



The Revision of Catalog of Industries for Guiding Foreign Investment

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1. Background

China's State Council recently approved the latest Catalog of Industries for Guiding Foreign Investment. Released by the National Development and Reform Commission, and the Ministry of Commerce, the catalog took effect on April 10, 2015. The main purpose of this revision is to further decentralize and deepen reform of the investment approval system. An important document regarding the regulation of foreign direct investment, the investment catalog clearly defines encouraged, restricted and prohibited areas in foreign investment.



2. Positive changes of the revision

The purpose of this revision is to actively relax foreign investment access and significantly reduce restrictions on foreign investment. Following this revision, the number of restricted investment sectors has been reduced from 471 to 423. Among them, 41 restricted entries have been removed, and the number of encouraged and prohibited entries almost remains stable, decreased by five and two, respectively. This is so far the largest relaxation of the investment catalog. Some notable examples are as follows:

2.1 Manufacturing industry

A large number of entries have been removed from this restricted category, including the production of rice wine, name-brand spirits,

raw chemical materials and chemical product manufacturing, pharmaceutical manufacturing, chemical fiber manufacturing, general equipment manufacturing and special equipment manufacturing (with the exception of weapons and ammunition), among others.

2.2 Infrastructure and real estate

The investment catalog cancels restrictions on subway and real estate investments. Specifically, the construction and operation of city metro and rail transit are no longer restricted to Chinese holdings. This means that foreign investors can build and operate foreign-owned metro lines in China. In addition, the real estate industry is no longer restricted--there are no more barriers for foreign investors in China for land development and construction, and the

operation of high-end hotels and office buildings, among other projects.

2.3 Wholesale and retail industries

Direct sales, mail order and online sales; the construction and operation of large-scale agricultural product wholesale markets; and the distribution of audio-video products have all been removed from the restricted list.

2.4 Energy industries

There has also been a significant revision to the investment catalog in this sector. The construction and operation of power grids has been adjusted from restricted to encouraged. Though the requirement for a Chinese majority shareholder still exists, it reflects the attitudes of the government to encourage foreign investment participation in the power industry.

2.5 Financial industry

The entry of financial companies, trust companies and currency brokerage companies is no longer restricted. In addition, there are clearer requirements for foreigners investing in banks, stating that, “a single overseas financial institution and its affiliated parties under its control, or joint control, are only allowed to invest in not more than 20 percent of the shares of a single Chinese-funded commercial bank as promoter or strategic investor; multiple overseas financial institutions and the affiliated parties under their control or joint control are only allowed to invest in a total of not more than 25 percent of the shares of a single Chinese-funded commercial bank as promoter or strategic investor; and, overseas financial institutions investing in rural small- and medium-sized financial institutions shall be banking financial institutions.”

2.6 Commercial services industries

The restriction on the operation of entertainment and recreation services has been removed from the investment catalog. Moreover, foreign investors may become

involved in e-commerce, according to the investment catalog.

3. Negative Changes

The investment catalog also sets some new restrictions and prohibitions for foreign investors, to be more specific:

3.1 Automotive manufacturing

The “manufacturing of automobiles, special vehicles and motorcycles” is now included in the restricted entries of the investment catalog, while this was not the case in the 2011 edition. It is also required that “Chinese parties shall hold at least 50 percent of the shares. One foreign investor may establish two or less equity joint ventures in China (not including Hong Kong or Macau) to manufacture the same category of whole vehicle products (i.e. the category of passenger cars, the category of commercial vehicles or the category of motorcycles), provided that the foregoing restrictions on the maximum of two joint ventures are not applicable if the same foreign investor engages in the merger of other domestic auto manufacturers jointly with its Chinese joint venture partners.” This change reflects the concern of the authorities to tighten foreign investment in automotive manufacturing in order to implement support for the development of home-brand automotive manufacturing.

3.2 Education

The opening of higher education institutions, ordinary senior high schools and preschool education institutions are restricted according to the investment catalog. These must be operated under the conditions of “Sino-foreign cooperative joint venture operations”, where the major shareholder is a Chinese entity. In addition, compulsory education institutions are also included in the prohibited entries. There is still a long way to go before foreign investors can invest in many sectors of China’s education system.

3.3 Transportation

“General aviation companies for business flights and air sightseeing tours” has been added to the investment catalog, and Chinese parties should be the controlling shareholders.

3.4 Commercial services industries

“Consulting on Chinese legal affairs (excluding the provision of information on the environmental impact of Chinese law)” has been added to the prohibited entries, whereas it was only “restricted” in the 2011 edition.

4. Conclusion

Overall, through this revision of the investment catalog, it indicates that the Chinese government wants to adjust and optimize the economic structure by encouraging foreign investment to invest in areas such as modern agriculture, advanced manufacturing, financial industrials, real estate and energy industrials. In addition, under the condition of the decentralization of the Chinese government, it can be predicted that the future investment catalogs will be even more simplified and there will be less barriers for foreign investors to invest in China.

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