

China study tour essay example

[Business](#), [Company](#)



What is China's Foreign Investment Catalogue?

China's foreign investment catalogue refers to a policy document promulgated by the nation's ministry of commerce and the national development and reform commission (NDRC) that acts as an indicator and guidance for foreign investors. The catalogue indicates the industries that are needed by the Chinese economy, and those that are prohibited or restricted to foreign investors. Purposes of restriction may include national security concerns or the need to protect local infant businesses from foreign competition (Yuhai, 2006, p. 2206). During the past, China's previously released catalogues, the first one issued in 1995 tended to focus on encouraging voluminous investments with less concern paid to specific industries that required more attention. After a decade of successful development, China's government began shifting its focus towards paying more attention on developing emerging industries likely to yield greater returns to the Chinese citizens (Yuhai, 2006, p. 2210). These industries include the ones considered sustainable, environmentally friendly, and technologically advanced. The industries that are being discouraged are characterised as high polluting and energy consuming (Wu, 2010, p. 23). The catalogue classification of china's industry is into three classes. These are the restricted, prohibited, and the encouraged industrial sectors. Those left out of the classification are generally regarded as permitted sectors of the economy where investors are allowed to carry business activities with minimal restrictions. Foreign investors can still apply to be allowed to carry out business activities in the restricted sectors of the economy, but highest approval needs to be obtained. Since 2008 when tax reforms were

implemented, foreign companies that have invested in China do not enjoy any tax exemption or reduction of the corporate income tax as it used to be during the late 90s. However, some local governments offer subsidies to foreign companies that establish operations that fall under the encouraged sectors.

Who approves China's foreign investment catalogue?

China's foreign investment catalogue acts as a guide for foreign investments. The policy document, for instance the latest one contains rules and regulations formulated and promulgated by the nation's Ministry of commerce and the national development and reform commission (NDRC). However, before the rules and regulations come into force, they have to be approved by the highest executive state organ in charge of ministries and commissions. This organ is the State council of the People's Republic of China (Harris, 2012). The council is the highest organ of state administration and is composed of the auditor general, state councillors, a premier and vice-premiers, ministers in charge of commissions and ministries, and the secretary-general. The primary function of the state council includes the task of implementing policies and principles of the Communist Party of China and laws and regulations adopted by the NCP that concern affairs such as national defence, economy, finance, education, culture, diplomacy, and internal politics. The council is guided by a system of premier responsibility when carrying out its affairs, while its smaller organs such as the commissions and ministries follow a system of ministerial responsibility. When handling foreign affairs, the state councillors may be delegated to perform activities on behalf of the premier. The auditor general supervises

the state finances, while the secretary general runs the day-to-day activities of the state council. China's current constitution empowers the state council to exercise control over administrative legislation, leadership, power to submit proposals, power over diplomatic administration, social administration, and economic management (Harris, 2012).

When was the latest edition approved and published?

The most recent Chinese Foreign investment catalogue is the fifth edition. It is a revised version of the fourth edition issued in the year 2007. The revisions contained in the catalogue revolve around the theme of shifting the direction of China's economic development by accelerating changes while placing greater emphasis on promoting technological innovation, improving the foreign investment structure, besides upgrading industries in the 'encouraged' sectors of the economy (Harris, 2012). Promulgated by the state administration of commerce and the national development and reforms commission on 24 December 2011, the catalogue was approved by the state council and came into effect as from 30 January 2012. The key changes and adjustments in the fifth catalogue are listed below:

- Facilitate the transformation and upgrading of the high-end manufacturing. Newer technologies and products have been added and these include chemical and mechanical manufacturing industries besides textiles (Harris, 2012).
- Broaden up the economy by reforming restrictive policies and therefore create a good investment environment (Harris, 2012).

What categories of foreign investment are there? Give an example of each.

The fifth catalogue truly reflects China's commitment to expand its opening-up policy. The number of industries that fall under the 'restricted' and 'prohibited' category has declined, while those that fall under the 'encouraged' category have increased significantly. Consequently, it is arguable that China's foreign investment policy is becoming rational since the scale and volume of investment is no longer the primary focus of the government. The fifth catalogue places emphasis on directing foreign investment towards high-end environmentally friendly and technologically advanced sectors (Harris, 2012). The major categories of foreign investment encouraged are as listed below:

Modern service industry

China's state council Premier Wen Jiabao in his 2012 Government Work Report exerted emphasis on the need to develop the modern service industry sector. It is believed this will raise the people's living standards by optimizing the industrial and social structure through the creation of more job opportunities. The fifth catalogue opens up several new service markets to foreign multi-nationals, for instance intellectual property rights services, occupational skills training, and rural distribution (Harris, 2012). Prior to the fifth catalogue, the previous ones only allowed Macau and Hong Kong investors to engage in patent and trademark services monitored by Economic partnership agreements.

Medical Industry

China has adopted an open attitude in its fifth catalogue in order to modernize its medical industry. From December 2011 henceforth, foreign investment in wholesale and retail sales, distribution of medicine and medical institutions has been moved to the 'permitted' category. Production of blood transfusion apparatus, blood bags and disposable syringes has been moved to the 'encouraged' category. China has promised to remove gradually restrictions imposed on investors shareholding percentage so that they can establish wholly foreign-invested medical facilities in the near future. I remember spotting a Johnson & Johnson medical subsidiary in Beijing.

Finance Industry

The fifth catalogue has now permitted foreign investment in financial leasing companies. Start-up investment enterprises have been added to the 'encouraged' category. Start-up enterprises are defined as those unlisted equity investments in emerging industries that seek to derive capital gains from share transfer when the venture matures (Harris, 2012). The term is similar to 'venture capital. It is believed this will stimulate emergence and development of high-tech companies like those situated in America's Silicon Valley.

Real Estate Industry

The fifth catalogue seeks to control excessive investment in the real estate field and the housing prices by exerting controls over both foreign and domestic investments in the sector. Consequently, foreign investment in

management and construction of villas has been moved from the ‘restricted’ to the ‘prohibited’ category (Harris, 2012). The bar has been raised on foreign firms intending to invest in the real estate based on strict requirements on threshold capital, the form of investment, and financing.

Manufacturing and Mining Industries

The Chinese government realizes that though it has achieved rapid development during the past three decades, this has come at a cost of severe environmental degradation and unbalanced development (Lai, 2002, p. 439). The 2012 edition of the government work report places more emphasis on upgrading the nation’s industry structure by promoting strategic sectors such as new materials, energy, and high-end environmentally friendly technology (Wu, 2010, p. 18). Consequently, items such as foreign investment in production of ecological and functional clothing, production of glass, organic-inorganic composite cellular insulation materials, high-quality artificial crystals, recycled and thin-film transistors has been moved to the ‘encouraged’ category.

China has a conservative attitude towards exploitation of its natural resources by foreign interests. Numerous mining activities are still listed in the ‘restricted’ category. For instance, the exploration of graphite, high-aluminium fireclay, wollastonite and iron sulphur mines. Interestingly, exploration of natural gas is listed in the ‘encouraged’ category.

What entry modes can foreign companies use to enter China? Briefly describe

each one

The Chinese economic environment is particular and dynamic in its essence.

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It is welcoming to foreign investors but demands commitment, skills and long term planning for them to stay afloat. Four primary entry modes into China's market exist. These are:

Contractual entry

Under this mode of entry, the investor licenses his brand to companies and enterprises based in China. It is possible to subcontract the manufacturers based in China to produce the product. This entry strategy is cheaper but provided limited control (Luo, 2000, p. 67). Nike has licensed its operations and the brand's products are being made in China as I witnessed numerous Nike labelled products in Beijing stores

Export Entry

Under this mode of entry, the foreign investor uses an intermediary agent based in China who handles activities of the export-in house and a native Chinese distribution partner for importing and selling in China's markets (Luo, 2000, p. 68). This mode also does not require large capital commitment, but then provides limited control.

Representative Offices

Legally established to serve interests of the parent company, this office acts as a liaison for the foreign-based mother company, for instance Hewlett Packard and IBM in China. The office may develop partnerships and business channels and conduct market research. However, its financial transactions are accounted for by the parent company, for instance the issuance of commercial invoices. This mode of entry does not have a minimum capital

requirement since it is not considered a foreign investment enterprise by the Chinese government (Luo, 2000, p. 69).

Equity Entry

Businesses that use this mode include wholly foreign owned enterprises such as trading, service, or manufacturing. Examples are restaurants such as the McDonalds that I kept visiting during my tour of China, consulting firms, and management service companies. Considered a relatively risky entry mode, it involves an equity sharing arrangement between two partners, or a consortium of greater than two partners (Luo, 2000, p. 69). The risk comes in because of additional commitment of capital in human resource and technology. In addition, success depends on the ability of managers from each company to work smoothly together. However, the risk may be minimized if a Chinese partner is brought on board to help the foreign managers understand the dynamics of the Chinese business environment (Chen, 2008, p. 899).

What are the recent trends in entry mode selection for foreign companies entering China?

The dynamic Chinese economy has forced international investors to use creative entry modes. Recent trends being employed by companies that seek to operate in China include having a solid team comprising of advisors and a solid network of the natives on China's soil to assess the best way to enter the market before launching (Luo, 2000, p. 67). This has proved helpful as most businesses pick up faster once they launch.

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