

April 2020

Supply Chain Strategies Under the Impact of COVID-19 of Large American Companies Operating in China



Executive Summary

Overview

- Two surveys were jointly conducted by AmCham China, AmCham Shanghai, and PwC China to study the supply chain impacts of recent events on American companies operating in China.
- The most recent, from March 2020, is presented first to provide a recent view of the impacts of the COVID-19 pandemic. The prior survey, from September-October 2019 is presented in Appendix A to serve as a point of comparison and also provide additional insight into the impacts of bilateral US-China tensions.
- The March 2020 respondents are a subset of the 2019 respondents; demographic data is presented in Appendix B. While the two survey populations are not identical and the survey questions from each survey are different, taken together these two surveys provide a picture of the current sentiment of large American companies operating in China.
- The October 2019 survey revealed that the supply chains of 90% of survey respondents have been affected by the US-China trade dispute. The impact is mainly being felt through diversification of their supply base, risk management, and cost control, however the adoption of “in China for China” strategies has mitigated some of the impact. Respondents indicate they remain hopeful for the continuing development of healthy commercial relations between the US and China and for improved enforcement to level the playing field between foreign and domestic companies in China.
- The March 2020 survey showed companies are focusing on a return to full production capacity in the aftermath the COVID-19 epidemic in China; Concerns are shifting away from factory closures and to logistics-related challenges. Approximately 68% respondents anticipate a return to normal activities in China within the next three months.

Executive Summary – March 2020 Survey (1/2)

Survey Background

- The March 2020 mini-survey was designed to assess the impact of COVID-19 on the supply chain operations of American companies operating in China. The mini-survey included questions on production and import/export activities, supply chain strategies, and policy needs.
- The mini-survey was conducted between 6 March and 13 March 2020. It is a supplement to a survey performed in September/October 2019 regarding the impacts of bilateral trade tensions on US businesses operating in China. The survey respondents represent a subset of the respondents who participated in the 2019 supply chain survey. The 2019 survey results are included in Appendix A.
- We received responses from 25 companies, each with more than 10 years of experience operating in China; a majority have been in China for more than 20 years. The survey targeted senior executives from large US companies (defined as those with a global revenue of over US \$500 million) in China from the industrial products, consumer business, healthcare, and information technology industries/sectors.

Executive Summary – March 2020 Survey (2/2)

Key findings

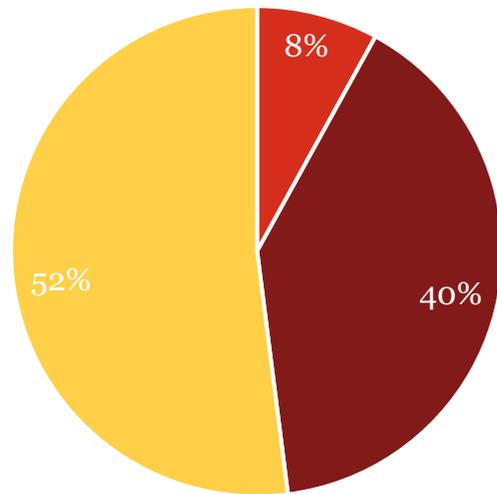
- Due to the rapid spread of COVID-19 and the ensuing operational constraints, **around half of the respondents were running below normal capacity** and **68% reported that demand for their company's products and services was below normal**.
- **Logistics-related challenges** were reported as the **greatest anticipated challenge** in the immediate term; suppliers unable to operate at full capacity was the next most critical challenge.
- With respect to government actions, **accelerating government “return to work” approvals is** seen as **the most helpful action** by 56% of respondents. All respondents reported that **Chinese government support measures are available to foreign companies and** domestic Chinese businesses.
- In the short term, **over 70% of respondents have no plans yet to relocate** production and supply chain operations or sourcing outside of China due to COVID-19. Twice as many (24% vs. 12%) reported they plan to shift sourcing activities as were planning to shift production.
- Around 40% of respondents say that their **long-term supply chain strategy for China will remain the same regardless of the impact of COVID-19**, while the 52% percent of companies believed **it is too soon to tell**.
- With respect to the impact of COVID-19 on their **import and export activities**, around one third of the companies believe **the impact will be limited**.
- 68% of respondents expect their China supply chain operations to **return to normal in less than 3 months** and **96% of respondents expect to return to normal within 3 to 6 months**.
- Respondents indicated greater **potential for economic decoupling between the US and China** as compared with the 2019 survey, with one third fewer reporting they believe decoupling is not possible and one in five reporting they believe that decoupling will be accelerated by COVID-19.

Data and Analysis



Around half of the respondents have **not yet reached 100% production capacity**. Approximately 44% of the respondents anticipate reaching normal capacity **by April 2020** while 48% of the companies have not yet confirmed when they will return to normal capacity.

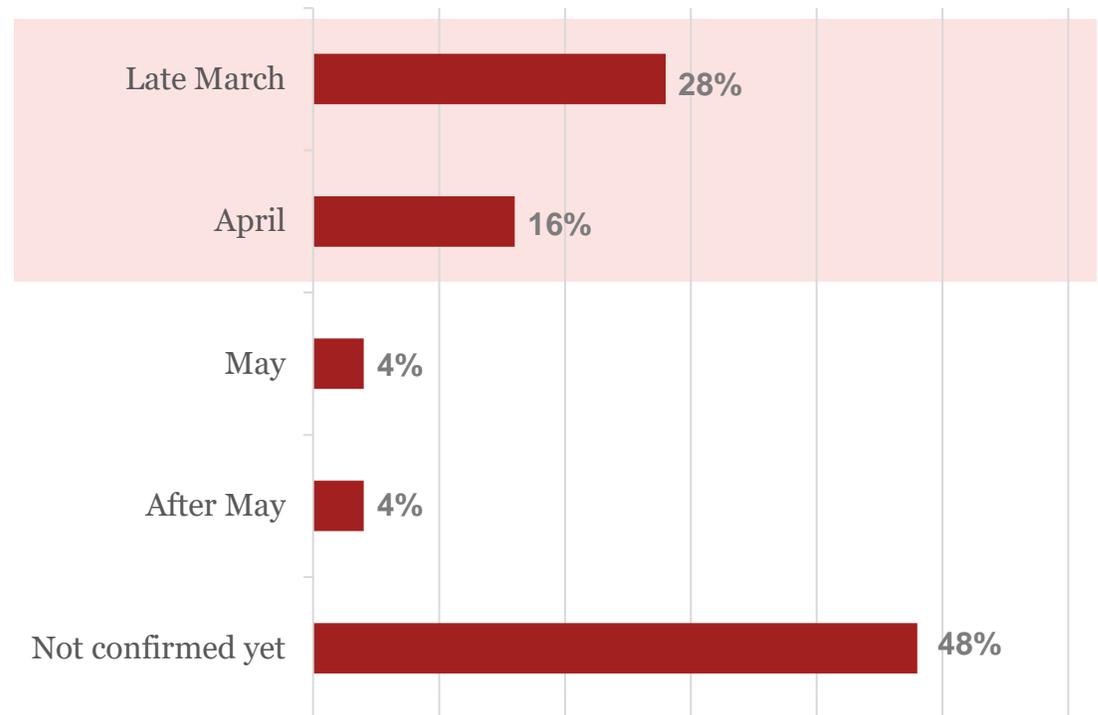
Q. Are your company's factories/manufacturing facilities **running at normal capacity?**



- No, running at < 50% capacity
- No, running at > 50% capacity
- Yes, running at 100% capacity

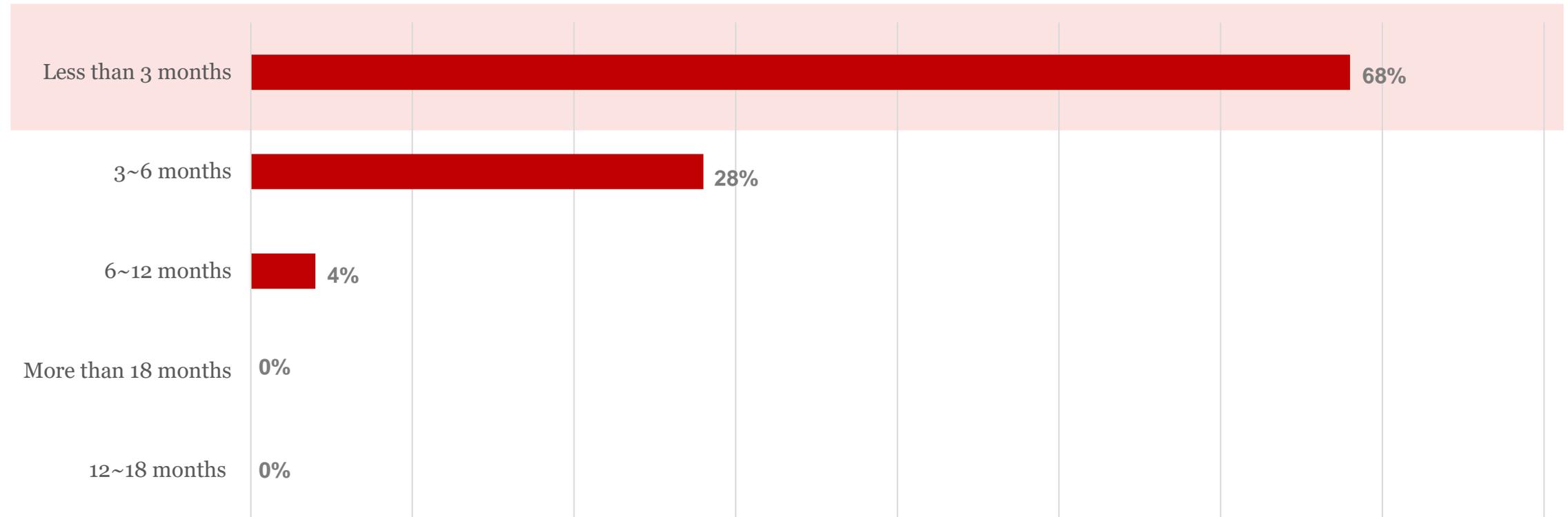
N=25

Sub Q. How soon do you anticipate reaching normal capacity?



68% of respondents expect their China supply chain operations to return to normal in less than 3 months and 96% of respondents expect their supply chain operations to return to normal within 3 to 6 months.

Q. When do you expect your China supply chain operations to **return to normal?**

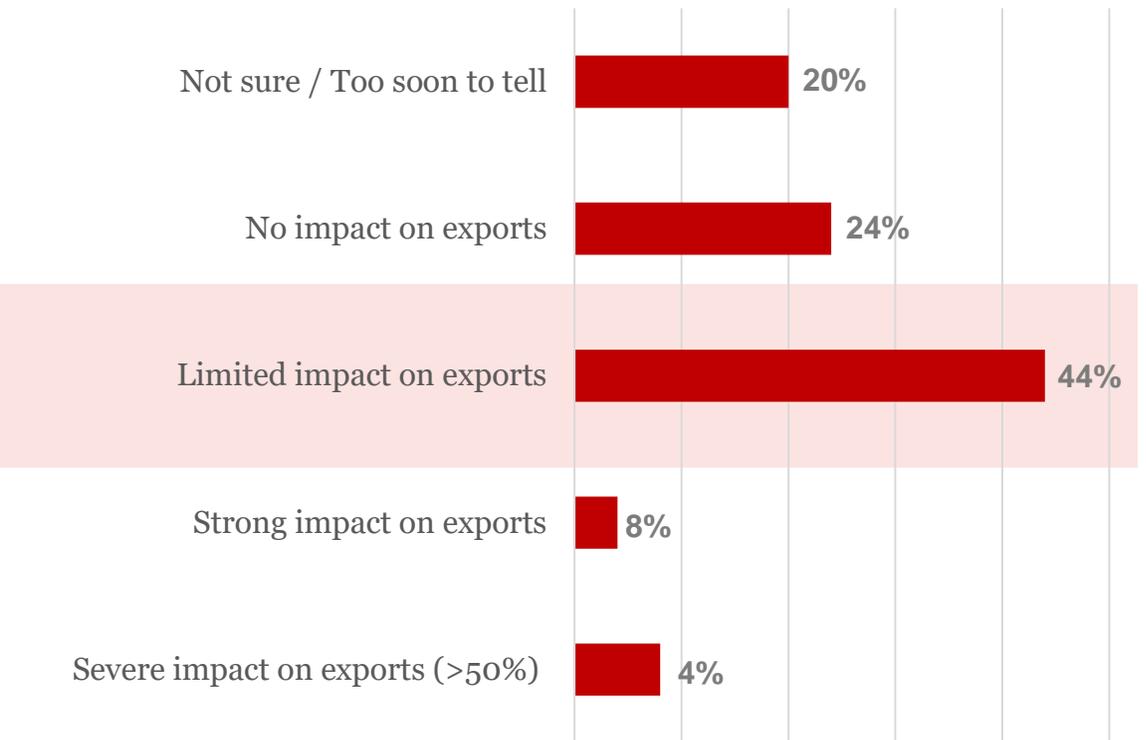
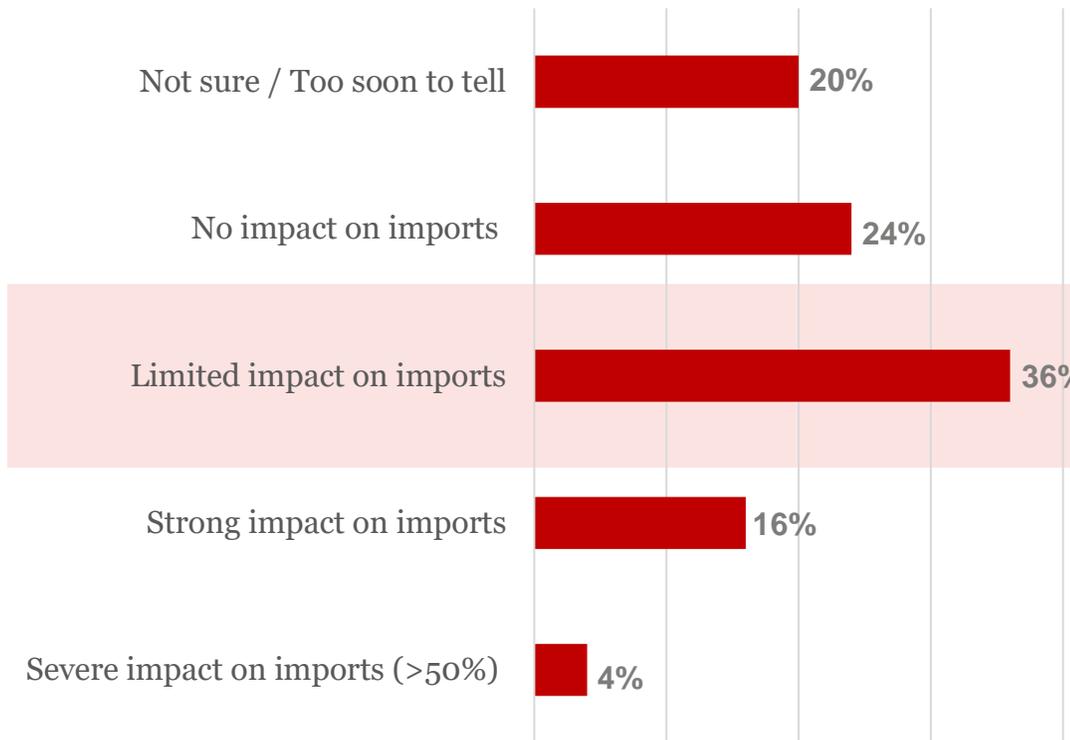


N=25

36% of respondents say the COVID-19 epidemic has had a *limited impact on their import activities*, while 44% report a *limited impact on exports*. Only 16% percent report a strong impact on imports and 8% a strong impact on exports.

Q. How has the COVID-19 epidemic impacted your company's *import activities* for its China supply chains?

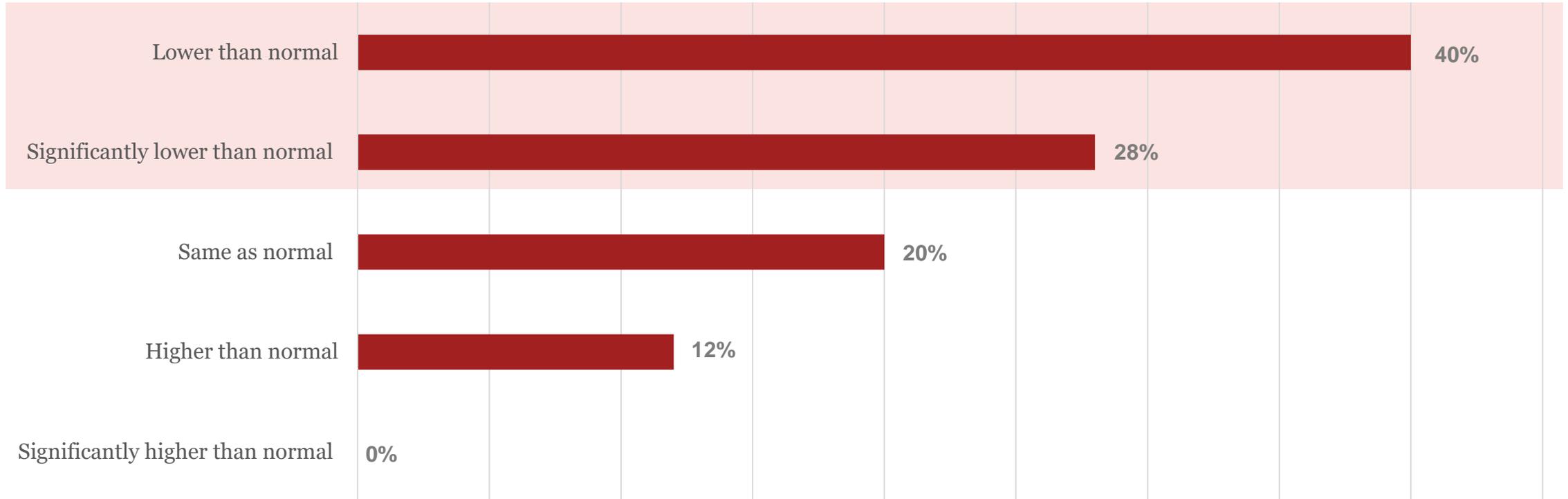
Q. How has the COVID-19 epidemic impacted your company's *export activities* for its China supply chains?



N=25

On the demand side, 68% of respondents say that demand for their company's products is lower than normal

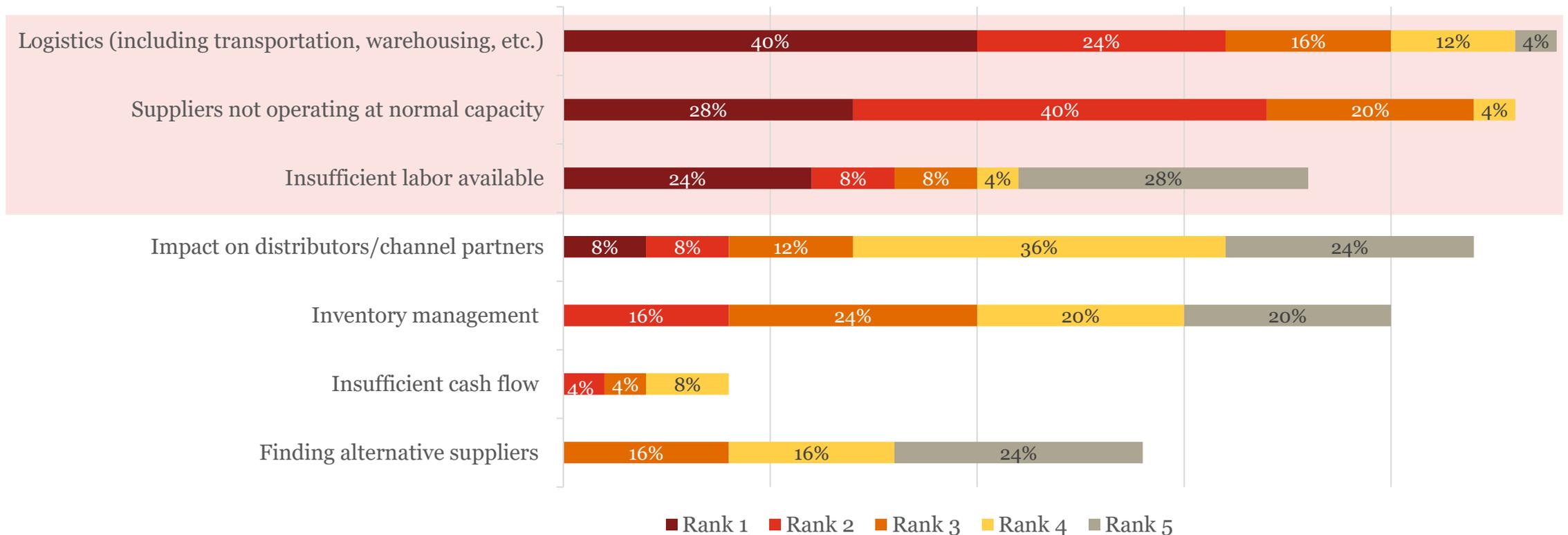
Q. Do you expect demand within the next 3 months for your company's products to be:



N=25

Logistics challenges represent the biggest challenge to supply chain operations over the next month; Reduced capacity among suppliers and insufficient labor availability are the next most commonly reported challenges

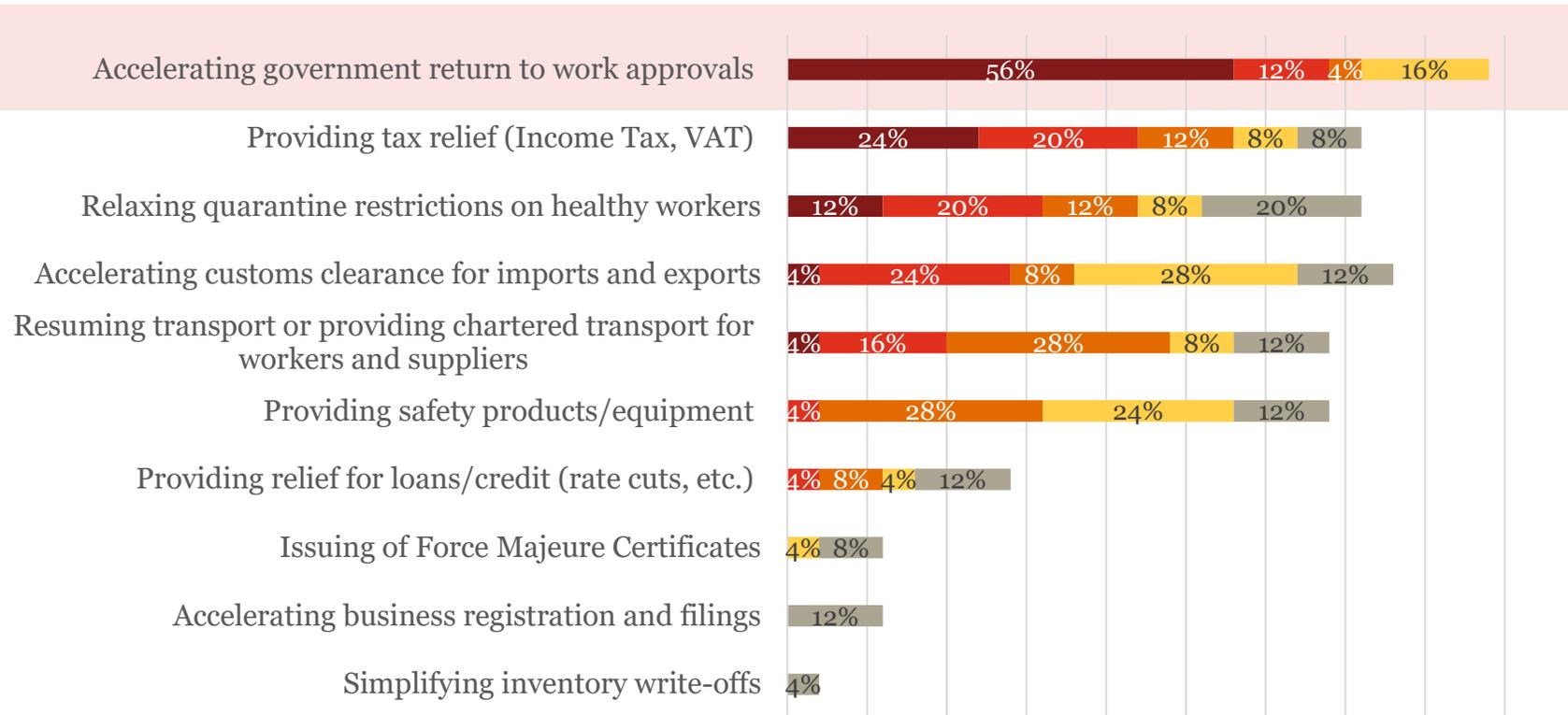
Q. What will be your **greatest supply chain challenges over the next month? (Please rank your top five challenges on a scale of 1-5, **with 1 being the greatest**)**



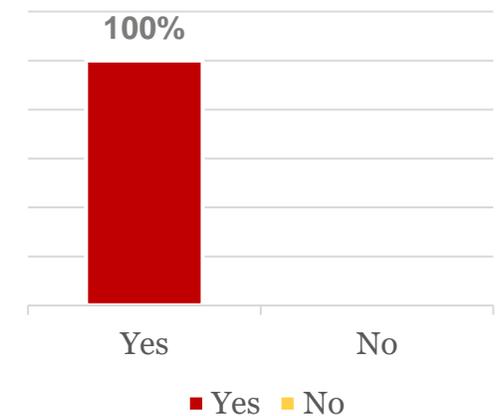
N=25

56% of respondents say accelerating government “return to work” approvals is the most helpful action taken by the Chinese government. All respondents report that government policies are available to foreign businesses to help relieve their supply chain pressure

Q. Which central, provincial or local government actions or policies have been the most helpful? (Please rank the five most helpful actions or policies on a scale of 1-5, with 1 being the most helpful)



Q. Do you feel that the government’s policies to help relieve supply chains affected by COVID-19 are available to foreign businesses?



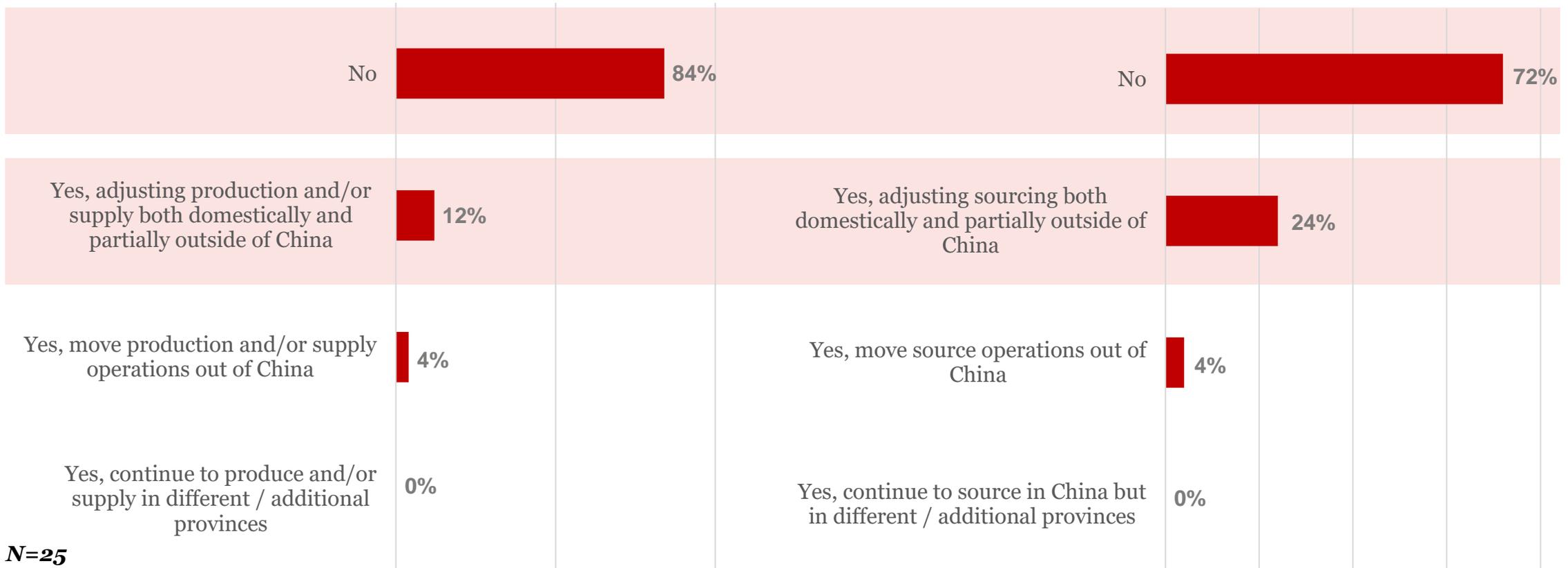
N=25

■ Rank 1 ■ Rank 2 ■ Rank 3 ■ Rank 4 ■ Rank 5

Over 70% of respondents say their company has no plans to move *production/supply chain operations or sourcing* to other locations due to COVID-19, with twice as many planning to shift sourcing as shifting production to new geographies

Q. Do you have plans to *move production and/or supply chain operations* to other regions of China or outside China due to the COVID-19 epidemic?

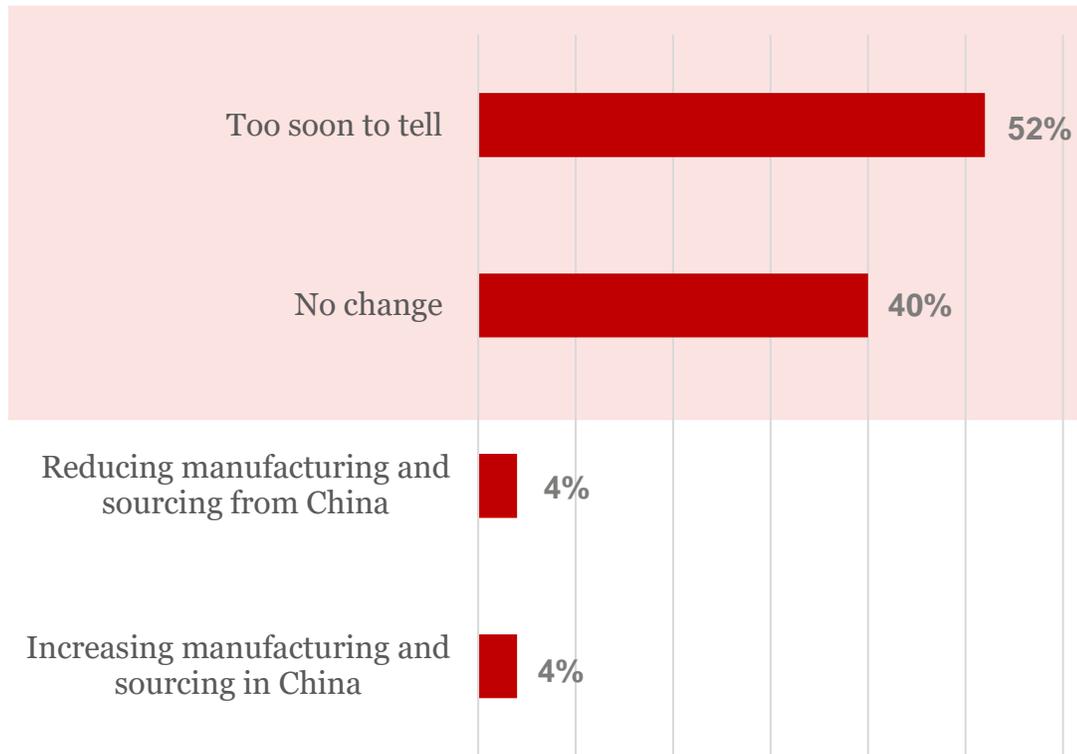
Q. Do you have plans to *move sourcing* to other regions of China or outside China due to the COVID-19 epidemic?



N=25

40% of the respondents say their *long-term supply chain (3-5 year) strategy* for China will remain the same despite COVID-19; while 52% companies believe it is too soon to tell.

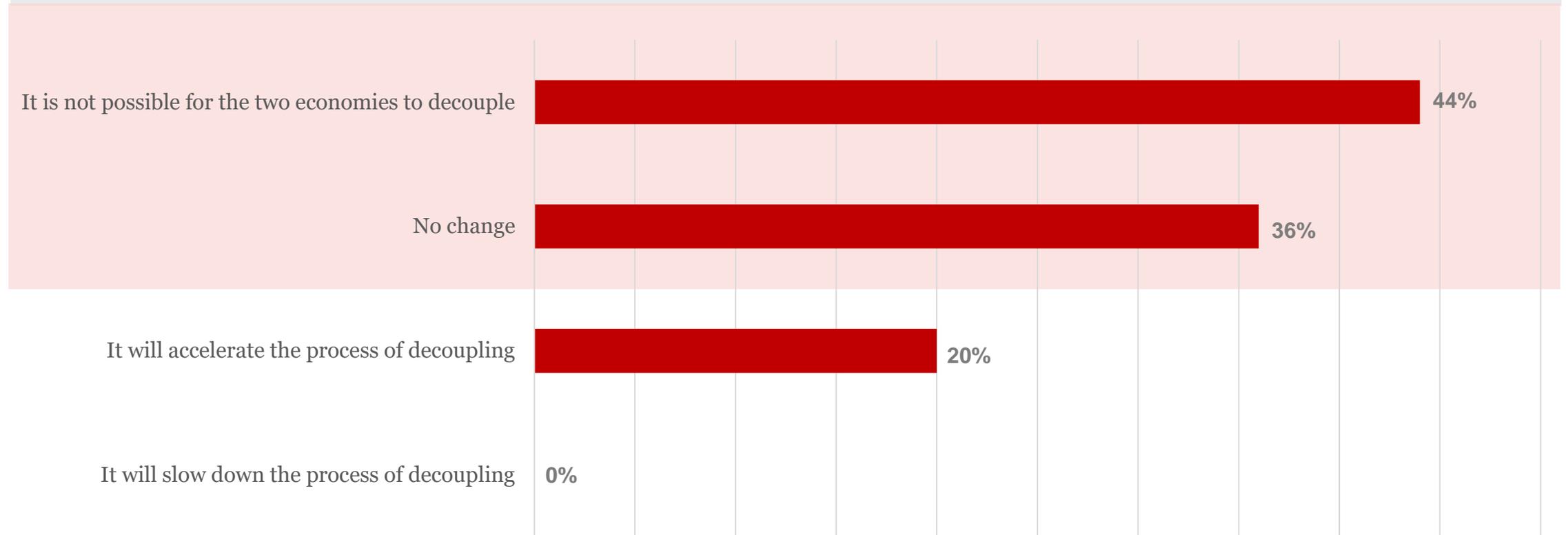
Q. How has the COVID-19 epidemic impacted your *long-term (3-5 year) supply chain strategy* for China?



N=25

With respect to the impact of COVID-19 on *US-China economic decoupling*, 44% of the respondents think it is impossible for the two economies to decouple (as compared with 66% in the 2019 survey*) with 20% expecting an acceleration. No respondents indicated a deceleration.

Q. How has the COVID-19 epidemic affected your company's view on the *extent and speed of potential US-China economic decoupling*?



N=25 * *March 2020 responses represent relative changes in sentiment from October 2019 due to COVID-19 rather than an absolute measure of probability*

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Appendix A:

September/October 2019 AmCham Supply Chain Survey



Executive Summary – October 2019 Survey (1/2)

Research Background

- The supply chain survey was conducted jointly by AmCham China, AmCham Shanghai, and PwC China between **September and October 2019** to better understand how bilateral tensions and the imposition of tariffs are impacting the supply chains and business decisions of US companies in China.
- The purpose of this survey was to:
 - Establish an understanding of the supply chain strategies of US companies operating in China,
 - Analyze how tensions in the bilateral economic relationship were impacting the supply chain decisions of US companies in China, and
 - Help foster a healthy commercial relationship between the US and China.
- Considering recent turbulence in the US-China economic relationship, we hope that the research findings provide an accurate and nuanced view of the experience US companies on the ground in China and help to inform the governments of both sides about the issues of the greatest importance to US companies in China.

Research Approach

- The survey received **responses from representatives of 70 US companies in China**. The survey targeted senior executives from large US companies in China, covering a number of industries including industrial products, consumer business, healthcare, and information technology.
- 96% of the companies surveyed have been active in China for over 10 years and 63% of the companies have active operations in 10+ provinces in China.
- 70% of companies surveyed manufacture in China for sale in the China market, with a portion of product being exported. A further 17% manufacture in China exclusively for sale in China (“in China, for China”), while 13% of companies are positioning China as their global supply base.
- In addition, we also conducted **6 face-to-face management interviews** with senior executives of leading US companies in representative sectors to help verify and expand upon our survey findings.

Executive Summary – October 2019 Survey (2/2)

Key Findings in the Autumn of 2019

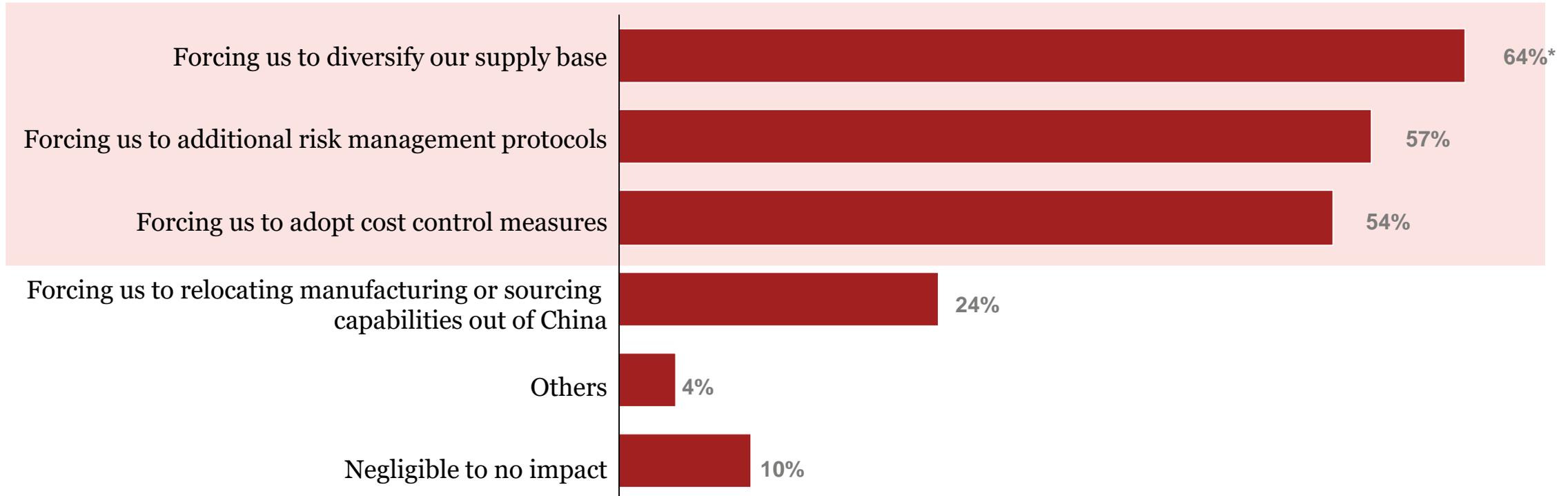
- **US-China trade dispute has impacted the supply chain operations of 90% of respondents. Companies are diversifying their supply base, adopting additional risk management and cost control measures.**
 - Nearly one half of respondents report that the imposition of tariffs has increased the costs associated with their supply chains by 10%, and an additional 16% seeing their costs increase by up to 30%.
 - At the same time, less than 20% of respondents have begun relocating manufacturing outside of China over the past two years to mitigate the impacts of tariffs imposed by China and the US.
 - Companies have increasingly adopted an “In China, for China” supply chain strategy with respect to manufacturing and sourcing to meet the demand in the China market.
- **To improve overall competitiveness, most US companies have supply chain transformation needs over the next 1-3 years.**
 - Over the next 1 to 3 years, the majority of respondents are focusing on improving the operation of their China-based supply chains or investing in a digital transformation and innovation to improve the competitiveness of their supply chains in China. Nearly one-third report that they are considering or planning a complete supply chain strategy transformation.
 - Nearly 63% of respondents are investing in new technologies to automate manufacturing and improve competitiveness.
- **Most US companies remain hopeful for a continued healthy commercial relationship between the US and China, and report that further improvement in China’s regulatory environment would encourage them to invest more in China.**
 - A slowdown in global economic growth stemming from US-China trade frictions and a deterioration of bilateral relations are the top concerns of 60% of survey respondents in China with respect to their supply chain operations over the next 3 years.
 - Approximately 93% of US companies surveyed feel that the US and Chinese economies are too large and too interconnected to decouple. Decoupling would harm their competitiveness and impose harm and greater uncertainty on the economies of both countries.
 - Survey respondents report that improved regulatory enforcement, stronger IP protection, preferential policies that support the manufacturing activities of foreign firms, and greater market access, would encourage them to invest more in China.

Data and Analysis



The US-China trade dispute has impacted the supply chains of 90% of survey respondents, forcing them to diversify their supply base choice, and adopt additional risk management and cost control measures

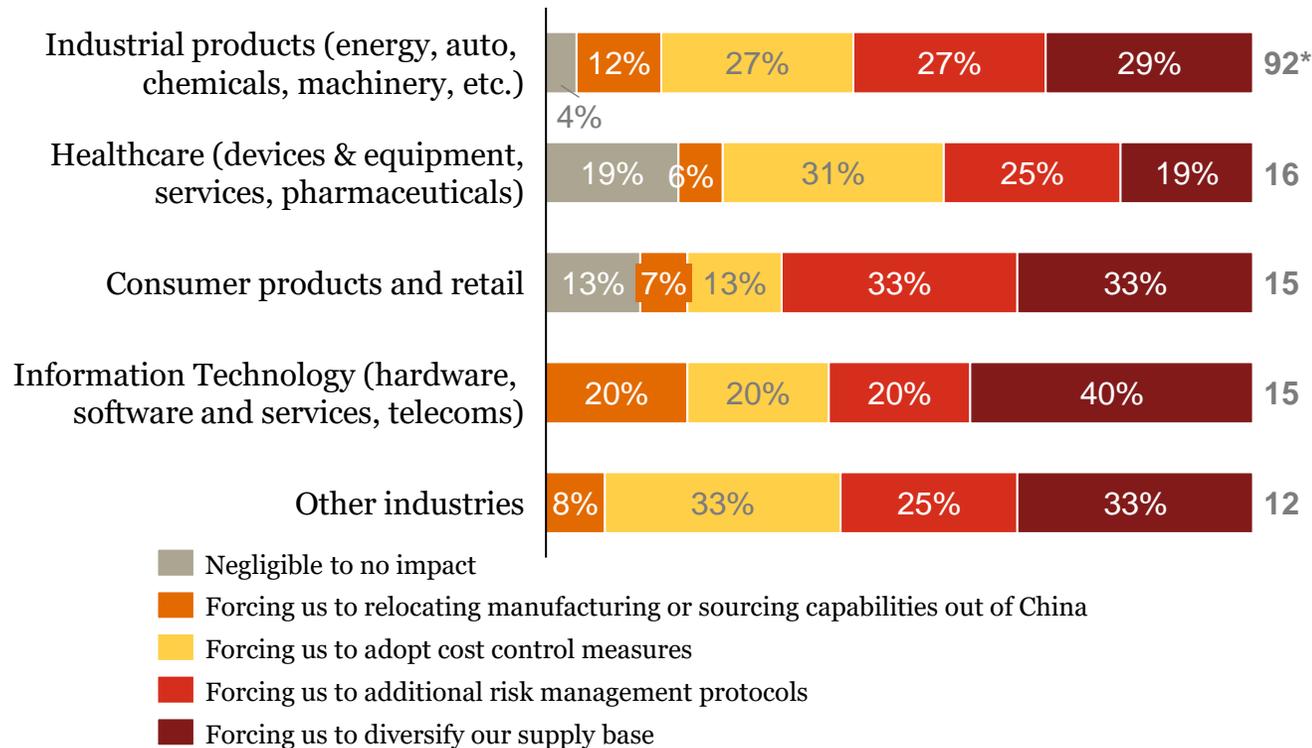
Q. How is the US-China trade dispute impacting or affecting your company's supply chain? (Multiple choices)



N=70; *notes: stands for the number of responses from multiple choices

The level of impact varies across industries

Q. How is the US-China trade dispute impacting or affecting your company's supply chain? (Multiple choices)



N=70; *notes: stands for the number of responses from multiple choices

Highlights in findings

Technology and industrial products industry sectors are more influenced:

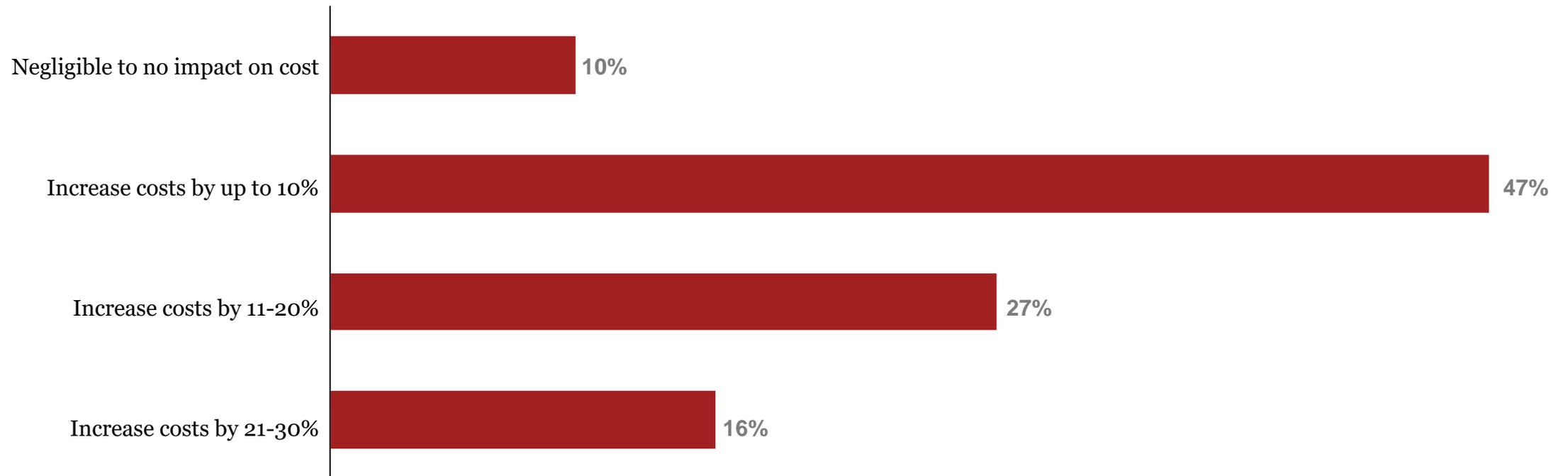
- The key components of technology industry used in the manufacturing in China are largely dependent on import from the US, for example over 90% of chips in PC and mobile are imported
- Among the China Tariff List, goods in the categories related to technology and industrial products are tariffed, which accounts for 51% of the total amount of tariffs. Therefore, companies in technology and industrial products industries tend to diversify supplier base or relocate manufacturing out of China as their countermeasures

Consumer goods and healthcare industries are less influenced:

- The materials or products related to consumer goods are less tariffed, which only takes up 2% of the total amount of tariffs. Also, the relocation cost of manufacturing is huge for healthcare companies in terms of regulation, business opportunities, etc. and they are less concerned about the labor cost

With respect to costs, the imposition of tariffs by the US and China has increased supply chain costs of nearly half of survey respondents by 10%, with a further 16% reporting their costs have increased by up to 30%

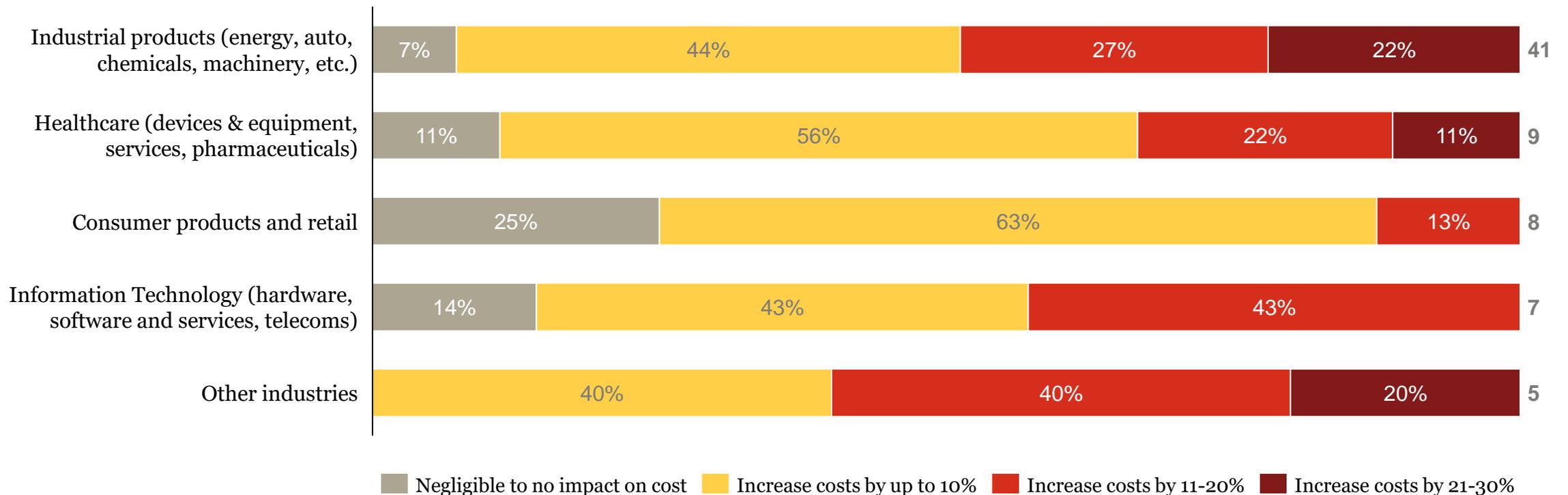
Q. How has the imposition of tariffs by the US and China affected costs associated with your supply chains?



N=70

The imposition of tariffs has significantly increased supply chain cost of most US companies in industrial products and IT sectors

Q. How has the imposition of tariffs by the US and China affected costs associated with your supply chains?

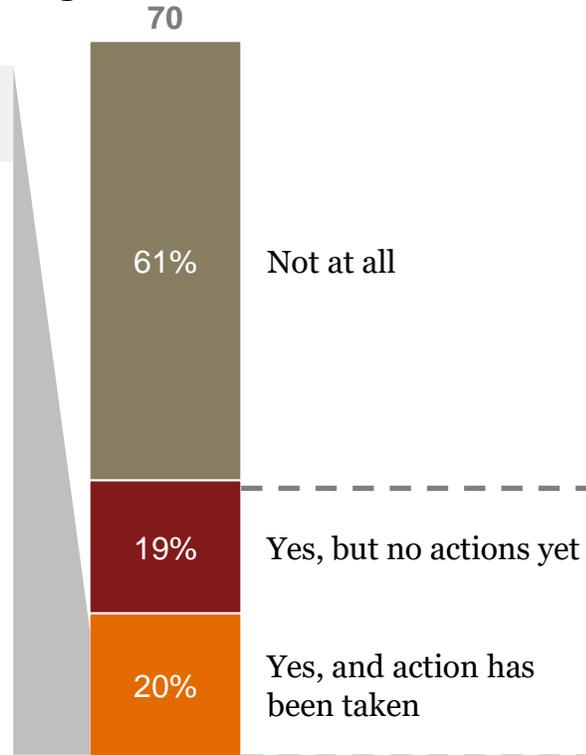
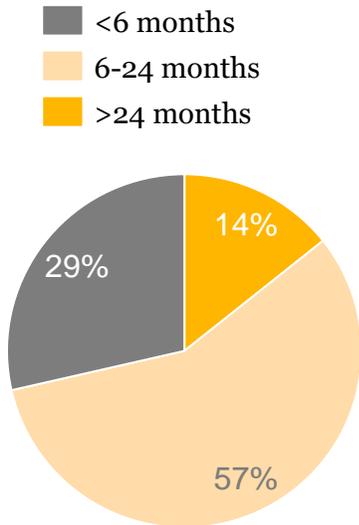


N=70

Only about 20% of survey respondents say they have relocated manufacturing outside of China to mitigate the impact of the increase in tariffs

Q. Is your company considering, or has it already begun the process of relocating manufacturing or sourcing outside of China?

Sub Q1. How long has the process be on?



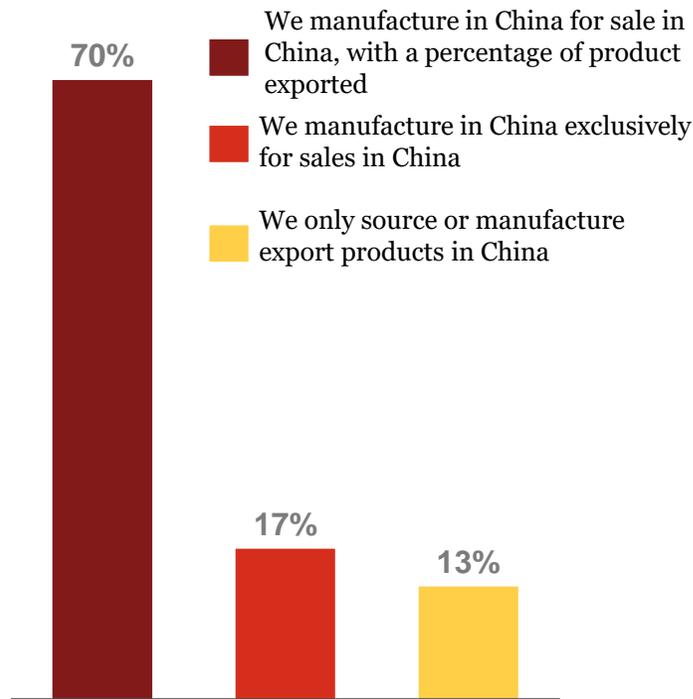
Sub Q2. If applicable, why is your company relocating manufacturing /sourcing outside of China?



N=70

A manufacturing in China for sale in China (“In China, for China”) strategy has been an important component of the supply chain strategy of US companies in China

Q. Which of the following best describes your company’s operations in China?



N=70

Source: 1. 2019 China Business Report, AmCham Shanghai 2. Nationmaster 3. The World Bank

Key considerations behind manufacturing/sourcing “in China for China”

Increasing China market demand and stable profitability: Despite deteriorating US-China trade relations, companies mostly *weathered the economic tumult* in 2018. 76.8% members reported they were profitable in 2018, as compared with 76.5% in 2017 and 76.9% in 2016¹

Higher manufacturing efficiency in China: A comparison of China’s labor productivity and that of 4 ASEAN countries finds that a Chinese laborer can manufacture (Manufacturing Value Added per capita: ~US \$1850) goods that have approximately the same value as goods manufactured by 4 workers from 4 ASEAN countries combined.²

Better logistics services in China: According to the World Bank, with respect to logistics performance, China’s is *far ahead* of all ASEAN manufacturing countries in terms of infrastructure, international shipping, quality and competence, tracking, and punctuality of logistics.

Interview Feedback

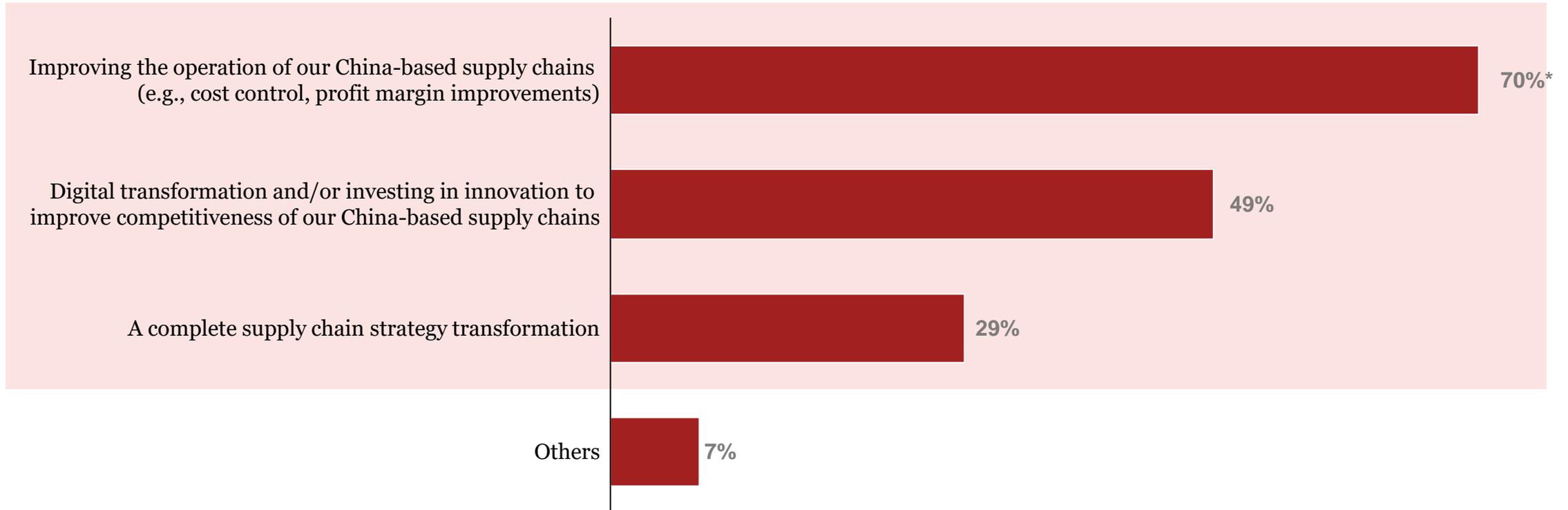
“We built our manufacturing capacity in Shanghai for two reasons: 1) it’s **close to the customers** despite the high cost; 2) high **efficiency of supply chain**. Also, we are investing more on manufacturing in China to meet the **increasing demands**.”

“There are six suppliers in China as well as manufacturing bases. The **products manufactured are mainly supplied to China**, with limited volume for export.”

“Everything that we **produces in China are sold in China**. We only import limited volume as required to support our production.”

To improve their overall competitiveness, survey respondents have supply chain are focusing on improving the operation of their supply chains or undertaking a digital transformation.

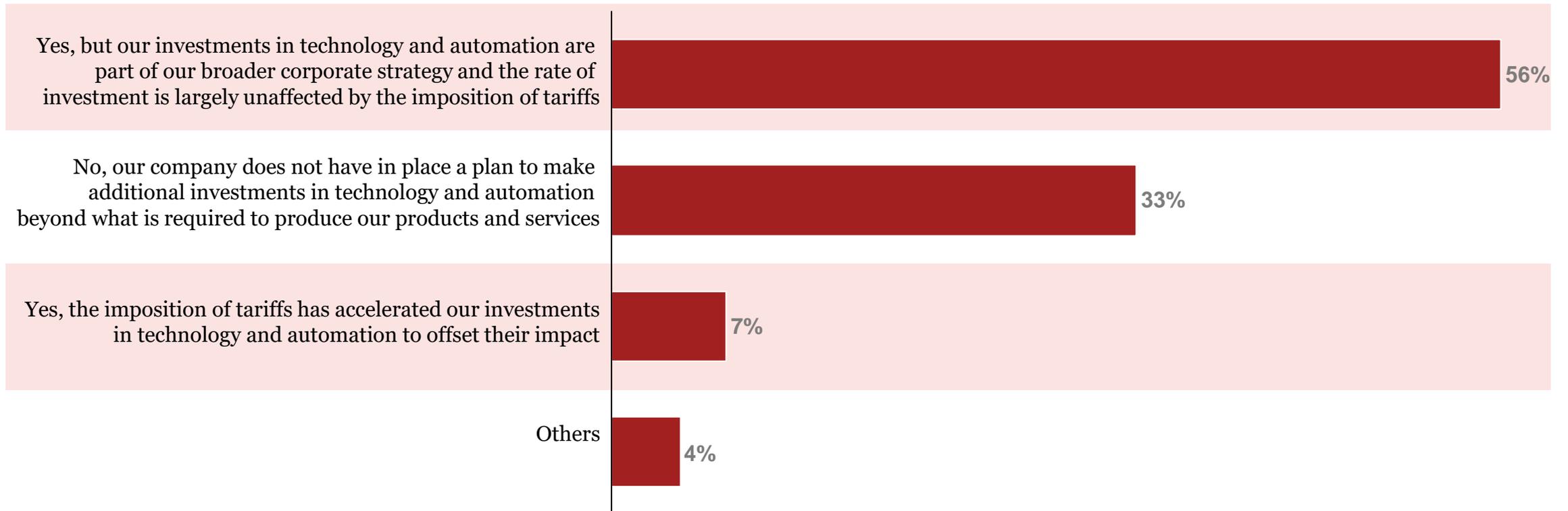
Q. What supply chain strategy and/or operational support is your company considering, or planning undertake in the China market over the next 1-3 years? (Select all that apply)



N=70; *notes: stands for the number of responses based on multiple selections

63% of survey respondents are investing in new technologies to automate manufacturing and improve competitiveness

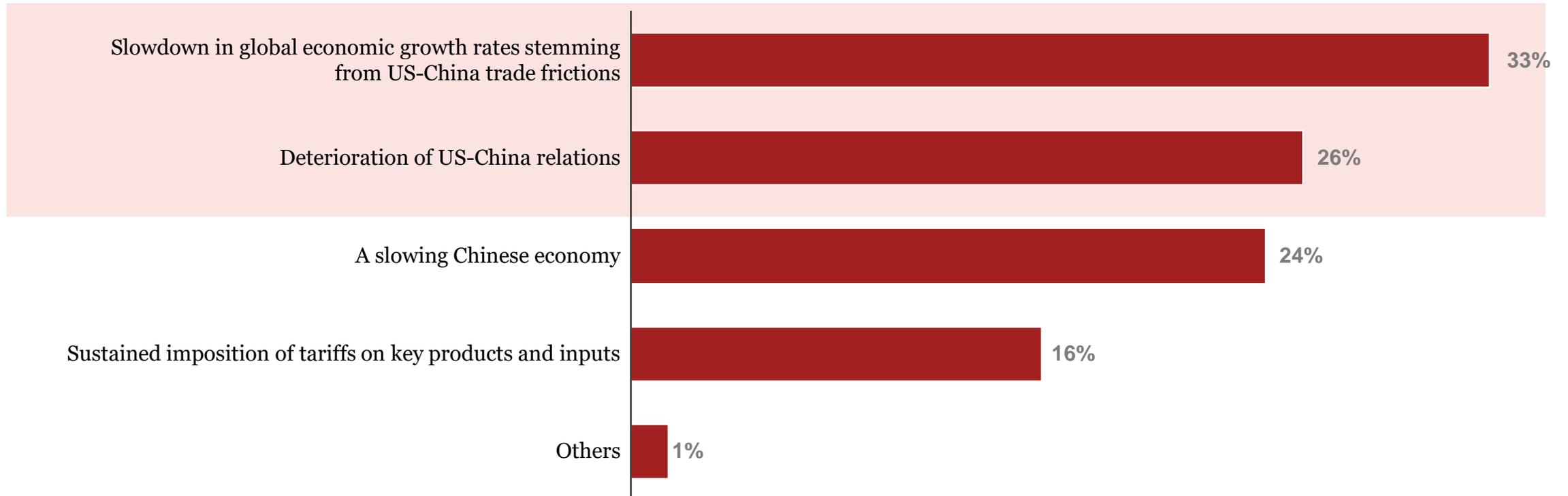
Q. Is your company investing in new technologies to upgrade and automate manufacturing to raise productivity and offset the impact of tariffs?



N=70

A slowdown in global economic growth from US-China trade friction and a deterioration of bilateral relations are the top concerns of 60% of respondents with respect to their supply chain operations in China over the next 3 years

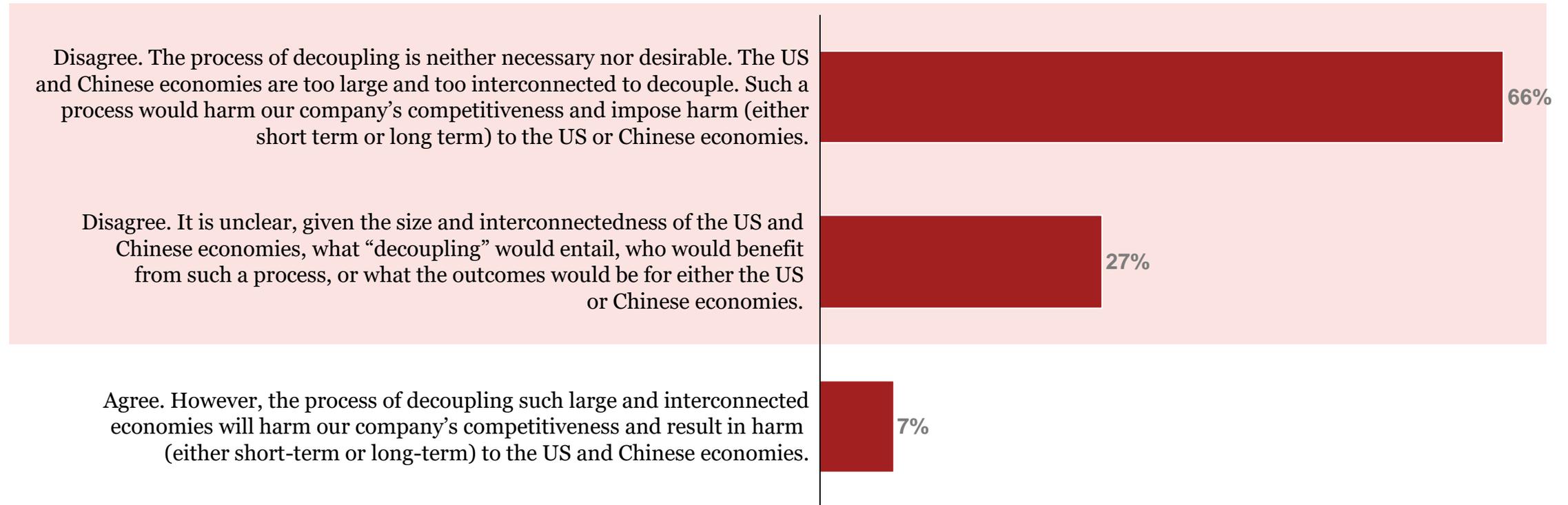
Q. Which of the following is most concerning for your company's supply chain operations in the China market over the next 1-3 years?



N=70

93% of companies agree that the US and Chinese economies are too large and too interconnected to decouple

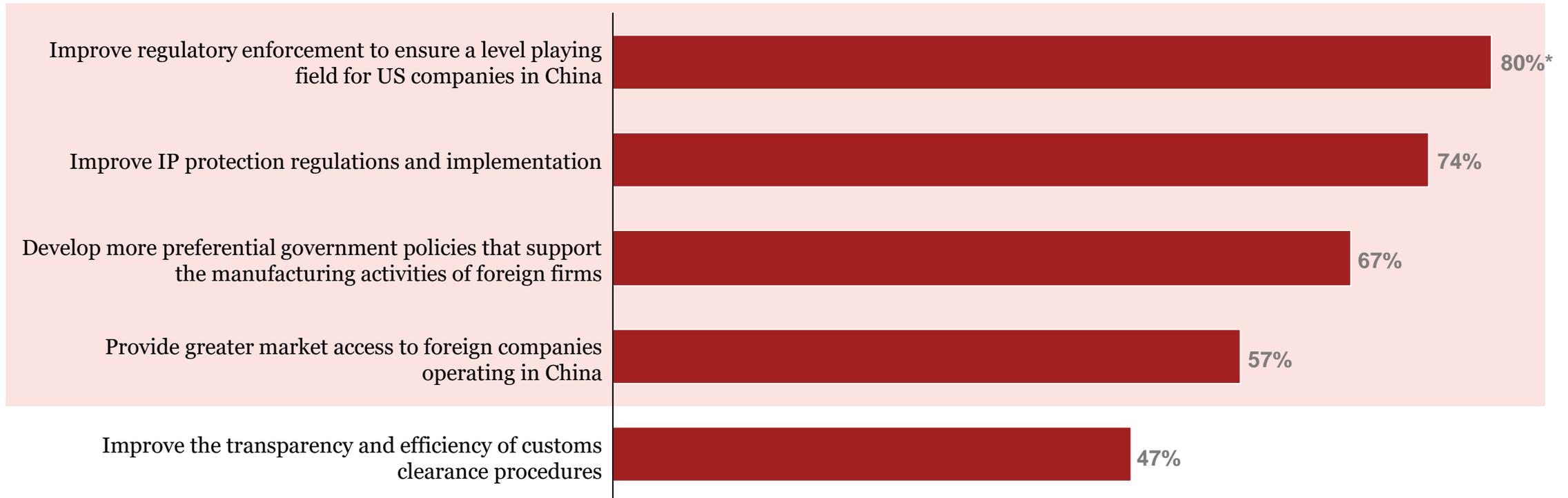
Q. Please select the option which best aligns with your company's views on the following statement: "The US and China can decouple their two economies."



N=70

Respondents say that improvements in the regulatory environment in areas like enforcement, IP protection, preferential policies for foreign manufacturers, and market access would encourage them to invest more in China

Q. What actions by the Chinese government would encourage your company to maintain operations in China (if relocating), or invest more in the China market? (Select all that Apply)



N=70; *notes: stands for the number of responses from multiple choices

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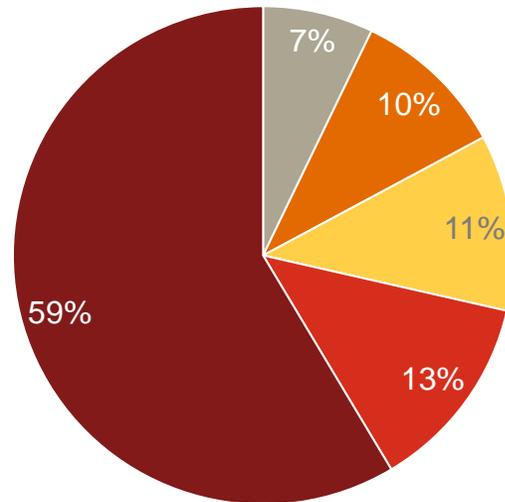
Appendix B:

Demographic Information of Survey Respondents



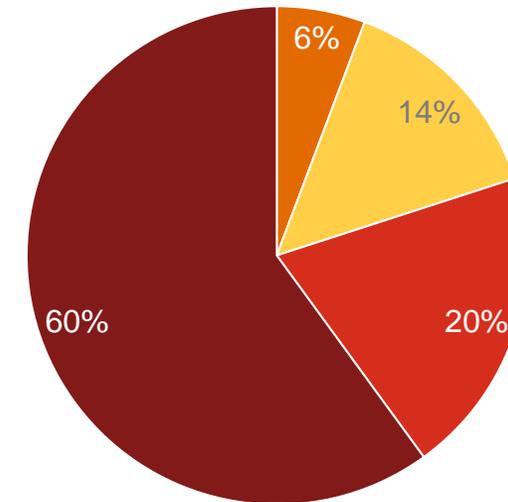
The October 2019 survey received responses from 70 US companies. The survey targeted senior executives from large US companies* in China, from industries like industrial products, consumer business, healthcare, and information technology

Q. Which is the core industry of your business in China?



- Industrial products (auto, energy, chemicals, machinery, etc.)
- Healthcare (devices & equipment, pharmaceuticals)
- Consumer goods and retail
- Information technology (hardware, software, telecoms)
- Other industries (services, agriculture or others)

Q. What is your position at your company?

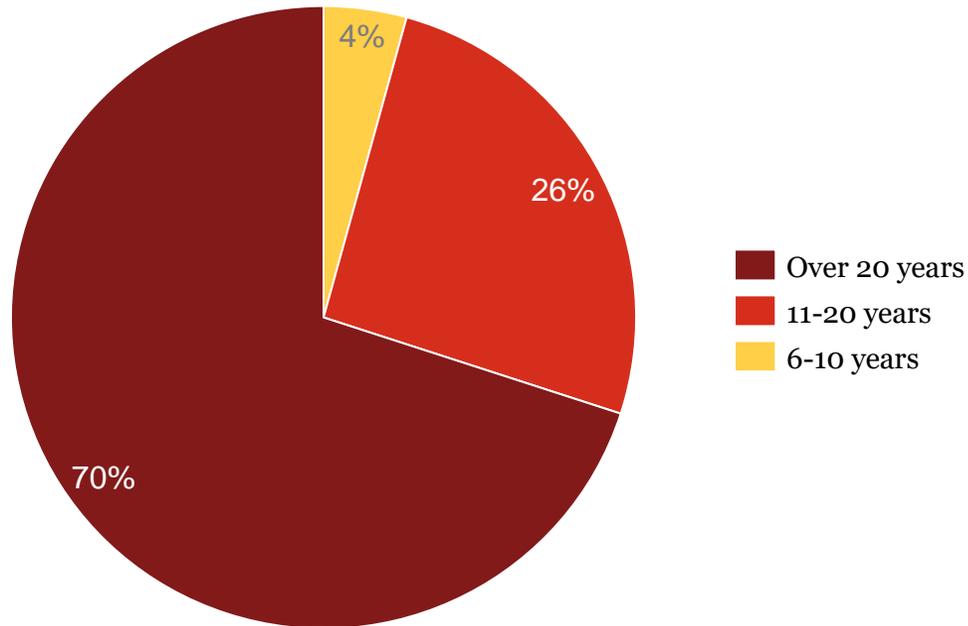


- Senior-level country manager (CEO, VP, GM, MD, chief representative)
- Director of government affairs or public relations department
- Director of operations, procurement, or supply chain management department
- Director/functional leader of other department

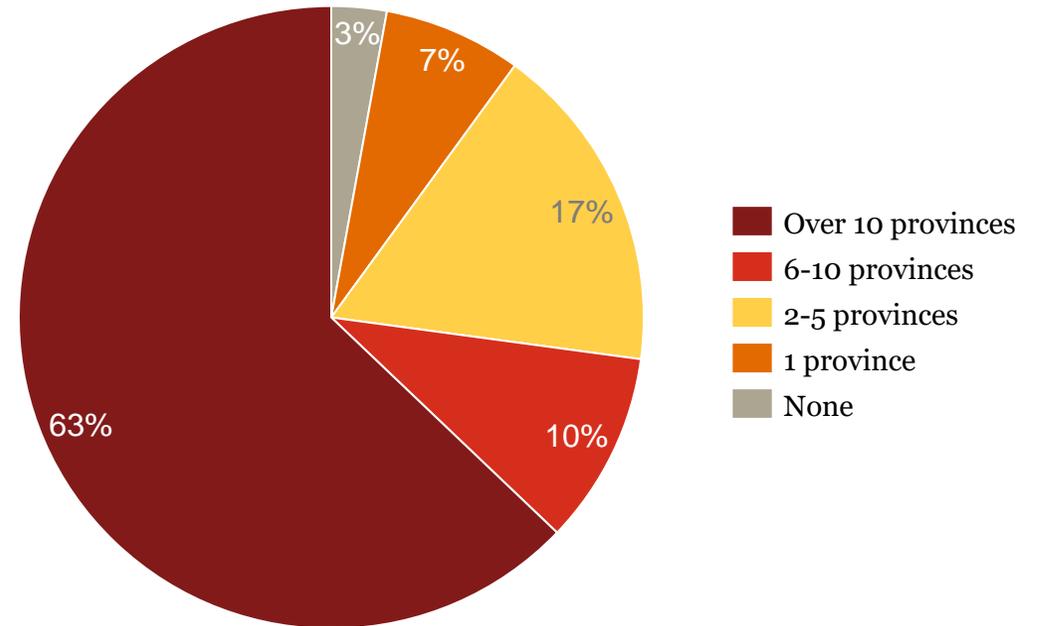
N=70 *Notes: global revenue of survey companies are typically more than USD1 billion

96% of the companies surveyed in October 2019 have been active in China for over 10 years and 63% have active operations in 10+ provinces in China

Q. How long has your company been operating in China?



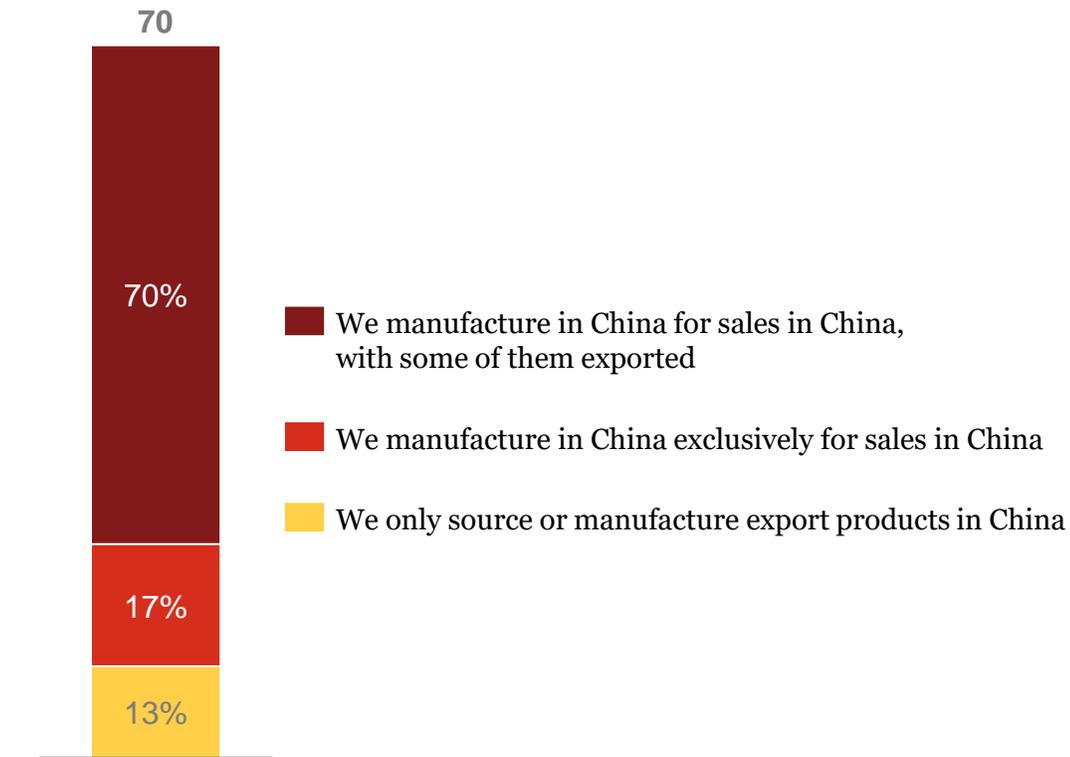
Q. In how many provinces in China does your company have active operations?



N=70

70% of respondents to the October 2019 survey are manufacturing in China for sale in China with a percentage of their product being exported. 17% manufacture in China exclusively for sale in China, while 13% of companies are positioning China as its global supply base

Q. Which of the following best describes your company's operations in China?



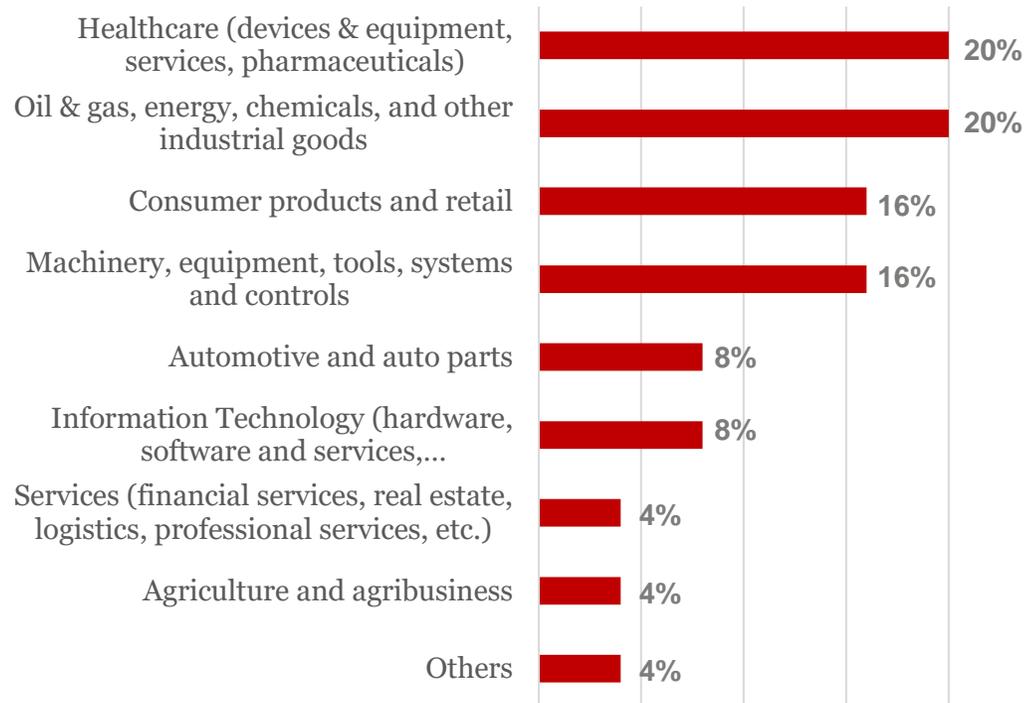
N=70

Q. If your company has export business, which of the following are applicable?

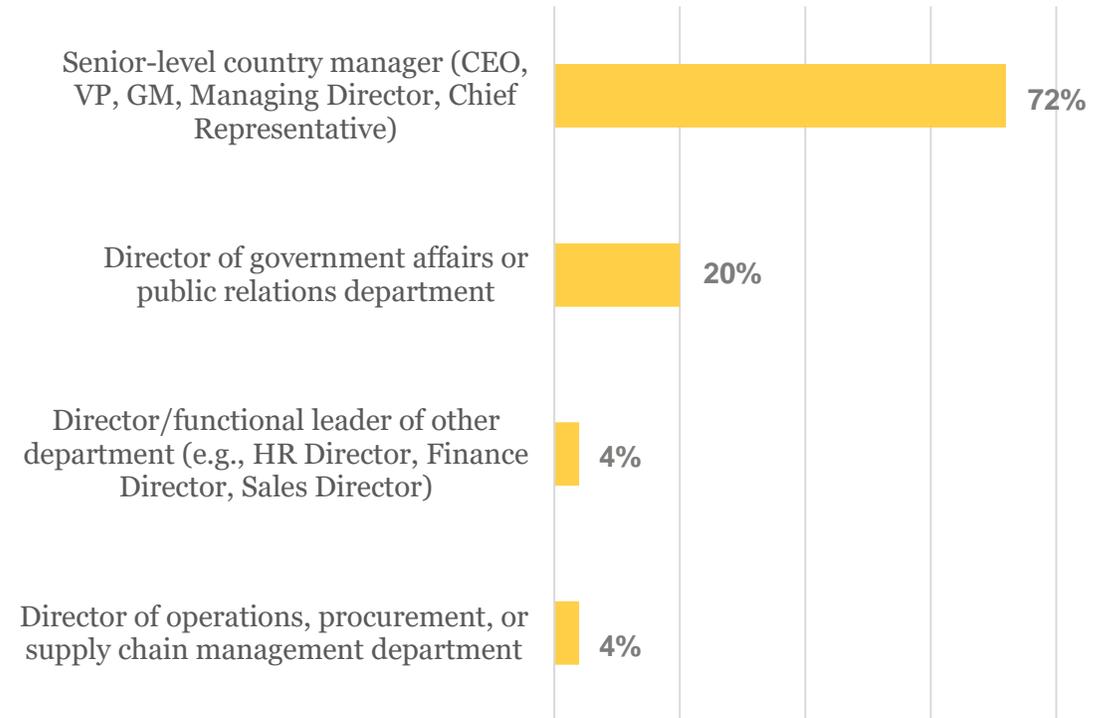


The March 2020 respondents represent a subset of the October 2019 survey respondents. Companies from a broader range of industries responded, and a larger percentage of respondents were senior leadership.

Q. Your company's China operations are primarily categorized as:



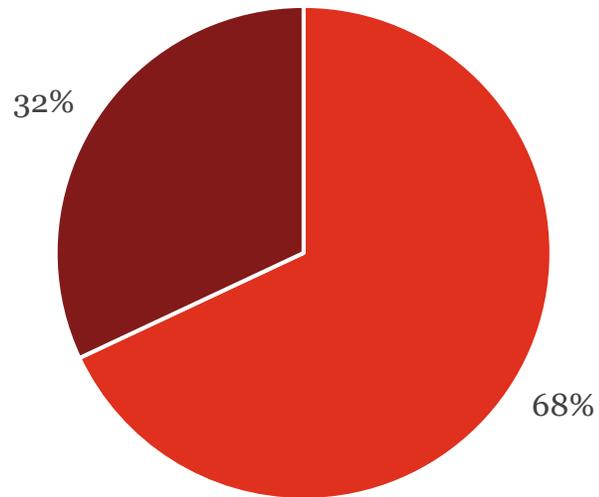
Q. What is your position at your company?



N=25

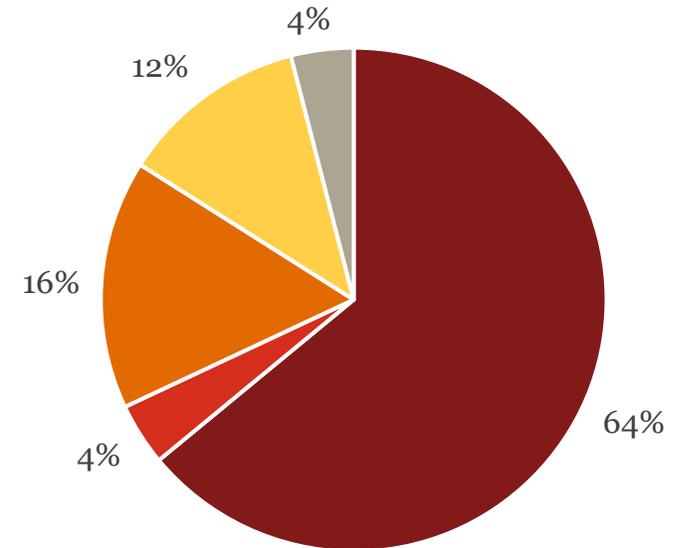
All of the March 2020 respondents have more than 10 years of experience in China, with a majority having operated in China for over 20 years. Over 80% have active operations in multiple provinces in China

Q. For how long has your company been active in the China market?



■ More than 20 years ■ Between 11 and 20 years

Q. In how many provinces in China does your company have active operations?



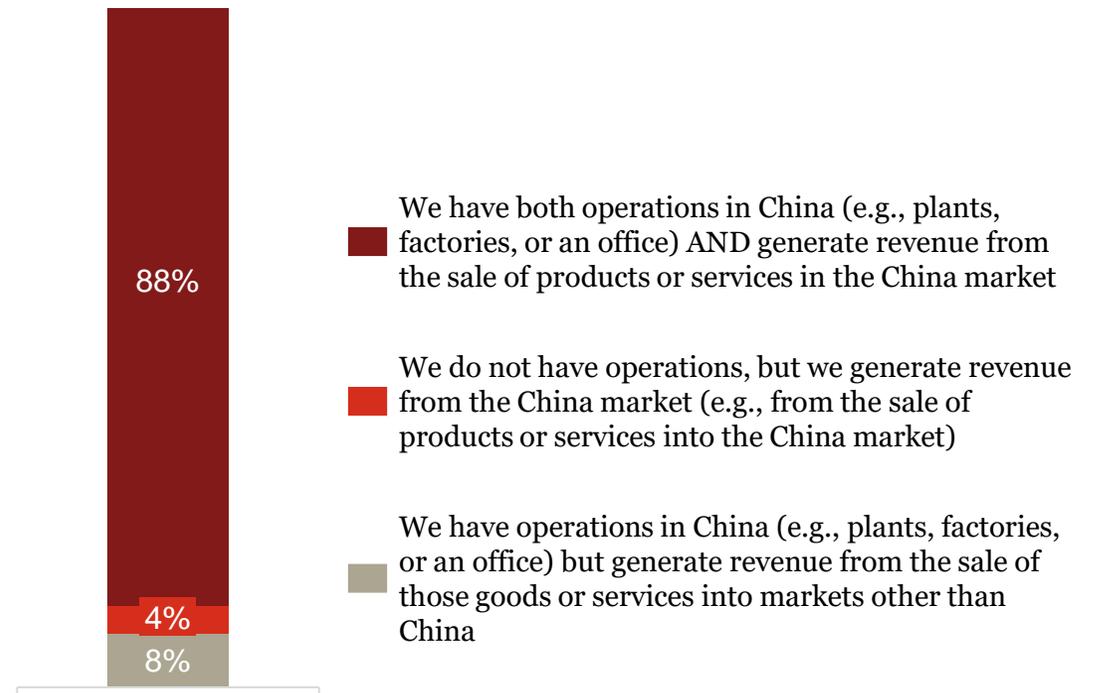
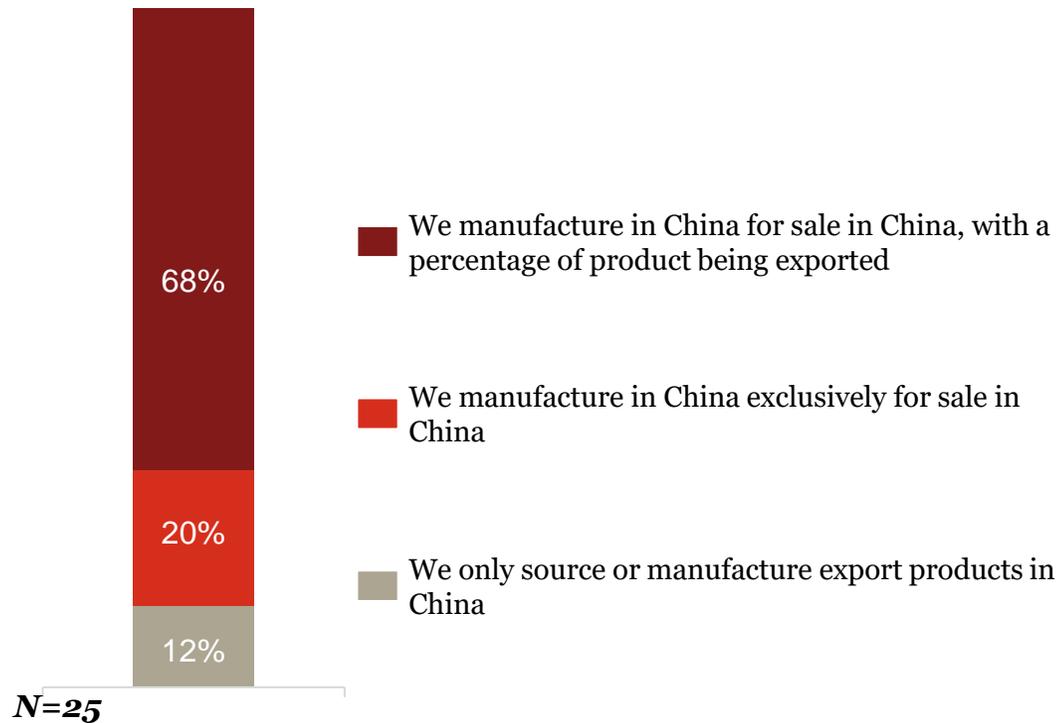
■ More than 10 provinces ■ 6 to 10 provinces
■ 2 to 5 provinces ■ 1 province
■ No operations in China

N=25

68% of the March 2020 respondents manufacture in China for sale in China with a percentage of product being exported; the majority of the respondents also own plants, factories or office in China

Q. Which of the following is most representative of your company's operations?

Q. Which of the following best describes your company's operations in China?



Thank you!

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