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# China Risk As Investment Risk
## Business Risk for U.S. Companies

### Executive Summary

Strive believes that China risk is the most pressing risk investors face.

- American companies rely on China for raw materials, manufacturing, and consumer markets. This is risky—the CCP's policymaking and enforcement is opaque and unpredictable, and the CCP views U.S. companies in China as tools to promote its geopolitical goals.
- The CCP dictates the terms on which American companies can operate, including imposing forced technology transfers, censorship policies, regulatory policies, sanctions, and tariffs that harm long-term shareholder value.
- American companies must mitigate China risk now, before geopolitical tensions rise and these risks materialize into losses for shareholders.
- Investors should examine their exposure to China risk by assessing not only their holdings in China-based companies, but in U.S.-based companies with operations in China as well.

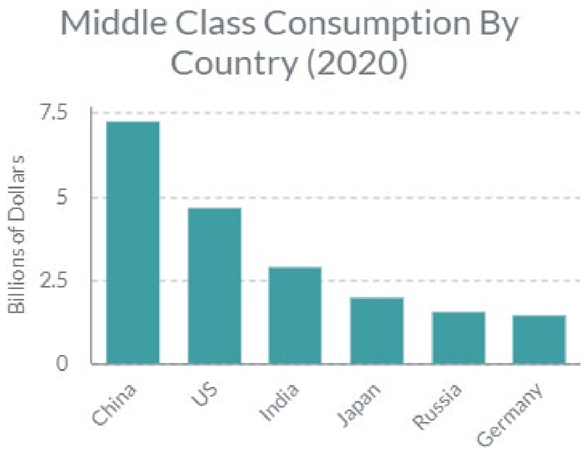
### Background

American investors are largely unaware of the risks of investing in China. To the extent they are, their focus to date has been mostly limited to reducing their exposure to Chinese companies themselves. While this concern is valid, even investors who invest exclusively in U.S.-based companies face China-related risks.

Strive believes that China risk is investment risk. The economic risks to American companies that rely on China for raw materials, manufacturing, or access to its consumer market are significant. We believe few asset managers have adequately considered these risks, often because of their own interests in maintaining good relations with the CCP. This paper fills that gap by analyzing the risks to U.S. companies that do business in China and assessing financial implications for investors.

## The Risks Are Real — And Growing

American businesses have become increasingly reliant on China in recent decades, endangering U.S. investors. China is the United States' largest goods trading partner,[1] and provides critical inputs to American businesses, from raw materials to labor to manufacturing capabilities. American companies have also expanded operations into China to gain access to its growing middle-class consumer market. In the 1950s, 90% of the global middle-class lived in Europe and North America; now, over 20% reside in China.[2] Today, China represents the single largest market for middle-class consumption in the world.[3]




Source: https://www.brookings.edu/wp-content/uploads/2020/10/FP_20201012_china_middle_class_kharas_dooley.pdf

But these opportunities have not come without risks. The country's decision-making is opaque, particularly after President Xi secured his norm-breaking third term last year. And the CCP is not afraid to use its power, including over Western businesses, to further its

[1] Office of the United States Trade Representative, "The People's Republic of China," https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china.
[2] Khara, Homi and Dooley, Meghan, "China's Influence on the Global Middle Class," *Brookings Institute*, October 2020, https://www.brookings.edu/wp-content/uploads/2020/10/FP_20201012_china_middle_class_kharas_dooley.pdf
[3] *Id.*

political aims. The CCP's heavy hand poses significant risks to shareholders of Western companies. Some of these policies, and the risks they present to long-term shareholder value, are discussed in this report, including:

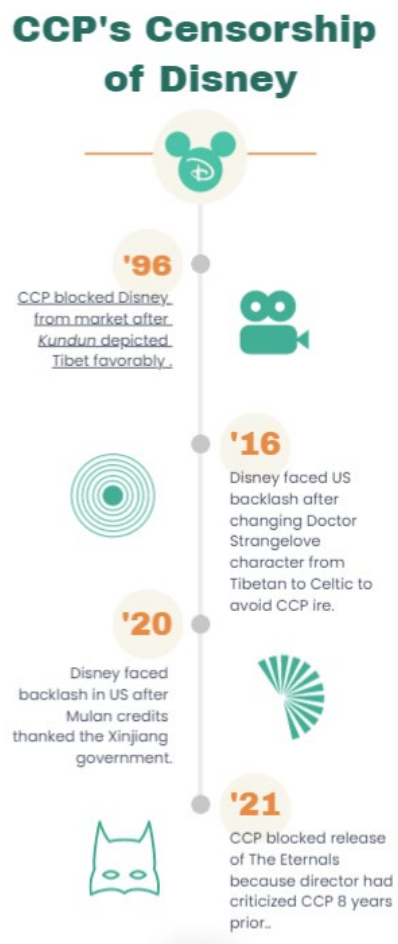
- Censorship Policies
- Technology Transfer Policies
- Unpredictable Health, Safety, and Security Policies
- Made In China Policies and Preferences
- Sanctions & Tariffs

**Censorship Policies:** China's censorship policies have proven challenging to navigate, as Western companies are forced to capitulate to CCP demands or risk losing access to the Chinese market.[4] When then-Houston Rockets General Manager Daryl Morey tweeted a personal message supporting democracy in Hong Kong, the CCP retaliated by having the Chinese Basketball Association cease all cooperation with the NBA and halting the broadcast of its games.[5] When Swedish company H&M issued a statement committing to sourcing cotton from outside Xiangjiang to avoid using Uighur forced labor, the company was wiped from the Chinese internet virtually overnight; its Chinese sales dropped 40%.[6]

There is perhaps no company more frequently embroiled in controversy over the CCP's censorship policies than Disney. In 1996, the company was blocked from the Chinese film market after *Kundun* portrayed the CCP's brutal treatment of the Dalai Lama in Tibet.[7] Then-Disney CEO Michael Eisner was forced to apologize, calling it a "stupid mistake" and "a form of insult to our friends." More recently, Disney faced backlash in the US for

[4] Woo, Stu. "China Disappeared H&M From Its Internet, Splitting Fashion Industry Group." *WSJ*, May 22, 2021. https://www.wsj.com/articles/chinas-campaign-against-h-m-divides-fashion-industry-group-11621686650.
[5] Yglesias, Matthew. "Daryl Morey's Hong Kong Tweet: Chinese Backlash and Political Reactions." *Vox*, October 7, 2019. https://www.vox.com/2019/10/7/20902700/daryl-morey-tweet-china-nba-hong-kong.
[6] Wei, Daniela, Jinshan Hong, Yasufumi Saito, and Adrian Leung. "China Canceled H&M. Every Other Brand Needs to Understand Why." *Bloomberg.Com*, March 13, 2022. https://www.bloomberg.com/graphics/2022-china-canceled-hm/.
[7] Power, Shannon. "Disney's China Problem." *Newsweek*, June 16, 2023. https://www.newsweek.com/disney-china-problem-little-mermaid-racism-diversity-bob-iger-1805992

censoring TV shows and movies to avoid antagonizing the CCP,[8] and for thanking the genocidal Xinjiang government in its 2020 *Mulan* credits. It has also had movies blocked by the CCP for hiring directors that had previously been critical of the Chinese government.[9]




[8] Wong, Edward. "'Doctor Strange' Writer Explains Casting of Tilda Swinton as Tibetan." *The New York Times*, April 26, 2016. https://www.nytimes.com/2016/04/27/world/asia/china-doctor-strange-tibet.html.
[9] Hall, Phil, "Why Is China Blocking The Release of Disney's 'The Eterna's,'" *Yahoo Finance*, Oct. 11, 2021, https://finance.yahoo.com/news/why-china-blocking-release-disneys-141515735.html

Western companies who do business in China increasingly face the uncomfortable choice of aligning with the CCP's values or their own. Whichever choice they make will leave some clients, employees, and shareholders disappointed.

**Technology Transfer Policies:** Western companies are also vulnerable to the CCP's efforts to drive self-sufficiency, including its desire to obtain access to Western technology. To gain entry to the Chinese market, many Western companies must agree to "partner" with a Chinese company under the CCP's watch in a joint venture. In many cases, these companies are required to share intellectual property and technical information with their Chinese affiliate.[10] Other times, Chinese officials pressure companies to divulge trade secrets and sensitive technology as part of a regulatory regime to ensure product safety and compliance.[11] Once the Chinese government has obtained the technical know-how, they often use it to launch a competitive, China-based product and drive the Western firm out of the market.

[10] Office of the United States Trade Representative, "2017 Special 301 Report," https://ustr.gov/sites/default/files/301/2017%20Special%20301%20Report%20FINAL.PDF
[11] Mozur, Paul, and Jane Perlez. "China Quietly Targets U.S. Tech Companies in Security Reviews." *The New York Times*, May 16, 2016. https://www.nytimes.com/2016/05/17/technology/china-quietly-targets-us-tech-companies-in-security-reviews.html.

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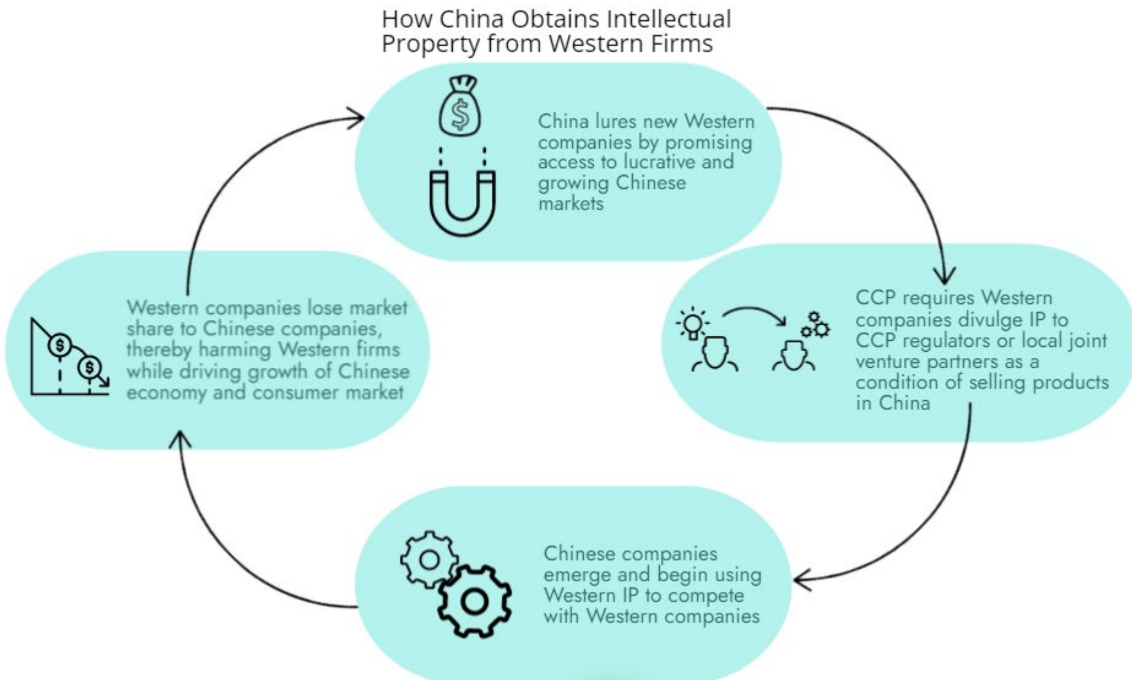


The wind turbine industry provides a good example. In 2005, the CCP mandated that 70% of all wind turbines installed in China be made in China. The then-leader in the Chinese market, Spanish company Gamesa, moved much of its manufacturing to China, training over 500 suppliers.[12] Once the suppliers were trained, however, Chinese-owned companies began manufacturing wind turbines using the same suppliers, driving down both prices and Gamesa's market share. By the end of 2022, its wind turbines were unprofitable; the company reported an annual loss of $965 million dollars and laid off more than 10% of its workers.[13] China's wind turbine companies, on the other hand, are now looking to expand and export their products.

[12] Bradsher, Keith. "How China Obtains American Trade Secrets." *The New York Times*, January 15, 2020. https://www.nytimes.com/2020/01/15/business/china-technology-transfer.html.
[13] Reed, Stanley. "Europe's Wind Industry Is Stumbling When It's Needed Most." *The New York Times*, November 22, 2022. https://www.nytimes.com/2022/11/22/business/wind-power-europe.html.

Tesla paid the price of doing business in China too. It entered the Chinese market in 2014 and initially enjoyed substantial success. But trouble soon followed. In 2019, Tesla accused a former engineer of downloading source code to hand over to Chinese competitor Xpeng.[14] By 2021, five CCP agencies summoned Tesla over alleged regulatory issues in what some commentators described as a "ruse" intended to "force [Tesla] to reveal its intellectual property to the Chinese government."[15] The CCP also issued vehicle recalls[16] and allowed Tesla to be pilloried in state-sponsored press, while promoting Chinese-based competitors through preferential terms on land, low-interest loans, and state subsidies.[17] By 2022, Tesla, once ranked the most desirable electric vehicle by Chinese consumers, fell to 10th place, as Chinese-based manufacturers like Xpeng, BYD and Li Auto rose.

These high-profile examples are not isolated events. Many Western companies are afraid to speak out against Chinese theft of their intellectual property for fear of retribution by the CCP.[18] But according to a 2019 CNBC study, "one in five North American-based corporations on the CNBC Global CFO council says Chinese companies have stolen their intellectual property."[19]

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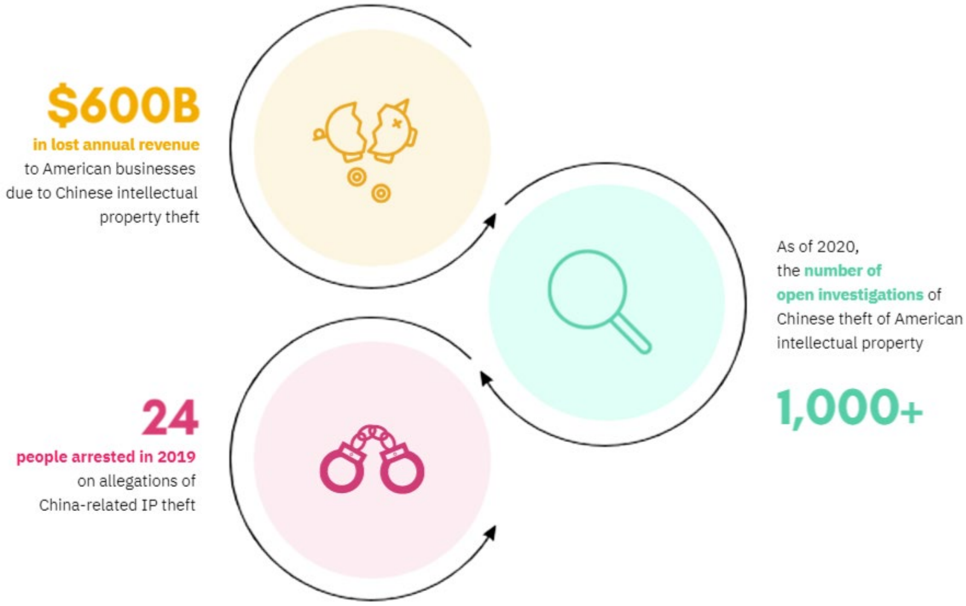
[14] Lambert, Fred. "Tesla Settles Lawsuit against Engineer Who It Claims Stole Autopilot Source Code for Chinese Competitor." *Electrek*, April 16, 2021. https://electrek.co/2021/04/16/tesla-settles-lawsuit-against-engineer-who-stole-autopilot-source-code-chinese-competitor/.
[15] "1 in 5 U.S. Companies Said China Stole Their Intellectual Property in 2019: Survey," February 13, 2021. https://techstartups.com/2021/02/13/1-5-u-s-companies-said-china-stole-intellectual-property-2019-survey-showed/.
[16] Kharpal, Arjun. "Tesla Recalls 435,000 Cars in China over Rear Light Issue and Will Issue Software Update." *CNBC*, December 1, 2022. https://www.cnbc.com/2022/12/01/tesla-recalls-435000-cars-in-china-over-rear-light-issue.html#:~:text=Investing%20Club-,Tesla%20recalls%20435%2C000%20cars%20in%20China%20over%20rear,and%20will%20issue%20software%20update&text=A%20Tesla%20store%20is%20seen,China%2C%20Feb%201%2C%202022.&text=Tesla%20plans%20to%20recall%20more,Chinese%20market%20regulator%20said%20Thursday.
[17] Schuman, Michael. "The Electric-Car Lesson That China Is Serving Up for America." *The Atlantic*, May 21, 2021. https://www.theatlantic.com/international/archive/2021/05/joe-biden-china-infrastructure/618921/.
[18] Bradsher, Keith, "How China Obtains American Trade Secrets." *The New York Times*, January 15, 2020. https://www.nytimes.com/2020/01/15/business/china-technology-transfer.html.
[19] Rosenbaum, Eric. "1 in 5 Corporations Say China Has Stolen Their IP within the Last Year: CNBC CFO Survey." *CNBC*, March 1, 2019. https://www.cnbc.com/2019/02/28/1-in-5-companies-say-china-stole-their-ip-within-the-last-year-cnbc.html.


Source: CNBC Global CFO Council Poll, 2019

The theft adds up: The National Counterintelligence and Security Center estimates that China's intellectual property theft costs American investors between $300 billion and $600 billion a year.[20] The FBI has identified Chinese theft of U.S. intellectual property as the biggest law enforcement threat to the United States, with over 1,000 investigations open over its 56 regional offices in 2020.[21] The FBI arrested 24 people in connection with China-related IP theft in 2019, including Chinese diplomats and former CIA officials.[22]

[20] "China Theft of Technology Is Biggest Law Enforcement Threat to US, FBI Says." *The Guardian*, February 6, 2020. https://www.theguardian.com/world/2020/feb/06/china-technology-theft-fbi-biggest-threat.
[21] *Id.*
[22] *Id*.




American companies that do business in or with China should therefore be cautious of arrangements that may require sharing of sensitive intellectual property and trade secrets.

**Unpredictable Health, Safety and Security Policies:** China's health, safety and security policies have also presented substantial challenges to American businesses operating there, due in part to their unpredictability and in part because they are sometimes used to promote other national interests, including strengthening domestic businesses at the expense of foreign companies.

For example, in 2019 China introduced its "Unreliable Entity List," which allows the PRC's Ministry of Commerce to penalize foreign companies that pose a perceived threat to China's national interests, including by sanctioning the company, restricting exports, and revoking work permits.[23] In February 2023, American companies Raytheon and Lockheed Martin were deemed "unreliable entities" and sanctioned because their Taiwan sales were

[23] "Chinese Ministry of Commerce Places Two Companies on Its Unreliable Entity List for the First Time." *Davis Polk*, February 22, 2023. https://www.davispolk.com/insights/client-update/chinese-ministry-commerce-places-two-companies-its-unreliable-entity-list.

perceived as a threat to Beijing. Companies that have greater operations in China face even graver risk.

China has similarly used unequal enforcement of health and safety regulations to target Western businesses. After South Korea proposed the installation of an anti-missile system to counter threats from North Korea, for example, China retaliated by forcing Korean-owned Lotte Marts to close 75 of 99 of its China-based stores, citing violations of "fire safety regulations."[24] After Lithuania allowed Taiwan to open an embassy, China suspended imports of Lithuanian beef, dairy products, alcohol, and wood over an alleged "lack of documentation."[25] Foreign companies dispute the violations, but to little avail.

China's zero-Covid policy also devastated Western businesses as it shuttered retailers and manufacturers and upended supply chains.[26] The country's abrupt reopening caught businesses equally unprepared.[27] These policies have had concrete effects on American companies and their shareholders. The CCP's lockdown of a Shanghai factory, combined with other factors, caused Tesla to miss vehicle deliveries, plunging share prices 12%.[28] Lockdown-related riots at Foxconn's factory in Zhengzhou—the largest manufacturer of Apple iPhones in the world—cost Apple an estimated $1 billion a week.[29] American companies with China-based retail operations also suffered. China is Starbuck's second largest market. Its zero-Covid policies have led to between a 16 and 44% drop in China-

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[24] Hunter, Fergus, "Countering China's Coercive Diplomacy," *International Cyber Policy Centre*, Feb. 2023, https://ad-aspi.s3.ap-southeast-2.amazonaws.com/2023-02/Countering%20Chinas%20coercive%20diplomacy_1.pdf?VersionId=HZDwezgnFY5eitQqtEMEU7WuFci8S75z

[25] BBC News. "China Halts Lithuania Beef, Dairy and Beer Imports amid Taiwan Row." *BBC News*, February 11, 2022. https://www.bbc.com/news/business-60343316.

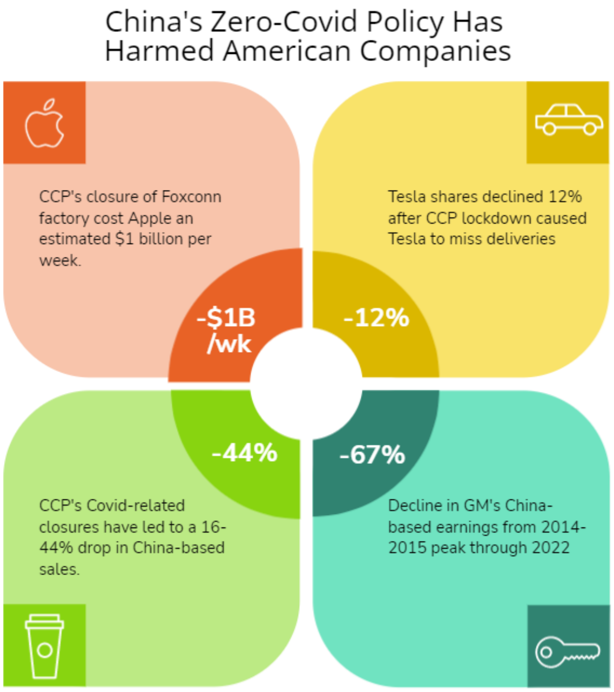
[26] https://www.wsj.com/articles/chinas-zero-covid-policies-cause-a-traffic-jam-in-vietnam-as-farmers-suffer-11642503601.

[27] Mandhana, Niharika, and Lam Le. "How China's Zero-Covid Policies Are Disrupting Cross-Border Trade." *WSJ*, January 19, 2022. https://www.wsj.com/articles/chinas-zero-covid-policies-cause-a-traffic-jam-in-vietnam-as-farmers-suffer-11642503601.

[28] Kharpal, Arjun. "China Risks Loom over U.S. Tech Giants Tesla and Apple as Share Prices Plunge." *CNBC*, January 4, 2023. https://www.cnbc.com/2023/01/04/tesla-and-apple-face-china-risks-as-share-prices-plunge.html.

[29] Yerushalmy, Jonathan. "Zero-Covid: Five Charts That Show How Restrictions Are Throttling the Chinese Economy." *The Guardian*, December 1, 2022. https://www.theguardian.com/world/2022/dec/01/zero-covid-five-charts-that-show-how-restrictions-are-throttling-the-chinese-economy.

based sales over the last four quarters.[30] Notably, the company continues to face Covid-related headwinds in China even after restrictions were lifted.[31] General Motors' Chinese operations and joint ventures similarly suffered a 67% decline in earnings from their peak of over $2 billion in 2014 and 2015, with Covid-related disruptions at least partially to blame.[32]




[30] Seiler, Geoffrey. "Starbucks: China Is The Key Moving Forward." *Seeking Alpha*, April 14, 2023. https://seekingalpha.com/article/4594182-starbucks-china-is-the-key-moving-forward#:~:text=It%20has%206%2C100%20stores%20spread,by%20the%20end%20of%202025.
[31] Sophia, Deborah Mary. "Starbucks' Grande-Sized Sales Drop in China Squeezes Profits." *Reuters*, February 3, 2023. https://www.reuters.com/business/retail-consumer/starbucks-misses-quarterly-sales-estimates-china-weakness-weighs-2023-02-02/.
[32] Wayland, Michael. "General Motors' China Business Is Hurting, and It's Not Just Because of Covid." *CNBC*, March 17, 2023. https://www.cnbc.com/2023/03/17/general-motors-china-problems.html.

Every country, of course, has laws and regulations that companies must adhere to. But what makes China unique is that policy changes are often rapid and unpredictable, and at times targeted at Western businesses. As the Wall Street Journal has explained:

> For decades, scholars, diplomats, and business executives have sought clues on the Communist Party's inner workings by painstakingly poring over government documents, state-media reports and imagery of officials' public appearances. **China specialists often describe such work as "tea-leaf reading" or Pekingology, the Chinese equivalent of Kremlinology**. Since taking power in 2012, Mr. Xi has reshaped the structures of power around himself in ways that have made the tea leaves increasingly difficult to parse. That process accelerated over the past year as the Chinese leader worked to stack the leadership with his allies and took a norm-breaking third term as general secretary.[33]

Coupled with the CCP's tightening control over the private sector, the unpredictable nature of these policies makes doing business in China particularly risky for Western firms.

**Made In China Policies and Preferences:** American companies also face stiffening competition from local brands. In the past, Chinese consumers were willing to pay a premium for foreign brands, considering them of higher quality and prestige.[34] Those preferences have largely shifted. According to a survey conducted in 2020, 66 percent of respondents said they preferred local brands, up from 61 percent the year before. By contrast, just 28 percent said they preferred foreign brands, down two percentage points from the year before.[35] A 2021 study showed that the number one reason Chinese consumers chose local

[33] Wong, Chun Han, and Liza Lin. "China's Opaque Decision-Making Confounds Business, Governments." *WSJ*, January 9, 2023. https://www.wsj.com/articles/chinas-opaque-decision-making-confounds-business-governments-11673269970.

[34] Zipser, Daniel, "2023 McKinsey China Consumer Report," McKinsey, Dec. 2022, https://www.mckinsey.com/cn/~/media/mckinsey/locations/asia/greater%20china/our%20insights/2023%20mckinsey%20china%20consumer%20report%20a%20time%20of%20resilience/2023%20mckinsey%20china%20consumer%20report%20en.pdf.

[35] Statista. "Preferred Origin of Brands among Consumers in China 2020," September 21, 2022. https://www.statista.com/statistics/1183456/china-preference-of-local-and-foreign-brands/.

brands was "patriotism," which shows how public preferences and the CCP's influence are often intertwined.[36]

The CCP's Made in China 2025 policy has also increased domestic competition. Made in China 2025 is a strategic plan launched in 2015 by the Chinese government to upgrade the country's manufacturing capabilities and move its economy up the value chain.[37] The plan aims to promote the development of key industries such as healthcare, IT, robotics, aerospace, and new materials, and reduce China's dependence on foreign technology.

The Made in China 2025 plan is part of a broader effort by China to transform its economy from low-cost manufacturing to high-tech innovation and advanced manufacturing. The policy seeks to encourage Chinese companies to develop and produce high-tech products, improve the quality of Chinese-made goods, and reduce China's dependence on foreign technology and imports.

Whether as a result of these subsidies, government policy, or shifting consumer preferences, in the past decade, foreign-owned brands have lost significant market share in China to locally owned Chinese companies, as reflected in the graph below.

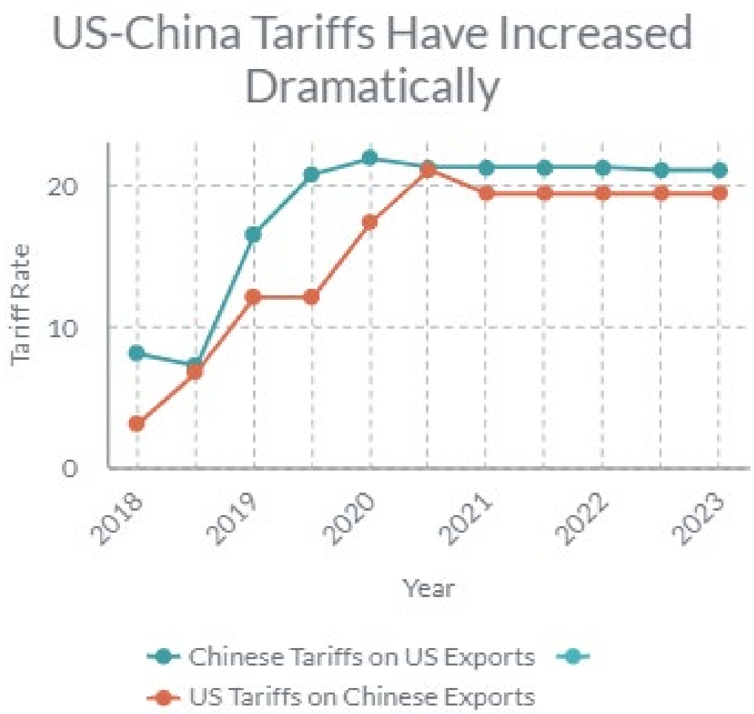
[36] Chemlinked, "Survery Report: Chinese Consumers' Purchase Preference on Foreign and Local Brands," https://resource.chemlinked.com.cn/market/articles/file/a-survey-report-on-chinese-consumers-purchase-preference-on-foreign-and-local-brands.pdf.
[37] Wei, Lingling. "Beijing Drops Contentious 'Made in China 2025' Slogan, but Policy Remains." *WSJ*, March 5, 2019. https://www.wsj.com/articles/china-drops-a-policy-the-u-s-dislikes-at-least-in-name-11551795370.


Source: China New Car Registration Database (automobile sector data from 2012 and 2022), International Data Corporation (mobile phone data from 2013 and 2021), and Euromonitor (baby formula, fast food and apparel from 2013 and 2021).

China's shift to locally made products and services presents significant challenges to Western businesses dependent on access to Chinese markets for their long-term growth strategies.

**Sanctions & Tariffs:** Western companies that do business in China are also exposed to sanctions, tariffs, and regulatory risk. These risks are both general risks related to high and uncertain tariffs between the United States and China, and the possibility that the CCP may target specific countries or companies for sanctioning.

Over the past five years, tariffs have risen dramatically both on US goods exported to China, and on Chinese goods imported to the U.S. These have increased the cost of doing business in China for multinational firms.




Data source: https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart

The CCP also views foreign companies as leverage that can be used to penalize countries, as part of an overall strategy of "economic coercion."[38] When Norway awarded the Nobel Peace Prize to imprisoned Chinese dissident Liu Xiaobo, the CCP increased licensing and customs restrictions for Norwegian salmon exports, reducing its market share by 70%.[39] After Australia criticized China over the origins of the Covid-19 outbreak, the CCP dramatically increased tariffs on certain Australian imports, restricted other imports, and encouraged Chinese consumers to boycott Australian education, tourism, beef and

[38] Hunter, Furgus, "Countering China's Coercive Diplomacy," *Australian Strategic Policy Institute,* Feb. 22, 2023, https://www.aspi.org.au/report/countering-chinas-coercive-diplomacy
[39] Storey, Henry, "Beijing's Bad Books: Australia Can Learn From Norway and South Korea," *Lowy Institute*, Nov. 19, 2020, https://www.lowyinstitute.org/the-interpreter/beijing-s-bad-books-australia-can-learn-norway-south-korea

wine.[40] The United States's positioning vis-à-vis China may similarly trigger reprisals from the CCP, particularly as new legislation like the Uyghur Forced Labor Prevention Act goes into effect.

Aside from potential retaliatory measures, American policies themselves may also increase the costs and risks of doing business in China. The Biden Administration has continued the Trump Administration's tough-on-China stance, maintaining tariffs[41] and passing legislation that limits imports of certain Chinese goods into the United States. The administration has also launched a semiconductor trade war with China, preventing certain U.S. companies like Nvidia from selling certain products to China and imposing other restrictions.[42] These measures, by design, have made it more difficult to do business with China, pushing the countries to "decouple" their economic ties.

## American Businesses Are Starting To Quietly Acknowledge These Risks

American businesses are beginning to recognize the risks of operating in China, though often only anonymously. A recent survey by the American Chamber of Commerce in China (AmCham), for example, revealed a "slightly pessimistic outlook for U.S. companies in China."[43] For the first time, less than half of members ranked the Chinese market as a top three investment priority:

[40] Hunter, Furgus, "Countering China's Coercive Diplomacy," *Australian Strategic Policy Institute,* Feb. 22, 2023, https://ad-aspi.s3.ap-southeast-2.amazonaws.com/2023-02/Countering%20Chinas%20coercive%20diplomacy_1.pdf?VersionId=HZDwezgnFY5eitQqtEMEU7WuFci8S75z.

[41] Reuters. "Biden Administration to Maintain China Tariffs While Review Continues." *Reuters*, September 2, 2022. https://www.reuters.com/markets/us/biden-administration-maintain-china-tariffs-while-review-continues-2022-09-02/.

[42] Milmo, Dan. "Biden Trade Curbs on China Risk Huge Damage to US Tech Sector, Says Nvidia Chief." *The Guardian*, May 24, 2023. https://www.theguardian.com/business/2023/may/24/biden-trade-curbs-china-risk-huge-damage-to-us-tech-sector-nvidia-chief-chips.

[43] Tangen, Norris. "2023 China Business Climate Survey Report Launch in Tianjin." AmCham China, April 14, 2023. https://www.amchamchina.org/2023-china-business-climate-survey-report-launch-in-tianjin/.

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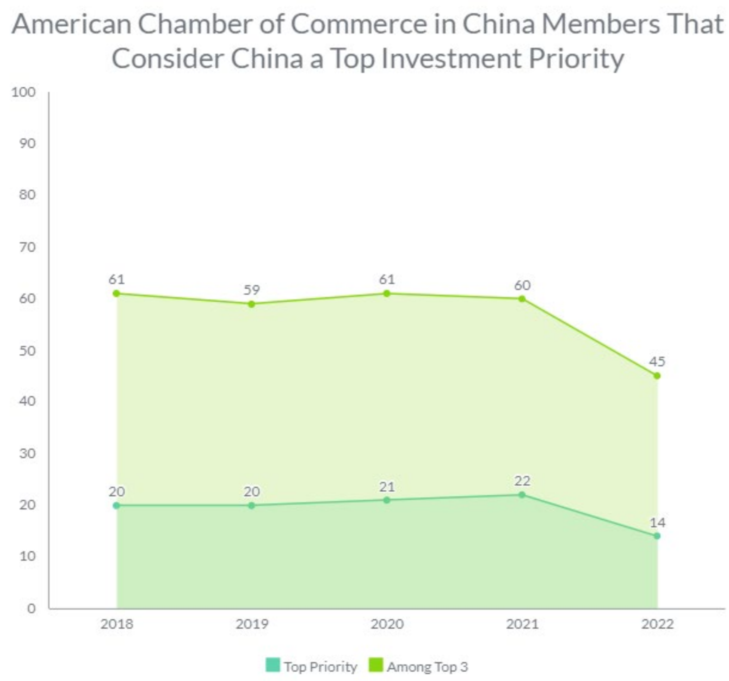


source: https://www.amchamchina.org/2023-china-business-climate-survey-report/

The top concerns for U.S. companies operating in China were (1) rising tensions between the U.S. and China, (2) Covid-19 related measures and (3) inconsistent regulatory interpretation and unclear laws & enforcement. These challenges are unlikely to fade. According to Chinese economist He Jiangbing, "the business environment will deteriorate in the future, and it will not improve." He "personally predict[s] that this trend will not be reversed within five to 10 years."[44]

### Strive Encourages U.S. Companies To Disclose And Mitigate China Risk

Given these risks, Strive generally supports shareholder proposals that request U.S. companies to disclose the China-related risks that are financially material to their business.

[44] Huang, Joyce. "Survey: US Companies in China No Longer See It as Primary Investment Destination." *VOA*, March 3, 2023. https://www.voanews.com/a/survey-us-companies-in-china-no-longer-see-it-as-primary-investment-destination-/6987999.html.\.

In 2023, such proposals have been made at Disney, Apple. Starbucks, Boeing, General Motors, and more. Strive hopes that such reporting will force company leadership to take a closer look at these risks and mitigate them now. Such steps may include, for example, implementing a "China plus one" strategy, which involves setting up alternative manufacturing facilities in a different South East Asian country to minimize supply chain disruptions in China.[45] Other companies may find the best course is to move supply chains closer to their customers, thereby diversifying their supply chains while reducing transportation costs, potentially leading to greater overall profitability.[46] Still others have committed to exiting the Chinese market altogether.[47] There is no one-size-fits all solution to the challenges that American businesses face in China, but companies that proceed with their eyes open, and are willing to disclose these risks to their shareholders, are the ones that will be best prepared to face them in the future.

## Conclusion

Even investors who invest exclusively in Western companies are exposed to China risk. To mitigate these risks, investors should instruct the American companies in whichthey are invested to assess their China-based operations to mitigate the risks of an increasingly hostile Chinese regulatory regime and a likely deteriorating business environment. Strive believes that companies that undertake such assessments now will be better positioned to mitigate these risks by, for example, diversifying their supply chains and shifting manufacturing to emerging markets like India and Vietnam. Strive believes that to appropriately manage their China risk, investors must anticipate and accelerate these emerging trends, and can do so, in part, by investing with an asset manager that is willing to squarely address these financially material risks to maximize long-term value for its clients.

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