Impenetrable

Despite widespread hope that China will help pull the world out of recession, foreigners are finding it as arduous as ever to do business there.

Reuters

Every year, says Paul French, head of Access Asia, a research firm based in Shanghai, the same company buys the same report from him on the market for a particular product in China. That is because each year the company in question sends a new executive to China with instructions to break into the local market, who soon departs in despair—having failed to find an opening given the (brief) time and (insufficient) resources allotted.

Mr French's customer is not alone. China accounts for less than 2% of the global sales of drugs giants such as Pfizer, AstraZeneca and Bayer, estimates IMS, another research firm. Procter & Gamble (P&G), a consumer-goods giant, is reckoned to generate only a bit over $3 billion annually in China, less than 5% of its overall sales. Unilever is thought to sell less than half as much; its local operations are barely profitable. AIG, an American insurance firm, was founded in Shanghai and has won greater access to China than many of its competitors. But its operations are still restricted to just eight cities. Analysts suspect its revenues in China are less than in Taiwan, a country with 2% of the population and stiffer competition.

The promise—and frequent disappointment—of doing business in China has been a common theme since at least the 19th century, when weavers in Manchester were said to dream of adding a few inches to every shirttail in China. Thanks to recession at home, foreign firms are keener than ever to capitalise on China's growth. But Europe and America's exports to China have remained broadly flat over the past year and amount to less than 7% of the total, even though shrinking exports to other countries flatter the figure. Even if the Chinese economy grows by the official target of 8% this year, the impact on Western firms' total sales would be little more than a rounding error, says Ronald Schramm, a visiting professor at the Chinese European International Business School.

Many foreign firms, of course, are doing well in China, especially at the two extremes of the value chain: things like luxury goods, fibre-optic cable and big aeroplanes on the one hand, and oil, ores and recyclable waste on the other. But in between, both explicit legal impediments and hidden obstacles continue to hamper access to Chinese customers, despite China's promises of reform when it joined the World Trade Organisation (WTO) in 2001. Publishing, telecommunications, oil exploration, marketing, pharmaceuticals, banking and insurance all remain either fiercely protected or off-limits to foreigners altogether. Corruption, protectionism and red tape hamper foreigners in all fields.

Recent reports from three lobbies for foreign businesses, the American Chamber of Commerce in Shanghai, the European Chamber of Commerce in China and the US-China Business Council, bear out this gloomy view. Their biggest gripes have nothing to do with typical business concerns, such as the availability of good staff or high costs. Instead, they complain about subsidised competition, restricted access, conflicting regulations, a lack of protection for intellectual property and opaque and arbitrary bureaucracy.

To operate in China, the Council itself must provide documents from America's State Department, the Chinese Embassy in America, the cities of Washington and Shanghai, the local tax authorities and the local branch of the State Administration for Industry and Commerce. It takes six months to obtain a one-year licence. At least there is an established procedure, albeit a costly and cumbersome one. Others are not so lucky: upon joining the WTO, China agreed to allow foreign firms to compete to offer booking systems to local airlines, but according to the European Chamber it has not yet produced the necessary regulations.

Local officials go to great lengths to protect companies on their patch, often by giving them preferential access to land or credit, or by easing bureaucratic constraints for them. All the red tape would at least provide plenty of work for multinational law firms, were they permitted to employ Chinese lawyers—which they are not. The government, by dint of its control of the media, also controls advertising rates. That makes the cost of reaching a consumer in China higher than in many Western countries, although the potential rewards are much lower since most Chinese are so much poorer, says Tom Doctoroff, the boss of JWT, an advertising firm. There is little reliable business news (see article).

Firms that have managed to overcome these obstacles tend to produce locally in China; their products are perceived to be of high quality (few foreigners succeed by undercutting prices) and they have invested tremendous amounts of time and effort building distribution networks and raising awareness of their brands. Take Goodyear, an American tyremaker. It has had to find local partners for all of its 760 dealerships in China, who in turn had to obtain permits from the authorities. It has got around the state monopoly on advertising by deploying its trademark blimps, and pre-empted objections to that by using them to advocate a worthy cause: safe driving.

As always, there are local tastes to consider too. Chinese consumers seem to have even more of a taste for variety than most. P&G produces its Crest brand of toothpaste in a mouth-watering array of flavours, including lemon, tea, strawberry, salt and honey. A similar proliferation of offerings has served Nokia, the world's biggest handset-maker, well too.

One strategy that has brought success to several foreign firms has been to charge high prices—a surprise, given that earnings in China remain quite low. A survey by the Nielsen Company concludes that Chinese believe that foreign brands are more expensive, even when they are not. That suggests that they should aim to compete on quality rather than cost. At any rate, Apple, General Motors and Levi Strauss all sell certain products at higher prices in China than elsewhere. So do many luxury brands. But relatively few foreign firms have managed to reap such rewards.

IMPENETRABLE. **The Economist**, New York, Oct. 15th 2009. Disponível em: <www.economist.com>. Acesso em: 16 out. 2009.