



USCBC 2016 Membership Survey: The Business Environment in China

— Key Findings —

Key Findings

① 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.

② 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.

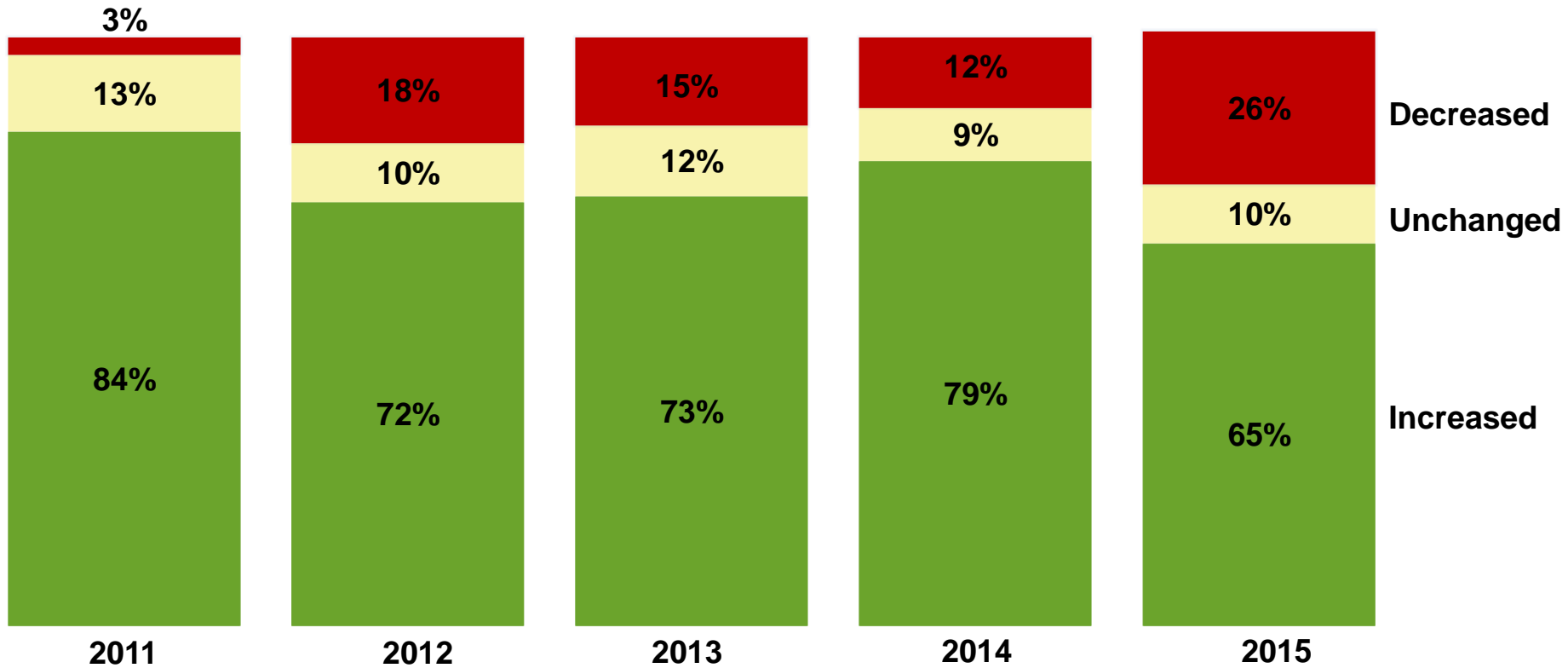
③ China still outpaces other markets

- 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.

2016 TOP 10 CHALLENGES

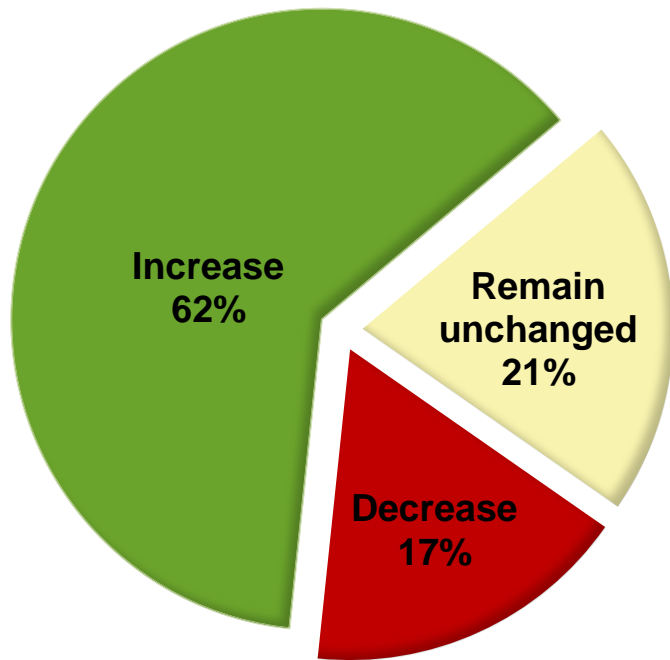
	2015	CHANGE
 1. Competition with Chinese companies in China	1	=
 2. Cost increases	3	↑1
 3. Licensing	6	↑3
 4. Overcapacity	10	↑6
 5. Transparency	5	=
 6. Uneven enforcement	9	↑3
 7. Human resources	7	=
 8. IPR enforcement	4	↓4
 9. Foreign investment restrictions	2	↓7
 10. National treatment	18	↑8

Revenue from China Business in Past Year

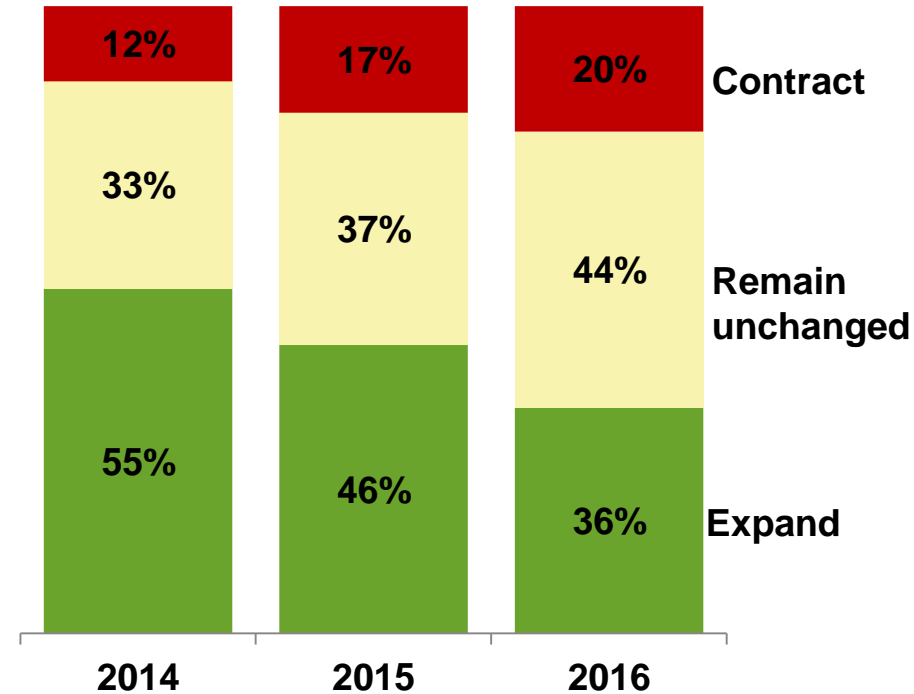


China's growth slowdown is reflected in slowing revenue growth.

2016 Revenue From China is Projected to:



Company Head Count Expected to:

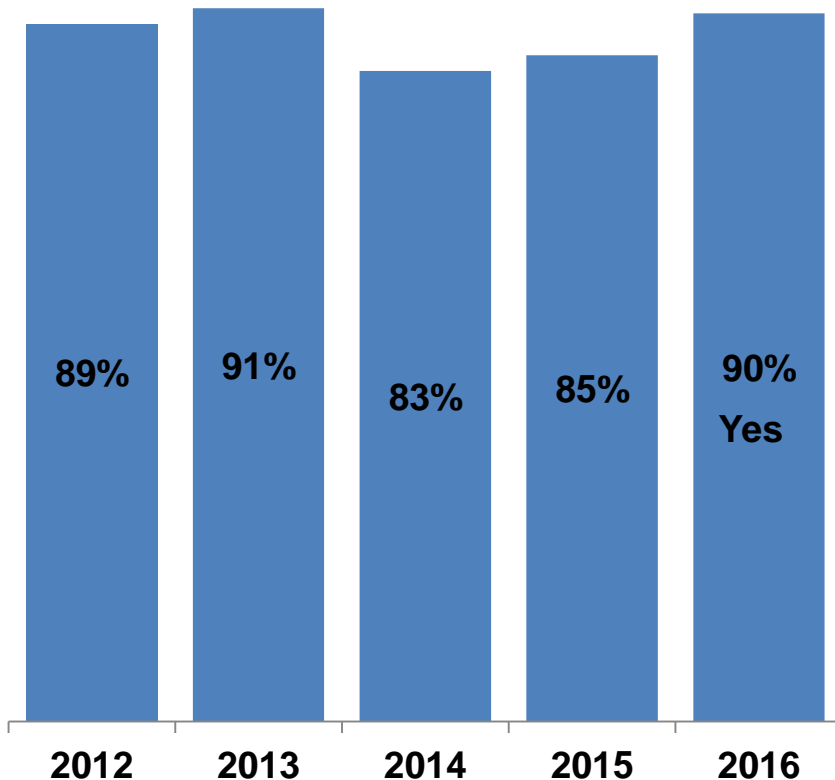


The economic slowdown is impacting revenue projections —nearly 20% expect revenues to decline this year, though 2/3 anticipate growth.

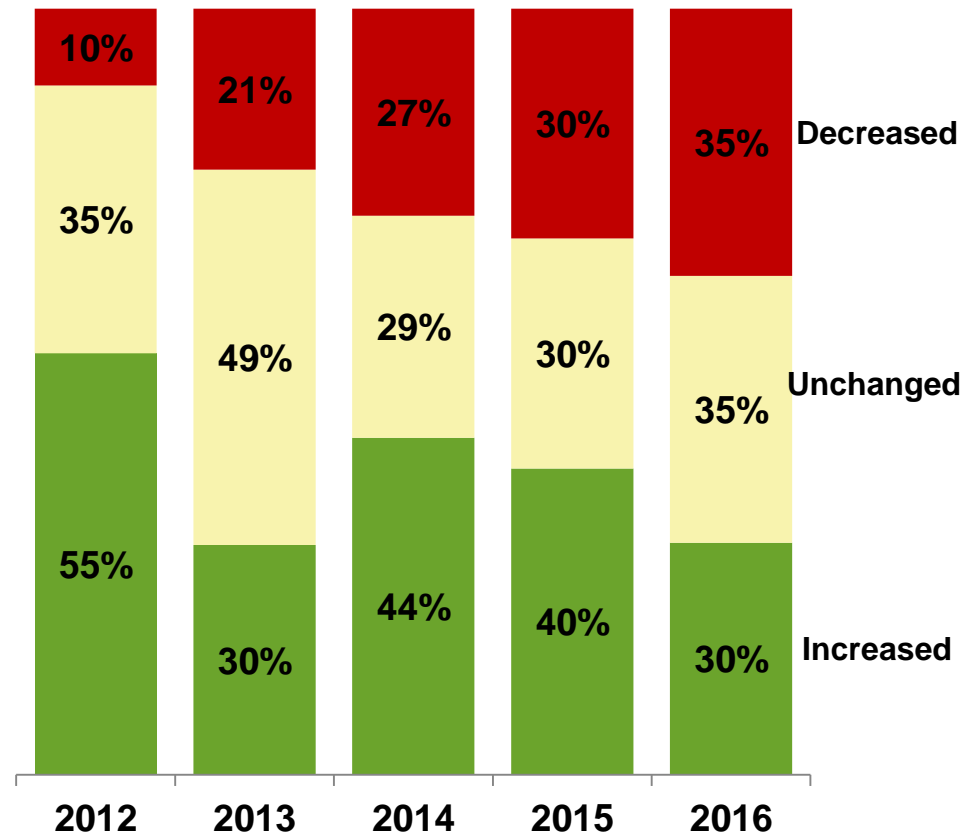
Companies are responding by doing what would be expected —reducing hiring, cutting costs, slowing investment.



Are Your China Operations Profitable?



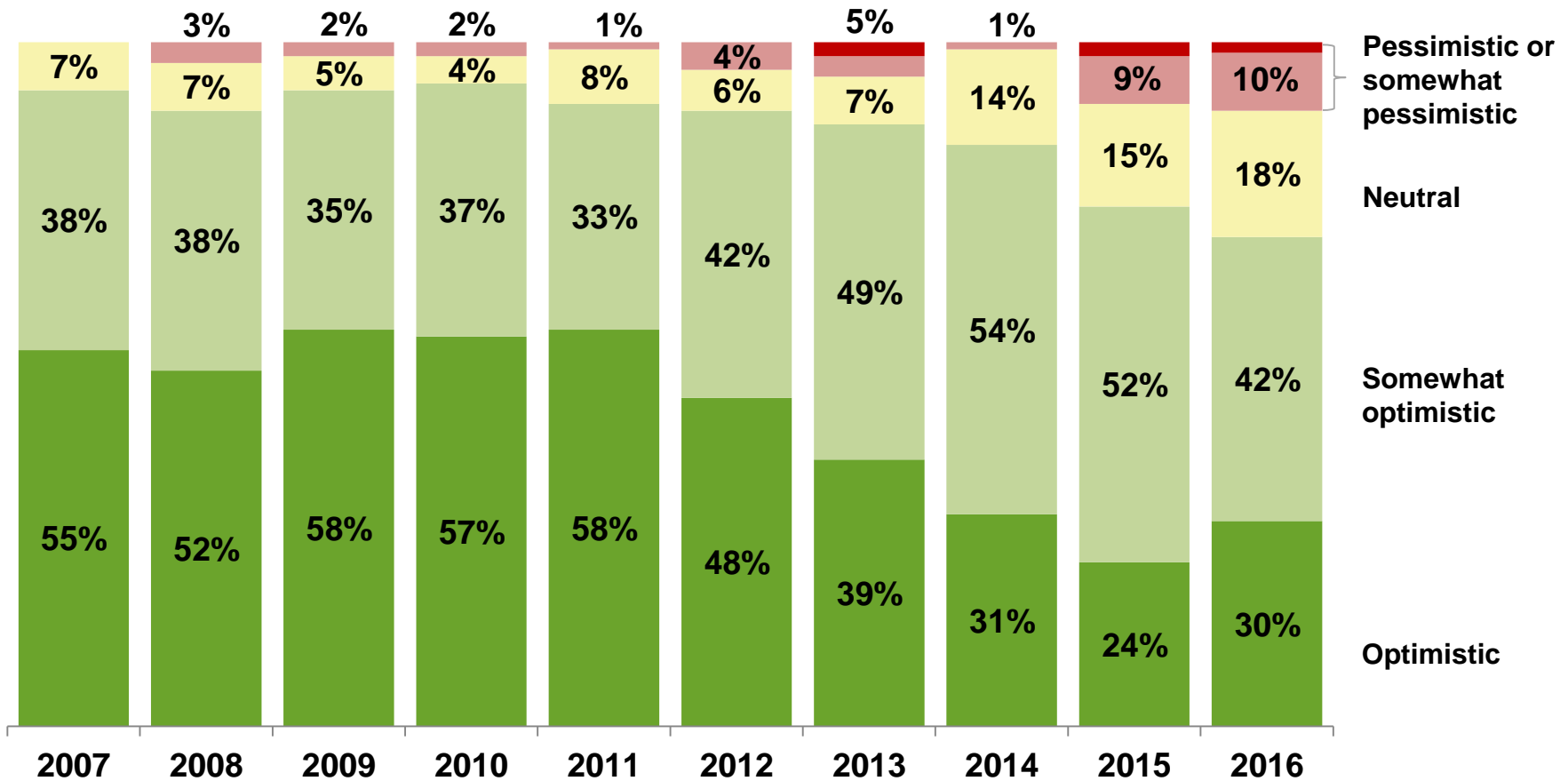
Profitability Compared to Previous Year



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

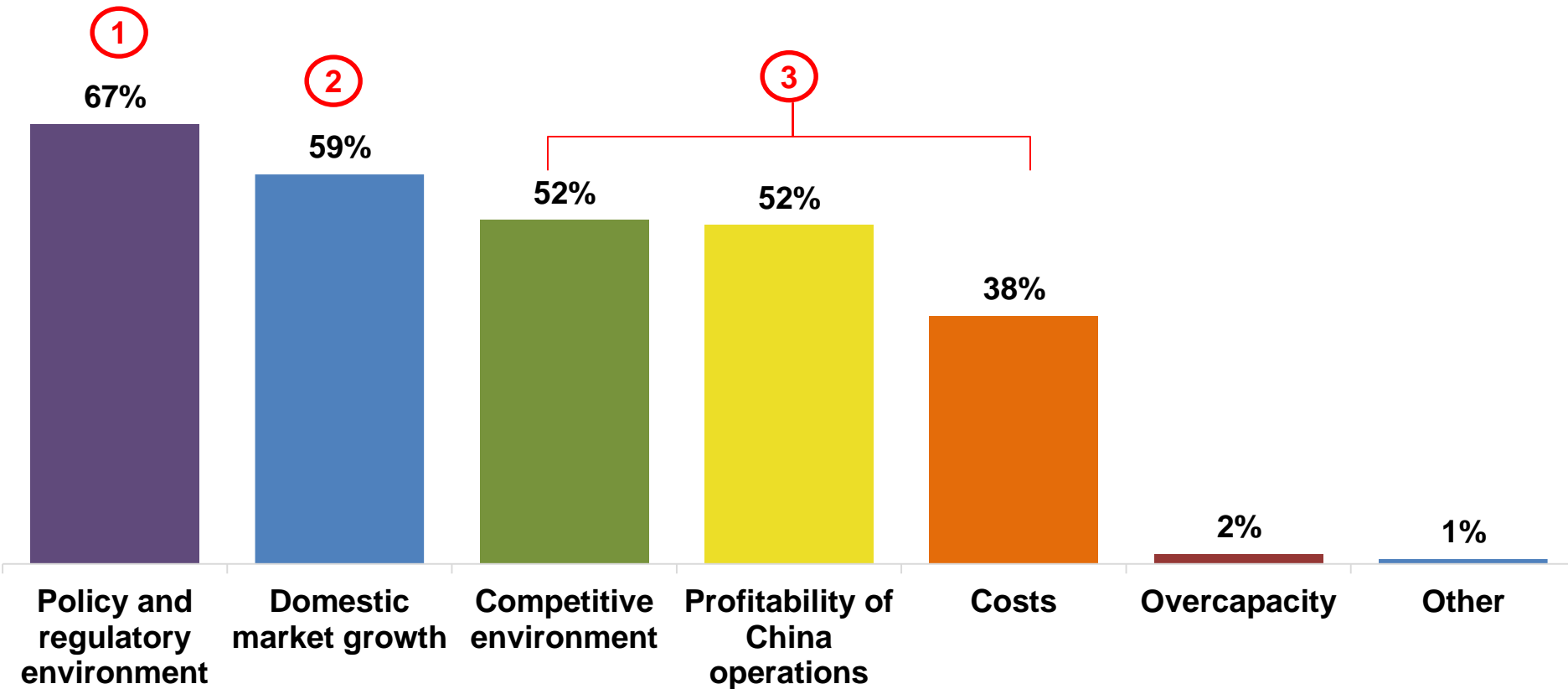
But profitability is at deteriorating rates that reflect increasing competition, rising costs, and regulatory impediments.

Five-Year Outlook for Business in China



72% are optimistic or somewhat optimistic; pessimism remains low (10%); but ... a clear trend of declining optimism and softening confidence continues.

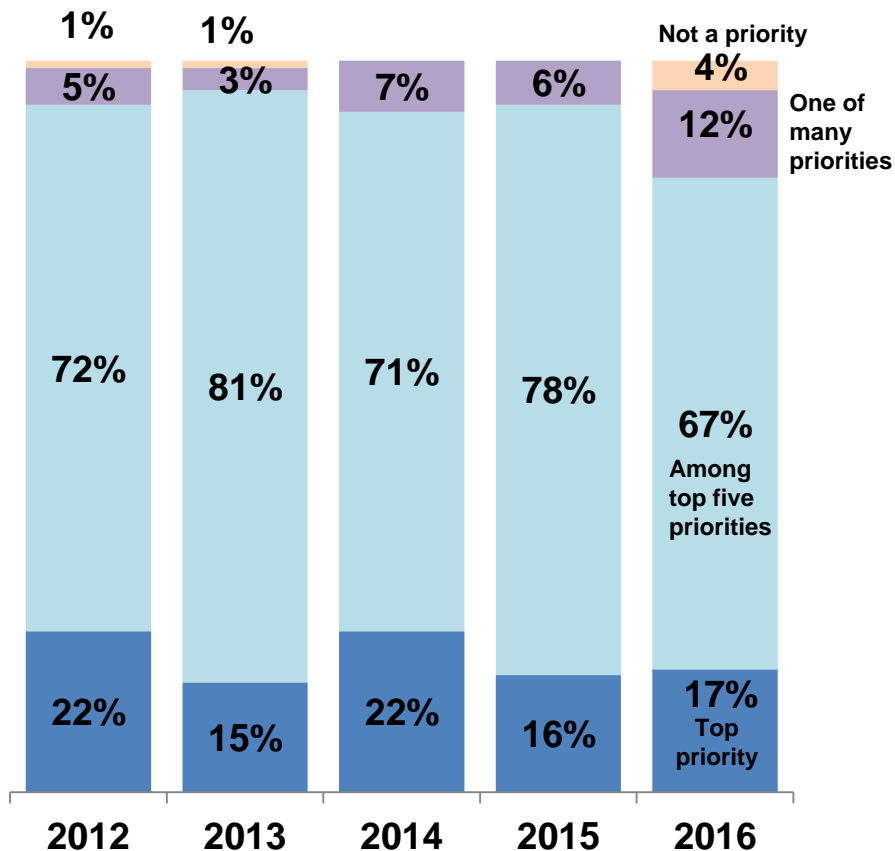
Issues Impacting Five-Year Outlook



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.

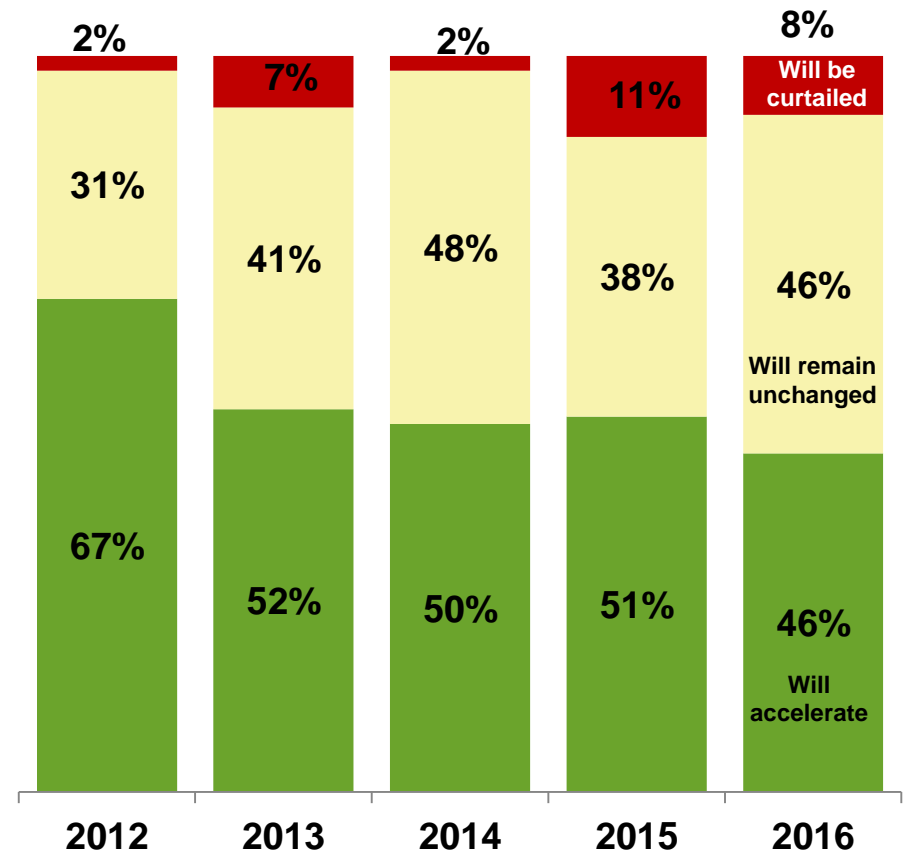


China's Prominence in Overall Company Strategy



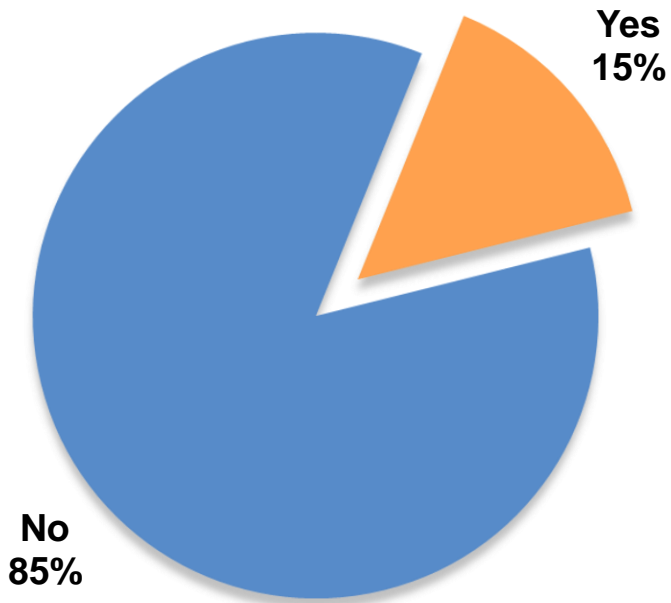
Despite the headwinds of the economy and competition, China remains a priority market for most American companies.

Resource Commitment for the Next Year

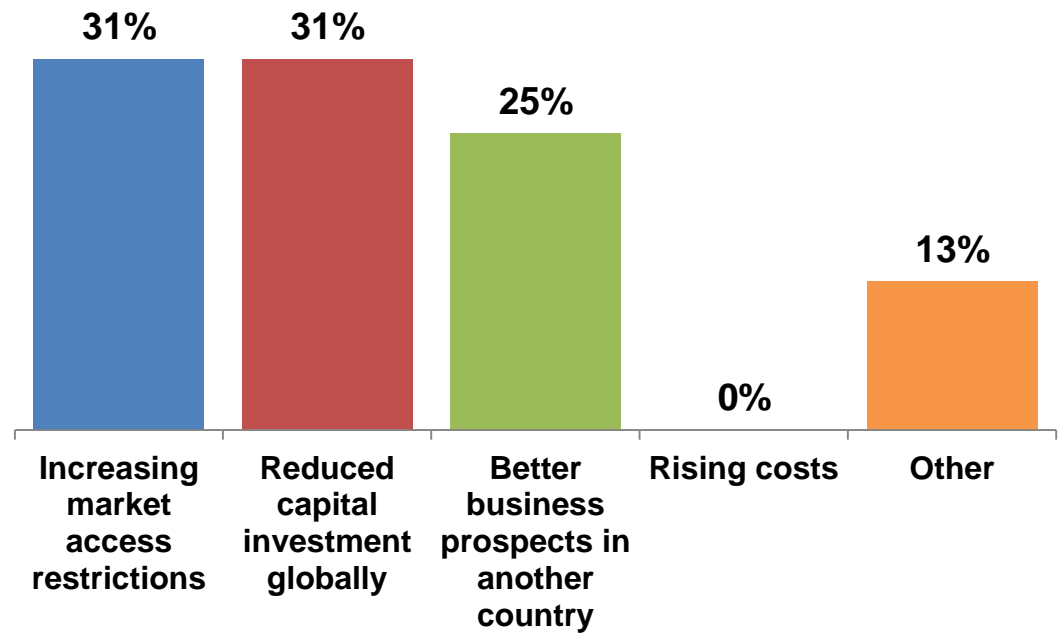


At the same time, market and policy headwinds have slowed investment overall. Fewer companies are accelerating investment in China—although the number reducing investment remains small.

Did Your Company Reduce or Stop Planned Investment in China in the Past Year?

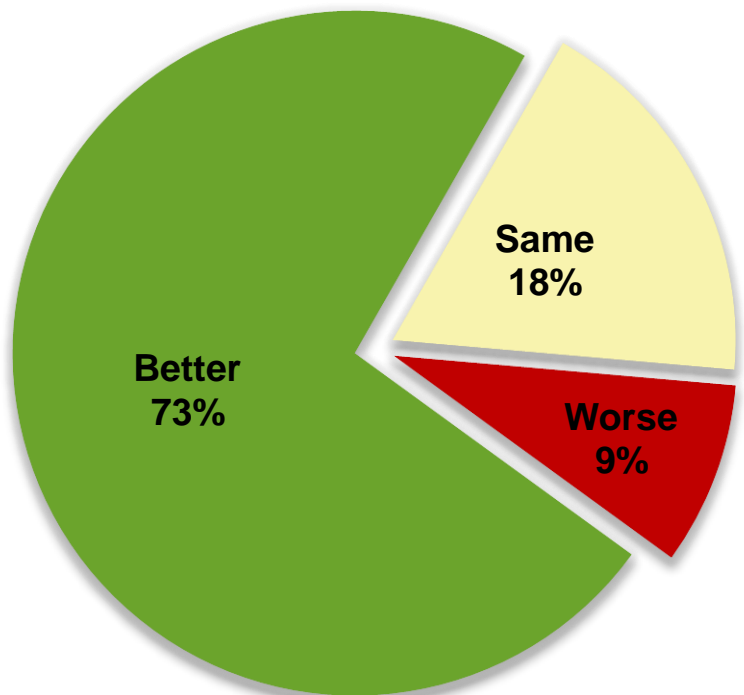


Why Did Your Company Reduce or Stop Planned Investment in China in the Past Year?

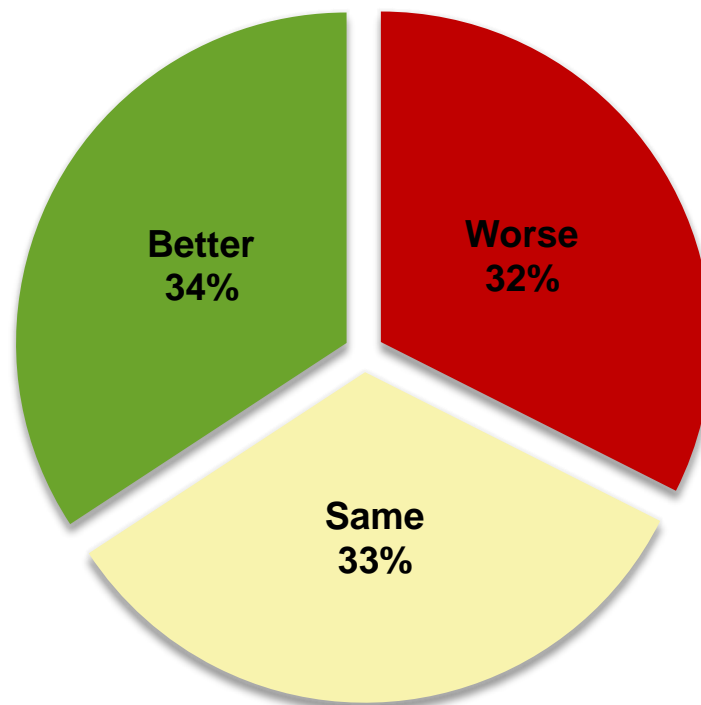


Few companies are halting investments in China, but those that do cite market access restrictions and better business opportunities in other markets as top reasons.

View of China's Growth Prospects vs. Other Emerging Markets



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



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.

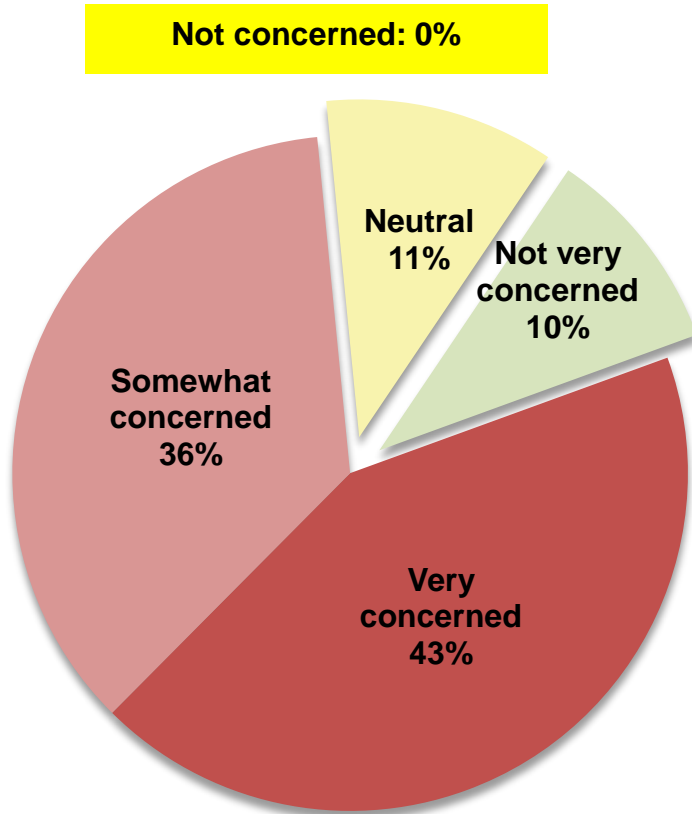
Why does a *Bilateral Investment Treaty with China* matter?

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

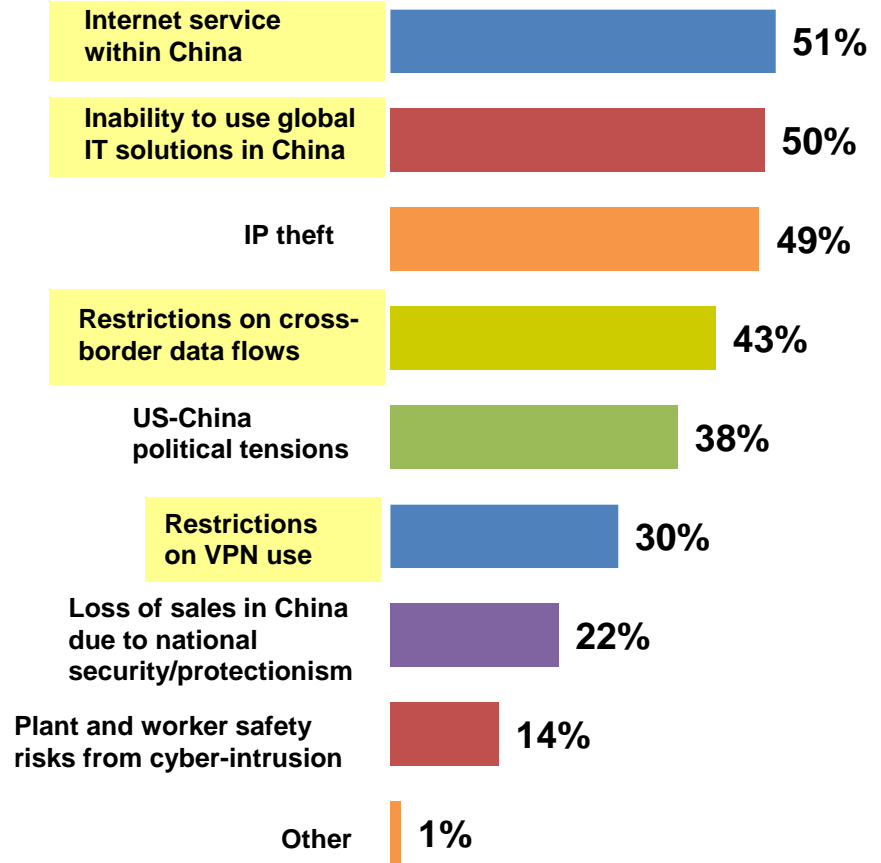


Six of the Top 10 challenges would be impacted by a BIT; A high-standard BIT is a business community priority.

Concern about Chinese Policies on Information Flows and Technology Security

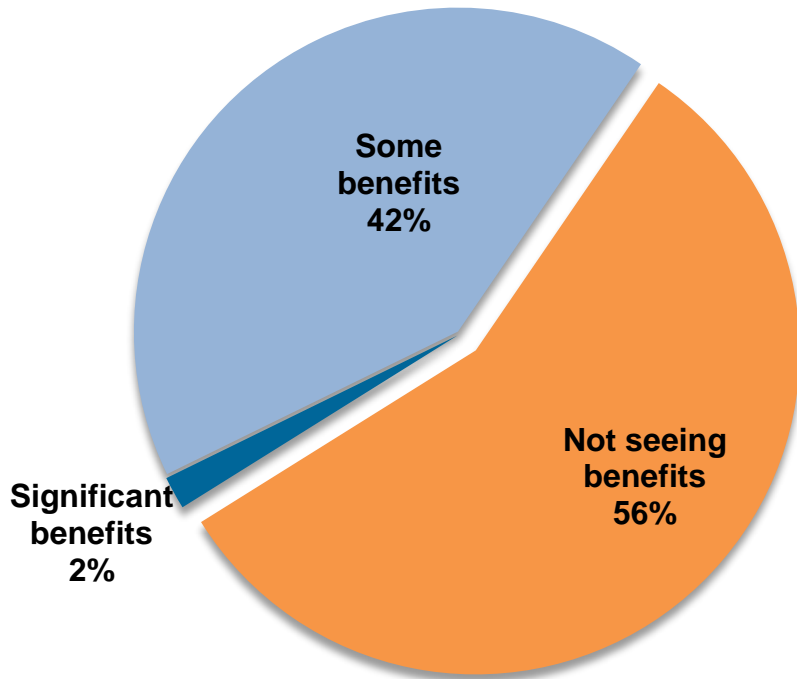


Concerns Regarding Cyber-Related Issues

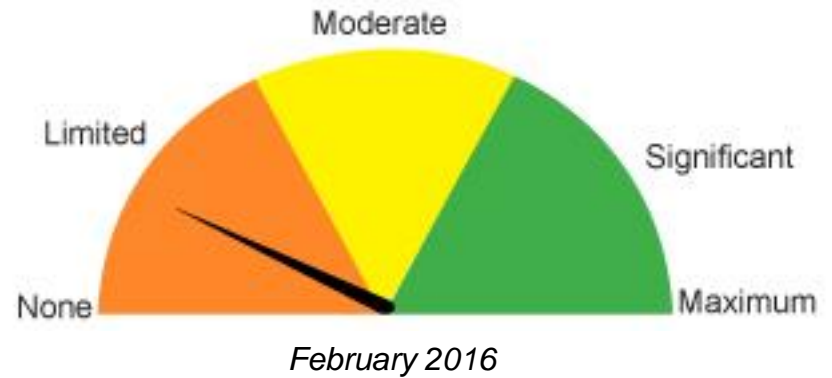


80% of companies are concerned about China's data and IT security policies, including the impact they have on day-to-day business operations.

Is Your Company Seeing Any Benefits From China's Economic Reforms?



USCBC Economic Reform Scorecard: Impact of Reform on Foreign Companies



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.



Top 10 challenges: Drill Down

TOP 10 CHALLENGES ALL RESPONDENTS

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

TOP 10 CHALLENGES SERVICES SECTOR

1. Competition with Chinese companies in China
2. Licensing
3. Data flows
4. Cost increases
5. Cybersecurity
6. Nondiscrimination/national treatment
7. Uneven enforcement
8. Transparency
9. Currency controls
10. Innovation policies

TOP 10 CHALLENGES TECH SECTOR

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

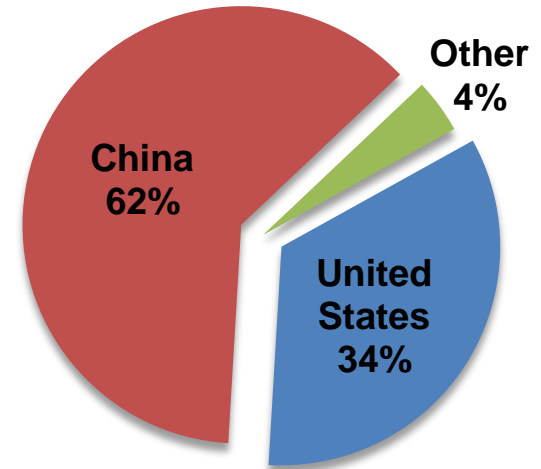
Challenges vary by sector, but competition with Chinese companies remains the No. 1 concern among US companies.

Demographics of respondents

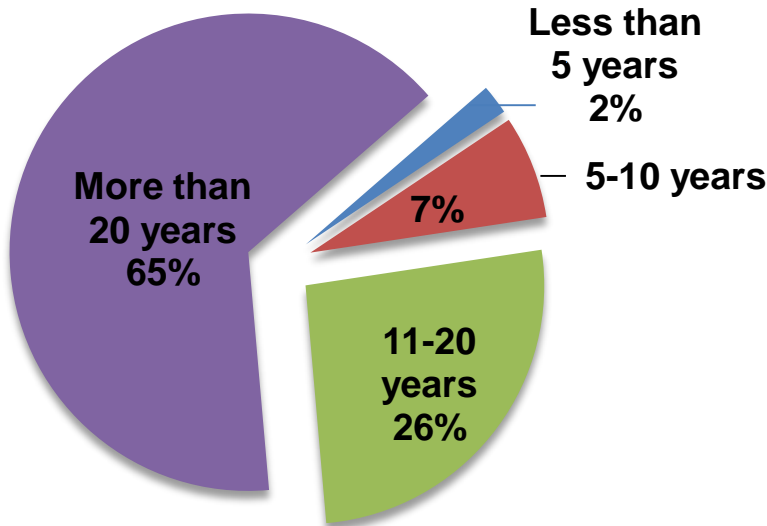
119 companies

- 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



YEARS DOING BUSINESS IN CHINA



INDUSTRY

