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U.S.-CHINA TRADE WAR

# American firms on mainland suffer under higher tariffs

## Rising costs and delayed investment the result as companies consider new strategies, survey finds

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Three-quarters of US companies operating in China said the escalating trade war between Washington and Beijing was hurting their business, according to a survey by the American Chamber of Commerce in China and its sister organisation in Shanghai.

More than half of respondents said higher tariffs imposed by both countries were cutting into demand for their products and 42 per cent said they were experiencing higher manufacturing costs. Of those surveyed, 38 per cent said they were seeing higher sales prices for their products.

**41%**

Percentage of US firms that are considering relocating or have moved manufacturing facilities outside China

The survey comes with the United States having raised tariffs to 25 per cent on a further US$200 billion of Chinese imports and preparing to add tariffs to nearly all remaining Chinese-made goods as soon as July. China is set to put retaliatory tariffs in place on June 1.

"The negative impact of tariffs is clear and hurting the competitiveness of American companies in China," AmCham China and AmCham Shanghai said in a joint statement.

The survey interviewed 239 member companies between May 16 and 20, with nearly 62 per cent of them coming from manufacturing-related industries.

The world's two largest economies have been locked in a trade war since last year, placing tariffs on each other's goods and ratcheting up the rhetoric. US President Donald Trump is trying to force China to change years of trade and industrial policies that he claims are unfair.

China and the US appeared close to a deal as recently as late April, but the Trump administration abruptly reversed course earlier this month and raised tariffs from 10 per cent to 25 per cent on thousands of Chinese goods.

As levies have increased, a third of companies said they were delaying or cancelling investment decisions, according to AmCham.

US foreign direct investment grew at 24 per cent between January and April, down from the growth pace in the first quarter of last year.

Of those surveyed, 35 per cent said they were adopting an "in China, for China" strategy, localising manufacturing and sourcing for the Chinese market, rather than exports.

"Such a strategy constitutes a rational choice for many companies to insulate themselves from the effects of tariffs while maintaining their ability to pursue domestic market opportunities," the chambers said.

More than half of respondents said they had not experienced an increase in retaliatory measures other than tariffs by the Chinese government, but one in five said they had seen increased inspections and slower customs clearance of their products.

At the same time, the tariffs had not been encouraging companies to move jobs back to the US, according to AmCham.

Of those surveyed, 41 per cent said they were considering relocating or had moved manufacturing facilities outside China, but only 6 per cent were mulling a return to the US. Southeast Asia was the top destination, followed by Mexico, according to the survey.