Written by Mike Buetow
Thursday, 11 October 2012 15:47 -

WASHINGTON, DC -- US companies doing business in China are both more profitable than ever and more pessimistic than ever about their prospects in the world's most populous nation.

According to the results of the **US-China Business Council's** annual survey, released this week, while more companies than ever are benefiting from their presence in China, rising costs, greater competition -- especially from new domestic rivals -- and the ever-changing business regulations are diminishing their enthusiasm for the market.

The survey was conducted among US and China-based executives of US companies, some 50% of whom are based in China. Fifty-seven percent of the respondents came from manufacturing companies.

Among the findings:

- 94% of responding companies say they are doing business in China primarily to access that country's market, not to develop an export platform, and 66% plan to increase investment in China in the next 12 months.
- 89% of respondents said their China operations are profitable, two-thirds said revenue from those operations grew 10% or more in the past year, and 75% said profit margins from those operations were the same as or better than their global margins.
- 90% of respondents are optimistic or somewhat optimistic about business prospects in China over the next five years but 45% are less optimistic than three years ago.
- Competition from domestic competitors was cited as the primary restraint on increased profitability in China by 27% of respondents, followed by rising costs (20%), government policy and regulation (17%), competition from international competitors (15%), insufficient personnel to support growth (7%) and insufficient capacity to meet demand (6%).
- 17% of respondents have reduced or stopped planned investment in China in the past year, and 50% of those cited market access restrictions as the reason.
- The top 10 challenges identified concerning doing business in China were talent recruitment and retention, administrative licensing, competition with Chinese enterprises, cost increases, intellectual property rights enforcement, uneven local enforcement and implementation of laws and policies, investment restrictions, competition with foreign companies in China, competition with foreign or Chinese companies not subject to the Foreign Corrupt Practices Act, and standards and conformity assessment.

Notably, China's exchange rate -- a topic of enormous discussion with the mainstream media -- was not among the top 25 concerns listed by US companies doing business in China, and forced transfer of technology ranked 16th.