Challenges and Paths for Foreign-invested Enterprises to Exercise Their Rights to Participate in China’s Standard-setting System

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Abstract: In response to concerns raised by foreign-invested enterprises ("FIEs") in relation to technical market entry barriers, China promulgated a series of policy and legal documents to support FIEs to participate in standard-setting system. FIEs today note better transparency, greater access to standard-setting activities, and stronger links between China’s standard-setting groups and their international counterparts. Despite these encouraging signs, FIEs still face significant barriers to full participation in China’s standard-setting system. The main reason is that these policy and legal documents have not clearly stipulated the procedures for FIEs to participate in standard-setting system. This reserves more discretionary rights for domestic standard-setting entities to set restrictions on FIEs’ participation. To protect FIEs’ equal rights and optimize the business environment, it’s necessary to regulate the due process of FIEs’ participation in standard-setting system. Despite some challenges, FIEs can take some measures to find the proper level of engagement and participation in China’s standard-setting.

Key words: Foreign-invested enterprises; Standard-setting; Due process; Transparency

Introduction

With the further development of China’s reform and opening up, China has attracted a large number of FIEs to participate in economic construction. Since standards establish minimum thresholds that products must meet before entering the market, the enthusiasm of FIEs to participate in China’s standardization work is increasing. In China, several government bodies receive funding and have a mandate to decide not only which standards to develop, but also the processes and fora used to develop them, especially in the case of the formulation and modification of national standards. This top-down approach promotes the rapid development of China’s standards, but it also causes some difficulties for FIEs to participate in the standards-setting process.

The Positive Significance and Legal Status for FIEs in China’s Standard-setting System

In addition to the requirements provided by the relevant Chinese laws and regulations, the detailed product
regulatory requirements are often provided in the relevant Chinese standards. Standard for a particular product may be enacted at five different levels: national standard, industry standard, local standard, association standard and enterprise standard. National standards are technical requirements applicable to the whole country and may be mandatory or voluntary. Mandatory standards are sometimes referred to as "GB" standards because their unique identification codes use this prefix. Under the Standardization Act, mandatory standards are primarily used to address human health, safety, environmental and national safety issues. For other issues, there are voluntary national standards. Most national standards are issued by Standardization Administration of China ("SAC"), with exceptions in certain industry-specific areas. Industry standards are also national standards in scope, providing technical requirements in specific industries where there are no national standards. If a national standard is written that covers the scope of an industry standard, the corresponding industry standard is usually abolished. Industry standards are issued by relevant industry regulators and registered with SAC. Companies reported that the importance of industry standards varies by sector. Local standards refer to requirements for standardization not covered by national or industry standards, which are specific to local conditions. They are developed under the authority of a provincial government (or a municipal government licensed by the provincial government), are usually regulated by the relevant market regulator and must be registered with SAC. They apply within the jurisdiction of their issuing body. Association standards are a new type of standard given legal standing in 2017. Association standards are voluntary and can be drafted and issued by any social organization legally registered under the Ministry of Civil Affairs (MOCA) where no relevant national, industry, or local standard exists. This allows these organizations to quickly create standards to meet market needs, since the drafting process for government-led standards is very lengthy. Many association standards are being drafted in fast-changing cutting-edge technologies such as artificial intelligence, blockchain and big data. Corporate standards are drafted by the company and only apply within the company, but they must be self-reported to the government. These standards shall not be lower than the corresponding national or industry standards, and some companies may use enterprise standards to demonstrate the technical advantages of their products.

Most national standards are drafted and revised through technical committees ("TCs"), which are responsible for setting priorities and work plans within their individual technical standards area and for drafting and revising those standards. The SAC can also designate other agencies and organizations to oversee technical committee work. Many of these designees are PRC government agencies such as Administration of Quality Supervision, Inspection, and Quarantine ("AQSIQ"), the Ministry of Industry and Information Technology ("MIIT"), and the Ministry of Public Security, but others specialize in standards work.

**FIEs' Participation Practices in Standard-setting System**

The participation of FIEs in the formulation of China’s standard-setting is beneficial to both domestic enterprises and FIEs. Firstly, FIEs with relatively high technical standards can promote them as industry standards, which will help them improve their market competitiveness. Secondly, some FIEs can’t be accustomed to domestic industry standards, if FIEs can participate in the standard-setting process, they may fight for their reasonable rights and interests. Thirdly, it’s conducive to fair bidding for FIEs when the public sectors quote industry standards in bidding conditions. It is also good for domestic enterprises. On the one hand, it promotes domestic enterprises to conform to international standards. For example, one
member company active in shaping standards within the International Organization for Standardization (ISO) successfully encouraged greater Chinese participation and buy-in to the work of the ISO committee dealing with their product area—and then used that leverage to participate more in standard-setting within China. on the other hand, a fairer domestic market order is conducive to healthy competition between domestic enterprises and FIEs, and effectively promotes their core competitiveness.

China’s standards are drafted and revised through formal and informal channels that vary based on the type of standards and industries involved. These channels can include government agencies, inter-agency committees, industry associations, ad hoc drafting groups, and even individual companies. Although companies are participating in standards drafting activities at multiple levels, limited company resources cause many companies to focus attention on national and industry standards, as these generally have the broadest impact on their products.

FIEs have been active player in helping to provide technology for Chinese standards development and many of standards working groups have foreign members. There are generally two means for FIEs to participate in standard-setting: formal technical committee participation and informal standards participation. The most direct way of participating in China’s standard-setting processes is by becoming a formal technical committee member, but obtaining membership is challenging. FIEs that are unable to participate as voting or observer members on technical committees have sought other means to participate in standard-setting. One means is to provide comments or feedback on draft standards and standards-related policies. PRC agencies have made considerable strides to increase transparency across the regulatory landscape, including standards, and companies have increasing opportunities to provide comments on draft standards to SAC directly. In addition to providing comments, FIEs may be able to participate as a technical advisor to standard-setting groups even if the company cannot be a full member. Other FIEs have sought to increase their standards profile to position themselves for more formal or informal participation. To achieve this goal, FIEs may encourage existing staff to publish in respected industry journals or present at conferences and events in the standards community. They can also seek to hire established industry experts from technical institutes or other relevant organizations. In addition, FIEs have used their participation or leadership in international standards activities to promote increased Chinese adoption of accepted international standards or to build relationships that can create more opportunities for domestic standards-related interaction.

The Legal Status of FIEs has been Clarified in Participating in Standard-setting

Recognizing the importance of FIEs in standard-setting, China published a series of policy and legal documents to support their participation. The State Council issued a guideline on March 26, 2015 to deepen reform of the standardization system, which propose” further relaxation of FIEs’ participation in the formulation of standard-setting. The Standardization Administration of China (SAC), National Development and Reform Commission (NDRC), and the Ministry of Commerce (MOFCOM) jointly issued the Guiding Opinions on Foreign-Invested Enterprises' (FIE) Participation into China's Standardization Work on November 13, 2017. The guidance states that FIEs will enjoy national treatment—or the same rights as those that are designated to domestic enterprises—in the participation of standardization work. FIEs can also participate in the drafting of national standards and translating national standards into foreign
languages. FIE representatives may also participate in National Standardization Technical Committees as members or observers as well as participate in international standardization organization activities. In order to implement the above opinions, all the relevant administrative departments of the State Council, industry associations, local competent standardization administration authorities, and all the national standardization technical committees shall fully recognize the implication of FIEs’ participation in standardization work of China, attract FIEs to participate in standardization work of China, strive to create the open, fair and just standardization environment for domestic and FIEs, so as to promote the healthy development of standardization work of China.

On November 7, 2019, the State Council released the Opinions on Further Improving Work for the Utilization of Foreign Capital, which states "Ensure equal treatment to support the participation of foreign-invested enterprises in standards-formulation, especially in the fields of medical equipment, food and drugs, ICT products, Improve the scientific and transparency of the formulation and revision of industry standards and technical specifications". Prior to the promulgation of the new Foreign Investment Law, the participation of foreign businessmen in standard setting was stipulated by policy documents, which had no corresponding legal effect.

The new Foreign Investment Law of China has come into effect from January 1, 2020. It was adopted by the People’s Republic of China ("PRC") National People’ Congress on March 15, 2019. The PRC State Council issued the Regulations on the Implementation of the Law on Foreign Investment on December 26, 2019, which details or clarifies certain provision of the Foreign Investment Law. In terms of the requirements of the Foreign Investment Law that domestic and foreign-invested enterprises should equally participate in the formulation of the standards, the Implementation Regulation further specifies that the wholly foreign-owned enterprise shall have the equal right to formulate "national standards, industry standards, local standards and corporate standards" in accordance with the laws, and can put forward the project proposal and undertake the drafting work. After the national law provides for the right of FIEs to participate in the formulation of standards, local provinces have also stipulated the rights of FIEs in the regulations on the promotion of foreign investment. For example, Shanghai Regulations on Foreign Investment has been adopted on September 25, 2020. According to article 35, "Foreign-funded enterprises in Shanghai have the equal rights to participate in the formulation and revision of the local standards. In cases where the local standards are closely related to the production and operation of foreign-funded enterprises, it is advised to listen to the opinions of foreign-funded enterprises and try to provide the English translation or extracts of the standards for comments. Foreign-funded enterprises may appoint and recommend representatives to join the technical committee of standardization administration in Shanghai. Representatives of the foreign-funded enterprises are encouraged to join the national technical committee of standardization administration. Market administration and relevant departments shall make the whole process of the formulation and revision of the local standard open to the public to provide convenience and guidance to foreign-funded enterprises participating in the preparation and translation of local standards as well as the cooperation in the international standards." After the promulgation of the Foreign Investment Law, the legal status of FIEs in the formulation of Chinese standards has been confirmed.
The Challenge of FIEs' Participation in China’s Standard-setting System

According to the 2019 Membership Survey by U.S.-China Business Council, 30% of the companies also note that domestic preferences in Chinese government procurement, as well as domestic advantages in standard-setting and preferential financing, contribute to an anti-competitive operating environment. Unequal treatment in standard-setting between foreign and Chinese companies remains a concern.

FIEs can’t Fully Participate in Government-led National Standard-setting

China’s standardization system is primarily government-led with a significant number of mandatory standards that essentially serve the purpose that technical regulations would in most countries. In western countries, government plays a supporting role and the standardization system are industry-led. Chinese approach to standards and conformity assessment has not traditionally placed the same value on openness, transparency, and broad stakeholder consultation, but there has been considerable progress in recent years.

The most direct way of participating in China’s standard-setting processes is by becoming a formal technical committee member, but obtaining membership is challenging. Some FIEs may be unable to participate because of existing rules that limit the number of technical committees in which any individual can participate. According to the 2009 PRC Administrative Rules for National Technical Committees, individuals may not serve on more than three technical committees simultaneously. Companies that want and are able to participate in technical committees must confront the member selection process, which differs between committees. The decision-making power of membership rules and procedures is determined by each committee. Despite some progress, FIEs report that barriers to participation remain. In established technical committees and standardization groups with full membership, existing members are often reluctant to readjust their membership and admit new participants, whether national or foreign enterprises. As a result, committee leaders rarely re-examine membership.

However, in some cases, existing domestic players explicitly exclude or restrict FIEs from participating in technical committees because they want to protect their market position or because of national security concerns. National security issues are a major concern for IT companies in particular. For example, in TC260 there are two working groups that do not allow foreign companies to participate, and until very recently, the TC260 working group for cryptography, which has significant business implications for foreign ICT companies, did not allow foreign participation either. While there are no explicit policies that bar foreign participation, FIEs reported that their applications to participate remain in perpetual limbo. In other cases, the Commission allowed FIEs to participate, but limited them to observer status or partial participation, where FIEs could only participate in discussions on certain standard areas. For example, FIEs in some technical committees are allowed to observe some subcommittees and working-level discussions, but are barred from participating in others. Some FIEs are able to participate in later stages of drafting or submit comments on draft standards, it was very difficult to participate in the early stages of drafting, which is often only open to invited experts, and agenda setting, which is tightly government-controlled.
Lack of Transparency in China’s Standard-setting Process

In China’s standard-setting Process, transparency has improved significantly in recent years. Starting in 2017, SAC began publishing the text of all mandatory and voluntary national standards that it issues on a centralized online platform, although food safety, environmental, and construction standards are issued by other agencies and maintained in separate databases. Companies can submit written feedback on specific standards via this platform. SAC also maintains databases of information on national, industry, local, association, and enterprise standards including the drafting bodies and the organizations that oversee them, their implementation status, and the names of the drafters and their affiliations.

The level of transparency, however, varies depending on the type of standard. The database of national standards provides information on what stage of drafting current standards projects are in and serves as a centralized platform for online comment solicitation. However, other types of standards are only published in these databases after their release, at which point it is too late for companies to get involved. Transparency can also depend on the government agency in charge of the standards-setting process. Since SAC represents China at many international SSOs and has been exposed to international practices, the TCs that it manages tend to have better transparency and due process than those managed by other stakeholders. For example, in a research of top ten social organizations that are active on the Chinese national information platform of social organization standard, the author found that "In terms of ten social organizations in China, six social organizations have official websites, on which information related standardization work is disclosed. The four social organizations without official websites are: Shenyang Citizens' Education Association, Zhongguancun Material Testing Technology Alliance, Zhejiang Product and Engineering Standardization Association, and Standardization Association of Shandong. It concludes that the social organizations registered with the Ministry of Civil Affairs of the State Council are relatively more orderly and transparent, which can be seen from the fact that they have established their own official websites and disclosed relevant information on them. But the transparency and normativity of local social organizations need to be improved." In the drafting instructions on "Administrative Measures for the Establishment of Industry Standards of the Ministry of Industry and Information Technology (Consultation Paper)", one of the shortcomings is that the transparency in the standard-setting process needs to be further improved.

Increasing numbers of draft standards are released for public comments for longer periods. In January 2020, SAMR issued new measures on mandatory national standards that increase the comment period from 30 to 60 days. However, these measures do not apply to other types of standards and companies report that it has not been uncommon for comment periods to be far shorter than that. Additionally, there is no feedback mechanism to let companies know if or how their input was considered. Another issue with comment solicitation is that sometimes it is conducted on an invite-only basis, which may exclude relevant stakeholders. Other times, only associations will be invited to comment rather than companies themselves, so companies not involved in the relevant associations will be left out of the comment process. TC meeting agendas and proposals are also rarely released with sufficient lead time. Such practices make it extremely difficult for multinational companies that require translation and coordination between offices in different countries to prepare meaningful input for TC meetings.
The Prospect of FIEs Participating in the Formulation of China’s Standard-setting

In order to realize the important role of FIEs in China’s standard-setting process, the government should adopt due process to regulate the standard-setting work. From the perspective of FIEs, they should use existing resources to play a role in the accessible standard-setting fields. China’s standards system is complex and rapidly changing, making it challenging for FIEs to approach. Despite the challenges, some FIEs can point to successes—concrete instances where they were able to navigate and even guide the development of standards in vital areas.

Due Process: The Way to Protect FIEs’ Equal Right to Participate in China’s Standard-setting Work

The concept of due process emerged in law, first in the UK and then in the USA, "as a test of whether or not individual rights were respected when the state acts against a person". In the context of standard-setting, the due process can be defined as a formal consultation process of stakeholders. It is supposed to guarantee that decisions will be made under some democratic constraints.

Although the Foreign Investment Law and the Regulations for the Implementation of the Foreign Investment Law clearly stipulate that FIEs have the equal right to participate in the formulation of China’s standards, the implementation of these rules still needs procedural guarantees. To realize the right of foreign enterprises to participate in the formulation of Chinese standards, it is necessary to introduce more standardized procedural rules. In practice, the subject of private regulation can formulate or comply with more standardized procedures based on their own needs to ensure fairness and achieve regulation effects. A standardized program contains the following elements: Firstly, a complete program structure (including participants of the program, clear information instructions, dialogue and negotiation, results, and consequences of violating legal procedures). Secondly, clear behavior direction is clear, specific and operational. Thirdly, the value of compliance with procedures (neutrality, efficiency, fairness, etc.). Fourthly, it has the elements of due process of law. Among them, the complete program structure is the skeleton, the explicit behavior direction is the flesh and blood, and the intrinsic value and due process of the program is the soul of the whole program. Through scientific procedure construction, the effectiveness and scientific nature of private regulation measures can be promoted. The regulatory authorities comply with the principles of the World Trade Organization on standardization and ensure that the standardization process is open, transparent, fair and consensual. Like the international standardization process, China’s domestic procedures should be based on solid rules, and opinions and suggestions should be fairly evaluated based on technological advantages.

The principle of openness. One of the basic requirements of due process is to give stakeholders the right of expression, and publicity is an important way to protect this right. China’s industry standards are more often proposed by the standardization technical committees, competent departments, scientific research institutes and other units than by the real market demanders. This is likely to cause the standards to not meet the needs of the market and society. After the formulation of the standards, the drafts and other documents
are generally printed and distributed to the main production, distribution, use, inspection and other units of the relevant departments and scientific research institutes for comments. The units that are solicited for comments will take one to two months to reply in written form. Just as architects need feedback from builders before designing drawings, private regulators also need to effectively communicate with the regulated on the applicability and rationality of the rules of conduct and regulatory measures. In order to enable effective communication between the subject of private regulation and the regulated party, a communication mechanism that conforms to the characteristics of the field should be established and followed. Related to the communication mechanism and having a significant role in realizing a benign game between the regulators and the regulated is the information disclosure and procedure disclosure system. China should establish a dedicated and unified channel to disclose all standards (national, industry and other types of standards) and standards-related policies and regulations formulated by the government or relevant government agencies to domestic, foreign and overseas companies. The publicity period should be at least 60 days. It is difficult for companies to coordinate the research and development groups and engineering teams to provide high-quality technical advice in a short period of time. If draft standards and feedback must also be translated into and out of Chinese, the challenges faced by companies are even more severe. In addition, all non-governmental institutions and organizations that formulate standards and standards-related policies and guidelines, regardless of nationality, should be required to disclose the above-mentioned document drafts for free to all stakeholders for comments. This will not only increase transparency, but also increase the opportunities for foreign investors to participate in standard setting.

The principle of balance. In the process of standard formulation, strong interest groups tend to control the right of standard formulation, and they tend to formulate standards that are conducive to their own commercial interests, which is very important for the balance of interests. At the same time, the formulation of standards is inseparable from science and professional knowledge, and expert argumentation is indispensable. Government-appointed scientists alone cannot fully solve the problem of setting standards for risk regulation in areas such as health and the environment. In addition, well-known domestic research institutions and experts and even relevant international research institutions, associations and experts should be invited to provide independent advice, so as to balance the role of government "hired" experts and independent experts. At the same time, the importance of experts does not mean that the public interest can be ignored, because the process of standard development is not only a technical issue related to safety, but more likely a process of interest game. In this regard, the US approach is to balance various interest representatives through rules, never allow a single group to control the standard setting process, and establish corresponding mechanisms to ensure that various interest groups can fully express their opinions and views. However, in China, according to relevant regulations, experts from users, production units, industry associations, research institutes, academic groups and relevant departments should participate in the drafting of industrial standards. However, in this link, there is no balance mechanism, which often leads to the monopoly position of large enterprises.

Responses to different opinions. In the process of standard formulation in China, there is a lack of procedural regulations on how to respond to different opinions, especially the opposite opinions, and how to solve the differences. However, private entities such as the American National Standards Institute and the American Society for Materials and Testing have detailed rules for negative votes that need to be carefully considered
by committees and sub-committees. The reasons for the negative vote were many, including objections to the proposed standard, which should be clarified by both the Committee and the Subcommittee unless the negative opinion was "unconvincing". Of course, there are both cost and efficiency considerations. The standard-setting body seeks feedback from the industry, but does not specify how this feedback will be reviewed or considered. In order to ensure that technical requirements can be feasibly implemented, more time should be given to the solicitation of comments from non-government stakeholders. At least 60 days should be provided during the consultation process to allow the drafters of mandatory standards to communicate effectively with industry and society, and include forums that allow for two-way communications between drafters and industry. This will ensure that society and industry are adequately consulted and will not be negatively impacted by the release of new mandatory standards.

**Actions that FIEs can Take**

Find the right areas. Some FIEs can’t participate in standard-setting work because of limited human or financial resources. Based on the company’s key products and manufacturing processes, FIEs should research the status of relevant standards in China. FIEs should assess the amount of time, resources, and technical expertise they have to invest in standards issues. They should pay particular attention to resources that can be used in China and what resources have already been allocated on international standards activities. FIEs should also work internally to build a more cohesive standards team and consider how to tie standards work to their broader product strategies in China.

Find the right organizations. Engagement with regulators can provide opportunities to raise standards-based complaints or seek clarity on implementation timelines and whether certain requirements are voluntary or mandatory. Identify the departments or individuals within the company who are responsible for standards or regulatory affairs and work with them to share information on standards and conformance issues across geographic responsibilities and business units. Establish and maintain relationships with PRC government agencies responsible for standards, conformity assessment, and regulations that affect the company’s products. Companies should meet with these agencies regularly to gain an understanding of these agencies’ needs, challenges, goals, and objectives and position themselves as a partner that can support these agencies. FIEs should learn which technical committees and industry associations are active on standards that affect their products and processes, the involvement of Chinese and foreign competitors in these groups, and how PRC standards compare with international standards. In some areas—such as energy efficiency and smart grid technology—where varying groups are competing for standards leadership, multiple groups may be active on different aspects of a product or technology.

Find the right methods. Once FIEs begin to participate, it should remember that the technical experience that enabled participation in the first place continues to hold the most value in standards-related discussions. When lobbying on a particular standard, technical concerns and proactive technical fixes make more convincing arguments to standards developers than market access issues or market impact assessments. For FIEs that are significantly more technically advanced than domestic enterprises, they can often be more influential in standards setting because they will have more technical expertise to make contributions. However, as the technological gap between some FIEs and domestic enterprises narrows in more mature industries, it may
become challenging for FIEs to rely solely on superior technology to exert influence. FIEs can also enhance their reputation by sending experts to industry events or holding technical seminars to educate their industry peers. Standard-drafting groups sometimes reach out to foreign industry leaders for advice.

Conclusion

In order to expand the pace of opening up, optimize the business environment and create a fair and standardized environment for FIEs, China has clarified the right of FIEs to participate in standard-setting on an equal basis in the Foreign Investment Law, and many provinces’ local regulations also clarified such rights. However, whether FIEs can really participate in the formulation and modification of China’s standards still faces many challenges. China can protect FIEs the right to participate in standard-setting by regulating due process, and FIEs should use existing resources to play a role in the accessible standard-setting fields. The development of China’s Standard regime depends on the joint efforts of domestic and foreign enterprises.

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