THE (NON) CHANGING BUSINESS ENVIRONMENT IN CHINA: STILL TALKING THE WALK

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Until very recently, it was common practice to witness debates on the Hamletic question of whether China constitutes a risk or an opportunity for international firms. Although one may still occasionally encounter self-styled China experts arguing that is possible for any firm to choose whether or not to deal with China, it is now clear that China has become the centrepiece of any business plan, both in MNCs and SMEs. For all these actors, when it comes to China, no such dichotomy between risk and opportunity exists. With the gradual shift from a labour-intensive, export-led and industrial economy to a service-based and innovative one relying on internal consumption, all companies wishing to broaden their international presence are taking China into account, either as an export market, a sourcing base, an innovation and R&D hub, or as a market for capitals and strategic partnerships. Yet, what is the current situation of China's business environment, and to what extent is it still attractive to foreign businesses? Overall, the situation is conflicted and multifaceted, as it is often the case with China. It is certainly not positive. Certain "oases" of opportunity, however, are still within reach.

While, due to the peculiar conditions existing in China, official data are not an effective indicator, they are often a good starting point for discussions on any matter. Looking at the last edition of the World Bank Doing Business Index, the situation does not look encouraging: compared to last year, China has lost one position, now ranking as the 86th country in the world in terms of easiness to do business. This retrocession did not only involve the overall score but also, and to a larger extent, some key indicators: the most striking one is the easiness of starting a new business, with China losing nine positions and falling to the 137th place worldwide, below Syria, Niger and Paraguay and right above Cameroon and Papua New Guinea. Similarly, as far as the protection of minority investors is concerned, China ranks quite low (134th worldwide) and has lost one position this year.

Over the past few years, foreign institutions – American and European *in primis* – have repeatedly expressed their frustration with the deterioration of market conditions encountered by foreign firms in China. Rumours have appeared in the press, these complains will be reiterated also during the G20 currently being held in Hangzhou.

In June this year, US Secretary of Treasury Jacob Lew openly criticised China over unfair business practices

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and unfair advantages granted to domestic firms over international ones. US authorities have been among the strongest advocates of a more decisive opening up of China's domestic market to foreign firms and fairer competition: the object of complaints ranged from discriminatory practices to selective enforcement of regulations, from excessive red tape to internet controls. A survey conducted among members of the American Chamber of Commerce in China from earlier this year shows that 77% of respondents felt that foreign firms were less welcome in China than before. One third of them went so far as to state that they did not contemplate further investments or expansion in the country.

Europeans have been equally vocal: the EU Chamber of Commerce in China has repeatedly requested a significant change of the status quo. Its annual position papers are a long list of measures European companies and institutions wish China would take in order to improve market conditions for local and European firms. Unfortunately, most of these calls and recommendations remain unheeded, and the same recommendations keep being reiterated year after year. The tones have therefore escalated and the last version, published on September 1st, focuses on the lack of reciprocity there is between China and the EU in terms of market access. The position paper contains a detailed and sharp analysis of how the recent increase in investment by Chinese companies into Europe has highlighted the significant imbalance in market access European companies face in China. According to the EU Chamber:

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There is a general consensus that the situation seems to have even worsened in recent years; in a survey among European firms published by the EU Chamber in June this year (much amplified by the international media), the business environment in China was described as:

> *"Increasingly hostile combined with a playing field that is perpetually tilted in favor of domestic enterprises, with the effects of the slowdown are intensified for European business".*

This causal relationship is bidirectional: not only have the negative effects of the slowdown been more acute for European businesses operating in China, but the effects of the (pre-)existing market conditions for European business are magnified by the slowdown. In other words, the slowdown is neither the sole nor the main problem; rather, the underlying market structure is.

Notwithstanding the repeated announcements of further reforms and liberalisations made by Chinese authorities and largely advertised plans such as the Shanghai Free Trade Zone, most actions taken by central authorities in the past two years go in the opposite direction: examples include the heavy-handed intervention during the 2015 stock market crash, the 2015 amendment of the Catalogue for the Guidance of Foreign Investment Industries, and the never-ending plans of consolidations and forced mergers among State-owned enterprises, just to quote the most significant ones. While the official announcements go in the direction advocated by the international business community (e.g., more liberalisation, less red tape, higher coordination among authorities, impartiality of the administration and the judicial), the actual policies adopted by the Chinese authorities – and the dynamics business life on the ground – point to a trend in the opposite direction. Such contradiction is in line with what scholar Minxin Pei, in the Asian Nikkei Review, describes as a general problem in the context of internal politics:

> *[The most charitable interpretation of these mixed signals and internal contradictions is that] the current Chinese government has a clear "messaging" problem. It has failed to communicate its intention and objectives to the nation in general, and the elites in particular. But there is another more likely - and worrying - explanation for elite angst. Given what has happened in the last three years, the elites have concluded that the current leaders, for all their projected confidence and sense of power, do not seem to know what they are doing.*

Of course the picture is not entirely bleak and there are many encouraging trends for foreign firms looking at opportunities in China: the services industry grew by 8.3% last year and for the first time it generated more than half of China's GDP. Certain industries offer oceans of opportunities: the healthcare sector for example, with its average annual growth of 12% forecasted for the 2014-2018 period, green energies and energy efficiency projects, and many others.

Nevertheless, the general perception is that the momentum of historical reforms and liberalisations from the late 1990s and early 2000s is fading. The pragmatic measures and experimental methodology utilised in the past 20 years to implement reforms are no longer useful, and the country is reaching a tipping point, after which it will need to change the existing paradigms. It may be soon clear to the Chinese government that the only two options it has are either to move forward with significant structural reforms, or to go backwards and lose competitiveness and attractiveness. The kind of third way that China has often been able to find with a hat trick may have a fence at its end this time.

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