

CHINA EASES RESTRICTIONS ON FOREIGN INVESTMENT

China has relaxed its 'Negative List' which identifies areas that are off limits to foreign investors. From 28 July 2018, existing restrictions on investment in financial institutions, automobiles, industrial/manufacturing and telecoms will be eased or cancelled.

The 2018 Negative List, issued by the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM), increases the foreign ownership limit on Chinese securities companies (life insurance companies) from 49 per cent (50 per cent) to 51 per cent and the limits will be removed entirely in 2021. The 50 per cent limit on foreign ownership for manufacturing commercial vehicles and passenger vehicles will be removed in 2020 and 2022 respectively.

The Chinese government says that the move is intended to attract more foreign investment and to promote competition.

In addition to the 2018 Negative List which applies nationwide, the NDRC and MOFCOM have introduced the 2018 Free Trade Zone Special Administrative Measures for Foreign Investment Access, which takes effect from 30 July 2018. This applies to China's free trade zones in 11 provinces and has fewer investment restrictions to ensure that China's free trade zones remain competitive. In our view the nationwide negative list may gradually match the looser restrictions in place in the free trade zones.

Key issues

- The Chinese government has released a new version of its negative list in a bid to further liberalize foreign investment in several domestic industries
- Foreign ownership limits in certain financial institution sectors are increased to 51% and will be removed in 2021
- The automobile manufacturing industry will be fully opened up to foreign investors by 2022

**ANNEX - A HIGH-LEVEL SUMMARY OF THE KEY
LIBERALISATION MEASURES INTRODUCED BY THE
2018 NEGATIVE LIST AND 2018 FTZ NEGATIVE LIST**

Industry	2017 Negative List	2018 Negative List	2018 FTZ Negative List
Financial Industry	<ul style="list-style-type: none"> - securities industry: a foreign investor is allowed to hold up to 49% shares in a securities company, mutual fund management firm or futures brokerage company 	<ul style="list-style-type: none"> - securities industry: such foreign shareholding cap is increased to 51% and will be completely removed in 2021 	N/A
	<ul style="list-style-type: none"> - insurance industry: the cap on shareholding in a life insurance company by foreign investor(s) is 50% 	<ul style="list-style-type: none"> - insurance industry: such foreign shareholding cap is increased to 51% and will be completely removed in 2021 	
	<ul style="list-style-type: none"> - banking industry: cap on shareholding by a single foreign investor (multiple foreign investors in aggregate) in a domestic commercial bank or a financial asset management company is 20% (25%) 	<ul style="list-style-type: none"> - banking industry: such foreign investment caps are removed 	
Automobile Industry	<ul style="list-style-type: none"> - foreign shareholding percentage in manufacturing of special use vehicles shall be no more than 50% 	<ul style="list-style-type: none"> - no foreign shareholding limit for manufacturing of special use vehicles and new energy vehicles 	N/A
	<ul style="list-style-type: none"> - foreign shareholding percentage in manufacturing of commercial vehicles and passenger vehicles shall be no more than 50% 	<ul style="list-style-type: none"> - foreign shareholding cap for manufacturing of commercial vehicles will be removed in 2020 - foreign shareholding cap for manufacturing of passenger vehicles will be removed in 2022 	
	<ul style="list-style-type: none"> - a foreign investor may establish no more than two joint ventures that engage in the manufacturing of the same type entire vehicles 	<ul style="list-style-type: none"> - such limitation will be removed in 2022 	

Industry	2017 Negative List	2018 Negative List	2018 FTZ Negative List
Telecommunication Industry	<ul style="list-style-type: none"> - foreign investment in operation of business premises for Internet access service is prohibited 	<ul style="list-style-type: none"> - such prohibition is removed 	<ul style="list-style-type: none"> - pilot regime of relaxing foreign investment in value-added telecommunication business within Shanghai Free Trade Zone will be expanded to all other free trade zones, including that the foreign investors can hold more than 50% stake in call centre services, domestic multi-party communication services, etc.
Manufacturing Industry	<ul style="list-style-type: none"> - foreign investment in manufacturing of weapons and ammunition is prohibited - Chinese investors shall hold a major shareholding stake for the design, manufacturing or repairing of vessels, certain types of aircraft (including trunk lines, regional aircrafts), helicopters, and unmanned aircrafts - design, manufacturing or repairing of utility aircrafts shall be in the form of Sino-foreign joint ventures 	<ul style="list-style-type: none"> - such prohibition is removed - such requirements are removed 	<ul style="list-style-type: none"> - foreign investors are no longer prohibited from engaging in radioactive mineral refining and processing, as well as nuclear fuel production
Mining industry	<ul style="list-style-type: none"> - foreign shareholding percentage in expropriation and exploitation of special and rare kinds of coal 	<ul style="list-style-type: none"> - such foreign shareholding limitation is removed 	<ul style="list-style-type: none"> - exploration and exploitation of oil and natural gas

Industry	2017 Negative List	2018 Negative List	2018 FTZ Negative List
	shall be no more than 50%		by foreign investors are no longer limited to the form of Sino-foreign joint ventures
	- refining and separation of rare earth shall be in the form of Sino-foreign joint venture	- such requirements have been removed	
	- exploitation of graphite and refining of tungsten are restricted industries	- these are no longer restricted industries	
Electricity and gas industries	- construction and operation of power grids and more than 30 gas stations need to be controlled by a Chinese investor	- this requirement is removed	N/A
Agricultural industry	- cultivation of new varieties of agricultural products and production of their seeds shall be controlled by Chinese investor(s)	- this Chinese controlling shareholding requirement is removed except for corns and wheats	- required Chinese shareholding percentage for cultivation of new varieties of corns and wheats is lowered from 51% to 34%
Cultural and entertainment industries	- production of radio and television programs and movies is limited to the forms of Sino-foreign joint ventures	- such requirements are removed	- while operation of literal and arts performing groups is prohibited according to the 2018 Negative List, within free trade zones, foreign investors can operate literal and arts performing groups with Chinese parties holding majority stake
Logistics and transportation industry	- international marine transportation companies are limited to	- these restrictions are removed	N/A

Industry	2017 Negative List	2018 Negative List	2018 FTZ Negative List
	the form of Sino-foreign joint ventures - Chinese majority shareholding is required in railway passenger transport companies, construction and operation of trunk railway lines network and international shipping agency		
Other industries	- Chinese shareholder must hold a majority shareholding stake in domestic surveying and mapping companies	- these restrictions are removed	N/A

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