IS CHINA'S ENVIRONMENT FOR FOREIGN INVESTORS DETERIORATING?

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Executive Summary

1. In the wake of the 2008-2009 global financial crisis, there has been a growing concern in the West that China is becoming less hospitable to foreign investors and is backtracking on opening its economy.

2. Surveys and reports show that a worsening regulatory environment and market barriers have become increasingly challenging for foreign investors in China. The argument emerged in 2009 and gained prominence among western media throughout 2010.

3. Several issues that have dampened the relationship between foreign invested enterprises and the Chinese government in the recent two years have become catalysts for the “deteriorating business environment” argument.

4. These include the failure of the world’s largest beverage maker, Coca-Cola, to acquire China’s largest beverage firm Huiyuan; the promotion of indigenous innovation; the exit of Google, and the Rio Tinto case.

5. The Chinese government has repeatedly refuted the criticism on worsening business environment and promised that it will abide by the opening-up policy to create an open and fair business environment for foreign investors.

6. It argued that the Chinese market remains attractive to foreign investment. Despite being downgraded from “super-national treatment” to national treatment, foreign investment is set to play a greater role in China’s industrial upgrade and regional balance.

7. Setting aside the disputes, studies carried out by third-party organizations show mixed results. Some of the widely cited rankings that aroused disputes are actually not the appropriate measurements of regulatory regime for foreign investment.

8. Most third-party studies reveal that foreign investors are generally optimistic about their China business outlook in the medium term while the regulatory environment is more or less ignored or deemed insignificant.

9. The mounting complaints of deteriorating business environment in China are actually derived from the growing concern of foreign investors about the overall regulatory regime for open and fair competition.

10. Despite the improvements made by China in its regulatory regime, the opening of the domestic market is still not up to the expectation of foreign invested enterprises, or to be more accurate, not up to average world or regional level.

11. The situation, coupled with certain issues including the promotion of indigenous innovation, implanted a perception of deteriorating Chinese business environment in the minds of foreign investors during the post-crisis period.