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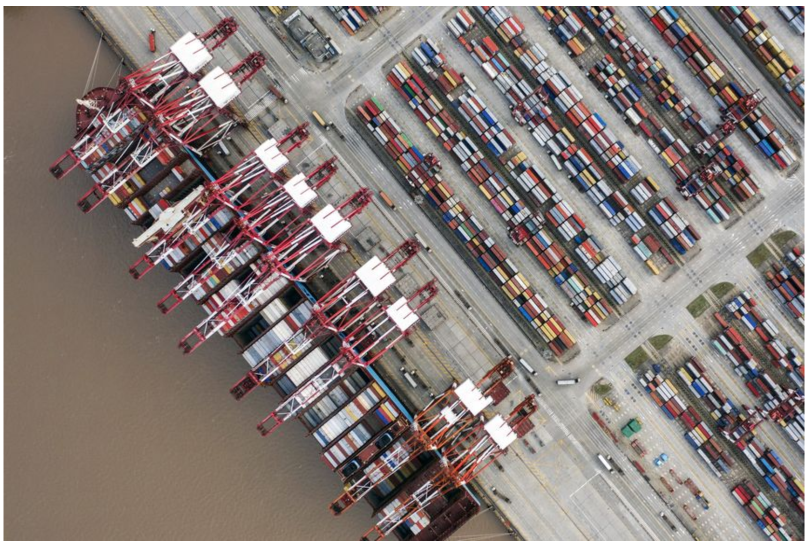
BUSINESS

# American Businesses Say China's Slowdown Is a Greater Threat Than the Trade War

For years, U.S. companies in Shanghai have been steadfastly optimistic about opportunities in China. That's starting to change.



A container ship is docked at the Yangshan Deepwater Port in Shanghai, in May. PHOTO: QILAI SHEN/BLOOMBERG NEWS

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SHANGHAI—American companies are downshifting in China as its economy slows and trade tensions with the U.S. persist, according to a new survey that highlights softening revenue, reduced investment and job cutbacks.

The annual survey, released on Wednesday by the American Chamber of Commerce in Shanghai, showed that 51% of the business lobby's responding members said U.S. and Chinese tariffs had hurt revenue. However, Amcham members pointed to the interrelated issue of China's economic weakening as the more pressing factor clouding their outlook.

For years, U.S. companies in Shanghai have been steadfastly optimistic about opportunities in China, and Amcham's concerns mostly reflected the challenges of the high-growth market, including strong local competition and rising costs. The group has about 3,000 members, representing some 1,500 companies, including Thermo Fisher Scientific Inc., Walt Disney Co. , FedEx Corp. , Duke University, Citigroup Inc. and Wells Fargo & Co.

More than three quarters of the 333 respondents to this year's survey said they remained profitable in China last year, but only half forecast revenue growth in 2019, down sharply from 81% in 2018 and similar rates in recent years. Likewise, a solid majority—61%—said they held a positive view about business prospects in China over the coming five years. In past years, however, that figure was routinely 80% or higher. Now, 21% express outright pessimism about the five-year outlook, a figure that in the recent past hadn't touched 10%.

"It has to do with uncertainty. Business fundamentally does not like uncertainty," said Ker Gibbs, president of the chamber.

The findings dovetail with a survey of U.S.-China Business Council members in August that said optimism about China is at a historic low, more are halting investment and only a slight majority of companies expect their revenue in the country to rise next year.

A slowing Chinese economy is considered the biggest challenge in the next three to five years by nearly 58% of respondents, a risk recognized by only about a third of respondents a year earlier. Amcham said 18% of responding members intend to cut China investment this year, three times as many as those who said last year they planned to do so. Fifty-three percent of respondents said tariffs are leading to slower or less investment spending, while 20% said they plan to cut head count.

The manufacturing-heavy chamber said market access remains a crucial demand of members, and 75% of them disapprove of President Trump's application of tariffs, as members would prefer deeper engagement with China. More than two-thirds gave a thumbs down to the China International Import Expo trade fair, President Xi Jinping's signature initiative to expand business opportunities for foreign companies.

The Chinese consumer market continues to entice U.S. companies. However, more of them are de-emphasizing sourcing and producing in China, reflecting concern, especially at technology companies, that they could become targets in the trade fight, Amcham officials said.

"Fears of repercussions from the Chinese government, including nontariff barriers such as increased regulatory scrutiny or inclusion on the anticipated unreliable entity list, may explain the decline, as could tariffs," the report concluded. Beijing has threatened to blacklist American companies it perceives to be harmful to Chinese businesses after the U.S. took a similar action against China's Huawei Technologies Co.

Manufacturers are exploring alternative locations such as Southeast Asia to make or buy products. In recent weeks, executives of Home Depot Inc., Best Buy Co. and Urban Outfitters Inc. have told investors their suppliers are working to source products outside China to avoid tariffs.

“We hear it from the brands. We hear it from customers in China. So it’s very visible, very, very visible,” said Ronen Samuel, chief executive of Kornit Digital Ltd. , an Israeli maker of machines that print on textiles that is active in the U.S., on a recent conference call.

The number of members participating in Amcham’s June-July survey fell by almost a quarter from past years to 333, with some telling the group they are uncomfortable answering questions about the increasingly politicized standoff between Washington and Beijing. In the survey, 66% of members said the trade battle would last at least a year, including 17% who predicted it would continue indefinitely.

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