

# CBI in China

China's Investment Environment – still good for business?

Beijing

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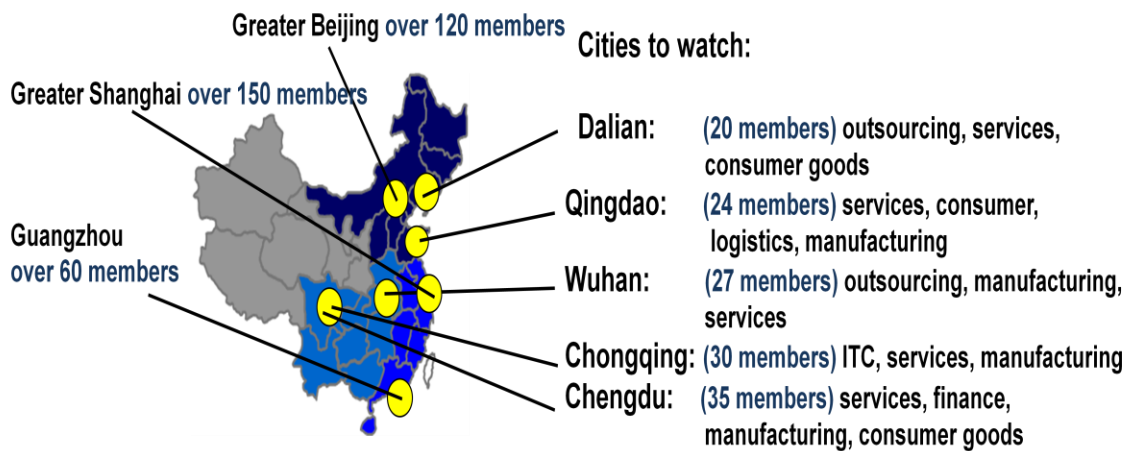
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**CBI China: the facts**

<p><b>The CBI in China</b></p>	<ul style="list-style-type: none"> <li>• In China for 4 years.</li> <li>• Member services: <b>representation, networking, and business intelligence.</b></li> <li>• More than <b>400 CBI members</b> operate in over <b>26</b> regions across China.</li> <li>• At least <b>half FTSE 100 CBI member companies</b> are in China.</li> <li>• Almost <b>1/3 of CBI members in China</b> are in <b>services and banking/finance.</b></li> </ul>
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## CBI China: the offering

- Regular economic, business & political analysis of key issues facing companies in China.
- A channel for lobbying and raising profile.
- Access to Ministerial visits and events in China.
- Links and access to CBI’s national membership – currently active in 26 provinces.
- Invitations to CBI and UK/International business events, including annual UK-China bilaterals, private members dinners, breakfasts.
- A weekly business blog, **China Direct** at [http://cbi.typepad.com/china\\_direct](http://cbi.typepad.com/china_direct)
- A bilingual website ([www.cbichina.org.cn](http://www.cbichina.org.cn)) providing information, sectoral briefings.
- A Beijing-based office providing on the ground knowledge and independent analysis.

## Business in China: *focal issues*

### Present policy focus

1. **Indigenous Innovation** – (EUCCC-UK-AMCHAM) – April success)
2. **Intellectual property** (EU Helpdesk – CBI IP Committee – Patent Law)
3. **Market access** (Professional services – G4S update)
4. **Regulatory issues** (Banking/insurance)
5. **Climate change** (Best practice, Leeds University Business School, ‘10 Paper)

# 1) Overview of Business Environment

- Foreign business community overview:
  - Perception that market access is tightening and regulatory hurdles multiplying
  - Foreign firms losing out:
    - Multinational corporations (**Nokia, Unilever & Philips**) have all enjoyed strong market share
    - However, legislation issued by the Chinese government perceived to favour domestic companies
    - EG: **Rejection of foreign firms** in the mid-2009 bidding process for 25 wind power projects worth \$7 billion: all contracts awarded to Chinese companies
  - According to a World Bank study, China ranked **83<sup>rd</sup> in the world on the “ease of doing business”**
- **Warning Signs:** The foreign business community, traditionally supportive of domestic investment policies, has become increasingly assertive and vocal in voicing its concern against alleged local protectionism.

## 2) Key Issues and Case Studies

### 1) Market Access Issues: Indigenous Innovation Policy

- Recent efforts of the Chinese government to **foster domestic innovation through government procurement incentives**

- In November 2009, China’s State Council issued a Notice that laid out the details of an accreditation process for companies seeking to offer “indigenous innovation” products

- Companies are required to own relevant Chinese intellectual property (IP) in China.

- Deep concerns among foreign companies that requirements excluded foreign IP and proprietary brands

- Nokia concerned re: new requirements that suppliers disclose highly confidential product information to the Chinese government in order to have access to the vast procurement market: ***regulations took effect on 1 May, 2010***

- On 29 April 2010, Premier Wen Jiabao tried to reassure foreign companies that China was not attempting to push them out of its markets: **Rare for a senior Chinese leader to respond to complaints by foreign companies**

- On 9 April 2010, Beijing issued a clarification document and sought responses to legislation from business community

- CBI Comment: “Loosening of restrictions a welcome change although concerns remain, specifically over **how the rules will be implemented and applied in practice**”

- Amendments to earlier Notice fail to clarify the use of the qualified product list or its link to government procurement preferences

- Problematic issue concerning possible **divergences between application at the national and local level**

- According to the American Chamber of Commerce in China’s 2010 Business Climate Survey, 28% of US companies said they are currently **losing out on business in China** as a result of the country’s indigenous innovation policies

•**Summary**

1. The CBI welcomes the clarification document regarding indigenous innovation policies issued by the Chinese government.
2. We still harbour concerns as to its actual implementation.
3. The joint, coordinated response by international business in recent months to troubling Chinese legislation is encouraging.

## 2) Transparency and Implementation of Regulations

- Foreign companies in China have expressed rising concerns about the **lack of transparency** in the rule-making process, as well as the **arbitrary enforcement** of laws and regulations

- In Amcham’s 2010 Business Climate Survey, respondents marked “**inconsistent regulatory interpretation**” as their top challenge for the first time in the survey’s history

—**Seven out of the top eight** challenges facing US businesses in China relate to obstacles from the Chinese government:

- 1) inconsistent regulatory interpretation
- 2) obtaining required licenses
- 3) national protectionism
- 4) bureaucracy
- 5) unclear regulations
- 6) lack of transparency
- 7) IPR infringements

- **Absence of a level playing field** for foreign and domestic companies

- 66% of respondents to the EU Chamber survey said that enforcement of environmental regulations on Chinese firms is weak, while only 18% reported that China's enforcement on foreign firms is weak

- Targeted companies included subsidiaries of global firms such as American Standard, Panasonic, Pepsi, Nestle, and 3M

- 18 companies cited, including eight of the world's top 500 companies (Shell, Samsung Electronics, Nestle, LG, Kraft, Motorola, Denso and Bridgestone) and major Chinese companies such as PetroChina and Shenhua

- Foreign companies often feel they receive disproportionate attention from the Chinese government for breaking pollution laws, but real violations committed by major multinationals certainly exist

- In addition, many multinationals operate joint ventures across China and are often unaware that their local partners are not in compliance with environmental regulations

- According to the 2009/2010 European Business in China Position Paper, **insufficient time is provided for public consultation** on new laws and regulations

- In 2008, time for public consultation averaged 24 days, an improvement from 21 days in 2007

- However, still falls far **short of international best practices**

- WTO and European Commission average about 60 days

- Chinese government often does not provide enough explanation and justification for important decisions and key cases

- Example One: Rejection of Coca-Cola's \$2.4 billion bid for Chinese beverage giant Huiyuan* by Chinese regulatory authorities in 2009, citing anti-monopoly concerns

—However, many foreign companies say the Chinese government failed to provide sufficient explanation for the rejection, fueling suspicions of protectionism

*Example Two:* **Rejection of foreign firms in the bidding process for 25 state wind power projects** resulting from China’s economic stimulus package in mid-2009

—\$7 billion in contracts awarded to Chinese companies

—Four of the world’s top five wind turbine companies—**Vestas** Wind Systems (Denmark), **GE** Energy (US), Gamesa (Spain), and **Suzlon** Energy (India)—all excluded despite having made substantial investments in China and met stringent “localization” rules requiring they source 70% of their equipment within China

—Chinese regulatory authorities cited the need to grant preference to domestic products in government procurement

### 3) Protection of Intellectual Property Rights (IPR)

- Poor protection of IPR remains a continuing problem in China, standing as a key impediment to innovation and foreign investment
- Vast majority (86%) of respondents to EU Chamber Survey cited enforcement of IPR laws/regulations as either inadequate or very inadequate
- 2009/2010 European Business in China Position Paper issued by the EU Chamber cited “**leakage of confidential information during business development**” during project approvals, product certifications, patent filings, etc. as a top IPR concern

*Example:* **China Compulsory Certification (CCC) process**

- Case Study of IPR Battle

**Luxury automaker Audi suing Chinese regulatory agency**

—Audi is suing the Trade Review and Adjudication Board (TRAB) under the State Administration for Industry and Commerce (SAIC) for denying its application to register its A4 trademark in China

-Chinese regulatory authorities cited the lack of distinctiveness of the A4 trademark as the reason for its rejection of Audi's application

- **However**, China has taken positive steps towards strengthening the overall IPR environment
  - Outline of the National Intellectual Property Strategy issued by the State Council in June 2008
    - Lays out objective of supporting increased domestic applications for IPR, raising the utilization of IPR-rich products, improving IPR protection, and promoting IPR awareness in Chinese society
  - Rapidly rising number of IPR applications and grants in recent years
  - **More than 90% of IPR cases in China are between domestic companies – a fact often forgotten by international business**

#### 4) FDI into China's 2<sup>nd</sup> and 3<sup>rd</sup>-Tier Cities

- Foreign firms increasingly **deepening their exposure to China's less developed regions** due to a number of key business advantages to be gained by expanding to 2<sup>nd</sup> and 3<sup>rd</sup>-tier cities, including: lower labor costs and land prices, rising support of local governments, and growing pools of human resources
- Chinese government actively encouraging FDI flows to the central and western regions in the country
  - State Council issued new policies in April 2010 aimed at attracting higher levels of FDI in China's less developed areas, especially in the high-technology, high-end manufacturing, modern services, environmental protection, renewable energy, and energy-conservation sectors

- Case Study: **CBI member Unilever** expands to 2<sup>nd</sup>-tier city
  - Unilever, the world's second largest consumer goods maker, announced in April 2010 that it plans to significantly increase its investment in Hefei, the capital of Anhui Province in eastern China
  - In total, Unilever will invest 700 million yuan (\$102.52 million) in its Hefei production base with the goal of boosting output value to 10 billion yuan (\$1.46 billion) in five years time
- Case Study: **CBI member and engineering giant Siemens** expands investment in Southwest China
  - In April 2010, Germany-based Siemens opened its Global IT Operations Centre in Chengdu, the capital of Sichuan Province
  - Over 100 staff will be employed at the center by 2011
- According to the Amcham Survey, US companies continue to plan expansions into 2<sup>nd</sup> and 3<sup>rd</sup>-tier cities, with **28% of respondents foreseeing establishing new operations in two or more cities in 2010**

## 5) Economic Downturn – Impact on FDI in China

- Foreign firms with investments in China have certainly felt the impact of the economic downturn
  - According to the Amcham-China Survey, 44% of respondents indicated that they had **postponed or canceled investments in China** in 2009
  - Large companies (those with more than 5,000 employees and €1 billion in revenue in China) reported a much stronger impact than smaller firms
    - Likely due to sharp drop in demand in global markets which led to steep fall in exports in China

## 6) Outlook – Positive?

- In wake of global downturn, companies increasingly shifting their global strategies to reflect the changing global economic landscape, with a greater focus on emerging markets

- Foreign firms in China **largely hold bullish views on the Chinese economy**

- Amcham-China Survey

- **91% of respondents have a positive outlook over a 5-year horizon**, reflecting the perception that China has emerged from the downturn in a strong position and that the country's medium-term prospects are quite positive

- EU Chamber Survey

- Nearly two-thirds (65%) of respondents remain optimistic about the growth of their business sectors over the next two years

## 7) Foreign firms - “In China *for* China”

- EU Chamber Survey

- 80% of respondents said domestic consumption growth will be the biggest factor driving China's economic performance in coming years

- European companies mainly, **“in China for China”**

- Primary motivation for coming to China is to drive revenue, not to find cost savings

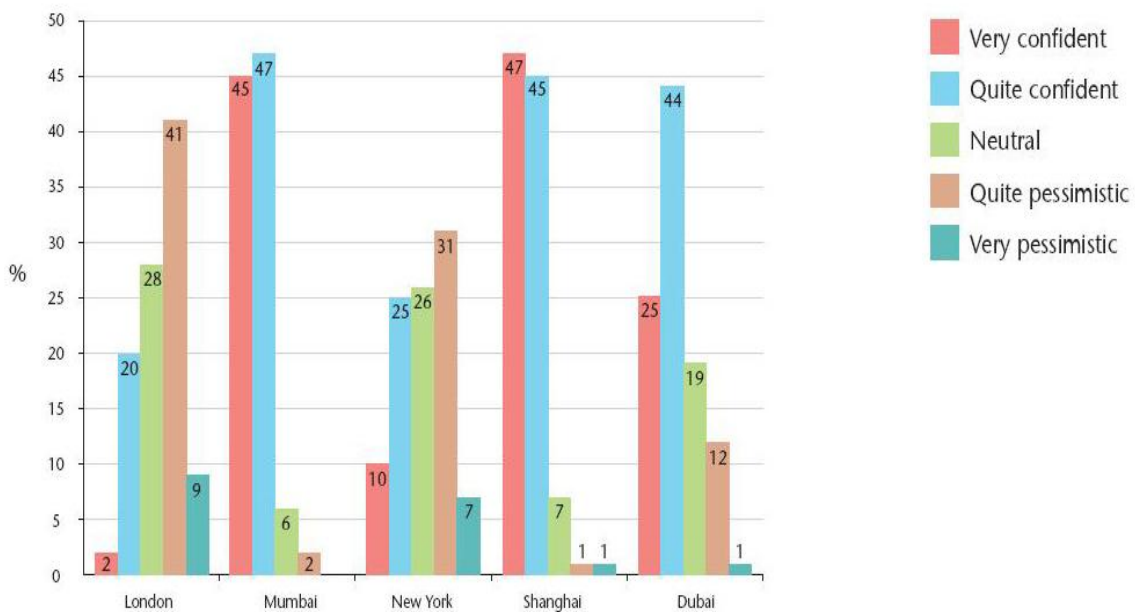
- **CBI member Eversheds LLP** conducted a study called **“Boom or Gloom”** which assessed the lasting impact of the global economic crisis on business confidence in key financial centres around the world

• **Key Findings**

—87% of respondents said a **significant shift in the world economy has occurred**

—Clear theme of **rising confidence in emerging Asian economies**, in comparison with much more pessimistic outlook in Western financial centres

Figure 1: Economic confidence over the next 12 months



(Source: Eversheds LLP 2009 “Boom or Gloom” Study)

- The next twenty years will see the Chinese government pushing the shift to domestic consumption, moving up the value chain, the diversification of overseas Chinese holdings, and the growth of China’s service sector
- This policy shift will work to the advantage of UK and international based companies serving or supplying the service sector and China’s domestic market.

## The Role of the CBI in China

- Key Roles

- i. •**Active engagement** with member companies and key policy-makers in the British and Chinese national governments
  - a) —Conduct behind-the-scenes lobbying to help resolve business challenges
- ii. •**National level engagement**, enabling us to pick up regional issues and share them with our members as well as the UK consulates
  - a) —Also pick up key issues from our headquarters in London and international offices in Brussels, Delhi, and Washington
- iii. •Provision of **market intelligence** and latest updates on developments in China’s business environment

- MEMBER SUCCESS STORIES

- 1) **British Airways (SHANGHAI)**
  - Pudong International Airport landing rights
- 2) **JCB (SHANGHAI)**
  - Transport license
- 3) **G4S (NE CHINA)**
  - Opening up of bullion distribution markets

## 3) Conclusion

1. In short, the foreign business community remains largely upbeat about their prospects in China in the coming years.
2. Yet deep concerns certainly remain about market access issues, IPR protection, and the regulatory regime.
3. We expect the rising flows of FDI into China's 2<sup>nd</sup> and 3<sup>rd</sup>-tier cities to continue as foreign companies become increasingly aware of the key business advantages to be gained by expanding to less developed regions.
4. Given our nationwide coverage, the CBI is ideally situated to continue assisting our members as they look to deepen their exposure in China.

*CBI Beijing*

*May 2010*

## 4. Tables

### i. AMCHAM Business Climate Survey 2010

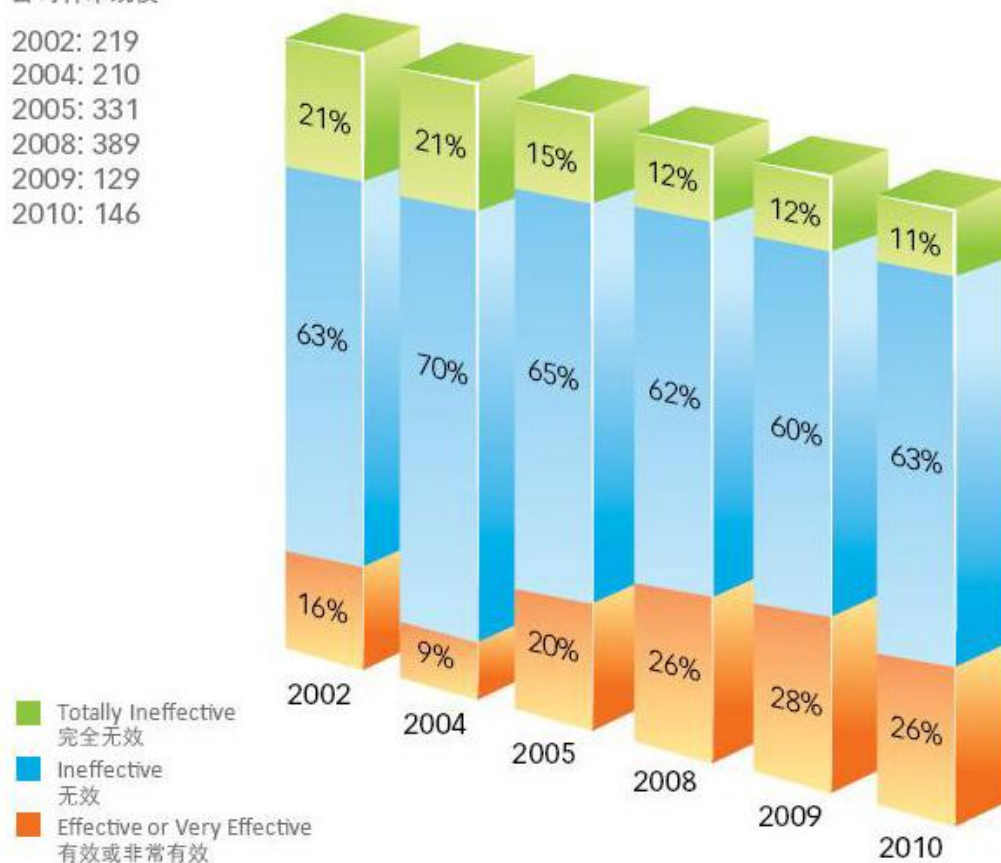
**Chart 18**

How would you rate China's enforcement of intellectual property rights? (2003, 2006, 2007 data unavailable)

企业对中国政府保护知识产权执行力的评估

Company sample size:  
公司样本规模

2002: 219  
2004: 210  
2005: 331  
2008: 389  
2009: 129  
2010: 146



Source: 2010 AmCham-China Business Climate Survey  
资料来源: 2010年中国美国商会商务环境调查

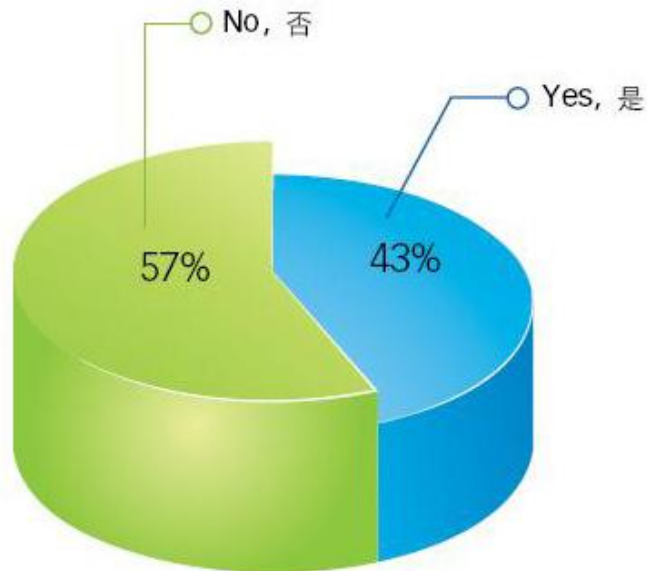
## Chart 20

From *Innovation Policy Survey*. See page v for explanation.  
此图引自《自主创新调查》，详见第v页

Do you believe that the effects of China's indigenous innovation policy will begin to negatively impact your company/increasingly impact your company in the future?

中国自主创新政策是否将对企业的未来造成/持续造成负面影响?

Company sample size = 203  
公司样本规模



Source: AmCham-China Innovation Policy Survey  
资料来源：中国美国商会《自主创新调查》

### Chart 13

This year, beyond the 1st-tier cities Beijing/Shanghai/Guangzhou, does your business plan to expand be locations into 2nd- and 3rd-tier cities (e.g., Dalian and Chengdu)?

除北京、上海、广州等一线城市外，企业今年是否有拓展到二、三线城市的计划（如大连和成都）

Company sample size = 253  
公司样本规模



Source: 2010 AmCham-China Business Climate Survey  
资料来源：2010年中国美国商会商务环境调查

## Chart 5

How would you describe your five-year business outlook in China?  
(2002 data unavailable)

企业自2000-2010年中对未来五年在华发展的展望

Company sample size:

公司样本规模

2000: 160

2001: 173

2003: 254

2004: 236

2005: 397

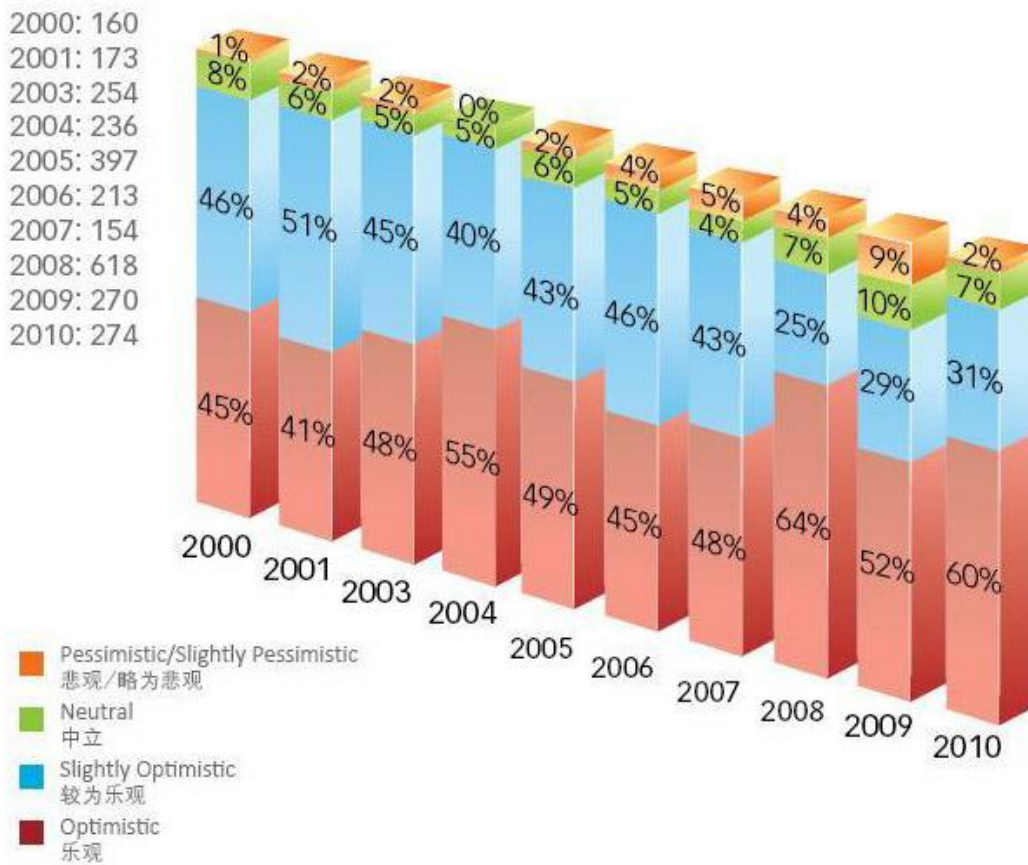
2006: 213

2007: 154

2008: 618

2009: 270

2010: 274

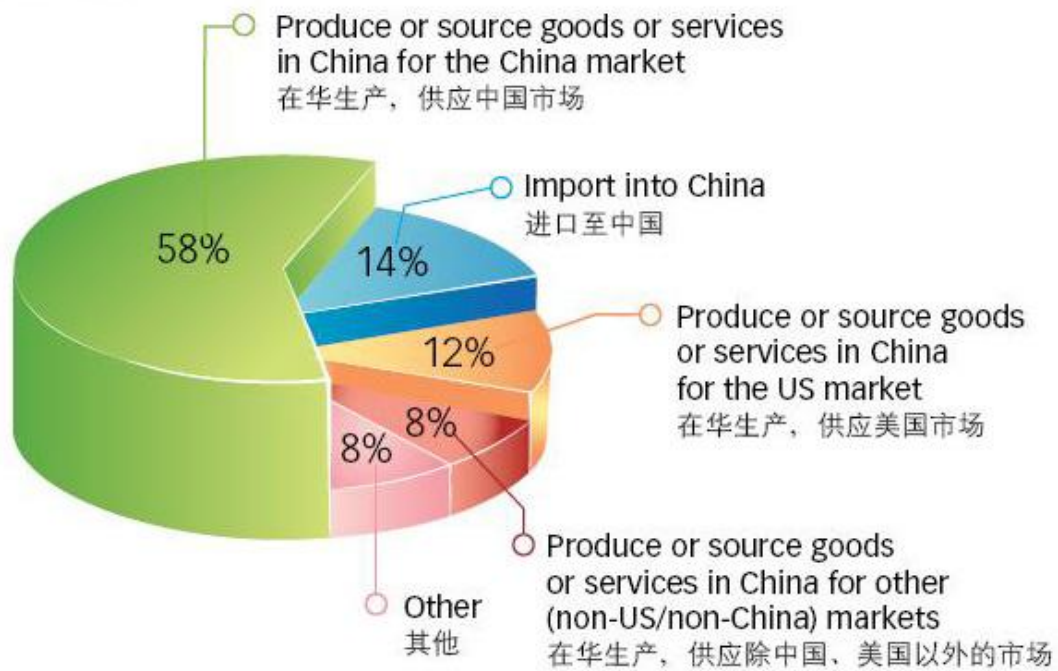


Source: 2010 AmCham-China Business Climate Survey

资料来源: 2010年中国美国商会商务环境调查

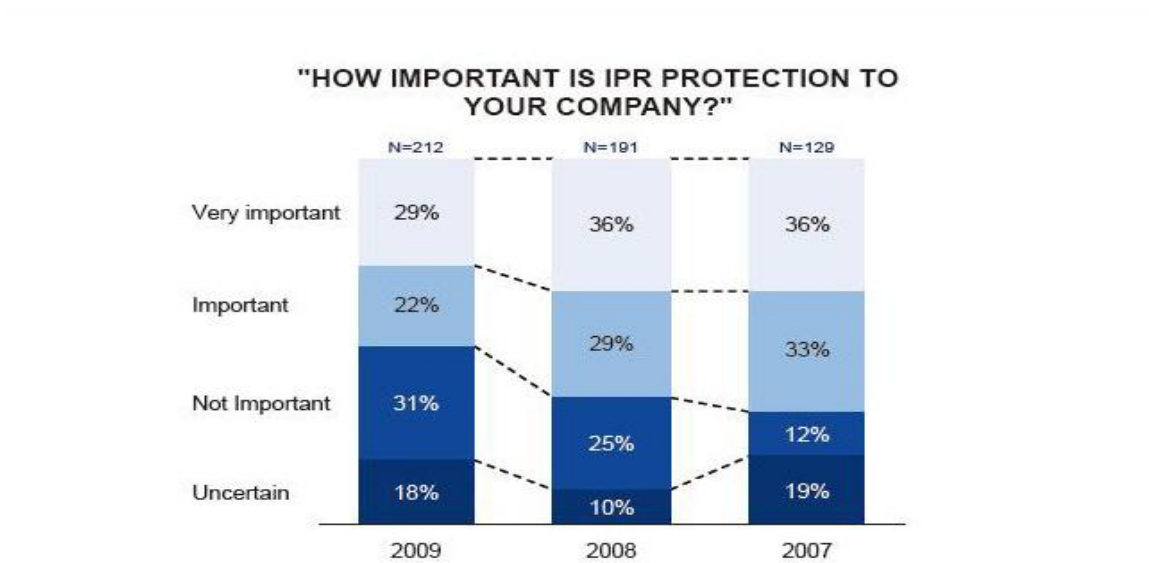
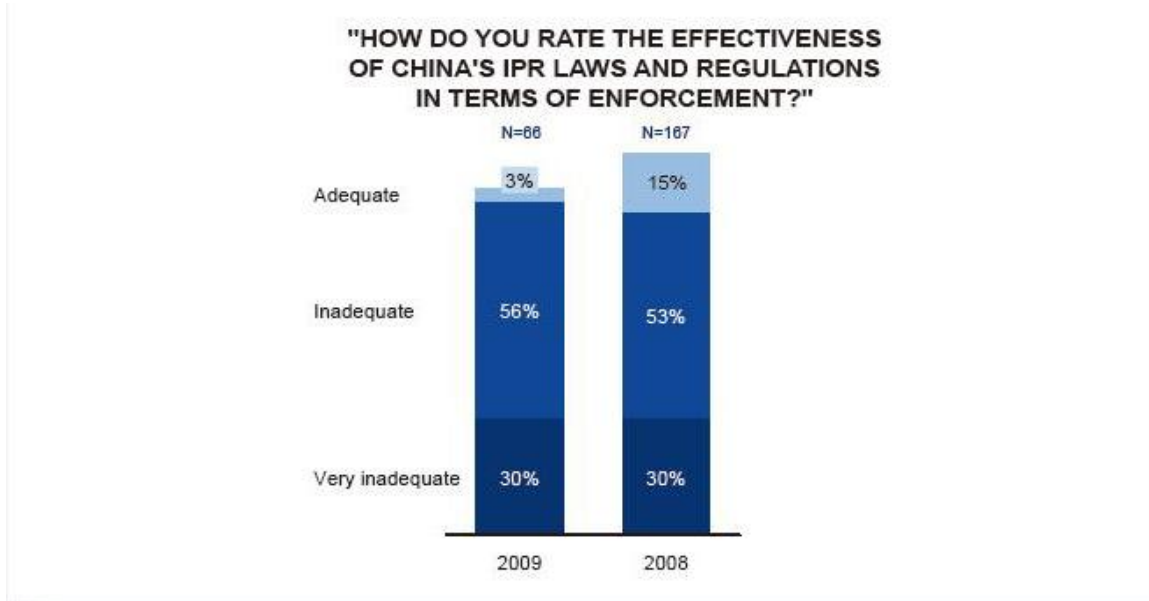
## Top Goals and Strategies in China 企业在华首要目标和战略

Company sample size = 264  
公司样本规模

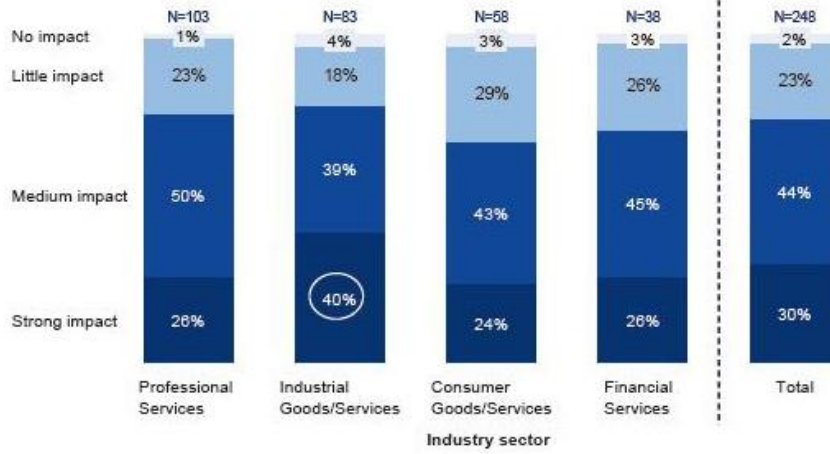


Source: 2010 AmCham-China Business Climate Survey  
资料来源: 2010年中国美国商会商务环境调查

## ii. EU Chamber Business Confidence Survey 2010



**LEVEL OF IMPACT THE ECONOMIC CRISIS HAS HAD ON YOUR BUSINESS IN CHINA**



**LEVEL OF IMPACT THE ECONOMIC CRISIS HAS HAD ON YOUR BUSINESS IN CHINA**

