

China Further Boosts Foreign Investment

7 SEP 2017

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On 16th August 2017, the State Council promulgated “the notice about measures of promoting foreign investment growth” (Guofa [2017] No.39) (hereinafter “Circular No.39”)¹, aiming at further facilitating a better business environment to attract and utilize foreign investment in an optimal way.

BACKGROUND

In China, foreign investment has been playing a positive and significant role in the course of economic development. Since 2008, China has been within the top three ranks in respect of FDI inflows. Under the background that in 2016 FDI in Asia plummeted by 13% to US\$1.52 trillion, China remained the third recipient in worldwide by attracting US\$139 billion in inflows. Besides the inflow volume, China’s foreign investment structure continues to upgrade, stressing on the high value-added industries and capital-intensive industries or technology-intensive industries instead of labour-intensive industries.²

However, in recent years China is confronted with economic downward pressure as well as intensified capital outflow. Moreover, there are some restrictions on market access yet protecting foreign investment from engaging into China. Being faced with the situation, on 12th January 2017, the State Council issued “the notice about the measures of expanding opening and positively use foreign investment” (Guofa [2017] No.5) (hereinafter “Circular No.5”)³, bringing forward to further expand opening to overseas, to create a fairly favorable environment and strengthen the introduction of foreign investment.

On 28th June, "Catalogue for the Guidance of Foreign Investment Industries (2017)" (hereinafter the "2017 Catalogue")⁴ was updated and officially published to reduce the industry number of restricted sector and prohibited sector, offering foreign-invested companies more convenience.

By undertaking the above policies, Circular No.39 is expected to further create a better business environment for foreign investors so as to appeal to foreign investment. Further, related practical policies of these measures are expected to be issued before the end of September in principle.

¹ State Council (16 Aug 2017). Retrieved from: http://www.gov.cn/zhengce/content/2017-08/16/content_5218057.htm

² UNCTAD (1 Feb 2017). Retrieved from: http://unctad.org/en/PublicationsLibrary/webdiaeia2017d1_en.pdf

³ State Council (17 Jan 2017). Retrieved from: http://www.gov.cn/zhengce/content/2017-01/17/content_5160624.htm

⁴ NDRC & MOFCOM (28 Jun 2017). Retrieved from: http://www.gov.cn/xinwen/2017-06/28/content_5206424.htm

HIGHLIGHTS

By proposing 22 measures, Circular No.39 covers 5 areas including market access loosening, financial policies, and enhancement of National-level Development Zones, foreign talent introduction and business environment optimization. For details please refer to Table below.

Table [Specific Measures to Boost Foreign Investment]

Task	Content
Loosening of market access for foreign investment	<ul style="list-style-type: none"> ■ Implementation of “pre-establishment national treatment plus negative list management” regime shall be carried out to nationwide ■ The following 12 industries shall be further open to foreign investment with timelines and roadmaps: <u>New energy vehicle manufacturing, ship design, aircraft maintenance and international marine transportation, railway transportation, gas stations, call centre, internet service business premises, performance agencies, banking, securities and insurance</u>
Enactment of preferential financial policies	<ul style="list-style-type: none"> ■ The corporate tax shall be deferred on the income applies to reinvestment for the non-resident companies who reinvest in encouraged sectors in China with the dividends received from resident enterprises ■ Preferential corporate income tax policies for advanced service enterprises shall be implemented across the nation, which aims at promoting foreign capital to high-tech and high-value-added services. ■ Preferential tax policies shall be enacted over the resident company’ eligible income repatriated from overseas to domestic (Regional headquarter of MNCs included) ■ By way of tax exemption and other preferential treatment so as to encourage the MNCs to establish regional headquarter in China
Improvement of investment environment in National-level Development Zones	<ul style="list-style-type: none"> ■ The delegation of investment management authorities shall be fully performed ■ Assistance of the implementation of major projects ■ Enhancement of the industrial support service
Facilitation of entry and exit for foreign talents	<ul style="list-style-type: none"> ■ The foreign talents introduction regime shall be improved by building up a standardized and formalized system for foreign talents work permit in 2018 ■ To introduce international high-level talents in a more positive way. For instance, establishment of the permanent residence management regulation and issuance of Multi Entry Long Term Visa for qualified foreign talents
Optimization of business environment	<ul style="list-style-type: none"> ■ Improvement of the foreign investment legal regime ■ Assurance of free remittance of foreign investor’ eligible income such as profit and dividend ■ Foreign investment’s involvement into domestic companies’ upgrading and restructuring shall be encouraged ■ Protection of foreign invested companies’ intellectual property and enhancement of the internationally favourable environment of R&D ■ Maintenance of the continuity and stability of foreign investment policies

COMMENTS

In recent years, with the 'Made in China 2025' as well as the 'Belt and Road' strategy put on agenda, foreign investment is becoming further welcome to engage into China's economic development. The continuous policies within these 2 years in regards of foreign investment hint that more and more preferential implementations will be offered in the near future. As local authorities are delegated to implement supportive measures to attract foreign investment based on own situation, foreign investors are recommended to well prepare and pay attention to related movements of different areas so as to catch business chances with favourable treatments.

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