Member Survey

The US-China Business Council | 2024

THE US-CHINA BUSINESS COUNCIL
美 中 贸 易 全 国 委 员 会

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Executive Summary

The US-China Business Council conducted its annual Member Survey in summer 2024. The data in this report reflect responses from representatives of leading American companies. Most respondents are large US-headquartered multinationals that have operated in China for several decades, and around 40 percent generated more than $1 billion in revenue in China last year. Our survey is unique among trade associations in that it incorporates responses from US company representatives in both the United States and China. This report seeks to measure business sentiment and benchmark challenges and opportunities in the China market.

While American firms' performance in China remains strong, the country's economic slowdown is weighing on optimism. China's macroeconomy, a new option added to this year's survey, emerged as the second biggest challenge companies are facing in the China market. Weak domestic demand and overcapacity are the top constraints on companies' increased profitability in China, in part due to price cutting. More companies than ever are pessimistic about the medium-term business outlook in China.

American companies are losing market share as China pours support into domestic innovation programs. A record high proportion of companies have seen their market share in China decline this year, while a record low say their market share is growing. Intensified competition with domestic firms coincides with expanded industrial policy support, such as subsidies, for Chinese companies.

Geopolitical tensions continue to disrupt business relationships and inhibit market access for American companies in China. Ever-expanding US export controls, sanctions, and investment screenings are damaging and, at times, severing companies' relationships with their Chinese customers, and China continues to erect barriers around its public procurement markets, inhibiting access for US firms. More companies are adjusting their China-specific business operations, strategies, and supply chains to mitigate the impact of increasing bilateral tensions.

Even as companies take steps to diversify supply chains, China continues to be critically important to their global competitiveness. Although this year's survey has seen a larger share of respondents de-prioritize China in the short term compared with previous years, the majority still identify China as a top priority in their company's global investment planning, and most companies would be less competitive globally without their China operations.

Companies have seen modest improvements in the business environment, but remaining barriers to doing business in China and macroeconomic imbalances must be addressed to restore confidence in the market. The Chinese government has made improvements to market access and cross-border data transfer policies, and senior Chinese policymakers have acknowledged a dire need to boost domestic consumption. Additional progress on these fronts could help restore confidence and buffer the negative impacts of industrial policy and US-China tensions on the overall environment for doing business in China.

2024 Top 10 Challenges	2023
#1 US-China relations: Geopolitics or domestic politics	1
#2 China's macroeconomy	N/A
#3 Competition with Chinese companies (state owned or private)	4
#4 Export controls, sanctions, and investment screenings	3
#5 Data, personal information, and cybersecurity rules	2
#6 Government and SOE procurement policies in China	13
#7 Licenses and approvals	5
#8 Tariffs	11
#9 Industrial policy	10
#10 Intellectual property protection	9

Introduction

For American companies with business relationships and operations in China, there were reasons to be guardedly optimistic at the start of 2024. According to official Chinese statistics, China's GDP had grown more than 5 percent the year prior, exceeding the government's official target. Tensions between Washington and Beijing appeared to be under more active management following a November 2023 meeting between President Joe Biden and President Xi Jinping on the sidelines of an Asia-Pacific Economic Cooperation summit in San Francisco. In addition, the Chinese government's announcement in late 2023 that it would relax its onerous data transfer regulations gave way to expectations of additional pro-business policy reforms.

While the landscape has not fundamentally shifted since then, hopes for significant improvements to the business environment have largely subsided—at least for now. Instead, this year's member survey reflects only marginal improvements across just a few indicators. For many other indicators, downward trends have simply decelerated from last year.

Like last year, two of the top five challenges companies face in China are related to geopolitics. US-China relations has maintained its position as the top challenge for six of the last seven years, while export controls, sanctions, and investment restrictions fell by one spot to fourth place.

The most notable new developments pertain to China's domestic environment. China's macroeconomy now constitutes a real constraint on business growth, something that was unthinkable only a few years ago. The data show China's economic slowdown is also exacerbating market competition, which rose to the number three challenge. Concerns about accessing China's public procurement markets shot from 13th to sixth place in just one year, suggesting more barriers have been put in place.

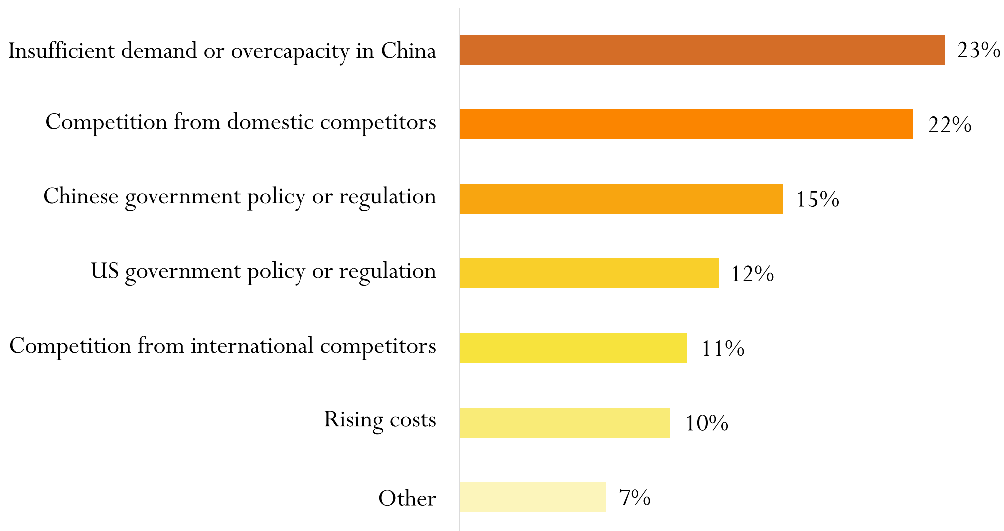
Business Environment and Sentiment

Weak domestic demand pressures profit margins

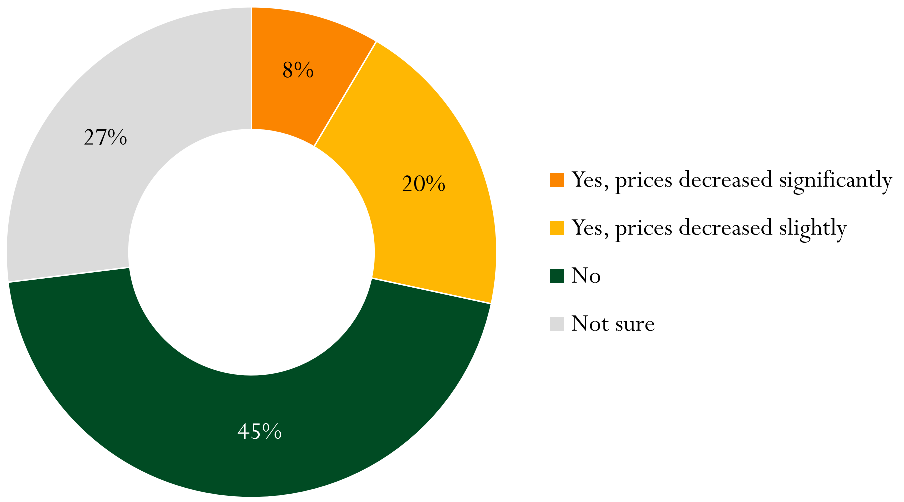
China's slowing economy, brought on by long-term structural imbalances, is affecting US companies' performance and outlook in myriad ways. Impacts on profit margins are the most acute; nearly one quarter of respondents cite either insufficient demand or overcapacity as the number one constraint on profitability this year. Insufficient demand and overcapacity are also leading to price cuts, with around 30 percent of respondents having seen prices decline in their sector. Broadly speaking, the deflationary environment is limiting firms' pricing power, historically a key advantage for American companies in China.

In addition to impacting firms' performance, weak domestic demand appears to be magnifying the effects of market competition. While competition with Chinese companies is the second biggest constraint on profitability for the second consecutive year, the proportion of respondents who cited competition with foreign companies nearly tripled from last year. This paints a picture of China as a slow-growth market where companies have to work harder to secure sales opportunities, thereby pushing up the cost of goods sold. Although more than half of companies were not affected by overcapacity in the last year, 10 percent say they expect to see it in the near future. One quarter are already affected.

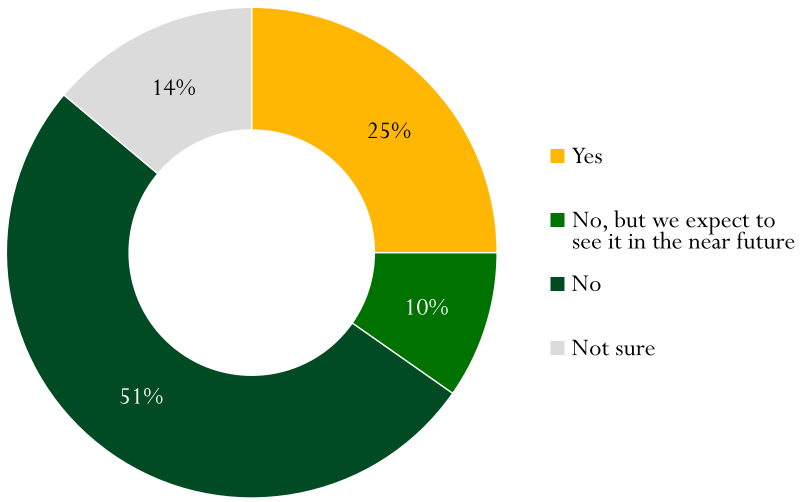
Primary restraint on increased profitability in China



Has overcapacity led to deflation in your sector?



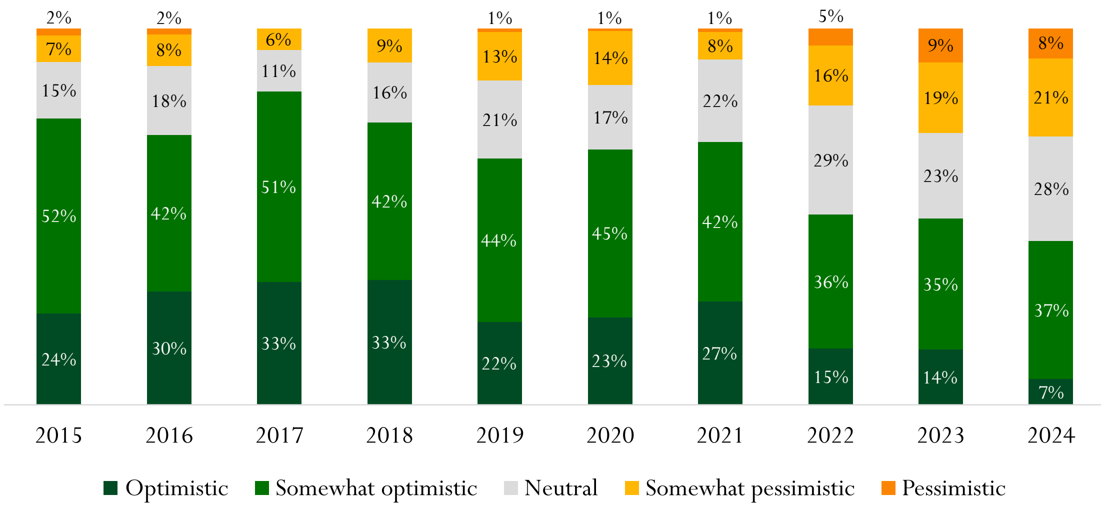
Has your company been affected by overcapacity in the past year?



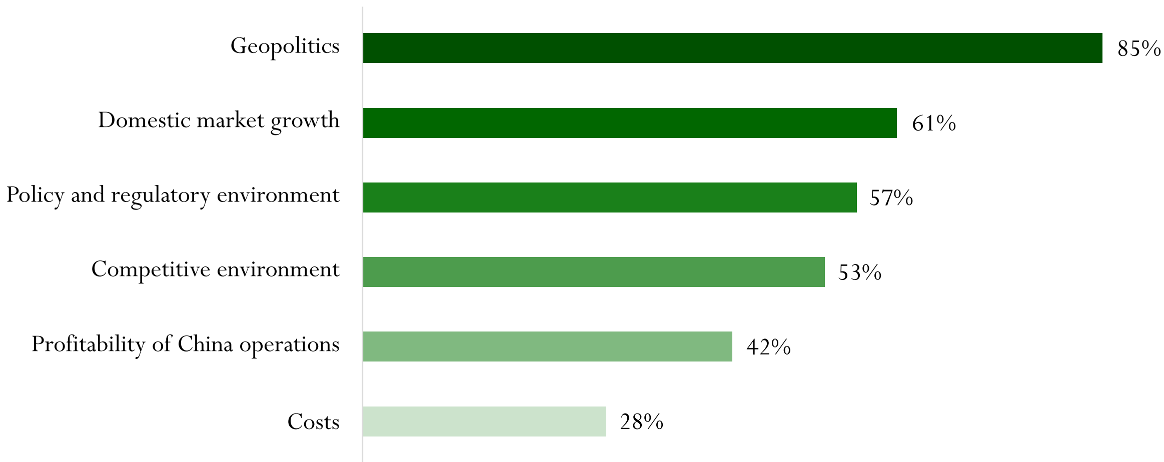
Anxieties about domestic market growth weigh on five-year business outlook

This year, companies' five-year business outlooks have continued on a downward trajectory. Fewer than half of respondents expressed an optimistic or somewhat optimistic outlook—a record low for the third consecutive year. At the same time, pessimism has reached an all-time high of 29 percent. Alongside geopolitics, China's domestic market growth is a key factor weighing down companies' five-year assessments.

Five-year outlook for business in China



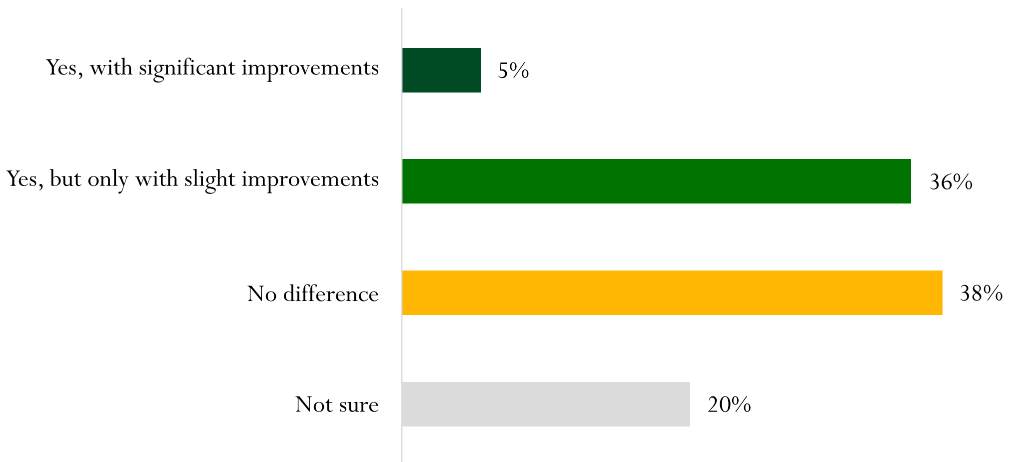
Issues impacting five-year business outlook



Chinese government pledges to improve the business environment yield limited progress so far

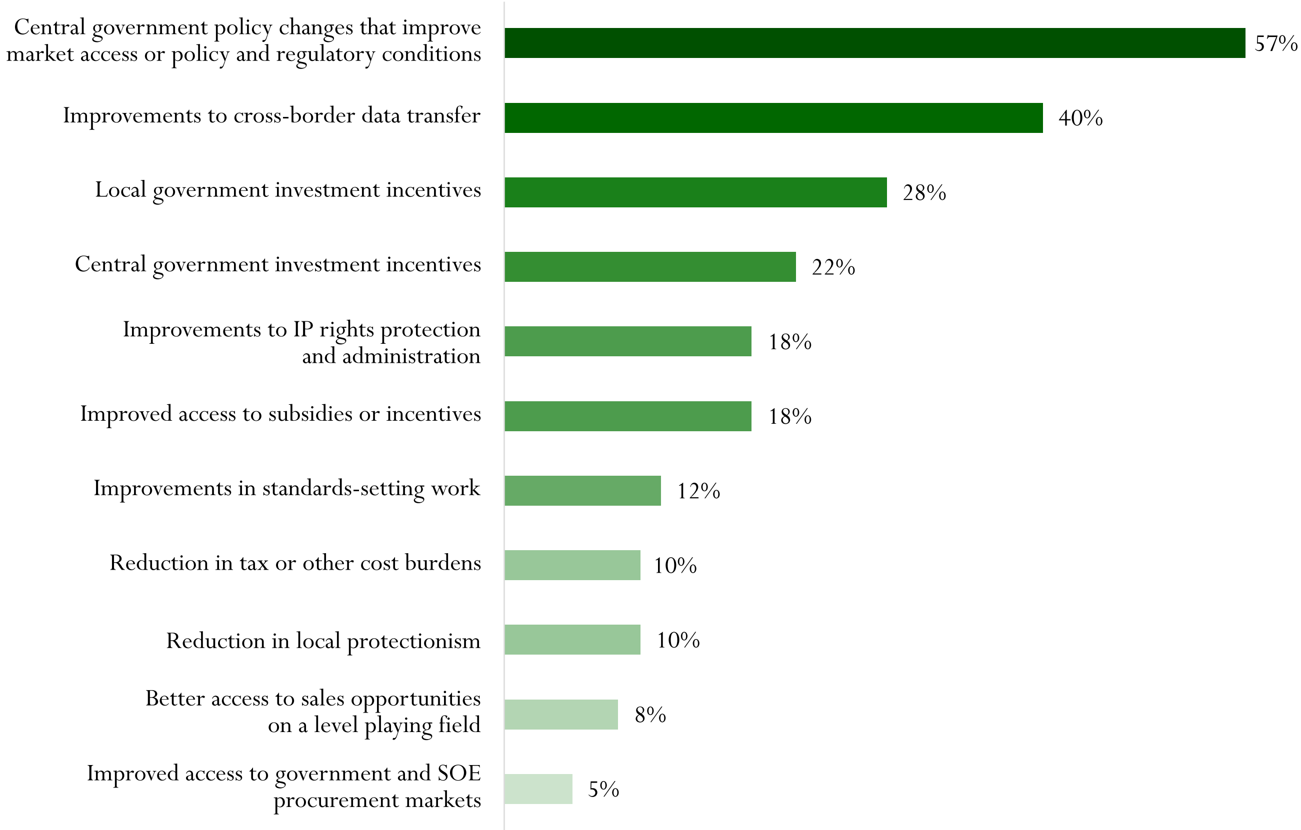
In response to concerns from the business community about China's slow growth environment, the Chinese government has published several high-profile policies aimed at attracting foreign investment. In March 2024, the State Council released Document 9, an action plan for opening up the market and attracting foreign investment. The plan includes detailed instructions for industry regulators to address concerns around market access, cross-border data transfers (CBDT), government procurement, and intellectual property protection. On this year's survey, distributed a few months after the State Council released the action plan, 41 percent of respondents report at least some tangible improvements to China's business environment, while a similar number (38 percent) have not seen tangible changes.

Has the Chinese government's pledge to
improve the business environment resulted in tangible improvements?



Respondents cite market access and CBDT policies as the main areas of improvement in the business environment. Few companies note improved access to government and state-owned enterprise (SOE) procurement markets or reductions in local protectionism, both of which are priorities included in the State Council action plan.

Where have you seen improvement in China's investment environment?



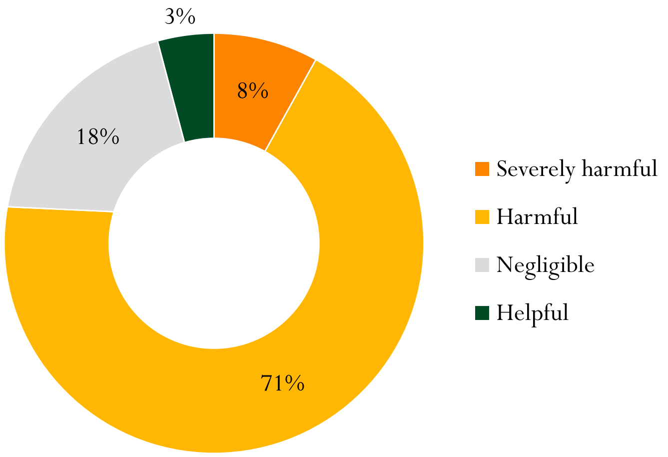
Key Challenges

Geopolitical uncertainty causes disruptions to customer and business relationships

Consistent with last year, US-China relations and related geopolitical uncertainty comprise the single biggest challenge for US companies doing business in China. US-China relations have maintained this position in USCBC's annual survey every year since 2018 with the exception of 2022, when China's COVID-19 management was at its most stringent and when related shutdowns topped the list of challenges.

Negative impacts from US-China relations affect upward of 80 percent of respondents, largely unchanged from last year. The proportion of respondents who report harmful or severely harmful effects from US-China relations decreased slightly, from 83 percent last year to 79 percent this year.

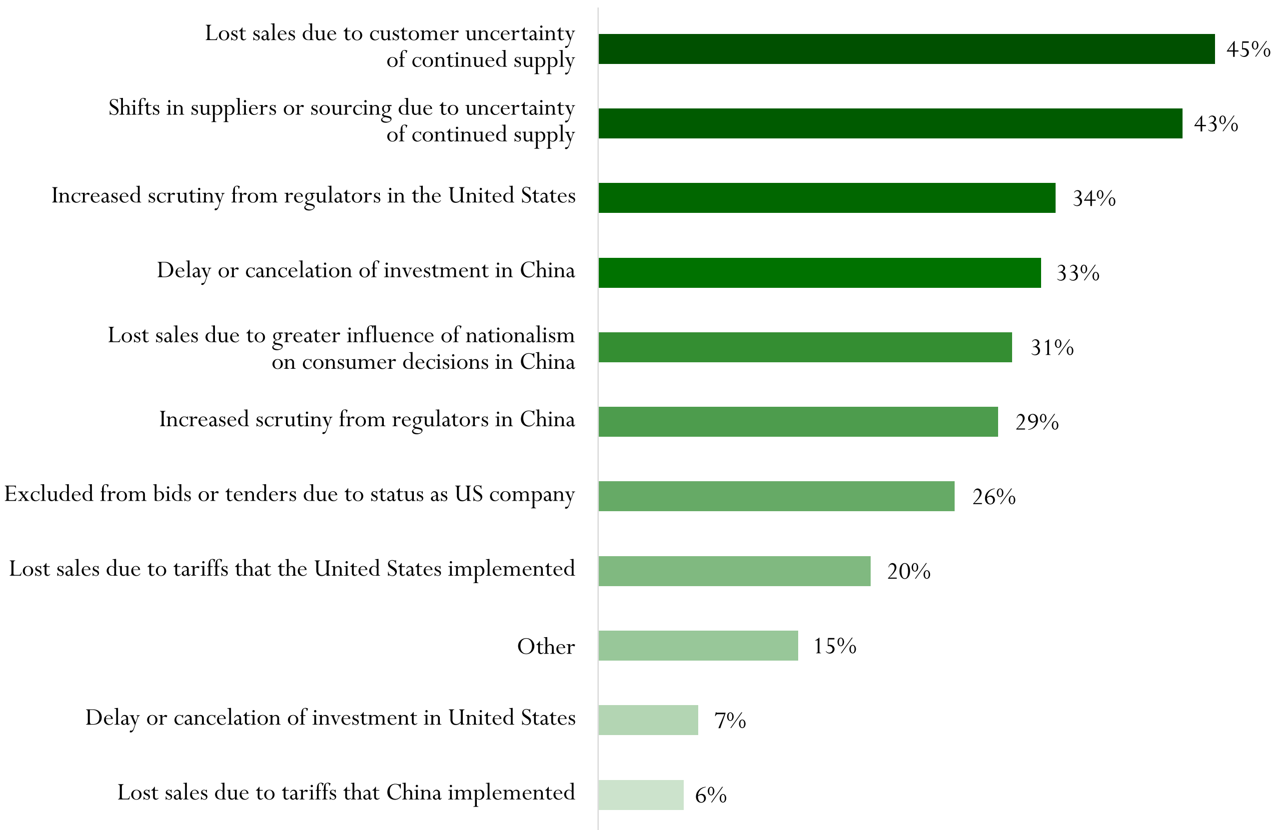
Impact of US-China tensions on my company's China performance



Nearly half of respondents report losing sales due to customer uncertainty around continued supply, while almost one third lost sales due to rising nationalism among Chinese consumers. In addition, over one quarter of respondents report being excluded from public bids or tenders due to being a US company, an increase of six percentage points from last year. More respondents also report increased scrutiny from US regulators as a result of US-China tensions, rising nine percentage points to 34 percent.

The impacts of US-China tensions on supply chains are pronounced, with 43 percent of respondents reporting supplier or sourcing shifts. More companies are developing new supply chains for China-specific, US-specific, or other region-specific businesses this year. For some companies, this entails creating two supply chains in parallel to serve end markets in China and the United States, while other companies are either localizing supply chains in China or relocating certain supply chain segments outside China.

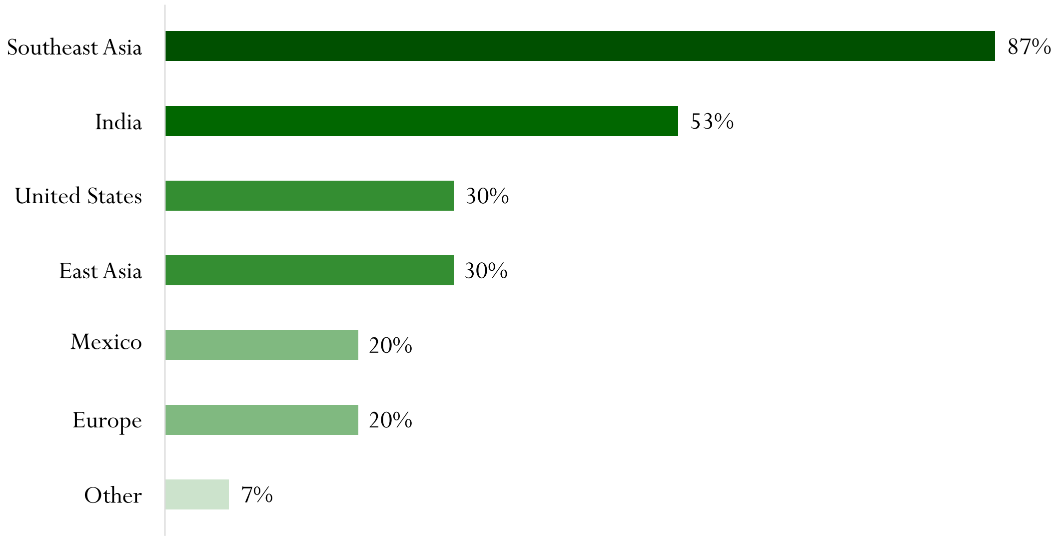
Impacts of US-China tensions



Southeast Asia, India, and the United States are the primary destinations for companies looking to relocate supply chains. A quarter of respondents say their company is in a wait-and-see mode, suggesting that more companies may reconfigure supply chains if US-China relations continue to deteriorate.

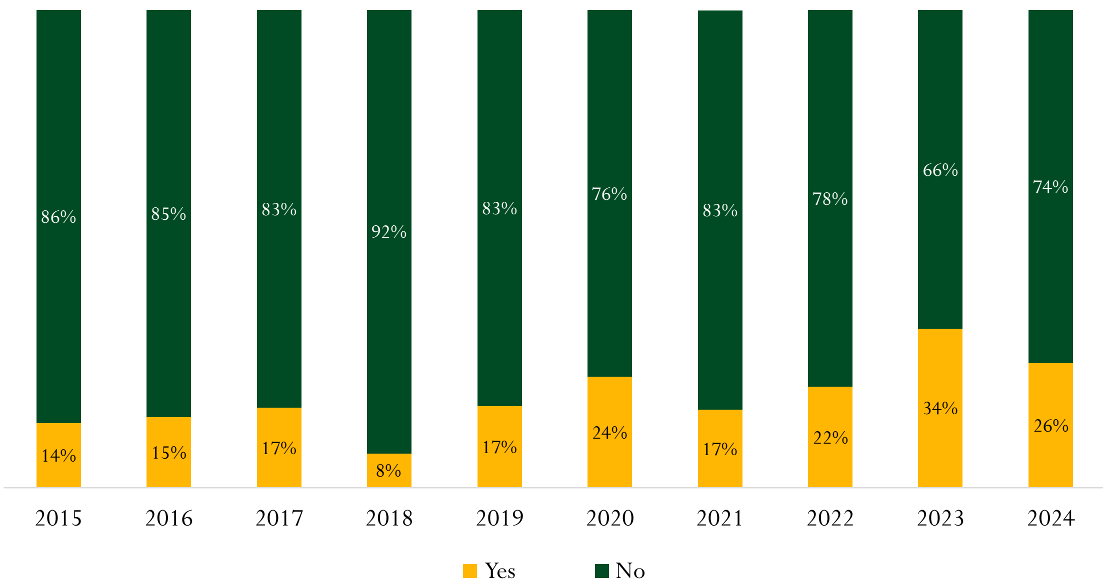
Is your company reviewing its supply chains in China?

Where are companies relocating supply chains?

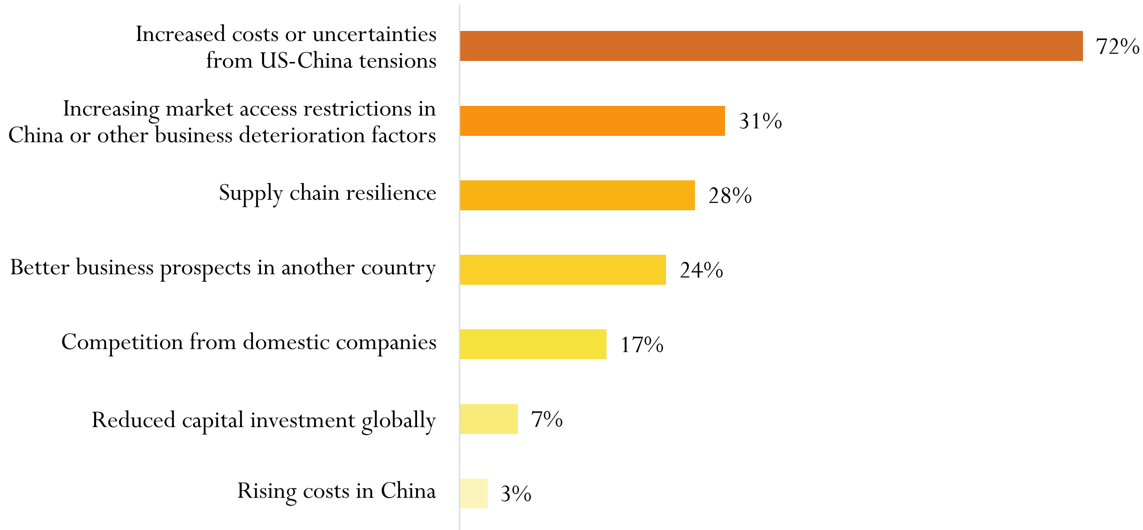


About one quarter of respondents have reduced or paused planned investments in China over the past year, down from over one third last year. Companies point to increased costs or uncertainties due to US-China tensions, increasing market access restrictions, and the need for supply chain resilience—which often entails shifting some investment away from China—as the top three reasons for pausing or canceling investment plans over the past year.

Did your company reduce or stop planned investment in China in the past year?



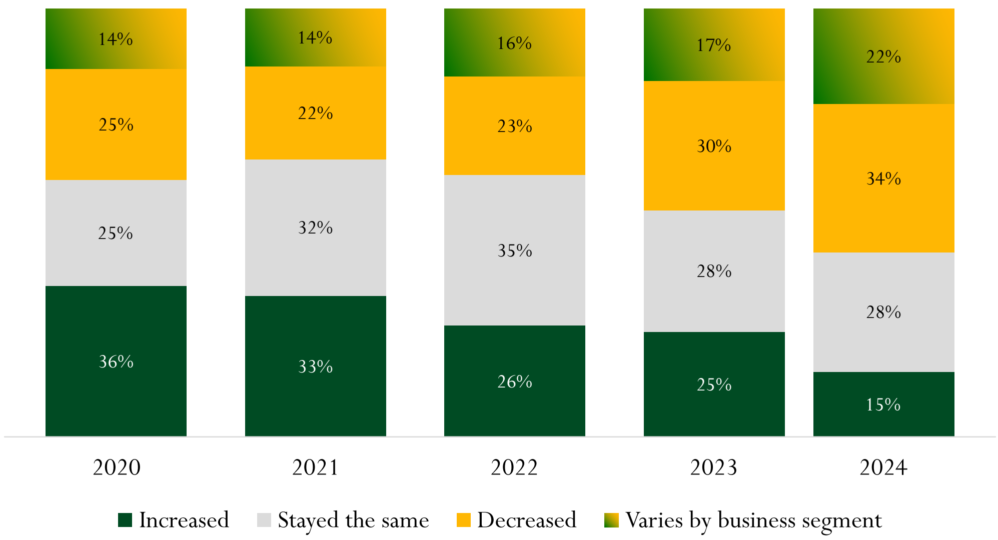
Why did your company reduce or stop planned investment in China in the past year?



US market share declines in China's hyper-competitive market

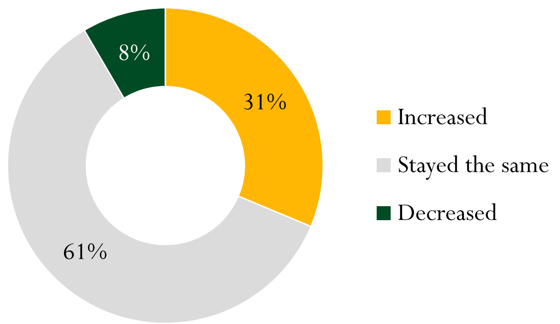
Competition with Chinese companies ranked number three on the list of top 10 challenges this year, a concern fueled by lost market share in China and globally. The proportion of respondents that have seen their market share in China decline reached a record high of 34 percent this year, while a record low of 15 percent report that their market share has grown. Decelerating investment in China by US firms, slower economic growth, and improved capabilities among Chinese companies are some of the factors that inhibit the ability of American firms to compete.

How has your company's market share in China changed in recent years?



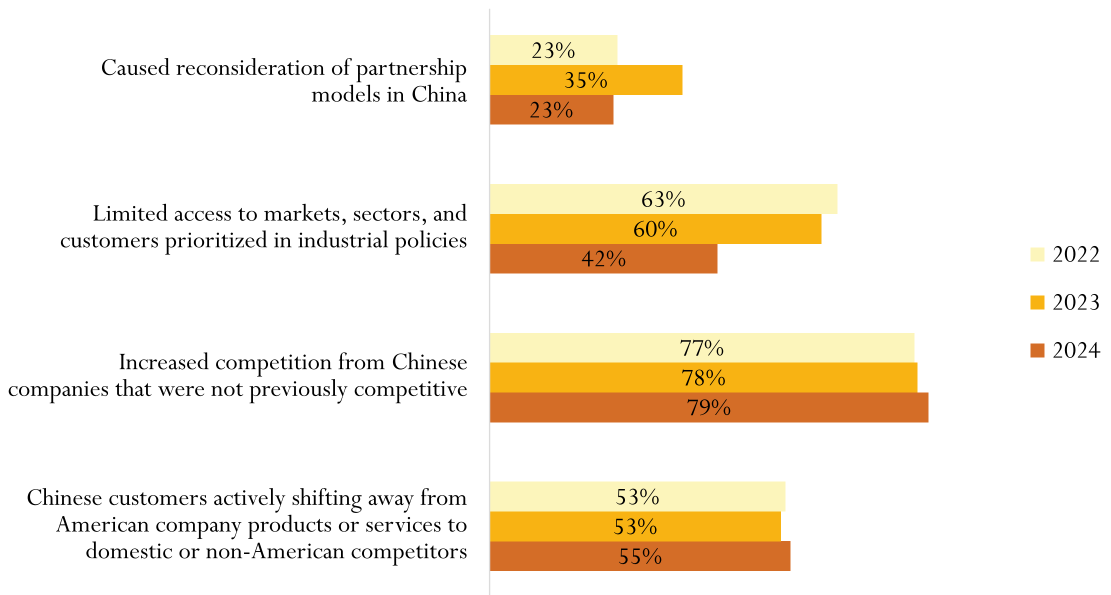
Heightened competition coincides with higher levels of industrial policy support for Chinese companies. Ninety-two percent of respondents that operate in sectors impacted by industrial policy report similar or higher levels of industrial policy support in their sector this year compared with last year.

Level of change in industrial policy support in the past year

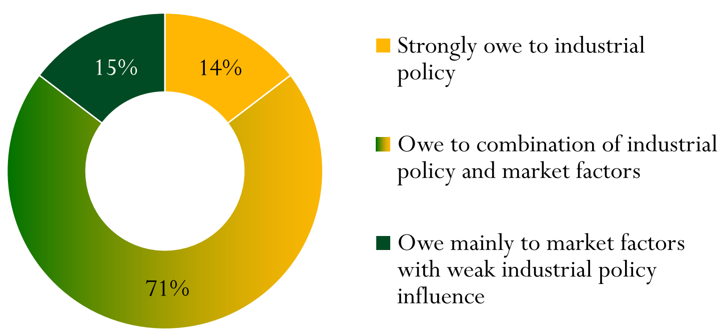


Industrial policy is significantly transforming the competitive environment in China for American companies. Nearly 80 percent of respondents say China's industrial policies are strengthening Chinese companies that were previously uncompetitive. However, most respondents ascribe increased competition from their Chinese competitors to a combination of industrial policy, market factors, and commercial maturity, making it difficult to single out the impact of industrial policy on a company basis.

Negative impacts from industrial policies

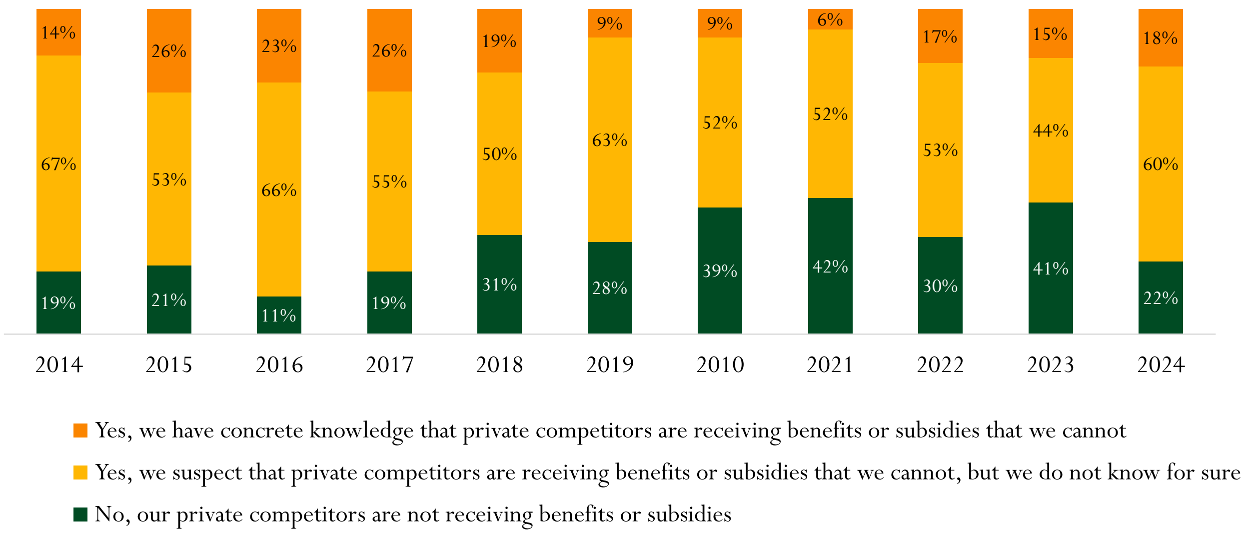


Do your Chinese competitors owe their increased capability to industrial policy or other factors?

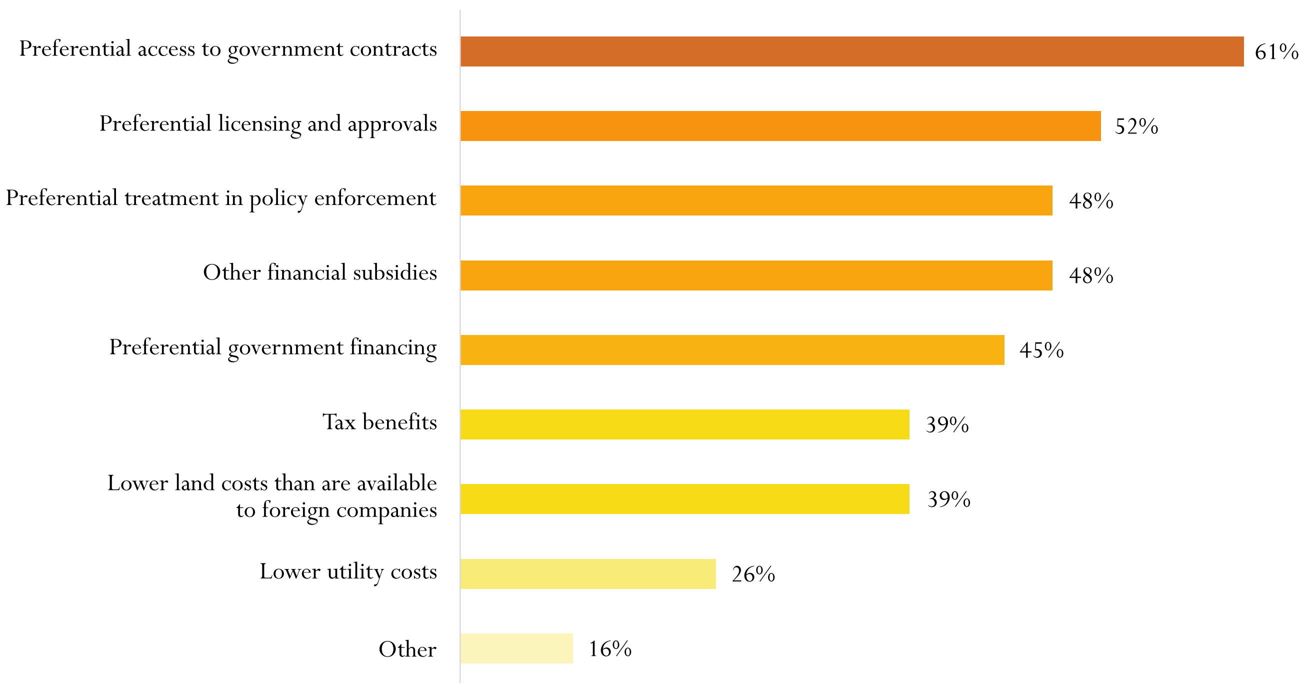


Respondents compete with Chinese non-state-owned and private companies (81 percent); other foreign firms (around 70 percent), which includes other American companies; and SOEs (43 percent). Although survey respondents say SOEs are more likely to receive tangible benefits from the government compared with their private Chinese counterparts, the rate at which respondents suspect their non-SOE competitors are receiving benefits is at its highest point since 2017. Respondents say preferential government contracts, preferential licensing and approvals, preferential treatment in policy enforcement, and subsidies are the primary types of benefits their competitors receive.

Are private Chinese competitors receiving tangible benefits?



What type of benefits do competitors receive?



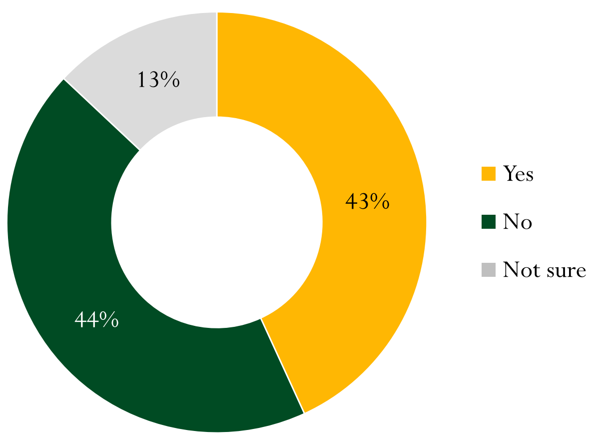
Export controls broadly impact US firms and benefit Chinese competitors

Export controls, sanctions, and investment screenings comprise the top policy-specific challenge this year and the fourth-ranked challenge overall, surpassing CBDT for the first time. Although US export controls are intended to be narrow and targeted, the high rate of reported impacts suggests that export controls, sanctions, and investment screenings are impacting a larger segment of the business community.

More than 40 percent of survey respondents are impacted by US export controls and sanctions, about the same proportion of respondents who say they are not impacted, with 13 percent saying they are not sure.

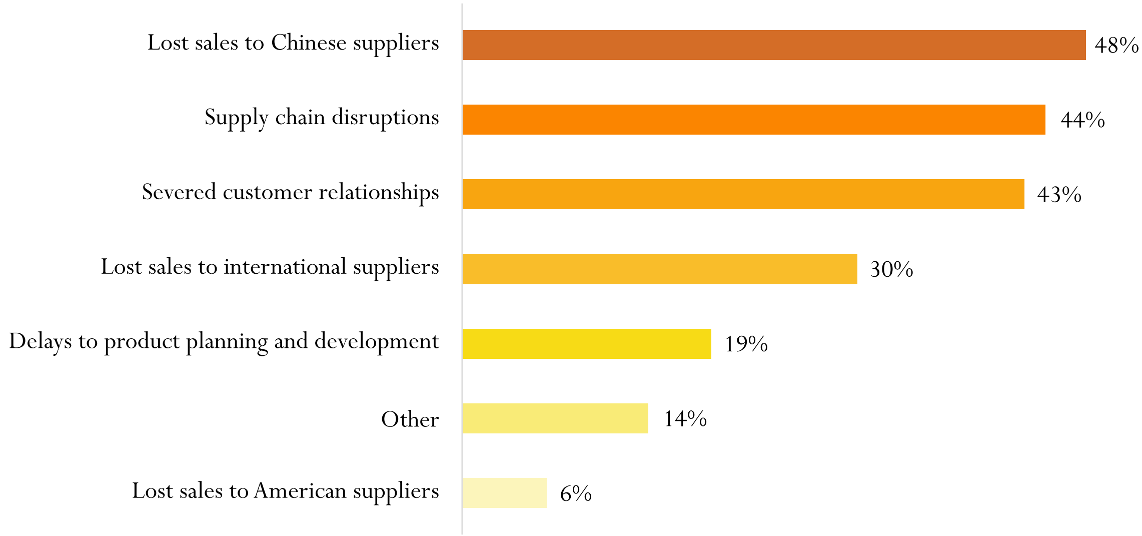
Between 2018 and 2023, the Bureau of Industry and Security, which oversees the export licensing process, approved licenses to China worth $335 billion and rejected applications worth $545 billion. The real impacts are likely even broader, as those figures are not inclusive of business relationships that were discontinued before export license applications were filed.

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



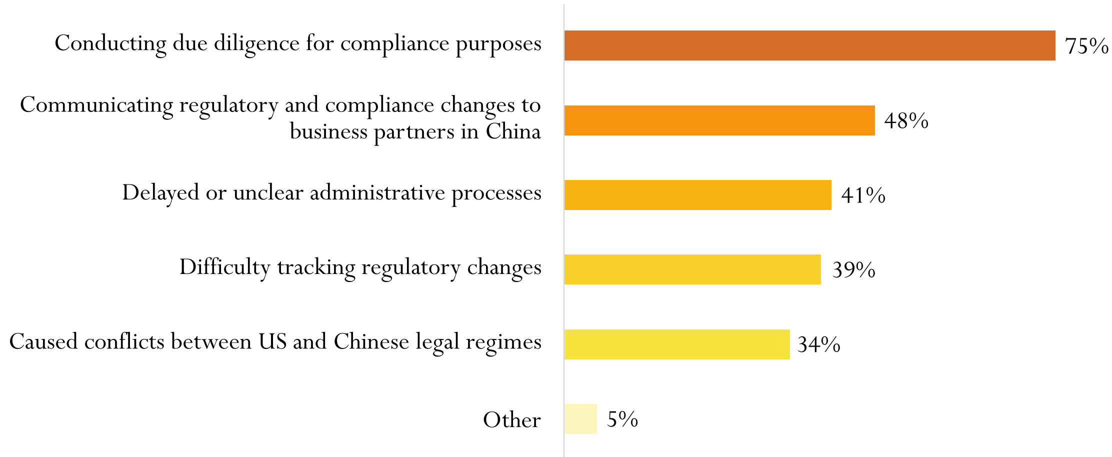
Export controls have led to the perception within China of American companies as unreliable suppliers, a reputation that manifests itself on the list of top impacts of US-China tensions (see page 9) and in the top impacts of controls reported by respondents. The most prominent impacts of export controls on US firms are lost sales to Chinese suppliers, supply chain disruptions, and severed customer relationships. Additionally, 30 percent of respondents have lost sales to international competitors.

Main impacts of export controls



Compliance with the controls themselves, which have grown rapidly in volume and complexity in recent years, has also proven challenging. The main compliance challenge, cited by 75 percent of respondents, is conducting due diligence for compliance purposes. Forty-eight percent of respondents have trouble communicating regulatory and compliance changes to business partners in China, and 41 percent cite delayed or unclear administrative processes.

Main compliance challenges of export controls

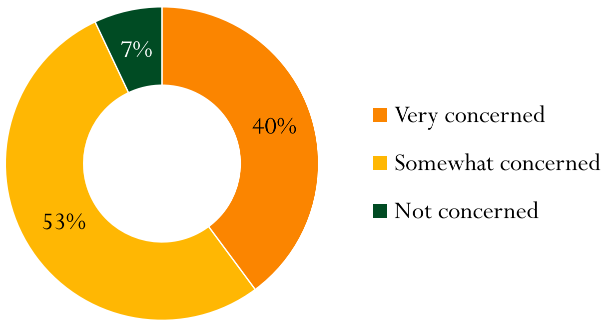


Data concerns shift focus to compliance

Over the last several years, the Chinese government has tightened its grip on companies' management of the data collected from their customers. The Cybersecurity Law (2017), Personal Information Protection Law (2021), and Data Security Law (2021) provided the foundation for a more onerous framework for regulating companies' management of data, particularly around CBDT. Final rules from China's cybersecurity regulator released in March 2024 have eased compliance obligations to some degree, but the lack of a consistent definition and treatment of "important data," a designation with major compliance implications, continues to impede normal business operations for many USCBC member companies.

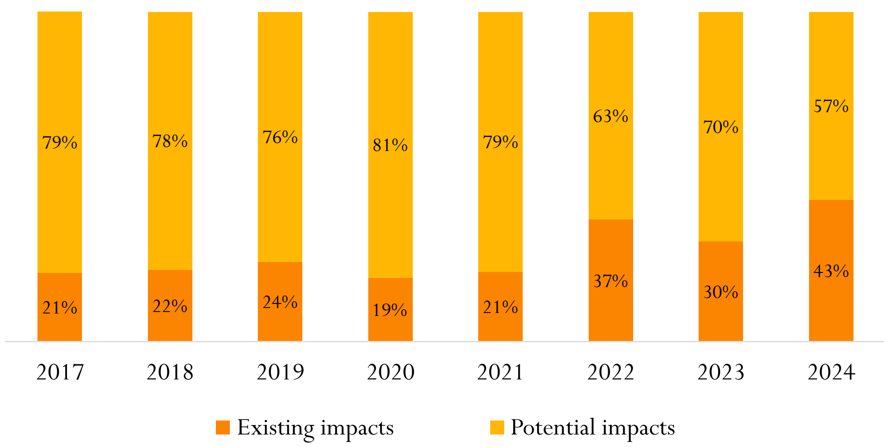
China's data policies fell from the second to fifth largest challenge this year. As with last year, concern about data policies remains near unanimous.

Level of concern about Chinese policies and regulations governing data privacy and security

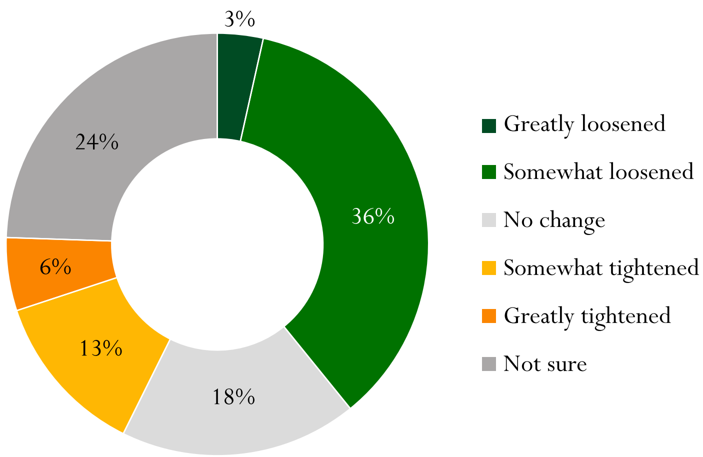


Companies are focused on compliance as Chinese regulators have built out and begun to enforce their CBDT framework. This year, 43 percent of companies reported that their concerns with China's CBDT system were based on existing—as opposed to potential—impacts, a record high.

Are your data concerns based on existing or potential impacts?



Change in CBDT compliance requirements in the last year

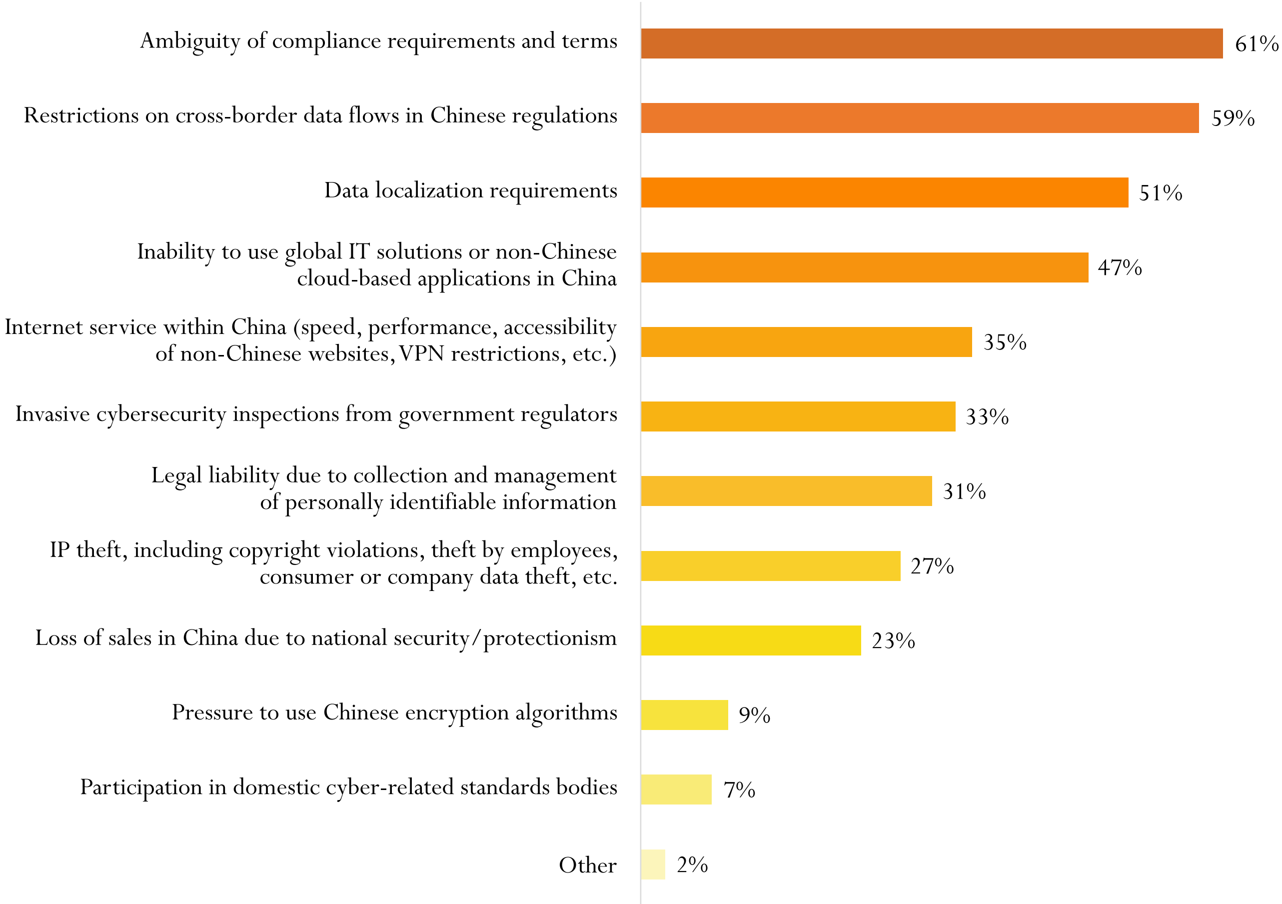


Thirty-six percent of respondents say China's CBDT compliance requirements have somewhat loosened in the last year, likely reflecting the relaxation of rules earlier in 2024. However, the fact that a combined 42 percent report either "no change" or "not sure" suggests companies remain obstructed by compliance barriers and sector-specific challenges despite the recent policy changes.

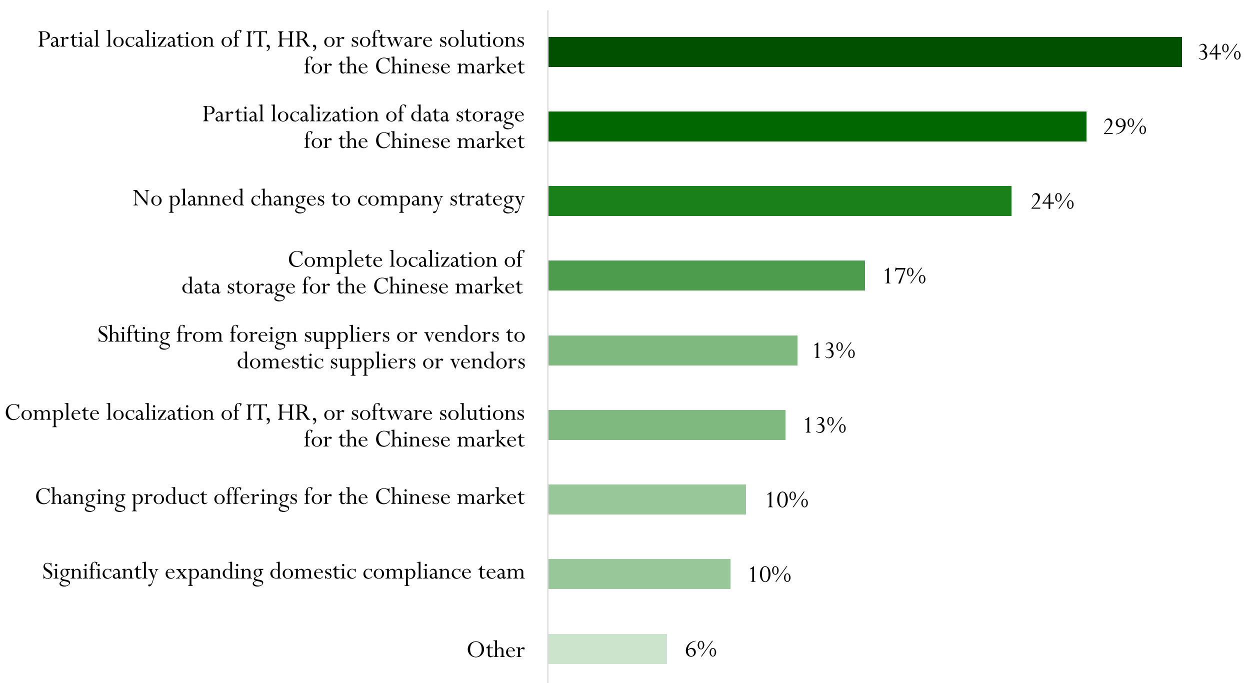
Specific concerns about China's data-security rules have shifted. New rules have prevented a rise in the percentage of respondents concerned about restrictions on CBDT, which dropped from 66 percent to 59 percent this year. However, the percentage of respondents who are concerned about ambiguity around compliance requirements increased by seven percentage points to 61 percent.

In response to these developments, more companies than ever are taking steps to partially localize their IT, human resources, data, and software solutions in China, rather than taking no action at all, as the preferred strategy to comply with China's data rules.

Concerns about data security–related issues



How is your company adapting its strategy based on data-related concerns?

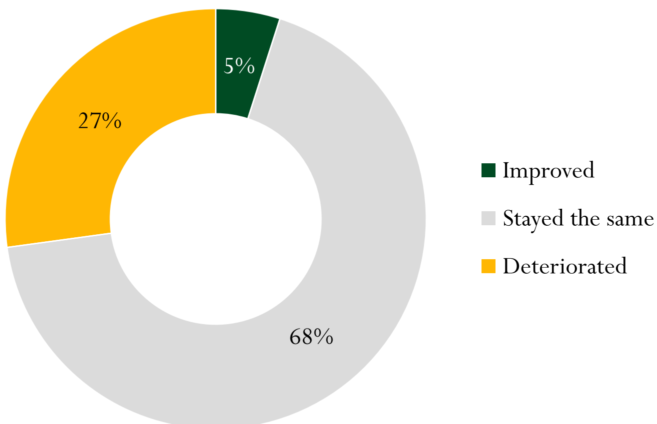


Procurement market difficult to access amid domestic substitution drive

Achieving fair and equal access to China's vast public procurement market is a perennial challenge for US companies in China. After falling out of the list of top 10 challenges last year, government and SOE procurement policies shot back up to sixth place this year. Even as the Chinese government seeks to add more transparency in the procurement process and ensure equal treatment of foreign companies, significant gaps in China's procurement policy framework, combined with preferences for local products, continue to put American companies at a competitive disadvantage vis-à-vis their domestic competitors. As discussed earlier in the report, the effects of an intense geopolitical rivalry between the United States and China are fueling concerns about curtailed access to China's public procurement market as well.

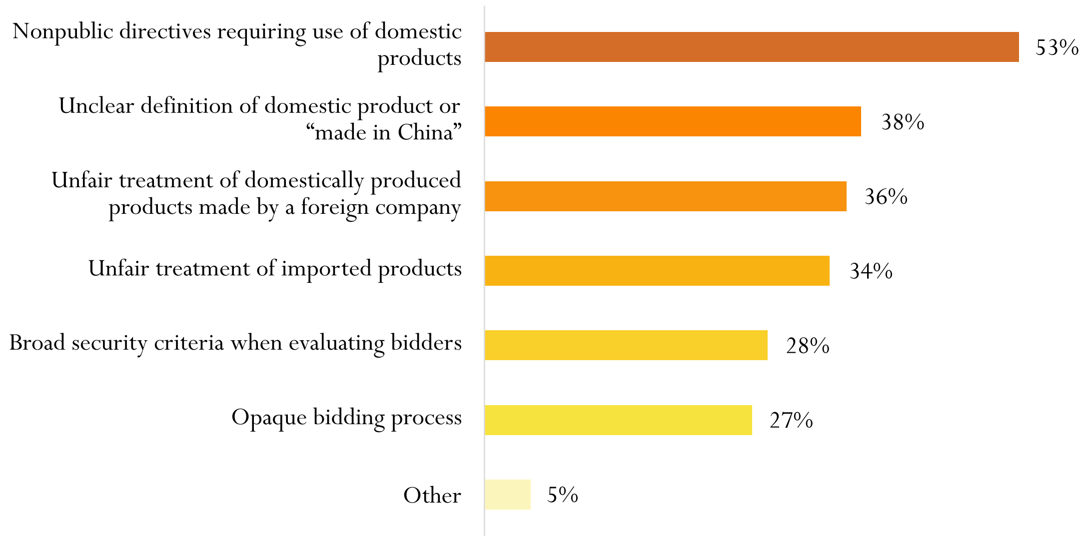
Only 5 percent of respondents saw improvements in accessing China's public institutions and procurement markets this year; 68 percent report no change, and 27 percent say their ability to access procurement markets has deteriorated.

In the last 12 months, China's government and SOE procurement markets for foreign companies has…



Nonpublic directives are the most common challenge companies face in the procurement market. These directives come from Chinese government officials or customers and require the use of domestic products from Chinese companies—a practice that often contradicts official policy. According to conversations with member companies, nonpublic directives, also known as "window guidance," are most prevalent in the medical devices and information and communications technology sectors.

Challenges companies face in China's public procurement markets



In other cases, market access barriers stem from the lack of a clear and consistent definition of what constitutes a domestic product in the context of procurement, a challenge for nearly 40 percent of respondents. Under Chinese law, products that are made in China are eligible for preferential treatment in government procurement. Even still, more than one third of respondents say their products are treated unfairly in procurement markets even if they are produced in China.

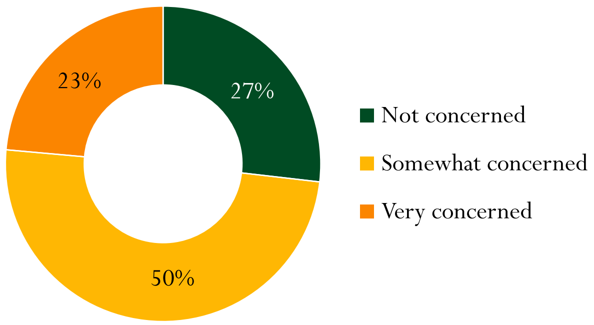
Two challenges cited by fewer respondents this year include unfair treatment for imported products and broad security criteria when evaluating bidders. While positive on the surface, these downward trends could reflect fewer companies attempting to qualify imported products or apply for security assessments, rather than genuine improvements in market access.

Protecting intellectual property remains a recurring challenge for most companies

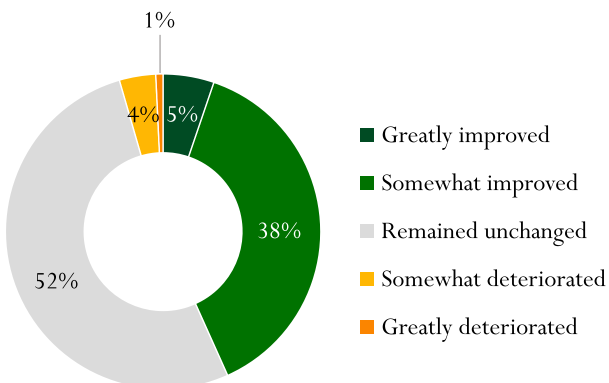
Protecting intellectual property (IP), a long-held concern of American companies that conduct business with China, fell from the ninth greatest challenge last year to the 10th this year. Although the Chinese government has made significant strides toward protecting both domestic and foreign IP over the last decade, inconsistent enforcement of IP laws and regulations continues to be a prominent feature of the domestic policy landscape.

As in previous years, most respondents (73 percent) report at least some concern about the level of IP protection in China, and trade secrets and patents are cited as the IP infringements of greatest concern. While more than 40 percent of respondents saw improvements in China's protection and enforcement of IP rights in the past year, most companies say it has stagnated.

Level of concern about IP protection in China



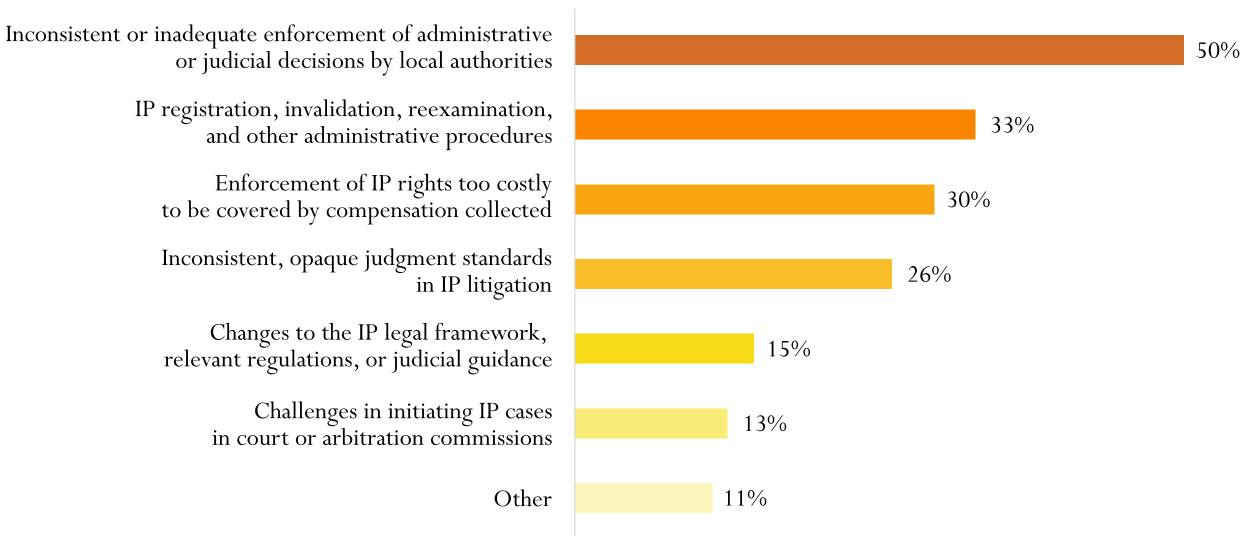
Over the past year, China's protection of IP rights has…



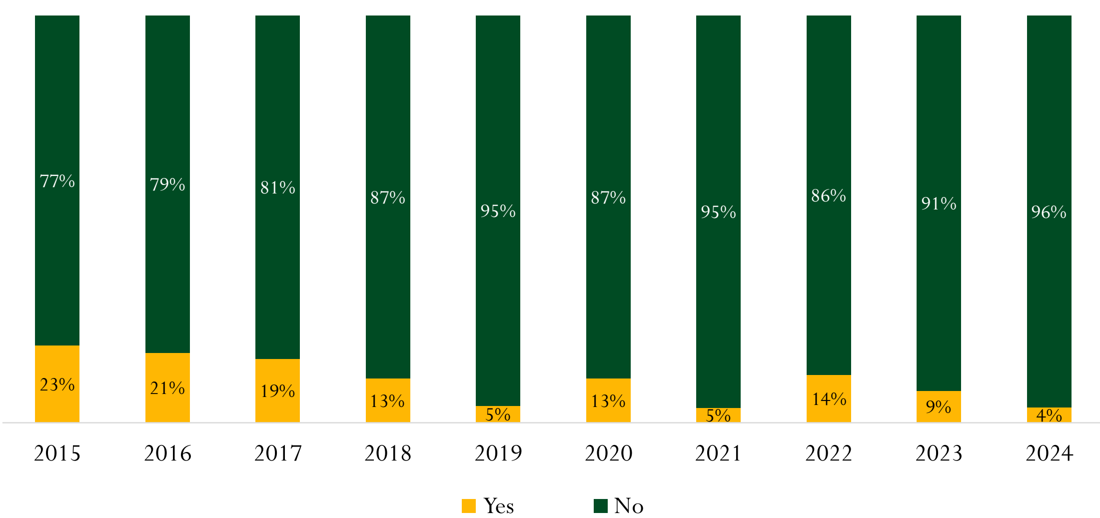
Inconsistent enforcement of administrative or judicial rulings affects nearly all types of IP infringements across a range of industries, which helps explain its position as the top IP challenge since 2021. IP registration, invalidation, reexamination, and other administrative procedures replaced inadequate compensation to cover enforcement costs as the second greatest challenge on this year's survey. The reordering of the number two and three challenges could be a result of changes to China's Patent Law, including those regarding pharmaceutical patent extensions and other important areas of concern, falling short of expectations.

Finally, even as the survey results indicate China's IP protection environment has not improved year on year, the data show that a record low of 4 percent of respondents were asked to transfer their IP to China over the past three years as a requirement for gaining market access. This finding is notable, as concerns about technology transfer were a major motivation for the Biden administration's May 2024 decision to expand Section 301 tariffs on Chinese imports.

Which of the following IP issues are relevant for your company in China?



Over the past three years, has your company been asked to transfer technology to China as a requirement to gain market access?

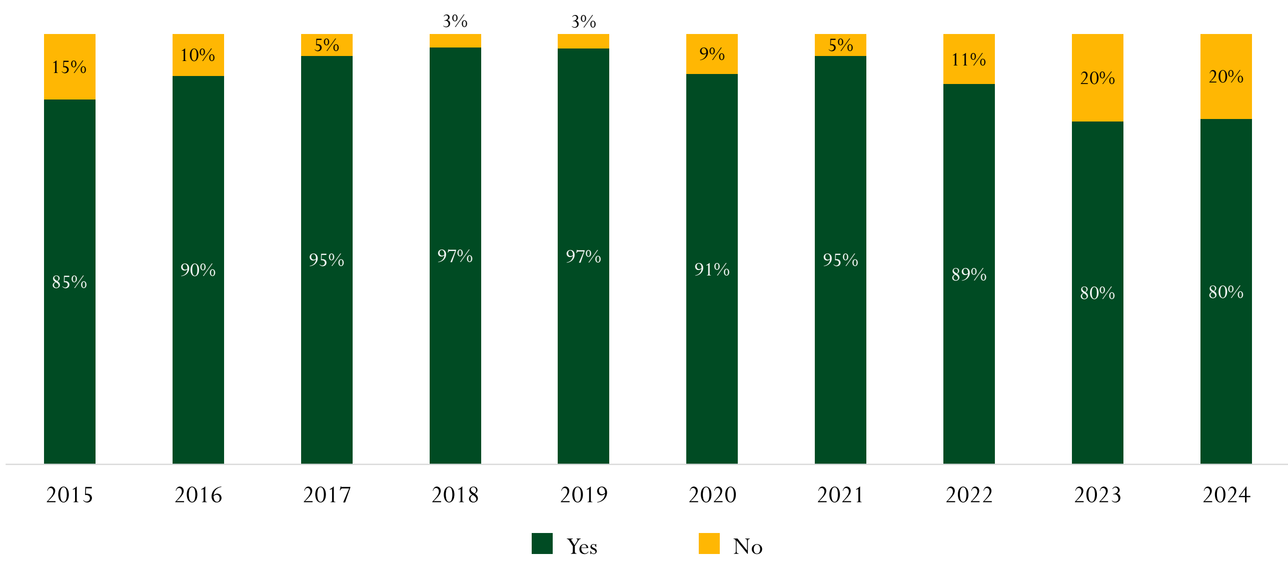


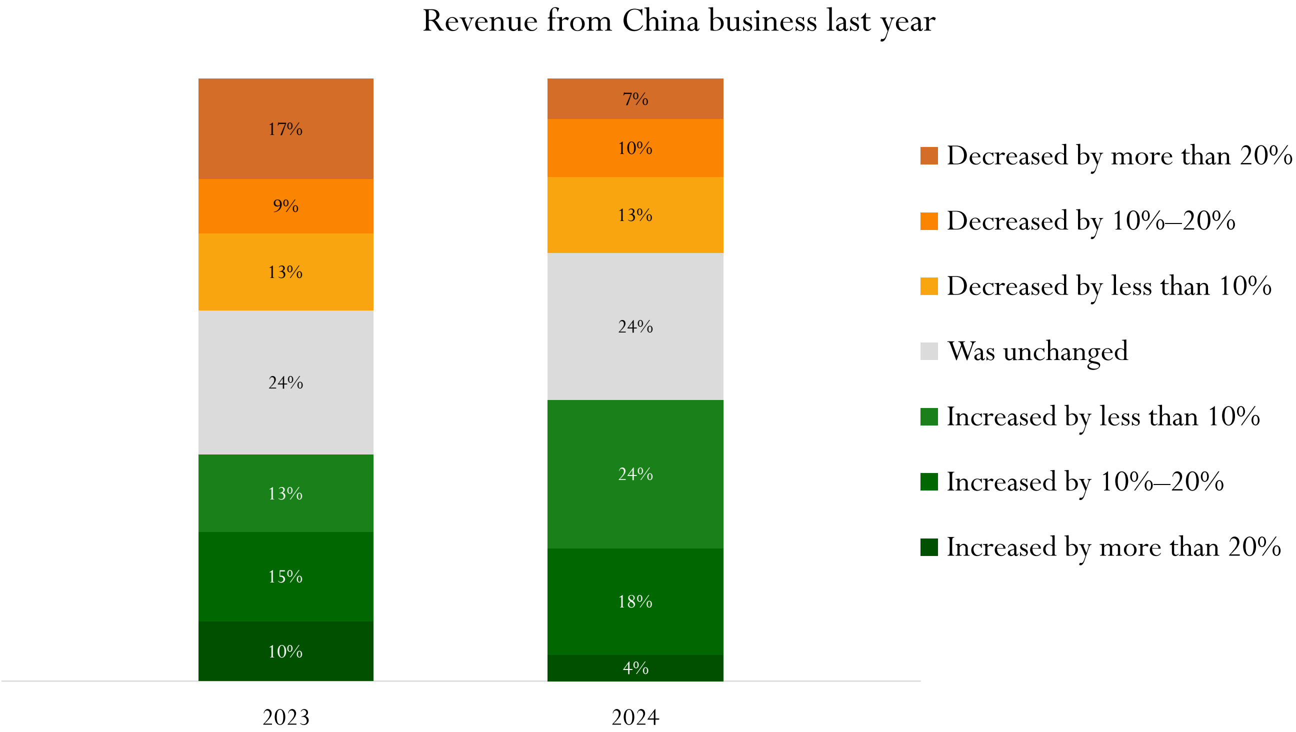
Company Performance and Future Planning

Revenues stabilized in 2023, preventing further deterioration of profit margins

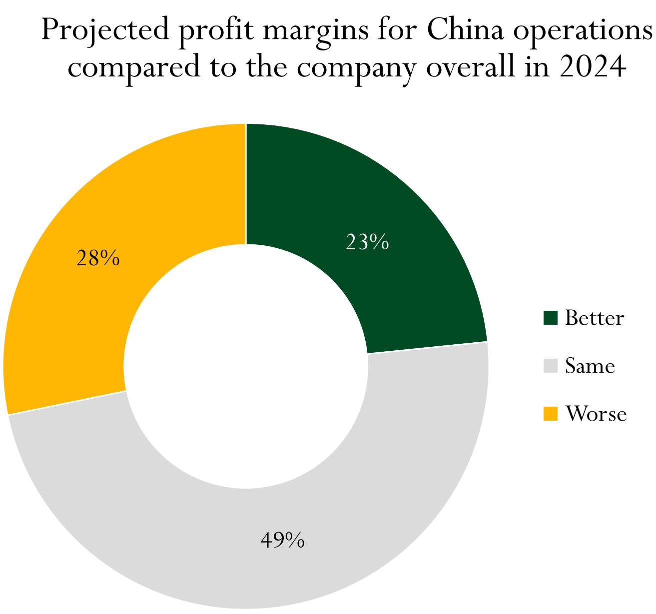
Overall, companies' financial performance in China remained healthy in 2023 despite slower growth in China's economy. Eighty percent were profitable, unchanged from the historic low in last year's survey. Revenue growth began to stabilize in 2023, with fewer companies reporting massive year-on-year contractions or increases in revenue growth compared with last year's survey results. A larger share (42 percent) of companies saw revenues grow by 20 percent or less compared with last year's survey results (28 percent). Looking ahead, 72 percent of respondents expect that the profit margins of their China operations will be equal to or greater than their global average in 2024, matching companies' expectations last year.

Were your China operations profitable in the last calendar year?





Revenue from China business last year
17%
9%
13%
24%
13%
15%
10%
7%
10%
13%
24%
24%
18%
4%
2023
2024
Decreased by more than 20%
Decreased by 10%–20%
Decreased by less than 10%
Was unchanged
Increased by less than 10%
Increased by 10%–20%
Increased by more than 20%

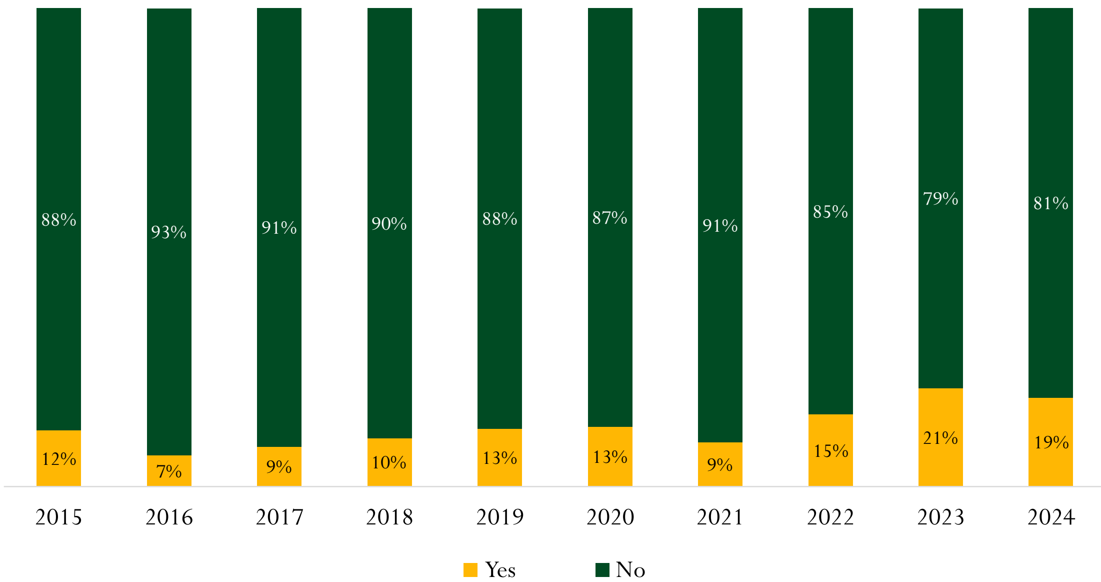


Projected profit margins for China operations compared to the company overall in 2024
23%
49%
28%
Better
Same
Worse

Companies stay in China to access the domestic market

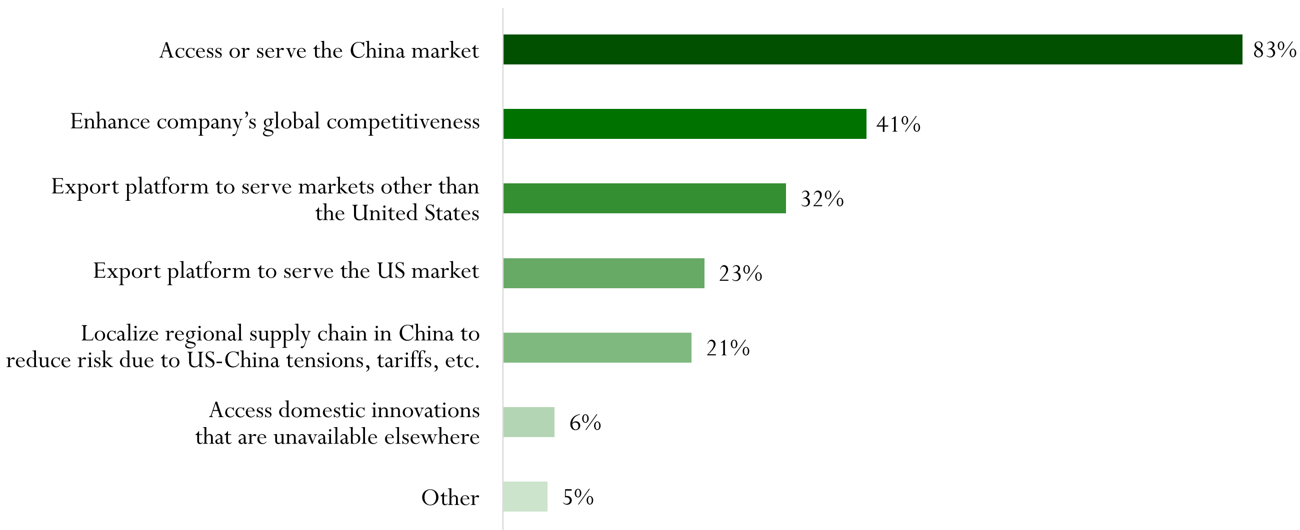
Companies' commitments to stay in the China market long term are largely driving their corporate strategies and new investments. Less than one fifth of respondents have relocated or plan to relocate certain operations outside China, consistent with last year.

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



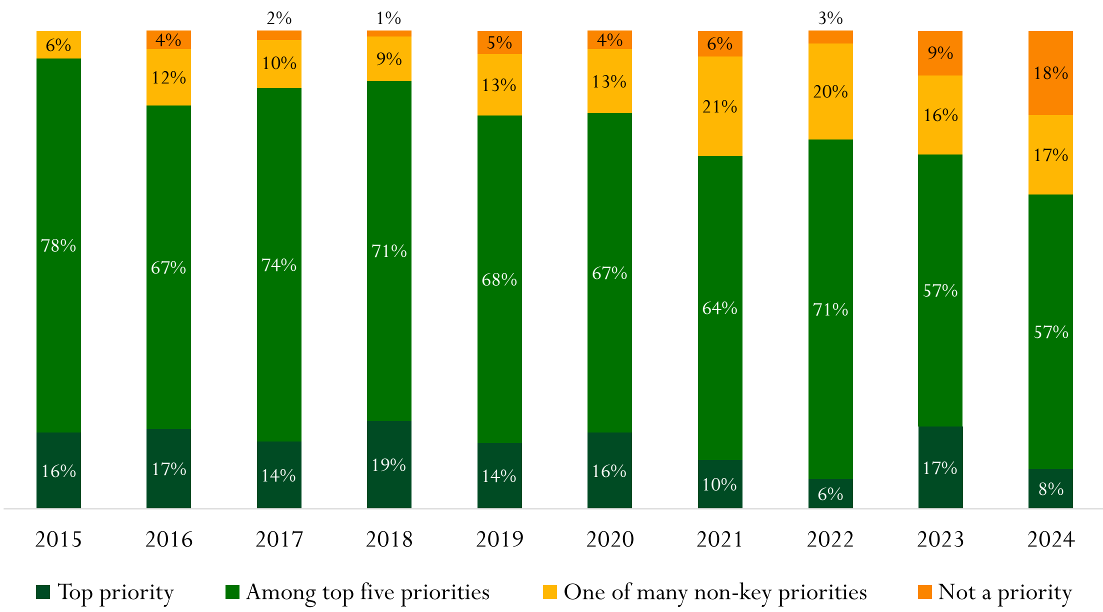
The vast majority of respondents operate in China to serve China-based customers. However, 32 percent, up from 20 percent last year, use their position in China to export to markets other than the United States, underscoring China's critical role in regional and global supply chains.

Objectives for existing and future investments in China

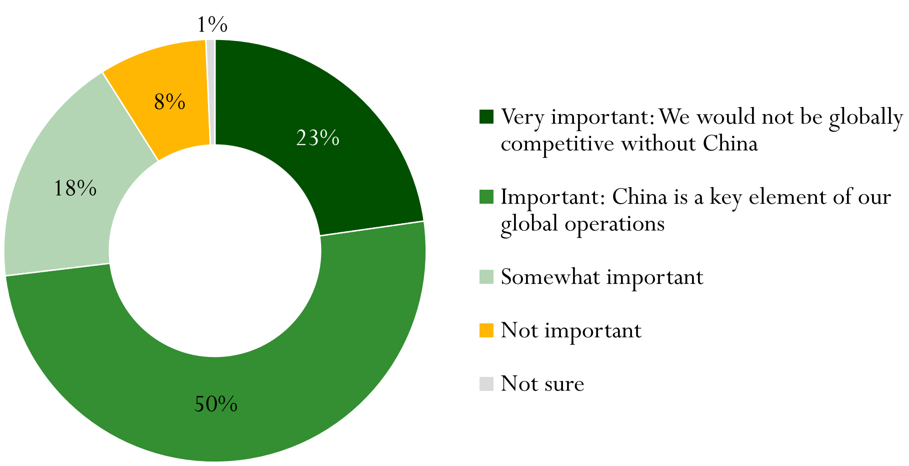


More than 40 percent of respondents say that enhancing their company's global competitiveness is an objective of their existing and future investments in China, and nearly all respondents consider China a key element of their global footprint. Despite a larger share of respondents having de-prioritized China in their global investment plans this year compared to 2023, almost one quarter say they would not be globally competitive without China.

China's prominence in company's global investment planning

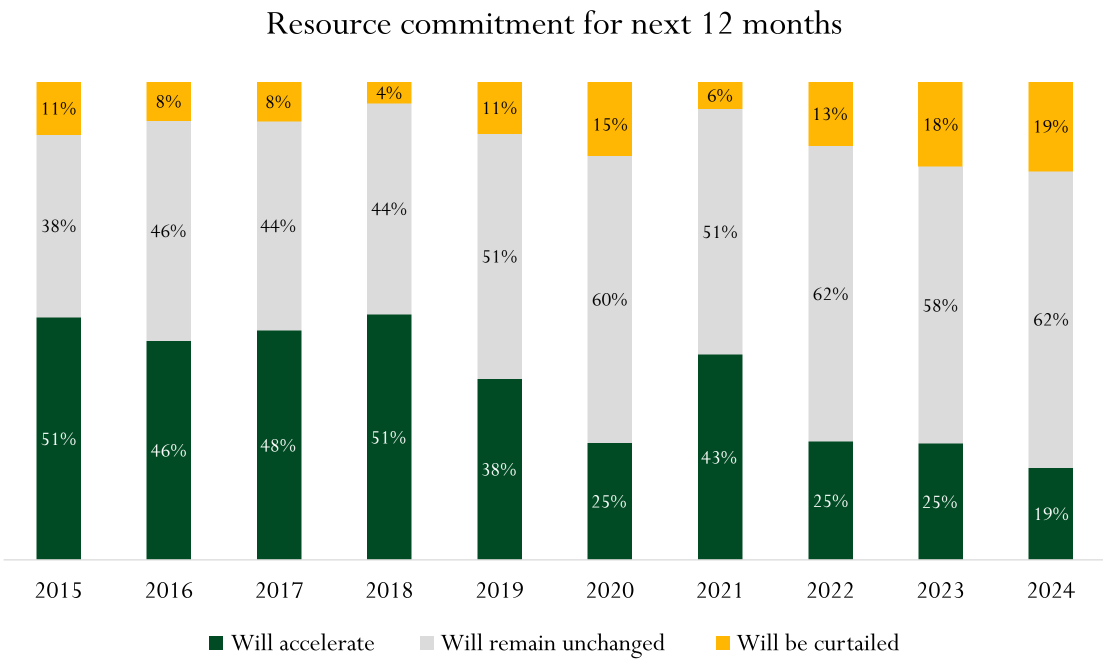


China's importance to company's global competitiveness

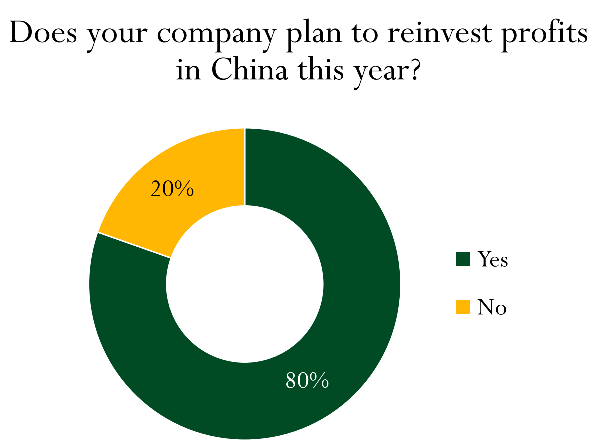


Companies are deploying capital to support existing investments

Even as optimism fades and growth decelerates, companies continue to invest in China. According to the survey results, 80 percent of respondents indicated plans to reinvest profits generated in China this year, meaning most new investments will come from retained earnings rather than foreign direct investment in the form of new capital injections from headquarters.

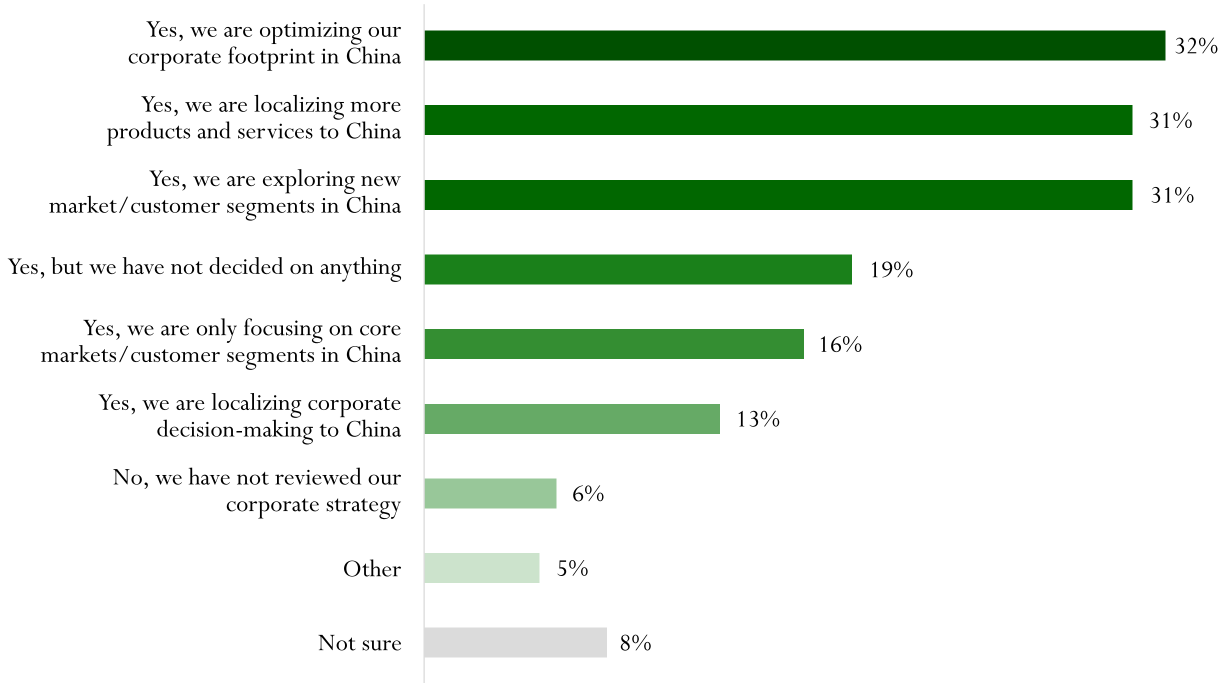


Nearly two thirds of respondents intend to keep their investments unchanged from last year, while only 19 percent plan to accelerate investments in the next 12 months—down from 25 percent last year—and the remaining 19 percent plan to cut investments.



For companies that are deploying profits earned in China, the majority plan to reinvest in existing operations in the country. Optimizing corporate footprints, localizing products and services, and exploring new product markets or customer segments in China comprise the top three corporate strategies that companies will pursue this year. Nineteen percent of companies are delaying decisions on their corporate strategy in China, and just 6 percent do not plan to review their strategy at all.

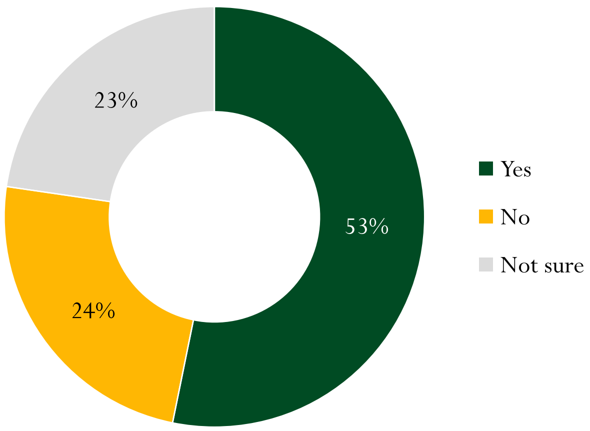
Is your company reviewing its corporate strategy in China?



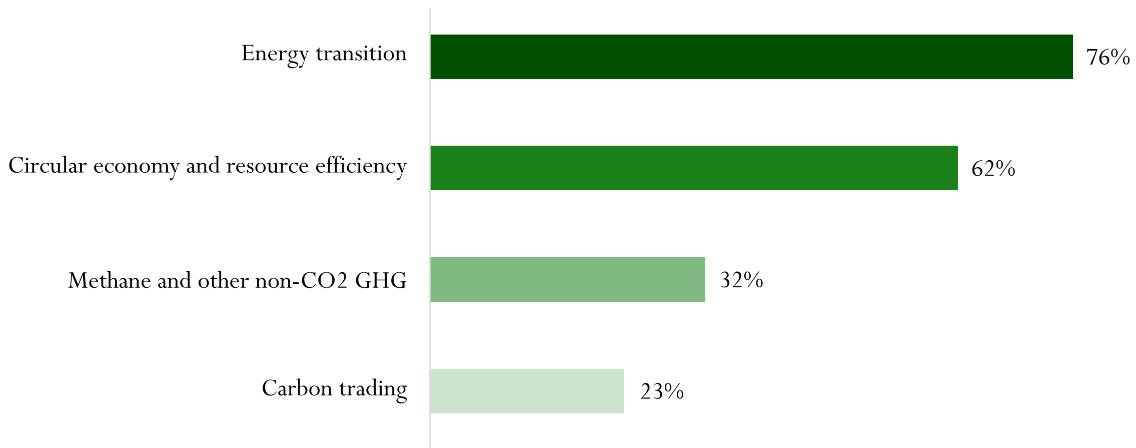
Decarbonization presents new investment opportunities

With China undergoing a substantial economic shift as part of its plan to reach peak emissions by 2030 and achieve carbon neutrality by 2060, many USCBC member companies are incorporating decarbonization into their business strategies. The US-China Sunnylands Statement, released in November 2023, provided companies with a much-needed framework to align their own decarbonization investments and activities with.

Does your company have decarbonization related goals or initiatives?



Decarbonization efforts most relevant to your company



More than half of respondents have established decarbonization goals or initiatives. Most companies are undertaking initiatives around energy transition and the circular economy—major focal points of China's carbon goals and the Sunnylands Statement. Forty-one percent of respondents say that China's climate change policies have a positive or somewhat positive impact on their company's operations, which could signal that the policies have created a more welcoming business environment in certain sectors.

Conclusion

This year's member survey points to a challenging environment for US companies that conduct business with China. The extent to which these trends can be reversed or ameliorated depends on the decisions of US and Chinese policymakers.

Since the survey closed, the Chinese government has stepped up its commitment to rely on industrial policy to power the economy. In early July, the 20th Central Committee of the Chinese Communist Party (CCP) concluded its third plenum, an important policy meeting in which senior Chinese policymakers articulated the trajectory of China's economic policies for the next five years. Statements from the Chinese government at the conclusion of the plenum emphasized securing domestic supply chains, using national resources to boost innovation, and enhancing the role of SOEs. These statements confirm that challenges around achieving a level playing field and ensuring equal treatment of US companies will not subside in the near term.

At the same time, there are emerging signals that Chinese policymakers may take further action to stimulate economic growth. In late July, the Politburo of the CCP bluntly stated that China's economy faces insufficient domestic demand and indicated it would unleash more policies this year that focus on promoting consumption. Although detailed measures are still forthcoming, even minor policy adjustments to boost consumption could yield significant business gains considering the size of China's economy.

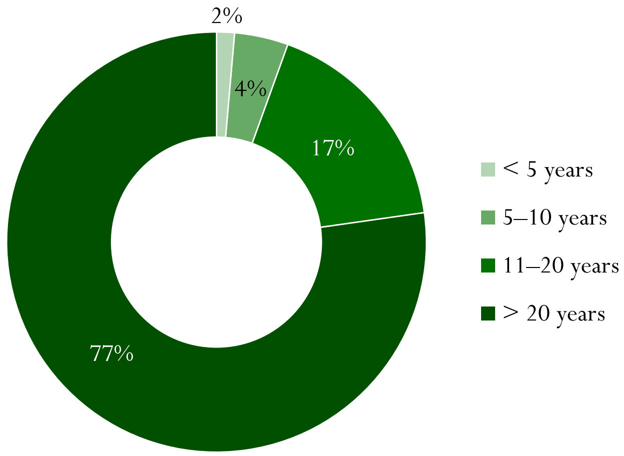
US domestic politics are arguably the largest source of uncertainty. The outcome of the 2024 presidential and congressional elections will determine the medium-term trajectory of the US-China bilateral relationship and the broader geopolitical environment in which firms operate. Regardless of the results of the US elections in November, US restrictions toward China will likely continue to tighten for the foreseeable future—it is just a matter of degree and scope. How Beijing responds to the policies of the next US administration and Congress will have lasting implications for the business environment in China.

Methodology

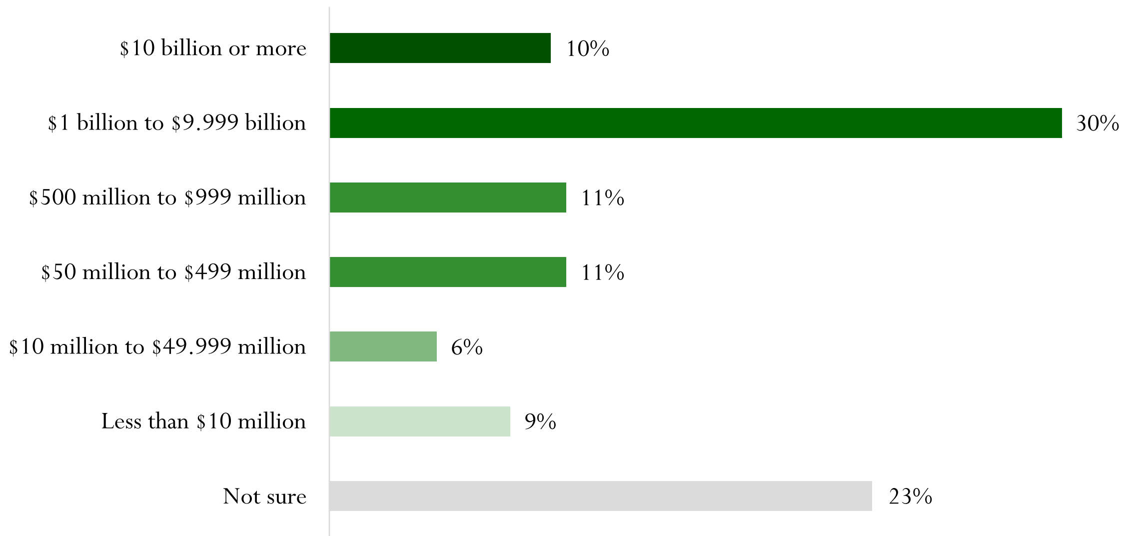
This year's survey was conducted between June and July of 2024 and draws from a pool of approximately 140 member companies. Respondents have significant experience and presence in the China market—three quarters have operated in China for more than 20 years, and 40 percent generate revenue in China exceeding $1 billion. The data in this report reflect responses from representatives of leading American companies based in both the United States and China, which makes our survey unique among trade associations.

Respondents' top 10 challenges were ranked using a weighted system to reflect the most significant issues they encounter while doing business in China. To ensure consistent analysis over time, the same methodology was used in previous years. Due to rounding, some chart totals may add up to slightly more or less than 100 percent.

Years doing business in China



What is the China revenue of your company?



About USCBC

Founded in 1973, the US-China Business Council is a private, nonpartisan, nonprofit association of more than 270 American companies that do business with China. We pursue results-oriented engagement with both governments to eliminate trade and investment barriers and develop a rules-based, predictable, and transparent commercial environment. 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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