or other support measures are common lures for American companies to establish R&D operations in China. Despite the Chinese government's prioritization of AI deployment across its manufacturing ecosystem, AI is not currently a driver for American R&D activity in the country.

## How have your China-based operations benefited your US operations?



US companies have long benefited from China-based operations through lower production costs, affordable inputs, and access to China's manufacturing ecosystem. As most companies' China operations now primarily serve the domestic market, companies are also capturing new benefits that flow back to headquarters and global operations.

These gains are core for many companies, with over half of respondents (53%) using earnings from their China-based operations to fund their global expansion. Without that function, US companies would struggle to underwrite new operations abroad,

ceding market share to European and Chinese companies whose overseas expansion is similarly China funded.

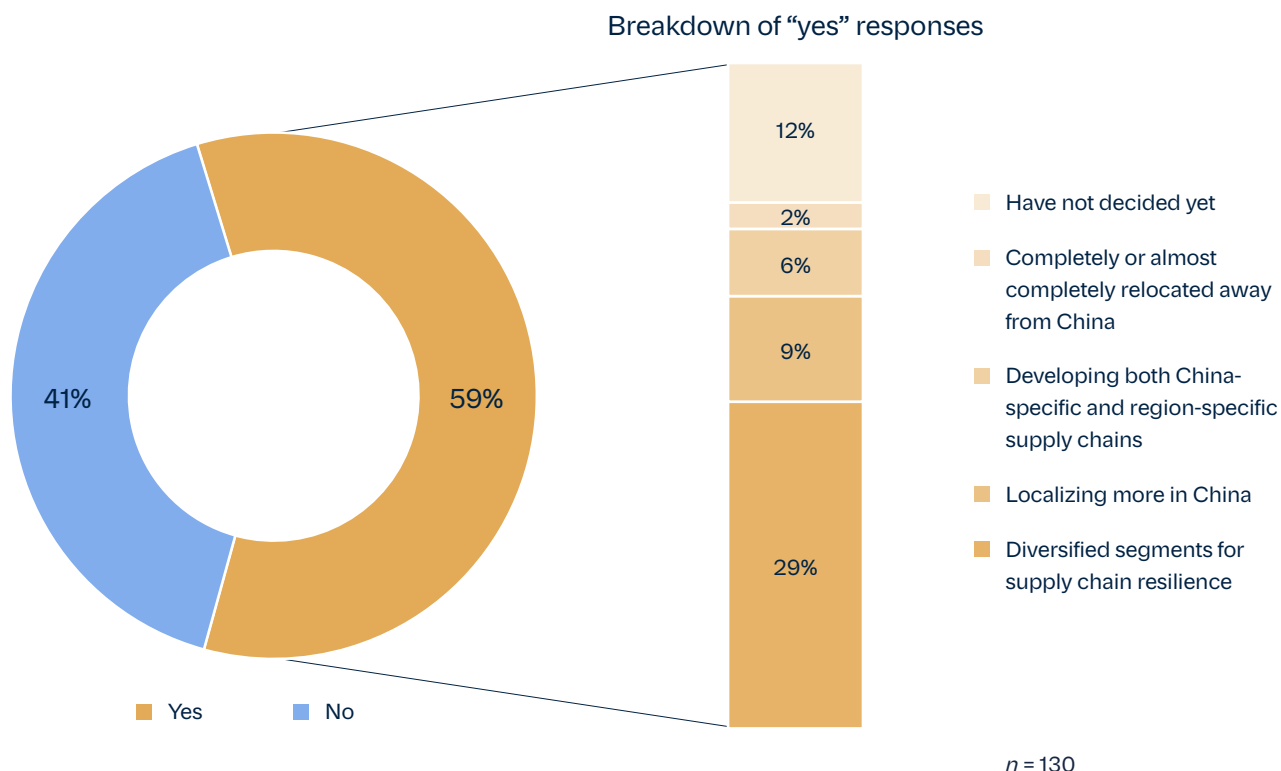
Counter to a common narrative, 33% of respondents say their China operations have added to US-based jobs. Many roles are high earning, with 32% of companies reporting that China operations fund US-based R&D. American citizens benefit too: 45% of companies are repatriating China-earned dividends, extending to shareholders and pension funds a benefit long provided by US company operations in Europe and other international markets.

# Investment and Supply Chains

Reflecting China's central role in global operations, member companies continue to leverage its supply chains for global and China-based production and operations. While tariffs, export controls, and rising political risks have driven some diversification, these

shifts are incremental and vary by industry. This is largely because companies struggle to balance the benefits of China's supply chains with rising tariff costs and the need to maintain market access in both China and the United States.

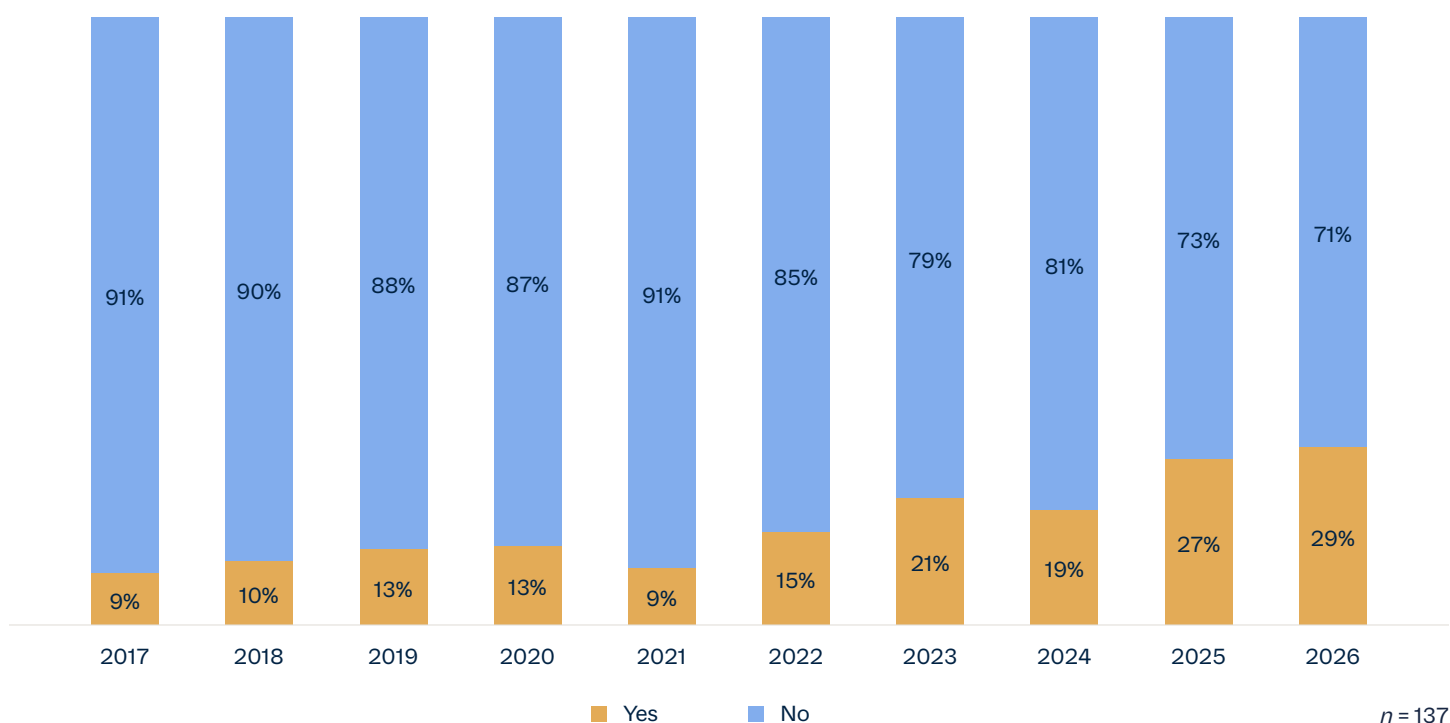
## Is your company reviewing its supply chains in China?



Compared with last year, a larger share of companies is reassessing supply chains (59%), with roughly a third investing in production outside of China, driven primarily by a need to strengthen supply chain resilience. Some companies are deepening localization in China or developing China- and region-specific supply chains, while others are deferring the decision. China's export controls on REEs and other critical minerals may also be forcing companies to adapt.

At the same time, a larger share than last year has no near-term plans to review their supply chains (41%). The uptick in companies not revising supply chain strategies may reflect confidence that tariff rates have stabilized or reflect that companies have already reviewed their strategies and are now focused on implementing them.

## Has your company moved or does it plan to move any operations out of China?



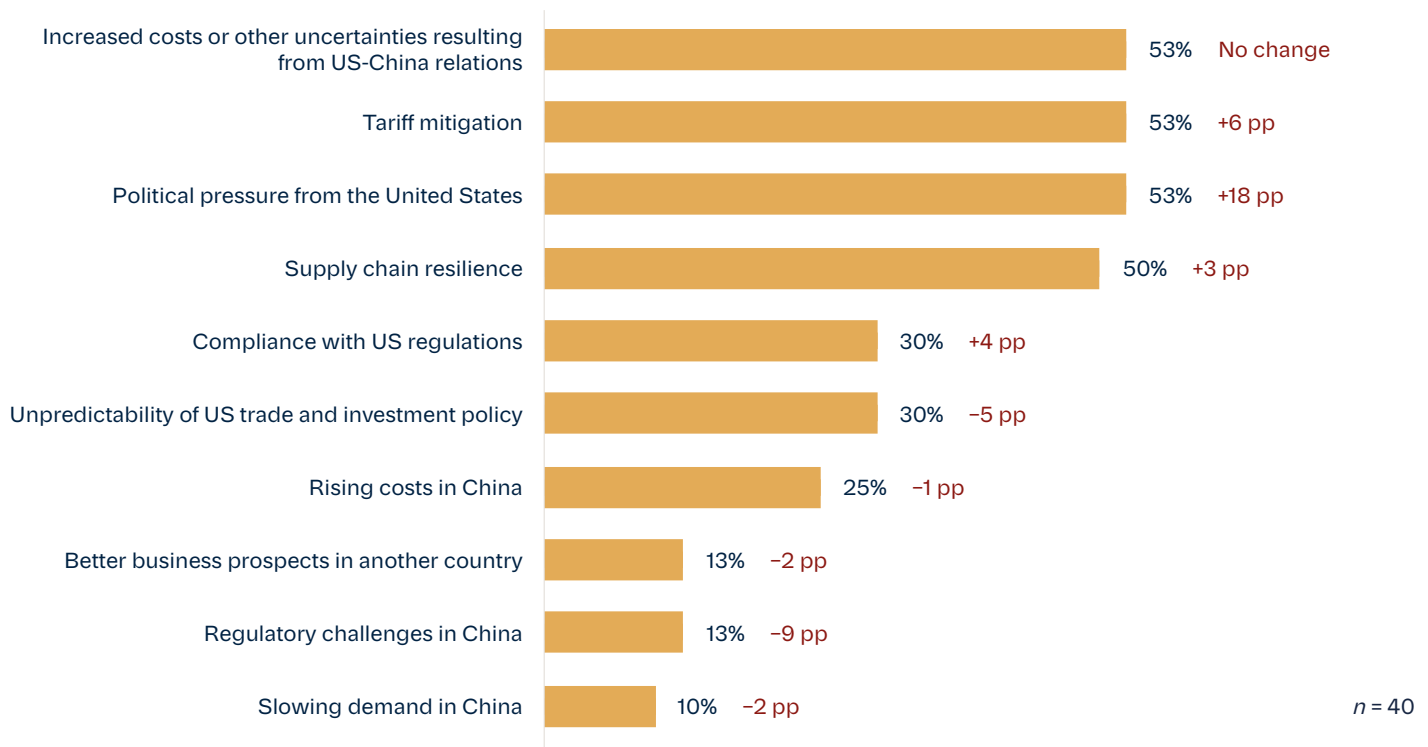
The increase in companies diversifying segments of their supply chain corresponds with a record-high share of companies that have moved or plan to move at least some operations outside China (29%). This is a threefold increase from 2021, when

production facilities and transport hubs were still reeling from COVID-19 shocks, underscoring the steady reconfiguration of China footprints over the past five years.

## SUPPLY CHAIN STRATEGIES: INDUSTRY BREAKDOWN

The technology sector leads in relocating operations outside China (57%), yet half still plan to invest in the market this year. This apparent contradiction reflects the sector's continued reliance on Chinese R&D contributions to global product development (78%) and suggests companies are adapting their China presence to capture innovation capacity while managing risk and costs. Other sectors show far less movement, with just 10% of life sciences companies and 7% of professional services firms reporting intentions to relocate. While industrial and manufacturing firms report the highest rate of supply chain reassessment (75%), few are exiting, with only 20% indicating plans to relocate some operations. The majority (72%) cites global competitive advantages from China-based supply chains. Adjustments remain incremental, focused on diversification (25%) or localization (21%).

### Reasons for moving operations outside China



Relocation is driven primarily by external pressures rather than economic or regulatory conditions in China. Alongside tariff mitigation and supply chain resilience, more companies report political pressure from the United States (53%) and compliance with US regulations (30%) as key drivers of diversification. The past year has seen heightened congressional scrutiny of US

operations in China and new supply chain security measures, including provisions of the BIOSECURE Act incorporated into the 2026 National Defense Authorization Act. The increase in companies citing US political pressure (+18 pp) suggests reputational and regulatory risks are weighing more heavily on firms operating in China amid a rise in public, media, and official criticism.

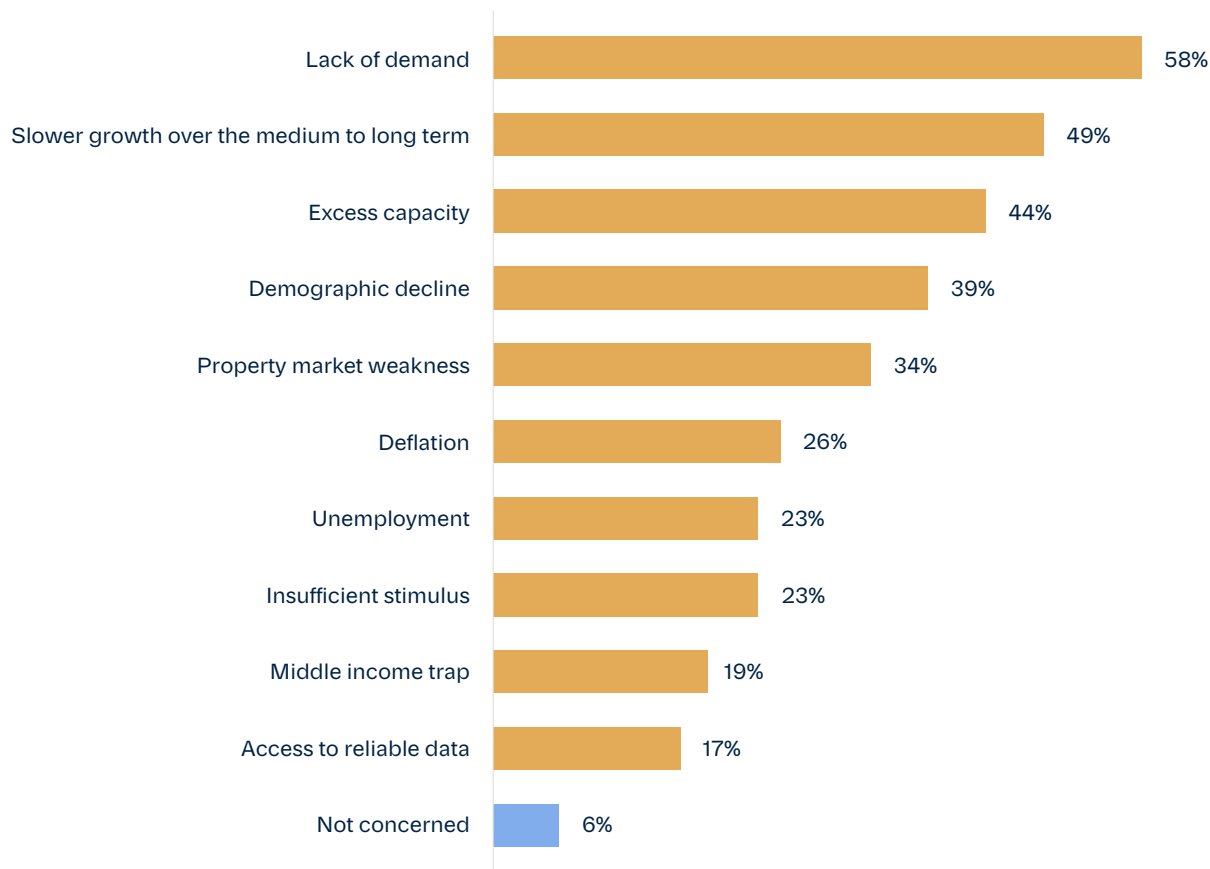
# China's Macroeconomy

China's prolonged economic malaise is weighing on companies as well, pushing macroeconomic conditions to the number-two challenge for the second time in three years, with 94% of respondents reporting concerns. While China announced that it met its 5% growth target in 2025, structural headwinds persist: deflation continues, producer prices fell for over 40 consecutive months, excess capacity remains entrenched, and a four-year housing slump is suppressing consumer confidence. The government's emphasis on high-quality growth, industrial upgrading, and supply chain security over the underlying causes of weak demand has raised questions about its commitment to a consumption-led rebound.

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While China announced that it met its 5% growth target in 2025, structural headwinds persist.

## Primary concerns about China's economy



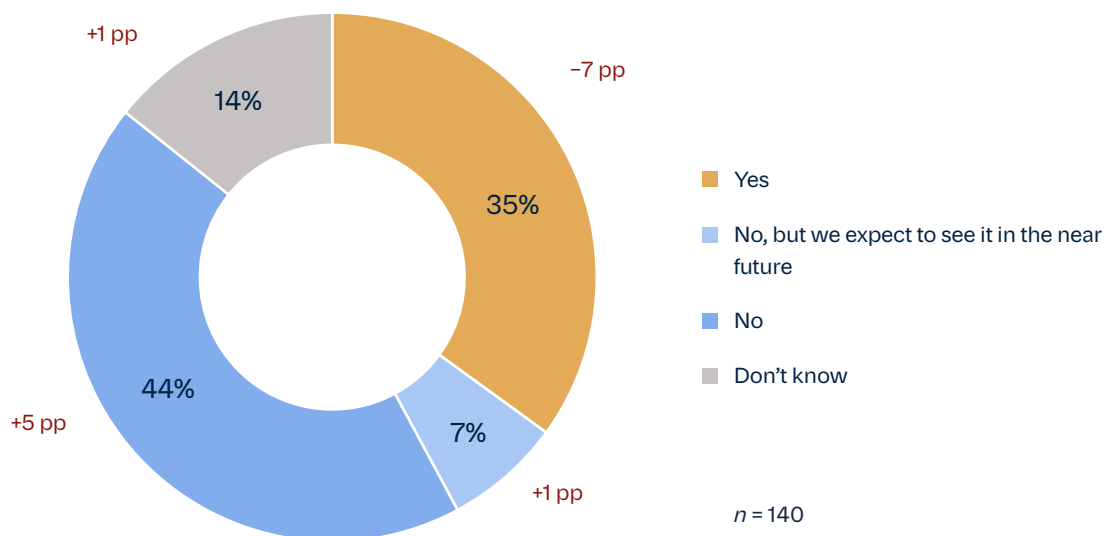
n = 137

Lack of demand remains the top concern for 58% of respondents, underscoring persistent consumption weakness and a constrained growth environment. Chinese policymakers have sought to boost consumption, but the impact of their efforts has been limited: last year, [consumption](#) accounted for 52% of GDP growth, up from 45% in 2024 but still below pre-pandemic levels, and the flagship consumer trade-in subsidy programs generated consumer spending equal to just 5% of total [retail sales](#). Recent policy signals, including readouts from the Central Economic Work Conference and National People's Conference, suggest Beijing

remains relatively unconcerned about near-term demand weakness.

Confidence in a sustained economic turnaround is low, with nearly half of respondents concerned about medium- to long-term growth (49%). Demographic decline, property-related wealth effects, and, to a lesser extent, unemployment also factor into private sector sentiment. Few companies cite insufficient stimulus as a top concern, indicating they see China's challenges as structural rather than cyclical.

### Has your company been affected by overcapacity in the past year?



Excess capacity is also major concern, eighth among the top 10 challenges. Forty-two percent of respondents report current or expected impacts from overcapacity, a significant but smaller share compared with last year. Excess capacity still drags on financial performance. Of those impacted, 70% report cutting prices, a slight improvement from 81% last year.

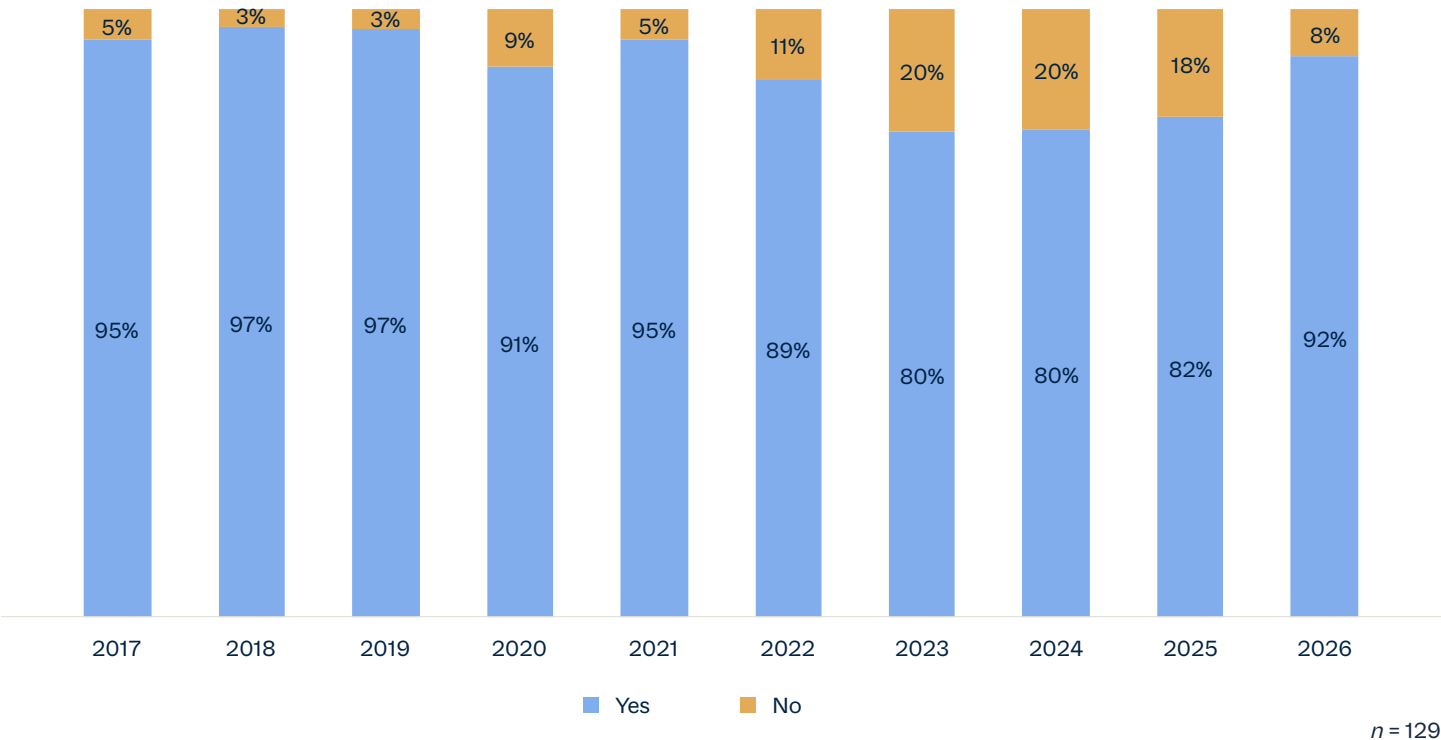
The impacts of overcapacity are most pronounced among industrial and manufacturing (72%) and automotive and logistics (63%) companies. Larger companies earning over \$1 billion in annual China revenue are less likely to be affected (36%), likely a function of their pricing power and ability to negotiate lower input prices with suppliers.

Profitability rebounds, lifting business outlook

Near unanimous concern about the economy contrasts with improving outlooks on business in China, driven by a rebound in revenue and profits. In fiscal year 2025, fewer firms reported revenue declines than the year before, and nearly three quarters posted stable or higher revenues,

likely reflecting demand resilience in certain segments, easing price pressures, and lower tariff rate volatility, particularly in the second half of the year. This improvement is shaping near-term growth expectations: 75% of companies anticipating revenue growth this year already reported revenue growth in 2025.

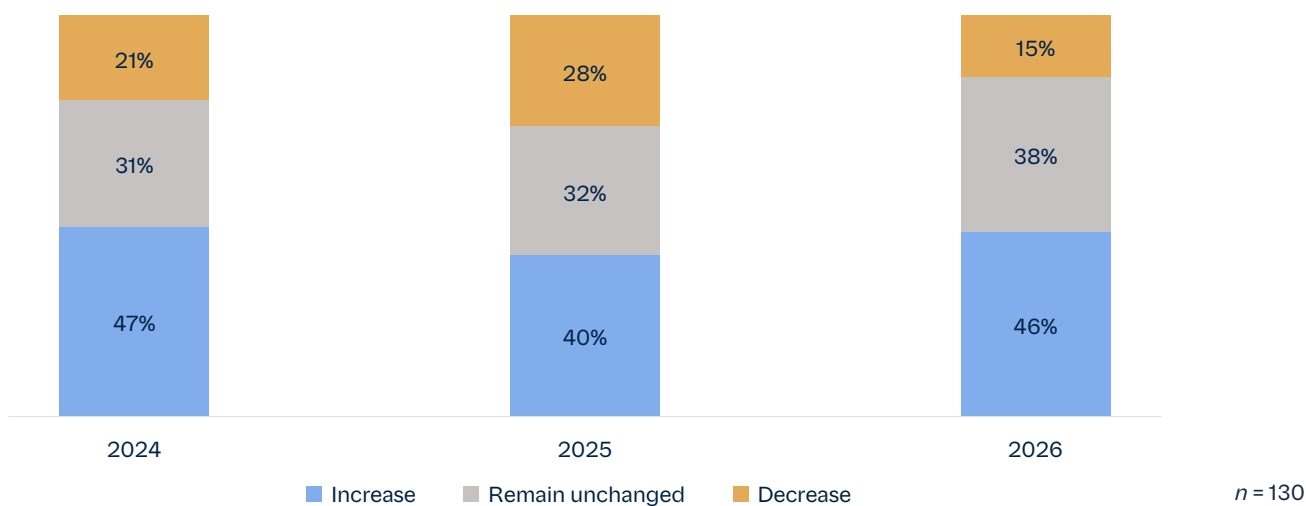
Were your China operations profitable last year?



Improving revenue boosted profits too. In this year’s survey, 92% of respondents report profitability, up 10 percentage points from last year and the highest proportion since 2021. Disciplined

cost control measures, targeted marketing efforts to differentiate offerings, or more selective use of promotions to mitigate impacts from falling prices could also explain the rebound.

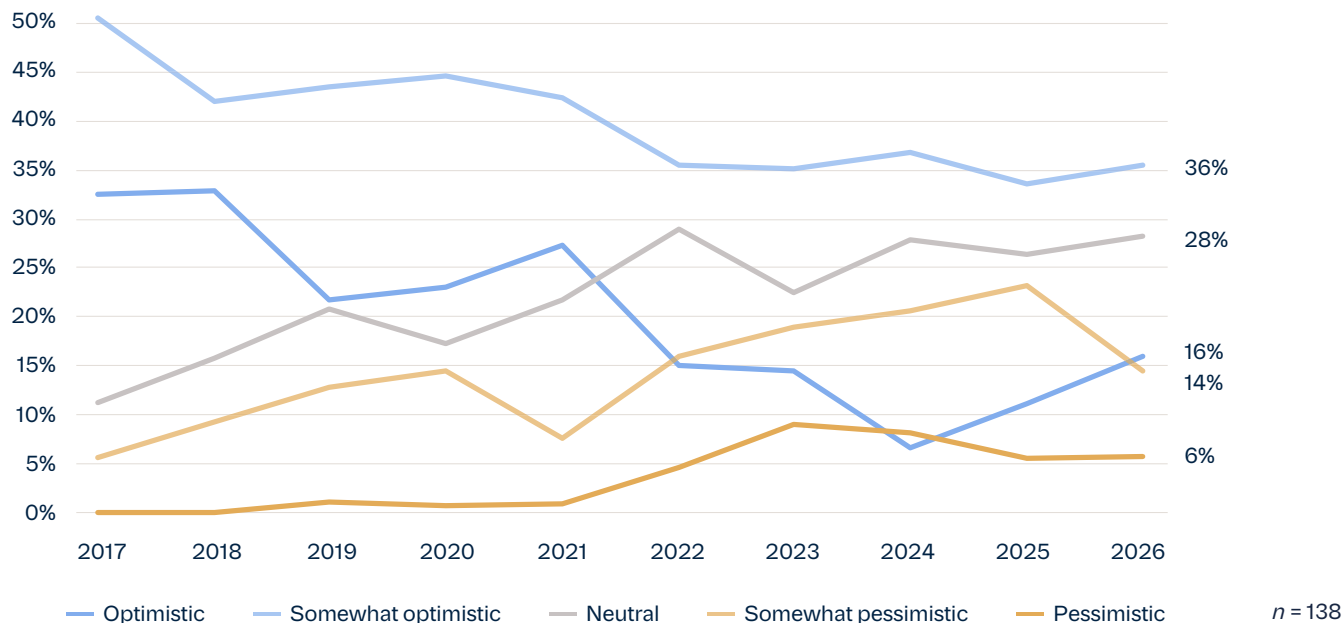
## You anticipate that China revenue in 2026 will...



Stronger business performance in 2025 seems to have sparked more positive near-term expectations. Eighty-four percent of respondents expect

stable or higher revenues in 2026, up from 72% last year. Anticipation of a stable tariff environment may also play into rising expectations.

## Five-year outlook on business in China



As profitability and revenue projections improve, longer-term business outlooks are also rebounding. Over half of respondents report an optimistic or somewhat optimistic five-year outlook, the highest level since 2021. While optimism is recovering

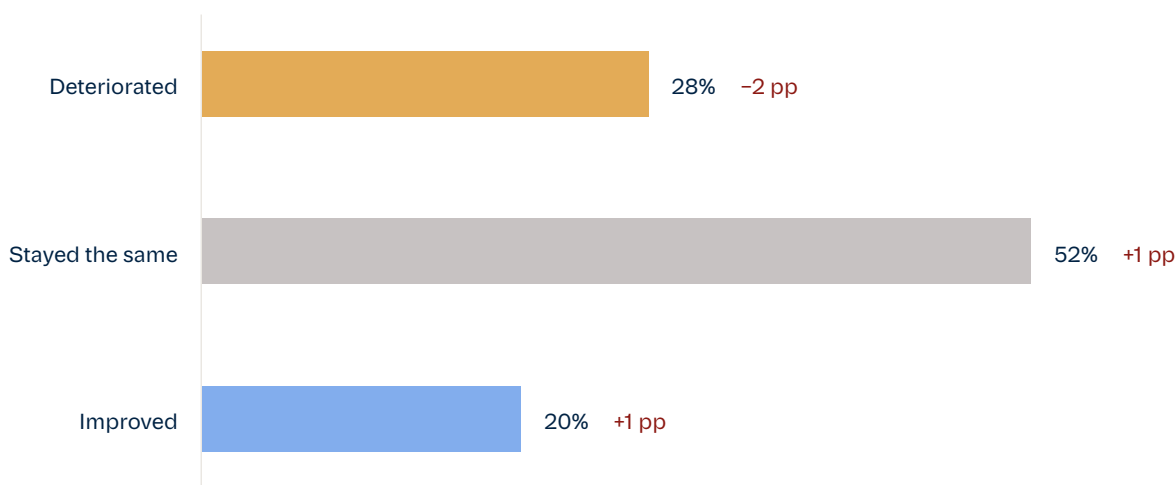
from recent lows, it is far below pre-pandemic levels. Consistent with broader trends, professional services and life sciences firms are the most optimistic, while the sentiments of technology and financial services firms remain more subdued.

# China's Business Environment

Seven of companies' top 10 challenges relate to China's business environment. Key developments since last year include continued implementation of the unified national market, the anti-involution campaign, and the release of the China's 15th Five-Year Plan, which places strong emphasis on technological self-reliance, industrial upgrading, and supply chain security. On the investment side, new Chinese measures include policies to expand the services sector, updates to the Catalog of Industries for Encouraging Foreign Investment, and the [structural transition](#) of Hainan into a de facto offshore customs zone.

Despite the Chinese government's efforts to improve the business environment for foreign companies, more survey respondents believe that it has deteriorated (28%) than improved (20%) in the past year, while half report no change. This pattern mirrors recent years, pointing to uneven progress resolving long-standing policy and regulatory challenges.

Over the past year, China's business environment has...

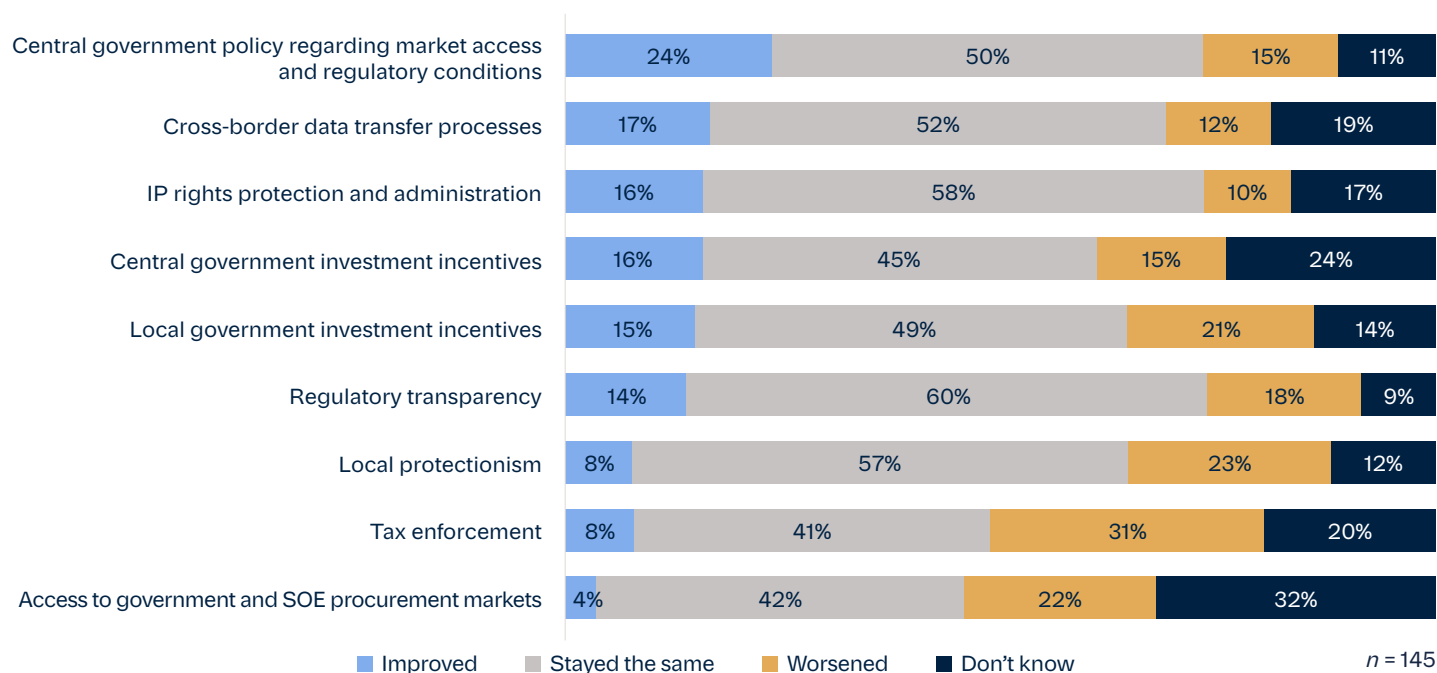


n = 154

Overall, respondents see limited change in the policy environment. In areas where improvement outweighs deterioration, such as central government policy, cross-border data, and investment incentives, year-on-year trends are

nonetheless negative. Where deterioration already outpaces improvement, these trends are more pronounced, as evidenced by a 15-percentage-point increase in the share of companies reporting deterioration in tax enforcement.

## How have the following areas changed over the past year in China?

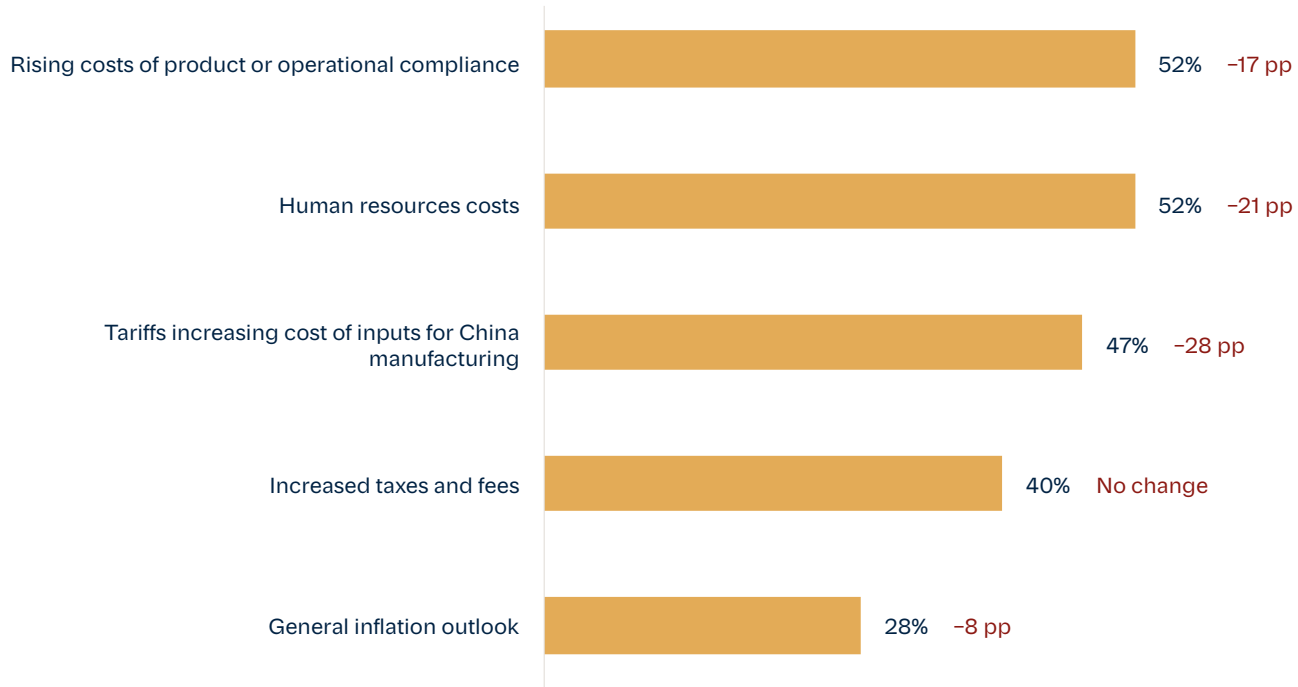


## INCREASED TAX ENFORCEMENT WEIGHS ON INVESTMENT DECISIONS

Tax enforcement is a growing concern driven by multiple reforms and fiscal strain in China. In June 2025, State Council Order No. 810 required domestic and foreign Internet platforms, including those without sales in China, to report merchant income and identity data to tax authorities — significantly increasing compliance burdens and enforcement visibility without changing underlying tax obligations. In August 2025, China updated its value-added-tax rebate-eligibility requirements for most industries, and in January 2026, it implemented a revised Value-Added Tax Law, which clarifies taxation scope, taxable transactions, and anti-avoidance. Chinese tax authorities are expected to ramp up enforcement accordingly.

Chinese tax authorities have also intensified scrutiny of cross-border dividend payments. Under current regulations, including the State Tax Administration's Announcement No. 9 from 2018, authorities apply substance-based criteria to assess "beneficial ownership" and eligibility for reduced withholding-tax rates. Since mid-2025, however, authorities have actively reassessed prior remittances to Hong Kong holding structures using invasive inspections of accounting practices and banking profiles based on unclear and unpublished criteria. According to USCBC members, investigations have resulted in large-sum tax payments totaling millions of dollars for several companies. Limited regulatory transparency and evolving, inconsistently applied criteria are elevating compliance risks and weighing on investor sentiment.

## Top cost concerns in China



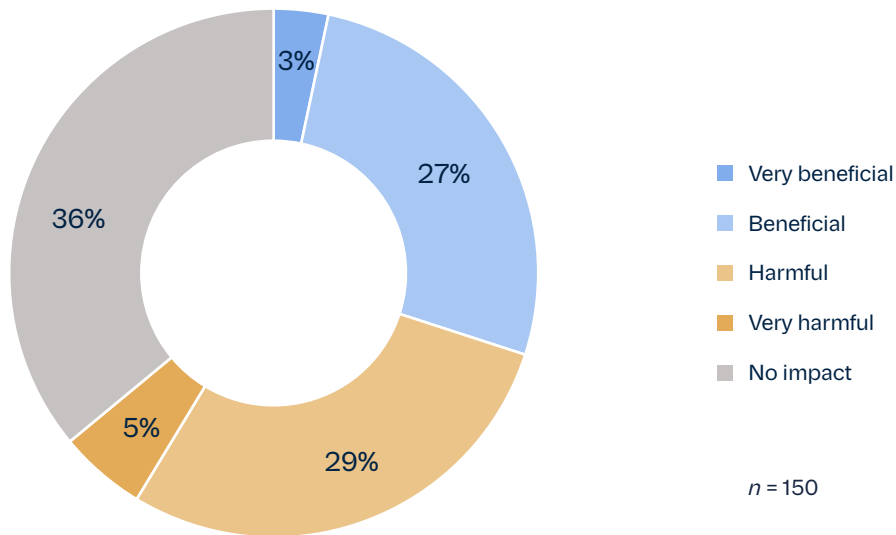
The lack of improvement in key policy and regulatory areas coincides with rising business costs in China. Product and operational compliance (52%) and human resource costs (52%) rank as the top cost concerns alongside tariffs (47%) and increased taxes and fees (40%).

### Industrial policy priorities clash with market access commitments

China's industrial policies are increasingly setting the boundaries within which foreign companies can operate. Many American firms worry that the operating space will narrow until they are forced to leave the market, hence the rise of industrial policy to the number-six challenge.

Broadly defined as state support for domestic manufacturing through subsidies, regulations, and investment and trade measures, China's [industrial policies](#) have evolved to prioritize domestic innovation, industrial localization, and supply chain security. Some of these objectives contradict China's stated commitment to expand market access for foreign investors and may disadvantage American companies. The rise in members' concerns mirrors these changes. To illustrate, fewer companies report improvement in central government policies on market access and regulatory conditions, down 10 percentage points year on year to 24%, and more companies report deteriorating investment incentives versus last year at both the central and local government levels.

## What is the impact of China's domestic innovation and manufacturing policies in your company?



The effects of China's industrial policies vary widely by company and industry: 30% describe them as beneficial or very beneficial and 34% as harmful or very harmful, and 36% report no impact. This divergence suggests a shift toward industrial policy focused on specific sectors, technologies, and other priorities. For instance, the central government last year [allocated](#) 200 billion yuan to equipment upgrades in targeted sectors and [launched](#) a 1 trillion yuan venture fund for semiconductors and biopharmaceuticals. For companies in these sectors, industrial policy can support demand and create commercial opportunities but also give rise to competitors and feed overcapacity.

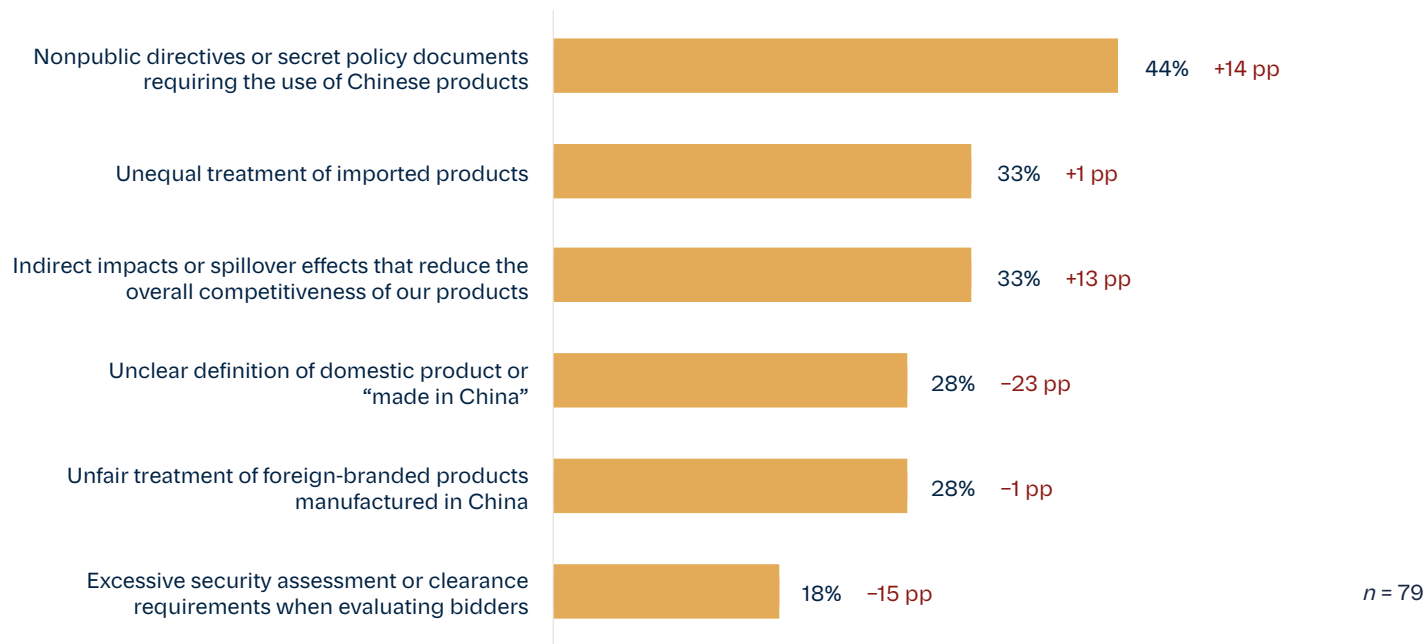
### Localization requirements intensify under new procurement rules

China's public procurement market remains out of reach for many American companies. The challenge ranked ninth this year, down from seventh last year and sixth the year before. The market is substantial, estimated at roughly [\\$500 billion](#), and covers most forms of government and state-owned-enterprise purchases of goods and services. Yet companies face informal barriers, discriminatory treatment of foreign products, and broader geopolitical tensions that make competing or even accessing this important market difficult.

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China's public procurement market remains out of reach for many American companies.

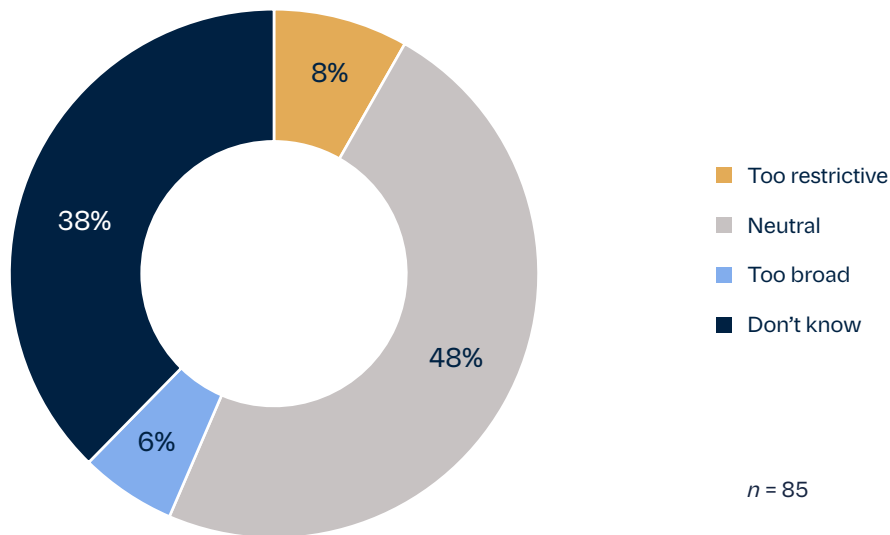
## Challenges companies face in China's public procurement markets



Forty-four percent of respondents face nonpublic directives or secret policy documents requiring the use of Chinese products, up 14 percentage points from last year. This refers both to government officials privately directing procurement entities to purchase products from Chinese companies and to

formal but nonpublic policies discriminating against foreign products. For example, following Liberation Day tariffs, the State-owned Assets Supervision and Administration Commission instructed state-owned entities to avoid sourcing technology and components from US entities.

## How does your company view the new domestic product standard published in late 2025?



China's new domestic product standard establishes a nationwide definition for government procurement, requiring products to undergo substantial transformation in China and, over time, meet local content and key component requirements. The new standard is a positive step toward addressing uncertainty about the definition

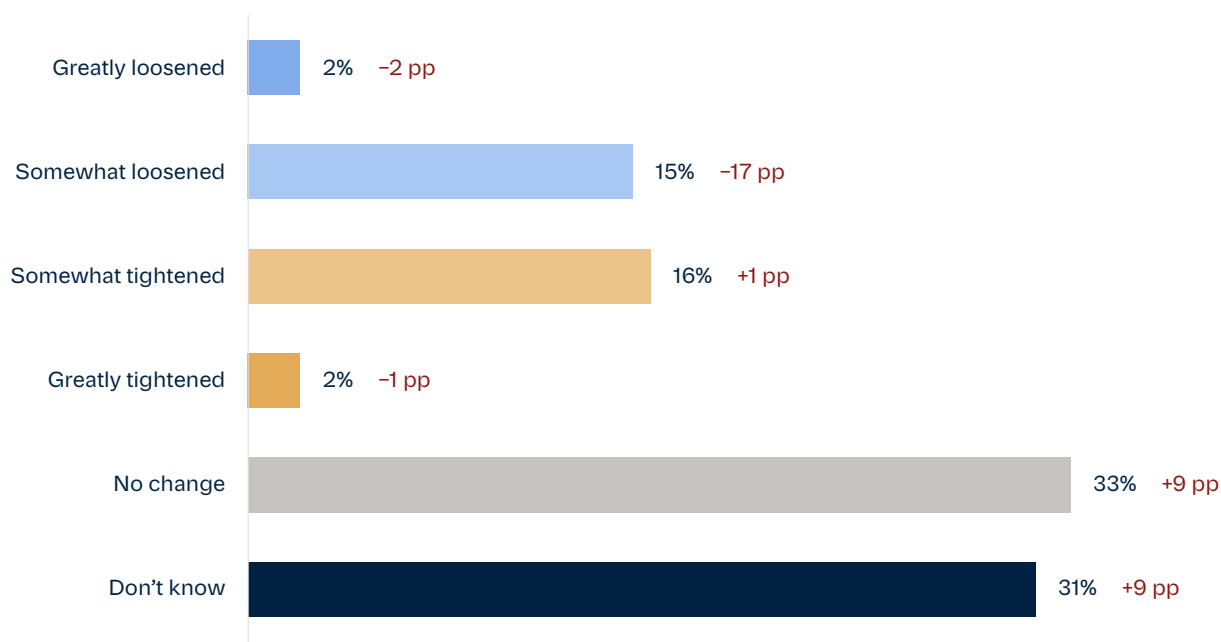
of "made in China." At the same time, it also raises the risk of spillover effects — a concern flagged by 33% of affected respondents — that private Chinese companies will follow the Chinese government's lead by favoring products that are considered "made in China."

### Cross-border data rules stabilize, not improve

After nearly a decade of tightening oversight of cross-border data transfers (CBDT), the Chinese government has started to enact policies to ease compliance and facilitate trade. As a result, companies are less concerned than in previous years, with data policies falling out of the top

10 challenges for the first time since 2017, the year China's Cybersecurity Law went into effect. While policy adjustments [introduced](#) in 2025 have eased compliance burdens for many routine data transfers, China's sector-by-sector approach to defining "important data" has advanced unevenly, with clearer guidance in some industries than others.

## Change in CBDT compliance requirements in the last year



n = 143

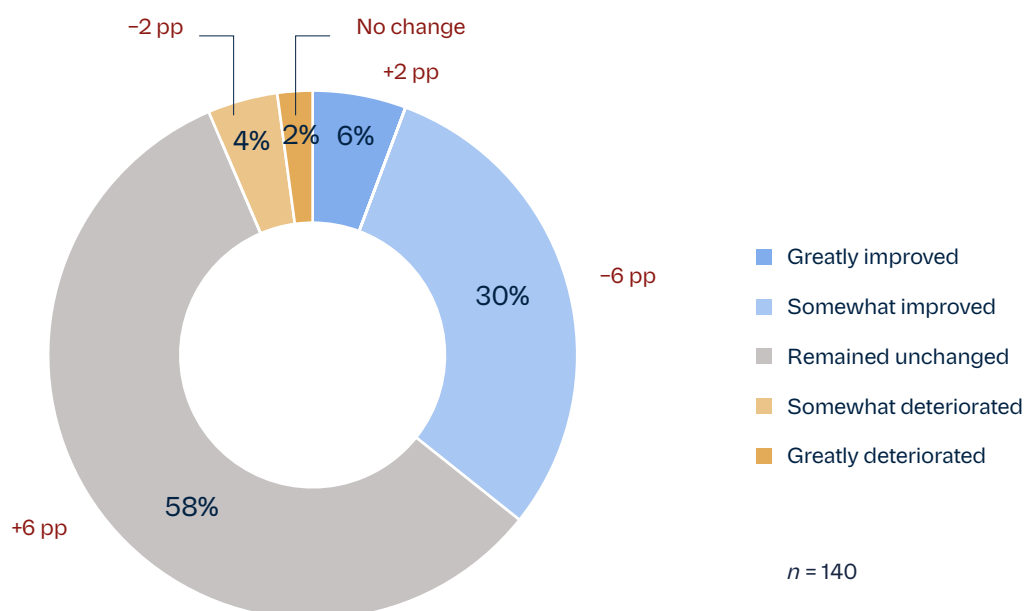
While less prominent as a concern, China's data policies continue to draw close attention from companies. Following the 2025 rollout of many flexible CBDT arrangements in a limited number of free trade zones, municipal governments are signaling new data-related zone policies in 2026. These often depend on sector-specific lists and other requirements, but companies are exploring them as alternatives to the national CBDT compliance regime. The share of companies reporting that CBDT compliance requirements have somewhat loosened fell from 32% in 2025 to 15% this year, suggesting that earlier policy easing has largely been absorbed. At the same time, clearer definitions of "important data" in key sectors, such as life sciences and financial services, remain an outstanding priority for many companies.

China's AI ambitions directly touch on the increased use and management of data, with multinationals alert to potential opportunities and challenges that might arise. Just as AI is expected to be a major engine for the 15th Five-Year Plan period, data policy will be a key factor for China's AI uptake.

### Innovation push raises the bar for IP protection

IP protection, a long-standing concern across industries, rose to the seventh-ranked business challenge this year, its highest ranking since 2021. The increase reflects unmet expectations for IP protection as companies deepen integration into China's innovation ecosystem.

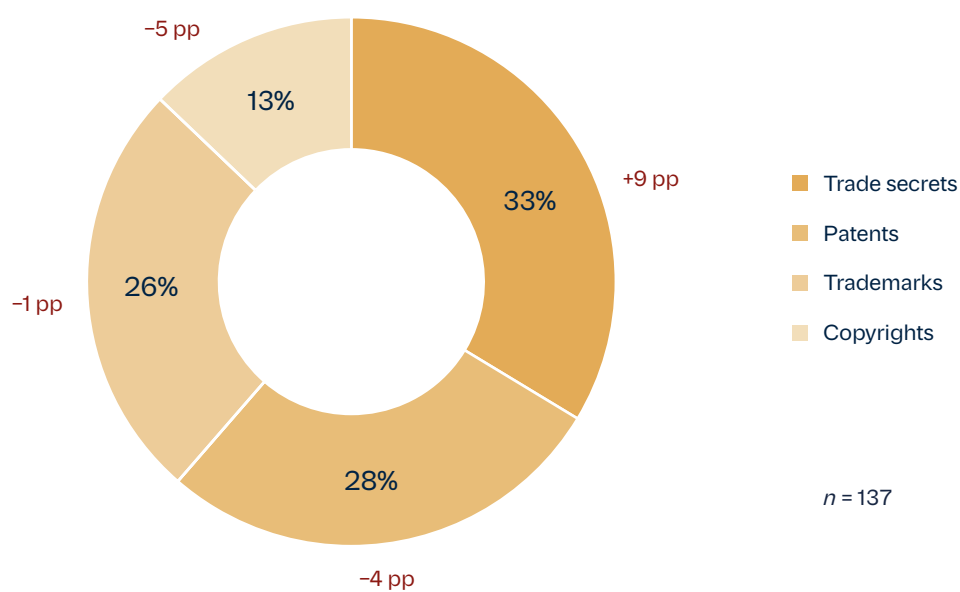
## Over the past year, China's protection of IP rights has...



According to this year's survey, while only 6% of respondents report deterioration in IP protection, 58% see no change. The slow pace of progress contrasts with China's ambitious innovation agenda. Under the 15th Five-Year Plan, the government has [established](#) targets for

technological breakthroughs in strategic sectors, such as information technology, life sciences, and new energy. Deepening partnerships in these areas requires sharing know-how, processes, and data, giving rise to IP-related risks that are not fully addressed by traditional IP protection regimes.

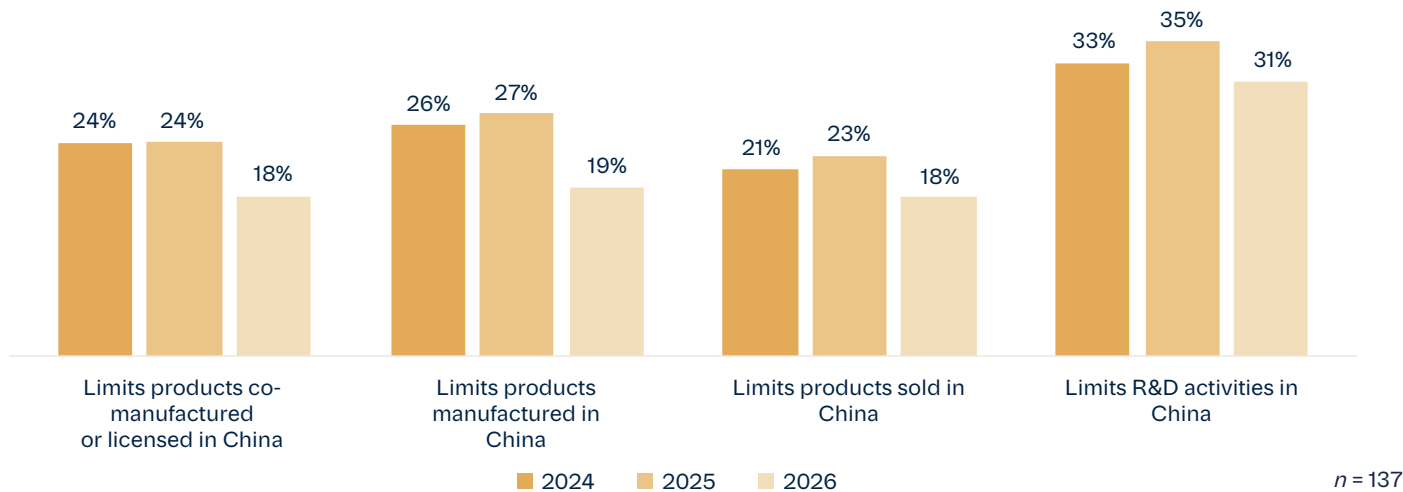
IP infringement of greatest concern



Unsurprisingly, trade secrets have overtaken patents as the area of greatest concern, reflecting both improvements in China’s patent protection regime and the growing importance of protecting nonpublic information. While trade secret protection relies heavily on corporate governance practices, stronger policy implementation is

needed. This requires more effective enforcement of the amended Anti-Unfair Competition Law, including higher financial penalties and broader coverage of unauthorized data access as well as more consistent use of criminal enforcement when thresholds are met.

Impacts of China’s level of IP rights enforcement on activities undertaken in China



At the same time, fewer respondents say IP concerns are limiting their business activities in China, including innovation, manufacturing, and commercialization. This suggests that while IP risks

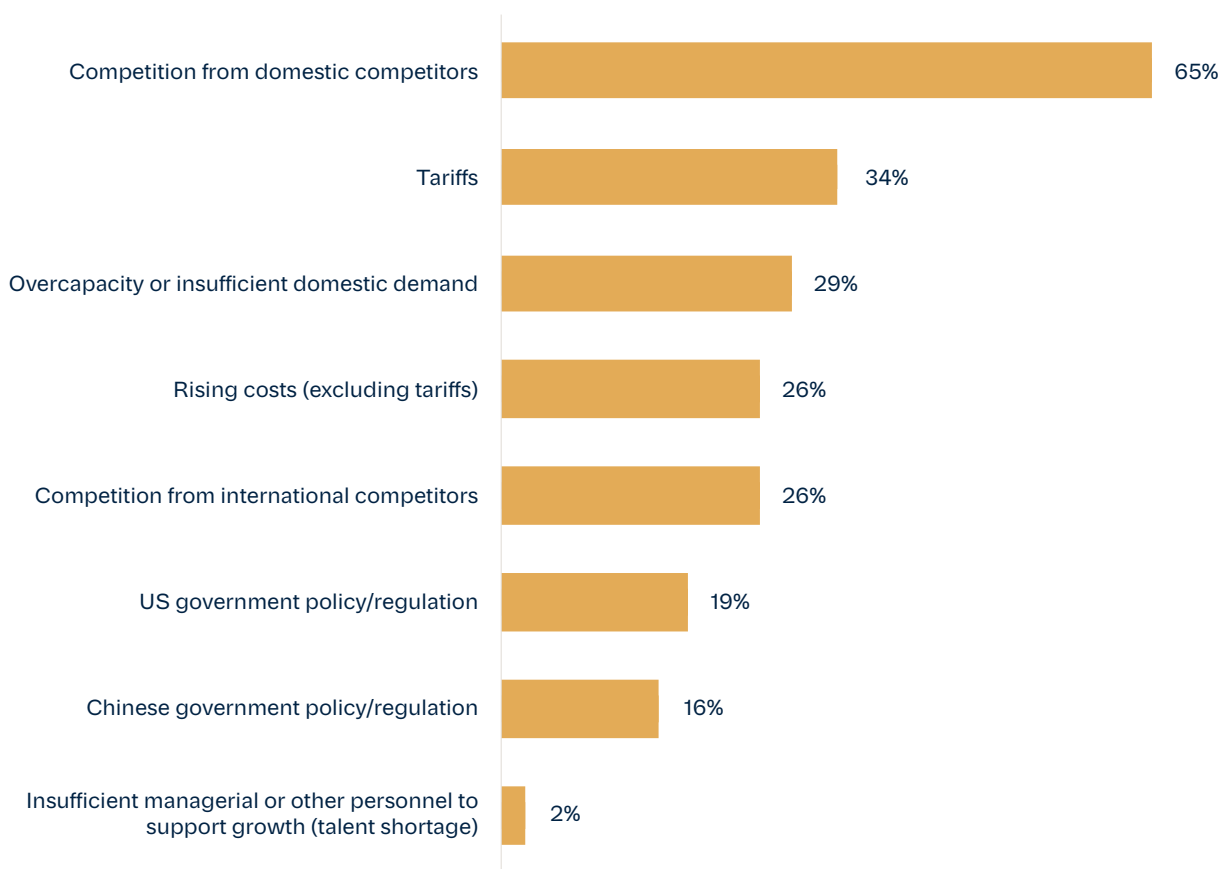
are evolving, they are one of several factors shaping companies’ decisions to participate in China’s innovation ecosystem.

# Competition and Market Share

Competition with Chinese companies is now the top restraint on US companies' profitability in China. Domestic players hold significant cost advantages and are advancing rapidly in technology and innovation. Many domestic players [prioritize](#) market share over near-term profitability while race-to-the-bottom price competition is making it difficult for foreign firms to sustain margins. Although competition fell from the third- to fifth-

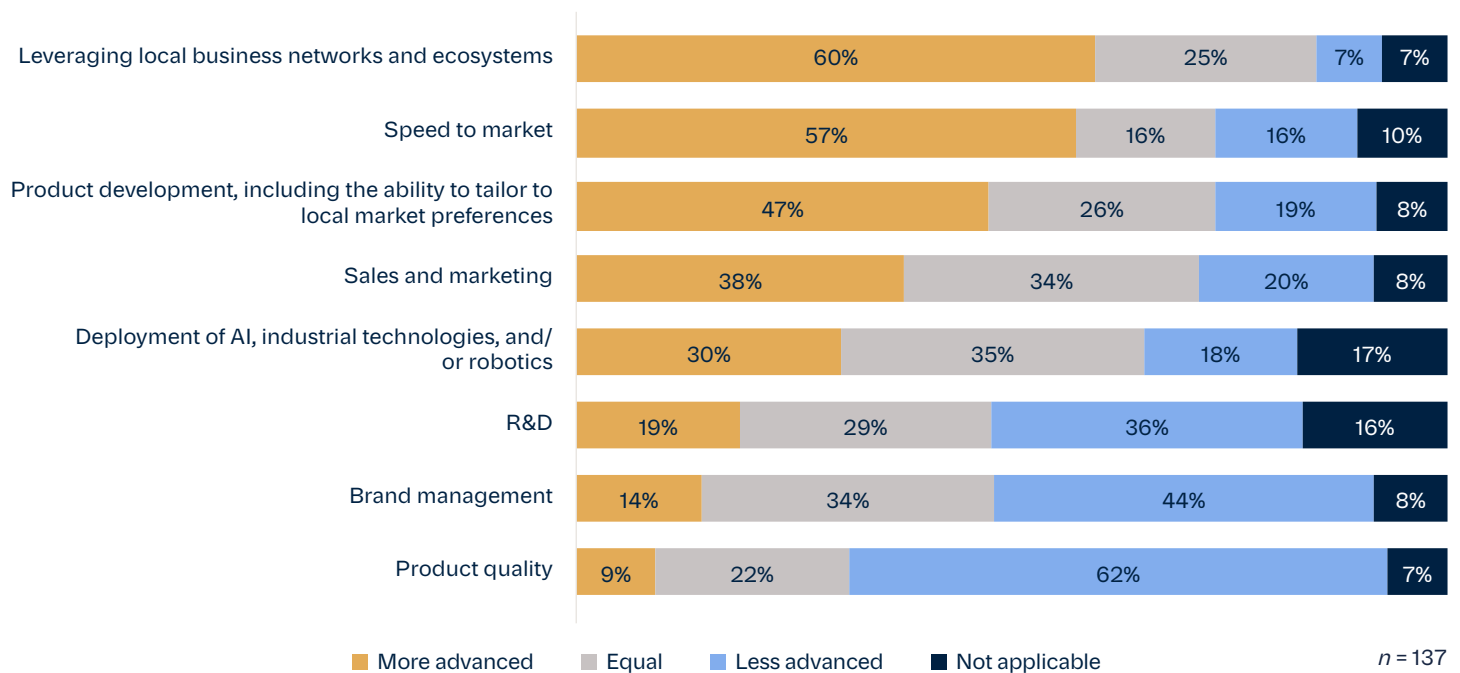
ranked overall business challenge this year, more companies report losing market share to Chinese companies than gaining it. Further, most expect Chinese companies to continue capturing share domestically and, over time, globally. In response, some US companies have sought to localize production and supply chains, but global operating models and risk management practices limit how far they can go.

## Primary restraints on increased profitability in China



n = 128

## How do your Chinese competitors compare to your company in the following areas?



While low pricing was once the primary competitive advantage posed by Chinese firms, that threat has evolved: today, Chinese companies may outpace their foreign competitors not just in price but also in the race from concept to shelf. Their products can be better tailored to local taste. US companies acknowledge local firms' edge in execution speed and market fit and are actively working to close that gap.

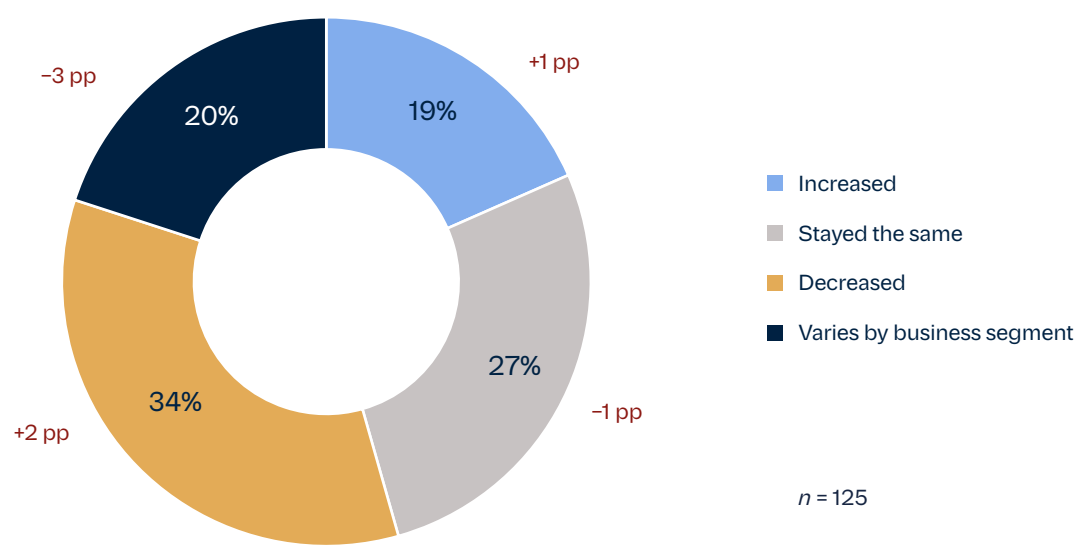
Sixty percent of respondents say that Chinese firms are better at leveraging business networks. This can include using invisible values, such as guanxi, membership in local business associations, and the associated sharing of market information to their commercial advantage. On a sectoral basis, this advantage is especially pronounced in professional services (80%) and industry and manufacturing (71%).

Chinese firms do not just excel at relational skills. They are also faster at bringing products to market (57%), with this advantage most pronounced in autos, logistics, and transportation (88%). This commercial advantage is amplified by their lead in developing and tailoring products to the local market (47%), something most cited by respondents in the health care and life sciences sector (62%).

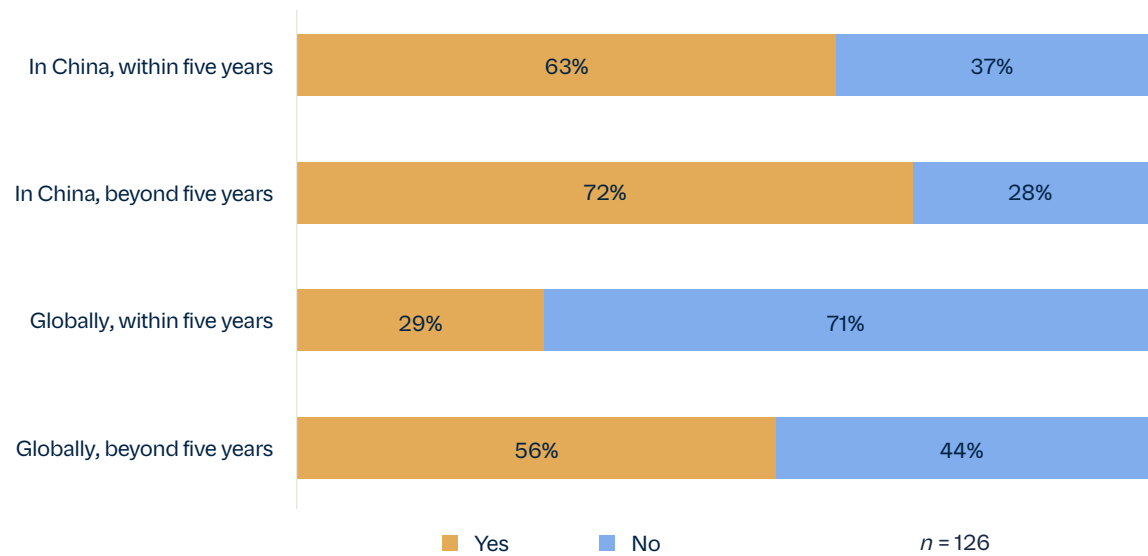
Thirty-eight percent of respondents say that their Chinese competitors are more advanced in sales and marketing, once a hallmark of American excellence worldwide. Higher Chinese competency is especially visible in financial services (54%), a sector in which Chinese companies were once considered behind the curve.

American companies see themselves as leaders in product quality (62%) and R&D (36%), advantages that take decades of engineering iteration to build and are not easily replicated.

How has your company's market share in China changed over the last three years?



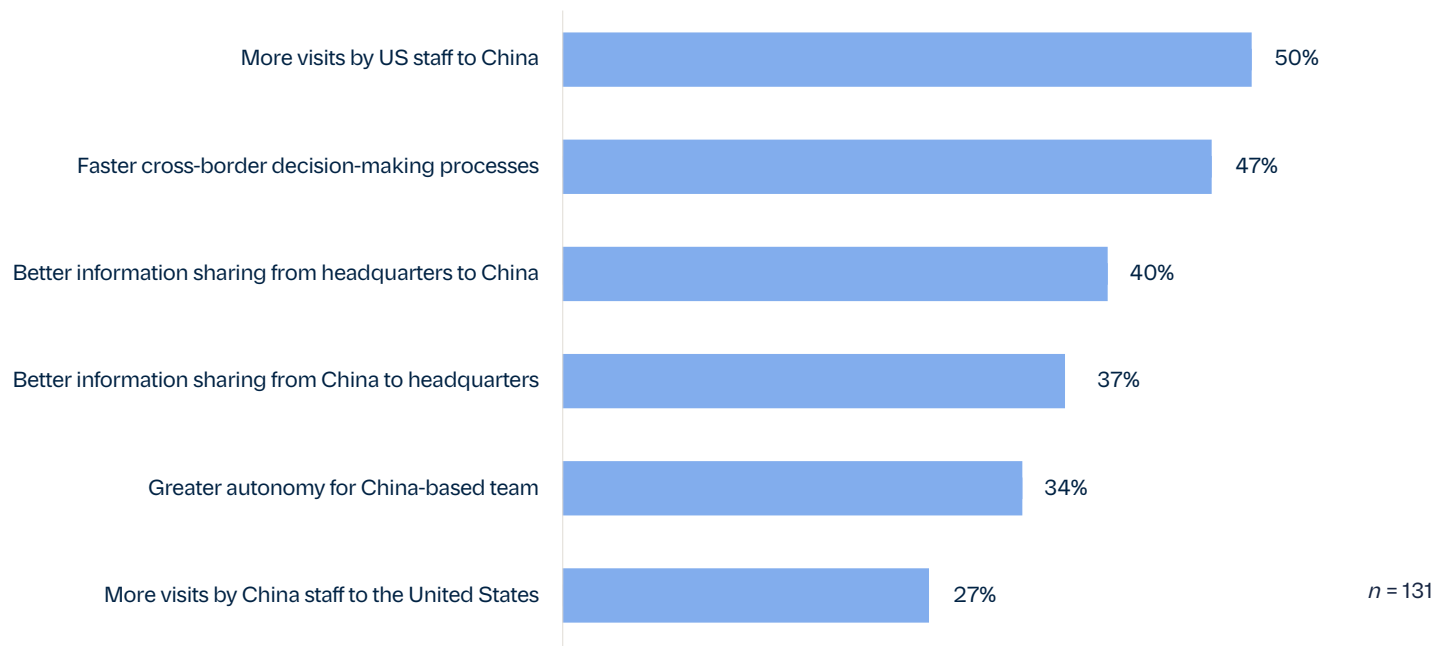
Do you expect Chinese competitors to capture a significant amount of your market share?



Competitive pressure is broadening across industries and moving upmarket. Domestic players are expanding beyond traditional segments and increasingly competing in mid- and high-end markets, leading to lost market share. More respondents report declines in market share

than gains, while a sizable share report stable or mixed performance depending on the industry and business segment. Chinese competitors are expected to gain market share in China and globally, with US companies anticipating that their own advantages could narrow over the next decade.

## Which of the following changes would strengthen coordination between China operations and HQ?



The headquarters-driven model is growing more outdated as the need for speed and agility increases. Layered decision-making, geographic distance, and global operating procedures slow American companies' speed to market, while in some cases, limited information flow and limited trust between China teams and headquarters further constrain performance.

Local operations want greater connectivity, including more frequent visits by US-based staff to China. A widening priorities gap magnifies the challenge: headquarters tend to focus more on geopolitical risks, while in-market teams tend to focus more on day-to-day operational challenges.

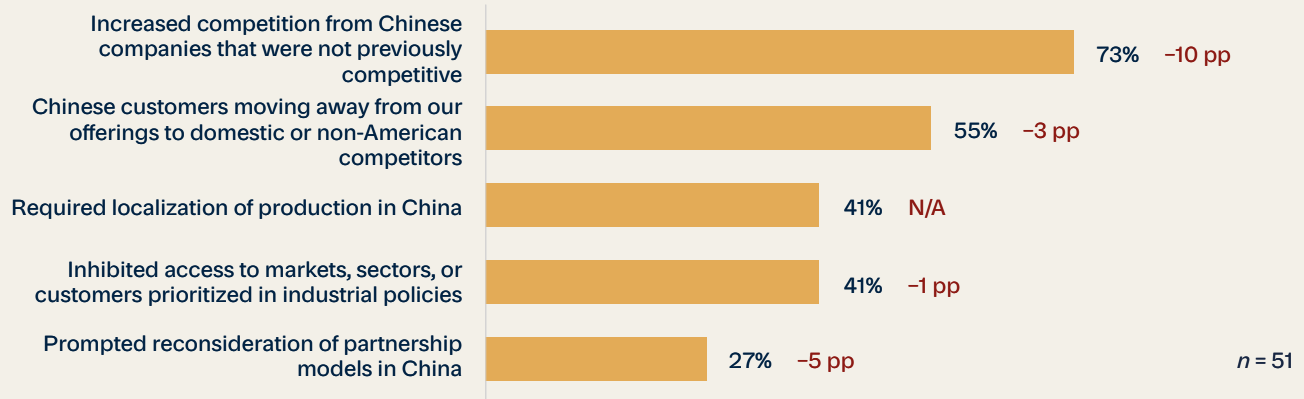
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The headquarters-driven model is growing more outdated as the need for speed and agility increases.

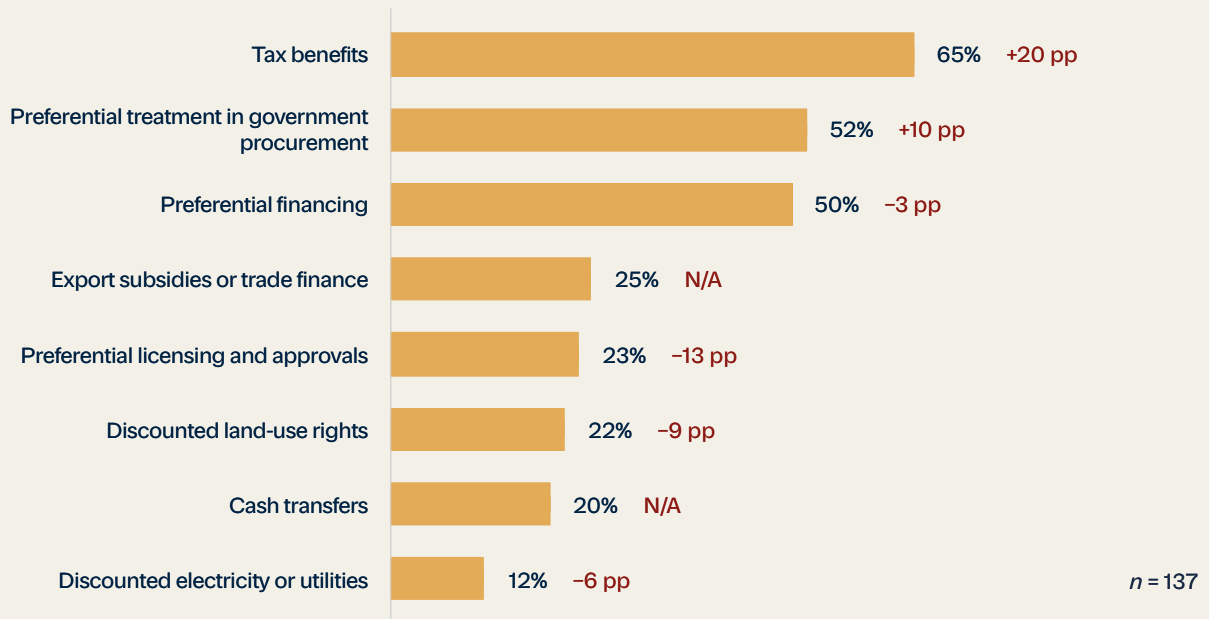
## INDUSTRIAL POLICY CANNOT BE IGNORED

Over 70% of respondents report that Chinese industrial policy has fostered new competition from previously uncompetitive Chinese firms, and more than half report that customers are shifting to domestic or non-American competitors. Forty-one percent of American companies face pressure to localize production to remain competitive, with a similar share reporting reduced market access in sectors prioritized by the Chinese government.

### Harmful impacts from industrial policies



### What benefits are your Chinese competitors receiving that your company cannot receive?



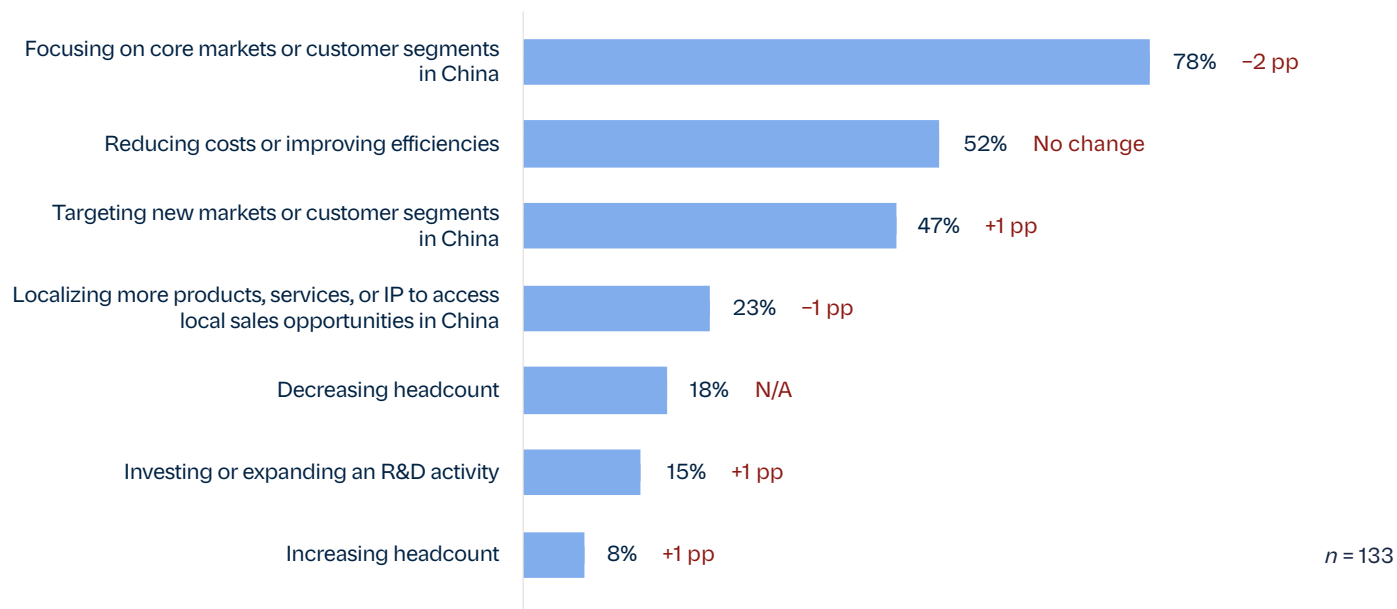
Among respondents, 65% rank tax benefits as the top concern (+20 pp), and 52% cite formal and informal government procurement policies (+10 pp). Preferential financing is cited by 50% of companies. Traditional local incentives, such as discounted land-use rights, utilities, or preferential licensing and approvals, are cited less frequently.

# Business Strategy

Today, China looks markedly different from even a few years ago: growth has slowed; economic and national security sensitivities have intensified; and domestic competitors are faster, more innovative, and more embedded in local networks. This shift is straining the legacy model of high margins, low

risk, and asset-light investments that prevailed in corporate boardrooms for decades. Companies are now increasingly focused on defending their market positions, prioritizing key customers, and managing costs more tightly.

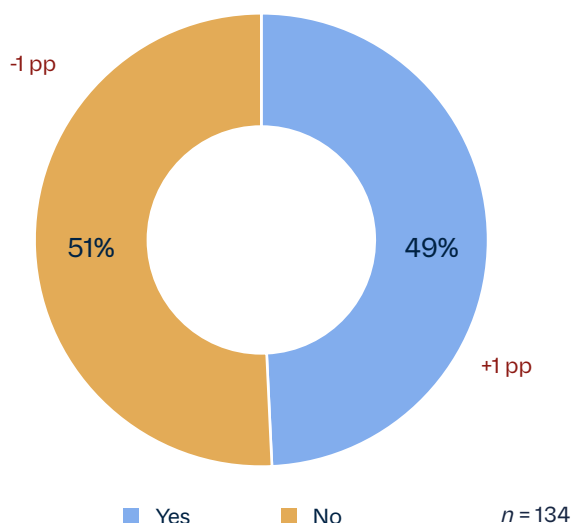
## Which of the following describes your business strategy in China this year?



Based on the data, companies are employing multiple strategies to boost their competitiveness. A large majority (78%) are focusing on core markets or customer segments, and more than half (52%) are cutting costs or improving efficiencies, a more disciplined approach to protecting profitable products and relationships. Yet 47% are also

targeting new markets or segments, indicating selective growth over broad expansion. Fewer companies are pursuing localization (23%) or expanding R&D (15%), a sign that more resource-intensive strategies are less widespread. Workforce trends reinforce this pattern, with more companies cutting headcount (18%) than raising it (8%).

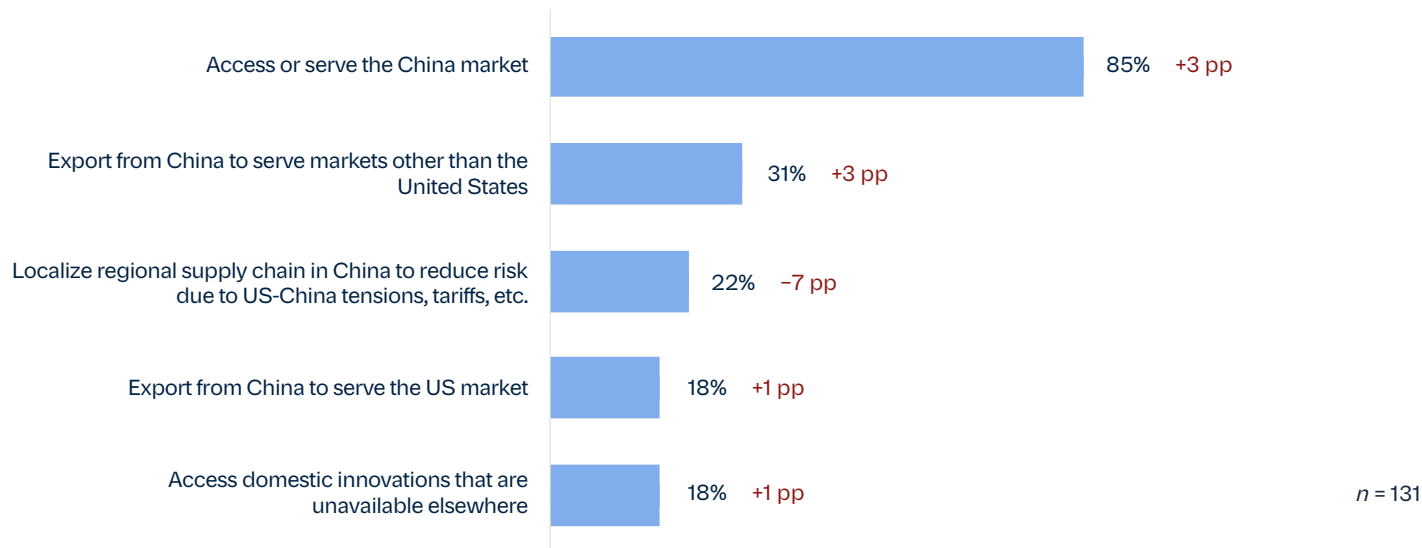
## Does your company plan to invest in China this year?



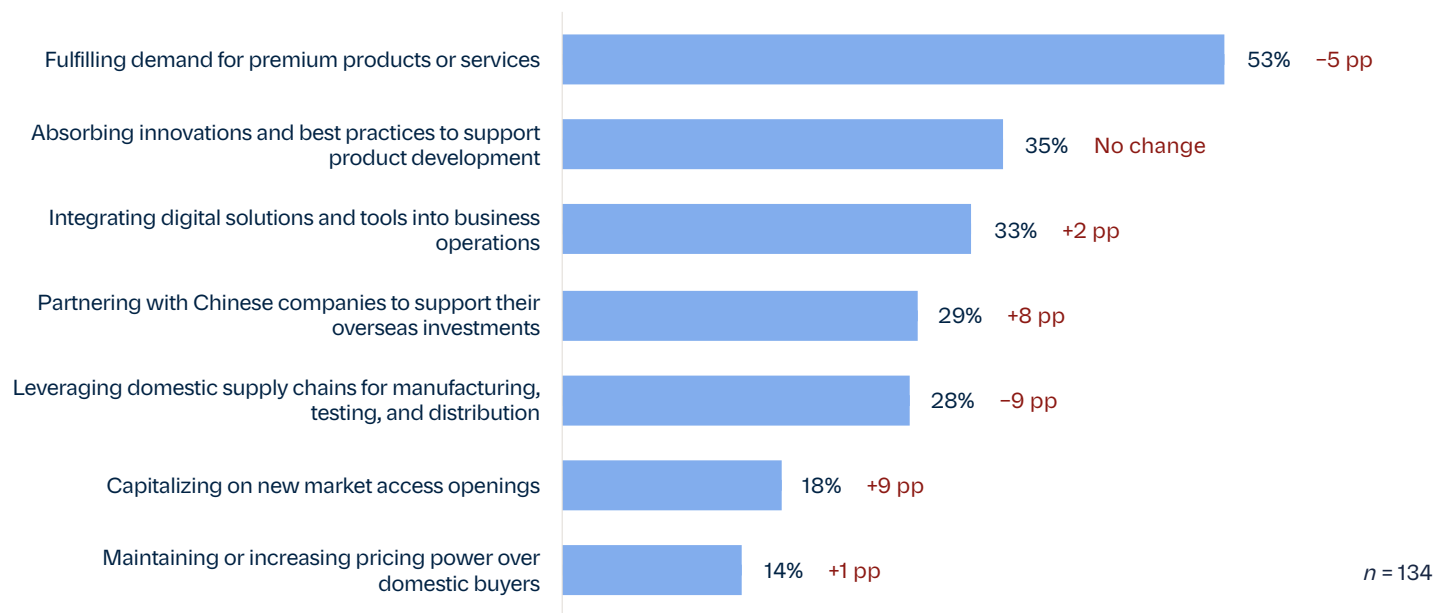
Companies are almost evenly split on near-term investment, unchanged from last year. Investment intent is strongest in professional services (60%), financial services (54%), and technology (50%), and it is weaker in consumer products (38%) and life sciences (33%). The contrast with nearly universal profitability underscores that investment decisions are driven by more than current financial performance.

The data suggest that investment decisions increasingly reflect the specific role that China plays in each company's global operations. Industrial and manufacturing firms continue to invest to sustain supply chain integration and support global production; technology and life sciences companies invest to enhance platform capabilities and advance product pipelines; and consumer-facing companies invest to capture domestic demand and defend market share. These motivations often overlap across sectors, and in many cases, serving the domestic market remains a core consideration.

## Objectives for existing and future investments in China



## What are the top opportunities for your China business this year?

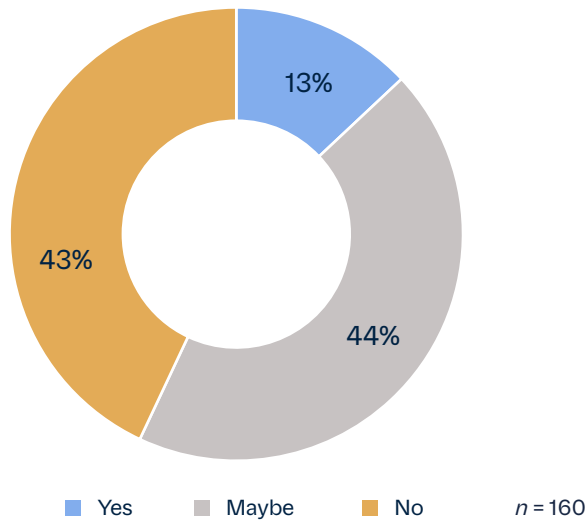


Companies are focusing on higher-value opportunities in which they retain a competitive edge, with most (53%) pointing to demand for premium products or services as a key growth area this year. When companies look to the future, however, defending these premium positions will get harder as Chinese companies move up the value chain and set their eyes on higher-margin categories. Firms also cited leveraging China's innovation ecosystem to support product development (35%), integrating digital tools (33%), and partnering with Chinese companies to support their overseas investments (29%, up 8 percentage points) as top opportunities this year.

In contrast, few companies see opportunities in maintaining pricing power (14%). This underscores the difficulty of competing on price against domestic firms in the current environment. Similarly, few companies point to capitalizing on new market openings (18%), reinforcing concerns about curtailed market access as China pursues industrial self-sufficiency.

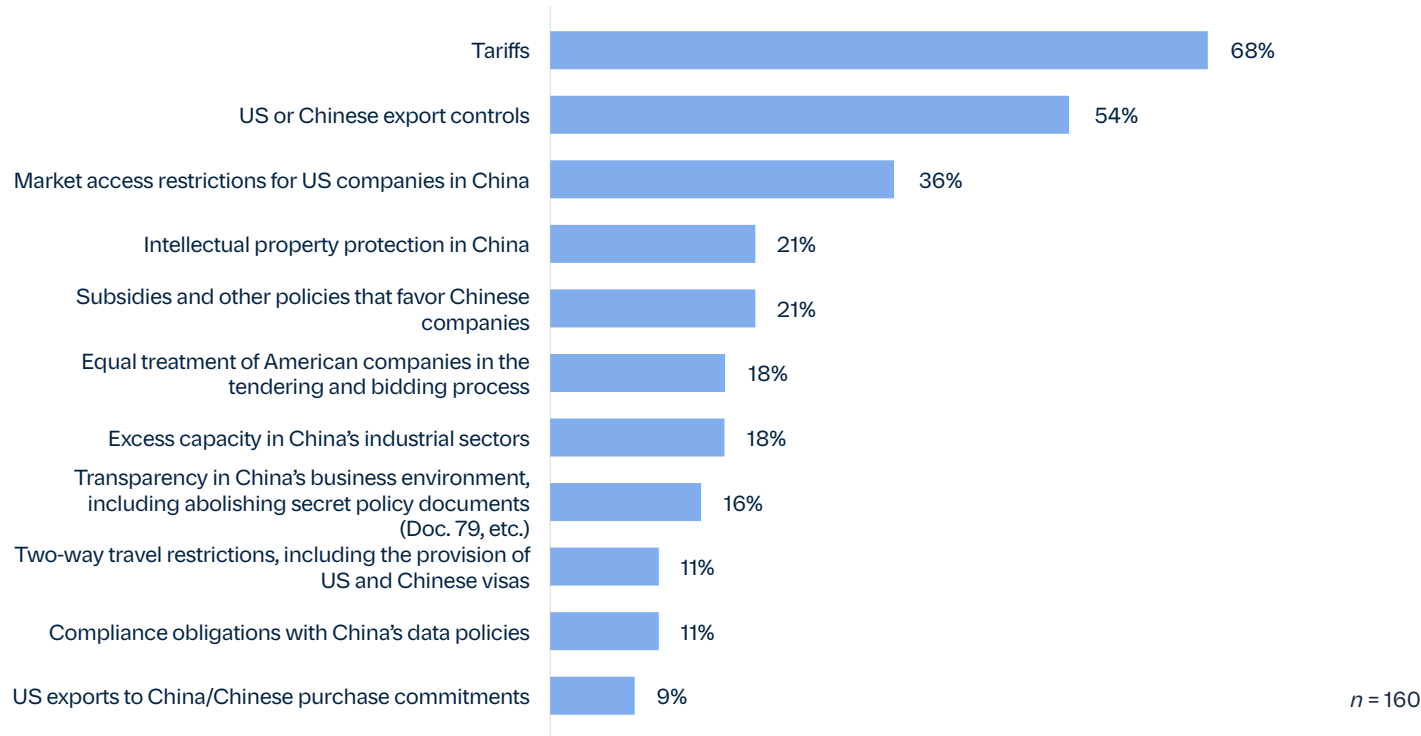
# Conclusion and Recommendations

Does the one-year trade truce provide enough stability to consider new business activities or investments in China?



The decision to pause US-China trade hostilities late last year reflected a mutual recognition of economic interdependency, that both sides hold significant leverage over the other, and that blunt trade restrictions are too costly for either economy to absorb. Since our survey closed, President Donald Trump and President Xi Jinping met in Beijing and signaled they are committed to preserving stability. But there is more work to be done.

## Top policy areas for US-China negotiations



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## Recommendations for further stabilizing the commercial relationship

**Tariff relief:** The immediate priority for American companies is achieving meaningful and lasting tariff reductions, followed by easing export controls. It is in the interest of both countries to roll back tariff rates.

**Chinese export controls:** China should improve transparency and predictability in export control licensing by establishing clear timelines, strengthening communication with companies, and ensuring regulators have sufficient resources to process applications within the statutory 45-day period. Expanding the use of multiyear general licenses, consistent with China's own regulations, and publishing guidance on their scope and administration would help restore confidence in Chinese REE supplies.

**US export controls:** To maintain the competitiveness of US industry, these controls should be recalibrated to reflect the availability of

comparable technologies from non-US suppliers. A more targeted approach would align controls with areas in which the United States and its allies retain clear technological advantages while allowing greater flexibility in segments in which foreign availability is already established.

**Equal treatment of US companies in China:** Chinese authorities should take concrete steps to ensure that products manufactured by US companies in China receive equal treatment in procurement and industrial policy frameworks. This includes publicly nullifying the use of secret policy documents that discriminate against foreign products, such as Documents 79 and 551, and abolishing sectoral whitelists that guide state-owned-enterprise procurement decisions. The Office of the US Trade Representative should press China to secure meaningful progress on these market access issues.

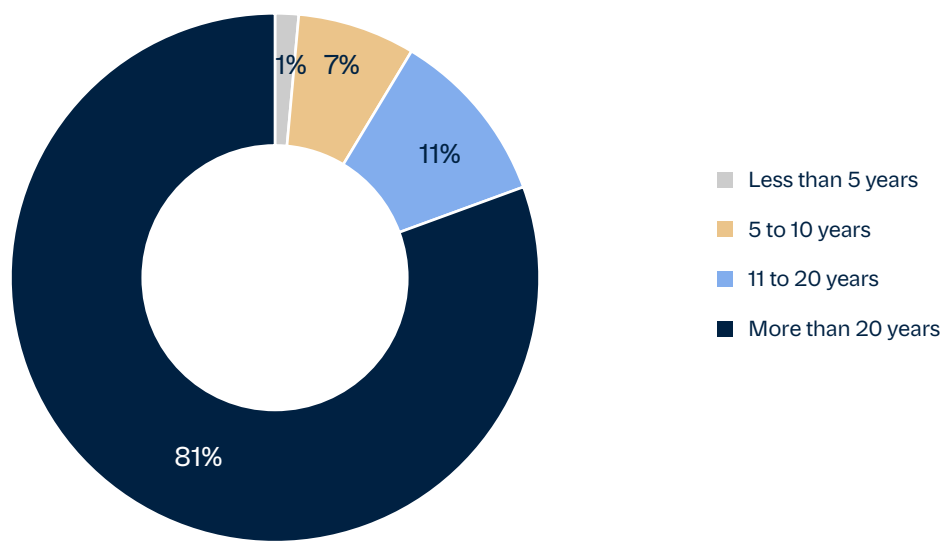
## Methodology

This year's survey was conducted between February and March 2026 and drew from a sample of 175 respondents. These respondents were based in both the United States and China, making our survey unique among trade associations. The top 10 challenges were ranked using a weighted system to reflect the most significant issues companies

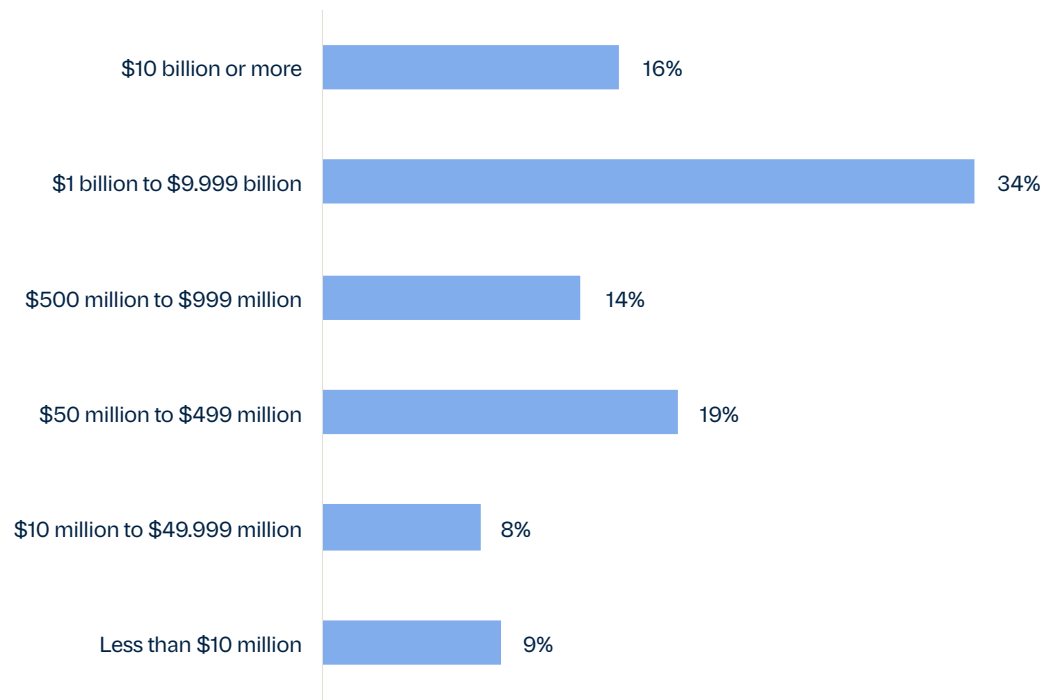
encounter while doing business in China. To ensure consistent analysis over time, the same methodology was used in previous years. Due to rounding, some stacked bar and donut chart totals may add up to slightly more or less than 100%. Red +/- figures (e.g., **+15 pp**) connote change in percentage points year over year.

# Respondent Profile

Years doing business in China

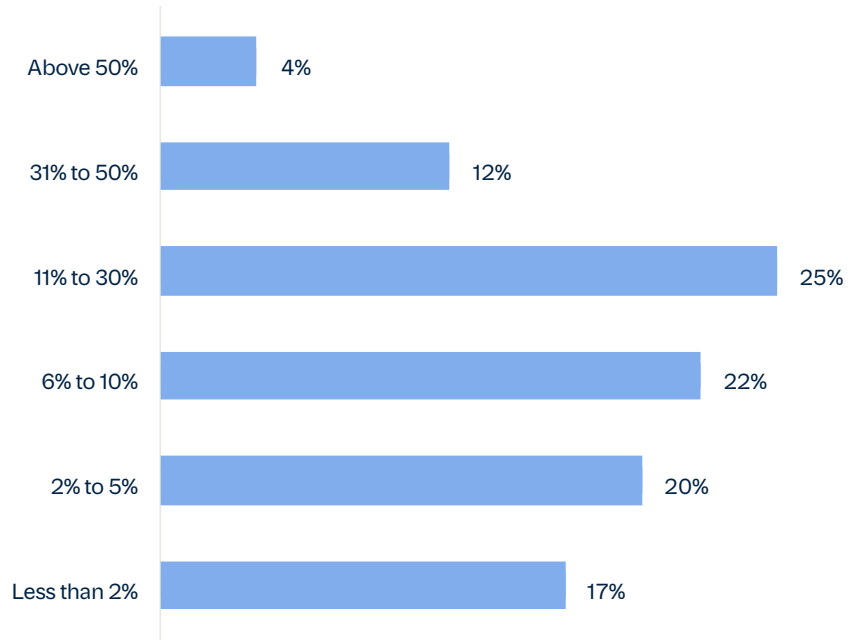


What is the China revenue of your company?



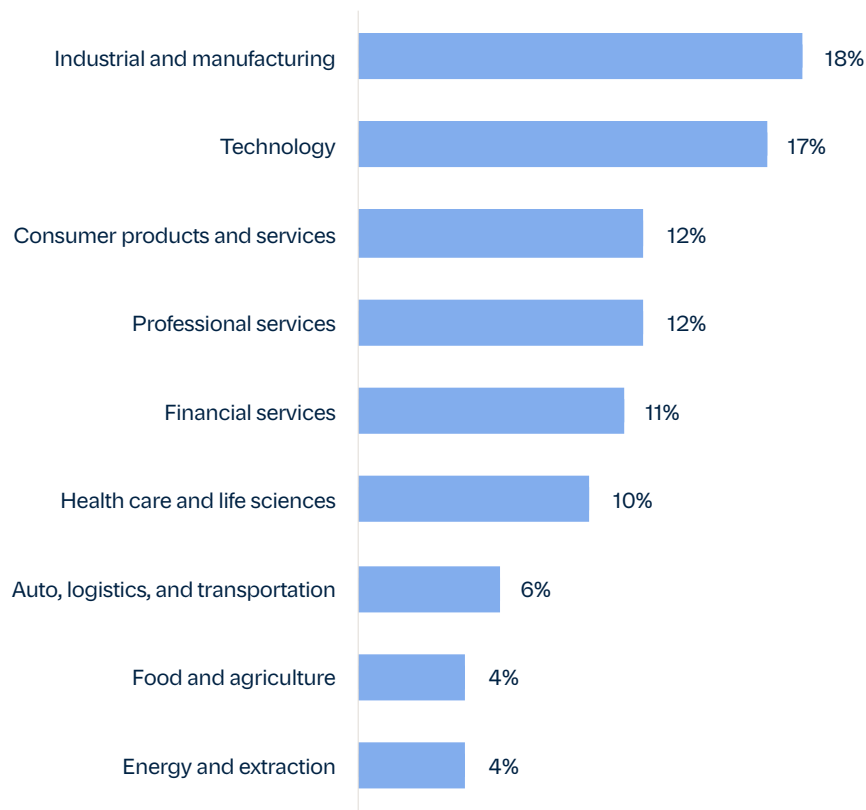
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## What percentage of your global revenue is generated in China?



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## Which category describes your company's sector in China?





THE US-CHINA BUSINESS COUNCIL

美 中 贸 易 全 国 委 员 会

Founded in 1973, the US-China Business Council (USCBC) is a private, nonpartisan, nonprofit association of around 270 American companies that do business with China. Our membership includes some of the largest and most iconic American brands, in addition to professional services firms and small and medium-sized enterprises. We are headquartered in Washington, DC, and maintain offices in Beijing and Shanghai.

US-China Business Council

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