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CGCC FOUNDATION
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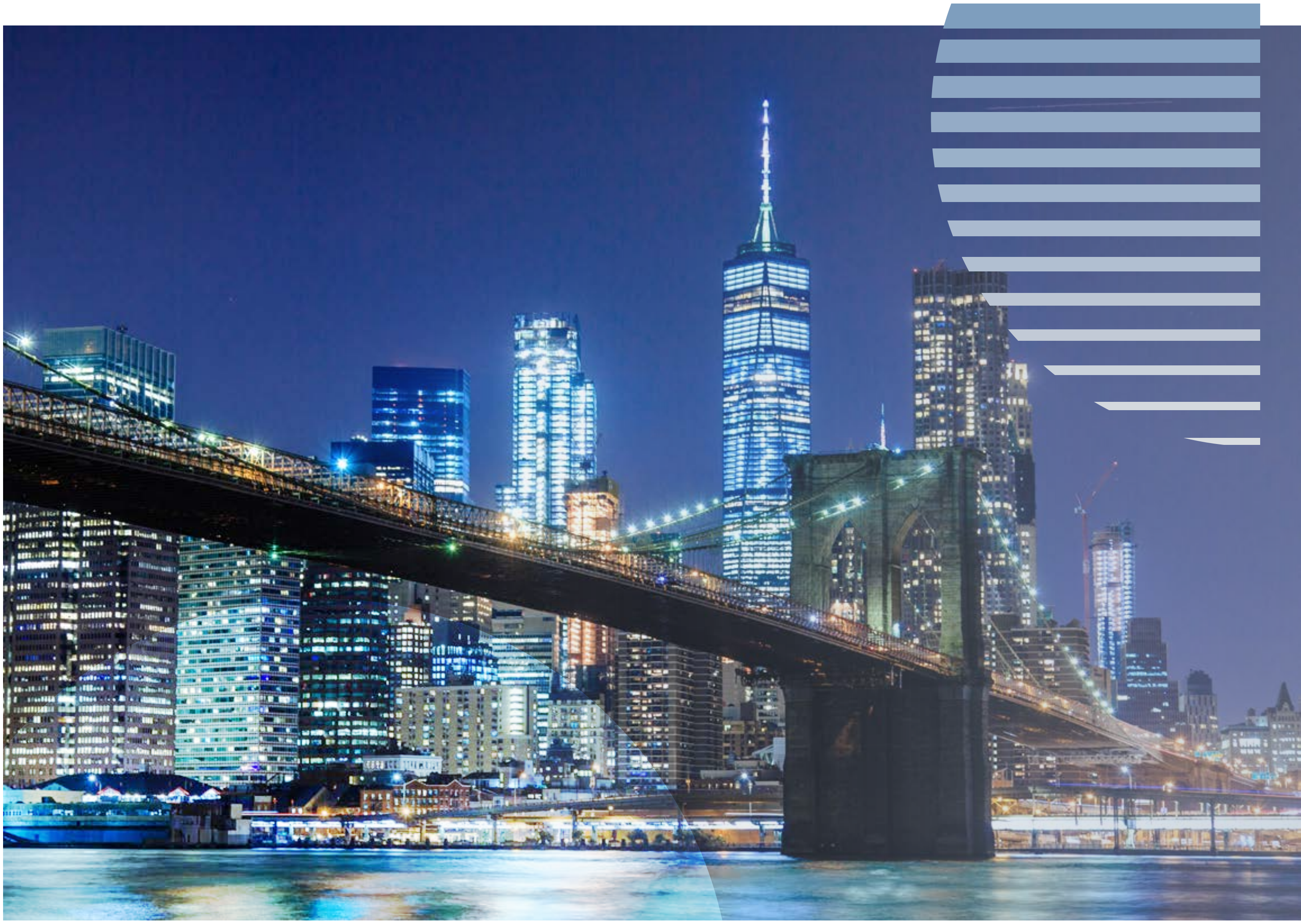
Annual Business Survey Report

on Chinese Enterprises in the United States

May 2023



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Chairman's Message

Dear Friends,

It is my pleasure to share with you the results of our 10th Annual Business Survey on Chinese Enterprises in the United States, a resource created by China General Chamber of Commerce - USA (CGCC), with great support from 101 Chinese companies who have participated in the survey this year. This survey has provided valuable insights into the current state of Chinese businesses operating in the U.S. and the challenges they faced in 2022. It assists relevant stakeholders to better understand the position of Chinese investments in the U.S., and offers constructive recommendations to both countries as they work towards greater mutual understanding and reasonable resolution of concerns.

As governments and economies continue to tackle challenges relating to inflation, market volatility, and supply chains brought about by an unprecedented pandemic, I believe business leaders and policymakers can find common ground by reminding ourselves of what has guided us in the past and how it should lead us into the future. The data included in this report provides an accurate and nuanced view of the experiences that our member companies are having on the ground in the U.S. Subsequent surveys and engagements with company executives reinforce the following key trends:

- **Chinese companies in the U.S. performed slightly worse than the previous year, with cautious expectations for subsequent developments.**
- **Tensions in U.S.-China relations and persistent inflation in the U.S. are top concerns for Chinese companies in the U.S.**
- **Chinese companies are mostly satisfied with the U.S. market and have developed localization strategies to maximize business growth.**
- **Past up and down cycles help Chinese companies develop diversification capability to cope with short-term fluctuations.**

If we extend the timeline a little bit longer and compare the results of ten survey reports over the past decade, we should notice that regardless of the circumstances, Chinese businesses

have shown remarkable resilience, active impacts, cumulative synergies and continuous evolution when adapting and thriving in the U.S. market.

If the time horizon goes further, we should also find that trade and investment between our two nations have been the cornerstone of our relationship for decades and has always shown resiliency during the peaks and valleys we have navigated throughout the years. After more than forty years of successful cooperation, despite increasing bilateral tensions, a damaging trade war, and continued legislative and executive action against China, China remains the United States' third-largest trading partner, and largest source of imports. Trade between the two largest economies has brought access to new markets in and outside of the U.S. and China, increased consumer choices, enhanced bilateral investment, created and supported millions of jobs, alleviated massive levels of poverty, enhanced the rule of law and the influence of global government and non-governmental institutions across the board. While challenges do exist, the cumulative synergy and the benefits of the partnership between the U.S. and China far outweigh any risks. As the world continues to recover from a devastating pandemic, Chinese companies' thinking, policies, and priorities continue to evolve. Flexible and agile business strategies and localization blueprints are developed and implemented to ensure long-term successes.

CGCC is privileged to be a participant and witness of the economic and trade cooperation between the United States and China. As the largest non-profit, non-governmental business organization bridging American and Chinese enterprises in the U.S., we remain committed to promoting cooperation and understanding between two countries. We will continue to provide support and resources to our members and work together with our partners to create a more favorable business environment.

I sincerely appreciate the great support that friends from all walks of life have given to CGCC. Specifically, I would like to thank all the participants in this survey for their valuable contributions. Your feedback is essential in helping us understand the needs and concerns of Chinese businesses in the U.S. We look forward to continuing our work together in the next 10, 20 and more years to come.

Sincerely,

Wei HU
Chairman of China General Chamber of Commerce – USA
President and CEO, Bank of China U.S.A.

Executive Summary

The global economy experienced continued turbulence in 2022, and Chinese companies operating in the U.S. continued to face an exceptionally complex environment.

In the first half of the year, new virus variants slowed the recovery of global trade. But those challenges began to ease in the second half of the year, which paved the way for local recoveries that gradually expanded to other regions.

At the same time, the severe setback caused by over two years of a pandemic, in addition to rising inflation and interest rates, are still being felt. On top of that, there has been no meaningful improvement to the strained relationship between the U.S. and China, which compounded the challenge for companies doing business in both markets. What's more, year-end layoffs in the U.S. technology industry further reinforced a cautious attitude towards full recovery.

Along with a series of environmental changes, the China General Chamber of Commerce's annual business survey of Chinese companies operating in the U.S. officially entered its 10^{th} year. At this landmark point in time, we added additional themes and insights for the 2023 survey to further explore the overall perspective of Chinese companies in the U.S. and the recent changes they've experienced while doing business in two of the world's most important markets. We're confident this approach can provide a healthy reference point and deeper guidance to smoothly and steadily navigate the current turmoil.

With the support of 101 enthusiastic participants and many executives, the 2023 survey observed the following four themes:

1. Chinese companies in the U.S. performed slightly worse than the previous year, with cautious expectations for subsequent developments

- Compared to the 2022 survey results, only 42% of companies reported year-over-year revenue growth, and 13% experienced a revenue decline of more than 20% of those surveyed.
- 35% expect their U.S. revenues to remain flat over the next two years; 19% expect revenue to decline over the next two years; and the overall percentage of companies expecting lower revenues was 5% higher than last year's survey.
- Compared to the tough situation shown in the 2021 survey, the 2023 result shows improvement. However, it is still far from the high point five years ago when economic and diplomatic relations were more favorable.

2. Tensions in U.S.- China relations and persistent inflation are top concerns for Chinese companies in the U.S.

- This year 81% of respondents are concerned with the bilateral tension between the U.S. and China; 68% show concerns over the inflation in the U.S. and the impact on the economic environment.
- 44% of companies predict further deterioration in U.S.- China relations while 83% report that inflation and economic uncertainty has already had a negative impact on their business.

3. Chinese companies are mostly satisfied with the U.S. market and have developed localization strategies to maximize business growth

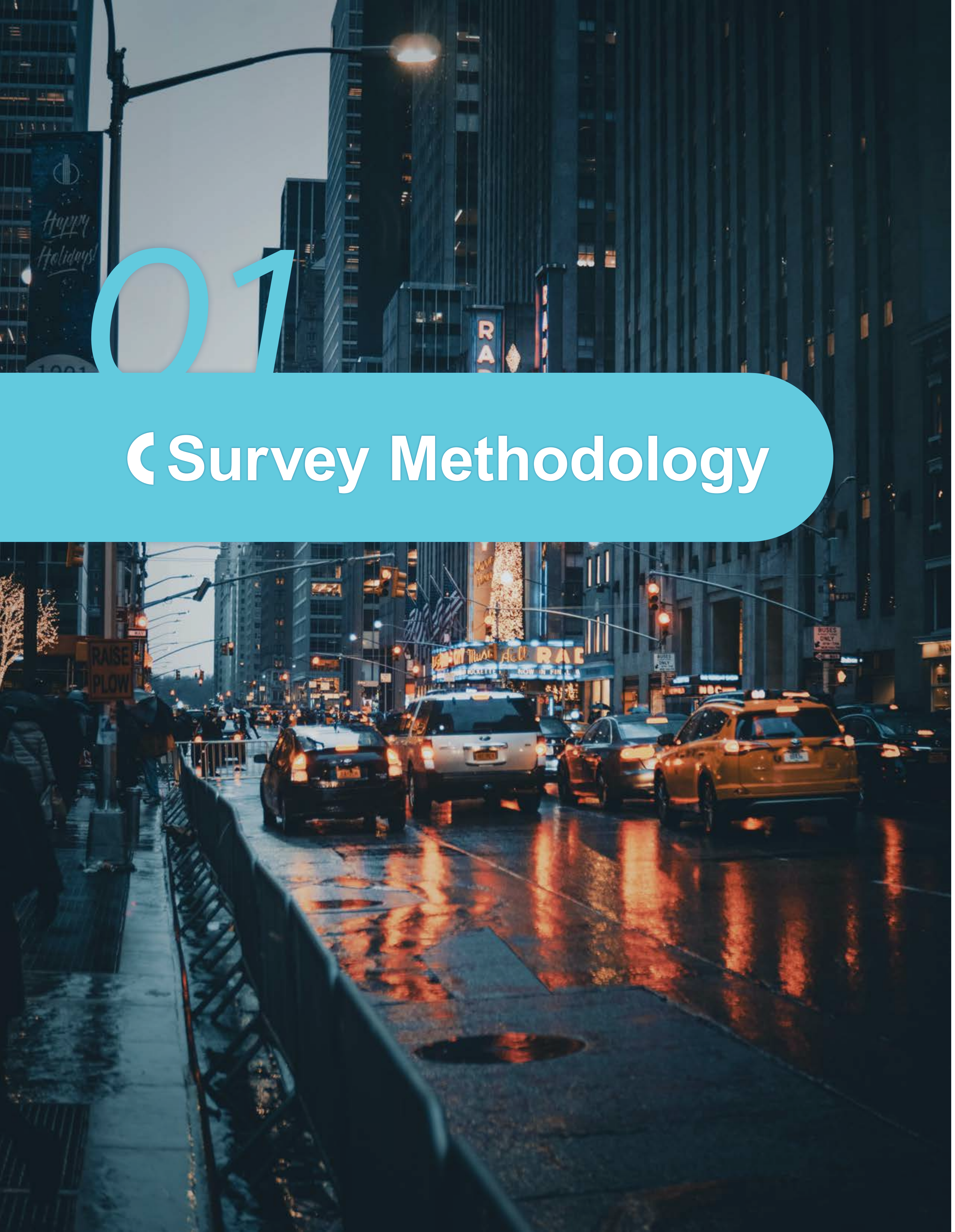
- Over 80% of Chinese companies are satisfied (or neutral) with all aspects of the U.S. business environment. Of these, 58% are very satisfied with the U.S. support for innovation, technology, and Environmental, Social, and Governance (ESG) concerns.
- While most companies report that they have largely or fully met their motivation for establishing a presence in the U.S., approximately 20% of companies report that actual growth has been lower than expected, while an additional 50% report that U.S. profitability is lower than their Chinese parent companies.

4. Past up and down cycles help Chinese companies cope with short-term fluctuations

- In the "up" market cycle, "new business areas and portfolio expansion" are the top strategic priorities adopted by Chinese companies.
- During the "down" cycle, 65% of respondents choose to "aggressively change their core business strategies", while 54% of respondents vote to "explore new business opportunities" to offset the pressure.

Based on our survey result analysis and interviews with senior management, we make five recommendations for Chinese companies operating in the U.S. :

i. **Don't let a crisis go to waste.** Leverage the current downturn to enhance and fortify your operations and capabilities.
ii. **Build a systematic approach to increase the success rate of portfolio expansion.** Doing so to make diversification a more effective way to offset pressure on main business.
iii. **Leverage the U.S. market's propensity for innovation.** Not only will this strengthen local business in the U.S., but it can improve the overall performance of global operations.
iv. **Embrace new digital tools.** As localization evolves, doing so will help to overcome inflation and ongoing staff shortages of qualified employees.
v. **Treat North America as a single market. Consider "regional expansion"** into Mexico and Canada to further bolster U.S. operations.



01 Survey Methodology

Overview

The Annual Business Survey Report on Chinese Enterprises in the U.S., first published in 2014 by China General Chamber of Commerce – USA (CGCC) and CGCC Foundation, is a flagship report that aims to identify key trends and business sentiment of Chinese enterprises in the U.S. to enable readers to gain deeper insights into the experiences of Chinese companies operating in the U.S.

This report is based on CGCC's 10th Annual Business Survey on Chinese Enterprises in the U.S. The data was collected through a survey of senior executives of the U.S. operations for Chinese companies. This year's survey was conducted in February and March of 2023 and includes a total of 101 corporate responses. This report outlines the major survey and interview findings and is linked to historical data from prior CGCC surveys, where available.

CGCC developed and distributed the survey questionnaire. The survey consisted of 51 questions, including 38 generic questions and 13 featured questions on "inflation and impacts" as well as "U.S.-China business and investment throughout the last decade". CGCC complied the data from the survey results, identified outlying themes, cross-referenced the data with previous surveys, and drafted the report.

The publication is composed of three sections: the core report, which includes narratives of key findings and analyses based on survey results with historical data for select questions; advice for Chinese companies; and the appendix with the full survey results. CGCC is grateful to its members,

collaborators, and all participating companies for their contributions in this important research.

Survey Demographics

Respondents include a broad range of all 11 sectors in the Global Industry Classification Standard (GICS), as shown in Figure 1. To enhance statistical power, responses from larger sampled sectors are also compared and analyzed in selected questions.

For context, 2013 and 2014 were the most common years when respondents established a U.S. business entity, according to Figure 2.

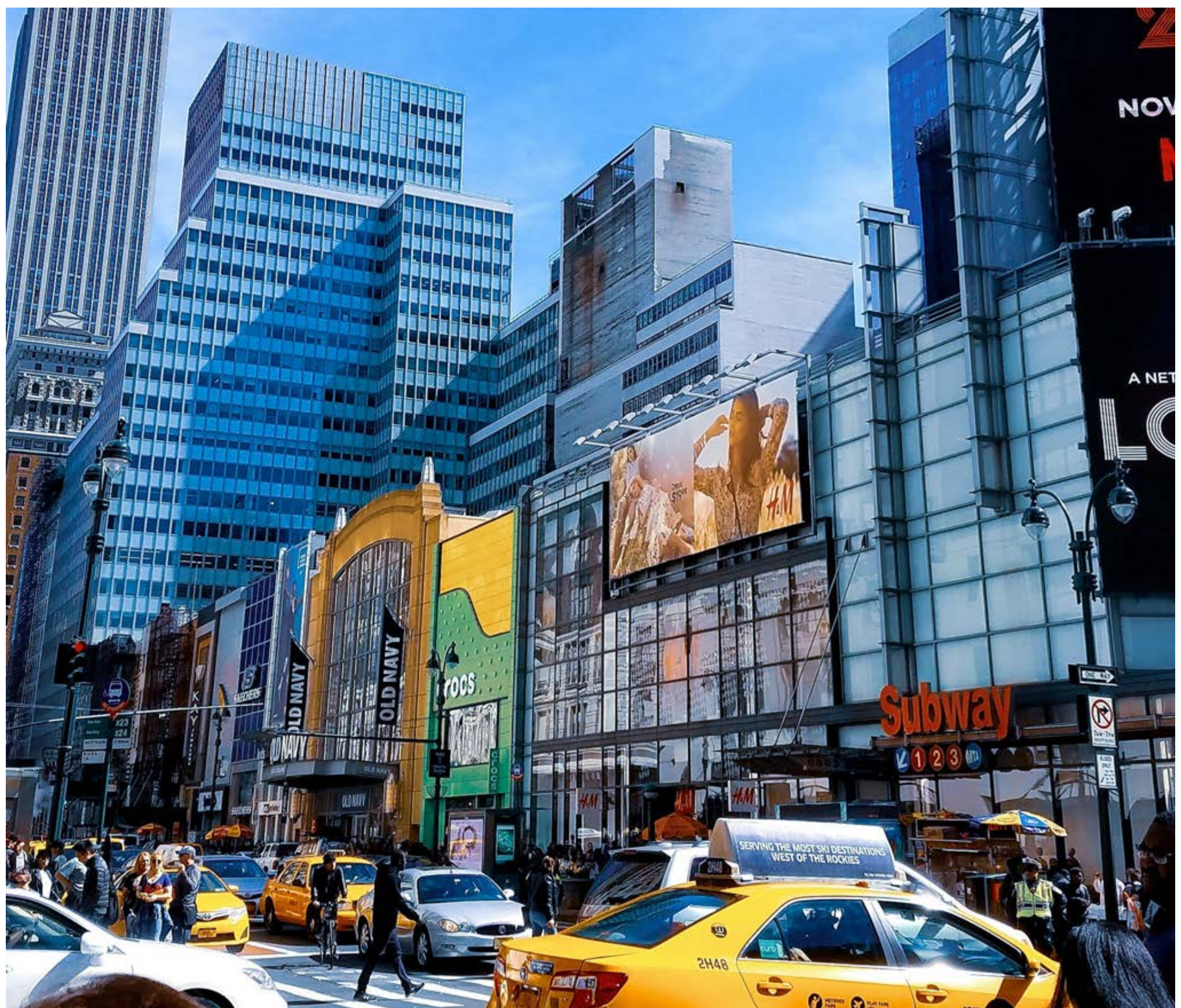


Figure 1: Respondents' sectors

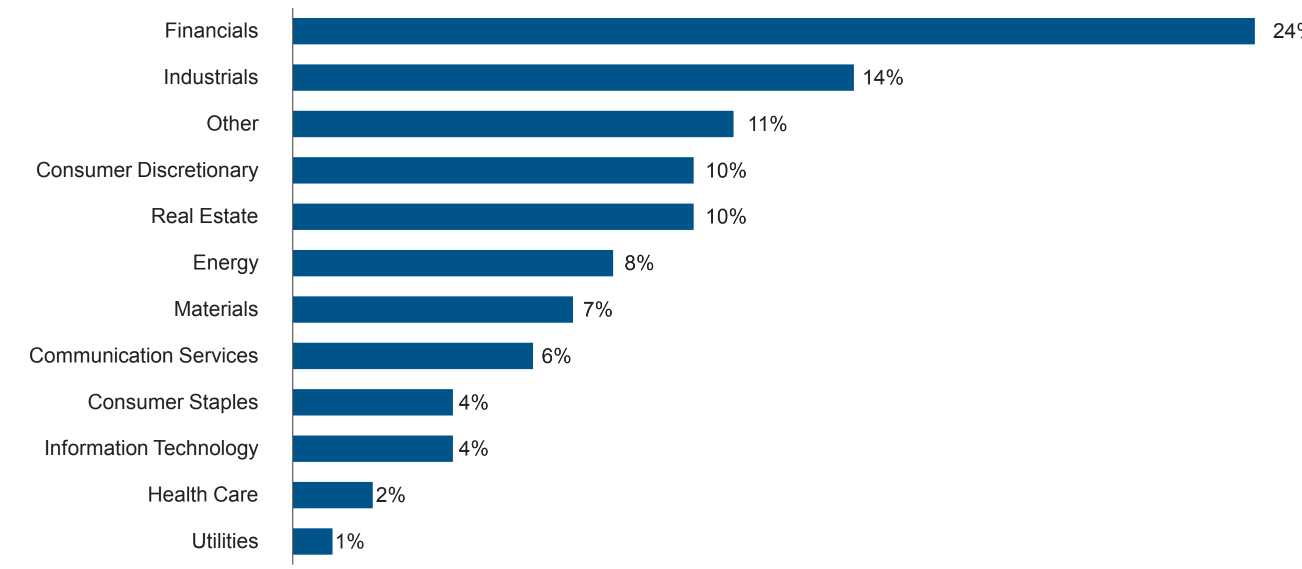
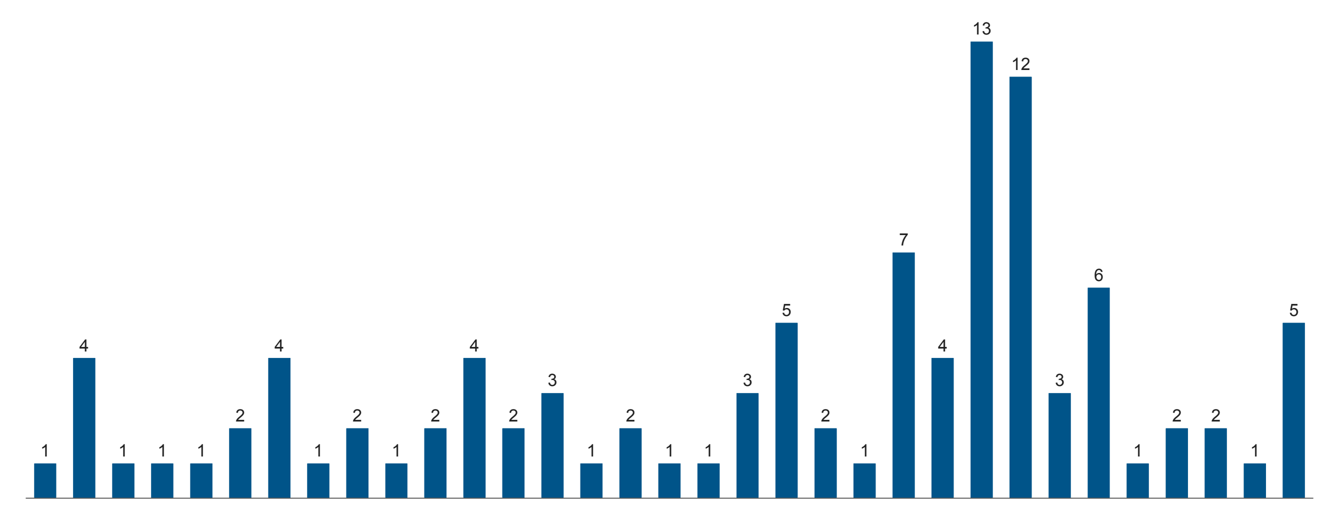


Figure 2: Establishing year of the U.S. business entity



02 Key Findings

1. Financial performance slightly down with gloomy outlook

Like previous surveys, this year's annual report primarily focuses on the annual operating conditions of Chinese companies in the United States. The data shows that in 2022, a greater percentage of surveyed companies experienced a decline in revenue in the U.S. compared to the previous year (Figure 3), with 13% of companies experiencing a revenue dip of more than 20%, and 24% experiencing a decline between 0 and 20%. By comparison, the percentage of companies showing revenue growth in the 2023 survey is significantly less than in the 2022 survey, which is a leading concern.

From an EBIT perspective, a greater proportion of companies (34% compared to 25% in the 2022 survey) maintained their position in 2022 compared to the previous year (Figure 4), while the proportion of companies that achieved growth decreased significantly. The proportion of companies that achieved 0-5% growth and more than 5% growth in the 2023 survey was 19% and 15% respectively.

In the 2022 result, those figures were 25% and 19%. The number of companies with declining EBITDA in the 2023 survey, however, did not change over the 2022 survey, suggesting that companies have been effective in controlling declining profits in the face of ongoing revenue pressures.

While the proportional distribution of investment decisions in the areas of "growth, stagnation, and decline" in the 2023 survey remains largely unchanged from the 2022 survey (Figure 5), different industries still show significant differences in investment decisions, due to changes in market conditions.

Figure 3: Year-on-year change of companies' annual U.S. revenue

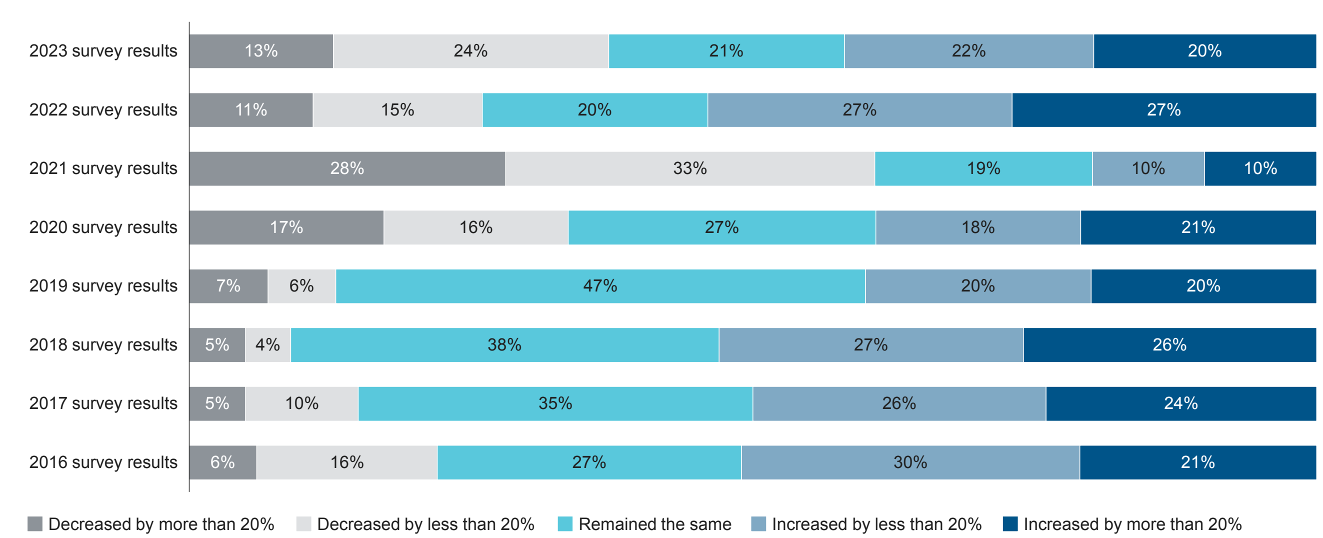
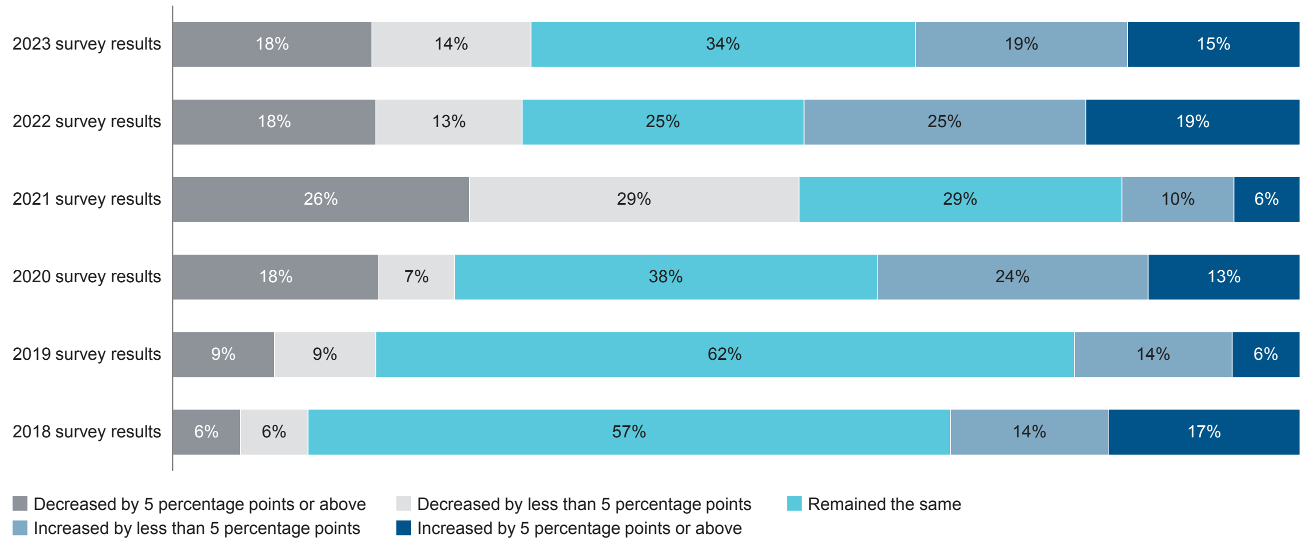


Figure 4: Year-on-year change of companies' annual U.S. EBIT



For the four industries with the largest sample size in this year's study (Figure 6), industrial companies are the only category that did not report a reduction in investment.

The real estate sector, on the other hand, presents the largest percentage of investment contraction options (as much as 51%) with only 13% of companies increasing their investments in 2022. This is directly related to the joint cooling of both the Chinese and U.S. real estate markets in that period.

The financial sector, as well as the non-essential consumer goods sector, shows some divergence. Decisions to keep investment levels unchanged dominate (47% and 56% respectively), while investment growth and investment downgrades account for roughly half of the remainder. This reflects the diverse choices in these two sectors, based primarily on firm size and growth strategies.

Figure 5: Year-on-year change of new business investment in the U.S. by Chinese companies

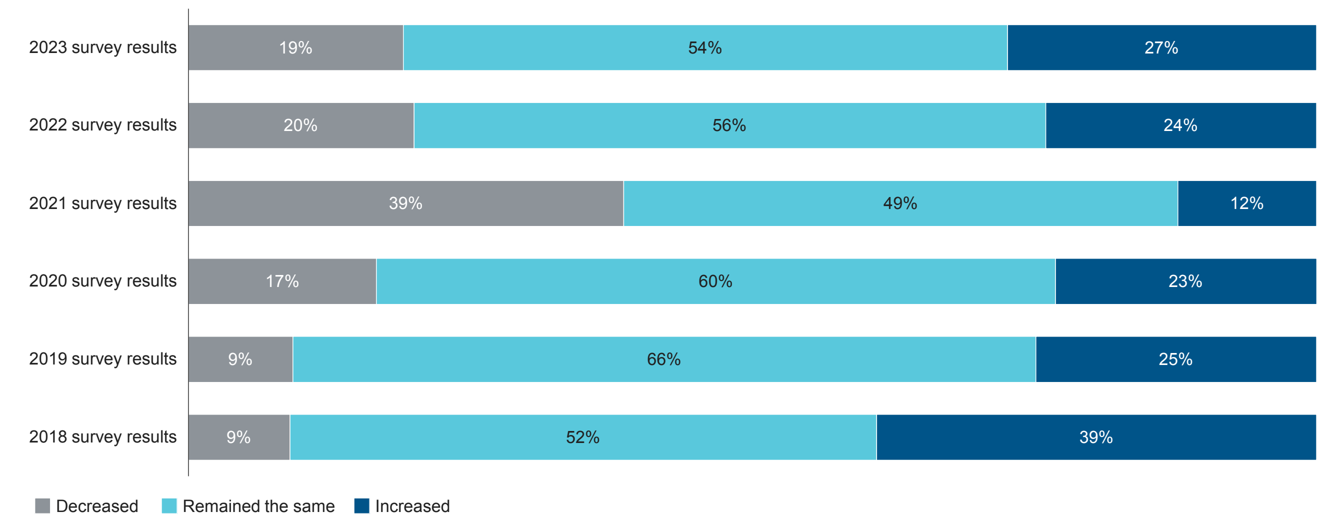
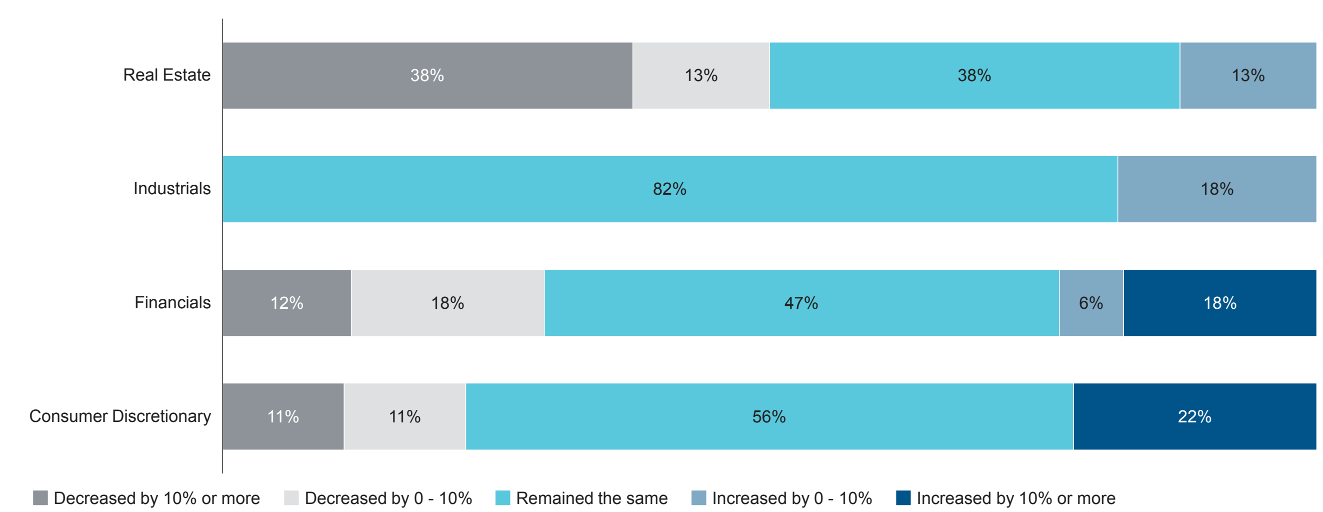


Figure 6: By industry - Year-on-year change of new business investment in the U.S. by Chinese companies



As for revenue and growth expectations over the next two years (Figure 7), the vast majority of companies expressed no change (35% in this survey, 37% in last year's). As for strong growth (i.e. up to 20% or more), there was also no material change (11% in the 2023 survey and 14% in the 2022 survey). In fact, a significant change was only observed in respondents expecting lower revenue; 19% in the 2023 survey, which was five percentage points more than the 14% in the 2022 survey.

Overall, the industrial sector continues to show the largest proportion of solid and optimistic attitudes (91% in total), with only 9% of companies predicting lower revenues. The real estate sector remains the most pessimistic, with the largest portion of companies (34%) expecting lower revenues and only 17% expecting revenue growth. The financial sector and the non-consumer goods sector are in the middle, with 17% and 22% of companies expecting a decrease in revenue over the next two years.

Figure 7: Year-on-year change of forecasted revenue projections over the next two years

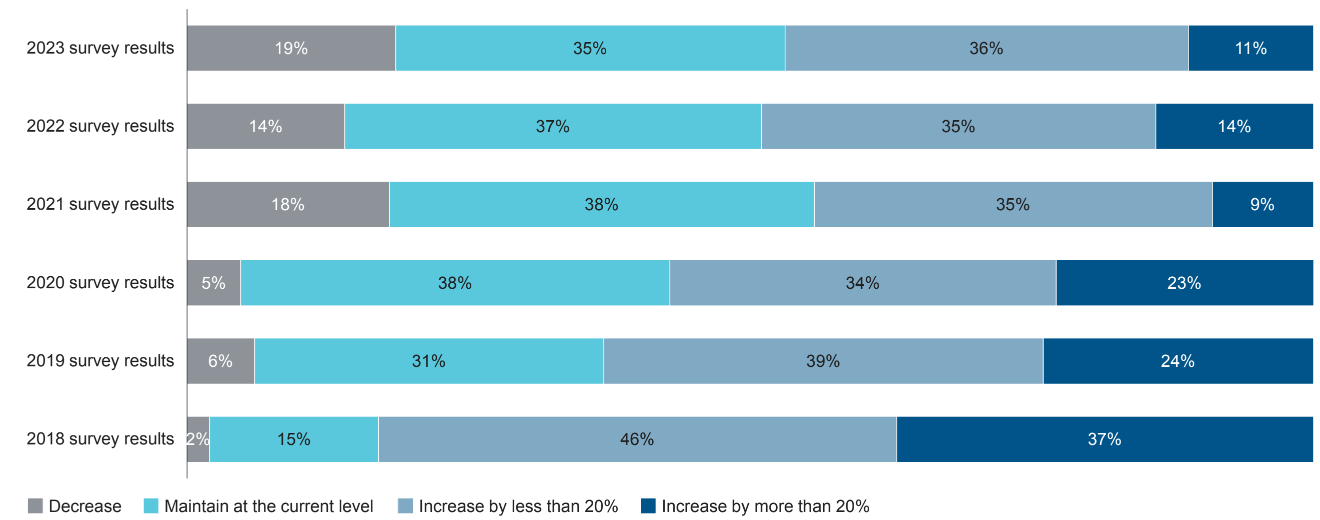
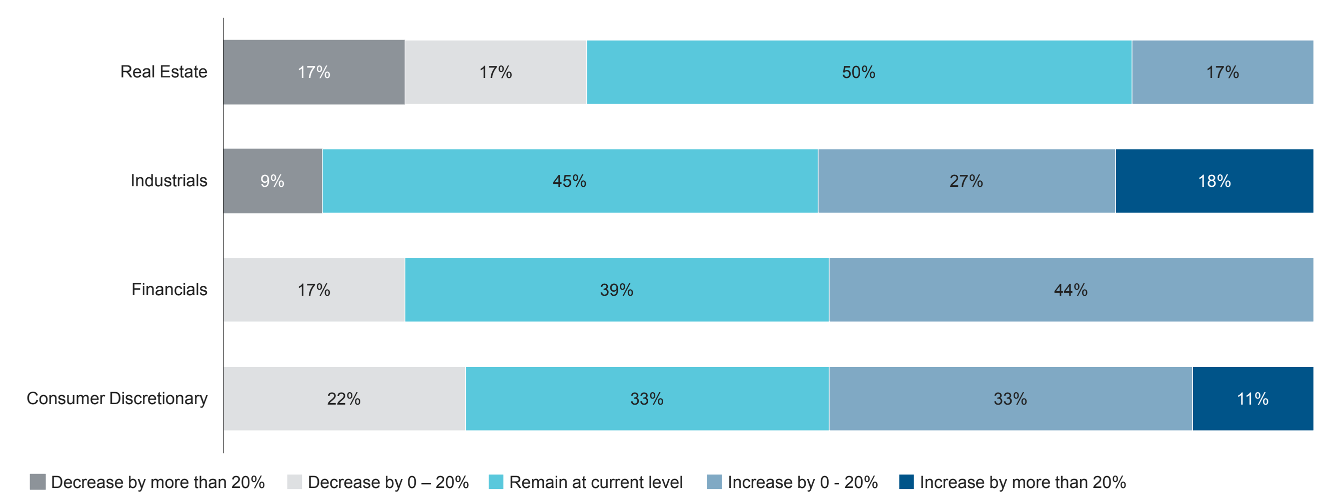


Figure 8: By Industry - Year-on-year change of forecasted revenue projections over the next two years



The companies' prognosis for investment decisions in the U.S. over the next two years is very similar to their forecast for revenues (Figure 9). The overwhelming majority of companies are maintaining or increasing their investments, although we did observe a slight increase in those already reducing their investments, when compared to the 2022 survey result and 14% in 2023 result, which is four percentage points more than the year before.

Nevertheless, survey responses in 2023 were significantly better than the low point shown in the 2021 result, but still well off the high point five years ago when economic and diplomatic relations were more favorable. While the latest round of research shows a significant recovery in many areas compared to 2021, this year's survey comes nowhere close to the amount of stability from the 2018 survey, when there were no global health, security, and inflation or interest rate concerns. In that sense, the slight recovery demonstrated in this year's report over last year's is nowhere near as encouraging as the pre-pandemic highs. An improvement for sure - but a full recovery is still a ways off.

Figure 9: Year-on-year change of investment expectation in the U.S. in the coming year

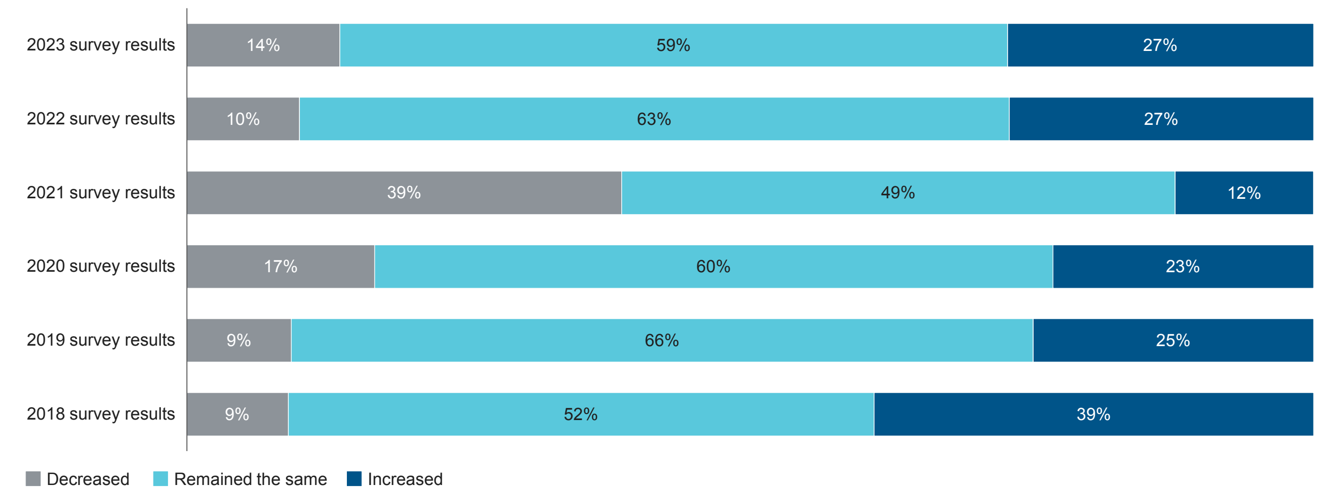
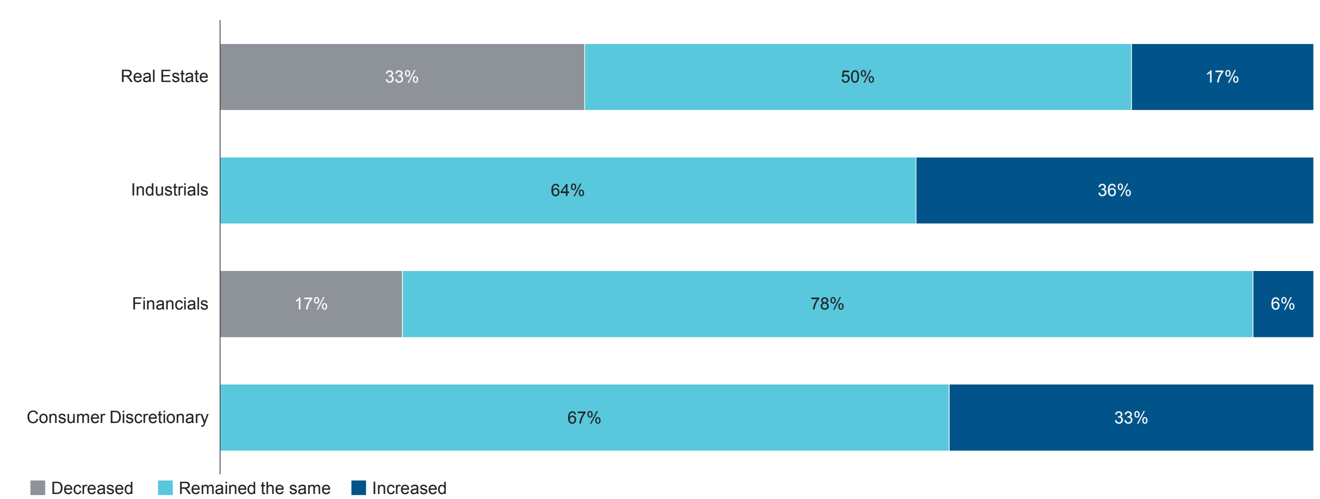


Figure 10: By Industry - Year-on-year change of new investments expectation in U.S.



2. U.S.-Chinese tensions and persistent inflation are top concerns

Among the many external factors that have emerged, what are the most worrisome for Chinese companies in the U.S.? According to this year's survey (Figure 11), the stalemate in bilateral relations between the U.S. and China, subsequent trade friction between the two countries, and continuous inflation and subsequent trade friction between the two countries led the list of top concerns, with 81%, 68%, and 67% reporting respectively.

Second-tier concerns include changes in U.S. investment policies for foreign companies (36%), recruitment and retention of talent (35%), higher compliance costs in the U.S. (31%), and work visa policies (28%). Since getting rid of first part, barriers to U.S. market entry (17%), cultural differences between the U.S. and China (16%), low acceptance of Asian/Chinese brands by the U.S. consumer base (16%), and high U.S. legal costs (15%) were tertiary concerns. Tax environment (6%) and foreign exchange risk (6%) did not qualify as "considerable" concerns.

Regarding the prediction of the specific trend of U.S.-China relations in the new year (2023), the results of this year's survey (Figure 12) have not changed much from the previous survey, with an overall cautious attitude. The most frequent response expects the status quo to remain (49%), while 44% of the respondents predict further deterioration, and only 8% expect near-term improvement in U.S.-China relations.

Additionally, the negative impact of inflation was also more pronounced when compared to last year's survey (Figure 13). A total of 83% of respondents reported that inflation has had a negative impact on their operations, with 25% considering the impact to be "significant," and 58% indicating a "moderate" impact.

Data from this year's survey (Figure 14) shows that 70%–90% of companies observed price increases in five cost categories, primarily in labor costs. The largest percentages of respondents (38% for both

Figure 11: Challenges for Chinese companies in the U.S. as they see in short term

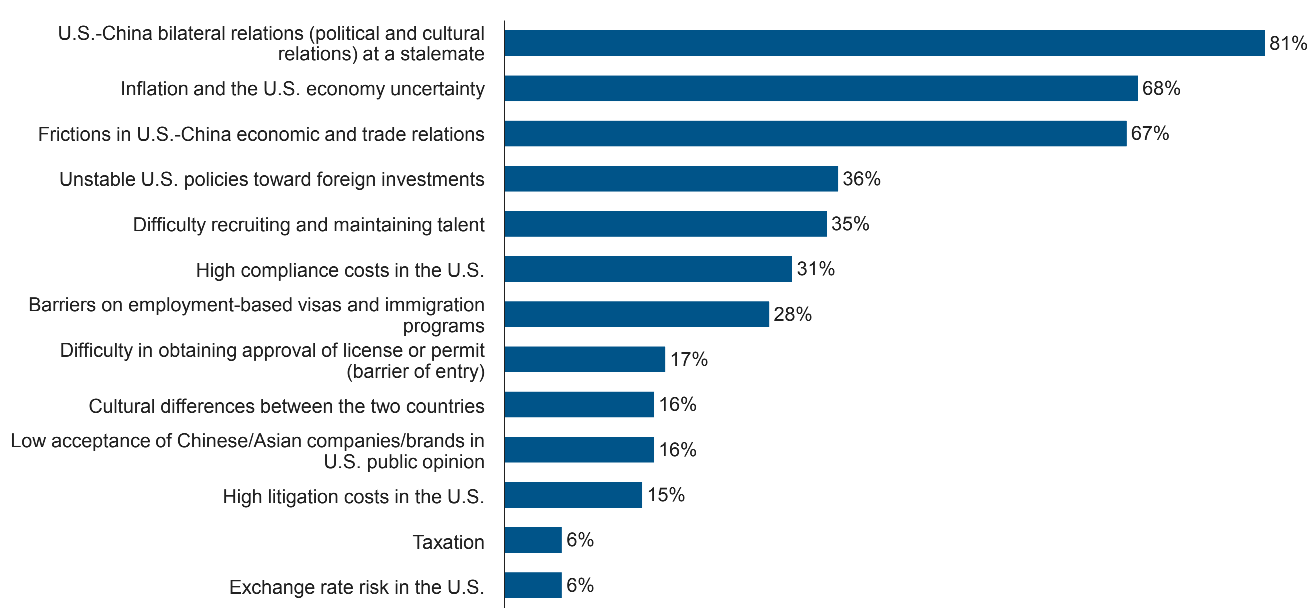


Figure 12: Year-on-year change of future expectations on U.S.-China relations

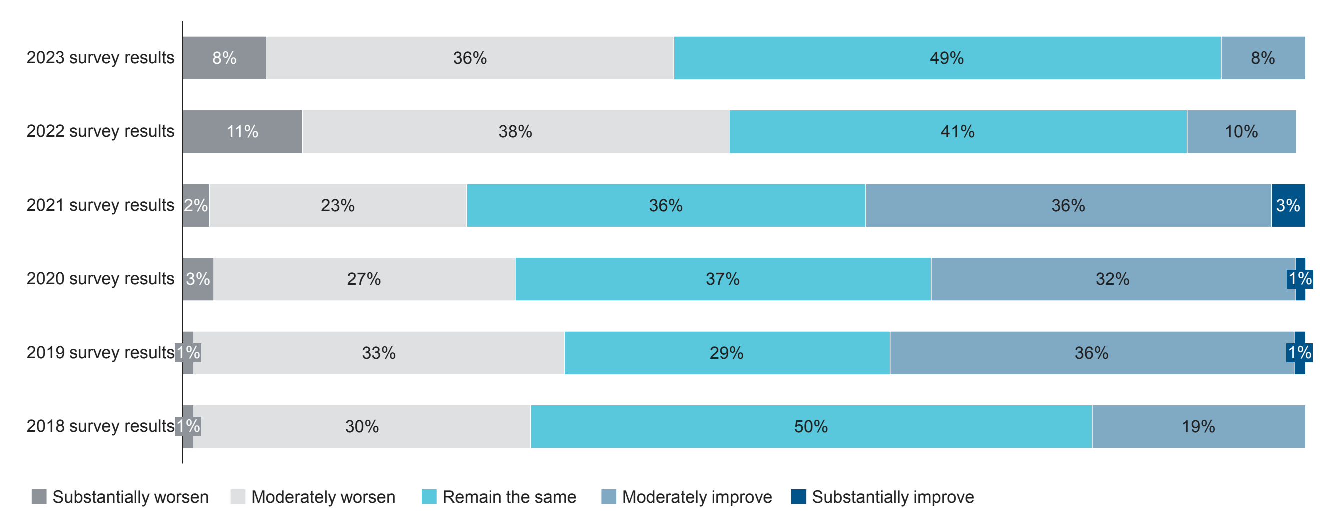


Figure 13: Impact of inflation on business in 2022

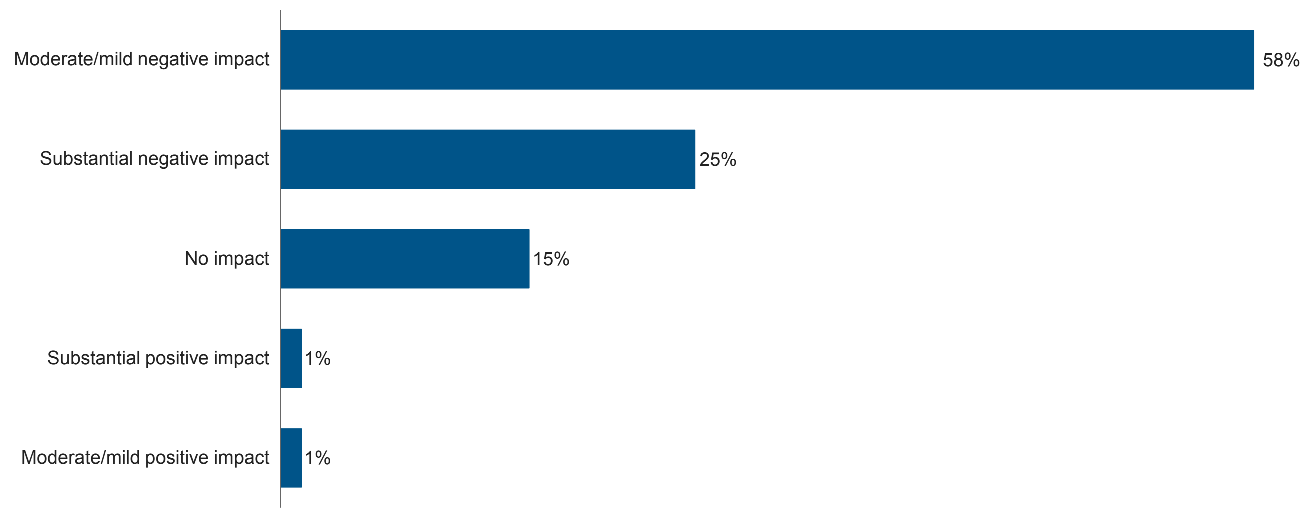


Figure 14: Factors contributing to higher costs

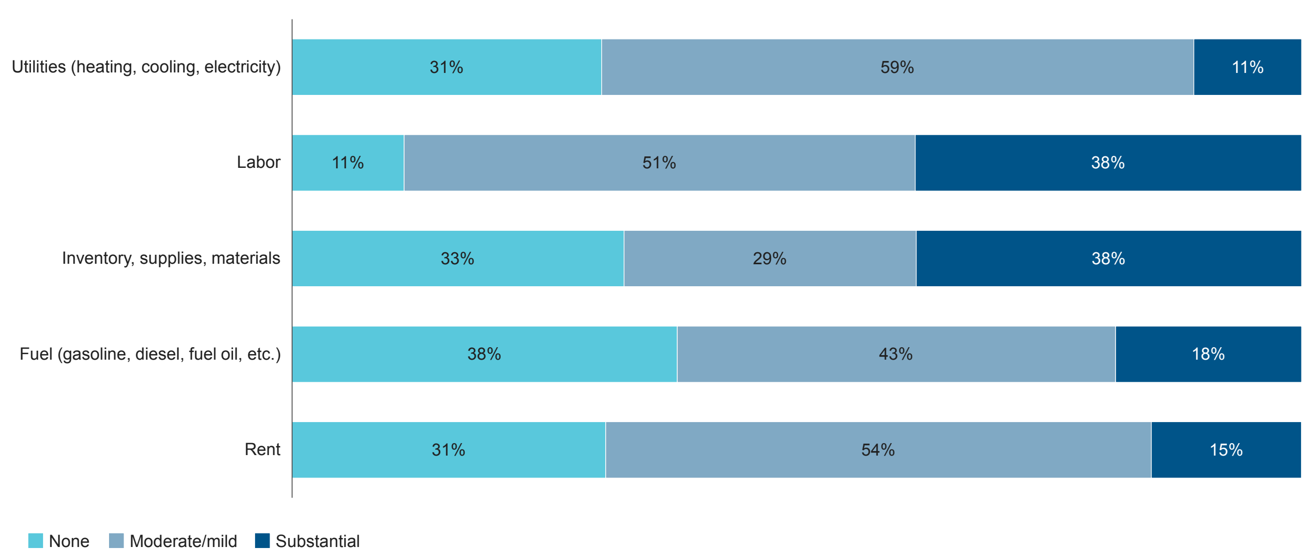
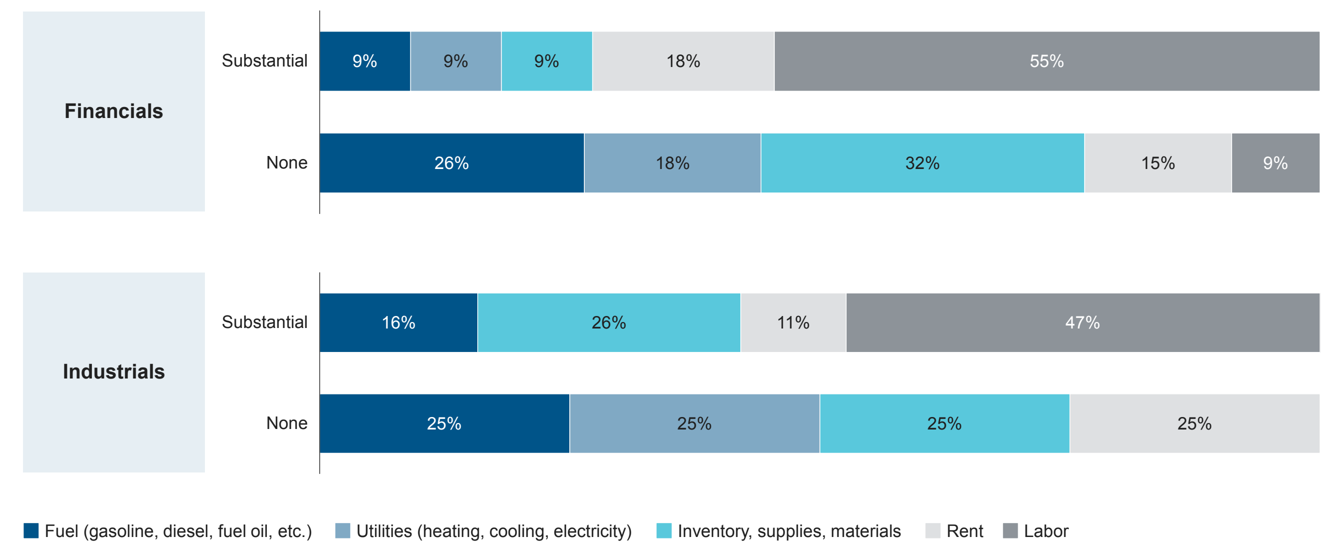


Figure 15: By Industry - Factors contributing to higher costs



labor and inventory/suppliers/materials) selected "substantial increase" in both categories, compared to 18% for fuel, 15% for leasing, and 11% for equipment.

As seen in Figure 15, the financial sector experienced the most cost increases in labor (55%). Meanwhile, the inventory/materials and fuel categories had little impact on total costs, given the fact that the financial sector relies more heavily on people to drive business. By contrast, industrial companies experienced cost increases across the board.

With cost increases inevitable in the face of inflation, companies must act accordingly. Nearly half of respondents (Figure 16) choose to raise prices for their products or services, thus shifting cost increases to downstream customers. Other responses include more advanced energy-efficient products and technologies (24%), proactively foregoing some revenue opportunities (23%), and appropriately reducing total employee costs (22%, whether through reductions in benefits or number of employees).

In terms of slowing inflation (Figure 17), 37% of companies believe it will happen within the next 1-2 years; 35% believe it will be within the next 7-12 months. By contrast, only 7% believe inflation will slow within the next six months. And relatively few, 8% in total, are very pessimistic in that it will take 3-5 years (or more) to slow inflation. The overall consensus predicts that inflation will slow sometime within the next six months to two years.

Figure 16: Approach to handle cost increases

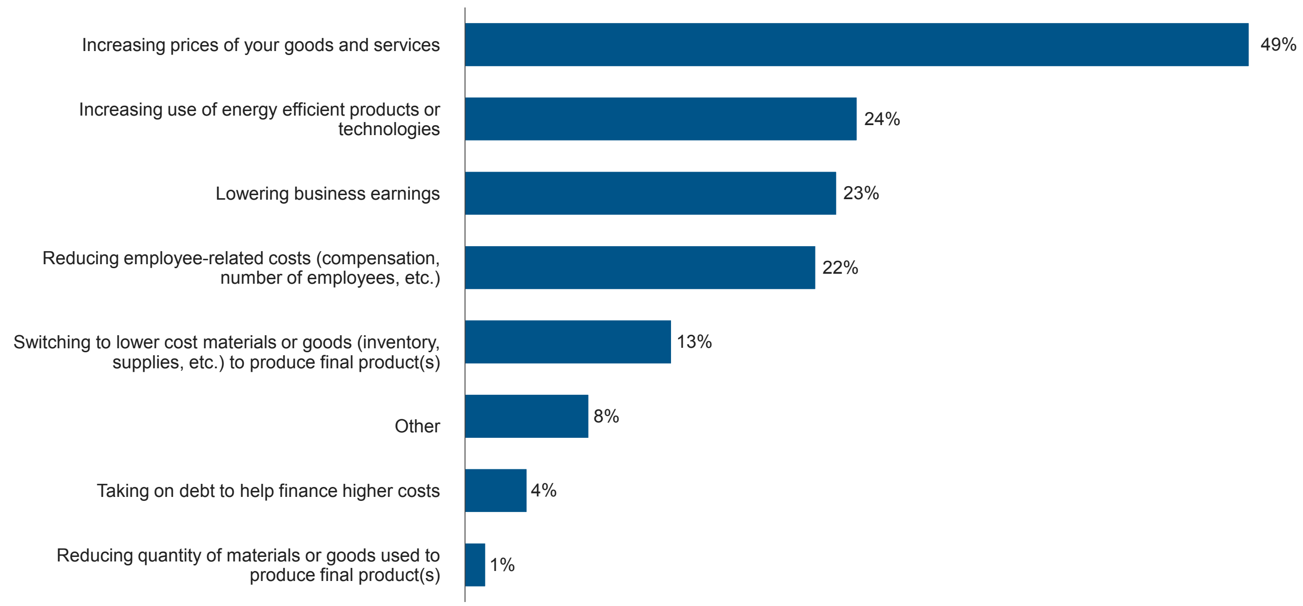


Figure 17: Chinese companies' view on inflation slowdown time frame

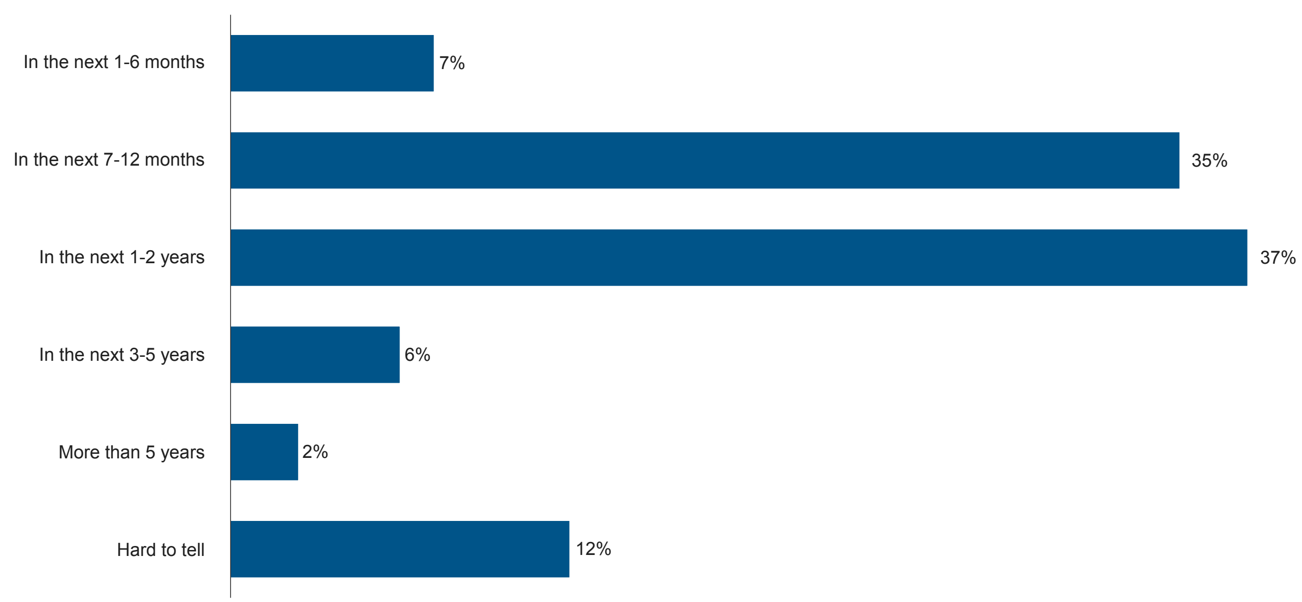


Figure 18: Expected nominal expenditure on fixed investment (tangible and intangible) in 2023 compared to 2022

Consequently, 52% of the those surveyed say they will maintain the same level of fixed asset investment in 2023 as in the previous year; 35% are prepared for moderate growth; and 6% even expect significant growth. Just 6% of the respondents say they might invest less. Overall, there is relatively solid optimism, indicating that companies continue to have investment and growth as important goals.

3. Satisfaction with the U.S. market and winning localization strategies

Chinese companies highly value the U.S. market and have developed their own tactics for better localization strategies, according to this year's survey. But they still face several obstacles to achieve comprehensive success.

The primary motivations for Chinese companies to establish a U.S. presence are two fold: the vast size of the market, and its leading business mindset. Over the last year, less than one in four surveyed companies believe their operations have exceeded expectations, while around 50% think their goals were generally met, and another 25% feel the results fell below expectations (Figure 20).

Over 90% and 80% of companies in the financial and real estate sectors, reported meeting some or all of their original objectives or goals upon entering the U.S. market (Figure 21). These sectors showed less business and investment growth compared to consumer discretionary and industrial sectors, however, suggesting that financial and real estate companies set more conservative targets when entering the U.S. market. This could be due to a variety of reasons, particularly regulatory restrictions, market saturation, or a desire for more stability and less risk-taking.

Figure 19: Original objectives/goals for setting up presence in U.S.

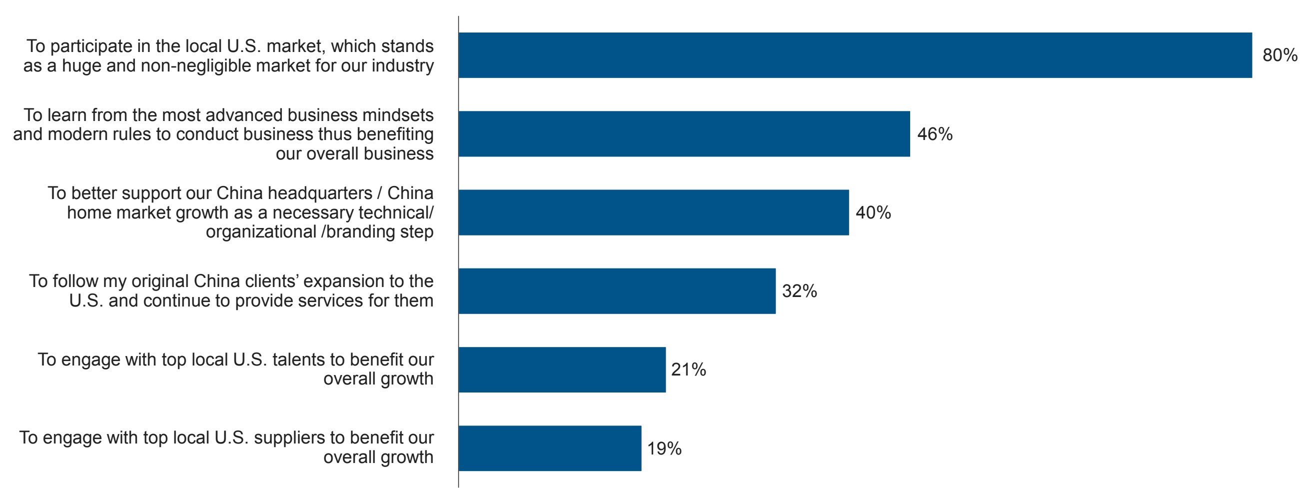


Figure 20: Current progress on achieving original objective/goals for Chinese companies

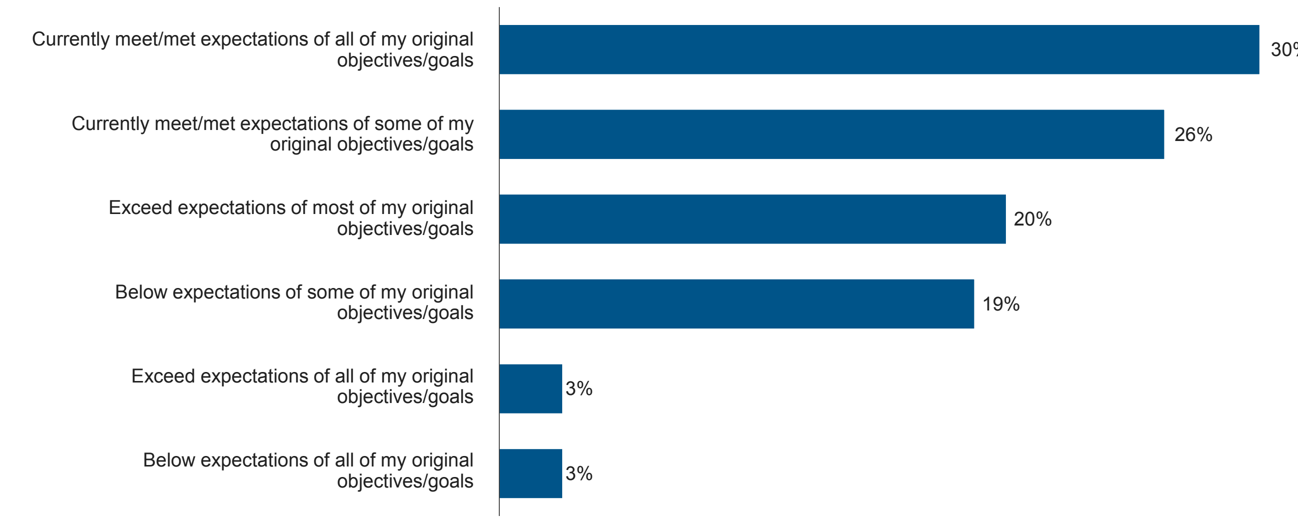


Figure 21: Current progress on achieving original objective/goals for Chinese companies

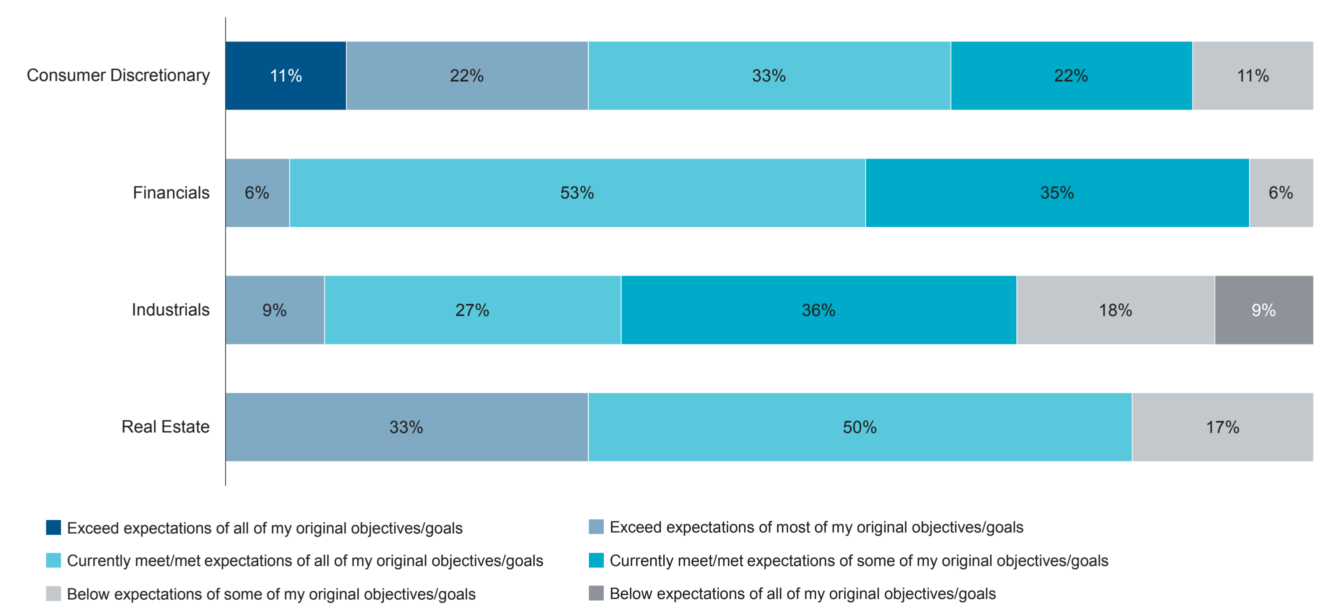
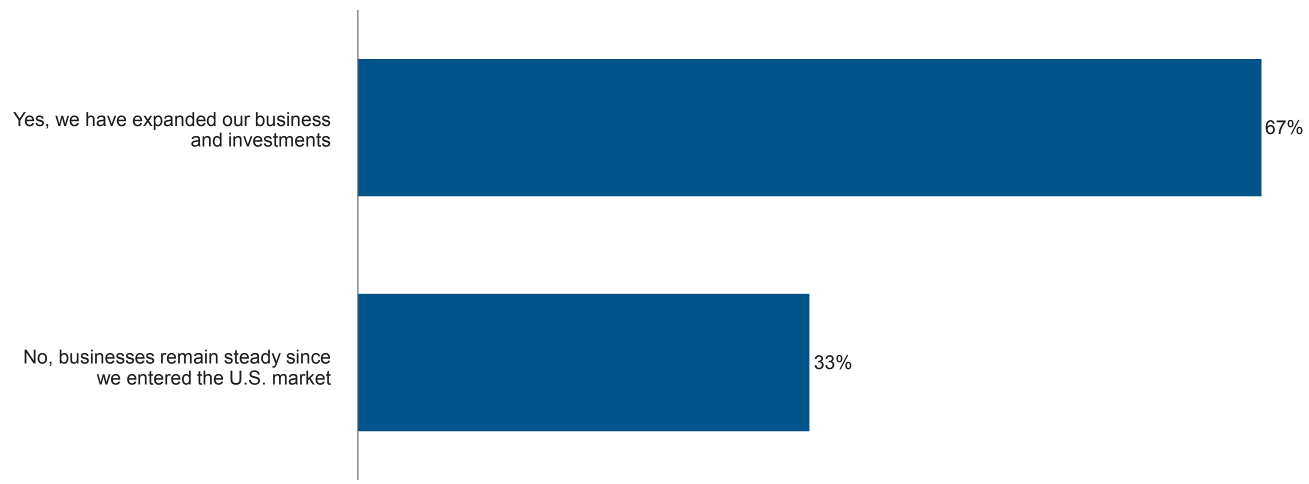


Figure 22: Business and investment growth of Chinese companies since entering the U.S. market



In this year's survey, two-thirds of respondents reported growth in the U.S., while one-third of respondents reported stagnation (Figure 22). Upon closer inspection of four key industries, the consumer discretionary sector reported a 100% business expansion rate and investment increase (Figure 23), outperforming all other Chinese businesses in the U.S. The real estate and industrial sectors followed with over 80% of respondents reporting growth. In contrast, the financial sector remained stagnant. In contrast, relatively more respondents (39%) in the financial sector are growing slowly. This shows that although the U.S. market is vast and leading in mindset, the context differences among industry sectors are obvious. The industries whose rules are relatively simple are more likely to fully enjoy the market size dividend here. While industries with complex regulations and even entry policy barriers may present more challenges for Chinese companies to spend longer time to get adapted to and achieve success.

In terms of recent progress over previous years, Chinese companies have improved market penetration by a reported 26%, product and service development by 21%, and revenue and profits by 14% (Figure 24). This indicates that Chinese companies are prioritizing localization strategies to establish a strong presence in the U.S., as well as diversifying their products and services to cater to specific market needs. Moreover, respondents are focused on enhancing profit and identifying new revenue streams to ensure long-term profitability.

Figure 23: Business and investment growth of Chinese companies since entering the U.S. market

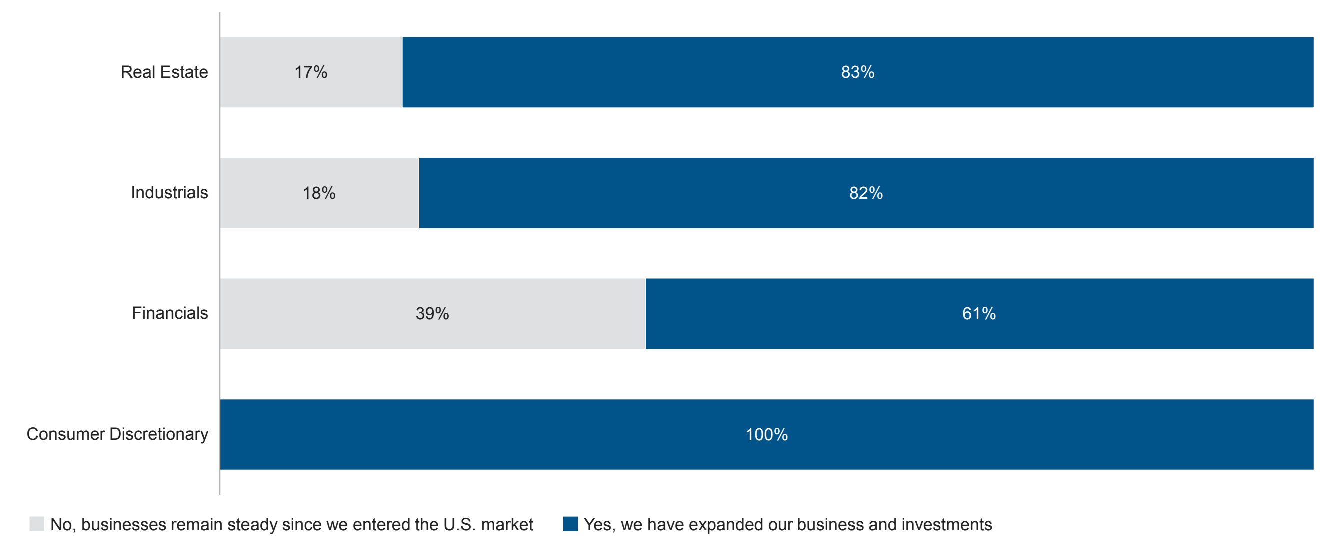


Figure 24: Areas of growth and development in business and investment

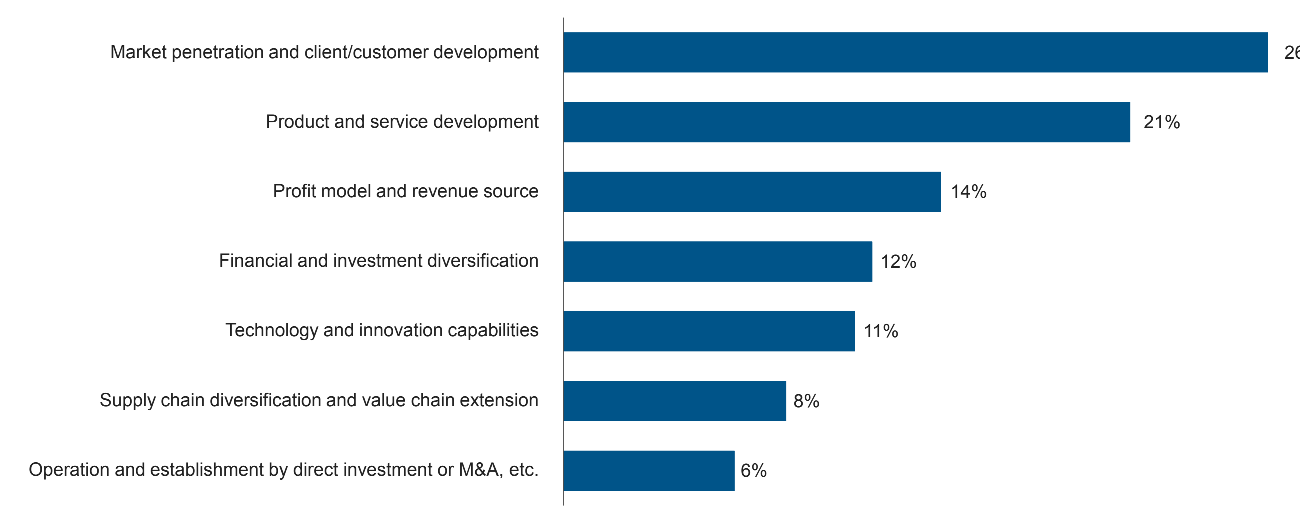
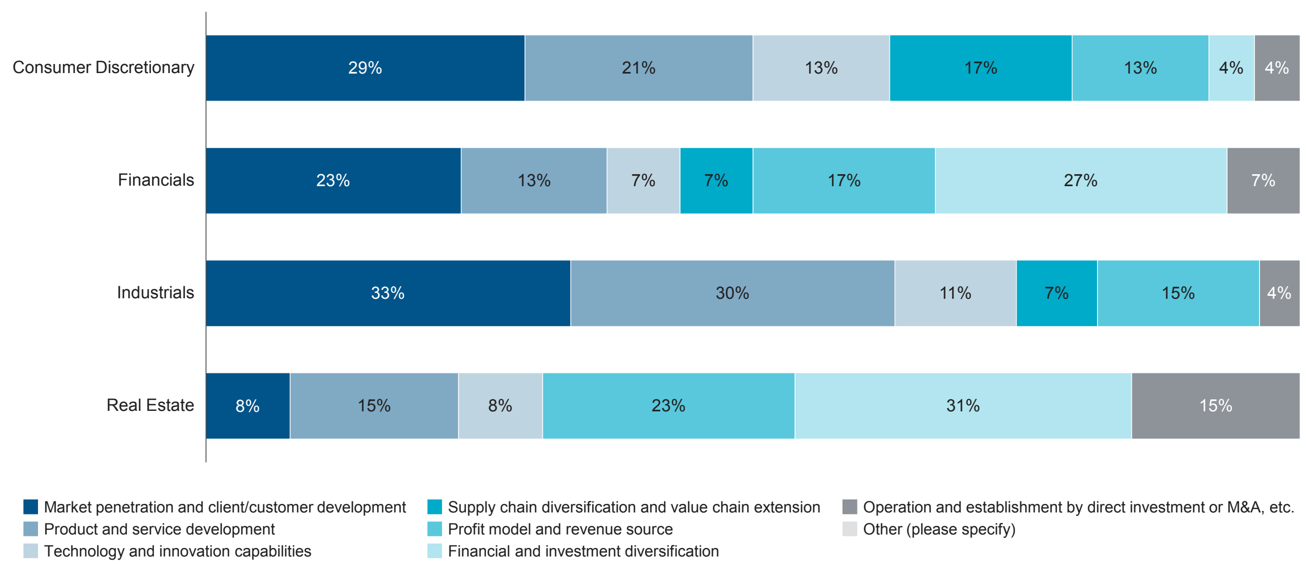


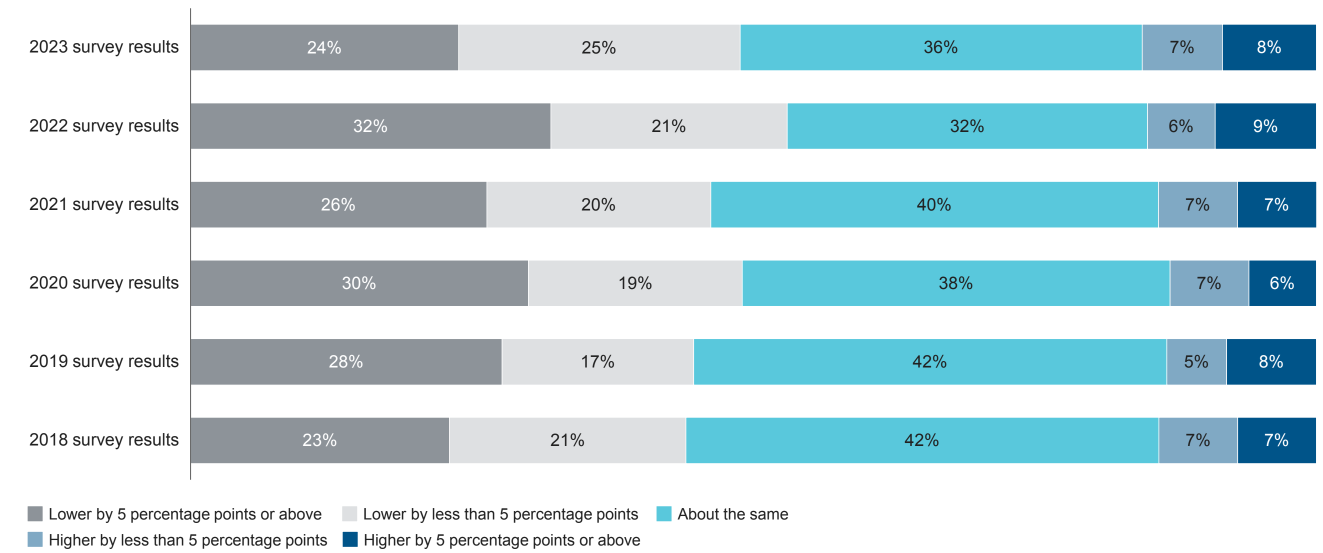
Figure 25: By Industry - Areas of growth and development in business and investment



Based on the survey results, it's clear the financial and real estate sectors are more diverse compared to those in the consumer and industrial sectors (Figure 25). The former focus on financial and investment diversification (about 30%) and profit and new revenue (about 20%), while the latter sectors emphasize market penetration and client/customer development (about 30%) and product and service development (about 20-30%). This indicates that companies in the financial and real estate sectors prioritize cash flow, profitability, and diversification of investments, whereas consumer discretionary and industrial sectors prioritize market expansion and new avenues for growth.

These differing priorities also suggest that companies in the financial and real estate sectors may face more challenges related to regulatory compliance, cash flow management, and investment diversification. In contrast, companies in the consumer discretionary and industrial sectors may face more challenges related to product innovation, market expansion, and supply chain management. By understanding these sector-specific challenges, Chinese companies can better develop strategies and tactics to help them succeed in the U.S. market.

Figure 26. Year-on-year change of U.S. companies' EBIT margin



This year's survey documented a slight recovery in profitability for Chinese companies in the U.S., with room for improvement, of course. Over half of respondents (51%) reported a higher EBIT margin, which is an improvement compared to the 47% reported in 2022 (Figure 26). The slight recovery of EBIT margin is an encouraging sign. It suggests that Chinese companies have been able to navigate the challenges of operating in the U.S. and are starting to see improvements in profitability.

This positive trend can be attributed to several factors, such as the increasing maturity of Chinese companies in the U.S., and the adoption of more effective business strategies. It also indicates that Chinese companies are becoming more adept at navigating the complexities of the U.S. market, which bodes well for their future growth and success.

Around 50% of those surveyed, however, reported a lower EBIT margin in the U.S. when compared to their parent companies in China. Only 15% of the respondents reported a higher margin than their parent companies. This suggests that while there is a positive trend in the improvement of EBIT margin among Chinese companies operating in the U.S., there is still room for improvement. These companies may need to adapt their localization strategies, regional innovation, and business models to better align with the U.S. market and improve profitability.

The consumer discretionary and financial sectors are standouts(Figure 27)., however, reporting higher relative profitability compared to the industrial and real estate sectors. More specifically, 22% of consumer discretionary companies reported a higher margin than their Chinese parent companies, followed by 18% for financial, and 9% for industrial. All businesses in the real estate sector reported the same or lower profitability than their parent companies in China. This indicates that Chinese consumer discretionary and financial sectors may have better adapted to the U.S. market, employing strategies that capitalize on local opportunities and demand. By contrast, companies in the industrial and real estate sectors may face more challenges in terms of localization and market penetration, necessitating further adjustments and innovations to improve profitability in the competitive U.S. market.

For local ownership of land, businesses, and other essential assets, 48% of respondents chose 'retained local wealth and assets,' followed by 47% choosing 'financial capabilities and sustainability'. Only 19% chose 'R&D and digitalization capabilities' (Figure 28). This indicates Chinese businesses value financial flexibility and ROI, along with residual value on investment required for localization.

In terms of local workforce and stewardship, 'local hire rate' and 'sense of belonging and security of employees' emerged as top choices, with 62% and 53% of respondents selecting these options, respectively. This underscores Chinese companies' awareness of the importance of cultivating a local talent pool and fostering a corporate culture that harmonizes Sino-U.S. values and practices for improved integration.

In the area of sustainability and environmental impact, 'level of compliance in labor and environment' emerged as the primary strategy for navigating the sustainability landscape and mitigating environmental consequences, with 66% of respondents endorsing this approach. By adhering to local rules and regulations in the U.S., Chinese companies ensure compliance and cultivate a positive reputation among local stakeholders. This highlights their dedication to upholding labor and environmental standards while operating in the United States and emphasizes the significance of sustainability in the local context.

Chinese companies have employed several metrics to devise successful localization strategies in the U.S. For instance, 56% of respondents report that over 80% of their customer/client base is local. This indicates a strong focus on understanding and catering to local needs and demand preferences. This emphasis on localization not only helps Chinese companies foster better relationships with local customers, but also ensures better integration in the U.S. market, which enhances their competitiveness and long-term success.

Figure 27: EBIT margin comparison of U.S. company to parent company

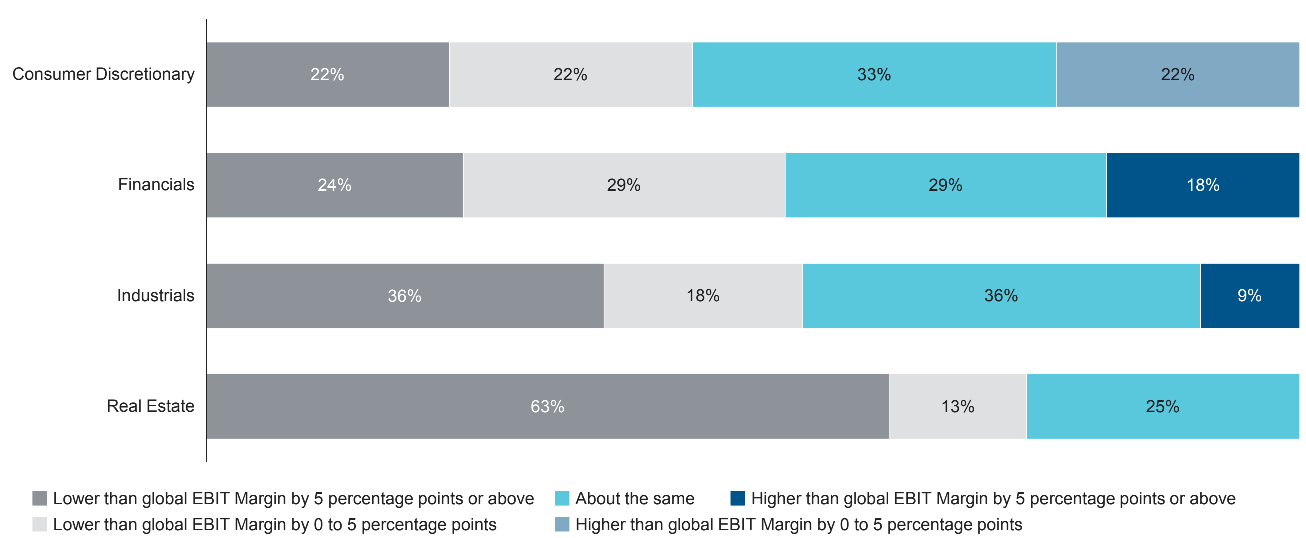
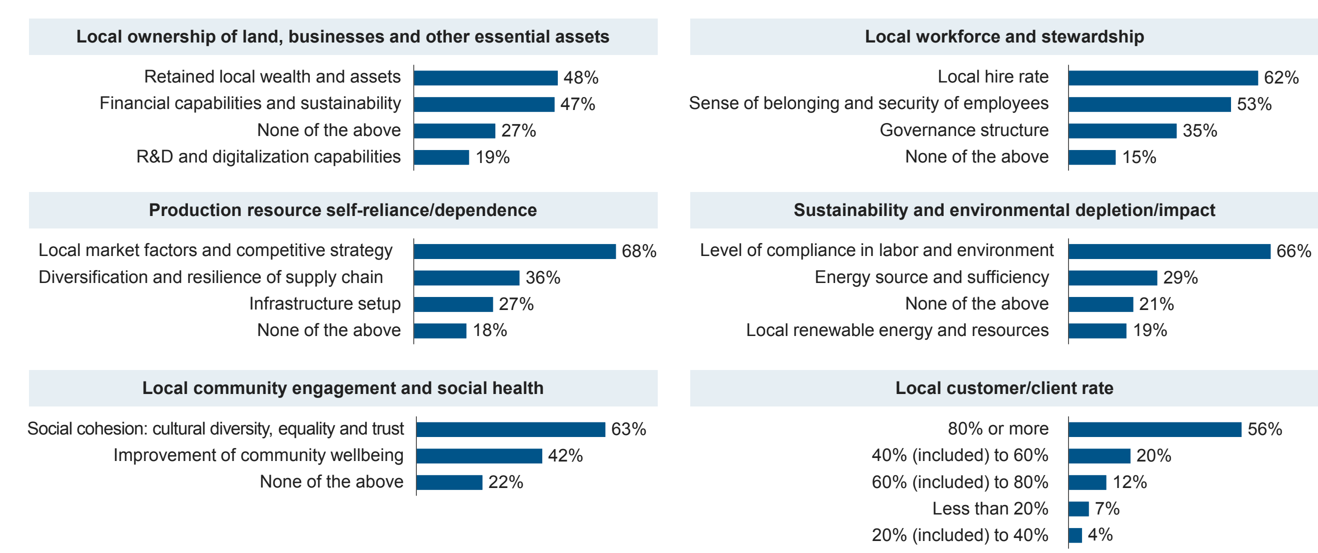


Figure 28: Metrics adopted by Chinese companies for localization strategies



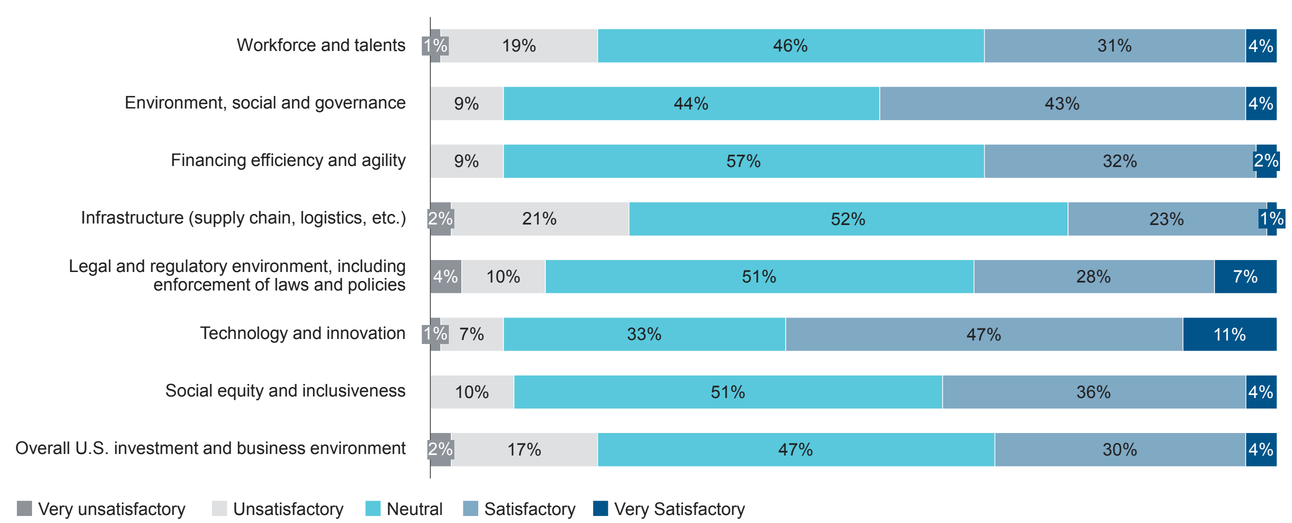
A significant percentage of Chinese companies in the U.S. reported satisfaction with the technology and innovation environment (Figure 29). Additionally, the survey results indicate that a considerable proportion of Chinese companies in the U.S. are satisfied with the ESG environment, with 47% of respondents reporting that they are satisfied or very satisfied. But the data also indicates that Chinese companies in the U.S. have mixed feelings about the investment and business environment in the U.S. On average, approximately 48% of respondents chose the neutral option across all aspects of the U.S. investment and business environment, suggesting that Chinese companies may not have strong opinions about the environment or that they may be hesitant to express them.

Furthermore, the survey results highlight that workforce and talent, as well as infrastructure, are the least satisfactory aspects of the U.S. investment and business environment for Chinese companies. This suggests that Chinese companies may face challenges in attracting and retaining local talent, as well as in adapting to and gaining access to U.S. infrastructure.

Overall, these survey results suggest that while Chinese companies in the U.S. market may be benefiting from access to advanced technology and a supportive innovation ecosystem, they may also be facing challenges related to workforce and infrastructure. As such, addressing these challenges may be crucial for Chinese companies hoping to thrive in the U.S. market.

The industry breakdown survey data shows that infrastructure is the most unsatisfactory aspect of all

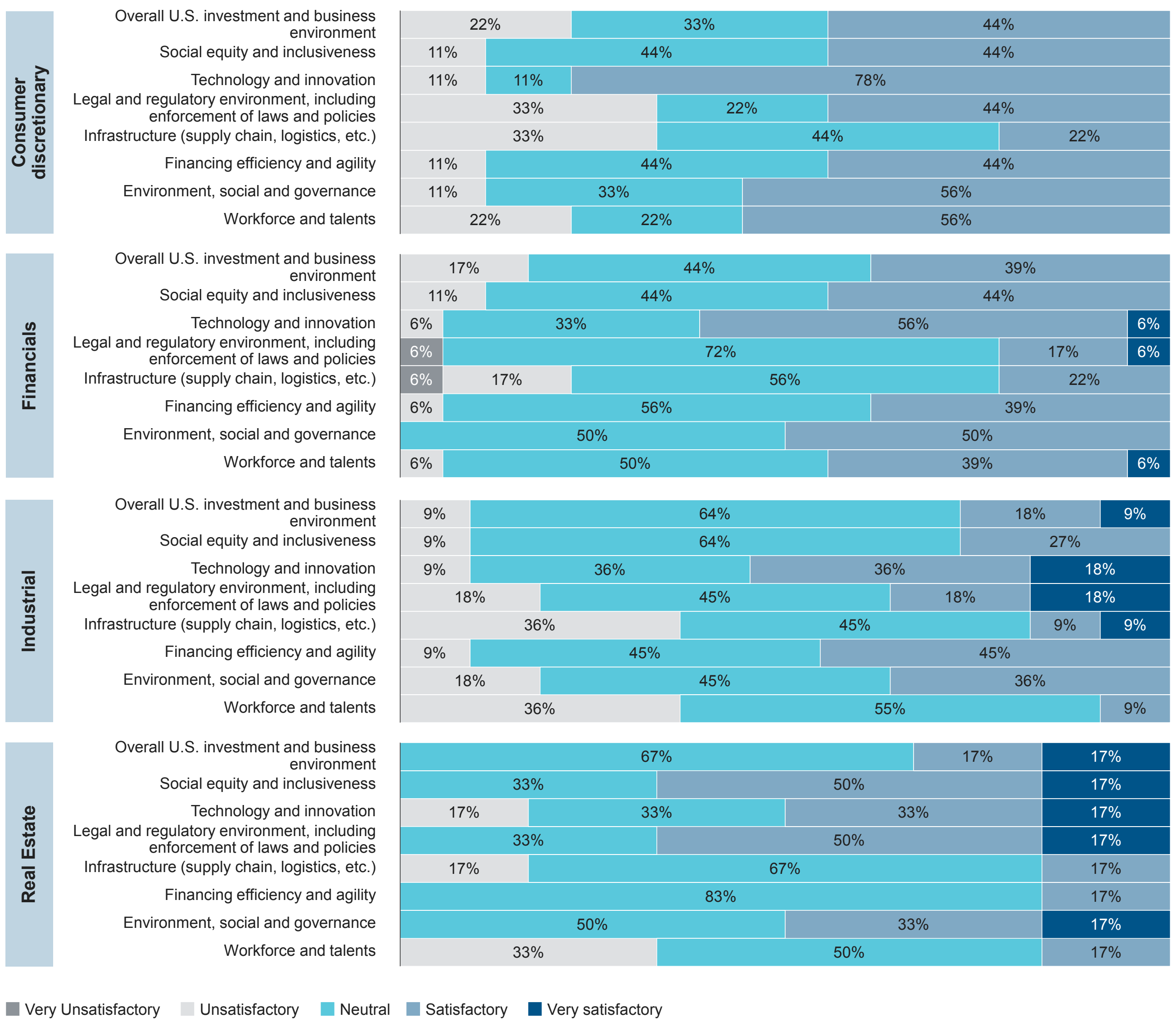
Figure 29: Evaluation on different aspects of the U.S. investment and business environment



industries, which is a common problem (Figure 30). However, each sector also has its unique challenges. For example, financial companies are not satisfied with the legal and regulatory framework (only 23% respondents chose satisfactory), while industrial companies are unsatisfied with the workforce and talent pool (91% neutral or unsatisfactory). Real estate companies are unsatisfied with the workforce (83% neutral or unsatisfactory) and financing efficiency and agility (83% neutral or unsatisfactory). Also, over half of the respondents across four key sectors chose a neutral response for other aspects, indicating that there is room for improvement.

To better cope with legal and regulatory framework in the financial sector, Chinese companies should bolster their efforts in compliance management, raise awareness of legal risks, and actively cooperate with regulators in order to better meet these challenges. For the labor and talent pool issues in the industrial sector, special consideration could be given to talent training, establishing a solid HR management system, and improving employee benefits and career development. Real estate companies should also focus on talent cultivation, improving workforce management, and increasing both employee satisfaction and corporate image.

Figure 30: By Industry - Evaluation on different aspects of the U.S. investment and business environment



Chinese companies have recognized the value of operating in both the U.S. and China, as these two markets represent some of the largest revenue opportunities in the world. Moreover, operating in both markets provides valuable business insights and learning opportunities that can inform and improve their operations in other countries and regions.

The survey results revealed that capturing revenue opportunities in both the U.S. and China (24%), as well as leveraging insights gained from the U.S. market to inform overseas expansion (22%) and drive growth in the Chinese market (19%), are the top three choices among respondents (Figure 31). While larger talent pools with dual-market operations (15%), risk-offsetting (12%), and higher margins (9%) are also identified as potential benefits, though they were less preferred. This suggests that Chinese companies operating in the U.S. prioritize revenue generation and market expansion as key drivers of their strategies. The emphasis on leveraging insights from the U.S. market to inform business growth in other countries and in China also reflects the valuable learning experiences and knowledge that Chinese companies gain from operating in the highly competitive U.S. market.

Chinese companies in the U.S. have been adopting various strategies to build and enhance brand trust. According to the latest survey results, product and service quality (21%), customer communication (13%), and optimization of customer experiences (11%) are the top three strategies (Figure 32). It's worth noting that these strategies have remained largely the same since the 2022 survey, indicating their continued importance to Chinese companies in the U.S. However, the survey results also indicate that customer communication and optimization of customer experiences have gained more traction in 2023 compared to 2022. This suggests that Chinese companies recognize the growing importance of these strategies in building and maintaining brand trust in the digital age, especially as customer acquisition has gradually shifted from offline to omni-channel. By focusing on customer communication and experiences, Chinese companies can improve their omni-channel capabilities and engage wider audiences.

One leading logistics provider interviewed as part of the report explained, "While our brand is well-known among Chinese people, American companies are generally unfamiliar with our brand. So we need to do a lot of work to educate and familiarize them (with our brand). Our ultimate business objective is to reduce customers' lack of familiarity with our brand, and increase brand recognition."

Since 2015, an overall lower percentage of companies are choosing to reinvest all or a majority of their profits in the U.S. market. (Figure 33). More specifically, more Chinese companies have been transferring the majority or all of their profits back to China. This indicates that Chinese companies are becoming more cautious and strategic in their investment decisions, choosing to focus on their home market. It may also reflect a shift in priorities, with Chinese companies prioritizing growth in their domestic market over expansion in the U.S.

In the future, it is likely that Chinese companies will continue to adopt a more selective and strategic approach to their U.S. operations, focusing on areas where they have a competitive advantage and can achieve significant growth. This may include investment in emerging technologies and industries, as well as strategic partnerships with U.S. companies. However, it is also possible that Chinese companies will continue to face increasing challenges in the U.S. market, particularly in the areas of regulation and competition, which may lead to a further shift in the distribution of profits towards the domestic market.

Figure 31: Benefits Chinese companies gets by operating in both China and the U.S.

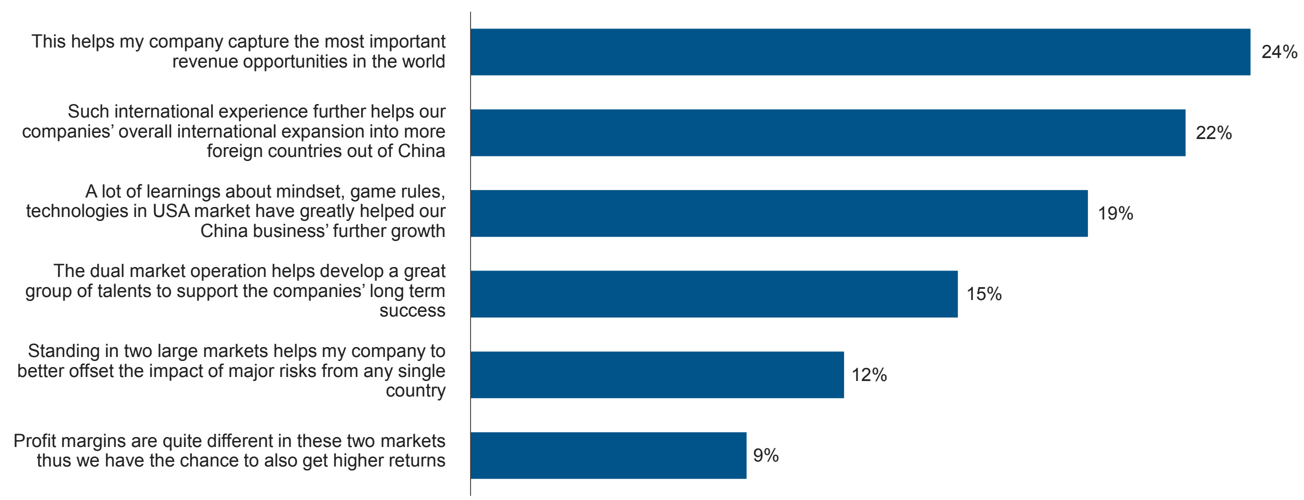
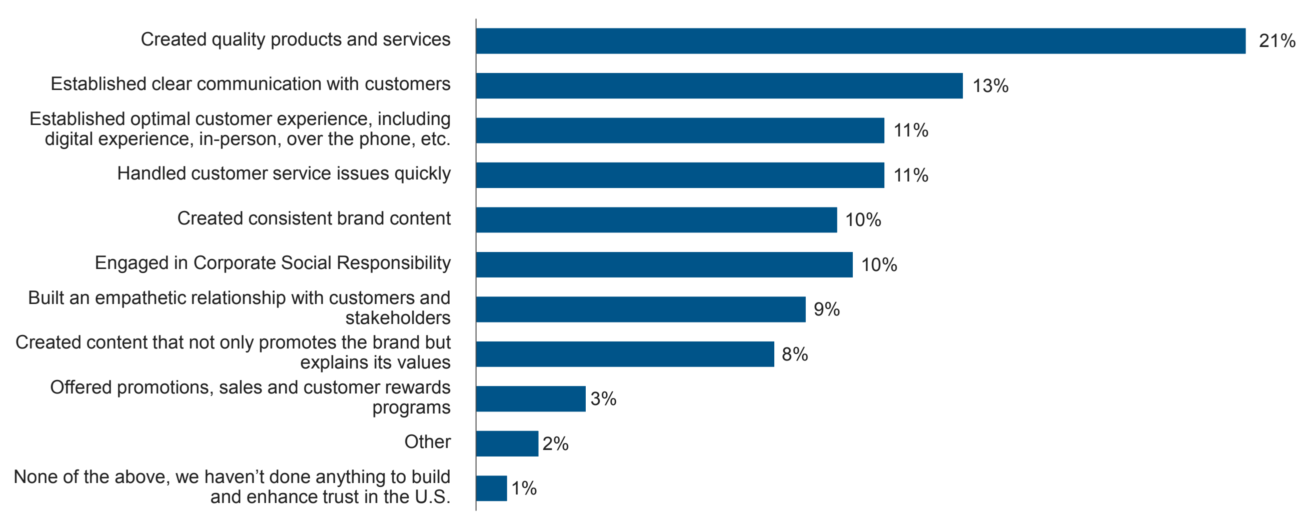


Figure 32: New strategies adopted to build and enhance brand trust in the U.S. market



Overall, Chinese companies have shown increased confidence in the U.S. market as a result of decades of experience operating there. However, there is also a long-term trend of diversifying their investments and balancing profits between the two markets. Moreover, recent geopolitical headwinds have weakened the confidence of Chinese companies in the U.S. market, which is reflected in the short-term trend of transferring more profits out of the U.S. market. We believe this will lead to a more sophisticated and strategic approach to global business operations. It will be important to monitor this trend in the coming years to see how it evolves.

Industry specific data shows that the financial and Industrial sectors tend to transfer more of their profits back to China, while companies in the consumer discretionary and real estate sectors are more likely to reinvest their profits in the United States (Figure 34). This reflects the different priorities and needs of these sectors, as well as the varying levels of confidence in the two markets.

Figure 33: Year-on-year change of profit distribution of Chinese companies in U.S.

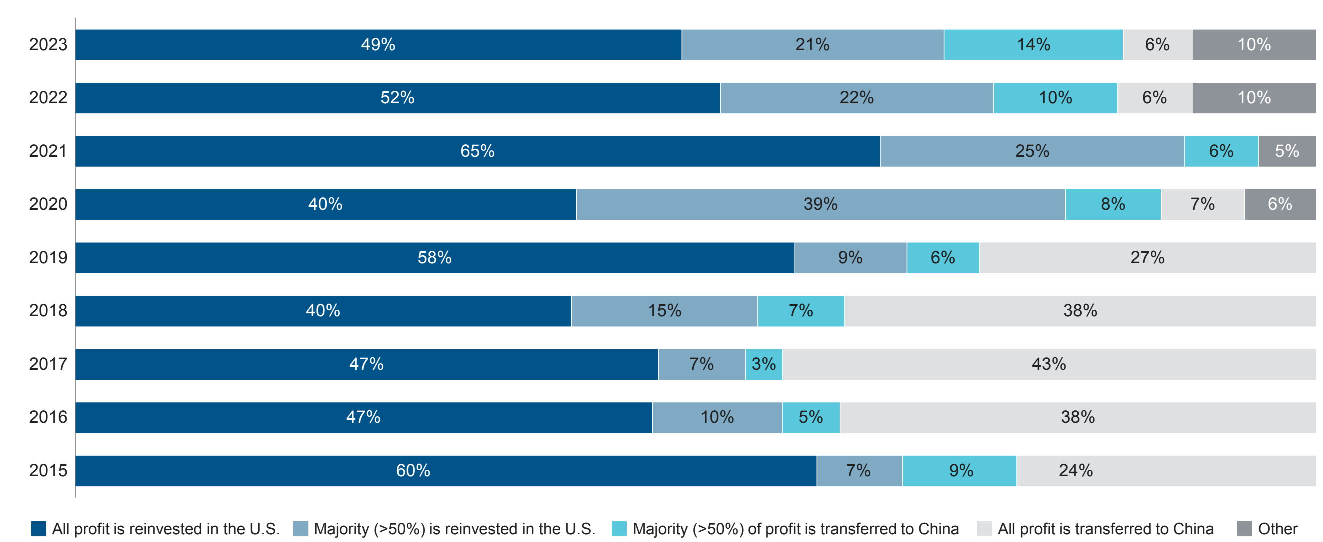


Figure 34: Industry cluster view on how Chinese companies distribute their U.S. profit

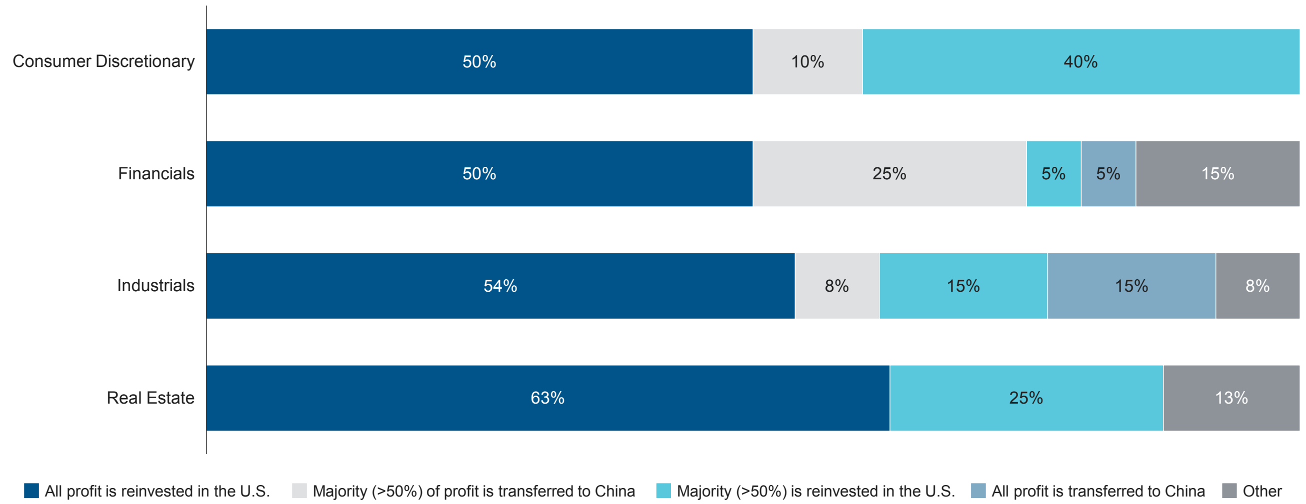
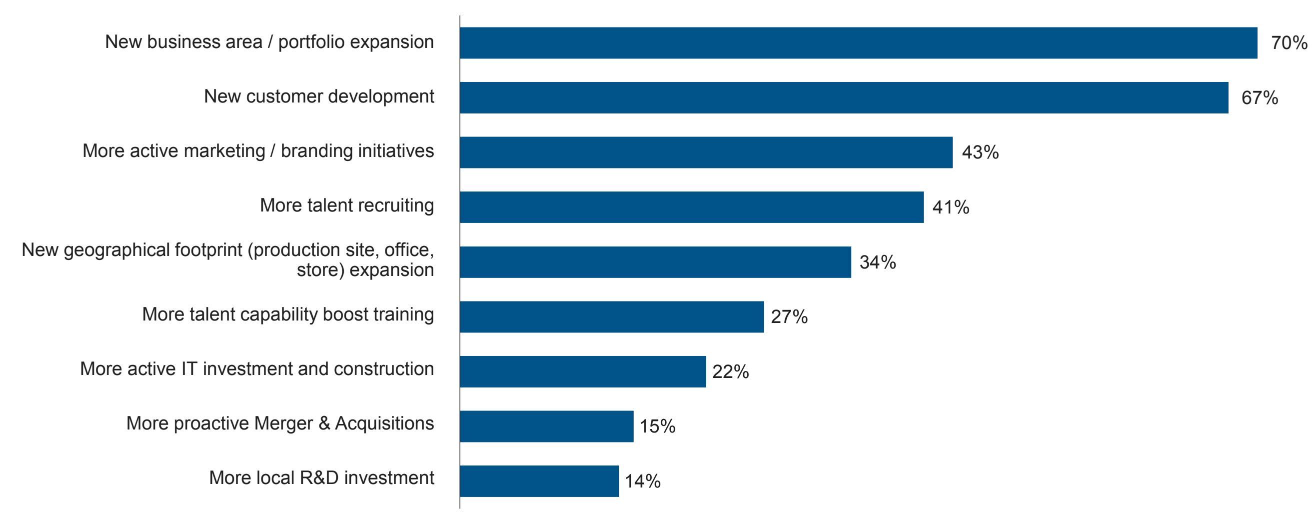


Figure 35: Most important actions on the journey of development of Chinese companies during the "up" cycles



4. Past market cycles help Chinese companies cope with short-term fluctuations

Despite facing unique challenges due to cultural differences, regulatory barriers, and geopolitical tensions, Chinese companies operating in the U.S. have the potential to succeed due to access to a large market and diverse range of industries. Therefore, the ability to identify new business opportunities and find new avenues of growth remains a consistent theme for their success. For example, during "up" cycles, Chinese companies prioritize activities that generate top-line growth, including expanding into new areas (70%), growing their customer base (67%), enhancing their branding and marketing (43%), and recruiting new talented (41%). Meanwhile, capability building (27%), IT (22%), and R&D investment (14%) take a backseat during market up cycles.

“Last year, our revenue experienced a slight decline during major holidays such as Chinese New Year and the middle of the year, which did not meet our expectations. However, we were able to boost our revenue towards the end of the year during Black Friday and Christmas. Despite these fluctuations, our overall performance remained relatively good, and we met more than 95% of our original expectations. This year, we have decided to not only expand our operations in U.S. but also establish a stronger presence in other parts of the world. Given the potential impact of U.S.-China policies, we aim to diversify our resources by establishing different routes.”

– Leading Chinese logistics provider

When looking at specific industries, only 10% of companies in the consumer discretionary sector prioritize active marketing and branding initiatives, which is six times fewer than companies focused on new customer development and business/portfolio expansion (Figure 36). This trend may be due to the fact that Chinese consumer discretionary companies have already established a good brand presence in the U.S., and therefore, focus more on expanding their awareness to new customers and business areas.

When it comes to competing market conditions, the actions taken by Chinese companies in the U.S. during 'down' cycles are more evenly distributed and diverse than the actions taken during 'up' cycles. During the 'down' cycle, 65% of the companies chose to 'actively change their core business strategies to become more adaptive', while 54% chose to 'identify new business opportunities to speed up growth'. The survey results demonstrate that Chinese companies prioritized actions to enhance flexibility and resilience of their core business during market downturns while at the same time actively looking for new avenues of growth to prepare for future market recovery (Figure 37). In short, Chinese companies in the U.S. focused on both strengthening their existing business and exploring new opportunities for growth in downturns, which could help them to recover more quickly when the market improves.

Respondents also adopted a wide range of actions in 'down' cycles, including staff training, capability building, downsizing, eliminating unprofitable or non-core businesses, and digitalizing and streamlining operations. It's worth noting that each of these actions was chosen by approximately 30% to 40% of respondents, indicating a balanced approach to managing their businesses during challenging economic times. These actions demonstrate the proactive and resourceful nature of Chinese companies in the U.S. They have not only taken steps to address the current downturn, such as downsizing and cutting unprofitable or non-core businesses, but are actively seeking opportunities in difficult situations to lay the foundation for future growth.

“We are leveraging downturns to recuperate, revamp our online and offline systems, and solidify connection with airline partners. In addition to our current capabilities and ongoing efforts, we have colleagues dedicated to government affairs who communicate with the Chinese government and have already submitted documents to increase flights. We are gathering strength until better times come.”

– U.S.-China business lead of a major U.S. airline

Figure 36: By Industry - Most important actions on the journey of development of Chinese companies during the "up" cycles

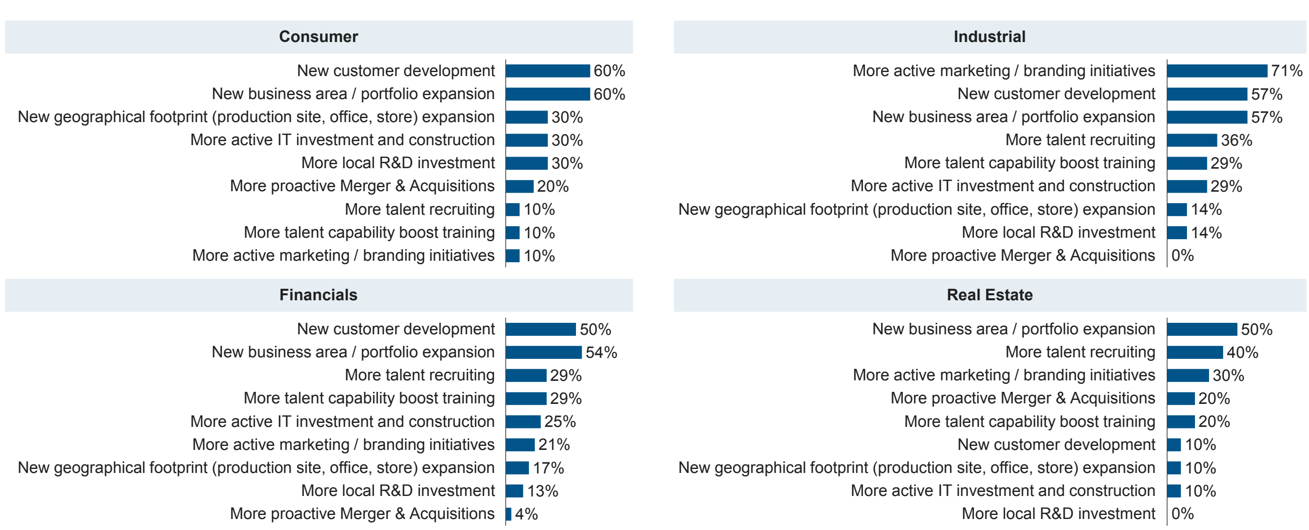
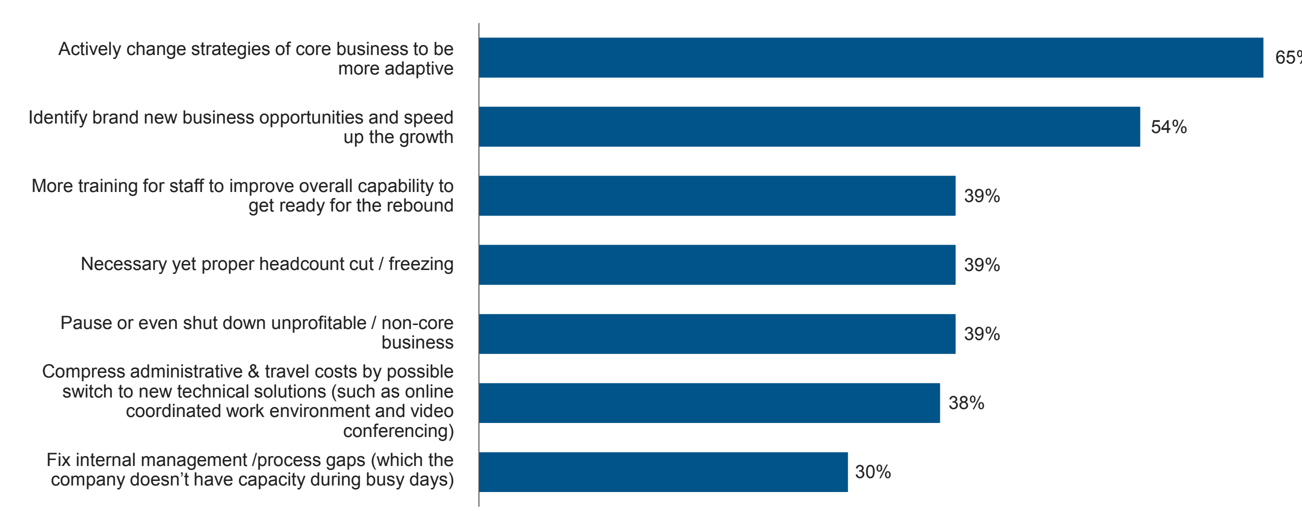


Figure 37: Most important actions on the journey of development of Chinese companies during the "down" cycles



Facing the challenge of inflation (Figure 38), Chinese companies prioritize increasing revenue over cutting costs, with price increases, technology upgrades, and reducing employee costs as their top three approaches. Switching to lower cost suppliers is also considered, but with less importance compared to the top three options. Respondents prefer to pass on cost increases to consumers through higher prices, and only then implement cost-cutting measures such as using energy-efficient products or reducing employee-related costs. Additionally, Chinese companies generally avoid taking on debt to finance increased costs, viewing this approach as the least effective.

In the near term (Figure 39), the primary business objectives for Chinese companies operating in the U.S. are to recover or grow their existing business (58%), improve profitability (54%), and obtain brand recognition while enhancing their corporate image (48%). These objectives indicate a revenue/profit and visibility focus. Currently, survey respondents are focused on realizing commercial opportunities – only 23% of respondents chose 'learning advanced technology and developing management expertise' and 9% chose 'establishing new training or research & development center' (Figure 39). Despite increased challenges, all surveyed firms expressed no intention to exit the U.S. market.

By prioritizing revenue growth, Chinese companies operating in the U.S. are laying the foundation for long-term success. While investing in R&D is not a current priority, it is possible that this may change as firms seek to innovate and differentiate themselves in the market. Nevertheless, the fact that none of the surveyed firms plan to exit the U.S. market demonstrates a commitment to weathering short-term economic fluctuations and maintaining a presence in a key global market.

Figure 38: Effective approaches Chinese companies adopted to deal with inflation

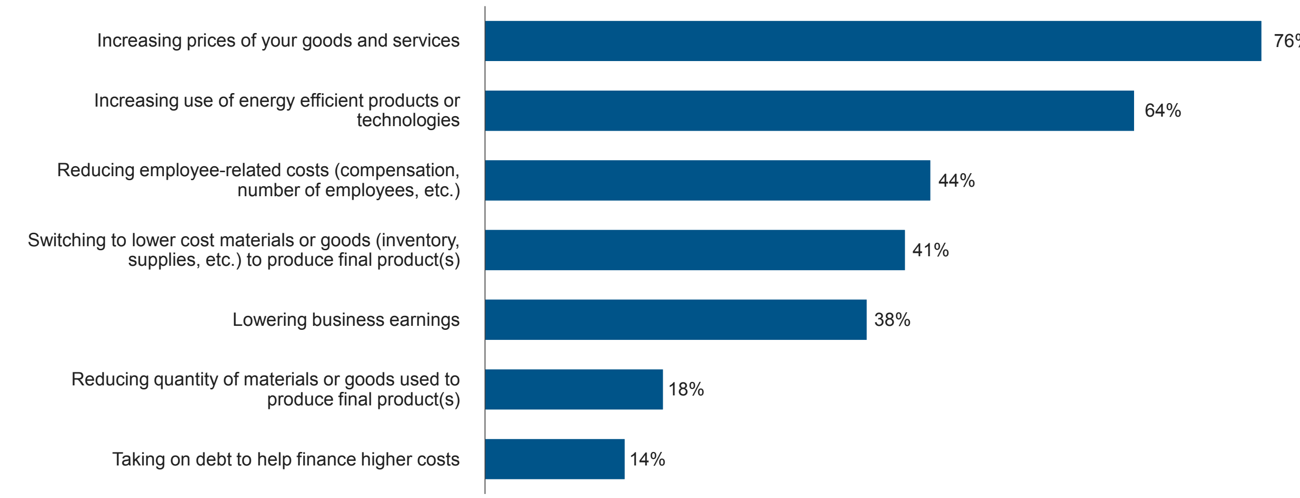
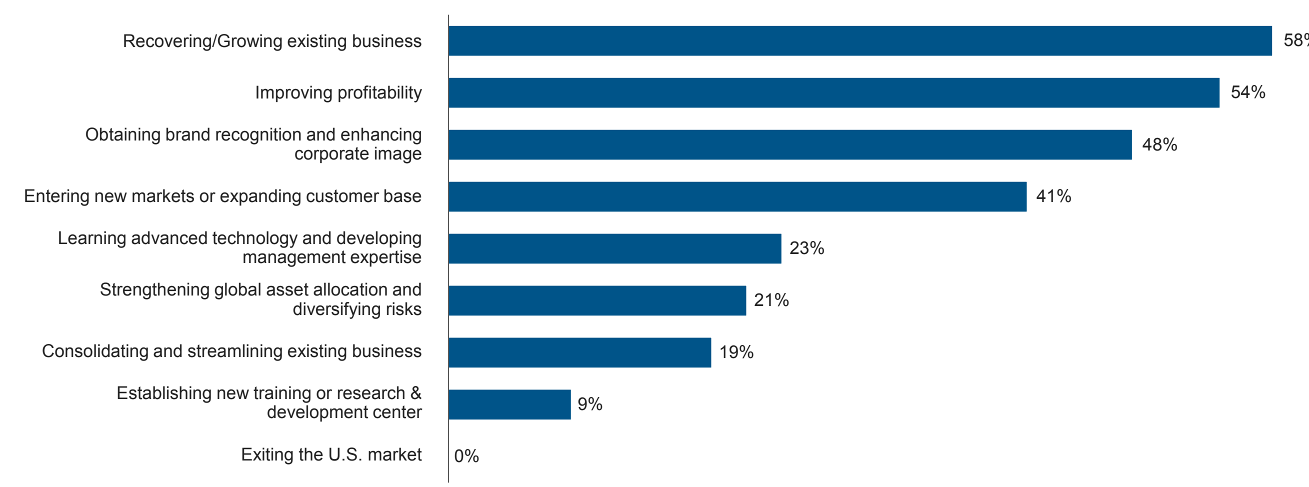


Figure 39: Primary business objectives in the U.S. near-term



03 Advice for Chinese Companies in U.S.

1. Don’t let a crisis go to waste - Use current downturn to fortify operations and capabilities

Over 2022, Chinese companies in the U.S. have focused on adapting their business strategies and finding new business (65% and 54% of the votes, respectively). But only 30% of respondents have used the slowdown to improve their management capabilities and business processes. This may potentially be a mistake, especially as companies have little time for either during high periods of growth.

Consequently, Chinese companies in the U.S. should take advantage of the slumping market and allocate greater attention and resources to improving their internal strengths, especially since the opportunity cost of doing so is currently lower than it would be in a bull market. This is especially true for Chinese companies operating in the U.S.

To date, nearly one third of companies report that their business has not grown since coming to the U.S. An additional 25% say their initial financial goals of establishing a presence in the U.S. has not been met. Thus, in current circumstances, it is especially important to dedicate efforts to actively improving internal strategies and processes for future growth.

Doing so doesn’t necessarily require a big new investment, however. An efficient and accurate management gap diagnosis plus targeted initiatives involving internal and external resources is both pragmatic and feasible. Key considerations include:

- Rapid completion of a management competency diagnosis, best-practice benchmarking, and improvement priorities by professional consultants and participation from company executives, mid-level managers, and other committed employees.
- Jointly agree on a list of improvement measures by combining independent suggestions from external consultants with full discussion by internal decision-makers.
- Prioritize implementation of improvement initiatives that do not require investment in fixed assets, such as decision-making mechanisms, streamlining redundant functions or teams, and workflow optimization on existing resource structures.
- Create new and necessary functions or teams to monitor risks, respond to them, and collect market data and analytic insights.
- Reconsider and improve your relationship with external stakeholders, such as suppliers, channel agents, and especially your customers.
- Devote internal resources to shorten the lead time and ultimately speed adoption of new process and mechanisms that improve company operations.
- Where new software is necessary, consider cloud options first, whose scale and cost can be elastic with the growth of the enterprise.
- For other improvements that require significant expenditure, start the selection process early before deciding on a best-fit provider, then wait until the right time and budget are available to begin.

2. Build systematic approach to increase the success rate of portfolio expansion

In this year's study, we learned that new lines of business is an important strategy for Chinese companies in the U.S., and that this importance transcends market cycles. For example, when market conditions are positive, "entering new business areas" is the number one corporate initiative with 70% of the votes. And in a down cycle, "entering new business areas" is ranked second with 54% of the vote ("aggressive and flexible repositioning of primary business strategies" was first.)

Given its priority for Chinese companies in the U.S., identifying new businesses with a rational and proven approach is an essential skill. Given the high failure rate and challenges of diversifying the main business, however, it is important to understand the risks and difficulties of entering a new line of business. In that regard, we suggest the following recommendations for Chinese companies in the U.S.:

- Decide upon relevant and non-relevant diversification.
- Relevant diversification may generate higher synergy in R&D, supply chain, production, sales and even customer base, whereas non-relevant diversification may not.
- Non-relevant diversification requires completely different insights and management skills. The advantage of this, however, is it allows for flexibility and autonomy in the external market, considers the latest industrial and technological trends, and is better hedged against the inherent cycles of the original industry.
- Which path should you choose?
  Key considerations include the company's judgment of its main line of business, how it affects their overall strategy, and whether there are sufficient funds and human resources available to achieve non-relevant diversification.
- Filter the most promising new business areas. When selecting new industries, companies should develop a set of filtering criteria, such as the overall market size of the new industry, average annual growth rate, current competitive saturation, and whether there are specific entry thresholds (e.g., specific qualifications, specific capital requirements, scarce resources, etc.). Then they can begin to gradually screen numerous industries and filter the focus until a short list of alternative industries is identified.
- Determine the most favorable entrance. After selecting a new area of business, consider if the target industry is relatively fragmented, resistant to new competitors, and/or provides sufficient market capacity. If dominant companies in the target industry are already concentrated, or the technical and talent thresholds are unfavorable, consider a merger and acquisition or joint venture entrance. At this point in time, the company undertaking active expansion must have a very clear investment and M&A prospectus in order to promote successful cooperation with the targeted company.
- Move quickly with expert advice. Regardless if diversification is relevant or not, companies must move quickly to take advantage of market timing and hedge against the decay of the original business. In this case, a highly transparent exchange of views and stress testing by management, as well as support by external experts to speed the quality of decision making, are paramount.

3. Grow revenues with leading U.S. business innovations

Although the majority of Chinese companies in the U.S. are satisfied with the innovation environment (58% of respondents) here, there is still a sizable gap of companies that are failing to innovate on U.S. soil. Because of this, we recommend that:

- Chinese companies should assign more innovation missions and functions to their U.S. businesses, and include innovation as an important function of their U.S. operations from a management perspective.
- Solicit more "pull" innovation from downstream customers' needs and pain points, and look for inspiration to avoid "push" innovation based on subjective or supply-side ideas.
- Apply for patent protections to secure intellectual property rights.
- Improve marketing effectiveness to quickly deliver your more innovative products to the widest possible audience.
- Maximize the value of innovations made within the U.S. by replicating them abroad to the rest of your company's global operations.

4. Overcome local talent shortages with new digital technologies

We recognize that "not having enough employees and talent" is a major challenge for respondents in this year's survey (Figure 31 above). Beyond the labor supply, "challenges to meet business hiring cost expectations" is another challenge. As inflation pressure continues and wage expectations rise, the fight for talent will only become more pronounced. To mitigate this challenge, we recommend Chinese companies in the U.S. wholly embrace digitalization, automation, and artificial intelligence technologies to overcome staffing shortages and increase efficiency. Two specific recommendations include:

- For highly repetitive and lower cost functions such as data aggregation, report analysis, and text extraction, we strongly recommend robotic process automation (RPA) to reduce the staffing needs and improve accuracy and efficiency.
- Hedge against talent cost increases with collaborative robots and chatbots to handle logistics, production assembly, image analysis, customer service, and text generation among other existing processes. At the same time, consider sensor technology as a complement to your existing digitalization efforts to improve efficiencies while lowering costs.

5. Consider "regional expansion" to further advance your U.S. operations

Although this study focused on Chinese companies with operations in the U.S., we heard from several respondents who are considering a broader participation in North America, particularly high-frequency Mexico. This includes considering Mexico as a new sales market for final products (which can effectively extend the coverage area of U.S. operations) and an emerging production base with better "near-shoring" to the U.S. market (which has certain cost advantages, logistics conveniences, and strategic value with both of America's neighbors). Therefore, we strongly recommend that companies actively consider the opportunity of Mexican and even Canadian expansion as emerging mid-markets or supply bases.

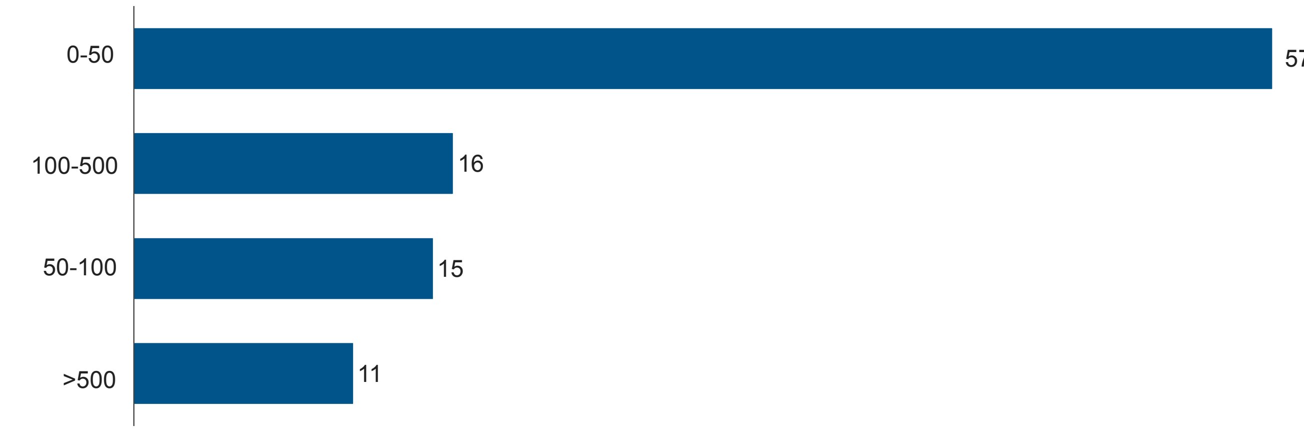
> *"Corporate and individual customers in the U.S. market in general have shown considerable acceptance and support for innovation, and they have demonstrated a strong willingness and ability to pay a premium for technological and functional innovation. At the same time, with the support of the patent and other regulatory systems, unique innovations can be better protected, and relying on innovation to achieve revenue and profit growth abroad can be well guaranteed. Thus, Chinese companies in the U.S. should indeed be more liberal, especially in consumer industries. "*
>
> *- A Chinese company manager in the U.S. information service industry*

04

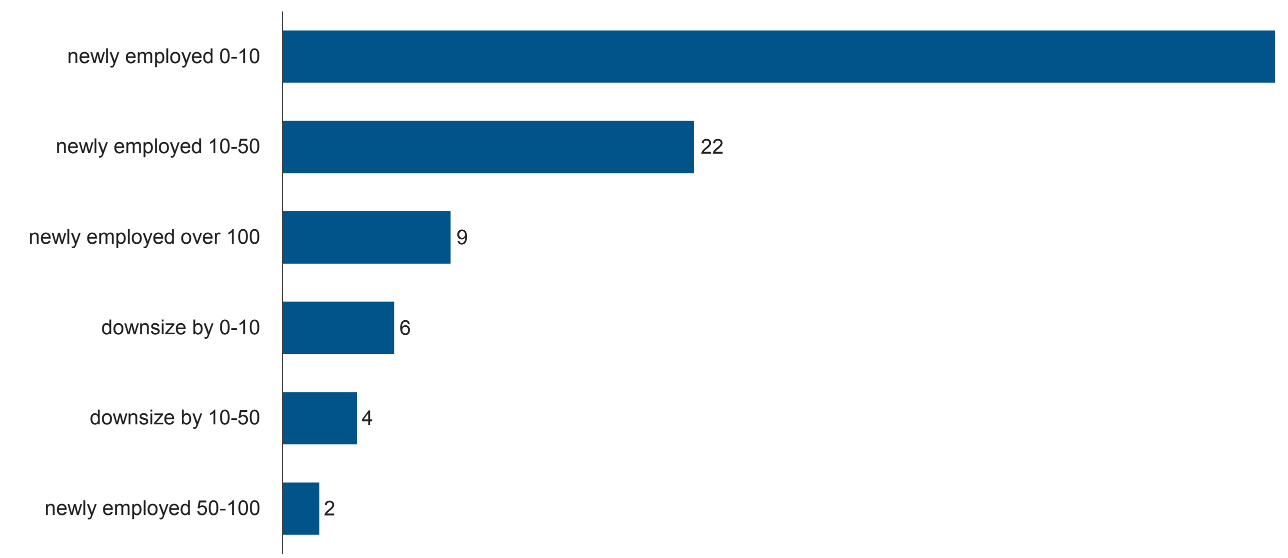
Appendix:

Full Set of Survey Results

How many total employees (full-time) are currently hired by your company in the U.S.?



How many employees (full-time) were newly employed by your company in the year 2022?

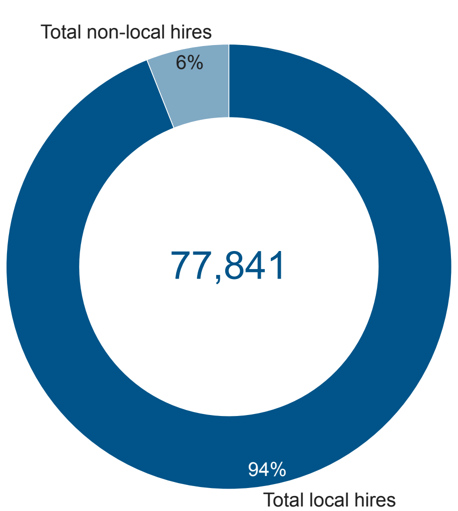


How many jobs are currently supported by your company's operation in the U.S.?

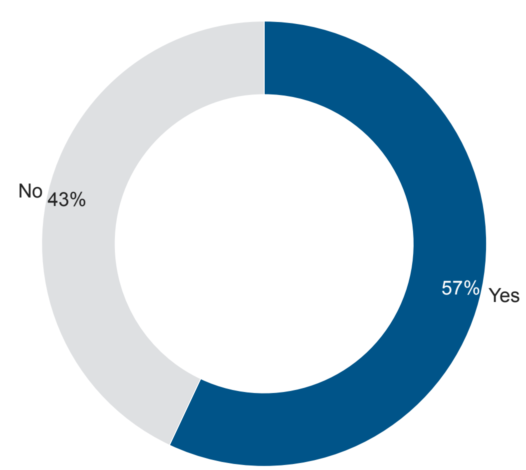
My company's U.S. business is controlled by a publicly listed company, and it is listed in:

Which country is your parent company listed in?

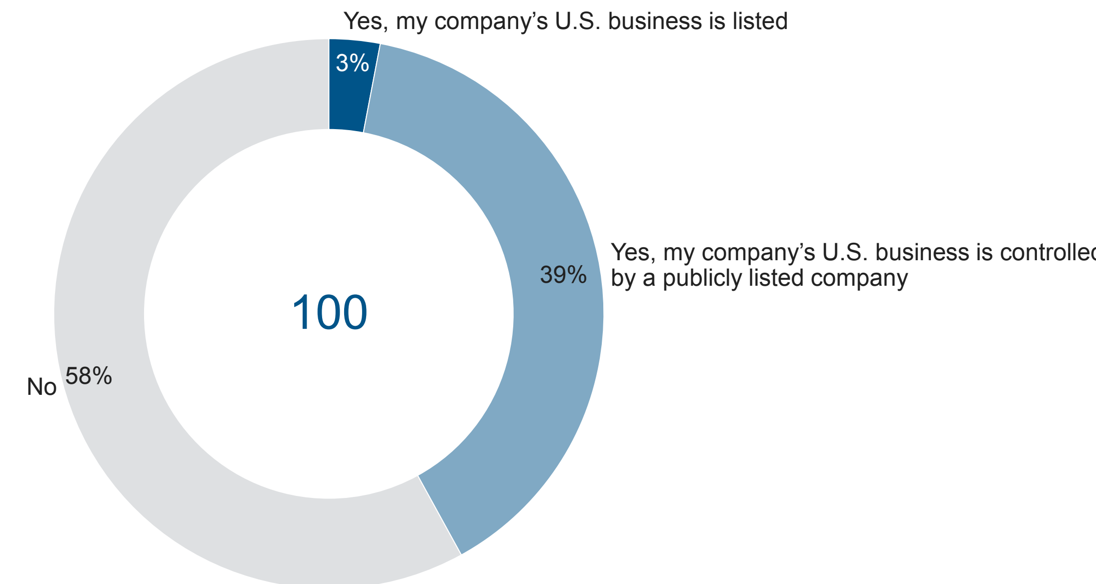
Among the total employees, how many of them are local hires?



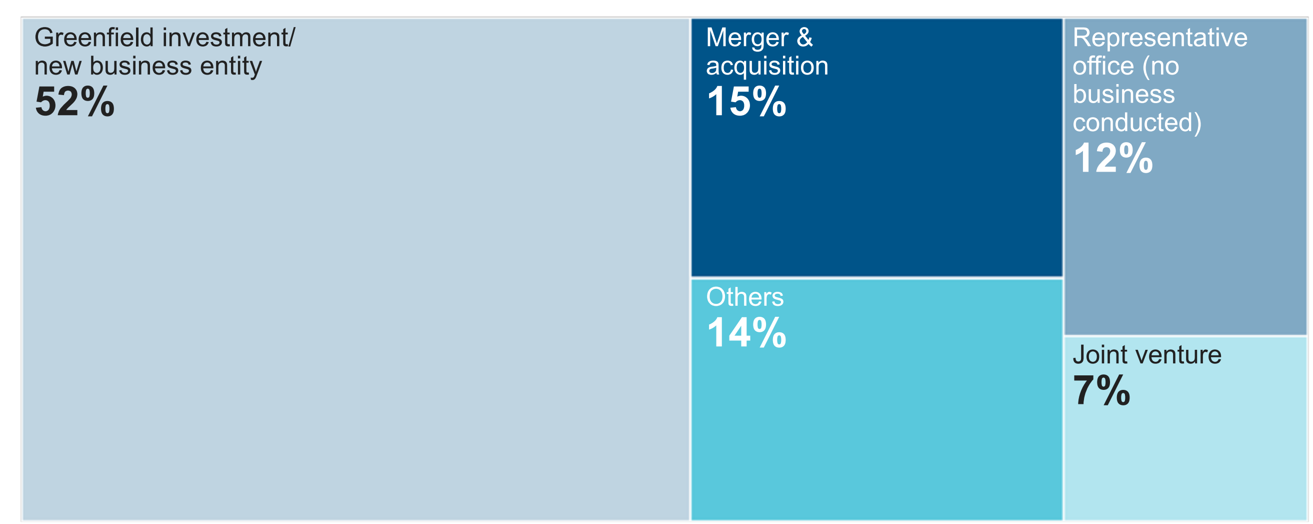
Among the total employees, how many of them are local hires?



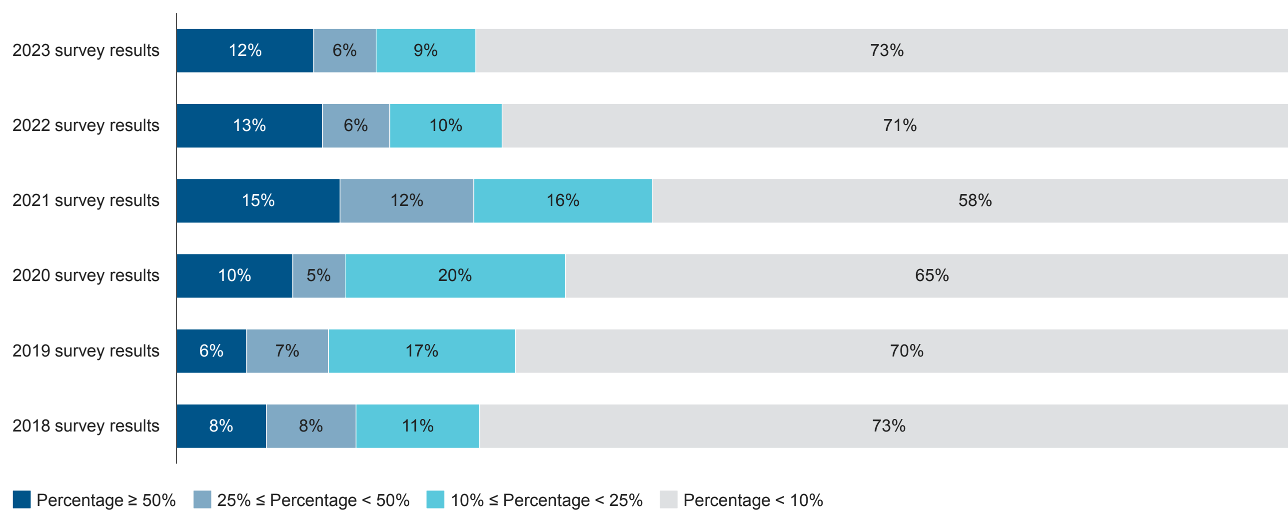
Is your company's U.S. business listed or controlled by a publicly listed company?



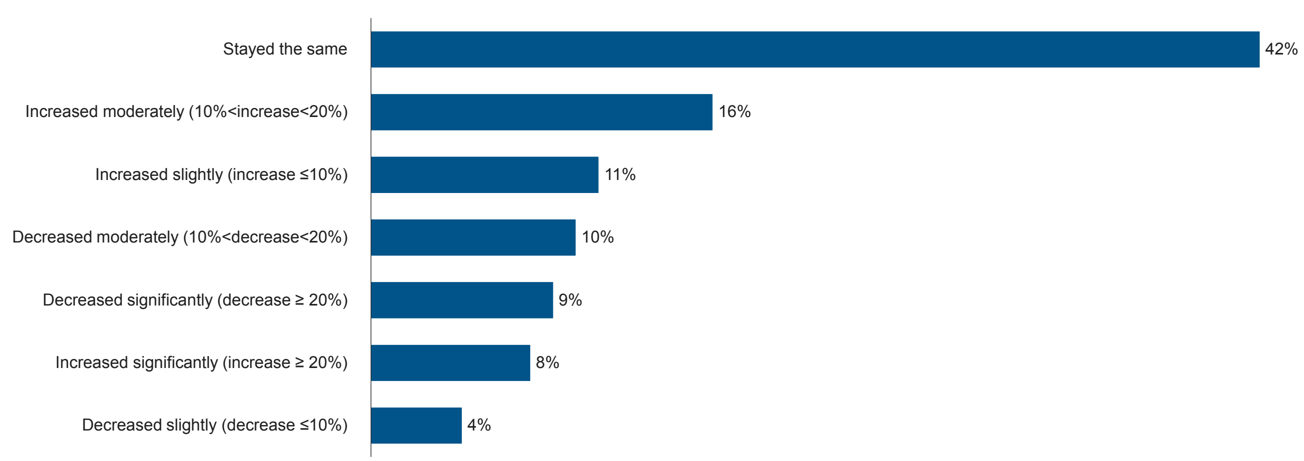
Through which of the following corporate structures did your company establish its business in the U.S.?



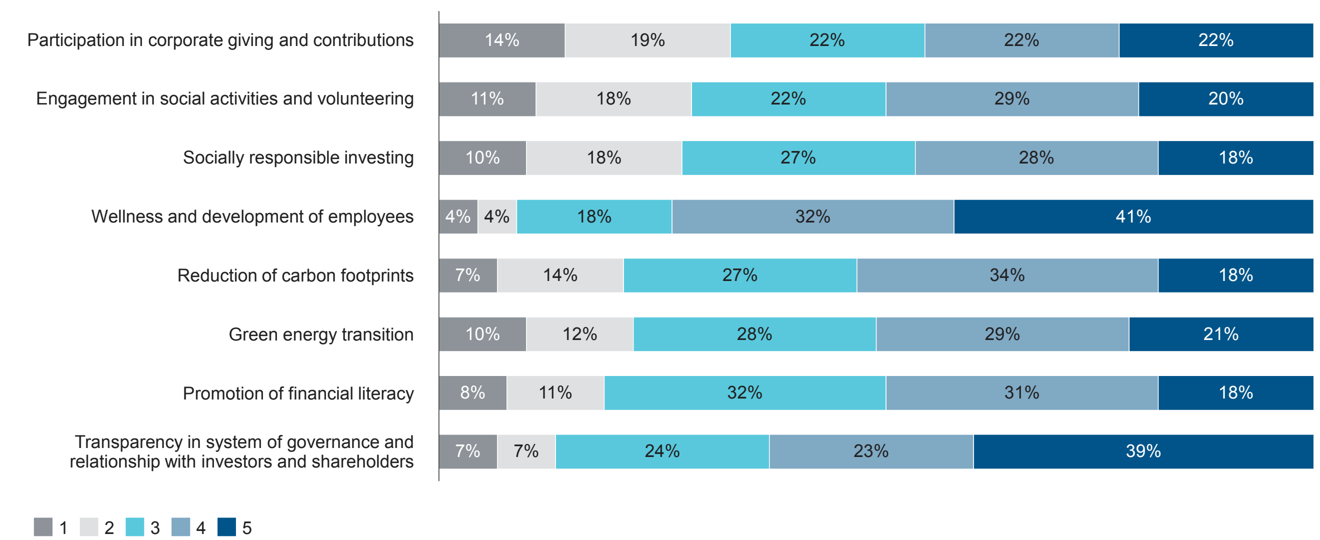
What percentage of your parent company's annual revenue is contributed by the U.S. company?



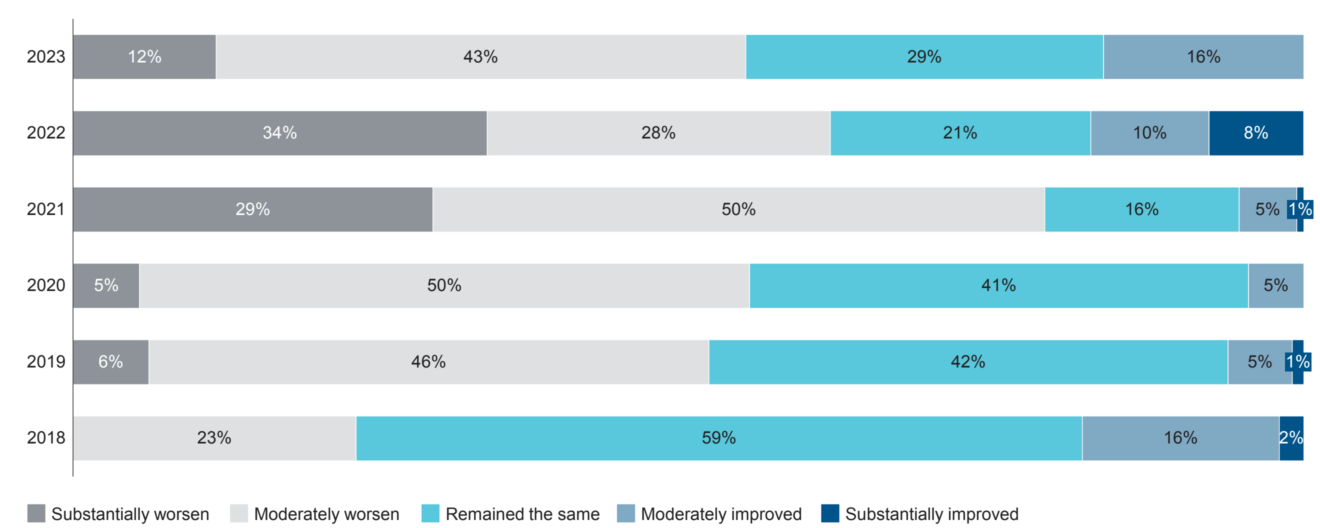
How did legal & compliance and related activities budget at the corporate level change in the last 12 months?



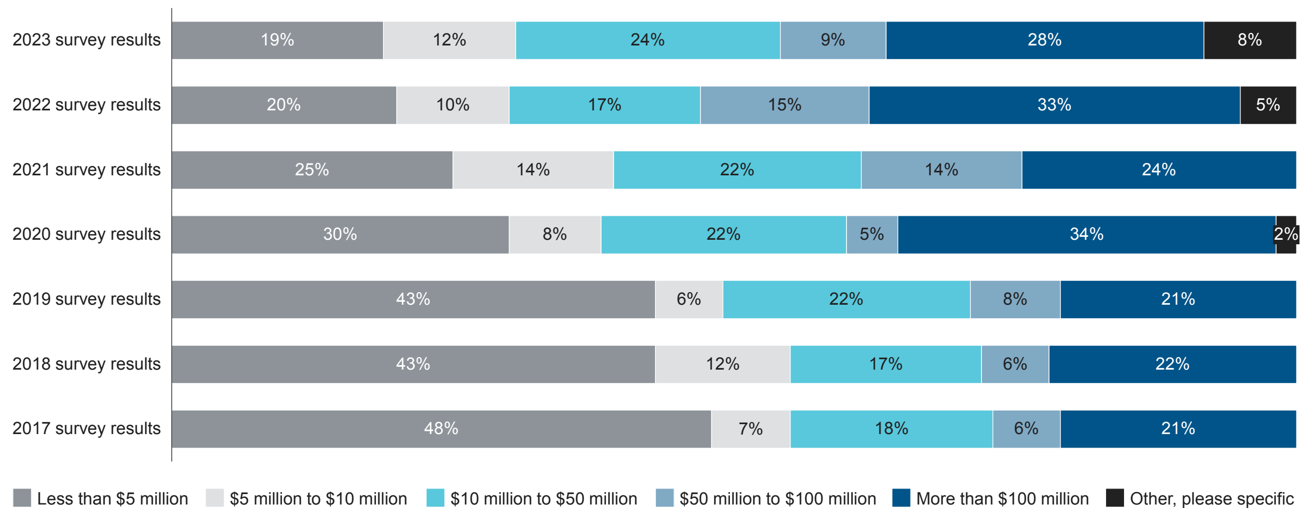
Please rate the following CSR areas during the past 10+ years that your company has seen the most progress in, 1 being the least and 5 the most progress



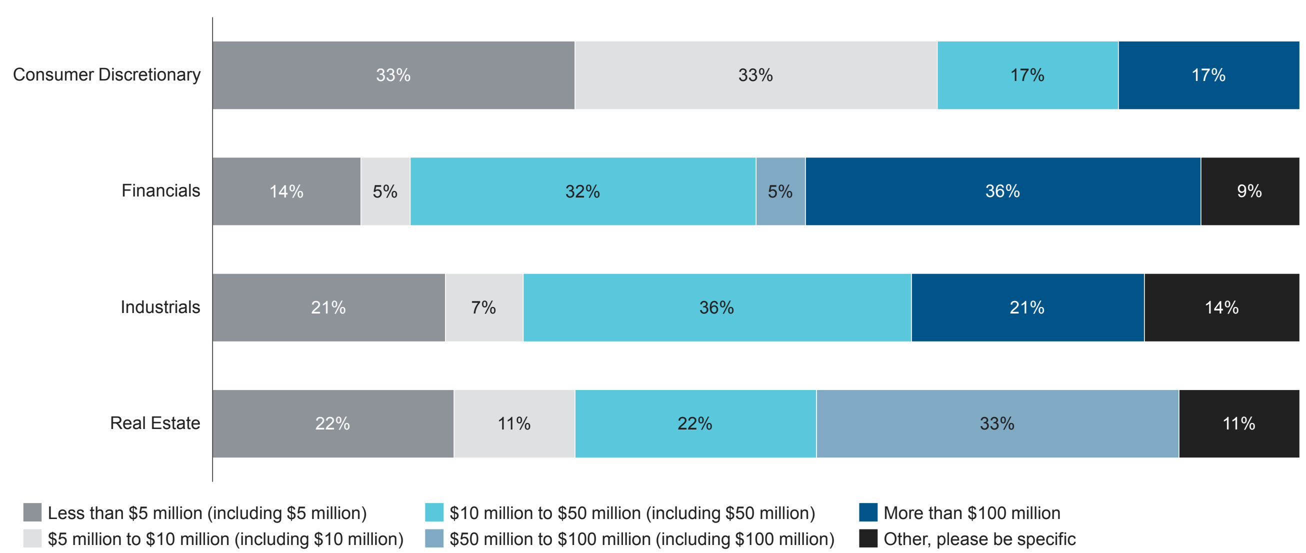
Compared to 2021, how has the U.S. investment and business environment changed in 2022?



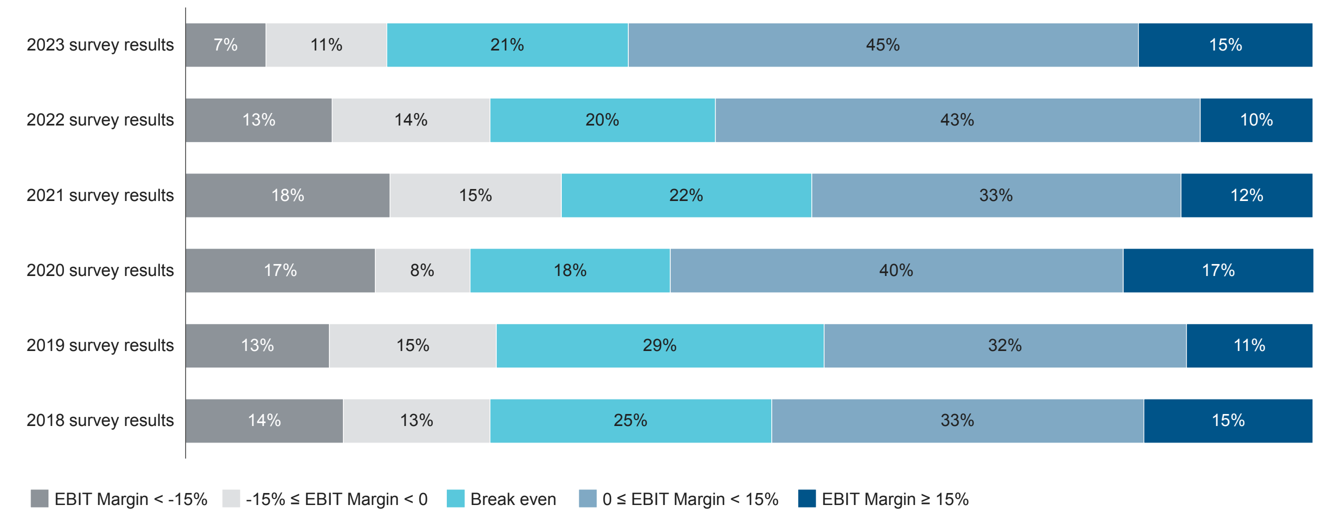
What was your company's annual U.S. revenue in 2022?



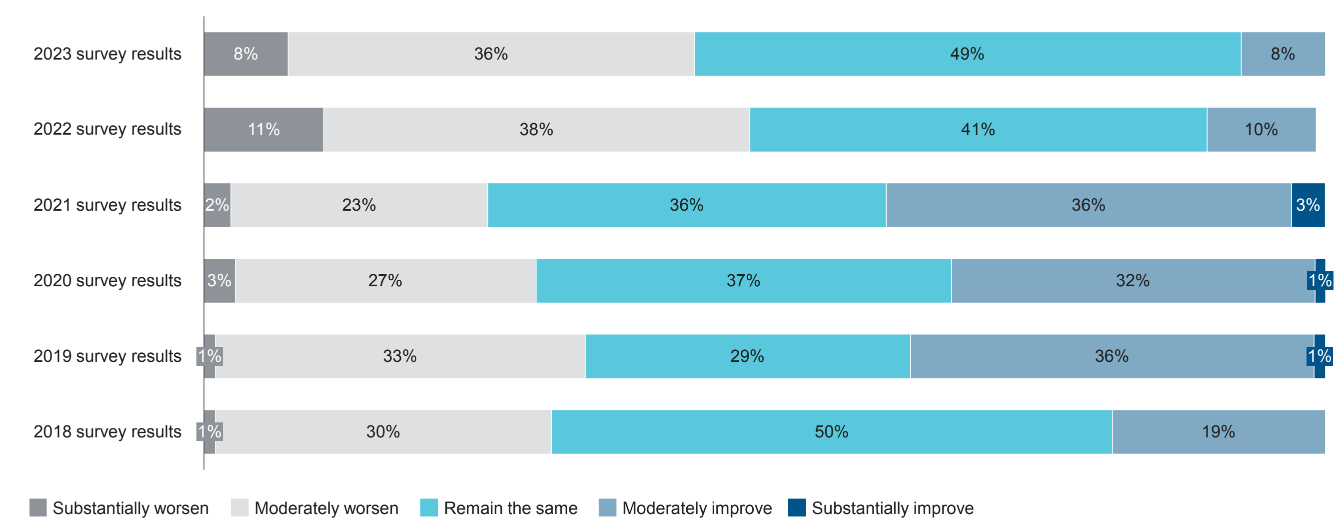
Industry split: What was your company's annual U.S. revenue in 2022?



What is your company's estimated U.S. EBIT margin in 2022?



How do you foresee U.S.-China relations in 2023?



About China General Chamber of Commerce – USA

Founded in 2005, the China General Chamber of Commerce – USA ("CGCC") has been recognized as the largest and most impactful non-profit organization representing Chinese enterprises in the U.S. With a mission to create value, generate economic growth, and enhance cooperation between the U.S. and Chinese business communities, CGCC offers a broad range of programs, services and resources to over a thousand multinational members across its footprint in New York, Chicago, Houston, Los Angeles, San Francisco and Washington D.C.

As an independent, non-partisan, non-governmental chamber of commerce, CGCC's work is made possible through the generous support of its member companies and corporate sponsors from both the U.S. and China, 43 of which are ranked on the 2021 Fortune Global 500. As of 2022, our Chinese member companies have cumulatively invested over $135 billion, employ more than 220,000 people, and indirectly support over one million jobs throughout the United States.

The Chamber's experience of working with renowned institutions and distinguished business leaders across a broad range of sectors make it an essential platform for any business to better understand, engage with, and contribute to some of the most critical issues and deal-making between the world's two largest economies. CGCC also publishes frequent research, including its flagship Annual Business Survey Report which assesses Chinese Enterprises operating in the U.S. and identifies key trends and overall business sentiment.

About CGCC Foundation

Established in 2014, CGCC Foundation is a 501(c)(3) tax-exempt organization. The mission of CGCC Foundation is to deepen mutual understanding and cooperation between the United States and China through research, public charity and engagement in economic, cultural and social exchanges.

Acknowledgments

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Report Authors

Ying (Abby) Li, Director of Corporate Communication and Research, CGCC

Jiangyue (Luna) Yu, Research Coordinator, CGCC

CGCC Survey Interns

Yanting Wu

China General Chamber of Commerce-USA
CGCC Foundation

19 E 48th Street, 3rd Floor
New York, NY 10017

www.cgccusa.org

Tel: (646) - 928 - 5129
Email: contact@cgccusa.org