

Rhian Chilcott, the head of our Washington DC office, recently participated in a business breakfast discussion about US/China relations.

Here is a short summary of the discussion for your reference:

- Like many European countries, the US is beginning to question its fundamental assumption that engagement with China will inevitably lead to more openness and reform.
- This trend has been highlighted, of course, by Google's announcement that it would reconsider its operations in China, but a wide swathe of companies round the table reported similar worries.
- China may be in the WTO, but it is far from an open market in which to operate. In terms of 'classic' trade policy, it is the subject of the largest number of anti-dumping / countervailing duty complaints at the WTO. Even more significant are the non-tariff barriers it puts in place. US companies believe China is sophisticated in its use of product standards to keep foreign goods out. The Indigenous Innovation Product Accreditation system is just the latest of these.
- The US Congress strongly believes that China continues to manipulate its currency to support exports. Historically, the US Treasury has refused to declare this officially, mostly at the request of the business community. But companies around the table were beginning to question if they should actually support Congressional efforts to get China declared a currency manipulator.
- Tech transfer issues are likely to get tenser in the future. Defence companies have always had to deal with a trade-off between doing business in China and doing business elsewhere, because of nervousness about high-tech products 'bleeding' into the People's Republic.
- More companies in areas such as telecoms are having to deal with the worry that doing business in China creates in third markets. In an era of global supply chains, this can be very problematic to manage: what's the point of exploiting low-cost manufacturing centres in China if their presence in your supply chain automatically cuts you out of other key markets?

In summary, there are plenty of companies still surviving and thriving in China – particularly at a time when growth prospects are anaemic elsewhere in the world. But an increasingly assertive China is riling the political class of its biggest trading partners. Business implications seem likely to follow.

Washington DC

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