



View from China

Top Operating Issues for US Companies

January 30, 2014

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The US-China Business Council

2014 - China's Year of the Horse Smooth or Wild Ride?



On the minds of executives.....

- Uncertainty about market growth
- Competition
- Reform
- “That Zone, out there....”
- Anti-corruption campaigns
- Urbanization & the middle class

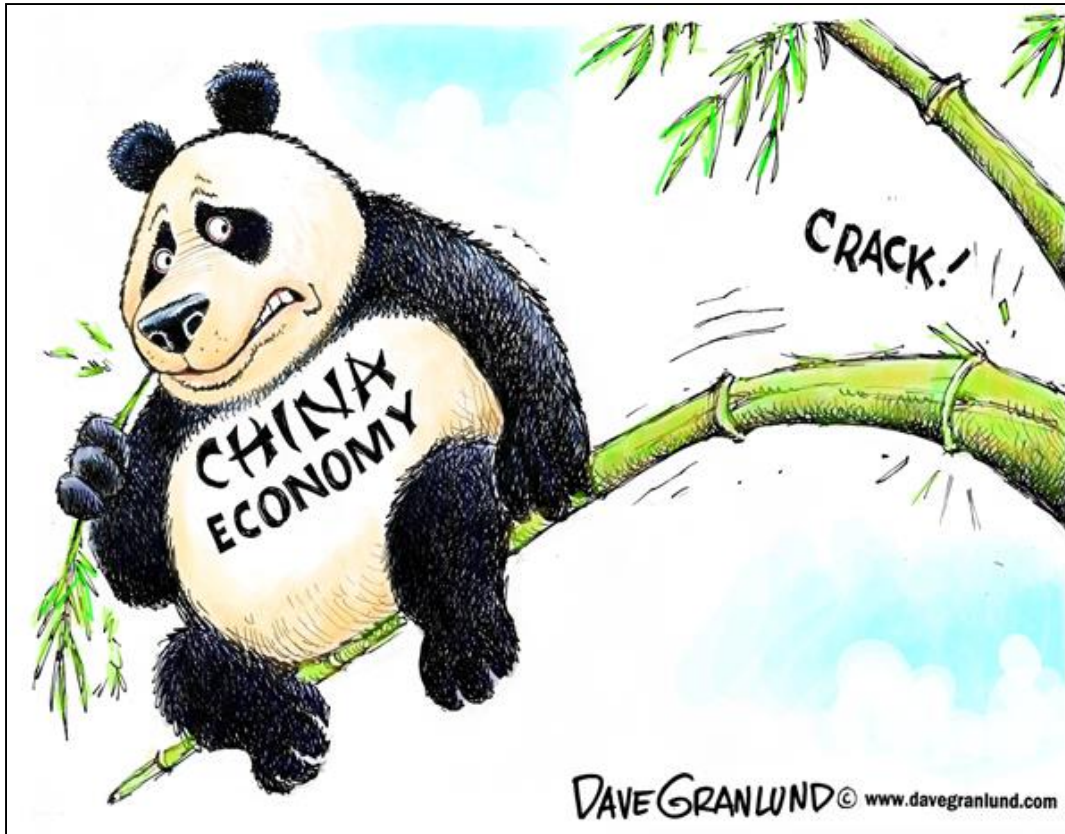


USCBC Member Top 10 Challenges

1. Cost increases 
2. Competition with Chinese companies in China 
3. [Tie] Administrative licensing 
3. [Tie] Human resources: Talent recruitment and retention 
5. IPR enforcement 
6. Uneven enforcement/implementation of Chinese laws 
7. National treatment 
8. Transparency 
9. Standards and conformity assessment 
10. Investment restrictions on foreign investment 

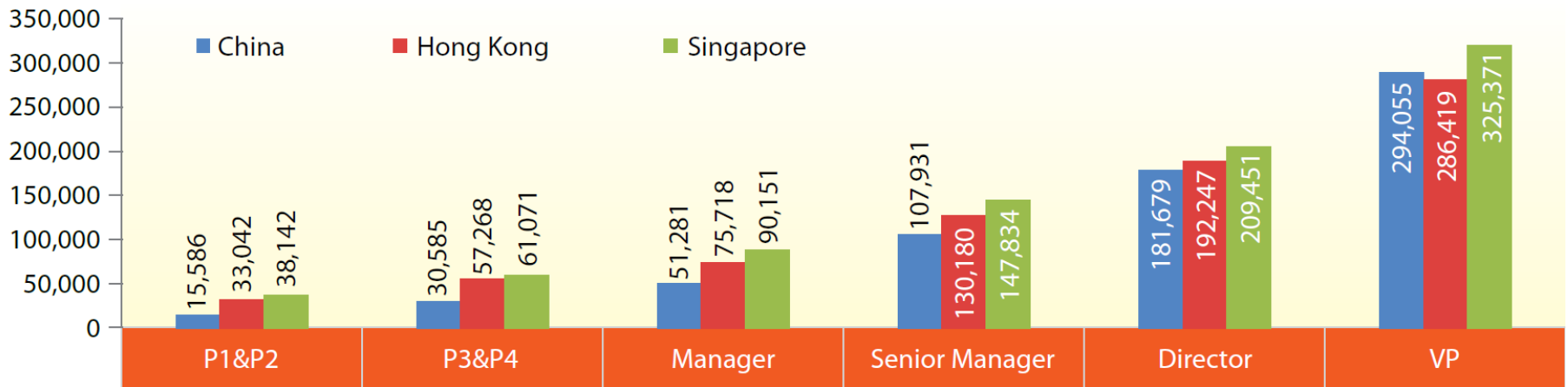
(arrow direction indicates movement of that topic relative to topic's rank in USCBC's 2012 survey)

China's Economic and Market Prospects: #1 Concern of Executives in Shanghai



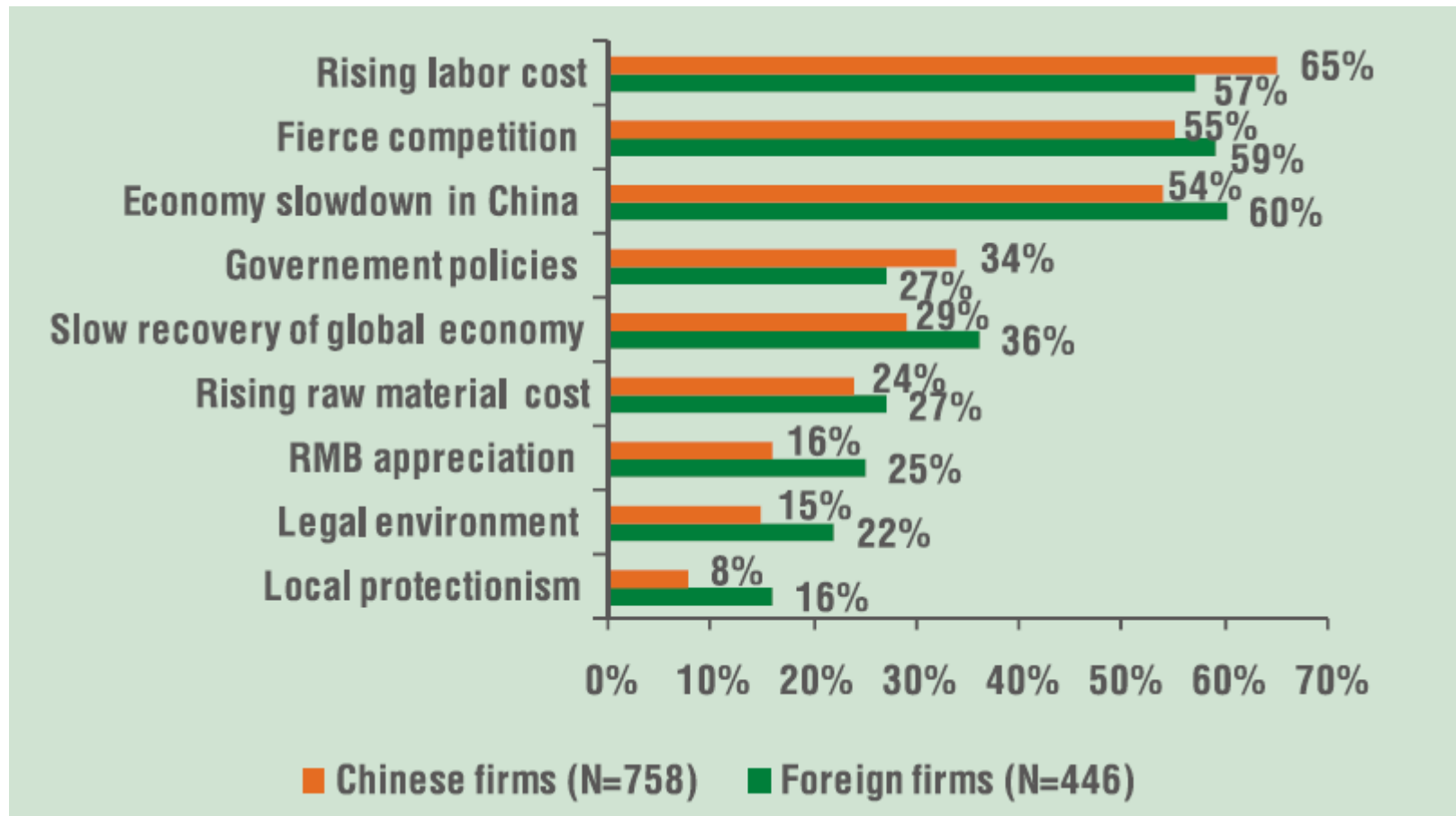
- Manufacturing slowdown
- Stagnant inventories
- Significant sales drops
- High profile exits
- Credit crunch
- Rising costs

Average Annual Base Salary by Level (\$USD)



Compensation for experienced executives approaching or exceeding costs in other regional markets

Foreign & Chinese companies face challenges from rising costs, competition



Navigating Complex Competitive Landscape

- Slowing economy exacerbates competition
- Sophistication of Chinese companies
- Responding to competition: more M&A?
- Discriminatory investigations?
- Negative media reporting





Executives' Views on Reform?





The China (Shanghai) Pilot Free Trade Zone



"FTZ is part of a national strategy....a breakthrough that overcomes the main obstacles to reform"

Shanghai Party Secretary Han Zheng

Shanghai's FTZ: Most Confusing Policy Initiative Ever??

1. Free trade zone without free trade

2. Negative list longer than foreign investment catalogue

3. Financial "reform" that maintains capital controls

Govt Views

- Testing ground
- Replicable
- Aspirational

Current Status

- Very few target sectors in zone
- Forming implementation details

Implications

- Opportunity to shape outcomes
- Negative list
- Reform barometer

Addressing USCBC's Top Challenge: Licensing & Governance



“Reform should not only eliminate and decentralize power, but also make innovation and improvement on how the government governs.”

Premier Li Keqiang

Administrative System Reform

Streamline, Simplify &
Decentralize Approvals



2,400 approvals canceled or
decentralized

Company Registration



Capital thresholds lowered,
approval process simplified

Investment Approvals



Shift from government review to
notification

Government Employee
Evaluation Criteria



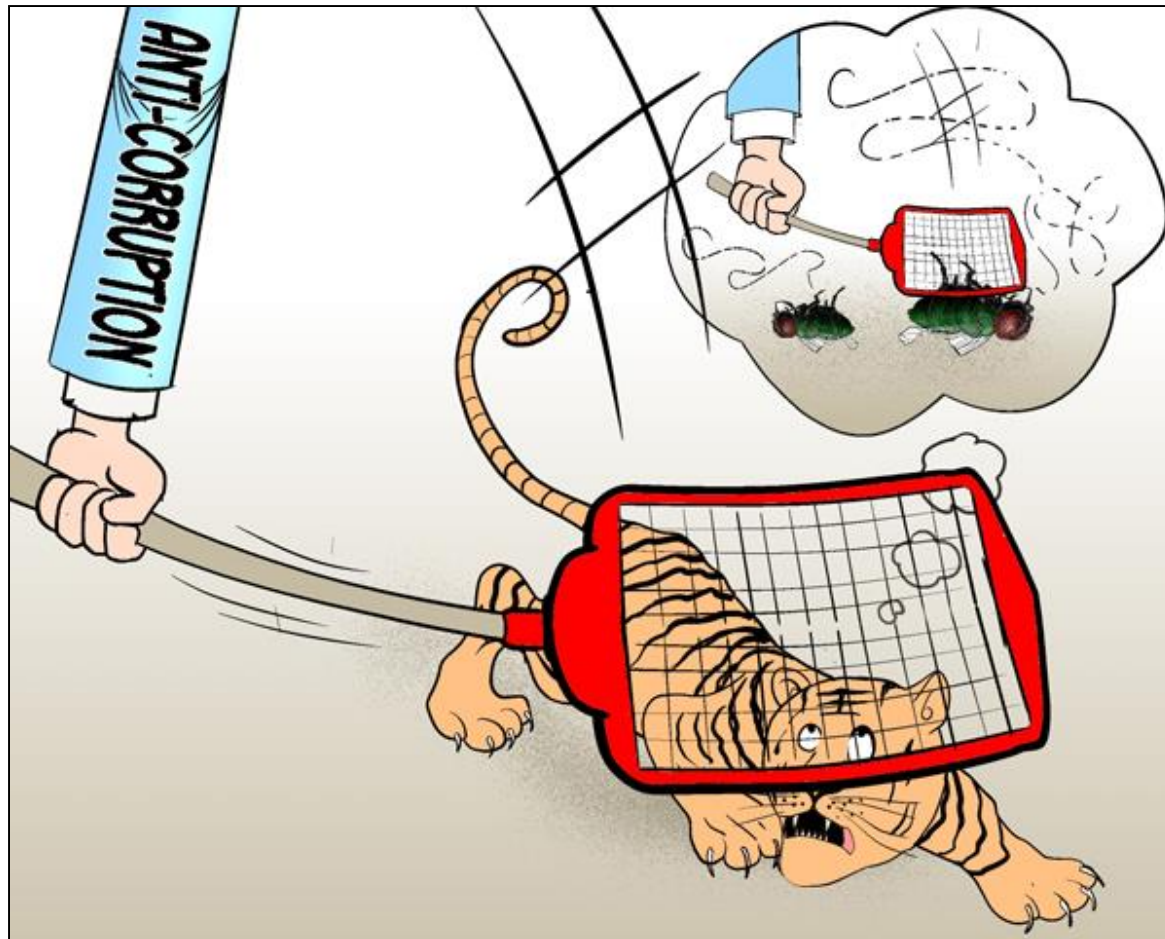
Overcapacity, environmental
protection equal to GDP growth

Curbing Local Protectionism



Fight policies blocking regional
economic activity

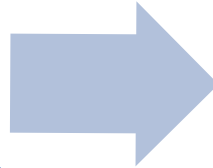
The Anti-Corruption Drive: Catching “Tigers” and “Flies”



China Anti-Corruption Trends

“Eight Point” Regulation

- Reduce travel
- Limit gifts, spending
- No “empty talk”



Anti-Corruption Work Plan (2013-2017)

- Enhance enforcement
- Divide responsibilities
- Better legal framework

- Power consolidation vs. new governance reality
- More investigations: people & companies
- Highly regulated or consumer facing industries under increased scrutiny
- Difficult to access government officials
- Long term potential = increased transparency, rule of law

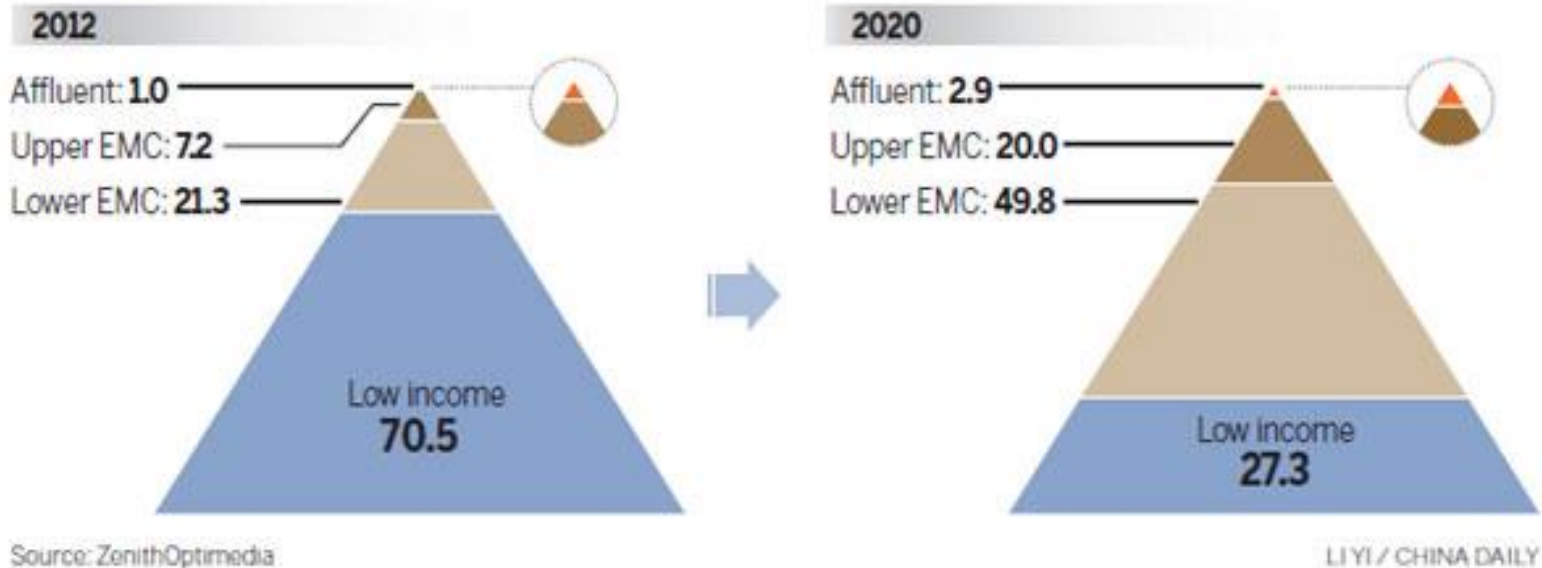
The Bright Spot: Urbanization & China's Middle Class



China's Emerging Middle Class (EMC)

Income group projected to increase from 125 million in 2012 to 356 million by 2020

Unit: percent



Definitions:

- Lower EMC: Annual household income greater than RMB72,000 (\$12,000) in tier 1 & 2 cities; RMB 48,000 (\$8,000) in Tier 3 & 4 cities
- Upper EMC: Annual household income greater than RMB120,000 (\$20,000)

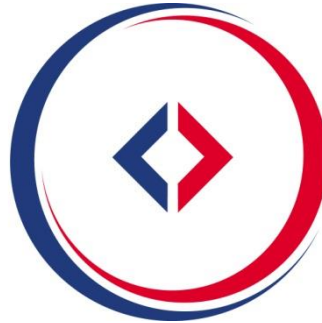
Source: "Middle Class Sitting in the Driver's Seat for Consumption," China Daily, 11/14/2013;
<http://www.chinadaily.com.cn/cndy/attachement/jpg/site1/20131114/00221917e13e13ee5dcb01.jpg>

To Sum Up.....

- China's macro economic situation of real concern to executives
- Rising costs, especially for top talent
- Chinese companies face same challenges
- Fiercely competitive landscape not necessarily about discrimination
- Reform: on executives' minds if it addresses operational headaches
- FTZ: Primarily testing ground for process reform
- Licensing: potential to address USCBC members' top challenge
- Anti-corruption drive: laying foundation for new governance model
- Dynamic, growing middle class feeds corporate optimism



Thank you!

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