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Ladies and gentlemen good afternoon,

I am Giorgio Magistrelli and I am the Secretary General of the European Chamber of Commerce in China.

The European Chamber of Commerce in China is the main non-profit, private lobbying organization in the PRC, with more than 850 Corporate members and seven offices in Mainland China. It is the official voice of the European Business in China and is internally organized in 29 sectorial working Groups, divided in horizontal, issues, trade in goods and trade in services who contribute every year to the drafting of our annual Report, the Position Paper. The next one will be released in September.

TODAY IT IS A PLEASURE FOR ME TO PRESENT YOU THE MAIN OPPORTUNITIES AND THE CHALLENGES OF THE EUROPEAN BUSINESS IN CHINA.

Before this presentation I have to underline two main aspects:

- 1) We are representing the European Companies IN CHINA
- 2) All the issues that we are discussing today have been already presented to the Chinese Authorities with whom we are working together as to develop even further the business environment in the Country.

Opportunities

European companies in China remain positive about investments in the Country as confirmed by the last survey of the Chamber, in which 61% of respondents expected to be profitable in 2006 while overall 86% were optimistic about doing business in China.

European companies have invested around 4.5 billion Euros on average each year over the last six years in addition to the transfer of know-how and state-of-the-art technology. A number of MNCs have partnered with Chinese counterparts and established R&D bases in China, introducing new management techniques, and play an important role in training the next generation of Chinese business executives and engineers.

In the past years the dialogue with Chinese Authorities increased firmly, and the Chamber is constantly asked to participate in commenting and contributing to draft legislation Key sectors such as the up-coming Anti-Monopoly Law, the Labor Contract law, Telecoms Law and Enterprise Income Tax legislation.

Moreover, the enhanced dialogue between the European Commission and the Chinese Government is having a very positive influence to the European Business in China.

Post-WTO Commitments

China has implemented its WTO commitments on time, and in some cases ahead of schedule. Duties have been reduced and quotas have been increased or cancelled as foreseen in the commitments.

A majority of our members indicated that China's accession to the WTO has had a positive impact on the conditions for doing business in China. Any economy undergoing transition from state planning to market economy will experience difficulties. Even if China is the first country that seems to be managing this without significant difficulties, some problems remain.

Reforming SOEs, re-directing overcapacity and absorbing rising unemployment as well as growing regional inequalities remain challenging priorities.

Yet China has become adept at managing the transition process, increasing prosperity for the majority of citizens, as well as securing continued economic growth and limiting any harmful fallout.

We do not have to forget that since reforms began, China has reduced the number of people living in poverty by 75%.

On 11th December 2005 China entered the fifth and final year of implementation of its WTO commitments. As the transition period comes to an end, it is time to depart from strict interpretations of accession protocol and focus on those aspects, which give an opportunity to improve.

In a country of 1.3 billion people, 23 provinces, 4 municipalities, 5 autonomous regions and 2 special administrative regions, implementation and enforcement are the most challenging aspect of accession and many of the current difficulties could not have been anticipated by the WTO negotiators.

CHALLENGES

These are the three key challenges faced by the business in China:

- 1. IPR PROTECTION**
- 2. GOVERNMENT INFLUENCE**
- 3. NATIONAL TREATMENT**

1. IPR PROTECTION

As of the second half of 2004, when the National Working Group on IP Protection was strengthened and started to be chaired by Vice Premier Wu Yi, it is clear that the government is taking action.

Lowering the threshold for criminal prosecution was a milestone in IPR protection and demonstrates the openness of the Chinese courts and authorities.

This year, as a consequence of the lobbying actions of the European Chamber, the State Trademark Office in China's (STMO) started to provide free public access to the trademark database (<http://202.108.90.72/trade/index.jsp>) as required in the IPR Working Groups Key Recommendations in recent editions of the Chamber's annual Position Paper.

At the same time, Chinese companies are themselves becoming more aware of the dangers and threats of excessive counterfeiting - the majority of civil litigation in trademark infringement cases (above 90%) is between Chinese parties: IPR PROTECTION IS A CHINESE PROBLEM before being a EUROPEAN PROBLEM.

Yet despite these positive steps the Chamber survey revealed that more than half of our members believe that the present enforcement of IPR laws and regulations in China is not effective enough and only 13% of our members consider effective the present IPR Protection system.

Enforcement of IP rights of European and domestic companies at all levels remains a challenge and needs to be improved in terms of consistency, inter agency communication and efficiency.

In order to continue the promotion of China as the top worldwide destination for foreign investment, especially in R&D, as well as encouraging technological transfer, it will be necessary to provide adequate legal remedies to protect confidential material and improve the enforcement of well-developed IPR legislation.

2 - GOVERNMENT INFLUENCE

Strategic sectors are increasingly driven by market-forces.

The authorities have done much to reduce their daily management of the economy and encourage greater domestic competitiveness.

Nevertheless, further marketisation, such as the removal of price fixing, would be beneficial to China's bid to gain recognition as an equal economic partner. And, European companies are firm supporters of China's ambition to restructure its economic system and further integrate into the world economy.

The complexity of the market has outgrown rigid JV requirements that were appropriate in the earlier stages of China's development.

In key sectors such as IT&T, automotive, chemicals and energy, relaxing ownership requirements will secure continued dynamic growth and greater transfer of technology in the long term.

In any economy, regulation plays an important role to secure a fair and stable system. Where as China has taken important strides towards establishing independent regulators, some concerns still remain about the close partnership between SOEs and government agencies especially in the energy and telecom sectors.

The recent introduction of local content requirements may further hamper the natural evolution of China's markets and its increasingly prominent role in the global supply chain.

These obstacles to competition may decrease the competitiveness of Chinese companies and their ability to acquire international market share.

3 - NATIONAL TREATMENT

The WTO is founded on the recognition that competition and free trade on equal terms is mutually beneficial.

The principle of national treatment binds all member states to maintain a level playing field for all parties, both foreign and domestic. China's phenomenal development has put immense pressure on government agencies to ensure that the regulatory framework evolves at the same pace as the economy. Overlapping competency of agencies or legislation, especially in relation to regulating foreign trade, often puts domestic companies at an advantage. Even though substantial progress has been made, government policy specifically promoting domestic companies still persists in some areas and further progress is therefore vital in a number of sectors, such as:

Public Procurement: As of April 2006, the Chinese government has indicated a willingness to become more familiar with international public procurement practices, while discussions on current legislation has also improved European companies understanding of Chinese practises. Nevertheless, under present legislation, government agencies are required to purchase equipment and technology from Chinese owned companies, unless no commercially viable alternative exists. Inconsistent legislation and unclear definitions also make it difficult to implement internationally accepted practice and norms. We are welcoming the willingness of the Chinese government to initiate GPA negotiations, milestone change that would signal the government's intent to provide a level-playing field as well as reducing government expenditure through the promotion of greater competition in the bidding process.

Banking: European banks acknowledge the work of Chinese financial regulators to reform and promote sound financial practises in the domestic financial services industry. The refinancing and restructuring of the industry along with other steps to guarantee future stability are welcomed by European financial institutions, also because the experience and know how of international financiers could play a critical role in modernising the Chinese banking industry.

Currently, capital requirements remain higher for foreign financial institutions, who are also restricted to establishing one new branch office annually. This, in combination with the new foreign debt regulations, has been detrimental to market conditions for foreign banks, which is clearly illustrated by a foreign market share of merely 1.4% at the end of 2005, down from 2% in 2001. To grow a global finance centre will require the presence of international institutions and Chinese regulators need to ensure an equal footing for foreign banking institutions in the domestic economy.

Standards: As the integration of the world economy progresses and the technological frontier advances, international accepted standards become more fundamental to ensuring the harmonisation of the multilateral trading system. China has recognised the benefits of complementary standards, and since its WTO accession has adopted or based its own standards on those of numerous international bodies including ISO, IEC and ITU. Specific examples include introducing Euro II and III vehicle engine standards.

However in some sectors European companies express concerns for China specific standards. One such instance is the CCC which requires automobile manufacturers to obtain certification before products can be marketed, imported or used for commercial purposes in China. More importantly CCC is not recognised outside China and will considerably reduce the ease of Chinese companies moving into overseas markets. The

adoption of tried and tested internationally recognized standards, such as the 1958 UN Agreement for the automotive industry, will facilitate the internationalisation of Chinese enterprises.

CONCLUSION

Even though chances to improve the business environment still exist, China represents a constant and strong opportunity for the European Business.

The openness of the Chinese Government to discuss the issues affecting European investors and the successful dialogue between the European Commission and the China is giving to the European Business in China the possibility to look optimistically to the future development of the European investments.