

THE NATIONAL NEGATIVE LIST (2019 EDITION)

The National Negative List is for nationwide implementation. Major changes include:

- **Mining industry:**
 - a) Abolition of the restriction that the exploration and development of oil and natural gas (except for those including coal-bed methane, oil shale, oil sands, shale gas, etc.) limited to Sino-foreign equity/cooperative joint venture operations.
 - b) Abolition of the prohibition against foreign investment in exploration and mining of molybdenum, tin, antimony, and fluorite.
- **Manufacturing industry:** Abolition of the prohibition against foreign investment in the production of Xuan paper and ink sticks.
- **Electricity, thermal power, gas and water production and supply industries:** Construction and operation of pipeline networks for water supply and sewage in cities with the population over 0.5 million shall be controlled by the Chinese side. "Gas" and "Heat" are removed.
- **Transportation, warehousing and postal services industries:** Abolition of the restriction that domestic shipping agencies shall be controlled by the Chinese side.
- **Information transmission, software and information technology service industries:** Telecom companies are limited to telecommunication business opened in China's WTO accession commitments. The ratio of foreign shares of value-added telecom business shall not exceed 50% (except e-commerce, domestic multi-party communication, storage and forwarding, call center). Exceptions "domestic multi-party communication, storage and forwarding, call center" are added.
- **Water conservancy, environmental and public facilities management industries:** Abolition of the prohibition against foreign investment in the development of wildlife resources originating in China under state control.
- **Culture, sports and entertainment industries:** a) Abolition of the restriction that the construction and operation of cinemas shall be controlled by the Chinese side. b) Abolition of the restriction that performance brokers shall be controlled by the Chinese side.

THE FTZ NEGATIVE LIST (2019 EDITION)

The FTZ Negative List is relevant for free trade zones and is less restrictive than the national one. The 1st FTZ Negative List was released in 2013 as China established its first pilot FTZ in Shanghai. The FTZ Negative List is generally revised every year.

In addition to the all newly opened sectors stipulated in the National Negative List, the FTZ Negative List further widens market access for foreign investors in below two sectors:

- **Agriculture, Forestry, Animal Husbandry, and Fishery:** Abolition of the regulation that foreign investors are prohibited from investing in fishing aquatic products from waters under China's jurisdiction and inland waters.
- **Manufacturing:** Abolition of the restriction that the printing of publications shall be controlled by the Chinese side.

THE CATALOGUE FOR THE ENCOURAGED INDUSTRIES (2019 EDITION)

As a replacement of the Catalogue of Industries for Guiding Foreign Investment (2017 Revision) and the Catalogue of Priority Industries for Foreign Investment in Central and Western China (2017 Revision), the Encouraged Catalogue (2019 Edition) combines the above two catalogues and consists of two sub-catalogues – one applies to the whole country and one is applicable to 22 provinces in China's central and western regions (including three north-eastern provinces and the utmost southern province of Hainan island). The complete catalogue contains 1,108 encouraged industries in total.

Nationwide, the number of encouraged industries is now 415, with 67 items added and 45 items modified, compared to the 2017 edition. It aims to open a number of different sectors to foreign investment covering modern agriculture, advanced manufacturing, High-Tech, energy saving and environmental protection, and modern services. The key industries added to the Encouraged Catalogue include:

Manufacturing industry

- **Computers, communications, and other electronic equipment manufacturing industry:** 5G equipment mobile terminals and its core components, etchers for integrated circuits, chip packaging equipment, cloud computing device, etc.
- **Equipment manufacturing:** Key components of industrial robots, new energy vehicles, intelligent vehicles, etc.
- **Pharmaceutical industry:** New key raw material for production of vaccines, cell therapy drugs, and large-scale cell culture products, etc.
- **New materials:** Aerospace new materials, monocrystalline silicon, large silicon wafers, etc.

Producer services industry

- **Business services:** Engineering consulting, accounting, tax, testing and certification services, etc.
- **Trade circulation:** Cold chain logistics, e-commerce system development and application services, special railway lines construction and operation, etc.
- **Technical services:** AI technology, clean production technology, carbon capture, circular economy technology, etc.

Other industries

- **Agriculture, forestry, animal husbandry, and fishery:** Construction and management of ecological environment protection projects.
- **Water conservancy, environment and public facilities management industry:** River and lake water environment management.
- **Health and social work:** Medical institution services.
- **Culture, sports and entertainment:** Tourism infrastructure construction and tourism information service.

The items inside the Encouraged Catalogue for the Central and Western China have been increased from 639 to 693, tailored to the respective features of the 22 designated provinces and municipality, including Shaanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan, Guangxi, Hainan, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

Compared to the 2017 edition, 54 items have been added and 165 items have been modified. Foreign investors are encouraged to invest in industries involving:

- Agricultural products, textile, clothes and furniture manufacture, within the areas of Yunnan, Inner Mongolia and Hunan (provinces with distinctive agricultural resources and labor advantages);
- Regular IC, tablet PC and communication terminals, within the areas of Anhui, Sichuan and Shaanxi (provinces that are accelerating the development of electronic industry clusters); and
- Logistic and storage facilities and vehicle fueling stations, within the areas of Henan and Hunan (provinces with dense transportation and logistics networks).

COMMENTS

- Simultaneously with the Foreign Investment Law coming into effect on the 1st of January 2020, the two 2019 Negative Lists will become a one-stop shop setting out all restrictions or prohibitions on foreign investment under the PRC legal regime.
- Foreign investments that fall under the Encouraged Catalogue will be granted preferential policy treatments in terms of corporate income tax, customs duties for imported self-use equipment, land price, approval procedure, etc.
- The foreign investment is encouraged to take participation in high-quality development of manufacturing. More than 80% of the added or modified items of the nationwide Encouraged Catalogue point to the manufacturing industry with an emphasis on new and high technology industries. Furthermore, foreign investment is encouraged in the producer services industry.
- Certain industries where foreign investment is no longer encouraged in the developed regions, are now being gradually transferred to the Central and Western China regions. The Encouraged Catalogue leans toward a combination of labor-intensive, technological, and supporting facilities industries to encourage development in those underdeveloped regions.
- Foreign investors should take advantage of the removal of restrictions in relevant industries, but be aware that even if a foreign investment is out of the Negative Lists or on the Encouraged Catalogue, the possibility remains that the new regulations may not be fully respected at all levels of Chinese government. Some Chinese authorities may still impose approval or other requirements when establishing such foreign invested enterprise.