

2018 Annual Business Survey Report: Chinese Enterprises in the United States



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Chairman's Message

For the fifth consecutive year, the China General Chamber of Commerce – USA (CGCC) has conducted its annual business survey on Chinese enterprises in the United States, and we are pleased to share the findings with you in this report.

Our survey confirms that Chinese enterprises are committed to long-term goals in supporting growth in the US. Despite a slowdown of new Chinese capital investment into the US in 2017, Chinese companies already established here continue to grow their businesses, generate value for the US economy, increase exports to China, and directly and indirectly support millions of jobs throughout the country. These investments have not only contributed to the global success of the companies, but also created economic benefits and social impact at local community levels.

However, like businesses from any other country entering the US market, many Chinese companies still contend with various challenges to growth and a complicated regulatory environment at the federal and state levels. The most effective strategies for business success, ensured compliance, and expanded performance will no doubt depend on their ability to integrate, adapt, and rely on locally hired talent, and to efficiently deploy local resources and professional services.

At the moment, despite the enduring progress our countries have achieved, it is clear that the US-China relationship is facing incremental challenges, and perhaps even roadblocks to further development and cooperation. But CGCC's focus has always been on the big picture. Our goal is to ensure that accurate and up-to-date information, such as the data in this report, is made available to parties at every level of government and business, irrespective of their political or party affiliation. We believe it is only through direct communication, as well as mutual respect and trust, that we can resolve tensions, pursue compromise, and seek common ground so that we can enhance cooperation and expand economic growth for the benefit of both the US and China. History and the current reality show that our economic and trade cooperation have brought enormous benefits to our two countries and the lives of billions of people around the world, and that they have become the bedrock of bilateral relations.

As the largest non-profit organization representing Chinese enterprises in the US, CGCC aims to enhance cooperation through dialogue and discussion between the US and Chinese business communities. We proudly serve 1,500 member companies, in which the Chinese member companies have collectively invested over \$120 billion and employ more than 200,000 people throughout the US.

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CGCC will always take a proactive approach in promoting better understanding and addressing concerns from all sides. We believe in decreasing trade barriers while creating a more stable and foreseeable investment climate, which will no doubt benefit consumers, manufacturers, importers, exporters, and the global economy.

It is our hope that this survey will continue to act as a valuable tool for both the business community and policymakers in the US and China as they map out their corporate strategies and revise government policies that will encourage and incentivize mutually beneficial cooperation and collaboration. With all of these goals in mind, we believe CGCC has the ability to impact cooperative innovation, imagination, modernization, and transformation in every industry, from finance to technology, agriculture to natural resources, medicine to senior care, culture to sports, and so much more in both the US and China.



XU Chen

Chairman of China General Chamber of Commerce – USA
President & CEO of Bank of China USA

Executive Summary

Chinese investors in the US are motivated by a desire to engage as full participants in the global economy, along with the potential for operating profit and community integration that benefits the people where they do business, the business itself, and its shareholders. The road toward these goals is increasingly strewn with fresh challenges, however, which raises concerns for Chinese investors, but has not diminished their optimism or desire to actively engage in the US.

Two-thirds of respondents in the fifth China General Chamber of Commerce – USA (CGCC) annual business survey believe that investing in the US can enhance their international brand presence. In doing so, they are most likely to pursue a strategy that maximizes their control of investment projects, and at the same time creates benefits to the communities in which they do business: 40% of respondents established their first foothold in the US with a new “greenfield” entity that is an immediate source of investment, spending, and job creation in communities throughout the US.

CGCC members employ an estimated 200,000 people in the US, and nearly 60% of respondents say headcount rose in 2017. The same percentage expect to increase their workforce in the next two years — with two-thirds anticipating an increase of at least 10%. The percentage of locally hired employees also rose year over year. To become more fully invested in communities, more than 70% of companies owned by CGCC members have established robust corporate social responsibility (CSR) programs that include long-term education on worker safety, career development, product safety, and consumer protection, as well as contributions to local volunteer organizations and responses to natural disasters. The return on CSR investment is striking: 62% of respondents with such programs report similar or better outcomes from their US CSR efforts compared to such programs in China.

Despite a slew of hurdles amidst escalating tensions between China and the US, including fears of an all-out trade war, 48% of respondents are optimistic about the US commercial environment over the next three years, and only 11% are pessimistic. However, respondents have their eyes wide open to possible disruptions. A stable and healthy relationship between China and the US is seen by 44% of respondents as extremely important to the success of their business in the US — and the same proportion anticipate a deterioration in China-US economic and trade relations in 2018. High tariffs on imports (60%) and the prospect of tighter work visa and immigration policies (63%) register as areas of particular concern. This appears to be largely viewed as political, however, as respondents have positive

views (60% or more) of the professionalism, integrity, transparency, innovation capacity, and judicial system in the US.

Despite political and administrative headwinds, companies that remain committed to their US operations wrestle to control operating costs just as their domestic peers and competitors do. Beyond operating costs (always a concern), 50% of respondents cite the cost of regulatory compliance as a principal challenge. This stems in part from being closely regulated.

High on the wish list of CGCC members is a desire to see China and the US cooperate for the benefit of all. Crucially, they’d like the Chinese government to advocate for a streamlined senior executive visa programs and CFIUS review process by the US (71%), along with enhanced communication channels between the governments (70%) and between Chinese businesses in the US and the US government (56%).

Slightly more than half of respondents (51%) would like the two governments to reach new trade agreements and investment treaties. CGCC hopes that the results of this survey will help policymakers from both governments focus on the big picture and seek common ground that will be beneficial to both the Chinese and US business communities.

Research methodology

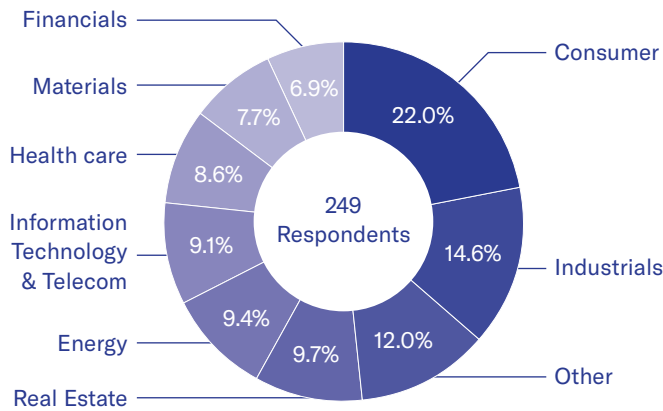
This report is based on the fifth annual business survey of CGCC’s Chinese member companies with operations in the US. The data were collected through a survey of senior executives at more than 700 companies, all of which are US operations of Chinese investors. This year’s survey was executed in March of 2018 and includes a total of 249 responses, an increase of 17% over last year. The survey findings were supplemented with interviews and commentary from senior executives at CGCC Chinese member companies — notably, Bank of China USA, China Telecom Americas, Fosun International, Fuyao Glass America, International Vitamin Corporation, Jushi USA, Mindray North America, PetroChina International America, and Xinchao Energy. CGCC is grateful to its members for their contribution to this research and especially to the executives who shared their views and experience in interviews for this year’s report.

CGCC composed the questionnaire and gathered the survey responses. Institutional Investor’s Thought Leadership Studio analyzed the data, collaborated with CGCC on the interviews, and prepared this report.

Survey Demographic Highlights

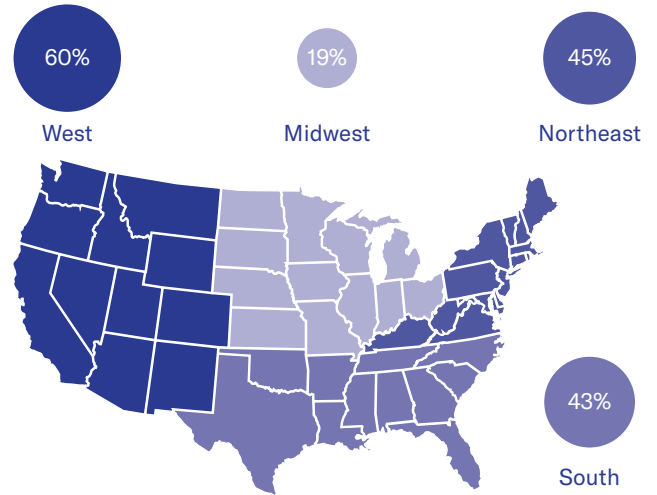
Respondents' US operations span a broad range of industries

Percentage of respondents with operations in each industry



Respondents selected all industries in which they have US operations.

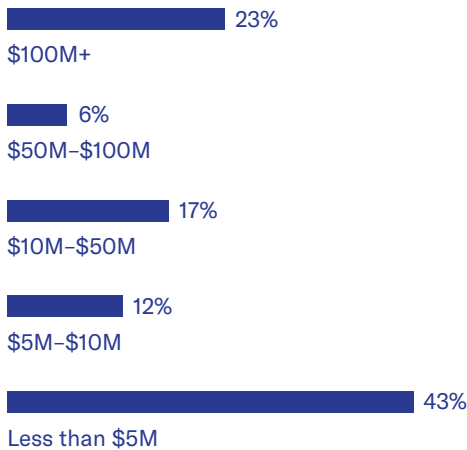
Respondents have operations across the US



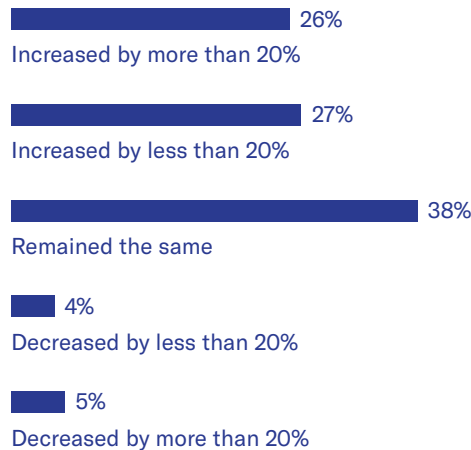
Respondents identified all regions in which they have US operations.

Respondent companies are typically small, profitable, and growing

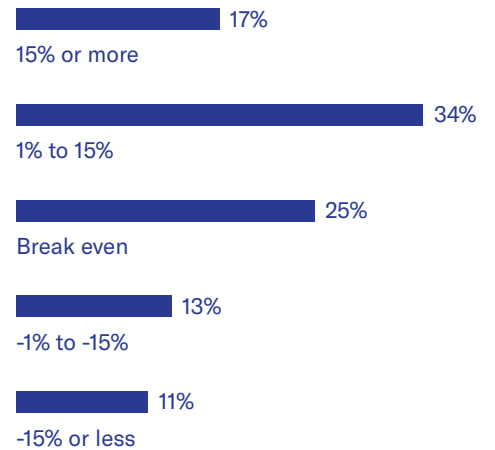
Annual revenue



Change in revenue (2016 to 2017)



Profitability (EBIT margin)



Percentage of respondents in each segment.

1

Introduction: Moving toward understanding

The benefits to both nations have always made the modern trade relationship between China and the US worth the effort it takes to surmount its challenges. Today, that premise faces an unprecedented test as tensions mount between the two countries.

CGCC data shows a 30% decline in foreign direct investment (FDI) from China to the US in 2017. Compared to a record high for FDI in 2016, the slowing in 2017 is one indication that the relationship is undergoing dramatic change. China has been busy proactively rebalancing its economy, and in doing so imposed restrictions on outbound investment to address balance-of-payment concerns and to manage risks that arise from overseas spending that leverages debt.

For its part, the US isn't making things any easier for Chinese investors to satisfy their still strong appetite for allocating funds to the US. A chaotic new administration left many key positions unfilled on the Committee for Foreign Investment in the US (CFIUS), creating a traffic jam of deals submitted for approval. CFIUS also increased its scrutiny for security risks. The net result was the abandonment in midstream of an unprecedented number of deals involving Chinese investors, including several large-volume transactions either blocked by the US president or withdrawn due to CFIUS concerns. To name just a few such cases: Canyon Bridge Capital Partners' acquisition of Lattice Semiconductor Corp. (\$1.3 billion), Ant Financial's acquisition of MoneyGram (\$1.2 billion), Zhongwang USA's acquisition of Aleris Corp. (\$2.3 billion), and HNA Group's acquisition of Global Eagle Entertainment Inc. (\$416 million).

Data aside, the change in disposition and tone emanating from the White House toward nearly all of its key global trading partners has raised the prospect an all-out trade war on multiple fronts for the US. In late May, the US imposed import tariffs on \$50 billion in Chinese goods, and President Trump has threatened, at times, an additional \$100 billion.

According to Alejandra Grindal, Senior International Economist, Ned Davis Research Group, "It appears, on the surface, that China does not have the retaliatory power to win a trade war with the US. Were the US to go through with \$150 billion in tariffs, a counter tariff of \$150 billion by China would essentially cover all of the US exports to China. In other words, China would have difficulty invoking retaliatory tariffs with the same potency as the US. But, China still could inflict a decent amount of damage on the US economy by focusing its tariffs on specific export categories where China fulfills a significant portion of US demand, as well as emphasizing key US voting districts."

Given that the protagonist in this situation is unpredictable at best, it is possible the war of words will recede and cooler heads will prevail. Either way, and despite headwinds, there are no signs of diminished desire on the part of Chinese investors to pursue opportunities in the US.

Against this backdrop, the sentiments of the membership of the China General Chamber of Commerce – USA hold more value



The most effective investment is an investment that can contribute to local taxation, employment, and environmental protection, while also creating value for shareholders. Before considering what preferential policies the local government can provide, consider what our investment can do for the local community.

than ever, revealing optimism despite the current realities, and a determination to become integral to the communities in which they do business. The findings from our fifth annual survey can also act as the foundation of a blueprint to understanding why and how Chinese investment in the US can and should continue to benefit both nations.

In the words of Huajie Song, Chairman, Xinchao US Holdings Company, “We believe that the most effective investment is an investment that can contribute to local taxation, employment, and environmental protection, while also creating value for shareholders. Before considering what preferential policies the local government can provide, consider what our investment can do for the local community.”

2

Investment rationale: China invests in the US in an effort to engage fully with the global economy

Amid growing liberalization in China, CGCC members participating in this study are motivated to invest in the US by a desire to engage as full participants in the global economy, along with the potential for operating profit. Two-thirds of survey respondents cite a desire to enhance their international brand presence, and 4 out of 10 seek to learn the technical and managerial expertise that power US companies and the world's largest national economy (see figure 1). Chinese investors also see operations in the US as an opportunity to contribute to *their* customers' efforts to expand into US markets. For example, 75% of financial services firms cite support for Chinese clients as a primary objective behind their US investments.

Over the last 25 years, Fosun International has emerged as one of the world's largest conglomerates and a leading example of China's efforts to engage in the global economy. Through its acquisition and joint venture strategy, it now holds a stake in a broad portfolio of international brands — including Club Med, Thomas Cook, Cirque De Soleil, and, most recently, Lanvin, the iconic French fashion firm. Fosun connected these western brands with the Chinese and broader Asian markets, where the contributed revenue and profit have led to substantial global growth for Fosun. With its real estate, health care, and financial services holdings, the company seeks to provide “wealth, health, and happiness to its customers worldwide, and to bring high-quality goods, services, and technology to China,” to serve the nation's growing base of high-end consumers, says Kate Zhao, Executive Branding Director, Fosun. “Global companies need to assume the responsibilities of being global citizens,” she says, and many successful American and European companies do so in the process of globalization. “We need to learn more from them, which will definitely help us to grow into a better global company.”

Investment into the US plays an important role for Chinese companies as they expand from domestic businesses to international enterprises. Survey respondents at Chinese companies in the US see their operations as a high priority for their corporate parent in China, as 66% see the US as one of their top three global markets, and 25% see it as their highest priority foreign market.

Companies seeking to participate in global markets are often compelled to establish business operations in the US due to its scale as both a producer and consumer of products and services, say those interviewed for this report. After an early attempt to establish business on the US West Coast in the mid-1990s, PetroChina set up its Americas division as part of its broader portfolio of companies around the world. “The Americas are so big that they account for one-third of global petroleum production capacity and one-third of consumption,” says Shaolin Li, President, PetroChina International America. “It is obviously [important to consider] any business opportunities in the U.S.” Accordingly, the company established US operations in Jersey City, N.J. in 2003. From there it added US locations, and now conducts trade throughout the Americas in crude and refined oil, and petroleum products such as diesel, gasoline, paraffin, and urea exported from China to the US.

Figure 1. Chinese investors seek brand recognition and management expertise

What are the primary business objectives for your company's investment in the US?



Respondents selected up to three choices.

PetroChina's contribution to the US economy is substantial at the local and national levels. Its operations employ hundreds of local workers in the US and it engages with more than 200 vendor companies, providing payroll and domestic spending. In addition, it is now the largest US exporter of natural gas and the second largest exporter of crude oil, and the company recently completed a 10-year deal to export 1 million metric tons of liquefied natural gas annually to China. These export activities contribute to lowering the politically sensitive US trade deficit.

Like many foreign companies, PetroChina set up its US operations as a new corporate entity using capital from its corporate parent. Over the last 15 years, it has built its presence in the US through organic expansion and incremental investment. The company's overseas investment strategy includes merging with or acquiring companies, and, like many – but not all – Chinese companies with operations in the US, it hopes to pursue M&A opportunities to jump-start its expansion in the years ahead.

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3

Investment strategy: Greenfield investments and M&A

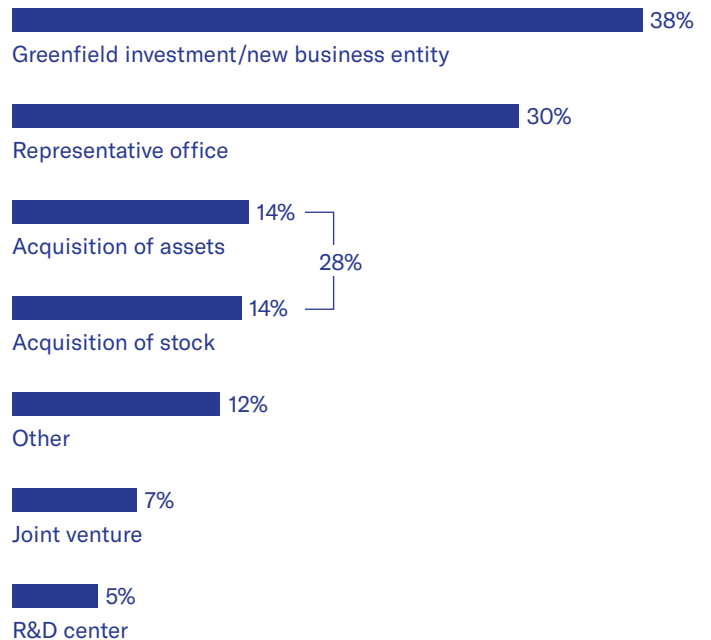
Chinese companies entering the US market are likely to establish a new business entity rather than acquire an existing one. According to survey, nearly 40% of respondents established their first foothold in the US with a new “greenfield” business entity, and another 30% began operations through a representative office (an organizational unit in the US that is not a discrete corporate entity but rather an extension of a foreign company’s organization with a limited scope of operations, see figure 2). A form of acquisition — either by direct purchase of an entire corporate entity or of an entity’s operating assets — was used by 28% of survey respondents to start their US businesses.

Use of greenfield strategies

Investors prefer the greenfield/new entity strategy largely because it offers optimal managerial control over the business during its earliest days, according to 67% of respondents (see figure 3). By setting up a new company — usually with expatriate leadership and capital from a corporate parent — Chinese investors are able to smoothen establishment of their first commercial presence in the US without encountering many of the difficulties they otherwise might. There are additional upsides to the greenfield strategy, too: Because new companies must

Figure 2. Greenfield investment is most common initial structure for China’s investors

Through which of the following corporate structures did your company establish its business in the US?



Respondents selected all that apply.

invest and spend money immediately to lease offices, facilities, vehicles, and so on, as well as to hire new employees, US state and local governments are especially willing to offer tax credits, infrastructure improvements, and other inducements to attract new companies to their areas. From the perspective of local governments, such “net new spending” is beneficial to their jurisdictions and constituencies.

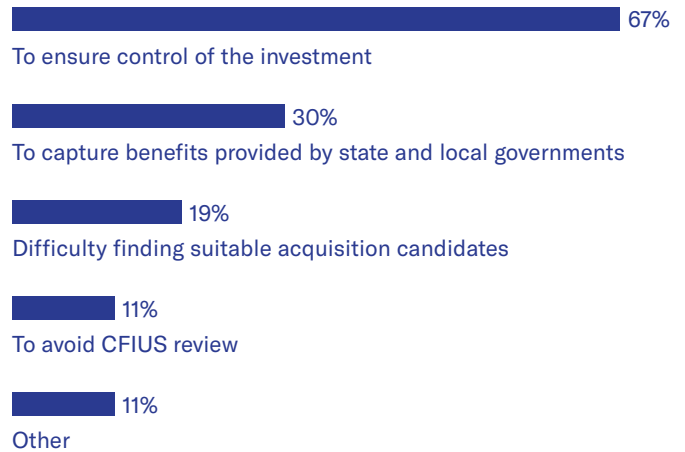
Jushi USA, a fiberglass company, entered the US market in the mid-1990s when US fiberglass manufacturers cut domestic production due to high labor costs. After selling fiberglass produced outside the US for more than a decade, the company decided, in 2012, to pursue a greenfield manufacturing plant in South Carolina. “The state offered us very favorable conditions. With the exception that the labor cost is up to six times higher, other costs are similar to those in Eastern China,” says William Wu, CEO, Jushi USA.

Beyond strong state incentives, Jushi USA opted to build rather than buy production capacity based on confidence in the efficiency of its own manufacturing methods. Jushi USA drew faith in its processes from precedents in China and in Egypt, where its \$500 million investment in three glass fiber factories had exceeded expectations. “We are very confident in our own cutting-edge technology and software, and we engage in artificial intelligence development using it,” says Mr. Wu. “M&A would involve the integration of corporate culture and enterprise management systems, which are challenges we could avoid.”

The agreement between Jushi USA and the state of South Carolina includes nearly 200 acres on which the company is building two production plants, tax credits, incentives such as road construction, high volume water, and electrical service in the factory area. Mr. Wu credits South Carolina’s Department of Commerce for its work in

Figure 3. Greenfield investment offers managerial control and access to government support

What are the primary reasons for your company to choose greenfield investment?



Respondents selected all that apply.

helping to set up Jushi’s US facility: “Because most companies in the US are privately owned, the government has to coordinate with the water and electricity suppliers. In terms of costs, the conditions are more favorable than in China.” At the Richland County Council announcement of the agreement, Chairman Torrey Rush said, “Jushi’s

State and local governments reduce FDI market friction

Through economic development offices in the US and overseas, nearly all US states and large municipalities promote FDI and provide incentives to Chinese investors. Incentives typically include a reduced corporate income tax rate, tax holidays, accelerated depreciation allowances, and exemption from import and export duties. Financial incentives include direct contributions from state and local governments such as grants, subsidized loans, loan guarantees, and other benefits directed to particular firms. In the CGCC survey, 30% of respondents reported benefits provided by

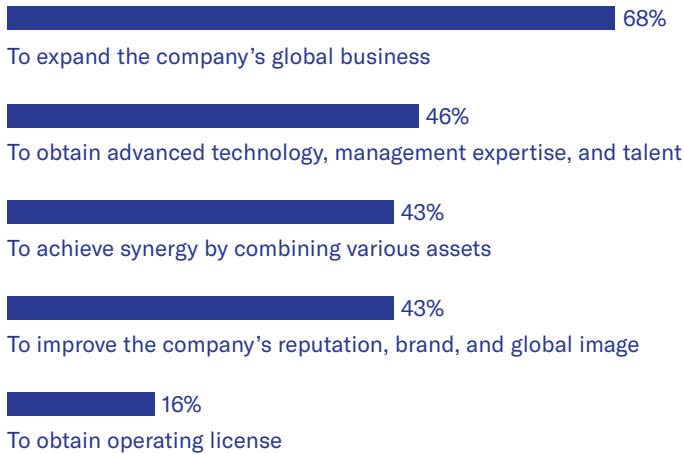
local governments as their major reason for choosing a greenfield strategy.

Similarly, the CGCC provides programs in China and the US to help companies find capital, assets, talent, and other resources needed to execute FDI strategies. For years, CGCC has been promoting State-Province economic and trade cooperation between China and US through various programs, including the Governors’ Trip to China, the China-US Investment Forum at the National Governors Association’s Summer Meeting, the Annual China-California Business Summit, and

the China-US Small and Medium-sized Enterprises Matchmaking Fair. The programs provide platforms for Chinese investors to directly meet with local government officials, and for US small and medium-sized enterprises to discuss potential opportunities. Several deals have been accomplished under CGCC’s initiatives, including one in November 2017 where CGCC helped bring together Sinopec and a pair of financial institutions (Bank of China and Goldman Sachs) to help raise funds for the \$43 billion agreement with the Alaska Gas Development Corp. (AGDC) to export liquefied natural gas (LNG) to China.

Figure 4. M&A provides brisk expansion, access to technology and talent, and synergy with other holdings

What are the primary reasons for your mergers and acquisitions?



Respondents selected up to three choices.

decision to locate in Richland County is a major step forward in our quest to recruit world-class companies. The county is committed to the company's long-term success in South Carolina. I want to personally thank Richland County Council for its commitment to develop the Pineview Industrial Park, and the City of Columbia for its partnership in helping provide the necessary infrastructure."

When China Telecom expanded into the US in 2000 with the goal of lowering the cost of Transpacific internet traffic, there were no suitable acquisition candidates and there was a dearth of infrastructure in place to help grow digital communication between North America and China. At the time, China Telecom did not have a point of presence (PoP) in the US. After a greenfield effort to build out its undersea cable infrastructure and establish local US PoP, the company was able to dramatically cut internet costs across the Pacific. Its investment was well timed, as the demand for internet bandwidth in both directions soared in the early 2000s. "China is a hot spot in the global economy," says Xu Tan, President, China Telecom Americas. "Many multinational companies from the US want to invest in China, and their operational data in China must be transmitted back to the US in a timely manner. China Telecom can use the submarine cable to provide these cross-border communication services."

As a principal carrier to multinational enterprises and wholesale carriers operating in the US, China Telecom provides the digital connection between the two continents, along with the necessary services. "Some companies have factories in Guangzhou and Dongguan and branch offices in Beijing and Shanghai," says Mr. Tan.

"These branches can connect with each other using our domestic Chinese network, and then cross the Pacific to the US, where China Telecom works directly with clients in the US, and also with US communications companies under contract."

More recently, China Telecom Americas has begun providing IT services and support to Chinese enterprises coming to the US. "Usually, they need local partners to help with IT system planning, and onsite IT outsourcing and construction," says Mr. Tan. "Since China Telecom provides similar services back in China, their headquarters will contact our headquarters for assistance, or perhaps we find them locally in the US. The US divisions of both parties will work together, and our company becomes their local IT services partner."

Use of M&A strategies

Greenfield strategies may be the preferred method for Chinese investors to start a business in the US, but M&A is the most commonly used overall strategy. The vast majority of Chinese capital invested in the US — as much as 90% — is through M&A, not greenfield investment. In the survey, 68% of respondents cited expansion of business operations as a primary reason to buy companies in some form (see figure 4). In addition to turnkey growth, M&A offers investors ready access to the technical and managerial talent of acquired companies, and to operating advantages that stem from combining acquired assets with a company's current capabilities. In some cases, M&A is the only feasible approach to entering US industries that have high barriers to entry and regulatory requirements.

Such was the case when International Vitamin Corporation (IVC) acquired Inverness Medical for \$63 million in 2010. "Our industry has high entry-barriers and is subject to FDA regulation, and we need to obtain a great many certifications and approvals," says Steven Dai, President and CEO, IVC. Construction of a new production facility would take up to two years, says Mr. Dai, with quality approval and permitting requiring up to another two. "It is not easy to find a high-quality team either, from technical workers to engineers, and staffing for quality control, R&D, and sales. Acquisitions give us an established platform on which to expand through additional investment." The company, which produces nutritional supplements, prescription drugs, and OTC medication, has continued its acquisitions based on its need for additional capabilities and organic cash flow. "Each acquisition is different," says Mr. Dai. "The goal may be to enter a new industry or market segment, or to develop a product or build R&D capacity. Sometimes our goal is to reduce competition, since the acquisition of competitors can integrate our existing businesses and markets."

Combining two companies is a daunting task for any management team. Survey respondents who have merged with or acquired US companies are most likely to cite post-merger integration as a source of difficulties, along with early-stage screening of prospective M&A candidates and, later, thorough due diligence.

M&A is a complicated managerial task that requires the ability to make decisions and deploy capital quickly across borders and into new markets. In the past 10 years, PetroChina has evaluated eight prospective acquisitions as part of its efforts to establish oil refining operations in the US. “In the due diligence process, we gradually discovered large and small problems,” says Shaolin Li, President, PetroChina International America. Among the warts revealed are issues including labor, the environment, accounting, cash flow, management, taxes, and legal risks. Also difficult, says Mr. Li, are the complexities of PetroChina’s internal dynamics and decision making. “Because our group is relatively large, and our internal process of decision making is relatively long, it can at times be difficult to work within the timelines of the bidding process.”

Cultural differences can sometimes arise during mergers or acquisitions with US businesses, too. One tactic for overcoming such challenges is to rely on a strong local management team, and to ensure the Chinese investors themselves have the international experience and expertise required to lead a global company.

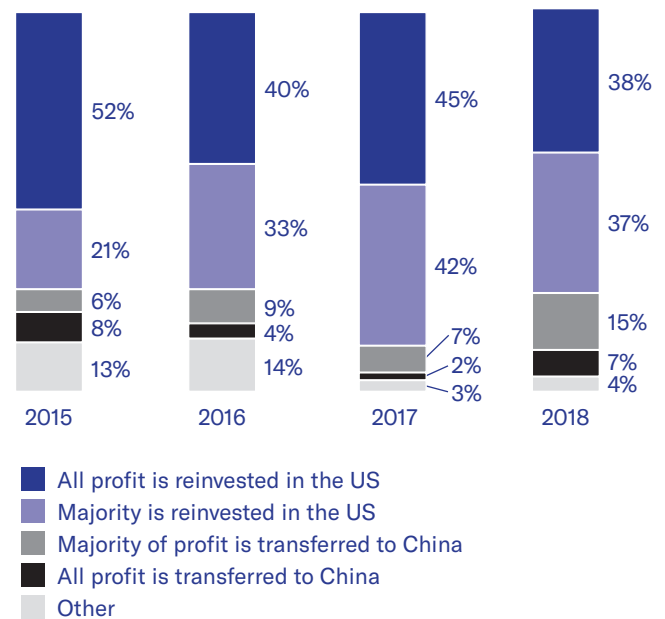
Mindray North America, for example, purchased the patient monitoring division of Datascope Corporation in 2008 and Zonare Medical Systems in 2013. Mindray acquired these companies to gain a direct sales platform and base in the US hospitals market, says the company’s CFO, John Du. He advises his peers considering US acquisitions to focus on using a local management team at the acquired company. “Our CEO is an US industry veteran, while our CFO is a bilingual finance and operations executive with experience leading US companies, and who left China to pursue advanced studies in the US in the late 1980s.” To be most effective, the executive team of US operating companies should have solid management experience from US companies, coupled with an ability to understand and communicate well with headquarters in China. “It appears that many Chinese companies fail to effectively integrate US acquisitions due to their practice of sending leadership personnel from HQ in China who do not completely understand the American market and operating environment, and thus cannot effectively lead the new business and its teams,” says Mr. Du.

US investment review for national security

Review for national security and technology transfer purposes by the Committee on Foreign Investment in the US (CFIUS) is an abiding concern among overseas investors. According to survey data, nearly three in four respondents feel CFIUS reviews are politicized and opaque. CFIUS reviews have been routine since the mid-1970s, however the current administration has employed a new level of scrutiny and political gamesmanship to them. In 2017, CFIUS and the Trump administration nixed the acquisition of Lattice Semiconductor by China-backed Canyon Bridge Capital Partners for \$1.3 billion on national security grounds. In March 2018, the president blocked acquisition of US chip manufacturer Qualcomm by Broadcom of Singapore. Several Chinese acquisitions in the wireless, chip manufacturing and testing, financial services, and media industries have been shut down under the current US administration.

Figure 5. Three-fourths of companies reinvest most or all of their profits in their US businesses.

How does your company distribute the profits from its US operations?



Respondents selected up to three choices.

CFIUS review and foreign investment itself may soon become even more difficult if the US congress passes the Foreign Investment Risk Review Modernization Act (FIRRMA), which seeks to expand CFIUS’s jurisdiction to include joint ventures, minority position investments, and real estate transactions near military bases and other sensitive national security facilities. The legislation would also recast the definitions of national-security-level technology and introduce new criteria into CFIUS reviews. A majority of survey respondents familiar with FIRRMA say that the new legislation is likely to affect their plans to further invest in the US.

Reinvestment of profits

When asked how their companies distribute the profits from their US operations, 38% of respondents say all profits from US operations are reinvested in the US, and another 37% will pour a majority of profits back into their US businesses (see figure 5). Survey respondents’ policy of reinvesting rather than repatriating most or all US profits has been consistent over the history of CGCC’s survey data.

This strategy of self-funding through retained earnings is likely to cost less than financing through debt or equity, and by reinvesting earnings companies are able to further demonstrate long-term commitment to the new businesses and communities in the US.

4

Investment impact: Jobs, more jobs, and the promise of renewal

Chinese investments in the US yield both direct and indirect economic benefit to the US and its local communities via the purchase of locally sourced equipment and intermediate goods, the leasing of offices and production facilities, and job creation or retention. All spending on greenfield investments is net new business and new hiring for local economies. In the case of mergers and acquisitions, Chinese investments recapitalize struggling companies, often saving local jobs, and also spur investment in new capital equipment and spending on local goods and services.

Jushi USA's greenfield operation in South Carolina, for example, will pump more than \$300 million in direct investment into the state's economy, not to mention the benefit of employing several hundred workers at its new facility. "This is a big investment which will have multiplier effect," says the company's CEO, Mr. Wu. Fiberglass production consumes vast amounts of electricity and water. Sourcing glass slag domestically will support upstream industries, and the company's import and export of raw materials and finished goods will benefit transportation and logistics industries, including the expansion of the Charleston Harbor. "We need to import large quantities of equipment and supplies from China, and some of our products may be exported. All these will bring business and employment opportunities to the port area," says Mr. Wu.

The company's current forecast calls for 400 new jobs in its first phase, and when fully complete, the facility will employ 800 or more workers from the local area, not including downstream industries.

Similarly, Xinchao Energy's acquisition of the oil fields in Texas for \$1.3 billion has spurred an additional \$1.1 billion investment in exploration and extraction equipment. The Moss Creek project created more than 120 new jobs in the local community, and the company estimates more than 2,000 people are engaged in professional services and various supporting work on its oil fields every day.

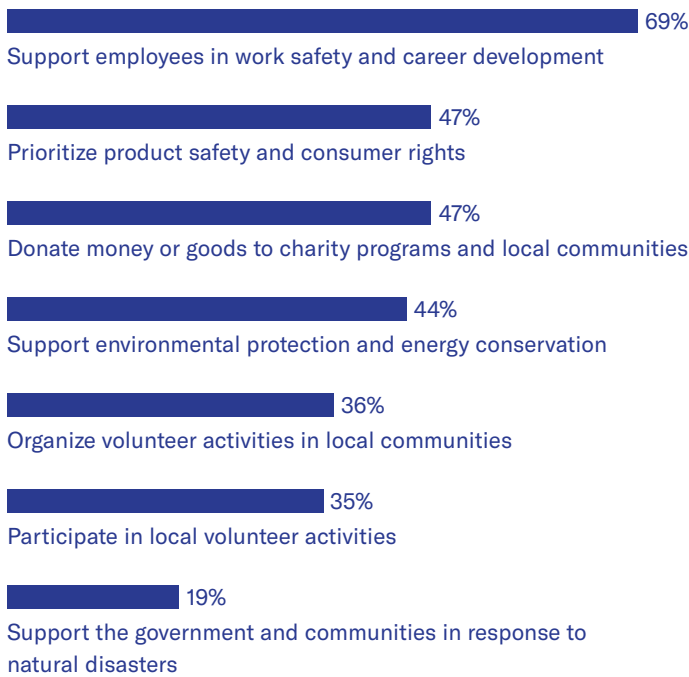
Since Fuyao Glass made a \$600 million investment in the old General Motors plant in Dayton, Ohio in 2016, the 1.8 million square feet of abandoned workspace have become the world's largest auto glass factory with mature production lines. The annual revenue has increased from zero to over \$320 million, reached break-even in 2017, and started to gain profit in 2018; it is on track to hit \$400 million this year. The number of local employees has grown from 800 to over 2,100. Thousands of workers in town have new jobs and the supporting industries around them such as transportation, restaurants, and grocery stores, have begun to prosper again.

CGCC members employ an estimated 200,000 people in the US, the vast majority of whom are, of course, hired in the local US labor market. As Chinese companies build their businesses and increase their top-line revenue, the proportion of local employees grows as well. Nearly 60% of respondents say headcount rose in 2017, and 60% expect to increase their workforce in the next two years. Among those anticipating staff growth, two-thirds anticipate an increase of 10% or more. The very large Chinese enterprises with operations in

Nearly 60% of respondents say headcount rose in 2017, and 60% expect to increase their workforce in the next two years. Among those anticipating staff growth, two-thirds anticipate an increase of 10% or more.

Figure 6. Corporate social responsibility programs are wide-spread among CGCC member companies in the US

Has your company performed any of the following corporate social responsibility activities in the US?



Respondents selected all that apply.

the US rely on local labor markets to staff their American operations. Fosun employs approximately 11,000 US workers, and companies such as International Vitamin Corporation, Bank of China, China Construction America, and Smithfield Food report a local-hiring rate of 90% or more in their US operations.

Companies owned by CGCC members are active participants in economic and civic lives of their communities. More than 70% of respondents report having corporate social responsibility (CSR) programs in place at their US companies, and 62% of those with such programs report similar or better outcomes from their US CSR efforts compared to such programs in China. CSR programs in place

at US companies include long-term commitments to worker safety, career development, product safety, and consumer protection, as well as more immediate contributions to local volunteer organizations and responses to natural disasters (see figure 6).

Companies' programs with their local communities are as diverse as the companies themselves. Xinchao Energy, for example, actively participates in community construction and public welfare activities, sponsors the local Cowboy Culture Festival, and actively supports public welfare activities of the community's fire station. China Telecom is proactive in organizing activities such as donations of school-bags and stationery during the back-to-school season. It also cooperates with George Mason University in Washington, D.C. on charity activities for students from socioeconomic challenged families. And PetroChina's community outreach activities include distributing food to charities and giving school bags to the Boy Scouts. "We work hard to integrate with the local community," says the company's CEO, "and to encourage our employees to feel that their company is part of their community, just same as other companies here."

5

Operating outlook: Investors have a largely positive view of US commercial environment

Looking to the future, 48% of respondents are optimistic about the US commercial environment over the next three years, and only 11% are pessimistic. Queried in early 2018 on their views about the US business environment, CGCC members are consistent in their high praise for many of the fundamental elements of the nation's commercial system, but less so regarding their engagement with US commercial practices and policy enforcement. (The data discussed in this report were collected in early 2018, prior to the most recent escalation in tension between the US and China on trade and tariff matters.) By a wide margin, survey respondents feel positive regarding the professionalism, integrity, transparency, innovation capacity, and judicial system in the US, each of which garners a very positive or positive assessment from 60% or more of survey responses (See figure 7). As a group, they are somewhat less likely to hold positive views of social openness and tolerance in the US, and the implementation and enforcement of US public policy through law and regulation.

The US legal and regulatory system is complex, especially to those unfamiliar with the common law tradition in the US. Nonetheless, Chinese executives are likely to view it positively. Any company must pay close attention to its investment in its legal teams, says Xu Tan, President, China Telecom Americas. "Our annual investment in our legal department is very high, and each contract is checked by our lawyers very carefully. Many domestic companies, especially private enterprises, rely on both Chinese law and informal networks to do business and govern commercial relationships in China, but in the US, one must abide by and rely on the rule of American law."

Respondents' views on government policies and practices directly related to Chinese companies operating in the US are underwhelming. Only 25% of respondents have a positive view of the fairness of laws and policy enforcement toward Chinese companies, while 21% hold a negative view. Respondents are three times as likely to have a negative rather than positive view of the "reasonableness of trade sanctions, anti-dumping, and countervailing investigations."

While these and other factors of commercial life in the US challenge Chinese investors, interviews with CGCC members reveal that these are obstacles to be overcome rather than complaints about the generally open and pro-business climate in the US. "Try to shed your image as a Chinese company," says John Du, CFO, Mindray North America, the medical device manufacturer. "Most Chinese companies investing in the US are large companies with global operations. So, you want to think like a true multinational corporation and project the image that you are a US company with Chinese shareholders. Companies like Siemens have done a great job in this regard and should be role models."

Despite this largely positive view of the US business environment, respondents see risk and uncertainty in the current political climate between China and the US. Fully 44% of respondents see deterioration in China-US economic and trade relations in 2018, and the same proportion believe that a stable and healthy relationship between

Figure 7. CGCC members endorse US professionalism, transparency, and innovation

Do you have a positive or negative opinion of the following aspects of the US business environment?

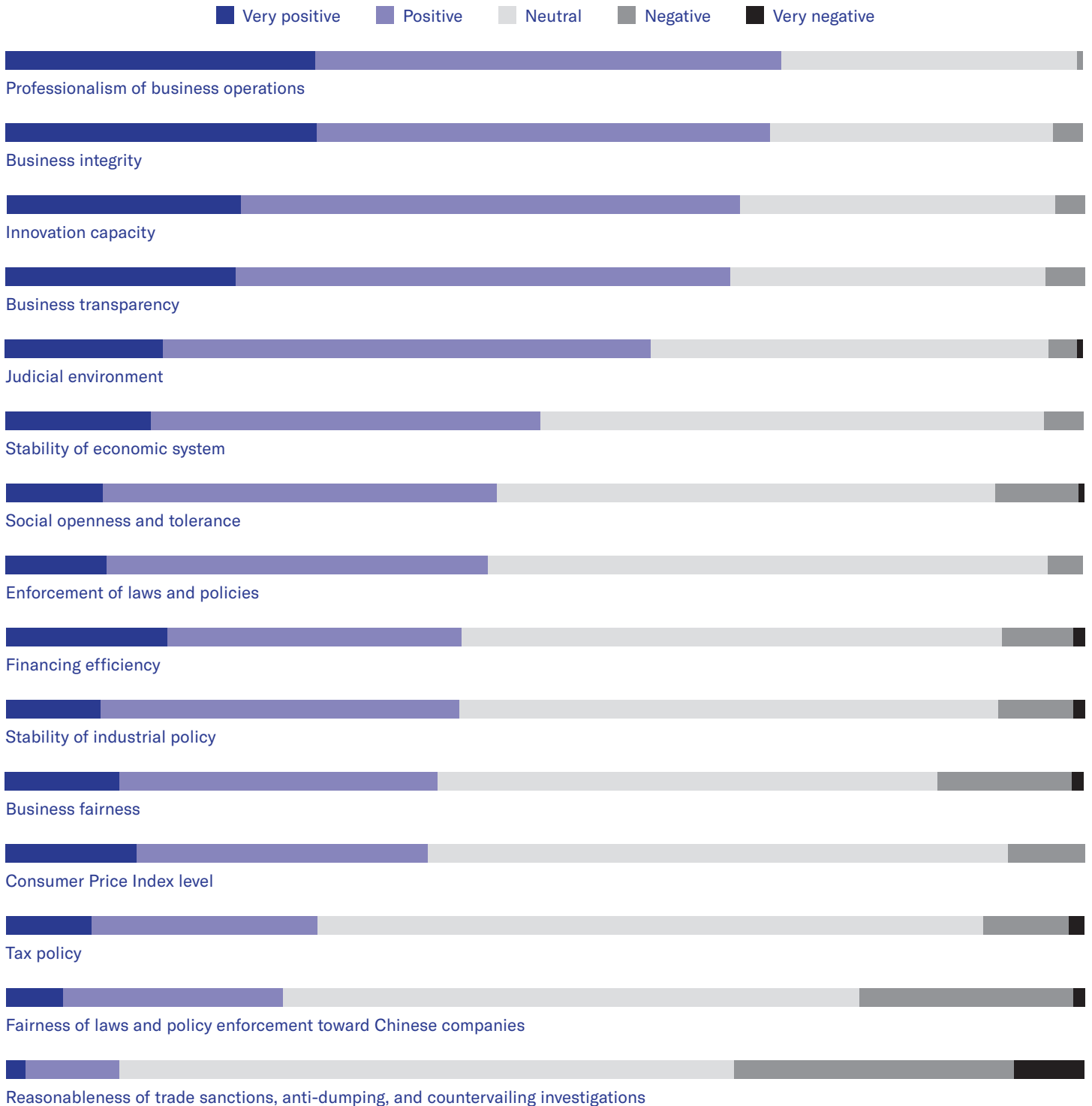
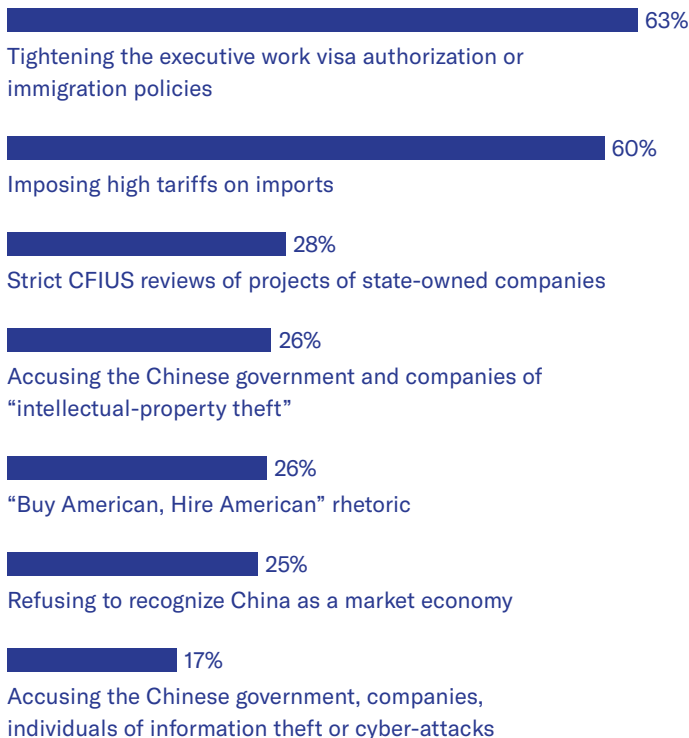


Figure 8. US trade and immigration policy cause concern among China's investors in the U.S

Which of the following policies or positions of the Trump administration concern your company the most?



Respondents selected all that apply.

the two countries is extremely important to the success of their company's business in the US.

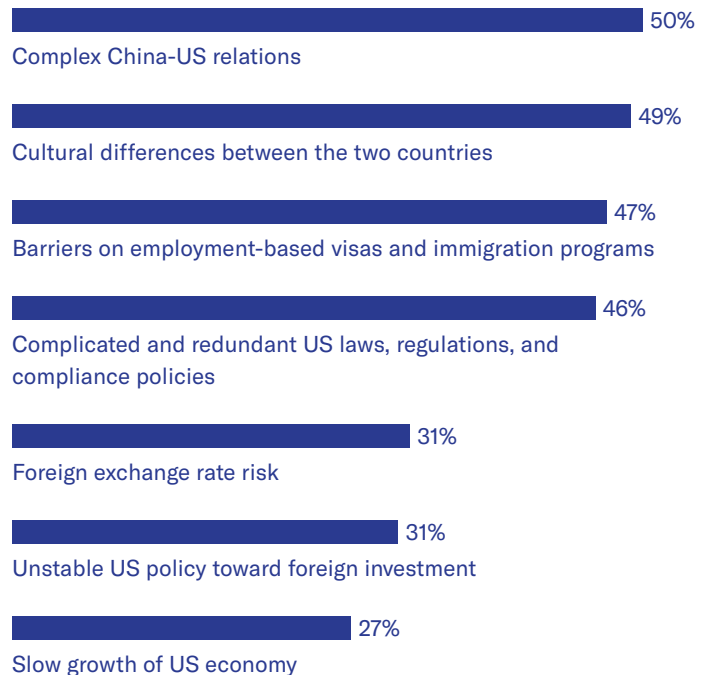
They are especially concerned with high tariffs on imports (60%) and the prospect of tighter senior executive work visa and immigration policies (63%) as shown in figure 8. Survey responses also reveal concern among Chinese executives in the US about the tone and temperament of relations between China, the US, and their respective companies. More than 40% of respondents express concern about accusations of intellectual property theft or cyberattacks, and the nativist "Buy American, Hire American" rhetoric that is commonplace today concerns 25% of respondents.

Restrictions on visas of senior executives frustrating

The US government's restrictions on visas related to the work authorization of senior executives are a long-standing source of frustration among Chinese investors. The L-1 visa allows for up to seven years of

Figure 9. China-US relations and cultural differences weigh most heavily on investors

Which of the following items are the most difficult challenges in conducting business in the US?



Respondents selected up to three options.

employment in the US for Chinese executive and managerial staff, and five years for staff engaged in technical or similarly specialized professions — provided that their employer has first obtained blanket authorization for expatriate executives. CGCC members voice concern for the costly, time-consuming, and bureaucratic process required to obtain and renew L-1 visas. The US State Department requires Chinese executives to obtain a three-year L-1 visa and to extend it for additional terms, which entails new visa petitions, overseas travel for mandatory interviews outside the US, and lengthy waiting periods. As a result, say CGCC members, Chinese investors who are responsible for managing assets in the US are encumbered by bureaucracy and unreasonably limited in their ability to pursue business opportunities. Chen Xu, Chairman of CGCC, President and CEO of Bank of China USA, says, "There are some cases that the executives of our member companies are held to wait up to months to get their L-1 visa stamped back in China. It hurts the performance of their companies in the US."

In subsequent questions, 55% of respondents acknowledge that higher trade barriers and tariffs will bring more challenges to their businesses, yet such plans are unlikely to have an effect on their

Four issues emerge as the most formidable challenges to conducting business in the US – the complex relations between China and the US, cultural differences, immigration restrictions, and the complex, multi-jurisdictional regulatory environment in the US.

investment plans, as only 14% say the Trump administration's plans to impose higher trade barriers and tariffs on imports from China are likely to cause them to reduce their investment in the US. Similarly, enforcement of "America First" and "Buy American, Hire American" policies will bring more challenges to Chinese companies in the US, according to 41% of respondents, yet only 9% expect such enforcement would cause them to reduce their investment in the US.

Thus, while US public policy on trade and immigration worries CGCC members, they remain committed to succeeding in their American operations. Four issues emerge as the most formidable challenges to conducting business in the US – the complex relations between China and the US, cultural differences, immigration restrictions, and the complex, multi-jurisdictional regulatory environment in the US – each of which were cited by more than 45% of survey respondents (see figure 9).

Investors also struggle with the cost and complexity of IP protection when securing trade secrets, trademarks, patents, and copyrights – 52% cite a lack of familiarity with the US legal system and inability to defend their companies in legal and regulatory disputes as a challenge. Similarly, 35% cite the high cost of protecting intellectual property.

6

The path to progress: Investors seek fluency in US commercial practices and call on national governments to relax constraints

Despite political and administrative headwinds, companies that remain committed to their US operations wrestle to control operating costs just as their domestic peers and competitors do. Queried on the operating costs that cause greatest concern, respondents cite staffing and administration (81%), office/facility costs (49%), production costs (37%), and marketing costs (35%). And while few companies, foreign or domestic, see compliance and government relations as a trivial burden, Chinese investors in the US seem especially likely to struggle under regulatory burdens.

One-half of respondents (50%) cite the cost of regulatory compliance as a principal challenge. Their struggle stems in part from their unique position as foreign investors, whose activities are especially closely regulated.

To address their compliance difficulties, respondents expect to strengthen their capabilities by hiring more full-time staff and increase spending on compliance activities — 35% of respondents increased compliance spending in 2017, and 40% anticipate such an increase in 2018. Respondents will also work to strengthen the public perception of their companies through expanded public relations activities, most often by investing in public outreach and marketing (59%), improving transparency by releasing timely business performance information (45%), and hosting or supporting community activities to promote cultural exchanges (47%).

Like their American peers, Chinese companies struggle to hire and retain talent (62%) amid very low unemployment, which in the summer of 2018 is below 4% for the first time in a generation. A major challenge in the talent race is the cost of providing competitive compensation and benefits (65%), followed by cultural and language barriers (53%). In response, Chinese companies are likely to facilitate cultural diversity by providing internal training and promote from within their current workforce (65%), spend more on staff compensation and benefits (63%), and improve career development programs (56%).

These managerial maneuvers are likely to help companies comply with government mandates and attract and retain high-quality staff. However, improvement in the structural relationship between Chinese investors and the regulatory environment of US commerce requires action from the governments of China and the US. Survey respondents are most eager for reform of US senior executive work visa policies, relaxation of industrial regulation, and greater access and closer communication between Chinese companies and US authorities (see figure 10).

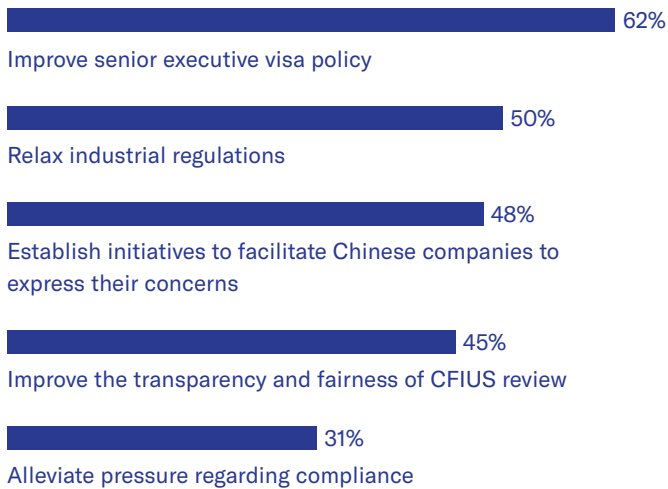
The Chinese government also has a role to play in supporting its expatriate investors — 70% or more of survey respondents hope for China's help in streamlining senior executive work visa programs and advocating for a more transparent investment environment (see figure 11).

Investors' hopes for new multilateral trade agreements and investment treaties seems especially timely, as the two nations are now engaged in negotiations over tariffs and other trade barriers. Whether reached

To address their compliance difficulties, respondents expect to strengthen their capabilities by hiring more full-time staff and increase spending on compliance activities — 35% of respondents increased compliance spending in 2017, and 40% anticipate such an increase in 2018.

Figure 10. CGCC members seek regulatory relief from US government

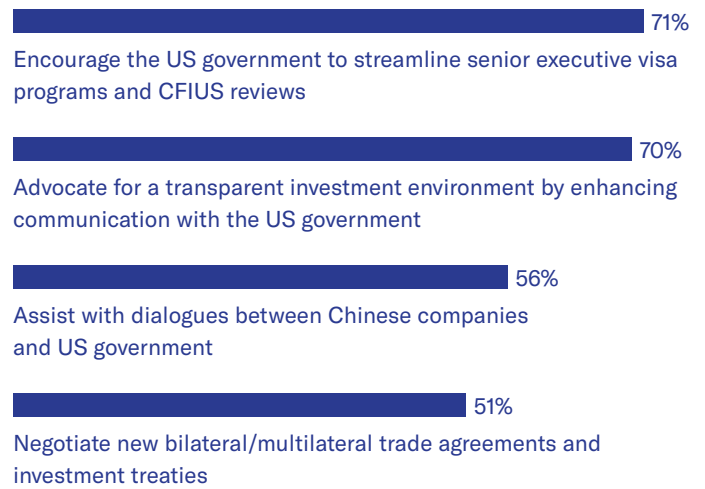
Which of the following aspects of US government policy should be improved to facilitate China's investment in the US?



Respondents selected all that apply.

Figure 11. Investors call for the China to work with the US on trade liberalization and communication

Which of the following steps should the Chinese government take to encourage Chinese investment in the US?



Respondents selected all that apply.

through careful negotiation, brinkmanship, or bluster, agreements that err on the side of free trade and market solutions are the ones most likely to benefit the two nations, their investors, and their people in the long run. Increasingly liberalized, well-regulated trade and transit of economic inputs — whether goods and services, financial capital, intellectual property, or talent — have been shown to create great economic and social benefit under the right conditions. One principal role of any national government is to ensure that such conditions are in place and maintained transparently.

Conclusion

As this report went to press, the US announced it would allow ZTE Corp. to once again access US suppliers, allowing the company to stay in business after it had announced it would shut down. Related stock prices rose almost as soon as the deal was confirmed, and it was believed the ZTE deal would pave the way for China's approval of the acquisition of NXP Semiconductors by Qualcomm. Amid increased tensions between China and the US, and some of the fears expressed by CGCC members in this report, this news offers hope that the two nations can find a way to overcome current differences.

To be certain, the ZTE deal is just one step in a long journey the two nations must make together, but it illustrates that both nations do recognize the mutual benefits of trade between them. It's an open question how much progress will be made — but CGCC and its member companies will be watching closely, and contributing to the discussion with unique insights that can only come from the experience of operating Chinese businesses in the US.

About Us

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 influential non-profit organization representing Chinese enterprises in the US. Its membership consists of 1,500 Chinese and US companies, 58 of which are ranked on the 2017 Fortune Global 500. CGCC's

mission is to create value, generate economic growth and enhance cooperation between US and Chinese business communities. As of 2017, CGCC Chinese member companies have cumulatively invested over \$120 billion and directly employ more than 200,000 and indirectly support over 1,000,000 people throughout the US.

CGCC is a nationwide organization and includes CGCC-New York (CGCCUSA-HQ), CGCC-Washington D.C., CGCC-Chicago, CGCC-Los Angeles, CGCC-San Francisco, and CGCC-Houston.

For more information, please visit www.cgccusa.org

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.



58

Global Fortune 500
companies



~\$120 billion

cumulatively
invested



>1 million

jobs indirectly
supported

Connecting People

·

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·

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Regional Contacts

CGCC San Francisco

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- Service & Tourism
- Telecommunication
- Manufacturing
- Renewable Energy
- Information

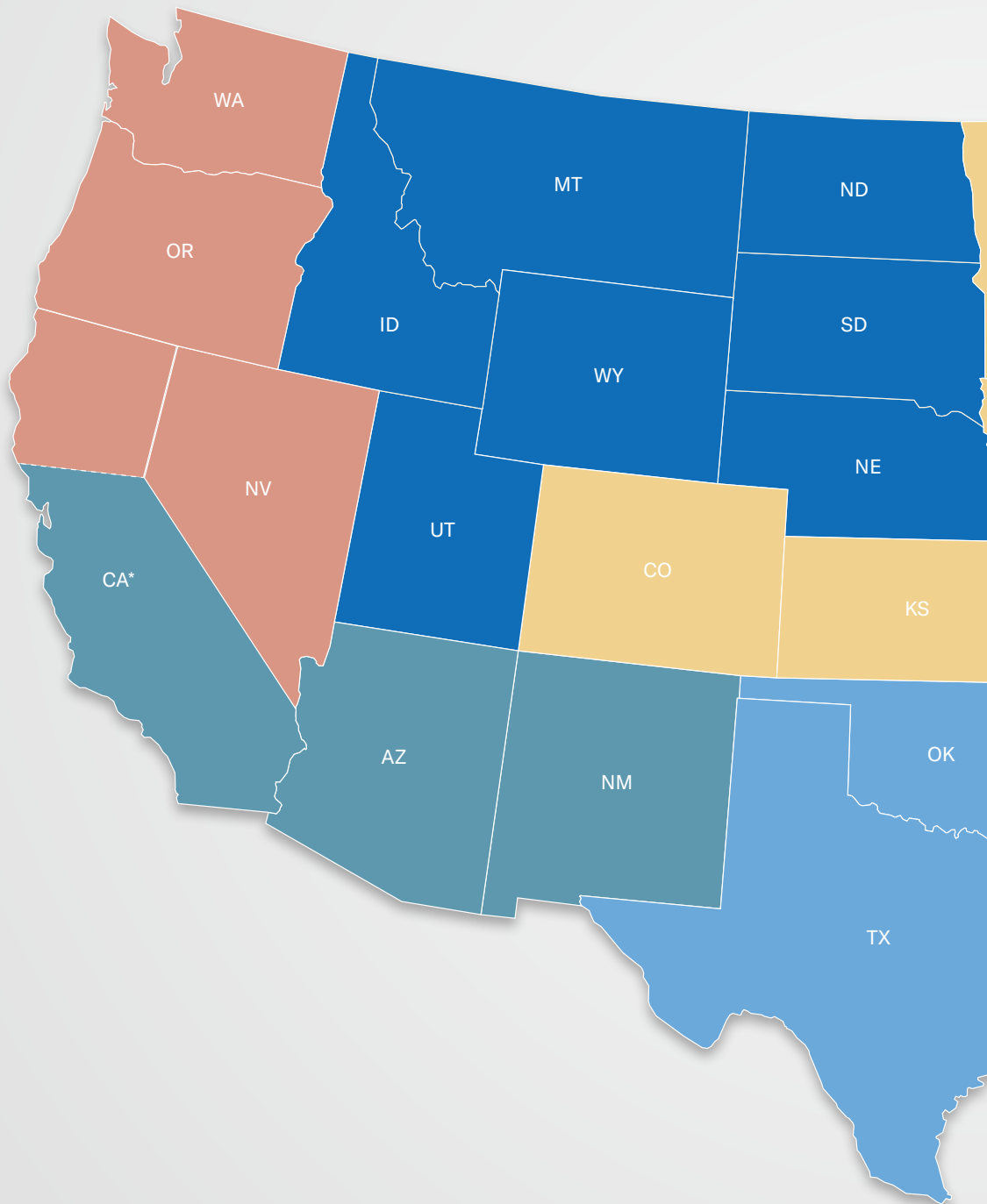
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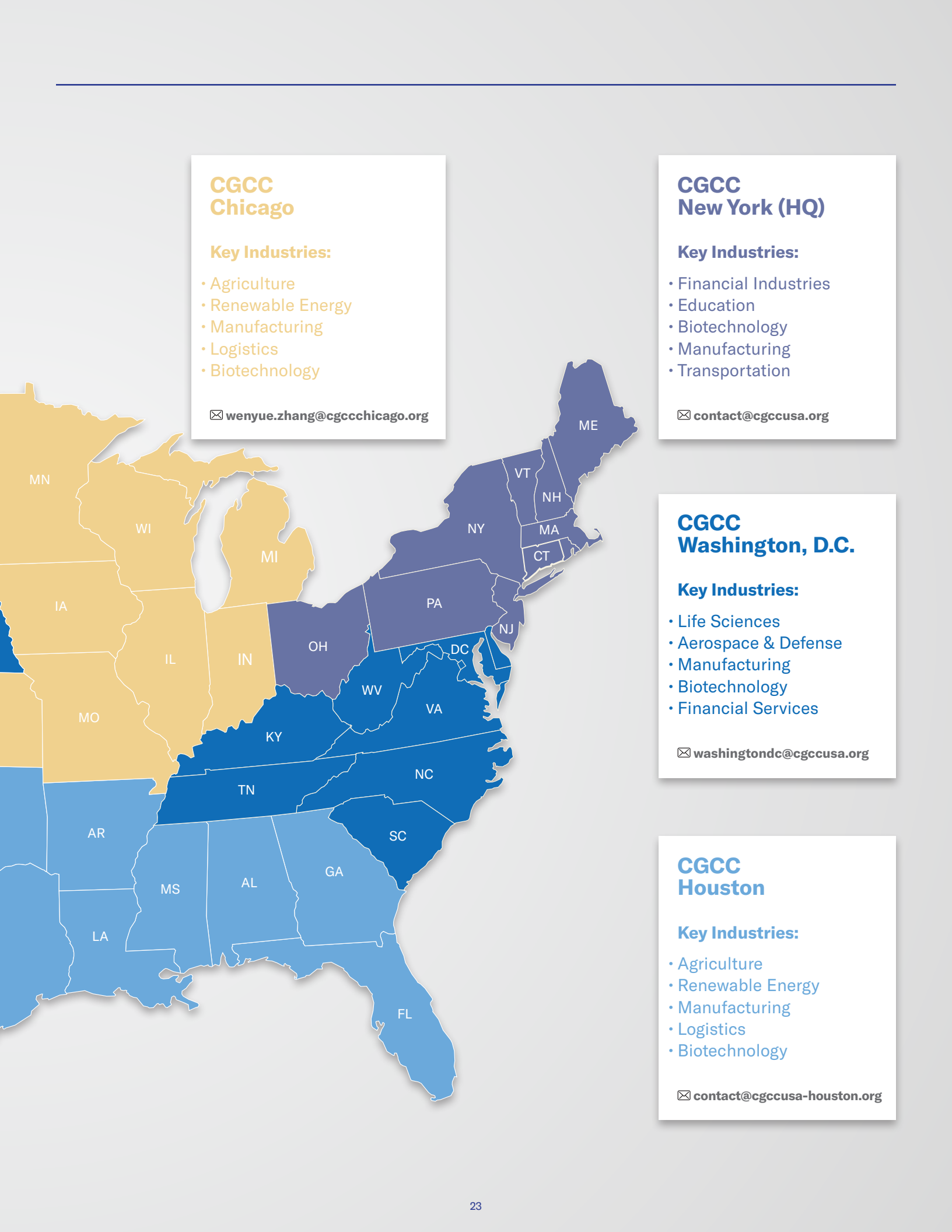
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* Northern California is part of the CGCC–San Francisco regional location



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