Steady As She Goes

Despite negative reports of trade friction between China and the world, waters remain calm in the foreign business sector

A surging trade deficit, endemic IPR problems, last year's textile export tsunami and a raft of smaller but significant incidents, like the recent failure of various Sony digital cameras to pass standards tests, have left a bad taste in the mouth of much of the world when it comes to trade with China.

But it is the trade gap that is the fundamental problem, with reports showing China's trade surplus with the world more than tripling in 2005, growing to an estimated $102 billion, according to the New York Times. The bulk of China's trade surplus came from exports to the United States and Europe.

The ongoing conflict surrounding China's impact on US markets is paralleled by continued anti-dumping complaints against China coming out of the EU. China has recently been hit with anti-dumping charges under the claim that it is flooding European markets with shoes at artificially low prices.

Analysts predict trade frictions between China and the West will continue to increase through 2006, stoked by differences over exchange rates and trading systems. Ongoing debate is expected in a number of other areas as well, such as establishment of technical standards, intellectual property and labor rights. Such news casts a pall over the future of foreign business in China.

Don't rock the boat

But a report released in mid-February by the US Trade Representative's office did much to soften the blows of recent con-flicts. Washington clearly puts the blame for the trade deficit on China, but overall there was a positive tone to the review.

A survey released by the American Chamber of Commerce in China (AmCham) on the back of the Trade Rep office report offered a similar "neutral", if not positive, assessment of US-China business relations. Most foreign companies operating in China, it indicated, were generally pleased with the business environment here. " China's leadership continues to take a pragmatic and flexible, albeit cautious, approach to its economic policy and the market," the report said. "Each year, more than 90 percent of respondents reply that they believe these reforms are improving the climate for American business."

Continuing market growth, an improved regulatory environment and progress on IPR-related issues were among the reasons cited for increased confidence. The report shows an increasing number of AmCham members operating their China businesses through wholly foreign-owned enterprises (WFOEs) - 60 percent in *2005,* compared with only 33 percent in 1999 - which is highly indicative of the increased wiggling room being granted to foreign companies here.

Regarding China's adherence to WTO-stipulated market opening reforms, survey respondents who believed authorities were "willing, able and prepared to implement changes in the spirit of the WTO agreement" nearly doubled between 2005 and 2005*,* an especially important finding as the December deadline approaches.

A similar survey by the European Chamber of Commerce in China last year echoes AmCham findings, and the EU Chamber predicts that a new survey to be released this June will have parallel, if not more positive, results. But, still, it is difficult to reconcile these findings with increasing reports of conflict.

"I don't think it's a case of China trying to manipulate the global economy," says Timothy Lamb, client services manager with the JLJ Group and Vice Chair of the European Chamber's Trade & Distribution Working Group. "I think it's a matter of an emerging market that's adjusting to economies that have already been well-established and trying to compete with them and to work out where it really belongs within the global economy."

Lamb says that generally, China is doing a good job finding its place without unnecessarily rocking the boat, and that's reason for foreign business here to remain positive. "The trade imbalance, along with dumping concerns in Europe will continue to be an issue for many foreign companies, but China has shown an invested interest in change, and I believe European companies have and will continue to benefit from this change."

According to Lamb, recent conflicts are not one-sided, especially where the trade surplus with the US is concerned: "It's not just a 'China issue'. With the United States, it really is an unsustainable imbalance, but it's not just China's fault, it's something that the United States needs to adjust to as well." It seems the way ahead is for the globe to avoid treating China like a naughty child, allaying blame and threatening punishment.

"I would be very concerned to see any sort of sanctions imposed upon China," Lamb says. "I'd rather see that these issues get worked out in other ways." The European Chamber's Trade & Distribution Working Group has identified the most important persisting issues as the need for greater transparency on the part of the Chinese government and the continued lifting of trade barriers such as restrictions on direct selling and other commercial activities within China.

But how will effective change take place?

Lamb: "I think through continued engagement, not only through the EU Cham-ber and American Chambers, but also through the consulates and diplomatic channels is really where we're going to see change occur".

Source: EuroBiz - Journal of the European Chamber of Commerce in China