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Foreign Firms Resent Beijing's Many Rules

By KEITH BRADSHER and DAVID BARBOZA

HONG KONG — Google is far from alone among Western companies in its growing unhappiness with Chinese government policies, although it is highly unusual in threatening to pull out of the country entirely in protest.

Western companies contend that they face a lengthening list of obstacles to doing business in China, from "buy Chinese" government procurement policies and growing restrictions on foreign investments to widespread counterfeiting.

These barriers generally fall into two broad categories. Some relate to China's desire to maintain control over internal dissent. Others involve its efforts to become internationally competitive in as many industries as possible.

Google, which complained Tuesday about attacks on its computers from China and called for an end to censorship of search results, is not the first company to run afoul of the Communist Party's fears of social instability and strong desire to keep tabs on dissidents and limit freedom of expression.

China has long restricted the sale of foreign movies, books, songs and other media, and it continues to do so while appealing a World Trade Organization ruling in August that these policies violate China's legally binding commitments to the international free trade system. More recently, China has sought to strengthen its domestic encryption industry — for which the government has easy access to all the decryption codes — while withholding the government certification that foreign-owned encryption companies in China need to sell their products to many users.

Jörg Wuttke, president of the European Chamber of Commerce, said that no E.U. companies had pulled out of China yet. But the encryption dispute would be the most likely cause if any did in the near future, he said.

Duncan Clark, the chairman of BDA, a Beijing consulting firm that advises major telecommunications and technology companies, said that Google's difficulties were indicative of broader troubles for foreign companies in China.

"There has been a raft of decisions and unpredictability, a kind of unpleasantness about what's happening here," Mr. Clark said. "There has been this received wisdom that no one can afford not to be in China, but that is being questioned now — there's kind of an arrogance that's

characterizing government policy toward multinationals."

To be sure, doing business in China has never been easy. Foreign companies have long complained of being cheated by joint venture partners who set up parallel businesses on the side or abscond with assets. Many other countries also have policies that favor home-grown companies, although the opportunity for industrialized countries to do so is limited because they operate under tighter W.T.O. rules than China.

Chinese officials and academics dispute whether government policies are discriminatory toward foreign companies. Hu Yong, an associate professor of journalism and communication at Peking University, said that the government was leery of the rapid expansion of the Internet and mistrustful of private Chinese companies as well as foreign businesses.

"I think, in the information technology sector, not only foreign companies are under very heavy pressure, but also private domestic companies," he said. "The general trend is that the government wants state-owned companies to occupy major positions in this field."

Other strains between China and the West over commercial policies have been over government policies that shield Chinese companies from international competition. These policies allow companies to grow in a large home market and prepare to export to less-protected markets abroad.

The newest frictions, particularly in the past year, have been over government procurement policy. When China joined the W.T.O. in November 2001, it promised to negotiate as quickly as possible to join the W.T.O.'s side agreement requiring free trade in procurement. But it has never actually done so, leaving the Chinese government free to use its enormous buying power to steer contracts to Chinese-owned companies.

The National Development and Reform Commission, country's top economic planning agency, ordered national, provincial and local government agencies on June 4 to buy only Chinese-made products as part of the country's nearly $600 billion economic stimulus program; imports were only allowed when no suitable Chinese products were available.

China has also restricted exports of a long list of minerals for which it mines much of the world's supply, like zinc for making galvanized steel and so-called rare earth elements for manufacturing hybrid gasoline-electric cars.

Those restrictions, from steep export tariffs to tonnage quotas and even export bans, have made it cheaper for many manufacturers to locate their factories in China so as to make sure they have a plentiful supply of raw materials free from export taxes. On June 23, the United States and the European Union filed a W.T.O. case challenging Chinese restrictions on zinc and bauxite exports. The Chinese government has denied any wrongdoing.

China's weak protections for patents and trademarks — and the resulting widespread counterfeiting — have produced large industries making goods in direct competition with

Western competitors, but without comparable spending on research and marketing. Many Western companies have tried to respond by limiting the intellectual property they transfer to China.

Oded Shenkar, a professor of business management at Ohio State University and the author of "The Chinese Century," said that very few companies would be willing to leave a market as big as China's and that it might make sense only for a company like Google whose primacy rests almost entirely on intellectual property.

"The U.S. is the world's greatest innovator, and China is the world's greatest imitator," Mr. Shenkar said. "Google? What do they have other than intellectual property? If by being in China you're at risk of losing it, maybe you don't want to be there."

But the Chinese market is so large and so competitive that many multinationals choose to offer their latest technology for fear of losing market share if they do not.

Volkswagen used dated technology in the cars that it sold here in the 1980s and 1990s, so the Chinese government asked multinational automakers in the mid-1990s which would offer the most advanced technology in exchange for the right to enter the market and build a factory in Shanghai. General Motors won the contest and brought its latest robots and automotive designs to a joint venture with Shanghai Automotive.

China has become the world's largest auto market, yet it still limits foreign automakers to 50 percent stakes in assembly plants in China and assesses very steep tariffs on imported cars. Chinese automakers that formed joint ventures with multinationals, like First Auto Works and Shanghai Automotive, have grown into giants that are now beginning to produce their own models, designed and built almost entirely in China.

When the European Chamber of Commerce issued a report last September warning that China was starting to become less open for foreign investors, the Chinese Ministry of Commerce responded by declaring that "China has been making efforts to create a sound and fair environment for foreign businesses."

A Ministry of Commerce spokeswoman would not elaborate on this policy over the phone Wednesday afternoon, requesting that questions be faxed instead. There was no immediate reply to the fax.

David Barboza reported from Shanghai. Michael Wines contributed reporting from Beijing.

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