



Business and Industry Advisory Committee to the **OECD**

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BIAC CONSULTATION WITH OECD LIAISON COMMITTEE

BIAC Discussion Paper

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OECD'S APPROACH TO CHINA: THE WAY FORWARD

In view of the increasing importance of China for OECD economies, BIAC welcomes the emphasis the OECD places on its outreach work with China. For this reason, we are pleased to have the opportunity to discuss our priorities with OECD Ambassadors. The following paper sets out the reasons why China is important to the international business community and highlights BIAC's input to and priorities for the OECD's collaboration with China.

China's increasing importance for the world economy

China has come a long way since it embarked on its program of economic and industrial reform in the late 1970s. Economic growth, meanwhile driven by private business, has averaged more than 9% over the past two decades. China has turned into a global player which accounted for 13 % of world output in 2004. It has transformed into an open economy with trade accounting for some 70% and FDI for about 36% of its GDP. China's share in global trade has risen to 6% and the OECD believes the country could surpass the US and Germany as the world's largest exporter within the next five years.

The impressive evolution of the Chinese economy presents both risks and opportunities for OECD economies. China has become the OECD countries' main external trading partner and an important production location for OECD-based firms. At the same time, China is a strong competitor in the area of labour-intensive goods and its increasing focus on R&D and high technology suggests that it may also gradually develop into a competitive provider of high-skilled manufactured products. Moreover, China's growing commodity consumption is placing upward pressure on prices and creates challenges for the global raw material supply.

What role for the OECD?

China is already a key player in the world economy and its importance is likely to increase further. In order to remain an important agent shaping the global economy, the OECD must increasingly engage China in its own work. The OECD should continue to provide guidance to Chinese policy makers on how to develop their country in a sustainable way and help in facilitating China's further integration into the world economy. With its public policy expertise and its ability to draw upon the experience of thirty member states, the OECD is well placed to work with China on economic policy issues.

The emphasis of the economic interactions between China and OECD countries can be expected to change in the future. While the main issues of the past and present have concerned market access for foreign investors and liberalization under WTO rules, ensuring China's harmonization with international standards and business practices both at home and abroad will become a key issue in the future.

As a setter of global policy standards and a disseminator of best practices, the OECD is ideally positioned to help China with this next phase of global economic integration. Whereas China's economic emergence is becoming increasingly politicized, the OECD can play a key role in helping take politics out of the equation. Also as the emphasis moves away from immediate improvements in China's business environment, as demanded by WTO accession, and shifts toward the long-term need to carefully balance growth, reform and social stability, major cross-cutting issues will come into play. This is where the OECD's strengths lie.

China's willingness to play an ever-greater part in the global economy is highlighted by its invitation to the OECD to subject its policies to public peer review and scrutiny (e.g. Economic Survey, Governance Report). This represents a major opportunity for both the OECD countries and China, as peer scrutiny is an effective mechanism for encouraging countries to implement sound policies.

Business priorities for the OECD work on China

BIAC welcomes that the OECD's co-operation with China has broadened and deepened over the past years. OECD work on China has been instrumental in fostering an open policy dialogue with Chinese authorities. It has also supported China's reform minded policy makers in building a market based economy that is more closely integrated into the global economic system. International business thus encourages the OECD to further intensify its outreach to China. The following section provides an overview of BIAC activities and priorities for the future.

Intellectual property rights (IPR): Forward-looking IPR protection provides the incentive for firms to invest in new technologies and products, ensures protection for consumer interests, and provides a more stable basis for economic development. Despite certain improvements of IPR laws and regulations since China's WTO accession, piracy and counterfeiting are still pervasive due to the lack of priority and resources dedicated to enforcement and closing existing loopholes in laws and regulations. Market access restrictions that prevent legitimate products from entering the Chinese market further exacerbate IPR infringements. Simply stated, business needs greater assurance that its IPRs in China will be enforced effectively and in a practical manner. Therefore, BIAC welcomes the launch of the OECD project on the economic impact of counterfeiting and piracy and is actively involved in this project.

Environment: Environmental issues have come to the forefront in China. The country is the second largest consumer of primary energy and oil, as well as being the world's largest coal producer. According to the IEA, China will account for one-fourth of all new global CO₂ emissions until 2030, exceeding the increase in emissions from all OECD countries combined. Given the potential negative impact of Chinese economic growth on the environment, we urge the OECD to strengthen its outreach work with China in areas related to environmental policy, climate change, and innovation and technology for sustainable development in order to achieve real global improvements.

Innovation/technology: BIAC appreciates that the OECD and China have decided to extend their cooperation to the area of innovation and have launched a study of the Chinese innovation system. We hope that this study will lead to improved understanding of the Chinese innovation system while at the same time strengthening the policy dialogue between China and OECD countries on innovation-related issues. We believe that the OECD should

also identify barriers that foreign investors are facing (e.g., compulsory technology transfer to obtain investment approval or contracts for public procurement) and assess their negative consequences on foreign investment.

Investment: Foreign investment still faces numerous obstacles in China, as highlighted by the recent OECD project on cross-border mergers and acquisitions. BIAC has provided substantial input to this project, and the business community has a strong interest in further OECD analysis on investment issues combined with policy recommendations that provide for the creation of a more open and reliable investment environment in China. As Chinese businesses are also increasingly investing abroad, BIAC supports the OECD's goal to encourage Chinese investors to enhance their corporate responsibility profile by taking into account the OECD Guidelines for Multinational Enterprises.

Regulatory Review: BIAC applauds the OECD for its recent landmark report on governance in China to which the business community provided input. It was with great interest that business learned of the Chinese request for a regulatory reform review as follow-up work. China's public services system is facing major challenges, and business has a strong interest in the efficient provision of high-quality public services as well as in a market-oriented regulation for public services. By assisting China to reform its regulatory system, the OECD can help create a market for public services that is transparent and accessible to business. Through this, the OECD could facilitate investment, economic growth and public service quality in China and provide increased business opportunities for OECD-based service providers. BIAC encourages OECD governments to undertake this important regulatory review and looks forward to participating in the process.

Further areas of particular interest with regard to the OECD's outreach to China include: anti-corruption, competition, corporate governance, taxation, and trade.

In addition, BIAC would welcome if the OECD could shed some light on further issues of interest to international business, such as:

- the impact of sharply increasing imports by China of certain raw materials on OECD countries and on world prices;
- the effects of specific barriers for foreign investors, such as overly cumbersome qualification requirements for some service providers (e.g. construction) or compulsory technology transfer to obtain investment approval or contracts for public procurement.

BIAC stands ready to provide business input to the OECD-China co-operation. We urge OECD countries to actively support the China-related work of the OECD Secretariat.

Questions for discussion

Would Ambassadors agree with BIAC about the need for a broad and deep co-operation between the OECD and China?

Would Ambassadors agree with business' priorities for such co-operation?

What strategies would Ambassadors prefer in order to get China as engaged as possible in the OECD's work?