

## Revision of the Foreign Investment Catalogue – 2011

The first Foreign Investment Industry Guidance Catalogue (the Catalogue) was published in 1995 and has reflected the development and progressive opening up of the Chinese economy since then. It is the guiding catalogue for foreign investments in China and it sets out in great detail the industries where foreign investment is encouraged, permitted, restricted or prohibited. In this month's issue of the NCO Newsletter we will take a look at the proposed revision of the Catalogue and which industries it will have the most impact on.

The draft of proposed revisions of the Catalogue has been going through an amendment review process commenced by the State Council in 2010 and it was released in early April this year by the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) for public comments.

### **Why has the catalogue for foreign investments been revised?**

The overall path and goals for the Chinese economy was laid out in the [12<sup>th</sup> Five Year Plan](#) earlier this year with a clear aim of shifting the economy towards a more balanced mix between

## NCO Update

### **Royal Sweden – Hong Kong Business Council Events**

NCO China has become a member of the Royal Sweden – Hong Kong Business Council which promotes trade, knowledge, and cultural exchange between Hong Kong and Sweden at events in major Swedish cities.

You can meet NCO at the upcoming Business Council events in Gothenburg on 8 June and Malmoe on 9 June. Please contact: See below.

For more information on the Royal Sweden – Hong Kong Business Council, please see:

[www.hongkong.se](http://www.hongkong.se)

### **NCO Joins BRIC Event in Denmark**

Hedensted Erhverv will host an investment seminar on opportunities and global business models in the BRIC-countries on June 15, 2011. There will be presentations by various experts on these markets as well as workshops about the

manufacturing and consumption and with an emphasis on R&D in high-tech and green industries. Furthermore, seven industries were also identified as being strategically important in the continued development of the Chinese economy; and as it turns out these industries are also represented in the draft revision of the Catalogue under newly encouraged industries. The new Catalogue is therefore in coherence with the restructuring of the Chinese economy and a reflection of the current macro-economic and industrial agenda in the country. The State Council has addressed various policy objectives which it believes would accelerate the economic and technological development in China by further liberalization and opening up of certain domestic emerging industries of strategic importance.



Which industries will feel a 'positive' impact and which will feel a 'negative' impact from the new Catalogue? A number of industry sectors have been added to the encouraged list or moved from the restricted and prohibited list, including but not limited to the below:

**Newly encouraged industries:**

- Vocational training
- Venture capital enterprises
- Energy conservation building materials
- Wind turbine bearings and gearboxes
- Aviation and aerospace
- Construction and operation of water treatment plants

business environment and co-operation opportunities for Danish companies with interests in these four countries.

For more information on the seminar, please see [www.hedenstederhverv.dk/p383.asp](http://www.hedenstederhverv.dk/p383.asp) (in Danish) or contact:

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## ChinaBiz Blog

### Spanish - Chinese Co-operation

Spain and China has been trade partners for many years, however, the relationship between the two countries has recently deepened significantly with a number of official visits and high-profile deals being signed.

The most noticeable deals are between Spanish electrical giant Red Electrica and China's State Grid Corporation and between Gamesa and Longyuan Power Group Corp.

- New high-tech glass and optics products
- Energy saving automotive parts and components
- Advanced medical equipment
- High-tech agricultural machinery

**Newly permitted industries** (removed from the restricted or prohibited list):

- Distribution and importation of books, newspapers and journals
- Production of carbonated soft drinks
- Medical institutions (although limited to EJV and CJV)
- Importation of audio-visual equipment and e-journals
- Internet music services

**Newly prohibited industries:**

- Domestic express parcel service
- Construction and operation of villas

### **New focus areas**

The ongoing economic and social development in China has created an increased demand for investments in certain sectors such as high-technology, new energy, environmental sustainability, value-added manufacturing and enhancement of human resources. By increasing investments in R&D and innovation in China and promoting the development of various service industries the government aims at boosting domestic consumption as it is no longer a sustainable development path only being the factory of the world. Some factors including a scarcity of labor and electricity in some regions have also, to some degree, made it a necessity for China to go

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### **Energy-efficient Buildings on the Rise**

An early deficiency of electricity in many Chinese provinces this year has prompted the Ministry of Finance and the Ministry of Housing and Construction to jointly release a document prohibiting the construction of energy wasting buildings. Despite standards being introduced in 2005, there is still a low implementation of energy saving materials in new buildings, thus leading to an excessive use of energy, especially in public buildings.

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### **Danish Companies Opens Joint E-shop in China**

Approximately 50 Danish companies have joined together to open an e-shop in China in order to tap into the large market and connect with Chinese consumers.

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through this process and focus on specific areas that will be beneficial in the long term. By increasing the focus on these sectors China will slowly, but steadily, move its industries further up the ladder of development.

Although the new Catalogue, when it has been approved, will have a great impact on foreign investments in China, some investors have been somewhat disappointed that the financial and insurance industries have been left largely untouched and these industries will therefore still be subject to the severe limitations and restrictions existing in their sector specific regulations. Besides the financial and insurance industries, agriculture, media & publishing and the electric machinery and equipment industries have received great attention and recommended to be opened up further as foreign investments in these are currently subject to various restrictions or fully prohibited.

Foreign investors should pay attention to the new Catalogue and the guidance laid out in this as it will have great impact on opportunities and possible limitations for investments in China. Opportunities are mainly reflected in relief or exemption from site use fees, corporate income tax, import duty and import VAT, while limitations typically exist in the form of restrictions on foreign ownership. It is also important to mention that some industries that were formerly placed in the encouraged category have now been moved to the permitted category due to a shift in focus from the Chinese government raising the standards for many encouraged industries. Thus, investors should stay up-to-date with the new Catalogue.

### **Enquiries**

If you have questions or would like a meeting regarding corporate structure, accounting standards, internal controls or tax reporting systems etc. please feel free to contact us at

[enquiry@ncochina.com](mailto:enquiry@ncochina.com)

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## **Reminder**

### **Annual Examinations**

The deadline for the 2010 annual examinations required by the foreign exchange bureau and the industrial and commercial bureau is coming up at the end of this month.

If you have any questions concerning the annual examinations, please contact:  
Ms. Ida Li  
(ACCA/CICPA/CAO/HKICPA),  
General Manager of NCO Beijing  
Accounting Services at:

[idali@ncochina.com](mailto:idali@ncochina.com)

The draft revision of the Catalogue also included clarifying that industry specific regulations shall prevail over the provisions of the Catalogue. This new provision will, to some degree, limit the role of the Catalogue as an investment guidance instrument, thus it is hoped that the new provision will be removed from the final version of the Catalogue.

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## **Q&A – Internal Audit**

**Q:** How to minimize the risk that your local employees laundry money through the company?

**A:** We recommend keeping an eye on fraud indicators such as unusual amounts of spending and checking with the e-mails, telephone log and other reports.

**Q:** How often is it recommended to do an internal audit of the company?

**A:** We recommend doing an internal audit of the company on a quarterly basis. The costs of the internal audit are far less than the financial damages caused to the company by these fraud practices, which are quite common in foreign companies managed by local employees.

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