

COVID restrictions affecting confidence of US businesses in China

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While most American businesses in China remain profitable, the impact of ongoing COVID-related restrictions is affecting business confidence and leading to lower investment, according to the China Business Report released by AmCham Shanghai recently. Recovery from the original 2020 shutdown has been stifled by the lockdowns earlier this year. Amid deteriorating US-China relations and macroeconomic pressures, members are reporting record-low optimism for revenue and the business environment, the report says.

Three-fourths of respondents reported profits in 2021, marginally below rates from the past several years, and 47 per cent of companies projected year-on-year (YoY) revenue growth in 2022, a 29 percentage point (pp) drop from the reported rate of YoY increases in 2021 and the lowest expectation in at least 10 years.

Over the next three to five years, 47 per cent of respondents expect revenue growth in China to outpace their companies' worldwide growth, a 22 pp drop from last year.

Fifty-two per cent of respondents reported that their headquarters' confidence in China's economic management worsened in the past year. Accordingly, just 18 per cent of companies ranked China as number one in their company's global investment plans, down from 27 per cent in 2021.

The percentage of companies describing themselves as optimistic or slightly optimistic about the five-year business outlook fell to 55 per cent, the lowest in the survey's history and a 23 pp drop from 2021.

Nineteen per cent of respondents are decreasing investment in China this year compared to 2021, with the top reasons all related to the zero-COVID policy.

Although an increasing number of members are looking to other markets, the majority are keeping their footprint and operations in China and focusing on localisation strategies.

For the 30 per cent of companies increasing investment this year compared to last year, the top reason was growth potential of the Chinese market.

A third of respondents have redirected planned China investments to other destinations in the past year, almost double the number of companies that did so in 2021.

Only 53 companies (17 per cent) indicated that they are considering moving operations or footprint out of China in the next one to three years, with just 19 per cent of those planning to reshore to US locations.

With zero-Covid weighing heavily on operations and confidence, improvements to the business environment are more important than ever. But this year's data shows trends in the opposite direction, according to the chamber report produced in conjunction with PwC.

Only 17 per cent of respondents said government policies and regulations towards foreign companies had improved in the past year, down 19 pp from 2021, while the rate of those reporting worsening rose 14 pp to 36 per cent.

Only 37 per cent described the regulatory environment in their industry as transparent, a 10 pp drop from last year and the lowest in recent years.