Foreign Businesses Say China Is Growing More Protectionist

By Ian Johnson
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BEIJING -- Foreign businesses are beginning to warn against rising protectionism in China, saying that the country's massive stimulus program plus a raft of new regulations are discriminating against non-Chinese companies.

On Monday, the American Chamber of Commerce in China became the latest group to sound the alarm, saying protectionism was one of its major concerns this year. In its 2009 White Paper, AmCham said the problem ranged from regional leaders trying to channel stimulus money locally to national policies that favor Chinese companies.

"There is the temptation, when it comes down to the final decision, to protect your local industries," AmCham Chairman John D. Watkins Jr. said. Fighting protectionism, he said, was a "critical goal."

The concerns come as China pushes ahead with its offensive to keep open foreign markets. In Washington on Monday, Chinese and U.S. officials presided over a series of signings between U.S. and Chinese companies. Such signing ceremonies are largely symbolic; they are intended mainly to show that China, which runs a huge trade surplus with the U.S., is buying foreign products.

Chinese officials also have more explicitly turned the tables on foreign critics, claiming their country is a victim of protectionism. Senior Chinese leaders have pointed to antidumping cases brought to the World Trade Organization by Western countries, as well as to efforts by members of Congress to insert "buy American" clauses in the $787 billion U.S. stimulus package. The clauses, requiring preferences for American suppliers on government contracts, stirred tensions with trade partners, and the restriction eventually was removed.

Foreign companies are now saying that "buy China" protectionism is rising. One key concern is China's $585 billion stimulus program. The problem largely lies in China's failure to join the World Trade Organization's Agreement on Government Procurement. This bars discrimination against foreign companies bidding on government projects.

"This would be an ideal moment for China to demonstrate that it is committed to being a mature member of the international economy and live up to that pledge," AmCham said in its report.

Part of the problem is that China's stimulus money is being spent on industries where China explicitly discriminates against foreign companies. China's state-owned railway system, for example, is due to get more than $2 billion in new spending this year and officials there said in a recent interview that some of the projects -- a high-speed line from Beijing to Shanghai, for example -- aren't allowed to use foreign technology. The reason is a desire to build up Chinese companies into national champions, the officials said.

"It's a reflection that business groups are getting the upper hand and coaching the government," says Joerg Wuttke, president of the European Union Chamber of Commerce in China. "These companies want to create monopolies or oligopolies and have less competition."

The restrictions go beyond internal regulations. Last week, China passed a new postal law that bans foreign companies from delivering express mail inside China, a blow to FedEx Corp. of the U.S. and Germany's DHL Worldwide Express Inc., which have lobbied for years against the new rules. China also maintains rules openly limiting foreign investment in key sectors, such as autos, chemicals and information technologies.

Foreign companies -- which rarely like to complain publicly for fear of souring ties with the Chinese government -- have also complained through their trade associations of how China handled a new telecommunications standard. Beijing delayed issuing third-generation, or 3G, wireless licenses for years, and now Chinese firms have pulled far ahead of foreign companies in winning contracts.

Analysts say, however, that some protectionism is inherent in China's decentralized political structure -- and affects many Chinese companies as well. Many of China's provinces, which have as many as 100 million inhabitants, are run like individual countries, with rules banning purchases outside the province. Many provinces have lists of products that must be bought inside the province.

"Some of this happens to hit foreigners and you hear about it," said Mr. Wuttke of the European chamber. "But they hit many Chinese companies, too."

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